



Member Products & Credit Policy

TABLE OF CONTENTS

I.	INTRODUCTION	1
A.	Background	1
B.	Purpose of this Member Products & Credit Policy	2
C.	Definitions	2
D.	Interpretive Provisions	2
1.	Accounting Terms	2
2.	Singular and Plural	2
3.	References to Agreements, Guides, Policies, Circulars, Etc.	2
4.	References to Statutes and Regulations	3
5.	Captions and Headings	3
6.	Consistency with Applicable Law	3
II.	MEMBERSHIP	3
A.	General Information	3
1.	Eligibility for Membership	3
2.	Certification as Housing Associate	4
3.	Applying for Membership or for Certification as Housing Associate	4
4.	Documentation Requirements	5
5.	Community Support Requirements	6
B.	Capital Stock	6
1.	Minimum Investment Requirements	6
2.	Dividends	7
3.	Redemption and Repurchase	7
C.	Corporate Changes	8
1.	Mergers, Acquisitions, Purchases and Assumptions, Consolidations	8
2.	Change in Location or Name	9
D.	Termination and Withdrawal of Membership	9
III.	EXTENSIONS OF CREDIT	9
A.	Description of Credit Products	9
1.	Advances	9
2.	Standby Letters of Credit and Confirmations	15
3.	Interest Rate Derivatives Products	21
B.	Availability of Credit	22
1.	Credit Underwriting and Internal Credit Ratings	23
2.	Internal Credit Rating Standards	24
3.	Other Limitations on Access to Extensions of Credit	27
C.	Collateral	28
1.	Grant of a Security Interest	28
2.	Eligible Collateral	29
3.	Other Limitations on Collateral	42
IV.	CORRESPONDENT SERVICES	42
A.	Deposit Account Services	42
1.	Demand Deposit Accounts	42
2.	Term Deposits	43
B.	FR2900 Reserves	44

1.	Quarterly Reporters.....	44
2.	Weekly Reporters.....	44
C.	Federal Reserve Bank Settlement Services.....	44
D.	Wire Transfers	45
1.	Types of Wire Transfers	45
2.	Pricing.....	46
V.	SAFEKEEPING SERVICES.....	46
A.	Custodial Agent for Customers.....	46
1.	Types of Services.....	46
2.	Pricing.....	47
B.	Collateral.....	48
C.	Third-Party Custodian.....	48
1.	Securities.....	48
2.	Letters of Credit	48
VI.	COMMUNITY INVESTMENT.....	49
A.	Affordable Housing Program.....	49
1.	Purpose.....	49
2.	Qualifications.....	49
3.	Funding	50
B.	HELP.....	50
1.	Purpose.....	50
2.	Qualifications.....	51
3.	Funding	51
C.	SNAP	51
1.	Purpose.....	51
2.	Qualifications.....	51
3.	Funding.....	52
D.	Community Investment Program.....	52
1.	Purpose.....	52
2.	Qualifications.....	52
3.	Funding	53
E.	Economic Development Program	53
1.	Purpose.....	53
2.	Qualifications.....	54
3.	Funding	54
F.	EDP ^{Plus}	55
1.	Purpose.....	55
2.	Qualifications.....	55
3.	Funding	55
G.	Partnership Grant Program	55
1.	Purpose.....	55
2.	Qualifications.....	55
3.	Funding.....	55
H.	Disaster Relief Program.....	56
1.	Purpose.....	56
2.	Qualifications.....	56

3.	Funding	57
I.	Limitations	57
1.	Limit on CICA Advances to Borrowers	57
2.	Percent of CICA Advances to Percent of Bank’s Total Advances	57
VII.	ASSETCONNECTION®	58
A.	Purpose.....	58
B.	Pricing.....	58
VIII.	MISCELLANEOUS	58
A.	Audit Confirmations	58
B.	Operations and Systems.....	58
C.	Contact Information	59
Exhibit A – Definitions		A-1
Exhibit B – Prepayment Fee Policy		B-1
Exhibit C – Anti-Predatory Lending Policy.....		C-1
Exhibit D – Subprime and Nontraditional Mortgage Collateral Policy.....		D-1

I. INTRODUCTION

A. Background

The Bank is a cooperatively owned wholesale bank created by the Federal Home Loan Bank Act that supports housing and economic development in the communities served by its Borrowers in its five state district. The Bank's district includes Arkansas, Louisiana, Mississippi, New Mexico, and Texas.

The Bank supports urban and rural housing, small business, small agri-business, community lending, and community development needs in its district through its Borrowers. By statute, the Bank returns 10 percent of its profits each year to the communities served by Borrowers in the form of AHP advances and grants to support community development and single and multi family housing for very low to moderate income families and first time homebuyers.

The value of membership in the Bank includes access to readily available credit for lending or liquidity purposes, the favorable cost differential between Advances and other sources of funding, and the dividends paid on Members' and Non-Member Borrowers' investment in the Bank's capital stock. The Bank also provides its Customers with a variety of correspondent banking services. These services include securities safekeeping and securities pledging services, overnight and term deposit accounts, wire transfer services, reserve pass-through services, and settlement services. Regardless of size or location, Customers have access to the Bank's products and services and many of the Bank's products and services can be accessed online through SecureConnect.

The Bank is supervised and regulated by the Federal Housing Finance Agency, which is an independent agency in the executive branch of the United States government. The Finance Agency is headed by a Director, who is appointed by the President and confirmed by the Senate. The Director has broad authority to regulate the Bank. There are three Deputy Directors of the Finance Agency. The Deputy Director of the Division of the FHLBanks is responsible for the safety and soundness regulation of the FHLBanks. The Deputy Director for Housing Mission and Goals oversees the housing mission and goals and the community and economic development mission of the FHLBanks.

On April 17, 2006, the Bank's registration under Section 12(g) of the Securities Exchange Act of 1934 became effective and brought the Bank into the periodic disclosure regime as administered and interpreted by the Securities and Exchange Commission.

B. Purpose of this Member Products & Credit Policy

The purpose of this Policy is to describe the products and services offered by the Bank to its Customers and the Bank's management of those products and services. The variety of products and services described in this Policy are designed to meet the needs of the Bank's Customers. The Bank is always looking for ways to improve its existing products or services and to offer new products and services that will meet the needs of its Customers. As those modifications or new offerings are made, the Bank will update this Policy and any related Product and Service Guides.

This Policy is established by the Bank's board of directors, which reviews and re-adopts the Policy on at least an annual basis. The Policy ensures that the Bank's products and services are in compliance with the Act, the Regulations, and other applicable law. To the extent this Policy may be found to be inconsistent with any applicable law, the applicable law shall govern.

Since the Bank seeks to be flexible in meeting its Customer's needs, exceptions to this Policy will be considered on a case-by-case basis subject to the statutory requirement of equal treatment of Borrowers.

C. Definitions

All capitalized terms not defined elsewhere in this Policy shall have the respective meanings ascribed to such terms in Exhibit A of this Policy.

D. Interpretive Provisions

1. Accounting Terms

Any accounting term used in this Policy shall have, unless otherwise specifically provided in this Policy, the meaning customarily given to such term in accordance with GAAP. All financial computations in this Policy shall be computed, unless otherwise specifically provided in this Policy, in accordance with GAAP.

2. Singular and Plural

The meanings of defined terms in this Policy are equally applicable to the singular and plural forms of the defined terms.

3. References to Agreements, Guides, Policies, Circulars, Etc.

Unless otherwise expressly provided in this Policy, references to agreements, guides, policies, procedures, circulars, and any other documents shall be deemed to include all subsequent amendments, restatements, and other modifications to those documents.

4. References to Statutes and Regulations

All references in this Policy to statutes or regulations include such statute or regulation as in effect from time to time, any amendments thereto, and any successor statute or regulation.

5. Captions and Headings

The captions and headings of this Policy are for convenience of reference only and shall not affect the interpretation of this Policy.

6. Consistency with Applicable Law

The Bank's administration of this Policy will be consistent with the provisions of applicable law. This Policy is subject to change from time to time. To the extent this Policy may be found to be inconsistent with applicable law, applicable law shall govern.

II. MEMBERSHIP

A. General Information

1. Eligibility for Membership

Any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, or Insured Depository Institution that has its principal place of business (as defined in the Regulations) in Arkansas, Louisiana, Mississippi, New Mexico, or Texas is eligible to become a Member of the Bank if it meets all of the following requirements:

- Duly Organized: The institution is duly organized under federal or state law.
- Subject to Inspection and Regulation: The institution is subject to inspection and regulation under the banking laws, or under similar laws, of a state or the United States.
- Makes Long-Term Home Mortgage Loans: The institution purchases or originates (i) home mortgage loans with a maturity of five or more years or (ii) mortgage pass-through securities that represent an undivided ownership in (a) home mortgage loans with maturities of five or more years or (b) a security that represents an undivided ownership interest in home mortgage loans with maturities of five or more years.
- Financial Condition: The institution's financial condition is such that Advances may be safely made to it.
- Character of Management: The character of the institution's management is consistent with sound and economical home financing.
- Home Financing Policy: The institution's home financing policy is consistent with sound and economical home financing.
- 10 Percent Requirement for Insured Depository Institutions (other than Community Financial Institutions): The Insured Depository Institution has at least 10 percent of its total assets in residential mortgage loans.

- Note on De Novo Applicants: A De Novo Applicant may be deemed or conditionally deemed to meet certain of the above requirements. De Novo Applicants should contact the Bank's Member Sales Group for more information.

For purposes of determining eligibility to become a Member of the Bank, the Regulations generally define an institution's "principal place of business" as the state in which the institution maintains its home office, as established in conformity with the laws under which the institution is organized.

Additionally, certain institutions may be eligible for automatic membership in the Bank if they meet applicable regulatory requirements. These institutions include Members that are Insured Depository Institutions and convert from one charter type to another, institutions that transfer their membership from another FHLBank, and non-member institutions that consolidate with a Member of the Bank. These institutions should contact the Bank's Member Sales Group for more information on automatic membership.

2. Certification as Housing Associate

The Bank may make Extensions of Credit to an entity that (i) has its principal place of business in Arkansas, Louisiana, Mississippi, New Mexico, or Texas and (ii) has been certified by the Bank as a Housing Associate pursuant to 12 CFR Part 926. The Bank may certify an Applicant as a Housing Associate if the Applicant meets all of the following criteria:

- The Applicant is approved under title II of the National Housing Act (12 U.S.C. 1707, *et seq.*).
- The Applicant is a chartered institution having succession.
- The Applicant is subject to the inspection and supervision of some Governmental Agency.
- The principal activity of the Applicant in the mortgage field consists of lending its own funds.
- The financial condition of the Applicant is such that Advances may be safely made to it.

After an entity has been certified as a Housing Associate, the Bank may periodically require the Housing Associate to provide evidence that it continues to satisfy these eligibility requirements.

Institutions seeking additional information on certification as a Housing Association and the above requirements should contact the Bank's Member Sales Group for assistance.

3. Applying for Membership or for Certification as Housing Associate

Applicants may find the Bank's membership applications on the Bank's website (www.fhlb.com), and may also obtain an application by contacting the Bank's Member Sales Group. An Applicant must complete the application appropriate for its type of institution and submit the completed application and any additional documentation required by the application

to the Bank's Member Sales Group. The Bank's staff will review the application for completeness, contact the Applicant for any necessary additional information, and determine whether the Applicant meets the Bank's eligibility requirements. Once the Bank's staff has completed its review and made a recommendation regarding approval of membership or certification, it will submit the recommendation and application to the Board or its designee, which will either approve or deny the application. Once approved for membership in the Bank, the Applicant must make its required minimum stock purchase (described in more detail in Section III.B.1 below) within the 60-day period following approval of its application.

4. Documentation Requirements

a. Membership Agreements

Before a Member or Housing Associate may obtain Extensions of Credit from the Bank, the Member must execute the Bank's Advances and Security Agreement (along with any appropriate addenda), Master Transactions Agreement, and Corporate Certificate of Authority. Additionally, a Member or Housing Associate must complete the Bank's Confirmation regarding compliance with the federal banking agencies' *Interagency Guidance on Nontraditional Mortgage Product Risk* (issued October 4, 2006) and *Subprime Mortgage Lending* (issued July 10, 2007) before obtaining any Extensions of Credit secured by residential mortgage loans. Related documentation requirements, described elsewhere in this policy, are applicable to Privately-issued Residential Mortgage-Backed Securities issued after July 10, 2007. A Member or Housing Associate must complete the Bank's Agreement for Standby Letter of Credit Advances/Confirmation before it may obtain a Standby Letter of Credit or Confirmation from the Bank and must complete the Bank's Short Option Advance Agreement before it may obtain a Short Option Advance. A Member must execute the ISDA Master Agreement, the Bank's Schedule to the ISDA Master Agreement, and the Bank's Corporate Certificate of Authority before it may enter into an interest rate derivatives transaction with the Bank.

b. Signature Cards

New Members and Housing Associates must submit to the Bank signature cards related to Advances, Collateral, DDA, Safekeeping, and Wire Transfer, as applicable, designating authorized individuals for each of these activities. Members that desire to enter into interest rate derivatives transactions with the Bank must submit to the Bank signature cards related to these activities. Copies of the signature cards and instructions for completing them can be found on the Bank's website (www.fhfb.com) and can be obtained from the Bank's Member Sales Group.

c. SecureConnect Access Request Form

In order to access SecureConnect, new Members and Housing Associates must complete and submit a SecureConnect Request Form. The form can be found on the Bank's website (www.fhfb.com) and can be obtained from the Bank's Member Sales Group.

d. Guides, Policies, Circulars, Bulletins, Etc.

Members and Housing Associates are subject to the terms and conditions established by the various guides, policies, circulars, bulletins, and other similar documents published by the Bank from time to time. Copies of these documents can be found on the Bank's website (www.fhlb.com) and can be obtained from the Bank's Member Sales Group.

5. Community Support Requirements

Approximately once every two years, the Director will require each Member to submit a community support statement form and any other information the Director may require to determine whether the Member meets the community support standards contained in the Regulations (12 CFR Part 926). For most Members, this statement will include the Member's most recent CRA rating, information about the Member's mortgage loan products and services, and any additional information that reflects the Member's community support efforts. Each calendar quarter, the Director will inform the Bank which Members the Director has selected for community support review, and the Bank will then notify those Members in writing. The Bank's Community Investment Department staff is available to assist the Members in completing their community support statement forms. If a Member fails to submit the required form to the Director, the Bank will restrict the Member's access to long-term Advances (Advances with a term to maturity greater than one year).

B. Capital Stock

The GLB Act required each FHLBank to replace its existing capital stock with a new class or classes of capital stock, establish new minimum investment requirements for its members, and comply with new minimum leverage and risk-based capital requirements. Accordingly, the Bank implemented a new Capital Plan on September 2, 2003 and exchanged shares of new Class B Stock for shares of capital stock held on that date. Under the Capital Plan, the Bank issues only Class B Stock, which has a par value of \$100 and is redeemable with five years' written notice to the Bank.

The following summarizes the major provisions of the Capital Plan's capital stock requirements and other major provisions, but does not include all of the Plan's terms. Members may refer to the Capital Plan itself, which is available on the Bank's website (www.fhlb.com), for more detail on each provision.

1. Minimum Investment Requirements

The Capital Plan requires Members to maintain a minimum investment in Class B Stock equal to the sum of (i) a membership investment requirement that is equal to a certain percentage of the Member's total assets, as set forth in the Capital Plan (and subject to a minimum and maximum amount), and (ii) an activity-based investment requirement based on a certain percentage of the Member's outstanding advances and of certain outstanding balances of AMA, if any, as set forth in the Capital Plan. Pursuant to the Capital Plan, the Board may adjust these percentages and

amounts from time to time to ensure the Bank maintains compliance with its minimum capital requirements established by the Act and Regulations.

2. Dividends

The Bank generally pays dividends quarterly on the average balance of Class B Stock held during the prior quarter, or as otherwise may be determined at the discretion of the Board, after the close of the calendar quarter to which the dividend pertains and the earnings for that quarter have been calculated. The Board may authorize dividends to be paid in the form of capital stock or cash, and dividends are paid at the same rate on all shares of the Bank's capital stock regardless of their classification for accounting purposes. The Bank generally pays dividends in the form of capital stock. When dividends are paid, capital stock is issued in full shares and any fractional shares are paid in cash. Because the Bank's returns typically track short-term interest rates, the Bank has had a long-standing practice of benchmarking the dividend rate that it pays on capital stock to the average effective federal funds rate.

The Bank is permitted by the Act and Regulations to pay dividends only from previously retained earnings or current net earnings. In addition, pursuant to the Regulations, the Bank may not declare or pay any dividends in the form of capital stock if its members' holdings of Excess Stock are greater than 1 percent of the Bank's total assets or if, after the issuance of such shares, members' holdings of Excess Stock would be greater than 1 percent of the Bank's total assets.

