

**Summary:**

## Federal Home Loan Bank of Des Moines

**Primary Credit Analyst:**

Sunsierre Newsome, New York (1) 212-438-2421; sunsierre\_newsome@standardandpoors.com

**Secondary Credit Analyst:**

Daniel E Teclaw, New York (1) 212-438-8716; daniel\_teclaw@standardandpoors.com

### Table Of Contents

---

Rationale

Outlook

## Summary:

# Federal Home Loan Bank of Des Moines

**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, access to low-cost funding, and conservative risk management. The ratings include a one-notch uplift from the stand-alone credit profile, because it is a government-sponsored enterprise (GSE). The uplift is an application of our published government-related entity (GRE) methodology. We believe 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.

FHLB-Des Moines is the sixth-largest of the 12 district banks of the FHLB System, with assets totaling \$64.6 billion. Its region is comprised of financial institutions in Iowa, Minnesota, Missouri, North Dakota, and South Dakota. (For complete review and analysis of the FHLB System in aggregate, please see Federal Home Loan Banks, published July 21, 2010, on RatingsDirect.)

We expect advance balances to trend down in 2010 as members' excess liquidity, resulting from increased deposits, reduces demand for FHLB funding. Advances should rebound once the overall economy improves, but growth could be slow. Advances totaled \$33 billion in first-quarter 2010, down significantly from the record level of advances of \$63.9 billion during third-quarter 2008 during the height of the crisis. The bank has a high penetration among eligible institutions. Consequently, advance growth depends primarily on increased activity among existing members.

With 1,226 members as of Dec. 31, 2009--a decline of 19 members from the earlier year--FHLB-Des Moines has the largest membership base of any bank in the system, and historically has had the least concentration risk. During the liquidity crisis, the top five borrowers increased their advance balances to a 40.5% concentration 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 growth in deposits at members' institutions.

We expect the mortgage program to continue to diminish, as the bank has not purchased any mortgage loans from Superior Guaranty Insurance Co.--which had accounted for the bulk of mortgages purchased--since 2004. The total mortgage loans held decreased to \$7.6 billion (approximately 11.7% of total assets) at March 31, 2010. This was down 29% from last year's \$10.6 billion portfolio total.

The investment portfolio at March 31, 2010, increased 23% from one year ago to \$19.7 billion. The increase was primarily due to an increase in agency mortgage-backed securities (MBS) and short-term investments, partially offset by the sale of certain Temporary Liquidity Guarantee Program debt and taxable municipal bonds. FHLB-Des Moines took advantage of the Federal Housing Finance Agency's temporary authorization to increase purchases of agency MBS to 6x regulatory capital from 3x regulatory capital. FHLB-Des Moines purchase MBS to 5x regulatory capital. 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 MBS. At March 31, 2010, all unrealized losses on the bank's portfolio were considered temporary, and we expect minimal credit losses on the mortgage portfolio.

The bank reported net income of \$30.3 million in first-quarter 2010, primarily due to an increase in net interest income, compared with a net loss of \$5.9 million for the same period in 2009. Although spread income has improved compared with 2009, spreads continue to be less favorable than historical levels. The bank paid a 2% dividend, or \$14.6 million, for the first quarter.

FHLB-Des Moines's regulatory capital-to-assets ratio was 4.39% at March 31, 2010, among the lowest in the system, but up from 4.28% one year ago. The bank repurchased capital stock in the first quarter resulting from lower advance and Mortgage Partnership Finance loan activity. In addition, the company's risk-based capital requirement was satisfied as the total capital was \$2.8 billion compared to a risk-based capital requirement of \$852 million. The buffer is primarily because the bank does not have the large private-label MBS like several other FHLBs do.

## **Outlook**

The outlook is stable. Despite possible future changes in the FHLB System, we expect FHLB-Des Moines to maintain its good financial profile and its lower-risk investment portfolio, given its comprehensive and conservative governing policies and management's intention to maintain them. If capital comes under pressure, we could revise the outlook to negative.

Copyright ( c ) 2010 by Standard & Poor's Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).