



Member Products Policy

June 1, 2007

Amended July 1, 2008



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Introduction

The Bank's Member Products Policy (Policy) addresses the Bank's management of products offered by the Bank to members and housing associates, including but not limited to advances, standby letters of credit, and the Mortgage Partnership Finance[®] (MPF[®]) program¹. The terms referenced in the Policy are defined in the Glossary attached to this Policy. It is important that the Policy be read using the Bank's definitions.

The Policy is established by the Bank's Board of Directors, which reviews this Policy annually and readopts it at least every three years. The Policy is subject to the provisions of the Federal Home Loan Bank Act, the policies, directives, and regulations of the Federal Housing Finance Board (FHFB) and the Bank's Risk Management and Governance Policy. Administration of this Policy will be consistent with the provisions of applicable law and regulations, including but not limited to the requirement that the Bank's Board of Directors administer the affairs of the Bank fairly and impartially and without discrimination in favor of or against any member. To the extent this Policy may be found to be inconsistent with applicable law, regulation, or FHFB policies or directives, the applicable law, regulation or FHFB policies or directives shall govern.

The Bank supports the expansion of fair and equitable home ownership opportunities. To discourage predatory lending practices, which are inconsistent with such opportunities, and to protect the Bank from potential liabilities, the Bank has adopted an [Anti-Predatory Lending Policy](#) for collateral and residential mortgage loans purchased from members, which is incorporated herein by reference, as such policy may be amended from time to time. The policy is available on the Bank's public website at www.fhlbdm.com.

Except as otherwise required or otherwise provided in this Policy, all existing and future

¹ Mortgage Partnership Finance and MPF are registered trademarks of the Federal Home Loan Bank of Chicago, the MPF Provider.



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transactions shall be governed by this Policy. This Policy is supplemented by [Collateral Procedures](#), which includes collateral maintenance levels and fee schedules, and can be amended, superseded, or replaced by the Bank's management at anytime. This Policy and the Collateral Procedures supersede any prior Member Products Policy, Member Products and Services Policy, or Guide to Credit and Collateral Policies and Procedures.

Officers and or Committees that are referred to in the Policy are hereby authorized by the Board of Directors to take the actions specified herein. The Bank in its sole discretion by action of its Board of Directors may amend this Policy at any time.



1. CREDIT STANDARDS

1.1. Credit Underwriting

The Bank's decision to grant, renew, limit or deny the extension of credit (advances, standby letters of credit and mortgage credit enhancement obligation), and the terms and conditions of any such credit, are based on the Bank's sole determination of the member's, housing associate's, or guarantor's creditworthiness. The Bank's determination of creditworthiness is generally based on a member's, housing associate's, or guarantor's capital adequacy, earnings, asset quality, liquidity, regulatory status, and, if available, external credit ratings.

The Bank may also consider whether the member, housing associate, or guarantor is engaging or has engaged in any unsafe or unsound banking practices, is capital deficient, is sustaining operating losses, has financial or managerial deficiencies that bear upon the member's, housing associate's, or guarantor's creditworthiness, or has any other deficiencies, as determined by the Bank, in deciding whether to grant, renew, limit or deny extensions of credit. The Bank may require a member, housing associate, or guarantor to submit additional information to the Bank in order for the Bank to complete its credit underwriting.

1.1.1. Member's Total Credit Exposure

The Bank's Credit Committee is authorized to establish the criteria for the Internal Credit Rating (ICR) categories as set forth below. The Credit Committee approves ICR grade changes that increase or decrease a member's borrowing capacity and is notified of all other ICR grade changes.

1. In general, the maximum amount of credit the Bank may be willing to extend to a single member is a percentage of the member's total assets based upon the member's ICR as shown in the table below.



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ICR	Total Credit Exposure to Total Assets Limits	
	Banks, Thrifts, and Credit Unions	Insurance Companies
A	40%	30%
B	40%	30%
C	35%	30%
D	25%	20%
E	20%	10%
F	0%	0%

In addition, the Bank may limit the amount of credit exposure it will extend to any one member based upon several criteria including but not limited to:

- Creditworthiness of the member;
 - Type of collateral pledged as security;
 - Maturity and type of advances outstanding to the member; and
 - Reliance on Bank advances relative to the member's assets and other sources of liquidity.
2. The ratio of a member's convertible advances to its total assets may not exceed 50% of the member's Total Credit Exposure to Total Asset Limit.
 3. Exceptions to Maximum Credit Exposure Limits

If all or any part of a member's Total Credit Exposure to the Bank is guaranteed by another entity, the portion of the Total Credit Exposure to Total Assets Limit that is guaranteed by the guarantor is based on the guarantor's total assets. Any portion of a member's Total Credit Exposure that is not guaranteed by a guarantor is based on the member's total assets.

A member may request that the Bank allow the member to exceed its Total



Credit Exposure to Total Assets Limit or convertible advances to Total Assets Limit.

1.1.2. Housing Associate's Total Credit Exposure

The Bank limits a housing associate's Total Credit Exposure to 35% of the housing associate's total assets. The ratio of a housing associate's convertible advances to its total assets may not exceed 50% of the housing associate's Total Credit Exposure limit.

A housing associate may request that the Bank allow the housing associate to exceed its Total Credit Exposure or Convertible Advance Exposure to Total Assets Limit.

1.2. Limitations on Access to Credit Products

If the Bank's Credit Department determines that there has been a material adverse change in a member's, housing associate's, or guarantor's condition, the Credit Department may approve action to deny credit or limit the Total Credit Exposure to Total Assets Limit. Any such action shall be reported to the Credit Committee and the Bank's Board of Directors at the next regularly scheduled meeting based on normal month-end cutoffs for processing.

