Fluctuating Balance Letters of Credit

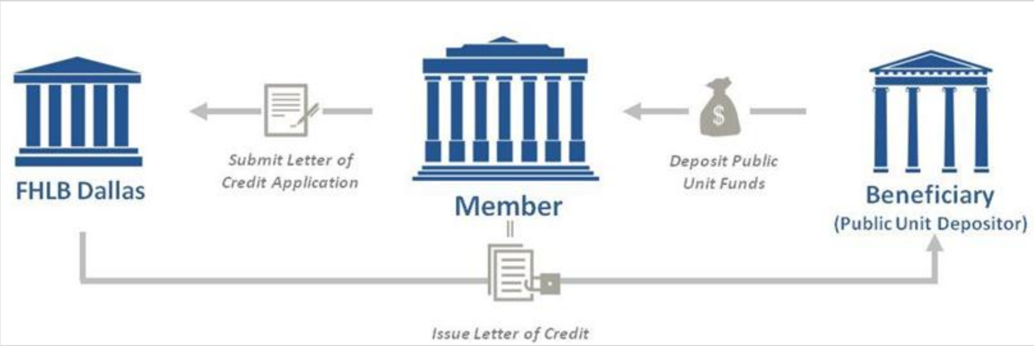
Federal Home Loan Bank of Dallas (FHLB Dallas) Letters of Credit (LOC) provide a cost-effective, easily manageable method for collateralizing public unit deposits (PUD) that exceed the amount insured by the Federal Deposit Insurance Corporation (FDIC), while providing our members the flexibility to keep their securities portfolio unencumbered and available for liquidity and other purposes.

For members with PUDs with balances that frequently fluctuate or have seasonal characteristics, members can now request the Fluctuating Balance feature. This Fluctuating Balance feature is available with both Direct Standby and Custodial LOCs. The Direct Standby LOC is used for single public unit depositors while the Custodial LOC may be used when multiple public units are involved.

LOCs protect public unit depositors by paying, upon demand, if a member defaults under its depository arrangement with these depositors. FHLB Dallas' LOCs are widely accepted by public units throughout the District and are administratively easier to manage than pledged securities. Unlike securities, LOCs are not subject to market value fluctuations or call provisions; therefore, public units need only monitor the LOC's expiration dates.

What is a Fluctuating Balance LOC?

A Fluctuating Balance LOC provides your institution with the ability to collateralize deposits from public units such as states, counties, school districts, hospital districts or municipalities over a longer term, but unlike a traditional LOC, your institution is charged based on average quarterly utilization rather than the notional amount of the LOC at issuance. In other words, the member pays only for the amount of the LOC that is required to secure deposits which, in many instances, will be less than the notional amount of the LOC. A fluctuating balance LOC could be used for one or multiple depositors.



Why Use a Fluctuating Balance LOC?

- **Provides a Low-Cost Alternative to Traditional LOCs**

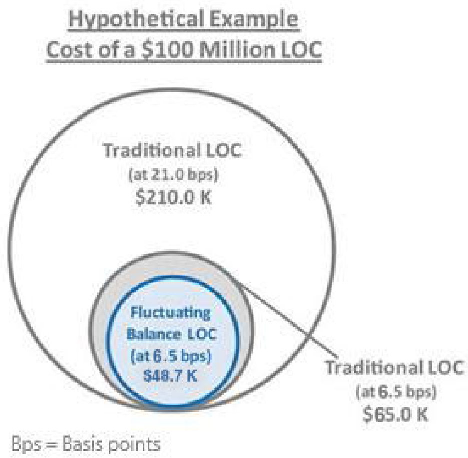
A Fluctuating Balance LOC may be a more cost-effective alternative than traditional LOCs, either Direct Standby or Custodial, since fees are calculated based on the deposit balances requiring collateralization. A Fluctuating Balance LOC provides the flexibility to pay only for what your institution uses and eliminates up-front fees typically incurred with traditional Direct Standby or Custodial LOCs. Fees for Fluctuating Balance LOCs are billed quarterly, in arrears, and are based upon the quarterly average of PUD balances requiring collateralization by those LOCs.

