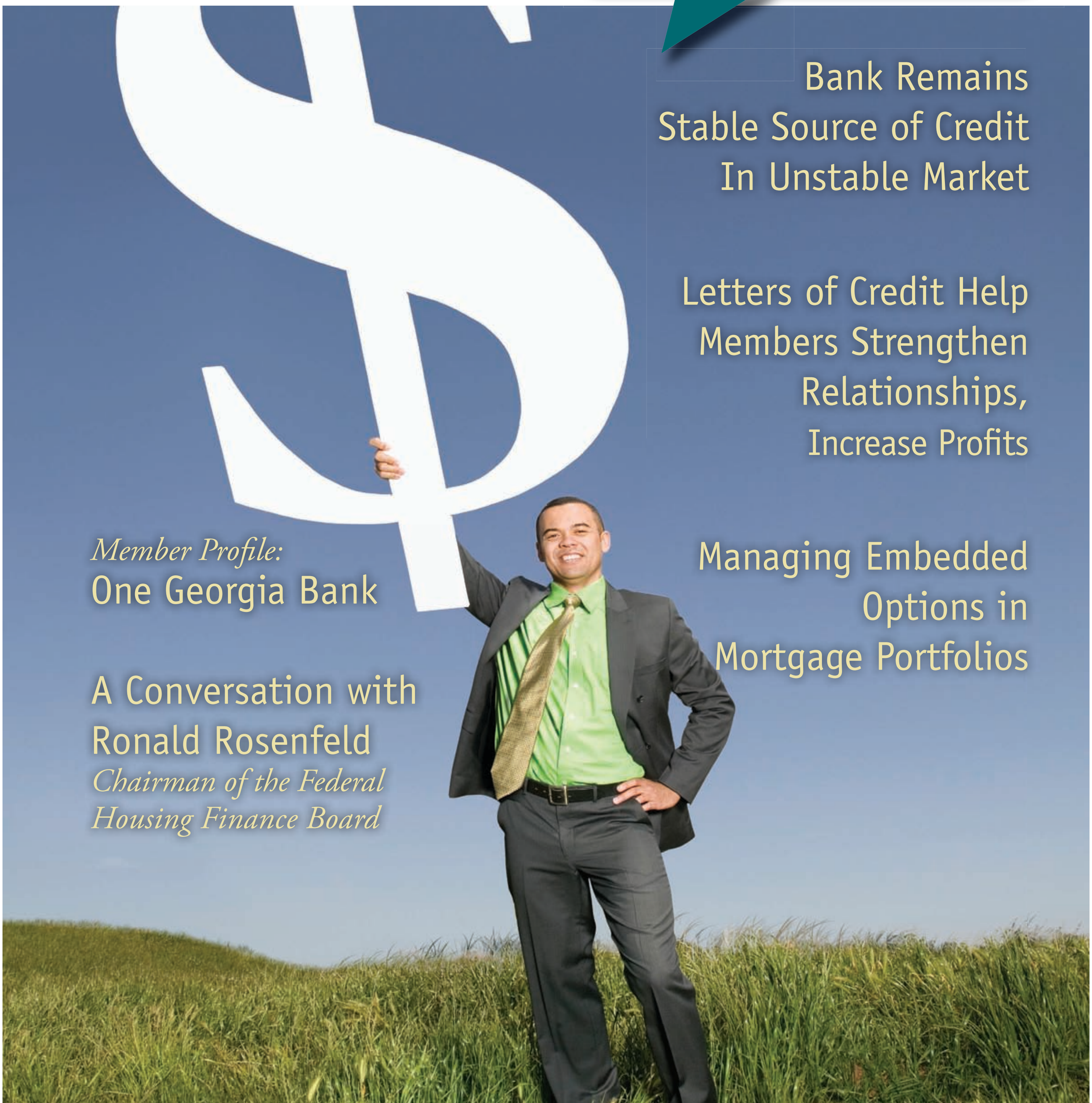
FHLBank Atlanta

Bank Talk

Issue: 2 | Winter 2008



Bank Remains Stable Source of Credit In Unstable Market

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What's News

Bank Eliminates Pricing Tiers for Advances

On January 1, the Bank eliminated tiered pricing for its advances. With these changes, advance pricing will no longer be tied to the dollar amount of the advance, saving members up to 10 basis points on trades below $5 million.