The Credit Committee will evaluate any request for new credit or the renewal of existing credit products under Sections 1.2.1 and 1.2.2 and determine if such an extension of credit can be safely made, that the Bank's interest in the collateral will be perfected, and that the Bank has received sufficient assurance from the appropriate federal banking agency or insurer² that payment of all obligations will

² In the case of members that are not federally insured depository institutions, the references to "appropriate federal banking agency or insurer" shall mean the member's state regulator acting in a capacity similar to



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occur if the member defaults.

The Credit Committee recommends action on such requests to the Bank President. The Bank President approves or denies such a recommendation. The rationale for approving or denying the requests under this Section 1.2 shall be reported to the Bank's Board of Directors at its next regularly scheduled meeting based on normal month-end cutoffs for processing.

The Bank shall promptly provide the Finance Board with a copy of any written requests received from a member's federal banking agency or insurer.

1.2.1. Members Without Positive Tangible Capital

1. New Extensions of Credit

The Bank will not grant new credit to a member without positive Tangible Capital unless the member's appropriate federal banking agency or insurer requests in writing that the Bank make such an extension of credit.

2. Renewal of Existing Credit Exposures

The Bank may renew outstanding credit exposures to a member without positive tangible capital for successive terms of up to 30 days each provided, however, that the Bank shall honor any written request of the appropriate federal banking agency or insurer that the Bank not renew such advances.

The Bank may renew outstanding credit exposures for a term greater than 30 days to a member without positive tangible capital at the written

an appropriate federal banking agency or insurer.



request of the appropriate federal agency or insurer.

1.2.2 Capital Deficient Members

The Bank may grant or renew an extension of credit to a member with positive tangible capital that is capital deficient unless the Bank has received written notice from the member's appropriate federal banking agency or insurer that the member's use of the Bank's credit facilities has been prohibited.

1.2.3 In the event a member's access to credit products is restricted pursuant to this section, the Bank shall not fund future dated credit products not exercised prior to the imposition of the restriction.

1.2.4 A member must advise the Bank in writing, via e-mail or facsimile immediately upon a determination of its failure to meet any of its regulatory capital requirements.

1.3. Special Provisions

1.3.1. Default

In the event of a default in the payment of principal and/or interest on any advance, or in the event of any other default defined in the Bank-approved forms of advances, pledge and security agreements, the Bank has the right to declare all indebtedness to the Bank of the defaulting member, housing associate, or guarantor immediately due and payable and subject to any and all prepayment fees and charges.

1.3.2. Termination of Membership or Merger



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Upon withdrawal from membership, the Bank shall determine an orderly schedule for liquidating any indebtedness of the member.

In the event of a termination of membership, whether by merger, acquisition, regulatory action, or otherwise, the Bank may allow a nonmember to assume or maintain outstanding extensions of credit. Extensions of credit to nonmembers must be fully secured by eligible collateral and the Bank may require collateral to be delivered to the Bank. The Bank's [Capital Plan](#) addresses the repurchase or redemption of Bank capital stock upon withdrawal or termination of membership.

1.3.3. Transfer of Advances

The Bank will not allow any extensions of credit to be transferred between unaffiliated members except in conjunction with mergers and acquisitions. In the event an extension of credit is transferred by operation of law as the result of a member's merger into another institution, the member shall notify the Bank and execute any required Bank documentation to evidence the assumption of the extension of credit by the acquiring institution.

In addition, the Bank, in its sole discretion, may consider a request for a transfer of extensions of credit between affiliated members. Members must notify the Bank of such requests and obtain the Bank's prior approval before any transfer of an extension of credit to an affiliated member is effective. The Bank's Capital Plan addresses the transfer of capital stock.



2. COLLATERAL STANDARDS

The Bank grants or renews credit solely on a secured basis. A member or housing associate must execute one of the Bank-approved forms of advances, pledge and security agreements prior to the Bank granting credit and all collateral pledged to the Bank must comply with the terms of such agreement. The Bank in its sole discretion determines the appropriate form of advances, pledge and security agreement that each member or housing associate must execute based on the Bank's determination of the member's, housing associate's, or guarantor's creditworthiness.

A member or housing associate must be in compliance with applicable collateral requirements prior to the Bank granting an extension of credit. The Bank requires a member or housing associate to pledge and maintain sufficient eligible collateral to secure all extensions of credit (advances, letters of credit, and member credit enhancement obligations) at all times.

All collateral must have a readily ascertainable market value, can be reliably discounted to account for liquidation and other risks, can be liquidated in due course, and the Bank must be able to perfect its security interest in the collateral. The Bank reserves the right to accept, reject, or ascribe such value to collateral, as the Bank deems necessary to protect the Bank's security interest.

Each member is required to purchase and maintain Bank capital stock in accordance with the Bank's [Capital Plan](#). Although Bank capital stock is pledged to the Bank under the advances, pledge, and security agreement, by applicable statute and regulation, Bank capital stock cannot be used to satisfy applicable collateral requirements. The Bank's Capital Plan governs capital stock requirements for extensions of credit.

To be considered eligible collateral, assets pledged to the Bank must comply with applicable laws and regulations and must comply with eligibility requirements established by the Bank from time to time. Eligibility requirements are specified in



instructions and checklists contained in the [Collateral Procedures](#) on the Bank's website at www.fhlbdm.com.

2.1. Member Collateral

The Bank may accept the following types of collateral. The Bank, from time to time, may establish additional eligibility criteria for various types of eligible collateral. No loan may be accepted as collateral if any director, officer, employee, attorney, or agent of the Bank or of the member is personally liable thereon or if the loan is 90 or more days delinquent.

