FHLBank Boston

Pledging Municipal Securities to the Bank

Based on member feedback, the FHLB Boston expanded its eligible collateral types to include municipal securities. This change, which became effective in April of 2017, provides members with more ways to increase collateral capacity.

Eligibility criteria are listed in detail in the Products and Solutions Guide. Here are some helpful guidelines on the process to help you get started.

Eligibility Criteria

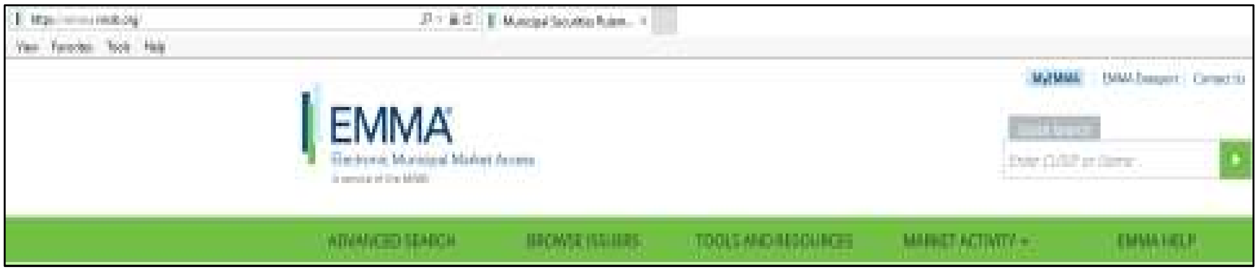
- ✓ **Minimum total issuance size of at least $25 million.** This requirement makes bank-qualified municipal bonds ineligible as those issuances are limited to no more than $10 million. This restriction may be evaluated at a future date.
- ✓ Security must be rated by two or more of the following NRSRO: Moody's, S&P, Fitch or Kroll.
- ✓ All ratings must be A3/A or better. Bonds rated A3/A cannot be on negative watch.
- ✓ Our regulator requires a determination of the percentage of a municipal security's proceeds that has been or will be used to finance real estate improvements. This is referred to as the "real estate nexus" and it represents the amount of a security that can be borrowed against (subject to haircuts). Determining the real estate nexus can be difficult and time-consuming and typically entails a review of offering material. The information and examples that follow should help you in determining security eligibility and the real estate nexus.

Some examples of securities that typically entail a real estate nexus include:

1. **Housing Revenue Bonds** of any type
2. **Utility Bonds** that involve financing the development or maintenance of electric power, gas, water, wastewater or solid waste systems
3. **Transportation Bonds** to finance highways, turnpikes, airports, ports, bridges, tunnels or mass transportation facilities
4. **Public Safety Bonds** to finance construction or renovation of correctional facilities, fire department facilities, or other public safety facilities
5. **Health Care Bonds** to finance the construction or renovation of hospitals, nursing homes, assisted living facilities or medical centers and
6. **School, College and University Bonds** to construct or finance improvements to real property

Determining the Real Estate Nexus

Before pledging municipal securities to the Bank, members need to establish the real estate purpose of the security by reviewing the Prospectus. Should the Prospectus not be readily available, it can be obtained through the Electronic Municipal Market Access website at **https://emma.msrb.org/.**



Let’s review a couple of CUSIPs to illustrate the process:

1. **CUSIP #235241LS3**

NEW ISSUE – BOOK ENTRY ONLY

Ratings: Moody’s: Aa3
S&P: A+
(See “RATINGS” herein)

OHIO UNIVERSITY

$250,000,000
THE OHIO UNIVERSITY
(A State University of Ohio)
General Receipts Bonds, Series 2014
(Federally Taxable)

5.59% Bonds due December 1, 2114 **Issue Price: 100%** **CUSIP: 677704A65†**

This bond meets the minimum issuance size, is rated by two or more NRSROs (Moody’s and S&P) and its ratings are A3/A or better at Aa3 and A+.

This bond also meets the real estate nexus requirement. According to the Prospectus: “Proceeds of the bonds will be used to (i) pay a portion of the costs of the 2014 Projects (both new construction and upgrades of University’s capital facilities, including maintenance items and University’s energy infrastructure facilities), and (ii) pay issuance costs. (Reference “Plan of Financing” on Page 10 of the Prospectus).

The proceeds from the sale of the **Series 2014** Bonds are expected to be applied for the following uses and in the following respective amounts. The Cost of Issuance can be included in the real estate nexus calculation:

SOURCES	
Par Amount of the Series 2014 Bonds	$250,000,000.00
Total Sources	$250,000,000.00
USES	
Deposit to Series 2014 Projects Account	$247,279,514.67
Cost of Issuance	2,720,485.33
Total Uses	$250,000,000.00

Uses from the sale of the bonds will be used strictly to finance the costs of capital facilities of the University, therefore, **100%** of the proceeds from the sale of these bonds would be eligible to be pledged to the Bank.

2. CUSIP# 64763FXC8

NEW ISSUE **OFFICIAL STATEMENT** **RATINGS:**
BOOK-ENTRY ONLY

S&P: "AA-" (Stable Outlook)
Fitch: "A+" (Stable Outlook)
Moody's: "A3" (Stable Outlook)
(See "BOND RATINGS" herein.)

In the opinion of Co-Bond Counsel, under existing law, interest on the Bonds is not excluded from gross income for Federal income tax purposes. Bondholders should consult their tax advisors with respect to the inclusion of interest on the Bonds in gross income for federal income tax purposes. See "TAX MATTERS" herein. Under Louisiana law, the Bonds are exempt from all taxation for state, parish, municipal, or other purposes.

