STANDARD & POOR'S
RATINGS SERVICES

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Federal Home Loan Banks

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Federal Home Loan Banks

Major Rating Factors

None

Strengths:

- Government-related entities (GREs) with a critical public-policy role
- One of the primary liquidity providers to U.S. mortgage market participants
- Diverse global investor base that provides ample liquidity at low funding costs across maturities
- Excellent asset quality in collateralized wholesale lending portfolio

Weaknesses:

- Private-label mortgage-backed securities' (PLMBS) credit-related impairments at certain FHLBs
- Weak profitability in absolute terms
- Weak capital compared with non-GRE market participants
- Exposure to interest rate risk in mortgage and investment portfolios
- Potential for adverse regulatory changes related to broader housing GRE reform

Rationale

Standard & Poor's Ratings Services' ratings on the senior debt of the Federal Home Loan Banks (FHLB System or System) reflects the System's status as one of three rated housing government-sponsored entities (GSEs), its important role as a liquidity provider to U.S. mortgage and housing-market participants, its diverse global investor base that provides ample liquidity at low funding costs across maturities, and the pristine aggregate asset quality in its collateralized wholesale lending portfolio. The rating on the System's debt reflects the application of our GRE criteria, under which we rate the debt equal to the sovereign rating because of our view of almost certain likelihood of government support if needed.

Under our GRE criteria, the issuer credit rating for System banks can be one to three notches above their stand-alone credit profile because of our view of the high likelihood of extraordinary support from the government. Thus, a lower U.S. sovereign rating would, in most cases, also directly affect the issuer credit ratings on the individual FHLBs.

Stand-alone credit profiles of individual FHLBs reflect their excellent loan quality and funding/liquidity benefits that accrue to them as members of the FHLB System. Offsetting the individual bank rating strengths are weak but adequate risk-adjusted profitability by virtue of the FHLB System's cooperative membership structure, impairments and losses in their respective MBS portfolios, and the potential for adverse regulatory changes related to broader housing GSE reform.

The FHLB System remains a reliable source of liquidity for its member institutions, supporting their participation in the U.S. housing market. The FHLB System has afforded its member institutions readily available liquidity without adding unwarranted credit risk in the FHLB System's lending activities. This liquidity support was evident during the third quarter of 2008, when advances rose to a peak of $1.01 trillion. Advances have since declined and totaled $394 billion

as of March 31, 2012, because member institutions have regained access to alternative funding sources for mortgages, particularly deposits. Member institutions have increased deposits and are experiencing low loan demand because of weak economic activity. We do not expect advances at the FHLBs to grow until consumer confidence returns, the housing market stabilizes, and unemployment improves. In our view, the economy should continue its slow recovery with a high unemployment rate through the forecast period (2014). Housing demand remains weak, and economic and political troubles overseas persist, keeping the recovery subdued.

The FHLB System has low funding costs on its debt ("consolidated obligations") because of joint and several liability on the combined strength of the 12 independent FHLBs and the implicit government support the FHLB System receives as a GRE. Nevertheless, the FHLB System's consolidated obligations are not guaranteed by, nor are they the obligation of, the U.S. government.

The internationally diverse investor base consists of many foreign central banks, fund managers, pension funds, state and local governments, and banks. Current global economic weakness continues to bring investors to U.S.-related obligations as a safe haven for dollar-denominated and government-related assets, which has kept funding costs low. Domestic financial institutions awash with deposits and weak loan demand have also invested excess liquidity in FHLB System-consolidated obligations. We expect the FHLB System's funding costs to be on par with Fannie Mae's and Freddie Mac's unsecured debt, with spreads slightly above U.S. Treasuries, which explicitly include the full faith and credit of the U.S. government.

The FHLB System maintains excellent asset quality through its advance portfolio, which comprised 53% of combined assets as of March 31, 2012. Across the FHLB System and throughout its history, no FHLB has taken a single credit loss related to its advance business. Member institutions must fully secure all advances, and FHLBs only lend as much as discounted collateral policies warrant. We believe the FHLBs have been appropriately modifying collateral-management guidelines as conditions change, which typically means increased haircuts as risks associated with collateral types and weakening institutions increase. Troubled borrowers must begin to deliver pledged collateral to their respective FHLBs for collateral management and security if their financial position deteriorates. If the Federal Deposit Insurance Corp. shuts down a member institution, it either transfers advances to an acquiring entity or, more likely, pays off the advances to release the abundant collateral pledged and settle the closing bank's liabilities. Currently, the FHLB System lien supersedes depositors in winding down a member bank. System banks do not necessarily have priority in liquidation for non-FDIC institutions and have modified lending limits and parameters to reflect the added risk.