1. Mortgage Loans – Fully disbursed whole first mortgage loans on improved (one to four family and multi-family) residential real property.
2. Privately issued mortgage-backed securities secured by first mortgage loans on one to four family residential properties excluding:
 - (A) Securities that represent a share of only the interest payments or only the principal payments from the underlying mortgage loans;
 - (B) Securities that represent a subordinate interest in the cash flows from the underlying mortgage loans;
 - (C) Securities that represent an interest in any residual payments from the underlying pool of mortgage loans; and
 - (D) Other securities that the Bank in its sole discretion deems to be high risk.
3. Agency Securities – Agency securities include:

Securities issued, insured, or guaranteed by the United States Government, or any agency thereof, including without limitation:

- (A) Mortgage-backed securities issued or guaranteed by Freddie Mac,



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Fannie Mae, Ginnie Mae, or any other agency of the United States Government;

- (B) Mortgages or other loans, regardless of delinquency status, to the extent that the mortgage or loan is insured or guaranteed by the United States or any agency thereof, or otherwise is backed by the full faith and credit of the United States, and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage or loan; and
- (C) Securities backed by, or representing an equity interest in, mortgages or other loans referred to under privately issued mortgage-backed securities above.

- 4. Funds placed in Time Certificates of Deposit at the Bank
- 5. Other Real Estate Related Collateral³

The Bank only accepts pledges of Other Real Estate Related Collateral if the member has executed the Bank approved form of advances, pledge and security agreement known as a Blanket Pledge Agreement subject to the following exceptions:

- The Bank may accept fully disbursed whole first mortgage commercial real estate loans from member's signing other advances, pledge, and security agreements if the member is rated "A" or higher by a nationally recognized statistical rating organization, the Bank reviews the loans prior to accepting the pledge, and the loans are delivered to the Bank; and
- Privately issued mortgage-backed securities rated "A" or higher, subject to the exclusions for privately issued mortgage-backed securities in Section 2.1 (2) above.

³ A member's combined capacity to pledge "Other Real Estate Related Collateral" and "CFI Collateral" excluding second mortgage loans and home equity lines of credit on one to four family property is limited in aggregate to 300% of the member's (or applicable guarantor's) equity capital.



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Eligible other real estate-related collateral may include, but is not limited to:

- (A) Second mortgage loans on one to four family residential property, including home equity loans, and home equity lines of credit (HELOC);
- (B) Fully disbursed whole first mortgage loans on commercial real estate loans;
- (C) Fully disbursed whole first mortgage loans on agricultural real estate;
- (D) Securities representing a whole interest in such loans subject to the exclusions for privately issued mortgage-backed securities in Section 2.1 (2) above; and
- (E) Mortgage loan participations in fully disbursed first mortgage loans secured by either one to four family, multi-family, commercial, or agricultural real estate.
- (F) Construction loans, no more than thirty days delinquent, for non-speculative (permanent take-out required) one to four family residential properties.

6. Community Financial Institution (CFI) Collateral³

The Bank only accepts pledges of Community Financial Institution Collateral if the member meets the definition of a CFI and has executed the Bank approved form of advances, pledge and security agreement known as a Blanket Pledge Agreement.

Eligible CFI collateral includes:

- (A) Business Loans;
- (B) Agri-Business Loans; and
- (C) Securities representing a whole interest in such loans subject to the exclusions for privately issued mortgage-backed securities in Section



2.1 (2) above.

If the Bank deems itself to be under-collateralized and all eligible collateral listed above has been pledged to the Bank, the Bank may consider accepting other property to secure existing credit, provided such property has a readily ascertainable value and the Bank can perfect a security interest in such property.

The Bank in its sole discretion may restrict the types of eligible collateral acceptable to the Bank as security for credit exposures based upon the creditworthiness or operations of the borrower, the quality of the collateral, or other reasonable criteria.

2.1.1. Collateral Fees

Please refer to the [Collateral Fees](#) on the Bank's website for a current schedule of fees the Bank charges for pledging, maintaining, and releasing certain types of collateral.

2.1.2. Collateral Maintenance Levels

The discounts or haircuts, known as collateral maintenance levels (CMLs) applied to the unpaid principal balance or market value, if available, for each type of eligible collateral can be found at [Collateral Maintenance Levels](#). The amount of the discount may vary based upon the form of advance, pledge, and security agreement executed by the member or housing associate.

If the Bank's Credit Committee determines that there has been a material adverse change in a member's, housing associate's, or guarantor's condition, the Credit Committee may approve the establishment of CMLs appropriate to secure all extensions of credit owed by the member or housing associate. Any such CMLs that differ from those published in the Collateral Procedures and the rationale for establishing such different levels shall be reported to the Bank's Board of Directors at its next regularly scheduled meeting based on normal month-end cutoffs for



processing.

2.1.3. Collateral Verification

As required by regulation, the Bank periodically reviews the existence, eligibility, and characteristics of collateral pledged to the Bank. The Bank's Credit Committee determines the frequency and scope of collateral verifications based on various factors, including but not limited to, the following:

- Member's ICR;
- Collateral reporting and/or delivery status;
- Types of pledged collateral; and
- Total Credit Exposure.

The Bank's Collateral Department may approve a member's or housing associate's request to have collateral verifications performed by the member's or housing associate's internal audit department and must report any such approvals to the Credit Committee at least quarterly. All collateral verifications must be conducted according to procedures established by the Bank and reported in a form acceptable to the Bank. Approved member or housing associate internal audit departments may not complete two consecutive collateral verifications required by the Bank.

The member or housing associate must pay all fees and costs incurred by the Bank in connection with the collateral verification of that member or housing associate. See [Collateral Fees](#) for a current schedule of fees the Bank charges for collateral verification.

