S&P Global
Ratings

RatingsDirect®

Federal Home Loan Banks

Primary Credit Analyst:
Nikola G Swann, CFA, FRM, Toronto (1) 416-507-2582; nikola.swann@spglobal.com

Secondary Contact:
Devi Aurora, New York (1) 212-438-3055; devi.aurora@spglobal.com

Table Of Contents

Federal Home Loan Banks

Major Rating Factors

None

Strengths:	Weaknesses:
• Government-related entity (GRE) with an almost-certain likelihood of extraordinary government support • Critical public-policy role as one of the primary liquidity providers to U.S. mortgage market participants, especially in times of stress • Integral link to the U.S. government, given its special public status as a U.S. Government-Sponsored Enterprise (GSE) and unusual credit advantages conveyed by the related legal framework • Excellent asset quality in the fully collateralized wholesale lending portfolio	• Longer-term uncertainty related to potential legislative changes associated with broader housing finance reform • Challenges to broad-based growth in advances • Small-but-growing exposure to nondepository financials

Rationale

S&P Global Ratings' ratings on the senior debt of the Federal Home Loan Banks (FHLB System) primarily reflect the application of our GRE criteria. Based on these criteria, the ratings on the FHLB System's debt are the same as the U.S. sovereign ratings, even though the U.S. government does not explicitly guarantee the FHLB System's debt, because of the almost-certain likelihood that the FHLB System would receive extraordinary support from this government, if needed, in our view.

Our view of an almost-certain likelihood of extraordinary government support is based on our assessment of the FHLB System's:

- Critical public-policy role as one of the primary liquidity providers to U.S. mortgage market participants, especially in times of stress;
- Integral link to the U.S. government, given its special public status as a U.S. GSE and unusual advantages conveyed by the related legal framework.

We view the FHLB System as one of the most important U.S. GREs. In our opinion, promoting home ownership is a central and longstanding U.S. policy theme, which we do not expect will change. We believe that within the U.S. housing finance policy framework, the FHLB System has a critical public-policy role as one of the most important national liquidity providers to U.S. mortgage lenders, particularly during stressful conditions, when private-sector liquidity often proves unreliable.

We view the FHLB System as having similar policy importance to that of Fannie Mae and Freddie Mac, which provide similar support to the same mortgage market, and which we also view as having a critical role. Unlike these two other U.S. housing-finance GSEs, however, the FHLB system has not been the focus of the several post-2008 failed legislative initiatives to reform the U.S. housing finance policy framework.

We view the FHLB System as having an integral link to the U.S. government, also on par with Fannie Mae and Freddie Mac, given its special public status as a U.S. GSE and unusual advantages conveyed by the related legal framework. Although the government does not guarantee the FHLB System's obligations, the latter's unusual advantages include lien priority over other creditors in the event of the failure of a member to whom the system had loans outstanding. We also believe the Federal Housing Finance Agency (FHFA; the FHLBanks' regulator) has clear and robust processes and procedures in place that enable effective governance, monitoring, and control of the FHLB System, including administrative capacity and mechanisms for responding to any financial distress the system might encounter in a timely manner.

The FHLB System is simply the sum of its component Federal Home Loan Banks (FHLBanks). In light of this, and because we assign stand-alone credit profiles (SACPs) to each component FHLBank, we assign no SACP to the system as a whole. Because the system issues consolidated debt obligations on behalf of its component FHLBanks, and in light of their joint and several liability for these obligations, we assign issue ratings to the system as a whole. These ratings primarily rely on our GRE analysis.

