

**Issuer Comment: Federal Home Loan Banks**

**Federal Home Loan Banks Earnings Commentary - Fourth Quarter 2008**

The Federal Home Loan Banks (FHLBanks) earnings for the year ended 2008 were within Moody's expectations and did not have an impact on the system or individual FHLBank debt ratings. This includes the material earnings impact of Other-Than-Temporary Impairments (OTTI) of the FHLBanks' security portfolios (see Rating Implications on Federal Home Loan Banks from Other-Than-Temporary Impairments, January 2009). However, these impairment charges, and the resulting impact on capital, do put negative pressure on the FHLBanks' baseline credit assessments (BCA).

Of the ten FHLBanks that have reported earnings to date five recorded OTTI charges: Boston (\$339 million), Chicago (\$292 million), Pittsburgh (\$266 million), San Francisco (\$590 million) and Topeka (\$5 million). These charges resulted in the FHLBanks of Chicago and Boston reporting net losses for the year ended 2008 of \$119 million and \$73 million, respectively. Additionally, these charges significantly reduced the FHLBanks' capital levels. The charges represent 5% (Topeka), 49% (Pittsburgh), 86% (San Francisco), 70% (Boston), and 161% (Chicago) of the FHLBanks' excess minimum regulatory capital. However, all ten FHLBanks met their minimum regulatory capital requirement. Moody's notes the impact of the OTTI charges were partly offset by earnings from the FHLBanks' healthy advance business. In addition, The FHLBanks have some financial flexibility to manage their balance sheets in order to increase its capital ratio in a short period of time.

Moody's expects that additional OTTI charges are likely to negatively impact FHLBanks net income and regulatory capital levels during 2009. The impact on individual FHLBanks will not be uniform as FHLBanks' exposures differ in both absolute amounts and mix (i.e., prime, Alt-A, and sub-prime).

Moody's does not expect potential future OTTI charges and the related regulatory capital and financial effects to impact the Aaa senior debt ratings of the FHLBanks because we believe: (1) the ultimate economic losses of these portfolios are lower than that implied by current market values, and are manageable within each individual FHLBanks' capital base; (2) Moody's anticipates the regulatory response to a FHLBank violating a capital requirement will be modest due to the modest economic losses associated with the FHLBanks' RMBS; and (3) the FHLBanks enjoy a very high degree of government support.

However, declines in capital as a result of OTTI may put negative pressure on the FHLBanks' BCA. BCAs are intended to express an opinion about the institutions' intrinsic or stand-alone financial strength, and specifically exclude an assessment of the probability of extraordinary support. Key considerations in assessing the BCAs of the FHLBanks include: (1) the magnitude of OTTI charges and its effect on regulatory capital; (2) the regulatory response to the incurrence of OTTI charges, though we expect a modest response; and (3) the FHLBanks' ability to continue to obtain stable, cost-effective funding.

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