



## **Federal Home Loan Banks: Mission, Markets and Liquidity**

**Virginia Government Finance Officers Association  
October 2007**

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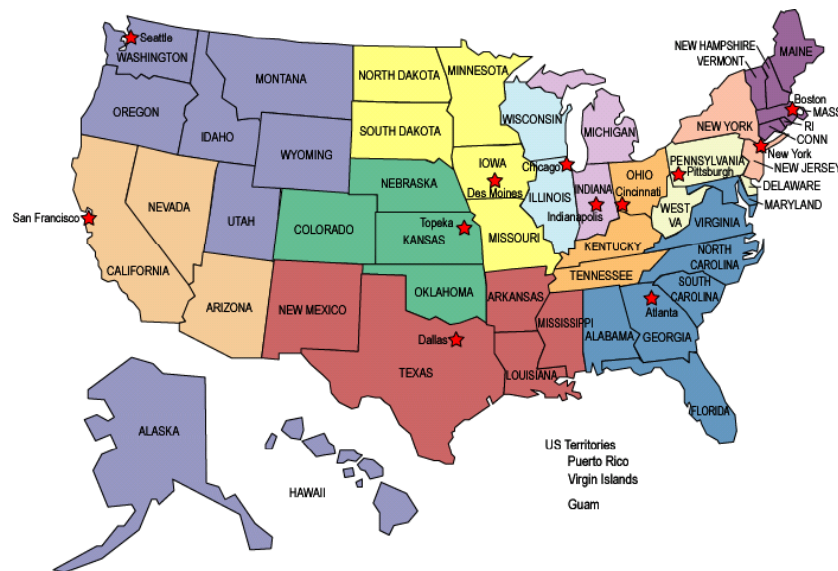
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This data has not been audited and has been prepared for informational purposes only. While it is believed to be correct, accuracy cannot be guaranteed.

# FHLBank System

- ❖ Twelve District Home Loan Banks are each privately-held cooperatives of member/owner financial institutions – linked by regulatory oversight and the joint and several obligation for repayment of all FHLB System senior debt securities (Consolidated Obligations)
- ❖ All FHLBank System debt securities rated triple-A by Moody's and S&P
- ❖ Vital component of U.S. banking system and liquidity source for over 8,100 financial institutions





## High Quality Assets

FHLBanks **provide loans** (Advances) to members, and also **purchase mortgages** (MPF<sup>®</sup> & MPP) from members

- ❖ Advances account for 62% of combined assets
  - ❖ \$640 billion loan portfolio is over-collateralized
  - ❖ Lien on collateral (primarily single-family mortgages) gives FHLBanks priority over other creditors
  - ❖ Never incurred a loss on member lending in 75 years
- ❖ Mortgage loan purchases represent 9% of combined assets
  - ❖ Mortgage loan assets are credit-enhanced by the selling member or mortgage insurer to AA equivalent
- ❖ Investments include mortgage-backed securities, overnight/term Federal funds sold, commercial paper and GSE securities
  - ❖ By regulation, the FHLBanks are prohibited from purchasing non-investment grade securities - virtually all are triple-A rated