The elimination of tiers is a direct result of increased efficiencies in the capital markets and in the Bank's operations. "When the tiered concept was introduced, it was more expensive to issue smaller pieces of debt to hedge advances, and our administrative costs were higher," said Haig Kazazian, first vice president and manager of national accounts and product development at FHLBank Atlanta. "The capital markets are now pricing smaller trades more in line with larger ones, reducing the need for pricing tiers."

For questions about advance pricing, please contact the Funding Desk at 800.536.9650, extension 8011.

Bank Announces New Board Members

Bank members elected two new directors for Florida and Georgia and reelected a current director for Maryland.

Members in Maryland reelected **John M. Bond, Jr.**, chairman of The Columbia Bank. Bond has served as a director and the CEO of The Columbia Bank in Columbia, Md., since its inception and was one of two individuals who started Columbia Bancorp in 1987.

Member institutions in Florida elected **Miriam Lopez**, CEO of TransAtlantic Bank in Miami. Lopez has held her current position for 22 years and served as TransAtlantic's chairman of the board from 2003 to 2007. She is a former president of the Florida Bankers Association and serves on the American Bankers Association's Government Relations Council and Executive Committee.

In addition, the Federal Housing Finance Board has appointed **Linwood Parker Harrell, Jr., Jonathan Kislak, and Henry Gary Pannell** to the Bank's board of directors.

Harrell served as the non-executive board chairman of the Federal Home Loan Bank's Office of Finance from September 2003 to March 2007. He also held several executive positions at Korn Ferry International, was a partner with Arthur Young and Company, and was a Wachovia Bank vice president.

Kislak is a general partner of Antares Capital Corporation in Miami. An experienced mortgage banker and investor, Kislak founded Kislak Capital Corporation, an investor in start-up and early stage companies. He also served as deputy under secretary for Small Community and Rural Development at the U.S. Department of Agriculture. He began his career as a regional representative for the Federal Home Loan Bank of Boston.

Pannell is an attorney with Miller Hamilton Snider & Odom, LLC in Atlanta. He held leadership positions with the Office of the Comptroller of the Currency (OCC) in Atlanta and served as an attorney with Wachovia Bank and the OCC law department in Washington, D.C.

Each of these Directors three-year terms began on January 1, 2008.

As previously reported by the Bank, in connection with the Bank's 2007 election of directors, the director-elect for the directorship that the Finance Board designated for the state of Georgia notified the Bank that he would be unable to serve on the Bank's board of directors because of scheduling conf icts. On November 29, 2007, the board of directors elected **William F. Easterlin III** to fill the vacancy as of January 1, 2008, for the Georgia directorship. Easterlin has served as president and chief executive officer of Queensborough National Bank and Trust since 1995. Prior to that, he served as a vice president with First National Bank and Trust in Louisville, Ga., and a corporate loan officer and assistant vice president with Bank of America in Houston.

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BankTalk

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Bank Remains Stable Source of Credit in Unstable Market

Richard Dorfman
FHLBank Atlanta President and CEO

In light of unprecedented turmoil in the mortgage finance and credit markets, I wanted to take a moment to communicate directly to you—our member-shareholder —about the Federal Home Loan Bank of Atlanta's (Bank) perspective on current events and its mission of providing liquidity to member financial institutions.

As a cooperative institution that was created by the Congress in 1932, the Bank is well positioned and is committed to maintaining its role as a reliable and dependable source of a diverse package of competitively-priced funding and risk-management products for our more than 1,200 members. Our goal is to be a source of stability and strength during this challenging time in the credit market.

While credit market disruptions continue to affect members and the customers they serve, the Bank has performed very well, offering low-cost credit and related products in a sound and prudent fashion. The Bank has clear and consistent policies governing advances that are made to all members, and each member is held to the same uncompromising standards. These policies are well documented in our Member Products and Services Guide, which is available at our corporate website, www.fhlbatl.com.

While many active and long-time borrowers are aware of the substance of these policies, I would like to summarize certain salient points with respect to them. The Bank underwrites each member before granting it credit. In order to obtain credit, a member must purchase capital stock equal to 4.5 percent of the amount of the advance, and it must pledge sufficient eligible collateral to secure the advance. The Bank applies discounts to pledged collateral ranging from 3 percent of market value (U.S. Treasury bonds and agency securities) to 50 percent of unpaid principal balance (home equity lines of credit (HELOCs), second mortgages, and commercial real estate). Further, any pledged loan that becomes 30 days delinquent no longer constitutes eligible collateral and must be withdrawn from the collateral pool.

> "Due primarily to the recent credit market disruptions, the Bank's outstanding advances have increased by $38 billion since Dec. 31, 2006, to $139 billion as of Sept. 30, 2007. This growth is significant and noteworthy, and it evidences execution of the mission that Congress established for the FHLBanks in 1932."

