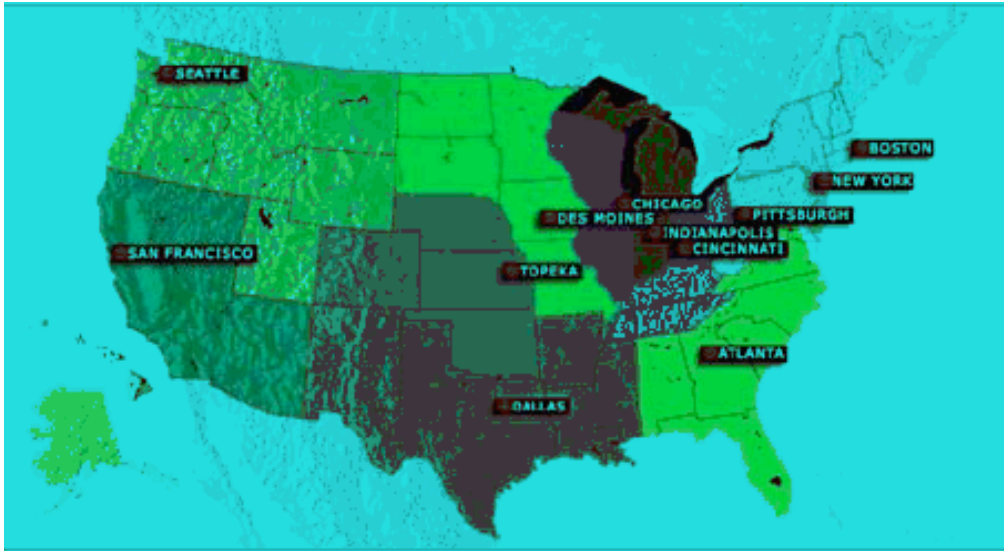


The Federal Home Loan Banks



U.S. TERRITORIES:
PUERTO RICO
U.S. VIRGIN ISLANDS
GUAM

Summary

The Federal Home Loan Banks (FHLBanks) are 12 regional cooperative banks that U.S. lending institutions use to finance housing and economic development in their communities. Created by Congress, the FHLBanks have been the largest source of funding for community lending for eight decades.

Every day across the country, financial institutions must make decisions about how to fund home mortgages for families and make loans to small businesses that are expanding and creating jobs. By harnessing the collective power of their members, the 12 FHLBanks bring the global credit markets to Main Street America. Financial institutions know they can rely on the FHLBank System as a stable source of funds through all market cycles. The current credit crisis illustrates the importance of the FHLBanks, as they have increased their advances while other sources of funding have dried up. The unique structure as a cooperative allows the FHLBank System and its members to continuously play an important role in building, sustaining and nurturing communities throughout the nation.

FHLBanks are regionally focused and controlled. This structure allows each FHLBank to be responsive to the specific community credit needs throughout its region, while the 12 FHLBanks collectively use their combined size and strength to obtain funding at the lowest possible cost for their members. This cooperative structure means that the lender member-owners can advance credit to communities at competitive prices.

Membership and Structure

More than 8,000 lenders are members of the FHLBank System, representing approximately 80 percent of the insured lending institutions in the country. Community banks, thrifts, commercial banks, credit unions, community development financial institutions and insurance companies and state housing finance agencies are all eligible for membership in the System. Members have branches throughout the 50 states and the U.S. territories. Members range from some of the largest financial institutions in the world to banks with just a single branch.

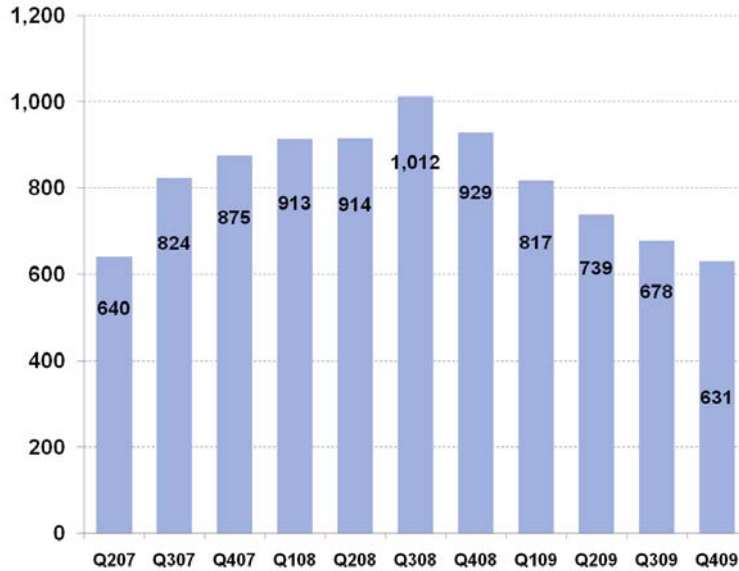
To become a member of an FHLBank, a financial institution must purchase stock in the FHLBank System. The stock is held at par value and not traded. The FHLBanks are entirely privately owned by these member-owners. FHLBanks do not have the pressure for high rates of return as do publicly traded companies. As cooperatives, the FHLBanks pass their GSE benefits to their members in the form of lower borrowing costs, which are subsequently passed on to consumers, businesses and communities.