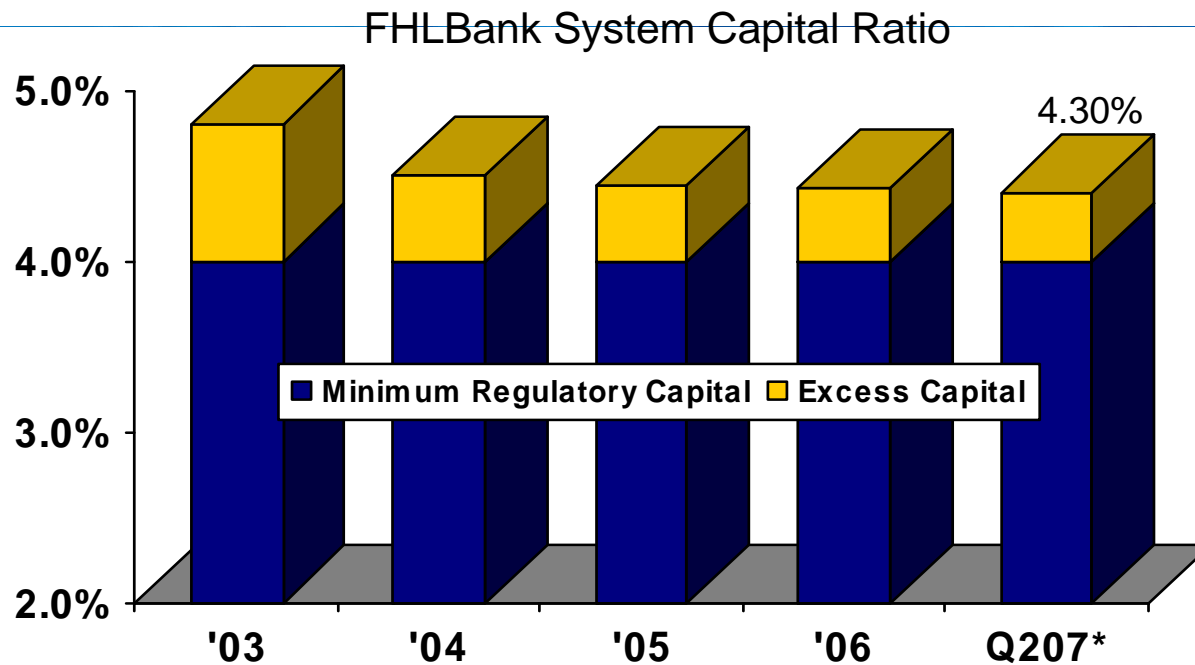


## FHLB System Financial Trends

<i>\$ in Billions</i>	Q207	2006	2005	2004	2003
Loans to Members (Advances)	\$ 640	\$ 641	\$ 620	\$ 581	\$ 514
Investments	295	271	266	225	190
MPF®/MPP	94	98	105	114	113
Other Assets	8	6	6	5	5
Total Assets	\$ 1,037	\$ 1,016	\$ 997	\$ 925	\$ 822
Net Income	\$ 1.3	\$ 2.6	\$ 2.5	\$ 2.0	\$ 1.9
Capital-to-Asset Ratio	4.30%	4.43%	4.46%	4.53%	4.74%

# Capital Structure

- ❖ Minimum 4% Regulatory Capital-to-Assets Ratio Requirement
  - ❖ Stock redemption notification extended to 5 years from 6 months
- ❖ Risk-Based Capital is typically 15% of Regulatory Capital



\*FHLBank of Chicago has not yet converted to new capital plan



## Housing GSE Regulatory Reform

- ❖ FHLBanks Will Continue Playing a Central Role in the U.S. Mortgage Finance Sector
- ❖ FHLBanks Support GSE Reform Efforts
  - ❖ Create strong, independent, “World-Class” Regulator
  - ❖ Affirm and preserve housing finance mission
  - ❖ Consistent regulation among the housing GSEs
  - ❖ Continue unimpeded access to global capital markets
  - ❖ Provide added transparency for bond investors
- ❖ Proposed Regulatory Powers *Already* Exercised by the Federal Housing Finance Board (FHFB)
  - ❖ Control over minimum capital requirements
  - ❖ New product/program approval authority
  - ❖ Receivership
  - ❖ MBS investment portfolio limited to three times capital
  - ❖ Affordable Housing Programs 10% of net income per annum
- ❖ H.R. 1427 Passed by House on May 22, 2007

