Member Products Policy

Effective Date July 1, 2024

Document Title:	Member Products Policy
Document Owner:	Members
Document Type:	Policy
Regulatory Review Performed by:	Wil Osborn, Cherie Schuler, Jodie Stephens Reviewed May 2024
Bank Level Approver:	Mission Committee
Board Level Approver:	Board of Directors
Last Approval Date:	June 2024
Next Review Date:	April 2025
Law/Regulatory Citation:	12 CFR § 1239.30 12 CFR pt. 1263 12 CFR pt. 1266 12 CFR pt. 1268 12 CFR pt. 1269
Associated Governing Document(s):	Capital Plan
Enterprise Governing Document:	Yes

TABLE OF CONTENTS

I. PURPOSE

FHLB Des Moines' Member Products Policy addresses the Bank's management of products offered by the Bank to Members and Housing Associates (HAs), including but not limited to advances, standby letters of credit (LOC), standby bond purchase agreements (SBPA) and the Mortgage Partnership Finance® (MPF®) program[1].

In order to access the above-mentioned products and services, institutions must either apply to become a member or a housing associate of the Bank. The Membership Approval section of the Member Products Policy addresses membership eligibility requirements set forth by the Federal Housing Finance Agency (FHFA) and provides a brief overview of the membership application and approval process.

Except as otherwise required or otherwise provided in this policy, all existing and future transactions shall be governed by this policy. This policy is supplemented by Collateral Procedures, which includes Collateral Discounts known as Loan to Value or LTV, eligibility guidelines, and fee schedules, that can be amended, superseded, or replaced by the Bank's management at any time.

This policy and the Collateral Procedures supersede any prior Member Products Policy, Member Products and Services Policy, Guide to Credit and Collateral Policies and Procedures or Credit and Collateral Procedures. Unless as otherwise specified in the Pledge Agreement between the Bank and a Member or HA, the terms and conditions of this Policy are effective when published to the membership of the Bank.

The terms referenced in this policy are defined in the Glossary included in this policy. It is important that the policy be read using the Bank's definitions.

This policy is established by the Bank's Board of Directors. This policy is subject to the provisions of the Federal Home Loan Bank Act, the policies, directives, and regulations of the FHFA, and the Bank's Enterprise Risk Management 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 FHFA policies or directives, the applicable law, regulation or FHFA 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 residential mortgage loans and securities backed by residential mortgage loans pledged to the Bank as collateral and residential mortgage loans purchased from Members, which is incorporated herein, as such policy may be amended from time to time.

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

The Bank has also implemented policies and practices to manage credit exposures to subprime and nontraditional mortgage loans.

Officers and/or Committees that are referred to in the policy are authorized by the Board of Directors to take the actions specified herein. The Board further has delegated to the President and Chief Executive Officer (President) the authority to approve exceptions to the Member Products Policy where consistent with applicable laws, regulations, and supervisory guidance. Board notification of non-compliance with this policy should occur as soon as practicable. The Bank in its sole discretion by action of its Board of Directors may amend this policy at any time.

II. ROLES AND RESPONSIBILITIES

The Member Products Policy is established by the Bank's Board of Directors.

Relevant Party	Roles and Responsibilities
Board of Directors – Member Committee	• Approve this policy at least once a year
Mission Committee	• Review and approve management policy recommendations.
Credit Risk Committee	• Review and approve management policy recommendations.
ALCO	• Review and approve management policy recommendations.
Members Division Senior Management	• Make recommendations and policy changes regarding credit products.
Credit Team Senior Management	• Make recommendations and policy changes regarding credit and collateral standards.
Member Financial Operations Team Senior Management	• Make recommendations and policy changes for membership approval processes.
Community Investment Senior Management	• Make recommendations and policy changes regarding Community Investment Programs.

III. KEY DEFINITIONS

Advance – A secured extension of credit from the Bank to a Member or Housing Associate (HA).

Advances, Pledge and Security Agreement (APSA) – The standard form of security agreement used by the Bank to govern the secured borrowing transactions between the Bank and its Members.

Advances Security and Deposit Agreement (ASDA) – The standard form of security agreement used by the Federal Home Loan Bank of Seattle to govern the secured borrowing transactions with its Members prior to the merger with and into the Bank on May 31, 2015.

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

Affiliate Collateral Pledge and Security Agreement (ACPSA) – The standard form of security agreement used by the Bank to govern the pledging of collateral by a Member's affiliate to secure the borrowings of that 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 – Federal Home Loan Bank of Des Moines.

Bank Act – Federal Home Loan Bank Act.

Blanket Pledge Agreement – A Pledge 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.

Community Development Financial Institution (CDFI) – An institution that is certified as a CDFI by the CDFI Fund under the Community Development Banking and Financial Institutions Act of 1994 (12 U.S.C. 4701 et seq.), other than a bank or savings association insured under the Federal Deposit Insurance Act (12 U.S.C. 1811 et seq.), a holding company for such a bank or savings association, or a credit union insured under the Federal Credit Union Act (12 U.S.C. 1751 et seq.).

CMO – Collateralized Mortgage Obligation.

Community Investment Advance (CIA) – 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 Discount – The discount factor applied to pledged collateral to calculate the advance or borrowing equivalent of such collateral.

Collateral Procedures – The Bank's published member facing Collateral Procedures document, along with all other materials included throughout the collateral section of the Bank website. This includes, but is not limited to, eligibility guidelines and checklists, LTV charts, pledging and releasing instructions, and MCV information.

Commercial Real Estate Loans – Mortgage loans secured by commercial real estate.

Community Financial Institution (CFI) – An institution that has its deposits insured under the Federal Deposit Insurance Act, and that has average total assets over the preceding three-year period that do not exceed the CFI asset cap as adjusted annually by the Federal Housing Finance Agency based on changes in the Consumer Price Index.

Community Reinvestment Act (CRA) – Established by Congress in 1977, CRA exams measure depository institutions (banks and thrifts) commitment to supporting their communities, particularly low-income or underserved communities. CRA ratings (from lowest to highest) are "Unsatisfactory, "Needs Improvement," "Satisfactory," and "Outstanding."

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 (putable) advances are:

- 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
- an advance with a strike, which is a fixed-rate advance that requires the Member to repay the advance when the index rate reaches or exceeds an agreed upon level. If the Bank terminates a convertible (putable) 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 Obligation – A contingent liability for PFIs resulting from selling mortgage loans to the Bank.

Credit Risk – The potential that a credit exposure will not be fully repaid when payment is due and that the value of any pledged collateral may be insufficient to offset the Bank's exposure at time of default.

Delivery Pledge Agreement – A pledge 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.

Depository Institution – Includes any bank, savings and loan association, or credit union.

De Novo Insured Depository Institution – institutions with a charter approved by its regulator within three years of applying for membership with the Bank.

eAdvantage – A private, secure "Members-only" website that allows Members and eligible Has to conduct business and access their accounts using the internet.

Federal Housing Finance Agency – An agency of the U.S. Government that has regulatory authority and supervisory oversight responsibility for the twelve Federal Home Loan Banks, Fannie Mae, and Freddie Mac.

