

MEMORANDUM

TO: Public File – Notice of Public Rulemaking: Liquidity Coverage Ratio: Liquidity Risk Measurement, Standards, and Monitoring (RIN 3064-AE04) (“Liquidity Coverage Ratio NPR”)

FROM: Sue Dawley, Senior Attorney, Legal Division

DATE: January 23, 2014

SUBJECT: Meeting with Representatives from the Federal Home Loan Bank of Atlanta

On January 13, 2014, FDIC staff, together with staff of the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency, met with representatives of the Federal Home Loan Bank of Atlanta (“FHLB Atlanta”).

The FLHB Atlanta representatives presented their concerns and views with regard to certain provisions of the Liquidity Coverage Ratio NPR, which was published in the *Federal Register* of November 29, 2013 (78 FR 71818), including (1) treatment of available collateral capacity, (2) treatment of FHLB consolidated debt obligations, (3) outflow rates for secured FHLB funding, and (4) maturity dates for standard lending agreements.

The FDIC representatives at this meeting were:

- Eric Schatten, Policy Analyst, Capital Markets/RMS
- Greg Feder, Counsel, Legal Division
- Sue Dawley, Senior Attorney, Legal Division

The FHLB Atlanta was represented by:

- Kirk Malmberg, FHLB Atlanta, Chief Financial Officer
- Robert Dozier, FHLB Atlanta, Chief Business Officer
- Eric Mondres, FHLB Atlanta, Director of Government and Industry Relations
- Reggie O’Shields, FHLB Atlanta, General Counsel

Materials provided by the FHLB Atlanta are attached.



Basel III LCR Proposal

Meeting with Federal Banking Regulators

FEDERAL HOME LOAN BANK
OF ATLANTA

FHLB Atlanta Representatives

- Kirk Malmberg, Chief Financial Officer
- Robert Dozier, Chief Business Officer
- Eric Mondres, Director of Government and Industry Relations
- Reggie O'Shields, General Counsel



Agenda

- Introductions, Eric Mondres
- Overview of FHLBs, Kirk Malmberg
- FHLB Background Materials and Comment Letter, Robert Dozier
- Discussion of Preliminary Comments, Reggie O'Shields

Preliminary Comments on Basel III LCR Proposal

- Treatment of Available FHLB Collateral Capacity
- Treatment of FHLB Consolidated Debt Obligations
- Confirmation of Outflow Rates for Secured Funding from FHLBs
- Determination of Maturity Date under Standard Lending Agreements



Federal Home Loan Banks

A reliable source of funding and contingent liquidity for more than 80 years

FEDERAL HOME LOAN BANK
OF ATLANTA

Federal Home Loan Banks

- A reliable source of daily funding and contingent liquidity for more than 80 years
- Originally chartered by Congress in 1932, the FHLBanks provided over \$1 trillion in liquidity to financial institutions at the height of the recent financial crisis



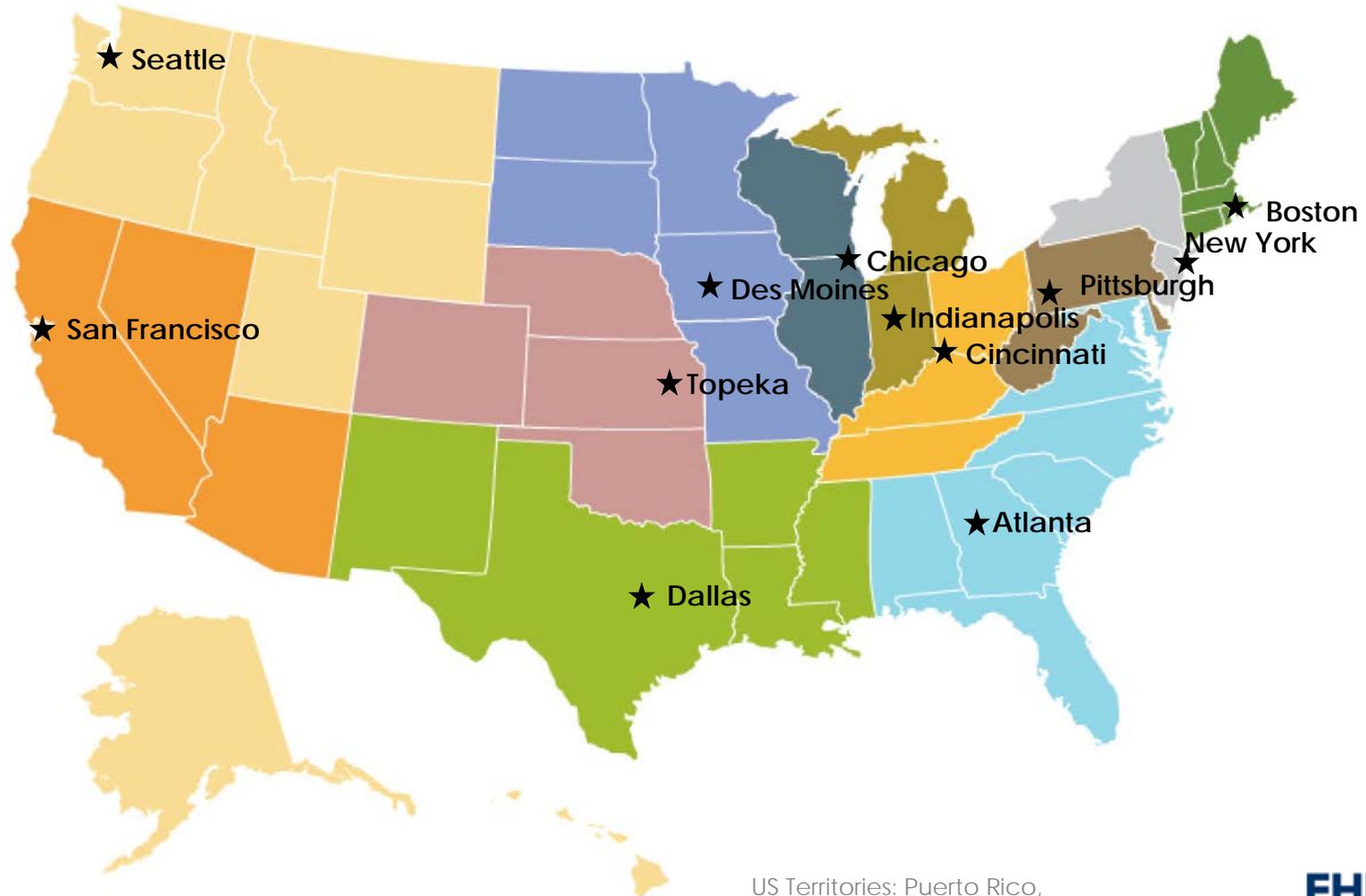
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- Overview of FHLBank System
- FHLBank Atlanta Financial Highlights
- Overview of FHLBank Atlanta Credit Analytics and Trends

