

LENDING TO MEMBERS OF THE FHLB DES MOINES

What is the business objective of the FHLB Des Moines (Bank)?

Our primary business objective is to be a reliable and stable source of funding to our members while safeguarding their investment in us. The Bank's members are both stockholders and customers. As a cooperative, we deliver value in a way that not only provides members with attractive product prices and reasonable returns on invested capital, but also provides the Bank with a capital structure that includes adequate retained earnings to support safe and sound business operations.

How does the Bank carry out its business objective?

FHLB Des Moines carries out its business objective primarily through a program of advances, or secured loans, to members. Our primary advance products include the following:

- Fixed rate advances that are available over a variety of terms to meet borrower needs.
- Variable rate advances that provide a source of short-term and long-term financing where the interest rate changes in relation to a specified interest rate index.
- Callable advances that may be prepaid by the member borrower on pertinent dates (call dates).
- Putable advances that the Bank may, at its discretion, terminate and require the borrower to repay at predetermined dates prior to the stated maturity dates of the advances. (Should an advance be terminated, the Bank will offer to provide replacement funding based on the Bank's available advance products, subject to the Bank's normal credit and collateral requirements.)
- Community investment advances with below-market rates that are used by borrowers in both affordable housing and community development projects.

How does the Bank manage the credit risk on advances?

FHLB Des Moines manages credit risk by securing advances with sufficient acceptable collateral, monitoring borrower creditworthiness through internal and independent third-party analysis, and performing collateral review and valuation procedures to verify the sufficiency of pledged collateral. Members are also required to purchase and maintain activity-based capital stock to support outstanding advances.

A member 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 agreements. The Bank in its sole discretion determines the appropriate form of advances, pledge and security agreement that each member must execute based on the Bank's determination of the member's creditworthiness.

A member must be in compliance with applicable collateral requirements prior to the Bank granting an extension of credit. The Bank requires a member 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. We are required by regulation to accept only certain collateral on advances such as securities guaranteed by the U.S. government or GSE securities, residential mortgage loans, deposits in the Bank, and other real estate-related assets. In addition, Community Financial Institutions are allowed to pledge secured small business loans, small farm loans, and agribusiness loans as collateral.

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.

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.

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.

Are there limits on how much a member can borrow from the FHLB Des Moines?

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

The Bank may also consider whether the member 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 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 to submit additional information to the Bank in order for the Bank to complete its credit underwriting.

Based on its credit assessment, the Bank will set a limit for each member's total credit exposure to total assets. That limit can range from a high of 40% to a low of zero percent for bank, thrift, and credit union members. Of the Bank's 1,207 depository institution members as of August 29, 2008, 90.5% had borrowing capacities of 35% or 40% of their assets. Another 8.7% of members

could borrow up to 20% or 25% of assets. Only 0.6% of members had no borrowing capacity, and 0.2% could borrow from 4% to 10% of their assets.

Does the Bank have any loan loss provisions on advances?

We have not experienced a credit loss on an advance since the Bank was established in 1932 and do not anticipate any credit losses on advances. Therefore, we do not maintain an allowance for credit losses on advances.

Is the Bank a member's "lender of last resort"? Can the Bank cut off a member's access to advances?

The Bank is not a member's "lender of last resort." The Bank can be a primary source of liquidity for a member, but it should not be a member's only source of liquidity. Prudent financial management dictates that a depository institution should have multiple sources of liquidity such as Fed Fund lines, brokered deposits and Federal Reserve Bank borrowing lines.

If the Bank's Credit Department determines that there has been a material adverse change in a member's condition, the Credit Department may approve action to deny credit or limit a member's borrowing capacity. 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 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. The Bank may renew outstanding credit exposures to a member without positive tangible capital for successive terms of up to 30 days each; however, 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 request of the appropriate federal agency or insurer.

The Bank may grant or renew an extension of credit to a capital deficient member with positive tangible capital 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.

Where can I read more about the Bank's credit and collateral policies and procedures?

The Bank's credit and collateral policies and procedures can be found on the Bank's public web site www.fhlbdm.com. Click on the "Membership" tab and then scroll down to "Member Products Policy."