The Bank perfects its security interest in all pledged collateral through the filing of a UCC-1 financing statement. In addition, in certain cases, the Bank further secures its position by taking possession of pledged collateral. In light of this, the Bank believes that each member has pledged sufficient collateral to secure its advances. Given our conservative credit underwriting and collateral valuation standards, I think it is worth noting that the Bank has never suffered a credit loss on an advance. In fact, no FHLBank has ever suffered a credit loss on an advance during the system's 75-year history.

The Bank's policies also include its "Guidelines to Promote Responsible Lending," which prohibit members from pledging collateral exhibiting predatory characteristics. The Bank requires each member to certify compliance with these guidelines each time the member submits its periodic collateral reports. It also tests for compliance with these guidelines as part of its collateral verification review program. Any loan found to fail these tests is not eligible collateral and must be withdrawn from the pledged collateral pool. In addition, any such loan contributes to an extrapolation rate applied to the entire category of pledged collateral (residential first mortgages or HELOCs and second mortgages, as the case may be). In addition, each member must comply with the Bank's "Guidelines for Subprime and Nontraditional Loans," which require the member to provide periodic confirmation that its pledged residential first mortgage collateral and HELOC and second mortgage collateral do not violate applicable laws and regulations regarding subprime and nontraditional mortgage loans.

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Letters of Credit

Help Members Strengthen Relationships, Increase Profits

As a growing community bank, Red Mountain Bank in Birmingham, Alabama, is always looking for ways to broaden and strengthen its client relationships. When several high-profile business clients needed investment-grade credit to facilitate important projects, Jodi White, chief financial officer at Red Mountain Bank, and her lending team turned to FHLBank Atlanta's Letters of Credit.

Red Mountain Bank obtained letters of credit to back a bond issuance for an oil change shop franchise and to facilitate transactions for two real estate development companies. The first developer refinanced a large office building with a permanent lender that required two investment-grade letters of credit for a debt service reserve and tenant improvement reserve. The other was refinancing a loan on a medical office building and needed a letter of credit for the primary lender to serve as a back-up in the event that an unoccupied suite could not be re-leased.

"Our chief lending officer learned about the letter of credit from another community banker," said White. "We contacted FHLBank Atlanta for more information, and after an easy process, we were able to obtain investment-grade letters for our clients. We are very pleased with the product because it helped our clients accomplish their goals and helped us enhance our relationships with them."

FHLBank Atlanta's Standby Letters of Credit (LOC) provide members with an efficient, low-cost way to attract and secure lucrative contractual agreements with third parties. The Bank may issue an LOC to a third-party beneficiary on a member's behalf to function as an independent guarantee of additional credit and collateral for the members' obligation.

The Bank's LOCs are eligible for Aaa/AAA ratings and can support a number of activities. Members use them to provide liquidity and other funding, facilitate residential housing finance, enhance credit for taxable bond issuances, and facilitate affordable housing and community development lending.

In addition to these types of transactions, one of the most common and profitable ways members use the Bank's Standby LOC is to collateralize public unit deposits.

Public Unit Deposits

Most public entities require security on their deposits either through excess deposit insurance (above the FDIC threshold of $100,000) or by accepting qualifying investment securities from the depository bank or credit union. These investments are typically in the form of government or agency securities.

While public unit deposits (PUDs) are often a good source of low-cost funds for financial institutions, their collateralization requirements and associated administrative costs can make them less attractive.

Direct costs associated with PUDs include the interest cost and administrative costs of monitoring and meeting collateral requirements. An additional opportunity cost includes the cost of holding a securities portfolio solely for the purpose of collateralizing public deposits. Devoting these assets to secure PUDs prohibits an institution from using the securities to fund higher yielding assets. Institutions may even have to pledge additional securities to maintain collateral levels if market values decline due to rising interest rates.

FHLBank Atlanta's Standby LOCs can help members lower the total costs of attracting and retaining PUDs and potentially improve the net interest spread earned on assets funded with these deposits. The Standby LOC functions as a guaranty of payment, enabling members to leverage the Bank's AAA debt rating to reduce credit risk for the public entity. At a fee of only five basis points when used for public deposits, the LOC is an economical source of funding that allows smaller community banks to offer services that compete with larger financial institutions.

Bessemer, Alabama member First Financial Bank used a Standby LOC to obtain public deposits for a three-month term. The public entity withdrew the deposit at the end of the term, but First Financial plans to hold the letter of credit until the next time the public deposit is out for bid.