Overview of FHLBanks

- Federal Home Loan Banks are cooperatives created by Congress in 1932
- Twelve regional Banks with more than \$789.1 billion in total assets
- Offer competitively priced financing, community development grants, and other banking services
- Regulator: Federal Housing Finance Agency
- Debt issuer for System: Office of Finance

FHLBank System



US Territories: Puerto Rico,
Virgin Islands, Guam

FHLBanks Play a Key Role in Financial Services

- Provide wholesale funding for more than 7,500 financial institutions (members)
- Provide products and services that help financial institutions manage their asset-liability and liquidity programs
- Increase and expand the availability of funds for residential mortgage and community development lending nationwide

Connecting Investors with Communities



The Federal Home Loan Bank System Guide: www.fhlbanks.com

Why FHLBank Liquidity is Reliable

- FHLBanks are self-capitalizing cooperatives
 - Member/owners are required to purchase capital stock equal to a percentage of assets
 - Member/owners are required to purchase additional activity-based stock as a percentage of their advance borrowings
- Self-capitalizing structure is a key distinction between the FHLBanks and other providers of liquidity
- FHLBanks contributed to the survival of many financial institutions during the crisis while maintaining their regulatory capital positions

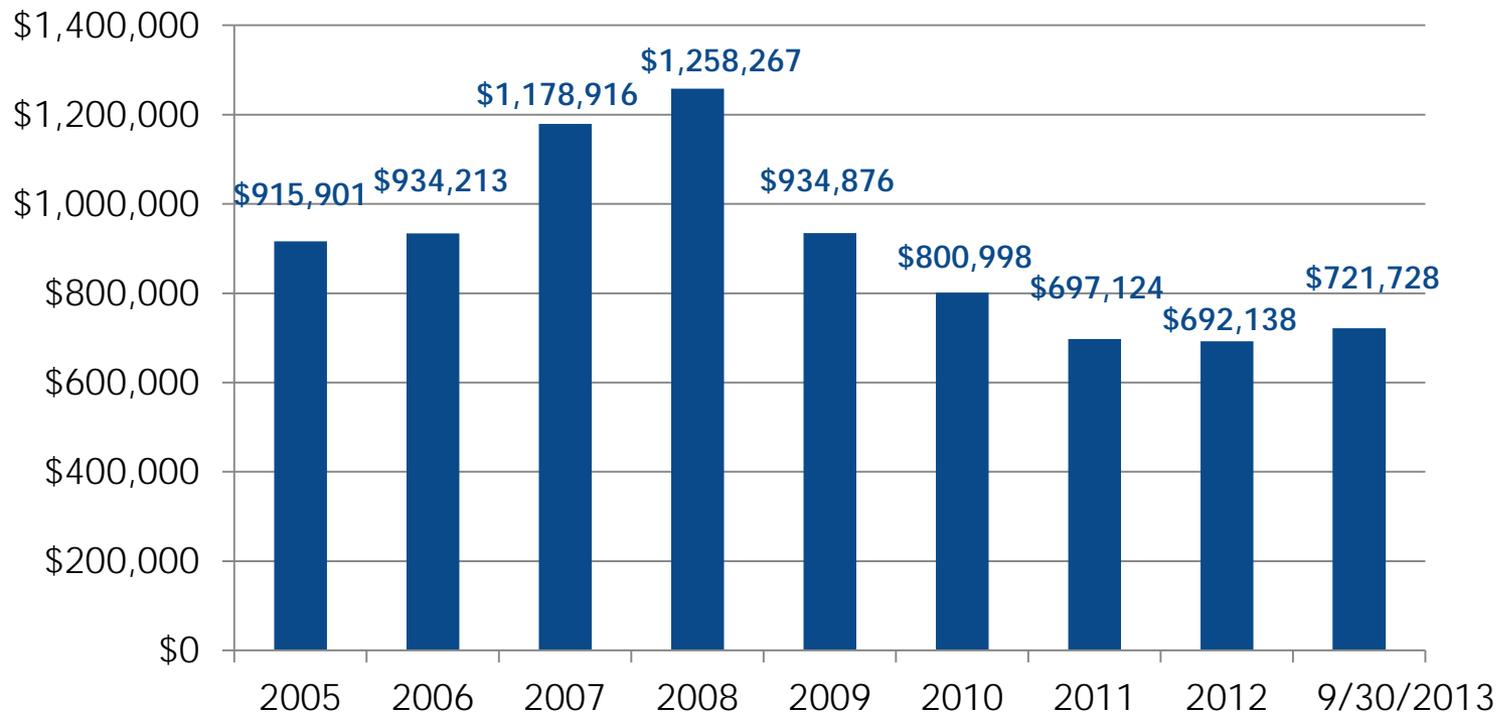
Three Key Factors for Long-term Reliability