Under our GRE criteria, the issuer credit ratings on the individual FHLBanks are one-to-two notches higher than their 'aa' or 'aa-' SACPs because, in our view, the likelihood of the government providing extraordinary support, if needed, is very high. The FHLBanks' SACPs are primarily decided using our nonbank financial institutions criteria. Under these criteria, we view each FHLBank's business position as strong, reflecting the established market position each has within its own district, recurring business volumes, and public policy role, which we believe offset some of the risks associated with the FHLBanks' lack of business diversity. We view each FHLBank's individual capitalization as very strong, based on their member-capitalized co-op structure and low-risk collateralized lending business, which result in S&P Global Ratings' risk-adjusted capital ratios higher than 15%, and we expect this to continue, because members must scale their capital contribution to support their borrowings from their FHLBank. We consider the FHLBanks' risk positions to vary between very strong and strong, reflecting the fact that none of them has ever suffered a loss on a collateralized advance to a member (reflecting both the lien priority and substantial collateral held against advances). We judge the risk position of certain FHLBanks as strong (versus very strong), reflecting factors such as greater concentrations in assets with somewhat less-favorable risk profiles than advances to depository members. We view both funding and liquidity as adequate for all FHLBanks, reflecting the FHLBank System's diverse and global investor base and that it readily sells its debt at a small spread to U.S. Treasury obligations. In our opinion, the FHLBanks' exceptionally favorable funding advantages are likely to continue so long as their policy role remains critical, and their link integral, to the U.S. government. In addition, the FHLBanks are jointly and severally liable for the consolidated obligations issued by their Office of Finance. Moreover, based on the track record of plentiful funding for the FHLB System during the generalized market stress of 2008, we believe access to funding is unlikely to be problematic, even in stress scenarios. The FHLBanks' principal investments are GSE and private-label mortgage-backed securities, federal funds sold, interest-bearing deposits, reverse repurchase agreements, and municipal and Treasury securities.

(More information is provided in the full analysis of each FHLBank; see Related Research below.)

Outlook

Our ratings on the FHLB System's debt have stable outlooks. The outlook reflects the stable outlook on the U.S. sovereign rating, as well as the application of our GRE criteria. From a longer-term perspective, the FHLB System is subject to uncertainty related to potential legislative changes associated with broader reform of the U.S. housing finance policy framework. Were future initiatives in this regard to gain momentum, and target substantial changes to the FHLB System, and were we to view the proposed changes as negatively affecting the system's role and link, this could cause us to reevaluate the almost-certain likelihood of extraordinary government support on which our ratings on the system's debt currently rest. To date, however, such initiatives have neither succeeded in gathering substantial political momentum, nor targeted the FHLB System. We expect the likelihood of extraordinary government support for the FHLB System, if needed, to remain almost-certain for the foreseeable future.

Our ratings on the individual FHLBanks also have stable outlooks. These reflect our view that neither significant change to the SACP of each FHLBank, nor significant change to the role and link of each with regard to the U.S. government, is likely.

GRE Analysis: Critical Public-Policy Role And Integral Link To The Government

Based on our GRE methodology, the ratings on the FHLB System's debt are the same as the U.S. sovereign ratings, even though the U.S. government does not explicitly guarantee the FHLB System's debt, because of the almost-certain likelihood that the FHLB System would receive extraordinary support from this government, if needed, in our view.

Our view of the almost-certain likelihood of extraordinary government support is based on our assessment of the FHLB System's:

- Critical public-policy role as one of the primary liquidity providers to U.S. mortgage market participants, especially in times of stress;
- Integral link to the U.S. government, given its special public status as a U.S. GSE and unusual advantages conveyed by the related legal framework.

We view the FHLB System as one of the most important U.S. GREs. In our opinion, promoting home ownership is a central and longstanding U.S. policy theme, evidenced by the tax-deductibility of mortgage interest and the various activities of the U.S. Department of Housing and Urban Development, for example. Notwithstanding the contribution such policies arguably made to recent U.S. housing market excesses, we do not expect this essential policy orientation to substantially change, given its widespread political appeal and the importance of consumption to U.S. economic growth (and home ownership to consumption, via wealth effects).

In our opinion, within the U.S. housing finance policy framework, the FHLB System has a critical public-policy role, as one of the most important national liquidity providers to U.S. mortgage lenders, particularly during stressful conditions, when private-sector liquidity often proves unreliable. We believe the critical nature of this role was clearly demonstrated in the U.S. mortgage crisis of 2008, during which advances (loans to client-owner members) outstanding peaked at $1 trillion. Since then, with the ebb in financial stress, advances have declined as member institutions regained access to alternative funding sources for mortgages, particularly deposits. In addition, the system provides some support for affordable housing and community investment programs. The FHLB System's combined assets were $1.03 trillion, and advances totaled $689.8 billion as of June 30, 2016. These figures are up 7.2% and 11.6%, respectively, relative to the previous quarter.

