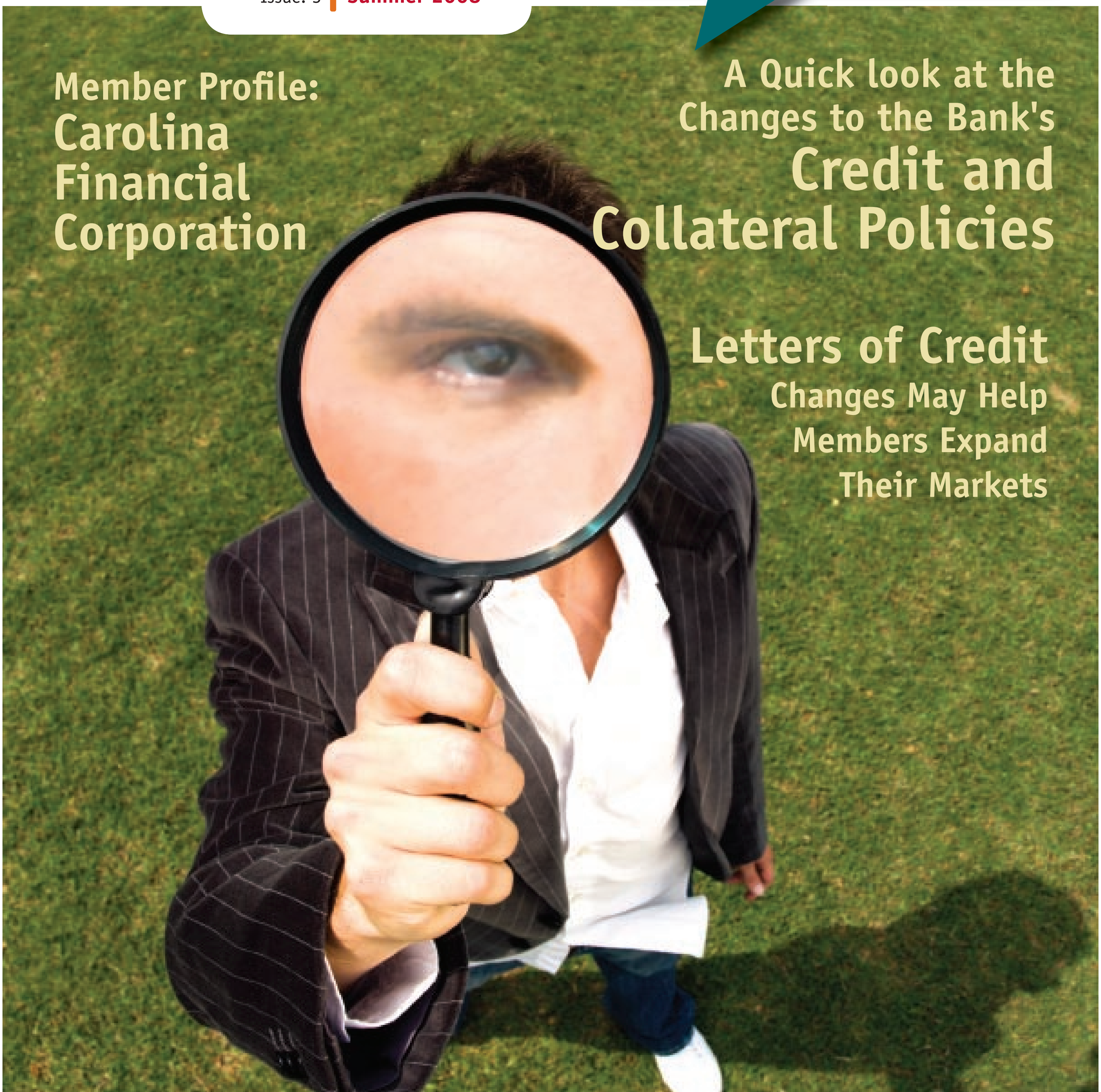
FHLBank Atlanta

Bank Talk

Issue: 3 | Summer 2008



Member Profile: Carolina Financial Corporation

A Quick look at the Changes to the Bank's Credit and Collateral Policies

Letters of Credit

Changes May Help Members Expand Their Markets

What's News

Fall 2008 Workshop Calendar

As part of its 2008 educational series, the Bank is hosting the following workshops this fall. Please visit our events calendar at www.fhlbatl.com to register for a specific workshop.