In addition to advances, the FHLB System provides liquidity to the mortgage industry by purchasing mortgage-related assets for its investment portfolio. The carrying value of mortgage-backed securities (MBS) totaled $141 billion as of March 31, 2012 (approximately 19% of assets). Most FHLBs had expanded their investment portfolios selection to include PLMBS that were highly rated prior to the housing crisis, which now represent approximately 20% of the combined total MBS portfolio (about 4% of total assets). The mortgage and housing-market crises significantly dampened values of those bonds. Total realized credit losses on these securities have been small, but ongoing other-than-temporary impairment (OTTI) testing indicates the FHLBs expect some losses in the later lives of the bonds. Because of continued uncertainty in the housing markets, increased credit-related OTTI assumptions indicate

higher projected losses because of increases in foreclosure and liquidation costs. Of the $279.9 billion in the System's total investments as of March 31, 2012, 7.5% are rated lower than investment grade. That is significantly more than the 1.2% of investment securities rated below investment grade as of year-end 2008 and somewhat higher than the 7.0% of investment securities rated lower than investment grade as of March 31, 2011.

The FHLBs recorded just $31 million in net OTTI related to credit loss in the first quarter of 2012, down from $275 million in first-quarter 2011. Net OTTI losses for the System declined to $856 million in 2011 from $1.1 billion in 2010 and $2.4 billion in 2009. Changes in the fair value of available for sale securities are reflected in accumulated other comprehensive income/loss (AOCI). The lack of liquidity during the recent crisis propelled the AOCI loss to more than $8 billion at the end of 2009, but some liquidity has returned to the markets, even for PLMBS, and the System's AOCI loss declined to $3.6 billion as of March 31, 2012.

However, in our view, at two of the FHLBs--Boston and Seattle--the level of unrealized losses is significant when compared with their level of retained earnings. Unrealized losses could turn into realized losses if credit conditions worsen, which would eliminate the cushion at these FHLBs to cover any other unexpected credit loss. Some liquidity has returned to the market, and the level of unrealized losses has declined. But these banks' sizeable PLMBS securities portfolios still overshadow their retained earnings cushions.

As part of a cooperative structure, the FHLB System earns relatively narrow net spreads between their assets and liabilities. Although the FHLBs' profitability measures are weak in absolute terms, we believe they are satisfactory in light of the low-risk nature of their core advance business. Under normal economic conditions, typical revenue streams are adequate to cover overhead expenses, build or return capital as necessary, and pay a dividend to member institutions. However, unstable capital markets have created economic volatility in two areas of FHLB System's earnings: credit-related impairments on PLMBS, and marks-to-market on derivative and hedging activities. FHLB System net income more than doubled in the first quarter of 2012 to $733 million from $358 million in the first quarter of 2011. The improvement was due to much lower OTTI losses, higher gains on derivatives, hedged items and financial instruments carried at fair value, plus lower assessments and lower noninterest expenses.

Housing GSE reform is likely to affect the Federal Housing Finance Agency (FHFA) and its three housing-related GSEs: the FHLB System, Fannie Mae, and Freddie Mac. Although several bills have been introduced in Congress, we have only seen suggested reforms for certain aspects of the FHLB System--in the Department of Treasury's white paper to Congress--and no reduction in support was evident. The ultimate effect of GSE reform isn't certain, and we believe it is premature to change our view on the FHLB System or our expectation of ongoing support from the U.S. government at this time. We don't expect to see more concrete proposals until after the upcoming election at the earliest, and any reforms won't likely take effect for a number of years after that.

Outlook

The ratings on the debt of the System and each of the issuer credit ratings (ICRs) on the FHLBs have negative outlooks. The outlook reflects the negative outlook on the rating of the U.S., as well as the application of our GRE criteria. We expect the FHLB System as a GSE to continue to benefit from the implied support of the U.S. government

for its consolidated debt obligations. But if we lowered the rating on the U.S., we would likely lower the ratings on System debt and the individual FHLBs according to our GRE criteria, since we do not believe an institution that receives support should be rated above the institution that supports it, except in very unique situations. Furthermore, if losses on PLMBS exceeded our expectations and affected profitability and capital on certain FHLBs, or if possible legislation or regulatory developments resulted in less implicit government support, we could lower our ratings. Conversely, we could revise the outlook to stable on System debt and certain bank ICRs if the U.S. sovereign rating was affirmed at its current level with a stable outlook.

Critical public-policy role and link to the government

We reflect our view of the importance of a GRE's role to the government through our GRE ratings criteria. We believe the role of the FHLB System to the government is critical and defines the strength of the link between it and the U.S. government as integral. The FHLB System is one of the primary channels the government has established to ensure consistent liquidity to support U.S. housing and community-investment activities. The FHLB System offers a reliable source of liquidity that a private entity could not readily achieve on its own, especially without an active securitization or covered bond market.

