



Moody's Investors Service

Global Credit Research

Credit Opinion

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Credit Opinion: Federal Home Loan Bank of Boston**Federal Home Loan Bank of Boston***Boston, Massachusetts, United States***Ratings**

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aaa/P-1
Parent: Federal Home Loan Banks	
Outlook	Stable
Senior Unsecured	Aaa
Other Short Term	P-1

Contacts

Analyst	Phone
Brian L. Harris/New York	1.212.553.1653
Craig A. Emrick/New York	
Robert Young/New York	
Christie Kang/New York	

Key Indicators**Federal Home Loan Bank of Boston**

	[1]2009	2008	2007	2006	2005	2004
ROAA (%)	-0.43	0.26	0.30	0.34	0.27	0.21
ROAE (%)	-8.59	5.86	6.97	7.52	5.25	4.74
Net Interest Margin (%)	0.29	0.42	0.48	0.53	0.44	0.44
Advances (\$bil)	49.43	56.93	55.68	37.37	38.21	30.96
Investments (\$bil)	9.12	10.48	9.12	8.45	7.56	7.61
Assets	76.38	80.35	78.25	57.47	57.70	51.76
Equity (\$bil)	2.59	3.43	3.39	2.53	2.68	2.30
Liquid Assets/ST Debt (%)	27.42	16.64	0.15	0.10	0.13	0.18

[1] For the quarter ended March 31, 2009

Opinion**SUMMARY RATING RATIONALE**

Federal Home Loan Bank of Boston's (FHLBank) Aaa/Prime-1 long- and short-term deposit ratings reflect the combination of the following factors: 1) a stand-alone Baseline Credit Assessment (BCA) of 6 (on a scale of 1 to 21, where 1 represents the lowest credit risk), 2) very high cooperative support from the FHLBank System, 3) very high support from the U.S. government (Aaa debt rating).

The FHLBank of Boston's BCA of 6, which is an A2 equivalent on Moody's long-term debt rating scale, reflects Moody's opinion about the FHLBank's intrinsic or stand-alone financial strength and excludes extraordinary support. The rating incorporates the FHLBank's excellent asset quality and below average risk-adjusted profitability (i.e., ROAA on a rolling twelve month basis as a percentage of the standard deviation of ROAA over the last five

periods). The FHLBank of Boston's exposure to private-label mortgage back securities (MBS) was \$2.9 billion or 12.8% of investment portfolio (3.8% of total assets) at March 31, 2009. While Moody's views the FHLBank has the financial flexibility to absorb the expected loss on the private-label mortgage back securities, a more severe downturn could weaken its overall credit fundamentals, particularly when more than half of its private-label MBS were rated below investment grade at May 8, 2009.

The FHLBank of Boston's BCA of 6 does not benefit from support from the FHLBank System given the FHLBank System's BCA of a 6 (A2 equivalent). On the other hand, Moody's very high U.S. government support assumption lifts the FHLBank of Boston's deposit ratings to Aaa.

Credit Strengths

Credit strengths include:

- Joint and several liability reduces default risk of Systemwide liabilities
- Liquidity provider for banks and other financial institutions
- Excellent asset quality reflects conservative underwriting standards and quality-monitoring policies

Credit Challenges

Credit challenges include:

- Narrow charter and bank consolidation cap growth
- Significant single borrower concentrations

Rating Outlook

Moody's stable outlook for the FHLBank of Boston's rating reflects the FHLBank's consistent returns and excellent asset quality. Moody's expects the FHLBank of Boston to conservatively manage its business in achieving a modest but stable risk adjusted return.

In addition, Moody's expectation that the FHLBank System will continue to receive strong bipartisan political support, that there will be minimal changes, if any, to its government sponsored enterprise (GSE) status over the long - term.

What Could Change the Rating - Up

Factors that would lead to an upgrade of the FHLBank of Boston's baseline credit assessment include capital levels well in excess of regulatory requirements (e.g., capital-to-assets ratio consistently 50 bps above the regulatory requirement - currently 4.0%), consistent risk-adjusted returns while maintaining strong asset quality.