Member Orientation

October 16
Atlanta, GA

Collateral Workshops

September 10
Orlando, FL

September 18
Charlotte, NC

October 21
Tifton, GA

October 23
Savannah, GA

Director Election Begins

Financial institutions in North Carolina and Virginia that were Bank members as of December 31, 2007, or financial institutions that acquired such a Bank member, are eligible to vote in the 2008 election. The election process began in June with nominations. Voting on the candidates will take place in August and September, and the Bank will announce results of the election in October.

This year, members in North Carolina will elect two directors to the Bank's board of directors and members in Virginia will elect one director. The terms for these directors will begin on January 1, 2009, and end on December 31, 2011.

To be eligible to serve as an FHLBank Atlanta director, an individual must be a citizen of the United States and currently serving as an officer or director of a Bank member institution located in North Carolina or Virginia as of December 31, 2007, which meets all minimum regulatory capital requirements. Any individual who has been elected to three consecutive terms on the Bank's board of directors may not serve a fourth term until two years after the expiration of the third consecutive term.

The nomination deadline for the 2008 director election was July 7. Please visit www.fhlbatl.com for a complete timeline for the election process and a list of current FHLBank Atlanta directors.

FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

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FHLBank Atlanta publishes BankTalk to provide news and information to its members in Alabama, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, and the District of Columbia.

For additional copies, contact us via e-mail at communications@fhlbatl.com

Letters of Credit Legislation Could Expand Benefits to FHLBank Members and Their Communities

FHLBank Atlanta and the other FHLBanks are working with community groups, education and healthcare groups, financial industry groups, and others to support legislation that would amend the Internal Revenue Code (IRC) to allow the acceptance of FHLBank letters of credit (LOCs) as support for tax-exempt community and economic development bonds.

Currently, Federal Home Loan Bank member financial institutions can use FHLBank LOCs to provide credit support for private and public bond issuances, but the tax-exempt status only applies to bonds issued for housing activities. The bi-partisan legislation introduced in the House (H.R. 2091) and the Senate (S. 1963) would amend the IRC to permit use of FHLBank LOCs as acceptable credit support for tax-exempt community and economic development bonds. These types of bonds help finance important community development projects such as infrastructure improvements, schools, and medical facilities. Specifically, the legislation will allow FHLBank member financial institutions to assist bond issuers by offering FHLBank LOCs to guarantee the bond issuance without triggering the loss of the bond's tax-exempt status.

FHLBank LOCs are AAA-rated and subject to the same credit standards as FHLBank advances, which makes them safe, effective means for members to help meet the financial services needs of their communities. The AAA-rated performance guarantee from an FHLBank LOC could lower the costs for communities to raise funds for community and economic development projects.

The legislation also would provide FHLBank member financial institutions with another profitable way to support development activities in their communities. Compared to other available alternatives, FHLBank LOCs can reduce the costs for members to back a bond issuance. In addition, providing credit support for community bonds often opens doors for members to capture additional financing opportunities associated with the development project.

Market Conditions Highlight Importance of Legislation

Extending the authority to support tax-exempt bonds to the FHLBanks will bring needed competition to the market and improve the ability of local governments and communities to fund development. Historically, many communities have found it difficult or financially impractical to get the necessary credit support to issue bonds for needed projects. Today, circumstances are further exacerbated by the credit market disruptions and problems in the bond insurance market.

