



Federal Housing Finance Agency

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July 30, 2009

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington D.C. 20510

The Honorable Richard C. Shelby
Ranking Member
Committee on Banking, Housing,
and Urban Affairs
United States Senate
Washington D.C. 20510

The Honorable Barney Frank
Chairman
Committee on Financial Services
United States House of Representatives
Washington D.C. 20515

The Honorable Spencer Bachus
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington D.C. 20515

Dear Chairmen and Ranking Members:

Enclosed please find two reports required by Sections 1212 and 1217 of the Housing and Economic Recovery Act of 2008 (HERA).

The first enclosed report, in the form of a Federal Register Notice, responds to Section 1217 of HERA, which requires the Federal Housing Finance Agency (FHFA) to conduct a study on the extent to which loans and securities used as collateral to support Federal Home Loan Bank (FHLBank) advances are consistent with the interagency guidance on nontraditional mortgage products. Section 1217 requires that the public have an opportunity to comment on any recommendations made as a result of the study. We are sending the Notice for publication in the Federal Register, concurrently with our submission of the report to you, to provide the public with the requisite opportunity to comment. We will provide an updated report to you after reviewing the comments that we receive in response to the Notice.

Section 1212 of HERA requires that the FHFA provide an annual report on the collateral pledged to the FHLBanks to secure advances made to their members and housing associates, including an analysis by type and FHLBank district. The second enclosed report is based on our 2009 annual collateral data survey, which collected information as of December 31, 2008. It is an update of the initial report that we provided to you on January 26, 2009, as of December 31, 2007, in response to Section 1212. The annual collateral data survey also provided the data cited in the HERA Section 1217 report. The Section 1212

report complements the Section 1217 report by providing additional background information and data on collateral securing advances at the FHLBanks.

Should you have any questions about the enclosed reports, please feel free to contact me at (202) 414-3801.

Sincerely,

A handwritten signature in black ink that reads "James B. Lockhart III". The signature is written in a cursive style with a prominent "J" and "L".

James B. Lockhart III
Director



**Report on Federal Home Loan Bank Collateral for Advances and
Interagency Guidance on Nontraditional Mortgage Products**

Prepared for

The Committee on Banking, Housing, and Urban Affairs of the Senate

and

The Committee on Financial Services of the House of Representatives

July 2009

HERA Section 1217 Study - Federal Register Notice

FEDERAL HOUSING FINANCE AGENCY

Federal Home Loan Bank Collateral for Advances and Interagency Guidance on Nontraditional Mortgage Products

AGENCY: Federal Housing Finance Agency.

ACTION: Notice of study and recommendations and request for comment.

SUMMARY: Section 1217 of the Housing and Economic Recovery Act of 2008 (HERA) requires the Director of the Federal Housing Finance Agency (FHFA) to conduct a study on the extent to which loans and securities used as collateral to support Federal Home Loan Bank (FHLBank) advances are consistent with the interagency guidance on nontraditional mortgage products. The study must be submitted to the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Financial Services of the House of Representatives no later than July 30, 2009, one year after the date of the HERA enactment. Further, the study (the HERA Section 1217 Study) must consider and recommend any additional regulations, guidance, advisory bulletins, or other administrative actions necessary to ensure that the FHLBanks are not supporting loans with predatory characteristics. Section 1217 of HERA also requires that the public have an opportunity to comment on any recommendations made as a result of the study. This Federal Register Notice is intended to inform the public about the HERA Section 1217 Study and provide the public with the requisite opportunity to comment.

DATES: Comments must be received on or before 60 days from the date of publication in the Federal Register.

ADDRESSES: You may submit your comments on the HERA Section 1217 Study, identified by a subject line of “HERA Section 1217 Study,” by any of the following methods:

- U.S. Mail, United Parcel Post, Federal Express, or Other Mail Service: The mailing address for comments is: Alfred M. Pollard, General Counsel, Attention: Comments/HERA Section 1217 Study, Federal Housing Finance Agency, Fourth Floor, 1700 G Street, NW, Washington, DC 20552.
- Hand Delivered/Courier: The hand delivery address is: Alfred M. Pollard, General Counsel, Attention: Comments/HERA Section 1217 Study, Federal Housing Finance Agency, Fourth Floor, 1700 G Street, NW, Washington, DC 20552. The package should be logged at the Guard Desk, First Floor, on business days between 9 a.m. and 5 p.m.

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- E-mail: Comments to Alfred M. Pollard, General Counsel, may be sent by e-mail at RegComments@FHFA.gov. Please include “HERA Section 1217 Study” in the subject line of the message.
- Federal eRulemaking Portal: <http://www.regulations.gov>. Follow the instructions for submitting comments.

FOR FURTHER INFORMATION CONTACT: Louis M. Scalza, Associate Director, (202) 408-2953 or Linda L. Campbell, Senior Bank Examiner, (202) 408-2586, Division of Federal Home Loan Bank Regulation; or Neil R. Crowley, Deputy General Counsel, Office of General Counsel, (202) 343-1316, Federal Housing Finance Agency, 1625 Eye Street, NW, Washington, DC 20006. The telephone number for the Telecommunications Device for the Deaf is (800) 877-8339.

SUPPLEMENTARY INFORMATION:

Section I of this Notice provides background on FHFA, the FHLBank System, and the collateral securing FHLBank advances. Section II summarizes the provisions of the interagency guidance and three Federal Housing Finance Board (FHFB) advisory bulletins relating to nontraditional, subprime, and anti-predatory lending. Section III describes the resources used to complete the HERA Section 1217 Study, including a collateral data survey that FHFA conducts annually, in-depth secured credit reviews performed during recent examinations, and a specific questionnaire related to the HERA Section 1217 issues that FHFA sent to the FHLBanks. Sections IV and V of this report present FHFA’s analysis and conclusions from the HERA Section 1217 Study and Section VI requests comments on specific related questions.

The HERA Section 1217 Study reports that FHLBanks’ reliance on collateral described as nontraditional, subprime or Alt-A declined during 2008, accounting for about one-fifth of collateral securing advances as of December 31, 2008. Some portion of this collateral predates the issuance of the interagency guidance, but the FHLBanks need to manage and mitigate the risks associated with all of the collateral supporting advances.

FHFA, through advisory bulletins issued by the prior regulator of the FHLBanks, the FHFB, has issued explicit written guidance to the FHLBanks on anti-predatory, nontraditional, and subprime lending. The FHLBanks have adopted policies which address nontraditional and subprime collateral, although in-depth secured credit reviews found some weaknesses in those policies and practices. The FHLBanks’ responses to an FHFA questionnaire indicate that they have adopted policies, procedures and practices that would require that loans and MBS used as collateral to support advances be consistent with the interagency guidance. FHFA will continue to assess the adequacy of the FHLBank’s policies and procedures and monitor the FHLBank’s remediation efforts. FHFA determines the appropriateness of issuing additional guidance based on examination results and its assessment of legislative developments.

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I. Background

A. Federal Housing Finance Agency

Effective July 30, 2008, HERA, Public Law 110–289, 122 Stat. 2654 (2008), transferred the supervisory and oversight responsibilities of the Office of Federal Housing Enterprise Oversight (OFHEO) over the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, Enterprises), and the oversight responsibilities of the FHFB over the FHLBanks and the Office of Finance (which acts as the FHLBanks’ fiscal agent) to FHFA, a new independent agency of the Federal Government. FHFA is responsible for ensuring that the Enterprises and the FHLBanks operate in a safe and sound manner, maintain adequate capital and internal controls, foster liquid, efficient, competitive and resilient national housing finance markets, and carry out their public policy missions through authorized activities. See § 1102, Public Law 110–289, 122 Stat. 2663–64. The Enterprises and the FHLBanks continue to operate under regulations promulgated by OFHEO and the FHFB until FHFA issues its own regulations. See *id.* at §§ 1302, 1312, 122 Stat. 2795, 2798. The Division of Federal Home Loan Bank Regulation is the principal organizational unit within FHFA responsible for supervision of the FHLBanks.

B. The FHLBank System

The twelve FHLBanks are instrumentalities of the United States organized under the Federal Home Loan Bank Act (Bank Act). See 12 U.S.C. 1423, 1432(a). The FHLBanks are cooperatives; only members of a FHLBank may own the capital stock of an FHLBank and only members or certain eligible housing associates (such as state housing finance agencies) may obtain access to the products provided by an FHLBank. See 12 U.S.C. 1426, 1430(a), 1430b. Each FHLBank is managed by its own board of directors and serves the public by enhancing the availability of residential mortgage and community lending credit through its member institutions. See 12 U.S.C. 1427. Any eligible institution (principally, federally-insured depository institutions or state-regulated insurance companies) may become a member of an FHLBank by satisfying certain criteria and by purchasing a specified amount of the FHLBank’s capital stock. See 12 U.S.C. 1424, 1426; 12 CFR part 931.

As government sponsored enterprises (GSEs), the FHLBanks are normally able to borrow funds in the capital markets on terms more favorable than could be obtained by most private entities. Until recently, the FHLBank System could borrow funds at a modest spread over the rates on U.S. Treasury securities of comparable maturity, across a wide range of maturities. In 2008, market conditions contributed to substantially wider spreads between FHLBank consolidated obligations and U.S. Treasuries, particularly at longer maturities. Although the wider spreads may have contributed to a decline in advances that began in the fourth quarter of 2008, the FHLBanks continue to serve as a source of liquidity to their members.

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The FHLBanks pass along their GSE funding advantage to their members—and ultimately to consumers—by providing advances (secured loans) and other financial services at rates that would not otherwise be available to their members. Some of the FHLBanks also have Acquired Member Asset (AMA) programs whereby they acquire fixed-rate, single-family mortgage loans from participating member institutions.

The FHLBanks raise funds in the capital markets by issuing consolidated obligations consisting of bonds and discount notes. Consolidated obligations are issued by the Office of Finance on behalf of the twelve FHLBanks and are the principal source of funding not only for FHLBank advances, but also for AMA programs, and investments. Although an FHLBank is primarily liable for the portion of the consolidated obligations corresponding to the proceeds received by that FHLBank, each FHLBank is also jointly and severally liable with the other eleven FHLBanks for the payment of principal of, and interest on, all consolidated obligations. See 12 U.S.C. § 1431; 12 CFR 966.9.

C. Collateral Securing FHLBank Advances

The United States Government established the Federal Home Loan Bank System in 1932 to stimulate mortgage finance by providing liquidity from the FHLBanks to its member financial institutions. Members, generally financial institutions, increase liquidity by obtaining advances from the FHLBanks. Those advances are secured by eligible collateral, typically government securities, residential mortgages, or other real estate related collateral (*e.g.*, commercial real estate loans, home equity lines of credit and second mortgage loans). Total advances at the end of June 2009 were \$721 billion, down from a peak exceeding \$1 trillion in October 2008.

All advances are collateralized, which protects the FHLBank should the member default. The FHLBanks secure member advances in several ways: a blanket lien on all or specific categories of a member's assets, a lien on specific member assets for which the member provides a listing of collateral characteristics to the FHLBank, a lien on assets that a member delivers to the FHLBank, or some combination thereof. The level of collateralization depends on the level of risk associated with the collateral. To date, the FHLBanks have never incurred a credit loss on an advance.

A member may pledge only the following types of collateral for an advance: (a) fully disbursed, whole first mortgages on improved residential property not more than 90 days delinquent; (b) securities issued, insured, or guaranteed by the U.S. Government or any agency thereof; (c) cash or deposits of an FHLBank; (d) other real estate related collateral acceptable to the FHLBank, provided the value of such collateral is readily ascertainable and the FHLBank can perfect its interest in the collateral; and (e) for institutions that qualify as “community financial institutions” (CFIs), secured loans for small business, agriculture, or community development activities, or securities representing a whole interest in such secured loans. See 12 U.S.C. 1430(a)(3) as amended. Whole first mortgage loans on residential real property represent the largest source of member-provided collateral to the System. As of December 31, 2008, whole

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residential mortgage loans pledged as collateral for advances were \$859 billion or 59.7 percent of the total collateral securing advances.

II. HERA Section 1217 Study Regulatory Guidance

HERA Section 1217, which mandated this study, specifically refers to interagency guidance on nontraditional mortgage products. This section provides a summary of the interagency guidance on nontraditional mortgage products along with the related statement on subprime residential mortgage lending. It then summarizes the advisory bulletins issued by the FHFB to apply the principles of the interagency guidance to the supervision of the FHLBanks, as well as an advisory bulletin on anti-predatory lending.¹

A. Interagency Guidance

The term “interagency guidance” is not specifically defined in the HERA legislation. For purposes of this report, FHFA uses the term “interagency guidance” to mean the guidance issued jointly by five federal financial institution regulatory agencies – the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of the Thrift Supervision, and the National Credit Union Administration – concerning nontraditional mortgage products and subprime lending.² The principal interagency guidance on nontraditional and subprime residential mortgage loans can be summarized as follows.

Interagency Guidance on Nontraditional Mortgage Product Risks (2006)

The federal financial institution regulatory agencies issued the *Interagency Guidance on Nontraditional Mortgage Product Risks* on October 4, 2006. This notice instructs financial institutions on how to offer nontraditional mortgage products in a safe and sound manner and in a way that clearly discloses the benefits and risks to borrowers. The guidance focuses on nontraditional residential mortgage products that permit borrowers to defer payment of principal or interest, including interest-only residential mortgage loans, payment option adjustable-rate residential mortgage loans, and negative amortization residential mortgage loans. It also covers other higher-risk practices often associated with nontraditional residential mortgage loans, such as simultaneous second-lien residential mortgage loans, variable interest rates with below-market introductory rates, and the use of reduced documentation in the evaluation of an applicant’s creditworthiness. The guidance establishes that financial institutions should recognize and mitigate the risks inherent in these products by ensuring that loan terms and

¹ Advisory bulletins provide guidance to the FHLBanks regarding particular supervisory issues. Although an advisory bulletin does not have the force of a regulation or an order, it is integrated into the examination programs. Advisory bulletins are effective upon issuance and remain in effect until rescinded.

² Although HERA specifically refers to the interagency guidance on nontraditional mortgage products, FHFA believes that the issue of subprime mortgage lending is closely related. Therefore, FHFA has expanded the scope of the study to include subprime lending.

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underwriting standards are clearly disclosed and consistent with prudent lending practices, including credible consideration of a borrower's repayment capacity.

Statement on Subprime Mortgage Lending (2007)

The federal financial institution regulatory agencies subsequently issued the *Statement on Subprime Mortgage Lending* on July 10, 2007. The Statement addresses issues relating to certain adjustable-rate mortgage products that can cause the borrower's monthly payment to increase significantly and potentially become unaffordable. The Statement establishes prudent safety and soundness and consumer protection standards that should be followed to ensure that consumers, especially subprime borrowers, obtain loans they can afford to repay and receive information that adequately describes product features. These standards include qualifying the borrower using a fully-indexed interest rate (*i.e.*, the interest rate after any lower, introductory interest rate in the early period of a loan) and a fully-amortizing repayment schedule. The standards also convey the regulators' expectation that stated income and reduced documentation should be accepted by the lender only if there are documented mitigating factors that clearly minimize the need for verification of a borrower's repayment capacity. The Statement reiterates that institutions should develop strong control systems to monitor compliance with risk management and consumer protection policies and practices, including clear disclosures to customers and limits on prepayment penalties.

B. FHFB Guidance

FHFA – like its predecessor agencies the Federal Housing Finance Board and the Office of Federal Housing Enterprise Oversight – is mindful of the potential risk to the FHLBanks and the impact on the public if the FHLBanks were to provide liquidity to support predatory loans or inappropriately underwritten nontraditional and subprime residential mortgage loans. Accepting such loans as collateral for advances could pose a safety and soundness risk to the FHLBanks and would also be inconsistent with the overarching housing finance mission of the FHLBanks.

As a result of concerns about predatory lending, in 2005 the former FHFB issued an advisory bulletin to the FHLBanks requiring each FHLBank to establish and communicate to its member institutions its anti-predatory lending policies. The FHLBanks were required to establish those policies to avoid accepting loans with predatory characteristics as collateral for advances. In 2007 and 2008, the FHFB also issued advisory bulletins on nontraditional and subprime residential mortgage loans as a complement to the interagency guidance. The FHFB guidance established that any nontraditional or subprime mortgage loans originated or acquired by the member after July 10, 2007 could serve as eligible collateral only if those loans were underwritten consistent with the interagency guidance. The 2007 and 2008 guidance expanded the reach of the interagency guidance by establishing that the standards in the interagency guidance would apply not just to loans purchased by the FHLBanks, but also to whole loans collateralizing advances and to loans underlying MBS that serve as collateral for advances or that the FHLBanks purchase as investment securities. Further, the FHFB

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instructed the FHLBanks to apply the interagency standards to loans and MBS accepted as collateral from FHLBank member institutions that were not otherwise directly subject to the interagency guidance, *e.g.*, insurance companies. The following provides a summary of the three advisory bulletins.

Advisory Bulletin 2005-AB-08

In August of 2005, the FHFB issued Advisory Bulletin 2005-AB-08, *Guidance on FHLBank Anti-Predatory Lending Policies*. This Bulletin establishes that each FHLBank must have in place comprehensive anti-predatory lending policies to govern the purchases of residential mortgage loans and the level of advances that can be made to its members. Although the advisory bulletin acknowledged that there is no single definition of predatory lending in federal, state, and local laws and regulations, it noted that over the preceding several years, federal, state, and local jurisdictions had adopted anti-predatory lending measures to combat abusive practices in the mortgage market.

The 2005 advisory bulletin requires that the FHLBanks' policies preclude purchasing residential mortgage loans or accepting as eligible collateral for advances loans that violate applicable federal, state, or local anti-predatory lending laws. The FHLBanks' anti-predatory lending policies must also, at a minimum, address: residential mortgage loans subject to the Home Ownership and Equity Protection Act (HOEPA), prepaid single-premium credit life or similar insurance, prepayment penalties beyond the early years of the loan, and mandatory arbitration. In addition, the FHLBanks must require each member to certify that it is aware of the FHLBanks' anti-predatory lending policies and will comply with those policies in the sale of residential mortgage loans to the FHLBank or when obtaining advances from the FHLBank. Each FHLBank must also develop written procedures and standards for verifying member compliance with its anti-predatory lending mortgage purchase and advance policies, paying particular attention to any loans that are otherwise not subject to review by a federal financial institution supervisory agency. Finally, each FHLBank must have agreements in place with its members to provide for replacement or indemnity for any loan or collateral that is found to be in noncompliance with the FHLBanks' policies. See <http://www.fhfb.gov/webfiles/4201/2005-AB-08.pdf>.

Advisory Bulletin 2007-AB-01

Issued in April 2007, Advisory Bulletin 2007-AB-01, *Nontraditional and Subprime Residential Mortgage Loans*, requires the FHLBanks to implement policies and risk management practices that establish risk limits for, and mitigation of, credit exposure on nontraditional and subprime mortgage loans. The advisory bulletin requires that an FHLBank's policies and procedures must address how the FHLBank measures, monitors and controls risks arising from exposures to nontraditional and subprime mortgage loans. The advisory bulletin further requires that an FHLBank's policies must be discussed with and approved by its board of directors and must identify the attributes of nontraditional and subprime residential mortgage loans that have the potential for increased risk. The policies should establish limits and require regular monitoring of

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exposure to nontraditional and subprime residential mortgage loans, including limits and acceptable adjustments to collateral coverage requirements or “haircuts.” The procedures for monitoring collateral securing advances should allow an FHLBank to identify the volume of nontraditional and subprime residential mortgage loans pledged to secure advances. Finally, the collateral review procedures should also include assessments and testing of member underwriting and monitoring of nontraditional and subprime loans and address the acceptance of MBS with nontraditional and subprime collateral. See <http://www.fhfb.gov/webfiles/6372/2007-AB-01.pdf>.

Advisory Bulletin 2008-AB-02

Issued in July 2008, Advisory Bulletin 2008-AB-02, *Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets*, provides written guidance regarding residential mortgage loans purchased under the FHLBank’s Acquired Member Assets programs, investments in private-label MBS, and collateral securing advances. The advisory bulletin states that residential mortgage loans that were originated or acquired by the member after July 10, 2007 may be included in calculating the amount of advances that can be made to a member only if those loans were underwritten consistent with all aspects of the interagency guidance. The guidance in the advisory bulletin applies to whole mortgage loans and to the residential mortgage loans that underlie private-label MBS used as collateral for advances.

Further, the advisory bulletin requires the FHLBanks to take the quality control steps necessary to ensure compliance with the 2006 and 2007 interagency guidance on nontraditional and subprime mortgage loans. Those quality controls include requiring the adoption of business practices including, but not limited to: conducting due diligence on the mortgages or assets it acquires or collateralizes itself, relying on an independent third party to assess compliance, or relying on certifications, representations or warranties provided by the member. The FHLBanks may rely on representations and warranties and third-party assurances only if the FHLBank has a credible plan to test and verify their dependability. See <http://www.fhfb.gov/webfiles/6906/2008-AB-02.pdf>.

Coverage and Applicability of FHFB Guidance

According to Advisory Bulletin 2008-AB-02, in order to be eligible collateral for advances, nontraditional and subprime residential mortgage loans originated or acquired by a member after July 10, 2007 – and such loans backing private-label MBS issued after that date – must conform to the interagency guidance. By adopting the effective date of the interagency guidance,³ the FHFB chose not to apply the advance collateral guidance retroactively. To have done so might have reduced access to liquidity and potentially added to the financial stress of some FHLBank member institutions at a time of increasing uncertainty in financial and housing markets.

³ *Statement on Subprime Mortgage Lending*, 72 Fed. Reg. 37569 (July 10, 2007).

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Recap of the three FHFB advisory bulletins

| FHFB Advisory Bulletins | 2005- AB- 08 | 2007- AB- 01 | 2008- AB- 02 |
|--|-----------------------------|-----------------------------|-----------------------------|
| Anti-predatory lending policies and procedures | X | | |
| Home Ownership and Equity Protection Act | X | | |
| Single-premium credit life or similar insurance | X | | |
| Prepayment penalties beyond the early loan years | X | | |
| Mandatory arbitration | X | | |
| Nontraditional and subprime mortgage loan risk management | | X | |
| Mitigation of nontraditional and subprime credit exposure | | X | |
| Nontraditional and subprime collateral limitations | | X | |
| Compliance with interagency guidance on nontraditional and subprime mortgage lending | | | X |
| Whole loans securing advances | | | X |
| MBS with underlying applicable loans securing advances | | | X |

III. HERA Section 1217 Study Resources

For purposes of the HERA Section 1217 Study, FHFA primarily relied on three resources: a collateral data survey that FHFA conducts annually, in-depth secured credit reviews performed during recent examinations, and a questionnaire related to the HERA Section 1217 issues that FHFA sent to the FHLBanks. This section describes each of these information resources.

A. Collateral Data Survey

Each year FHFA surveys the FHLBanks and prepares a report on the levels and trends in collateral securing advances by type and FHLBank. The collateral data survey collects information on the minimum levels of collateral required by the FHLBanks' policies to secure outstanding advances. The survey focuses on the minimum levels of collateral required by FHLBank policies because most FHLBanks file a blanket lien on the assets of most of their borrowing members. The volume of collateral under blanket lien, however, is generally not the most meaningful indicator of collateral protection because it does not indicate the quality or liquidity of the collateral. In general, the FHLBanks that utilize a blanket lien establish a "collateral hierarchy" in which they first consider the highest quality and most liquid collateral when calculating collateral coverage before they look to other types of collateral. Thus, for the collateral data survey, the FHLBanks report the collateral that they would rely upon first to cover any repayment shortfall resulting from member default on an outstanding advance.

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The FHLBanks report in the collateral data survey the levels of collateral that consists of subprime and nontraditional residential mortgage loans, and Alt-A and subprime private-label MBS.⁴ The FHLBanks may use estimates for subprime and nontraditional mortgage loan amounts when the actual data are not available for all members, such as members to which an FHLBank lends by using a blanket lien on the members' assets.

B. Secured Credit Reviews

FHFA evaluates the policies, procedures and practices of each FHLBank as part of its examination and supervision program. FHFA regulates the FHLBanks and does not, in the normal course of an examination, examine the individual loans or MBS pledged by the FHLBanks' member institutions.⁵ During examinations of the FHLBanks, FHFA evaluates the FHLBanks' collateral policies, how the FHLBank manages and secures its collateral positions, and the measures the FHLBank takes to protect itself from risk. The FHLBanks are required to have appropriate controls in place to protect their financial safety and soundness, to adhere to regulatory guidance, and to carry out their housing finance mission.

In recognition of the rapid and serious deterioration in the residential mortgage market, as part of its examination process, FHFA conducted in-depth secured credit reviews in 2008-2009, which focused on the advances and collateral policies and practices of the FHLBanks. FHFA examiners commenced the in-depth reviews with FHLBank examinations opening the second quarter of 2008, prior to the passage of HERA. The review process was designed to closely evaluate whether the FHLBanks have taken appropriate steps to control and value collateral, secure advances, and plan for the potential for member failures. The review work program covered collateral risk management in seven areas: collateral control, haircut and valuation methodologies, risk limits, member failure plans, member monitoring, insurance company members, and nontraditional and subprime mortgage loan products. The last of the in-depth secured credit reviews was completed in the second quarter of 2009.

C. HERA Section 1217 Questionnaire

To complement the existing information on FHLBank collateral and in response to Section 1217 of HERA, FHFA's Division of Federal Home Loan Bank Regulation developed the HERA Section 1217 Questionnaire and delivered it to the FHLBanks in March 2009. The Section 1217 questionnaire was used to obtain consistent information regarding the FHLBanks' policies, procedures, and practices on nontraditional and subprime residential mortgage loans acceptable as collateral for advances, either directly

⁴ An industry standard definition of Alt-A does not exist. Alt-A MBS have traditionally been considered to be those backed by mortgage loans to borrowers with prime credit scores but with features that included, for example, low or no borrower income or asset verification. Subprime private-label MBS are those backed by residential mortgage loans to subprime borrowers. Since there is no industry standard for a credit score threshold under which a borrower is considered subprime, the FHLBanks may use different credit score thresholds in reporting subprime residential mortgage loans in the survey.

⁵ FHFA only evaluates or examines the collateral under compelling circumstances such as might be presented by large member institutions experiencing known financial stress.

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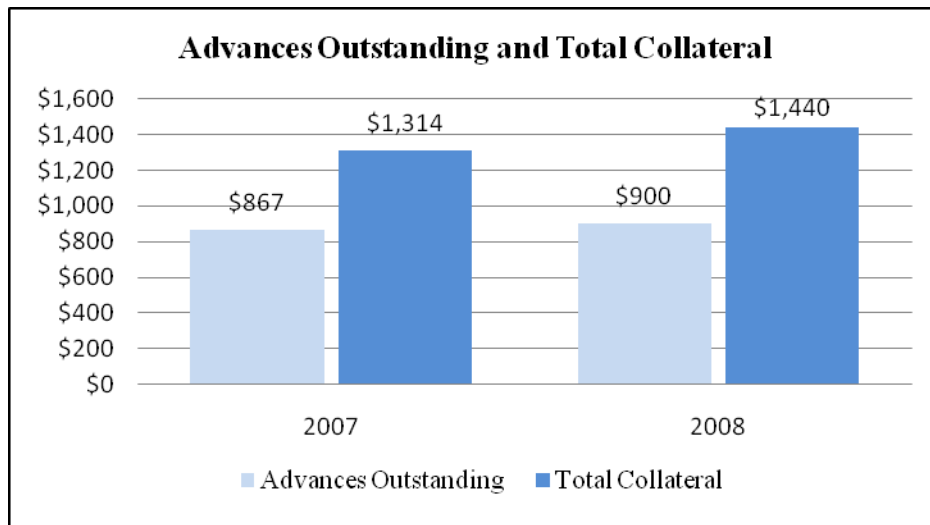
or through MBS that are backed by such loans. The questionnaire also requested information on anti-predatory lending policies, procedures, and practices. The questionnaire focused on whether the loans and securities used as collateral to support FHLBank advances are consistent with the requirements of the advisory bulletins and the interagency guidance on nontraditional and subprime mortgage products and anti-predatory lending. The questionnaire was also designed to complement the in-depth secured credit reviews, particularly to gauge the extent to which the FHLBanks are addressing concerns raised in the secured credit reviews regarding the acceptance of nontraditional and subprime residential mortgage loans as collateral for advances.

IV. HERA Section 1217 Study Results

This section presents an analysis of the information obtained for the HERA Section 1217 Study through the collateral data survey, the secured credit reviews, and the follow-up questionnaire to the FHLBanks. The analysis focuses on the extent to which loans and securities used as collateral supporting FHLBank advances are consistent with the interagency guidance on nontraditional and subprime mortgage products.

A. FHLBank Collateral

The tables below summarize information from the collateral surveys for year-ends 2007 and 2008 showing the types and amounts of collateral upon which the FHLBanks rely to secure advances. As of December 31, 2007, the par value of FHLBank advances outstanding totaled \$867 billion and the FHLBanks reported that the collateral on which they were relying to secure those advances totaled \$1.3 trillion. As of December 31, 2008, the par value of FHLBank advances outstanding increased to \$900 billion, secured by collateral totaling \$1.4 trillion.



From 2007 to 2008, whole loan collateral declined from \$890 billion to \$859 billion, a decrease of \$31 billion or 8 percentage points, yet whole loans continue to comprise the

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majority of the collateral securing advances at the FHLBanks. During this period, MBS and other real estate related collateral grew as a component of total collateral securing advances.

| Collateral Type | 2007 Collateral (\$ billions) | 2007 (%) | 2008 Collateral (\$ billions) | 2008 (%) |
|--------------------------------------|----------------------------------|--------------|----------------------------------|--------------|
| Whole Loans | \$890 | 67.7 | \$859 | 59.7 |
| Mortgage-backed Securities | \$195 | 14.8 | \$218 | 15.1 |
| Other Securities | \$6 | 0.5 | \$17 | 1.2 |
| Other Real Estate Related Collateral | \$213 | 16.2 | \$329 | 22.8 |
| Community Financial Institutions | \$10 | 0.8 | \$17 | 1.2 |
| Total Collateral | \$1,314 | 100.0 | \$1,440 | 100.0 |

The collateral surveys for year-ends 2007 and 2008 show nontraditional and subprime residential mortgage loans declined as a proportion of the collateral on which the FHLBanks rely to secure advances. As of December 31, 2007, nontraditional and subprime residential mortgage loans represented \$410 billion or 31.2 percent of total advance collateral of \$1.3 trillion. Subprime MBS and Alt-A MBS accounted for 3.3 percent of reported collateral. As of December 31, 2008, nontraditional and subprime residential mortgage loans represented \$267 billion or 18.5 percent of total advance collateral of \$1.4 trillion, a decline of 12.7 percentage points from 2007. Additionally, subprime MBS and Alt-A MBS represented 2.0 percent of reported collateral, a decline of 1.3 percentage points from the previous year-end.⁶ Based on the totals reported, the FHLBanks relied on higher levels of nontraditional mortgage loan collateral than subprime mortgage loan collateral and higher levels of Alt-A MBS collateral than subprime MBS collateral.

| Collateral Type | 2007 Collateral (\$ billions) | 2007 (%) | 2008 Collateral (\$ billions) | 2008 (%) |
|---|----------------------------------|--------------|----------------------------------|--------------|
| Subprime Mortgage Loans | \$80 | 6.1 | \$56 | 3.9 |
| Nontraditional Mortgage Loans | \$297 | 22.6 | \$186 | 12.9 |
| Mortgage Loans that are both Subprime and Nontraditional | \$34 | 2.6 | \$24 | 1.7 |
| Private-label Subprime MBS | \$2 | 0.2 | \$10 | 0.7 |
| Private-label Alt-A MBS | \$41 | 3.1 | \$19 | 1.3 |
| Subtotal: Subprime/Nontraditional/Alt-A | \$454 | 34.6 | \$295 | 20.5 |
| Other Collateral | \$860 | 65.4 | \$1,145 | 79.5 |
| Total Collateral | \$1,314 | 100.0 | \$1,440 | 100.0 |

As of December 31, 2008, collateral described as nontraditional, subprime or Alt-A accounted for about one-fifth of the collateral securing advances at FHLBanks. This number is best understood as an approximation, given the varying definitions of these

⁶ Percentages from the table may not sum to the exact figures reported in the text due to rounding.

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terms in the financial industry in recent years. For example, purchasers of private-label MBS, including FHLBank member institutions, relied on rating agency characterization of the securities at the time of issuance. However, these designations might not capture all the variation in underlying loans within a given security nor would they reflect any subsequent deterioration in the quality of the underlying collateral.

Some portion of collateral described as nontraditional, subprime or Alt-A was originated or purchased prior to July 10, 2007, and therefore, under the guidance in FHFB's advisory bulletins, is not required to conform to the interagency guidance. The collateral survey does not contain information sufficient to allow FHFA to determine how much of the collateral would be subject to the interagency guidance. However, the FHFB guidance does require the FHLBanks to have policies in place to ensure that subprime and nontraditional loans that were originated or acquired by the FHLBank member subsequent to the issuance of the interagency guidance and certain effective dates in the FHFB advisory bulletins may not be pledged as collateral for advances if they do not conform to the guidance.

B. FHLBank Policies and Procedures Regarding Nontraditional and Subprime Collateral—Findings from the Secured Credit Reviews

As part of its examination process, FHFA conducted in-depth reviews of the FHLBanks' policies and procedures regarding secured credit. One part of FHFA's in-depth reviews of secured credit focused directly on subprime lending and nontraditional loan products. Other aspects of the secured credit reviews that are relevant for this study included collateral control, member monitoring, and haircut and valuation methodologies.

Although the reviews found that the FHLBanks had policies regarding the acceptance of subprime and nontraditional loans as collateral for advances, examiners questioned, in some cases, the appropriateness of the policies and implementing procedures and practices. In addition, a number of FHLBanks had difficulty determining their exposure to nontraditional and subprime residential mortgage loan collateral used to support FHLBank advances. Examiners identified weaknesses in FHLBanks' assessments and testing of member underwriting and monitoring of nontraditional and subprime loans, haircuts and discounts for nontraditional and subprime collateral, risk limits on the acceptance of these types of collateral, and board reporting of exposures to the collateral. Specifically, examiners noted the following:

- Five FHLBanks did not require an assessment of member underwriting of nontraditional or subprime loans to ensure consistency with interagency guidance as part of their onsite collateral review procedures. Of the remaining FHLBanks, three did not consistently document their review of member underwriting of nontraditional or subprime loans.
- Three FHLBanks lacked analytical support or validation for haircuts used for subprime and nontraditional mortgage products. Two FHLBanks did not have differentiated haircuts for conventional mortgage loan collateral and nontraditional and subprime mortgage loan collateral.

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- Four FHLBanks did not have risk limits on the volume of nontraditional and subprime mortgage loan collateral that members may pledge to support FHLBank advances.
- Three FHLBanks did not regularly report exposures of nontraditional and subprime collateral to their boards of directors.

FHFA examination staff communicated these weaknesses and expectations for corrective action to executive management and the boards of directors of the individual FHLBanks. Each FHLBank receiving regulatory criticisms of its policies committed to correct the weaknesses, and the examination staff has begun evaluating the FHLBanks' corrective actions through follow-up visitations and examinations. FHLBanks that have not adequately addressed the weaknesses identified during the secured credit reviews will be subject to a commensurately stricter supervisory response. Unsatisfactory remediation of adverse examination findings would be a factor that FHFA considers when determining whether formal supervisory enforcement actions would be warranted in the future.

C. Responses to the HERA Section 1217 Questionnaire

The Section 1217 Questionnaire complements and in some cases updates the information from the in-depth secured credit reviews. The responses provide the FHLBanks' perspectives on a consistent set of questions. During on-site examinations, FHFA will review documents and independently evaluate the FHLBanks' policies, procedures and practices. FHFA will draw final conclusions about the FHLBanks' progress in addressing criticisms from the secured credit reviews and in adhering to the advisory bulletins related to the interagency guidance after completion of the next annual examinations of the FHLBanks.

1. Do the FHLBanks have policies that exclude from eligible collateral for advances residential mortgage loans and MBS backed by such loans that do not conform to the interagency guidance?

Nine of the twelve FHLBanks have board-approved policies to exclude from eligible collateral for advances nontraditional and subprime residential mortgage loans originated or acquired by the member after July 10, 2007 that do not conform to the interagency guidance, as well as private-label MBS issued after July 10, 2007, with underlying nontraditional or subprime residential mortgage loans that do not conform to the interagency guidance. The other three FHLBanks have adopted policies addressing, but not specifically excluding, the acceptance of applicable nontraditional and subprime residential mortgage loans or private-label MBS used as collateral for advances.

2. Do the FHLBanks require members to certify that residential mortgage loans used to calculate eligible collateral comply with the interagency guidance and obtain and

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provide to the FHLBank certifications from securities issuers that loans underlying private-label MBS serving as collateral conform to the interagency guidance?

All of the FHLBanks' policies require members to certify that the nontraditional and subprime residential mortgage loans used to calculate eligible collateral comply with the interagency guidance. One FHLBank, however, requires the certification regarding subprime residential mortgage loans only from members with established subprime lending programs.⁷ Nine FHLBanks require that members pledging private-label MBS certify or deliver to the FHLBank enforceable representations and warranties from the issuer or other credible evidence indicating that the loans backing the MBS comply with the interagency guidance. The remaining FHLBanks do not accept as eligible collateral for advances private-label MBS issued after July 10, 2007 that is collateralized by nontraditional and subprime residential mortgage loans.

3. Do the FHLBanks evaluate, test, and validate member and issuer certifications?

To evaluate and test member certifications regarding the conformance of nontraditional and subprime residential mortgage loan collateral to the interagency guidance, the FHLBanks review members' underwriting policies, verify loan documentation on-site at members, or review members' internal or external examination reports.⁸ Regarding validation of certifications from securities issuers that loans underlying private-label MBS originated after July 10, 2007 conform to the interagency guidance, the FHLBanks commonly responded that although they adopted policies to require such certifications, members have not been able to obtain and provide them. Therefore, as a practical matter, the FHLBanks have not accepted private-label MBS originated after July 10, 2007 as collateral for advances.

4. Do the FHLBanks have in place policies and procedures that preclude the acceptance of residential mortgage loans with predatory characteristics as collateral for advances?

All FHLBanks have anti-predatory lending policies or procedures that preclude acceptance as eligible collateral for advances residential mortgage loans that violate applicable federal, state, or local predatory lending laws and other similar credit-related consumer protection laws. In addition, each of the FHLBanks specifically excludes from eligible collateral loans which: have an annual percentage rate or charge points or fees which exceed the thresholds established by HOEPA; include requirements for prepaid, single-premium credit life insurance; include a fee or charge for prepayment beyond the early years of a loan; or require mandatory arbitration to resolve disputes. Seven of the FHLBanks define "early years" for permissible prepayments as a period of five years. Five FHLBanks qualify their collateral ineligibility standard related to

⁷ FHFA established that for purposes of determining collateral eligibility the interagency guidance should apply regardless of whether a member has a subprime lending program. FHFA is addressing this matter with the FHLBank.

⁸ The results of the secured credit reviews indicate that the quality of the FHLBanks' evaluations of member underwriting and certifications is uneven. FHFA examination staff is addressing identified issues with the FHLBanks.

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mandatory arbitration as a loan requiring mandatory arbitration that is prohibited by any applicable anti-predatory lending laws. One FHLBank qualifies its collateral ineligibility standard related to prepayment penalties as a loan including prepayment fees beyond the early years of the loan to the extent prohibited or limited by any applicable anti-predatory lending laws. The FHLBanks perform procedures to evaluate and test member underwriting of collateral that are similar to those outlined above for nontraditional and subprime residential mortgage loans.

V. Conclusions and Recommendations

Approximately one-fifth of the collateral supporting FHLBank advances consists of subprime or nontraditional loans or Alt-A or subprime private-label MBS. Although a significant share of the loans or MBS in these categories may have been originated or issued prior to July 10, 2007, and thus not technically subject to the interagency guidance, the FHLBanks still need to manage and mitigate the risks associated with all of the collateral underlying advances. Going forward, the FHLBanks will need to ensure that the collateral supporting advances remains consistent with safety and soundness as well as the overarching housing finance mission of the FHLBanks.

Although all FHLBanks had policies addressing nontraditional and subprime collateral, findings from the in-depth secured credit reviews revealed some weaknesses in policies and practices, particularly in regard to the management of the risks of this type of collateral. The FHLBanks' responses to the HERA Section 1217 Questionnaire indicate that they have adopted policies, procedures, and practices that would require that the loans and MBS used as collateral to support advances be consistent with the interagency guidance. The next cycle of examinations will evaluate whether weaknesses that examiners previously identified in the FHLBanks' policies and practices for subprime and nontraditional residential mortgage loans have been corrected and verify their responses to the HERA Section 1217 Questionnaire regarding application of the principles of the interagency guidance to the acceptance of collateral used to support advances. Through its supervisory programs, FHFA will continue to assess the adequacy of the FHLBank's policies and procedures, determine weaknesses or deficiencies, and monitor the FHLBanks' remediation efforts.

The advisory bulletins issued by FHFB on the subjects of nontraditional and subprime mortgage loans and predatory lending between 2005 and 2008 provide explicit guidance for the FHLBanks. Adoption of the policies and practices expected by the guidance has received and will continue to receive focused attention through supervisory programs and particularly as part of FHFA's examinations of the FHLBanks. FHFA uses the information obtained through its supervisory program of examinations, targeted reviews and surveys, and off-site monitoring to develop appropriate guidance to facilitate the FHLBanks' mission of providing liquidity to its members. For example, FHFA's Division of Federal Home Loan Bank Regulation has recently prepared guidance for examiners to address questions that the FHLBanks have asked when developing policies and procedures to implement the guidance contained in the advisory bulletins.

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FHFA intends to reevaluate whether additional guidance or rules are necessary for the FHLBanks regarding anti-predatory lending or the acceptance of nontraditional or subprime residential mortgages as collateral for advances after the completion of the next cycle of examinations, which will determine if the FHLBanks have appropriately addressed attendant weaknesses identified by the in-depth secured credit reviews that began in 2008. At a minimum, FHFA expects to clarify one point made in Advisory Bulletin 2008-AB-02. The advisory bulletin states that residential mortgage loans underlying private-label MBS issued after July 10, 2007 must conform to the interagency guidance, but it is silent about MBS issued before that date that a member may acquire after that date. FHFA intends to clarify that MBS purchased by a member after July 10, 2007, is also subject to the guidance contained in Advisory Bulletin 2008-AB-02.