Liquidity

The primary purpose of the FHLBanks is to provide their members with liquidity. Liquidity funding addresses a key risk of bank management, the unexpected need to fund new assets and deposit withdrawals. Financial institutions are limited in how they can meet liquidity needs. They can raise new deposits, cut expenses, sell assets, limit new lending, or access credit markets. It takes time to attract deposits and it can be prohibitively expensive. Smaller institutions especially rely almost entirely on their local customers to do so. The FHLBank System is the only source of credit market access for the majority of their members. Most community institutions do not have the ability to access the credit markets on their own.

FHLBank loans to members – called “advances” – are a nearly instantaneous way for members to secure liquidity. The FHLBanks go the debt markets several times a day to provide their members with funding. The size of the FHLBank System allows for these advances to be structured in any number of ways, allowing each member to find a funding strategy that is tailored to their needs.

In order to qualify for advances, a member must pledge high-quality collateral, in the form of mortgages, government securities, or loans on small business, agriculture or community development. The member must also purchase additional stock in proportion to their borrowing. Once the member’s FHLBank approves the loan request, it advances those funds to the member institution. At yearend 2009, the FHLBanks had more than \$631 billion in outstanding advances.



FHLBank Member Advances Outstanding

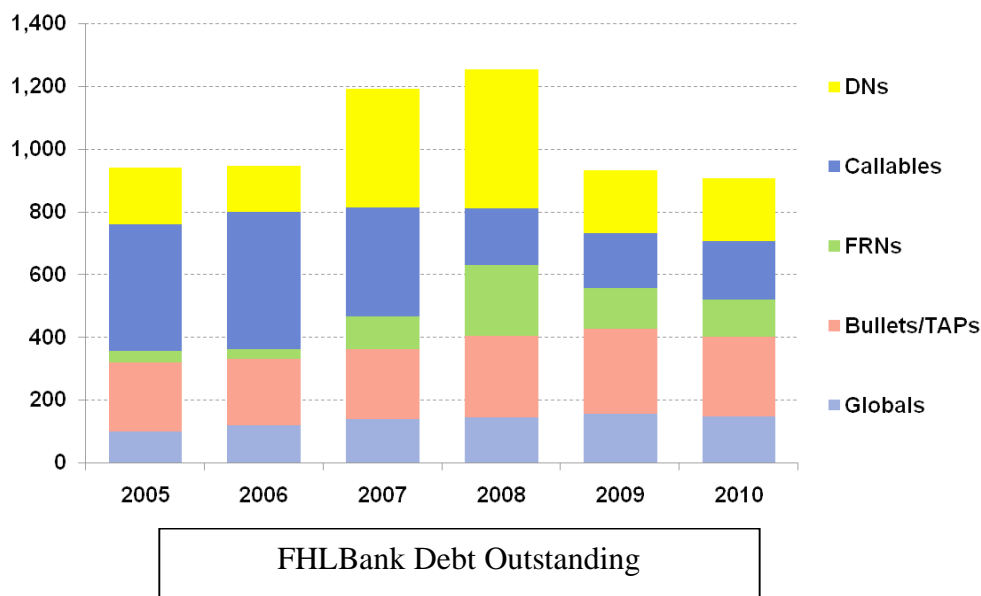
Office of Finance

The Office of Finance, the clearinghouse for FHLBank debt transactions, accesses the global capital markets daily. The FHLBanks issue discount notes in maturities ranging from one day to one year, and bonds with maturities of six months to 30 years. The majority of issues are between one and five years. Issue size can range from millions to over several billion dollars. FHLBank debt is sold through a broad, international network of about 80 underwriters.