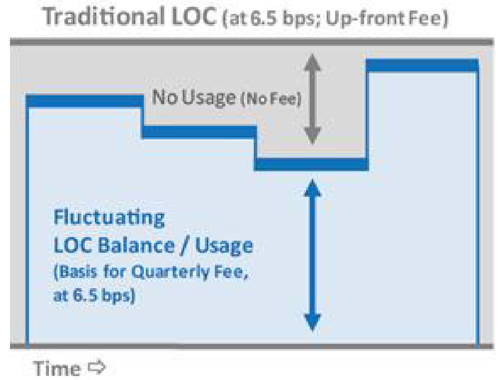
Hypothetical Example of a $100 Million Fluctuating Balance LOC at 6.5 Basis Points (bps) for One Year with Quarterly Average Utilization Fluctuating Between $60 Million and $90 Million.

Fluctuating LOC Balance Utilization*	Avg. Quarterly Utilization ($'s thousands)	Annualized Rate	Total Fees ($'s thousands)
Quarter 1	$80,000	6.5 bps	$12.8
Quarter 2	$70,000	6.5 bps	$11.3
Quarter 3	$60,000	6.5 bps	$9.8
Quarter 4	$90,000	6.5 bps	$14.7
Total			**$48.7**

* Average utilization is the average daily amount of collateral required to be posted by applicable regulation and/or agreement.

For example, if a beneficiary was issued a $100 million Direct Standby Fluctuating Balance LOC to collateralize PUDs for one year, the member would be billed in arrears each quarter for the average utilization of the LOC (i.e., the average daily balance being collateralized). As seen by the chart above, the member would incur $48.7 thousand in LOC utilization fees throughout the year based on average quarterly balances fluctuating between $60 and $90 million.





Custodial Fluctuating Balance LOC

When comparing a $100 million traditional LOC at the historical price of 21.0 bps with the Direct Standby Fluctuating Balance LOC, the Fluctuating Balance LOC would result in a net savings of $161.3 thousand ($210.0 less $48.7 thousand). If the traditional LOC pricing were reduced from 21.0 basis points to a comparable 6.5 basis points, the cost of this Fluctuating Balance LOC would have been $16.3 thousand less ($65.0 thousand less $48.7 thousand) since the institution would be only paying for LOC utilization and not paying for any unused LOC capacity.

- **Provides Increased Flexibility While Mitigating Risk for Beneficiaries**

LOCs issued by FHLB Dallas provide high credit quality (Aaa / AA+) backstop without requiring your institution to directly pledge high-quality/lower-yielding securities to the public unit depositors.

Public unit depositors may also perceive benefits from an LOC issued by FHLB Dallas over directly pledged securities since LOCs have high credit quality, have values that do not fluctuate with the market, and can be paid quickly and directly to beneficiaries on presentment since LOCs are not subject to call provisions.

Could a Fluctuating Balance LOC Support Deposits from Multiple Public Units?

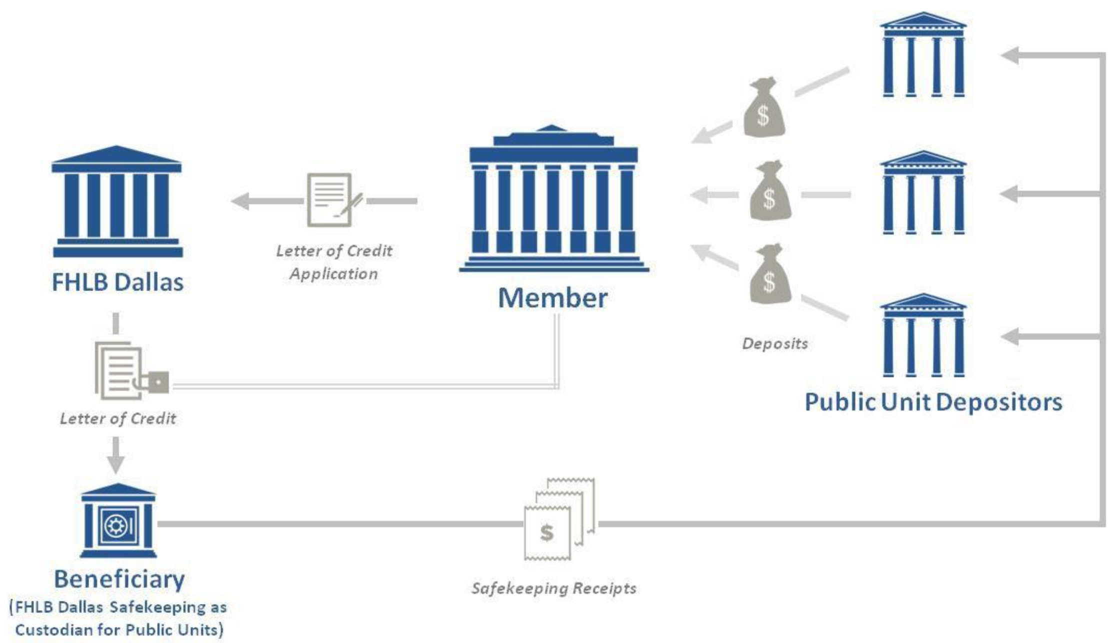
Yes, if your institution would prefer to execute a single Fluctuating Balance LOC to secure the deposits of multiple public units, then your institution would need a Custodial LOC. Direct Standby LOCs are used when there is only one beneficiary / public unit depositor.

