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Dear FHLB Des Moines Member:

During these volatile and uncertain times in our nation's economy, the Federal Home Loan Bank of Des Moines (Bank) has taken several actions to ensure that we can continue to be an ongoing reliable source of funding for our members. We have issued a number of separate notices over the past few months, and the main purpose of this letter is to provide you context for those individual actions.

Let me start by saying that we are extremely pleased and gratified by your continuing support of the Bank. In a survey of customer satisfaction conducted in early December 2008, 94% of members said they were "very satisfied" or "satisfied" with the Bank's products and service quality. We were particularly pleased that 71% of our members said they were "very satisfied" with the Bank, an increase of seven percentage points from the previous year's survey. Your positive remarks about the Bank's calling officers and Money Desk spoke volumes to those staff after one of the busiest years for transactions in the Bank's history.

Context: Deliver Member Value

The Bank's Strategic Business Plan includes a Strategic Imperative called "Deliver Member Value." As a cooperative, delivering member value is a three-part proposition:

- attractive products and prices;
- reasonable returns on invested capital; and
- a capital structure that includes adequate retained earnings to support safe and sound business operations.

Because you are a member of a cooperative, you are both a customer and a shareholder. Balancing those two attributes of membership is a continuing challenge for the Bank's Board of Directors and management. We have to weigh the interest of our members as customers, 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.

Delivering member value – or balancing the interest of members as customers and as shareholders of the cooperative – is the context for the actions the Bank has taken the last several months including:

- updating Collateral Maintenance Levels;
- changing pricing on mortgage loan purchases;
- introducing MPF Xtra;
- widening spreads on advances;

- initiating purchases of FDIC-insured CDs and TLGP debt issued by members as an additional source of wholesale funding; and
- temporarily suspending automatic repurchases of excess activity-based capital stock.

Collateral Maintenance Levels and Credit Standards

In December 2008, we announced that effective April 2009, the Bank would change Collateral Maintenance Levels (CMLs) on assets that members pledge as collateral for advances and others forms of indebtedness to the Bank. The implementation date will be April 6, 2009, to provide ample time for the Bank to test system changes. This will be the first set of wholesale changes in CMLs in more than seven years. By and large, the changes in CMLs are not significant, and within the boundaries of our statutory requirement to treat all members fairly and impartially, we are committed to working with members whose access to liquidity is adversely impacted by these changes.

We made these changes to ensure that the Bank can continue to extend credit to members safely and soundly, thus protecting the integrity of the capital stock that you have invested in us.

It also is worth noting that effective January 1, 2009, a Community Financial Institution (CFI) is any FDIC-insured member with average assets over the last three years of \$1,011 million or less. The previous CFI asset cap was \$625 million. The increase is attributable to a provision in the Housing and Economic Recovery Act of 2008. The implication is that many more members are now deemed to be CFIs and have access to expanded collateral classes including small business loans and small agri-business loans.

We also maintain very rigorous credit standards, as described in my letter to you last September. I want to emphasize again that the Bank does not make arbitrary and capricious credit decisions. If a member's financial condition deteriorates, we will reduce a member's borrowing capacity with the Bank, but we will make that decision based on policy and sound analytics, and we will thoroughly consider the implications of our decision on the affected member as well as on the whole cooperative.

If you hear negative comments to the contrary – such as “Don't pay off your advances, because once you do, the Bank will cut off your access to funding” – please let us know. There is a tremendous amount of misinformation floating around these days, and the best thing to do is to call us and ask us directly about our credit and collateral policies and practices.

Pricing on Mortgage Partnership Finance

For those of you that are Participating Financial Institutions (PFIs) and sell mortgages to the Bank through its Mortgage Partnership Finance (MPF)* program, you undoubtedly noticed the change in pricing in mid-December. It was at that time that we de-linked our pricing from secondary market benchmarks and began to price at levels consistent with a certain positive level of option adjusted spread. Given secondary mortgage market dynamics – specifically, the action by the Federal Reserve to purchase significant quantities of mortgage-backed securities (MBS), the Bank could no longer purchase and profitably fund mortgages if it continued to pay benchmark prices. From the perspective

* Mortgage Partnership Finance and MPF are registered trademarks of the FHLB Chicago.

of a PFI, that change made the MPF program less competitive. However, from the cooperative's perspective, it was a necessary step to assure that the MPF program does not adversely impact non-PFI members and to protect the value of the Bank's capital stock.