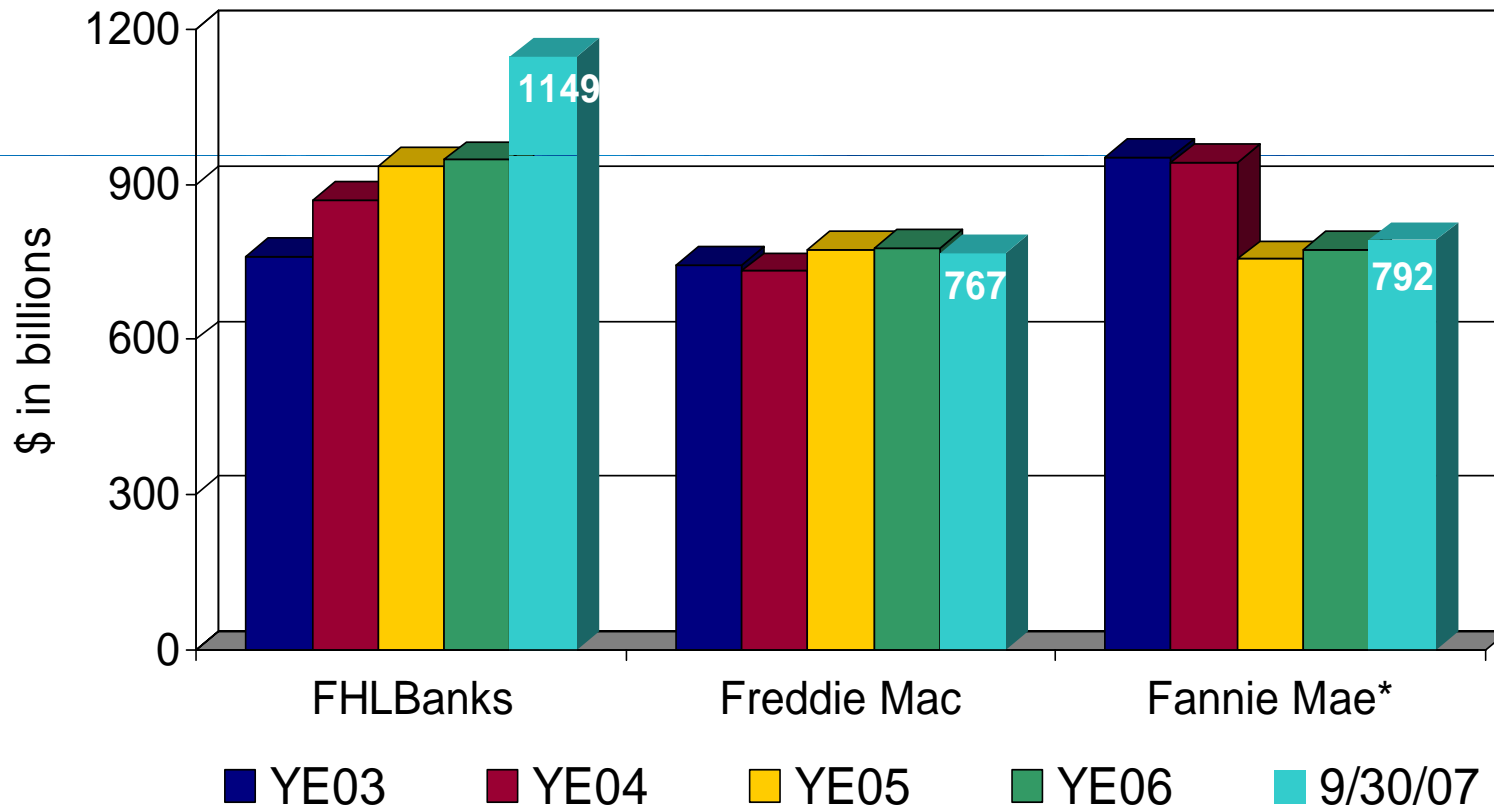


## All Financial Reporting is Current

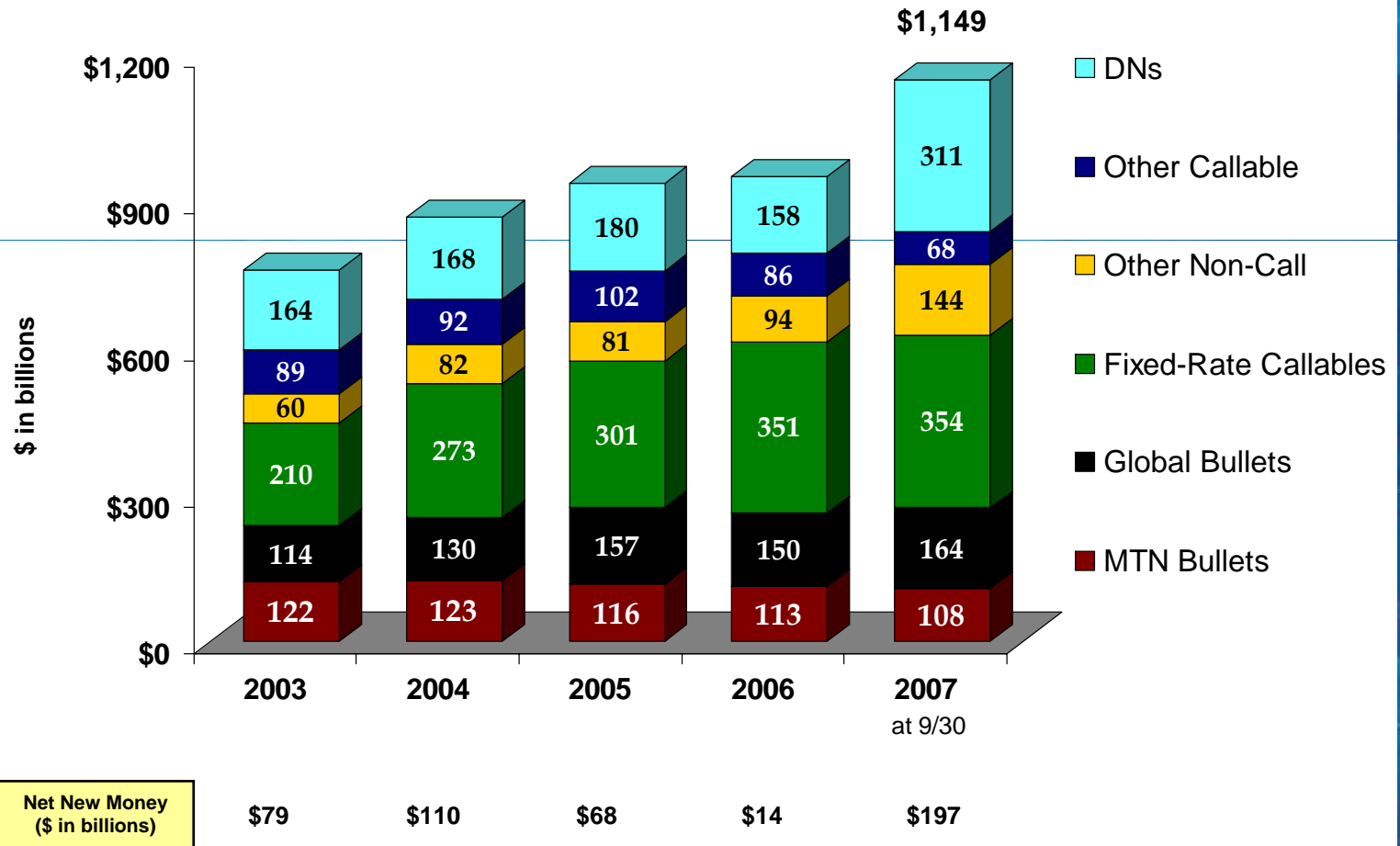
- ❖ All 12 FHLBanks (Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, NY, Pittsburgh, Seattle, SF and Topeka) are SEC registrants
- ❖ All 12 FHLBanks have current financial reports available via the EDGAR database ([www.sec.gov/edgar.shtml](http://www.sec.gov/edgar.shtml))
- ❖ Current Combined Financial Report (for Q2 2007) was published by the Office of Finance on August 14, 2007
  - ❖ Combined Financial Reports Available on [www.fhlf-of.com](http://www.fhlf-of.com)