Although privately owned, the system is run as a cooperative for the benefit of its client-owners (private-sector financial services companies), with more emphasis on retaining the capacity to quickly increase liquidity provision when needed than on maximizing current profit distribution. In addition, we believe the FHFA's close oversight reinforces this strategic orientation.

We view the FHLB System as having similar policy importance to that of Fannie Mae and Freddie Mac, which provide similar support to the same mortgage market, and which we also view as having a critical role. Unlike these two other U.S. housing-finance GSEs, however, the FHLB system has not been the focus of the several post-2008 failed legislative initiatives to reform the U.S. housing finance policy framework. From a longer-term perspective, the FHLB System is subject to uncertainty related to potential legislative changes associated with broader reform of this framework, which a number of U.S. legislators continue to express a desire for. Were future initiatives in this regard to gain momentum, and target substantial changes to the FHLB System, and were we to view the proposed changes as negatively affecting the system's role and link, this could cause us to reevaluate the "almost-certain" likelihood of extraordinary government support on which we base our ratings on the system's debt.

To date, however, such initiatives have neither succeeded in gathering substantial political momentum, nor targeted the FHLB System. On the contrary, FHFA Director Watt, in his May 2015 speech to the 2015 FHLBank Directors Conference, noted that "the FHLBanks play an important role in housing finance", and "keeping the FHLBank System strong and vibrant" is an FHFA goal. Moreover, with U.S. politicians increasingly turning their attention to the November 2016 presidential and congressional elections, and bearing in mind the time required for the officials selected in those elections to assume office, we believe it is unlikely that major legislative changes to the framework will be enacted before first-quarter 2017, at the earliest. Even then, we would expect any potential changes to be enacted only gradually, during an implementation period that could well span several years.

We view the FHLB System as having an integral link to the U.S. government, given its special public status as a U.S. GSE and unusual advantages conveyed by the related legal framework. Although the government does not guarantee the FHLB System's obligations, GSE status confers several advantages on the system, such as the eligibility of GSE securities for collateral the U.S. Federal Reserve Banks (the U.S. monetary authority) are required to hold against currency they have put in to circulation. The FHLB System is also exempt from almost all corporate taxation, and the securities it issues are exempt from state and local income tax. In addition to these advantages, the U.S. legal framework gives the FHLB System lien priority over other creditors (including depositors) in the event of the failure of a member to whom the system had loans outstanding.

Reinforcing these links to the government, the FHFA has what we consider clear and robust processes and procedures in place that enable effective governance, monitoring, and control of the FHLB System, including administrative capacity and mechanisms for responding to any financial distress the system might encounter in a timely manner. We believe the FHFA is involved in all strategic decisions made by the system, and that it both has and uses the capacity to closely monitor the system's financial condition.

Of note, we view the GSE Credit Facility (GSECF), temporarily established by the U.S. Treasury Department in 2008, as a clear track record of the government's willingness and ability to provide extraordinary support to the FHLB System, in time of stress. The GSECF proactively offered government-loan liquidity to the FHLB System (along with Fannie Mae and Freddie Mac), if needed, asking nothing more than the system's own advances as collateral.

In January 2016, the FHFA announced its final FHLB membership rule, which makes new captive insurers ineligible for membership. Captive insurance members admitted prior to September 2014 will have their membership terminated by February 2021 and those admitted after September 2014 will be ineligible for FHLB membership after February 2017. However, we don't expect this rule to have a material impact on the financial condition of the FHLB System (for more information, please see "Bulletin: Federal Home Loan Banks Ratings And Outlooks Are Unaffected By Final Membership Rule," Jan. 15, 2016).