Since the passage of HERA, there have been several legislative developments addressing mortgage lending reform. FHFA is following these developments and intends to update its regulations and guidance, as appropriate, as issues surface in the legislative discussion. FHFA especially notes the provision in the Mortgage Reform and Anti-Predatory Lending Act recently passed by the House of Representatives that adopts a borrower's ability to repay as a minimum standard defined in the law; comments are invited on a question related to the concept of a borrower's ability to repay in the request for comments below.

VI. Request for Comments

FHFA welcomes comments on all aspects of the HERA Section 1217 Study presented in this Notice. FHFA invites comments on the following questions, in particular:

- Should FHFA replace its existing guidance on nontraditional, subprime, or anti-predatory lending with formal regulatory standards?
- Does any guidance contained in Advisory Bulletins 2005-AB-08, 2007-AB-01, and 2008-AB-02 need additional emphasis or clarification?
- Should FHFA explicitly address other mortgage loan features as a control against predatory lending, or is it sufficient that Advisory Bulletin 2008-AB-02 requires an FHLBank to only accept residential mortgage loans (and such loans backing private-label MBS) as eligible collateral for advances when they conform to the interagency guidance? Some loan features that may be associated with either high risk or potentially predatory loans are addressed in the Federal Reserve Board's Amendments to Regulation Z (Truth in Lending) which will go into effect later in 2009 and 2010. For "higher-priced mortgages," the amended regulation addresses a borrower's ability to repay the loan, prepayment penalties, income verification, and escrow accounts.

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- Should FHFA seek any additional statutory authority to support its ability to prohibit an FHLBank from accepting loans with predatory characteristics as collateral for advances?
- As the federal financial institution regulatory agencies, such as through the Federal Financial Institutions Examination Council, look to modify or enhance guidance with respect to nontraditional or subprime mortgage products, should FHFA be formally and directly involved?

Copies of all comments will be posted without change, including any personal information you provide, such as your name and address, on the FHFA internet web site at <http://www.fhfa.gov>. In addition, copies of all comments received will be available for examination by the public on business days between the hours of 10 a.m. and 3 p.m., at the Federal Housing Finance Agency, Fourth Floor, 1700 G Street, NW., Washington, DC 20552. To make an appointment to inspect comments, please call the Office of General Counsel at (202) 414-3751.



**Report on Federal Home Loan Bank
Collateral Securing Advances**

Prepared for

The Committee on Banking, Housing, and Urban Affairs of the Senate

and

The Committee on Financial Services of the House of Representatives

July 2009

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1. Introduction

This report discusses the collateral that secures outstanding advances at the Federal Home Loan Banks (FHLBanks) as of December 31, 2008. It is based upon an annual survey conducted by the Federal Housing Finance Agency's Division of Federal Home Loan Bank Regulation, herein known as the Collateral Data Survey. Collateral Data Survey results are being released on an annual basis to the Committee on Banking, Housing, and Urban Affairs of the Senate and to the Committee on Financial Services of the House of Representatives in accordance to Section 1212 of the Housing and Economic Recovery Act of 2008.

The purpose of the Collateral Data Survey is to better understand the composition of the collateral on which the FHLBanks rely to secure outstanding advances. The survey does not collect information on all available collateral securing advances, but instead collects information on the minimum levels of collateral required by the FHLBanks' policies. The responsibility for establishing an FHLBank's collateral policy rests with each FHLBank's board of directors, consistent with statutory and regulatory requirements. Variations in collateral policies between FHLBanks exist due to differences in the types of members at each FHLBank and each FHLBank's risk tolerance level, among other factors.

The survey focuses on minimum levels of collateral required by FHLBank policies because most FHLBanks file a blanket lien on the assets of most of their borrowing members. The volume of collateral under blanket lien, however, is generally not the most meaningful indicator of collateral protection because it does not indicate the quality or liquidity of the collateral. In general, the FHLBanks that utilize a blanket lien establish a "collateral hierarchy" in which they first consider the highest quality and most liquid collateral when calculating collateral coverage before they look to other types of collateral. Thus, the FHLBanks report in the Collateral Data Survey the collateral that they would, in the first instance, rely upon to cover any repayment shortfall resulting from member default on an outstanding advance. The amounts reported in the Collateral Data Survey do not reflect all eligible collateral that a member has pledged to an FHLBank to establish a maximum borrowing capacity, *i.e.*, a line of credit, nor do they reflect all collateral that an FHLBank's lien on a member's assets may cover, *e.g.*, assets that are ineligible by the FHLBank's policies, laws, or regulations to support a member's borrowing capacity.

As of December 31, 2008, FHLBank advances totaled approximately \$900 billion. The FHLBanks reported that the book value of collateral securing those advances totaled approximately \$1.4 trillion. Given the preceding discussion about the contents of the Collateral Data Survey responses, one must view aggregations of Collateral Data Survey information, particularly FHLBank System-wide aggregations, with care. Information for the Collateral Data Survey was collected through three reporting schedules: Collateral Securing Advances, Other Real Estate Related Collateral (ORERC)

and Community Financial Institution (CFI), collateral and Original Maturity of Advances.

The Collateral Securing Advances schedule reports the types and amounts of collateral delivered, listed, or secured by blanket lien. The schedule further segregates the information by type and size of member. The member size categories are less than \$100 million in total assets, \$100 million to \$1 billion (\$1 billion was the 2008 cutoff for CFI members), \$1 billion to \$10 billion, and greater than \$10 billion.

The type of collateral securing advances is collected in six categories: whole mortgage loans, private-label mortgage-backed securities and private-label collateralized mortgage obligations (PLS), U.S. agency mortgage-backed securities and U.S. agency collateralized mortgage obligations (U.S. agency MBS/CMOs), U.S. Treasury securities, U.S. agency (non-mortgage) securities and deposits held at an FHLBank, ORERC, and CFI collateral.

The ORERC and CFI Collateral schedule provides details regarding various types of ORERC and CFI collateral and CFI-associated advances. ORERC includes, for example, commercial real estate loans, residential second mortgage loans, and home equity lines of credit; see Section 5 of this report for further information.¹ CFI collateral consists of small farm, small agri-business, and small business loans; see Section 6 for further information.

The Original Maturity of Advances schedule reports information on outstanding advances by original maturity according to six maturity categories: less than 1 month, 1 to 6 months, 6 to 12 months, 12 to 24 months, 24 to 60 months, and greater than 60 months. The information is segregated by type and size of member institution.

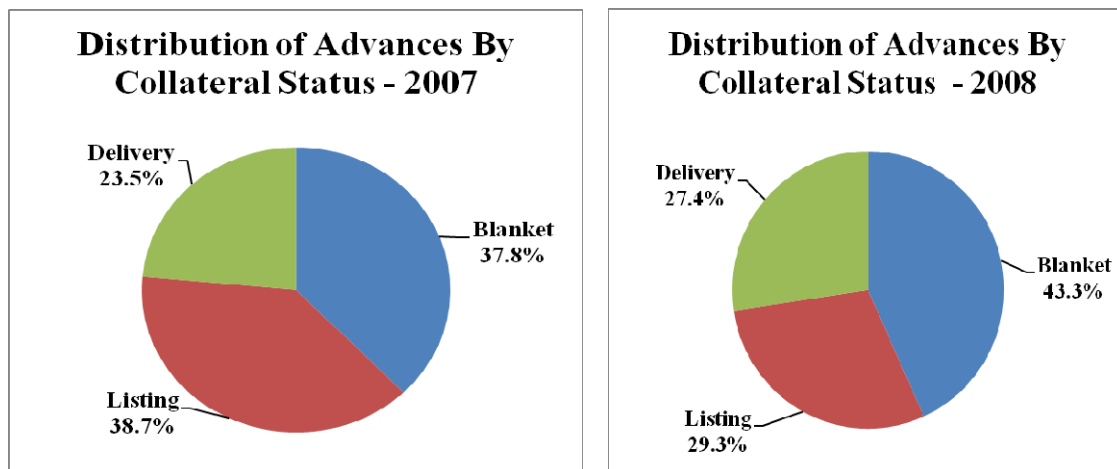
Section 2 of this report provides a summary of the findings from the Collateral Data Survey. Sections 3 through 9 of this report provide additional detail on principal findings and topics of interest.

¹ ORERC is different from other real estate (ORE) or other real estate owned (OREO) at commercial banks and thrifts. ORE and OREO generally refer to real estate acquired through foreclosure.

2. Summary of Findings

Blanket, Listing and Delivery

The FHLBanks secure member advances by: a blanket lien on all or specific categories of a member's assets (blanket), a lien on specific member assets or categories of assets for which the FHLBank has received a listing of asset characteristics (listing), assets that a member delivers to the FHLBank or an approved safekeeping facility (delivery), or some combination of the three approaches. Members generally are granted greater borrowing capacity through a listing or delivery of collateral; however, an FHLBank might require listing or delivery for less creditworthy members. Under listing and delivery, the FHLBank has more information regarding the specific attributes of the assets pledged, allowing for more accurate valuation, and, in the case of delivery, more control as the FHLBank has possession of the collateral. In the case of listing, an FHLBank may require a member to provide, for example, the interest rate on fixed-rate loans, the interest rate index for variable-rate loans, term-to-maturity, loan-to-value, *etc.*, allowing the FHLBank to better determine the value of the loans. Greater confidence about collateral value generally enables the FHLBank to increase the member's borrowing capacity relative to the collateral pledged. Conversely, with a blanket lien, FHLBanks typically require higher collateral coverage levels since they have less information about the collateral and, therefore, less certainty about the collateral value.

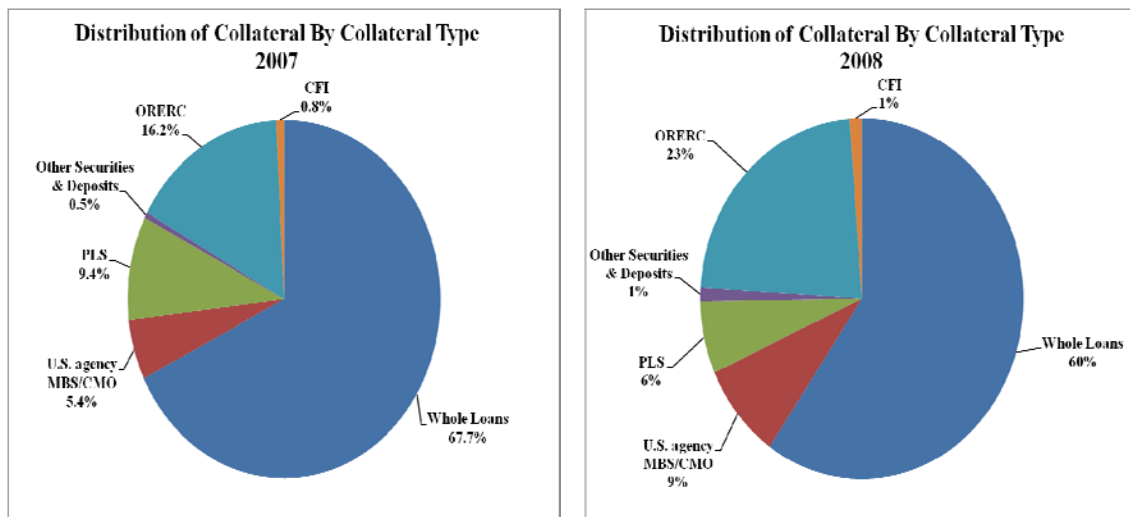


The extent to which individual FHLBanks use the blanket, listing, and delivery methods varies. Two FHLBanks (Cincinnati and Pittsburgh) reported in excess of 90 percent of total advances secured by blanket lien at year-end 2007, while at year-end 2008, blanket lien coverage of advances declined to 74 percent and 53 percent at these FHLBanks, respectively. Five FHLBanks (Chicago, Indianapolis, Topeka, San Francisco and Seattle) reported that advances secured by listing and delivery methods were greater than 50 percent of total advances. The FHLBank of New York reported no advances secured under blanket lien for purposes of the survey even though a blanket lien is filed on all

assets for each member. This seeming inconsistency is because the FHLBank of New York only grants credit to a member based on the assets for which the member has provided a listing or assets the member has delivered to the FHLBank. All FHLBanks require members to deliver securities when seeking to receive borrowing capacity against that form of collateral.

Collateral Composition

The ratio of whole-loan residential mortgage collateral to total collateral across the System declined by eight percentage points between year-ends 2007 and 2008, but whole-loan residential mortgages remain the majority of collateral at 60 percent of total collateral. ORERC represents the second largest collateral type at nearly 23 percent of total collateral, an increase of seven percentage points from year-end 2007. See Section 3 of this report for a comparison of the distribution of collateral types at the System and FHLBank level from 2003 through 2008.



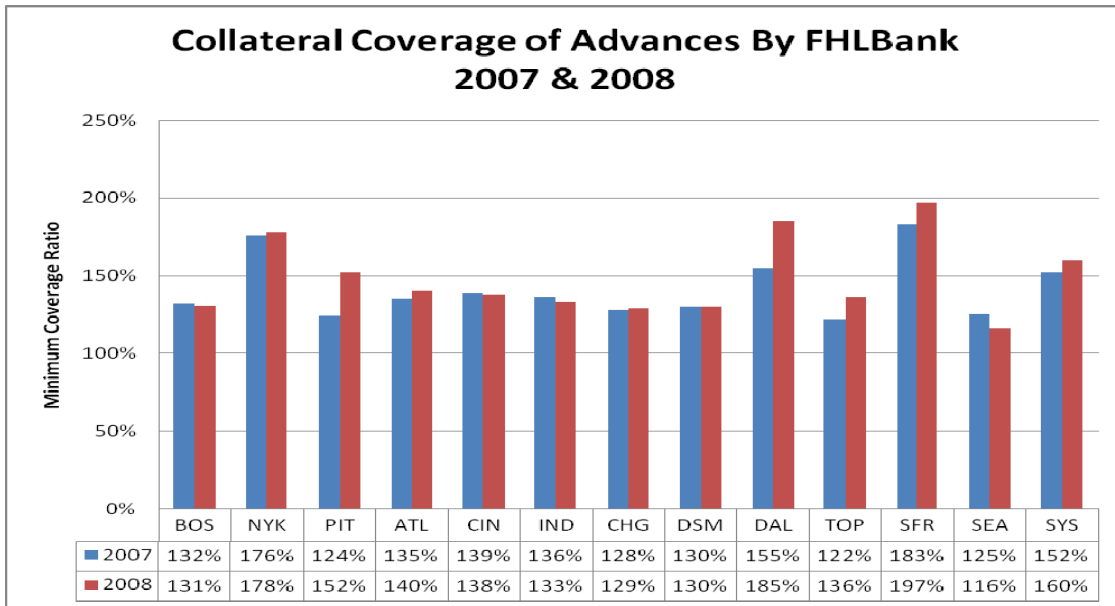
Coverage Ratios

The System-wide collateral-to-advances coverage ratio² was 160 percent at year-end 2008, an eight percentage point increase from year-end 2007 (see graph next page). The average coverage ratio increased at seven FHLBanks (Atlanta, Chicago, Dallas, New York, Pittsburgh, Topeka and San Francisco), decreased at four FHLBanks (Boston, Cincinnati, Indianapolis and Seattle), and remained unchanged at the FHLBank Des Moines. The average coverage ratio for members ranged from a high of 197 percent at the FHLBank of San Francisco to a low of 116 percent at the FHLBank of Seattle.

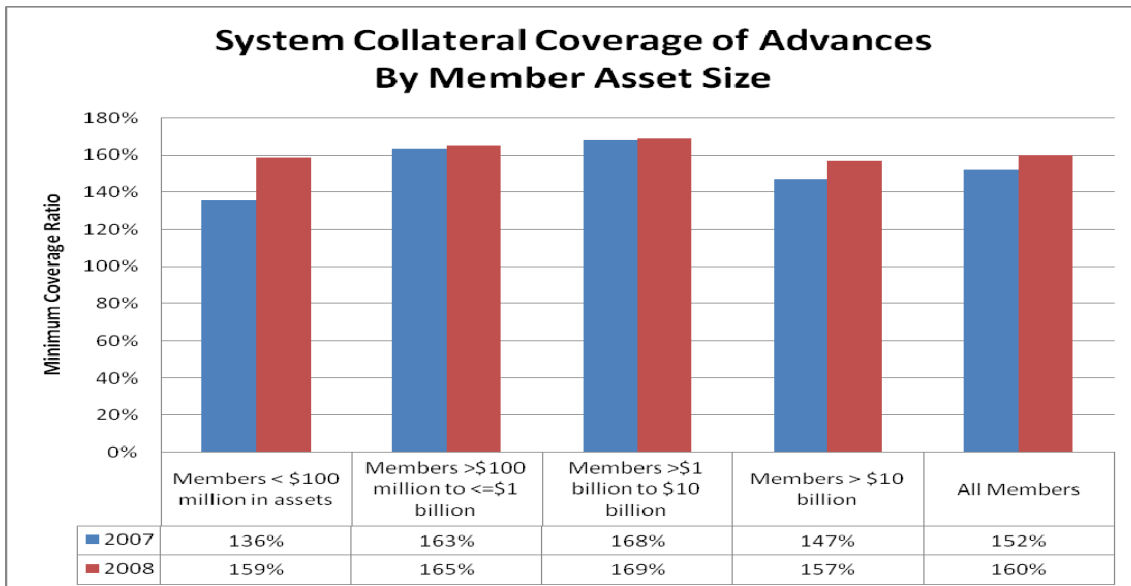
Lower coverage ratios generally occur for three reasons: the eligible collateral is considered relatively less risky, and so the FHLBank has a lower collateral coverage

² For purposes of this report, the term “coverage ratio” refers to a collateral value to advance value ratio, where collateral value may be the unpaid principal balance, market value, or other valuation.

requirement; the FHLBank believes it has members deserving of lower collateral coverage requirements; and/or the FHLBank may have a larger portion of its advances secured by collateral on a listing or delivery basis.



System-wide averages of collateral coverage across member asset size categories remained within a relatively narrow range at year-end 2008, from a low of about 157 percent for members with total assets greater than \$10 billion, to a high of about 169 percent for members with total assets between \$1 billion and \$10 billion.



At certain FHLBanks, collateral coverage ratios across member asset size categories spanned a slightly wider range than at the System level. A notable exception exists at the FHLBank of San Francisco, where the range was significantly wider. This FHLBank's

collateral coverage ratio for the smallest members (less than \$100 million in assets) was 389 percent, while the collateral coverage ratio for the largest members (greater than \$10 billion in assets) was 180 percent (see Graph 4.13).

One would need additional information at the FHLBank level to determine the exact reasons for differences in coverage ratios across the member asset-size groups. Generally speaking, however, higher collateral coverage ratios are required for smaller members that tend to borrow under blanket pledge agreements. Larger members tend to have more sophisticated asset management systems and often provide additional information about the collateral to obtain maximum borrowing capacity.

Subprime and Nontraditional Collateral

The FHLBanks provide in the Collateral Data Survey the amounts of subprime and nontraditional residential mortgage loans on which they rely to secure advances. They also provide the amounts of collateral on which they rely to secure advances that consist of PLS that are identified as subprime or Alt-A. Based on the totals reported, the FHLBanks held higher levels of nontraditional mortgage loan collateral than subprime mortgage loan collateral and higher levels of Alt-A PLS collateral than subprime PLS collateral. In aggregate, subprime and nontraditional mortgage loans and subprime and Alt-A PLS represent one-fifth of total reported collateral. The following table provides specific information in this regard.

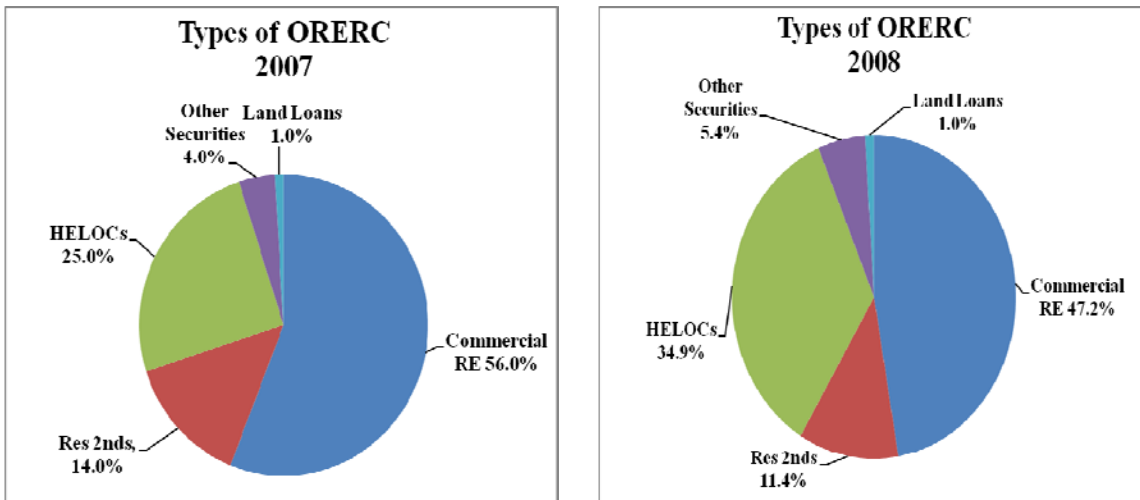
| Collateral Type | Percentage of Collateral Class | Percentage of Total Collateral |
|--|---------------------------------------|---------------------------------------|
| Subprime Mortgage Loans | 5.5 (a) | 3.9 |
| Nontraditional Mortgage Loans | 18.4 (a) | 12.9 |
| Mortgage Loans that are Both Subprime and Nontraditional | 2.4 (a) | 1.7 |
| Subprime PLS | 10.2 (b) | 0.7 |
| Alt-A PLS | 20.0 (b) | 1.3 |

(a) percentage of mortgage loan collateral; (b) percentage of PLS collateral.

Section 8 of this report provides additional details on subprime and nontraditional mortgage loan collateral that secures advances at the FHLBanks. Section 8 also discusses how the terms “subprime,” “nontraditional,” and “Alt-A” are used in the Collateral Data Survey.

Other Real Estate Related Collateral

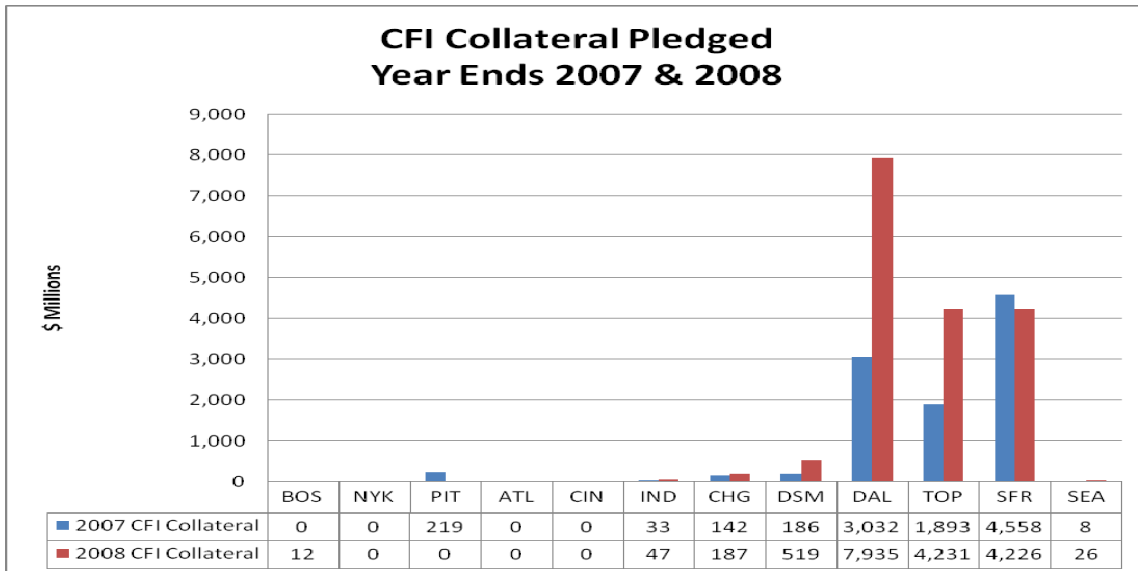
ORERC represents 23 percent of total collateral at year-end 2008, compared to 16 percent at year-end 2007. Commercial real estate loans represent the majority of System-wide ORERC at year-ends 2007 and 2008. Home equity lines of credit (HELOCs) are the second largest class of ORERC.



Eleven of the FHLBanks reported some amount of outstanding advances secured by ORERC, while the FHLBank of Pittsburgh reported no ORERC securing advances at year-end 2008. The FHLBank of Chicago did not accept commercial real estate loans as eligible member collateral at year-end 2008, but the FHLBank has recently requested regulatory approval to do so.

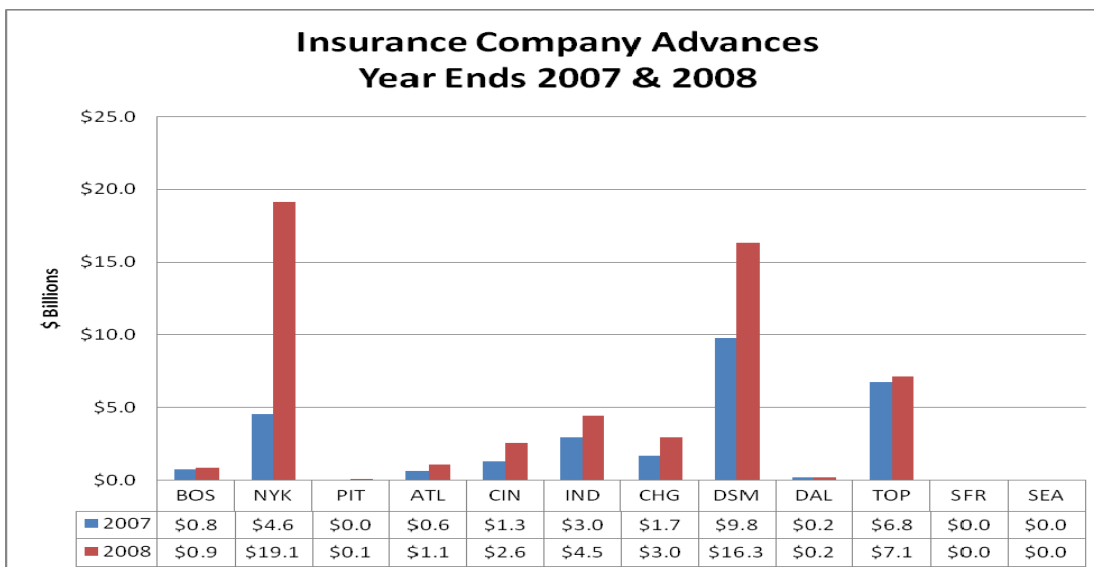
Community Financial Institution Collateral

The amount of CFI collateral securing advances almost doubled during 2008, but remained low at just 1.2 percent of total collateral. The FHLBanks reported \$17.2 billion of CFI collateral securing advances at year-end 2008, up from \$10.1 billion at year-end 2007 (see graph next page). CFI related advances were \$6.5 billion at year-end 2008, an increase of \$3.5 billion, or 113 percent, from prior year-end. CFI collateral totals are significantly higher than CFI related advances due to the FHLBanks' considerably higher collateral coverage requirements for CFI collateral types, *e.g.*, small business, farm or agri-business loans.



Insurance Company Members

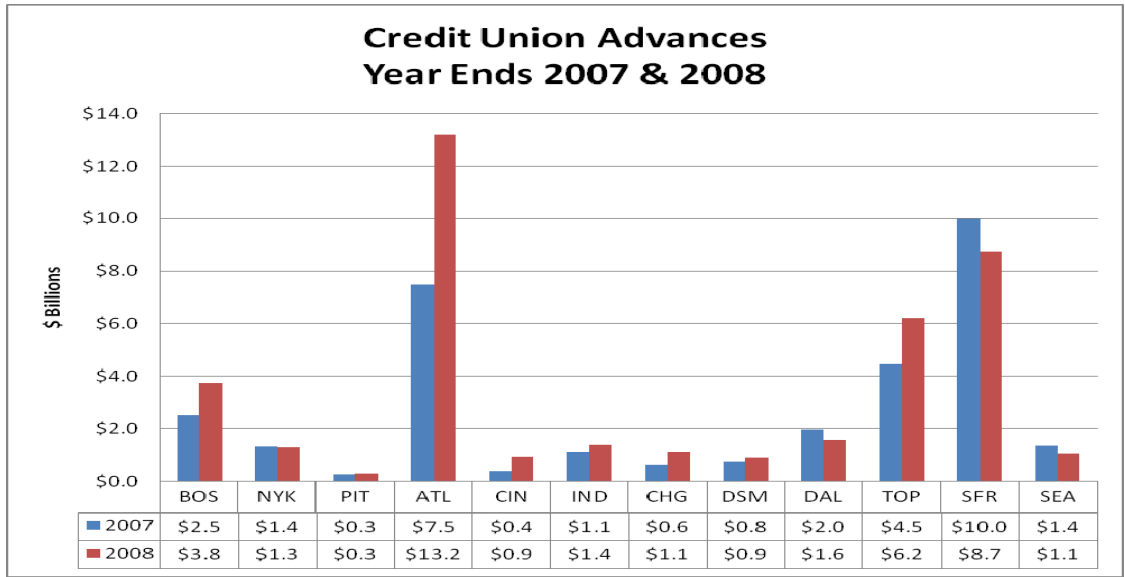
There were 184 insurance company members at year-end 2008, of which 74 had outstanding advances. Advances to insurance company members nearly doubled from \$29 billion at year-end 2007 to \$55 billion at year-end 2008 but represented only six percent of total System advances. The FHLBanks of New York, Des Moines and Topeka report the largest amount of advances to insurance companies.



Section 7 of this report provides details on the collateral provided by insurance company members to secure their advances.

Credit Union Members

There were 951 credit union members at year-end 2008, of which 520 had outstanding advances. Credit union advances increased from \$32.3 billion at year-end 2007 to \$40.6 billion at year-end 2008, or 25 percent. Advances to credit union members represent only five percent of total System advances at year-end 2008. The FHLBanks of Atlanta, San Francisco and Topeka report the highest levels of advances to credit unions.



Section 7 of this report provides details on the collateral provided by credit union members to secure their advances.

3. Collateral by Type – Five Year Review

The following graphs report data on the types of collateral that secured advances over the past five years at the System and FHLBank level.

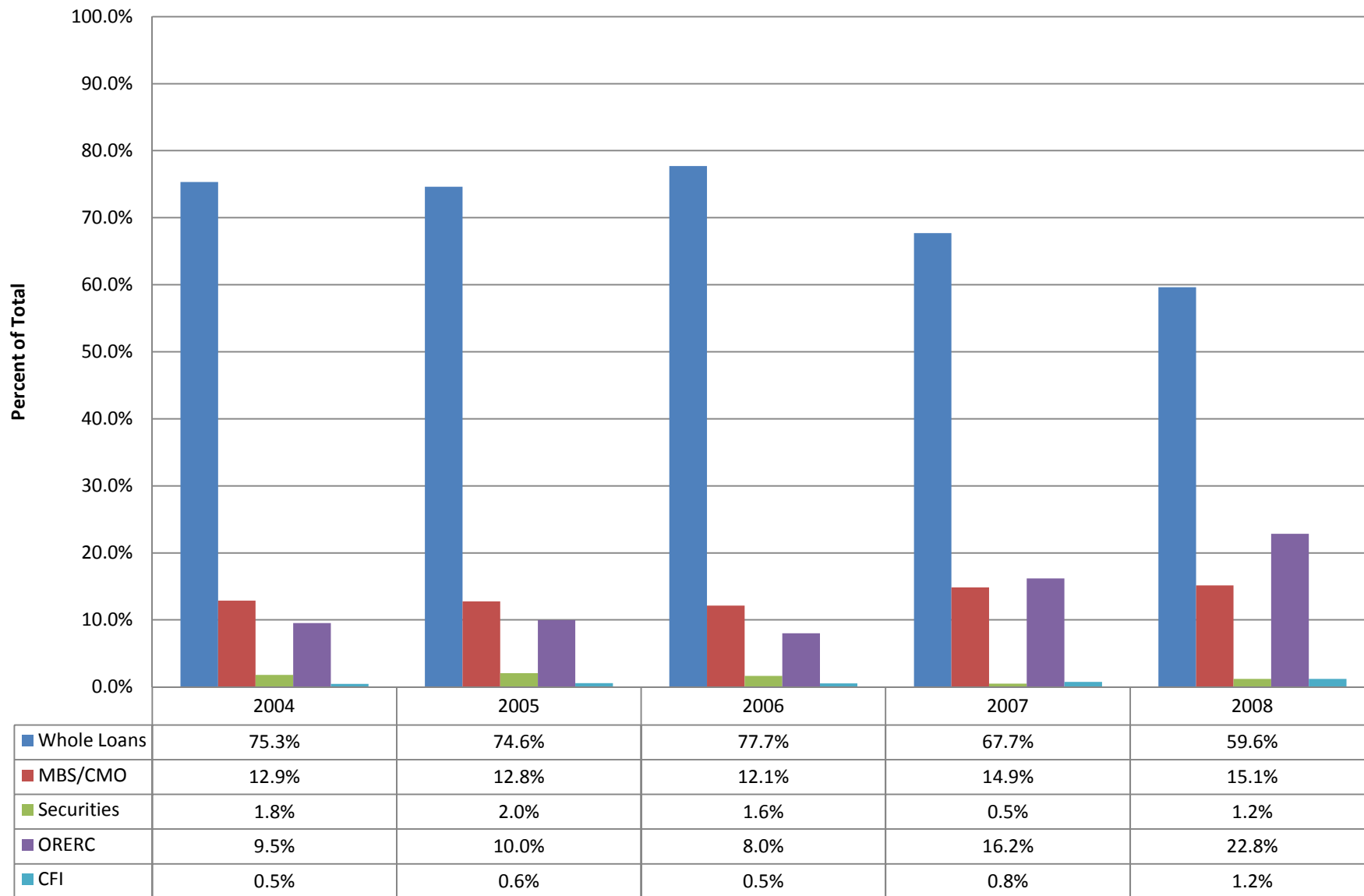
System-wide, the percentage of whole residential mortgage loan collateral to total collateral securing advances declined from the previous year by eight percentage points, but whole residential mortgage loans still represent the majority of collateral securing advances (60 percent) (see Graph 3.1). Following in descending order is ORERC (23 percent), PLS and U.S. agency MBS/CMOs (15 percent),³ CFI collateral (1 percent), and other securities and deposits (1 percent). While the graphs combine PLS and U.S. agency MBS/CMO in one category, the data from the Collateral Data Survey show that PLS were 9 percent of total collateral securing advances and U.S. agency MBS/CMOs were 7 percent at year-end 2008.

FHLBanks rely heavily on whole residential mortgage loans for collateral for advances. Since 2004, the FHLBank of Pittsburgh has reduced reliance on collateral types other than whole residential mortgage loans. Conversely, the FHLBanks of Des Moines, Dallas, San Francisco, Topeka, and Seattle have seen relative increases in the non-whole-loan collateral categories, particularly in the ORERC and the PLS and U.S. agency MBS/CMO categories.

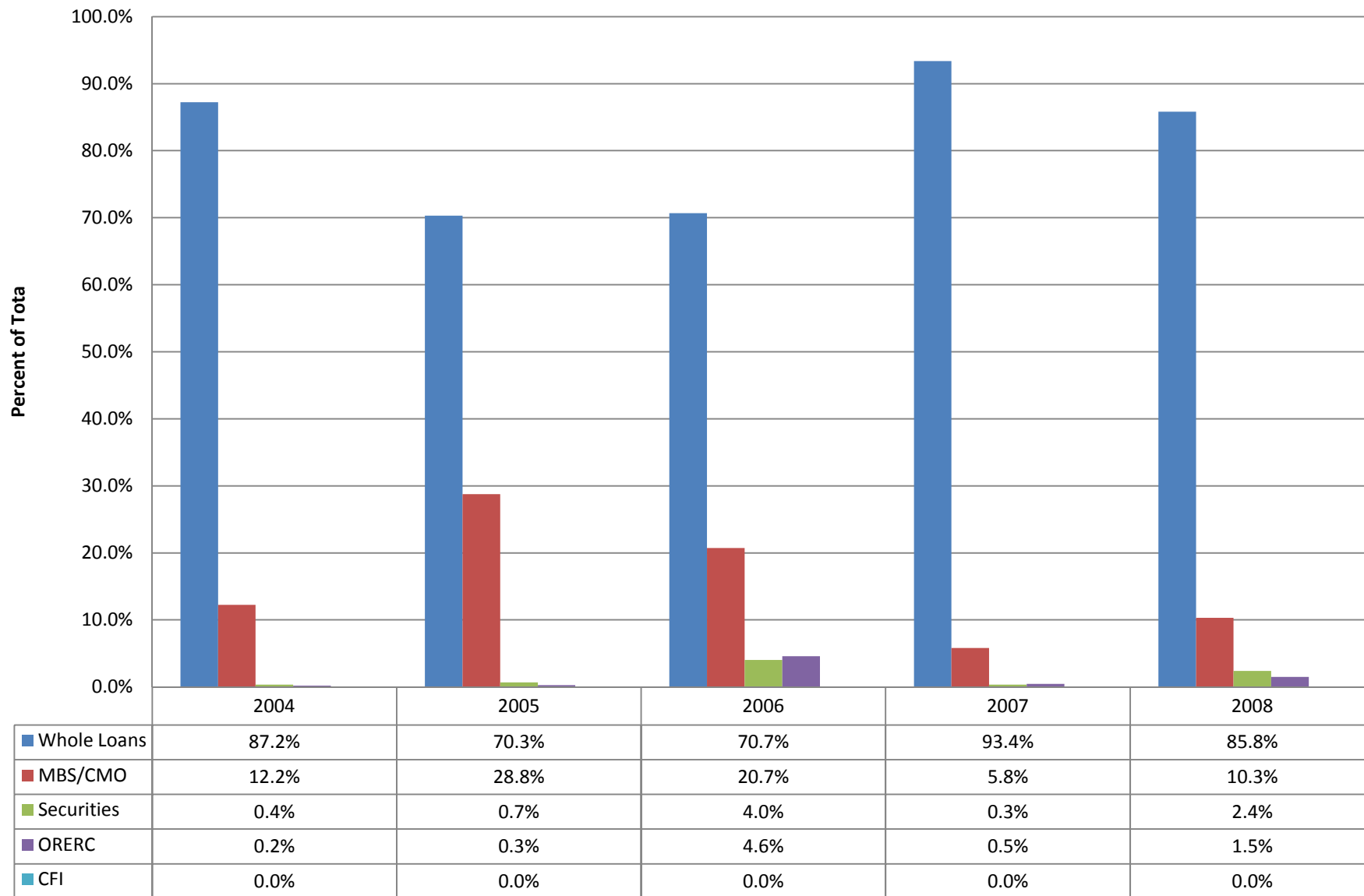
Please see the graphs in this section for more specific information.

³ Section 950.7(a)(2) of Federal Housing Finance Board regulations includes within the category of agency securities mortgage-backed securities issued or guaranteed by Freddie Mac, Fannie Mae, Ginnie Mae, or any other agency of the United States Government. The Collateral Data Survey category of U.S. agency MBS/CMOs follows the regulatory categorization established by section 950.7(a)(2).