In our rating process, we differentiate between the total FHLB System and the individual FHLB System banks. Through our criteria, we classify an individual FHLB's role as very important and its link to the government as very strong. We assign stand-alone credit profiles for each FHLB based on our normal review process and incorporate our expectation for ongoing support that the government extends through its regulatory supervision by the FHFA. We believe a single FHLB's weakness could have an impact on investors' perception of the strength or weakness of the FHLB System as a whole. That is why, in part, we define the link between any one FHLB and the government as very strong--because a financial distress/default of the GRE could significantly affect the government's reputation or create a perception of weakness. The likelihood of extraordinary support for a single FHLB is very high, and, based on our criteria, we would ascribe one to three notches of support in the final rating above the individual FHLB's stand-alone credit profile because of government support.

Another reason for the very high likelihood of government support is that one FHLB could jeopardize the integrity of the FHLB System's consolidated obligations and their repayment. The consolidated obligations are joint and several obligations of the 12 FHLBs and do not carry the explicit support (in other words, guarantee) of the U.S. government. Therefore, each FHLB is responsible to the registered holders of the consolidated obligations for the payment of principal and interest on all consolidated obligations FHLBs issue. According to our criteria, the rating on the FHLB System's consolidated obligations is equal to the 'AA+' sovereign rating of the U.S. government given the almost certain likelihood of extraordinary government support. The consolidated obligations continue to price at a narrow spread over U.S. Treasuries, affording the FHLBs and their member institutions low funding costs.

With consolidated obligations outstanding of $663 billion as of March 31, 2012, the FHLB System is among the largest providers of mortgage credit in the U.S. The consolidated obligations outstanding balance is down 14% from $770 billion a year earlier, reflecting lower advance demand because of high deposit balances for member institutions.

Profile: An Important Role In The U.S. Housing Market

In our opinion, the FHLB System serves an important role in the U.S. housing market by providing liquidity to its member institutions. The 12 individual FHLBs are located in 12 distinct regions of the U.S. The public purpose of the banks is to provide member institutions with advances as a supplement to deposit flows and other funding sources to meet residential mortgage-credit needs. The FHLB System's reliability was most noteworthy during 2008, when member institution demand for liquidity was high and market confidence in asset values disappeared, resulting in FHLB System's advance balances reaching their peak of $1.01 trillion and the FHLB System's combined balance sheet swelling to $1.43 trillion. Advance balances continue to fall from their peak, but the FHLBs also provide many other services to benefit their member institutions.

We believe we can differentiate the individual FHLBs, albeit within a narrow band, because they all have the same fundamental mission, with relatively minor variations in business models according to respective managerial risk appetite and tolerance. Management teams try to differentiate themselves by emphasizing various business activities for the benefit of their respective member institutions. For example, FHLBs are all capitalized in essentially the same way to support three primary asset types: advances to members, the investment-securities portfolio, and mortgage loan purchases from members.

One revenue-diversifying and separate business activity is the purchase of whole first mortgage loans from members under the Mortgage Partnership Finance (MPF®) Program and the Mortgage Purchase Program (MPP). Under those programs, some of the FHLBs purchased and ultimately carried those mortgage loans on their balance sheets as mortgage loans held for portfolio. This provides member institutions an alternative to holding fixed-rate residential mortgage loans in their portfolios or selling them into the secondary market. The risks associated with the loans are shared; member institutions retain a portion of the related credit risk, and the FHLBs bear the interest rate risk and a portion of the credit risk. Combined mortgage assets totaled $53 billion as of March 31, 2012 (7.1% of assets), down slightly from the year earlier. We expect the balance of mortgage assets held on balance sheet to continue to decline because certain FHLBs have discontinued their mortgage loan purchase programs.

The FHLB System's combined assets were $738 billion, and advances totaled $394 billion as of March 31, 2012. Those are down 13% and 11%, respectively, from a year earlier. FHLB System advances to member institutions have continued to decline because overall loan demand remains low as a result of high deposit balances at member institutions, combined with relatively weak mortgage demand.

Support And Ownership: A Cooperative Owned By Member Institutions

The FHLBs are owned by their member institutions. Member institutions are primarily commercial and savings banks but have grown to include credit unions, insurance companies, and community-development financial institutions (CDFIs). Membership consisted of the following mix as of March 31, 2012: commercial banks (69%), credit unions (15%), thrifts (13%), insurance companies (3%), and CDFIs (less than 1%). With the passage of the Gramm-Leach-Bliley Act in 1999, membership in an FHLB became voluntary for federal savings associations, among

other provisions.

A member institution must contribute capital to belong to an FHLB. The member institution's stock requirement is generally based on its use of FHLB products, subject to a minimum requirement based on the member institution's mortgage-related assets. In return, the member institution may borrow on a secured basis at generally attractive rates from its FHLB. In addition, member institutions may receive dividends on their shares in their FHLB, which helps to lower their total transaction funding costs (after commissions, interest rates, and other expenses).