FHA – Federal Housing Administration.

Ginnie Mae – Government National Mortgage Association.

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

Home Financing Policy (HFP) – In accordance with the FHFA, an applicant is deemed to meet the home financing policy requirement by either of the following:

- CRA rating of "Satisfactory" or "Outstanding" on its most recent CRA Exam (banks or thrifts).
- Written justification (Mission and Lending Practices appendix) and a copy of its home finance policy. The Mission and Lending Practices appendix requires the applicant to describe how and why its institution supports the housing finance mission of the Bank.

All applicants are required to complete the Mission and Lending Practices appendix. However, applicants not subject to a CRA exam, must also provide a copy of their home finance policy.

Housing Associate (HA) – A chartered institution or state housing finance agency which has been approved as a HA and may obtain credit products and participate in mortgage programs from the Bank if certain requirements are met.

Indebtedness – Advances, standby letters of credit and the Member's credit enhancement exposure obligations.

Insurance Company – An entity that holds an insurance license or charter under the laws of a State and whose primary business is the underwriting of insurance for persons or entities that are not its Affiliates.

Investment Quality – A determination made by the Bank with respect to a security or obligation pursuant to the Bank's documented analytic framework for investments (as the same may be revised from time to time) that:

- there is adequate financial backing so that full and timely payment of principal and interest on such security or obligation is expected, and

- there is minimal risk that the timely payment of principal or interest would not occur because of adverse changes in economic and financial conditions during the projected life of the security or obligation.

Long-Term Home Mortgage Loan – as defined under 12 CFR §1263.1.

Master Commitment – An agreement, including any addenda or attachments thereto, executed by a Participating Financial Institution (PFI) and a 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.

Member Collateral Verification (MCV) – Periodic on-site examination of pledged loan collateral performed by 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 Guides – MPF Guides incorporate the MPF Origination Guide, the MPF Servicing Guide, the MPF Underwriting Guides, the MPF Xtra Manual, as well as the PFI Agreement and any other MPF-related agreements executed by the Member Participating Financial Institution which governs their participation in the MPF Program.

MPF Provider – Federal Home Loan Bank of Chicago.

Mortgage Purchase Program (MPP) – A mortgage purchase program under which participating FHLBanks purchase eligible conventional and FHA mortgage loans from approved PFIs based upon the participating FHLBank's own back-office operations and guides.

Mortgage-Related Assets – As used in this policy, is defined the same as "Residential Housing Finance Assets".

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

Municipal Security – Real-estate related securities that are a direct obligation of a state, municipality, housing agency or school district.

Non-Federally-Insured Credit Unions – means a State-chartered credit union that does not have Federal share insurance and that has not been certified as a CDFI by the CDFI Fund.

Participating Financial Institution (PFI) – An eligible Member or HA participating in the MPF or MPP program.

Pledge Agreement – the APSA, ASDA, or ACPSA.

REMIC – Real Estate Mortgage Investment Conduit.

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 CFR. §1290.1
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; and
7. For CFI members, and to the extent not already included in categories (1) through (6), small business loans, small farm loans, small agri-business loans, or community development loans.

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

Rural Capital Advance – Community Investment Advance available for economic development initiatives in rural areas.

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

SOFR – Secured Overnight Financing Rate.

Specific Pledge Agreement – A Pledge 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 Bond Purchase Agreement (SBPA) – A contingent liquidity facility provided to district SHFAs to support the issuance of tax-exempt floating rate securities (Variable Rate Demand Obligations) issued to support affordable housing. The agreement obligates the Bank to purchase Variable Rate Demand Obligations that cannot be remarketed in a timely fashion.

Standby Letter of Credit – An undertaking by the Bank on behalf of a Member or HA that represents an obligation to the beneficiary:

- to repay money borrowed by or advanced to or for the account of the Member or HA or
- to make payment on account of any indebtedness undertaken by the Member or HA, or

- to make payment on account of any default by the Member or HA 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.

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 U.S. or any state, and functions as a source of residential mortgage loan financing for the Indian or Alaska Native community.

Tangible Capital –

- 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 I capital, as reported in the Member's 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.

- Capital calculated according to generally accepted accounting principles less intangible assets as defined by the Bank for Members that are not regulated by 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 Assets – for the purpose of membership eligibility requirements, means the total assets reported on a regulatory financial report or, in the case of a CDFI, contained in the applicant's audited financial statements.

Total Credit Exposure – The sum of the current balance of all Advances, mortgage Credit Enhancement Obligations, face value of any Standby Letters of Credit, Standby Bond Purchase Agreements, and other extensions of credit.

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.

IV. ANTI-PREDATORY LENDING POLICY

The Bank requires that residential mortgage collateral and purchased mortgage loans comply with applicable federal, state, and local anti-predatory lending laws and other similar credit-related consumer protection laws, regulations and orders designed to prevent or regulate abusive and deceptive lending practices and loan terms (collectively, anti-predatory lending laws).

Any residential mortgage collateral that does not comply with all applicable anti-predatory lending laws will be ineligible as collateral to support advances or other transactions with the Bank. Additionally, a loan cannot become a purchased mortgage loan or be given collateral value if:

- The annual interest rate and/or points and fees charged for the loan exceed the thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z);
- The loan has been identified by a Member's primary federal regulator as possessing predatory characteristics;
- The loan includes mandatory prepaid, single premium credit insurance;
- The loan is subject to state and/or local laws where one or more of the major credit-rating agencies (Standard and Poor's, Moody's Investors Service, and/or Fitch Ratings) will not rate a security (or securities) in which the underlying collateral pool contains such a loan;
- The loan is defined as a "High-Cost Loan", "Covered Loan" or "Home Loan" (or terms of similar meaning), as defined by and as categorized under one or more federal, state or local predatory lending laws as having certain potentially predatory characteristics;
- The loan includes penalties in connection with the prepayment of the mortgage beyond the early years of the loan, to the extent that such penalties are prohibited or limited by applicable anti-predatory lending laws; or
- The loan requires mandatory arbitration with respect to dispute resolution, to the extent that such requirements are prohibited or limited by applicable anti-predatory lending laws.

The Bank will not knowingly accept as eligible collateral residential mortgage collateral that violates anti-predatory lending laws or this Anti-Predatory Lending Policy.

Under the terms and conditions of the Bank's Participating Financial Institution (PFI) Agreement, each PFI has represented and warranted to the Bank that it:

- Is aware of and will comply at all times with the MPF Guides;
- Will comply at all times with the requirements of all applicable anti-predatory lending laws; and
- Will indemnify, defend and hold harmless the Bank from and against all losses, damages, claims, actions, causes of action, liabilities, obligations,

judgments, penalties, fines, forfeitures, costs and expenses, including without limitation, legal fees and expenses, that result from the sale of any Acquired Member Asset that does not comply in all material aspects with the anti-predatory lending laws.

The Anti-Predatory Lending Policy and related provisions contained in the MPF Guides, as may be amended, are adopted as policy by the Bank as they relate to purchased mortgage loans.

