



## **ELIGIBILITY CRITERIA FOR SECURITIES PLEDGED AS COLLATERAL**

- I. All securities pledged must:
- Be rated "A" <sup>1</sup> or higher by Moody's, S&P, or Fitch; and
  - Have a readily available verifiable market price
- II. Agency Securities – Agency securities include, but are not limited to:
- Securities issued, insured or guaranteed by the United States Government, or any agency thereof, or government sponsored enterprise, or
  - Mortgage-backed securities issued or guaranteed by Ginnie Mae, Freddie Mac, Fannie Mae, or any other agency of the United States Government
- III. Privately issued residential or commercial mortgage-backed securities must:
- Be secured with US properties; and
  - Represent an unsubordinated<sup>2</sup> interest in the underlying mortgage loan collateral; and
  - Be registered or under Rule 144A registration exemption; and
  - Be first whole residential or commercial mortgages; or
  - Be second whole residential mortgages
  - Securities with underlying loans that were originated with less than full documentation and/or verified income will be classified as AltA collateral.
  - All residential Private Label Mortgage-Backed Securities (PLMBS) will require a trade ticket when the security is pledged that provides the acquisition date of the security.
  - Any PLMBS issued or acquired after July 10, 2007 must contain underlying collateral that complies with applicable regulatory guidance on subprime and nontraditional lending.
  - PLMBS issued or acquired after July 10, 2007 will require issuance documentation demonstrating that the security contains no subprime or nontraditional loans as defined by the Member Products Policy. This may include access to prospectus, offering memorandum, investor tapes, etc. If the security contains subprime or nontraditional loans, it will require an enforceable representation and warranty provided by the issuer that all loans contained in the security comply with interagency guidance on subprime and nontraditional lending. In addition, individual loan documentation for any subprime or nontraditional loan is required to demonstrate compliance with interagency guidance.
  - Any PLMBS or Commercial Mortgage-Backed Securities (CMBS) issued after February 8, 2011 where the underlying collateral contains mortgages on properties encumbered by private transfer fee covenants, unless such covenants are excepted transfer fee covenants, will be ineligible.
  - Any security where the underlying collateral has pooled fees from private transfer fee covenants.



IV. Municipal Securities requirements:

- Fixed rate; and
- Must have ascertainable price; and
- Rated "A" <sup>1</sup> or higher; and
- Issued directly by a state, municipality, (including their agencies, authorities, or political subdivisions) or higher education institutions
- General Obligation bonds must have a verifiable portion be real estate related <sup>3</sup>
- Revenue bonds must be secured by essential services <sup>4</sup>
- Refunding bonds must have a verifiable real-estate nexus
- Housing Authority bonds that assist with home ownership or that finance the construction or rehabilitation of affordable rental housing

V. Securities not eligible for pledging shown with the related Bloomberg class identifiers, where applicable, include, are but not limited to:

- Interest Only Tranches (IO, NTL)
- Principal Only Tranches (PO)
- Residual Tranches (R, NPR)
- Mezzanine Tranches (MEZ, AM)
- Subordinate Tranches (SUB, AJ, SSUP)
- Structured Collateral, CDO, CLO (SC, CDO, CRE-CDO)
- Non-Agency securities where Reverse Mortgages are the underlying collateral
- Non-Agency Z Bonds (Z)
- Non-Agency Partial Z Bonds (PZ)
- 2nd lien Residential, FICO ≤ 660/Not Reported
- 1st & 2nd Lien Residential, 2nd Lien > 25%/Not Reported, FICO ≤ 660/Not Reported
- 2nd Lien Residential, FICO > 660, rated AA<sup>1</sup> or below
- 1st Lien Residential FICO ≤ 660, rated AAA<sup>1</sup> or below
- Corporate Bonds
- Securities with non-US Collateral
- Securities with any repo tracking indicator attached to it will not be eligible for pledging
- Farmer Mac (Federal Agriculture Mtg.)

FHLB Des Moines performs due diligence on each security pledged and reserves the right to accept or decline collateral pledge based on complexity and information available.

<sup>1</sup> The Bank will use the lowest credit rating from Moody's, S&P, or Fitch if more than one credit rating agency rates the security. Securities placed on credit watch for potential downgrade by any credit rating agency will be considered to be at the next lowest rating level regardless of modifier. In determining the applicable credit rating, the Bank:



- Applies the most recent NRSRO credit rating;
- Uses the lowest credit rating if more than one credit rating applies;
- Disregards credit rating modifiers (e.g. A+ or A-=A);
- Reduces a credit rating to the next lower grade if the rating is placed on “credit watch” for potential downgrade by an NRSRO.

<sup>2</sup> Unsubordinated Tranche is defined as a tranche which incur losses after all other tranches within the same issuance.

<sup>3</sup> Real Estate related is defined as land and anything fixed, immovable, or permanently attached to it such as appurtenances, buildings, fences, fixtures, improvements, roads, shrubs and trees (but not growing crops), sewers, structures, utility systems, and walls.

<sup>4</sup> Essential Services are defined as certain revenue issues that are considered so fundamental to the operation of the municipality that the odds are low that any government would allow the issuer to fail. These types of bonds are called essential service bonds. Monopolistic services such as utilities and sewer systems also fit within the description of an essential service bond. While not an exhaustive list some examples include; issues for public universities, primary/secondary schools, water, electric and sewer utilities, as well as state highway authorities. It is also useful to define what is not considered to be an essential service, entities such as airports, port authorities, and hospitals. The intent is to exclude revenue bonds where payments are secured by private enterprises and or dependent upon market forces.