

**Global Credit Research - 04 May 2010**

Moody's Investors Service said that the Federal Home Loan Bank System's (FHLBank System) first quarter 2010 results did not hold any ratings implications. The FHLBank System reported net income for the first quarter of 2010 of \$325 million, which included credit-related other-than-temporary impairments (OTTI) of \$233 million, a five quarter low. Credit-related OTTI has been a significant drag on FHLBank earnings over the past several quarters totaling \$2.7 billion since the first quarter of 2009. The average quarterly credit-related OTTI was \$608 million during 2009 and the low was \$436 million during the fourth quarter of 2009.

The FHLBank System's balance sheets continue to shrink to below pre-credit crisis levels. Advances totaled \$572 billion as of March 31, 2010, compared with \$631 billion at year-end 2009. The decline in advances has largely been offset by increases to the FHLBank System's investment portfolio, which had grown to \$309 billion as of quarter-end 2010, up from \$284 billion as of year-end 2009. The increase in investments is primarily attributed to an increase in short-term investments, Agency MBS and other U.S. obligations.

The FHLBank System's MBS investment portfolio is limited to three times capital. However, in 2009 the FHLBank System's regulator, the Federal Housing Finance Agency, temporarily increased this limit to six times capital. Going forward, the FHLBank System will not be able to offset declines in advances with increases to its investment portfolio, as the higher limit expired on March 31, 2010. This may result in the FHLBank System's balance sheet shrinking at a faster pace.

Capital levels remained largely unchanged at \$42.791 billion at March 31, 2010 compared with \$42.809 billion at year-end 2009. Moody's expects the FHLBanks' to report very strong regulatory ratios as assets declined at a greater rate (-2.3%) than capital (-.04%).

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