## Strong Presence in Capital Markets

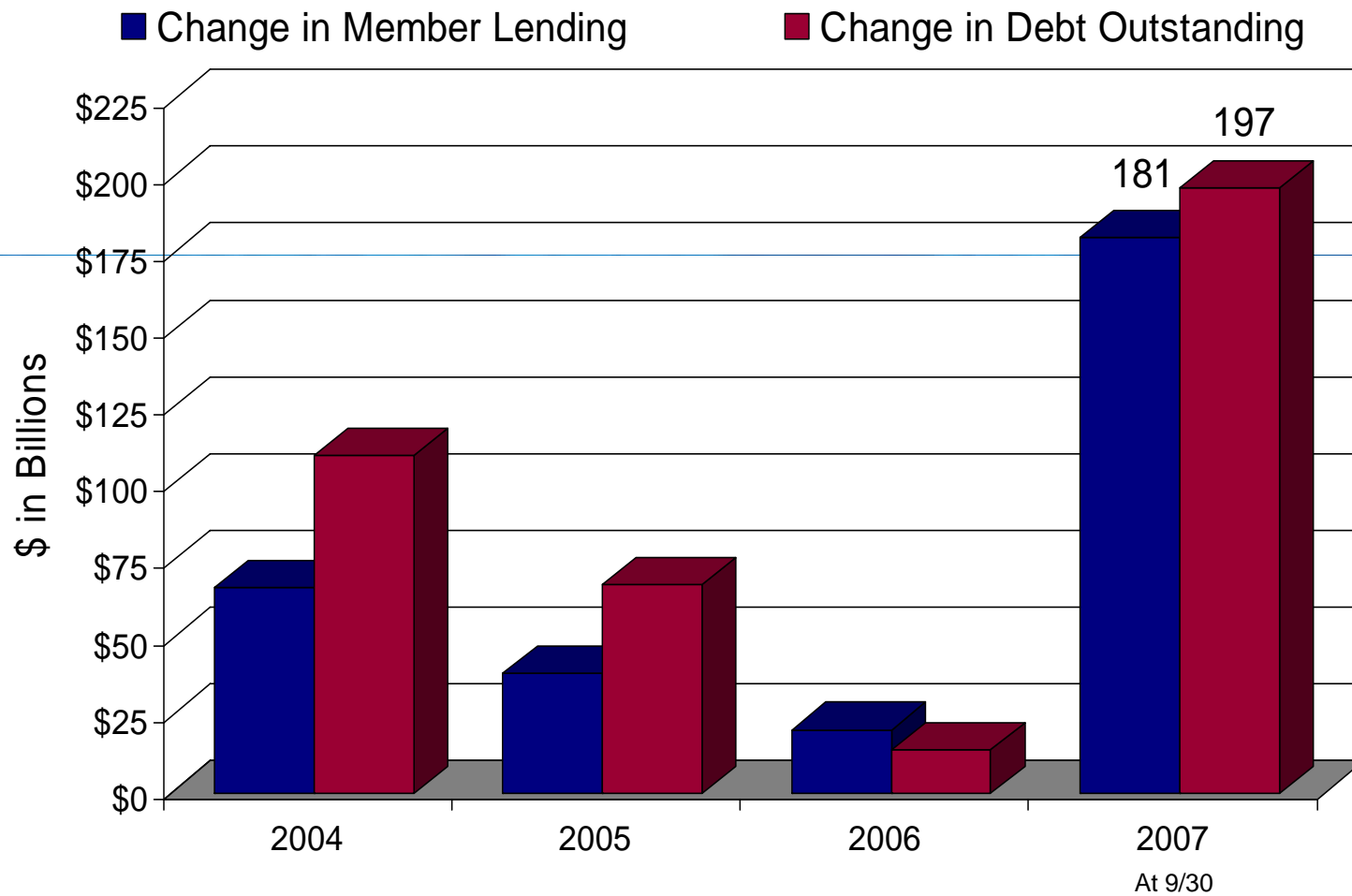
### GSE Debt Outstanding - 2003-2007



# Total Debt Outstanding



# Lending Determines Debt Issuance





## Full Range of Debt Offerings

- ❖ **Globals** – market leader in issuing large, liquid securities across maturity spectrum
- ❖ **Callables** – flexible issuance model allows FHLBanks to meet investor needs
- ❖ **TAPs** – standardized domestic bullet issuance with a yield pick-up to comparable agency bullet
- ❖ **Discount Notes** – daily window postings and scheduled twice-weekly auctions

## Complete Global Curve

- ❖ 2- through 10-year Global Curve
  - ❖ \$3 bln minimum size requirement for 2- to 7-year issues
  - ❖ \$2 bln minimum size requirement for 10-year issue
  - ❖ \$1 bln minimum size requirement for 30-year issue
  - ❖ Mandated lead-underwriting teams
  - ❖ Focused marketing periods