V. STATEMENT ON SUBPRIME AND NONTRADITIONAL LOANS

The Bank's policies and risk management practices establish appropriate risk limits for credit exposure resulting from concentrations of subprime and nontraditional residential mortgage loans and private label mortgage-backed securities where the underlying mortgages are deemed to have subprime or nontraditional characteristics pledged as collateral for Members' credit exposures.

The Collateral Standards section of this policy and the Bank's Collateral Procedures should be read in conjunction with this statement.

VI. MATERIAL ADVERSE EVENT REPORTING

Each Member is required to immediately inform the Bank's Credit Department in writing (which may also be by email) of any material adverse change that has occurred that affects the Member's financial condition, including without limitation, the occurrence of adverse events such as the discovery of fraud, a material asset write-off, a significant decline in capital, or other material event which may not be reflected in the Member's most recent financial statements but which may affect the Member's creditworthiness.

Members are also required to immediately inform the Bank's Credit Department of the occurrence of any event that constitutes an event of default under the Advances, Pledge and Security Agreement or the Master Transaction Agreement entered into between the Bank and the Member, or that renders untrue any of the representations, warranties or covenants made by a Member in such agreements.

VII. MEMBERSHIP APPROVAL

A. Application Overview

FHLB Des Moines adheres to Title 12 of the Code of Federal Regulations[2] (CFR) Part 1263 – Members of the Banks for approval of financial institutions as members of the Bank. The Bank may approve any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, Community Development Financial Institution (CDFI), including a CDFI credit union or insured depository institution, provided

[2] All references to the CFR are as of the date of this policy and may be accessed electronically at www.eCFR.gov.

the institution applies for membership; as well as meets certain eligibility requirements.

Applicants must submit an application of membership as well as any required membership agreements. Upon submission, the Bank must review the application, request additional documentation as needed to supplement the application, prepare a written digest stating whether or not the applicant meets requirements in 12 CFR Parts 1263.6 to 1263.19, and retain membership file documentation, including the membership digest. Once an application is deemed complete, the Bank has 60 days to approve or deny membership.

B. Eligibility Requirements[3]

As outlined in the appendices of this policy, general requirements include that an applicant must:

- be duly organized under tribal law or the laws of any State, or the United States;
- be subject to inspection and regulation (CDFI applicants must be certified by the CDFI Fund),
- make Long-Term Home Mortgage Loans,
- have a financial condition such that advances may be safely made to it,
- have the character of its management be consistent with sound and economical home financing; and
- have a Home Financing Policy consistent with sound economical home financing.

Insured depository institutions other than Community Financial Institutions (CFI) must have at least 10 percent of its Total Assets in Residential Mortgage Loans (Mortgage-Related Assets). Non-federally insured depository institutions are also subject to the ten percent Mortgage-Related Asset requirement. Non depository institutions are subject to a five percent Mortgage-Related Asset requirement.

Presumptive compliance for certain of the above requirements may be made for de novo insured depository institutions, as provided for in the CFR.

C. Automatic Membership

In certain circumstances, membership may be deemed automatic. Those include membership for certain charter conversions, relocation of a member's principal

[3] Members will continue to be subject to membership eligibility requirements for the duration of membership with the Bank. If a member institution undergoes changes resulting in the inability to meet these eligibility requirements, the member must immediately notify the Bank. These changes may include, but are not limited to charter relocations out-of-district, mergers, charter dissolutions, etc.

place of business to another Bank district or re-designation of a principal place of business pursuant to regulations, and certain consolidations.

D. Determination of Appropriate Bank District for Membership

An institution is eligible for membership within the FHLB District where its charter is located; or its principal place of business is located. **All three of the following requirements must be present** for a principal place of business designation:

1. At least 80 percent of the institution's accounting books, records, and ledgers are maintained, located or held in such designated State;
2. A majority of meetings of the institution's board of directors and constituent committees are conducted in such designated State; and
3. A majority of the institution's five highest paid officers have their place of employment located in such designated State.

However, if insurance companies or CDFI's cannot meet the three principal place of business requirements noted above, the Bank may also deem a principal place of business designation if **at least two** of the following three requirements are present:

1. The institution's largest office, as measured by the number of employees, is located in that State;
2. A plurality of the institution's employees is located in that State; or
3. The places of employment for a plurality of the institution's senior executives are located in that State.

E. Decision on application

Once the Bank has determined it has received all information needed to process an application, the Bank will deem the application complete and notify the applicant in writing. The "application complete" letter states the Bank will notify the applicant within 60 days of its membership decision.

Within the 60-day timeframe the Bank must act on the application by either approving or denying the applicant for membership. As part of its review process, the Bank will prepare a Membership Digest stating whether the applicant meets specific membership regulations set forth by the FHFA. The Membership Digest will conclude with the Bank's Decision Memorandum. Within three days of its decision, the Bank must notify the FHFA and the applicant by providing a copy of its Decision Memorandum.

F. Rebuttable Presumptions

The Bank may exercise certain discretion in approving or denying applicants for membership. If an applicant does not meet certain membership requirements or standards due to non-compliance, the Bank may elect to approve an applicant for membership. However, the Bank may require the applicant to provide additional information including regulator confirmation (if applicable) or written analysis.

If the Bank approves (or denies) an applicant via rebuttable presumption, the Bank will document its justifications for rebutting an applicant in its Membership Digest. If the applicant is approved as a rebuttable presumption, it will be stated in the Decision Memorandum.

If the Bank obtains substantial evidence that an applicant does not meet any presumptive general eligibility requirements, it may deny an applicant for membership.

G. Appeals

Applicants may appeal a Bank's decision to deny the application for membership within 90 calendar days. The applicant must provide the basis for the appeal and at such time, the Bank should submit the record of appeal and the copy of the membership application file to the Federal Housing Finance Agency (FHFA) who then resolves the appeal.

H. Stock Requirements

Once an applicant has been approved for membership, the applicant has 60 calendar days to purchase its required membership stock. The Bank's Capital Plan contains additional information regarding stock requirements for members.

VIII. CREDIT STANDARDS

A. Credit Underwriting

The Bank's decision to grant, renew, limit or deny the extension of credit (advances, standby letters of credit, standby bond purchase agreements 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, HA's, or guarantor's creditworthiness. The Bank's determination of creditworthiness is generally based on a Member's, HA'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, HA, or guarantor is engaging or has engaged in any unsafe or unsound banking practices, has financial or managerial deficiencies that bear upon the Member's, HA'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, HA, or guarantor to submit additional information to the Bank in order for the Bank to complete its credit underwriting.

1. Member's Total Credit Exposure

a. Overview

The Bank establishes the criteria for the maximum Total Credit Exposure to a Member or HA as set forth below and may increase or decrease a Member's borrowing capacity at any time.

Exceptions may be approved in accordance with Bank policy and procedure.