Based on the results of a member's or housing associate's collateral verification, the Bank's Collateral Department may change the CML of collateral pledged by the member or housing associate to the Bank within ranges identified in the Credit



and Collateral Procedures and must report those changes to the Bank's Credit Committee at its next regularly scheduled meeting. The Bank's Credit Committee approves changes outside of these ranges. Any such CMLs that differ from those in the [Collateral Procedures](#) and the rationale for establishing such different levels shall be reported to the Bank's Board of Directors at its next regularly scheduled meeting based on normal month-end cutoffs for processing.

2.1.4. Collateral Restrictions

The Bank, at its sole discretion, may

- Determine which form of advances, pledge and security agreement a member or housing associate may execute;
- Restrict a member's or housing associate's use of certain categories of collateral;
- Prescribe the manner in which members or housing associates report collateral;
- Require a member or housing associate to list or deliver some or all collateral pledged to the Bank;
- Require a member or housing associate to pledge collateral in a prescribed order based upon the Bank's Credit Committee determination of marketability and liquidity of the collateral or of the member's or housing associate's creditworthiness; and
- File UCC-1 financing statements on collateral.

2.1.5. Eligible Member Affiliate Collateral

Assets held by an affiliate of a member that are eligible as collateral may be used to secure credit to that member only if:

- (A) The collateral is pledged to secure either the member's obligation to repay



the Bank or a surety or other agreement has been executed under which the affiliate has assumed, along with the member, a primary obligation to repay the Bank.

- (B) The Bank obtains and maintains a legally enforceable security interest in which the Bank's legal rights and privileges with respect to the collateral are functionally equivalent in all material aspects to those that the Bank would possess if the member were to pledge the same collateral directly, and such functional equivalence is supported by documentation the Bank deems adequate.

2.2. Housing Associate's Collateral

Housing Associates are required to deliver to the Bank sufficient eligible collateral to secure total extensions of credit from the Bank. The Bank will accept as collateral the following types of securities and mortgages that are owned by the housing associate free and clear of any liens, encumbrances, or other interests.

- FHA mortgages and Ginnie Mae securities backed by FHA mortgages; and
- If the housing associate is a State Housing Finance Agency (SHFA) using advances or standby letters of credit to benefit low- and moderate-income families as defined by §§142 (d) and 143 (f) of the Internal Revenue Code, the SHFA may also pledge mortgage loans on one to four family or multi-family residential property that have a readily ascertainable value, can be reliably discounted to account for liquidation and other risks, and can be liquidated in due course and as to which the Bank can perfect a security interest. The SHFA must certify that the funds will be used in accordance with Section 10 (b) of the Bank Act and must describe the households, including income levels, to be served.

2.2.1. Collateral Maintenance Levels for housing associates



See [Collateral Procedures](#) for collateral maintenance requirements for housing associates.

3. CREDIT PRODUCTS

The Bank offers a variety of credit products to meet the financial needs of members and housing associates. These include short-term, long-term, and adjustable rate funding, letters of credit, and mortgage loan purchase programs. Additional information regarding credit products can be found on the Bank's website at www.fhlbdm.com.

3.1. Advances

3.1.1. Purposes for Long-term Advances

The Bank makes long-term advances, defined as having an original term to maturity of greater than 5 years, only for the purpose of enabling any member to purchase or fund new or existing Residential Housing Finance Assets, which include, for CFIs, business, farm, and agri-business loans. Prior to approving a request for a long-term advance, the Bank shall determine that the principal amount of all long-term advances currently held and requested by the member does not exceed the total book value of Residential Housing Finance Assets held by the member. The Bank shall determine the total book value of such Residential Housing Finance Assets, using the most recent Thrift Financial Report, Report of Condition, financial statement or other reliable documentation made available by the member. Community Investment Cash Advances are exempt from this requirement.

3.1.2. Advance Pricing

Under Federal Housing Finance Board regulations, the Bank may, in pricing its



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advances, distinguish among members based upon its assessment of the credit and other risks to the Bank of lending to any particular member or other reasonable criteria that may be applied fairly and impartially to all members. The Bank currently does not differentially price its advances, except as set forth below.

The Bank shall not price its advances to members or housing associates below the marginal cost to the Bank of raising matching term and maturity funds in the marketplace, including embedded options and the administrative and operating costs associated with making such advances to members or housing associates.

The Board of Directors authorizes advance pricing that includes the sum of the following specific criteria:

- the Bank's cost of funds for different advance products and maturities adjusted for differences in interest payment frequency; plus
- the Bank's general and administrative costs for providing advances; plus
- the Bank's profit margin, after general and administrative costs, applied to each advance product and maturity.

Applying the above-mentioned methodology and criteria, the Bank establishes differential pricing of advances based on the following categories:

- Advance product;
- Advance maturity; and
- Individual advance transaction size as approved by the Board of Directors from time-to-time.

The methodology used for advance pricing shall not result in lower prices than the methodology used for pricing Community Investment Cash Advances with the same terms and conditions under Section 4.2 of this Policy.



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Interest on all advances begins accruing on the day the advance settles.

The Board of Directors authorizes the Bank President to implement this advance pricing methodology.

3.1.3. Advance Prepayment Fees

Advance prepayment fees charged by the Bank make the Bank financially indifferent to the member's or housing associate's decision to repay the advance prior to its maturity date.