  - ❖ Defined lockouts between new issues of same maturity

2006-2007 Syndicated Globals*		
Maturity	Total Issuance	# of Issues
2 Year	\$ 14.0 billion	4
3 Year	\$ 6.0 billion	2
5 Year	\$ 7.0 billion	2
7 Year	\$ 6.0 billion	2
10 Year	\$ 8.0 billion	3
<b>Total YTD</b>	<b>\$41 billion</b>	<b>11</b>



## A Leader in Callable Debt

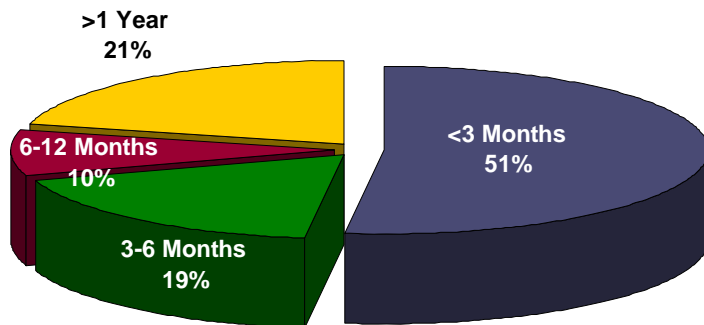
FHLBanks have long been a leader in callable debt issuance

- ❖ Essential component of FHLB System funding mix for both lending and mortgage portfolios
- ❖ Flexible issuance model accommodates investors' request for specific structures
- ❖ European, Canary, & Bermudan style options available daily through reverse inquiry
- ❖ In the past 12 months, issued \$220 billion callable MTNs in nearly 4,300 separate transactions
- ❖ Average callable MTN issue size = \$56 million

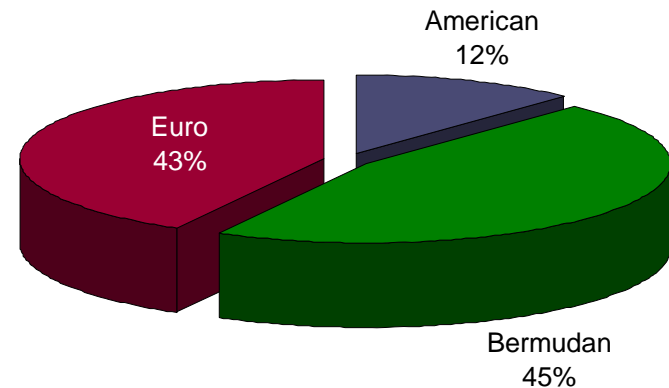
## 2006-2007 Callable Issuance Flexibility