Credit lines extended to Members and HAs are not guaranteed, but rather are an indication of the Bank's willingness to lend under present conditions. The Bank may limit its Total Credit Exposure to any one Member based upon several criteria, including but not limited to:

- Creditworthiness of the Member or guarantor;
- Balance sheet structure and significant asset restrictions;
- Type and amount of collateral pledged;
- Maturity and type of advances outstanding; and
- Reliance on Bank advances relative to the Member's assets and other sources of liquidity.

b. Limits

The following limits are applied at the time the extension of credit is made or renewed:

- Depository Institutions
  Total Credit Exposure to total assets may not exceed 45%
- Insurance Companies, Housing Associates, and CDFIs
  Total Credit Exposure to total assets may not exceed 30%
- A Member's or HA's outstanding Convertible Advances may not exceed 50% of the Member's or HA's maximum Total Credit Exposure limit

c. Exceptions

- 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 that is guaranteed is limited based on the guarantor's total assets.
- Any portion of a Member's Total Credit Exposure that is not guaranteed by another entity is based on the Member's total assets.

B. Limitations on Access to Credit Products

If the Bank determines that there has been a material adverse change in a Member's, HA's, or guarantor's condition, the Bank may limit or deny future credit exposure, call existing advances, increase Collateral Discounts, change the terms of future advances, limit collateral types, and take any appropriate actions allowed for in the Pledge Agreement.

The Bank will grant any request from a Member or its regulator for new credit or the renewal of existing credit that the Bank determines can be safely made and where the Bank's security interest in sufficient collateral is perfected.

2. Members without Positive Tangible Capital:

d. 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[4] requests in writing that the Bank make such an extension of credit.

e. 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. 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.

3. 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.

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.

[4] 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 an appropriate federal banking agency or insurer.

A Member must advise the Bank in writing, (which may include email) immediately upon a determination of its failure to meet any of its regulatory capital requirements.

C. Special Provisions

4. Default:

In the event of a default as defined in the Pledge Agreement, the Bank has the right to declare all indebtedness to the Bank of the defaulting Member, HA, or guarantor immediately due and payable and subject to any and all prepayment fees and charges.

In a case of Member failure, the Bank will work with the applicable federal or state regulator and/or receiver to arrange for the disposition of all outstanding existing credit exposures. In the unlikely case that the Bank and regulator and/or receiver cannot settle all obligations owed to the Bank, the Bank would initiate the orderly liquidation of collateral in accordance with its internal procedures.

5. Termination of Membership or Merger:

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, the Bank may allow a non-member to assume or maintain outstanding extensions of credit in accordance with applicable regulations.

Extensions of credit to non-members must be fully secured by eligible collateral that the Bank may, in its discretion, require to be delivered to the Bank or an approved third-party custodian.

The Bank's Capital Plan addresses the repurchase or redemption of Bank capital stock upon withdrawal or termination of membership.

6. 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 or regulatory action. 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 prior to the merger being completed.

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.

IX. COLLATERAL STANDARDS

The Bank grants or renews credit solely on a secured basis. A Member or HA must execute one of the Bank-approved Pledge Agreement forms 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 Pledge Agreement form that each Member or HA must execute.

A Member or HA must be in compliance with applicable collateral requirements prior to the Bank granting an extension of credit. The Bank requires a Member or HA to pledge and maintain sufficient eligible collateral to secure all outstanding credit exposures at all times.

All collateral must meet the following criteria:

- Has 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 ensure sufficient collateral value of secured credit exposures. At the request of the Bank, Members and HAs shall pledge additional or substitute collateral supporting advances any time the Bank deems it necessary for the Bank's protection.

Each Member is required to purchase and maintain Bank capital stock in accordance with the Bank's Capital Plan, which governs capital stock requirements for extensions of credit. Although Bank capital stock is pledged to the Bank under the Pledge Agreement, by applicable statute and regulation, Bank capital stock cannot be used to satisfy applicable collateral requirements.

Collateral assets pledged to the Bank must comply with applicable laws, regulations and guidance issued by federal regulators in order to be considered eligible. Collateral must also comply with the Bank's eligibility requirements which can be updated from time to time. General and specific eligibility requirements can be found within the Collateral Procedures, located on the Bank's website at www.fhlbdm.com.

A. Pledge Agreements

All borrowing Members and HAs must execute a Pledge Agreement. The Pledge Agreement generally determines the delivery requirements, level of reporting detail and custody requirements of the pledged collateral.

The types of Pledge Agreements approved by the Bank are:

1. Blanket Pledge Agreement

A Member executing a Blanket Pledge Agreement grants the Bank a security interest in all financial assets.

2. Specific Pledge Agreement

A Member executing a Specific Pledge Agreement grants the Bank a security interest in specifically identified assets. A Member executing the Specific Pledge Agreement may be limited to certain collateral types and is required to provide detailed listings of all collateral pledged.

3. Delivery Pledge Agreement

A Member executing a Delivery Pledge Agreement grants the Bank a security interest in specifically identified and delivered assets. The Member is required to deliver all pledged collateral to the Bank or its custodial agent, may be limited to certain collateral types, and is required to provide detailed listings of all collateral pledged.

4. Housing Associate Pledge Agreement

A HA executing a Housing Associate Pledge Agreement grants the Bank a security interest in specifically identified and delivered assets. The HA is required to deliver all pledged collateral to the Bank or its custodial agent, may be limited to certain collateral types, and is required to provide detailed listings of all collateral pledged.

5. Affiliate Pledge Agreement

Affiliate Pledge Agreements are entered into between the Bank and a Member's Affiliate, allowing the Affiliate to pledge collateral to support advances to a Member. Under the Affiliate Pledge Agreement, the Bank perfects a security interest in specifically identified or delivered assets and binds the Affiliate pledgor to all the obligations to which the affiliated Member is subject under their respective Pledge Agreement.

B. Subprime and Nontraditional Loans

The Bank acknowledges that no single criterion consistently and accurately describes subprime or nontraditional loans but adopts the following definitions for the management of credit risk.

The definitions below apply to owner and non-owner occupied one-to-four family residential loans and residential mortgage-backed securities pledged as collateral. The definitions do not apply to government insured mortgage loans or securities. The Bank does not accept subprime or nontraditional one-to-four family second lien residential loans, home equity lines of credit (HELOCs), first lien held for sale loans, first lien participation loans, or first lien construction loans.

6. Subprime Loans:

Subprime loans are loans originated or acquired after July 10, 2007, to borrowers with a credit bureau score (FICO[5] score) of 620 or less.

Subprime loans will also include one-to-four family residential mortgage loans that are originated as a product available to or under a lending program targeting borrowers with the above subprime characteristics.

7. Nontraditional Loans:

Nontraditional loans include, but are not limited to, one-to-four family residential mortgage loans that allow borrowers to defer the repayment of principal and/or interest.

Conventional one-to-four family residential loans meeting one or more of the preceding criteria may be subject to additional due diligence during Member Collateral Verifications (MCVs), lower Collateral Discount levels, and/or be classified as ineligible for pledging as collateral.

The Bank requires Members and HAs to certify that pledged residential mortgage loans and residential mortgage-backed securities (RMBS) originated or acquired after July 10, 2007, comply with applicable regulatory guidance. Loans and RMBS that do not comply with the published interagency guidance are not eligible for pledging to the Bank. As part of the MCV process, the Bank will monitor compliance with the interagency guidance.