Factor 1: Regular access to capital markets in all economic climates at competitive rates

- FHLBanks have a proven track record of global capital market access
 - 12 FHLBanks issue debt on a combined basis through the Office of Finance
 - FHLBanks are jointly and severally liable for debt issued
- During the financial crisis, the FHLBanks issued debt and met the liquidity needs of member/owners by providing over \$1 trillion in advances
- Scalability of FHLBanks' capital structure allows them to expand and contract based on member liquidity demand
- Following the crisis, the FHLBanks' debt and advances decreased to pre-crisis levels. As of the end of 2012, liquidity levels remain high at over \$465.1 billion

FHLBank System Consolidated Obligations

(In millions)



Three Key Factors for Long-term Reliability

Factor 2: Ability to provide various types of structured long-term and short-term funding products on demand

- Daily and contingent liquidity is most effective and best serves financial institutions if it can be structured in a manner that addresses each financial institution's needs
- FHLBank products serve as safety and soundness tools for balance sheet risk management, including interest rate risk management, while supporting important credit extensions to individuals and communities
- FHLBanks can provide members with liquidity up to their lendable collateral value (subject to regulatory limits) almost immediately

Three Key Factors for Long-term Reliability

Factor 3: Strong financial reputation earned through effective credit analysis and underwriting standards that allow access to funding while protecting and preserving access to the membership base

- FHLBanks maintain a practice of lending with pledging of acceptable collateral
- FHLBanks are required by regulation to maintain 100% collateralization at all times
- Like any secured lender, the FHLBanks may impose certain restrictions where the credit standing of a member becomes challenged

Three Key Factors for Long-term Reliability

Factor 3 (continued): Strong financial reputation earned through effective credit analysis and underwriting standards that allow access to funding while protecting and preserving access to the membership base

- During the crisis, the lack of liquidity did not cause most bank failures; the banks failed due to asset quality and capital deterioration
 - FHLBank collateral valuation analysis ensures the most accurate asset market values, while also ensuring maximum lendable collateral value for members
 - The FHLBanks create significant amounts of available liquidity by accepting members' held-for-investment illiquid loan collateral. This practice is consistent with the FHLBanks' original mission

▶ Products and Services

- Advances (Loans)
- Letters of Credit (collateral for public unit deposits and credit enhancement for public bond issuances)
- Interest rate risk management tools
- Cash management services
- Affordable Housing Program (AHP) and Community Investment Program (CIP)

All products and services are geared to help member institutions build communities

FHLBanks and Affordable Housing

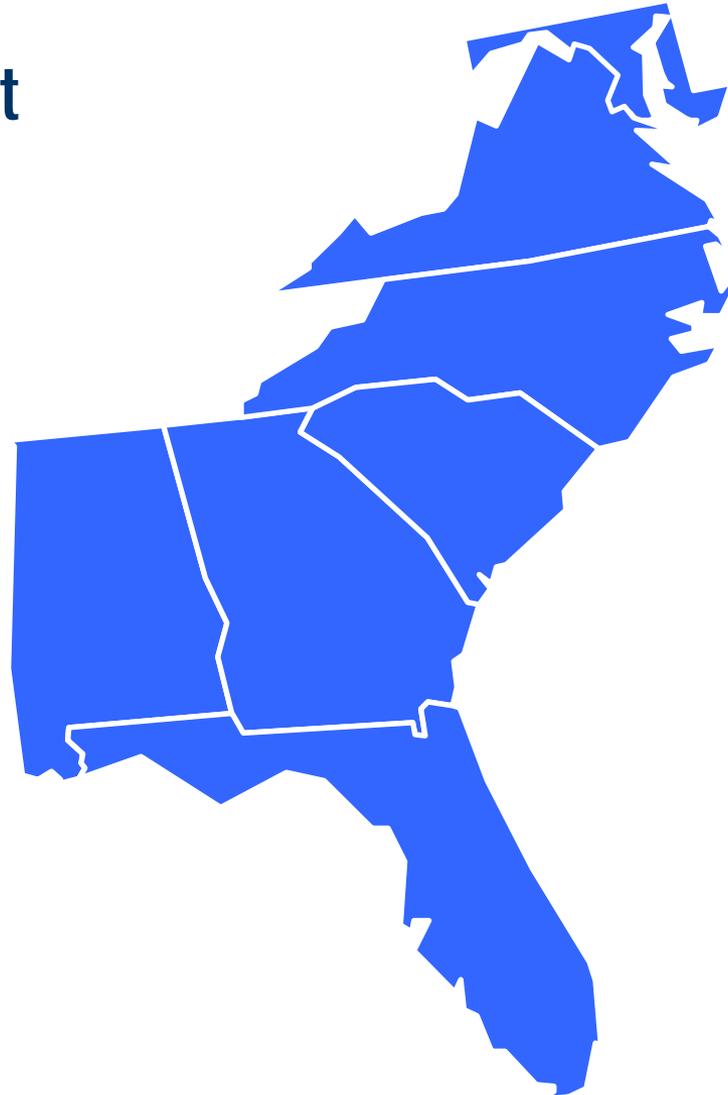
In addition to providing advances to their members, the FHLBanks have a statutory obligation to carry out affordable housing (AHP) and community investment programs. The successful deployment of this liquidity through grants and subsidized credit is another tool helping financial institutions meet the funding, credit, and development needs of their communities.

