Moody's Investors Service

Global Credit Research
Credit Opinion
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Credit Opinion: Federal Home Loan Bank of Des Moines

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Des Moines, Iowa, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aaa/P-1
Parent: Federal Home Loan Banks	
Outlook	Stable
Senior Unsecured	Aaa
Other Short Term	P-1

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Key Indicators

Federal Home Loan Bank of Des Moines

	[1]2008	2007	2006	2005	2004
ROAA (%)	0.27	0.21	0.20	0.48	0.21
ROAE (%)	6.37	4.25	3.91	9.57	4.30
Net Interest Margin (%)	0.42	0.36	0.35	0.63	1.04
Advances ($bil)	46.00	40.41	21.86	22.28	27.18
Investments ($bil)	9.20	7.33	6.28	6.24	5.37
Assets	70.84	60.77	42.04	45.72	49.05
Equity ($bil)	3.35	3.05	2.25	2.26	2.40
Liquid Assets/ST Debt (%)	0.24	0.24	0.21	0.29	0.10

[1] For the 3 months ended June 30, 2008

Opinion

SUMMARY RATING RATIONALE

The FHLBank of Des Moines' Aaa/Prime-1 long- and short-term deposit ratings reflect the combination of the following factors: 1) a baseline credit assessment of 2 (on a scale of 1 to 21, where 1 represents the lowest credit risk), 2) Aaa local currency rating of the US Government, 3) high dependence between the FHLBank of Des Moines and the US Government, and 4) high support between the two.

The Bank's baseline credit assessment reflects its sound liquidity, excellent asset quality, and adequate risk-adjusted profitability. In addition, the joint and several liability for the FHLBank's debt provides significant support to the baseline credit assessment.

Credit Strengths

Joint and several liability reduces default risk of Systemwide liabilities

Central housing funding role for banks and other financial institutions, GSE status

Excellent asset quality reflects conservative underwriting standards and quality-monitoring policies

Credit Challenges

Narrow charter and bank consolidation constrain growth and profitability

Substantial borrower concentration

Rating Outlook

The stable rating outlook reflects Moody's expectation that the FHLBank System will continue to receive strong bipartisan political support, and that there will be minimal changes, if any, to its GSE status over the long term. In addition, Moody's expects the FHLBank of Des Moines to conservatively manage its business in achieving a modest but stable risk adjusted return.

What Could Change the Rating - Up

Factors that would lead to an upgrade of the FHLBank of Des Moines' baseline credit assessment include strong profitability as illustrated by a ROAA consistently in excess of .5% and a pretax margin in excess of 70%, as well as a stable member profile and continued strong asset quality.

What Could Change the Rating - Down

Factors that could lead to a downgrade of the Aaa/Prime-1 long- and short-term deposit ratings, and baseline credit assessment include a material decline in profitability (quarterly net losses over four quarters), significant asset-liability mismatches, or material changes in asset quality.

DETAILED RATING CONSIDERATIONS

The FHLBank of Des Moines lends to member institutions in the form of advances, which are generally short-term and over-collateralized, minimizing the credit risk on these loans. In addition, the Des Moines Bank participates in the Mortgage Partnership Finance Program (MPF). Below are the detailed rating factors that influence the Bank's ratings and outlook.

Baseline Credit Assessment

Profitability

FHLBank of Des Moines modest but consistent profitability (as measured by ROAA) reflects primarily low risk profile of its asset base. ROAA was 0.27% as of June 30, 2008, compared to 0.21% and 0.20% as of year end 2007 and 2006, respectively. Similar to other FHLBanks, the Des Moines Bank has some single borrower concentrations. This concentration is a long-term risk to Bank's earnings given the on-going consolidation in the US banking sector. The Bank has a contingency plan to operate in an environment where its advance business is under stress.

Capital Adequacy

FHLBank of Des Moines is required by legislation to maintain minimum regulatory capital level of 4% of its total assets. At June 30, 2008, the capital ratio of the Des Moines Bank was 4.87% down from 5.14% at year end 2007. The Bank is also subject to legislative requirement to maintain its minimum leverage ratio at 5.0%. FHLBank of Des Moines's leverage ratio was 7.30% as of June 30, 2008 down from 7.71% as of year end 2007.