3.1.3.1. Fixed-rate Advance

The Bank calculates prepayment fees on fixed-rate advances (amortizing and non-amortizing) using the following formula:

Prepayment fee = the greater of (i) zero or (ii) A + B where:

A = for each future payment, the present value of future interest cash flows lost due to the prepayment, calculated as the sum of:

- I) the estimated interest rate spread lost, defined as the interest rate on the advance being prepaid minus the Bank's estimated cost of funds on the date when the Bank determines the final prepayment fee (Pricing Date), adjusted for the remaining term, payment frequency, and day count; multiplied by
- II) the remaining advance amount being prepaid; multiplied by
- III) the discount factor implied by the Bank's estimated cost of funds on the Pricing Date.



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And

B = the Bank's cost of terminating or offsetting any related hedging transactions.

Calculation Notes:

For A (I): The Bank determines its estimated cost of funds on the Pricing Date by using whichever one of the two following methods is applicable:

- (1) If the Bank priced the original advance using the Bank's cost of fixed-rate FHLB consolidated obligations (COs), then the Bank shall use the estimated cost of comparable fixed-rate COs on the Pricing Date for the remaining term to maturity of the advance being prepaid.
- (2) If the Bank priced the original advance using the Bank's cost of issuing synthetic fixed-rate debt via the interest rate swap market, then the Bank shall use the estimated cost of issuing a comparable fixed-rate synthetic debt instrument on the Pricing Date for the remaining term to maturity of the advance being prepaid.

For A (III): The Bank determines the present value by discounting all cash flows using the estimated cost of COs on the Pricing Date.

Upon payment of the prepayment fee the rights and obligations of each party for the advance amount prepaid shall cease.

3.1.3.2. Floating-rate Advance



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The Bank calculates prepayment fees on floating-rate advances using the following formula:

Prepayment fee = the greater of (i) zero or (ii) A + B where:

A = for each future payment, the present value of future interest cash flows lost due to prepayment, calculated as the sum of:

- I) the estimated interest rate spread lost, defined as the interest rate margin versus the floating-rate index on the advance being prepaid minus the Bank's estimated interest rate margin versus the floating-rate index for its cost of funds on the date when the Bank determines the final prepayment fee (Pricing Date), adjusted for the remaining term, payment frequency, and day count; multiplied by
- II) the amount being prepaid; multiplied by
- III) the discount factor implied by the Bank's estimated cost of funds on the Pricing Date.

And

B = the Bank's cost of terminating or offsetting any related hedging transactions.

Calculation Notes:

For A (I) using a LIBOR-indexed floating-rate advance as an example. The margin for a LIBOR Advance that is being prepaid is the interest rate spread relative to the appropriate LIBOR index on the day the advance was originally priced. The margin for the Bank's LIBOR-based cost of funds on the Pricing Date



is the interest rate spread relative to the appropriate LIBOR index on the Pricing Date. For example, if the advance being prepaid had an interest rate margin of 5 basis points over the LIBOR index on the day it was originally priced and the Bank's cost of funds has an interest rate margin of 15 basis points under the LIBOR index on the Pricing Date, then the spread lost would be 20 basis points per annum.

For A (III): The Bank determines the present value by discounting all cash flows using the estimated cost of COs on the Pricing Date.

Upon payment of the prepayment fee the rights and obligations of each party for the advance amount prepaid shall cease.

3.1.3.3. Callable Advance

For callable advances, the member or housing associate owns the right to terminate the advance after the lockout period and according to the stipulated call frequency. Repayments of advances on a designated call date with proper call notice are not considered prepayments and therefore are not subject to prepayment fees. Repayments made on a date other than a designated call date are considered prepayments and are subject to the applicable prepayment fees. Depending on the type of advance, the Bank shall calculate the prepayment fee according to the prepayment fee formula for fixed-rate advances or floating-rate advances with the exception that the remaining term to maturity is measured as the expected (not scheduled) remaining term of the prepaid advance, as determined by the Bank.

Upon payment of the prepayment fee the rights and obligations of each party for the advance amount prepaid shall cease.



3.1.3.4. Convertible (putable) Advance

The Bank calculates prepayment fees on convertible (putable) advances using the following formula:

Prepayment fee = the greater of (i) zero or (ii) A + B where:

A = for each future payment over the expected (but not scheduled) remaining term of the advance as determined by the Bank, the present value of the future interest cash flow lost due to the prepayment, calculated as the sum of:

- I) the interest rate (x) on the advance being prepaid minus the fixed-rate (y) of the matching interest rate swap minus the margin (z) of the matching cost of COs on the date when the Bank determines the final prepayment fee, adjusted for the expected (but not scheduled) remaining term as determined by the Bank, payment frequency and day count. For example, after all necessary adjustments, we have: (x) Advance rate = 5.5%, (y) convertible swap fixed-rate = 5.4%, and (z) funding cost = LIBOR - 0.2%, the spread lost thus equals 0.3% (=5.5% -5.4% -(-0.2%)); multiplied by
- II) the advance amount being prepaid; multiplied by
- III) the discount factor implied by the Bank's estimated cost of funds on the Pricing Date.

And

B = the Bank's cost of terminating or offsetting any related hedging transactions.



Calculation Notes:

For A (III): The Bank determines the present value by discounting all cash flows using the estimated cost of COs on the Pricing Date.

Upon payment of the prepayment fee the rights and obligations of each party for the advance amount prepaid shall cease.

3.2. Mortgage Partnership Finance[®] (MPF[®]) Program

The Bank purchases eligible mortgage loans from Participating Financial Institutions (PFIs) through the MPF[®] program. The Federal Home Loan Bank of Chicago, the MPF Provider, developed the MPF[®] program and provides program and operational support to the participating Federal Home Loan Banks and their PFIs. MPF[®] program and product information can be obtained on the Bank's website at www.fhlbdm.com or at (www.fhlbmpf.com).