FHLBanks and Affordable Housing

- 10 percent of each FHLBank's earnings goes to the AHP
- Studies have shown that AHP funding creates a multiplier effect, benefiting job creation and tax revenue
- Over the last 20 years, FHLBank Atlanta alone has delivered \$648 million of this funding, resulting in:
 - Financing of over 73,000 rental and homeownership units that enabled participating FHLBank members to extend credit for over \$6.4 billion in total development
 - Financing of 18,424 units of housing for purchase or rehabilitation that has enabled participating FHLBank members to originate over \$1.8 billion of mortgages

▶ FHLBank Atlanta District

Alabama
District of Columbia
Florida
Georgia
Maryland
North Carolina
South Carolina
Virginia



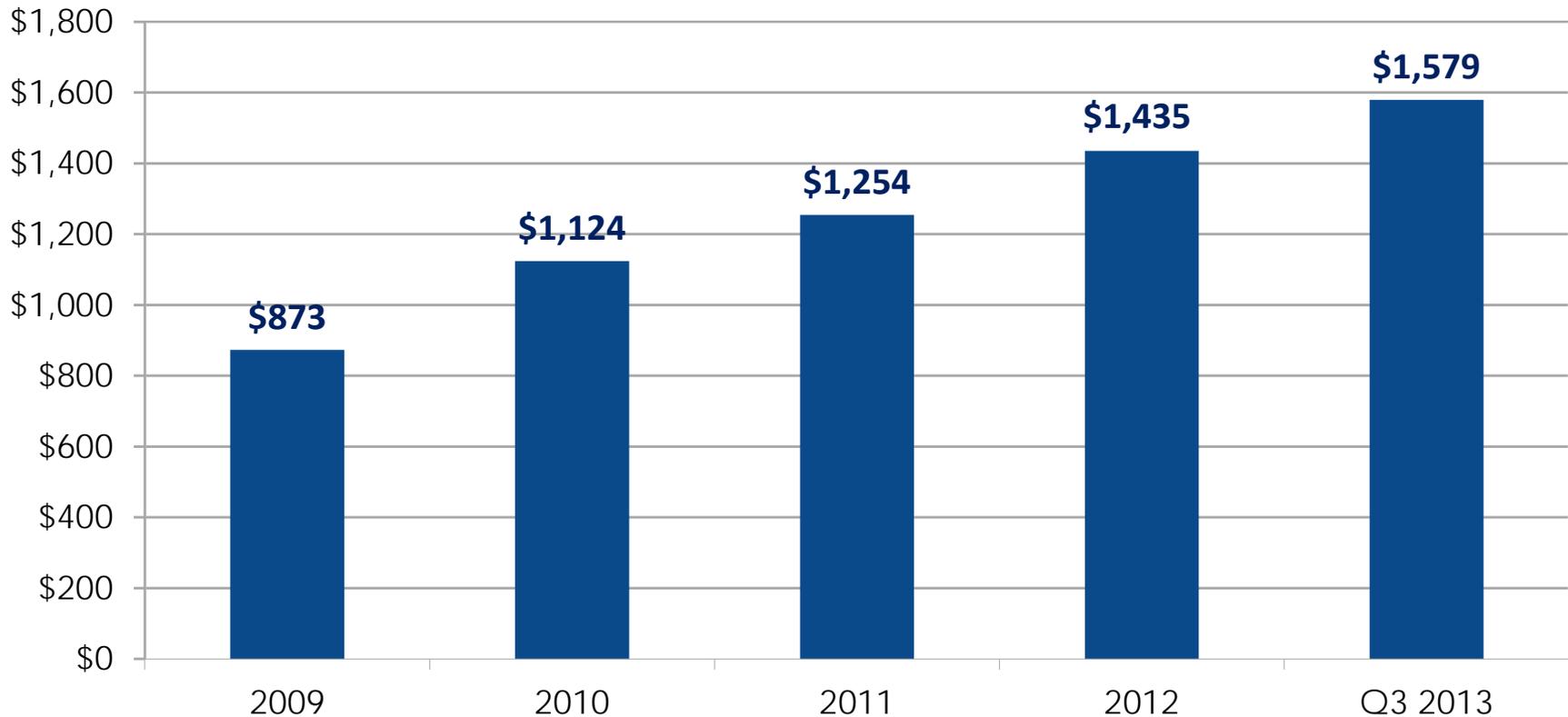
FHLBank Atlanta Financial Highlights

As of September 30, 2013

- Total Assets: **\$112.1 billion**
- Total Advances (loans): **\$78.2 billion**
- Third Quarter Net Income: **\$71 million**
- Retained Earnings: **\$1.6 billion**
- Third Quarter Dividend: **2.76%**

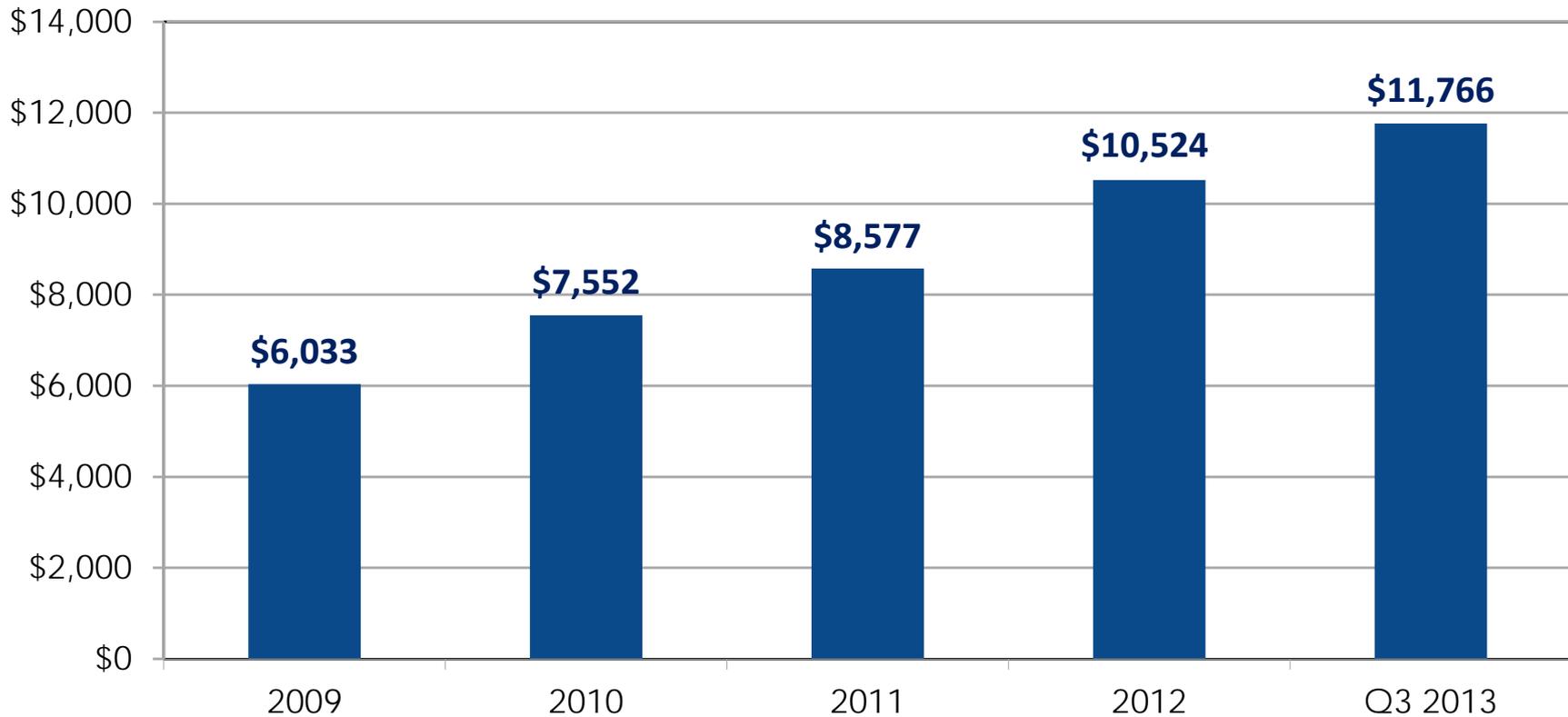
FHLBank Atlanta Retained Earnings

(In millions)