3. Redemption and Repurchase

In accordance with the Act, the Regulations and the Capital Plan, Members may redeem Excess Stock, or withdraw from membership and have all of their outstanding stock redeemed, with five years' written notice, provided certain conditions exist at the end of that period. The Regulations also allow the Bank, in its discretion, to repurchase Excess Stock at any time without regard for the five-year notice period.

A Member wishing to redeem excess Class B Stock may do so by submitting a written redemption notice to the Bank. The redemption notice must identify the shares to be redeemed by date of issuance and amount and Members may not have more than one redemption notice in effect at any one time for the same shares of Class B Stock. If the redemption notice fails to identify the particular shares to be redeemed, the Member shall be deemed to have requested redemption of the most recently issued shares that are not already subject to a pending redemption request.

Only Class B Stock that is Excess Stock at the end of the five-year redemption notice period will be redeemed. The Bank may not redeem Class B Stock if certain conditions are not met at the time of redemption, including among others, that the Member must be in compliance with its minimum investment requirement and the Bank must be in compliance with all of its minimum capital requirements following the stock redemption.

A Member may cancel a redemption notice prior to maturity by submitting a written cancellation notice to the Bank. Redemption cancellation notices are subject to cancellation fees calculated

as a percentage (ranging from 0 to 5 percent) of the par value of the shares of Class B Stock subject to the redemption cancellation notice, as provided in the Capital Plan.

The Bank may, in its sole discretion, repurchase Excess Stock at any time without regard for the five-year redemption period related to stock redemptions and has established a practice of periodically repurchasing a portion of Members' Excess Stock to avoid the accumulation of large amounts of Excess Stock. The Bank may also repurchase Excess Stock at the request of a Member, but the decision to repurchase Excess Stock rests with the Bank and cannot be compelled by a Member. The Bank will provide Members at least fifteen days' notice of its intent to repurchase Excess Stock.

C. Corporate Changes

1. Mergers, Acquisitions, Purchases and Assumptions, Consolidations

Members must notify the Bank's Credit Operations Group at least thirty days in advance of any merger, acquisition, purchase and assumption, or other consolidation involving the Member, and may be required to provide to the Bank copies of related documents, including without limitation the agreements governing the transaction, charter amendments, and any regulatory approvals. Members must also complete and submit to the Bank the Bank's Merger/Acquisition Questionnaire, which may be found on the Bank's website (www.fhfb.com) or obtained through the Bank's Credit Operations Group. Additionally, in the case of a merger or consolidation, the surviving entity must re-confirm the signing authorities of any authorized individuals of the disappearing institution following the consolidation. Should a Member merge or consolidate with (a) another Member and fail to re-confirm the signing authorities of any or all authorized individuals of the disappearing institution following consolidation, the signing authorities of such individuals will be suspended until the Bank receives the necessary information and documentation or (b) a non-member institution and fail to re-confirm the signing authorities of any or all authorized individuals of the Member, the non-member institution's access to the Bank's products will be suspended until the Bank receives the necessary information and documentation.

If a Member merges or consolidates with another Member, the surviving entity's membership in the Bank will continue and the disappearing institution's Extensions of Credit may be transferred to the surviving Member or prepaid, in accordance with the Bank's prepayment policy. In the case of consolidation of a Member into a non-member institution, the surviving non-member entity may submit an application to become a Member and keep current Extensions of Credit outstanding or may enter into an agreement with the Bank providing for the liquidation of the acquired institution's indebtedness to the Bank. If the successor does not become a Member of the Bank and the former Member has outstanding any indebtedness to or business transactions with the Bank, the successor will be required to hold stock of the Bank in an amount sufficient to support those obligations or business transactions so long as they remain outstanding.

2. Change in Location or Name

A Member must notify the Bank's Credit Operations Group at least thirty days in advance of any changes in the location of its main office or of its name, and must provide to the Bank copies of related documentation, including charter amendments and regulatory approvals. The Member should also complete the Bank's Notification of Changes to Member Information Form, which may be found on the Bank's website (www.fhllb.com) or obtained through the Bank's Credit Operations Group.

D. Termination and Withdrawal of Membership

As provided in the Bank's Capital Plan and applicable Regulations, a Member may terminate its membership in the Bank by voluntarily withdrawing its membership, or may have its membership terminated as a result of its consolidation into another Member or a non-member institution, or by action of the Board. A former Member whose membership has been terminated for any reason will not be eligible to become a Member of the Bank or any other FHLBank for a period of five years following the later of the date its membership was terminated and all of its stock was redeemed or repurchased. A Member may voluntarily withdraw from membership in the Bank by providing five (5) years' written notice, in which case the withdrawal notice will also serve as a stock redemption notice triggering the five-year stock redemption period. If a Member's membership is terminated as the result of consolidation into another entity or as a result of action by the Board, the five-year stock redemption period will begin upon termination of membership.

III. EXTENSIONS OF CREDIT

A. Description of Credit Products

1. Advances

a. Types of Advances

(i) Fixed or Floating Rate

The Bank offers Advances with interest rates that are fixed and/or floating for the term of the Advance. The interest rate of a floating rate Advance adjusts on designated reset dates based on indexes such as one-month LIBOR and three-month LIBOR. The interest rate of a floating rate Advances may include a positive or negative spread to the index rate.

(ii) Term

The Bank offers Advances with maturities ranging from overnight to thirty years. Also, an Advance can be nonamortizing (with all principal payable at maturity) or amortizing (with principal payable in accordance with an amortization schedule requested by the Borrower).

(iii) Options

The Bank offers Advances with a variety of options available to Borrowers. For a floating rate Advance, Borrowers may request that the interest rate of the Advance be capped or floored, or the Borrowers may request that the index applicable to the floating rate Advance be capped or floored.

The Bank also offers Short Option Advances, which are either Advances that include a feature that allows the Bank to terminate the Advance at specified points in time (a “puttable Advance”) or to convert certain original terms of the Advance to different terms (a “convertible Advance”).

Borrowers can request that an Advance be designated as prepayable, which means that the Borrower can prepay the Advance without a prepayment fee after a specified lockout period. The Bank charges a market-determined fee for the right to prepay an Advance, which fee is incorporated into the interest rate of the Advance. Prepayment of Advances is discussed in more detail below in Section III.A.1.e.iii and in Exhibit B of this Policy.

In addition to the general characteristics and options of the Bank’s Advances discussed above, the Bank makes available to Borrowers a variety of customized Advance structures that may not be specifically described on SecureConnect or on the Bank’s public website (www.fhfb.com).

(iv) CICA Advances

The Bank offers various CICA Advances, which are Advances designed to provide Borrowers with low-cost funds to assist with community lending and development targeted to benefit certain individuals or organizations. Advances under the Bank’s AHP and CIP programs are available only to Members and are not available to Housing Associates and State Housing Finance Agencies.

The Bank offers Subsidized Advances through its AHP. Members may submit applications for Subsidized Advances during funding periods established by the Bank in the Implementation Plan, as discussed in Section VI.A.3 of this Policy. The Bank offers Advances under the CIP, EDP, and Disaster Relief Program, subject to the pricing and terms discussed below and in Section VI of this Policy. CIP and EDP Advances are available to Members and Borrowers, as applicable, throughout the year. Disaster Relief Program Advances are available to Borrowers for a period designated by the Bank following a federal or state declared disaster in the District.

Disaster Relief Program Advances are available in terms ranging from overnight up to thirty years. EDP Advances and CIP Advances are available in terms ranging from three months to thirty years. CICA Advances must be used to fund the Member’s or Borrower’s, as applicable, permanent financing to the underlying borrower or project and the term of the CICA Advance cannot exceed the term of any permanent financing that the Member or Borrower, as applicable, is making to the underlying borrower or project. The EDP Advance, the CIP Advance or the Disaster Relief Program Advance can be fixed rate or floating rate, amortizing or nonamortizing.

Descriptions of the Bank’s CICA programs and more information regarding CICA Advances can be found in Section VI of this Policy.

b. Commitments

Borrowers may request future funding for certain Advances at current Advance rates by utilizing mandatory and optional commitments. Commitments are also available for CICA Advances. Borrowers may request an Advance commitment by contacting a Member Sales Officer. Additional information regarding commitments (including any applicable fees) is provided below.

The Bank’s obligation to release funds on Advance commitments is subject to the continued eligibility of the Borrowers for Advances, as determined by the Bank under applicable law and as discussed below under “Requesting an Advance.” If a Borrower’s access to Advances from the Bank is restricted for any reason, the Bank will not fund outstanding commitments for Advances.

c. Requesting an Advance

Prior to the approval of any Advance request and disbursement of Advance funds, each Borrower requesting an Advance must have a fully executed Corporate Certificate of Authority, Advances Signature Card, and a fully-executed acceptable version of the Bank’s borrowing agreement applicable to that Borrower on file with the Bank.

All information provided to the Bank by a Borrower — including any Regulatory Examination Reports or Regulatory Financial Reports submitted by Members to the Bank, the Finance Agency, or an Appropriate Regulator — may be reviewed by the Bank when considering each request for an Advance. Borrowers should be aware of the representations and warranties in their borrowing agreements with the Bank regarding the continuing truth and accuracy of information submitted to the Bank, and the possible contractual consequences of the breach of such representations and warranties.

(i) Through SecureConnect

Borrowers may request Advances through SecureConnect, provided that the Bank has not determined that the Borrower is a “restricted member,” as discussed in Section III.B.2.d of this Policy.

Prior to requesting Advances through SecureConnect, a Borrower must have an executed SecureConnect Access Request Form on file with the Bank and must have received from the Bank the necessary materials for the Borrower to access SecureConnect. Instructions entered for executing Advances through SecureConnect are electronically recorded, stored, and archived to provide for future review and verification. Before an Advance is actually transacted, Borrowers must verify through SecureConnect the terms of the Advance to ensure that the terms are correct.

The Bank will provide the Borrower through SecureConnect a confirmation of the Advance, reflecting the terms of the Advance. Advance proceeds will be credited to the Borrower's DDA.

(ii) Through a Member Sales Officer

Borrowers may request Advances through a Member Sales officer by telephone. Instructions from the Borrower for executing Advances by telephone are electronically recorded, stored, and archived to provide for future review and verification. Borrowers must verify with the Member Sales Officer the terms of the Advance to ensure that the terms are correct and are properly recorded for audit purposes. The Bank will provide the Borrower through SecureConnect a confirmation of the Advance, reflecting the terms of the Advance and the Bank will mail or fax the Borrower a confirmation of the Advance. Advance proceeds will be credited to the Borrower's DDA. It is the Borrower's responsibility to verify timely the terms of any confirmation mailed or faxed to the Borrower.

Requests for mandatory and optional commitments and Short Option Advances can only be requested through a Member Sales officer by telephone and cannot be requested through SecureConnect.

(iii) Through an Advances Auction

From time to time, the Bank also offers Advances through an auction format. Advances auctions provide Borrowers the opportunity to determine the interest rate of an Advance subject to a minimum interest rate set by the Bank. The Bank provides details regarding Advances auctions, such as the types of Advances offered, the maximum amount of Advances offered and the interest rate threshold, on either SecureConnect or on the Bank's public website (www.fhlb.com).

(iv) Through a Written Application

Borrowers can only request CICA Advances by submitting a written application to the Bank. Applications for Subsidized Advances through the AHP are only available during funding periods established by the Bank in the Implementation Plan, as discussed in Section VI.A.3 of this Policy. Disaster Relief Program Advances can only be requested for a period designated by the Bank following a federal or state declared disaster in the District. Borrowers can access applications for CICA Advances through the Bank's public website (www.fhlb.com) or by contacting a Member Sales Officer or the Bank's Community Investment Department.

d. Pricing

(i) Generally

The Bank prices Advances at or above the marginal cost of raising funds by issuing consolidated obligations in the marketplace, adjusted for (i) the cost of any embedded options (such as caps or floors), (ii) the administrative costs associated with making Advances and (iii) the operating costs associated with making Advances. Borrowers may obtain current Advance interest rates by

contacting the Member Sales Group; the Bank also posts most but not all of its current Advance interest rates on its public website (www.fhfb.com) and on SecureConnect. The Bank may offer Advances priced more favorably than its posted interest rates, provided that the standards and criteria for such differentially priced Advances are applied consistently and without discrimination to any Borrower applying for Advances, which at this time is generally done through an Advances auction.

(A) Standard

Generally, Advances not executed electronically through SecureConnect (i.e., executed by telephone through a Member Sales officer) are made at the interest rate charged under the Bank's standard Advances pricing criteria.

(B) SecureConnect

Generally, Advances executed electronically through SecureConnect have a lower Advance interest rate relative to the Bank's standard Advances. The automated execution and processing incorporated into the SecureConnect network reduce the Bank's operating cost for these transactions, and therefore, allow the Bank to offer lower interest rates.

(C) CICA Advances

CICA Advances are made at interest rates below the Bank's standard and SecureConnect interest rates for Advances of comparable maturities, and may be made at the Bank's cost of funds or, in certain circumstances for specified purposes, below its cost of funds.

(ii) Commitment Fees

Borrowers may request future funding for certain Advances at current Advance rates by utilizing mandatory and optional commitments. Commitments are also available for CICA Advances.

(A) Mandatory Commitments

A Borrower requesting a mandatory commitment is guaranteed an Advance interest rate established on the approval date of the commitment for a future Advance. The Borrower specifies, at the time of the commitment, the term and type of Advance that will be required and the length of the commitment period during which the Advance interest rate will be guaranteed.

The Bank calculates and charges a mandatory commitment fee based on its cost of carry *if* the Bank were to issue matched maturity liabilities in the marketplace to fund the requested Advance. To determine the mandatory commitment fee, the Bank determines the then-current (i.e., as of the date the commitment is requested) market yield for an interest rate swap with the same cash flows and maturity as the requested Advance. Then, the Bank determines the market yield for that interest rate swap as of the Borrower's requested forward date for the Advance. The difference in market yield, if positive, is then charged to the Borrower. In no event will the mandatory commitment fee be less than zero. The mandatory commitment fee may be paid as an

upfront fee at the time the commitment is requested or the fee may be incorporated into the interest rate of the Advance.

If the Borrower cancels the Advance commitment in whole or in part, the Bank will charge the Borrower a cancellation fee equal to any prepayment fee that would have applied had the Bank actually funded the cancelled Advance and the Borrower had then immediately prepaid the Advance. Also, the Bank will not refund any commitment fee already paid by the Borrower, and the Borrower will be liable for any unpaid commitment fee.

(B) Optional Commitments

A Borrower requesting an optional commitment is also guaranteed an Advance interest rate established on the approval date of the commitment for a future Advance. Contrary to a mandatory commitment, an optional commitment allows the Borrower the flexibility to cancel the Advance commitment in whole or in part with no cancellation fee. The Borrower specifies, at the time of the commitment, the term and type of Advance that will be required and the length of the commitment period during which the Advance interest rate will be guaranteed.

The Bank calculates and charges an optional commitment fee based on the cost the Bank incurs to purchase an option to pay a specified rate in the future. The specified rate for the option is equal to the then-current Advance rate for the specified Advance the Borrower wants to potentially enter into in the future. The optional commitment fee must be paid as an upfront fee at the time the commitment is requested.

(C) CICA Commitments

The Bank will guarantee the current CICA Advance interest rate for a qualified future CICA Advance upon payment by the Borrower of a commitment fee. The Bank will from time to time establish the commitment fees for CICA Advances, which commitment fees may differ depending on whether the commitment is mandatory or optional or based on the term of the commitment. For CIP and EDP Advances, the project must have required permanent funding in the past 90 days or must require permanent funding within the next 180 days from the date of the commitment. For a Disaster Relief Program Advance, the commitment must be requested within a period designated by the Bank following a federal or state declared disaster in the District.

e. Payments

(i) Principal

For nonamortizing Advances, principal is paid at maturity. For amortizing Advances, principal payments match a predetermined amortization schedule. Amortization schedules may last up to thirty (30) years. The Bank debits scheduled principal payments monthly from the Borrower's DDA on the first Business Day of the month. If the stated maturity date is not a Business Day, then principal will be payable on and interest will accrue through the first Business Day following the stated maturity date.

(ii) Interest

Accrued interest for an Advance with a term of 35 days or less is debited at maturity. Otherwise, interest is due monthly and upon maturity of an Advance unless otherwise agreed to at the time of borrowing. Interest payments on outstanding Advances are debited monthly from the Customer's DDA on the first Business Day of the month for the amount accrued through the last day of the previous month. If the stated maturity date of an Advance is not a Business Day, then interest will be payable through and debited on the first following Business Day.

