



Moody's Investors Service

## Issuer Comment: FHLBanks 3Q09 Earnings Commentary

### Global Credit Research - 30 Oct 2009

Moody's Investors Service said that the Federal Home Loan Bank System's (FHLBank System) third quarter 2009 results held no rating implications. The FHLBank System reported a net loss of \$165 million for the quarter ended September 30, 2009, a decline from the \$506 million of net income in the same period in the prior year. Year-to-date 2009 earnings were \$1,303 million down from \$1,921 million of net income for the nine months ended September 30, 2008. The declines for the quarter and the first nine months ended September 30, 2009 were primarily a result of substantially higher credit-related other-than-temporary impairment charges (OTTI) of \$1,042 million and \$1,995 million, respectively. The credit-related OTTI charges are within Moody's expected losses of \$2.8 billion.

The FHLBank System's balance sheet continued to shrink to \$1,062 billion as of September 30, 2009, a 21% decline from year-end 2008. Advances totaled \$678 billion a 27.0% decline from year-end 2008. Advances have declined by 12.0%, 9.6% and 8.3% in Q109, Q209, and Q309, respectively. The decline in advances is a result of lower loan demand from member banks and the availability of alternative U.S. government liquidity and funding programs.

Recently, Moody's Structured Finance Group announced that it will update certain assumptions underlying its loss projections for RMBS securities. The impact of the revisions is expected to be significant for Alt-A, Option ARM, and some Jumbo pools backing securitizations from 2005-2007, with the most pronounced changes expected for the 2005 pools. This may increase Moody's \$2.8 billion of expected losses on the FHLBanks' RMBS portfolios. However, offsetting this risk is the FHLBank System's stronger regulatory capital position due to the decline of total assets.

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