"FHLBank Atlanta's letter of credit was easily the most efficient and economical way to obtain the public deposits," said B.K. Goodwin, president, chairman, and chief executive officer of First Financial Bank. "The process was simple and the cost was very reasonable."

Members pledge the LOC, instead of a low-yielding investment portfolio, as collateral for public deposits. They can then use the deposits to fund loans or higher-yielding investments, thus improving net interest margins and profitability. In addition, the face value of the LOC remains constant, eliminating the need for members to update the amount pledged depending on the market value of securities.

"Having access to the letter of credit to collateralize the public unit deposits freed up other assets on our balance sheet for other uses," added Goodwin. "The end result was higher profits for our bank."

How FHLBank Atlanta LOCs Work

The Bank encourages Standby LOC terms to be structured to meet the specific needs of the underlying obligation. Standby LOCs can be issued for a specific period, with the option for renewal every six or 12 months up to the expiration date, for a maximum period of 15 years. Standby LOC fees are charged annually.

The process for members to obtain an LOC is generally quick and easy. Members must sign and execute an Agreement for Letter of Credit and Security Agreement prior to submitting an Application for a Letter of Credit. In addition to the agreement, the member must pledge sufficient collateral to cover the issued or confirmed Standby LOC. Standby LOCs are collateralized with the same menu of assets used to collateralize Bank advances, including eligible loans, treasuries, agency securities, and mortgage-backed securities. Members can find more information on collateralization options for Standby LOCs in the Bank's Member Products and Services Guide.

Benefits of Standby Letters of Credit

- Competitively priced
- Valued at "par"—not subject to market volatility
- Member does not have to purchase additional securities
- AAA credit rating ensures wide acceptance
- Provides speed, convenience, and certainty

LOC

Letters of Credit Pricing Tiers

Less than $1 million	37.5 basis points
$1 million to $5 million	25 basis points
$5 million to $25 million	15 basis points
$25 million to $50 million	10 basis points
Greater than $50 million	5 basis points
PUDs	5 basis points

To learn more about FHLBank Atlanta Letters of Credit, contact the Funding Desk at 800.536.9650, extension 8011.

Consider the Benefits of Using

Letters of Credit to Secure Public Unit Deposits

The majority of public entities require security on their deposits from the depository bank or credit union, and many financial institutions traditionally have collateralized public unit deposits (PUDs) using government and agency securities. However, using the Bank's Standby Letters of Credit (LOC) instead of securities as collateral for PUDs can improve flexibility in managing assets and potentially increase interest rate spreads.

The example below compares securing PUDs with a typical agency security versus an LOC from FHLBank Atlanta.

Agency Note Option >>

PUD Amount: $5 million
Secure with $5 million, 5-year agency note yielding 4.536%

Net interest income from note:
$5 million x 4.536% $226,800

FHLBank Atlanta LOC Option >>

PUD Amount: $5 million
Secure with $5 million FHLBank Atlanta LOC at a cost of 5 bps and lend $5 million in 1-4 family residential mortgage loans yielding 6%.

Net interest income:
$5 million x 6% (mortgage interest) -$5 million x 5 bps (LOC cost) $297,500

Bottom line: Advantage of Using LOC $ 70,700

In addition to earning added income, members using an LOC can save the administrative costs of managing agency note collateral and avoid the uncertainty associated with changing market values of agency notes. The Bank's LOC remains at par value throughout its term.

Currently, all states within the Bank's district accept Bank LOCs as collateral for PUDs. For more information, contact the Funding Desk at 800.536.9650, extension 8011.

