

CLIENT ALERT: MARCH 25, 2009

FEDERAL HOME LOAN BANK EXPANDS STANDBY LETTER OF CREDIT PROGRAM FOR MANY 501(c)(3) ORGANIZATIONS

As of July 30, 2008, letters of credit from local Federal Home Loan Banks (FHLB) may be available to lower interest rates on bond financing for facilities such as hospitals, nursing facilities, community health centers, charter schools, universities, non-profit private schools, office and program space for human service organizations and day care. FHLB letters of credit can serve as further credit enhancement to direct pay or standby letters of credit issued by banks which are either members of local Federal Home Loan Banks or eligible non-members. The bonds receive the higher rating of the issuing Federal Home Loan Bank, thereby lowering the interest rate payable on the bonds by the borrower.

Previously, the FHLB standby letter of credit was reserved for housing bonds, because under the then applicable provisions of the Internal Revenue Code only bonds utilized for housing programs could be enhanced by an FHLB letter of credit without losing their tax-exempt status. However, under a provision of the Housing and Economic Recovery Act of 2008, signed into law on July 30, 2008, bonds guaranteed by Federal Home Loan Banks for other purposes may now be treated as tax-exempt. This expanded exemption only applies to FLHB letters of credit issued in connection with the original issuance of a bond on or prior to December 31, 2010 (or to renewals or extensions of such letters of credit).

The Federal Home Loan Bank of Boston has issued a fact sheet in which it has set forth its eligibility criteria for the issuance of its letters of credit in support of community lending initiatives.

For additional information, please contact Attorney Samuel Nagler at snagler@kb-law.com