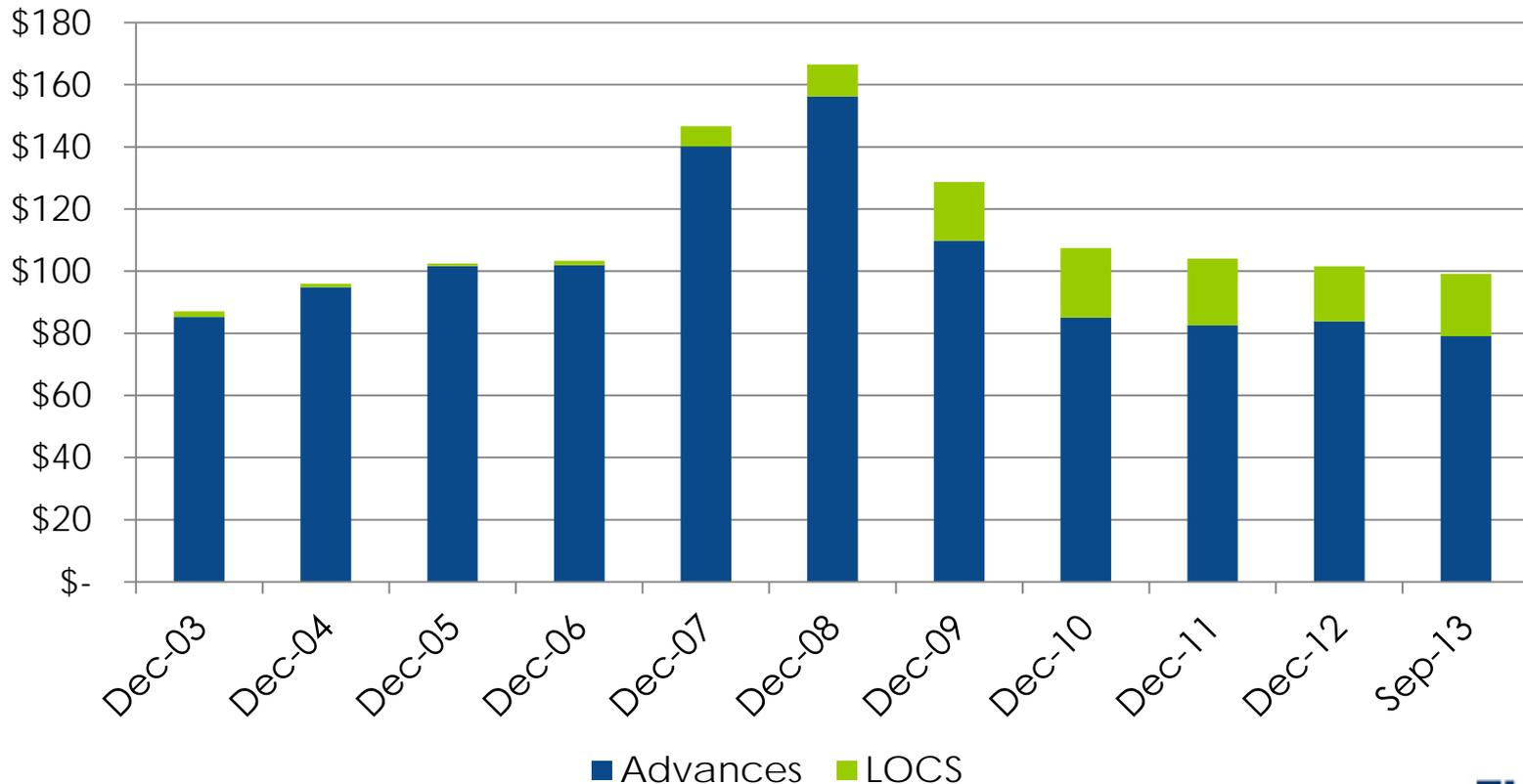
FHLBank System Retained Earnings

(In millions)



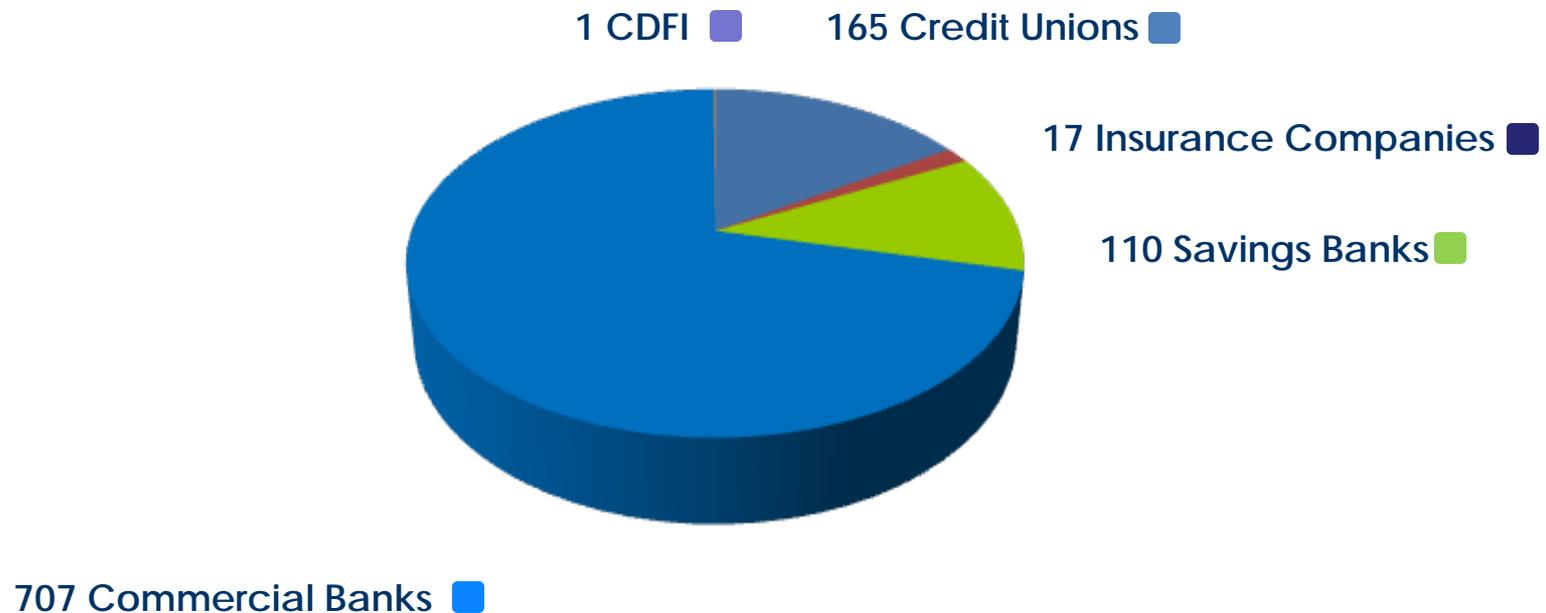
FHLBank Atlanta Advance and Letter of Credit Balances