"Local governments across the country are facing a hostile environment in which to raise funds, with new issues plummeting and many municipalities forced to pay significantly higher interest rates to attract investors," said Rep. Spencer Bachus, R-Ala., at the March 12, 2008, House Financial Services Committee hearing. "The downgrading of bond insurers and the constriction of the credit markets as a result of the subprime mortgage problems have forced banks and hedge funds to dramatically reduce their municipal debt risk exposure. The resulting collapse of the secondary bond markets has further impaired the ability of local governments to manage their debt exposure."

"Constituents in my district are being hit particularly hard by this crisis. In my home area of Jefferson County, Ala., the breakdown of the secondary bond markets has forced the county's interest rate payments on local sewer bonds to skyrocket from 3.06 percent to 10 percent—a more than triple increase," continued Bachus. "These higher costs will come out of the pockets of local taxpayers in my district in the form of reduced services or higher fees and taxes. We need to act swiftly and responsibly to ensure that our markets get back on track before too much more damage is done."

Continued on page 8

Five Things You Need to Know about

Changes to the Bank's Credit and Collateral Policies

On June 27, 2008, FHLBank Atlanta implemented changes to its Credit and Collateral policies related to the credit risk ratings of member institutions and valuation methodologies for pledged collateral. These changes are part of an ongoing effort to help the Bank manage its credit and collateral-related risks and continue meeting the funding needs and investment goals of its members. Below are answers to five important questions that will help you understand how these changes may affect your financial institution.

1

What are the credit policy enhancements?

A new credit risk rating system has replaced the current Credit and Collateral Matrix, which since 2004 has categorized members on a scale of one to four, based on a number of variables such as CAMELS ratings and advances to total assets ratios. The revised system will rate a member's credit risk on a scale of one to 10, with one representing the least amount of risk and 10 being the greatest.

The underlying variables that affect the credit risk rating include quality of assets, earnings, and capital positions, and these are weighted within a proprietary credit risk model managed by the Bank. As part of the Bank's Credit and Collateral Policy, these ratings are subject to change, revision, and modification by management. As was the case with the previous rating system, a member's credit risk rating will affect a member's credit availability as well as the amount of collateral required to secure borrowings.

2

How is the credit risk rating determined?

The Bank uses a credit model that assigns each member financial institution a credit risk rating that currently is derived from key financial measures obtained from each institution's quarterly regulatory reports. The six key factors are:

- Slow loans: 30+ day loans and non-accruals / total assets
- Core Capital: core capital / total assets
- Return on Assets: two quarters net income / total assets
- Liquidity: government and agencies debt and mortgage-backed securities / total assets
- Risky Loans: non-residential loans / total assets
- Asset Concentration: construction, commercial real estate, and C&I loans / total assets

The risk ratings will be calculated and updated quarterly. The Bank's credit analysts will review each member's risk rating and may adjust it based on other factors, such as:

- Significant events that may affect a member's financial condition identified with discussions with management or published in SEC filings or other external sources;
- Regulatory exam ratings and findings; and
- Regulatory enforcement actions.

Each member can view its current credit risk rating on FHLBAccess®.

3

How might the revised rating system affect borrowing and collateral requirements?

The Bank has implemented new underwriting guidelines applicable to members in each credit risk category. These guidelines are used to help determine the member's credit limit as a percent of total assets, the member's ability to increase its credit limit, Watch List placement, and collateral requirements.

The Bank may require additional collateral for members at its discretion. Any additional requirements for collateral due to the new credit risk rating will go into effect on August 1, 2008.

In addition, the new policy alters or removes some of the restrictions that were in place under the previous Credit and Collateral Matrix.