C. Member Collateral

As collateral security for any outstanding Member or HA credit exposures, Members and HAs or their Affiliates assign, transfer, pledge, and grant a security interest to the Bank in Mortgage Collateral, Securities Collateral, Deposits, and Other Collateral (collectively referred to as “Collateral”). Collateral includes all documentation, servicing information, and other data necessary to facilitate an orderly transfer of the Collateral.

Collateral, as outlined below, is eligible to secure member or HA credit exposures, subject to compliance with the Collateral Procedures. Collateral that fits within each of these categories, but which is not eligible to secure member or HA credit exposures, can be found at Section VII.C.8.

Members that have executed a Blanket Pledge Agreement grant a lien on all Collateral to the Bank, and Members or Affiliates that have executed a Specific, Delivery, or Affiliate Collateral Pledge Agreement grant a lien on all Collateral pledged to the Bank, whether or not eligible and regardless of advance equivalent value provided.

[5] FICO® is a registered trademark of Fair Isaac Corporation.

8. Eligible Collateral – Blanket Pledge Agreement

f. Mortgage Collateral

1. Fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) one-to-four family residential held for sale;
   c) multi-family residential;
   d) commercial; and
   e) agricultural
2. Mortgage or other loans insured or guaranteed by the U.S. or any agency thereof, or otherwise backed by the full faith and credit of the U.S., and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage loan;
3. Construction loans, no more than thirty days delinquent, for non-speculative (permanent take-out required) one-to-four family residential real properties;
4. Fully disbursed whole second lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential; and
   c) commercial
5. First or second lien mortgage lines of credit on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential; and
   c) commercial
6. Loan participations in fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential;
   c) commercial; and
   d) agricultural

g. Securities Collateral

1. Non-mortgage-backed securities issued, insured, or guaranteed by the U.S. Government, or any agency thereof.
2. Mortgage-backed securities issued or guaranteed by the U.S. Government, Freddie Mac, Fannie Mae, Ginnie Mae or any other agency of the U.S. Government.
3. Privately issued mortgage-backed securities secured by first lien mortgage loans on the following types of real properties located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential; and
   c) commercial
4. Municipal Securities.

h. Deposits

Funds placed in Time Certificates of Deposit at the Bank.

i. Other Collateral, for Members that meet the definition of a Community Financial Institution (CFI)

1. Secured business loans and lines of credit; and
2. Secured agri-business loans and lines of credit

9. Eligible Collateral – Specific Pledge Agreement

Eligible Collateral for Members executing a Specific Pledge Agreement is limited to:

j. Mortgage Collateral

1. Fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) one-to-four family residential held for sale;
   c) multi-family residential; and
   d) commercial
2. Mortgage or other loans insured or guaranteed by the U.S. or any agency thereof, or otherwise backed by the full faith and credit of the U.S., and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage loan.

3. Fully disbursed whole second lien mortgage loans on improved one-to-four family residential real property located in the U.S. or its territories.

4. First or second lien mortgage lines of credit on improved one-to-four family residential real property located in the U.S. or its territories.

5. Loan participations in fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:

   a) one-to-four family residential;

   b) multi-family residential; and

   c) commercial

k. Securities Collateral

1. Non-mortgage-backed securities issued, insured, or guaranteed by the U.S. Government, or any agency thereof.

2. Mortgage-backed securities issued or guaranteed by the U.S. Government, Freddie Mac, Fannie Mae, Ginnie Mae or any other agency of the U.S. Government.

3. Privately issued mortgage-backed securities secured by first lien mortgage loans on the following types of real properties located in the U.S. or its territories:

   a) one-to-four family residential;

   b) multi-family residential; and

   c) commercial

4. Municipal Securities

l. Deposits

10. Eligible Collateral – Delivery Pledge Agreement

Eligible Collateral for Members executing a Delivery Pledge Agreement is limited to:

m. Mortgage Collateral

1. Fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:

   a) one-to-four family residential;

   a) multi-family residential; and

   b) commercial

2. Mortgage or other loans insured or guaranteed by the U.S. or any agency thereof, or otherwise backed by the full faith and credit of the U.S., and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage loan.
3. Loan participations in fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential; and
   c) commercial

n. Securities Collateral

1. Non-mortgage-backed securities issued, insured, or guaranteed by the U.S. Government, or any agency thereof.
2. Mortgage-backed securities issued or guaranteed by the U.S. Government, Freddie Mac, Fannie Mae, Ginnie Mae, or any other agency of the U.S. Government.
3. Privately issued mortgage-backed securities secured by first lien mortgage loans on the following types of real properties located in the U.S. or its territories:
   a) one-to-four family residential;
   b) multi-family residential; and
   c) commercial
4. Municipal Securities.

o. Deposits

Funds placed in Time Certificates of Deposit at the Bank.

11. Community Development Financial Institution (CDFI) Collateral (Non-Federally Insured Institutions)

The Bank will only accept pledges from non-federally insured CDFIs if the Member has executed a Delivery Pledge Agreement. Eligible CDFI collateral is limited to:

p. Mortgage Collateral

1. Fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories:
   a) one-to-four family;
   b) multi-family residential; and

c) commercial

2. Fully disbursed whole second lien mortgage loans on improved one-to-four family residential real property located in the U.S. or its territories.

3. Mortgage or other loans insured or guaranteed by the U.S. or any agency thereof, or otherwise backed by the full faith and credit of the U.S., and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage loan.

q. Securities Collateral

1. Privately issued mortgage-backed securities secured by first lien mortgage loans on the following types of real properties located in the U.S. or its territories:

   a) one-to-four family residential;

   b) multi-family residential; and

   c) commercial

2. Non-mortgage-backed securities issued, insured, or guaranteed by the U.S. Government, or any agency thereof.

3. Mortgage-backed securities issued or guaranteed by the U.S. Government, Freddie Mac, Fannie Mae, Ginnie Mae or any other agency of the U.S. Government.

4. Municipal Securities.

r. Deposits

Funds placed in Time Certificates of Deposit with the Bank.

12. 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:

- 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.

- 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.

13. Additional Other Collateral – All Members and HAs:

s. Ineligible Mortgage Collateral including, but not limited to[6]:

1. Residential mortgage loans originated or acquired after July 10, 2007, not in compliance with interagency guidance related to subprime and nontraditional lending;
2. Loans to directors, employees, attorneys or agents of the Bank, Member, Affiliate pledgor or HA;
3. Loans past due 91 or more days;
4. Loans to depository institutions and acceptances of other banks;
5. Loans to individuals for household, family, and other personal expenditures not collateralized with residential real estate mortgages;
6. Loan to states or political subdivisions in the U.S.;
7. Loans to non-depository financial institutions and other loans; and
8. Lease financing receivables.

t. Ineligible Securities Collateral including, but not limited to:

1. Securities that represent a share of only the interest payments or only the principal payments from the underlying mortgage loans;
2. Securities that represent a subordinate interest in the cash flows from the underlying mortgage loans, excluding securities issued, insured or guaranteed by Freddie Mac, Fannie Mae, Ginnie Mae, the U.S. Government or any agency thereof;
3. Securities that represent an interest in any residual payments from the underlying pool of mortgage loans;
4. Residential private label mortgage-backed securities issued or acquired after July 10, 2007, unless:
   a) the issuer provides an enforceable representation and warranty that all loans contained in the security comply with interagency guidance on subprime and nontraditional lending (Interagency Guidance); or
   b) the Bank is able to determine the extent to which individual mortgage loans underlying the security comply with the definition of subprime and/or nontraditional loans in accordance with the Interagency Guidance, and the Bank excludes the subprime and nontraditional loans from the security's lendable value;

[6] See Collateral Procedures and eligibility checklists for additional information.