(In billions)



FHLBank Atlanta Shareholders

As of September 30, 2013



1,000 Total Shareholders

It is also vital that the FHLBanks maintain and enforce effective and prudent credit and collateral standards to ensure that the more than 7,500 FHLBank members have access to funding and liquidity even during the tightest markets.

*Since the recent financial crisis began, there have been a large number of bank failures (nearly 500). Although most of these failures occurred at FHLBank member institutions, **the FHLBanks incurred no losses on advances made to these institutions.***

The FHLBanks provided large amounts of liquidity during the crisis and did it with no losses and no need for taxpayer assistance or government bailout.

FHLBank Atlanta Credit Analysis

- Conservative practices to
 - Protect the cooperative and members' capital investments
 - Maintain the Bank's AAA/AA+ rating by ensuring no credit losses
 - Keep FHLBank System debt at attractive rates

FHLBank Atlanta Credit Analysis

- Balanced approach also to serve members
 - Provide liquidity up to their lendable collateral value almost immediately
 - Expand eligible collateral categories to help members maximize borrowing capacity
 - Like any secured lender, FHLBank Atlanta may impose certain restrictions (e.g., shortened maturities or increased haircuts) where the credit standing of a member becomes challenged

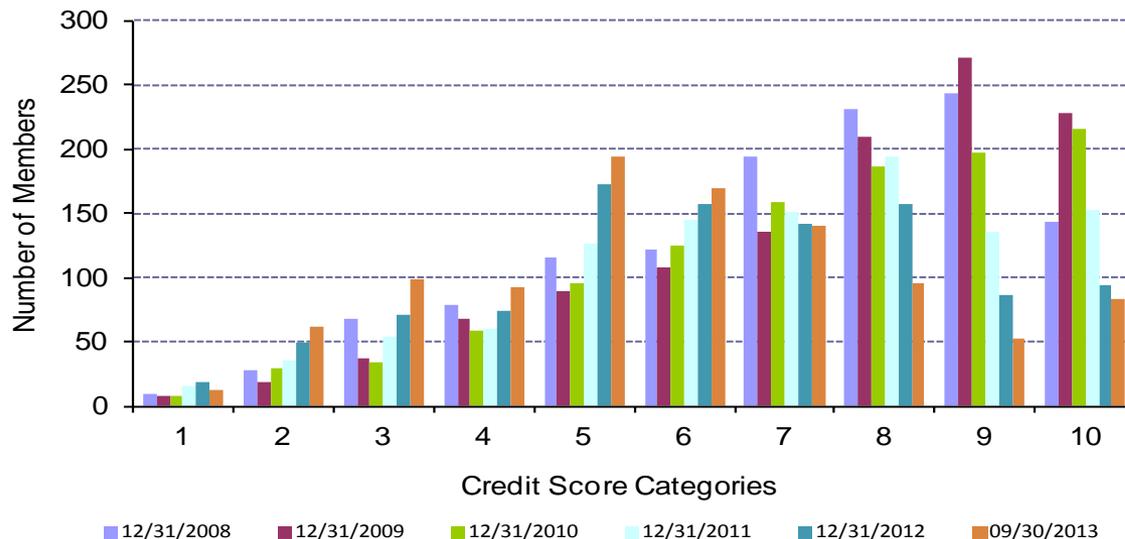
FHLBank Atlanta Credit Risk Rating Model

- Models assign ratings from 1 through 10 (1 is the healthiest)
- Separate models used for banks, credit unions, and insurance companies
 - Based upon increasing probability of default
 - Credit Analysts review credit ratings each quarter
- Uses key financial ratios covering asset quality, earnings performance, capital adequacy, and liquidity

FHLBank Atlanta Credit Score Overview

Members continue to face financial stress as reflected by the number of members with scores of 9 or 10; however, substantial improvement has occurred throughout 2012 and 2013.

