

FHLBank Letters of Credit (LOC) on Non-Housing Tax-exempt Bonds

Background: The Housing and Economic Recovery Act of 2008 (HERA) amended Section 149(b) of the Internal Revenue Code to add Federal Home Loan Banks (FHLBanks) to the list of Government Sponsored Enterprises permitted to credit-enhance non-housing tax-exempt bonds. This provision sunsets 12/31/2010.

The Community Development Financing Act of 2010 makes this FHLBank LOC authority permanent. The bill:

- Allows FHLBank member banks to continue to serve traditionally underserved credit enhancement markets for small issuers of tax-exempt bonds traditionally ignored by larger credit enhancement providers.
- Helps local communities raise funds for water treatment facilities, industrial development, healthcare facilities, schools and other important initiatives.
- Increases the marketability and lowers the financing costs of tax-exempt bonds despite current uncertainty within the municipal bond market.

Results since HERA: 158 tax-exempt bond transactions, financing almost \$4.1 billion in projects, utilized FHLBank LOCs. The vast majority of these transactions have been for small issues that traditionally have been ignored by other sources of credit enhancement. 72% of these deals are less than \$30 million, and 53% are less than \$10 million in size. These LOCs helped:

- 42 educational institutions (nursery schools through universities and law schools);
- 61 economic development projects (shopping centers, office buildings, warehouses, hotels, equipment and manufacturing, docks and wharf facilities);
- 30 health care facilities and hospitals (elder housing, nursing homes, wellness centers, rehab facilities, hospitals);
- 6 infrastructure efforts (airport, water and sewer); and
- 17 other non-profits (YMCA's, Easter Seals, performing arts).

The Community Development Financing Act of 2010 is supported by

American Bankers Association (ABA) -- American Hospital Association (AHA)
Council of Development Finance Agencies (CDFA) -- Council of FHLBanks -- Council of State Community Development Agencies (COSDA) -- Government Finance Officers Association (GFOA) -- Independent Community Bankers of America (ICBA) -- Mortgage Bankers Association (MBA) -- National Association for County Community and Economic Development (NACCED) -- National Association of Development Organizations (NADO) -- National Association of Health and Educational Facilities Finance Authorities (NAHEFFA) -- National Association of Homebuilders (NAHB) -- National Association of Towns and Townships (NATaT) -- National Community Development Association (NCDA) -- National League of Cities (NLC) -- Securities Industry and Financial Markets Association (SIFMA) -- The U.S. Conference of Mayors