

# **Pledging, Releasing and Substitution of Letters of Credit through the Federal Home Loan Bank of Topeka**

The following instructions are to be used *only* with the Federal Home Loan Bank of Topeka for the pledge of Letters of Credit. The State Treasurer can accept letters of credit (LOC's) from the Federal Home Loan Bank of Topeka ("FHLB of Topeka") as a collateral instrument to secure State funds on deposit with financial institutions. Transactions may only be conducted by Duly Authorized Bank Officers as listed with the State Treasurer.

## **PLEDGING**

### **PLEDGOR BANK:**

1. Complete original Collateral Instrument Pledge Form (OST Form 95-009).
2. Attach a copy of the FHLB of Topeka LOC to the Pledge Form.
3. Forward Pledge Form and attached LOC copy to the State Treasurer.

### **FEDERAL HOME LOAN BANK OF TOPEKA:**

1. Forward the original Letter of Credit to State Treasurer.
2. Provide State Treasurer a quarterly listing of other institutions covered by LOC's.

### **STATE TREASURER:**

1. Review documents, and if approved, execute Pledge Form and attach Letter of Credit.
2. Retain original Collateral Instrument Pledge Form and Letter of Credit. Forward one (1) copy of form to pledgor bank.

## **RELEASING**

*A pledgor bank will only be allowed to release collateral instruments when there are no longer any state funds on deposit or the amount of any remaining collateral instruments is equal to or greater than the amount deposited by the State Treasurer with the pledgor bank plus the interest due at maturity, in excess of the FDIC-insured limit.*

### **PLEDGOR BANK:**

1. Complete release portion of Collateral Instrument Pledge Form and forward to State Treasurer.

### **STATE TREASURER:**

1. Review document, and if approved, execute release portion of the Pledge Form.
2. Return one (1) copy of release form to pledgor bank.

## **SUBSTITUTION**

*A substitution of collateral may be made, (1) when the current market value of the substitute collateral (plus any remaining pledged collateral) is equal to or greater than the maintenance percentage (110% of the amount deposited by the State Treasurer with the pledgor bank plus the interest due at maturity, in excess of the FDIC-insured limit), or (2) when the amount of the substitute collateral instrument(s), plus any remaining pledged collateral instruments, is equal to or greater than the amount deposited by the State Treasurer with the pledgor bank plus the interest due at maturity, in excess of the FDIC-insured limit. This process will require a release and new pledge/substitution.*

### **PLEDGOR BANK:**

1. Complete release part of the original Pledge Form for the collateral instrument or collateral securities to be released.
2. Complete an original Pledge Form for the collateral instrument being substituted, including the substitution portion listing the State Treasurer's original pledge number for the collateral being released.
3. Attach a copy of the Letter of Credit to the Pledge Form for the collateral instrument being substituted.
4. Forward the original Pledge Form with the completed release(s), along with an original Pledge Form and the collateral instrument to be substituted, to the State Treasurer.

### **FEDERAL HOME LOAN BANK OF TOPEKA:**

1. Forward the original Letter of Credit to the State Treasurer.
2. Provide State Treasurer a quarterly listing of other institutions covered by LOC's from the FHLB of Topeka.

### **STATE TREASURER:**

1. Review documents, and if approved, execute the release portion of the Pledge Form for the released collateral instrument or collateral securities and execute a new Pledge Form for the substituted collateral instrument.
2. Return one (1) copy of the release form and one (1) copy of the new Pledge Form to the pledgor bank.
3. For collateral securities held by a safekeeping bank other than the Federal Reserve Bank, return one (1) copy of the completed release form along with the custody receipt to the safekeeping bank.
4. For collateral securities pledged through the Federal Reserve Bank, return the "Request to Release Pledged Securities" form to the Federal Reserve Bank.
5. Retain substituted collateral instrument and new Pledge Form.