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Dear Members:

On July 30<sup>th</sup> President George Bush signed The Housing and Economic Recovery Act of 2008 into law. This groundbreaking legislation is the result of years of debate in Washington regarding the appropriate regulatory framework for Fannie Mae, Freddie Mac and the Federal Home Loan Bank (FHLB) System. It is also the result of Washington's struggle to positively impact the nation's mortgage crisis. Debate and legislative deliberations in the past weeks were dominated by concerns that the weakness in the housing markets could precipitate a failure of either Fannie Mae or Freddie Mac.

FHLBs were never the focus of concern. In fact, in analyzing the cost of the legislation, the Congressional Budget Office (CBO) noted that "most or all of any assistance under the proposed authority would go to Fannie Mae and Freddie Mac. Government and financial experts with whom CBO consulted indicated that the FHLBanks are adequately capitalized, with a strong collateral base for liabilities, and are unlikely to require any federal financial assistance over the next 17 months (that is, before the authority would expire at the end of December 2009)."

The legislation reaffirms the FHLB's primary mission of serving as a source of liquidity for our member institutions. It ensures that we will be regulated by a world-class regulator, which, together with our strong financial position, should reassure holders of our consolidated obligations that FHLB debt is a solid investment.

The new law includes some positive changes that will enhance the value that the FHLB Des Moines can deliver to its members. Two changes are especially noteworthy:

- The law increases the size of Community Financial Institutions (CFIs) to \$1 billion in assets from the current limit of \$625 million. If you believe this change would impact your financial institution, please contact your FHLB Regional Vice President. The law also expands acceptable collateral we can accept from CFIs; however, any changes in eligible collateral will require additional analysis by the FHLB and approval by our regulator.
- The new law also will allow FHLBs to issue Standby Letters of Credit (SLOCs), through members, on a wide range of tax-exempt bonds. Members will still be required to collateralize SLOCs as is the case today; only the range of eligible beneficiaries has been expanded. This change, supported by a coalition of the banking, housing, mortgage finance, health care and almost twenty national municipal government groups will provide a new business opportunity for members to partner with the FHLB to offer an additional resource in their communities.



Although the law is effective immediately, it will take some time to digest all the changes to our regulatory structure and to implement the changes but we will keep you informed of any significant developments. In summary, we see this legislation as reaffirming the importance of the FHLBs to the nation's financial system.

If you have any questions, please do not hesitate to call me or any other member of the Des Moines Bank's Executive Management Team.

Sincerely,

A handwritten signature in black ink that reads "Dick Swanson".

Richard S. Swanson  
President and CEO