The Bank's Anti-Predatory Lending Policy for Collateral and Residential Mortgage Loans Purchased from members governs the purchase or acquisition of mortgage loans from PFIs and adopts the anti-predatory lending policy and related provisions contained in the MPF Origination Guide and MPF Service Guide, as amended from time-to-time.

3.2.1. Credit Underwriting

Prospective PFIs must complete and execute an application and be approved under the Bank's credit underwriting standards (refer to Section 1.1) prior to participating in the MPF[®] program. The Bank also evaluates a prospective PFI's experience in mortgage origination, servicing, and investor reporting, and requires the prospective PFI to complete a Participating Financial Institutions Agreement and participate in MPF training provided by the Bank.



3.2.2. Mortgage Purchase Limits

A single PFI may execute one or more master commitments with the Bank for no more than an aggregate of \$800 million per 12-month period, assuming the Bank retains 100% interest in the loans delivered under those master commitments. To the extent that interests in portions of loans delivered to the Bank are sold, the Bank may enter into additional master commitments with the PFI provided that the aggregate amount of loans retained by the Bank during the applicable period does not exceed the amount in the preceding sentence.

3.2.3. Pricing

For mortgages purchased under a delivery commitment entered into after the effective date of this Policy, the Bank purchases mortgages only in accordance with the current prices posted on the MPF Provider's eMPF website without exception. The Bank retains the option to opt out of purchasing mortgages on any business day if the Bank determines that it is not in its best interests to make such purchases.

3.2.4. Credit Enhancement/Government Loan Fees

For master commitments entered into after the effective date of this Policy, the Bank pays credit enhancement/government loan fees for the MPF programs as specified in the MPF Guides.

For master commitments executed prior to the effective date of this Policy, the Bank shall pay the credit enhancement/government loan fees specified in such commitments, provided however, that if the terms of master commitments are amended for any material reason after the effective date of this Policy, the credit enhancement/government loan fees that the Bank pays shall be the fees in the MPF Guides.



3.2.5. Other MPF[®] Fees

PFI's may be charged fees specified in the MPF Origination Guide and the MPF Servicing Guide. When assessed, the Bank imposes those fees in accordance with those Guides as updated from time to time by the MPF Provider.

3.2.6. PFI Quality Control Verification

The MPF[®] program requires each PFI to conduct quality control reviews on a quarterly basis amounting to ten percent of loans sold to the Bank. The Bank periodically verifies that PFI's are conducting these quality control reviews in accordance with MPF[®] program requirements.

Based on the results of a PFI's quality control verification, the Bank may determine, in its sole discretion, whether the PFI is eligible to sell loans to the Bank in the future.

3.3. Standby Letters of Credit

3.3.1. Credit Underwriting

Please refer to Section 1.1 for a description of the Bank's Credit Underwriting, which is used to approve the issuance of Standby Letters of Credit.

3.3.2. Purposes for Which Standby Letters of Credit May Be Issued

The Bank may issue standby letters of credit on behalf of members or housing associates for any of the following purposes:

- Facilitate residential housing finance;



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- Facilitate community lending;
- Assist members or housing associates with asset/liability management; and
- Provide members or housing associates with liquidity or other funding.

Standby Letters of Credit must contain a specific expiration date or be for a definite term and require approval in advance by the Bank of any transfer of the standby letter of credit from the original beneficiary to another person or entity.

3.3.3. Fees for Standby Letters of Credit

Please refer to the [Letter of Credit](#) fee schedule for information about the fees the Bank charges for issuing standby letters of credit.

The Bank assesses a processing fee for any draw made on a standby letter of credit which is detailed on fee schedules published on the Bank's website at www.fhlbdm.com.

3.4. Standby Bond Purchase Agreements

Standby Bond Purchase Agreements support the Bank's mission activities by providing contingent liquidity support for Des Moines district housing associates' Variable-Rate Bond Obligation issuances. Variable-Rate Bond Obligations are variable rate, tax-exempt bonds that are a funding source for housing associates' homeownership loan programs.

3.4.1 Credit Underwriting

Eligible housing associates have a minimum long-term rating of A- or equivalent and a stable outlook at time the Standby Bond Purchase Agreement is executed.

Additionally, bond programs supported by Standby Bond Purchase Agreements



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will be required to have a minimum long-term rating of AA- or equivalent at the time the Standby Bond Purchase Agreement is executed.

The Bank will administer individual and aggregate Standby Bond Purchase Agreement exposures according to guidelines established by the Bank's Asset/Liability Committee.

3.4.2 Purposes for Which Standby Bond Purchase Agreements May Be Issued

The Bank may issue standby bond purchase agreements supporting publicly traded bonds that provide financing for district home ownership programs.

3.4.3 Fees for Standby Bond Purchase Agreements

The Bank will establish fees for executing each Standby Bond Purchase Agreement based on factors including market conditions, housing associates' ratings, bond ratings and term of the agreement.



4. COMMUNITY INVESTMENT PROGRAMS

The Bank offers two Community Investment Programs, the Affordable Housing Program (AHP) and the Community Investment Cash Advance (CICA).

4.1. Affordable Housing Program

The [Affordable Housing Program](#) helps members assist their communities by providing access to subsidized and other low-cost funding that creates opportunities for affordable housing. AHP is a cash grant program that benefits projects targeting very low-, low-, and moderate-income households. As required by the Federal Home Loan Bank Act, the Bank allocates 10 percent of its annual regulatory income to AHP for grants to be awarded the following year. The details of the Bank's AHP are contained in the Bank's annual [AHP Implementation Plan](#).