- All members, regardless of their credit risk rating, will be able to pledge any type of eligible collateral, including residential mortgages, multi-family mortgages, HELOCs and second mortgages, and commercial real estate mortgages, to secure their borrowings.
- The policy removes limits on other real estate related collateral, including commercial real estate mortgages, HELOCs, and second mortgages.
- The lendable collateral value for all residential first mortgages will be 75 percent of unpaid principal balance for all members.
- The policy removes general limits to convertible advances for all members. However, the Bank may restrict a borrower's access to convertible advances at its discretion.
- De novo institutions will be subject to the same collateral requirements as other institutions.

For specific guidelines applicable to each credit risk rating, please refer to the Credit and Collateral Policy in the Bank's Member Products and Services Guide, found at www.fhlbatl.com.

4

What are the collateral policy changes and how might these changes affect my financial institution?

As part of an enhanced residential collateral discount methodology, the Bank will begin collecting additional data related to residential first mortgage loans members pledge to secure their borrowings. This information is optional and includes a request for portfolio-level loan data such as property type, seasoning, amortization type, and combined loan-to-value ratio. The purpose of this data is to help us better assess valuation of pledged collateral, with the potential of providing greater value for these loans in the near future.

Under the updated methodology, collateral discounts will be based on factors such as the following:

- Estimated value of residential first mortgage collateral pledged
- Quality and amount of information provided regarding pledged collateral
- Estimated disposition costs of collateral

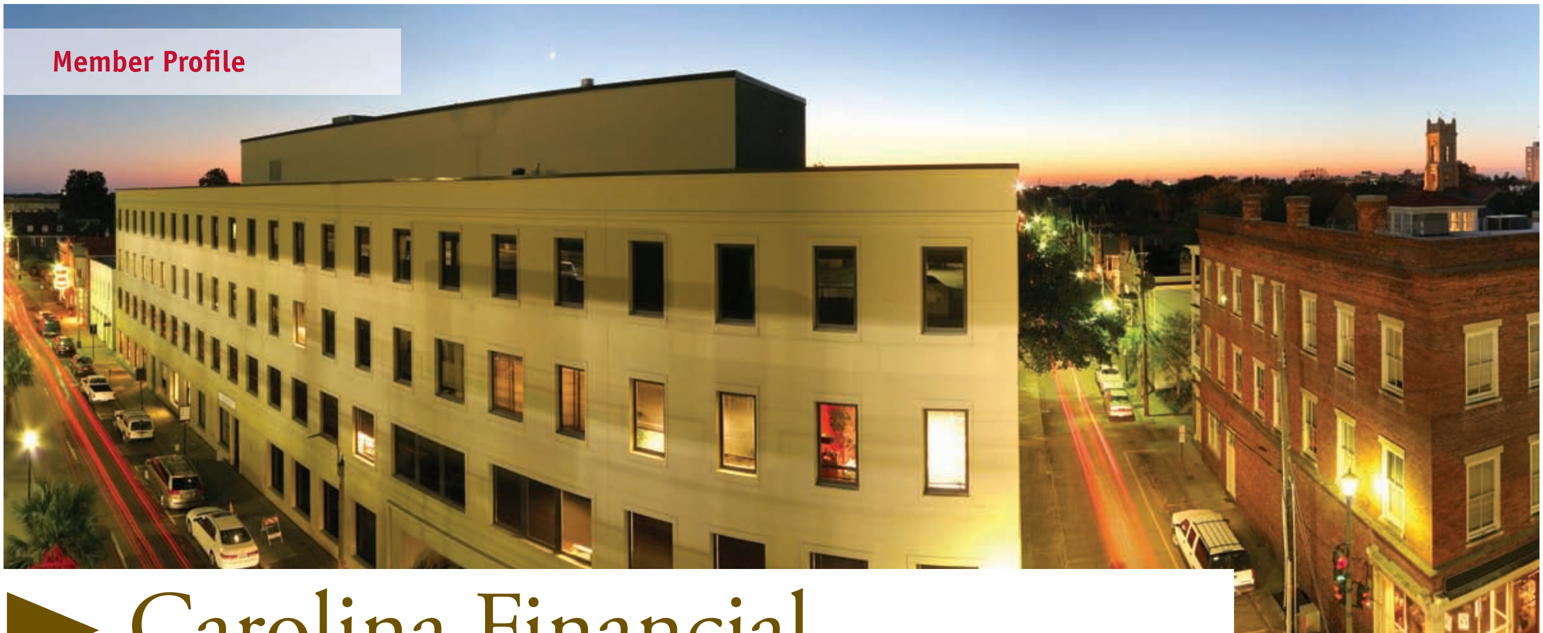
5

Where can I obtain more information about the credit and collateral changes?