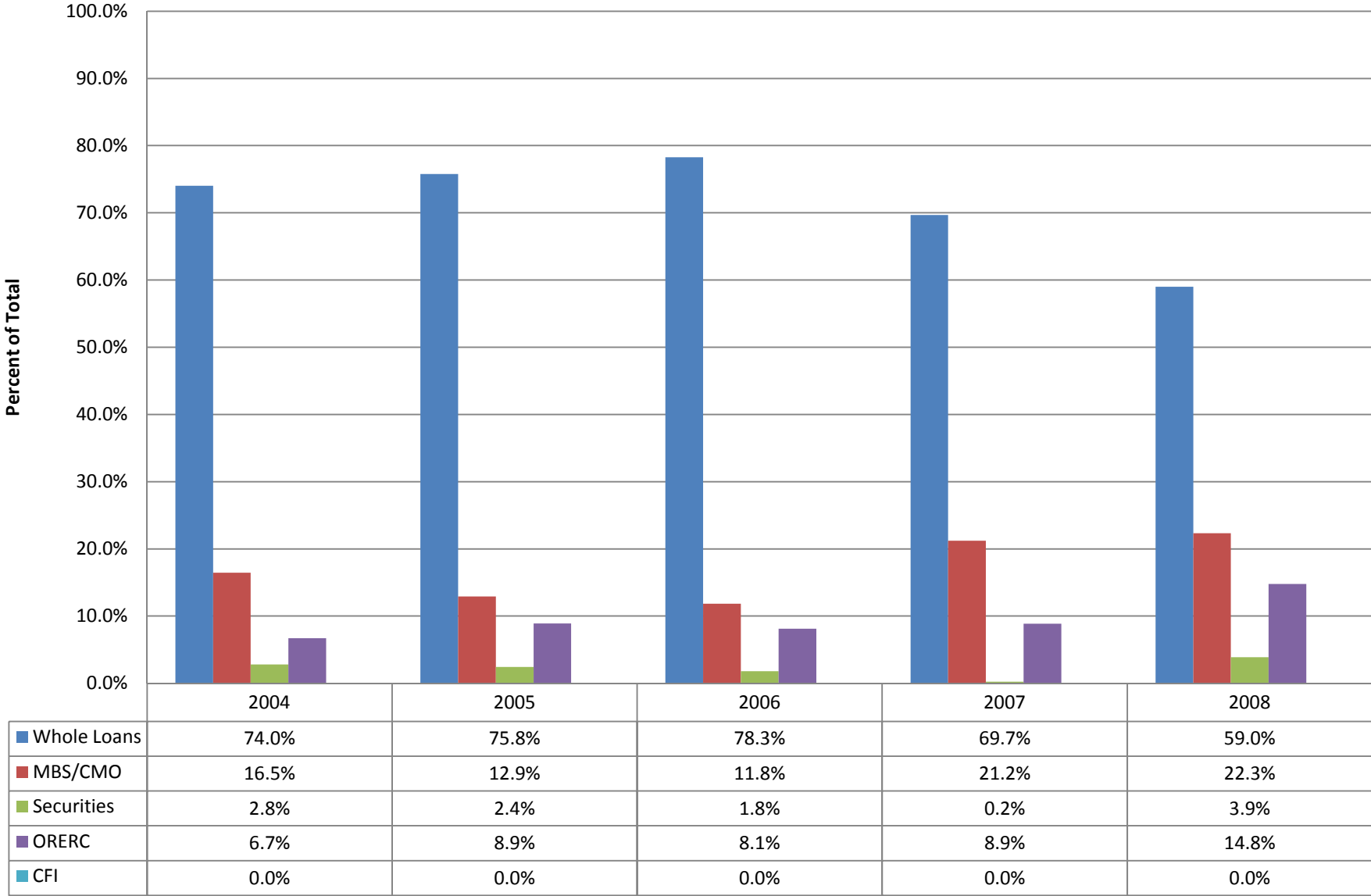
System Collateral Securing Advances By Collateral Type



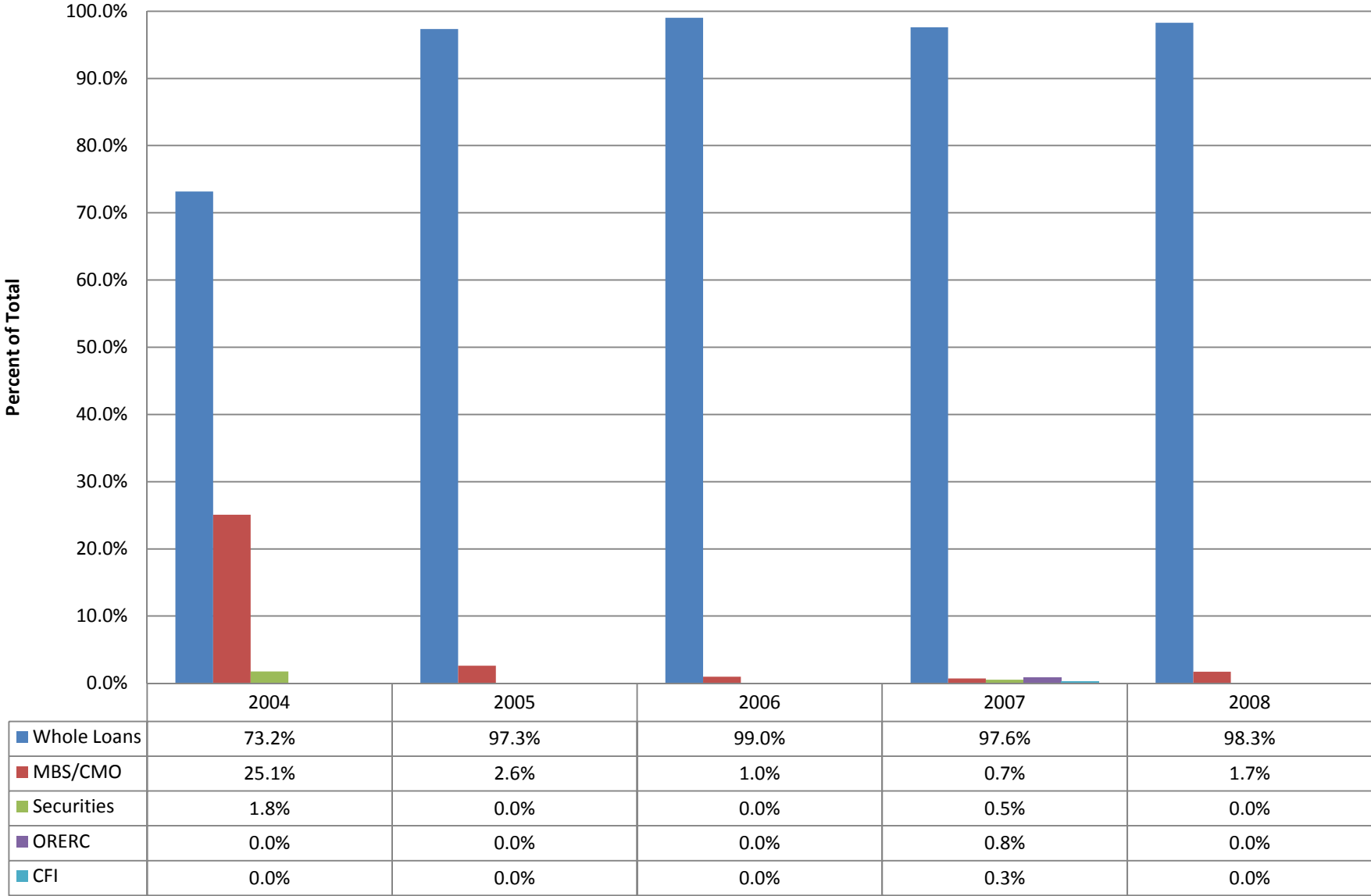
Boston Collateral Securing Advances By Collateral Type



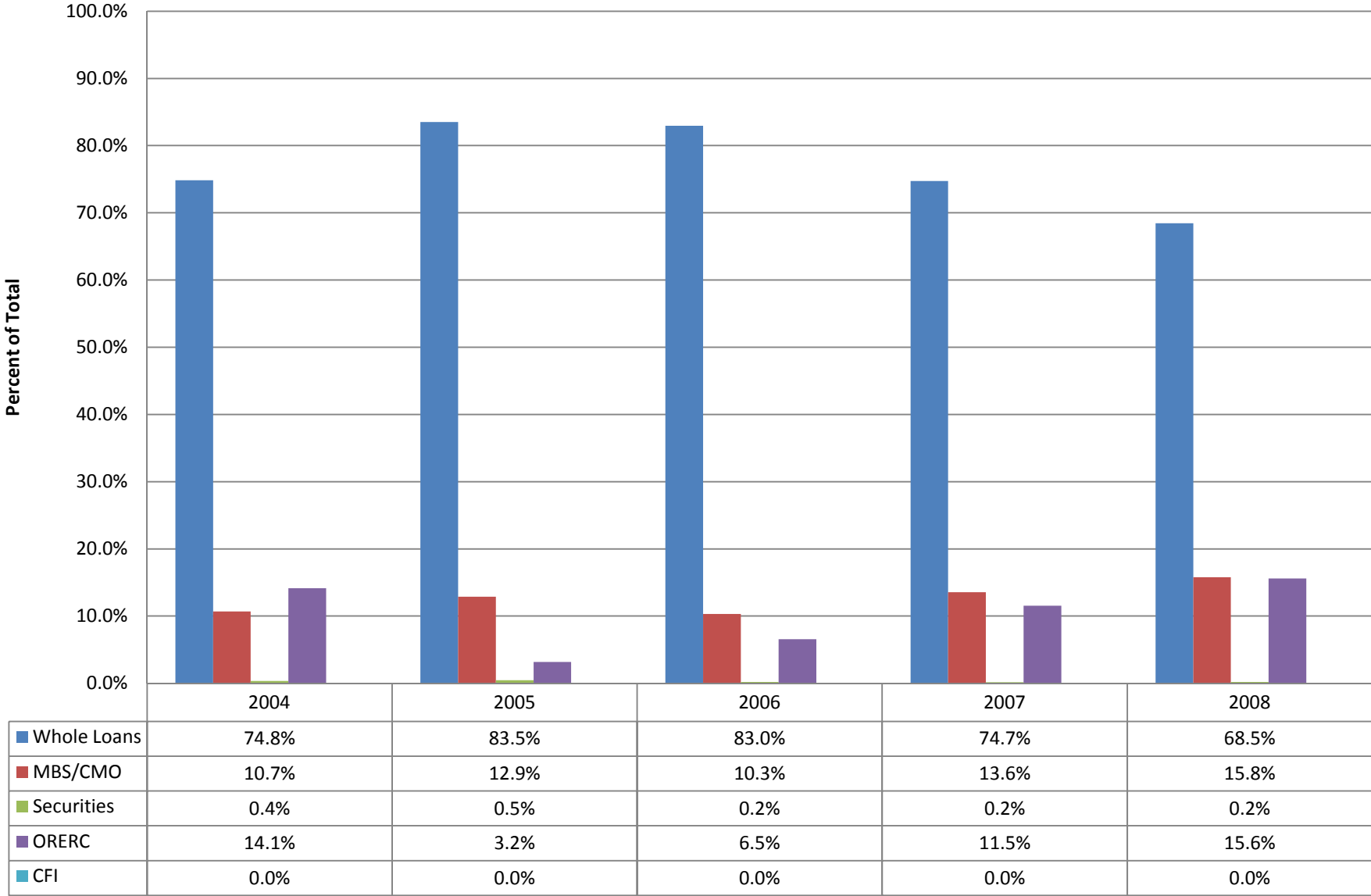
New York Collateral Securing Advances By Collateral Type



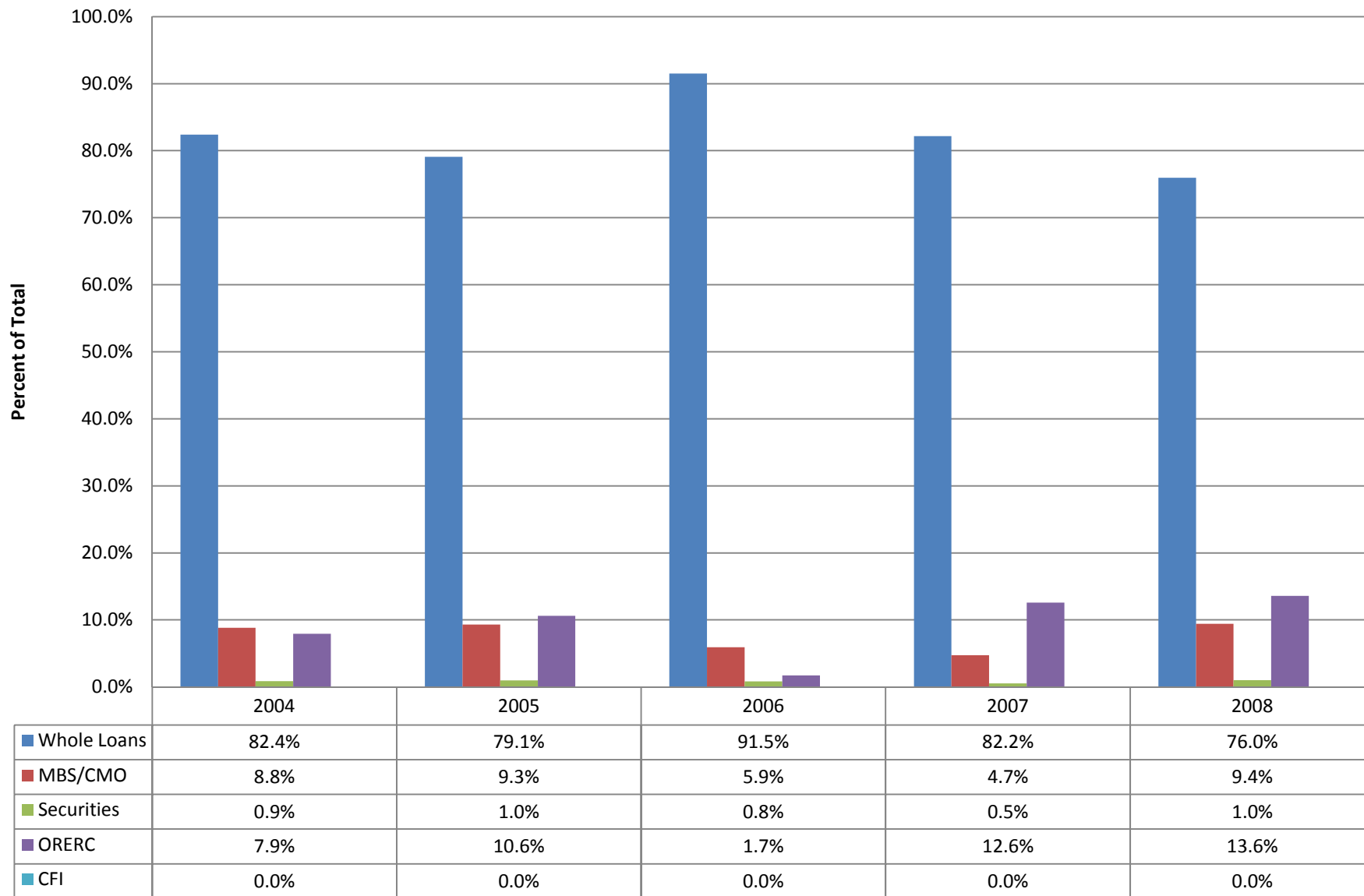
Pittsburgh Collateral Securing Advances By Collateral Type



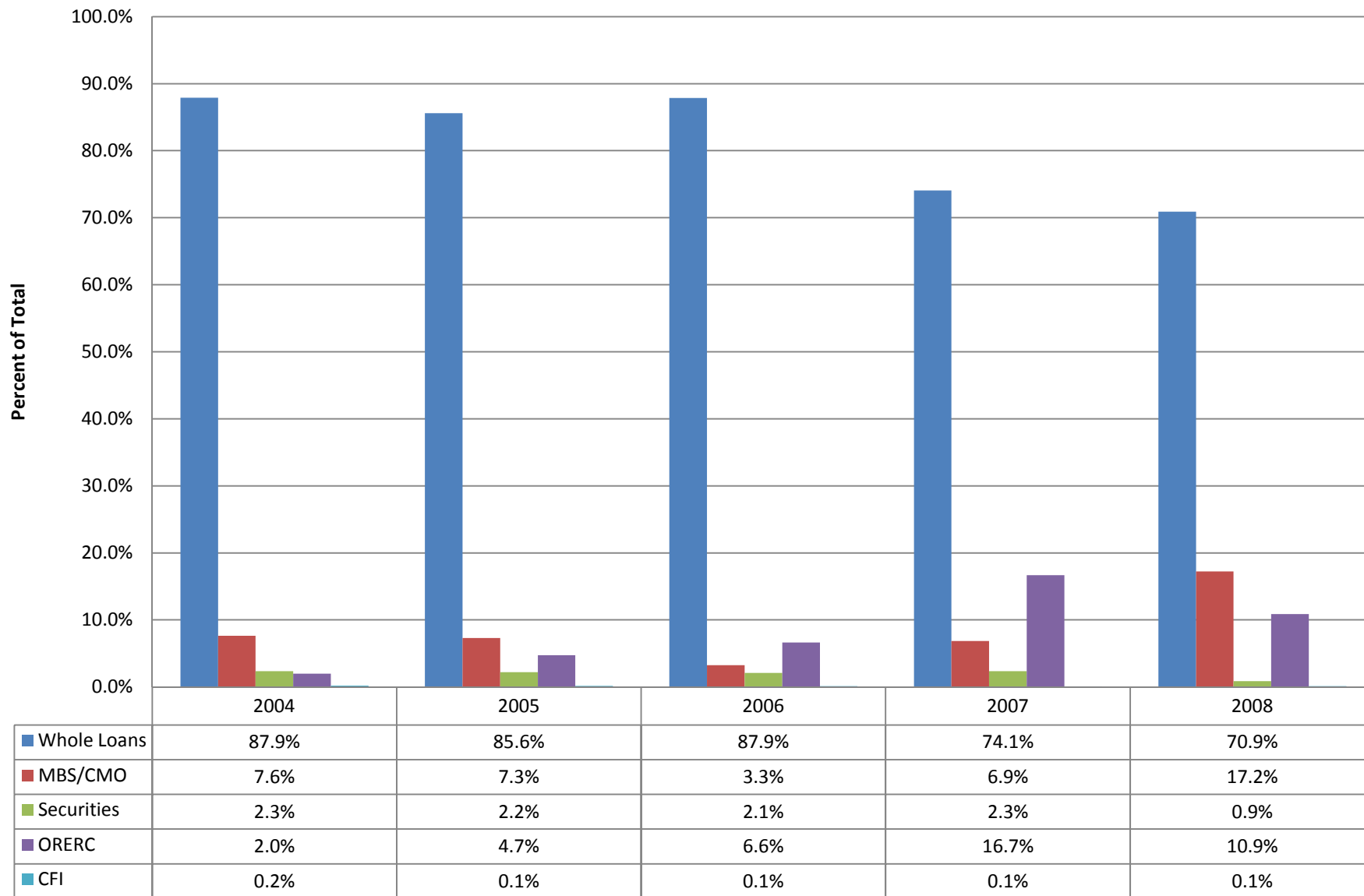
Atlanta Collateral Securing Advances By Collateral Type



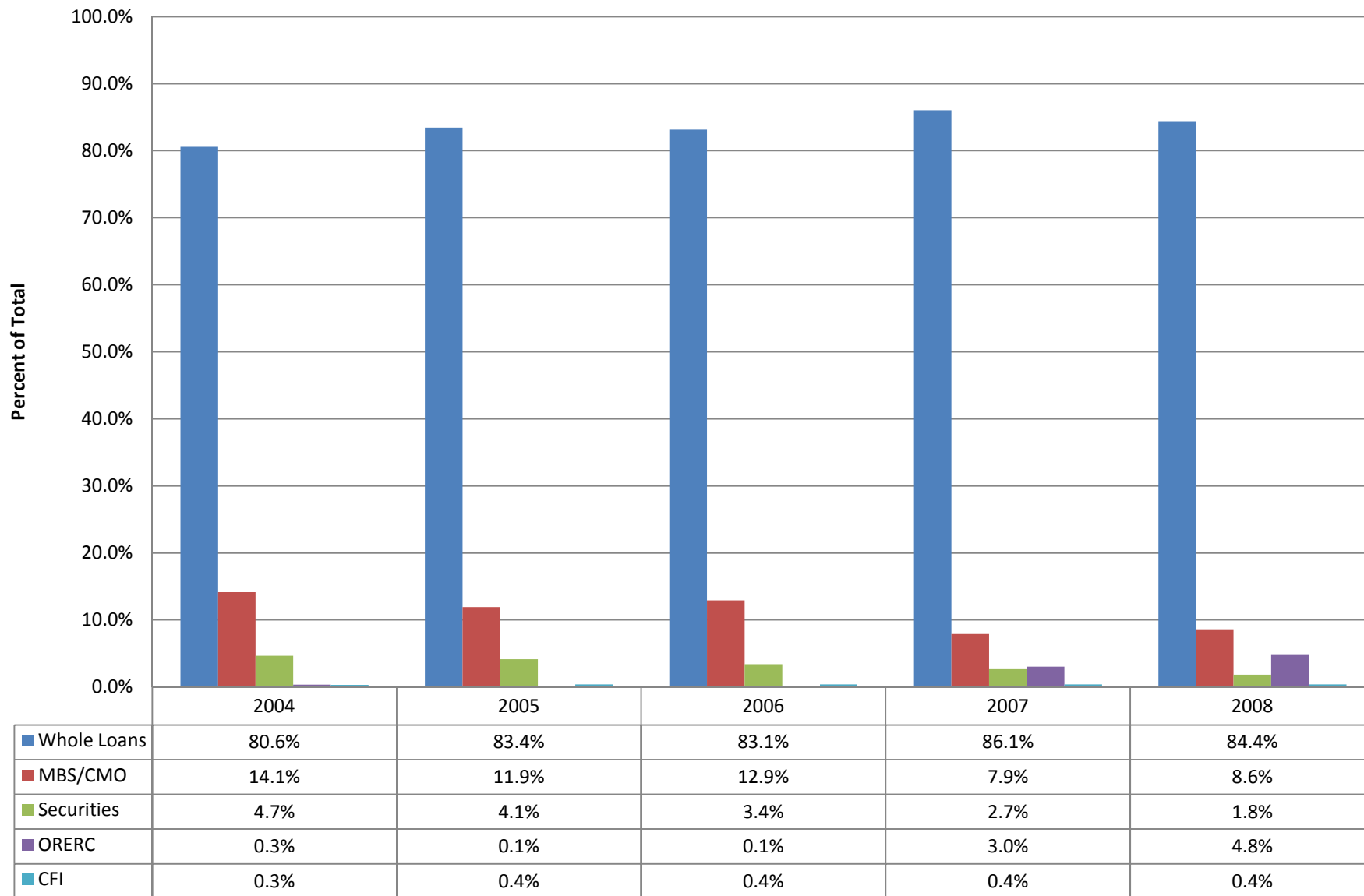
Cincinnati Collateral Securing Advances By Collateral Type



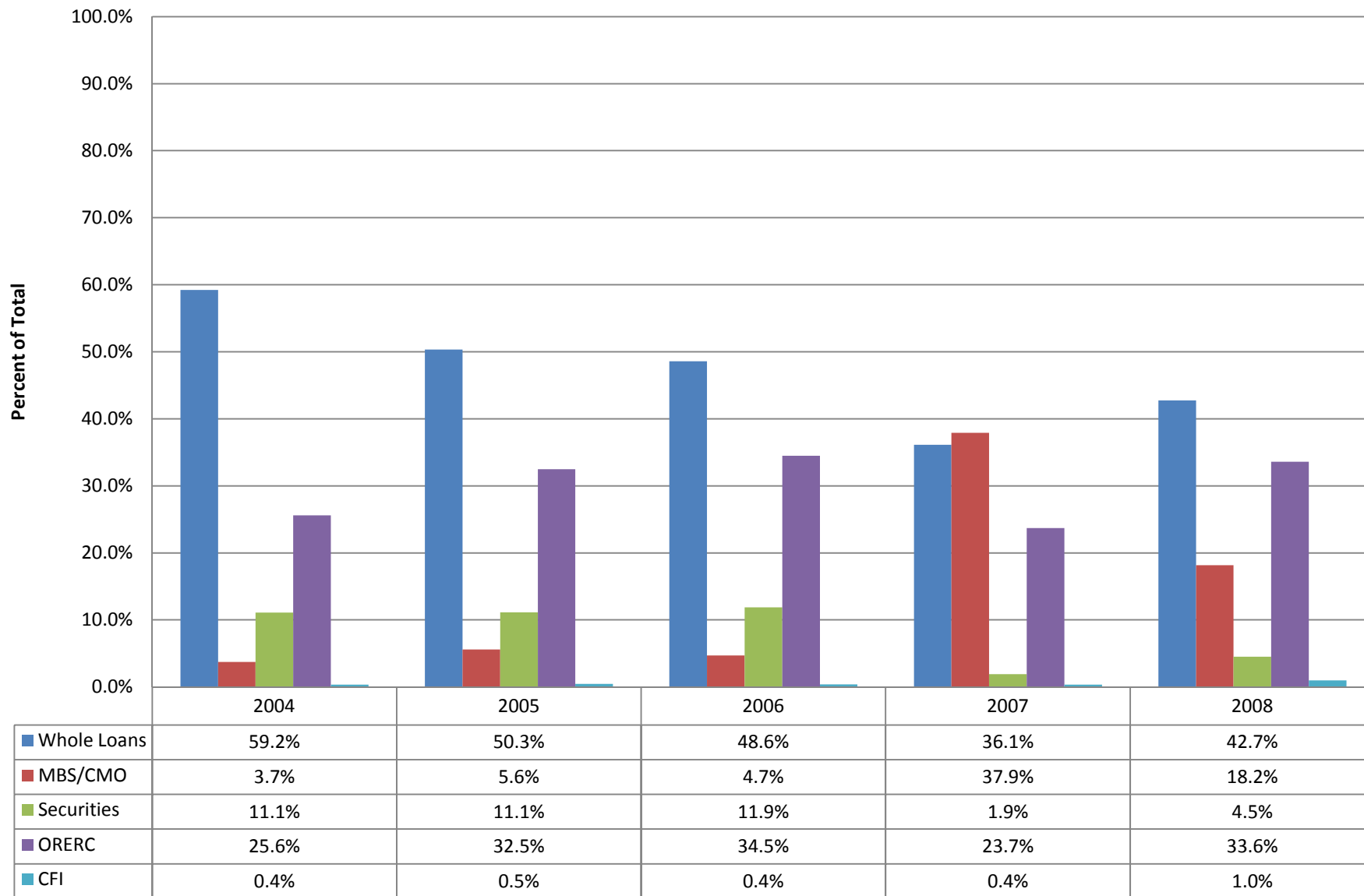
Indianapolis Collateral Securing Advances By Collateral Type



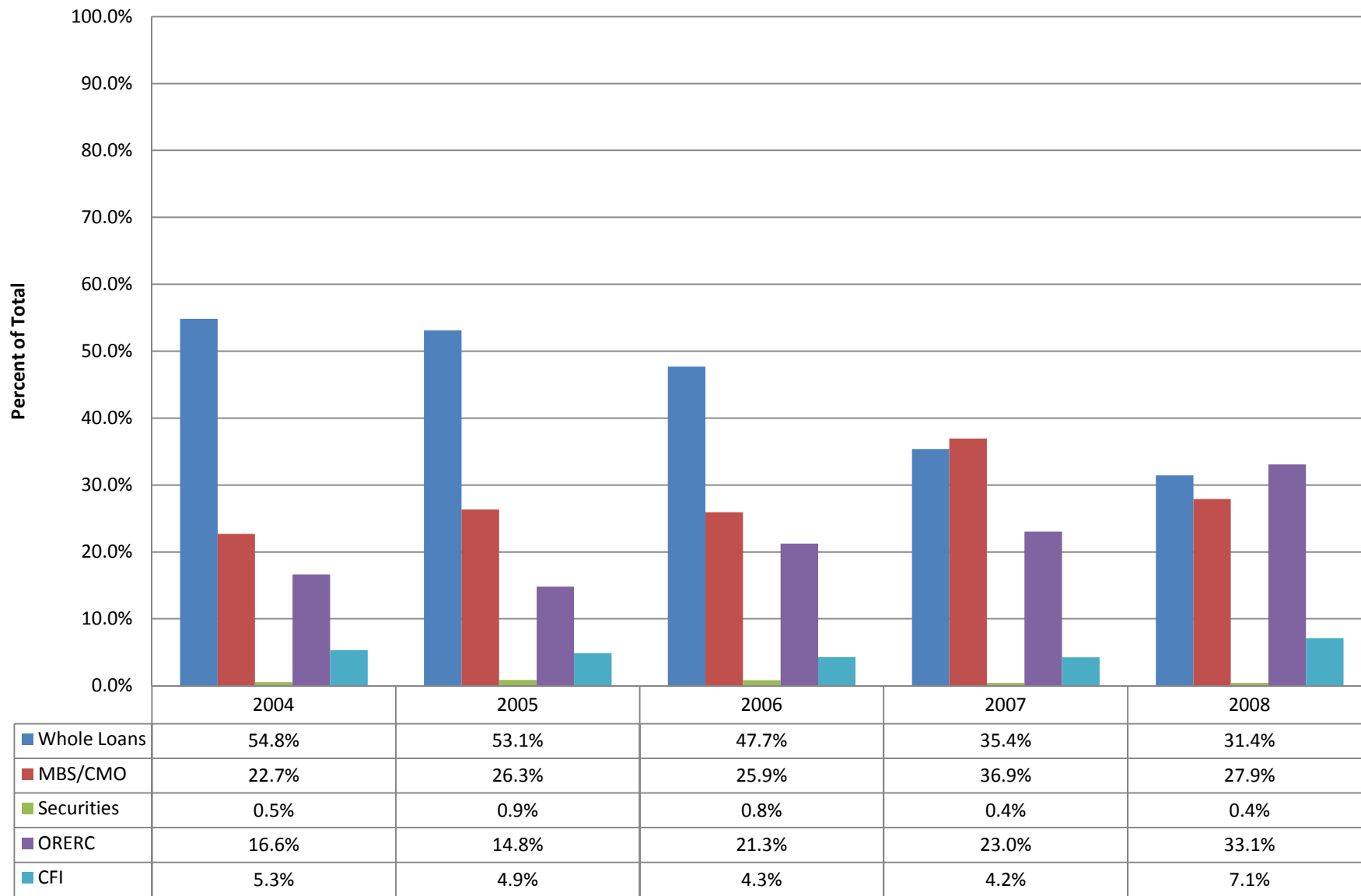
Chicago Collateral Securing Advances By Collateral Type



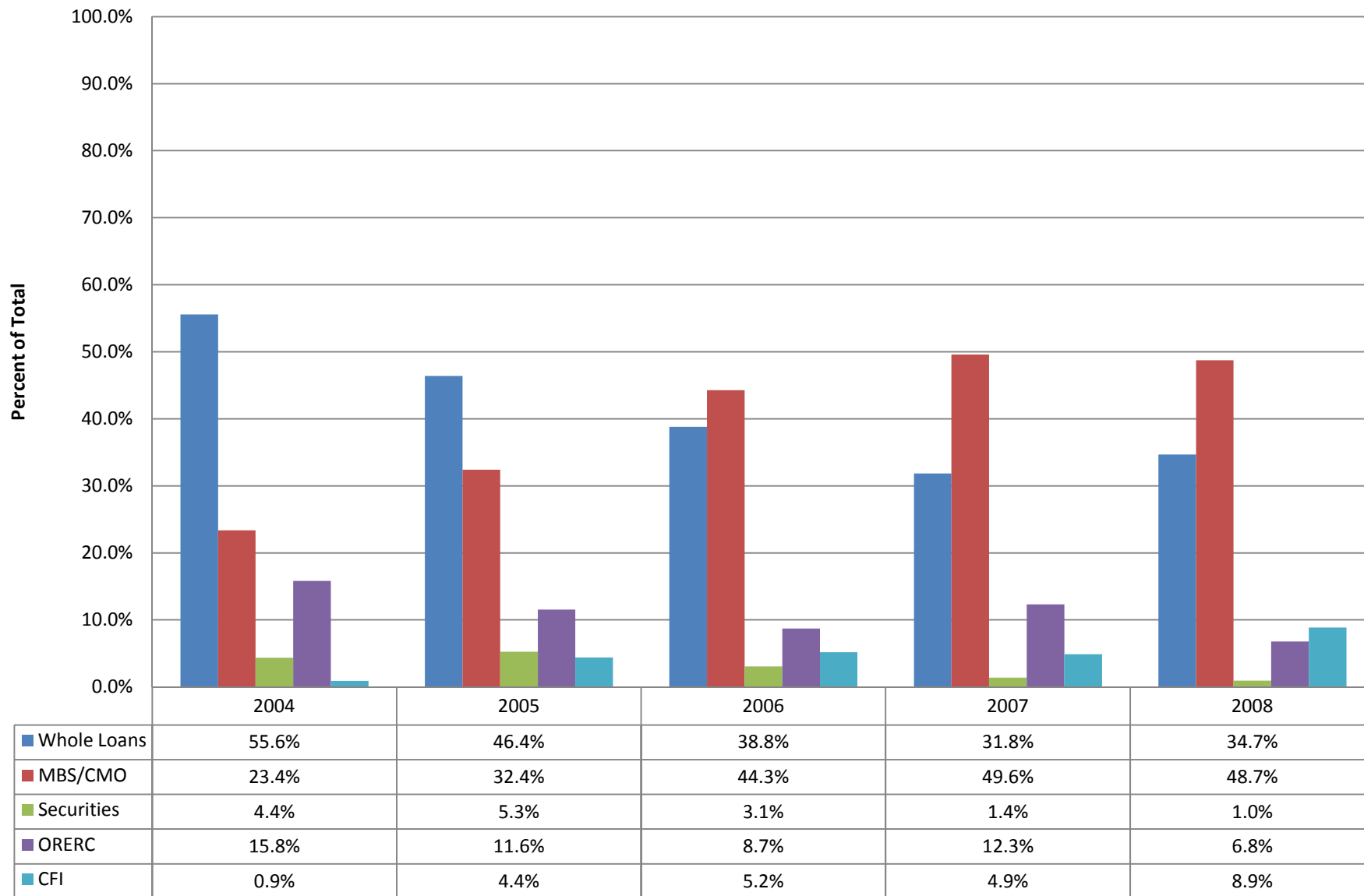
Des Moines Collateral Securing Advances By Collateral Type



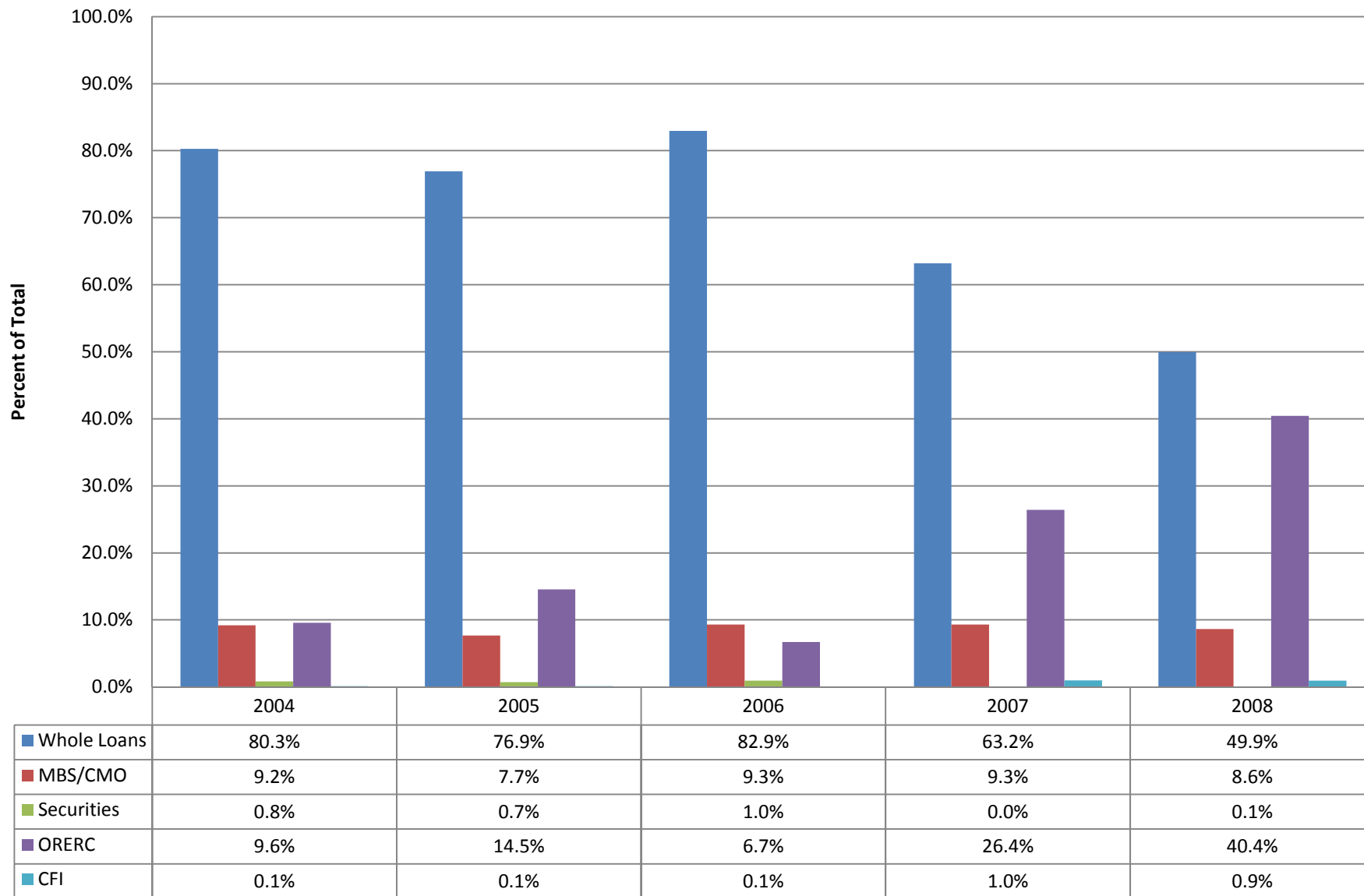
Dallas Collateral Securing Advances By Collateral Type



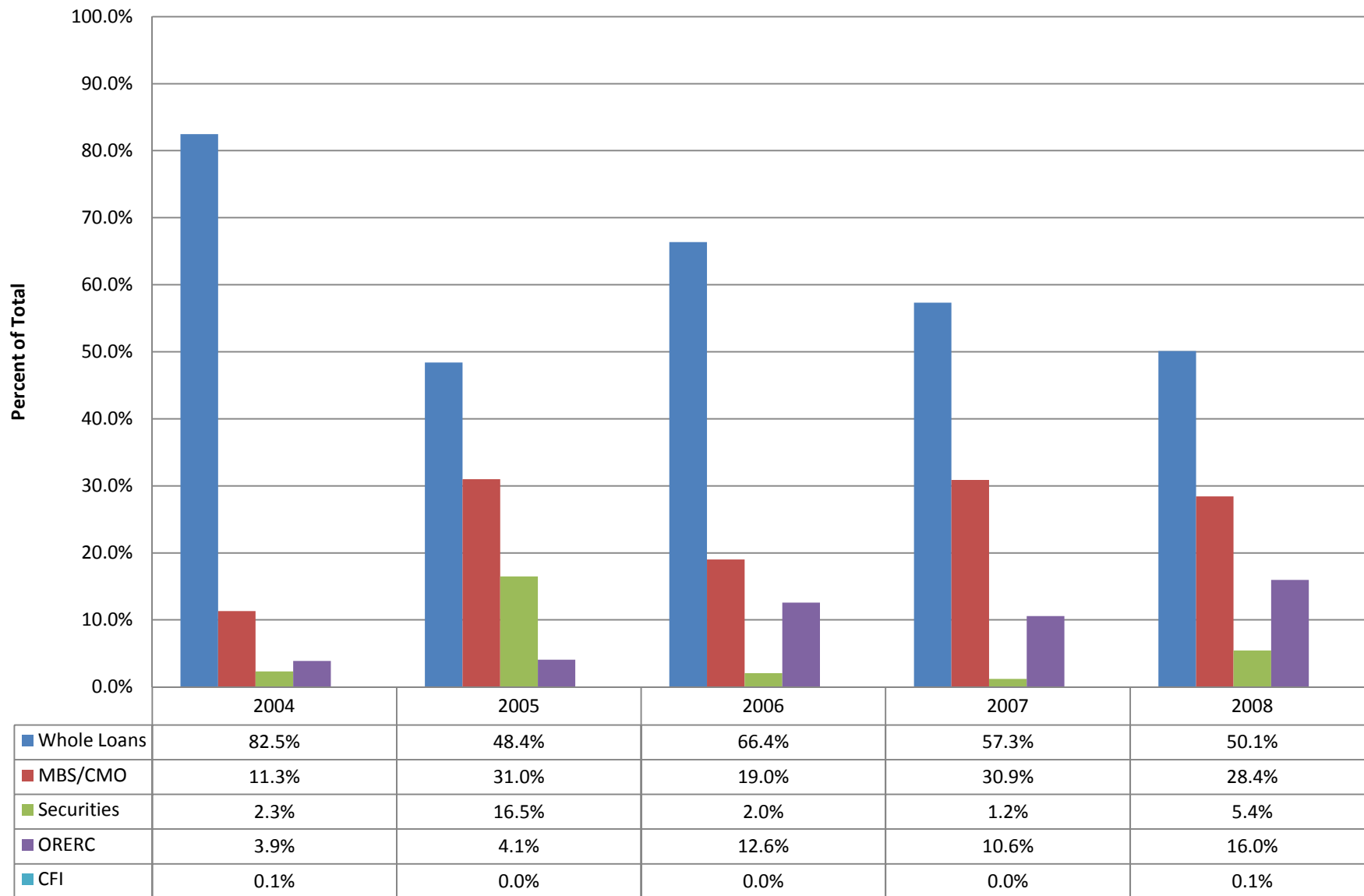
Topeka Collateral Securing Advances By Collateral Type



San Francisco Collateral Securing Advances By Collateral Type



Seattle Collateral Securing Advances By Collateral Type



4. Collateral Coverage by Member Asset Size

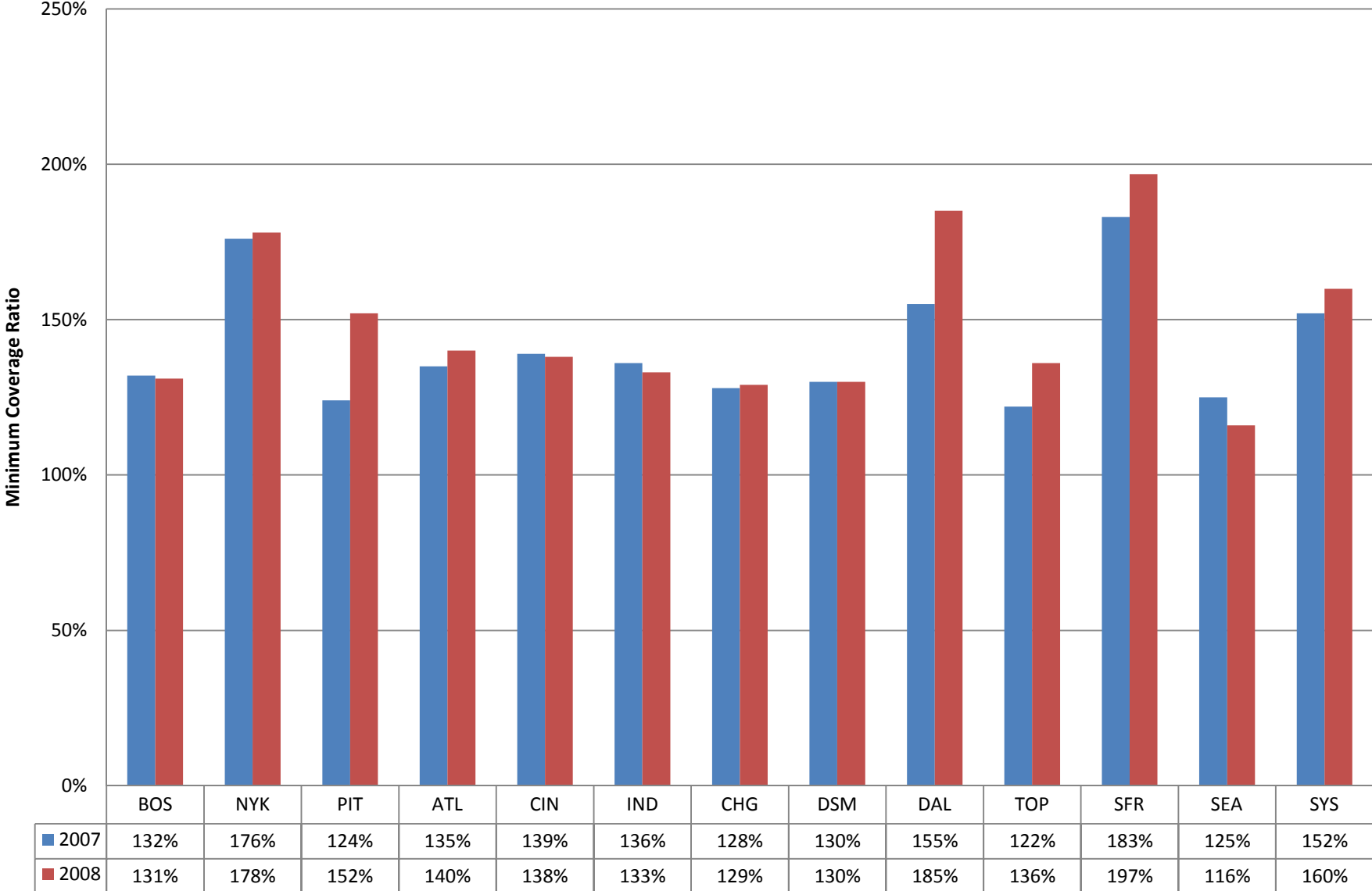
The System graph and twelve individual FHLBank graphs in this section illustrate advance collateralization ratios by groups based on member asset size.