With a Custodial Fluctuating Balance LOC, one LOC can be allocated among multiple public unit deposits. A single Fluctuating Balance LOC is issued in an appropriate notional amount of at least $5 million with FHLB Dallas serving as the beneficiary of the LOC and custodian for the public units. Portions of the Custodial Fluctuating Balance LOC can then be allocated to various public units using a simple allocation agreement referred to as Exhibit I.

The allocated amounts may be increased or decreased from time to time, but in no event can the total amount allocated under all Exhibits exceed the notional amount of the Custodial Fluctuating Balance LOC.

Unlike traditional Custodial LOCs, where a member is charged a fee based on the notional amount of the Custodial LOC at issuance, the fees for the Custodial Fluctuating Balance LOC are calculated on the aggregate average daily allocation under the Custodial Fluctuating Balance LOC.

For example, if a member has a Custodial Fluctuating Balance LOC with a $100 million notional amount that has been allocated among three public units in amounts of $25 million, $30 million and $20 million respectively, and those amounts remained unchanged throughout the quarter, then the utilization fee would be calculated based upon the $75 million in aggregate average daily allocations instead of the traditional $100 million notional amount. As with the Direct Standby Fluctuating Balance LOC, the utilization fee will be billed quarterly in arrears.



What is the Structure of a Fluctuating Balance LOC?

LOCs with the Fluctuating Balance feature must have a minimum transaction size of $5 million, could have maturities from 1 day to 15 years, and fees are billed quarterly, in arrears, based on utilization. This LOC product is subject to FHLB Dallas' standard credit and collateral policies.

Structure	
Maturity Terms	1 Day to 15 Years
Minimum Transaction Size	$5 Million
Billing Frequency	Quarterly, in Arrears
Basis for Billing	Quarterly Average Utilization (Quarterly Average Deposit Balances Requiring Collateralization or Average Aggregate Allocation, as Applicable)
Availability and Pricing	Contact Member Services at 800.345.2265

Note: An additional fee for a Letter of Credit will be applied when the application is received after 3:30 p.m. Central Time, and FHLB Dallas is instructed to process the LOC the same day. In addition, other fees may apply in the event of a draw on the LOC. Also, sufficient qualifying collateral must be maintained to fully secure the amount of the LOC issued.

Quarterly Utilization Billing

On the fifth business day of each month following a quarter end, utilization fees for the preceding quarter are deducted from members' demand deposit accounts. Utilization fees are based on the average daily balance of aggregate deposits of the public unit depositor(s) secured by the Fluctuating Balance LOC during the preceding quarter.

The quarterly utilization fee is calculated as follows:

$$\text{Quarterly Fee} = \frac{\text{Average Daily Utilization Balance for the Quarter} \times \text{Days in the Quarter} \times \text{Fee (basis pts.)}}{\text{365 Days}}$$

Risks

FHLB Dallas does not act as a financial adviser. Member institutions should evaluate the risks and suitability of LOCs.

Contact

Steve Otto
Director of Member Sales

Zimri Hunt
Director of Member Solutions

Member Services
800.345.2265

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