



August 7, 2008

In accordance with guidance from our regulator, the Federal Housing Finance Board, the board of directors of the Federal Home Loan Bank of Des Moines (Bank) has adopted a **“Subprime and Nontraditional Residential Mortgage Policy” effective September 1, 2007**. This notice provides details on the aspects of that policy that have a direct bearing on the Bank’s members and housing associates. If you have any questions concerning this policy, please contact Marc Johnson, director, Credit and Collateral, at 515.281.1119, or mjohnson@fhlbdm.com.

Overview

The Bank supports the fair and equitable expansion of loan programs that increase opportunities for consumers to become homeowners and recognizes that properly managed subprime and nontraditional loan programs increase those opportunities for a wider variety of borrowers to purchase a home. While most of these alternative mortgage products are responsible and appropriate, the unsuitability of these products to certain borrowers may create undesirable results for both the borrower and the lender. Therefore, the Bank is implementing policies and risk management practices that establish appropriate risk limits for credit exposure on concentrations of subprime and nontraditional residential mortgage loans in the Bank’s own investment portfolio as well as collateral for members’ advances.

This policy applies to first mortgage loans secured by one-to-four family residential properties and residential mortgage-backed securities purchased by the Bank or pledged as collateral by members or housing associates. The policy does not apply to reverse mortgages or home equity lines of credit (HELOCs).

The Bank, in its sole discretion by action of its board of directors, may amend this policy at any time.

Definitions

Subprime Loans

The Bank acknowledges that no single criterion consistently and accurately describes a loan considered to be subprime. For the purposes of this policy and the management of credit risk, the Bank considers loans with a borrower FICO credit score of 660 or less as subprime.

Nontraditional Loans

The Bank acknowledges that no single criterion consistently and accurately describes a loan considered to be nontraditional. For the purposes of this policy and the management of credit risk, nontraditional loans may include:

- Adjustable rate mortgage (ARM) loans with low introductory interest, or “teaser,” rates and
- Option ARMs that provide the borrower payment options that allow negative amortization.

Mortgage loans that have sufficient underwriting analysis to evaluate the borrower’s ability to repay the initial loan amount plus any balance increases by the final maturity date, at the fully indexed rate assuming a fully amortizing repayment schedule, are not considered nontraditional.

Collateral Pledged by Members and Housing Associates

The Bank recognizes that other mitigating factors may exist that reduce the credit risk associated with subprime loans such as low loan to value ratios and/or other forms of credit enhancement. The Bank’s Member Products Policy and related procedures contain the collateral eligibility requirements and any limitations or restrictions the Bank may choose to apply to pledged collateral.

The Bank regularly monitors the financial condition and performance of members and housing associates through reports filed with or issued by regulatory agencies, rating agencies, and other available sources. Analysis completed by the Bank may include evaluation of loan delinquency, loan or asset charge-offs, or concentrations of subprime and/or nontraditional loans. Member or housing associate access to credit products may be limited or curtailed based upon the results of the credit analyses.

Additionally, the Bank also regularly evaluates the collateral circumstances of members through quarterly reports filed with regulatory agencies, the collateral verification process, and through an evaluation of mortgage-backed securities prior to acceptance as collateral by the Bank.

Pledged Mortgage Loan Collateral

In general, the Bank may impose limits on the amount of subprime or nontraditional residential mortgage loan collateral pledged by members or housing associates. Such collateral may also be subject to higher collateral maintenance levels based upon qualitative and quantitative reviews completed by Bank staff or, as detailed in the Member Products Policy, the Bank may limit or restrict a member’s or housing associate’s use of certain collateral.

Additionally, as part of the periodic collateral pledging process, the Bank requires that members and housing associates confirm compliance with any guidance issued by their regulator regarding subprime or nontraditional loans.

Pledged Mortgage-Backed Securities

The Bank can accept MBS securities comprised of appropriately underwritten subprime and nontraditional loans that are rated at least AA as eligible collateral. However, the Bank reserves the right to place limitations on the amount accepted by member, by asset class and in total. Additionally, securities containing large concentrations of loans considered to be either subprime or nontraditional may be subject to higher collateral maintenance levels.