Each FHLB's member institutions elect all members of its board of directors, which comprises directors or officers of member institutions and independent directors not affiliated with member institutions. The FHFA, an independent agency of the U.S. government, closely regulates the FHLBs on expectations, requirements, and limitations of business activity. In 2010, the FHFA reconstituted the board of directors of the FHLBs' fiscal agent, the Office of Finance, with a board of directors consisting of all 12 FHLB presidents and five independent directors. The five independent directors serve as the Office of Finance's audit committee.

Strategy: Refocusing On Advances

The FHLB System, in our view, continues to fulfill its public-policy mission to support its member institutions' housing and community-development initiatives. Each of the 12 banks in the System is independently managed but all have similar strategies, with the relatively minor variations mentioned earlier. Overall, the FHLBs strive to remain a reliable funding source for members, to generate a sufficient income to pay reasonable dividends to members, and to boost retained earnings after making the required FHLB System contributions to the Affordable Housing Program (AHP) and the Banks' Joint Capital Enhancement (JCE) Agreement, the latter of which is allocated to a restricted retained earnings account.

Because of weak economic recovery and a lackluster housing market, member institutions' demand for advances remains low. However, some FHLBs still have active mortgage loan portfolios that they aggregate from their members (MPF and MPP), but those are slowly running off at some of the FHLBs. Currently, the FHLBs of Atlanta, Chicago, Dallas, San Francisco, and Seattle are not acquiring new mortgage loans under the purchased-mortgage loan programs and have ceased to enter into new master agreements.

As of March 31, 2012, the FHLBs of Chicago, Topeka, Des Moines, Indianapolis, and Cincinnati maintained the largest percentage of their assets in mortgage loans held for portfolio, with 18%, 16%, 15%, 15%, and 13%, respectively. No other FHLB held more than 7% of their assets in mortgage loans. The MPF Xtra program is an alternative to the legacy MPF program. Through MPF Xtra, the FHLB of Chicago modified its MPF program to continue serving as an outlet for conforming mortgage loans. Loans sold to the FHLB of Chicago under the MPF Xtra program are concurrently sold to Fannie Mae and are not held on its balance sheet. The MPF Xtra product is useful for smaller member institutions that do not generate sufficient volume to be a direct provider of mortgage loans to Fannie Mae or Freddie Mac.

The FHLBs set aside annually a percentage of earnings for their required contribution to the AHP and the capital agreement. AHP helps members provide funding and grants to create affordable rental and home ownership opportunities. The JCE agreement requires banks to set aside 20% of its net income to a separate restricted retained

earnings account until that account equals at least 1% of that bank's average balance of outstanding consolidated obligations for the previous quarter. The goal of the capital agreement is to enhance the capital position of each bank.

Management at many of the FHLBs is focusing on attracting new member institutions, particularly insurance companies and credit unions, to broaden the revenue side of those FHLBs' income statements through increased advances. They also have focused on cost containment in recent years to preserve their business models and sustain earnings. Nevertheless, expenses have broadly increased because of SEC registration and other regulatory requirements, including those related to risk management. We also expect incremental costs for the FHLBs because of regulatory reform in the U.S., promulgated by the Dodd-Frank Act. Specifically, we anticipate higher costs related to bank-hedging activities.

Risk Profile And Management: A Low-Risk Strategy

The FHLBs face manageable credit risk and little funding risk, given the high quality of investments they hold and the secured nature of their other financial assets. Interest rate risk is the primary risk for the FHLBs, and they have managed it satisfactorily except in the cases of a few individual FHLBs in the recent past. Each FHLB sets its own policies and procedures to evaluate, manage, and control risks within regulatory limits that apply across the system.

Credit risk

At most of the 12 banks there is a concentration of advances in a relatively small number of the largest member institutions. At March 31, 2012, advances to the top five borrowers range from 30%-73% at banks across the System. The secured nature of the FHLBs' lending and their ability to require appropriate capital when advances are made and keep it until advances are repaid substantially mitigate concentration risk.

Advances to member institutions are adequately collateralized, and, as of March 31, 2012, the FHLBs had rights to collateral with an estimated value greater than the related outstanding advances. Each FHLB monitors its member institution's financial condition and manages its collateral guidelines, advance rates, and security agreements by borrower to further mitigate credit risk. Furthermore, any security interest that any depository member institution grants to an FHLB generally has priority over the claims and rights of any other party, including depositors. The banks rely on more strict borrowing limits and collateral guidelines to mitigate credit risk for nondepositories for which they are not guaranteed priority status in liquidation. Given those factors, no FHLB has ever taken a credit loss on any member loan, including advances to failed member institutions.

