

# Letters of Credit

## Product Highlights

At FHLBank Chicago, we provide three types of Letters of Credit (LC): Public Unit Deposits, Bond Enhancements, and Performance Guarantees. These options enable our members to leverage our AA+ by S&P Global Ratings and Aa1 by Moody's Ratings (as of May/June 2025) to:

- Collateralize public entities' deposits
- Manage month-to-month deposit fluctuations
- Decrease bond-related transaction costs
- Create flexibility in their investment book by leveraging non-liquid collateral to secure the LC
- Compete with larger, rated banks and grow fee income
- Provide project financing opportunities that support community economic development and affordable housing projects
- Guarantee workers compensation and/or other insurance premiums
- Grow activity stock through your LC portfolio to earn higher dividends and reduce your overall net LC costs (activity stock requirement is 0.1% of notional amount)

## Public Unit Deposit LC

A PUD LC is provided when a public entity<sup>1</sup> seeks deposit protection, in the form of collateral or a letter of credit, for deposit funds that exceed the NCUA or FDIC-insured limit.



### Direct

FHLBank Chicago PUD LCs are issued directly to public entity to guarantee deposit funds held by the member; no member LC needed



### Prompt Payout

In the unlikely event of a default, FHLBank Chicago pays out promptly under the LC; no delay from selling securities



### Convenient

PUD LCs can be issued within 24 hours and, in many circumstances, within several hours



### Secure and Irrevocable

The LC carries FHLBank Chicago's AA+/Aa1 rating and cannot be terminated prematurely without beneficiary consent



### Easy to Use

Members can call in or submit applications online through eBanking

PUD LCs can collateralize deposits from many public entities, including but not limited to:

- Local government: city, county, township
- State government and state agencies
- Transportation authorities
- Housing authorities
- Water reclamation districts
- Public school districts and community colleges

<sup>1</sup>The question of whether a particular public entity may accept a FHLBank Chicago PUD LC to secure its deposits is generally considered to be a matter of state law, as well as each public entity's investment policy.



**FHLBank**  
Chicago

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## Confirming Letters of Credit

FHLBank Chicago can add confirmation, acting as a secondary guarantee, through letters of credit (LCs) for Bond Enhancement and Performance Guarantee LCs.

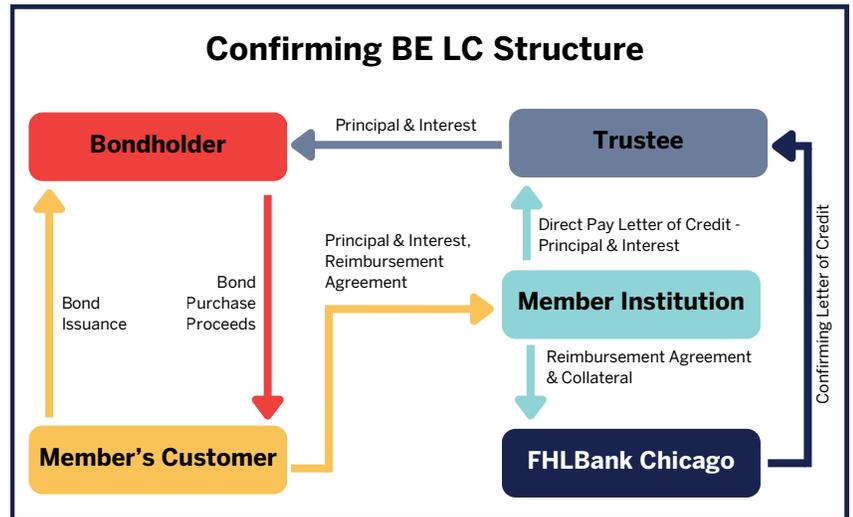
A confirming LC provides recourse in the event a member defaults under their contractual obligations with the beneficiary. The member's underlying LC guarantees their customer's obligation to the beneficiary. FHLBank Chicago's confirming LC guarantees the member's obligation to the beneficiary. The FHLBank Chicago LC is separate from the member's own LC and is issued under FHLBank Chicago's own terms.

## Bond Enhancement LC

BE LCs utilize FHLBank Chicago's AA+/Aa1 credit rating to provide more attractive financing terms.

Proceeds from the bond issuance can help finance a range of projects, including but not limited to:

- Housing developments
- Healthcare facilities
- Schools and universities
- Manufacturing facilities



## Performance Guarantee LC

A PG LC is issued to a beneficiary to secure the member's or member's customer's obligation to pay or perform on a contract. PG LCs can be used for:

- Construction contracts
- Lease payments
- Workers' compensation and insurance premiums
- Insurance companies can collateralize obligations to third-party beneficiaries
- Credit card processing accounts
- Interest rate swaps