5. Asset-backed securities;
6. Structured financial products;
7. Other domestic and foreign debt securities;
8. Other domestic and foreign equity securities; and
9. Other securities that the Bank in its sole discretion deems to be high risk.

u. Ineligible Deposits Collateral including, but not limited to:

Funds placed in Time Certificates of Deposit with financial institutions other than the Bank.

14. Housing Associate Collateral

HAs, including State Housing Finance Agencies (SHFAs), are required to deliver to the Bank sufficient eligible Collateral to secure credit exposures from the Bank. The Bank will accept as Collateral the following types of Mortgages, Securities or Deposits and Other Collateral that is owned free and clear of any liens, encumbrances, or other interests. With the exception of Deposits Collateral, Collateral Discounts for HAs and SHFAs are higher than for Members and can be found at on the Bank's public website.

v. Eligible Mortgage Collateral

1. HAs, including SHFAs, may pledge FHA insured mortgages.
2. SHFAs may also pledge eligible Mortgage Collateral as described below if they provide a certification that the use of funds benefit individuals or families meeting the income requirements in section 142(d) or 143(f) of the Internal Revenue Code (26 U.S.C. 142(d) or 143(f)).
   a) Fully disbursed whole first lien mortgage loans on the following types of improved real property located in the U.S. or its territories;
      i. one-to-four family residential; and
      ii. multi-family residential
   b) Fully disbursed whole second lien mortgage loans on improved one-to-four family real property located in the U.S. or its territories.

w. Eligible Securities Collateral

1. HAs, including SHFAs, may pledge securities that are backed solely by FHA mortgage loans.
2. SHFAs may also pledge eligible Securities Collateral as described below if they provide a certification that the use of funds benefits individuals

or families meeting the income requirements in Section 142(d) or 143(f) of the Internal Revenue Code (26 U.S.C. 142(d) or 143(f)).

a) Privately issued mortgage-backed securities secured by first lien mortgage loans on one-to-four family and multi-family residential and commercial real properties located in the U.S. or its territories;

b) Non-mortgage-backed securities issued, insured, or guaranteed by the U.S. Government, or any agency thereof; and

c) Mortgage-backed securities issued or guaranteed by the U.S. Government, Freddie Mac, Fannie Mae, Ginnie Mae or any other agency of the U.S. Government.

x. Eligible Deposits Collateral

HAs, including SHFAs, may pledge funds placed in Time Certificates of Deposit at the Bank.

15. Other Collateral Terms

The Bank, from time to time, may establish or modify eligibility criteria for various types of eligible Collateral. The Bank at its discretion may further restrict the types of eligible Collateral acceptable to the Bank as security for an advance, based upon the creditworthiness or operations of the borrower, the quality of the Collateral, or other criteria.

At its discretion, the Bank may also set collateral concentration minimums and maximums at the collateral or member level.

The Bank may take any such steps as it deems necessary to protect its secured position on outstanding advances, including requiring additional Collateral, whether or not such additional collateral conforms to the eligibility requirements as set forth in this Policy.

D. 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.

E. Collateral Discounts

Collateral Discounts are a factor used to determine a Member or HA's Collateral Maintenance Level and are generally applied to the eligible unpaid principal balance of Mortgage Collateral that is not priced, the eligible market value of priced Mortgage Collateral, and the eligible market value of all Securities Collateral. General Collateral Discounts applied to each eligible collateral type can be found on the Bank's public website. Priced Mortgage Collateral may receive portfolio-specific Collateral Discounts, as communicated to the Member. The Bank reviews and approves all Collateral Discounts at least annually.

In determining eligibility and the Collateral Discount for privately issued securities collateral, the Bank will use the lowest credit rating if more than one major credit rating agency rates the security. Securities collateral placed on credit watch for potential downgrade by a credit rating agency will be considered to be at the next lowest rating level regardless of modifier.

If the Bank determines that there has been a material adverse change in a Member's, HA's or guarantor's condition, the Bank may adjust Collateral Discounts as necessary to secure all extensions of credit owed by the Member or HA.

F. Member Collateral Verification (MCV)

As required by regulation, the Bank periodically reviews the existence, eligibility, and characteristics (underwriting, documentation, and routine administration) of Collateral pledged to the Bank. Additionally, for Mortgage Collateral originated or acquired after July 10, 2007, and determined to be either subprime or nontraditional, the Bank will evaluate compliance to guidelines published by federal regulatory agencies.

Institutions having subprime or nontraditional loans may be required to provide the Bank additional information regarding the performance and characteristics of such loans.

The Bank determines the frequency and scope of MCVs based on various factors, including but not limited to, the following:

- Member's or HA's financial condition;
- Member's or HA's Total Credit Exposure;
- Last MCV date;
- Member's Pledge Agreement type; and
- Reliance on pledged Mortgage Collateral

Based on the results of a Member's or HA's MCV, the Bank may update the eligibility factor(s) applied to pledged Collateral unpaid principal balance(s) and/or the underwriting discount(s) applied to the pledged Collateral unpaid principal balance(s). Eligibility factors represent the proportion of eligible loans relative to total loans reviewed during a MCV, the underwriting discount ranges are published at www.fhlbdm.com. The Bank may at its sole discretion change underwriting discounts after giving Members notification of the updates.

The Member or HA may be required to pay applicable fees and costs incurred by the Bank in connection with the MCV. See Collateral Fees available at www.fhlbdm.com for a current schedule of MCV-related charges for MCVs.

G. Collateral Restrictions

The Bank, at its sole discretion, may:

- Determine which form of Pledge Agreement a Member, HA or Affiliate may execute;
- Restrict a Member's or HA's pledge to certain categories of Collateral;
- Prescribe the manner in which Members or HAs report Collateral;
- Require a Member or HA to list or deliver some or all Collateral pledged to the Bank;
- Require a Member or HA to have portfolio-specific prices and Collateral Discounts applied to pledged Mortgage Collateral;
- Require a Member or HA to pledge Collateral in a prescribed order based upon the Bank's determination of marketability and liquidity of the Collateral or of the Member's or HA's creditworthiness; and/or
- File UCC-1 financing statements on Collateral.

X. CREDIT PRODUCTS

The Bank offers a variety of credit products to meet the financial needs of Members and HAs. 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.

A. Advances

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 (RHFA), 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 RHFA held by the Member. The Bank shall determine the total book value of such RHFA using the most recent regulatory report of condition, financial statement or other reliable documentation made available by the Member. Community Investment Advances are exempt from this requirement.

