FEDERAL FINANCING BANK LENDING POLICY

(as approved May 4, 2015)

FFB Objectives

The Federal Financing Bank should be the vehicle through which Federal agencies finance programs involving the sale or placement of credit market instruments, including agency securities, guaranteed obligations, participation agreements and sale of assets. This principle is applied in the manner consistent with the Federal Financing Bank Act of 1973 (12 U.S.C. 2281 et seq.) and its legislative history. Guaranteed programs entailing large numbers of relatively small loans in which local origination and servicing are an integral part of the program are excluded.

The Bank makes funds available to Federal agencies, military exchanges as authorized by law, and to guaranteed borrowers in accordance with program requirements and at a rate lower than what the borrower would receive in private credit markets or such other rate that would further public policy goals. In no case will a rate be less than a comparable Treasury rate.

General Principles

The Bank provides a lending rate for any amount required and for any maturity. Allowances in the rate charged by the Bank for terms such as prepayment provisions, forward interest rate commitments, and pass through of service charges are on a common basis for all borrowers.

Whenever the function of determining appropriate terms and timing of agency borrowing by law or custom currently falls within the province of the Secretary of the Treasury, it remains a matter for the Secretary of the Treasury.

The lending policy of the Federal Financing Bank is flexible enough to avoid the need for any accumulation of pools of funds by agencies. This does not exclude the maintenance of liquidity reserves for those agencies that have such a need, though such funds must be invested in a manner compliant with Treasury investment policies.

Terms of Lending

The Federal Financing Bank Act provides in Section 6(a): The Bank is authorized to make commitments to purchase and sell, and to purchase and sell on terms and conditions determined by the Bank, any obligation which is issued, sold, or guaranteed by a Federal agency. Any Federal agency which is authorized to issue, sell, or guarantee any obligation is authorized to issue or sell such obligations directly to Bank. (12 U.S.C. 2285(a))

Furthermore, the National Defense Authorization Act (10 U.S.C. 2487) provides in Section 642(c): To facilitate the provision of in-store credit to patrons of the exchange stores system while reducing the costs of providing such credit, the Army and Air Force Exchange Service, Navy Exchange Service Command, and Marine Corps exchanges may issue and sell their obligations to the Federal Financing Bank as provided in section 6 of the Federal Financing Bank Act of 1973 (12 U.S.C. 2285).

It is the policy of the Bank to charge interest rates that capture the liquidity premium between Treasury securities and the private sector lending rate, and to charge a rate that fully reflects the risk inherent in a borrower or transaction when such a rate will accomplish a broader public policy goal. In no case will a rate be less than a comparable Treasury rate.

At the request of a guarantor agency, the Bank may charge a fixed spread over comparable Treasury securities if doing so will provide significant benefits to the guarantee program.

In general the Bank's policies concerning services or loan provisions are as follows:

Service Charges: Under ordinary circumstances the Bank does not assess service charges for the granting or maintaining of a loan. However, if the Bank is involved in payments for servicing credits originally extended by a government agency and sold to the Bank, the cost of such servicing is borne by the program agency or the borrower; i.e., the basic rates charged by the Bank are net of any servicing cost.

Prepayment

The Bank will offer borrowers a choice of prepayment privileges on terms consistent with the protection of the Bank and the Treasury from financial loss. A borrower must select which prepayment privileges it wishes to be applied to any loan before borrowing from the Bank (or before the effective date of any maturity extension or any refinancing of such loan). The following two prepayment privileges are approved for loans made by the Bank:

> **Market-Value Repurchase Privilege:** The standard prepayment privilege will allow a borrower to repurchase its loan at any time at a price equal to the market value (as determined by the Treasury) of the unpaid payment obligations on the loan through its maturity.
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> **Fixed-Price Prepayment Privilege:** A second prepayment privilege will allow a borrower to prepay its loan either at any time or after an agreed-upon no call period, and either at par or at par plus a call premium, in each case as selected by the borrower before borrowing from the Bank (or before the effective date of any maturity extension or any refinancing of such loan). This prepayment privilege will be offered to the borrower at an additional cost equal to the interest rate spread that the Treasury determines would be charged on an obligation issued by

the Secretary of the Treasury having prepayment provisions identical to the particular prepayment provisions selected by the borrower. At the borrower's option, the additional cost for a fixed-price prepayment privilege may be paid in a single payment equal to the expected value of the interest rate spread and call premium, if any, over the expected term of the loan.

Refinancing: The Bank will offer borrowers refinancing privileges at costs and on terms that are consistent with the prepayment privileges offered by the Bank to borrowers.

Commitment of Funds: The Bank is willing to assure the availability of funds to eligible borrowers without fee at an interest rate to be determined at the time the loan is made. Such assurances are dependent upon the agencies' adherence to the terms of its statute and subject to any necessary approvals outside the framework of the Bank. In return for such a commitment, the borrower or guaranteeing agency will agree, if permitted by its statutes, to finance solely with the Federal Financing Bank.

Commitment of Rates: The Bank ordinarily sets loan rates at the time funds are disbursed. However, if program requirements necessitate forward rate commitments, the Bank may elect to offer a borrower a forward rate commitment if the commitment does not extend beyond 90 days and the borrower agrees to pay a fee to the Bank representing the cost of such a short-term forward rate commitment, as determined by the Bank.

Lines of Credit: Line-of-credit type loans are made if program requirements necessitate.

Purchase of Guaranteed Tax-Exempt Issues: The Federal Financing Bank Act provides in section 16: Notwithstanding any other provision of this Act, the purchase by the Bank of the obligations of any local public body or agency within the United States shall be made upon such terms and conditions as may be necessary to avoid an increase in borrowing costs to such local public body or agency as a result of the purchase by the Bank of its obligations. The head of the Federal agency guaranteeing such obligations, in consultation with the Secretary of the Treasury, shall estimate the borrowing costs that would be incurred by the local public body or agency if its obligations were not sold to the Bank.

The Federal agency guaranteeing obligations purchased by the Bank may contract to make periodic payments to the Bank which shall be sufficient to offset the costs to the Bank of purchasing obligations of local public bodies or agencies upon terms and conditions as prescribed in this section rather than as prescribed by section 6. Such contracts may be made in advance of appropriations therefor, and appropriations for making payments under such contracts are hereby authorized.

In implementing this provision the Bank will consult with the agency involved looking toward the purchase of these securities at a rate commensurate with the highest quality municipal security of similar terms. The difference between this rate and the normal FFB lending rate will be determined and a contract for the difference will be entered into between FFB and the agency involved.

Credit Risk: If the Bank would retain credit risk as the result of the funding mechanisms for any military exchange borrower, financial and affirmative and negative covenants common to such funding mechanisms may be established and risk-based spreads over comparable Treasury rates may be charged.

Collection Charges: Under ordinary circumstances the Bank does not assess service charges for the collection of payments due. However, if the Bank is involved in litigation to receive a judgment for the collection of non-payments, the cost of such activities is borne by the borrower.

Loan Loss Reserve: Loan loss reserve allowances shall be established, as needed.

Implementation

The President of the Bank shall appoint a standing committee to provide oversight and guidance on Bank interest rates. This committee will meet at least once a month and shall be composed of at least one Bank Vice President and another officer. The President may also appoint additional Bank officers and Bank staff or Bank officers or Bank staff, as the President prefers, to serve on this committee.

In cases of borrowers for which the Bank retains credit risk, the President of the Bank shall also appoint a standing committee to oversee initial and annual credit reviews, upon receipt of audited financial statements. The President may also appoint additional Bank officers and Bank staff or Bank officers or Bank staff, as the President prefers, to serve on this committee.