(iii) Prepayment of Advances

The prepayment policy in Exhibit B applies to Advances granted or renewed on or after December 14, 2006. For Advances made prior to December 14, 2006, the Bank will allow Customers to use the prepayment policy in Exhibit B or the prepayment policy that was in effect at the time the Advance was granted. Customers should consult a prior version of this Policy or contact the Member Sales Group directly to obtain prepayment policies and fees applicable to Advances made prior to December 14, 2006. Prepayment fees are due and payable on the date the Advance is prepaid.

Generally, when a Customer prepays an Advance, the Bank charges the Customer a prepayment fee that makes the Bank financially indifferent to the Customer's decision to repay the Advance prior to its maturity date. In no event will the prepayment fee be less than zero. The total amount paid to the Bank by the Customer will be equal to or greater than the remaining outstanding principal balance and any accrued and unpaid interest and other amounts, if any, contractually payable pursuant to the provisions of the applicable Advance or the Bank's borrowing agreement applicable to that Customer.

Please see Exhibit B of this Policy for explanations and examples of the Bank's prepayment fee calculations.

f. Transfers of Advances

While the Bank generally does not permit one Member to assume an Advance obligation of another Member, in the case of mergers and acquisitions or when both parties are members of the same holding company, the Bank may allow the transfer of Advances. The Bank, in its sole discretion, reserves the right to reject the transfer of any Advance.

2. Standby Letters of Credit and Confirmations

The Bank issues Standby Letters of Credit and Confirmations on behalf of Borrowers for a variety of purposes. At the time the Bank issues a Standby Letter of Credit or Confirmation and at all times thereafter, a Borrower must have an amount of Qualifying Collateral sufficient to fully secure the amount of the Standby Letter of Credit or Confirmation being issued. Fees for Standby Letters of Credit are set by evaluating competing sources of similar credit enhancements and issuance costs.

a. Purposes for which Letters of Credit and Confirmations May Be Issued

(i) Regulatory Restrictions

(A) Members and Housing Associates

The Regulations authorize the Bank to issue Standby Letters of Credit and Confirmations on behalf of its Members and Housing Associates for any of the following purposes:

- (1) To assist Members and Housing Associates in facilitating residential housing finance;
- (2) To assist Members and Housing Associates in facilitating community lending;
- (3) To assist Members and Housing Associates with asset/liability management; or
- (4) To provide Members and Housing Associates with liquidity or other funding.

(B) State Housing Finance Agencies

The Regulations authorize the Bank to issue Standby Letters of Credit and Confirmations on behalf of its State Housing Finance Agencies for the purpose of facilitating residential or commercial mortgage lending that benefits individuals or families meeting the income requirements in section 142(d) or 143(f) of the IRC.

(ii) Types of Business Transactions

The Bank issues Standby Letters of Credit and Confirmations for a variety of business transactions. The following are just some of the examples of those business transactions:

- For residential housing finance;
- For community lending that is eligible for any of the Bank's CICA programs;
- As collateral for public unit deposits;
- As collateral for obligations arising pursuant to an interest rate swap, interest rate exchange, interest exchange, or such other comparable agreement;
- As credit support for taxable bonds;

- As credit support for tax-exempt bonds where Section 149 of the IRC specifically authorizes a debt instrument to be federally guaranteed while maintaining its tax-exempt status;
- During the period beginning on July 30, 2008 and ending on December 31, 2010, as credit support in connection with the original issuance of tax-exempt bonds; and
- As credit support for other financial obligations.

(iii) Support of Tax-Exempt Bonds, Notes, Debentures

A Borrower applying for a Standby Letter of Credit or Confirmation to be issued by the Bank in connection with the issuance of a tax-exempt bond where Section 149 of the IRC specifically authorizes a debt instrument to be federally guaranteed while maintaining its tax-exempt status shall provide the following documentation to the Bank and any additional documentation the Bank may request:

- Trust Indenture;
- Tax Exemption Agreement;
- Tax Regulatory Agreement;
- Offering Document;
- Bond Purchase Agreement;
- Remarketing Agreement;
- Specimen Irrevocable Letter of Credit;
- Credit Facility and Reimbursement Agreement;
- Opinion of Bond Counsel; and
- Opinion of Issuer Counsel.

b. Terms of a Letter of Credit or Confirmation

Samples of the Bank's Forms of Standby Letter of Credit and Confirmation are available on the Bank's website (www.fhlb.com). Generally, a Standby Letter of Credit or Confirmation issued by the Bank will be issued with the terms and conditions set forth in the Forms and provide the dollar amount, the Borrower's information, the Beneficiary's information, and the term of the Standby Letter of Credit or Confirmation, as applicable.

(i) Direct or Custodial

There are two Forms of Standby Letter of Credit on the website (www.fhfb.com). One Form of Standby Letter of Credit is issued directly to the Beneficiary. The second Form of Standby Letter of Credit is issued for the benefit of the Bank, as a custodian for public unit depositors. A Member wishing to utilize this custodial Standby Letter of Credit must enter into a tri-party Agreement to Secure Public Unit Deposits with the public unit depositor and the Bank.

(ii) Term

Typically, a Borrower will request that the Bank issue the Standby Letter of Credit or Confirmation with a term equal to the term of the Borrower's underlying obligation to the Beneficiary. In no case, will a Standby Letter of Credit or Confirmation be issued for a term exceeding ten years. Once issued, a Standby Letter of Credit or Confirmation will remain in effect until the stated termination date, unless all parties, including the Beneficiary, agree in writing to an earlier termination.

c. Requesting a Letter of Credit or Confirmation

(i) Agreement for Standby Letter of Credit Advances/Confirmation

Before requesting the Bank issue a Standby Letter of Credit or Confirmation, a Borrower must execute the Bank's Form of Agreement for Standby Letter of Credit Advances/Confirmation. The Agreement for Standby Letter of Credit Advances/Confirmation sets forth the terms and conditions under which the Bank will issue Standby Letters of Credit and Confirmations and the Borrower's reimbursement obligations.

(ii) Applications

Each time a Borrower requests the issuance of a Standby Letter of Credit or Confirmation it must execute an application for such Standby Letter of Credit or Confirmation. The Bank has two forms of applications: an Application for Standby Letter of Credit Advance/Confirmation and an Application for Standby Letter of Credit/Advances to Secure Deposits of Multiple Public Units. These forms are available on the Bank's website (www.fhfb.com).

(A) Application for Standby Letter of Credit Advance/Confirmation

A Borrower should use this form when it is requesting the Bank issue a direct Standby Letter of Credit or Confirmation. In this application, the Borrower will provide the business terms of the Standby Letter of Credit or Confirmation such as the dollar amount, the term, the Beneficiary's information, the Borrower's information, the date that the Borrower executed the Agreement for Standby Letter of Credit Advances/Confirmation, and the letter of credit information if the Bank is issuing a Confirmation. In addition, the Borrower will provide a representation and warranty as to the purpose for which the Standby Letter of Credit or Confirmation is being issued.

(B) Application for Standby Letter of Credit/Advance to Secure Deposits of Multiple Public Units

A Borrower should use this form when it is requesting the issuance of a custodial Standby Letter of Credit that will be used to secure public unit deposits. In this application, the Borrower will provide the business terms of the Standby Letter of Credit or Confirmation such as the dollar amount, the term, and the date that the Borrower executed the Agreement for Standby Letter of Credit Advances/Confirmation. This application also serves as an application by the Borrower to the Bank with respect to any Renewal Letter of Credit (as defined in the application).

d. Requesting a Renewal of a Letter of Credit or Confirmation

Standby Letters of Credit and Confirmations are not automatically renewed or replaced on or before the expiration date; provided, however, as set forth below in this paragraph, the Bank may issue a replacement custodial Standby Letter of Credit. Borrowers desiring to have the Bank's Standby Letter of Credit or Confirmation continue to back the underlying business transaction will need to request that the Bank issue a new Standby Letter of Credit or Confirmation at or prior to maturity of the existing Standby Letter of Credit or Confirmation. The Borrower will need to complete an application for this replacement Standby Letter of Credit or Confirmation and an issuance fee will be charged to the Borrower's DDA. In the case of custodial Standby Letters of Credit, on the stated termination date, the Bank may, but has no obligation to, issue to the Beneficiary a new custodial Standby Letter of Credit to replace the expiring custodial Standby Letter of Credit. The term of such replacement custodial Standby Letter of Credit will be equal to the number of days elapsing during the period beginning on the effective date of the original custodial Standby Letter of Credit through the expiration date of the original custodial Standby Letter of Credit. If the Bank chooses to issue a new custodial Standby Letter of Credit, an issuance fee will be charged to the Borrower's DDA.

e. Pricing of Letters of Credit and Confirmations

Fees for Standby Letters of Credit and Confirmations are set by evaluating competing sources of similar credit enhancements and issuance costs. Standby Letters of Credit or Confirmations that facilitate projects under the Bank's CICA program are provided special consideration in accordance with the Regulations. Funded drafts will be deemed a request for an Advance by the Borrower in an amount equal to the amount of the draft; provided that absent an instruction from the account party for the Letter of Credit or Confirmation (i.e., the Borrower) such request for an Advance will be deemed to be a request for a one day Advance to be rolled over daily until the Borrower instructs the Bank otherwise. For details regarding pricing and fees which are set forth below, please visit the Bank's website (www.fhfb.com).

(i) Issuance Fees

The issuance fee for Standby Letters of Credit and Confirmations is the greater of (i) \$125 or (ii) an amount equal to (A) the product of (1) the dollar amount of the Standby Letter of Credit or Confirmation, as applicable, multiplied by (2) the number of days in the term of the Standby Letter of Credit or Confirmation, as applicable, and multiplied by (3) a designated number of basis points, then (B) divided by 365. Issuance fees are due and owing at the time of the issuance of the Standby Letter of Credit or Confirmation, as applicable, and will be charged to the Borrower's DDA at such time. The issuance fee is nonrefundable regardless of whether the Standby Letter of Credit or Confirmation is terminated prior to its stated termination date or a draft is presented prior to the expiration of the Standby Letter of Credit or Confirmation.

If the Bank receives an application for a Standby Letter of Credit or a Confirmation after 3:30 p.m. central time (including an application to renew an expiring Standby Letter of Credit or Confirmation) and the Borrower requests that the Bank issue the Standby Letter of Credit or Confirmation on the same day, the Bank will charge the Borrower an additional \$250 fee. The \$250 fee will be in addition to the standard issuance fees, processing fees, and funding fees charged for Standby Letters of Credit and Confirmations, as applicable.

(ii) Processing Fees

A Borrower requesting a Confirmation to be issued as credit support or otherwise in connection with a taxable or tax-exempt bond transaction will be charged a processing fee. Processing fees are due and owing at the time of application for issuance of the Confirmation and will be charged to the Borrower's DDA at such time. The processing fee is nonrefundable regardless of whether the Confirmation is terminated prior to its stated termination date or a draft is presented prior to the expiration of the Confirmation. If the Borrower renews the Confirmation, the Borrower will be charged a processing fee for such Confirmation as set forth on the Bank's website (www.fhfb.com) and in the Advances Products Guide, as in effect from time to time.

(iii) Funding Fees

On the date of payment to the Beneficiary by the Bank on a Standby Letter of Credit or Confirmation, as applicable, a funding fee equal to one percent of the amount paid by the Bank on the Standby Letter of Credit or Confirmation, as applicable, will be due and owing and will be charged to the Borrower's DDA.

f. Funding a Standby Letter of Credit or Confirmation

Generally, the Bank does not anticipate that a Standby Letter of Credit or Confirmation will be drawn on. However, if a Beneficiary does draw on a Standby Letter of Credit or Confirmation, the Beneficiary will have to satisfy the documentary requirements set forth in the Standby Letter of Credit or Confirmation. In the Bank's standard forms of Standby Letter of Credit and Confirmation, the documentary requirements include: (i) presenting a draft to the Bank which satisfies the requirements set forth in the Standby Letter of Credit or Confirmation; (ii) delivering the original Standby Letter of Credit or Confirmation, as applicable; (iii) in the case of a

Confirmation, delivering the original letter of credit confirmed by the Confirmation; and (iv) a certification by the Beneficiary that satisfies the requirements set forth in the Standby Letter of Credit or Confirmation.

A draft presented to the Bank by a Beneficiary of a Standby Letter of Credit or Confirmation and paid by the Bank will be deemed a request for an Advance by the Borrower in an amount equal to the amount of the draft; provided that absent an instruction from the account party for the Letter of Credit or Confirmation (i.e., the Borrower) such request for an Advance will be deemed to be a request for a one day Advance to be rolled over daily until the Borrower instructs the Bank otherwise. The appropriate term and interest rate for such Advance will be determined at that time in accordance with the Bank's then offered rates for Advances. In addition, any required capital stock purchase for the Advance will be calculated and purchased at such time.

3. Interest Rate Derivatives Products

The Bank offers interest rate derivatives products to Borrowers, which are independent of other credit products, to allow Borrowers to better manage balance sheet assets and liabilities. The Bank offers fixed for floating interest rate swaps (with either present amortization schedules or bullet maturities), interest rate caps, and interest rate floors. Borrowers that have an E* internal credit rating with the Bank are not eligible to enter into interest rate derivative transactions with the Bank.

a. Types and Terms of Interest Rate Derivative Products

(i) Interest Rate Swaps

The Bank offers the following fixed for floating rate interest rate swaps to Borrowers with maturities generally ranging from six months to fifteen years:

- Interest Rate Swap – Borrower Receives Fixed: The Borrower receives a fixed interest rate from the Bank, and the Borrower pays a floating interest rate to the Bank.
- Interest Rate Swap – Borrower Pays Fixed: The Borrower pays a fixed interest rate to the Bank, and the Borrower receives a floating interest rate from the Bank.

Note: The notional amount on which the interest rate paid by the Borrower and the interest rate received by the Borrower may be fixed for the life of the contract or amortize over the life of the contract according to a specified schedule.

(ii) Interest Rate Caps

The Bank offers interest rate caps with maturities generally ranging from six months to fifteen years. An interest rate cap is a derivative in which the Borrower purchases a right to receive payments when the reference index (e.g. LIBOR) rises above an agreed interest rate percentage amount, the “Cap Strike.”

(iii) Interest Rate Floors

The Bank offers interest rate floors with maturities generally ranging from six months to fifteen years. An interest rate floor is a derivative in which the Borrower purchases a right to receive payments when the reference index (e.g. LIBOR) falls below an agreed interest rate percentage amount, the “Floor Strike.”

b. Requesting an Interest Rate Derivative Product

Prior to requesting an interest rate derivatives product, a Borrower must have executed and delivered to the Bank an ISDA Master Agreement and the Bank’s Schedule to the ISDA Master Agreement, have an executed Corporate Certificate of Authority on file with the Bank, and have the required Bank signature cards related to interest rate derivatives products on file with the Bank. The ISDA Master Agreement and the Bank’s Schedule to the ISDA Master Agreement, Corporate Certificate of Authority, and signature cards can be obtained from the Bank.

A Borrower may request interest rate derivatives products by telephone. Instructions from the Borrower for executing interest rate derivatives by telephone are electronically recorded, stored, and archived to provide for future review and verification, as necessary. A Borrower must verify with the Bank the terms of the interest rate derivative to ensure that the terms are correct and are properly recorded for audit purposes. The Bank will fax to the Borrower a confirmation of the interest rate derivatives transaction, reflecting the terms of the interest rate derivatives transaction. The Borrower will have an authorized officer execute the confirmation, and fax the executed confirmation to the Bank.

c. Pricing

Borrowers may obtain current pricing by contacting the Bank.

d. Collateral

A Borrower must have an amount of Qualifying Collateral sufficient to fully secure the amount of an interest rate swap’s market value plus (i) 2.5% of the notional amount in the case of a Borrower that has an internal credit rating of A, B, or C and (ii) 3.0% of the notional amount in the case of a Borrower that has an internal credit rating of D or E or E*. Interest rate caps and interest rate floors purchased by a Borrower are not required to be secured.

e. Termination

The Bank, in its discretion, may allow a Borrower to terminate an interest rate derivative contract. The terms governing any permitted termination will be based on market conditions at the time of termination and the terms for the particular interest rate derivative. Please call a Member Sales Officer for details.

B. Availability of Credit

The availability of Extensions of Credit to each Borrower is based on the financial condition of the Borrower, the adequacy of Collateral pledged to the Bank to secure such Extensions of Credit, and the Borrower’s compliance with any community support requirements for membership in the Federal Home Loan Bank System.