Interest Rate Risk Management

The FHLBank of Des Moines conservatively manages its interest rate risk exposures through the use of debt with similar characteristics to the FHLBanks assets, as well as derivatives. Advances are issued in a variety of types, including fixed rate, variable rate, callable by the borrower. Prepayment fees, which mitigate interest rate risk, are also a common feature of advances.

The FHLBank of Des Moines' policy limits, effective May 1, 2008, the market value of capital stock (MVCS) to 5% and 10% declines from the base case in an up and down 100 basis point and 200 basis point interest rate shift, respectively. As of June 30, 2008, the MVCS was -3.57% and -15.73% in the down 100 basis point and down 200 basis point interest rate shift scenarios, respectively. The Bank was also out of compliance with the down 200 basis point shift as of March 31, 2008. The Banks board of directors waived the 200 basis point down policy limit due to the low interest rate environment.

Asset Quality and Credit Risk Management

Moody's believes that the asset quality of the FHLBank of Des Moines is exceptional. Advances represent 64.9% of total assets as of June 30, 2008, while the FHLBank's investment portfolio represents 19.8%. Advances are over-collateralized and the FHLBank has never incurred a loss on an advance in its 75 year history. The FHLBank of Des Moines has member concentration, similar to other FHLBanks. The Bank's single highest member concentration is Wells Fargo Bank, which represented 26.3% of advances as of June 30, 2008. The top five advance borrowers represented 45.3% of advances outstanding as of June 30, 2008 compared to 29.4% at year end 2006. This single borrower concentration increase modestly increases the Bank's counterparty risk.

The FHLBank participates in the MPF, which represents 14.9% of its total assets. The credit quality of MPF loans has been exceptional. The FHLBank of Des Moines charged off only $68 thousand in mortgage loans during the first six months of 2008.

The Bank's $14.0 billion in investments consists primarily of fed funds sold ($4.8 billion) and agency MBS ($9.1 billion). At June 30, 2008, the Bank held less than $41 million in private-label RMBS securities as of June 30, 2008.

Liquidity and Funding

The FHLBank of Des Moines' liquidity has been strong as a result of the substantial benefits derived from its GSE status and its internally-generated liquidity resources. The US Treasury established the GSE Credit Facility, a secured lending facility to serve as a liquidity backstop for the FHLBanks, Fannie Mae and Freddie Mac. The GSECF will expire on December 31, 2009. Any funding to the FHLBanks under the GSECF will be provided by the Treasury in exchange for eligible collateral including advances. Collateral haircuts will be determined by the Treasury. Loans under the GSECF are intended to be for short durations between one week and one month. Interest on borrowings will be set by the Secretary of the Treasury. This program mitigates FHLBank funding risk in Moody's view.

Internal sources include the FHLBank's short-term investments, as well as entire investment portfolio. Short term investments (i.e., cash, interest bearing deposits, federal funds sold and available-for-sale securities) represent 24% of short-term debt (deposits, discount notes, repurchase agreements and maturing long-term debt). In addition, the FHLBank maintains a $5.1 billion held-to-maturity investment portfolio (13.3% of short-term debt) consisting primarily of debt obligations and MBS of GSEs. The FHLBank of Des Moines' contingent liquidity policy is to maintain liquid assets to meet the average overnight and one-week advances, the largest projected single day net cash outflow over a 90-day period, and to maintain repo eligible assets of at least twice the projected single day net cash outflow over a 90-day period.

The FHLBanks' unusually broad and deep global market access is another significant liquidity support. The FHLBanks, as well as other GSEs, have a historical role as a liquidity provider during time of stress in the mortgage market is a significant source of external liquidity. More recently, investor concerns regarding the U.S. housing and mortgage markets have affected debt pricing and funding. In addition, investor demand for long-term debt has been reduced.

Other

A significant underpinning of the Baseline Credit Assessments is the joint and several nature of the consolidated obligations. The financial strength of individual FHLBanks is very sound, and the joint and several liability contributes to the overall strength of the FHLBank System by narrowing any ratings differences among the individual Banks that could exist were ratings to exclude the joint and several feature. As a result, the ratings of the weakest FHLBanks are increased, and the ratings of the strongest are lowered.

Support and Dependence

The FHLBank's high dependence and support levels are based on the importance of the System to its member institutions, and their ability to support housing finance and community development.