4.2. Community Investment Cash Advance Program

[CICA](#) is an advance program that supports residential, commercial, and economic development activities that contribute to the revitalization of low and moderate income households or economically depressed areas in urban centers and rural communities. These funds are designated to assist members in meeting residential and commercial lending needs.

The Bank's Board of Directors annually establishes limits on the total amount of funds available for CICA advances and the total amount of CICA advances outstanding at any point in time. CICA advances are provided at below market interest rates that represent the Bank's cost of funds plus a markup to cover administrative expenses. The markup is determined by the Bank's Asset-Liability Committee. The Board of Directors monitors the estimated costs of this program annually and uses this information when establishing the program limits.



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The Bank's Community Investment Department must review and approve all requests for CICAs prior to disbursement to ensure that the use of funds is consistent with regulatory requirements. CICAs are available for terms of a minimum of six months to a maximum of 20 years. The minimum CICA amount is \$100,000.

CICAs are available for:

- construction loans, rehabilitation loans, operating equipment, community infrastructure projects, permanent financing or other commercial lending; and
- residential lending and financing for the rehabilitation, construction, redevelopment, or purchase of single-family or multi-family affordable housing.

4.2.1. Rural CICA Program

Rural Capital advances (RCA) are designed for rural areas for small business and commercial lending. For the Rural Capital Advance, "rural" is defined as a unit of general local government with a population of 25,000 or less, an unincorporated area outside a Metropolitan Statistical Area (MSA), or an unincorporated area within an MSA that qualifies for housing or economic development assistance by the USDA. RCAs are available for terms from a minimum of six months to a maximum of 20 years and the minimum RCA amount is \$25,000.

4.2.2. CICA Limits

The CICA limit per member and limits on the total amount of funds available for CICA is established by the Bank's Board of Directors annually as detailed in the Limits on CICA advances section of the [Community Lending Plan](#).



4.2.3. Pricing

The Board of Directors authorizes CICA pricing that includes the sum of the following specific criteria:

- the Bank's cost of funds for different advance products and maturities adjusted for differences in interest payment frequencies; and
- the Bank's administrative costs.

Applying the above-mentioned methodology and criteria, the Bank establishes differential pricing of CICA based on the following categories:

- Advance product; and
- Advance maturity.

As with all advances, interest begins accruing on the day the advance settles.

The Board of Directors authorizes the Bank President to implement the foregoing CICA pricing methodology.

4.2.4. Prepayment Fees

CICAs are subject to the appropriate fee for the type of advance obtained. See Prepayment Fees, Section 3.1.3.

5. SYSTEMS AND INTERNAL CONTROLS

The Bank maintains risk management policies to address applicable regulations that require the Bank to have an infrastructure in place reasonably designed to ensure the maintenance of appropriate systems, procedures, and internal controls.



6. OPERATIONAL AND PERSONNEL CAPACITY

As part of its strategic planning process, which includes its annual operating and capital budget, the Bank determines any resources it needs for the maintenance of appropriate operational and personnel capacity.



7. GLOSSARY

Advance – An extension of credit from the Bank to a member or housing associate.

Affiliate – Any business entity that controls, is controlled by, or is under common control with a member.

Agricultural Real Estate Loans - Other Real Estate Related Collateral secured by a first mortgage on agricultural real estate.

Agency CMO & REMIC MBS – Securities represented by agency-backed, collateralized mortgage obligations and real estate mortgage investment conduits (excluding interest only, principal only and residual tranches) will be accepted as collateral on a case-by-case basis.

Agri-Business Loans – Secured loans to finance agricultural production and other loans to farmers that are within the legal lending limit of the Community Financial Institution.

Bank – The Federal Home Loan Bank of Des Moines.

Bank Act – The Federal Home Loan Bank Act.

Blanket Pledge Agreement –An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest in all mortgage collateral, securities collateral, and other collateral held by the member to secure indebtedness.

Business Loans – Secured commercial and industrial loans that are within the legal lending limit of the Community Financial Institution.

Capital Deficient – A member that fails to meet its minimum regulatory capital requirements as defined or otherwise required by the member’s appropriate federal



banking agency, insurer or, in the case of members that are not federally insured depository institutions, state regulator.

CMO – Collateralized Mortgage Obligation.

Community Investment Cash Advance (CICA) – an advance that can be used for a wide variety of purposes to meet local affordable housing and community development needs.

CMBS – Commercial real estate mortgage-backed securities.

Collateral Maintenance Level (CML) – The factor by which collateral is discounted to calculate the advance or borrowing equivalent of such collateral. For example, a Collateral Maintenance Level of 125% implies that \$1,000,000 of collateral pledged supports \$800,000 in borrowings. The CML is the mathematic inverse of the loan-to-value ratio ($80\% = 1.0$ divided by 1.25).

Commercial Real Estate Loans – Other Real Estate Related Collateral secured by a first mortgage on commercial real estate.

Community Financial Institution (CFI)– An institution that has its deposits insured under the Federal Deposit Insurance Act with average total assets over the preceding three-year period as adjusted annually by the Federal Housing Finance Board based on changes in the Consumer Price Index.

Construction Loans - Other Real Estate Collateral secured by a first mortgage on real property for the purpose of constructing improvements to the real property. Eligible construction loans are limited to loans secured by non-speculative 1-4 family residential properties.

Convertible Advance – Convertible (puttable) advances are (i) an advance that the Bank



may, at its discretion, terminate and require the member to repay at predetermined dates prior to the stated maturity date of the advance, or (ii) an advance with a strike, which is a fixed-rate advance that requires the member to repay the advance when the three-month LIBOR reaches or exceeds an agreed upon level. If the Bank terminates a convertible (puttable) advance prior to the stated maturity date the Bank shall offer to provide replacement funding to the member provided the member is able to satisfy the normal credit and collateral requirements of the Bank for the replacement funding request.

