

Letter of Credit

Description

Letters of Credit provide an attractive alternative to using traditional collateral for various transactions. The Home Loan Bank's AAA rating ensures wide

acceptance of letters of credit for multiple purposes, including security for public unit deposits.

Uses

- Collateralize public unit deposits
- Assist in facilitating residential housing finance

- Provide liquidity and other funding
- Assist in facilitating community lending
- Assist with asset/liability management

Advantages

- Reduces transaction costs
- Substitutes the credit standing and capital market access of the Home Loan Bank for that of the customer
- Lowers the finance cost as a result of the Home Loan Bank's AAA rating

Fees

Click [here](#) for our current fee schedule.

Collateral for Letters of Credit

Home Loan Bank letters of credit must be secured by collateral. In addition to the types of collateral eligible to secure advances, the Bank will accept obligations of state or local government units or agencies that are rated as investment grade by a nationally recognized rating agency as collateral for letters of credit used for residential housing finance and community lending purposes.

For more information, contact the Home Loan Bank's Money Desk at 800.544.3452, ext. 1013.



Example

A Home Loan Bank customer gives the best bid for a local school district's deposit in the amount of \$1 million. Since the FDIC will only insure \$100,000, the customer requests a Home Loan Bank letter of credit to be issued to the local school district as collateral. The Home Loan Bank issues the letter of credit and our customer receives the \$1 million public unit deposit.

By using the Home Loan Bank's letter of credit, the customer has more flexibility. The letter of credit allows customers to use their mortgage loan portfolio and other less liquid forms of collateral instead of securities. The letter of credit can ease the administrative burden of pledging for many customers. To obtain a letter of credit, you must have executed the new Master Transaction Agreement.

For more information about the Letter of Credit, please call the Money Desk at 800.544.3452, ext. 1013 or email moneydesk2@fhlbdm.com.

Certain restrictions apply. Please reference the Bank's Guide to Credit & Collateral.