2. Advance Pricing:

The Bank's Asset Liability Committee (ALCO) authorizes advance pricing according to the following methodology:

- Bank's all-in marginal cost of funds for a given maturity and structure adjusted for differences in interest payment frequency; plus
- General and administrative costs; plus
- Risk adjustments, as needed, in order to compensate for liquidity, market, credit, operational and other risks as may be identified by the Bank from time to time; plus
- A profit margin

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

- Advance product;
- Advance maturity;
- Advance size;
- Price premium based on individual member aggregate advance product balance; 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 Advances with the same terms and conditions under section XI.B.2. of this policy, unless it qualifies under the advance pricing exception set forth in 12 CFR § 1266.5(3).

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. Advance Prepayment Fees:

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

For callable advances, the Member or HA 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.

The Bank calculates prepayment fees for all advances initiated on or after May 1, 2009, using the methodology shown below.

Prepayment fee = Present Value of Cash Flows (formula defined below) + any Time Value (time value is applicable to option-embedded advances only) – the outstanding face amount of the advance.

$$NPV = \sum_{t=1}^{n} \frac{C_t}{(1+r_t)^t} - C_0$$

Where:

NPV = Net present value

t = The time of the cash flow;

n = The time to stated maturity (or expected maturity for advances with embedded option);

r = The discount rate (the Bank's cost of funds at time t);

Ct = The net cash flow (the amount of cash) at time t;

C0 = The outstanding face amount of the advance on the computation date (t = 0).

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

Prepayment fees on advances dated prior to May 1, 2009, generally used a methodology to discount the value of the lost interest spread over the remaining life of the advance. Advance confirmations detail the methodology for determination of prepayment fees.

All future cash flows (i.e., interest and remaining principal) scheduled up to and including the stated maturity date (or expected maturity date based on the Bank's assessment of the option exercise date in the case of an option-embedded advance) shall be discounted based on the Bank's current available cost of funds for each scheduled future cash flow payment date. The present value of the cash flows in excess of the remaining face amount of the advance plus any time value associated with option-embedded advances shall be deemed the prepayment fee.

For symmetrical advance products, prepayment fees are calculated in the same manner as above. If the present value of the future cash flows is less than the remaining face amount of the advance, plus any time value associated with option-embedded advances, a prepayment credit shall apply. The computed prepayment fee excludes accrued interest. Accrued interest, the remaining face amount of the advance, and any prepayment fee shall be due to the Bank on the date of prepayment.

B. Mortgage Partnership Finance® (MPF) Program and Mortgage Purchase Program (MPP)

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 the Provider's website at www.fhlbmpf.com.

As part of the merger with the FHLB Seattle, the Bank has acquired a portfolio of Mortgage Purchase Program loans. As a result, any reference to "mortgage programs" refers to both MPP and the MPF program unless otherwise noted.

The Bank's Anti-Predatory Lending Policy 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, Underwriting, and MPF Servicing Guides, as amended from time-to-time.

The MPF Origination and MPF Underwriting Guides provide detailed eligibility, underwriting, and documentation standards for loans purchased under the MPF program. Ineligible loans include, but are not limited to, loans with the following features:

- Prepayment penalties;
- Balloon payments; and
- Adjustable interest rates or the interest rate exceeds published limits

Due to the risk sharing arrangements with PFIs, the Bank does not impose limits on subprime or reduced documentation loans provided the PFI obtains documentation required under approved automated underwriting standards per the MPF Guides. Loans originated on or after July 10, 2007, must comply with all aspects of federal regulatory guidance related to subprime and nontraditional loans. The Bank routinely reviews a sample of purchased loans for compliance with underwriting criteria.

Additionally, the Bank offers the MPF Xtra product to approved PFIs. Under MPF Xtra, the loans are sold through an intermediary to Fannie Mae. As a result, loans are subject to underwriting, pricing and servicing requirements of Fannie Mae as documented in the MPF Xtra Manual.

4. Credit Underwriting:

In addition to the underwriting standards in Section VIII.A above, the Bank also evaluates a prospective PFI's experience in mortgage origination, servicing, and investor reporting.

5. Mortgage Purchase Limits:

A single PFI may execute one or more Master Commitments with the Bank for no more than an aggregate of $250 million per 12-month period, assuming the Bank retains 100% interest in the loans delivered under those Master Commitments. The Bank reserves the right to adjust this limit upon written notification to the membership. To the extent that interests in portions of loans delivered to the Bank are sold, other than loans sold under the MPF Xtra, MPF Direct, or MPF Government MBS products, 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.

6. Pricing:

The Bank posts MPF product prices and fees on the MPF Providers eMPF website and may change its posted price at any time.

7. Credit Enhancement:

For MPF Plus, MPF Original, MPF 100 and MPF 125 Master Commitments the Bank shall pay the credit enhancement/ government loan fees specified in such commitments or related agreements, provided however, that if the terms of Master Commitments are amended for any material reason, the credit enhancement/ government loan fees that the Bank pays shall be the fees specified in the amended Master Commitments or related agreements unless specified otherwise in the MPF Guides.

8. Other MPF Fees:

PFIs may be charged fees specified in the MPF Origination Guide, the MPF Xtra Manual 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.

9. PFI Quality Control Verification:

The MPF program requires each PFI to conduct their own internal quality control reviews as specified in the MPF Guides. The Bank periodically verifies that PFIs are conducting these quality control reviews in accordance with MPF program requirements.

Based on the results of MPF Program administered quality control, a PFI's quality control program, or other factors such as the PFI's financial condition, MPF loan performance, or results of regulatory examination, the Bank may determine, in its sole discretion, whether the PFI is eligible to sell loans to the Bank in the future.

C. **Standby Letters of Credit**

10. Credit Underwriting:

Please refer to Section V.A. Advances for a description of the Bank's credit underwriting used to approve the issuance of Standby Letters of Credit.

11. Purposes for which Standby Letters of Credit May Be Issued:

The Bank may issue irrevocable and confirming Standby Letters of Credit on behalf of Members or HAs for any of the following purposes:

- Facilitate residential housing finance;
- Facilitate community lending;
- Assist Members or HAs with asset/liability management; and
- Provide Members or HAs 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.

12. 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.

D. **Standby Bond Purchase Agreements**

Standby Bond Purchase Agreements (SBPAs) support the Bank's mission activities by providing contingent liquidity support for the Bank's district SHFAs' Variable-Rate Bond Obligation issuances. Variable-Rate Bond Obligations are variable rate bonds that are a funding source for SHFAs' homeownership loan programs.

13. Credit Underwriting:

In addition to meeting internal credit standards, eligible SHFAs have a minimum long-term rating of A- or equivalent and a stable outlook at the time the SBPA is executed. Bond programs supported by SBPAs will be required to have a minimum long-term rating of AA- or equivalent at the time the agreement is executed.

14. Purposes for Which SBPAs May Be Issued:

The Bank may issue SBPAs supporting publicly traded bonds that provide financing for home ownership programs in the Bank's district.

15. Fees for SBPAs:

The Bank will establish fees for executing each SBPA based on factors including market conditions, SHFAs' ratings, bond ratings and term of the agreement.