What Could Change the Rating - DOWN

Factors that could lead to a downgrade of the Aaa/Prime-1 long- and short-term deposit ratings and baseline credit assessment include a material decline in profitability (quarterly net losses over four quarters), significant asset-liability mismatches, or material changes in asset quality.

In addition, any regulatory or statutory changes to the System's mission or GSE status that alters the FHLBank's risk profile could also impact the ratings. However, Moody's views these potential events as highly unlikely to occur.

DETAILED RATING CONSIDERATIONS

The FHLBank of Boston lends to member institutions in the form of advances, which are generally short-term and over-collateralized, minimizing the credit risk on these loans. Moody's baseline credit assessment represents our opinion of the likelihood that the institution will require extraordinary support from an external party. The high BCA of 6 reflects FHLBank of Boston's strong credit culture, stable, though moderate, profitability, and the benefits associated with the joint and several liability of the FHLBank System. Below are the detailed rating factors that influence the FHLBank's ratings and outlook.

Profitability

FHLBank of Boston's modest profitability (as measured by ROAA) reflects primarily low risk profile of its asset base. ROAA was 0.07% as of March 31, 2009 on a rolling twelve month basis and adjusted for OTTI credit losses in 2008, compared to 0.21% (adjusted for OTTI credit losses) and 0.30% for years end 2008 and 2007, respectively. At March 31, 2009, the five-year standard deviation of ROAA was 0.10%, which was well below the 0.40% standard deviation for banks rated Aa and higher.

Similar to many other FHLBanks, the FHLBank of Boston has significant borrower concentration: its top five advance borrowers represented 52.3% of advances outstanding as of March 31, 2009. Within the top five borrowers, the outstanding advance balance of its top two borrowers, RBS Citizens, N.A. and Bank of America Rhode Island, N.A. represented 45% of the total advance at March 31, 2009.

Capital Adequacy

FHLBank of Boston is required by legislation to maintain minimum regulatory capital level of 4% of its total assets. At March 31, 2009, the capital ratio of the Boston Bank was 5.2%. In Moody's view, capital levels reflect the low risk profile of the FHLBank's asset base which is largely comprised of advances to member banks (65% of total assets as of March 31, 2009).

Interest Rate Risk Management

The FHLBank of Boston conservatively manages its interest rate risk exposures through the use of debt with similar characteristics to the FHLBanks assets, as well as derivatives. The FHLBank's primary asset is advances (65% of total assets), which come in a variety of types, including fixed rate, variable rate and may include early termination features or options. The Bank may use derivatives to adjust the repricing and/or options characteristics of advances in order to more closely match the characteristics of the FHLBank's funding liabilities. Prepayment fees, which mitigate interest rate risk, are also a common feature of advances.

Value at risk (VaR) is defined to equal the ninety-ninth percentile potential reduction in market value of equity (MVE) based on historical simulation of interest-rate scenarios. The FHLBank's risk-management policy requires that VaR not exceed the latest quarter end dividend-adjusted level of retained earnings plus the Bank's most recent quarterly estimate of net income over the next six months. As measured by VaR, the FHLBank's potential losses to MVE due to changes in interest rates and other market factors decreased by \$23.7 million to \$108.3 million as of March 31, 2009, from \$84.6 million as of December 31, 2008. The VaR of the FHLBank of Boston was within its policy limit at March 31, 2009.

Asset Quality and Credit Risk Management

Moody's believes that the asset quality of the FHLBank of Boston is exceptional. The FHLBank's primary business is advances, which represents 65% of total assets as of March 31, 2009, while the FHLBank's investment portfolio represents 30%. Advances are over-collateralized and the FHLBank has never incurred a loss on an advance in its 76 year history. However, its two top borrowers represented 45% of advances outstanding as of March 31, 2009. Weak advance granularity heightens the FHLBank's counterparty credit risk.

Mortgage loans held for portfolio were \$4.1 billion at March 31, 2009. The FHLBank recorded no impaired mortgage loans at both March 31, 2009 and December 31, 2008. Mortgage loans on non-accrual status at March 31, 2009, and December 31, 2008, totaled \$26.4 million and \$21.3 million, respectively. The Bank's mortgage-loan portfolio is geographically diversified on a national basis. There is no material concentration of delinquent loans in any geographic region. The FHLBank recorded \$450 thousands of allowance for credit losses at March 31, 2009, up from \$350 thousands at December 31, 2008.