Credit Enhancement Fee (CE Fee) – A fee payable monthly by an MPF Bank to a Participating Financial Institution (PFI) in consideration of the PFI’s obligation to fund the realized loss for a master commitment, subject to the terms and fee rate applicable to such master commitment and MPF mortgage product which may include performance and risk participation features.

Credit Enhancement Obligation – A contingent liability for PFIs that results from selling mortgage loans to the Bank.

Delivery Pledge Agreement – An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest only in specifically identified collateral categories to secure indebtedness to the Bank. Under the Delivery Pledge Agreement, the member must deliver all collateral pledged to the Bank.

eAdvantage – A private, secure, “members-only” website that allows members and eligible housing associates to conduct business and access their accounts using the internet.

Federal Housing Finance Board – An agency of the United States Government that has regulatory authority and supervisory oversight responsibility for the twelve Federal Home Loan Banks.

FHA – Federal Housing Administration.



Ginnie Mae – Government National Mortgage Association.

HELOCs – Home equity lines of credit secured by one-to-four family properties.

Housing Associate – A chartered institution or state housing finance agency that has been approved as a housing associate that may obtain advances from the Bank if certain requirements are met (formerly known as a nonmember mortgagee).

Internal Credit Rating (ICR) – A scoring system used by the Bank to measure the financial condition of a member or housing associate. The ICR is based on quantitative and qualitative factors.

Indebtedness – advances, standby letters of credit, and the member's credit enhancement exposure obligations.

LIBOR – London Inter-Bank Offered Rate.

Master Commitment – An agreement, including any addenda or attachments thereto, executed by a Participating Financial Institution (PFI) and an Mortgage Partnership Bank (MPF) Bank in accordance with the MPF Guides which provides the terms under which the PFI will deliver mortgages to the MPF Bank.

Member – Any institution that has been approved for membership in the Bank and which has purchased capital stock in the Bank.

Mortgage Partnership Finance (MPF) — A mortgage purchase program established by the Federal Home Loan Bank of Chicago to provide a competitive secondary market alternative for members of participating Federal Home Loan Banks.

MPF Provider – The Federal Home Loan Bank of Chicago



Multi-Family Loans – First mortgage loans on multi-family residential real estate.

Participating Financial Institution (PFI) –An eligible member or housing associate participating in the MPF program.

Policy – Member Products Policy.

REMIC – Real Estate Mortgage Investment Conduit.

Regulatory Capital – Paid-in capital stock, as defined in the Bank’s Capital Plan, including mandatorily redeemable capital stock classified as a liability under Statement of Financial Accounting Standard 150, plus retained earnings

Residential Housing Finance Assets – Includes any of the following:

- (1) Loans secured by residential real property;
- (2) Mortgage-backed securities;
- (3) Participations in loans secured by residential real property;
- (4) Loans or investments qualifying under the definition of "community lending" in 12 C.F.R. §900.1;
- (5) Loans secured by manufactured housing, regardless of whether such housing qualifies as residential real property; or
- (6) Any loans or investments which the Bank, in its discretion, otherwise determines to be residential housing finance assets.

Residential Mortgage Collateral – Residential mortgages loans and securities backed by residential mortgage loans pledged to the Bank as collateral.

Rural Capital Advance – This is a Community Investment Cash Advance available for economic development initiatives in rural areas.



Second Mortgage Loans – Second mortgage loans on one to four family residential real estate.

State Housing Finance Agency (SHFA) – A public agency, authority, or publicly sponsored corporation that serves as an instrumentality of any state or political subdivision of the state, and functions as a source of residential mortgage loan financing in that state; or a legally established agency, authority, corporation, or organization that serves as an instrumentality of any Indian tribe, band, group, nation, community, or Alaska Native village recognized by the United States or any state, and functions as a source of residential mortgage loan financing for the Indian or Alaska Native community.

Specific Pledge Agreement – An advance, pledge and security agreement pursuant to which the member grants the Bank a security interest only in specifically identified collateral categories to secure indebtedness to the Bank. Members under the specific agreement are limited to certain types of collateral and are required to periodically provide detailed listings of all loans pledged.

Standby Letter of Credit – An undertaking by the Bank on behalf of a member or housing associate that represents an obligation to the beneficiary (1) to repay money borrowed by or advanced to or for the account of the member or housing associate or (2) to make payment on account of any indebtedness undertaken by the member or housing associate, or (3) to make payment on account of any default by the member or housing associate in the performance of an obligation. It does not include a commercial letter of credit or any short-term self-liquidating instrument used to finance the movement of goods.

Tangible Capital –

- (1) Capital, calculated according to generally accepted accounting principles, less "intangible assets" except for purchased mortgage servicing rights to the extent such assets are included in a member's core or Tier 1 capital, as reported in the member's Thrift Financial Report for members whose primary federal regulator



is the Office of Thrift Supervision, or as reported in the Report of Condition and Income for members whose primary federal regulator is the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Board of Governors of the Federal Reserve System.

- (2) Capital calculated according to generally accepted accounting principles, less intangible assets, as defined by the Bank for members that are not regulated by the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, or the Board of Governors of the Federal Reserve System; provided that the Bank shall include a member's purchased mortgage servicing rights to the extent such assets are included for the purpose of meeting regulatory capital requirements.

Total Credit Exposure – A member's or housing associate's advances, Standby Letters of Credit, Credit Enhancement Obligations, and other extensions of credit from the Bank.

USDA – United States Department of Agriculture.

U.S. Treasury Securities – Direct obligations of the United States Treasury, including bills, notes and bonds.

VA – Veterans Administration.