The FHLBs' securities portfolios were designed to serve as a fundamental source of balance-sheet liquidity and to support interest rate risk-management efforts. However, some of the FHLBs increased the credit risk in their investment portfolios by adding PLMBS backed by Alt-A and subprime mortgages. Although the banks have ceased purchasing new PLMBS, they will likely remain exposed to credit losses for a number of years. We expect banks with relatively large PLMBS portfolios to continue to build a retained earnings buffer against future losses.

Another aspect of credit risk is counterparty credit related to derivatives. Each FHLB conducts its own derivatives portfolio and generally limits counterparties to high-credit-quality entities. The FHLBs closely monitor counterparty credit risk activities through credit analysis, collateral requirements, and other credit enhancements and are required to

follow the requirements set forth by applicable regulation. Most FHLBs have tightened unsecured limits within counterparty agreements. Regulations are currently under consideration related to derivatives provisions of the Dodd-Frank Act that may alter business practices in the derivatives markets, and could have an effect on the FHLBs.

Market risk

In general, the FHLBs pursue matched asset-liability management. The FHLB System's access to the debt markets helps facilitate this because the FHLB System can raise money at a wide variety of maturities and with a wide range of features. The FHLB's MBS and mortgage investment portfolios introduce a degree of interest rate risk because of their indeterminate maturities as a result of varying prepayment rates. The individual FHLBs use derivatives primarily to manage their interest rate risks within appropriate limits. The FHLBs are purchasing fewer mortgages and, therefore, reducing their need for a complex hedging book and operation. Volatility in earnings has declined during the past few quarters because interest rates have remained at historic lows for an extended period of time, but we expect volatility to resume when rates begin to increase.

Although each FHLB's portfolio is distinct, the combined FHLB System had investments of $280 billion (38% of total System assets) as of March 31, 2012, including about $28 billion of PLMBS ($32 billion at amortized cost). During first-quarter 2012, the FHLBs recognized $31 million of total credit-related OTTI charges related to private-label RMBS and home-equity loan investments, $6 million of which was reclassified from AOCI. The securities producing most of the OTTI charges were highly rated at the time of purchase.

We expect some further increase in credit losses in the private-label RMBS, especially if residential mortgage values continue to decline, which will affect severity rates. However, the credit losses that we believe will be realized are not material or significant relative to the capital bases of most of the individual FHLBs, excluding the FHLBs of Boston, Seattle, and San Francisco. We expect the FHLB System's combined capitalization to remain satisfactory.

In 2009, the FHLB System developed a uniform framework for completing their OTTI analyses in accordance with Financial Accounting Standards Board guidance on the recognition and presentation of OTTI in the financial statements. That implementation provides greater consistency among the 12 FHLBs regarding OTTI analysis, including the calculation of any expected credit losses for impaired securities.

Funding and liquidity risk

The FHLB System relies heavily on capital markets for its funding, typically the issuance of consolidated obligations. The 12 FHLBs are jointly and severally responsible for the consolidated obligations that the Office of Finance issues. The FHFA, at its discretion, may require any FHLB to make the principal or interest payments due on any other FHLB's consolidated obligations, even in the absence of a default of the primary obligor. The consolidated obligations, as GSE debt, are favorably priced, typically at small spreads to U.S. Treasury debt. This access to favorably priced funding is one of the FHLB System's major strengths benefitting its members. In addition, each of the FHLBs takes deposits from its member institutions, although those account for a relatively small proportion of funding.

The FHLBs maintain ample liquidity in their investment portfolios, even though the FHLBs with unrealized losses cannot readily liquidate their held-to-maturity portfolios.

FHFA regulations stipulate minimum liquidity levels and tightly restrict eligible investments. Generally, each bank

maintains liquidity to meet the credit and liquidity needs of its members, as well as current and future financial commitments. They also maintain liquidity to redeem or repurchase excess capital stock. The System has retained access to public debt markets to meet liquidity needs even in times of stress, but it also relies on highly liquid investment portfolios. The FHFA requires each bank to maintain contingent liquidity to cover five days without accessing public debt markets, among other standards. The FHLBs' principal investments are private-label and GSE MBS securities, municipal securities, commercial paper, Federal funds sold, interest-bearing deposits, and reverse repurchase agreements. Investments were 38% of combined assets as of March 31, 2012--roughly flat from a year earlier.

Profitability: Appropriate For Its Mission

Profitability at the FHLBs improved significantly year over year. On a return-on-average asset (ROA) basis, the FHLB's ROA varied between 0.14%-0.66%, with a System ROA of 0.38% in the first quarter of 2012. That compares with a 0.90% ROA for all FDIC institutions in 2011. Nevertheless, we expect profitability to remain acceptable on a risk-adjusted basis given the FHLBs' low expenses, advantageous funding costs, and tax-exempt status. As cooperatives, the FHLBs strive to provide its services at a reasonable cost (that does not maximize profitability).

