Moody's Investors Service

Global Credit Research
Rating Action
15 MAY 2009

**Rating Action: Federal Home Loan Bank of Des Moines**

**Moody's affirms FHLBank's Aaa debt and deposit ratings; FHLBank of Chicago's sub debt downgraded to A2**

New York, May 15, 2009 -- Moody's Investors Service affirmed the Aaa senior debt and Prime-1 ratings of the Federal Home Loan Bank System (FHLBank System) with a stable outlook. Moody's also affirmed the Aaa bank deposit and Prime-1 ratings of all twelve Federal Home Loan Banks (FHLBanks). Moody's downgraded the FHLBank of Chicago's subordinated debt to A2 from Aa2. The outlook on all ratings is stable. This concludes the review for possible downgrade of the FHLBank of Chicago's subordinated debt, which began on February 2, 2009.

The FHLBank System's Aaa senior debt and Prime-1 ratings and the FHLBanks' Aaa bank deposit and Prime-1 ratings were affirmed based on Moody's view that these institutions benefit from a very high degree of government support due to their role as a liquidity provider to U.S. banks.

The downgrade of the FHLBank of Chicago's subordinated debt to A2 from Aa2 reflects Moody's opinion that the FHLBank of Chicago is likely to be unprofitable for several quarters. The bank's losses relate to write-downs on its $3.9 billion private-label residential mortgage backed security portfolio and interest rate mismatches on its Mortgage Partnership Finance® (MPF®) holdings. The FHLBank of Chicago reported a net loss of $119 million in 2008 and is in the process of changing its business mix to focus on advances and reduce the importance of MPF.

These losses increase the risk that the FHLBank of Chicago's capital base could erode to the point that it violates its minimum total capital requirement. The bank's minimum total capital requirement is currently 4.5%. As of December 31, 2008, the Bank's total capital ratio was 4.7%.

If the FHLBank of Chicago does not meet its regulatory capital requirements, interest payments on its subordinated debt can be deferred for up to five years. Moody's believes that a number of actions could be taken to ensure that its capital remains above regulatory requirements and to ensure that it continues to make interest payments on its subordinated debt. One option is for the FHLBank of Chicago is for it to shrink its balance sheet and thus reduce its required regulatory capital. This could be achieved either by a reduction of its balance sheet through run-off of its investments and loan book - advances maturing in 2009 totaled $15.8 billion as of December 31, 2008, representing 17% of assets -- or by transferring assets and related debt to other FHLBanks. In addition, the FHLBank of Chicago could also raise additional capital stock from its members. Finally, the Federal Housing Finance Agency (FHFA), the FHLBanks' regulator, could reduce its required capital to 4.0%, the statutory requirement, from its current required minimum level of 4.5%.

Additionally, even if the FHLBank of Chicago violates its minimum regulatory capital requirement, deferral of the subordinate debt interest payments may not occur. The FHFA could direct the FHLBank to continue to make subordinated debt payments as it did in the case of Fannie Mae and Freddie Mac.

BCAs LOWERED DUE TO LOSS EXPOSURES TO PRIVATE-LABEL SECURITIES

The FHLBank System's BCA was lowered to a 5 (A1 equivalent on Moody's long-term debt rating scale) from a 2 (Aa1 equivalent) reflecting the weakened financial condition of the FHLBank System as a result of its $74.9 billion exposure to private-label securities. Moody's believes that, in total, the FHLBanks are exposed to approximately $2.8 billion in losses on their private label securities portfolios. BCAs, which are on a scale of 1 to 21, where a 1 represents the lowest credit risk, are Moody's opinion about an institution's intrinsic or stand-alone financial strength and exclude extraordinary support.

The Baseline Credit Assessments' (BCA) of the FHLBanks of Cincinnati, Indianapolis and New York is a 4 (Aa3 equivalent), while the BCAs of the FHLBanks of Dallas, Des Moines, San Francisco and Topeka is a 5 (A1 equivalent). The BCAs of the FHLBanks of Atlanta, Boston and Pittsburgh is a 6 (A2 equivalent), and the BCA of the FHLBanks of Chicago and Seattle is a 9 (Baa2 equivalent). The BCA's for each of the FHLBanks reflect their differing business profiles, and also importantly, their individual exposure to losses from their private label securities portfolios.

The FHLBank System's debt ratings and the FHLBanks' deposit ratings are derived by (1) evaluating the stand-alone financial strength of each FHLBank exclusive of cooperative or government support, (2) incorporating cooperative support from the remaining FHLBanks and (3) incorporating government support to the FHLBank System.

In coming to the BCA for the FHLBank System, Moody's considers the individual BCA's of each of the FHLBanks as well as the profile of the FHLBank System as if it were one, combined entity. The FHLBank System's BCA of 5 provides "lift" to the FHLBanks with lower BCAs due to Moody's assumption of very high support from the system to each of the banks. In addition, Moody's believes the FHLBank System enjoys a very high level of support from the U.S. Government which provides further lift to the ratings on the senior debt of the FHLBank System and the deposits of each of the FHLBanks.

The last rating action on the FHLBank System and FHLBanks was on February 2, 2009.

The principal methodologies used in rating these issuers were "Bank Financial Strength Ratings: Global Methodology" (February 2007), "Cooperative and Mutualist Banking Groups: Proposal for Determining Group Support Levels for Members" (September 2006) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

The following ratings were affirmed with a stable outlook:

Federal Home Loan Bank System -- Long-term Debt at Aaa; Short-term Debt at Prime-1

Federal Home Loan Bank of Atlanta -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Boston -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Chicago -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Cincinnati -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Dallas -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Des Moines -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Indianapolis -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of New York -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Pittsburgh -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of San Francisco -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Seattle -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

Federal Home Loan Bank of Topeka -- Long-term Deposit at Aaa; Short-term Deposit at Prime-1

The following rating was downgraded with a stable outlook:

Federal Home Loan Bank of Chicago -- Subordinated debt to A2 from Aa2

The FHLBank System is one of the largest debt issuers in the world. The FHLBank System's borrowing is conducted through the Office of Finance, which is based in Reston, Virginia. As of December 31, 2008, the FHLBanks reported combined assets of $1.35 trillion.

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