Buyers of debt securities issued by the FHLBanks represent the entire spectrum of domestic and international fixed-income investors, including commercial banks, central banks, investment managers, major corporations, pension funds, government agencies and individuals.

Capital Position

No taxpayer funds are involved in the operation of the privately-owned FHLBanks. Each of the 12 regional FHLBanks is uniquely self-capitalizing. During times of high advance activity, capital automatically increases. As advances roll off the books of the FHLBanks, capital is reduced accordingly.



Safety and Soundness

In eight decades, the FHLBanks have never incurred a credit loss on an advance. This remarkable record can be attributed to the collateralization of all advances, conservative underwriting standards and strong credit monitoring policies. If a loan in a pool of collateral is under-performing, it must be replaced. Additionally, the credit profiles of members are actively monitored. FHLBank investments are also very safe.

FHLBanks are jointly and severally liable for their combined obligations. That means that if any individual FHLBank would not be able to pay a creditor, the other 11 FHLBanks would be required to step in and cover that debt. This provides another level of safety and leads to prudent borrowing throughout the System. In 2001, the Government Accountability Office noted, “Joint and several liability for the payment of consolidated obligations gives investors confidence that System debt will be paid.”

Other Services to Members

Liquidity is not the only service that the FHLBanks provide to their members. FHLBanks assist financial institutions with interest rate risk management, asset/liability management, education and reduced earnings volatility.

The FHLBank System also provides letters of credit for bond issuances guaranteed by members and mortgage programs. Through letters of credit, the Banks pass through their triple-A rating to member institutions, while pledging to be a credit backstop. The mortgage programs provide competitive alternatives to the secondary market by taking the interest rate risk of mortgage loans, while members retain the credit risk and customer relationship. The mortgage programs constituted \$71 billion of the FHLBanks’ assets, as of December 31, 2009.

Affordable Housing and Community Investment Programs

FHLBanks contribute 10 percent of their net income to affordable housing through the Affordable Housing Program (AHP). This competitive grant program is the largest source of private sector grants for housing and community development in the country. Member banks partner with developers and community organizations seeking to build and renovate housing for low- to moderate-income households. Through these partnerships, the System has distributed about \$3.7 billion in AHP money since 1990. To ensure that AHP-funded projects reflect local housing needs, each FHLBank is advised by a 15-member Affordable Housing Advisory Council for guidance on regional housing and community development issues.

AHP is a flexible program that uses funds in combination with other programs and funding sources, like Low-Income Housing Tax Credits and Community Development Block Grants. These projects serve a wide range of needs. Many are designed for seniors, persons with disabilities, homeless families and individuals, first-time homeowners and others with limited resources. More than 670,000 housing units have been built using AHP funds, including 420,000 units for very low income residents. The FHLBank System is the largest single entity providing funds to Habitat for Humanity.

Each FHLBank also operates a Community Investment Program (CIP) that offers below-market-rate loans to members for long-term financing for housing and economic development that benefits low- and moderate-income families and neighborhoods. CIP has lent \$56 billion for a variety of projects, resulting in the creation of 700,000 housing units and 105,000 jobs. Several of the Banks have created other, voluntary programs for affordable housing, small business lending, foreclosure prevention and financial literacy.

Additionally, 20 percent of net income goes into paying a portion of the interest on the federal government's Resolution Funding Corporation (REFCORP) obligations. The savings and loans crisis necessitated federal assistance to depositors at insolvent thrift institutions, which was funded through the sale of REFCORP bonds.

Governance and Regulation

Every FHLBank has its own board of directors, comprised of members of that FHLBank and independent (non-member) directors. By statute, two-fifths of the directors must be independent and at least two of those directors must be public interest directors with at least four years of experience in representing community or consumer interests. The boards of directors represent many areas of expertise, including banking, accounting, housing and community development. Directors serve four-year terms and may not serve more than three consecutive terms.

The regulator charged with overseeing the FHLBanks is the Federal Housing Finance Agency (FHFA), created by Congress in the Housing and Economic Recovery Act of 2008. FHFA is led by the FHFA Director and advised by a Federal Housing Finance Oversight Board, composed of the Secretaries of Treasury and HUD, the Chair of the SEC, and the FHFA Director. There is a Deputy Director for FHLBank regulation, while the FHLBank mission oversight is charged to the Deputy Director of Housing Mission and Goals.