The System-wide average collateral-to-advances coverage ratio is 160 percent for year-end 2008, an eight percentage point increase from year-end 2007 (see Graph 4.1). Seven FHLBanks reported increases in their coverage ratios, four reported decreases, and the FHLBank of Des Moines' coverage ratio remained constant. The average collateral-to-advances coverage ratios ranged from a high of 197 percent at the FHLBank of San Francisco to a low of 116 percent at the FHLBank of Seattle.

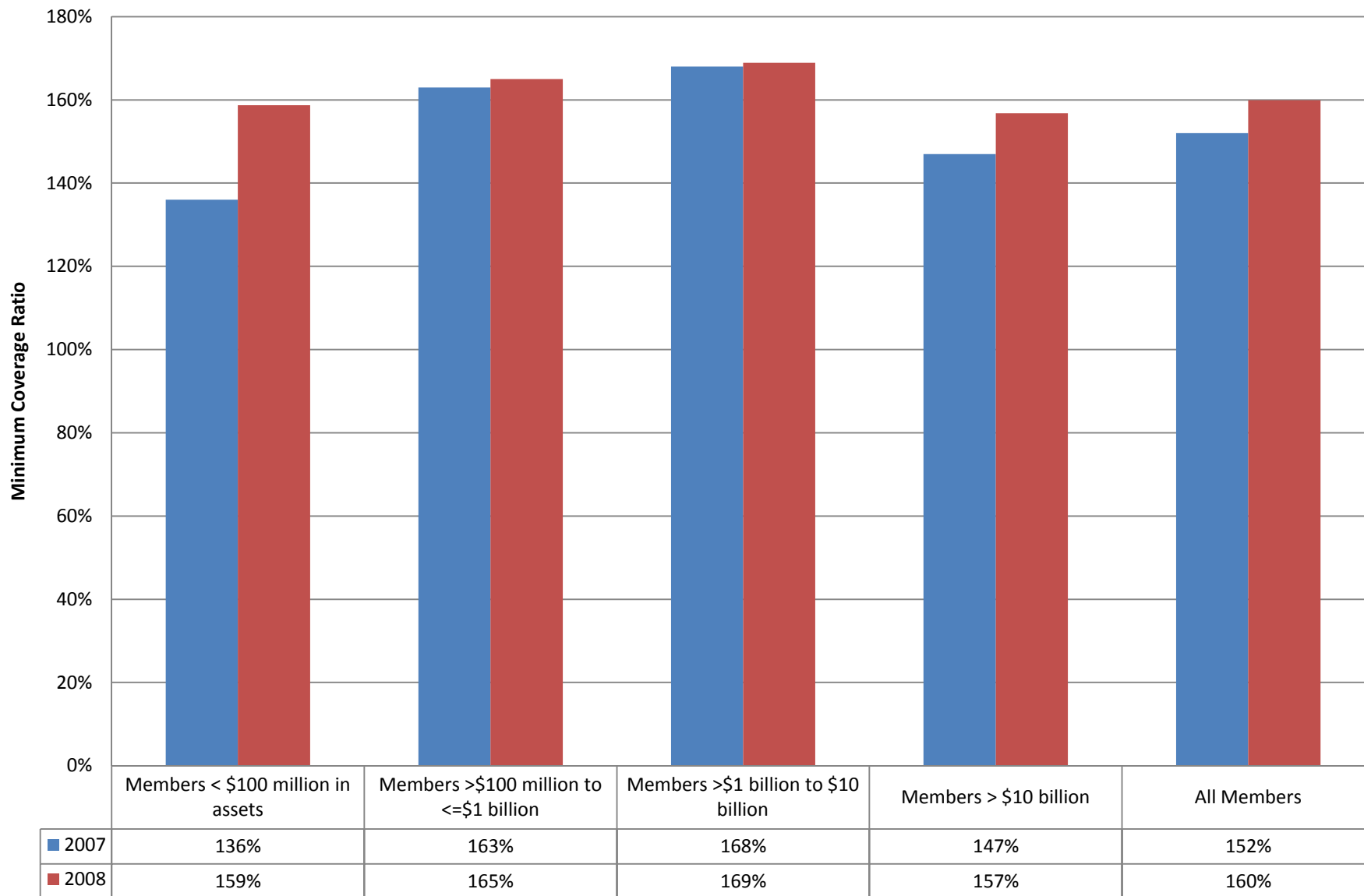
At the System level, collateral coverage ratios generally were similar across member asset size categories. A notable exception exists at the FHLBank of San Francisco, where larger members have lower coverage ratios than smaller members (see Graph 4.13).

Note: The scale of the y-axis in each graph is different due to volumes of advances at each FHLBank. Using the same scale for all FHLBanks would reduce the granularity needed to identify trends at each FHLBank.

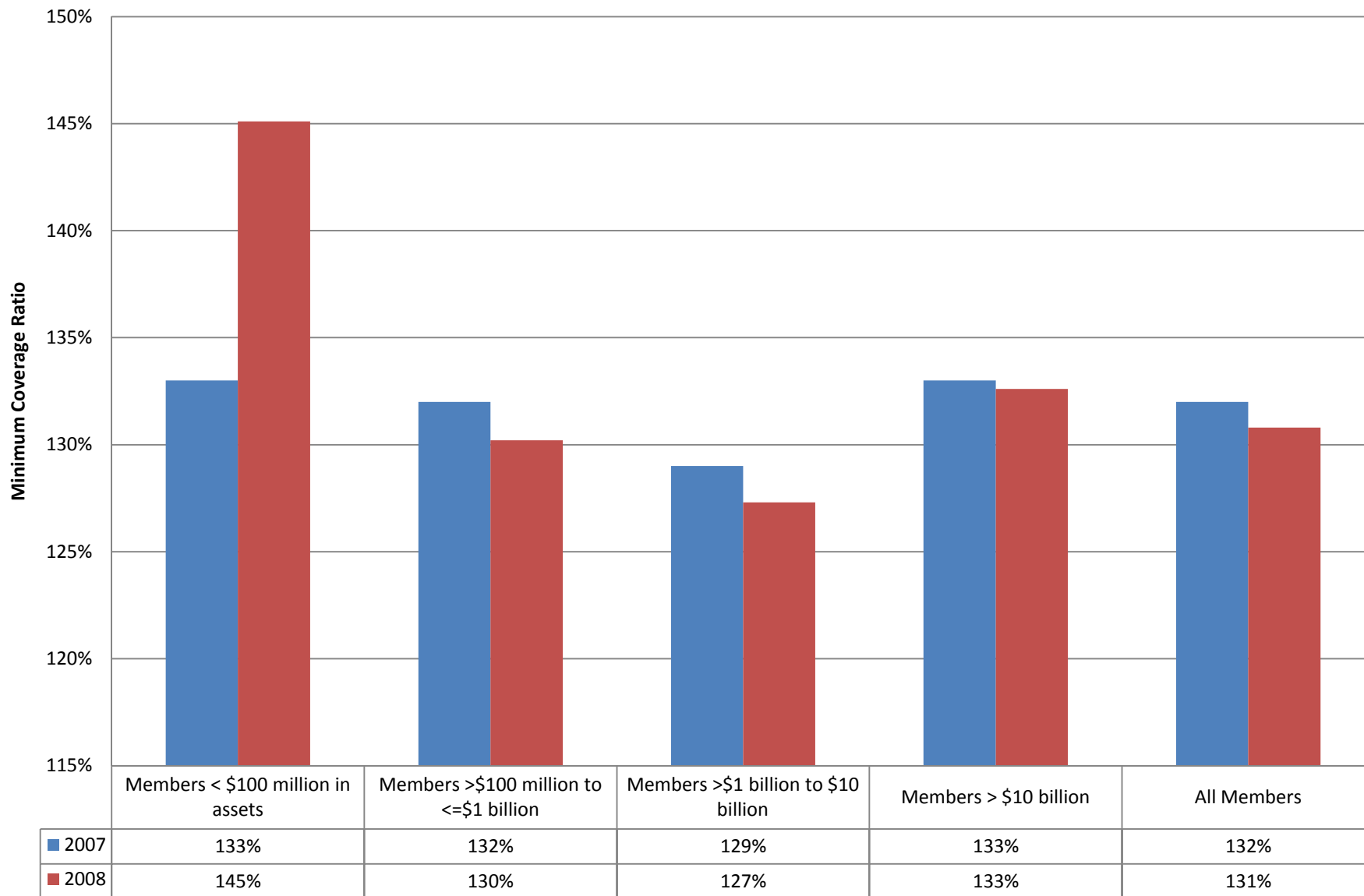
Collateral Coverage of Advances By FHLBank 2007 & 2008



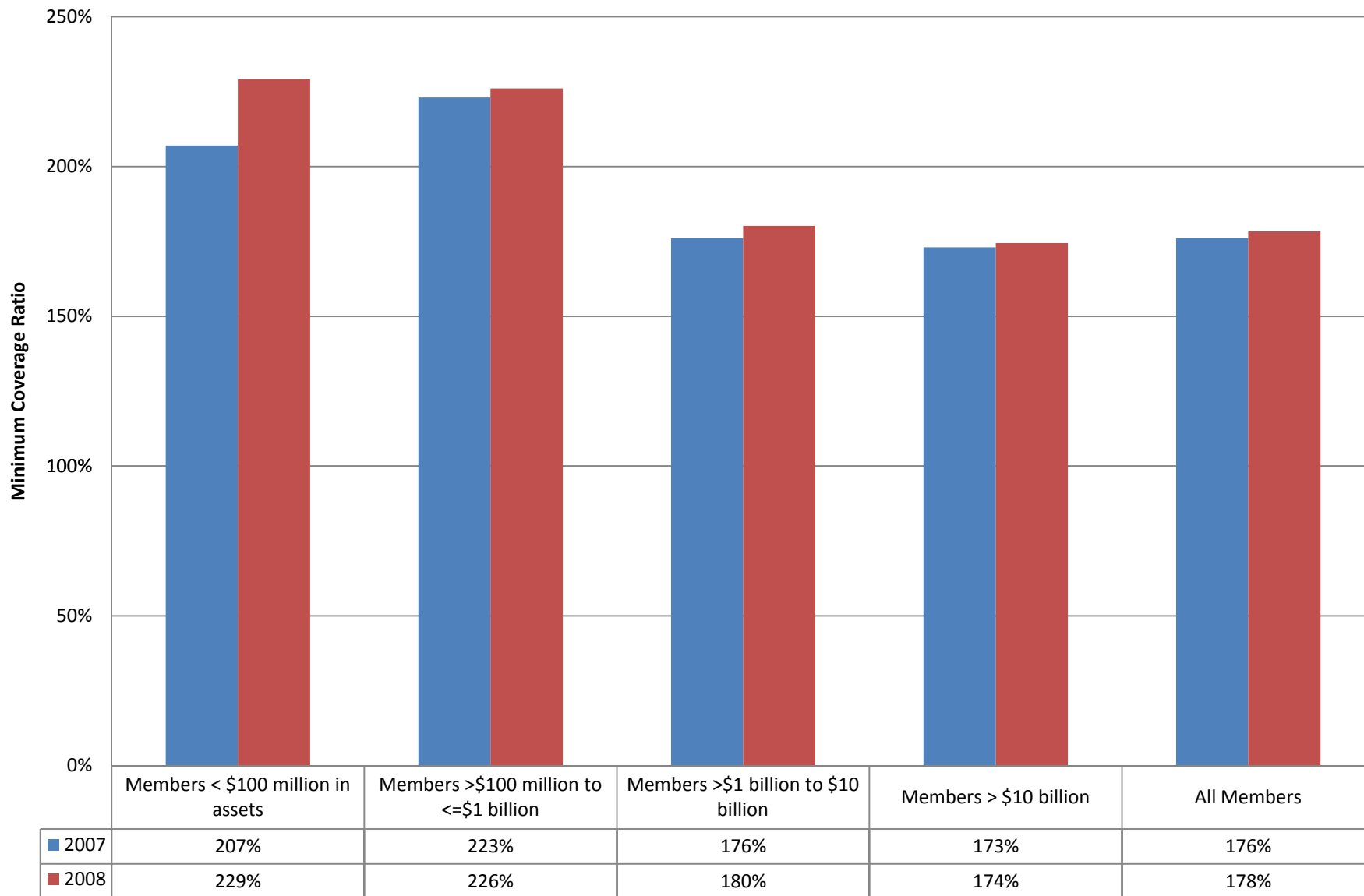
System Collateral Coverage of Advances By Member Asset Size



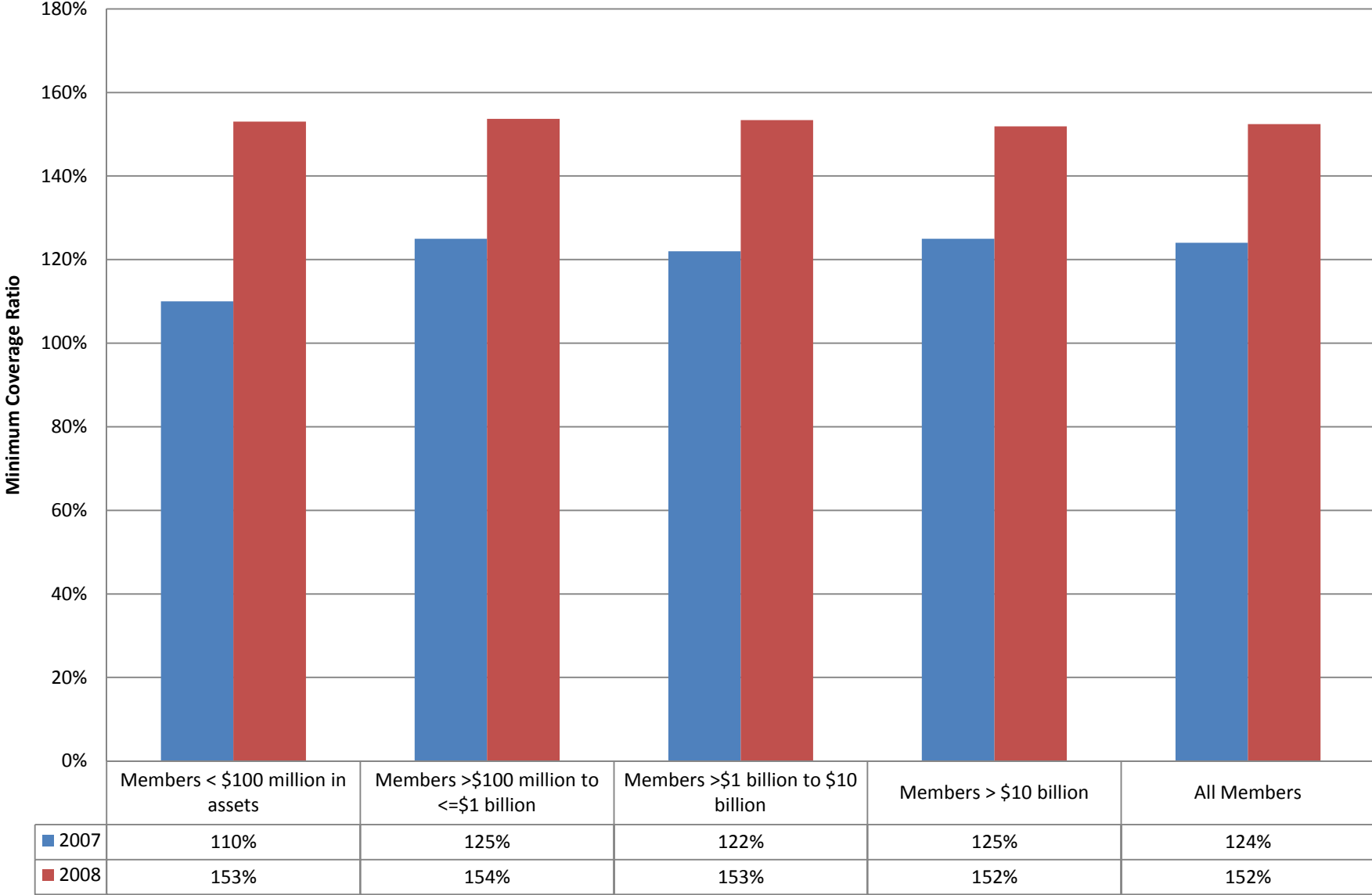
Boston Collateral Coverage of Advances By Member Asset Size



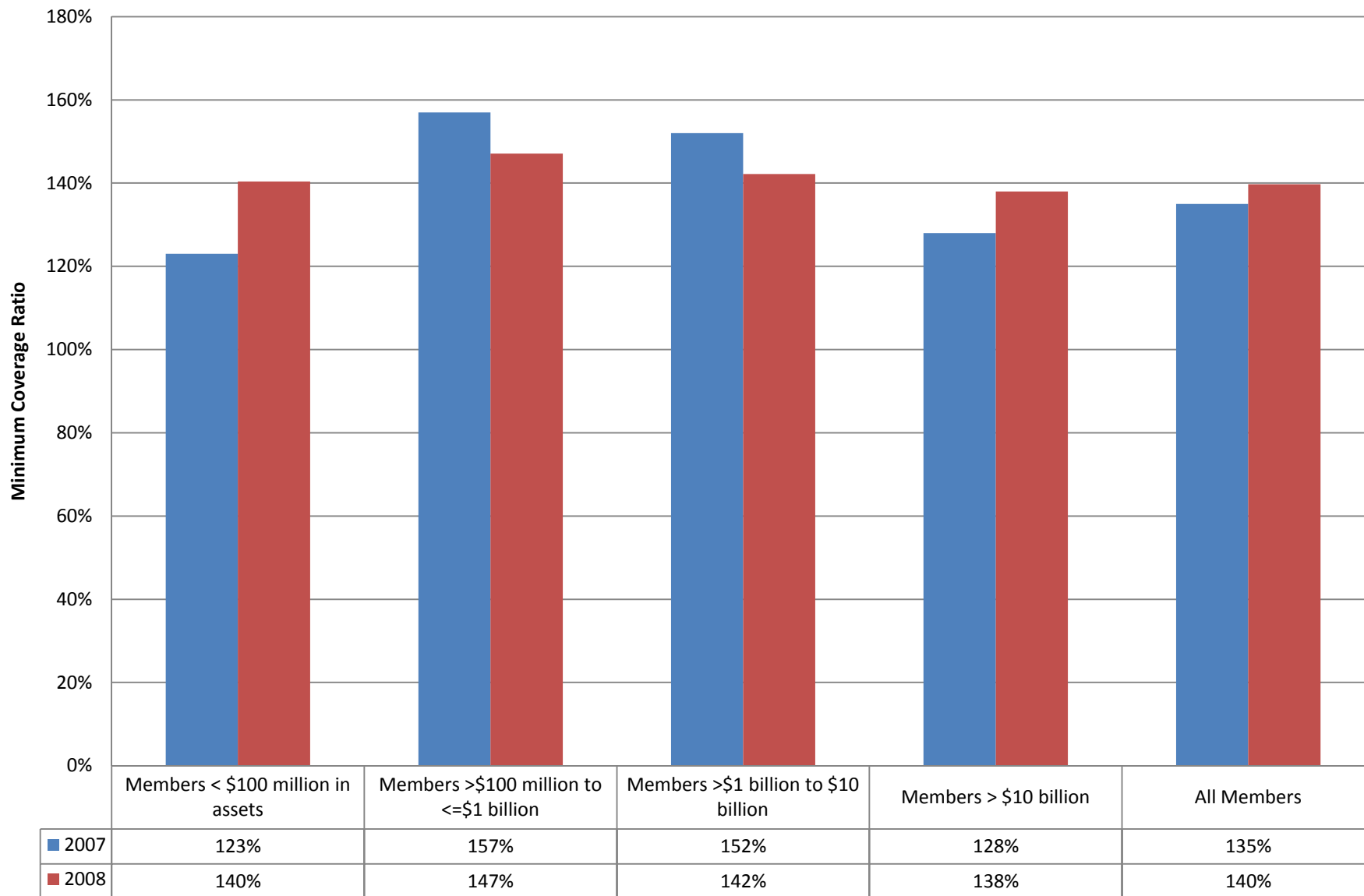
New York Collateral Securing Advances By Member Asset Size



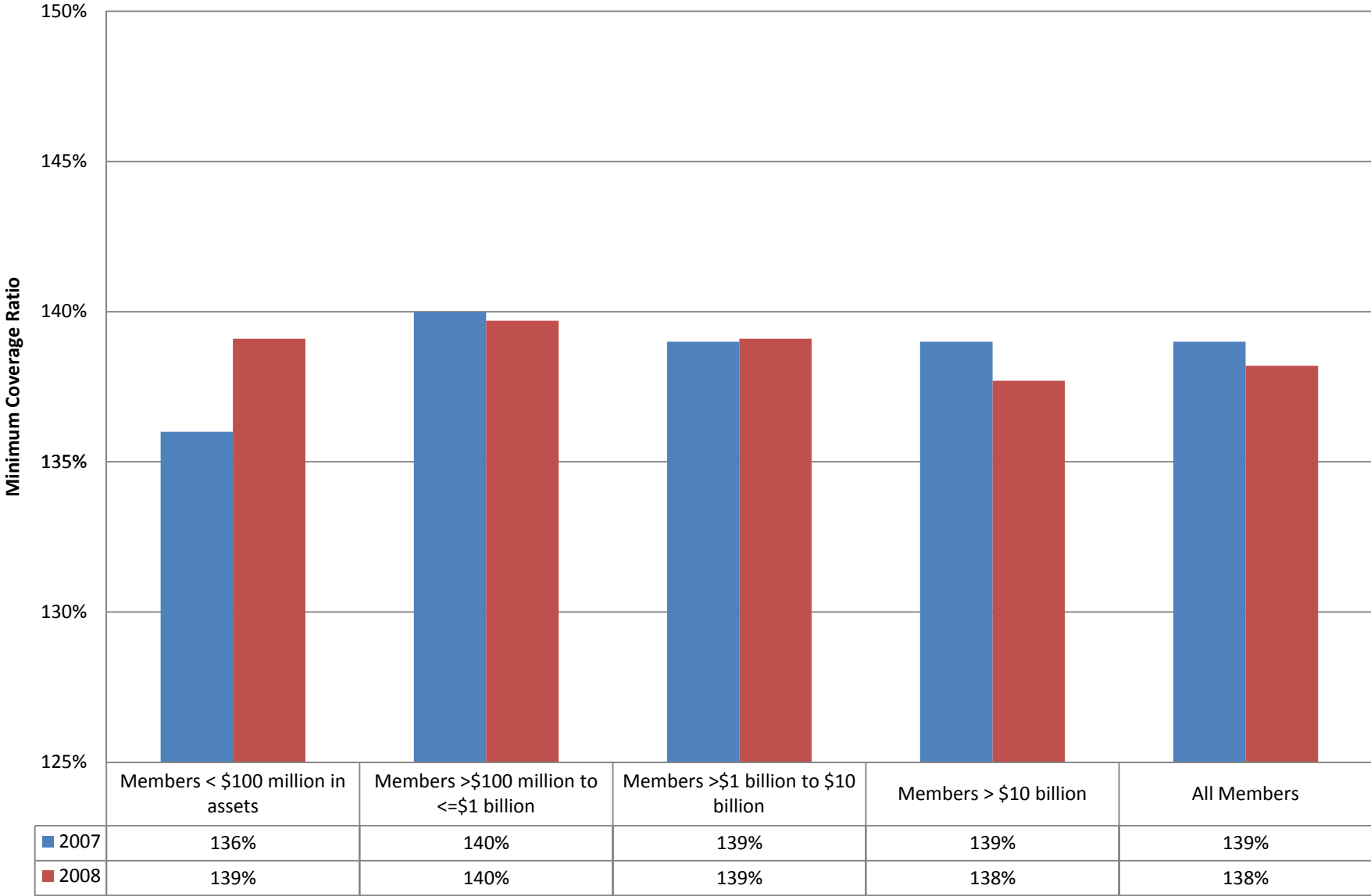
Pittsburgh Collateral Coverage of Advances By Member Asset Size



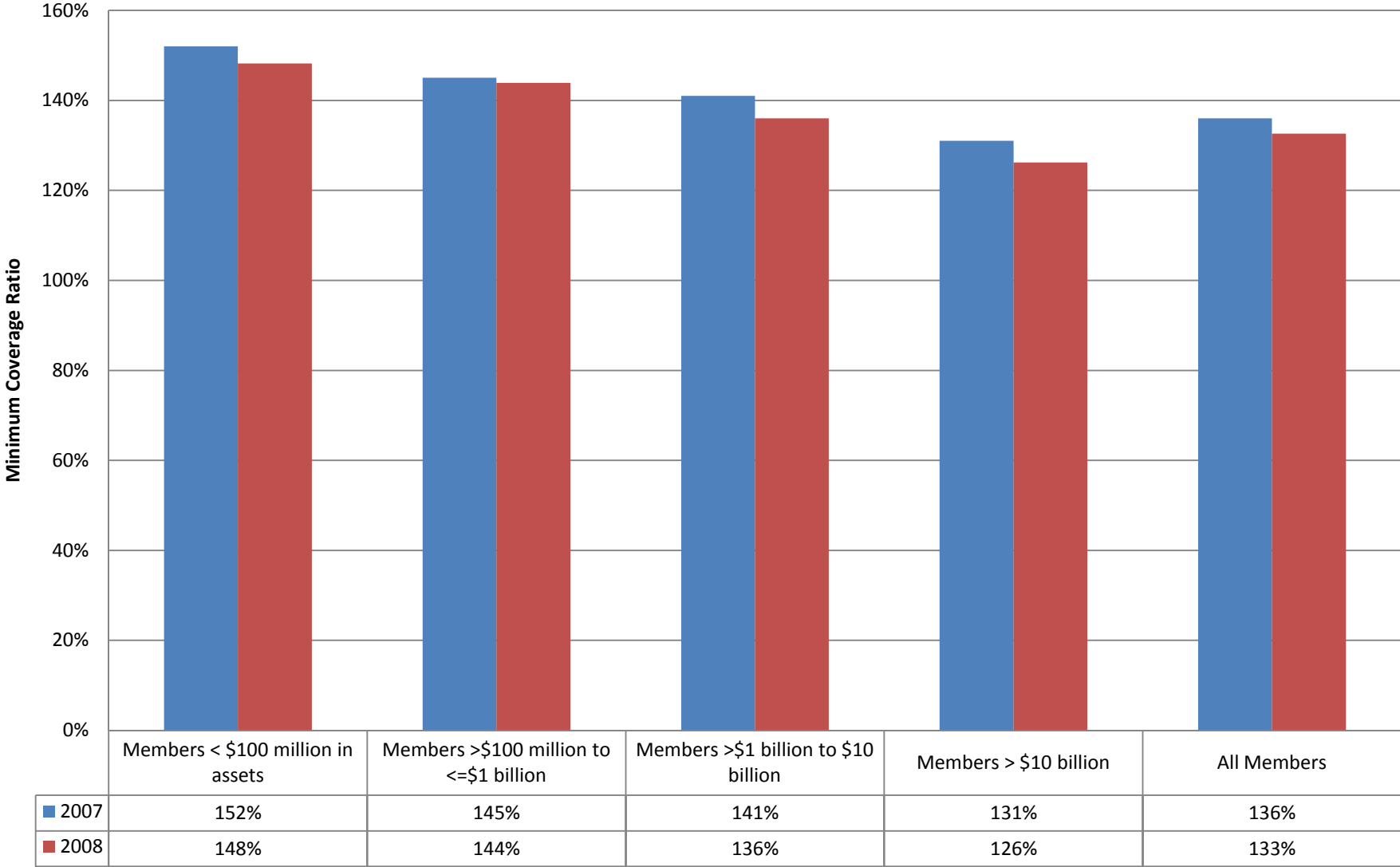
Atlanta Collateral Coverage of Advances By Member Asset Size



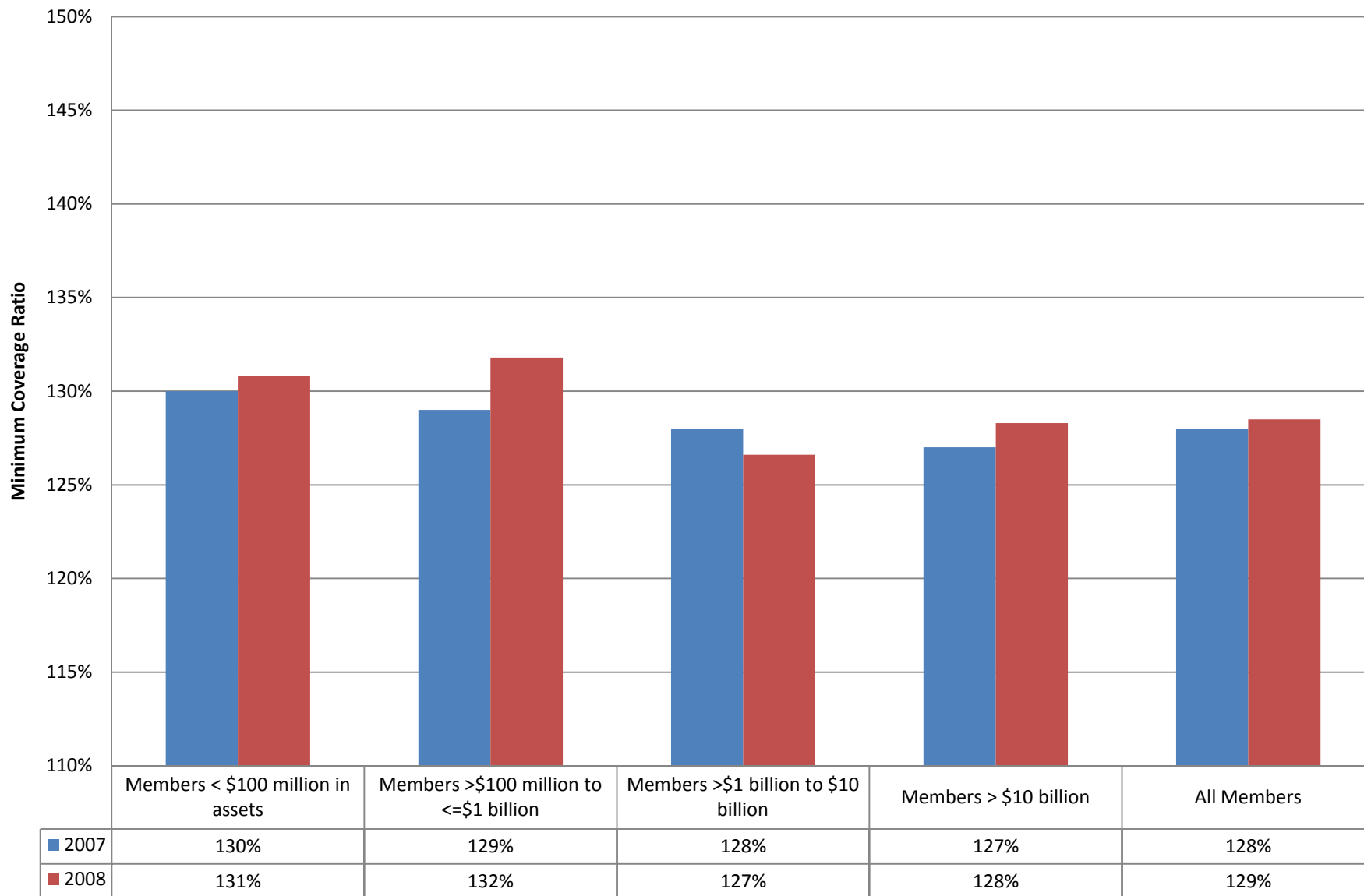
Cincinnati Collateral Coverage of Advances By Member Asset Size



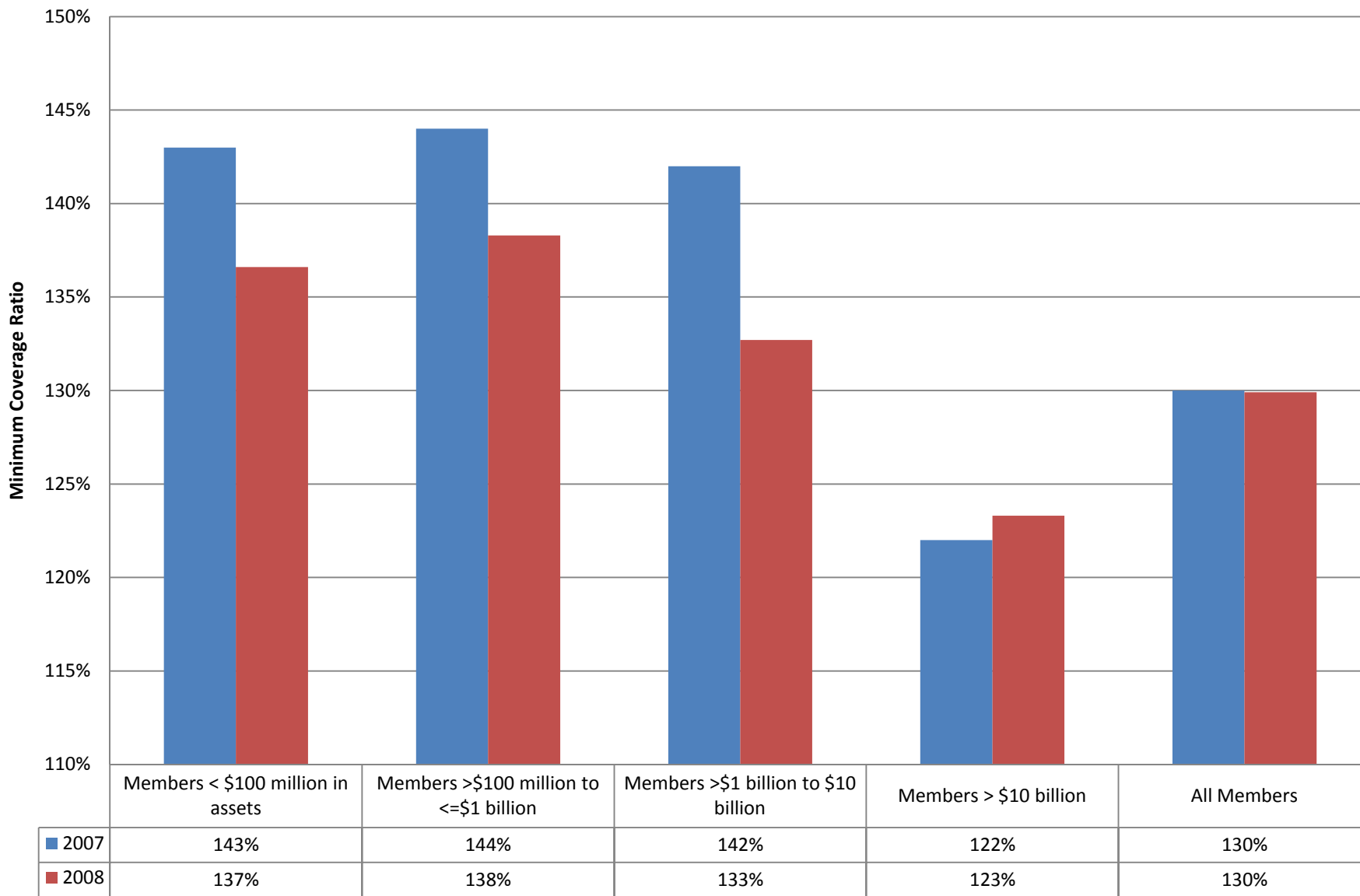
Indianapolis Collateral Coverage of Advances By Member Asset Size



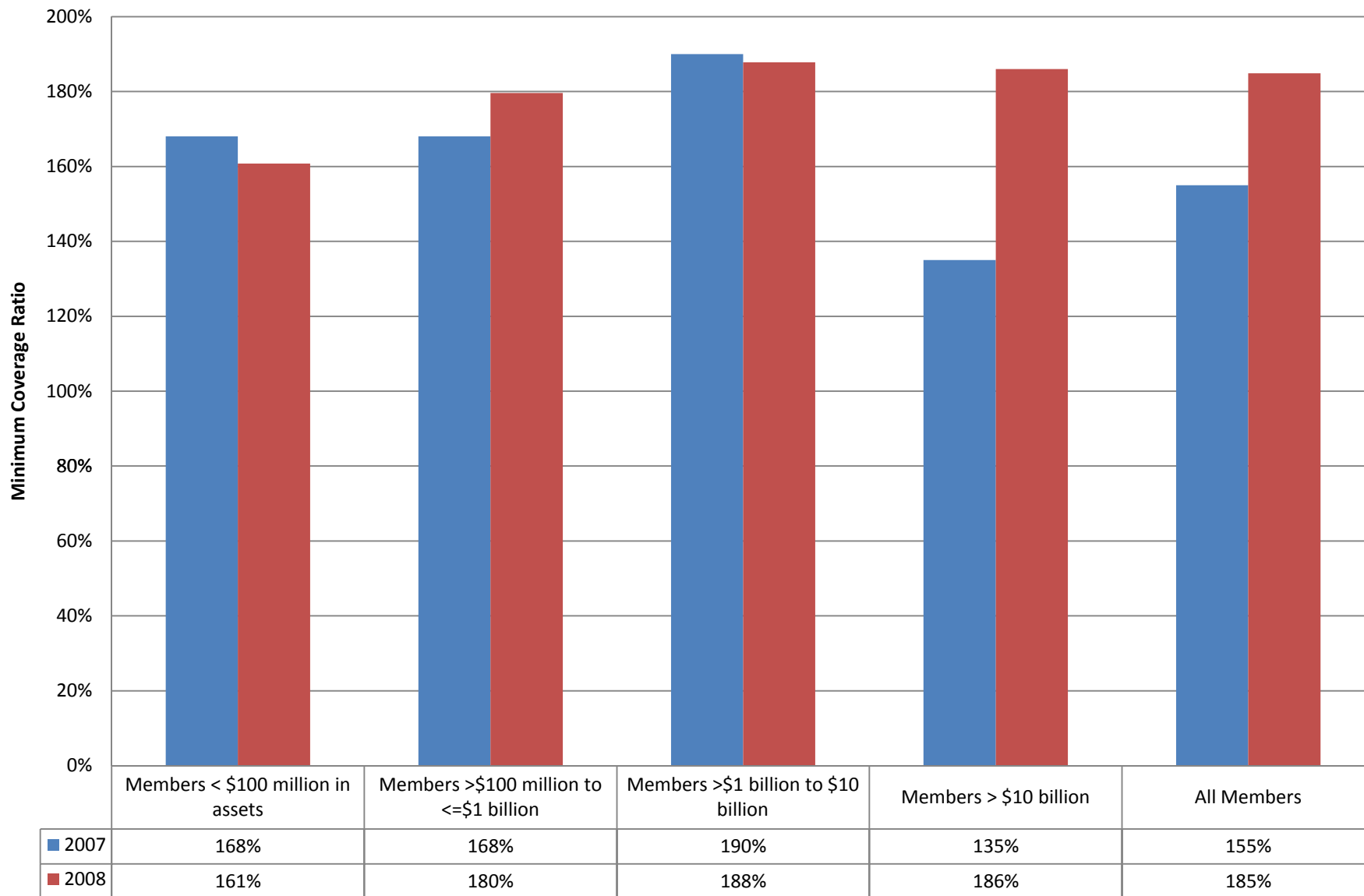
Chicago Collateral Coverage of Advances By Member Asset Size