The FHLBank of Boston's \$22.6 billion investment portfolio consists primarily of \$11.6 billion of Interest-bearing deposits (51.2% of investment), U.S. government and agency securities of \$5.0 billion (22% of investment portfolio), and \$2.9 billion private-label MBS (12.8% of investment portfolio). About \$596 million or 21% of its private-label MBS were rated Aaa and \$1.7 billion or 58% were rated below investment grade at May 8, 2009. Moody's expects the performance of the FHLBank's private label MBS will deteriorate from the current level. Moody's views the FHLBank has the financial flexibility to absorb additional credit losses, though a more severe downturn could place pressure on its regulatory capital level given the weaker quality of its private-label MBS portfolio.

Liquidity and Funding

Historically, the FHLBanks' GSE status enabled it to fund its obligations at very tight margins to U.S. Treasury securities. More recently, investor concerns regarding the U.S. housing and mortgage markets have affected the FHLBanks' debt pricing and funding. In addition, U.S. government actions in support of banks by guaranteeing their debt issuance has negatively impacted the FHLBanks' debt spreads. During 2008, demand for term agency

debt weakened considerably. The decline in demand for debt issuances with maturities between one-year and 30-years resulted in a dramatic widening of the spread between the FHLBanks' debt and U.S. Treasury debt. Moreover, increased demand for short-term agency debt (i.e., debt with maturities of less than one year) resulted in lower yields on the FHLBanks' discount notes. As a result, the FHLBanks' funding needs were being met primarily through the issuance of discount notes, floating-rate notes, short-term callable bonds and short-term bullet bonds during the third quarter of 2008.

The FHLBanks entered into a lending agreement with the U.S. Treasury, which established the Government Sponsored Enterprise Credit Facility (GSECF), a secured lending facility, to serve as a liquidity backstop. The GSECF expires on December 31, 2009, but will remain in effect as to any loans outstanding on that date. Any funding to FHLBanks under the GSECF will be provided by the U.S. Treasury in exchange for eligible collateral consisting of advances issued by FHLBanks and MBS issued by Fannie Mae and Freddie Mac. Collateral haircuts will be determined by the U.S. Treasury. Loans under the GSECF are intended to be for short durations of between one week and one month. Interest on borrowings will be set by the U.S. Secretary of the Treasury.

The Federal Reserve announced a plan to purchase up to \$400 billion of direct debt obligations of Freddie Mac, Fannie Mae and the FHLBanks, as well as \$1.25 trillion of MBS guaranteed by Freddie Mac, Fannie Mae and Ginnie Mae. The Federal Reserve announced this action in order to reduce the cost and increase the availability of residential mortgage credit. Moody's believes these actions reduce the FHLBank's funding risk. The FHLBank's access to the term debt markets improved during 2009.

The FHLBanks' internal sources of liquidity are modest. The FHLBanks are mandated by regulation to maintain sufficient liquidity in an amount at least equal to its anticipated cash outflows under two different scenarios. One scenario assumes that the Bank can not access the capital markets for a period of fifteen days and that, during that time, members do not renew any maturing, prepaid and called advances. The second scenario assumes that the Bank can not access the capital markets for five days and that during that period it will automatically renew maturing and called advances for all members except very large, highly rated members. Internal sources include the FHLBank's short-term investments, as well as the FHLBank's investment portfolio.

As of March 31, 2009, the FHLBank of Boston had approximately \$53 billion in short-term consolidated obligations, which includes discount notes and bonds maturing within a one year period. In total, short-term debt comprised about 74.5% of total debt - a very high figure. This amount remained high over the past year due to the limitations with long-term funding in the agency market. Liquid assets include cash, cash equivalents, interest bearing deposits, federal funds, reversed repos as well as portfolios of trading and available-for-sale securities. These assets are of high quality, with the trading and available-for-sale portfolios comprised of only U.S. government and agency securities. However, liquid assets were just 27% of short-term debt as of March 31, 2009.

Support and Dependence

The FHLBank's high dependence and support levels are based on the importance of the System to its member institutions, and their ability to support housing finance and community development.

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