The Bank, in its discretion, may limit or deny a Borrower's application for an Extension of Credit if, in the Bank's good faith judgment, such Borrower –

- is engaging or has engaged in any unsafe or unsound banking practices,
- has inadequate capital,
- is sustaining operating losses,
- has financial or managerial deficiencies, as determined by the Bank, that bear upon the Borrower's creditworthiness, or
- has any other deficiencies, as determined by the Bank.

The Bank, in its discretion, may make Extensions of Credit or renew Extensions of Credit only if the Bank determines that it may safely make such Extension of Credit or renewal to the Borrower.

1. Credit Underwriting and Internal Credit Ratings

a. Depository Institutions

For Members that are depository institutions, the Bank's credit underwriting is based upon a risk-focused approach based on a Member's Critical Capital Cushion, Return on Equity, and Provision Expense Percentage. The Bank measures its credit risk based upon its internal risk analysis of a Member's financial condition and performance and assigns an internal credit rating accordingly.

A Member's credit rating and the Bank's analysis of other risk factors determine whether a Member may borrow under a blanket lien or be required to deliver Qualifying Collateral to secure existing or future Extensions of Credit, as well as whether any other restrictions will be placed on a Member's transactions with the Bank. Generally, Members assigned credit ratings of A, B or C may borrow under the blanket lien (blanket lien status) while Members rated D or E must deliver Qualifying Collateral to the Bank (custody status). Members assigned credit ratings of E* will not be eligible to enter into interest rate derivatives transactions with the Bank. As discussed elsewhere in this Policy, Members assigned a credit rating of E* are classified as "restricted members."

The Bank reviews each Member's quarterly financial information and each quarter the Bank selects Members for Collateral status reviews on the basis of their Critical Capital Cushion, Return on Equity, and Provision Expense Percentage. The Bank may use other appropriate criteria in its discretion to select Members for Collateral status review. The Bank's review determines whether the Member may continue borrowing from the Bank under the terms and conditions currently applicable to that Member. For example, the Bank will determine during this quarterly review whether the Bank should incrementally impose or remove any restrictions on the Member's borrowing (such as requiring a Member on blanket lien status to deliver Collateral) or remove any restrictions on the Member's borrowing (such as by according a Member blanket lien status rather than requiring the Member to deliver Collateral). The Bank reviews information for Members including, but not limited to, periodic reports by independent rating agencies, if available, and the Member's most recent Regulatory Examination Report.

Nothing in this Policy shall be construed to limit the Bank's right to deny an Extension of Credit or the basis of the Bank's determination of the creditworthiness of the Borrower.

Upon request by the Bank, a Member may be required to submit supplemental information for credit underwriting purposes.

The Bank may also perform extended credit reviews on Members in accordance with the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D.

b. Insurance Companies, Housing Associates and State Housing Finance Agencies

Insurance companies, Housing Associates and State Housing Finance Agencies are required to deliver Collateral to the Bank and are not eligible for blanket lien status. Therefore, this discussion of the Bank's credit underwriting and credit ratings is not generally applicable to insurance companies, Housing Associates and State Housing Finance Agencies. The Bank periodically requests financial statements and may request other information from insurance companies, Housing Associates and State Housing Finance Agencies to assess their financial condition. The Bank may, in its discretion, restrict an insurance company's, Housing Associate's or State Housing Finance Agency's transactions with the Bank if the Bank determines that the insurance company's, Housing Associate's or State Housing Finance Agency's financial condition warrants such restriction.

2. Internal Credit Rating Standards

a. Credit Rating Criteria

The CRC determines the final credit rating of a Member based on the Member's Critical Capital Cushion, Return on Equity, and Provision Expense Percentage. Ratings are assigned at the sole and exclusive discretion of the Bank. Generally, a Member will be assigned its final credit rating based on the lowest credit rating that corresponds to such Member's Critical Capital Cushion, Return on Equity, or Provision Expense Percentage as set forth in the table below:

Rating	Critical Capital Cushion	Return on Equity	Provision Expense Percentage
A	Greater than or equal to 3.75%	Greater than or equal to 15%	Less than 11%
B	Less than 3.75% but greater than or equal to 2.5%	Less than 15% but greater than or equal to 10%	Less than 16% but greater than or equal to 11%
C	Less than 2.5% but greater than or equal to 1.4%	Less than 10% but greater than or equal to 0%	Less than 25% but greater than or equal to 16%
D	Less than 1.4% but greater than or equal to 1.2%	Less than 0% but greater than or equal to -5%	Less than 30% but greater than or equal to 25%
E	Less than 1.2% but greater than or equal to 1.0%	Less than -5% but greater than or equal to -10%	Less than 36% but greater than or equal to 30%
E*	Less than 1.0%	Less than -10%	Greater than or equal to 36%

For example, a Member with a Critical Capital Cushion of 2.6%, a Return on Equity of 9%, and a Provision Expense Percentage of 27% may be assigned a credit rating of D.

A Member's credit rating and the Bank's analysis of other risk factors determine whether a Member may borrow under a blanket lien or be required to deliver Qualifying Collateral to secure existing or future Extensions of Credit. Generally, Members assigned credit ratings of A, B or C by the Bank may borrow under the blanket lien (blanket lien status) while Members rated D, E or E* must deliver Qualifying Collateral to the Bank (custody status).

b. Restricted Lending Status

(i) Determination and Communication

In the event a Member's creditworthiness significantly deteriorates and the Member is determined to be a "restricted member," such "restricted member" will be assigned a credit rating of "E*".

Before a Member is moved to E*, the Bank will attempt to notify such Member by letter and through discussion with the Member's senior management of the determination that the Member has been determined to be a "restricted member" with a credit rating of E*. Also, any restrictions determined to apply to an "E*" rated Member, as set forth below, will be communicated by letter and through discussion with the Member's senior management, and will remain in effect until the Member is notified of a change in status.

(ii) Applicable Restrictions

Unless the CRC decides otherwise, the following restrictions will apply to a Member with a credit rating of “E*”:

- The Member’s access to SecureConnect for transactions is limited;
- The approval of the President of the Bank or a designee of the President is required for outgoing wires, the release of Collateral, the substitution of Collateral, and the repurchase of excess Capital Stock;
- The approval of the CRC is required to continue such Member’s participation in the Bank’s mortgage purchase programs (such as the MPF Program) and CICA programs beyond such Member’s current delivery commitments or current CICA programs or projects;
- The terms for new Advances and renewals of Advances are limited to a period not to exceed 30 days and the terms for new Standby Letters of Credit and Confirmations renewals of Standby Letters of Credit and Confirmations are limited to a period not to exceed 6 months;
- The Member may use any category of Qualifying Collateral to secure Extensions of Credit outstanding at the time such Member became “E*” rated and to secure the subsequent renewal of such of those existing Extensions of Credit that the Bank determines it may safely renew (subject to the limitation on the term of such renewal, as discussed in the preceding bullet); however, the Member may request and receive new Extensions of Credit only if at the time any such new Extension of Credit is made such new Extension of Credit and all outstanding Extensions of Credit of such Member are fully secured by first-lien single family mortgage collateral, Securities and Term Deposits only;
- The Member will not be eligible to enter into new interest rate derivatives transactions with the Bank;
- The Bank will reduce the Collateral value for such Member’s Collateral to the percentage applicable for such Collateral under a blanket lien; and
- The Bank may subject such Member to any other applicable restrictions set forth in the Regulations, the Act, and any other laws, statutes, rules, or regulations, as each may be amended or replaced from time to time.

3. Other Limitations on Access to Extensions of Credit

a. Limitation on Availability of Credit based on a Percentage of a Member's Total Assets

Credit will not be extended beyond 50 percent of a Member's or Housing Associate's total assets without prior consent of the Bank's Board of Directors, except in the case of Advances with original maturities of 30 days or less secured with Securities.

b. Members without Positive Tangible Capital

The Bank will not make a new Advance to a Member without positive Tangible Capital unless the Member's Appropriate Federal Banking Agency, Insurer or State Regulator acting in a capacity similar to an Appropriate Federal Banking Agency or Insurer requests in writing that the Bank make such Advance and subject to applicable regulations, the Bank may in its discretion deny any request for an Advance. The Bank will use the most recent Regulatory Financial Report to determine whether a Member has positive Tangible Capital.

The Bank may in its discretion renew outstanding Advances for successive terms of up to 30 days each to a Member without positive Tangible Capital; provided, however, that the Bank shall honor any written request of the Appropriate Federal Banking Agency, Insurer, or State Regulator acting in a capacity similar to an Appropriate Federal Banking Agency or Insurer that the Bank not renew such Advances. The Bank may renew outstanding Advances to a Member without positive Tangible Capital for a term greater than 30 days at the written request of the Appropriate Federal Banking Agency, Insurer or State Regulator acting in a capacity similar to an Appropriate Federal Banking Agency or Insurer.

c. Advances to Capital Deficient but Solvent Members

The Bank may make a new Advance or renew an outstanding Advance to a Capital Deficient Member that has positive Tangible Capital, unless the Bank receives written notice from the Appropriate Federal Banking Agency, Insurer or State Regulator acting in a capacity similar to an Appropriate Federal Banking Agency or Insurer that the Member's use of Advances has been prohibited. The Bank may resume lending to such a Capital Deficient Member if the Bank receives a written statement from the Appropriate Federal Banking Agency, Insurer or State Regulator acting in a capacity similar to an Appropriate Federal Banking Agency or Insurer that re-establishes the Member's ability to use Advances.

d. Advance Commitments

If a Borrower's access to Advances from the Bank is restricted pursuant to paragraph (b) or (c) above, the Bank will not fund the Borrower's outstanding commitments for Advances not exercised prior to the imposition of the restriction. If a Borrower's access to Advances from the Bank is restricted for any other reason, the Bank will not fund the Borrower's outstanding commitments for Advances not exercised prior to the imposition of the restriction if the commitment does not conform to the restriction imposed.

C. Collateral

1. Grant of a Security Interest

The Act and the Regulations require the Bank to make advances only on a fully-secured basis. Accordingly, the Bank's borrowing agreements, which Members and Housing Associates must execute before they can receive Advances or other Extensions of Credit, require Members and Housing Associates to maintain an amount of Qualifying Collateral sufficient to fully secure all Extensions of Credit. Each Borrower must comply with the collateral requirements of this Policy prior to the approval or funding of an Extension of Credit.

a. Blanket Lien

Subject to the exceptions described below, all Customers grant to the Bank a blanket security interest in and lien on all categories of assets that the Bank considers eligible Collateral.

b. Specific Collateral Only Lien

Certain Members grant to the Bank a security interest in and lien on Capital Stock, Deposit Accounts, and certain specifically-identified assets only, rather than in all categories of eligible Collateral. The assets that these Members may identify and pledge to the Bank include Securities and/or First Mortgage Collateral.

(i) Insurance Companies

Insurance company Members grant a security interest in only Capital Stock, Deposit Accounts, and eligible Collateral that they deliver to the Bank, and are permitted to borrow against the eligible Collateral that they deliver.

(ii) Rated Entities

Generally, a Member that has investment grade credit ratings from at least two NRSROs is eligible to borrow on the basis of a more limited security interest than is granted under the blanket security interest. If an eligible Member requests this arrangement, that Member grants in favor of the Bank a security interest limited to Capital Stock, Deposit Accounts, Securities, first-lien mortgages and deeds of trust relating to one-to-four family residential dwellings which are specified on a schedule, and certain other assets that the Member may from time to time deliver to the Bank and the Bank may agree to accept as Collateral.

A Member that does not have the required investment grade credit ratings set forth in the preceding paragraph may still be eligible for this specific collateral only option but only if an Affiliate of the Member at the time when the Member enters into the applicable Advances and Security Agreement (i) is an Insured Depository Institution, (ii) has the required investment

grade credit ratings, and (iii) enters into an agreement, acceptable to the Bank, to guaranty the indebtedness of such Member.

c. LFI Collateral Only Lien

Generally, a Member with an investment grade credit rating is eligible to request that the Member grant in favor of the Bank a security interest limited to Capital Stock, Deposit Accounts, First Mortgage Collateral, Other Real Estate Related Collateral, and Securities.

2. Eligible Collateral

a. Anti-Predatory Lending Collateral Policy

The Bank will not accept as Collateral any loan or class of loans that does not comply with the Bank's Anti-Predatory Lending Collateral Policy set forth in Exhibit C.

b. Types of Collateral Eligible to Secure Extensions of Credit to Members

The Bank may accept in the ordinary course of business the following types of Collateral from its Members as security for Extensions of Credit:

(i) First Mortgage Collateral

First Mortgage Collateral, which consists of whole, fully disbursed, first mortgages and deeds of trust relating to one-to-four family dwellings and multifamily residential dwellings (excluding participations and other fractional interests or mortgage warehouse lines). First Mortgage Collateral may include loans reported on call report lines RCON5367/1460, SC254/256, and CU703. First Mortgage Collateral is subject to the restrictions described in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D,

(ii) U.S. Government and Federal Agency Securities

U.S. Government and Federal Agency Securities, which include (i) mortgage-backed securities issued or guaranteed by Freddie Mac, Fannie Mae, Ginnie Mae, or any other federal agency; and (ii) mortgages or other loans (including securities backed by, or representing an equity interest in, such mortgages or loans) that are insured or guaranteed by the United States or a federal agency, or otherwise backed by the full faith and credit of the United States, where the insurance or guarantee is for the direct benefit of the holder of the mortgage or loan.

(iii) Privately-issued Residential Mortgage-Backed Securities

Privately-issued Residential Mortgage-backed Securities that (i) were rated in the highest category by at least one NRSRO at the time such securities were originally issued, (ii) maintain at least a single C rating from at least one NRSRO, and (iii) are delivered to the Bank; provided, however, that any security rated by more than one NRSRO that has a split rating will be deemed to be rated in the lowest category assigned by any of the NRSROs rating such security. The following types of Privately-issued Residential Mortgage-backed Securities are not eligible collateral: (i) securities that represent a share of only the interest payments or only the principal payments from the underlying mortgage loans; (ii) securities that represent a subordinate interest in the cash flows from the underlying mortgage loans; (iii) securities that represent an interest in any residual payments from the underlying pool of mortgage loans; and (iv) such other securities as the Bank, in its sole discretion, may determine to be high-risk. Certain Privately-issued Residential Mortgage-Backed Securities Collateral is subject to further restrictions described in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D.

(iv) Term Deposits

Term Deposits with the Bank.

(v) Small Business Administration Guaranteed Loans

Small Business Administration (SBA) Guaranteed Loans that are secured by eligible real estate collateral, or, in the case of CFI's, by non-real estate collateral. The Bank relies solely on the underlying collateral and does not ascribe value to the SBA-guaranteed portion.

(vi) Other Real Estate-Related Collateral

Other Real Estate-Related Collateral, which includes all other items of real estate related collateral, including without limitation, all mortgages, deeds of trust, and security agreements relating to loans secured by commercial property, home equity loans, home improvement loans, subordinate loans secured by junior liens on residential real estate (but only if the Customer holds the first lien on the property), mortgage warehouse lines of credit, construction loans, and loans secured only by raw land. Other Real Estate-Related Collateral may include loans reported on call report lines RCON1797/5368/F158/F159/F160/F161, SC251/255/230-240/260/265, and CU386.

(vii) State or Municipal Securities

Securities rated at least AA by a NRSRO issued as a general obligation of or guaranteed by state or municipal governments or their political subdivisions to the extent the proceeds of such securities (including capitalized indirect "soft costs" such as architectural, development and legal fees) have been or will be used directly or indirectly to finance the acquisition, development or improvement of real estate ("Real Estate Improvements"); provided, however, in the case of any

of such securities for which a portion of the proceeds have been or will be used for purposes other than Real Estate Improvements, the Bank will only accept the portion of the outstanding balance of such securities which have been or will be used to finance Real Estate Improvements. Examples of the types of securities the Bank will accept are those that fund single family housing, multi-family housing, public housing, low and moderate cost housing, nursing homes, schools or school upgrades, public facilities, transportation systems, libraries, jails, park and recreational facilities, food stores, land improvement, and acquisition of real estate.

(viii) Other Securities

Other securities representing undivided equity interests in the collateral described above.

(ix) CFI Collateral

For CFI's, fully secured loans to small businesses, small farms and small agri-businesses, and securities representing whole interests in such fully secured loans. CFI Collateral that includes small business loans may include loans reported on call report lines RCONF158/F160/F161/1763/1766 and SC230-240/260/300/306. CFI Collateral that includes small farm loans and small agri-business loans may include loans reported on call report lines RCONF159/1420/1590 and SC265.