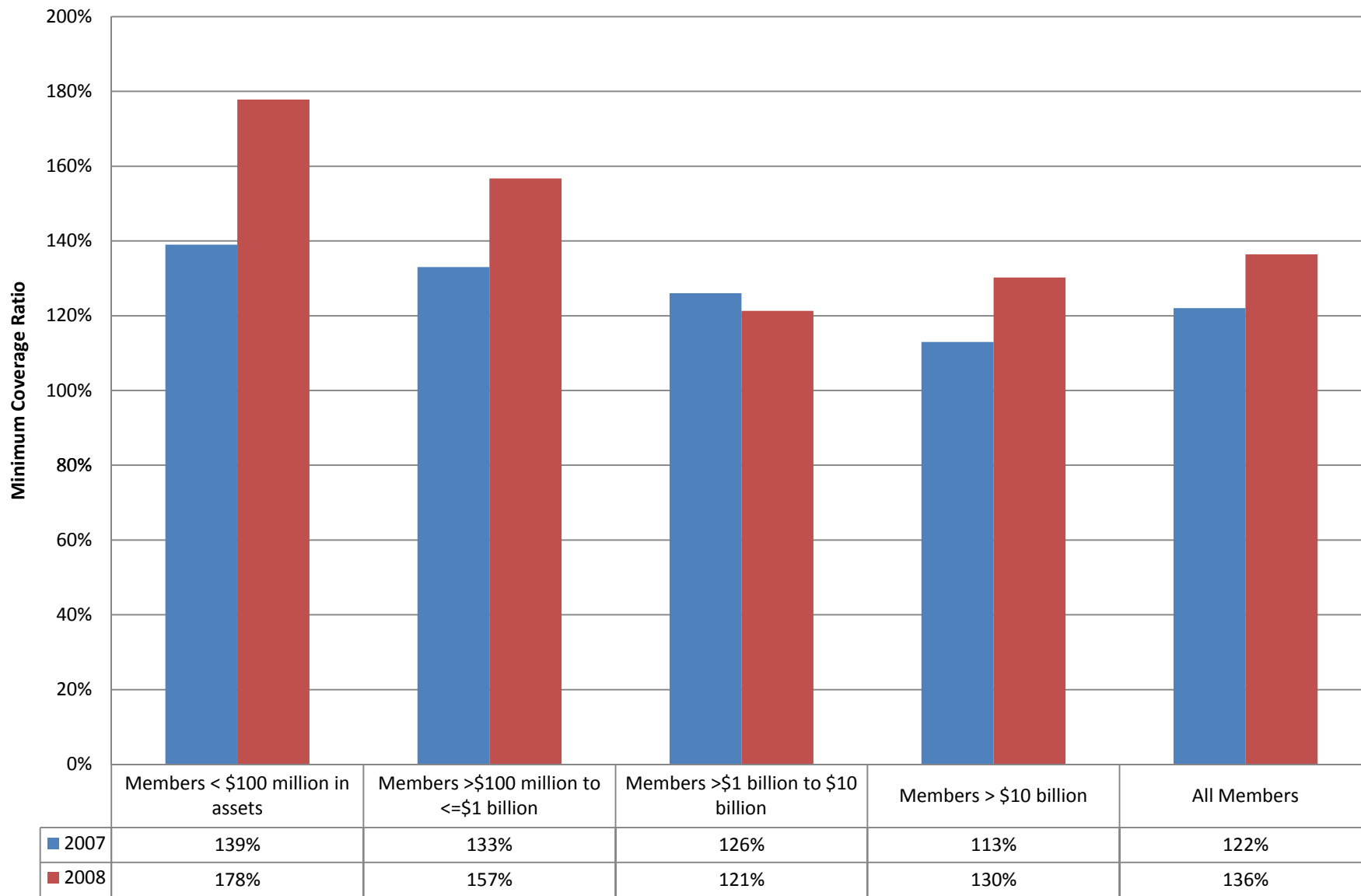
Des Moines Collateral Securing Advances By Member Asset Size



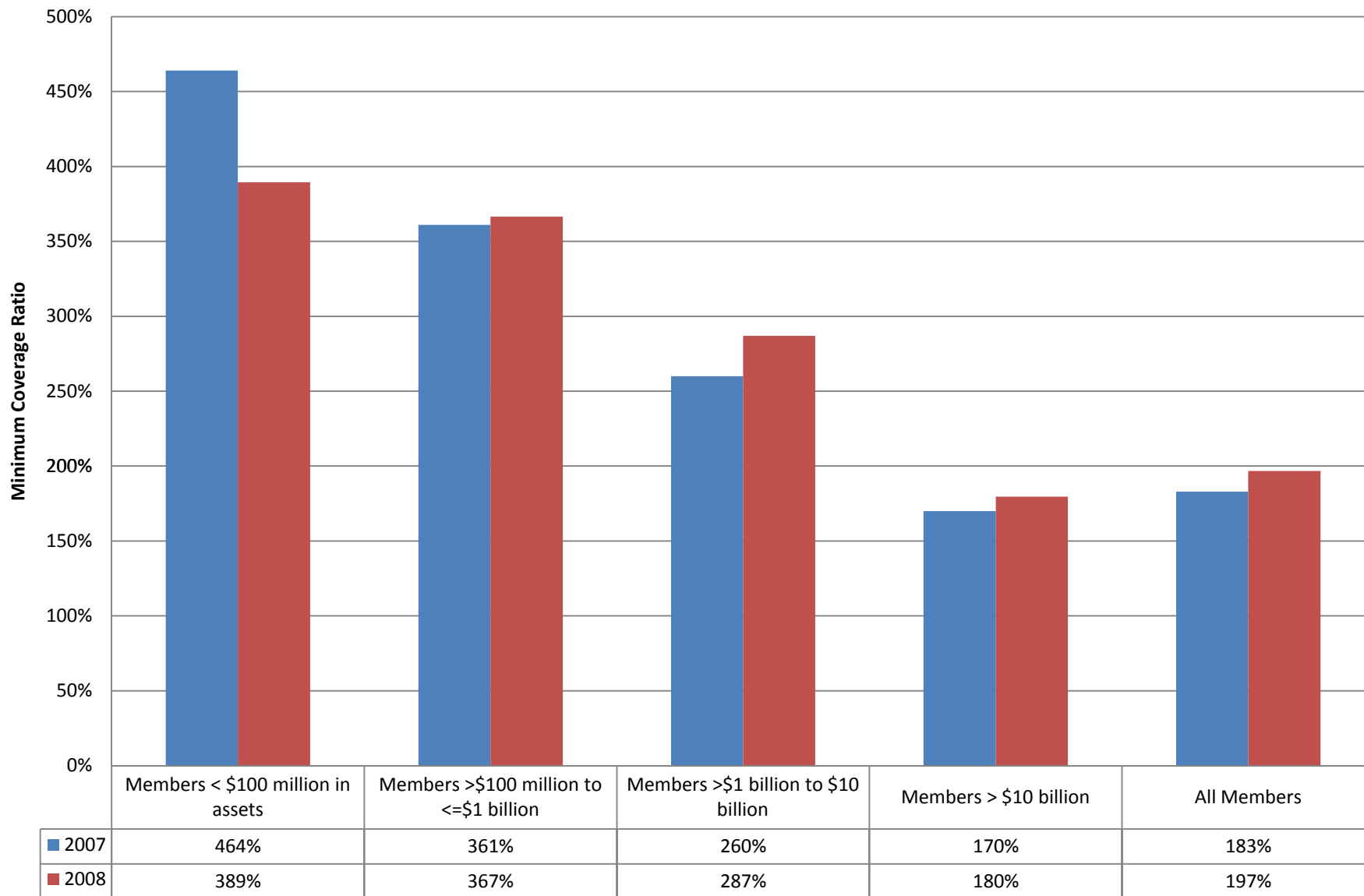
Dallas Collateral Coverage of Advances By Member Asset Size



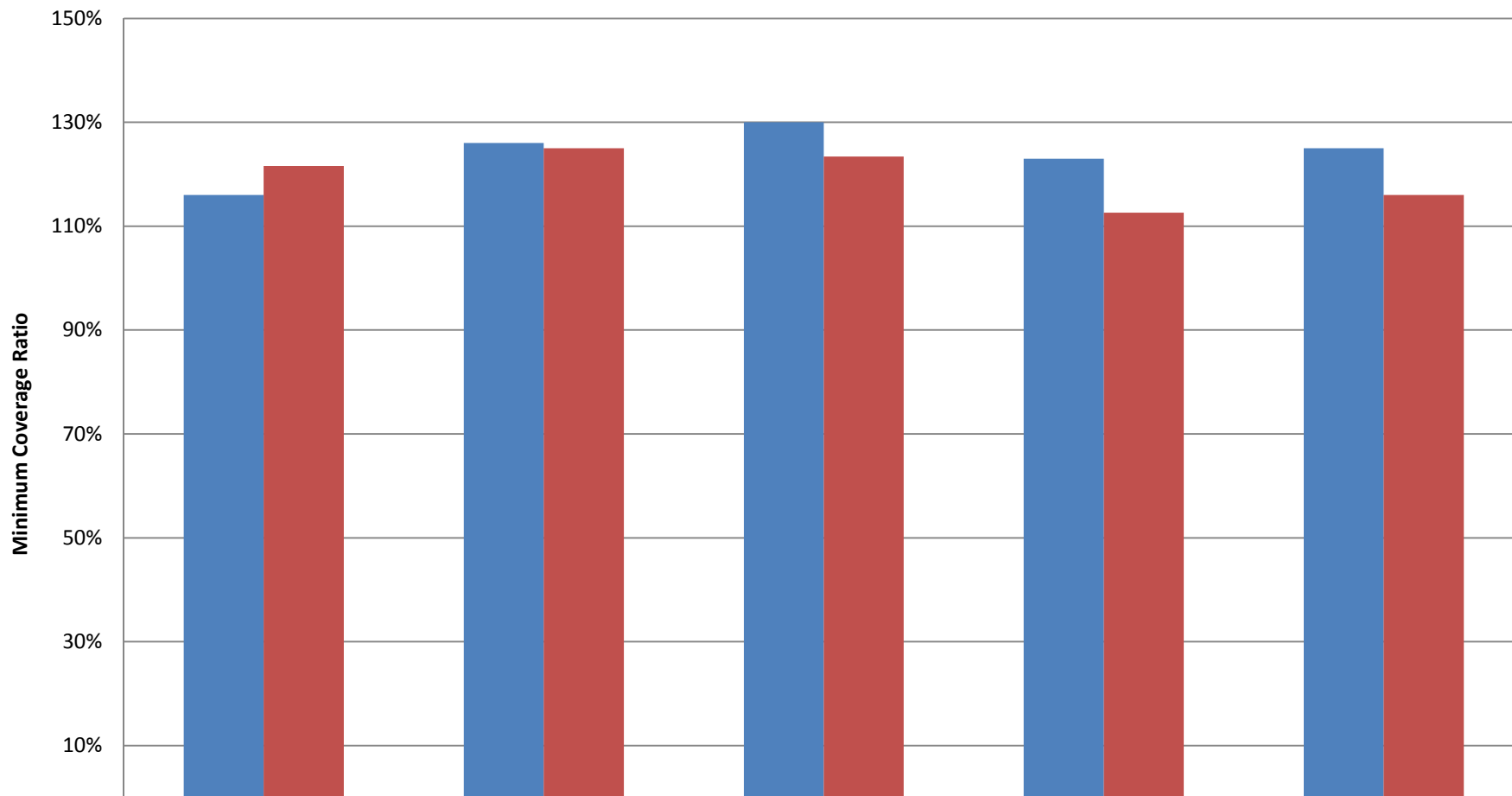
Topeka Collateral Coverage of Advances By Member Asset Size



San Francisco Collateral Coverage of Advances By Member Asset Size



Seattle Collateral Coverage of Advances By Member Asset Size



| | Members < \$100 million in assets | Members >\$100 million to <=\$1 billion | Members >\$1 billion to \$10 billion | Members > \$10 billion | All Members |
|--------|-----------------------------------|---|--------------------------------------|------------------------|-------------|
| ■ 2007 | 116% | 126% | 130% | 123% | 125% |
| ■ 2008 | 122% | 125% | 123% | 113% | 116% |

5. Other Real Estate Related Collateral (ORERC)

The FHLBanks provide supplemental information detailing the specific types of ORERC that they accept as collateral. By regulation, to be eligible collateral, ORERC must have a readily ascertainable value, be able to be reliably discounted to account for liquidation and other risks, and be able to be liquidated in due course. As well, an FHLBank must be able to perfect a security interest in such collateral.

All the FHLBanks report ORERC securing advances except the FHLBank of Pittsburgh. The largest ORERC category is commercial real estate loans, followed by home equity lines of credit and second mortgage loans. The following tables provide detailed information regarding the types of ORERC securing advances at the FHLBanks at the end of 2007 and 2008. Seven FHLBanks (Atlanta, Cincinnati, Des Moines, Dallas, Indianapolis, Topeka and Seattle) did not provide information regarding the specific type of commercial real estate loans pledged, *e.g.*, office, retail, industrial, lodging, or mixed-use. These FHLBanks are not able to provide data on the specific types of commercial real estate loan collateral as their members are able to pledge commercial real estate loan collateral under the blanket lien where specific loan detail is not required. Therefore, this report does not identify the mix of commercial real estate loan accepted as collateral by those FHLBanks.

Collateral Securing Advances - ORERC
As of December 31, 2008
(\$ Millions)

Table 5.1

| FHLBank | BOS | NYK | PIT | ATL | CIN | IND | CHG | DSM | DAL | TOP | SFR | SEA | SYSTEM |
|--|--------------|---------------|------------|---------------|--------------|--------------|--------------|---------------|---------------|--------------|----------------|--------------|----------------|
| 1. Commercial Real Estate | 1,059 | 18,615 | 0 | 8,928 | 4,727 | 3,493 | 0 | 8,613 | 33,877 | 1,710 | 69,529 | 4,801 | 155,351 |
| Office | 235 | 1,983 | 0 | | | | 0 | | | | 2,237 | | 4,455 |
| Retail | 235 | 3,117 | 0 | | | | 0 | | | | 7,151 | | 10,503 |
| Industrial | 0 | 1,179 | 0 | | | | 0 | | | | 3,071 | | 4,250 |
| Lodging | 118 | 784 | 0 | | | | 0 | | | | 1,731 | | 2,633 |
| Mixed Use | 0 | 2,579 | 0 | | | | 0 | | | | 2,852 | | 5,431 |
| Other | 471 | 8,972 | 0 | 8,928 | 4,727 | 3,493 | 0 | 8,613 | 33,877 | 1,710 | 52,487 | 4,801 | 128,079 |
| 2. Commercial 2nd Mortgages | 0 | 191 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 191 |
| 3. Residential Second Mortgage Loans | 0 | 570 | 0 | 0 | 2 | 36 | 804 | 699 | 2,979 | 330 | 31,386 | 543 | 37,348 |
| 4. Home Equity Lines of Credit | 28 | 0 | 0 | 25,104 | 4,418 | 294 | 1,182 | 2,414 | 0 | 0 | 81,453 | 0 | 114,892 |
| 5. Construction Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 26 | 0 | 381 | 0 | 0 | 407 |
| Residential Construction (Single Family) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 26 | 0 | 232 | 0 | 0 | 258 |
| Multi-Family Construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 149 | 0 | 0 | 149 |
| Commercial Construction | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6. Securities | 0 | 7,811 | 0 | 0 | 586 | 498 | 308 | 4,554 | 0 | 461 | 2,317 | 1,378 | 17,912 |
| CMBS | 0 | 7,811 | 0 | 0 | 586 | 498 | 0 | 4,554 | 0 | 368 | 2,317 | 1,378 | 17,512 |
| HELOC Securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 92 | 0 | 0 | 92 |
| Mutual Funds | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Other Securities (Specify) - Mutual Securities | 0 | 0 | 0 | 0 | 0 | 0 | 308 | 0 | 0 | 0 | 0 | 0 | 308 |
| 7. Land Loans | 0 | 0 | 0 | 0 | 180 | 0 | 0 | 1,317 | 0 | 362 | 0 | 0 | 1,859 |
| Farm Real Estate | 0 | 0 | 0 | 0 | 180 | 0 | 0 | 1,317 | 0 | 362 | 0 | 0 | 1,859 |
| Other Land Loans (Specify) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 8. Other | 0 | 71 | 0 | 0 | 0 | 0 | 0 | 129 | 14 | 0 | 677 | 0 | 891 |
| Participated loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 129 | 0 | 0 | 677 | 0 | 806 |
| Other (Specify) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 14 | 0 | 0 | 0 | 14 |
| Multi-family Second Mortgage Loans | | 71 | | | | | | | | | | | 71 |
| Totals | 1,087 | 27,257 | 0 | 34,031 | 9,912 | 4,321 | 2,294 | 17,752 | 36,871 | 3,243 | 185,362 | 6,722 | 328,851 |

Collateral Securing Advances - ORERC
As of December 31, 2007
(\$ Millions)

Table 5.2

| FHLBank | BOS | NYK | PIT | ATL | CIN | IND | CHG | DSM | DAL | TOP | SFR | SEA | SYSTEM |
|--|------------|---------------|------------|---------------|--------------|--------------|--------------|---------------|---------------|--------------|----------------|--------------|----------------|
| 1. Commercial Real Estate | 232 | 11,971 | 405 | 10,629 | 7,151 | 3,102 | 0 | 5,614 | 16,479 | 2,940 | 56,237 | 4,132 | 118,892 |
| Office | 116 | 1,435 | | | | | 0 | | | | 3,733 | | 5,284 |
| Retail | 116 | 2,395 | | | | | 0 | | | | 8,809 | | 11,320 |
| Industrial | 0 | 863 | | | | | 0 | | | | 4,840 | | 5,703 |
| Lodging | 0 | 615 | | | | | 0 | | | | 2,240 | | 2,855 |
| Mixed Use | 0 | 1,367 | | | | | 0 | | | | 3,348 | | 4,715 |
| Other | 0 | 5,296 | 37 | | | | 0 | | | | 33,267 | | 38,600 |
| 2. Commercial 2nd Mortgages | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| 3. Residential Second Mortgage Loans | 0 | 608 | 99 | 0 | 0 | 593 | 204 | 1,894 | 0 | 364 | 25,664 | 880 | 30,306 |
| 4. Home Equity Lines of Credit | 104 | 0 | 68 | 11,133 | 1,267 | 415 | 958 | 1,425 | 0 | 0 | 36,608 | 128 | 52,106 |
| 5. Construction Loans | 0 | 0 | 104 | 0 | 0 | 0 | 0 | 50 | 0 | 557 | 0 | 0 | 711 |
| Residential Construction (Single Family) | 0 | 0 | 101 | 0 | 0 | 0 | 0 | 50 | 0 | 378 | 0 | 0 | 529 |
| Multi-Family Construction | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 179 | 0 | 0 | 180 |
| Commercial Construction | 0 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| 6. Securities | 0 | 16 | 0 | 0 | 714 | 1,887 | 0 | 2,439 | 0 | 599 | 2,003 | 829 | 8,487 |
| CMBS | 0 | 16 | 0 | 0 | 714 | 1,878 | 0 | 2,439 | 0 | 479 | 2,003 | 829 | 8,358 |
| HELOC Securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 120 | 0 | 0 | 120 |
| Mutual Funds | 0 | 0 | 0 | 0 | 0 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 9 |
| Other Securities (Specify) - | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7. Land Loans | 0 | 0 | 36 | 0 | 143 | 0 | 0 | 871 | 0 | 313 | 0 | 0 | 1,363 |
| Farm Real Estate | 0 | 0 | 33 | 0 | 143 | 0 | 0 | 871 | 0 | 313 | 0 | 0 | 1,360 |
| Other Land Loans (Specify) | 0 | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| 8. Other | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 60 | 0 | 0 | 836 | 0 | 896 |
| Participated loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 60 | 0 | 0 | 836 | 0 | 896 |
| Other (Specify) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | | | | |
| Totals | 336 | 12,596 | 712 | 21,762 | 9,275 | 5,997 | 1,162 | 12,353 | 16,479 | 4,773 | 121,348 | 5,969 | 212,762 |

6. Community Financial Institution (CFI) Collateral

The FHLBanks are authorized to accept from CFI members and their affiliates additional types of collateral that would not be otherwise considered eligible collateral for advances. These types of collateral include small business loans, small farm loans or small agri-business loans fully secured by collateral other than real estate, and securities representing a whole interest in such loans. The FHLBanks provide data on the types of CFI collateral that they accept, as well as the volume of CFI collateral that their members have available, but do not currently utilize. The FHLBanks also provide estimates of advances that the unutilized CFI collateral might support.

This section includes Table 6.1 that provides data on the mix of CFI collateral at the FHLBanks, the level of advances secured by CFI collateral, and the level of unutilized CFI collateral at the end of 2008. This section also includes graphs that display changes in these three areas between 2007 and 2008.

Note that the FHLBanks of Atlanta, Cincinnati, New York and Pittsburgh report no CFI collateral activity at year-end 2008. The FHLBanks of New York and Atlanta also did not provide any information regarding unutilized CFI collateral. While the boards of directors of the FHLBanks have approved the acceptance of CFI collateral, the FHLBanks of New York and Atlanta have not submitted new business activity notices requesting approval to accept CFI collateral.

The amounts of CFI collateral pledged to secure advances nearly doubled during 2008, but CFI collateral pledged remains only approximately one percent of total collateral.

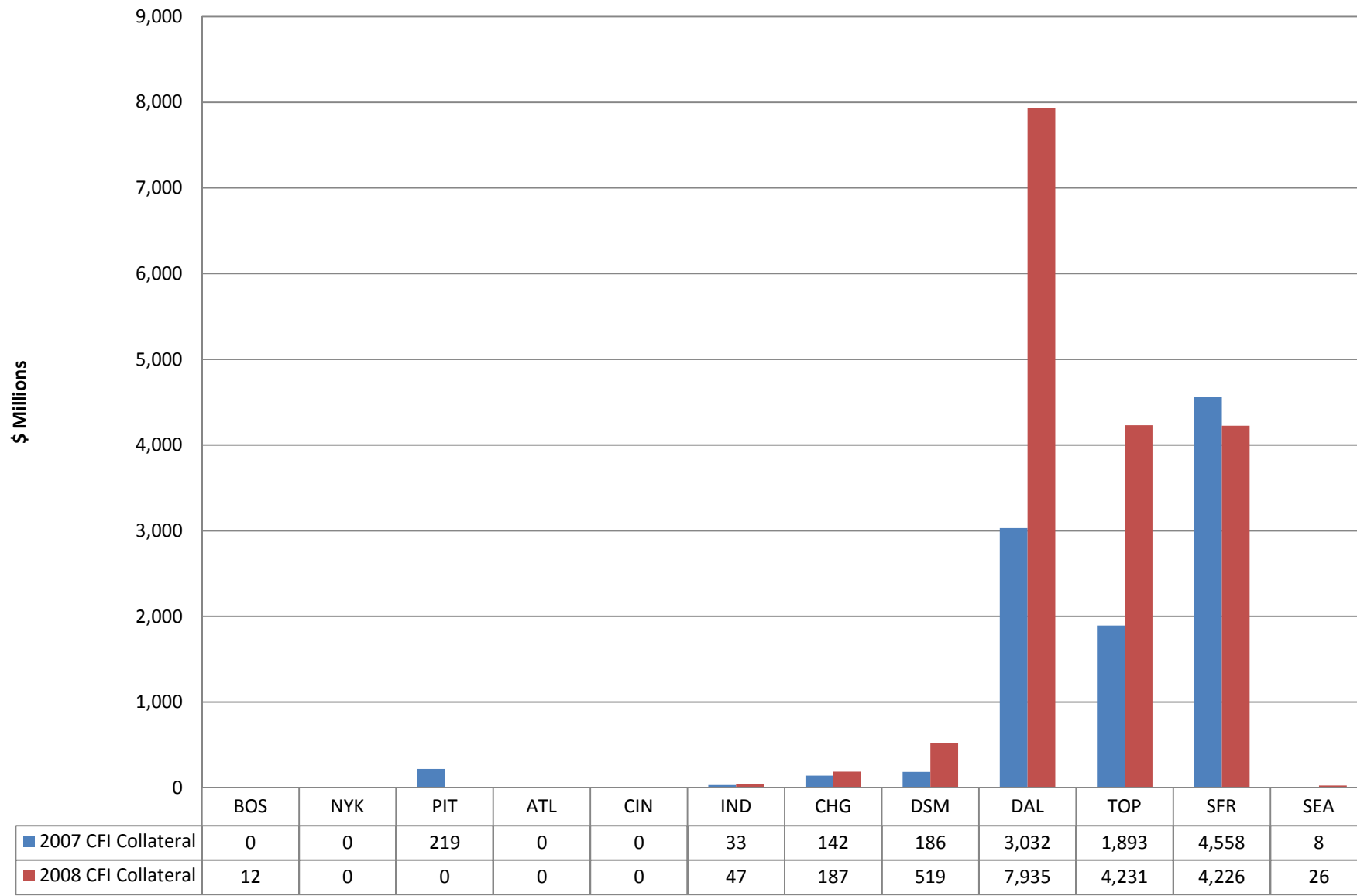
The FHLBanks reported that their CFI members have unutilized CFI collateral totaling \$158 billion, led by the FHLBank of Des Moines with \$71 billion of unutilized CFI collateral (see Graph 6.3). The potential for new advances supported solely by unutilized CFI collateral reported by the FHLBanks at year-end 2008 is \$55 billion, down slightly from the prior year-end.

Table 6.1

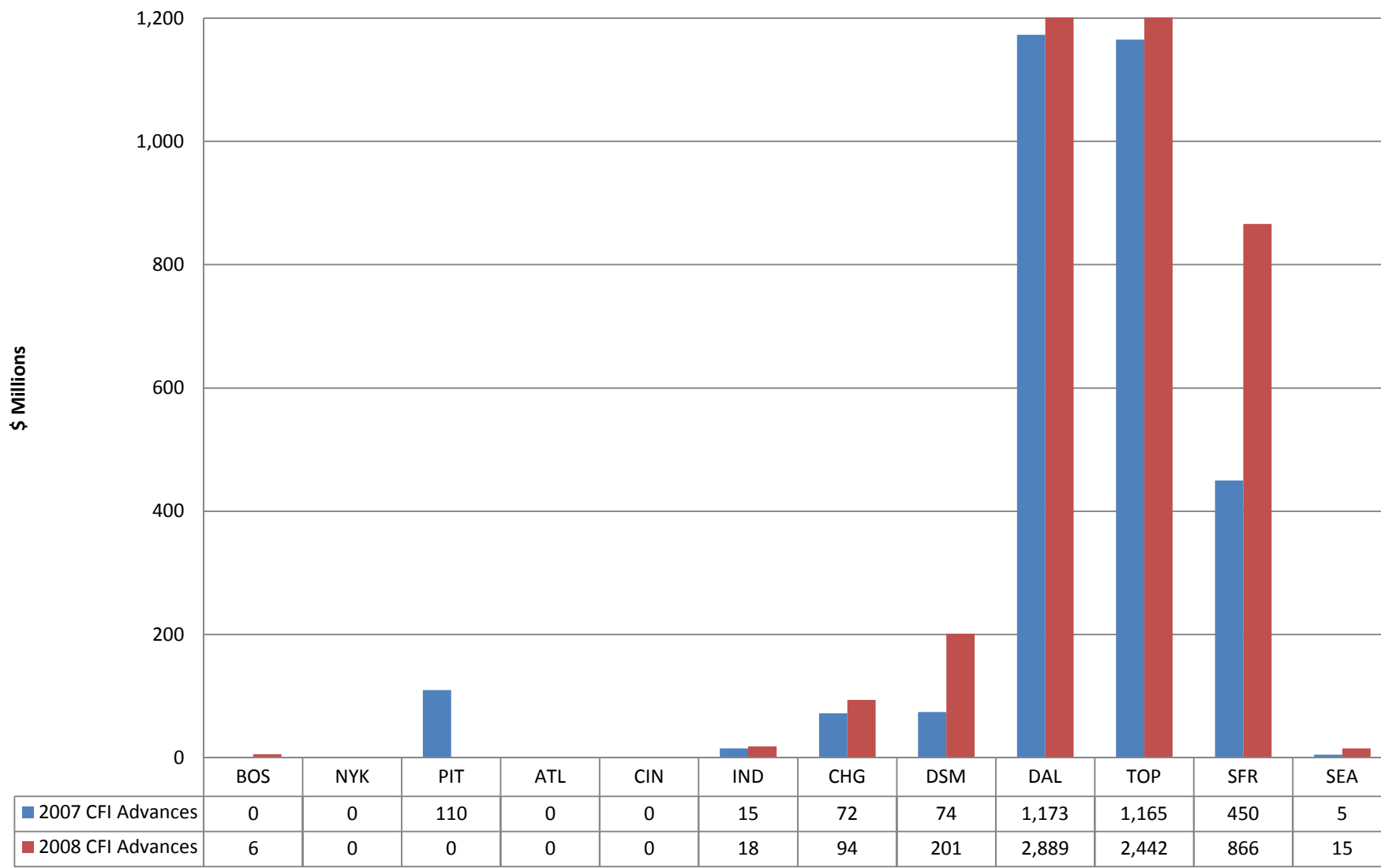
2008 CFI Collateral & Advances Activity
(\$ Millions)

| CFI Collateral Securing Advances | | | | | | | | | | | | | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|
| FHLBank | BOS | NYK | PIT | ATL | CIN | IND | CHG | DSM | DAL | TOP | SFR | SEA | SYSTEM |
| Small Farm Loans | 0 | 0 | 0 | 0 | 0 | 21 | 107 | 0 | 436 | 1,366 | 336 | 2 | 2,268 |
| Small Agri-business Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 127 | 0 | 315 | 161 | 2 | 605 |
| Small Business Loans | 12 | 0 | 0 | 0 | 0 | 26 | 80 | 392 | 7,499 | 2,549 | 3,729 | 22 | 14,309 |
| Total CFI Collateral | 12 | 0 | 0 | 0 | 0 | 47 | 187 | 519 | 7,935 | 4,231 | 4,226 | 26 | 17,183 |
| Total CFI Advances | 6 | 0 | 0 | 0 | 0 | 18 | 94 | 201 | 2,889 | 2,442 | 866 | 15 | 6,531 |
| Unutilized CFI Collateral | | | | | | | | | | | | | |
| FHLBank | BOS | NYK | PIT | ATL | CIN | IND | CHG | DSM | DAL | TOP | SFR | SEA | SYSTEM |
| Small Farm Loans | 1,863 | 0 | 0 | 0 | 0 | 873 | 148 | 12,027 | 9,981 | 2,823 | 316 | 2,280 | 30,312 |
| Small Agri-business Loans | 515 | 0 | 0 | 0 | 1 | 0 | 0 | 11,527 | 0 | 4,629 | 301 | 1,446 | 18,419 |
| Small Business Loans | 3,826 | 0 | 4,634 | 0 | 9 | 3,928 | 217 | 47,451 | 35,918 | 5,146 | 4,148 | 4,091 | 109,368 |
| Total Unutilized CFI Collateral | 6,204 | 0 | 4,634 | 0 | 10 | 4,802 | 365 | 71,005 | 45,898 | 12,597 | 4,765 | 7,818 | 158,098 |

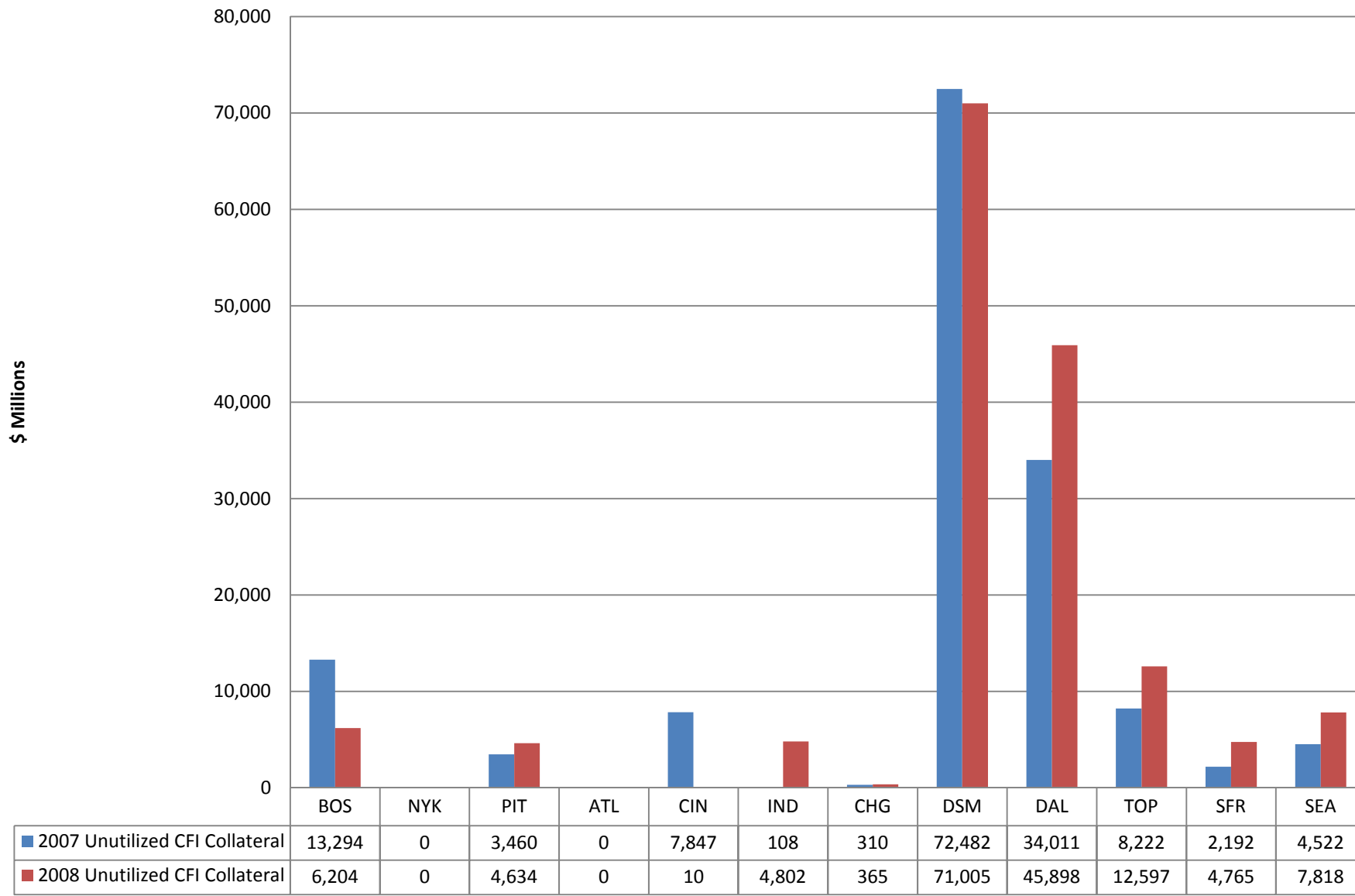
CFI Collateral Pledged Year Ends 2007 & 2008



CFI Advances Outstanding Year Ends 2007 & 2008



Unutilized CFI Collateral Year Ends 2007 & 2008



7. Collateral Coverage of Insurance Companies and Credit Unions

Graph 7.1 in this section exhibits collateral coverage of advances to the various types of member institutions of the FHLBanks. The “others” category in the first graph captures outstanding advances made to members that have been acquired by a member of another FHLBank (but remain outstanding to the originating FHLBank) and advances made to housing associates. Graphs 7.2, 7.3 and 7.4 in this section provide information on the volume of advances and the collateral coverage for both insurance companies and credit unions by FHLBank.

Insurance Companies

Although still not a significant component of business at most FHLBanks, advances to insurance companies are growing throughout the System. Advances to insurance company members increased from \$29 billion at year-end 2007 to \$55 billion at year-end 2008, an increase of 90 percent. See Graph 7.2 for information on advances to insurance companies by the FHLBanks.

Collateral coverage for advances to insurance companies is lower than the collateral coverage for other members.⁴ This principally is a result of the type of collateral pledged and lien status imposed by the FHLBanks for insurance company members. U.S. agency MBS/CMOs and PLS represent 57 percent of the collateral for advances to insurance companies. The FHLBanks generally accept collateral from insurance companies on a delivered basis.

The table below displays the distribution of collateral securing advances to insurance companies at year-end 2008:

| Collateral Type | Percentage of Collateral 2007 | Percentage of Collateral 2008 |
|-------------------------------|--|--|
| PLS | 43 | 27 |
| U.S. agency MBS/CMOs | 23 | 30 |
| ORERC | 19 | 23 |
| Residential whole loans | 13 | 11 |
| Other securities and deposits | 2 | 9 |

⁴ As noted in Graph 7.1, the year-end 2008 collateral coverage ratio for insurance company members was 133 percent, while collateral coverage ratios for commercial bank members and thrift members are 169 percent and 146 percent, respectively.

Credit Unions

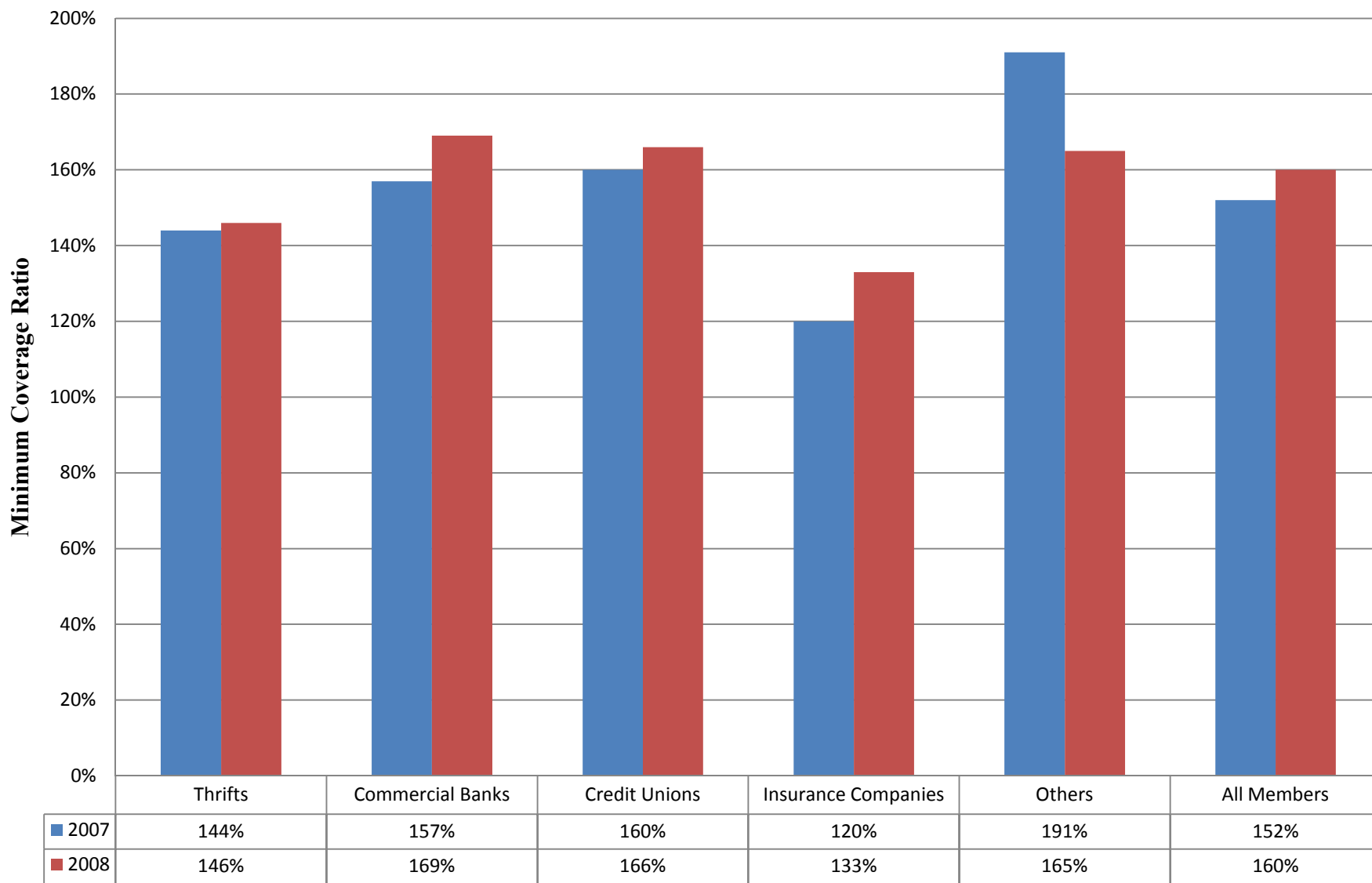
While all FHLBanks report advances outstanding to credit union members, advances to credit unions are also not a significant component of their business. Credit union borrowings increased from \$32 billion at year-end 2007 to \$41 billion at year-end 2008, an increase of 28 percent. See Graph 7.3 for information on advances to credit unions by the FHLBanks.

Collateral coverage for advances to credit unions is higher than the collateral coverage for other members. This principally a result of the type of collateral credit unions pledge. Over 63 percent of the collateral for advances to credit unions is whole mortgage loan collateral. The FHLBanks require higher volumes of whole mortgage loan collateral than U.S. agency MBS/CMOs and PLS.