The Bank mailed detailed information about the credit and collateral changes to your institution in early June. The full Credit and Collateral policy is found in the updated Member Products and Services Guide on www.fhlbatl.com

If you have additional questions, please contact the Funding Desk at 800.536.9650, extension 8011.

Member Profile



Carolina Financial Corporation

Two decades of steady development along the Carolina coast have created a banking environment that is ripe with opportunities.

> "The advances are a stabilizing factor in our portfolio; they allow us to fund without bidding up the local CD market."
>
> Frank Cole,
> Chief Financial Officer
> Carolina Financial Corporation

Spanning the sunny grand strand of Myrtle Beach and the scenic low-country of Charleston and Hilton Head Island, the South Carolina coast is one of the fastest growing areas of the Southeast and the United States. A booming tourism industry draws more than 30 million visitors to the area each year while a healthy job market and the region's popularity as a retirement destination keep local economies and real estate markets stronger than national averages.

Two decades of steady development and population growth also have created an attractive banking market that is ripe with commercial and residential lending opportunities. Headquartered in the heart of Charleston, Carolina Financial Corporation is well positioned to capitalize on the burgeoning market. The organization is the parent company of two community banks—Community FirstBank of Charleston and Crescent Bank in Myrtle Beach —and a wholesale mortgage company based in Atlanta.

Founded in 1997, Carolina Financial Corporation operates 10 bank branches in coastal South Carolina, primarily in Myrtle Beach and Charleston. The company's assets tripled during the last five years from $318 million in 2003 to more than $1 billion in early 2008. Net interest income also tripled during this period from $9.7 million in 2003 to $28.3 million in 2007. Carolina Financial Corporation's President and CEO John Russ attributes this rapid, healthy growth to both the strong regional market and the organization-wide emphasis on community banking and customer service.

"We operate in the two top growth markets in South Carolina and believe both Community FirstBank and Crescent Bank are well positioned to participate in future growth," said Russ. "Our people create a competitive advantage for the banks because they are intimately involved with their communities and understand the region's main industries, which are tourism, retirement, manufacturing, and real estate."

While this thriving regional economy creates opportunity, it also fuels an intensely competitive banking environment, especially for retail deposits. According to Russ, competition for deposits in the Myrtle Beach and Charleston markets recently has driven CD rates to 225 basis points above U.S. Treasury rates. For growing community banks like Community FirstBank and Crescent Bank, this dynamic can create a difficult funding predicament.

FHLBank Atlanta Provides Funding Support

Both Community FirstBank and Crescent Bank rely on their FHLBank Atlanta memberships to help them combat these funding challenges. The banks frequently borrow short-term advances to manage liquidity needs. Frank Cole, executive vice president and chief financial officer for Carolina Financial Corporation, says that FHLBank Atlanta advance pricing has been much better than other funding sources, especially local funding mechanisms.

“Recently, FHLBank Atlanta pricing typically has been significantly less than the costs of brokered or local CDs,” said Cole. “The advances are a stabilizing factor in our portfolio; they allow us to fund without bidding up the local CD market.”

The banks also use advances as long-term funding tools to manage asset and liability positions and reduce funding costs. For example, Crescent Bank used an Adjustable Rate Credit advance tied to LIBOR with an embedded interest rate floor to protect against falling rates in several commercial loan portfolios. With this structure, the advance rate periodically adjusts in step with LIBOR, but when LIBOR falls to a predetermined strike rate, the advance rate begins decreasing at a two to one ratio with LIBOR.

