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September 9, 2008

Dear FHLB Des Moines Member:

The last year has been challenging for the nation's depository institutions, including here in the Midwest. The FDIC recently reported that bank profitability is down and that troubled loans and charge-offs are rising. There are more banks on the FDIC's "watch list" than at anytime since 2003.

In the FHLB Des Moines' five-state district, three members have failed and were sold by the FDIC this year. Those are the first membership failures that we have seen in almost ten years. We worked closely with those members' primary regulators and the FDIC to ensure smooth resolutions.

Through all this turmoil, the FHLB Des Moines has performed well. Our balance sheet continues to grow, and we remain profitable and well capitalized. Our AAA/stable outlook rating from S&P and Moody's remains intact.

One reason for our continued success is the Bank's prudent credit and collateral standards. Our primary business objective is to provide our members with a reliable source of funding through advances. In order for us to be a reliable source of funds, however, we must lend in a safe and sound manner. We cannot extend advances with a risk profile that would endanger our ability to tap the capital markets for the benefit of all members.

We believe our credit and collateral standards, as well as our other risk mitigation strategies, have allowed us to achieve a successful balance between the competing demands of managing a cooperative. As a member, you are not only a borrower; you are also a shareholder. Thus, we have to weigh the interest of our members as borrowers, which is to be a reliable source of funding, with the interest of our members as shareholders, which is to maintain an adequate dividend and, most importantly, the par value of the stock that members have invested in us.

Our prudent credit and collateral standards have served the Bank and its cooperative membership well throughout the last year. Our adherence to those standards is the reason that the failures of three of our members did not expose the Bank to any losses.

Because of deteriorating credit conditions, we have reduced the borrowing capacity of some members, but unless a member is in extreme financial distress, a member will still have the

ability to borrow advances equal of no less than 20% of its assets. Indeed, of the Bank's 1,207 depository institution members, 99.2% have a borrowing capacity of 20% or more of assets.

We are also assessing our collateral maintenance levels (haircuts) to ensure that they provide the Bank adequate protection in troubled situations. We are committed to providing you as much notice as possible of any changes in haircuts. Presently, we expect to announce any changes in haircuts in November to be effective January 1, 2009.

The fact is that the FHLB Des Moines does not make arbitrary and capricious credit and collateral decisions. We make decisions based on policy and sound analytics, and we thoroughly consider the implications of our decisions on affected members as well as on the cooperative as a whole. 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. For example, although the Bank has reduced the borrowing capacities of a small number of members, it has not required early repayment of any advances in those circumstances.

An [FAQ](#) on the Bank's lending practices is attached. I hope this document will answer any questions that you or any other interested party may have on the Bank's lending decisions.

Please do not hesitate to call (515-281-1012) or write ([mwilson@fhlbdm.com](mailto:mwilson@fhlbdm.com)) me with any further questions. As always, we are here to serve you in a reliable and safe and sound manner, so we welcome your feedback and comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael L. Wilson". The signature is written in a cursive, flowing style.

Michael L. Wilson  
Executive Vice President and  
Chief Business Officer