



ABA Federal Home Loan Bank Member Insights



American
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Welcome To ABA's Federal Home Loan Bank Member Insights

Welcome to the premier edition of ABA's ***Federal Home Loan Bank Member Insights*** – our new publication for and about the Federal Home Loan Banks. This new bulletin will bring you news and articles of interest about the Federal Home Loan Banks and their members. Beyond that, and as the name suggests, we will bring you insights – a forum for the views of the members/owners of the Federal Home Loan Banks. We kick off that feature with a joint effort by Ron Wentz of Golden Belt Bank and Scott Grigsby of Arvest on the importance of the System to their banks. We will also cover legislative and regulatory developments, as well as a “feature” story in each issue on a specific Federal Home Loan Bank program or event. This issue features an article from Dallas FHLB President Terry Smith on the Letter of Credit program offered by the Banks and illustrates a number of community projects made possible by the letter of credit program.

We want this publication to reflect the interests of ABA's Federal Home Loan Bank members, so we welcome your input, feedback and story suggestions. If you have a story idea, or want to provide other feedback, please email ABA Vice President and Sr. Counsel, Joseph Pigg at jpigg@aba.com.

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NEWS

ABA Asks Small Business Administration to Allow Guaranteed Loans as Eligible Federal Home Loan Bank Collateral

On April 14, 2010 ABA President Edward Yingling wrote to SBA Administrator Karen Mills asking that SBA change its rules regarding the eligibility of SBA guaranteed loans as collateral for Federal Home Loan Bank advances. The Federal Home Loan Banks are allowed by statute to accept federally guaranteed loans as collateral from community financial institution members. However, SBA regulations conflict with policies and procedures developed by the Federal Home Loan Banks' regulators, and, as a result, make SBA guaranteed loans ineligible as collateral. The ABA's letter notes that there is a pressing need to increase capital available for small businesses. The SBA's regulations are inhibiting millions of dollars from being made available through the Federal Home Loan Banks. The letter urges SBA to work with the ABA and the Federal Home Loan Banks to make necessary changes to allow greater collateral availability. Read the [letter](#). For more information contact ABA's [Joseph Pigg](#).

Coalition Urges FHLB Exemption From Systemically Significant Designation

ABA and nine other trade groups this week told Senate Banking Committee Chairman Chris Dodd (D-Conn.) and ranking Republican Richard Shelby (R-Ala.) that they are concerned with a provision in the regulatory

reform bill that would force many banks to reduce their Federal Home Loan Bank advance positions. They explained in a letter that the provision would prohibit institutions deemed systemically important from lending an amount to any unaffiliated company that exceeds 25 percent of the lending institution's capital stock and surplus.

The trade groups urged the senators to include language in the legislation -- similar to that in the House-passed regulatory reform bill -- that would exempt the FHLBs from the provision. In its current form, the Senate bill could reduce total FHLB advances by nearly 50 percent and eliminate an important liquidity management tool for many financial institutions, they said. **Read the letter.** For more information, contact ABA's **Joseph Pigg**.

INSIGHT

The Federal Home Loan Bank System Model Works For – And Because Of – Banks Of All Sizes

By Ron Wentze, President of Golden Belt Bank, and
Scott Grigsby EVP & Regional Manager of Arvest Bank

Throughout the turmoil of the recent financial crisis, many long-held assumptions have been tested and called into question. But one certainty has remained - the Federal Home Loan Banks (FHLBanks) have provided a stable, reliable source of liquidity for banks of all sizes and in all parts of the country. In other words, they have been doing exactly what they were designed to do. When you consider the economic upheaval of the last several years, that is no small accomplishment. The FHLB System is well-designed, member-owned, and well-regulated. It is also a Government Sponsored Enterprise (GSE), same as Fannie Mae and Freddie Mac. With both Fannie and Freddie in conservatorship, GSE is practically a dirty word these days. Fannie and Freddie play an important role in our financial system, but for now at least, they are controlled and kept solvent by the U.S. government. While the Federal Home Loan Banks would have the same degree of federal support if needed, the good news is that for over 70 years, the Federal Home Loan Banks have never taken a loss on the advances, which are their core business. In fact, in the case of the Federal Home Loan Banks, the GSE model not only works well, but also kept the economic meltdown from being even worse. Without the Home Loan Banks, liquidity to community banks and the business and individuals we serve would have been sorely lacking. Given the changes being considered in Washington to regulation and statute for both the primary market and the GSEs, we thought it imperative to say a few words about how the Federal Home Loan Banks help banks of all sizes help their communities.