$70,000,000
CITY OF NEW ORLEANS, LOUISIANA

TAXABLE PUBLIC IMPROVEMENT BONDS, ISSUE OF 2016

This bond meets the minimum issuance size, is rated by two or more NRSROs (S&P, Fitch and Moody's) and its ratings are AA-, A+ and A3.

As it relates to its real estate nexus, the Prospectus states that "The Bonds are being issued for the purpose of (a) making capital improvements, including constructing, renovating, acquiring and or improving (i) roads, streets and bridges, base stabilization, drainage adjustments and related sidewalks, curbing, street lighting, storm water management and landscaping associated therewith, (ii) public buildings and facilities and parks and recreational facilities and (iii) fire trucks and firefighting equipment, and (b) paying the costs of issuance of the Bonds.

Since the fire trucks and the firefighting equipment don't qualify as "real estate" we need to determine what amount of the bonds is being allocated for that purpose. Sometimes this is not an easy exercise and sometimes the Prospectus does not provide this information. In this example, Page 5 of the Prospectus has this detail and Page 46 includes the underwriter's discount that can also be included in the real estate nexus calculation.

BOND PROPOSITION

Shall the City of New Orleans, Louisiana (the "City"), incur debt and issue up to $120,000,000 of bonds, in one or more series, to run not exceeding thirty (30) years from the date thereof, with interest at a rate not exceeding eight percent (8.00%) per annum, for the purpose of making capital improvements, including constructing, renovating, acquiring and/or improving (i) $100,000,000 for roads, streets and bridges, base stabilization, drainage adjustments and related sidewalks, curbing, street lighting, stormwater management, and landscaping associated therewith; (ii) $15,000,000 for public buildings and facilities and parks and recreational facilities, and (iii) $5,000,000 for fire trucks and firefighting equipment, including acquiring all necessary land, equipment and furnishings for any of the foregoing, which bonds will be general obligations of the City and will be payable from ad valorem taxes to be levied and collected in the manner provided by Article VI, Section 33 of the Constitution of the State of Louisiana of 1974 and statutory authority supplemental thereto, with no estimated increase in the millage rate to be levied in the first year above the 25.5 mills currently being levied to pay General Obligation Bonds of the City?

Estimated Uses of Funds from Authorized Bond Issue of up to $120,000,000 from the Bond Proposition:

Roads, streets and bridges, base stabilization, drainage adjustments and related sidewalks, curbing, street lighting, storm water management and landscaping	$100,000,000.00
Public buildings, facilities, parks and recreational facilities	15,000,000.00
Fire trucks and firefighting equipment	5,000,000.00
Principal Amount of the Bonds	$120,000,000.00
SOURCES:	
Taxable Public Improvement Bonds, Issue 2016	$70,000,000.00
(Less) Fire trucks and firefighting equipment	- 5,000,000.00
TOTAL real estate related portion	**$65,000,000.00**
USES:	
Bond proceeds for projects	$69,716,043.00
Underwriters' Discount	283,957.00
Total Uses of Funds	**$70,000,000.00**

In this example, **92.9%** of the total value of the bond holding ($65,000,000/$70,000,000), would be eligible to be pledged to the Bank.

Refunded Bonds

Many securities are used to refund previous bonds. The real estate test will need to be applied to the underlying refunded bond to determine the portion of eligibility. Members must review the Schedule of “Refunded Bonds” in the Prospectus and determine what percentage has a real estate nexus.

Haircuts

The haircut that is applied to the eligible amount will be determined by the type of bond, the rating and its duration.

Eligible Collateral		Rating	Duration Term	Valuation
Municipal Securities[1]	General Obligation Bond Short	AAA	Less than six years	90 percent of market value
	Revenue Bond Short	AAA	Less than six years	90 percent of market value
	General Obligation Bond Long	AAA	Six years or greater	85 percent of market value
	Revenue Bond Long	AAA	Six years or greater	80 percent of market value
	General Obligation Bond Short	AA	Less than six years	87 percent of market value
	Revenue Bond Short	AA	Less than six years	87 percent of market value
	General Obligation Bond Long	AA	Six years or greater	82 percent of market value
	Revenue Bond Long	AA	Six years or greater	77 percent of market value
	General Obligation Bond Short	A	Less than six years	75 percent of market value
	Revenue Bond Short	A	Less than six years	75 percent of market value
	General Obligation Bond Long	A	Six years or greater	70 percent of market value
	Revenue Bond Long	A	Six years or greater	62 percent of market value

[1] Municipal securities fall under the other real estate related collateral (ORERC) category. All collateral pledged under the ORERC category is limited to a discounted amount up to two times the member's GAAP Capital. (For insurance company members that report under the Statutory Accounting Principles, SAP Capital will be used.)

Note: For insurance company members and non-depository community development financial institutions that execute a specific lien agreement, discounts applied to securities collateral are increased by 20 percent. For example, a discount of 10 percent increases to 12 percent.

Municipal Securities Held in a Security Corporation

Municipal securities that have been transferred to a Security Corporation typically do not constitute eligible collateral. However, the Bank may allow a member to pledge such securities provided that **ALL** the assets in the security corporation are comprised solely of eligible collateral as determined by the Bank.

Template and Instructions

The template with the required information for the municipal securities must be uploaded to the Bank's secure file transfer site. Please allow approximately two weeks for our Collateral Department to determine eligibility.

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If you have any questions, please contact your Relationship Manager.