Finally, we believe that, as with Fannie Mae and Freddie Mac, despite the absence of a government guarantee, a close association between the system and the government is well-entrenched in the minds of investors and other financial-market participants. Together with a substantial amount of system securities outstanding ($965 billion, at June 30, 2016), this association could mean, we believe, that substantial financial distress for the system could negatively affect the U.S. government's reputation, providing it additional incentive to support its GSEs. Supporting this belief, FHLBank consolidated obligations continue to price at a narrow spread over U.S. Treasuries, affording the FHLBanks and their member institutions low funding costs, despite the substantial volume outstanding.

In our rating process, we differentiate between the aggregate FHLB System and the individual FHLBanks. Under our GRE criteria, we classify an individual FHLBank's role as very important and its link to the government as very strong. We view the FHLBanks' role as a source of low-cost funding for residential mortgage lending, housing, and community development as very important to meeting the national policy objective of home ownership. We assign SACPs to each FHLBank and incorporate our view of the likelihood of extraordinary government support into our ratings on them. Because we believe the likelihood that the government will provide extraordinary support to an FHLBank is very high, we incorporate one-to-two notches of support into our final rating on each FHLBank. Because the 11 FHLBanks have joint and several liability for the senior unsecured debt obligations that the FHLBanks' Office of Finance issues, we believe that weakness in a single FHLBank could have an impact on investors' perception of the strength of the FHLB System as a whole. That is one reason why we judge the link between each of the FHLBanks and the government as very strong: because we believe a financially distressed or defaulted GRE could hurt the government's reputation or create a perception of weakness. On the other hand, we believe each individual FHLBank is less important, from a policy perspective, than the FHLB System as a whole. This is reflected in our assessing both the role and the link of each individual FHLBank as one degree weaker than our assessment for the system as a whole. We view the merger of FHLBank Seattle (which experienced a number of financial difficulties since 2008) with FHLBank Des Moines as supportive of this belief. To our knowledge, the merger did not receive any resistance from the FHFA, nor from any other arm of government.

Profile And Ownership: A Cooperative Owned By Its Member Institutions

The FHLB System consists of 11 individual FHLBanks, each serving distinct regions of U.S. territory. Each FHLBank is owned by its private-sector member financial institutions. The member institutions are primarily commercial and savings banks, though they have expanded to include credit unions, insurance companies, and community-development financial institutions (CDFIs). The membership mix as of June 30, 2016, was 64.3% commercial banks, 18.7% credit unions, 11.1% thrifts, 5.3% insurance companies, and 0.6% CDFIs.

A member institution must purchase capital to belong to an FHLBank. The member institution's stock requirement is generally based on its use of FHLBank products, subject to a minimum requirement. In return, the member institution may borrow on a secured basis at generally attractive rates from its FHLBank. In addition, member institutions may receive dividends on their shares in the FHLBank, which helps to lower their total transaction funding costs.

Federal Home Loan Banks -- Peer Comparison

	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Topeka
(Mil. US$)											
Cash and due from banks	1,164	414	375	12	124	460	431	345	2,646	15	214
Investments, including MBS	27,222	10,037	22,991	16,607	15,788	32,991	12,465	15,244	11,479	17,446	8,256
Securities purchased under agreements to resell	139	5,799	1,750	4,918	3,250	6,800	2,000	5,760	500	13,000	2,993
Interest-bearing deposits+Federal funds sold	9,481	3,840	4,223	1,325	3,944	4,352	1,575	8,984	2,550	6,132	2,195
Advances	106,926	38,242	46,424	74,563	31,123	116,294	26,465	95,273	66,336	61,963	26,183
Mortgage loans, net	518	3,628	4,667	8,510	67	6,640	8,772	2,631	3,154	632	6,473
Other	643	199	232	206	142	323	293	488	241	242	177
Total assets	146,093	62,160	80,662	106,142	54,438	167,860	52,001	128,726	86,906	99,430	46,491
Asset composition (% total assets)											
Cash and due from banks	0.8	0.7	0.5	0.0	0.2	0.3	0.8	0.3	3.0	0.0	0.5
Investments, including MBS	18.6	16.1	28.5	15.6	29.0	19.7	24.0	11.8	13.2	17.5	17.8
Securities purchased under agreements to resell	0.1	9.3	2.2	4.6	6.0	4.1	3.8	4.5	0.6	13.1	6.4
Interest-bearing deposits+Federal funds sold	6.5	6.2	5.2	1.2	7.2	2.6	3.0	7.0	2.9	6.2	4.7

1701351 | 300127630

Federal Home Loan Banks -- Peer Comparison (cont.)