Together, we represent a small community bank (Golden Belt Bank) and a not-so-small regional bank (Arvest). We are not the smallest member banks of the System, nor the largest, but we have both been in the business of banking for many years, and have experienced the peaks and valleys of the economic cycle and the attendant "reform" efforts. While changes have occurred to the Home Loan Bank System (notably the expansion of commercial bank eligibility in 1989), the FHLBanks have remained solid and reliable partners – and we need them to continue to be so in the future.

Golden Belt Bank, with assets of \$132 million, is located in Ellis, Kansas, with an additional branch office in the neighboring city of Hays. We are primarily a real estate lender with the vast majority of mortgage loans being made on single-family homes. Loan growth has been fairly steady over the years and has traditionally outpaced our ability to grow our deposit balances. As a result, Federal Home Loan Bank advances have been essential in helping to meet the funding and economic needs of the communities we serve. Longer-term fixed-rate advances are also useful tools to manage the typical mismatch between loans and deposits and can help protect our bank from exposure to changing interest rates.

Another source of liquidity for home mortgages available through the Federal Home Loan Banks is the Mortgage Partnership Finance Program. Golden Belt utilizes this secondary market alternative to raise liquidity by selling qualifying residential mortgages into the Program. We receive a competitive price on the mortgages as well as ongoing fee income for retaining a portion of the credit risk on the loans.

A bank like mine simply couldn't offer the products and services needed in our community without the Federal Home Loan Bank. And the Home Loan Bank couldn't offer us the funding levels and the pricing it does without the involvement of larger institutions like Scott Grigsby's Arvest Bank. The System is a true cooperative. Reasonable funding levels depend upon the ability to go to the capital markets with sufficient volume. A System made up exclusively of small members could not achieve this volume. Likewise, even larger members cannot always get the kind of pricing available through the Home Loan Banks on their own.

Arkansas based, Arvest Bank is an \$11.6 billion institution that operates more than 320 bank facilities in Missouri, Kansas, Arkansas and Oklahoma. We are a full-service bank with a wide diversity of products and services to serve our customers in over 90 communities. We are a very active real estate lender with nearly \$2 billion in real estate loans closed in 2009. The FHLBank of Dallas has been very beneficial over the last few years in assisting us in match funding our loan portfolio to provide a level of consistency during a volatile interest rate cycle.

With a wide and divergent market, there are varying rates in the markets. By using the FHLBank, we can allow all these markets to operate in meeting local needs, while keeping a steady overall position. In addition, we look to utilize the bank for periodic extended funding to steady the balance sheet.

We also utilize the FHLBank to assist us in very large projects that use bond financing. The bank assists Arvest in providing enhancement through the Letter of Credit area. We are able to provide enhancement to the customer's letter of credit on bonds, thereby assisting them in lowering interest rates for financing the project.

For our banks and thousands more across the country, the FHLBanks make our day-to-day business possible. Also, through the Affordable Housing Program (AHP), we can fund programs that otherwise might not be done at all. The AHP is celebrating its 20th year in existence, and has been responsible for nearly \$4 billion in funds being made available (from FHLB net profits) to develop and assist low- and moderate-income housing developments. The Home Loan Banks also operate a Community Investment Program (CIP) which offers below market loans to member banks for long-term financing for housing and economic development benefitting low- and moderate-income families and neighborhoods. CIP has lent more than \$56 billion in the last two decades.

The financial industry faces some of the biggest challenges many of us have ever seen, and we need to remind our legislators and regulators of what works. The role played by the Federal Home Loan Banks as a stable, reliable and trustworthy partner for banks of all sizes is *definitely* something that works.

It's somewhat ironic that the impulse of some in the aftermath of the financial crisis is, on the one hand, to divide the industry, arguing somehow that only small banks are good and big banks are bad, while on the other hand, lumping all the GSEs together as having been "bailed out."

For us to find our way back to long-term economic health, we will need banks *of all sizes* being able to lend to creditworthy customers. For us, a small bank and a larger regional bank, the Federal Home Loan Banks will be essential in that effort. We're glad the ABA is working to make sure that whatever happens with Fannie and Freddie is done right – and does not harm the Federal Home Loan Banks and their members. But we all need to make our voices heard as well.

As the new ABA tag line says... ***we are building success. Together.***

FEATURE

For ABA Members, Supporting Tax-Exempt Bond Issues Gets Easier

By Terry Smith, President & CEO, FHLBank Dallas

With 2010 more than one-third over, local financing authorities continue to grapple with the lingering effects of a credit crunch that has aggravated one of the longest recessions in U.S. history. About two years ago, ABA's

leadership warmly embraced a proposal to help local financing agencies break through the turbulence of the credit markets. A lower-cost financing tool – highly-rated Letters of Credit (LOC) from the country's Federal Home Loan Banks (FHLBanks) in support of tax-exempt bond issues – came to life with congressional passage of the Housing and Economic Recovery Act of 2008 (HERA).