(x) Affiliate Collateral

For Affiliates, assets held by an Affiliate of a Member that otherwise constitute eligible Collateral under the descriptions above may be used to secure Extensions of Credit to that Member, provided the Collateral is pledged to secure: (i) the Member's obligation to repay Extensions of Credit and other indebtedness; or, (ii) a surety or other agreement under which the Affiliate and the Member have assumed a primary obligation to repay Extensions of Credit. In either case, the Bank must be able to obtain and perfect a legally enforceable security interest in the Collateral, taking account of applicable laws governing fraudulent conveyances, that is the functional equivalent in all material respects to the rights and privileges the Bank would possess if the Member pledged that same Collateral directly.

c. Additional Eligibility Requirements for Collateral

In addition to the requirements set forth in clause (b) above, any loans pledged by a Member as Collateral (i) must be owned by the Member free and clear of any liens and encumbrances (other than those that are junior to the liens and encumbrances of the Bank), (ii) must not be past due 90 days or more; (iii) must not have been in default (beyond the applicable grace period with respect to such default, if any) within the most recent twelve-month period, unless such default has been cured in a manner acceptable to the Bank; (iv) must relate to real property that is covered by fire and hazard insurance in an amount at least sufficient to discharge the mortgage loan in case of loss and as to which all real estate taxes are current; (v) must not have been classified as substandard, doubtful, or loss by the Member's regulating authority or the Member's management; and (vi) must not secure any indebtedness to any director, officer, employee, attorney or agent of the Member or of any Federal Home Loan Bank. Collateral pledged to the

Bank by Members must also meet any other collateral requirements or requirements applicable to the perfection of the Bank's security interest in such collateral established from time to time by the Bank. Additional eligibility requirements applicable to Privately-issued Residential Mortgage-Backed Securities and subprime and/or nontraditional residential mortgage loans are described in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D.

The Bank may, however, consider as eligible Collateral a participation purchased and owned by a Member in Collateral described above, provided that an Affiliate of the Member owns the remaining interest in that Collateral and has executed an agreement pledging its interest in the Collateral to the Bank to secure the Member's obligations.

If the Bank deems itself to be under-collateralized and a Member has pledged to the Bank all Collateral under the categories above, the Bank may accept other assets to secure the Member's Extensions of Credit, provided that the Bank can perfect a security interest in the assets.

d. Types of Collateral Eligible to Secure Advances to Housing Associates

The Bank may accept the following types of Collateral from Housing Associates as security for Advances:

(i) Insured Mortgage Loans

Mortgage loans insured by the Federal Housing Administration of HUD under title II of the National Housing Act.

(ii) Insured Securities

Securities representing a whole interest in the principal and interest payments due on a pool of mortgage loans insured by the Federal Housing Administration of HUD under title II of the National Housing Act; provided that the Housing Associate provides evidence that such securities are backed solely by mortgages insured by the Federal Housing Administration of HUD under title II of the National Housing Act.

(iii) State Housing Finance Agencies – First Mortgage Collateral

In the case of Housing Associates that are State Housing Finance Agencies, First Mortgage Collateral eligible to secure Advances to Members.

(iv) State Housing Finance Agencies – Securities

In the case of Housing Associates that are State Housing Finance Agencies using the proceeds of an Advance to facilitate mortgage lending in compliance with 12 C.F.R. § 950.17(b)(2), U.S.

Government and Federal Agency Securities, which include (i) mortgage-backed securities issued or guaranteed by Freddie Mac, Fannie Mae, Ginnie Mae, or any other federal agency; and (ii) mortgages or other loans (including securities backed by, or representing an equity interest in, such mortgages or loans) that are insured or guaranteed by the United States or a federal agency, or otherwise backed by the full faith and credit of the United States, where the insurance or guarantee is for the direct benefit of the holder of the mortgage or loan.

(v) State Housing Finance Agencies – Privately-issued Residential Mortgage-Backed Securities

In the case of Housing Associates that are State Housing Finance Agencies using the proceeds of an Advance to facilitate mortgage lending in compliance with 12 C.F.R. § 950.17(b)(2), Privately-issued Residential Mortgage-backed Securities eligible to secure Advances to Members. Additional restrictions applicable to certain Privately-issued Residential Mortgage-Backed Securities are described in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D.

(vi) State Housing Finance Agencies – Term Deposits

In the case of Housing Associates that are State Housing Finance Agencies using the proceeds of an Advance to facilitate mortgage lending in compliance with 12 C.F.R. § 950.17(b)(2), Term Deposits.

(vii) State Housing Finance Agencies – Other Real Estate Related Collateral

In the case of Housing Associates that are State Housing Finance Agencies using the proceeds of an Advance to facilitate mortgage lending in compliance with 12 C.F.R. § 950.17(b)(2), Other Real Estate Related Collateral eligible to secure Advances to Members; provided that such collateral comprises mortgage loans on one-to-four family or multifamily residential property.

All loans pledged by a Housing Associate as Collateral must meet the requirements set forth in clauses (b) and (c) above for loans pledged by Members. Collateral pledged to the Bank by Housing Associates must also meet any other collateral requirements established from time to time by the Bank. Additionally, the Bank requires that a State Housing Finance Agency submit, in connection with each request for an Advance, a written certification that it will use the funds in accordance with Section 10(b) of the Act and Section 950.17(b)(2) of the Regulations.

e. Types of Collateral Eligible to Secure Extensions of Credit to Non-Member Borrowers

The Bank will work with each Non-Member Borrower on a case-by-case basis to determine which types of Collateral the Non-Member Borrower may deliver to secure its Extensions of Credit.

f. Collateral Status

(i) Blanket Collateral Status

(A) Description

Members accorded blanket collateral status may borrow up to a loan value percentage of the book value of eligible Collateral as determined by the Bank (not to exceed 35 percent of the member's total assets) without specifically listing, segregating or delivering collateral to the Bank. Members on blanket collateral status are, however, subject to periodic collateral verifications at the Member's expense, as described below. Additionally, the Bank reserves the right to verify any Member's collateral at any time, at the Member's expense, outside of the collateral verifications described in this Policy. The Bank also reserves the right to require delivery of the Member's Collateral.

Members on blanket collateral status agree to promptly inform the Bank of any event that materially reduces the principal amount of, or otherwise changes, the value of Collateral pledged to the Bank under the Bank's blanket security interest. In any event, the Members must update the information relating to pledged Collateral on a quarterly basis, or as requested by the Bank.

(B) Eligibility

Members (other than insurance companies) are eligible for blanket collateral status. Insurance company Members and Housing Associates are not eligible for blanket collateral status. NCUA-insured credit unions may be placed on blanket collateral status only if (i) they keep their books in accordance with GAAP, (ii) they obtain annual financial statement audits prepared in accordance with GAAS and attested to by independent, state-licensed accountants, (iii) as determined by the Bank in its sole discretion, their financial conditions warrant blanket collateral status, and (iv) the Bank receives an executed subordination agreement subordinating any security interest in the Member's assets held by a corporate credit union to the security interest of the Bank.

To qualify, Members must meet all applicable statutory and regulatory capital standards and satisfy all of the Bank's credit underwriting standards, as determined by the Bank in its discretion. Additionally, the Bank must have a first-priority security interest in the Collateral pledged to the Bank; otherwise, Members must, in the Bank's sole discretion, provide the Bank with a listing of the Collateral pledged to the Bank or deliver Collateral to the Bank.

Members that qualify for blanket collateral status may opt instead to provide the Bank with a listing of the Collateral pledged to the Bank or deliver Collateral to the Bank.

(C) Collateral Values for Members on Blanket Collateral Status

The Bank calculates the collateral value of Collateral as set forth in Section III.C.2.g. Depending on the type of Customer, the Bank assigns the following percentages to various categories of Collateral (which must meet the requirements for eligible Collateral described above and in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D) pledged by Members on blanket collateral status:

- (1) LFI's
 - First-lien mortgages for one- to four-family (up to 75 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Other real estate loans (up to 45 percent)

- (2) CFIs
 - First-lien mortgages for one- to four-family (up to 75 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Small farm/agriculture loans (up to 40 percent)
 - Small business loans (up to 60 percent)

- (3) Credit Unions
 - First-lien mortgages for one- to four-family (up to 75 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Other real estate loans (up to 45 percent)

(ii) Delivery Collateral Status

(A) Description

Under the Bank's borrowing agreements, the Bank has the right to require Members and other Borrowers that have granted to the Bank a blanket security interest to deliver Collateral to the Bank. The Bank will require Housing Associates, Members that are insurance companies, and Non-Member Borrowers to deliver Collateral. Additionally, the Bank may require delivery of Collateral if (i) a Member does not meet all applicable statutory and regulatory capital standards; (ii) a Member is a credit union that does not meet the requirements for blanket collateral status; (iii) a Member's financial condition or controls or those of an Affiliate of the Member are such that the Bank would be secure and its security interest fully perfected only if the Collateral is in the Bank's possession; (iv) a Member otherwise fails to meet any of the Bank's underwriting standards for blanket collateral status; (v) another creditor has rights in the Collateral; or (vi) a

member qualifies for and obtains Extensions of Credit under the specific collateral only option described in this Policy.

Customers on delivery collateral status agree to promptly inform the Bank of any event that materially reduces the principal amount of, or otherwise changes, the value of Collateral delivered to the Bank. Customers on delivery status also agree to update information relating to such delivered collateral on a monthly basis, or as requested by the Bank. Detailed information concerning delivering Collateral to the Bank can be found on the Bank's website (www.fhfb.com). In all cases, the Bank in its sole discretion shall determine the market value of the Customer's Collateral.

**(B) Collateral Values for Customers on Delivery
Collateral Status**

The Bank calculates the collateral value of Collateral as set forth in Section III.C.2.g. Depending on the type of Customer, the Bank assigns the following percentages to various categories of Collateral (which must meet the requirements for eligible Collateral described above and in the Bank's Subprime and Nontraditional Mortgage Collateral Policy, which is attached hereto as Exhibit D) pledged by Customers that deliver Collateral to the Bank:

- (1) LFI and Housing Associates
 - First-lien mortgages for one- to four-family (up to 90 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Commercial real estate collateral for completed properties (up to 70 percent)
 - Construction loans for one- to four-family, multifamily, and commercial real estate (up to 60 percent)
 - Loans secured only by raw land (up to 60 percent)

- (2) CFIs
 - First-lien mortgages for one- to four-family (up to 90 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Small farm/agriculture loans (up to 40 percent)
 - Small business loans (up to 60 percent)
 - Commercial real estate collateral for completed properties (up to 70 percent)
 - Construction loans for one- to four-family, multifamily, and commercial real estate (up to 60 percent)

- Loans secured only by raw land (up to 60 percent)
- (3) Credit Unions
- First-lien mortgages for one- to four-family (up to 90 percent)
 - First-lien mortgages for multifamily (up to 75 percent)
 - Other real estate loans (up to 45 percent)

(iii) Specific Collateral Only Collateral Status

(A) Description

Members borrowing under the specific collateral only lien arrangement grant to the Bank a security interest in only Capital Stock, Deposit Accounts, First Mortgage Collateral and Securities. Additionally, the Bank may agree to accept as Collateral from these Members any other property delivered from time to time to the Bank with the valuation of such other property determined in the Bank's sole discretion.

Members borrowing under the specific collateral only lien are placed on specific collateral only collateral status and generally must deliver all Collateral to the Bank. Members may, however, deliver First Mortgage Collateral to a custodian acceptable to the Bank if the custodian enters into an agreement, in form and substance satisfactory to the Bank, with the Bank. Collateral delivered to a custodian rather than to the Bank will be subject to the collateral verification process described below. Certain other conditions and covenants also apply to Members borrowing on this specific collateral only option.

(B) Collateral Values

The Securities and First Mortgage Collateral delivered by Members borrowing under the specific collateral only arrangement are subject to discounts (haircuts) ranging from 2% to 10% (depending on the credit rating of the member from time to time) greater than the discounts that the Bank applies to Securities and First Mortgage Collateral delivered to the Bank by Members who have granted to the Bank a blanket security interest.

g. Collateral Valuation Methodology

(i) General

The Regulations require that each Customer's obligations to the Bank must be secured with eligible Collateral discounted to protect the Bank against loss in adverse circumstances. In assigning collateral values, the Bank calculates Collateral discounts so as to ensure that the value of the Collateral securing each Customer's obligations exceeds the amount the Customer has borrowed or may borrow from the Bank in at least 95% of all outcomes.

The Bank will apply additional discounts to the Collateral delivered by Members borrowing under the specific collateral only option, as set forth in the borrowing agreements executed by the Bank and those Members.

The Bank will determine, in its sole discretion, the applicable Collateral discounts (haircuts) and valuation bases, which may vary from Customer to Customer based on the Bank's assessment of the relevant facts and circumstances affecting the creditworthiness of the Borrower and the value of any Collateral pledged.

(ii) Collateral Value of Securities

The collateral value of Collateral that is Securities is equal to (i) the product of (a) the valuation basis of the Collateral divided by 100 multiplied by (b) the outstanding principal balance of the Collateral divided by (ii) one plus the discount (haircut) applied by the Bank to the Collateral. For example, the collateral value of a Security with a price of \$97.73340, a current face of \$3,391,356.70, and a haircut of 102 would be \$3,249,498.25.

(iii) Collateral Value of Loans

The collateral value of Collateral consisting of loans is equal to the product of (i) the Collateral's valuation basis multiplied by (ii) the complement of the discount (haircut) applicable to the Collateral, which is stated as a percentage of the valuation basis multiplied by (iii) the complement of the documentation exception percentage determined by the Bank during the Collateral verification process (for Members on blanket collateral status and Members on specific collateral only collateral status that deliver loans to a custodian or the default documentation exception percentage otherwise applicable to a Member not subject to verification). For these purposes, the complement of a haircut or documentation exception percentage is defined as 1 minus the haircut or documentation exception percentage. For example, if the haircut is 0.25 or 25%, the complement of the haircut is $1 - 0.25 = 0.75$ or 75%.

(iv) Valuation Basis for Securities

The valuation basis for a Security is its market value, based on prices obtained by the Bank from third-parties or from any other source deemed appropriate by the Bank. If the Bank is unable to

obtain a price for a particular Security, the Bank may value such Collateral on a case-by-case basis using a method chosen by the Bank in its sole discretion.

(v) Valuation Basis for Loans

For Members on blanket collateral status and for Members on specific collateral only collateral status that deliver loans to a custodian, the valuation basis for loans is (i) the aggregate book value by type of loan *less* (ii) the principal balance of any loan delivered to the Bank by the Member or contained in a listing of Collateral provided by the Member *less* (iii) any ineligible loans.

For Customers on delivery collateral status and for Members on specific collateral only collateral status that deliver loans to the Bank, the valuation basis for loans delivered to the Bank may be the least of (i) the unpaid balance of the loan, (ii) the original balance of the loan, (iii) the appraised value of the property securing the loan, (iv) the value that is assessed by the Bank for the property, or (v) the discounted cash flow of the loan; provided, however, that the appraised value for construction loans delivered to the Bank will be the appraised value of the land only.

(vi) Ineligible Collateral

For Members on blanket collateral status and for Members on specific collateral only collateral status that deliver loans to a custodian, the Bank identifies ineligible loans through a trial balance review, which is described in more detail below, using codes provided by the Member. Ineligible loans are those that do not meet the Bank's requirements for eligible collateral as set forth above and as established by the Bank from time to time. The book value of any ineligible loans is subtracted from the book value of the relevant type of loan in determining the valuation basis of the Collateral.

(vii) Documentation Exception Percentages

During the trial balance review for Members on blanket collateral status and for Members on specific collateral only collateral status that deliver loans to a custodian, the Bank reviews each loan file in the sample to determine whether the file contains all required documents. The Bank then derives a documentation exception percentage by determining what percentage of the loan sample is missing required documents (by type of loan). For these Members, the Bank then multiplies the complement (as described in (iii) above) of this documentation exception percentage by the book value of that type of loan and its applicable discount when calculating the collateral value of the loans.

h. Collateral Maintenance Level

The level of Qualifying Collateral that a Customer is required to maintain (Collateral Maintenance Level) and, in turn, the terms on which it may receive Extensions of Credit, the type of lien that it is required to grant, and its collateral status, is determined by the Bank's credit underwriting criteria (see Section III.B, Availability of Credit).

i. Collateral Verification Guidelines

(i) Applicability

These collateral verification guidelines apply to all Members on blanket collateral status. Following the end of each calendar year, the Bank identifies Members that will be subject to collateral verifications during the coming year. Bank personnel conduct collateral verifications on two levels: trial balance reviews and onsite reviews. The level of collateral verification the Bank performs for a Member in a given calendar year is generally based on the daily average amount of the Member's blanket lien usage during the previous calendar year. A Member's blanket lien usage is calculated by determining on a daily basis during a calendar year the amount of outstanding Advances and other Extensions of Credit that is not secured by eligible loans, Securities, and Term Deposits delivered to the Bank.