**Number of Shareholders by Credit Score
December 2008 - September 2013**



FHLBank Atlanta has successfully managed all failures with no credit losses

U.S. Bank Failures and Member Bank Failures in FHLBank Atlanta Region

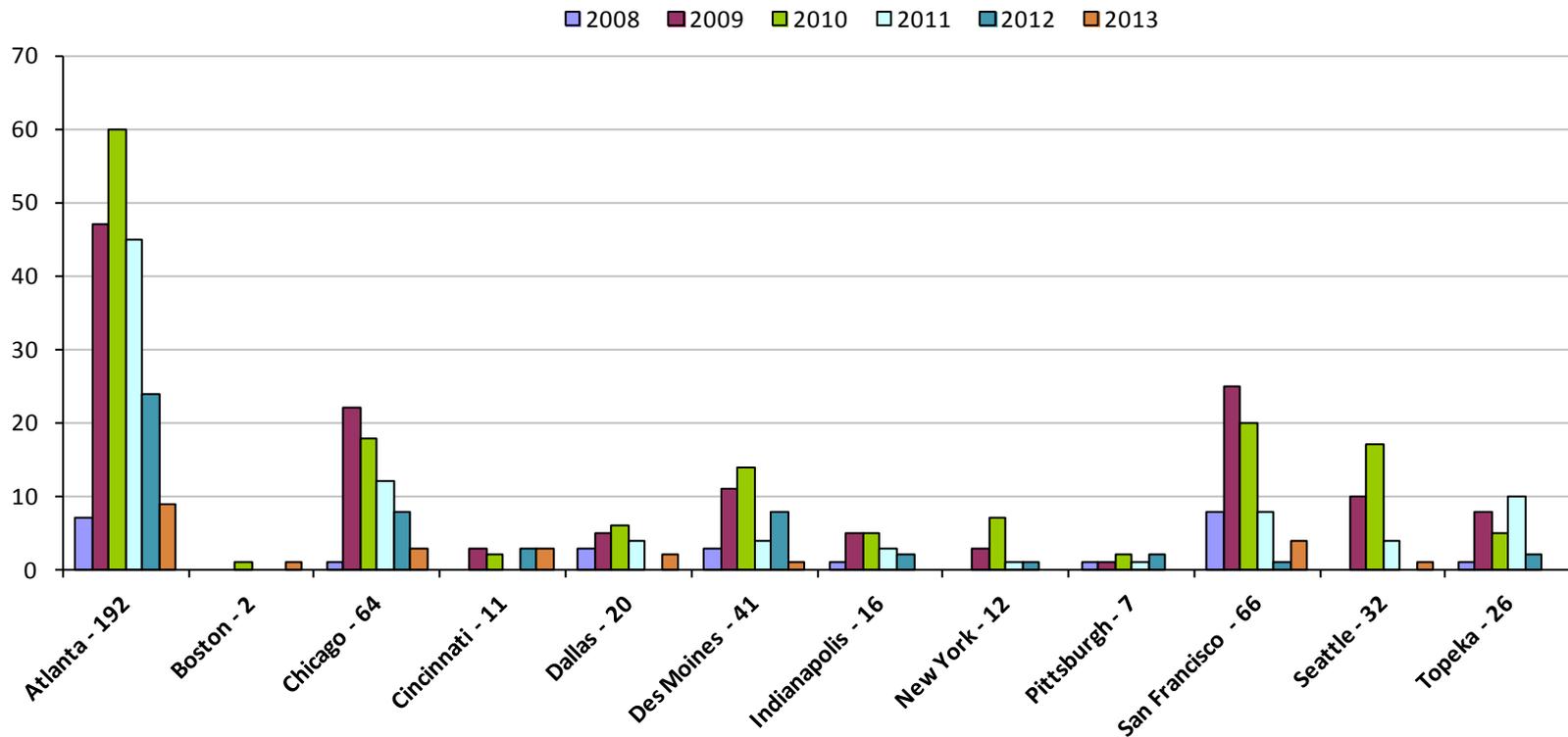


180 total member bank failures in FHLBank Atlanta region

Source: FDIC <http://www.fdic.gov/bank/individual/failed/banklist.html>

Bank Failures in FHLBank System

Bank Failures 2008 - 2013



Source: <http://www.fdic.gov/bank/individual/failed/banklist.html>

▶ Providing Access to Funding During Times of Financial Stress

- FHLBank Atlanta follows prudent practices of a secured lender
- FHLBank Atlanta has never called or required a payoff as long as the advance was properly collateralized
- Like any secured lender, FHLBank Atlanta may impose certain restrictions (e.g., shortened maturities or increased haircuts) where the credit standing of a member becomes challenged

▶ Providing Access to Funding During Times of Financial Stress

- FHLBank Atlanta has lifted term restrictions for advances when prudent (e.g., when restructuring an advance would reduce a member's net interest expense)
- FHLBank Atlanta may set a member's credit limit at a fixed amount, as opposed to percentage of assets, to prevent a reduction in credit availability if the member's assets shrink

Key Takeaways

- FHLBanks maintain a practice of lending with pledging of acceptable collateral
- The FHLBanks are secured lenders that maintain and enforce prudent credit and collateral standards
- The FHLBanks have been a reliable source of daily funding and contingent liquidity for more than 80 years and provided more than \$1 trillion in liquidity to members during the height of the financial crisis