The FHLB System's cost of funds is very favorable and reflects its GRE status and its ability to raise funds at a small spread over U.S. Treasury rates. Member institutions benefit in the form of dividends on their investment, as well as low funding costs on advances. Thus, profitability margins remain thin, even when demand for advances is strong because banks seek to pass their funding advantage onto their members. The aggregate net interest margin was 0.53% for the System in the first quarter of 2012--up from 0.49% in the same period last year.

Apart from their core lending activities, the FHLBs also earn a small spread on their non-MBS investment portfolios. Investing in MBS normally generates wider margins, but FHFA rules limit the amount of each FHLB's MBS investment portfolio to 300% of its regulatory capital. As of March 31, 2012, the FHLBs of Dallas and Chicago had MBS holdings in excess of the current limit and were not allowed to make additional investments in MBS until their respective MBS ratio declines below 300%.

Mortgage loans held for portfolio also contributed substantially to earnings when the associated hedging strategy was effectively implemented. However, when interest rates declined and refinancing prepayments greatly exceeded historical levels, this strategy became ineffective and weakened earnings at some FHLBs. Now that management at some of the FHLBs is deemphasizing direct mortgage loan purchases, we expect lower contributions to those FHLBs' earnings streams, particularly for the FHLB of Chicago and the FHLB of Seattle as their mortgage loans held for portfolios wind down.

Normal operating costs tend to be very low, but we expect some increase across the FHLBs because of higher technology investment for financial and regulatory reporting. Although the FHLBs benefit from their income-tax exemption, AHP assessments reduce earnings.

The combined FHLB System profitability for first-quarter 2012 increased to $733 million from $358 million during first-quarter 2011. The increase was mostly the result of OTTI losses of just $31 million, compared with $275 million

last year. Fair-value gains on financial instruments held under the fair-value option also added $5 million to net income, versus a $60 million loss in the first-quarter 2011. Net interest income was down somewhat over the prior year as the result of the shrinking earning asset base, which the higher net interest margin somewhat offset. Noninterest expenses also declined somewhat, helping results.

We expect profitability to remain weak as both funding costs and asset yields remain low and advance demand remains weak. We expect economic expansion to be slow, which will likely determine advance demand from members.

Capital: Flexible And Adequate

Capital adequacy is different for an FHLB than for other financial institutions, and it expands and contracts with members' borrowing needs. Current and former member institutions own FHLB stock, which cannot be publicly traded. We view favorably the flexibility System banks have in preserving their capital. An FHLB can exercise judgment to suspend or eliminate dividend payments and to repurchase excess stock from members at any time.

FHLB stock can be issued, redeemed, or repurchased only at its stated par value of $100 per share. We believe there could be significant implications for the integrity of the FHLB System if any of the FHLBs ever suffered losses that caused members of that FHLB to record impairments on their FHLB stock investments. An FHLB is not permitted to redeem shares if doing so would cause its capital to fall below minimum required regulatory levels. If a member institution exits the FHLB System, the FHLB must redeem its stock subject to any applicable redemption period, which is five years for most FHLB stock. There is some correlation between redemption requirements triggered by member institutions exiting the FHLB System--or if a member institution's lower advance activity creates excess stock--and asset levels at the FHLB.

Excess stock is capital stock a member institution holds above its initial purchase requirement. According to a 2006 FHFA rule, an FHLB is prohibited from creating member excess capital stock by paying stock dividends or issuing new excess capital stock to its members if the amount of existing excess stock is more than 1% of the FHLB's total assets. As of March 31, 2012, the FHLBs of Atlanta, Boston, Cincinnati, Indianapolis, Pittsburgh, San Francisco, and Seattle had excess stock outstanding greater than 1% of total assets.

Excess stock lacks some characteristics usually associated with permanent equity capital because of the redeemable nature of the common share. Nevertheless, some FHLBs have exercised discretion since mid-2008 by not paying dividends and by returning capital to members more slowly or temporarily prohibiting repurchases of excess shares. After not paying dividends or repurchasing excess stock shares since the fourth quarter of 2008, the FHLB of Boston began paying dividends during the first quarter of 2011 and repurchased excess capital stock from shareholders in March 2012. The FHLB of Pittsburgh paid its first dividend since 2008 in the first quarter of 2012 and has executed partial repurchases of excess capital stock since 2010. The FHFA terminated its consent order with FHLB Chicago in April 2012, and it began repurchasing excess capital stock in December 2011. The FHLB of Seattle remains undercapitalized by the standards of the FHFA, is operating under a consent order, and is currently unable to pay dividends or redeem or repurchase capital stock without prior approval of the FHFA. We perceive a significant

difference in the quality of equity between any one FHLB's paid-in capital (which may be redeemed) and its respective retained earnings. Retained earnings typically have been relatively thin but adequate. In our view, at the FHLBs of Boston and Seattle, the level of unrealized losses is significant when compared with the retained earnings of these FHLBs. However, all the FHLBs have been growing retained earnings to provide capital support to their mortgage loan purchase programs and investing portfolios. Through the FHLB's JCE Agreement, the banks will further build their capital base by allocating at least 20% percent of their respective net incomes to a separate restricted retained earnings account until reaching an amount equal to at least 1% of that bank's average balance of outstanding consolidated obligations for the previous quarter for which it is the primary obligor.

