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**Summary:**

# Federal Home Loan Bank of Des Moines

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## Summary:

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**Credit Rating:** AAA/Stable/A-1+

## Rationale

Standard & Poor's Ratings Services' 'AAA/A-1+' counterparty credit rating on the Federal Home Loan Bank of Des Moines (FHLB-Des Moines) reflects the wholesale bank's solid balance-sheet liquidity, strong asset quality, low funding costs, and conservative risk management. The ratings include a one-notch uplift from the its stand-alone credit profile, reflecting our expectation that government support would be forthcoming if needed because of the high systemic importance of the FHLB system to the U.S. housing markets. The uplift is an application of our recently published revised GRE methodology.

The stand-alone credit profile reflects our view of the bank's fundamental strength, with the normal ongoing support it inherently enjoys as a government-sponsored enterprise (GSE). As such, these banks benefit from their advantageous access to low-cost funding. The FHLB System is one of the housing GSEs in the U.S., and FHLB-Des Moines is one of the 12 district banks in the FHLB System. (For complete review and analysis of the FHLB System in aggregate, please see " Federal Home Loan Banks," published July 13, 2009, on RatingsDirect.)

FHLB-Des Moines is the eighth-largest FHLB, with \$75.9 billion of assets outstanding at March 31, 2009. The bank serves members in Iowa, Minnesota, Missouri, North Dakota, and South Dakota. FHLB-Des Moines funded advances totaling \$37.8 billion in first-quarter 2009, down 10% from \$41.9 billion at Dec. 31, 2008, and down significantly from the record level of advances of \$63.9 billion during third-quarter 2008.

The availability of alternative funding options and the increased deposits member banks are carrying has reduced the demand for FHLB advance funding. We expect advances to continue to taper off for the remainder of the year because banks are using excess funds to pay down debt. However, once these programs begin to mature, we expect advances to trend back up toward year-end levels. The bank has a high penetration among eligible institutions. Consequently, advance growth depends primarily on increased activity among existing members.

With 1,245 members, as of Dec. 31, 2008, FHLB-Des Moines has the largest membership base of any bank in the system, and historically has had the least concentration risk. Amidst the liquidity crisis, the top five borrowers have increased their advance balances to a 40% concentration, up from a 29.4% concentration at the end of 2006. We expect the concentration to remain relatively flat as members' demand for advances has slid due to other readily available sources of liquidity.

The mortgage program at the bank has declined during the past several years because of the lack of mortgages delivered from Superior Guaranty Insurance Co., which had accounted for the bulk of mortgages purchased. Mortgage loans decreased approximately \$0.1 billion at March 31, 2009, from last quarter as the bank received more principal repayments that offset its purchases. The total mortgage loans held were \$10.6 billion, approximately 13.9% of total assets, at March 31, 2009. This was down from the peak of \$16.1 billion at Dec. 31, 2003. We expect the mortgage program to continue to diminish, as the bank did not purchase any mortgage loans from Superior during the first quarter.

The investment portfolio at March 31, 2009, increased 77% from last quarter, to \$27.2 billion. The increase was primarily due to an increase in Fed funds sold and Temporary Liquidity Guarantee Program debt in an effort to improve investment income and meet liquidity requirements. FHLB-Des Moines's investment portfolio mainly consists of U.S. government-guaranteed agency securities and less than one percent of the more risky private-label mortgage-backed securities (MBS). At March 31, 2009, all unrealized losses on the bank's portfolio were considered temporary and we expect minimal credit losses on the mortgage portfolio.

The bank reported a net loss of \$5.9 million in the first quarter due to several nonroutine items compared with net income of \$31.4 million for the same period in 2008. These items included early debt extinguishments due to an anticipated increase in prepayments of the Bank's MBS and Mortgage Partnership Finance portfolios. Furthermore, the bank exercised its call option on a significant amount of callable debt outstanding due to market conditions. The bank paid a 1% dividend, or \$7.6 million, despite the quarterly loss. We do not expect this loss to signal a trend for the bank.

FHLB-Des Moines's regulatory capital-to-assets ratio was 4.28% at March 31, 2009, among the lowest in the system. The company continued to pay a dividend in the first quarter, unlike several other FHLBs, despite having taken a loss for the quarter. To preserve capital, management discontinued repurchasing excess membership stock. The capital-to-assets ratio was down from 4.66% at year-end because of a significant increase in liquid short-term investments, which could be sold if necessary. In addition, the company's risk-based capital requirement was satisfied as the total capital was \$3.2 billion compared to a risk-based capital requirement of \$1.6 billion. The buffer is primarily because the bank does not have the large private-label MBS like several other FHLBs.

## Outlook

The outlook is stable. FHLB-Des Moines's financial profile reflects its conservative financial policies and practices and the unique charter that governs its business. Despite recent and possible future changes in the FHLB System, we expect FHLB-DM to maintain its good financial profile given its comprehensive and conservative governing policies and management's intention to maintain them. The stable outlook also reflects the bank's lower-risk investment portfolio, with minimum exposure to risky private-label MBS and potential credit losses associated with these securities. If capital comes under pressure, we could revise the outlook to negative.

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