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# Credit Ratings

On July 28, 2021, Moody's Investors Service (Moody's) affirmed the Aaa long term rating and Prime-1 short-term deposit rating of the FHLBank System. The outlook on the FHLBank System is stable, reflecting the stable outlook on the U.S. Government.

[Moody's Credit Opinion](#)

On August 5, 2021, Standard & Poor's Ratings Services (S&P) affirmed the AA+ long-term senior debt rating of the Federal Home Loan Bank System. They also affirmed the A-1+ short-term debt ratings of the System. The outlook on the FHLBank System is stable, reflecting the stable outlook on the U.S. Government.

[S&P Credit Analysis](#)

Obligations of the FHLBanks are not obligations of the United States and are not guaranteed by the United States.

## Credit Quality

FHLB debt securities (also known as consolidated obligations, or "COs") are rated by both Moody's and Standard & Poor's. All long-term debt issued by the FHLBanks is rated Aaa by Moody's and AA+ by Standard & Poor's. All short-term debt is rated P-1 by Moody's and A-1+ by Standard & Poor's. The BIS-risk weighting is 20% in most countries. These outstanding ratings reflect the FHLBank System's financial strength, sound management, low derivatives risk exposure, status as a government-sponsored enterprise (GSE) and other links to the U.S. government.

## Ratings Rationale

- "We view the FHLB System as one of the most important U.S. GREs." (S&P)
- "The Aaa debt and deposit ratings capture the FHLBanks' special role as reliable providers of liquidity to the US banking system, most recently demonstrated in 1Q20 when systemwide advances increased significantly as the coronavirus pandemic negatively impacted funding markets." (Moody's)
- "We think the FHLB System's critical public policy role to U.S. housing finance was clear in the U.S. mortgage crisis of 2008, during which advances (loans to client owner members) outstanding peaked at \$1 trillion. The COVID-19 pandemic further illustrated the FHLB System's underlying importance to the U.S. banking sector in times of uncertainty and economic dislocation" (S&P)
- "The FHLBank System's a1 BCA reflects its excellent asset quality, good earnings stability and strong capitalization." (Moody's)

## **Strong U.S. Government Support**

- Created by Congress in 1932 to provide stable funding in support of domestic residential housing
- Recognized for fulfilling its public mission throughout the recent credit crisis
- Authorized by the Federal Home Loan Bank Act, as amended
- Regulated by the Federal Housing Finance Agency (FHFA)
- Interest on FHLB debt securities exempt from state and local income tax
- Ten percent of annual earnings contributed annually towards U.S. affordable housing and community development programs
- Debt issuance subject to U.S. Treasury approval
- Fiscal agency agreement with Federal Reserve
- Eligible for collateral for certain public deposits
- Eligible for investment by national banks and thrifts

## **Risk Management**

The FHLBanks have never suffered a loan loss on advances. This record is attributed to conservative underwriting standards, strong credit monitoring policies, and the collateralization of all loans (advances) to members. Investments and off-balance sheet credit exposures are managed to conservative credit risk standards.

The existing capital structure includes risk-based and leverage capital requirements. These capital plans use a risk-based capital component and are similar to those of depository institutions and other housing GSEs.

## **Federal Housing Finance Agency**

Created on July 30, 2008 when H.R. 3221 was signed into law, the Federal Housing Finance Agency (FHFA) regulates the FHLBanks and the Office of Finance. The FHFA is responsible for monitoring the ability of the FHLBank System to sustain its core business within prudent risk limitations, while fulfilling its public policy mission. The FHFA conducts annual on-site examinations of the FHLBanks and the Office of Finance, as well as off-site review of their financial operations.

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