XI. COMMUNITY INVESTMENT PROGRAMS

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

A. 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.

B. Community Investment Advance Program

CIA 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 CIA advances to a Member, through approval of the Community Lending Plan. CIA 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 Bank's Community Investment Department must review and approve all requests for CIAs prior to disbursement to ensure that the use of funds is consistent with regulatory requirements. CIAs are available for terms outlined in the Community Lending Plan. The minimum Residential CIA amount is $100,000, and the minimum Commercial CIA amount is $25,000.

CIAs are available for:

Commercial loans and financing for small businesses and small farms, and for other targeted industries and activities, including loans and financing for purchase or refinance, new construction, rehabilitation, or development; including real estate, equipment, and working capital financing;

Residential loans and financing for purchase or refinance, new construction, rehabilitation, or development of affordable owner-occupied or rental housing.

1. CIA Limits:

The CIA limit per Member is established by the Bank's Board of Directors annually as detailed in the Limits on CIA advances section of the Community Lending Plan.

2. Pricing:

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

a) the Bank's cost of funds for different advance products and maturities adjusted for differences in interest payment frequencies; and

b) the Bank's administrative costs

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

c) Advance product; and

d) 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 CIA pricing methodology.

3. Prepayment Fees:

CIAs are subject to the appropriate fee for the type of advance obtained. See Advance Prepayment Fees, Section X.A.3.

XII. 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.

XIII. 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.

APPENDIX A - MEMBERSHIP ELIGIBILITY STANDARDS

Eligibility Requirement	**Institution Type**		
	Depository[1]	**CDFI**	**Insurance Company**
Duly Organized	Duly organized under and chartered by a State or federal agency	Incorporated under State or tribal law	Duly organized under and chartered by a State or federal agency
Subject to Inspection and Regulation	Subject to inspection and regulation by its appropriate state or federal regulator	Certified by the CDFI Fund	Subject to inspection and regulation by its appropriate state regulator
Makes long-term home mortgage loans (original maturity >= 5 years)	Originate or purchase Long-Term Home Mortgage Loans	Originate or purchase Long-Term Home Mortgage Loans	Originate or purchase Long-Term Home Mortgage Loans
Mortgage-Related Asset Percentage Requirement	10% of total assets in Residential Mortgage Loans for all credit unions (including non-federally insured credit unions) and non-CFIs; otherwise must hold Mortgage-Related Assets	5% of total assets in Mortgage Related Assets	5% of total assets in Mortgage Related Assets
Financial Condition	**Acceptable financial condition as determined by the Bank, including but not limited to compliance with the Financial Standards outlined in Appendix B**[2].		
Character of Management	Certification of Adopted Board Resolution Affidavit of Financial Condition Affidavit – Character of Management	Certification of Adopted Board Resolution Affidavit of Financial Condition Affidavit – Character of Management	Certification of Adopted Board Resolution Affidavit of Financial Condition Affidavit – Character of Management As part of these certifications

[1] Standards for de novo insured depository applicants align with regulatory guidance in 12 CFR §1263.14 that consider the shorter history of the institution Additionally, standards for non-federally insured credit union applicants align with regulatory guidance in 12 CFR §1263.19. Specifically, non-federally insured credit unions must request their State regulator provide written confirmation that the institution meets all requirements for federal share insurance.

[2] Certain financial standards may be subject to rebuttable presumption in accordance with regulation and at the discretion of the Bank.

	As part of these certifications and affidavits, the depository applicants must certify they are not operating under any of the following: • Enforcement actions • Criminal, civil, or administrative proceedings • Criminal, civil, or administrative monetary liabilities, lawsuits, or judgements	As part of these certifications and affidavits, the CDFI applicants must certify they are not operating under any of the following: • Criminal, civil, or administrative proceedings • Criminal, civil, or administrative monetary liabilities, lawsuits, or judgements	and affidavits, the insurance company applicants must certify they are not operating under any of the following: • Enforcement actions • Criminal, civil, or administrative proceedings • Criminal, civil, or administrative monetary liabilities, lawsuits, or judgements
Home Financing Policy[3]	CRA rating of "satisfactory" or "outstanding[4]"	Home financing policy that addresses the following: • Investment in mortgage-related assets • Adherence to Fair Lending laws and practices • Origination of mortgage loans (if applicable) • Purchasing mortgage loans and mortgage-related assets • Supporting community development and/or affordable housing Investment Policy	Home financing policy that addresses the following: • Investment in mortgage-related assets • Adherence to Fair Lending laws and practices • Origination of mortgage loans (if applicable) • Purchasing mortgage loans and mortgage-related assets • Supporting community development and/or affordable housing Investment Policy

[3] All applicants must complete Application Appendix 5: Mission and Lending Practices. This appendix requires all applicants to explain how and why it supports the Bank's housing finance mission. In addition, this appendix requires an applicant to confirm it will not engage in predatory lending.
[4] CRA Ratings are only applicable for banks and thrift depositories. Credit Unions are not subject to CRA exams.

APPENDIX B – FINANCIAL CONDITION STANDARDS

Financial Condition Standards	Institution Type		
	Depository	**CDFI**	**Insurance Company**
Safety & Soundness Rating	Composite CAMELS “3” or better[5]		
Capital	Meets all minimum statutory and regulatory capital requirements	Net assets >= 20% of total assets	Meets all minimum statutory and regulatory capital requirements and the standards established by the NAIC and Total Adjusted Capital / Authorized Control Level Risk-Based Capital >= 250%
Earnings	Positive Adjusted Net Income in four of the six most recent calendar quarters	Positive three-year average net income	Positive three-year average Return on Average Assets ratio
Asset Quality	Nonperforming loans plus other real estate owned <= 10% of total loans and leases plus other real estate owned		Nonperforming Bonds and Mortgages / Total Bonds and Mortgages <= 10% Nonperforming bonds and mortgages include: bonds rated NAIC 5-6, **mortgage loans 90 days past due or in foreclosure**
Liquidity		Operating liquidity ratio (unrestricted cash and cash equivalents divided by average quarterly operating expense) >= 1.0 for the four most recent quarters, and for one or both of the two preceding years	Liquid Assets / Total Liabilities >= 50% (Life) >= 75% (P&C) >=100% (Health) Liquid assets include: cash & cash equivalents, investment grade bonds, and common stocks

[5] CAMELS “1” rated federally-insured depository institutions are not required to meet the Earnings, Asset Quality, or Reserves requirements; CDFI Credit Unions and NFICU must meet all performance requirements regardless of CAMELS rating.

Reserves	Allowance for loan and lease losses plus allocated transfer risk reserve >= 60% of total nonperforming loans and leases in four of the six most recent calendar quarters	Loan loss reserves >= 30% of loans and leases 90 days or more delinquent	Two-year Reserve Development / Policyholders' Surplus <= 20% (P&C Only)
Leverage			Net Premiums Written / Capital & Surplus <= 900% (Health only)
Reinsurance			Reserve Credit Taken from Each Non-Investment Grade Reinsurer less Funds Withheld / Capital & Surplus <= 50% (Life only)