The Gramm-Leach-Bliley Act required each FHLB to develop an individualized capital plan to be approved by the former Federal Housing Finance Board and subject each FHLB to a minimum regulatory capital-to-assets ratio of 4% (Defined as the sum of capital stock, retained earnings, and mandatorily redeemable stock divided by total assets at the end of the period. Regulatory capital also includes any permitted general allowance for losses and any other amount from sources available to absorb losses that the FHFA has determined by regulation to be appropriate to include.). Each bank was in compliance with regulatory capital minimums as of March 31, 2012, and the aggregate capital-to-assets ratio for System banks was 7.02% at that time, compared with 6.65% a year earlier.

Table 1

Committee: Peer Comparison for Federal Home Loan Banks

	Atlanta	Boston	Chicago	Cincinnati	Dallas	Des Moines	Indianapolis	New York	Pittsburgh	San Francisco	Seattle	Topeka
Assets												
Advances	72,441	24,892	14,739	27,177	18,172	26,608	18,042	72,093	31,446	62,040	9,343	16,938
Mortgage loans, net	1,525	3,167	13,132	8,215	152	7,155	5,840	1,482	3,727	1,686	1,277	5,246
Investments	34,536	18,590	40,182	26,419	13,462	14,146	15,149	21,450	17,694	42,177	25,500	10,857
Other	635	264	855	164	2,404	436	438	679	424	4,184	153	652
Total assets	109,137	46,912	68,908	61,976	34,190	48,345	39,469	95,704	53,291	110,087	36,273	33,693
Asset composition (% total assets)												
Advances	66.38	53.06	21.39	43.85	53.15	55.04	45.71	75.33	59.01	56.36	25.76	50.27
Mortgage loans, net	1.40	6.75	19.06	13.26	0.44	14.80	14.80	1.55	6.99	1.53	3.52	15.57
Investments	31.64	39.63	58.31	42.63	39.37	29.26	38.38	22.41	33.20	38.31	70.30	32.22
Other	0.58	0.56	1.24	0.26	7.03	0.90	1.11	0.71	0.80	3.80	0.42	1.94
Advance concentration: top-five concentrations (%)												
March 31, 2012	67.20	33.90	46.00	59.00	30.00	44.00	45.00	54.21	72.90	71.00	70.30	52.40
Net income												
2012 (first quarter)	70	47	116	58	24	45	41	102	22	169	13	32
2011	184	160	224	138	48	78	110	244	38	216	84	77
2010	278	107	366	164	105	133	111	276	8	399	20	34
2009	283	(187)	(65)	268	148	146	120	571	(37)	515	(162)	237

Table 1

Committee: Peer Comparison for Federal Home Loan Banks (cont.)

Return on average assets (%)												
2012 (first quarter)	0.23	0.38	0.66	0.37	0.28	0.36	0.41	0.25	0.16	0.62	0.14	0.38
2011	0.15	0.30	0.28	0.21	0.14	0.15	0.34	0.24	0.09	0.36	0.19	0.21
2010	0.19	0.17	0.41	0.24	0.20	0.22	0.24	0.25	0.01	0.24	0.04	0.08
2009	0.16	(0.27)	(0.07)	0.32	0.21	0.21	0.23	0.45	(0.05)	0.21	(0.30)	0.48
Duration gap (months)												
March 31, 2012	(0.2)	0.7	(0.3)	(0.2)	1.0	(1.3)	0.6	0.2	1.6	0.4	0.1	(0.2)
Regulatory capital ratio (%)												
March 31, 2012	6.90	8.70	6.35	6.26	5.17	5.54	6.46	5.66	7.03	10.89	8.19	5.26
2011	5.80	8.50	6.40	6.40	5.20	5.50	6.23	5.40	7.44	10.70	7.40	5.24
2010	6.74	6.83	5.90	5.43	5.19	4.94	6.00	5.30	8.28	8.95	6.08	4.72
2009	6.07	6.20	5.11	5.81	4.45	4.57	6.07	5.14	6.76	7.60	5.58	4.64
Private-label mortgage-backed securities												
Residential PLMBS - AFS - amortized cost	3190	0	87	0	0	0	700	0	1690	9255	1822	0
OTTI in AOCI	(287)	0	(20)	0	0	0	(86)	0	(110)	(1,516)	(510)	0
Gross unrealized gains	19	0	0	0	0	0	1	0	7	8	0	0
Gross unrealized losses	(4)	0	(1)	0	0	0	0	0	(2)	(65)	0	0
Est. fair value	2918	0	66	0	0	0	615	0	1585	7682	1312	0
Residential PLMBS - HTM - amortized cost	3432	1892	2168	0	304	47	355	684	1508	3540	750	708
OTTI in AOCI	0	(433)	(466)	0	(51)	0	0	(73)	0	(41)	(9)	(26)
Carrying value	3432	1459	1702	0	252	47	355	611	1508	3499	740	682
Gross unrealized gains	28	43	145	0	0	0	0	52	5	18	2	4
Gross unrealized losses	(146)	(95)	(52)	0	(32)	(3)	(8)	(30)	(87)	(364)	(101)	57
Est. fair value	3314	1408	1795	0	221	43	347	633	1426	3153	641	743