Soon after announcing that change in pricing, we initiated the process to be approved to offer "MPF Xtra." Under MPF Xtra, PFIs will sell loans to Fannie Mae through the FHLB Chicago. The benefits of MPF Xtra are several, including secondary market benchmark pricing, no need to purchase activity-based stock in the Bank to support mortgages on our balance sheet, and no collateral requirement to support a member's credit enhancement. Right now, MPF Xtra is only available to members that retain servicing, but we hope to have a servicing released option available soon. If you are interested in more information on MPF Xtra, please contact the Bank.

Advance Pricing and Access to Liquidity

Because of the unprecedented volatility in the debt markets and the unattractive rates at which we can issue longer term debt, the Bank has been funding its balance sheet with mostly shorter term discount notes. That creates the potential for incremental basis risk, which has necessitated that the Bank add some additional spread to its advance prices. We believe our advance prices continue to be attractive on a relative basis, and we have been offering Unique Funding Opportunities, or UFOs, when particularly attractive funding can be obtained.

We also recognize that members need additional sources of liquidity in this environment. That is why the Bank announced this month that it would begin purchasing from members both Certificates of Deposit (CDs) within insured limits and debt issued by members covered by the FDIC's Temporary Liquidity Guaranty Program (TLGP).

Temporary Suspension of Automatic Repurchases of Excess Activity-based Stock

In late December, the Bank announced that it was temporarily suspending the automatic repurchase of excess activity-based capital stock. This action was taken out of an abundance of caution to preserve the Bank's capital in this uncertain environment.

Under its Capital Plan, the Bank's capital stock can be redeemed by members with a five-year notice, and the Bank has the discretion, but is not required, to repurchase any shares that a member is not required to hold. It had been the Bank's practice to automatically repurchase activity-based stock that became excess because of a member's reduction in advances or MPF loans held by the Bank. It is that automatic repurchase that the Bank has suspended. Members can still use that stock to support new advances or traditional MPF loan sales to the Bank.

The Bank's action to suspend repurchases of excess activity-based capital stock has been well-received by the capital markets. For example, in its January 2009 report "Rating Implications on the Federal Home Loan Banks from Other Than Temporary Impairments (OTTI)," Moody's noted "Capital preservation is particularly important because of the FHLBanks' limited capital generation," noting that Des Moines was one of only two FHLBs that did so at the time of the report.

With regard to OTTI on private-label MBS, Moody's noted that Des Moines was one of only four FHLBs with sufficient "regulatory capital to absorb the entire gross unrealized loss on their respective [private-label MBS] portfolios at September 30, 2008 without breaching regulatory capital requirements." As of September 30, 2008, the Des Moines Bank had \$40 million in private-label MBS (the lowest total in the FHLB System) compared to \$4,105 million in capital.

Also noteworthy is that on February 2, 2009, Moody's affirmed the Aaa senior debt and Prime-1 ratings of the FHLB System with a stable outlook and also affirmed the Aaa bank deposit and Prime-1 ratings of all twelve FHLBs – including Des Moines – with stable outlooks. Standard & Poor's affirmed Des Moines' AAA/Stable/A-1+ rating in late November 2008.

We understand that the negative publicity about the FHLBs and OTTI has led to concerns about the possible impairment of your holdings of FHLB capital stock. If you have such concerns, please contact the Bank. The FHLBs have compiled information concerning the methodology for determination of possible impairment of FHLB stock, which can be made available to members upon request.

Conclusion

Recent actions have been taken by the Bank with the best long-term interests of our shareholding members in mind. We want to be your preferred source for wholesale funds, and we also have a duty to protect, to the best of our ability, the par value of the capital stock that you have entrusted to us.

Around the middle of March we will be filing our 2008 10-K with the SEC. Once that report is filed, you will have an opportunity to read about the Bank's full-year performance, including steps we have taken to ensure that we maintain a highly liquid balance sheet so that we can meet your funding needs should there be a disruption in the capital markets. We also plan to schedule a member conference call soon after the 10-K is filed.

I encourage you to continue to provide us feedback, whether through formal surveys, participation in our upcoming regional spring member meetings, through your credit sales representative, or by calling or sending us an e-mail.

On behalf of the staff of FHLB Des Moines, I want you to know that it is a pleasure and an honor to have the opportunity to serve the financial services industry in the great Midwest. You are the lifeblood of local communities, and we are here to help you in any way we can. Please do not hesitate to call (515-281-1012) or write (mwilson@fhlbdm.com) me with your comments and suggestions.

Sincerely



Michael L. Wilson
Executive Vice President and Chief Business Officer