The Bank does not require a collateral verification for a Member with no blanket lien usage during the prior calendar year. Typically, a Member will not have blanket lien usage during a calendar year because (i) it had no outstanding Advances or other Extensions of Credit to the Bank at any time during such calendar year, (ii) it was on delivery collateral status and was complying with the requirements of delivery collateral status, or (iii) it had at all times during such calendar year delivered to the Bank eligible loans, Securities, and Term Deposits with a collateral value that exceeded the Member's outstanding Advances and other Extensions of Credit.

A Member with blanket lien usage during the prior calendar year will be subject to a collateral verification conducted by Bank personnel. The Bank uses the following guidelines to determine the level of collateral verification required for a Member:

- Each year the Bank determines a threshold dollar amount that will capture Members holding a minimum of 80 percent of the aggregate blanket lien usage during the prior calendar year and then performs an annual onsite review for such Members.
- Any Member with blanket lien usage during the prior calendar year less than the 80 percent threshold amount described above but with an average daily blanket lien usage greater than \$200,000 will undergo a trial balance review annually and an onsite review every other year.
- Any Member with average daily blanket lien usage during the prior calendar year equal to or less than \$200,000 will undergo a trial balance review after the end of the third calendar year following the Member's most recent review provided the Member had average daily blanket lien usage that did not exceed the \$200,000 threshold during the three year period. If a Member has no average daily blanket lien usage during one or more of the years in the three year period, the Bank will not require a collateral verification for the Member. For example, a Member with average daily blanket lien usage of \$100,000 in year one and no average daily blanket lien usage during years two and three will not be subject to a collateral verification for any of the three years in question.

A Member's ineligible and document exception percentages are valid until the Member's next trial balance or onsite review occurs, except that they are no longer valid after the end of the third calendar year following the most recent review. The Bank will apply default ineligible and document exception percentages for Members that have not had a trial balance or onsite review, respectively, during that time period. These default percentages represent the median ineligible loan and documentation exception percentages derived from the results of all the onsite and trial balance reviews conducted during the previous year. New Members approved for blanket collateral status will receive the default documentation exception and ineligible loan percentages until the Bank conducts trial balance and onsite reviews.

The Bank charges Customers fees for trial balance and onsite reviews that are determined by the Bank from time to time, but does not charge a Member for the Member's first collateral verification. At any time, a Member not required to undergo a trial balance review or an onsite review may request that the Bank perform such a review to establish its own ineligible loan or documentation exception percentages. The Bank, however, has no obligation to perform a review under those circumstances and will honor the Member's request based on the availability of Bank personnel.

(ii) Subprime and Nontraditional Mortgage Collateral

As part of its collateral verifications, the Bank will monitor and adjust accordingly the value of its Members' subprime and nontraditional mortgage collateral in accordance with the Bank's Subprime and Nontraditional Mortgage Collateral Policy, attached hereto as Exhibit D. The collateral verification process will include steps to validate the Members' confirmation that subprime and nontraditional mortgage loans issued after July 10, 2007 were underwritten in conformance with the federal banking agencies' *Interagency Guidance on Nontraditional Mortgage Product Risk* (issued October 4, 2006) and *Subprime Mortgage Lending* (issued July 10, 2007). Any such mortgage loans for which the Bank cannot validate the Members' confirmation will be ineligible for collateral purposes.

(iii) Levels of Collateral Verification

(A) Trial Balance Review

The trial balance review is a review of a Member's detailed trial balance as of a date specified by the Bank to identify ineligible collateral, as described in the Collateral Verification Procedures which can be found on the Bank's website (www.fhfb.com). The proportion of loans in each category determined to be ineligible is known as the ineligible loan percentage.

(B) Onsite Review

The onsite review, which generally follows a trial balance review, occurs at the Member's place of business (or other place where the collateral is located) and involves a detailed review of representative samples of loan portfolios. The Bank uses the onsite review to identify documentation exceptions and ineligible loans and to calculate the Member's documentation exception percentage and ineligible loan percentage.

3. Other Limitations on Collateral

a. CFI Collateral Limited by Percent of Member's Tier 1 Capital

The combined amount of CFI Collateral and Other Real Estate Related Collateral securing Extensions of Credit to CFIs on either blanket collateral status or delivery collateral status may not exceed 300 percent of the CFI's Tier 1 capital.

b. Other Real Estate Related Collateral of LFI's Limited by Percent of Member's Tier 1 Capital

The amount of Other Real Estate Related Collateral securing Extensions of Credit to LFI's on either blanket collateral status or delivery collateral status may not exceed 300 percent of the LFI's Tier 1 capital.

IV. CORRESPONDENT SERVICES

The Bank's Correspondent Services offer efficient, simplified cash management. The Bank establishes DDAs for all Customers. A Customer's DDA is the primary transaction account for processing transactions between the Bank and a Customer. Customers can use SecureConnect to transfer funds between accounts, execute outgoing wire transfers, view statement and transaction activity, and view FR2900 reserves entry and reporting.

A. Deposit Account Services

1. Demand Deposit Accounts

a. Pricing and Fees

The Bank offers interest-bearing DDAs to all Customers. All collected balances earn a market interest rate so there is no need to transfer balances between accounts. The market interest rate is calculated on a daily basis at a spread to the average rate the Bank receives on its overnight investment portfolio. Please visit the Bank's website (www.fhlb.com) for details regarding the fees charged for various DDA services.

b. Uses of Demand Deposit Accounts

The Bank's DDAs offer centralized account handling with the flexibility to accommodate all types of transactions. The Customer may have separate accounts for different kinds of transactions or for different branch offices. Typical uses of DDAs include:

- General operating accounts;
- MPF settlement accounts;

- Dividend and interest accounts;
- Settlement accounts;
- Loan disbursement accounts;
- Payroll accounts;
- Escrow accounts; and
- Zero balance accounts.

2. Term Deposits

The Bank offers fixed rate and variable rate non-callable and callable deposits with maturities ranging from overnight to 10 years. Customers may invest in these deposits by contacting the Bank. In addition, the deposits are generally offered to Borrowers on a weekly basis via auctions that are conducted on SecureConnect.

The auctions are conducted through the Bank's SecureConnect web portal. Auction participants are able to view all auction bids and bid accordingly. The result is a convenient means for Borrowers to invest their excess liquidity and earn a competitive return. Selected maturity ranges and terms are offered at each auction. All interest payments are deposited into Borrowers' DDAs. The auctions are announced via the Bank's website (www.fhfb.com) and on SecureConnect. The auctions are available **ONLY** to Borrowers that are connected to the SecureConnect network.

a. Features of Term Deposits

(i) Fixed Rate Deposit

The fixed rate-fixed term deposit offers a fixed coupon and a fixed maturity. The fixed rate-fixed term deposit auction provides Borrowers with an investment alternative to the traditional money market options and short term investments. There are no broker fees. The deposits are withdrawn from the Borrower's DDA and redeposited at maturity.

(ii) Variable Rate Deposit

The Bank's variable rate deposit offers Borrowers an option to invest funds for a specific term and receive a variable interest rate return. The variable rate deposit's interest rate will adjust, based on the selected index, such as the New York Fed Effective Fed Funds Rate or one month LIBOR plus or minus an applicable spread. The variable rate deposit allows Borrowers to take advantage of interest rate moves in the markets over a specific term.

(iii) Callable Deposits

All callable deposits have a fixed coupon, a stated maturity date, and a call provision that gives the Bank the right to call the deposit at par (redeem the deposit for cash at its face value plus accrued interest) on any specified call date prior to its stated maturity date. Additional information regarding callable deposits is available on SecureConnect.

(iv) Other Features Common to All Term Deposits

If a deposit matures or is called on a day other than a Business Day, the principal plus interest due will be credited to the Borrower's DDA the following Business Day. Interest will be calculated through the day preceding the call or maturity date of the deposit.

b. Pricing

The Bank prices all fixed rate, callable and non-callable, and variable rate deposits relative to the liabilities the Bank issues or can issue in the capital markets.

B. FR2900 Reserves

Member thrifts and banks which are required by law to maintain reserves against specific deposits may find the Bank's FR2900 Reserve Pass-Through Services useful. In order to begin taking advantage of these services, the Member, as applicable, and the Bank must establish a pass-through relationship by completing the Federal Reserve Bank's Pass-Through Agreement. Once this pass-through relationship is established, the Bank's Correspondent Operations Department will provide information on the status of reserves balances to the Member and ensure that the Member's reserve requirements with the Federal Reserve Bank are met. On a weekly basis, the Bank adjusts each Member's reserve account balance to ensure that all requirements are met. Reports can be produced to inform Members of their current and projected reserve account requirements. The fees and charges for this service are set forth in the Correspondent Services Product Guide which is available on the Bank's website (www.fhfb.com).

1. Quarterly Reporters

Quarterly reporters do not need to send their FR2900 reports to the Bank. The Bank receives a report from the Federal Reserve Bank showing each quarterly respondent's requirement. Reserve balances are adjusted to the Member's DDA on the appropriate day.

2. Weekly Reporters

Weekly reporters may either fax or input, through SecureConnect, their FR2900 reports weekly. Faxed reports must be received by 2:30 p.m. on Wednesday of each week. The Bank will project the appropriate balances held at the Federal Reserve Bank and make the necessary adjustments to the Member's DDA.

C. Federal Reserve Bank Settlement Services

The Bank acts as a correspondent to settle Automated Clearing House items, direct deposits, treasury, tax and loan charges, coin and currency, and other transactions conducted with or through any Federal Reserve Bank, regardless of location. Before this service may be provided, a Borrower must complete a Transaction Settlement Authorization, which instructs the Federal Reserve Bank to settle transactions in the Bank's account at such Federal Reserve Bank.

Settlement debits and credits pass through the Bank's account at the Federal Reserve Bank and are then posted to the DDA designated by the Borrower as a same day settlement.

D. Wire Transfers

The Bank's comprehensive wire transfer service allows Customers to execute wire transfer transactions (both domestic and international) through their DDA and receive same-day credit on all incoming funds transfers.

1. Types of Wire Transfers

The Bank offers the following five types of wire transfer transactions all of which may be executed through SecureConnect:

a. Repetitive Wire Transfers

A repetitive wire transfer is typically established by a Customer if (i) funds are moved regularly between two specific accounts and (ii) the Customer has established payment instructions for a receiving institution. Repetitive wire transfers contain predefined information established by the Customer which cannot be altered. Once a repetitive wire transfer has been established, only the dollar amount of a funds transfer may be changed.

In order to establish and execute a repetitive wire transfer, the Bank must have an assigned repeat code on file for such particular repetitive wire transfer. A repeat code will be assigned to a particular repetitive wire transfer once (i) the Customer completes and submits to the Bank's Wire Transfer Department a Repetitive Wire Transfer Form and (ii) the predefined data from this Form is entered into the Bank's systems. The repeat code allows the Customer to access the predefined data on a repetitive basis without having to re-enter the data.

b. Semi-repetitive Wire Transfers

A semi-repetitive wire transfer is useful when a Customer wants to initiate the same basic wire transfer but needs to alter more than just the dollar amount each time. The Repetitive Wire Transfer Form is also used to establish semi-repetitive wire transfers.

c. Non-repetitive Wire Transfers

Non-repetitive wire transfers are executed individually, and require completion of all information for execution of the wire transfer. These wire transfers do not have assigned repeat codes. Secondary authorization is required for all non-repetitive wire transfers.

d. Internal Wire Transfers

Internal wire transfers are performed by moving funds from one DDA of the Customer into another DDA of such Customer. Internal wire transfers may be initiated through SecureConnect or phoned in to the Wire Transfer Department.

e. Drawdown Requests

Drawdown requests are wire transfer requests sent by a Customer to initiate a wire transfer from its own account. Drawdown requests are also known as reverse wires or self wire transfers.

f. Office of Foreign Asset Control (“OFAC”)

All wire transfer transactions are subject to the provisions of the U.S. Treasury’s regulations under OFAC.

2. Pricing

Please refer to the current Correspondent Services Product Guide for detail regarding fees and pricing.

V. SAFEKEEPING SERVICES

A. Custodial Agent for Customers

The Bank acts as a custodial agent for Customers in securities transactions for all types of publicly traded financial instruments. Upon receipt of instructions via fax, e-mail or electronic transmission, the Bank executes the settlement, the receipt, or the delivery of securities through its master custodian. Principal and interest payments, redemptions, and maturities on securities held by the Bank are posted to a Customer’s DDA. The Bank also acts on behalf of its securities customers to aid in the timely resolution of questions relating to the securities being held.

1. Types of Services

a. Security Trade Settlement Processing

The Bank will provide security trade settlement processing for all Federal Reserve book-entry, DTC (Depository Trust Company), or physical securities via the Required Trade Information Form which is available in the Securities Safekeeping Guide and on the Bank’s website (www.fhlb.com). Each security settlement requiring a payment transaction is applied against the Customer’s DDA, thereby eliminating the need for separate broker accounts.

b. Security Transfer Processing

A Customer may transfer securities from its main account to one of its subaccounts or from one of its subaccounts to its main account. This process does not allow for partial movement of a holding, or the transfer of holdings pledged as collateral to the Bank or a third party.

c. Notification of Maturing Pledged Securities

Prior to the maturity date of a security that is pledged to a third party, a “Maturing Pledged Security Notice” is sent to the Customer. On the “Maturing Pledged Security Notice” the Customer will indicate whether it wishes to have the pledge of the security released or substitute the maturing security with another security as described on the “Maturing Pledged Security Notice.” In either case, the Customer will need to complete the Form of Release of Pledged Collateral with the required signatures in order to receive the funds from the maturing security. The Form of Release of Pledged Collateral is on the Bank’s website (www.fhlb.com).

If the Customer indicates on the “Maturing Pledged Security Notice” that it is substituting the maturing security with another security, all rights and obligations of the Customer, the Bank, and the pledgee under the Bank’s Form of Custodial Agreement and Confirm, including the grant of a security interest in such Collateral in favor of the pledgee as set forth in the Custodial Agreement and Confirm, shall automatically apply to the substituted security. The Form of Custodial Agreement and Confirm is on the Bank’s website (www.fhlb.com).

d. Claims Processing

The Bank’s Safekeeping Department provides timely resolution of payment problems involving principal and interest, maturities, calls, or other transactions that have the potential to reduce income flow to the Customer. The Bank will also notify a Customer if there are any changes in income for a security.

e. Securities Information

Upon a Customer’s request, the Bank’s Safekeeping Department will verify that a Customer’s securities are not listed as stolen or lost. A SIC Missing/Lost/Stolen/Counterfeit Securities form is available and can be completed online through SecureConnect.

f. Research

At the request of a Customer which should be made using the Bank’s Form of Research Request, the Safekeeping Department of the Bank will research questions concerning payments on securities held for a Customer. This research includes, among others, researching received or missing payments. A Research Request Form is available online through SecureConnect or on the Bank’s website (www.fhlb.com).

2. Pricing

For detail regarding pricing and fees, please see the Bank’s Securities Safekeeping Guide which is available on the Bank’s website (www.fhlb.com).

B. Collateral

The Bank, acting as agent, accepts the receipt of Securities as collateral for Customers' Extensions of Credit. These Securities are analyzed and assigned a collateral value by the Bank based on the market price of the Securities, the outstanding principal balance of the Securities, and the applicable haircut. A market price is assigned to each Security through the Bank's use of a third party vendor of securities prices. If a market price for a Security is not available from the securities prices vendor, the Bank may assign a market price to the Security. Once a collateral value has been assigned to a Security, the Security is available to be pledged to secure Extensions of Credit.

C. Third-Party Custodian

The Bank, acting as a custodian, accepts the receipt of securities and Standby Letters of Credit from its Customers as collateral for the benefit of third parties. Under this arrangement, a Customer pledges securities or a Standby Letter of Credit to a third party and instructs the Bank to hold such securities or Standby Letter of Credit for the benefit of the third party. Typically, a Customer enters into this arrangement to collateralize uninsured deposits (amounts greater than \$100,000) that a public or municipal entity has on deposit at such Customer's institution.

1. Securities

The Bank agrees to act as a third-party custodian for securities pledged by a Customer to a third party pursuant to the terms and conditions of the Bank's Form of Custodial Agreement and Confirm which is executed by the Customer, the third party, and the Bank, as custodian. Pursuant to such agreement and the Bank's unique numeric code reporting system, a Customer can instruct the Bank to pledge and/or segregate all or part of an identified security to a specified third party. The Bank also offers subaccounts for Customers to segregate securities.

A copy of the Custodial Agreement and Confirm as well as instructions for establishing this tri-party arrangement is provided in the Securities Safekeeping Guide on the Bank's website (www.fhfb.com).