“This advance is currently approaching a zero interest rate,” said Russ. “It has been of tremendous assistance in reducing lost interest income in a falling rate environment.”

In addition to funding loan production, Community FirstBank and Crescent Bank use advances to help support their investment activities. The banks recently have purchased intermediate duration bonds for their investment portfolios and used intermediate-term advances to assist in locking in a portion of the interest rate spread on the securities. According to Russ and Cole, FHLBank Atlanta advances provided the best pricing and execution given the difficulty of attracting long-term deposits and the lack of other options in the repurchase market.

Building for the Future

As development in coastal South Carolina continues, Community FirstBank and Crescent Bank are planning for asset growth between 10 and 20 percent a year. Russ sees FHLBank Atlanta serving as a critical funding source for the banks during this time of growth, particularly as the institutions experience price pressure on rate-sensitive liabilities and local deposits.

The key aspects of the relationship will continue to be the breadth of FHLBank Atlanta’s product offering, ranging from advances to investment safekeeping, and the flexibility of its borrowing policies, which allow the banks to pledge a variety of loans and securities as collateral to secure advances. However, Russ adds that the “let’s get things done” attitude of the FHLBank Atlanta staff is what truly characterizes the partnership between the two companies.

“We have always found FHLBank Atlanta to be very helpful in working with us to facilitate our advance requests,” said Russ. “We view the bank as a total resource, not just for funding but also for knowing what’s going on in the broader mortgage and banking markets. There is no doubt in our mind that they are a partner for the long term.”

Continued from page 3

Quick congressional action on this legislation can help ensure that stressed communities have the support they need to go forward with vital community and economic development projects. Local community banks, with the help of their FHLBank, can help fill this need.

Status of Legislation

On February 14, 2008, the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises began hearings on how best to address the challenges raised by the problems in the bond insurance industry.

During the hearings, FHLBank LOCs were mentioned numerous times by members of the committee and witnesses, highlighting the need for passage of H.R. 2091.

Currently, there are 50 cosponsors in the House and nine cosponsors in the Senate. Of the nearly 60 cosponsors, 13 are from FHLBank Atlanta's district, including Senators Mel Martinez, R-Fla., and Johnny Isakson R-Ga., and Representatives Spencer Bachus, R-Ala., Artur Davis, D-Ala., Kendrick Meek, D-Fla., David Scott, D-Ga., John Lewis, D-Ga., John Linder, R-Ga., Jim Marshall, D-Ga., Chris Van Hollen, D-Md., Albert Wynn, D-Md., Walter Jones, R-N.C., and Bob Etheridge, D-N.C.

The legislation could be passed as a separate measure or could be added to another legislative vehicle. It has already received bi-partisan support in the House and Senate and is supported by 17 national organizations and 82 state associations/organizations.

History of FHLBank LOC Legislation

1983	**FHLBanks authorized to issue LOCs to support members' activities.**
1984	**Changes to the Internal Revenue Code provided tax-exempt status for housing bonds backed by FHLBank LOCs.**
1989	**The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) expanded the FHLBanks' LOC issuance authority to support project bonds for community and economic development projects. New categories did not automatically receive tax-exempt status.**
2007	**Congress introduced legislation to amend the Internal Revenue Code to permit the use of FHLBank LOCs as acceptable credit support for tax-exempt community and economic development bonds.**

At the time of this publication's printing, the GSE Regulatory Reform and Housing Stimulus bill was being considered by the Senate. The bill includes a provision to permit bonds supported by Federal Home Loan Banks LOCs to be eligible for treatment as tax-exempt bonds. The House passed a similar measure.

Member financial institutions that are interested in further information or would like to express support or interest to a member of Congress can contact the Bank's Government and Industry Relations staff:

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