ABA vigorously championed the legislation, and its efforts have paid off. Since receiving their new powers, the 12 FHLBanks have issued more than 140 LOCs totaling more than \$4 billion to support tax-exempt bonds for local projects. FHLBank LOCs have helped ABA members put their dollars to work in ways that get important projects financed or refinanced less expensively – creating or maintaining community development and jobs.

Several recent projects tell the story.

New Orleans (LA) Steamboat Company

The New Orleans Steamboat Company, which operates the Steamboat Natchez on the Mississippi River, approached First Bank and Trust to refinance debt it had with another financial institution, and also wanted to move its banking relationship to First Bank and Trust. The steamboat company sought the refinancing as part of a corporate restructuring to continue its recovery in the aftermath of Hurricane Katrina.

First Bank and Trust began the underwriting process to issue its own LOC to support the existing bond, issued by the Port of New Orleans. The bank then worked with FHLBank Dallas to issue the corresponding Letter of Credit Confirmation.

FHLB Dallas, rated triple-A by Moody's and Standard & Poor's, issued a Letter of Credit Confirmation for \$3.1 million. By utilizing the Confirmation as credit enhancement, the restructured bond issue received a triple-A rating from Moody's. The Confirmation also qualified for, and received more favorable pricing under, FHLB Dallas's Economic Development Program.

"The Letter of Credit Confirmation was done under a community investment rate, for an overall savings to the borrower, and it increased the credit rating of the bond issue, which in turn represented a lower cost structure on the refinance," said First Bank and Trust Executive Vice President Gary McNamara.

And, because of the Confirmation and subsequent triple-A rating, the bonds become more attractive to investors, McNamara added.

Family Service of Greater Boston, Boston, MA

In January 2009, Family Service of Greater Boston went to market with a \$5.8 million bond backed by Eastern Bank in Boston and a Confirming LOC from FHLBank Boston. The nonprofit had issued a private placement bond a decade earlier, but expensive debt service was forcing the nonprofit to consider ending programs. The triple-A rating on the \$5.8 million bond resulted in a nearly 2 percent drop in the interest rate, from 6 percent to 4 percent, and a reduction in the nonprofit's annual debt service payments from about \$800,000 to \$350,000.

Swiss Village, Berne, IN

Swiss Village, a continuing care retirement center, recently saw a need for a larger fitness facility. With the passage of HERA, investment banking firm Lancaster Pollard & Co. reached out to FHLBank Indianapolis to integrate its new LOC into the financing package for a wellness center. "Using an FHLBank LOC was the most cost effective way to finance the center," stated Lancaster Pollard Vice President Steve Kennedy.

ABA member Bank of Geneva, which saw a good business opportunity, also embraced the deal. "Getting involved in this project truly supported our corporate culture and improved the quality of life in the community," said President Andrew Briggs.

How to Proceed

ABA members who want to learn more about the FHLBanks' new LOCs should contact their FHLBank relationship manager or Michelle Purnell of FHLB Dallas at 800.442.9841, who will direct interested parties to the appropriate Home Loan Bank officer in their area.

Disclaimer

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FHLBank products are governed by various agreements between each FHLBank and its customers as well as FHLBank credit, collateralization and other policies and applicable regulations. In the event of any inconsistencies between information contained in this article and such agreements, policies and regulations, the agreements, policies and regulations will be determinative.

UPCOMING EVENTS

Federal Home Loan Bank Affordable Housing Program to be Honored for 20 Years of Assistance to Communities

The National Housing Conference (NHC) is honoring the Federal Home Loan Banks' Affordable Housing Program (AHP) at its annual Person of the Year Awards on June 9, 2010. The AHP is the nation's largest source of private grant funds for affordable housing and 2010 marks the program's 20th anniversary. Over the past two decades, the program has provided \$3.7 billion for the creation of more than 670,000 affordable rental and owned homes. In affordable housing, there is no better example than the AHP of something that works because it succeeds in combination with other resources and many partners.

NHC has been dedicated to ensuring safe, decent and affordable housing for all Americans since 1931. NHC has earned its strong reputation as the United Voice for Housing by actively engaging and convening its membership in nonpartisan advocacy for effective housing policy solutions at the local, state and national levels. NHC's research affiliate, the Center for Housing Policy, works in partnership with NHC and its members to broaden understanding of the nation's housing challenges and to examine the impact of policies and programs developed to address these needs.

The American Bankers Association is proud to be a supporter of the NHC Award. ABA's Chief Operating Officer, Diane Casey-Landry, is serving on the planning committee for this year's gala. For more information, or to purchase tickets for the event, visit <http://www.nhc.org/housing/events-hpoy-dinner>.

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