Table 1

Committee: Peer Comparison for Federal Home Loan Banks (cont.)

Capital												
Total regulatory capital	7,533	4,058	4,527	3,878	1,768	2,680	2,549	5,416	3,748	11,990	2,971	1,771
Required risk-based capital	1,939	814	3,358	389	1,368	494	798	539	1,124	4,390	1,796	220
Excess over risk-based capital	5,594	3,243	1,169	3,489	400	2,186	1,751	4,877	2,624	7,600	1,175	1,551
Excess stock	1,100	1,886	588	1,345	236	27	877	0	1,100	6,153	2,100	310
Mandatorily redeemable capital stock	328	215	14	270	5	7	457	43	194	5,307	1,061	8
Credit-related other than temporary impairment												
2012 (first quarter)	(7)	(3)	1	0	(0)	0	(3)	(1)	(7)	(9)	(1)	(1)
2011	(118)	(77)	(68)	0	(6)	0	(27)	(6)	(45)	(413)	(91)	(9)
2010	(143)	(85)	(163)	0	(3)	0	(70)	(8)	(158)	(331)	(106)	(3)
2009	(316)	(444)	(437)	0	(4)	0	(60)	(21)	(229)	(608)	(311)	(1)
Other than temporary impairments in accumulated other comprehensive income												
2012 (first quarter)	287	(434)	(492)	0	(48)	0	(86)	(73)	(106)	(41)	(520)	(26)
2011	(392)	(451)	(978)	(0)	(51)	0	(120)	(76)	(168)	(46)	(621)	(24)
2010	(396)	(622)	(664)	0	(63)	0	(76)	(93)	(223)	(2,934)	(661)	(19)
2009	(739)	(929)	(978)	(0)	(67)	0	(324)	(111)	(691)	(3,575)	(906)	(10)
Retained earnings												
2012 (first quarter)	1,306	440	1,436	467	518	599	527	790	456	1,966	170	426
2011	1,254	398	1,321	444	495	569	497	746	435	1,803	157	402
2010	1,124	249	1,099	438	452	556	428	712	397	1,609	73	352
2009	873	142	708	412	356	484	349	689	389	1,239	52	355
OTTI in AOCI/retained earnings (%)												
2012 (first quarter)	21.98	(98.61)	(34.26)	0.00	(9.35)	0.00	(16.25)	(9.26)	(23.19)	(2.09)	(305.60)	(6.17)
2011	(31.26)	(113.32)	(74.03)	(0.00)	(10.39)	0.00	(24.08)	(10.17)	(38.65)	(2.55)	(395.37)	(5.91)
2010	(35.23)	(249.42)	(60.42)	0.00	(13.99)	0.00	(17.74)	(13.05)	(56.01)	(182.35)	(900.05)	(5.48)
2009	(84.67)	(654.23)	(138.14)	(0.10)	(18.69)	0.00	(92.84)	(16.11)	(177.64)	(288.54)	(1741.73)	(2.82)

Related Criteria And Research

Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings Detail (As Of August 15, 2012)	
Federal Home Loan Banks	
Senior Unsecured	AA+
Senior Unsecured	AA+/A-1+
Senior Unsecured	AA+/Negative
Short-Term Debt	A-1+
Sovereign Rating	
United States of America (Unsolicited Ratings)	AA+/Negative/A-1+
Related Entities	
Federal Home Loan Bank of Atlanta	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Boston	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Chicago	
Issuer Credit Rating	AA+/Negative/A-1+
Subordinated	AA-
Federal Home Loan Bank of Cincinnati	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Dallas	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Des Moines	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Indianapolis	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of New York	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Pittsburgh	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of San Francisco	
Issuer Credit Rating	AA+/Negative/A-1+
Federal Home Loan Bank of Seattle	
Issuer Credit Rating	AA/Negative/A-1+
Federal Home Loan Bank of Topeka	
Issuer Credit Rating	AA+/Negative/A-1+

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