Callable Settlements*	# of Trades	Par Amount (\$ in billions)
Callable Fixed	4,003	\$243.6
Step Up	136	4.2
Callable Cap Floater	26	1.0
Range Note	106	1.6
Other	3	0.5
<b>Total</b>	<b>4,274</b>	<b>\$250.9</b>

Average Transaction Size: \$56 million



**Lockouts**

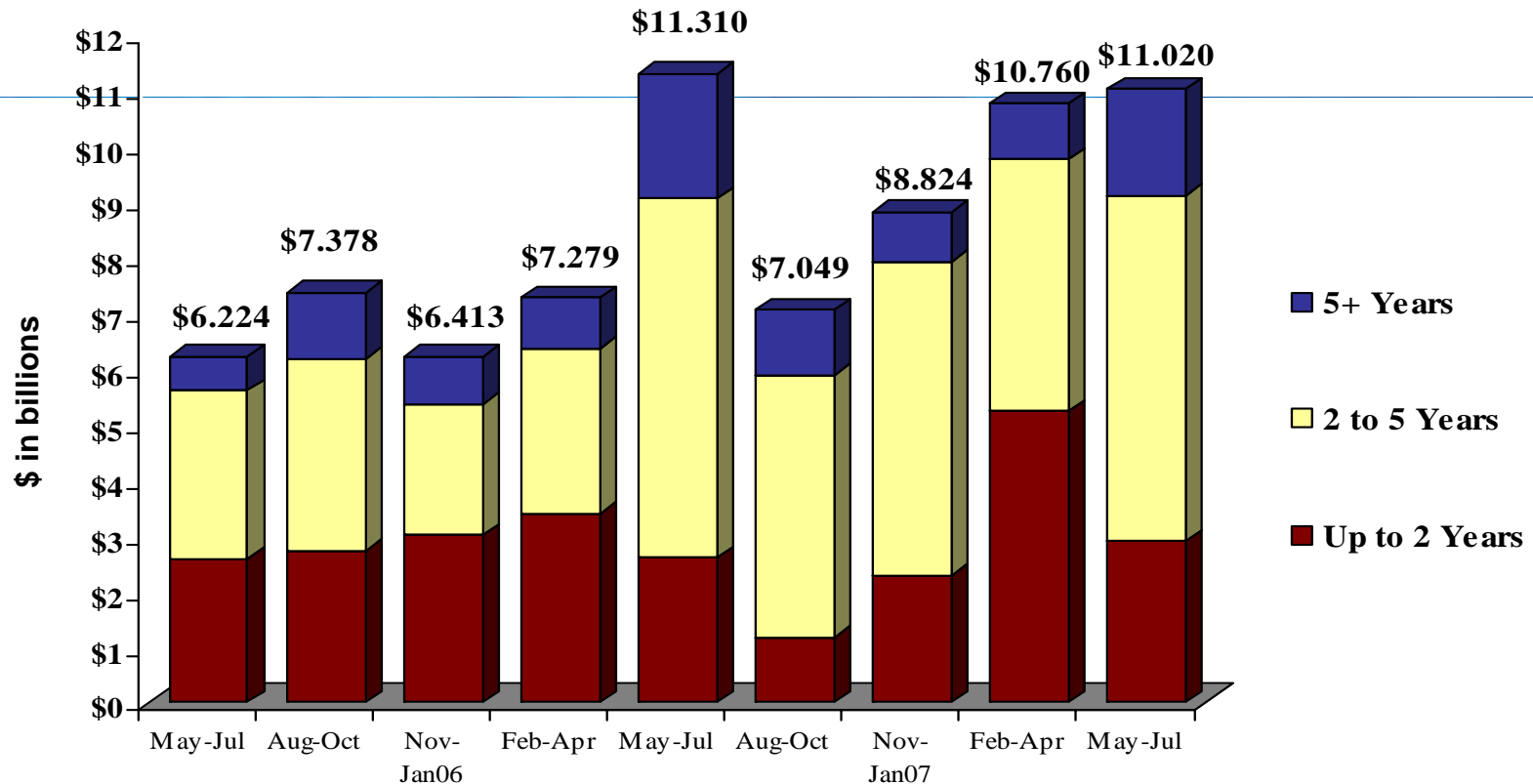


**Call Style**

\*Data for 10/1/06 thru 9/30/07

# TAP Issue Program

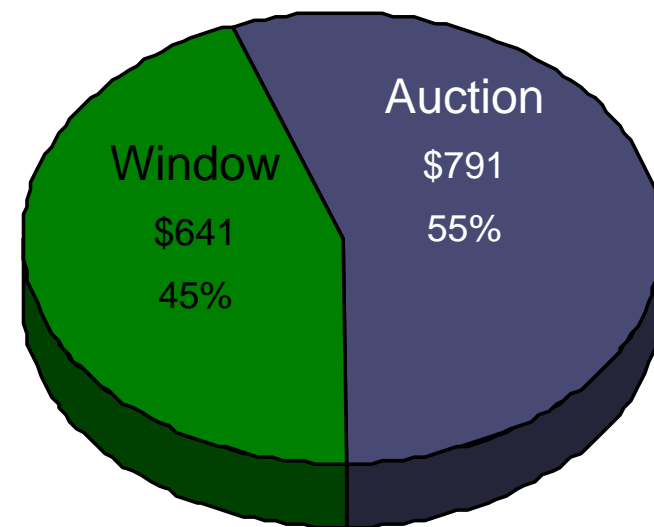
- ❖ Created to coordinate and standardize bullet issuance
- ❖ Standard on-the-run maturities regularly offered to 23-member selling group
- ❖ Typically offer additional yield over Globals and comparable Agency bullets



## Numerous Discount Note Options

- ❖ Active DN window with maturity and settlement flexibility (cash, regular or skip)
- ❖ Twice weekly auction of 1-, 2-, 3-, and 6-month maturity
- ❖ 16-member DN Selling Group (74-member Reallowance Group)
- ❖ Term DNs are approximately 27% of total funding
- ❖ Responsive to reverse inquiry

2006-2007 Term DN Issuance  
October 1, 2006 – September 30, 2007  
\$ in billions





## Key Conclusions

- ❖ FHLBank System is a Stable Low-Risk Issuer
- ❖ All FHLBanks are SEC Registrants with Current Financials
- ❖ Supportive of Regulatory Reform
- ❖ FHLBanks have Significant Annual Funding Requirements
- ❖ Debt Programs are Structured to Provide Investors with Liquidity and Flexibility to Meet Investment Goals