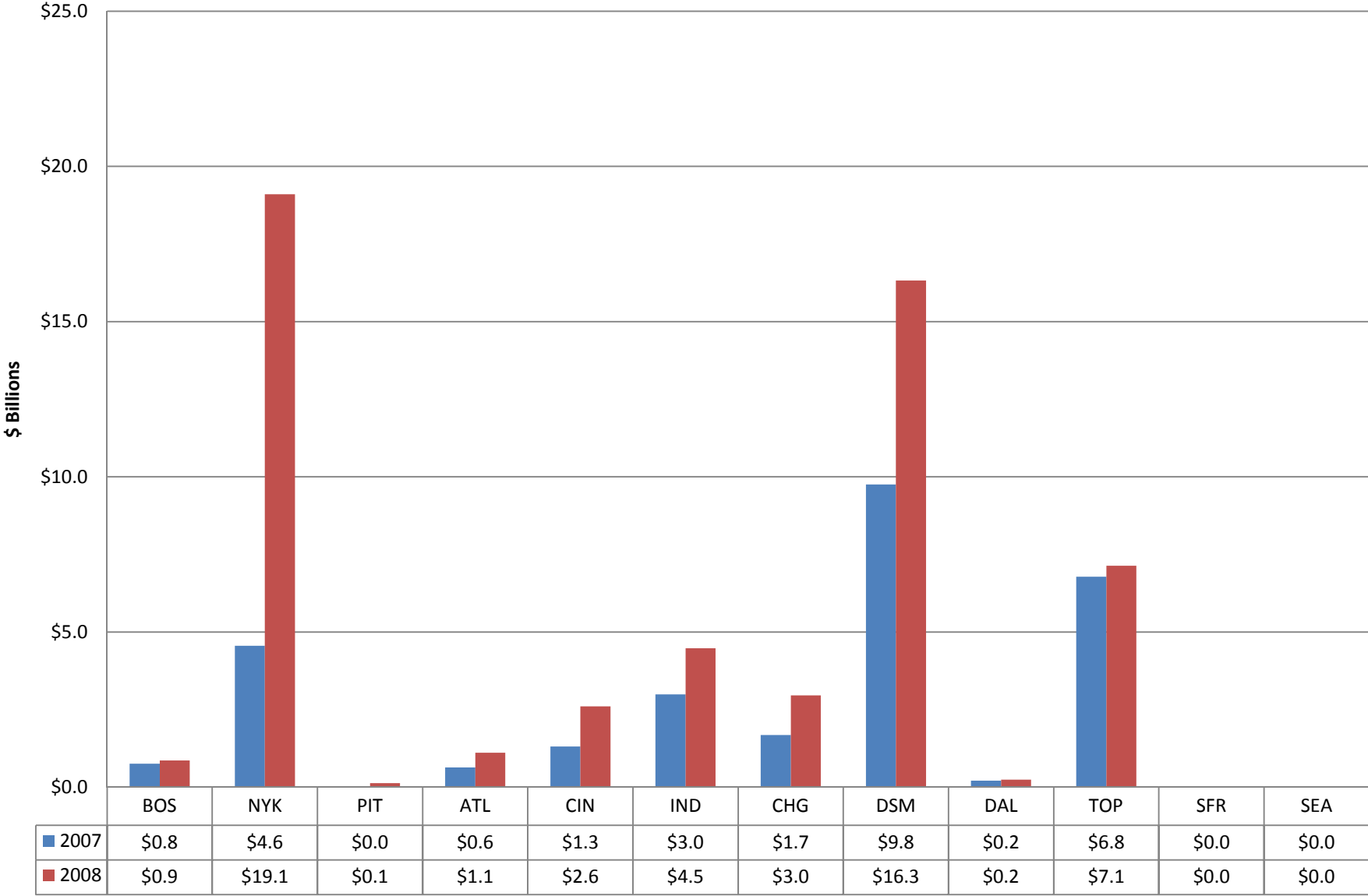
The table below displays the distribution of collateral securing advances to credit unions at year-end 2008:

| Collateral Type | Percentage of Collateral 2007 | Percentage of Collateral 2008 |
|-------------------------------|--------------------------------------|--------------------------------------|
| PLS | 21 | 12 |
| U.S. agency MBS/CMOs | 7 | 15 |
| ORERC | 11 | 9 |
| Residential whole loans | 60 | 63 |
| Other securities and deposits | 1 | 1 |

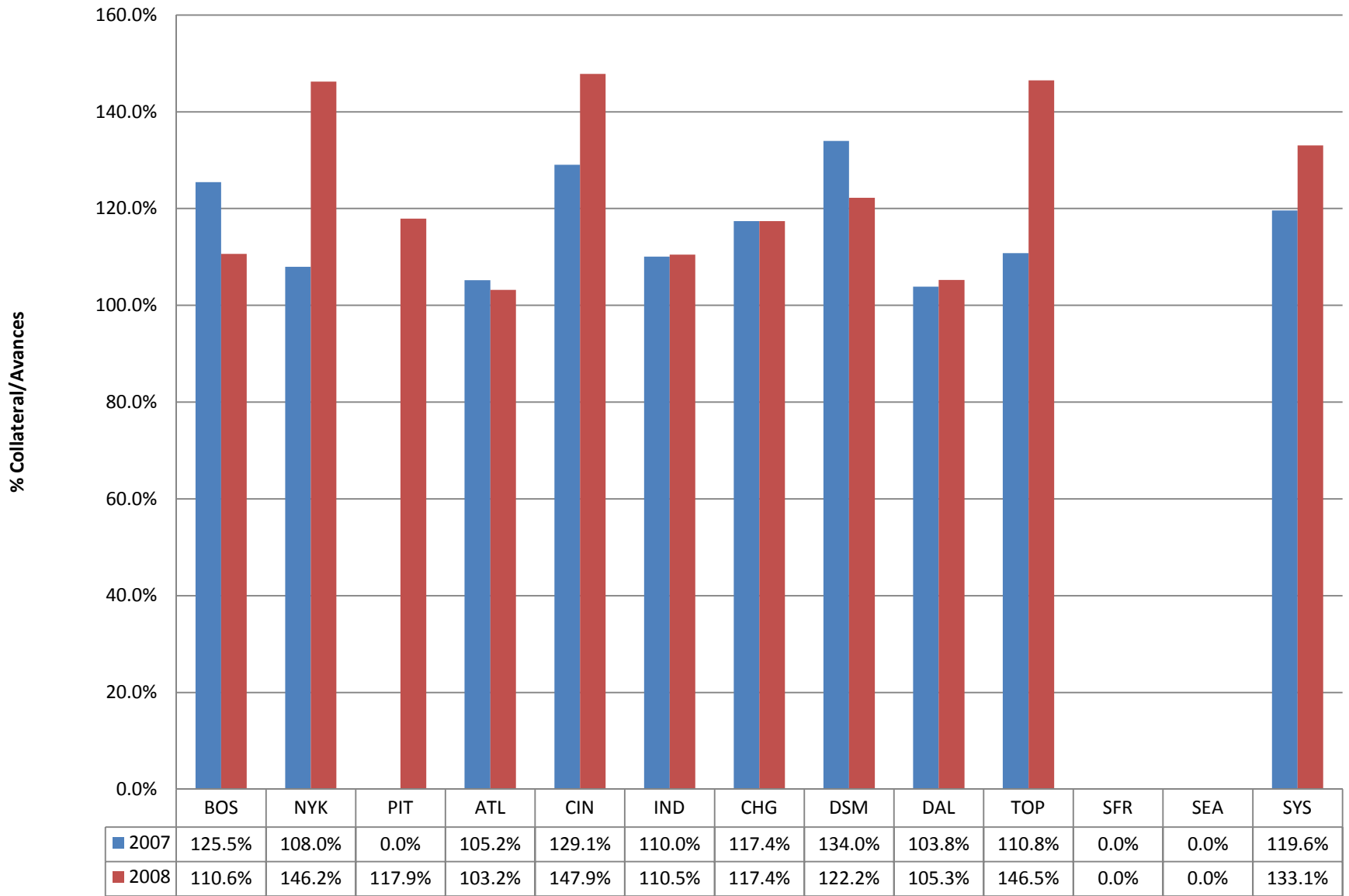
System Collateral Coverage of Advances By Member Type Year Ends 2007 & 2008



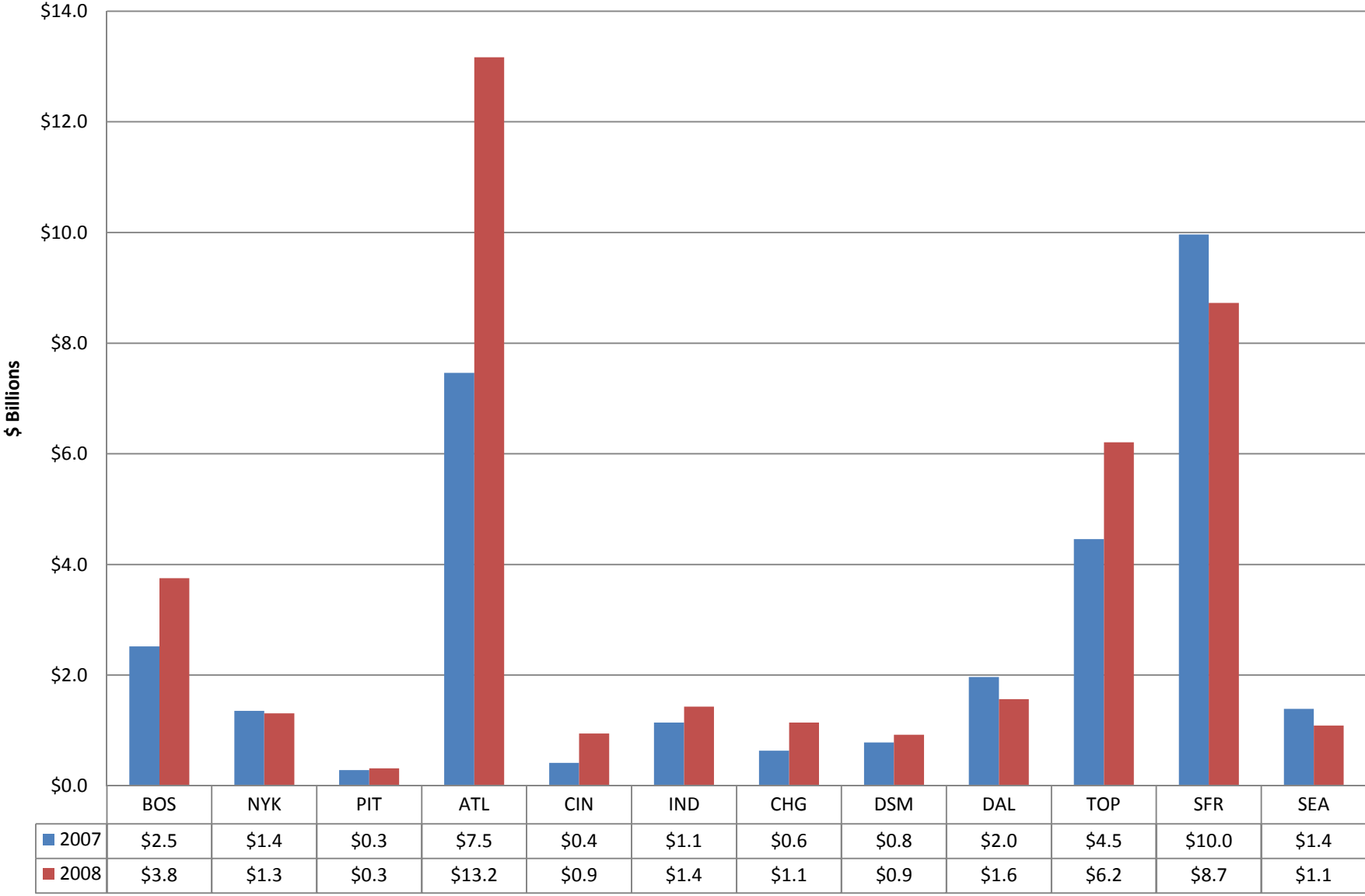
Insurance Company Advances Year Ends 2007 & 2008



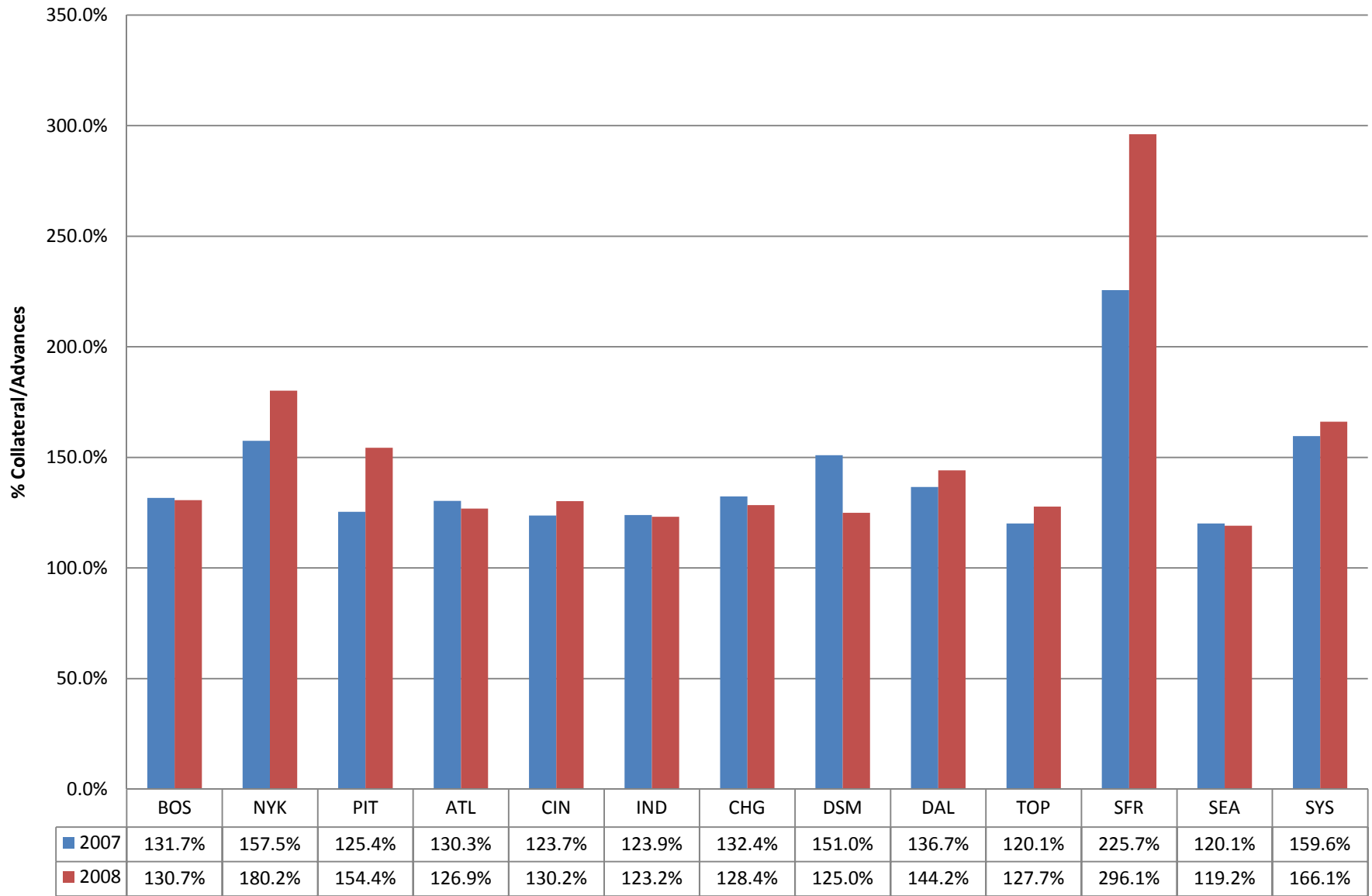
Collateral Coverage of Insurance Companies Year Ends 2007 & 2008



Credit Union Advances Year Ends 2007 & 2008



Collateral Coverage of Credit Unions Year Ends 2007 & 2008



8. Subprime and Nontraditional Mortgage Collateral

Each FHLBank reports in the Collateral Data Survey the amounts of subprime and nontraditional mortgage loan collateral on which it relies to secure advances as of the report date. The FHLBanks provide this information in two categories: first lien residential mortgage loans and ORERC (second mortgages, home equity lines of credit and residential construction loans). The FHLBanks also report information on the amounts of subprime and Alt-A PLS on which the FHLBank relies as collateral for advances.

The varying reported levels of subprime and nontraditional mortgage loans in the collateral accepted at each FHLBank are a function of the ways in which the FHLBanks measure and categorize such exposures, in addition to actual differences in collateral pledged by members in each FHLBank district. The FHLBanks report either actual or estimated amounts, depending on data availability. For example, the amounts of subprime and nontraditional mortgage loans are most often extrapolated from collateral verification reviews and information collected from those members on listing or delivery collateral status, resulting in estimated amounts.

The FHLBanks used their own categorizations of subprime and nontraditional mortgage loans when responding to the Collateral Data Survey. The Collateral Data Survey did not establish specific definitions of these terms to allow for flexibility in reporting based on imperfect information about collateral, particularly information available about collateral accepted through a blanket lien. Generally speaking, however, nontraditional mortgage loans include those that allow negative amortization or the deferment of payments of principal or interest. Subprime loans generally are those to a borrower having a credit score below some threshold level. The threshold under which a borrower is considered subprime has varied with market conditions, loan originators, and loan investors.

Regarding PLS serving as collateral for advances, the Collateral Data Survey requests the FHLBanks report those securities according to how they were categorized by the issuer, rating agency, or other market participant. Information on PLS can be obtained by reviewing the securities' prospectuses, market-based sources of information, or even the names of the securities themselves, allowing the FHLBanks to provide actual amounts in some cases. There is no standard definition of an Alt-A security. Alt-A PLS traditionally have been considered to be those backed by mortgage loans to borrowers with prime credit scores but with features that included, for example, low or no borrower income or asset verification. Subprime PLS are generally backed by mortgage loans to subprime borrowers. Rating agencies often have identified securities backed by home equity loans as subprime.

Table 8.1 in this section presents the percentages for mortgage loan collateral that is nontraditional, subprime, or both at each FHLBank. Subprime residential mortgage loan

collateral ranged from a high of 16 percent of residential mortgage loan collateral at the FHLBank of Des Moines to a low of less than one percent at the FHLBanks of Boston, Chicago, Pittsburgh, Topeka and Seattle. The FHLBanks of Atlanta, Cincinnati, Dallas, Indianapolis, New York, and San Francisco reported subprime residential mortgage collateral that represented 10 percent or less of residential mortgage collateral. Nontraditional mortgage loans ranged from highs of 27 percent of residential mortgage loan collateral at the FHLBanks of Pittsburgh and San Francisco and 26 percent at the FHLBank of Atlanta to a low of less than one percent at the FHLBanks of Boston, Cincinnati, Chicago, Dallas and Des Moines. Mortgage loans that are both subprime and nontraditional were five percent of residential mortgage loan collateral at the FHLBank of San Francisco and four percent at the FHLBank of Atlanta. Only two other FHLBanks (New York and Seattle) reported any material amount of mortgage loan collateral with both characteristics.

Table 8.1 in this section also presents the percentage of PLS collateral that is categorized as subprime or Alt-A at each FHLBank. Subprime PLS that secure advances represented 42 percent of combined mortgage-backed securities collateral at the FHLBank of Dallas, 19 percent at FHLBank of Des Moines, 10 percent at the FHLBank of San Francisco, and 7 percent at the FHLBank of Topeka. The remaining FHLBanks reported little or no advance collateral of this type. Alt-A PLS that secures advances represented 55 percent of combined mortgage-backed securities collateral at the FHLBank of Topeka, 51 percent at the FHLBank of Chicago, 41 percent at the FHLBank of Cincinnati, 29 percent at the FHLBank of Indianapolis, 28 percent at the FHLBank of Des Moines, 25 percent at the FHLBank of New York, 19 percent at the FHLBank of San Francisco and 10 percent at the FHLBank of Atlanta. The remaining four FHLBanks reported that Alt-A PLS that secure advances represented less than one percent of combined mortgage-backed securities collateral.

Table 8.2 in this section shows how subprime and nontraditional mortgage loans and subprime and Alt-A PLS compare to total collateral securing advances.

Table 8.1

Subprime and Nontraditional Mortgage Collateral to Collateral Class
Year End 2008

| FHLBank | Percent of Mortgage Loan Collateral that is Subprime (SP) | Percent of Mortgage Loan Collateral that is Nontraditional (NTM) | Percent of Mortgage Loan Collateral that is Both SP and NTM | Percent of Private-label MBS/CMO Collateral that is Subprime | Percent of Private-label MBS/CMO Collateral that is Alt-A | FHLBank Reporting Standards: Actual (A) or Estimate (E) |
|----------------|--|---|--|---|--|--|
| BOS | 0.1% | 0.8% | 0.0% | 0.0% | 0.0% | A |
| NYK | 4.5% | 16.1% | 0.5% | 1.6% | 25.4% | A & E |
| PIT | 0.0% | 27.1% | 0.0% | 0.0% | 0.0% | A |
| ATL | 9.8% | 26.2% | 3.6% | 0.5% | 9.5% | E |
| CIN | 10.1% | 0.7% | 0.1% | 0.0% | 41.0% | A & E |
| IND | 7.0% | 11.1% | 0.0% | 0.1% | 29.1% | A & E |
| CHG | 0.0% | 0.1% | 0.0% | 0.0% | 51.3% | A |
| DSM | 16.2% | 0.2% | 0.0% | 18.7% | 28.2% | A |
| DAL | 5.6% | 0.1% | 0.0% | 42.4% | 0.0% | A & E |
| TOP | 0.0% | 3.7% | 0.0% | 7.2% | 54.7% | A |
| SFR | 5.6% | 27.1% | 4.9% | 9.9% | 18.9% | A |
| SEA | 0.7% | 8.0% | 3.2% | 0.0% | 0.4% | E |
| SYS | 5.5% | 18.4% | 2.4% | 10.2% | 20.0% | A & E |

Table 8.2

Subprime and Nontraditional Mortgage Collateral To Total Collateral
Year End 2008

| FHLBank | Subprime (SP) Mortgage Loan Collateral as a Percent of Total Collateral | Nontraditional (NTM) Mortgage Loan Collateral as a Percent of Total Collateral | Mortgage Loan Collateral that is Both SP and NTM as a Percent of Total Collateral | Private-label SP MBS/CMO Collateral as a Percent of Total Collateral | Private-label Alt-A MBS/CMO Collateral as a Percent of Total Collateral | Combined Total of SP and NTM Mortgage, SP and Alt-A MBS/CMO collateral as a Percent of Total Collateral |
|----------------|--|---|--|---|--|--|
| BOS | 0.0% | 0.6% | 0.0% | 0.0% | 0.0% | 0.7% |
| NYK | 2.7% | 9.6% | 0.3% | 0.1% | 2.2% | 14.9% |
| PIT | 0.0% | 26.6% | 0.0% | 0.0% | 0.0% | 26.6% |
| ATL | 7.8% | 20.9% | 2.8% | 0.0% | 0.9% | 32.5% |
| CIN | 8.3% | 0.5% | 0.1% | 0.0% | 2.0% | 10.9% |
| IND | 5.0% | 8.0% | 0.0% | 0.0% | 1.6% | 14.6% |
| CHG | 0.0% | 0.1% | 0.0% | 0.0% | 0.3% | 0.4% |
| DSM | 7.9% | 0.1% | 0.0% | 1.0% | 1.6% | 10.6% |
| DAL | 1.9% | 0.0% | 0.0% | 5.8% | 0.0% | 7.7% |
| TOP | 0.0% | 1.3% | 0.0% | 2.0% | 15.1% | 18.5% |
| SFR | 4.2% | 20.2% | 3.7% | 0.3% | 0.5% | 28.9% |
| SEA | 0.4% | 4.1% | 1.6% | 0.0% | 0.1% | 6.2% |
| SYS | 3.9% | 12.9% | 1.7% | 0.7% | 1.3% | 20.5% |

9. Original Maturity of Advances

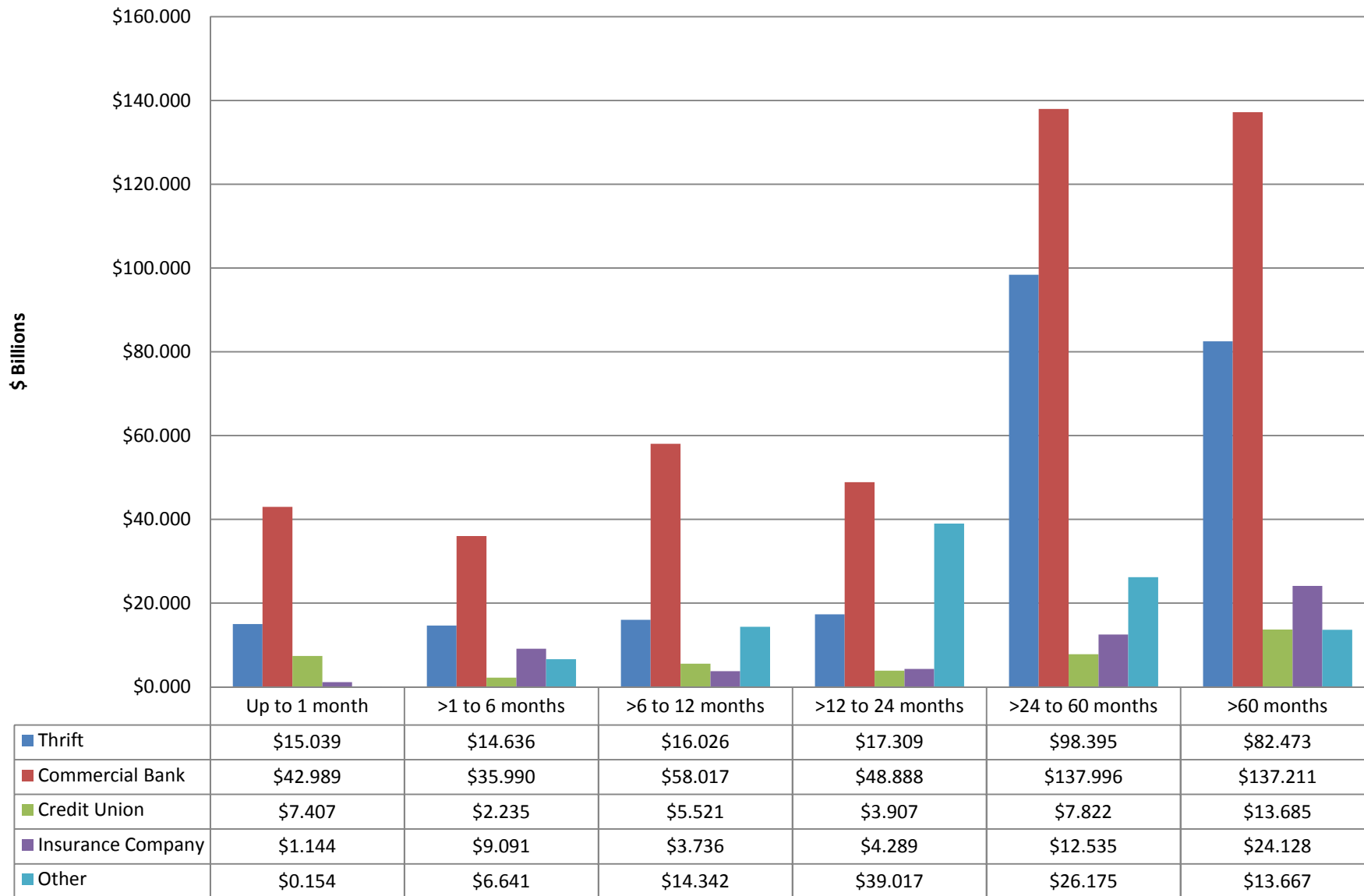
The FHLBanks report on the volume of member advances by original maturity. The information collected assists in identifying FHLBank district borrowing patterns, as well as potential trends in the interest of the various member types in differing advance maturities.

This section includes two sets of graphs. Graphs 9.1 to 9.13 present the distribution of advances across various time horizons by type of borrower at year-end 2008, at the System and FHLBank level. The data indicate, for example, that insurance company members tend to borrow longer term, with the greater than 60-month time horizon showing a significantly higher level of advances to insurance companies.

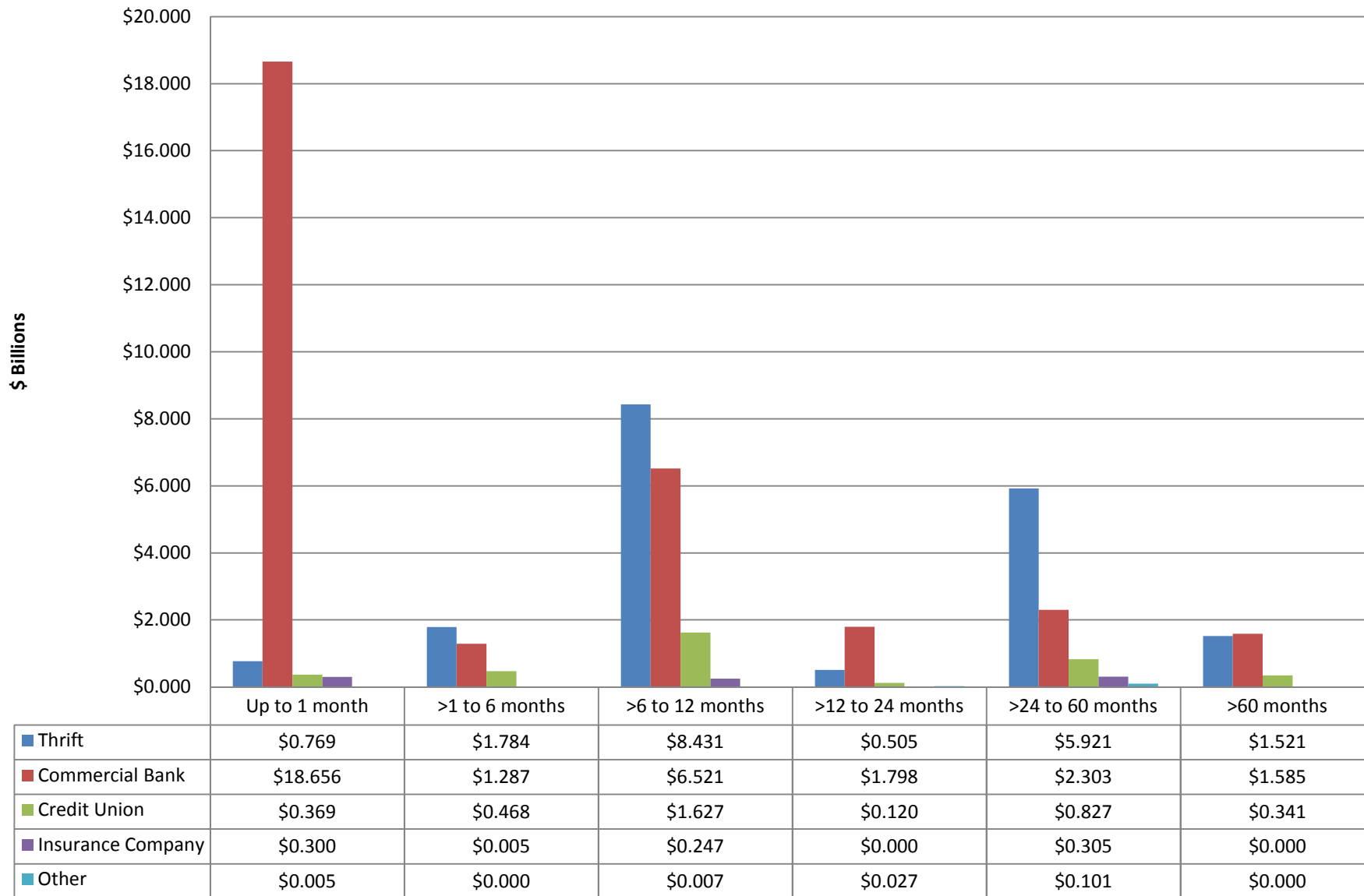
Graphs 9.14 to 9.26 present a comparison of the distribution of advances across various time horizons between the years ending 2007 and 2008, again at the System and FHLBank level. At year-end 2008, the majority of advances to all members across the System had a term of 24 months or more based on original maturity. The maturity distribution remains largely unchanged from year-end 2007. Members increased borrowings in longer term time horizons between 2007 and 2008 at the System level and particularly at the FHLBanks of Des Moines and San Francisco. Conversely, members at the FHLBank of Boston increased borrowings in shorter time horizons and decreased borrowings in the longer time horizons.

Note: The scale of the y-axis in each graph is different due to volumes of advances at each FHLBank. Using the same scale for all FHLBanks would reduce the granularity needed to identify trends at each FHLBank.

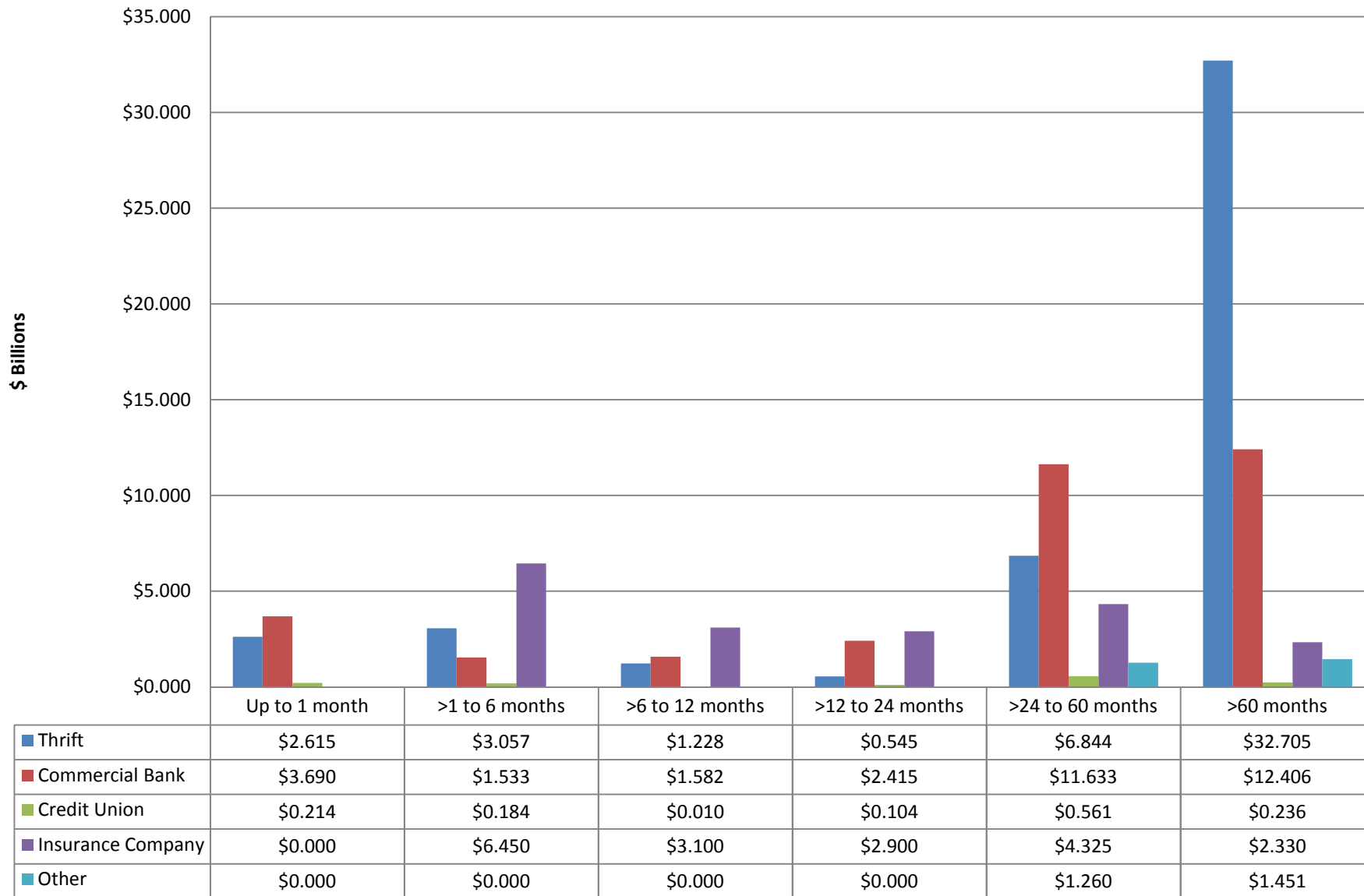
System Original Maturity of Advances By Borrower Type - Year End 2008



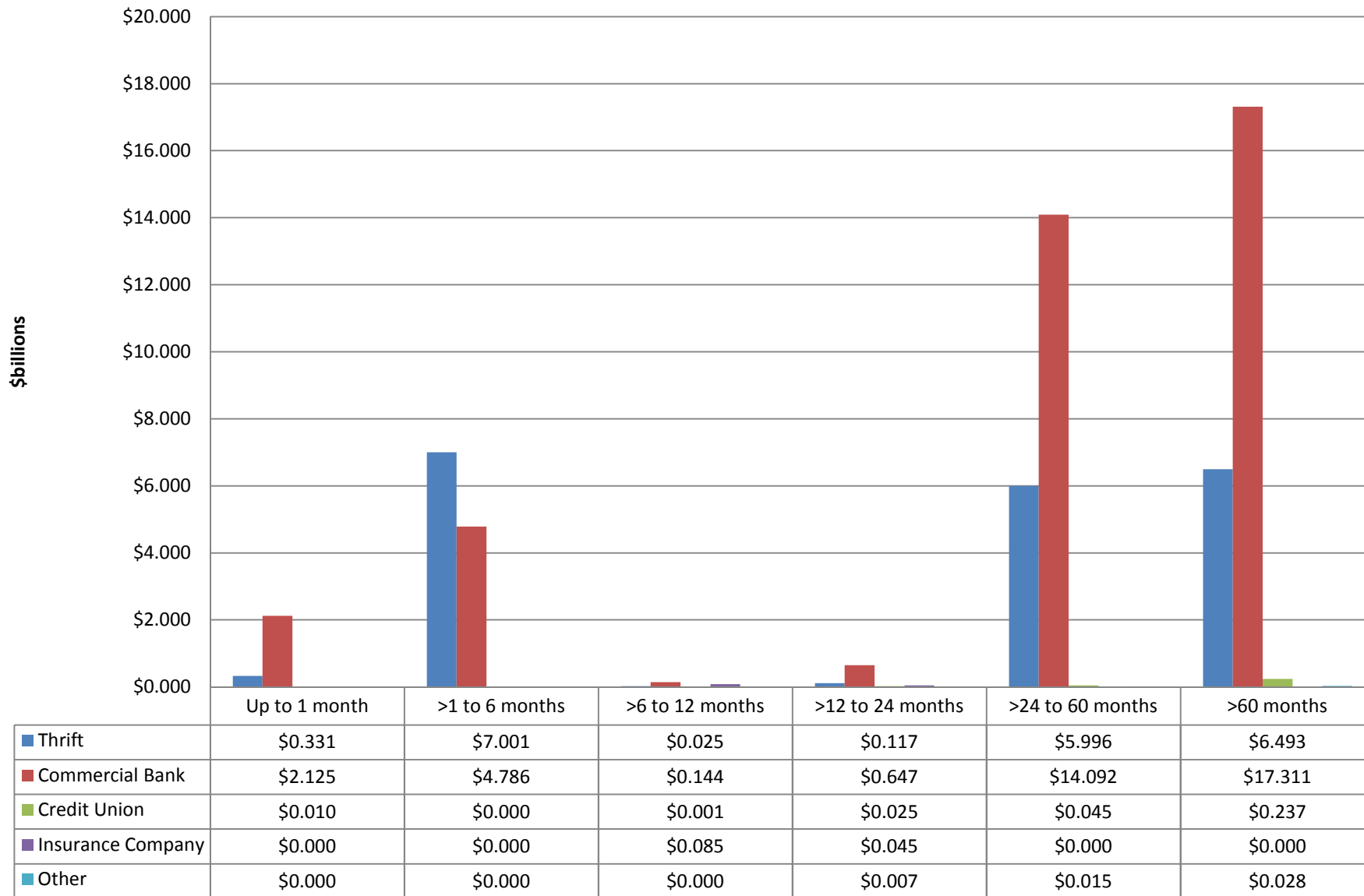
Boston Original Maturity of Advances By Borrower Type - Year End 2008



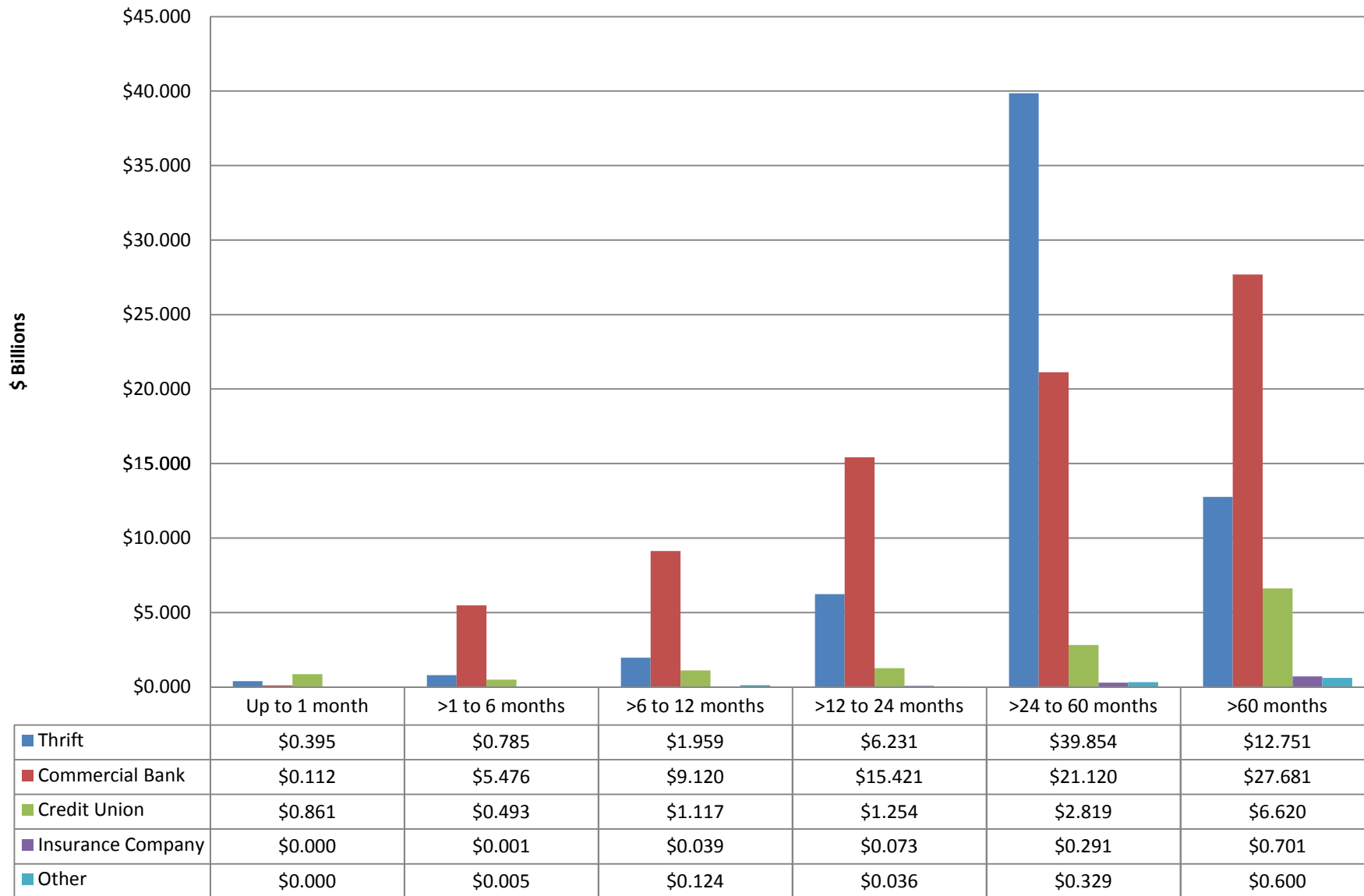
New York Original Maturity of Advances By Borrower Type - Year End 2008



