

**COMMONWEALTH OF VIRGINIA
SECURITY FOR PUBLIC DEPOSITS ACT
TREASURY BOARD GUIDELINES - THE USE OF FEDERAL
HOME LOAN BANK LETTERS OF CREDIT AS ELIGIBLE
COLLATERAL TO SECURE VIRGINIA PUBLIC DEPOSITS**

PURPOSE – To establish guidelines for the use of Federal Home Loan Bank letters of credit as eligible collateral under the Security for Public Deposits Act, §§2.2-4400 through 2.2-4411 of the Code of Virginia.

STATUTORY AUTHORITY – Code of Virginia §2.2-4401 which defines “eligible collateral “ for purposes of the Virginia Security for Public Deposits Act.

CONDITIONS FOR ELIGIBILITY - Letters of credit issued by the Federal Home Loan Bank are eligible as collateral under the Security for Public Deposits Act provided that:

A. The letter of credit:

1. Has been delivered to the Virginia Treasury Board in the standard format approved by the Treasury Board in Exhibit A;
2. Is an irrevocable standby letter of credit issued subject to the International Standby Practices 1998, International Chamber of Commerce Publication No. 590 (“ISP98”);
3. Is not transferable;
4. Contains a statement that identifies the Virginia Treasury Board as beneficiary;
5. Contains an issue date and a date of expiration;
6. Contains a term of at least one year and an evergreen clause that provides at least forty-five days written notice to the beneficiary prior to expiration date for nonrenewal;
7. Contains a statement that it shall also be governed by the laws of the Commonwealth of Virginia to the extent not inconsistent with ISP98;
8. Is issued, presentable, and payable at a Federal Home Loan Bank in United States dollars. Presentation may be made by the beneficiary, submitting the original letter of credit, including any amendments, and the completed and duly executed demand;
9. Is unconditional and contains a statement that the beneficiary need only present the original letter of credit with any amendments and the demand form to promptly obtain funds.

- B. Obligations of the Federal Home Loan Bank (1) be rated at least double A by two nationally recognized rating agencies or (2) be rated the same credit rating as the lowest long-term sovereign credit rating of the United States. Qualified public

depositories will have thirty days from the date that obligations of the Federal Home Loan Bank are downgraded to pledge other eligible collateral to secure their public deposit balances.

- C. The qualified public depository completed an agreement covering the use of the letters of credit as eligible collateral as provided in Exhibit B.
- D. The qualified public depository has not been notified by the Treasury Board that Federal Home Loan Bank letters of collateral shall not be allowed as eligible collateral because the Federal Home Loan Bank failed to pay a draw request as provided for in a letter of credit issued to secure public deposits.

COMPLIANCE AND REPORTING

- A. The original letter of credit will be held by the Treasury Board.
- B. A copy of the letter of credit will be forwarded to the depository.
- C. The depository is required to include the value of the letter of credit on its monthly Listing of Collateral Pledged to Treasury Board Report.
- D. Since the Treasury Board holds the original letter of credit, escrow agents are not required to account for the letter of credit or report the amount of the letter of credit on their monthly Listing of Collateral Pledged to Treasury Board Report.

Exhibit A - FEDERAL HOME LOAN BANK LETTER OF CREDIT STANDARD FORMAT

Exhibit B - FEDERAL HOME LOAN BANK LETTERS OF CREDIT AGREEMENT