

Rating Action: Federal Home Loan Bank of Des Moines

Moody's affirms the FHLBank's Aaa debt and deposit ratings; FHLBank of Chicago's sub debt on review down

Potential losses on FHLBanks' securities portfolios pressure BCAs.

New York, February 02, 2009 -- Moody's Investors Service affirmed the Aaa senior debt and Prime-1 ratings of the Federal Home Loan Bank System (FHLBank System) with stable outlooks. Moody's also affirmed the Aaa bank deposit and Prime-1 ratings of all twelve Federal Home Loan Banks (FHLBanks) with stable outlooks. The Aa2 subordinated debt of the FHLBank of Chicago was placed on review for possible downgrade.

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 rating action on the FHLBank of Chicago's Aa2 subordinated debt reflects the increased risk that the bank could trip triggers that could lead to the suspension of interest payments," said Brian Harris, Senior Vice President.

The FHLBank of Chicago's subordinated debt has features which could lead to the suspension of coupon payments should it not meet regulatory capital requirements. Chicago's profitability and capital may be eroded as a result of losses associated with its RMBS portfolio as well as its mismatched interest rate risk position from its Mortgage Partnership Finance® (MPF®) Program.

Moody's believes the likelihood of deferral of FHLBank of Chicago subordinated debt interest payments remains low as there are several factors that mitigate the risk of deferral:

- 1) The FHLBank of Chicago has financial flexibility to manage its balance sheet by using proceeds from maturing investment securities to reduce short-term debt and lower its minimum required regulatory capital.
- 2) The FHLBank of Chicago's statutory minimum capital requirement could be lowered by as much as 50 basis points to 4.0% by its regulator, the Federal Housing Finance Agency (FHFA). The FHLBank of Chicago is operating under a cease and desist order with from FHFA, which requires it to maintain a minimum capital ratio of 4.5%, 50 basis points higher than the other system banks.
- 3) Finally, Fannie Mae and Freddie Mac, which are also regulated by FHFA, have subordinated debt with similar interest deferral features to that of the FHLBank of Chicago. Fannie Mae and Freddie Mac are not in compliance with their regulatory capital requirements but have been instructed by FHFA to continue making interest payments on their subordinated debt.

Moody's notes that the FHLBank's hold significant portfolios of private label residential mortgage backed securities (RMBS) which have significant unrealized losses. Moody's primary concern regarding this portfolio is the potential for "other than temporary impairment" (OTTI). Although Moody's considers the likely ultimate loss on this portfolio to be lower than that signified by its current market value, even small credit losses could result in significant accounting impairment.

Declines in capital as a result of OTTI may put negative pressure on the FHLBanks' Baseline Credit Assessment (BCA). The BCAs of each individual FHLBank is a 2 (on a scale of 1 -- 21, where 1 represents the lowest credit risk). BCAs are intended to express an opinion about the institutions intrinsic or stand-alone financial strength and specifically excludes an assessment of the probability of extraordinary support.

In relation to the FHLBanks' BCA, Moody's will consider whether this has weakened. Moody's will assess: (1) the magnitude of potential OTTI charges and their effect on regulatory capital, (2) the likely regulatory response to OTTI charges which reduce capital below regulatory minimums, (3) the effects on the FHLBanks' franchise and business position, including their ability to continue to obtain stable, cost-effective funding, and (4) the effect of Moody's recently increased projected cumulative losses on Alt-A residential mortgage backed securities issued in 2006 and 2007. This will increase

Moody's expected economic losses on the FHLBanks' Alt-A portfolios, which, in turn, will affect Moody's views on the potential for significant OTTI charges.

Moody's said, however, that even if its assessment of the FHLBanks' BCA falls, the Aaa and Prime-1 debt and deposit ratings will not be affected.

The last rating action on the FHLBank System and FHLB of Chicago was on April 8, 2008. The last rating action on the other eleven FHLBanks was on June 30, 2005.

The principal methodologies used in rating this issuer were "Bank Financial Strength Ratings: Global Methodology" (February 2007) and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" (March 2007), which can be found at www.moody.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 this issuer 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 placed on review for possible downgrade:

Federal Home Loan Bank of Chicago -- Subordinated debt at 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 September 30, 2008, the FHLBanks reported combined assets of \$1.4 trillion.

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