2. Letters of Credit

The Bank agrees to act as a third-party custodian for custodial Standby Letters of Credit delivered by a Customer to the Bank for the benefit of a public or municipal depositor pursuant to the terms and conditions of the Bank's Form of Agreement to Secure Public Unit Deposits which is executed by the Customer, a public or municipal depositor, and the Bank, as custodian. Under this arrangement, a Customer uses all or a portion of a custodial Standby Letter of Credit issued by the Bank to secure a public or municipal depositor's deposits with such Customer. The Bank issues this custodial Standby Letter of Credit in favor of the Bank, as a custodian for each of the public or municipal depositors to which the Customer has allocated a portion of the custodial Standby Letter of Credit. As a result of this arrangement, the Customer can use one custodial Standby Letter of Credit as collateral to secure public unit deposits for multiple depositors and can change the amount of the custodial Standby Letter of Credit allocated to a

particular depositor as deposits increase or decrease without the need for a new Standby Letter of Credit.

For additional information regarding this custodial Standby Letter of Credit, please see Section III.A.2. (Standby Letters of Credit and Confirmations) of this Policy.

VI. COMMUNITY INVESTMENT

The Bank has established a number of CICA programs, as described below. The Bank provides funds under its CICA programs to assist its Borrowers with community lending and development targeted to benefit certain individuals or organizations.

The Bank provides CICA funds to Members through grants of direct cash payments or Advances. CICA funds to Housing Associates and State Housing Finance Agencies are provided through Advances. CICA Advances are subject to the Bank's standard requirements for Advances, such as providing Qualifying Collateral, as discussed elsewhere in this Policy.

The individual or organization that is the ultimate recipient of CICA funds must meet certain eligibility requirements set forth in the Regulations, this Policy and in any documents published by the Bank relating to a CICA program.

In addition to the CICA programs described below, the Bank may from time to time offer other CICA programs to benefit certain individuals or organizations.

A. Affordable Housing Program

1. Purpose

The Bank through its AHP provides either grants or Subsidized Advances to Members to assist Members in providing affordable housing for eligible households in the communities served by the Bank's Members. Members partner with Project Sponsors to develop these affordable housing projects.

AHP funds may be used to finance the acquisition (including financing for down payment and closing costs), construction and/or rehabilitation of owner-occupied and rental housing for eligible households.

2. Qualifications

Only the Bank's Members may apply for AHP funds. Housing Associates and State Housing Finance Agencies may not apply for AHP funds.

To qualify for AHP funds, an affordable housing project must meet certain eligibility requirements outlined in the Regulations and in the Implementation Plan. For an owner-occupied AHP project, the AHP funds must benefit households whose income does not exceed 80% of the Area Median Income. For a rental AHP project, the AHP funds must benefit

households in at least 20% of the units of the project whose income does not exceed 50% of the Area Median Income.

3. Funding

Members may submit applications for AHP funds during funding periods established by the Bank in the Implementation Plan. The Bank notifies Members when applications for AHP funds may be submitted.

The Bank scores all applications for AHP funds pursuant to the scoring guidelines in the Implementation Plan. The Bank, following an initial scoring of submitted applications, may, in its discretion, review only the applications that score high enough to be awarded AHP funds or to be an alternate for AHP funds, plus the Bank may in its discretion review a number of additional applications, to determine if those applications meet the eligibility requirements outlined in the Regulations and in the Implementation Plan. After applications are reviewed and the scoring is confirmed, applications are ranked in descending order and AHP funding is allocated, subject to the Bank's Implementation Plan, beginning with the highest-scoring applications until all available AHP funds for the funding period, except for any amount insufficient to fund the next highest-scoring application, are exhausted.

Members and Project Sponsors that are awarded AHP funds must provide the Bank with current information about the affordable housing project prior to receiving any disbursement of AHP funds from the Bank for that project. Members and Project Sponsors will be required to file periodic status reports with the Bank to allow the Bank to determine whether satisfactory progress is being made toward use of AHP funds and toward completion of the affordable housing project.

Once the affordable housing project is complete, the Member and Project Sponsor must certify to the Bank that the project meets certain specified requirements. For certain rental projects, the Member and Project Sponsor must continue to submit reports to the Bank and participate in ongoing monitoring by the Bank during the period of time that the project must remain occupied by and Affordable for income-eligible households (fifteen years). For owner-occupied projects, the project must remain occupied by income-eligible households for a specified period of time (five years).

If the AHP funds are no longer being used for the purpose approved by the Bank, the amount of AHP funds committed by the Bank to the project but unused by the project will be recovered by the Bank from the Member or the Project Sponsor. If the Bank determines that AHP funds have been improperly used, the Bank may be required to recover the AHP funds from the Member or the Project Sponsor.

B. HELP

1. Purpose

As a subset of AHP, the Bank through its HELP program provides grants through its Members to provide funds to eligible first-time homebuyers for down payment and/or closing costs.

2. Qualifications

Only the Bank's Members may apply for HELP grants. Housing Associates and State Housing Finance Agencies may not apply for HELP grants.

To qualify for HELP grants, homebuyers must meet certain eligibility requirements outlined in the Regulations and in the Implementation Plan. The homebuyers must be first-time homebuyers whose income does not exceed 80% of the Area Median Income.

3. Funding

To participate in HELP, Members must submit a one-time HELP enrollment application and execute a HELP Agreement with the Bank. Thereafter, Members will be eligible to request HELP funds for eligible homebuyers by completing the Bank's required documents. HELP funds are available to Members each calendar year on a first-come, first-served, homebuyer-by-homebuyer basis until the HELP funds allocated for that year are exhausted or until December 31.

The Bank monitors its disbursements of HELP funds to determine that HELP funds were provided to eligible first-time homebuyers. Homes purchased with the assistance of HELP funds must remain occupied by income-eligible households for five years.

If the Bank determines that HELP funds have been improperly used, the Bank may be required to recover the HELP funds from the Member.

C. SNAP

1. Purpose

As a subset of AHP, the Bank through its SNAP program provides grants through its Members to provide funds to rehabilitate a single-family home that is used as a Special Needs household's primary residence.

2. Qualifications

Only the Bank's Members may apply for SNAP grants. Housing Associates and State Housing Finance Agencies may not apply for SNAP grants.

To qualify for SNAP grants, households must meet certain eligibility requirements outlined in the Regulations and in the Implementation Plan. At least one household member must meet the Bank's Special Needs definition. The household's income must not exceed 80% of the Area Median Income.

3. Funding

To participate in SNAP, Members must submit a one-time SNAP enrollment application and execute a SNAP Agreement with the Bank. Thereafter, Members will be eligible to request SNAP funds for eligible households by completing the Bank's required documents. SNAP funds are available to Members each calendar year on a first-come, first-served, household-by-household basis until the SNAP funds allocated for that year are exhausted or until December 31.

The Bank monitors its disbursements of SNAP funds to determine that SNAP funds were provided to eligible Special Needs households. Homes rehabilitated with the assistance of SNAP funds must remain occupied by income-eligible households for five years.

If the Bank determines that SNAP funds have been improperly used, the Bank may be required to recover the SNAP funds from the Member.

D. Community Investment Program

1. Purpose

The Bank through its CIP provides at-cost Advances to Members to assist Members in funding affordable housing for eligible households. CIP Advances may be used for a number of purposes including, but not limited to, financing the purchase, construction and/or rehabilitation of owner-occupied and rental housing for eligible households. CIP Advances must be used to fund the Member's permanent financing to the underlying household or project.

Members may also receive CIP pricing for Standby Letters of Credit and Confirmations that will be used to fund affordable housing for eligible households. CIP-priced Standby Letters of Credit and Confirmations are subject to the Bank's standard requirements for Standby Letters of Credit and Confirmations, as discussed elsewhere in this Policy.

Unless otherwise stated, CIP Advances and CIP-priced Standby Letters of Credit and Confirmations will be referred to collectively as "CIP Advances."

2. Qualifications

Only the Bank's Members may apply for CIP Advances. Housing Associates and State Housing Finance Agencies may not apply for CIP Advances.

To qualify for CIP Advances, households must meet certain eligibility requirements outlined in the Regulations and in the Bank's CIP guidelines and application. For individual owner-occupied housing properties, the CIP Advance must benefit households with incomes at or below 115% of the Area Median Income. For multiple units of owner-occupied housing or for rental properties, at least 51% of the households must have incomes at or below 115% of the Area Median Income. The CIP Advance must be for financing for permanent loans that have closed in the past 90 days or that will be originated in the next 180 days from the date of the commitment.

3. Funding

CIP Advances are available to Members throughout the year. A Member must complete a written application to apply for a CIP Advance. After the Bank funds the CIP Advance, the Member must provide a transaction verification form to the Bank to show that the benefit of the CIP Advance was passed through to the qualifying household.

Advances under the CIP program are available in terms ranging from three months to thirty years. The term of the CIP Advance cannot exceed the term of any permanent financing that the Member is making to the project. The Advance can be fixed rate or floating rate, amortizing or nonamortizing.

The Bank prices CIP Advances at interest rates below the Bank's standard pricing and SecureConnect pricing for Advances with comparable maturities. Members must limit their mark-up of the interest rate on loans made using CIP Advances to 300 basis points on owner-occupied housing development projects and 400 basis points on rental housing development projects.

The Bank will guarantee the interest rate for a qualified CIP Advance upon payment by the Member of a commitment fee. The Bank will from time to time establish the commitment fees for CIP Advances, which commitment fees may differ depending on whether the commitment is mandatory or optional or based on the term of the commitment. The project must have required permanent funding in the past 90 days or must require permanent funding within the next 180 days from the date of the commitment.

If the Bank determines that the CIP Advance has been improperly used, the Bank may convert the interest rate on the CIP Advance to the market interest rate for a comparable Advance at the time the Bank makes such determination. The market interest rate will remain in place for the remaining term of the CIP Advance.

E. Economic Development Program

1. Purpose

The Bank through its EDP provides at-cost Advances to Borrowers to assist Borrowers in funding qualified economic and commercial development projects benefiting or located in certain communities. EDP Advances may be used for a number of purposes including, but not limited to, construction, small business financing, public works projects, and historic preservation. EDP Advances must be used to fund the Borrower's permanent financing to the underlying project.

Borrowers may also receive EDP pricing for Standby Letters of Credit and Confirmations that will be used to fund qualified projects. EDP-priced Standby Letters of Credit and Confirmations are subject to the Bank's standard requirements for Standby Letters of Credit and Confirmations, as discussed elsewhere in this Policy.

Unless otherwise stated, EDP Advances and EDP-priced Standby Letters of Credit and Confirmations will be referred to collectively as “EDP Advances.”

2. Qualifications

To qualify for an EDP Advance, the project must meet certain eligibility requirements outlined in the Regulations and in the Bank’s EDP guidelines and application. A project may qualify for an EDP Advance if (i) the project is located in a certain geographical area, (ii) the project is located in an area in which the majority of households have incomes at or below a specified percentage of the Area Median Income, (iii) the project will provide services that will benefit at least 51% of households with incomes at or below the qualifying percentage of the Area Median Income or (iv) the project will create and/or retain jobs for low- to moderate-income individuals. The EDP Advance must be for financing for a project that required financing in the past 90 days or that will require financing in the next 180 days from the date of the commitment.

3. Funding

EDP Advances are available to Borrowers throughout the year. A Borrower must complete a written application to apply for an EDP Advance. After the Bank funds the EDP Advance, the Borrower must provide a transaction verification form to the Bank to show that the benefit of the EDP Advance was passed through to the qualifying project.

Advances under the EDP program are available in terms ranging from three months to thirty years. The term of the EDP Advance cannot exceed the term of any permanent financing that the Borrower is making to the project. The Advance can be fixed rate or floating rate, amortizing or nonamortizing.

The Bank prices EDP Advances at interest rates below the Bank’s standard pricing and SecureConnect pricing for Advances with comparable maturities. Borrowers must limit their mark-up of the interest rate on loans made using EDP Advances to 400 basis points.

The Bank will guarantee the interest rate for a qualified EDP Advance upon payment by the Borrower of a commitment fee. The Bank will from time to time establish the commitment fees for EDP Advances, which commitment fees may differ depending on whether the commitment is mandatory or optional or based on the term of the commitment. The project must have required permanent funding in the past 90 days or must require permanent funding within the next 180 days from the date of the commitment.

If the Bank determines that the EDP Advance has been improperly used, the Bank may convert the interest rate on the EDP Advance to the market interest rate for a comparable Advance at the time the Bank makes such determination. The market interest rate will remain in place for the remaining term of the EDP Advance.

F. EDP^{Plus}

1. Purpose

The Bank through its EDP^{Plus} program provides grants through Members to small businesses as defined by the Small Business Administration. EDP^{Plus} funds must be used in conjunction with an EDP Advance made to a Member that will benefit the small business. EDP^{Plus} funds provide working capital needed by the small business.

2. Qualifications

A Small Business Development Center or other small business development organization must refer a small business for EDP^{Plus} funds. The small business must meet certain requirements as outlined in the Bank's EDP^{Plus} guidelines and application.

3. Funding

The Bank allocates a certain dollar amount of EDP^{Plus} funds each year. EDP^{Plus} funds are available to Members on a first-come, first-served, business-by-business basis until the EDP^{Plus} funds allocated for that year are exhausted. A Member must complete a written application to apply for EDP^{Plus} funds. The small business owner must submit semi-annual status reports to the Bank for three years after the small business owner receives the EDP^{Plus} funds.

If the Bank determines that the EDP^{Plus} funds have been improperly used, the Bank may be required to recover the EDP^{Plus} funds from the Member or the small business.

G. Partnership Grant Program

1. Purpose

The Bank through its Partnership Grant Program provides grants through Members to nonprofit community-based organizations involved in affordable housing, community lending and economic development in the District. Partnership Grant Program funds provide funding for the operational needs of these community-based organizations.

2. Qualifications

The community-based organization must meet certain requirements as outlined in the Bank's Partnership Grant Program guidelines and application, including that the community-based organization must have an operating budget of \$200,000 or less and must have been in business ten years or less.

3. Funding

The Bank allocates a certain dollar amount of Partnership Grant Program funds each year. The Bank accepts applications for Partnership Grant Program funds on or before a date specified by the Bank. Partnership Grant Program funds are awarded on a first-come, first-served, organization-by-organization basis until the funds allocated for that year are exhausted. A Member and the community-based organization requesting the Partnership Grant Program funds must complete a written application to apply for Partnership Grant Program funds. The amount of Partnership Grant Program funds awarded by the Bank is based on the contribution made by the Member to the community-based organization; the Bank will match fund a Member's contribution of \$500 to \$5,000 at a 3:1 ratio, not to exceed \$15,000.

In order to assess the effectiveness of the Partnership Grant Program, each community-based organization receiving Partnership Grant Program funds will be required to submit a report to the Bank in the year following the year in which the Partnership Grant Program Funds were provided to the organization. The report must contain specific information on how the Partnership Grant Program funds were used to help fulfill the organization's objectives.

If the Bank determines that the Partnership Grant Program funds have been improperly used, the Bank may be required to recover the Partnership Grant Program funds from the Member or the community-based organization.

H. Disaster Relief Program

1. Purpose

The Bank through its Disaster Relief Program provides Advances to Borrowers to assist with financing projects that assist in the recovery efforts in federal or state declared disaster areas in the District. Disaster Relief Program Advances are available for a period designated by the Bank following a federal or state declared disaster in the District. Disaster Relief Program Advances may be used for a number of purposes including, but not limited to, funding residential or commercial properties, community facilities, equipment and inventory or personal property.

Borrowers may also receive Disaster Relief Program pricing for Standby Letters of Credit and Confirmations that will be used to fund qualified projects. Disaster Relief Program-priced Standby Letters of Credit and Confirmations are subject to the Bank's standard requirements for Standby Letters of Credit and Confirmations, as discussed elsewhere in this Policy.

Unless otherwise stated, Disaster Relief Program Advances and Disaster Relief Program-priced Standby Letters of Credit and Confirmations will be referred to collectively as "Disaster Relief Program Advances."

2. Qualifications

Borrowers located in or with branch offices in a federal or state declared disaster area in the District may apply for Disaster Relief Program Advances on behalf of individuals and organizations whose homes or businesses were damaged or destroyed. Disaster Relief Program Advances may aid (i) individuals with incomes at or below 165% of the Area Median Income,

(ii) businesses located in communities in which the average family income is at or below 165% of the Area Median Income, or (iii) businesses that will create jobs for individuals with incomes at or below 165% of the Area Median Income.

3. Funding

A Borrower must complete a written application to apply for a Disaster Relief Program Advance. After the Bank funds the Disaster Relief Program Advance, the Borrower must provide a transaction verification form to the Bank to show that the benefit of the Disaster Relief Program Advance was passed through to the individual or business.