	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Topeka
Advances	73.2	61.5	57.6	70.2	57.2	69.3	50.9	74.0	76.3	62.3	56.3
Mortgage loans	0.4	5.8	5.8	8.0	0.1	4.0	16.9	2.0	3.6	0.6	13.9
Other	0.4	0.3	0.3	0.2	0.3	0.2	0.6	0.4	0.3	0.2	0.4
Advance concentrations: Top 5 concentrations (%)											
Q2-2016	54	38	62	71	28	63	42	56	70	60	54
Net Income											
Q2-2016	60	47	104	56	21	232	23	92	67	63	32
2015	301	289	349	249	67	131	121	415	257	638	93
2014	271	150	392	244	49	121	117	315	256	205	106
2013	338	212	343	261	88	110	203	305	148	308	119
2012	270	207	375	235	81	111	140	361	130	491	110
Return on average assets (%)											
Q2-2016	0.2	0.3	0.5	0.2	0.2	0.6	0.2	0.3	0.3	0.3	0.3
2015	0.2	0.5	0.5	0.2	0.2	0.1	0.3	0.3	0.3	0.8	0.2
2014	0.2	0.3	0.6	0.2	0.1	0.1	0.3	0.3	0.4	0.2	0.3
2013	0.3	0.5	0.5	0.3	0.3	0.2	0.5	0.3	0.2	0.4	0.3
2012	0.2	0.5	0.5	0.4	0.2	0.2	0.3	0.4	0.2	0.5	0.3
Duration Gap (in months)											
Q2-2016	0.1	(1.6)	0.8	(0.2)	(0.7)	(1.0)	(0.5)	(1.0)	(0.2)	1.1	(0.8)
Retained Earnings											
Q2-2016	1,839	1,165	2,884	783	784	1,220	853	1,323	925	2,828	685
2015	1,840	1,129	2,730	766	762	801	835	1,270	881	2,628	652
2014	1,746	902	2,406	689	701	720	778	1,083	838	2,359	628
2013	1,657	789	2,028	621	655	678	730	999	686	2,394	567
2012	1,435	588	1,691	538	572	622	584	894	559	2,247	482
Regulatory Capital Ratio (%)											
Q2-2016	4.9	5.7	6.2	4.8	4.8	4.3	4.7	5.5	4.8	5.9	4.4
2015	4.9	6.0	6.6	4.4	5.5	4.2	4.7	5.6	4.6	6.3	4.2
2014	5.0	6.6	6.0	4.7	5.1	4.4	5.6	5.0	4.5	8.4	4.4
2013	5.4	9.6	5.4	5.3	5.9	4.6	6.2	5.1	5.2	9.2	5.4
2012	5.2	10.6	4.8	5.8	5.0	5.7	6.5	5.6	5.9	12.4	5.2
S&P Global risk-adjusted capital ratio* (%)											
Q1-2016	20.0	25.2	30.8	23.3	29.0	22.1	21.4	22.4	18.5	16.8	20.4

Note: Information is as of June 2016 unless otherwise indicated.MBS--Mortgage-backed securities. *See "Bank capital methodology and assumptions," published Dec. 6, 2010, on RatingsDirect.

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of August 26, 2016)	
Federal Home Loan Banks	
Senior Unsecured	AA+
Senior Unsecured	AA+/A-1+
Senior Unsecured	AA+/Stable
Short-Term Debt	A-1+
Sovereign Rating	
United States of America	AA+/Stable/A-1+
Related Entities	
Federal Home Loan Bank of Atlanta	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Boston	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Chicago	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Cincinnati	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Dallas	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Des Moines	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Indianapolis	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of New York	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Pittsburgh	
Issuer Credit Rating	AA+/Stable/A-1+

1701351 | 300127630

Ratings Detail (As Of August 26, 2016) (cont.)	
Federal Home Loan Bank of San Francisco	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Topeka	
Issuer Credit Rating	AA+/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.