Managing Embedded Options

in Mortgage Portfolios and Funding

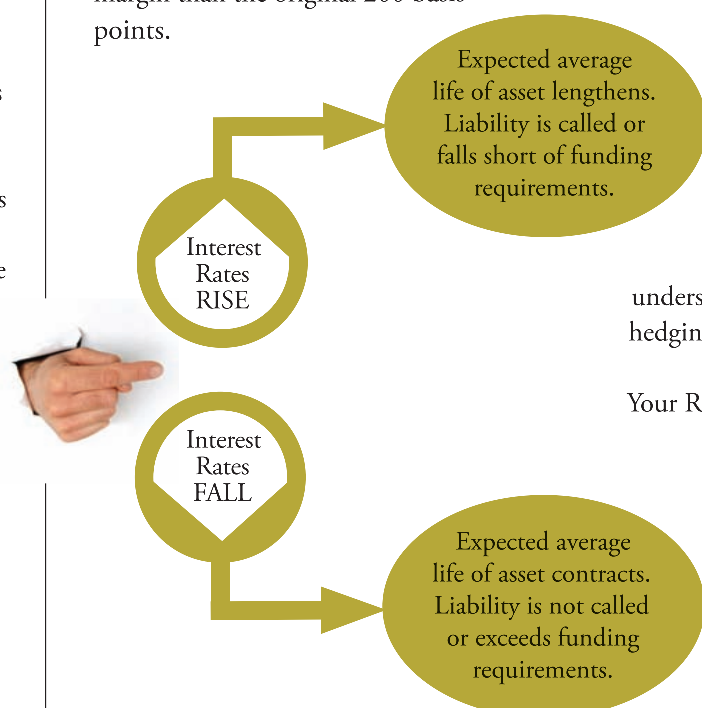
By Jeff Avery, Manager of Sales, Trading & Membership Education

The ongoing downturn in housing construction has left many community banks scrambling to identify alternative assets to replace a substantial portion of their diminishing construction portfolio. All categories are under consideration for growth prospects with substantial attention being focused on fixed-rate mortgage loans.

Many community institutions have small residential mortgage loan portfolios and have been hesitant to build a large portfolio of longer term fixed-rate mortgages. In addition to the lack of local long-term, fixed-rate funding, the bankers recognize that a mortgage generally includes a free option granted to the borrower that allows him to prepay the mortgage at anytime without a prepayment fee. In the jargon of finance, the lender sells an option and the borrower buys the option. The option holder, the borrower, normally can be expected to exercise the option when it is in his interest to do so. The most common situation is where the borrower is able to refinance the mortgage at a lower rate as market rates fall. While this situation can be problematic for the lender, the risk can be mitigated somewhat with a disciplined and thoughtful funding strategy.

The dilemma is that managing the risk increases the funding costs. At the same time that there is increased pressure on management to book new assets, treasury staffs are being pressured to lower funding costs.

Unfortunately, achieving the two initiatives can interfere with prudent asset/liability management. Lowering costs is easy; sell more options. The more options sold, the lower the cost of funding. Recently, the Bank offered a 10yr/1yr NC Convertible Advance at a rate of 3.42 percent. Funding a 15-year fixed-rate mortgage with the convertible advance could produce an initial spread of over 200 basis points. The problem is that the options sold on the asset side will be exercised in a falling rate environment, but the options sold on the liability side will not. The banker will be left with a need to book new assets at lower rates to cover the non-converted fixed-rate funding. The result will be a lower margin than the original 200 basis points.



A similar problem can occur with our example if rates rise. In this case, the funding will be needed for a longer period of time than originally expected as fewer borrowers prepay. New funding to cover the mortgage portfolio will be at higher rates than when the initial funding was arranged.

FHLBank Atlanta's Expander Advance is designed to help mitigate this risk. A full description of the Expander product is beyond the scope of this article, but basically, the member buys an option to expand the principal balance of an advance at a rate set at the time of the original trade. The option to obtain additional funding at the original rate on the advance can be a strong tool for mitigating the potential for margin compression in a rising-rate environment. The Expander Advance also can be used in combination with other funding products to allow a member to purchase options to assist with asset/liability management while reducing overall funding costs.

The key point to remember is that an asset structured with a sold option to prepay, which is funded with a supporting liability structured with a sold option to call, presents a special risk leaving the bank with a need to fully understand the opposing nature of the hedging strategy.

Your Relationship Manager will be happy to further discuss the Expander strategy, which appeared in the summer 2007 issue of BankTalk found on www.fhlbatl.com

Member Profile

One Georgia Bank

When exploring the feasibility of starting a new community bank, one must seek the ideal location, a thriving, diverse business market, and the right time. Few areas in the Southeast exhibit these characteristics more strongly than Midtown Atlanta.

Midtown is a commercial hub that is home to some of the most recognized businesses in the Southeast, the cultural center of Atlanta, and a growing residential destination. The community has experienced a remarkable renaissance during the last decade, adding more than 8 million square feet of Class A office space and 10,500 residential units, and the fast-paced growth shows little signs of slowing.

It is this ripe environment that led a group of accomplished entrepreneurs, influential community leaders, and long-time Atlanta residents to establish One Georgia Bank in the heart of Midtown. With headquarters located in Midtown's newest skyscraper at 1180 Peachtree Street, One Georgia Bank opened for business in May 2006, ready to meet the needs of a broad base of individuals and businesses in the area.