# Appendix A:

## FHLBanks: A Different Housing GSE

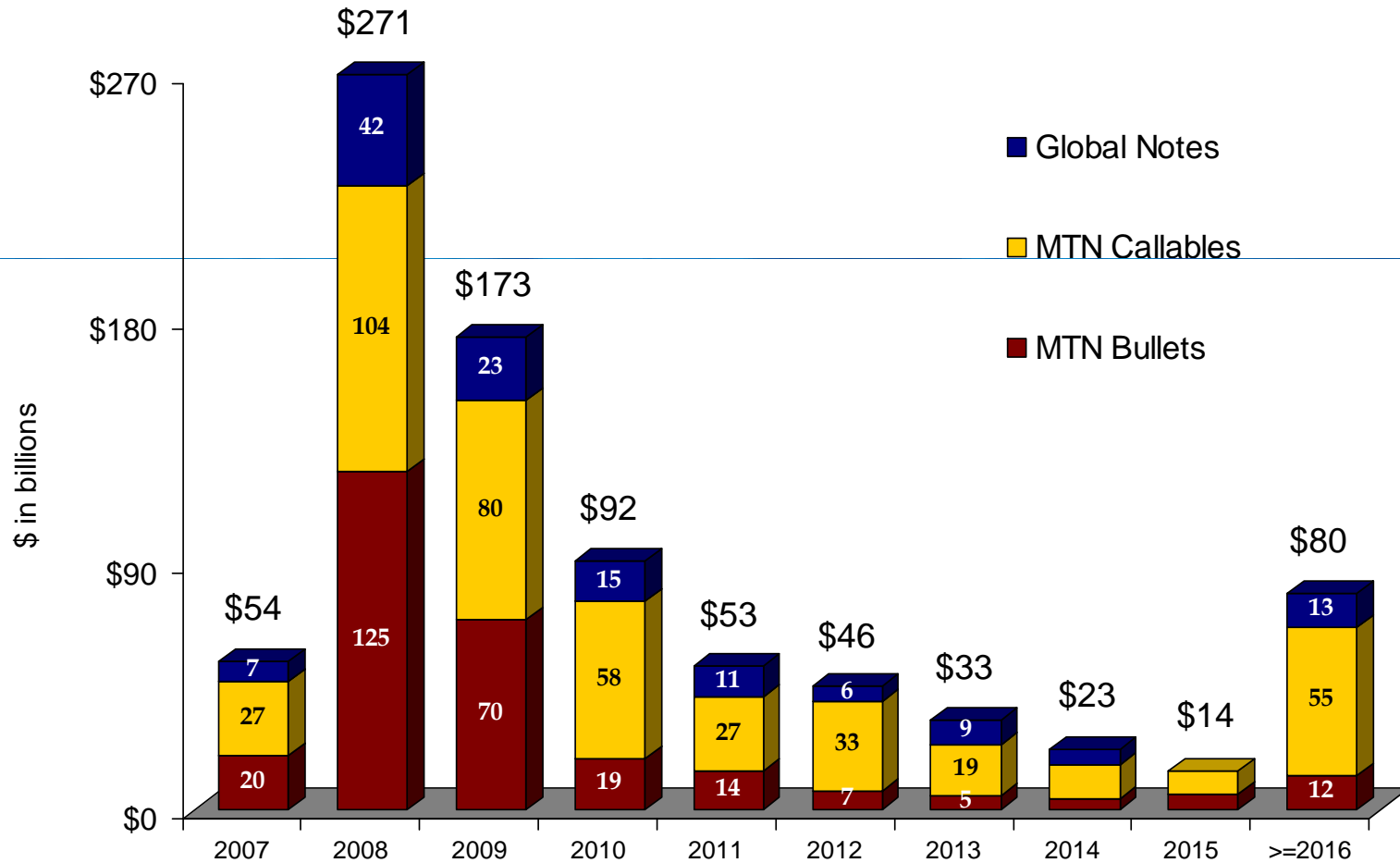
### FHLBanks

- ❖ Privately-owned cooperatives, par value stock, not publicly-traded
- ❖ Cooperative ownership allows conservative view of financial performance
- ❖ Primary line of business is member lending and mortgage purchase is a secondary line
- ❖ Mortgage loans are credit enhanced by members to double-A equivalent dispersing credit risk
- ❖ 4% minimum capital-to-asset ratio and risk-based capital requirements – currently at 4.30%
- ❖ State and Local tax exempt for U.S. Investors
- ❖ Regulated by the FHFB

### Fannie Mae / Freddie Mac

- ❖ Publicly-owned, NYSE traded stock
- ❖ Publicly traded: emphasis on meeting shareholder and analyst short-term expectations
- ❖ Credit enhancing mortgages through securitization is a principal business
- ❖ Credit risk of mortgage loan assets is concentrated in two large GSE portfolios
- ❖ 2.5% minimum risk-based capital (0.45% off-balance sheet) plus additional 30% for operational risk – effective rate 3.25%
- ❖ Interest Income taxable for U.S. fixed income Investors
- ❖ Regulated by OFHEO

# Appendix B: Scheduled Long-Term Debt Maturities



2007 data as of 9/28/07



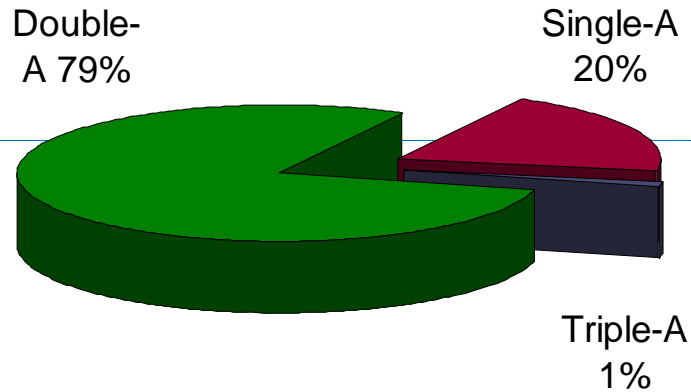
## Appendix C: Investments Are 99% Triple-A

Investment Rating at June 30, 2007	Percentage of Total Investments
<b>Long-term Rating</b>	
Triple-A	91.1%
Double-A	0.5%
Single-A	0.0%*
Triple-B	0.0%*
<b>Short-term Rating</b>	
A-1 or higher/P-1	8.4%
A-2/P-2	0.0%*
A-3/P-3*	0.0%*
B or lower/NP*	0.0%*
Unrated Securities*	0.0%*
Total	100%

**99.5% of \$155 billion investment portfolio rated  
Triple-A and A-1+ /P1  
(includes HTM, AFS, and trading securities)**

# Appendix D: Modest Net Derivative Exposure

Net Uncollateralized Exposure at Q2 2007 =  
\$722 million on \$947 billion notional



Net Uncollateralized Exposure by Counterparty Rating

Note: notional exposure to Triple-B and unrated credits equaled 0.02% at Q2 2007

Derivatives Outstanding by Type