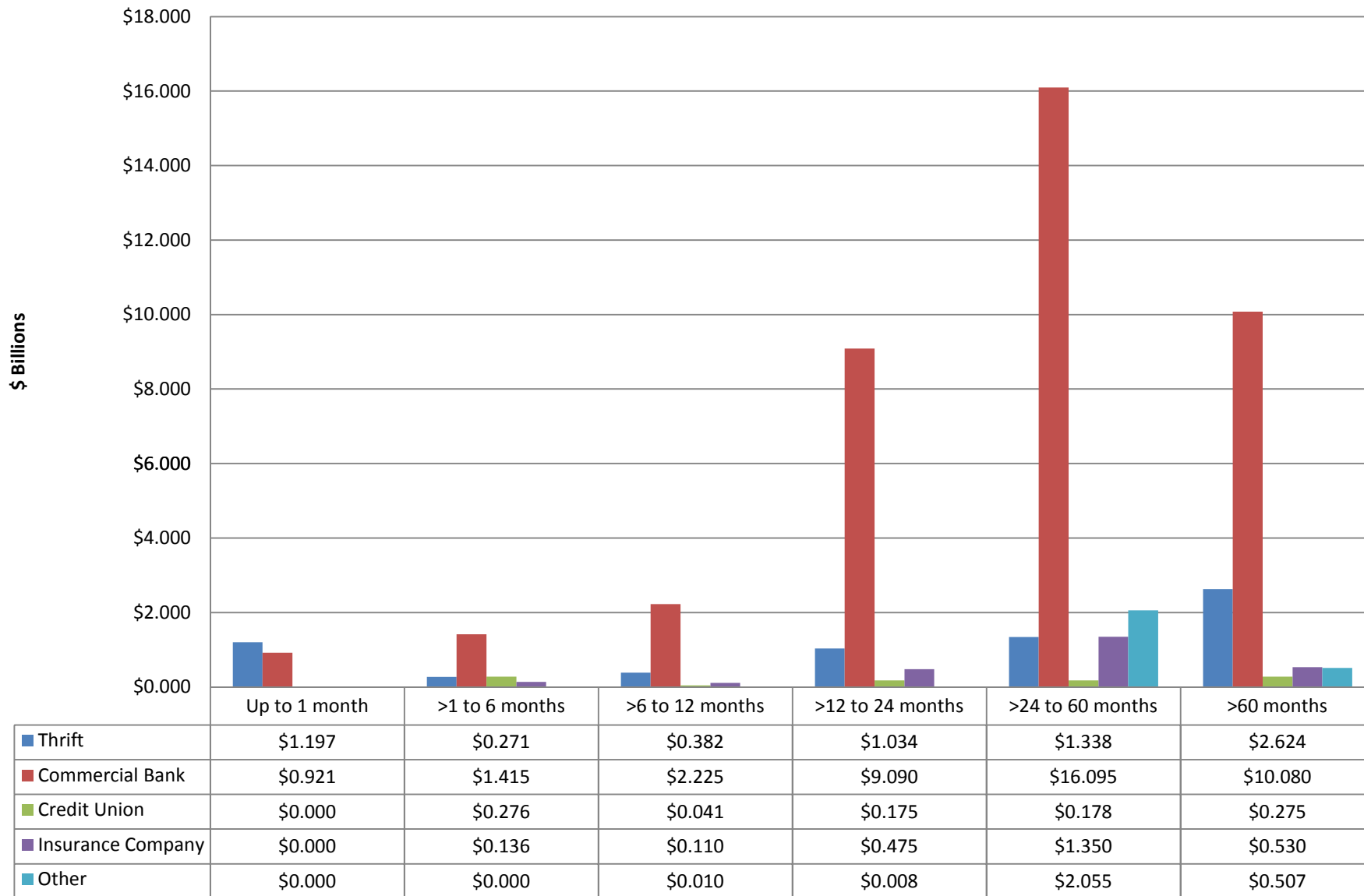
Pittsburgh Original Maturity of Advances By Borrower Type - Year End 2008



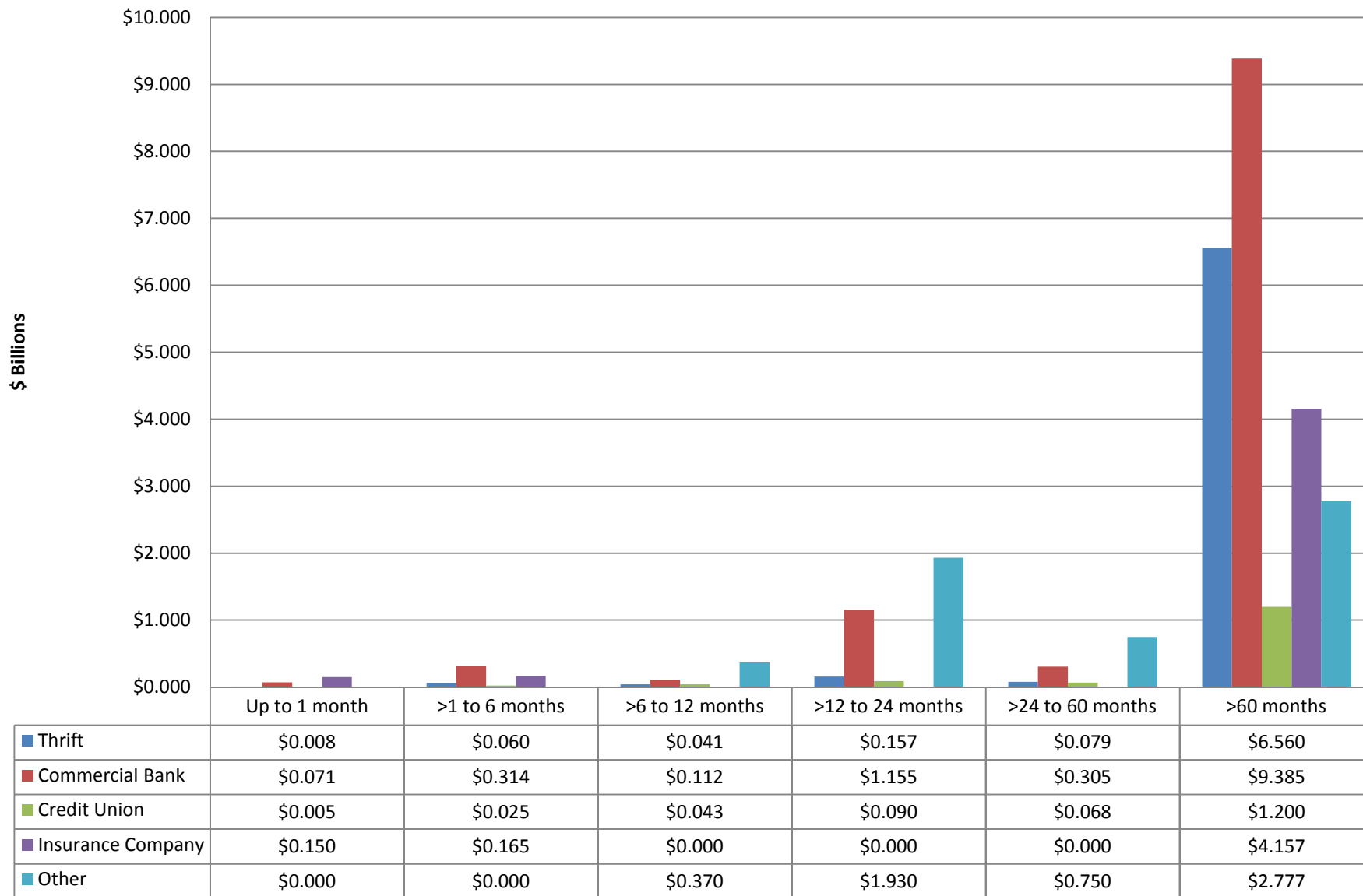
Atlanta Original Maturity of Advances By Borrower Type - Year End 2008



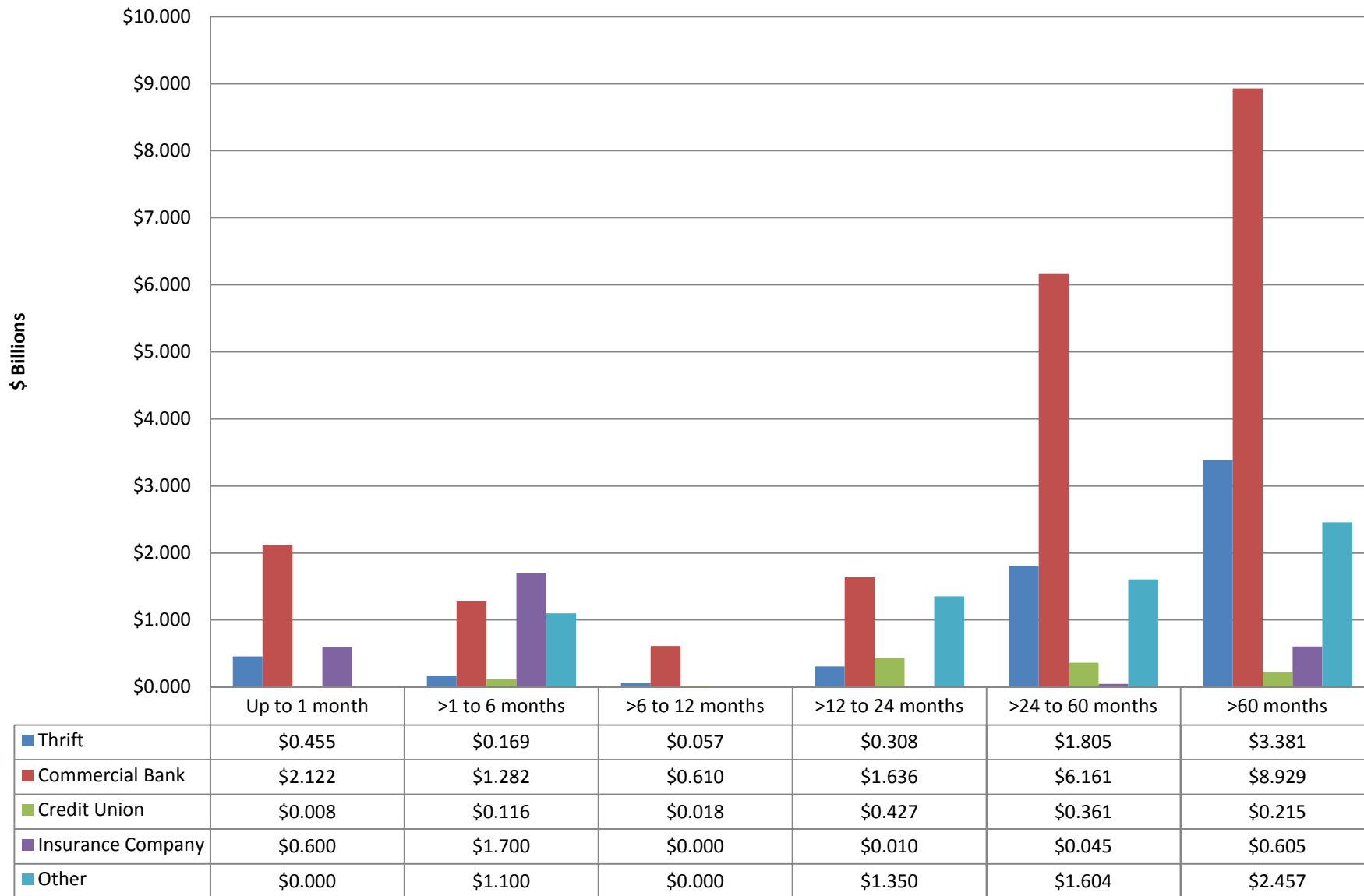
Cincinnati Original Maturity of Advances By Borrower Type - Year End 2008



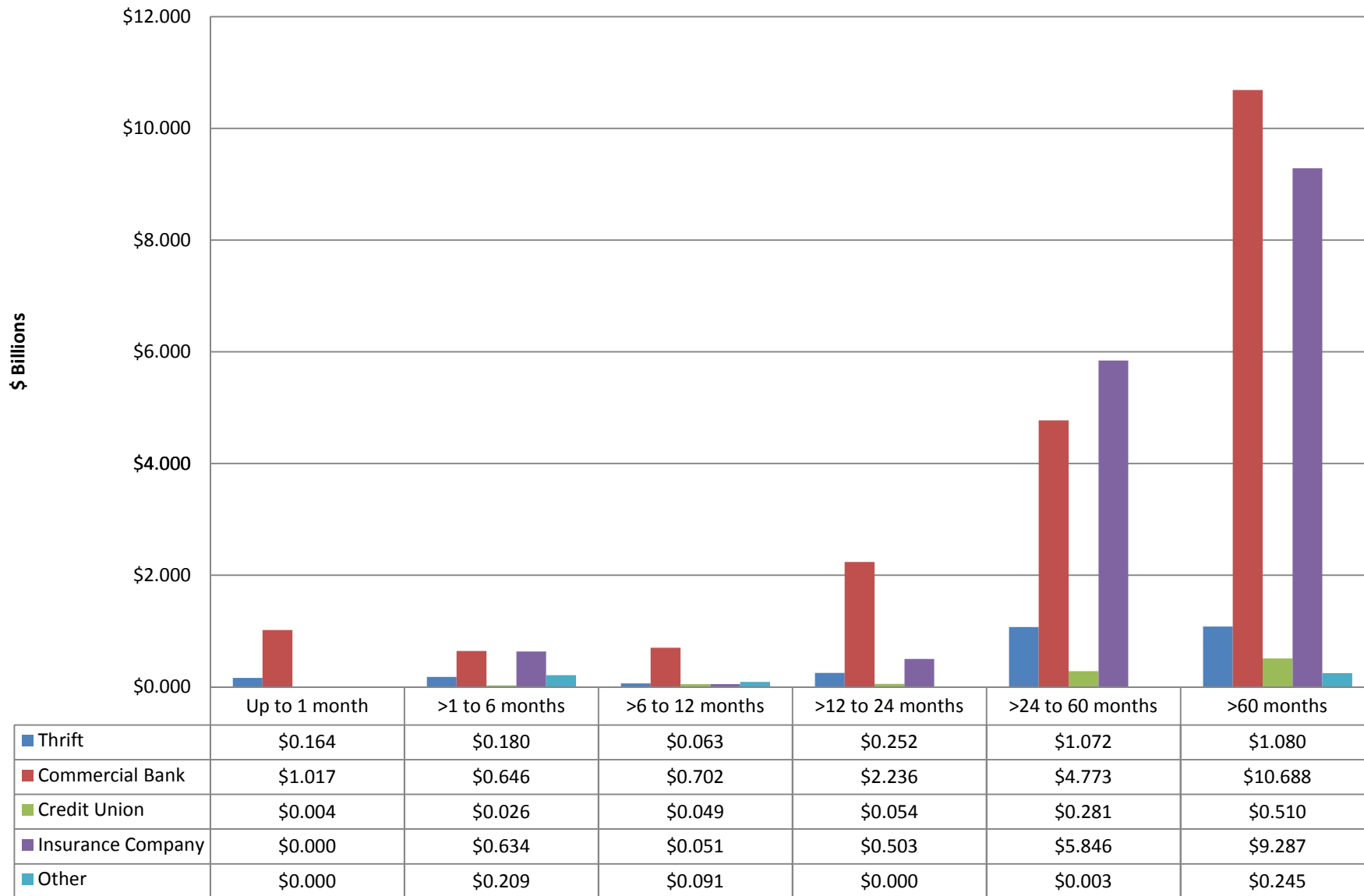
Indianapolis Original Maturity of Advances By Borrower Type - Year End 2008



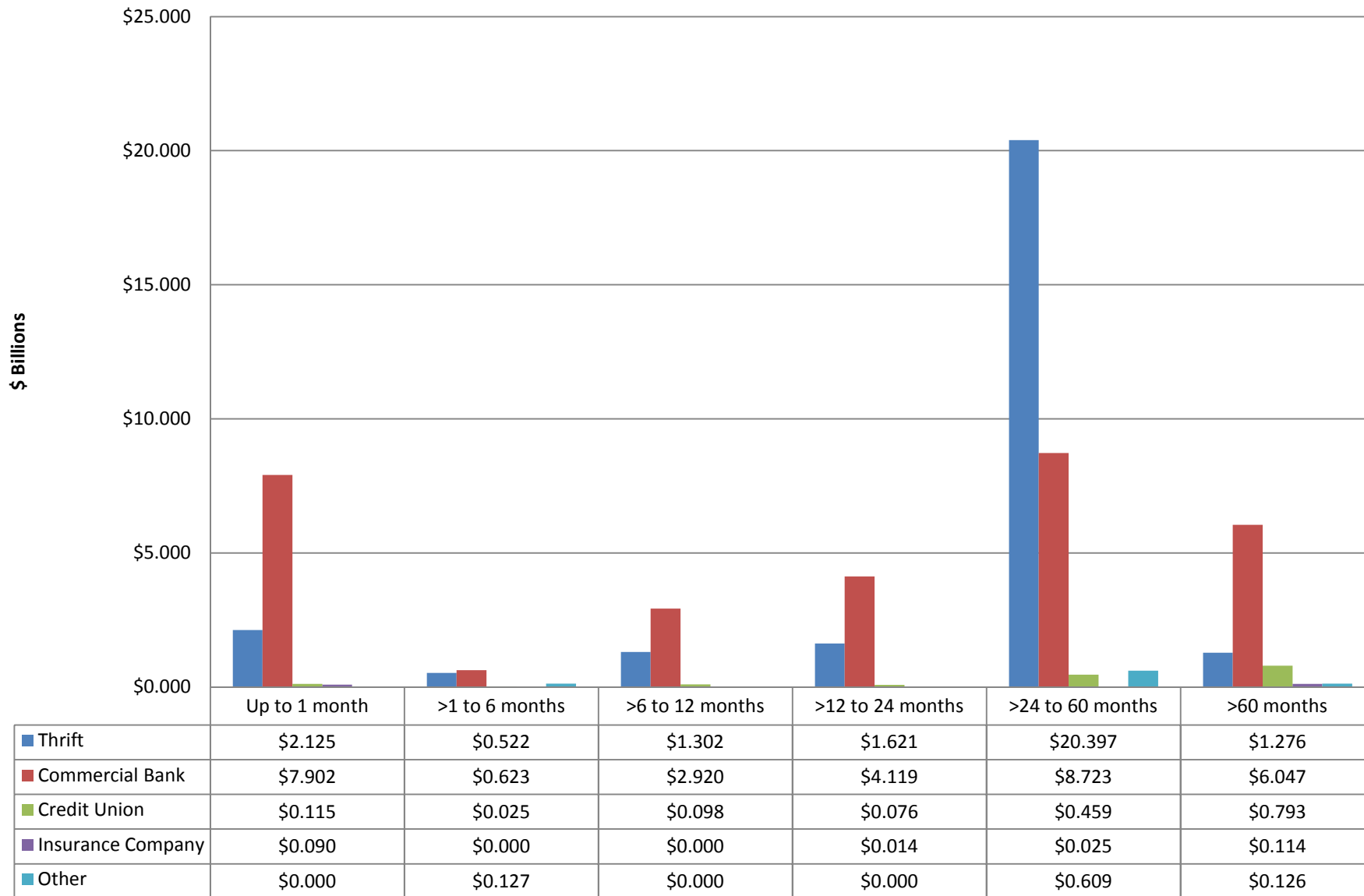
Chicago Original Maturity of Advances By Borrower Type - Year End 2008



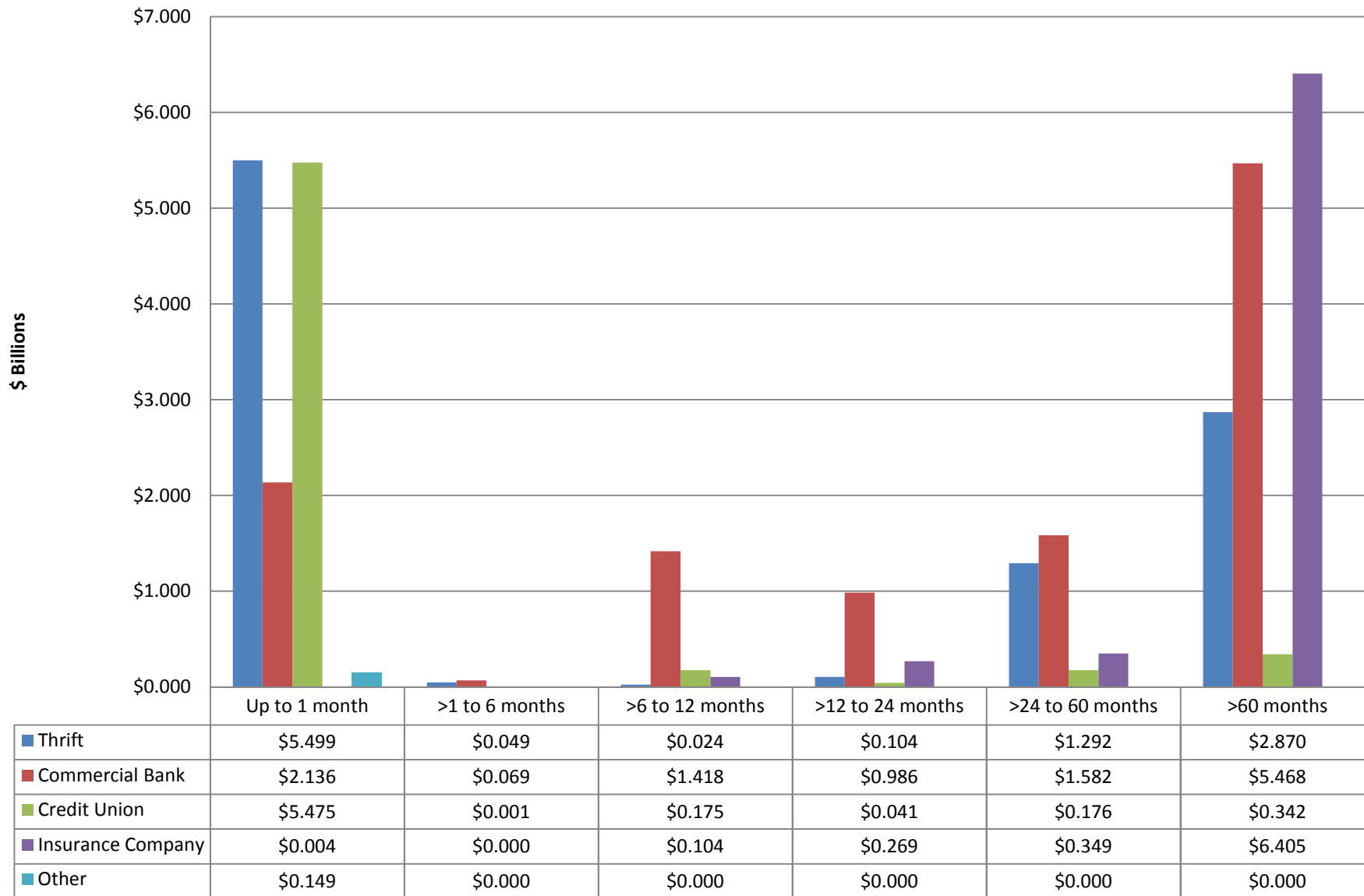
Des Moines Original Maturity of Advances By Borrower Type - Year End 2008



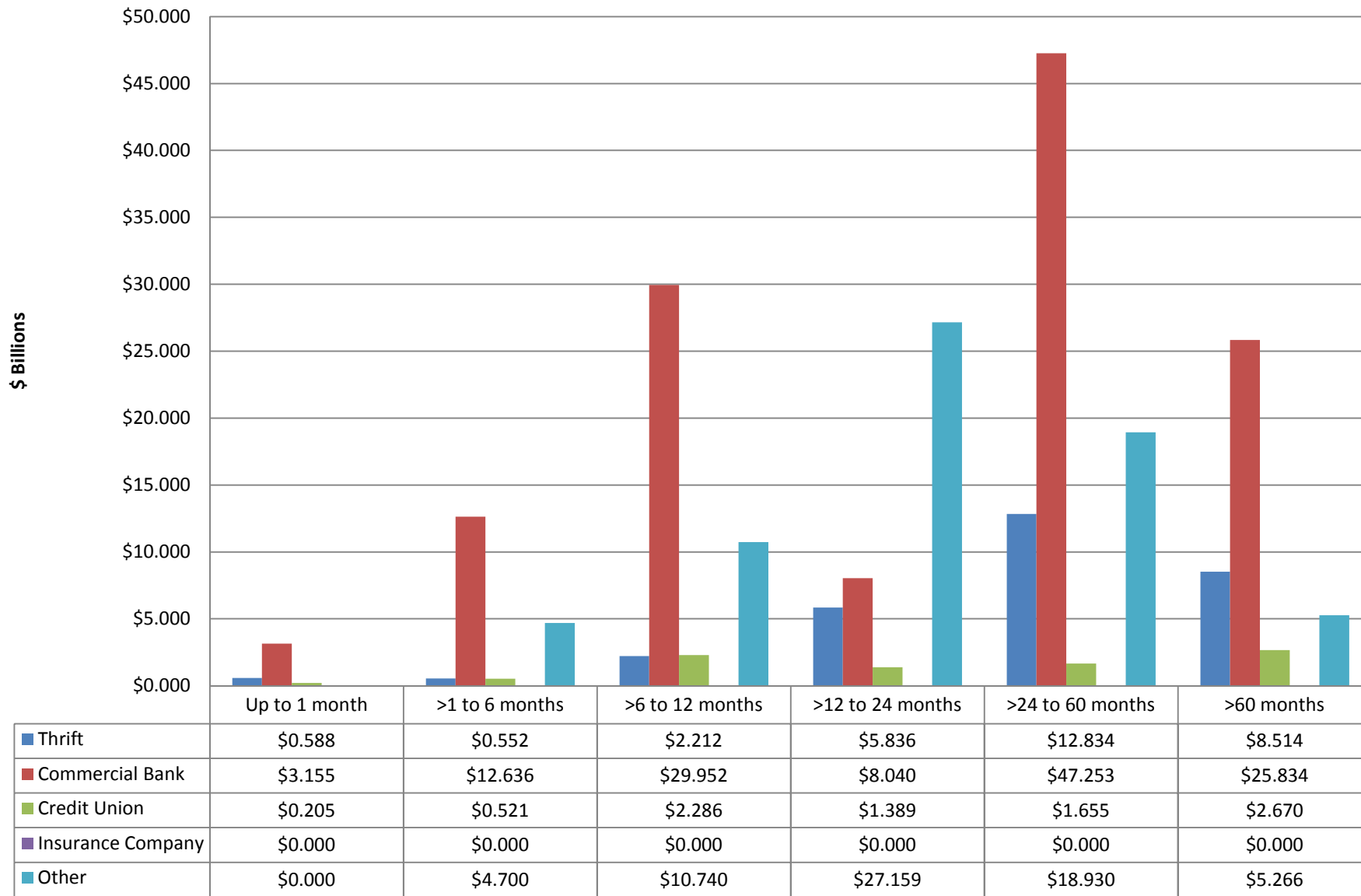
Dallas Original Maturity of Advances By Borrower Type - Year End 2008



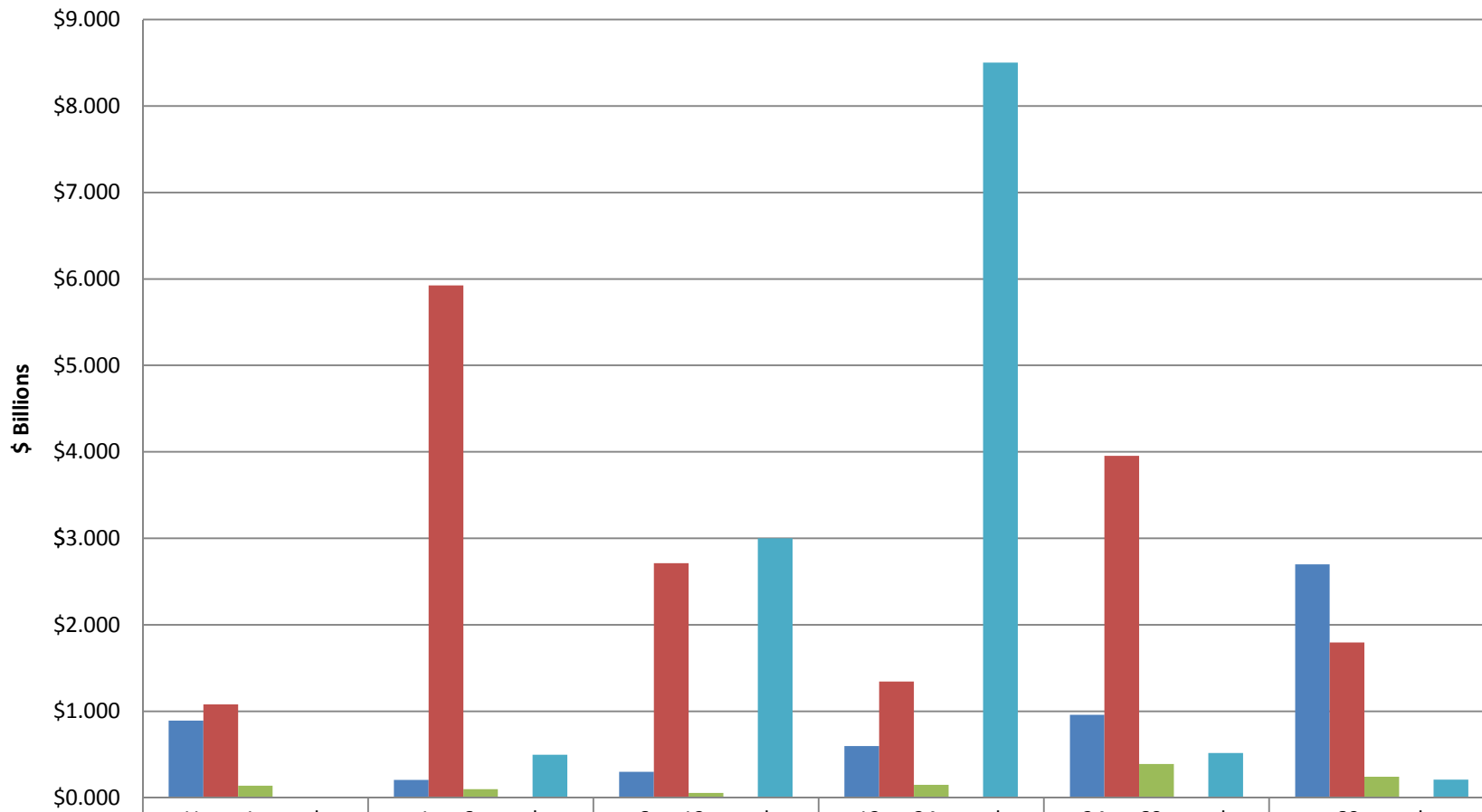
Topeka Original Maturity of Advances By Borrower Type - Year End 2008



San Francisco Original Maturity of Advances By Borrower Type - Year End 2008

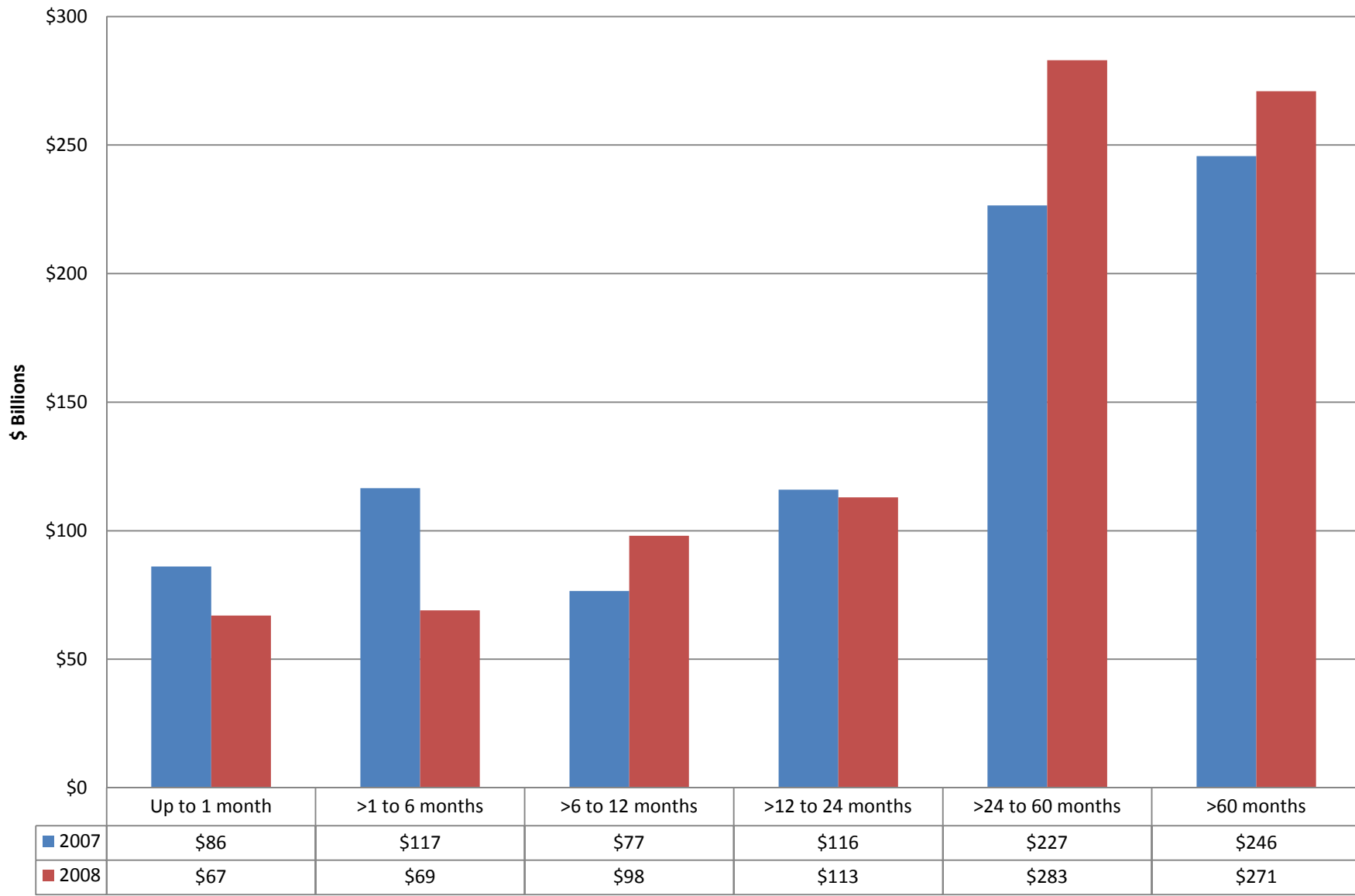


Seattle Original Maturity of Advances By Borrower Type - Year End 2008

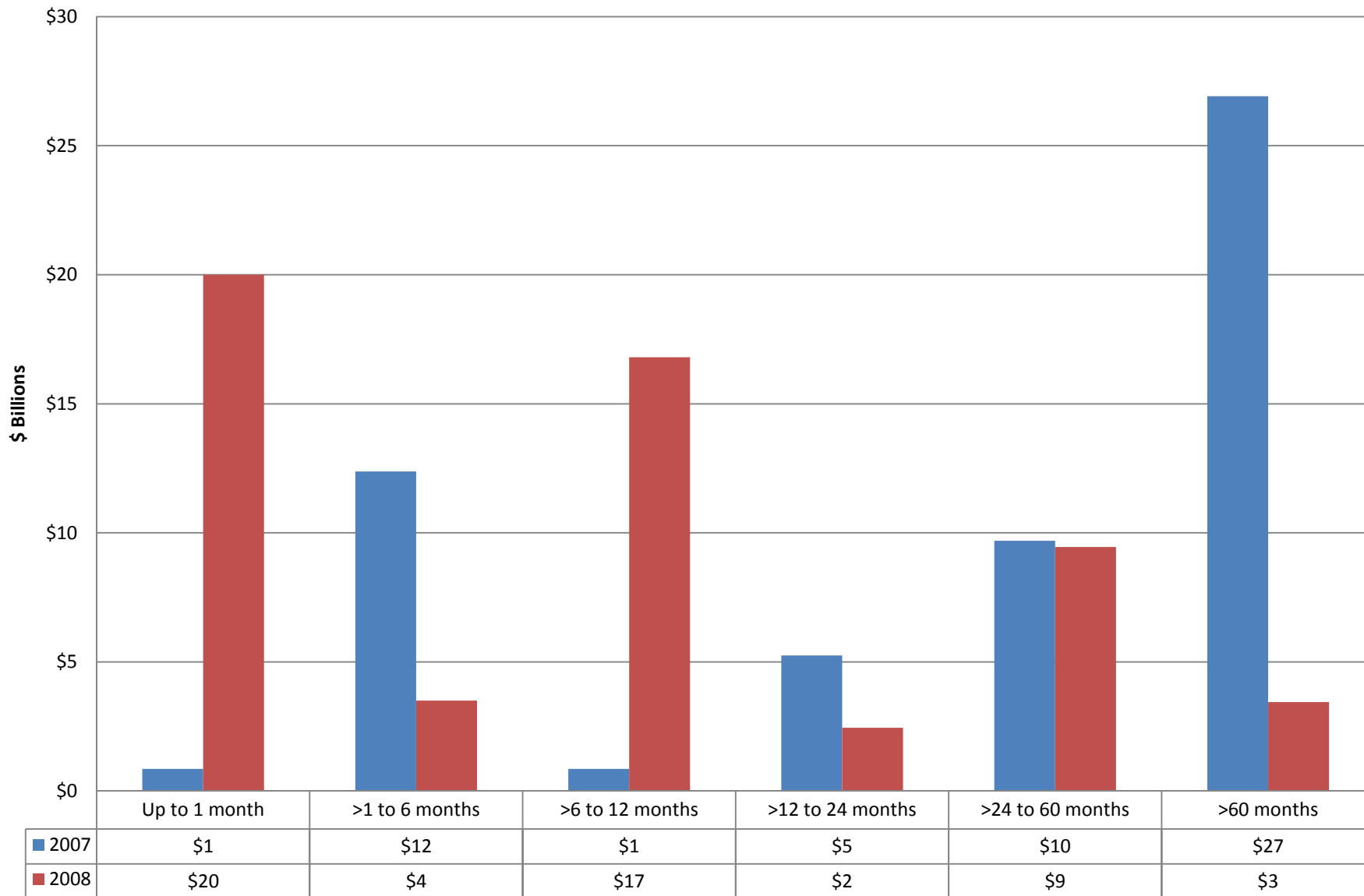


| | Up to 1 month | >1 to 6 months | >6 to 12 months | >12 to 24 months | >24 to 60 months | >60 months |
|-------------------|---------------|----------------|-----------------|------------------|------------------|------------|
| Thrift | \$0.893 | \$0.207 | \$0.302 | \$0.601 | \$0.962 | \$2.699 |
| Commercial Bank | \$1.081 | \$5.924 | \$2.712 | \$1.346 | \$3.955 | \$1.797 |
| Credit Union | \$0.141 | \$0.101 | \$0.057 | \$0.152 | \$0.393 | \$0.245 |
| Insurance Company | \$0.000 | \$0.000 | \$0.000 | \$0.000 | \$0.000 | \$0.000 |
| Other | \$0.000 | \$0.500 | \$3.000 | \$8.500 | \$0.518 | \$0.211 |

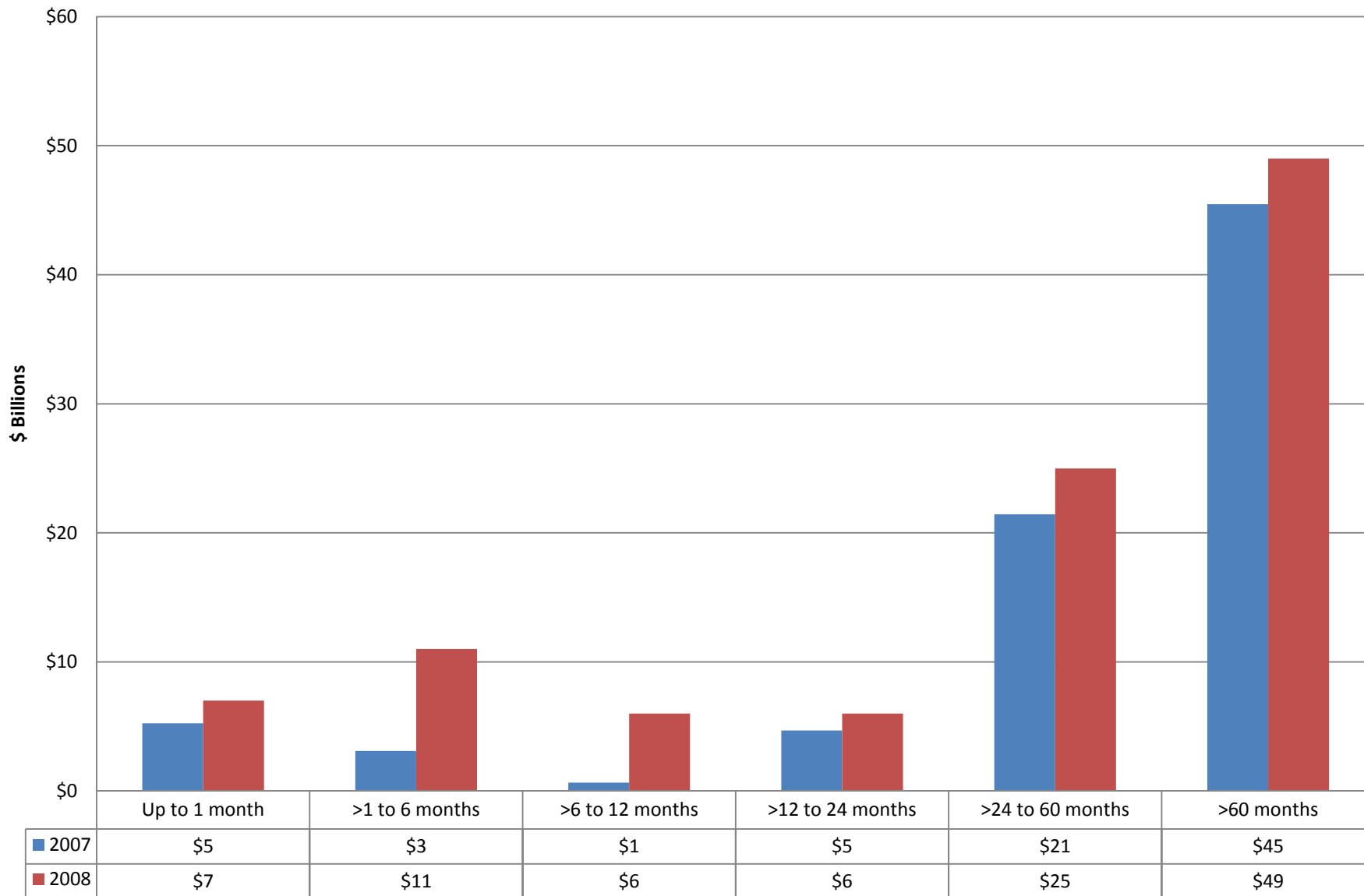
System Original Maturity of Advances Comparison of Year Ends 2007 & 2008