According to Jim Thomas, chief financial officer at One Georgia Bank, the company started out with a unique advantage that immediately set it apart from local rivals—exceptional diversity among the management team and board of directors.

"Typically, the founders, directors, and executives of a new community bank come from the same network—they know the same people and have the same associations," said Thomas. "The management team and directors of One Georgia Bank, however, are very diverse, which makes their sphere of influence extremely wide."

In addition to the breadth of experience and valuable networks, Thomas points to the financial institution's focus on personal service and technology as other critical factors to its early success. "We want to be able to do anything a large bank can do from a technology standpoint but with a more personal touch," said Thomas.

The company offers technology services beyond the standard array of online banking tools to enhance the value and convenience it can provide its customers. For example, thanks to imaging technology installed on-site at a customer's location, One Georgia Bank's business customers can make check deposits to their accounts at any time without leaving their offices.

The combination of expansive business networks, personalized service, and advanced technology fueled the bank's nearly 200 percent growth in total assets between June 2006 and June 2007 and a commercial lending pipeline of $250 million. At the same time, the rapidly growing loan pipeline led to concerns about having adequate funding to keep up with loan demand. When loan demand exceeded the bank's ability to raise deposits, the company began looking for funding alternatives and turned to FHLBank Atlanta. One Georgia Bank became a member in January 2007 and began borrowing later in the year.

"I previously worked with the Federal Home Loan Bank of Atlanta while employed with another financial institution," said Thomas. "The relationship was very good so it was natural to re-establish it when One Georgia Bank needed additional funding sources."

One Georgia Bank borrowed five 5/1 Bermudan Convertible advances to provide additional funding for its commercial lending activity. FHLBank Atlanta Convertible advances are fixed-rate advances that offer a borrower a lower interest rate while providing the Bank an option to convert the advance to a floating rate on a date following a lockout period. The Bermudan option provides conversion options at regular intervals until maturity. Under the 5/1 structure, One Georgia Bank benefits from a lower interest rate for a one-year lockout period, and FHLBank Atlanta retains the right to convert the advance to a floating rate for the remaining four years of the advance.

Thomas noted that the pricing of the 5/1 Convertible was very favorable at the time the bank needed additional funding and that the product has performed well. "FHLBank Atlanta has been a tremendous partner for funding, and we have been able to lower our cost of funds through these advances," he said.

As One Georgia Bank pursues its five-year strategic plan, the company expects FHLBank Atlanta to help support its growth. One Georgia Bank sees the potential to reach $425 million in assets with present capital and is exploring the possibility of opening an additional branch office in midtown Atlanta, where commercial lending opportunities are greatest. Throughout this expansion, the financial institution expects the need for funding to outpace its success in raising deposits.

While FHLBank Atlanta funding will be critical moving forward, Thomas adds that the people at the Bank, their creative ideas, and their attention to service are what truly make the relationship work.

"People on the Bank's funding desk do not hesitate to go outside of their normal job descriptions to provide good service to us," said Thomas. "In that respect, they mirror what One Georgia Bank is trying to do—to go a little further for the customer."

Resources for New Members

More than 50 financial institutions joined the Bank as new members in 2007. To help new members gain the most value from their memberships, the Bank offers a number of useful resources:

- Funding Desk Relationship Manager: all members are assigned a relationship manager on the Bank's Funding Desk based on the member's geographic location. Relationship Managers help members use the Bank's credit products to meet their funding and asset-liability management needs while minimizing risk.

- New Member Orientation Workshop: a workshop held periodically at the Bank's offices that provides members with information on the Bank's products and services, credit and collateral policies, community investment programs, and more. The next workshop will be held on February 20, 2008

- FHLBAccess®: the Bank's online members-only system that provides access to current and historical interest rates, account information, advance and stock balances, and numerous reports. Members also may submit qualifying collateral reports, take down Daily Rate Credit advances, and model other types of advances using this system.

- Member Products & Services Guide: complete descriptions of the Bank's products and services and credit and collateral policies.

- Bank's Public Website located at www.fhlbatl.com: a central place to find important news, dividend and earnings announcements, the Member Products and Services Guide,and a number of useful documents and forms, including advance applications, letter of credit applications, Qualifying Collateral Report forms, and more.

