

Committee on Banking and Insurance

SB 558 — Letters of Credit Issued by a Federal Home Loan Bank

by Senator Detert

The bill amends the Florida Security for Public Deposits Act (the act), which authorizes local and state governments to place public deposits in qualified public depositories (QPD). The state Chief Financial Officer (CFO) is responsible for establishing criteria for financial institutions to be designated QPDs. A QPD is required to secure or collateralize public deposits in accordance with the act. Various types of securities are eligible to be pledged as collateral, including letters of credit issued by a Federal Home Loan Bank (FHLBank) that are triple A-rated (AAA), which is the highest rating, by a national source.

Due to uncertainties regarding the fiscal condition of the United States (U.S.), consumer confidence, high unemployment, and the global economy, one of the nationally recognized credit rating agencies, Standard and Poor's Ratings Services (Standard & Poor's), downgraded the U.S. long-term sovereign credit rating one level from "AAA" to "AA+." While Moody's Investor Service, Inc., and Fitch, Inc., have not downgraded the U.S. sovereign rating, they have both issued short-term negative outlooks for the U.S. and have indicated that they may downgrade the U.S. from its top credit rating if Congress fails to address those fiscal issues. Although the U.S. government does not guarantee obligations of the FHLBank, a government-sponsored entity, credit rating agencies state that there is financial dependence between the U.S. government and the FHLBank. Thus, a lower U.S. sovereign rating would likely affect the rating of the FHLBank. In the event the two other rating agencies also downgrade their credit ratings for FHLBank obligations, QPDs could no longer use FHLBank letters of credit as eligible collateral under current law. This would require QPDs to use other assets as replacement collateral, which in turn could affect their liquidity and lending ability.

The bill would allow QPDs to continue using letters of credit of a FHLBank as eligible collateral in the event the other major credit agencies downgrade their ratings of FHLBank obligations below AAA. The bill would permit QPDs to use letters of credit of an FHLBank, if obligations of the FHLBank are rated by a nationally recognized source at not lower than its rating of the long-term sovereign credit of the U.S.

If approved by the Governor, these provisions take effect July 1, 2013.

Vote: Senate 40-0; House 116-0