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Federal Home Loan Bank of Boston
Banks Committee Hearing
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Thank you for this opportunity to testify before the Banks Committee on behalf of the Federal Home Loan Bank of Boston in support of H.B. 5331.

The Federal Home Loan Bank of Boston is one of 12 regional wholesale banks organized by Congress in 1932. It is a privately capitalized cooperative. Its mission is to support the residential-mortgage and community-development lending activities of banks and other financial institutions located in the New England region. Seventy-seven financial institutions located in the State of Connecticut are currently members of the Federal Home Loan Bank of Boston. The Federal Home Loan Banks are regulated by the Federal Housing Finance Board, an independent federal agency.

One way in which the Federal Home Loan Bank of Boston assists its member banks is by providing access to letters of credit to attract and hold deposits belonging to various municipalities, such as cities, counties, fire districts, and school districts. In Maine, Massachusetts, Vermont, New Hampshire, New York, and many other states, banks have access to Federal Home Loan Bank letters of credit to secure public deposits. Because of the specific nature of the Connecticut statute, Federal Home Loan Bank of Boston letters of credit are not permitted for use in the state. H.B. 5331 would authorize the benefits of this product and service to banks and local governments in Connecticut, as is now the case in neighboring states.

The permitted use of Federal Home Loan Bank of Boston letters of credit to secure public deposits in Connecticut would benefit both banks and local governments in Connecticut.

For banks, the ability to utilize the Federal Home Loan Bank of Boston letters of credit to secure public deposits may permit such banks to attract public deposits even where they lack the traditional sources of eligible collateral such as securities. As a result, Federal Home Loan Bank of Boston letters of credit may help banks improve their liquidity by gaining access to additional deposits. In addition, the ability to use Federal Home Loan Bank of Boston letters of credit, rather than securities, allows banks to use their securities for other purposes, which may provide them with more flexibility to manage their balance sheets.

A local government entity can also derive benefits from accepting Federal Home Loan Bank of Boston letters of credit to secure their deposits. In the highly unlikely case of a member bank's failing to pay a deposit, the process of a local government obtaining its money by way of a Federal Home Loan Bank of Boston letter of credit is simple and fast.