A Conversation with
Ronald Rosenfeld
Chairman of the Federal Housing Finance Board

Ronald Rosenfeld is the chairman of the Federal Housing Finance Board (Finance Board), the primary regulator of the FHLBanks. The Finance Board is made up of five directors, including four appointed by the President of the United States with the approval of the Senate, and the Secretary of HUD. President Bush named Ronald A. Rosenfeld to the Finance Board and designated him Chairman on December 14, 2004. The U.S. Senate unanimously confirmed Rosenfeld's appointment to a term that will expire in 2009.

Recently, Rosenfeld sat down with FHLBank Atlanta's Eric Mondres, first vice president and director of government and industry relations, to discuss the recent liquidity crunch, pending Government Sponsored Enterprise (GSE) legislation, and the potential benefits of FHLBank consolidation.

Eric Mondres: **Mr. Rosenfeld, you have been chairman of the Finance Board for nearly three years now. What was your greatest challenge when you first came on the job?**

Ronald Rosenfeld: The initial challenge was to make sure that the Finance Board had adequate staff, technology, and a proper functioning Board so that it was able to assess the risks that existed in the system and take action as needed.

EM: **Has that challenge changed?**

RR: No, the challenges are fundamentally the same, although quite frankly it's a little easier today. We've made advances in all those areas, but we have to continue to be vigilant as a regulator.

EM: **Near the end of the summer, the United States and the world began to experience very challenging credit and liquidity issues. What role did the FHLBanks play and are there other things the FHLBanks can do to be a stabilizing source for their member financial institutions?**

RR: Well, the FHLBanks' primary role is actually their statutory mandate, which is to provide liquidity to their members. In the last two months, the FHLBanks have provided an enormous amount of liquidity, approximately $100 billion, by way of additional advances. This is incredibly significant in helping the current liquidity issue. I think they've done an appropriate job. They also have an opportunity, (as some FHLBanks are looking at through the Affordable Housing Program) to come up with creative activities that could help folks who may need help with their financing.

EM: **GSE regulatory reform legislation is still pending in Congress. Is this legislation good for the FHLBanks?**

RR: All of the housing GSEs should be governed by one strong regulator. The relative benefits of the GSE reform bill are probably greater for OFHEO because they need more help. That's just the way it is.

EM: **You have expressed a belief that the FHLBanks might benefit from consolidation. What are the potential benefits that might further drive FHLBanks to the negotiating table with each other?**

RR: The driving force would ultimately be economics. I will point out that neither I nor the Finance Board has any philosophy about how many FHLBanks we should have. As long as the FHLBanks' members are happy and pleased with their relationship with their FHLBank, that's fine by us. That is, of course, as long as the FHLBanks operate in a safe and sound manner.

To the extent that any of the FHLBanks were to get together, it may occur because of economics. It may be that product development or member relations could be enhanced by increased expertise at some FHLBanks. One might look, for example, at major league baseball, where you have some teams who have a great geographic area —quite frankly, much like FHLBank Atlanta—and you look at other teams like Pittsburgh or Milwaukee or other smaller market teams that have a very difficult challenge keeping up in a variety of ways. That kind of analogy exists in the FHLBank System. Remember, the FHLBanks locations were based on where the population was in 1932. That's not necessarily a sound foundation as to where the activity takes place today. Some FHLBanks, Atlanta most notably, have an extraordinary geographic base that some others don't have.

EM: **Why is so little said publicly about how the FHLBanks help community banks throughout the country by providing vital credit and basic financial services in their communities?**

RR: The FHLBanks simply don't promote. That's a decision for them to make, not for us to make. But like anything else in life, if you want to get your name and your activities out there you have to compete in a crowded space and you have to promote. That's one of the ways to get more appropriate directors—by raising the profile of the FHLBanks. If one were to ask someone if they would like to be on the board of one of the Federal Reserve Banks, I think almost unanimously the answer would be "absolutely." If you asked the same question regarding the board of one of the FHLBanks the most likely reaction would be, "What is that?" So, promotion could be something the FHLBanks might consider undertaking.

EM: **More than two years ago, you were talking to the ICBA and you said that you had a real concern about the corporate governance and risk management shortcomings at some of the FHLBanks. Do you have the same assessment today, or has that changed?**

RR: It has clearly changed, and it has changed for the better. The Finance Board's decision to fill the appointed director seats, and the process we created for making those appointments, will continue to improve the effectiveness of corporate governance at the FHLBanks. Most of the FHLBanks took that responsibility very seriously and came up with people whose backgrounds and skills were very appropriate for the roles that they must play. In addition, four or five FHLBanks have new presidents. I've been very impressed with the presidents that I've met; they are highly skilled professionals. I'm encouraged by the attitude and recognition of most of the FHLBanks that they are in a complex business, and need to have the governance and the leadership that's appropriate for that environment.