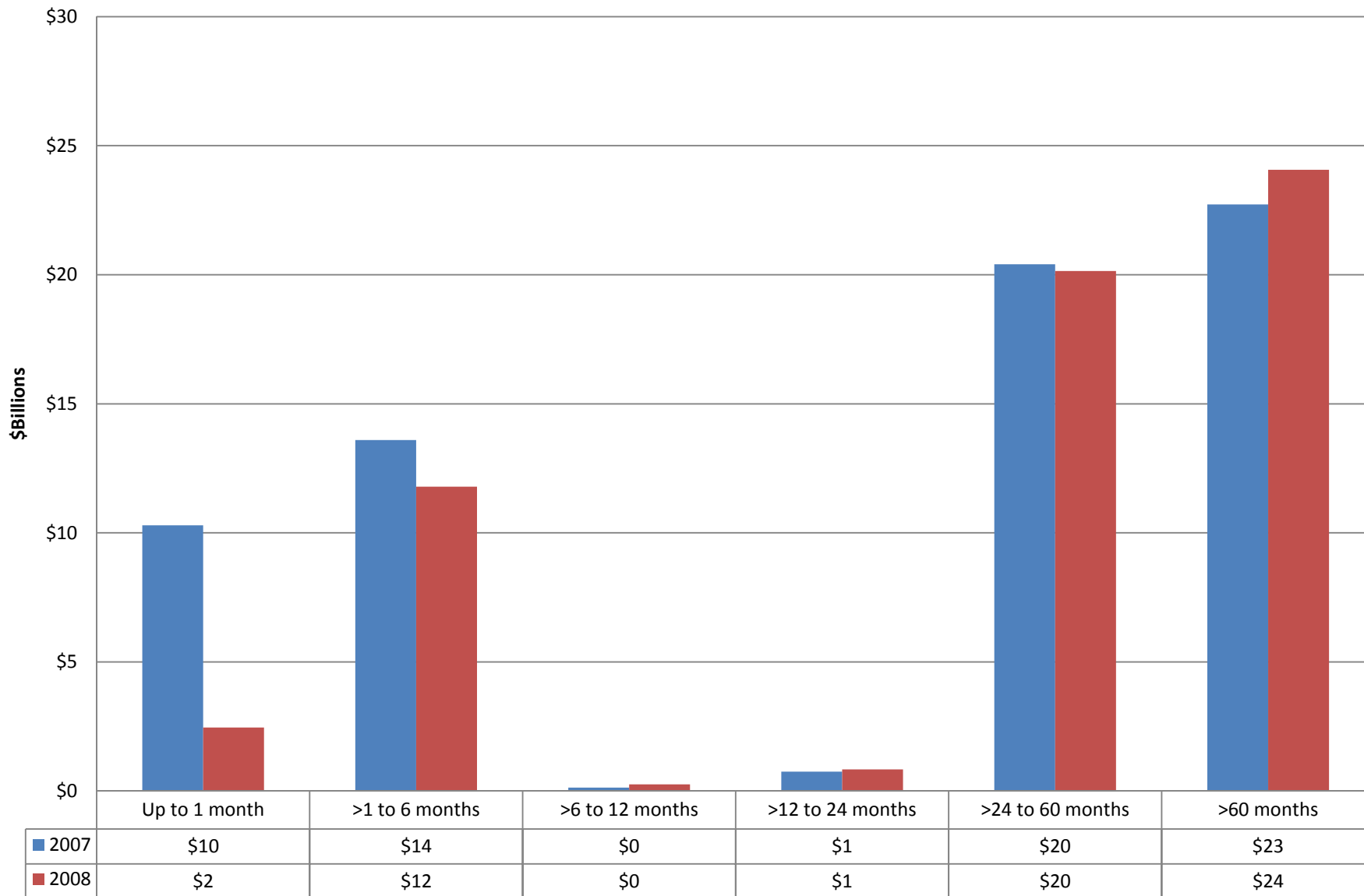
Boston Original Maturity of Advances Comparison of Year Ends 2007 & 2008



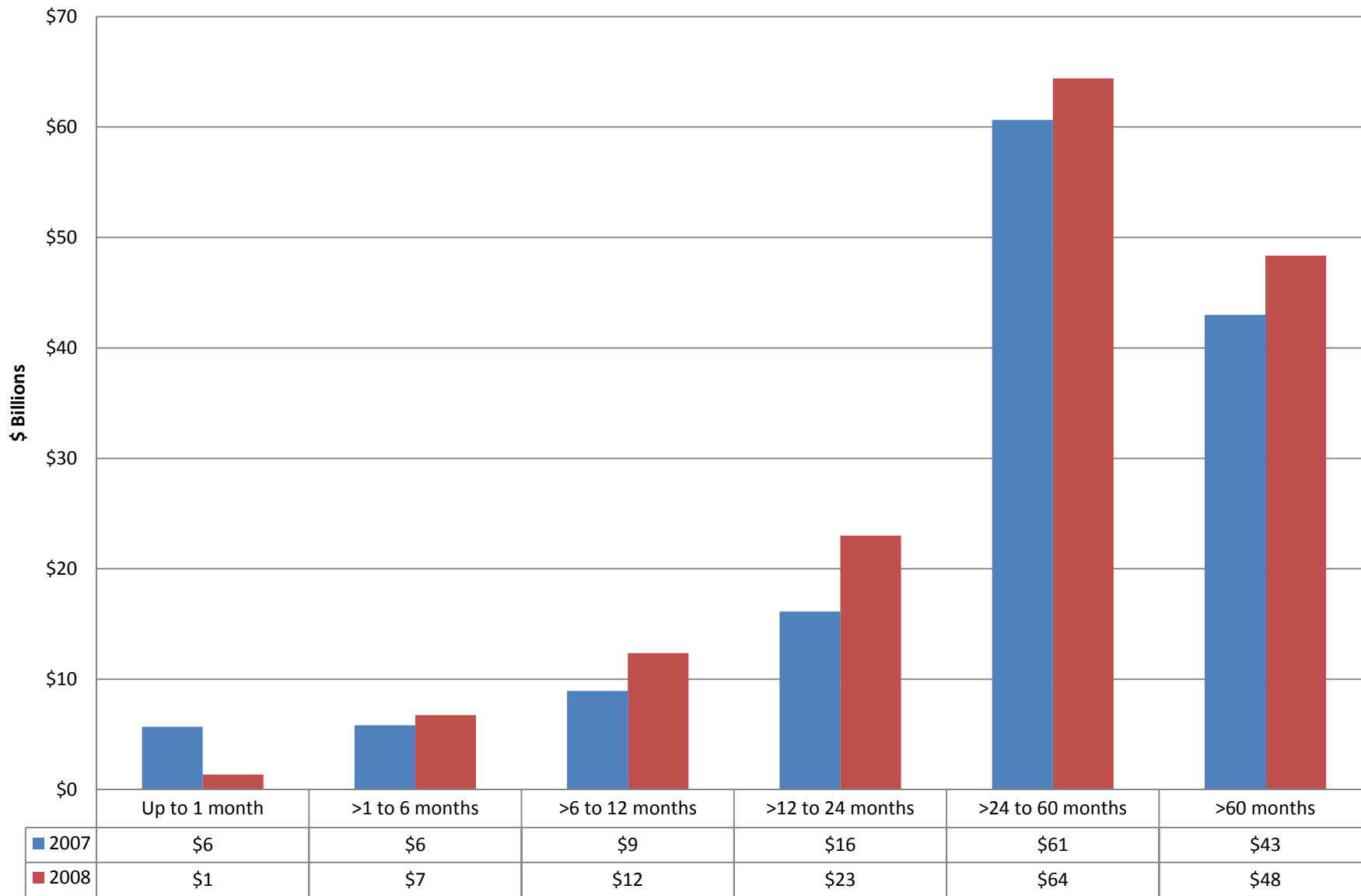
New York Original Maturity of Advances Comparison of Year Ends 2007 & 2008



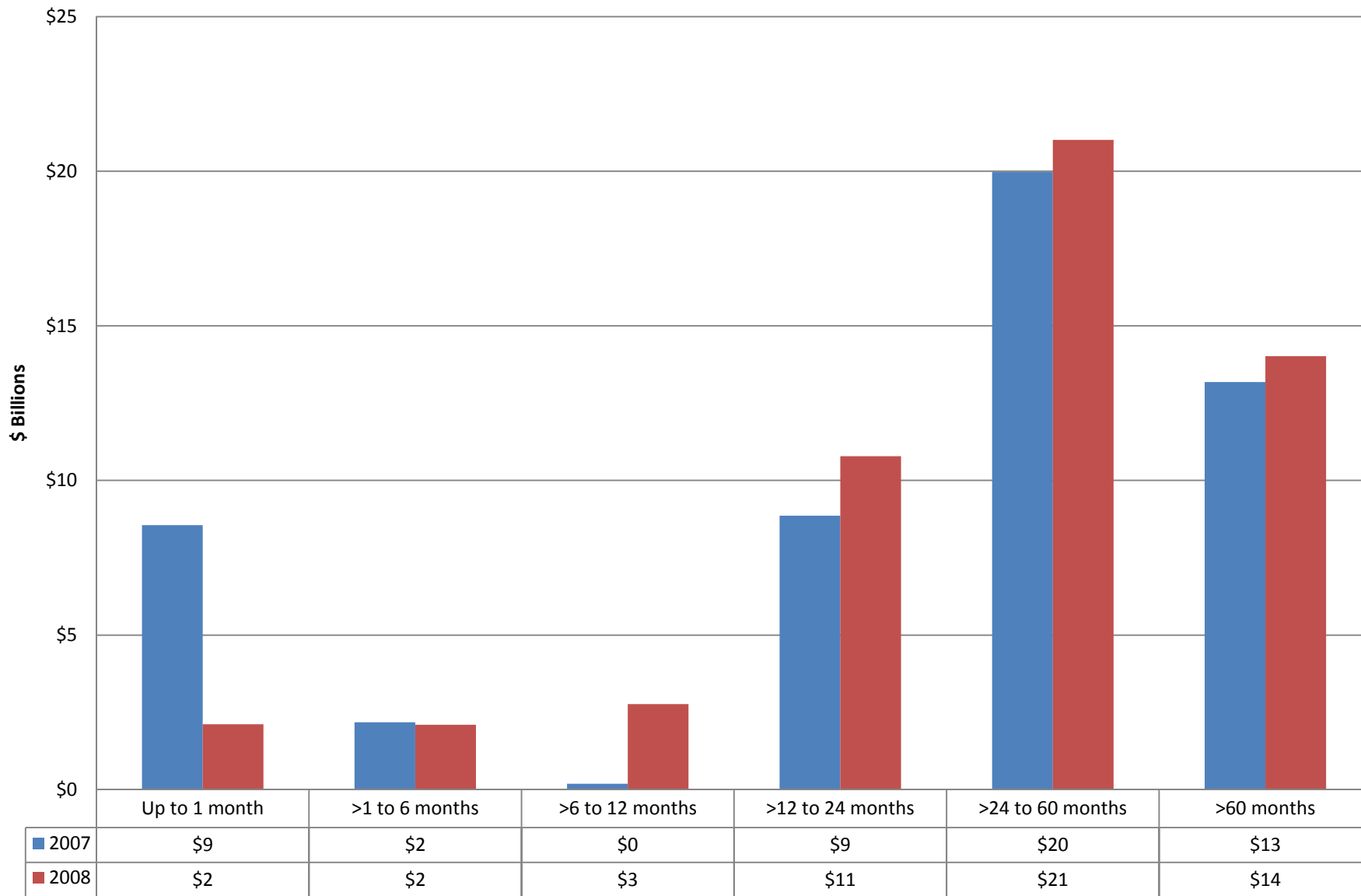
Pittsburgh Original Maturity of Advances Comparison of Year Ends 2007 & 2008



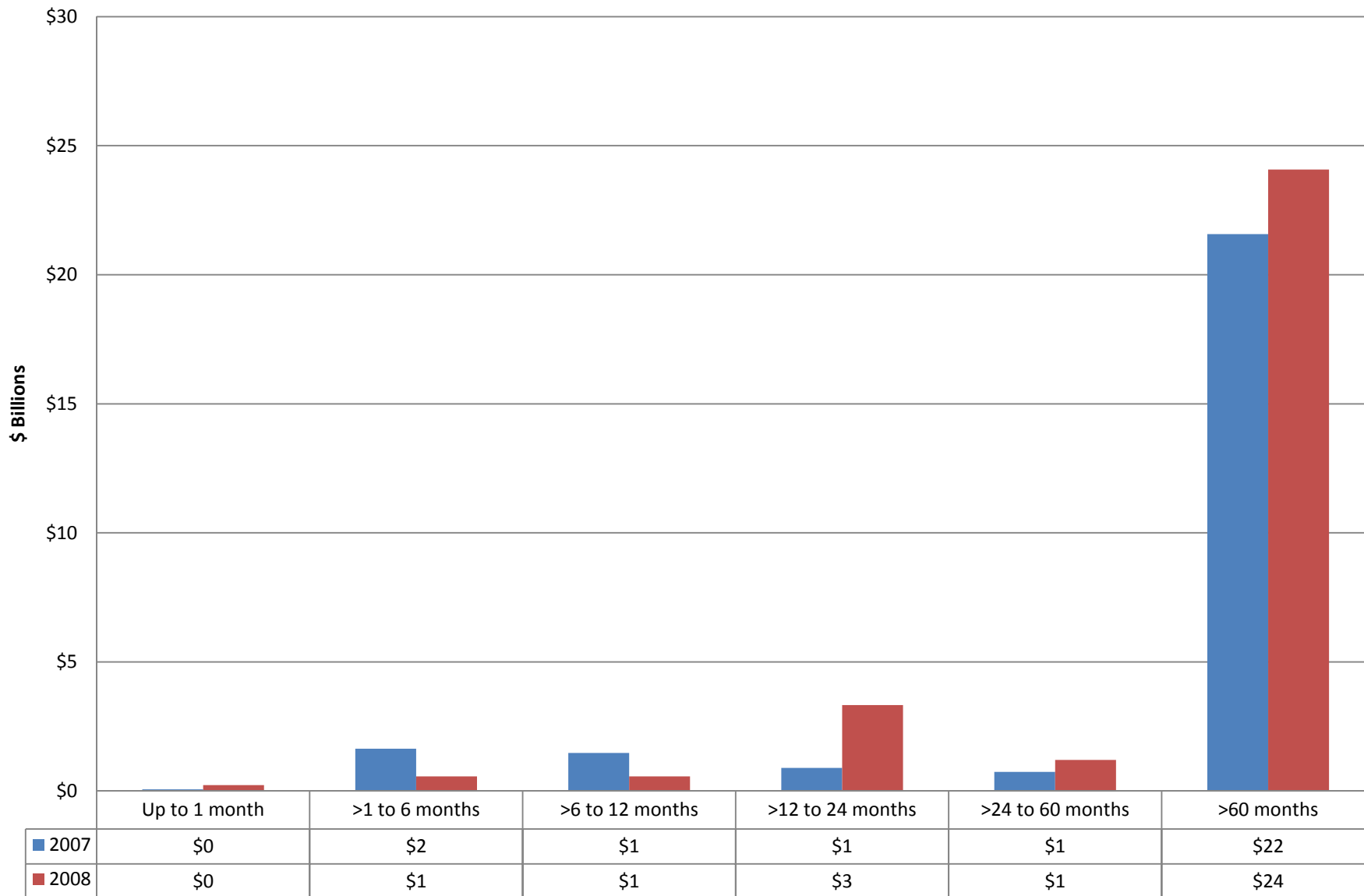
Atlanta Original Maturity of Advances Comparison of Year Ends 2007 & 2008



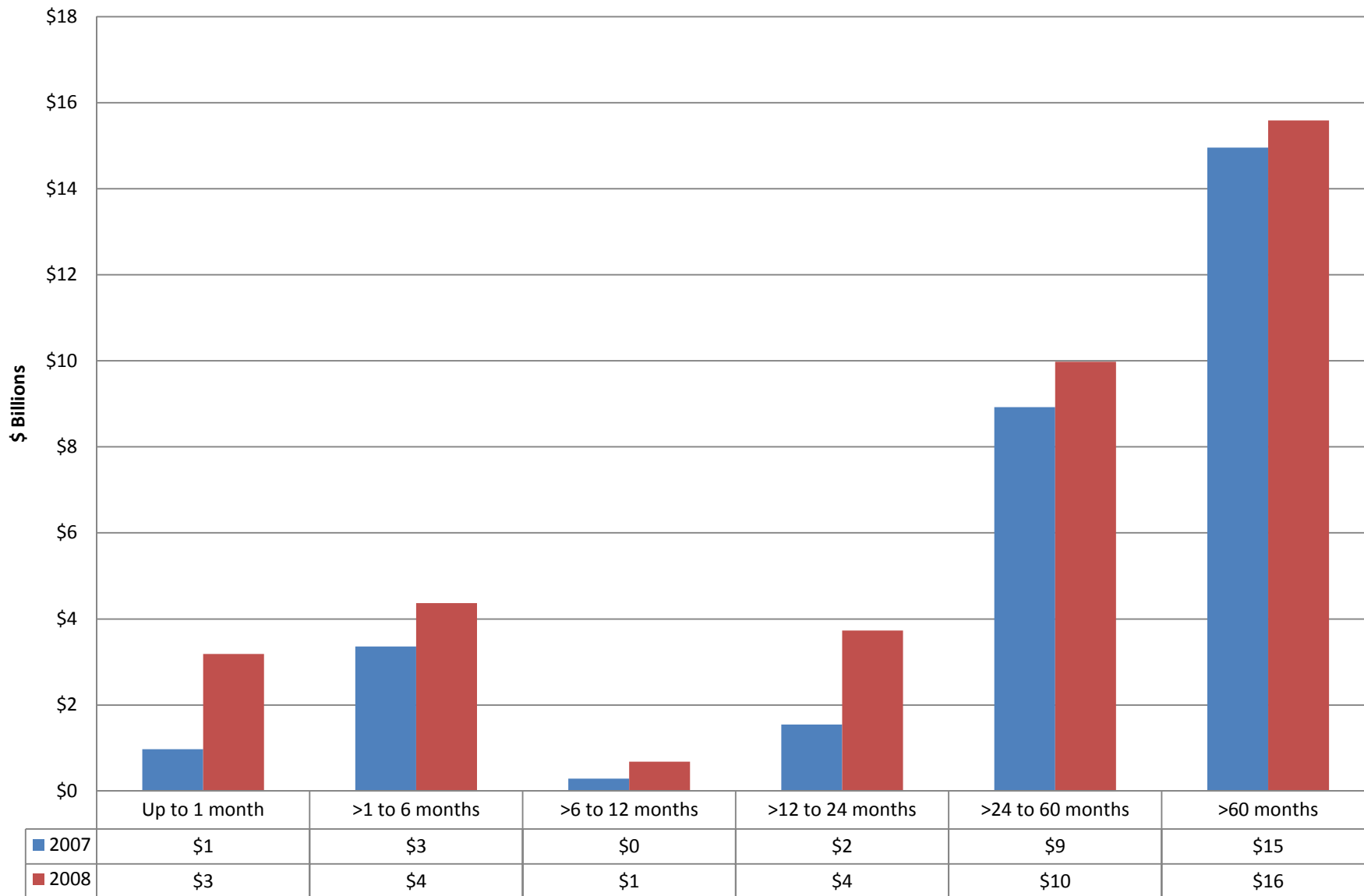
Cincinnati Original Maturity of Advances Comparison of Year Ends 2007 & 2008



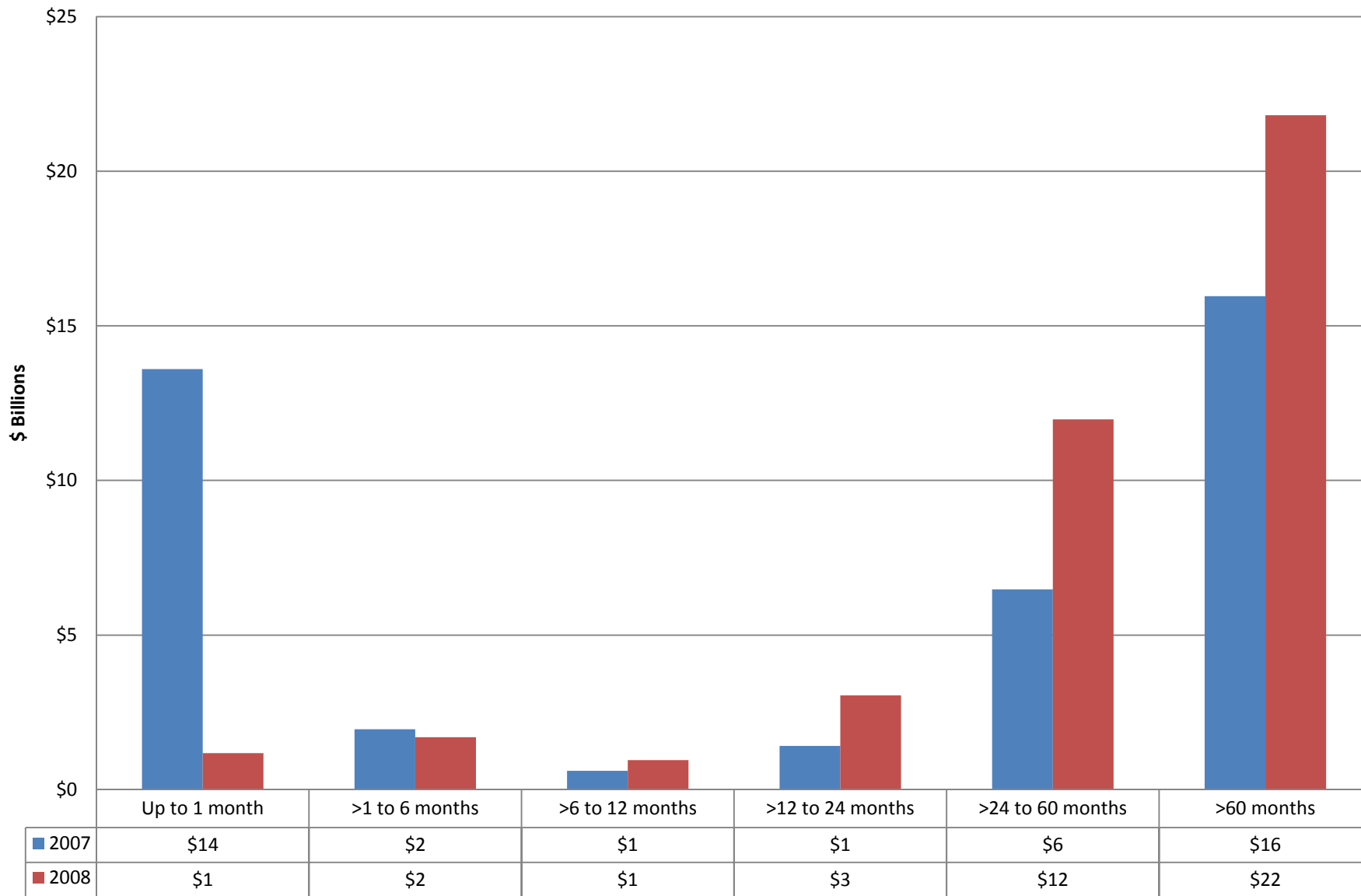
Indianapolis Original Maturity of Advances Comparison of Year Ends 2007 & 2008



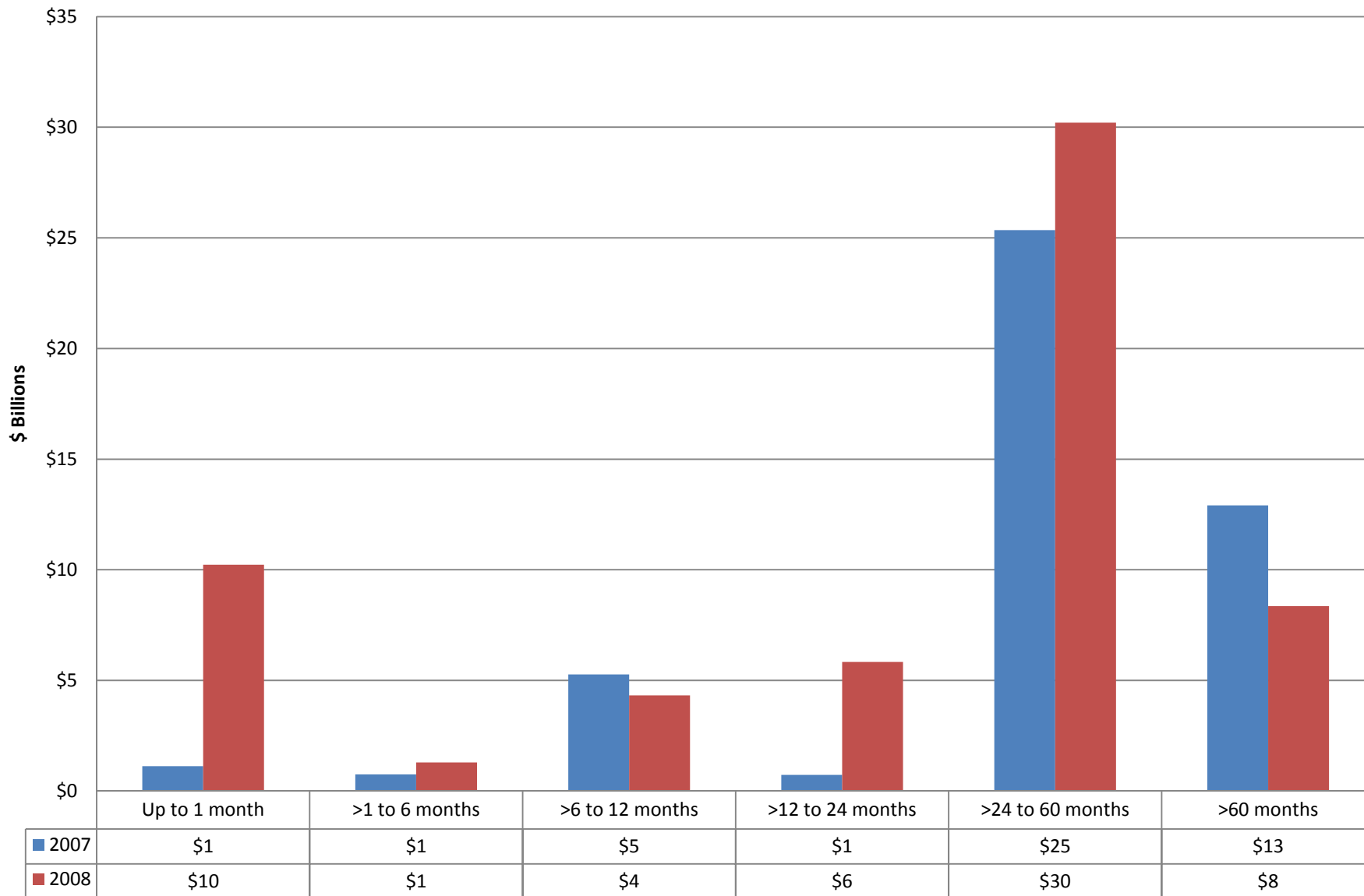
Chicago Original Maturity of Advances Comparison of Year Ends 2007 & 2008



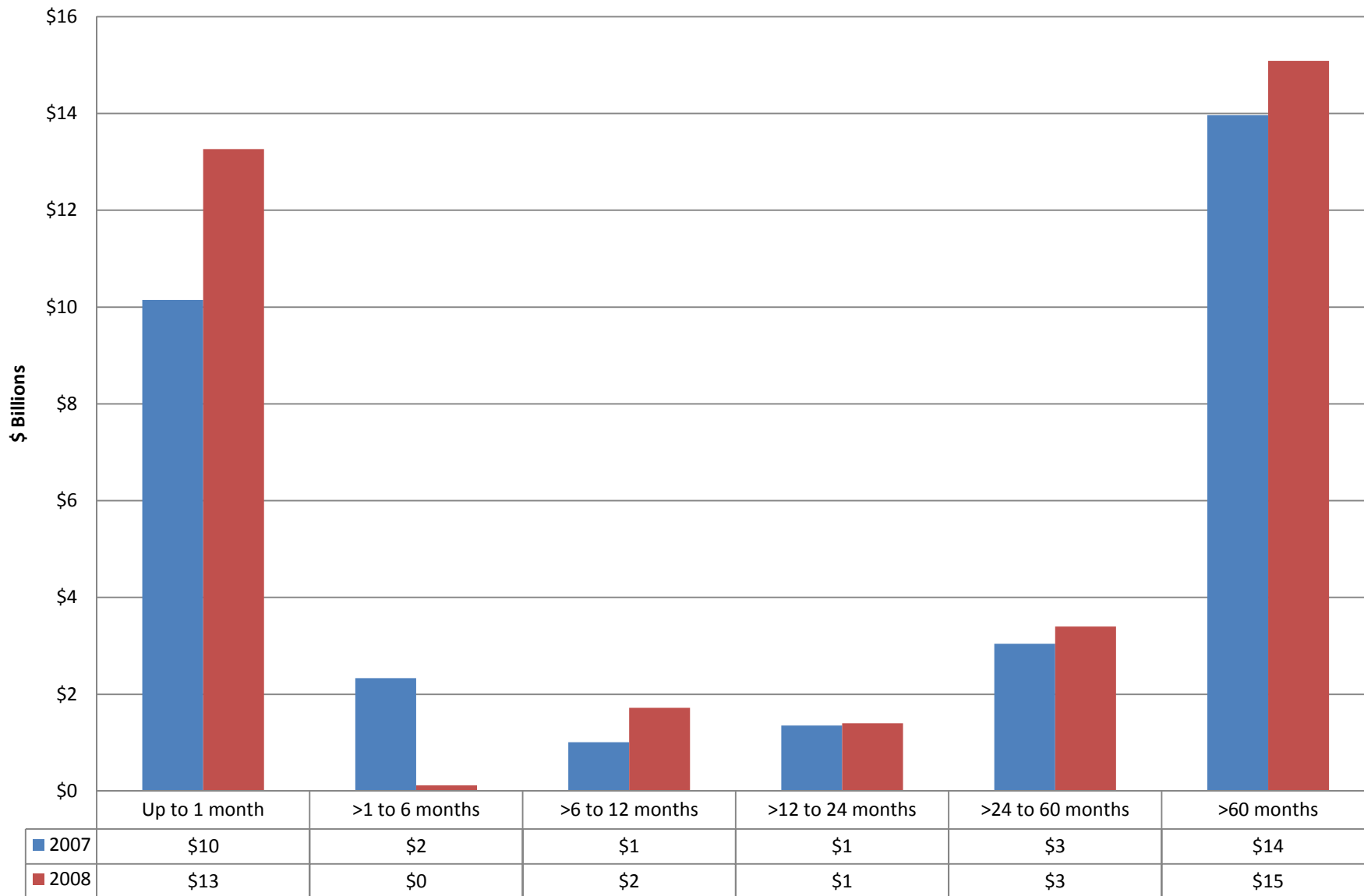
Des Moines Original Maturity of Advances Comparison of Year Ends 2007 & 2008



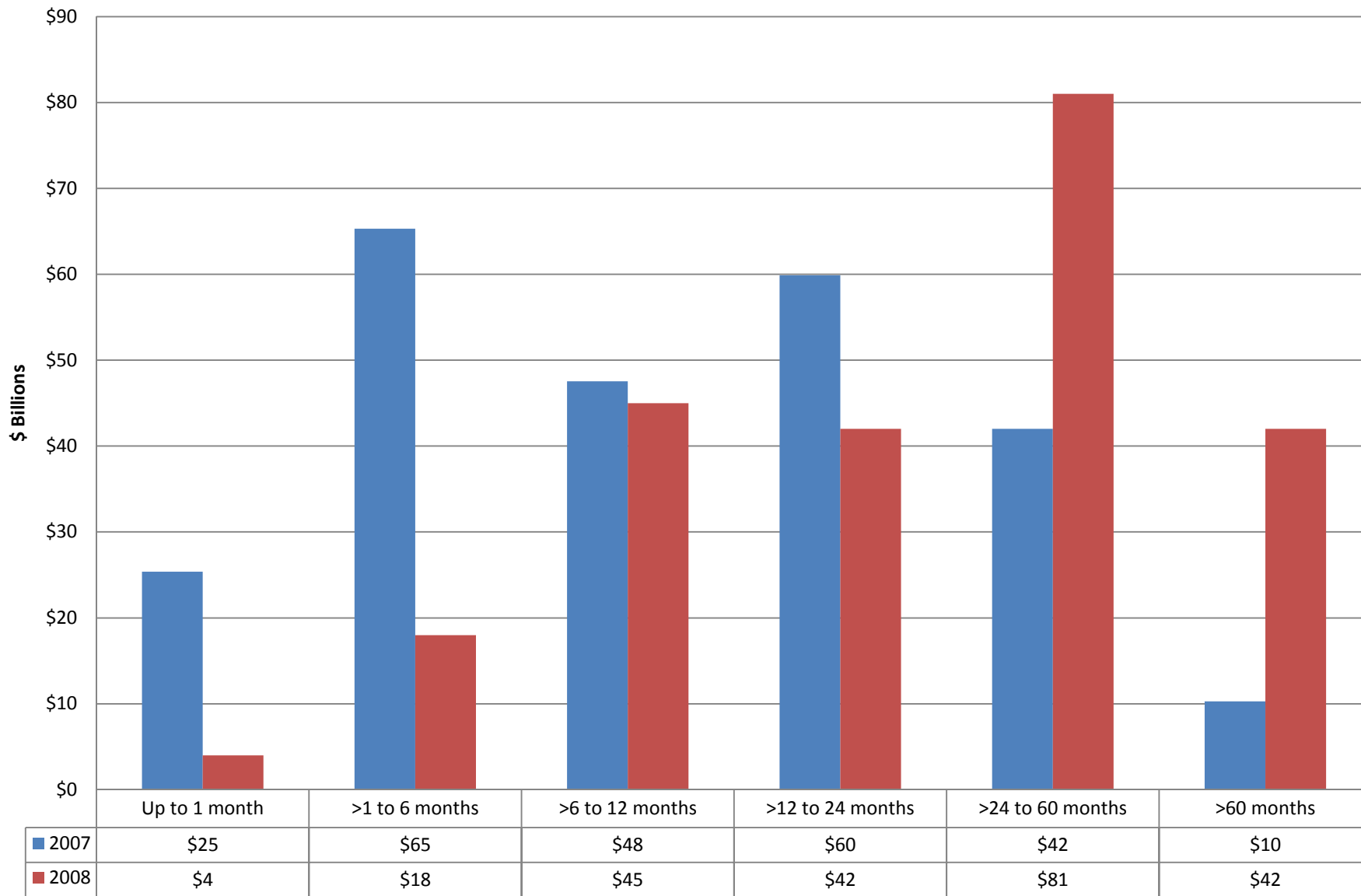
Dallas Original Maturity of Advances Comparison of Year Ends 2007 & 2008



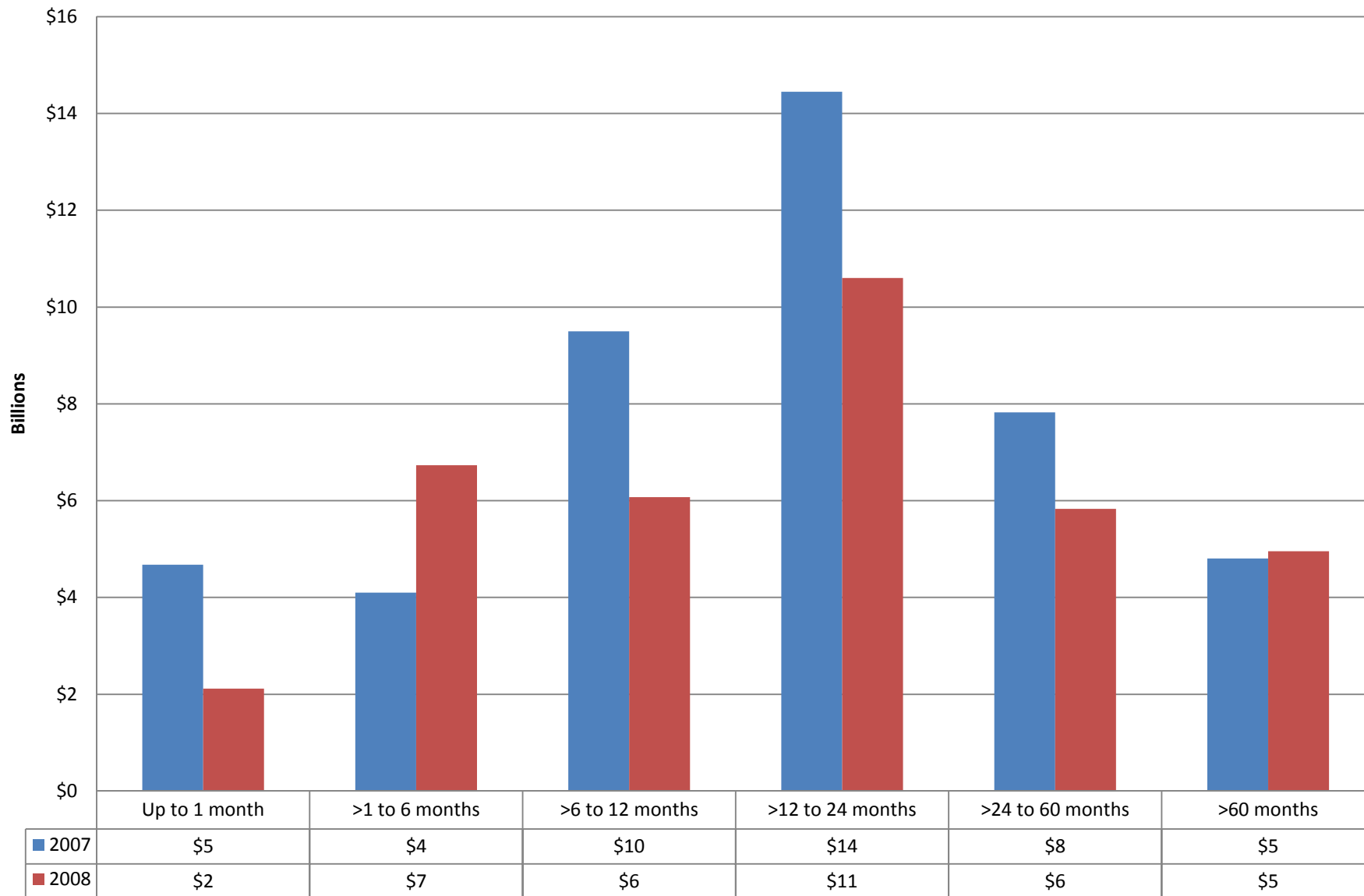
Topeka Original Maturity of Advances Comparison of Year Ends 2007 & 2008



San Francisco Original Maturity of Advances Comparison of 2007 & 2008



Seattle Original Maturity of Advances Comparison of Year Ends 2007 & 2008



10. Glossary

Advance – An extension of credit from a Federal Home Loan Bank to a member or housing associate.

Alt-A Private-label Mortgage-Backed Security - Alt-A private-label mortgage-backed securities traditionally have been considered to be those backed by mortgage loans to borrowers with prime credit scores but with features that included, for example, low or no borrower income or asset verification. However, there is no standard definition of an Alt-A security.

Blanket – A form of collateral control under which the member grants the Federal Home Loan Bank a security interest in all or most of its assets, or one or more broad categories of assets, to secure advances.

Delivery – A form of collateral control under which the member delivers assets to the Federal Home Loan Bank or an approved safekeeping facility to secure advances.

Collateral Coverage Ratio - A collateral value to advance value ratio, where collateral value may be the unpaid principal balance, market value, or other valuation. For example, a coverage ratio of 125 percent implies that \$1,000,000 of collateral pledged supports \$800,000 of advances from a Federal Home Loan Bank.

Community Financial Institution - A financial institution that has its deposits insured under the Federal Deposit Insurance Act and whose three-year average assets are \$1 billion or less.

Housing Associate – A housing associate is an entity to which a Federal Home Loan Bank may make advances if it meets requirements in Federal Housing Finance Agency regulations. Housing associates are often state housing finance agencies.

Listing - A form of collateral control under which the member agrees to provide the Federal Home Loan Bank with specific details of the mortgage loans or other eligible collateral pledged, but held by the member, to secure advances.

Member – Any financial institution that has been approved for membership and has purchased stock in a Federal Home Loan Bank.

Nontraditional Mortgage Loans – Nontraditional mortgage loans include those that allow negative amortization or the deferment of payments of principal or interest.

Subprime Mortgage Loan - Subprime loans generally are those to a borrower having a credit score below a threshold level. Currently, there is no consistent or standard threshold score that defines a subprime loan.

Subprime Private-label Mortgage-Backed Security – Subprime private-label mortgage-backed securities generally are backed by residential first or second mortgage loans to subprime borrowers. Rating agencies often have identified securities backed by home equity loans as subprime.