



STATE OF MARYLAND COLLATERAL FOR PUBLIC FUNDS DEPOSITS

STATE TREASURER'S OFFICE GUIDELINES FOR THE USE OF FEDERAL HOME LOAN BANK LETTERS OF CREDIT AS ELIGIBLE COLLATERAL TO SECURE PUBLIC FUNDS DEPOSITS

PURPOSE: To establish guidelines for the use of the Federal Home Loan Bank stand-by letters of credit as eligible collateral to secure public funds deposits.

STATUTORY AUTHORITY: State Finance and Procurement Article §6-202, Annotated Code of Maryland, as amended, which defines eligible collateral to secure State of Maryland public funds deposits, and §§17-201 et. seq. of the Local Government Article of the Annotated Code of Maryland.

CONDITIONS FOR ELIGIBILITY: Stand-by letters of credit issued by a Federal Home Loan Bank may be used as eligible collateral to secure public funds deposits provided that:

A. The stand-by letter of credit:

- 1) Designates the Treasurer or, as applicable, the appropriate financial officer¹ of a local government unit ("Financial Officer") as the beneficiary ("Beneficiary");
- 2) Has been delivered to the Treasurer or appropriate Financial Officer as the beneficiary in the standard format approved by the Maryland State Treasurer's Office;
- 3) Is irrevocable and unconditional;
- 4) Is subject to the laws of the State of Maryland, including Title 5 of the Commercial Law Article of the Annotated Code of Maryland, and to

¹ "Financial Officer" is defined in §§17-201 et. seq. of the Local Government Article, Annotated Code of Maryland

the extent not inconsistent with Maryland law, the International Standby Practices 1998 (ISP98) rules;

- 5) Is issued on behalf of an applicant financial institution designated as a depository for public funds by the Maryland State Treasurer under §6-205, State Finance and Procurement Article, Annotated Code of Maryland, or by the governing body of a local government unit under §§17-201 et. seq. of the Local Government Article, Annotated Code of Maryland;
 - 6) Is presentable by the Beneficiary, and payable within the State of Maryland in United States dollars;
 - 7) Is held in its original signed form by the Beneficiary;
 - 8) Contains the value, an issue date and expiration date;
 - 9) Is not transferable;
 - 10) Contains a term of at least one year and an automatic renewal clause that provides at least forty-five days' written notice to the Beneficiary, prior to the expiration date for non-renewal;
 - 11) Has been reviewed by the appropriate legal advisor of the Beneficiary for form and legal sufficiency.
- B. The applicant depository will execute the required *Maryland State Treasurer's Office Federal Home Loan Bank Letters of Credit Depository Agreement*, governing the use of Federal Home Loan Bank letters of credit as eligible collateral.
- C. The applicant depository shall agree that the Beneficiary may, without notice to or consent by the applicant depository, demand payment under the letter of credit by presenting to the issuing Federal Home Loan Bank the original letter of credit with any amendments thereto and a duly executed form of demand specified in the letter of credit agreement.
- D. At the time of issuance of the letter of credit, the applicant depository will have a minimum financial strength rating from Kroll Bond Ratings, Inc., or similar nationally recognized statistical rating organization (NRSRO), as determined by the Beneficiary.
- E. Obligations of the Federal Home Loan Bank must remain at AA+ as rated by at least one of the NRSROs in order for FHLB letters of credit to be considered eligible collateral to secure public funds deposits.