EM: **Recent legislation introduced in Congress would allow the FHLBanks to issue letters of credit in support of tax-exempt public bonds for community development. Would this be a positive step both for the FHLBanks' members and the communities they serve?**

RR: It may be a positive step. The critical issue is whether the FHLBanks understand the risk that they're undertaking. That statement is not unique to this particular activity. Whenever you engage in any activity that either intends to be helpful or profitable, you have to understand what risks you are assuming. If the FHLBanks can do it intelligently, it should be perfectly fine.

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Bank Revises 2008 AHP Implementation Plan

As part of our effort to ensure the most effective use of the Affordable Housing Program's (AHP) limited resources, the Bank has made significant revisions to the AHP Implementation Plan for 2008. The revised Plan includes a number of important changes to the AHP and First-time Homebuyer Program (FHP) application and disbursement process. Key revisions are listed below.

Affordable Housing Program

- **Subsidy Increase**—The Bank will increase the maximum amount of AHP direct subsidy awarded per project from $500,000 to $1 million. The increased subsidy will allow members to fund larger projects, and in some cases, provide subsidy for more units.
- **Submission Deadline**—In 2008, one AHP offering per year will replace the two existing competitive application rounds. Applications will be accepted during the second quarter, with Board approval of winning projects anticipated in the fourth quarter. Moving to one round will allow sponsors more time to prepare AHP application materials.
- **Disbursement**—The updated plan clarifies that certain key documents must be submitted with the application before funds will be disbursed.

First-time Homebuyer Program

- **Set-Aside Fund Increase**—The Bank will increase the set-aside for the First-time Homebuyer Program (FHP) to up to 35 percent of the AHP annual allocation. This will allow the Bank the flexibility to add more funding to the FHP.
- **Member Eligibility**—Beginning in 2008, the Bank will no longer require participating members to originate and close the first mortgage.
- **Fund Increase**—The Bank will increase the annual FHP funding availability limit for each member from its current cap of $400,000 to $1 million.

For more information, please contact the Community Investment Services staff at 1.800.536.9650, extension. 8436

Bank Remains Stable Source of Credit in Unstable Market

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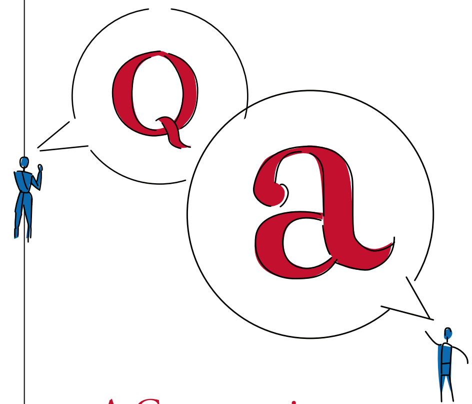
The Bank also requires that such collateral complies with applicable nontraditional residential and subprime mortgage lending guidance.

Due primarily to the recent credit market disruptions, the Bank's outstanding advances have increased by $38 billion since Dec. 31, 2006 to $139 billion as of Sept. 30, 2007. This growth is significant and noteworthy, and it evidences execution of the mission that Congress established for the FHLBanks in 1932. Remarkably, for all the sophistication and change that have driven financial markets since that time, the simple and clear mission of the FHLBanks continues to support housing affordability for millions of Americans.

The Bank also has posted strong financial performance, which resulted in a fourth quarter 2007 annualized dividend of 6.00 percent. This rate is an attractive return on investment for our member-shareholders.

While we continue to work together to establish greater stability in the residential mortgage lending market, I ask that members recognize the tremendous value your FHLBank Atlanta membership provides to you through all business cycles. We will continue to be a dependable source of funding for our members while safeguarding members' investment in the Bank



A Conversation with Ronald Rosenfeld

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EM: **You are known for your candor. If you were going to tell the FHLBanks or their members one thing, what would that be?**

RR: Remember your mission; continue to perform your mission in the best possible way; continue to enhance your risk management and governance; and remember that you have been granted a great privilege to be a GSE. Use it wisely and protect it.

EM: **Finally, what mark or legacy do you want to leave as Chairman of the Finance Board?**

RR: This is not my first government job. It's actually my fourth in the federal government, and I've had one in state government. I would say that I have a pretty standard answer to whatever job I'm leaving, and that is to make the place that I served a little bit better for my having been there. That's a modest goal, but it's an important goal and I hope to fulfill that in this position