Advances under the Disaster Relief Program are available in terms ranging from overnight to thirty years. The term of the Disaster Relief Program Advance cannot exceed the term of any loan that the Borrower is making to the project. The Advance can be fixed rate or floating rate, amortizing or nonamortizing.

Disaster Relief Program Advances are priced below the Bank's regular CIP Advance interest rates. Borrowers must limit their mark-up of the interest rate on a loan using a Disaster Relief Program Advance to 300 basis points on owner-occupied housing development projects, 400 basis points on rental housing development projects and 400 basis points on economic development projects.

The Bank will guarantee the interest rate for a qualified Disaster Relief Program Advance upon payment by the Borrower of a commitment fee. The Bank will from time to time establish the commitment fees for Disaster Relief Program Advances, which commitment fees may differ depending on whether the commitment is mandatory or optional or based on the term of the commitment. The Borrower must request the commitment within a period designated by the Bank following a federal or state declared disaster in the District.

If the Bank determines that the Disaster Relief Program Advance has been improperly used, the Bank may convert the interest rate on the Disaster Relief Program Advance to the market interest rate for a comparable Advance at the time the Bank makes such determination, which market interest rate will remain in place for the remaining term of the Disaster Relief Program Advance.

I. Limitations

1. Limit on CICA Advances to Borrowers

CICA Advances may not exceed, at the time the CICA Advance is approved, the lesser of (i) 15% of a Borrower's total assets or (ii) \$200 million.

2. Percent of CICA Advances to Percent of Bank's Total Advances

The aggregate amount of the Bank's CICA Advances to all Customers may not exceed 5% of the Bank's total outstanding Advances.

VII. ASSETCONNECTION®

AssetConnection is an electronic communications system that was developed by the Bank to facilitate the transfer of financial and other assets among Borrowers. Types of assets that may be transferred include mortgage and other secured loans or loan participations. In its initial phase, AssetConnection is a listing service that allows Borrowers to list assets available for sale or interests in assets to purchase. In this form, the Bank does not take a position in any of the assets listed, nor does the Bank offer any form of endorsement or guarantee related to the assets being listed. All transactions must be negotiated and consummated between principals. AssetConnection is accessed through the Internet.

A. Purpose

The purpose of AssetConnection is to enhance the liquidity of mortgage loans and other assets by providing a mechanism to balance the needs of those member institutions with excess loan capacity and those with more asset demand than capacity.

B. Pricing

The fees for postings on AssetConnection are available to registered users on the Fee Structure page accessible on the AssetConnection homepage. At the time a Borrower posts an offer to purchase or sell an asset on AssetConnection, such Borrower will have an opportunity to review and accept the fees that will be charged for the use of AssetConnection.

VIII. MISCELLANEOUS

A. Audit Confirmations

A Customer that requires information from the Bank related to an audit should complete the Bank's Form of Audit Confirmation Request. Upon receipt of a completed Audit Confirmation Request, the Bank will provide the information requested in a timely manner.

B. Operations and Systems

The Chief Executive Officer of the Bank is responsible for the maintenance of appropriate systems, procedures, internal controls and operational and personnel capacity to ensure the maintenance of appropriate systems, procedures, internal controls, and operational and personnel capacity. The Chief Executive Officer of the Bank relies on experts from areas such as Banking Operations and Support Services, Corporate Communications, Member Sales and Capital Markets, Accounting, Legal, Research and Planning, and Risk Management. The Chief Risk Officer is responsible for the development of the methodology for measuring credit, market and operational risks. The Director of Internal Audit is responsible for determining the effectiveness and integrity of the controls, that the policies and delegated responsibilities are actually being followed, and the resulting processes are effective.

C. Contact Information

For additional copies of this Policy or related materials, please contact the Member Sales and Capital Markets Group at the Bank.

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Website: www.fhlb.com

EXHIBITS

Exhibit A – Definitions
Exhibit B – Prepayment Fee Policy
Exhibit C – Anti-Predatory Lending Policy
Exhibit D – Subprime Lending Policy

EXHIBIT A

DEFINITIONS

Acquired Member Assets or **AMA** means specified assets that may be acquired by the Bank from or through Members or Housing Associates by means of either a purchase or a funding transaction, subject to certain requirements.

Act means the Federal Home Loan Bank Act, as amended from time to time.

Advance means a loan or advance from the Bank to a Member or Housing Associate.

Affiliate means any business entity that controls, is controlled by, or is under common control with, a Member.

Affordable means -

- (1) the rent charged to a household for a unit that is to be reserved for occupancy by a household with an income at or below 80% of the Area Median Income, does not exceed 30% of the income of a household of the maximum income and size expected, under the commitment made in the AHP application, to occupy the unit (assuming occupancy of 1.5 persons per bedroom or 1.0 person per unit without a separate bedroom); or
- (2) the rent charged to a household, for rental units subsidized with Section 8 assistance under 42 U.S.C. § 1437f or subsidized under another assistance program where the rents are charged in the same way as under the Section 8 program, if the rent complied with this definition of Affordable at the time of the household's initial occupancy and the household continues to be assisted through the Section 8 or another assistance program, respectively.

AHP means the Bank's Affordable Housing Program, through which the Bank provides grants or Subsidized Advances to Members and Project Sponsors to assist in the development of affordable owner-occupied and rental housing for very low-, low- and moderate-income families through a District-wide competition.

Anti-Predatory Lending Laws means applicable federal, state, and local anti-predatory lending laws and the laws, regulations, orders, interpretations, agreements, and other similarly binding documents issued or enforced by a Member's primary regulator designed to prevent or regulate predatory lending practices and loan terms.

APL Policy means the Bank's Anti-Predatory Lending Policy as set forth in Exhibit C of this Policy.

Applicant means an institution that is applying for membership in the Bank or for certification as a Housing Associate.

Appropriate Federal Banking Agency means –

- (1) the OCC, in the case of any national banking association or any Federal branch or agency of a foreign bank;
- (2) the FRB, in the case of –
 - (A) any State member insured bank,
 - (B) any branch or agency of a foreign bank with respect to any provision of the Federal Reserve Act (12 U.S.C. § 221 et seq.) that is made applicable under the International Banking Act of 1978 (12 U.S.C. § 1301 et seq.),
 - (C) any foreign bank that does not operate an insured branch,
 - (D) any agency or commercial lending company other than a Federal agency,
 - (E) supervisory or regulatory proceedings arising from the authority given to the FRB under Section 7(c)(1) of the International Banking Act of 1978 (12 U.S.C. § 3105(c)(1)), including such proceedings under the Financial Institutions Supervisory Act of 1966, and
 - (F) any bank holding company and any subsidiary of a bank holding company (other than a bank),
- (3) the FDIC in the case of a State nonmember insured bank, or a foreign bank having an insured branch,
- (4) the OTS in the case of any federally chartered Savings Association or any savings and loan holding company, and
- (5) for federally-insured Credit Unions, the NCUA.

Appropriate Regulator means the FDIC, FRB, NCUA, OCC, OTS, or an Appropriate State Regulator and, in the case of an insurance company, an Appropriate State Regulator accredited by the National Association of Insurance Commissioners.

Appropriate State Regulator means any state officer, agency, supervisor, or other entity that has regulatory authority over, or is empowered to institute enforcement action against, a particular institution.

Area Median Income means, with respect to a particular area, –

- (1) for purposes of the Bank’s AHP, HELP and SNAP, the median income for the area as determined by HUD (with adjustments for family size); and
- (2) for purposes of the Bank’s other CICA programs, the median income for the area for a family of four, as determined by HUD.

AssetConnection® means the Bank’s online bulletin board, designed to give Members a place to post listings for buying or selling a variety of different assets. AssetConnection® is a registered trademark of the Bank.

Bank means the Federal Home Loan Bank of Dallas.

Beneficiary means the person or entity in favor of whom a Standby Letter of Credit or Confirmation is used and who is entitled under the terms of the Standby Letter of Credit or Confirmation to draw or demand payment.

Board means the Bank's Board of Directors.

Borrower means a Member, a Housing Associate or a State Housing Finance Agency.

Business Day means any day that the Bank is open for business.

Capital Deficient Member means a Member that fails to meet its minimum regulatory capital requirements as defined or otherwise required by the Member's Appropriate Federal Banking Agency, Insurer or, in the case of Members that are not federally Insured Depository Institutions, State Regulator.

Capital Plan means the Capital Plan for the Federal Home Loan Bank of Dallas, as amended from time to time.

Capital Stock means all of the Class B Stock of the Bank held by a Member or Non-Member Borrower and all payments that have been or hereafter are made on account of subscriptions to and all declared and unpaid dividends on such Class B Stock.

CFI or Community Financial Institution means an institution -

- (1) the deposits of which are insured under the Federal Deposit Insurance Act (12 U.S.C. § 1811, *et seq.*) and
- (2) that has, as of the date of the transaction at issue, less than the CFI Asset Cap in total assets over three years, which shall be calculated by the Bank
 - (A) for membership purposes, based on the average of total assets drawn from the institution's Regulatory Financial Reports filed with its Appropriate Regulator for the most recent calendar quarter and the immediately preceding eleven (11) calendar quarters and
 - (B) for Advances purposes (i) based on the average of total assets drawn from the institution's Regulatory Financial Reports filed with its Appropriate Regulator for the three most recent calendar year-ends and (ii) annually, and shall be effective April 1 of each year.

CFI Asset Cap means the greater of (a) \$1,000,000,000 and (b) the cap on average total assets of an institution most recently published by the Director in the Federal Register.

CFI Collateral has the meaning specified in Section III.C.2.b.ix of this Policy.

CICA means the Bank's Community Investment Cash Advance programs, including AHP, CIP, HELP, SNAP, Partnership Grant Program, EDP, EDP^{Plus}, Disaster Relief Program, and any other Advance or grant program offered by the Bank to benefit certain individuals or organizations.

CIP means the Bank's Community Investment Program, through which the Bank provides at-cost Advances designed to provide Members with low-cost funds for affordable housing for eligible households.

Class B Stock means Class B Capital Stock, \$100 par value per share, of the Bank.

Collateral means -

- (1) First Mortgage Collateral,
- (2) Other Real Estate Related Collateral,
- (3) Capital Stock,
- (4) Term Deposits,
- (5) Securities,
- (6) Small Business Administration Guaranteed Loans,
- (7) CFI Collateral,
- (8) all securities representing undivided equity interests in any of the above categories of Collateral, and
- (9) all other property as may be accepted by the Bank as collateral from time to time pursuant to the terms of the Bank's borrowing agreement.

Collateral Maintenance Level means the level of Collateral a Borrower is required to maintain, designated by the Bank as a percentage of a Borrower's outstanding indebtedness to the Bank.

Confirmation means an undertaking by the Bank to a Beneficiary, at the request or with the consent of a Member or Housing Associate, under the terms of the confirmation, to honor a draw or demand for payment under a letter of credit already issued by a Member or Housing Associate.

CRC means the Bank's Credit Review Committee.

Credit Union means a credit union as defined in Section 101 of the Federal Credit Union Act (12 U.S.C. § 1752).

Critical Capital Cushion means, for the most recent calendar quarter that a Member's Regulatory Financial Report filed with its Appropriate Regulator is available to the Bank, the least of the calculated differences between (1) each of a Member's regulatory capital ratios, adjusted for charge offs of all nonperforming assets, including, without limitation, other real estate owned, and (2) the applicable corresponding PCA standard for adequate capitalization. For example, if a Member has two regulatory capital ratios, adjusted for charge offs of all nonperforming assets, including, without limitation, other real estate owned, of 6% and 6.2%, and the two applicable corresponding PCA standards for adequate capitalization are 4.0% and 8.0%, respectively, such Member's Critical Capital Cushion would be a negative 1.8%.

Customer means a Member, a Housing Associate, a State Housing Finance Agency or a Non-Member Borrower.

DDA means a demand Deposit Account.

De Novo Applicant means an Applicant that is an Insured Depository Institution whose date of charter approval is within three years prior to the date the Bank receives the Applicant's application for membership.

Deposit Account means any and all of the deposit accounts of a Member with the Bank, including, without limitation, all cash and other funds therein.

Depository Institution means a bank, Savings Association, or Credit Union.

Director means the Director of the Finance Agency.

Disaster Relief Program means the Bank's CICA through which the Bank provides Advances to Members and Housing Associates to assist with financing projects that assist in the recovery efforts in federal or state declared disaster areas in the District.

District means the Ninth District of the Federal Home Loan Bank System, comprised of the states of Arkansas, Louisiana, Mississippi, New Mexico, and Texas.

EDP means the Bank's Economic Development Program, through which the Bank offers at-cost Advances to Members and Housing Associates that are making loans for economic and commercial development projects benefiting or located in certain communities.

EDP^{Plus} means the Bank's Economic Development Program ^{Plus}, through which the Bank provides grants to small businesses in conjunction with EDP Advances.

Excess Stock means Class B Stock in excess of a Member's minimum investment requirement established in the Capital Plan.

Exchange Act means the Securities Exchange Act of 1934, as amended from time to time.

Extension of Credit means an Advance, an overdraft, a Standby Letter of Credit, a Confirmation, an interest rate derivative, an obligation under the MPF Program (including, without limitation, a credit enhancement obligation), or other extension of credit from the Bank to a Member or Housing Associate.

Fannie Mae means the Federal National Mortgage Association.

FDIC means the Federal Deposit Insurance Corporation or any successor regulator.

FHLBank means a Federal Home Loan Bank.

Finance Agency means the Federal Housing Finance Agency, an independent regulatory agency of the executive branch of the United States Government that regulates the FHLBanks, Fannie Mae, and Freddie Mac, or any successor regulator.

FIRREA means the Financial Institutions Reform, Recovery and Enforcement Act of 1989.

First Mortgage Collateral has the meaning specified in Section III.C.2.b.i of this Policy.

FRB means the Board of Governors of the Federal Reserve System or any successor regulator.

Freddie Mac means the Federal Home Loan Mortgage Corporation.

GAAP or **Generally Accepted Accounting Principles** means accounting principles generally accepted in the United States.

GAAS or **Generally Accepted Auditing Standards** means auditing standards generally accepted in the United States.

Ginnie Mae means the Government National Mortgage Association.

GLB Act means the Gramm-Leach-Bliley Act of 1999.

Governmental Agency means the governor, legislature, and any other component of a federal, state, local, tribal, or Alaskan native village government with authority to act for or on behalf of that government.

GSE means government-sponsored enterprise.

HELP means the Bank's Homebuyer Equity Leverage Partnership Program, through which the Bank provides grants for down payment and closing costs of eligible first-time homebuyers.

Housing Associate means an entity that has been certified by the Bank as a Housing Associate and may obtain Advances and other products and services from the Bank if certain requirements are met. An entity may be certified as a Housing Associate if –

- (1) the entity is approved under Title II of the National Housing Act (12 U.S.C. § 1707, et seq.),
- (2) the entity is a chartered institution having succession,
- (3) the entity is subject to the inspection and supervision of some Governmental Agency,
- (4) the principal activity of the entity in the mortgage field consists of lending its own funds, and
- (5) the financial condition of the entity is such that Advances may be safely made to it.

HUD means the United States Department of Housing and Urban Development.

Implementation Plan means the written AHP Implementation Plan adopted by the Board of the Bank as in effect from time to time.

Insured Depository Institution means –

- (1) an insured depository institution (as defined in Section 3 of the Federal Deposit Insurance Act (12 U.S.C. § 1813)), and
- (2) except as used in Sections 21A and 21B of the Act, an insured credit union (as defined in Section 101 of the Federal Credit Union Act (12 U.S.C § 1752)).

Insurer means the FDIC for Insured Depository Institutions, as defined by Section 3(c)(2) of the Federal Deposit Insurance Act (12 U.S.C. § 1813(c)(2)), and the NCUA for federally-insured Credit Unions.

IRC means the Internal Revenue Code of 1986, as amended from time to time.

LFI or **Large Financial Institution** means an institution that exceeds the CFI Asset Cap or deposits of which are not insured under the Federal Deposit Insurance Act (12 U.S.C. § 1811, *et seq.*).

LIBOR means the London Interbank Offered Rate.

LOC Applicant means a person or entity at whose request or for whose account a Standby Letter of Credit or Confirmation is issued.

Member means an institution that has been approved for membership in the Bank, has purchased Class B Stock in the Bank, and continues to be a Member of the Bank.

MPF® Program means the Mortgage Partnership Finance® Program through which the Bank may purchase mortgage loans from qualifying Members. Mortgage Partnership Finance® and MPF® are registered trademarks of the MPF Provider.

MPF Provider means the Federal Home Loan Bank of Chicago or any successor.

NCUA means the National Credit Union Administration or any successor regulator.

Non-Member Borrower means

- (1) an institution that is no longer a Member but has Extensions of Credit outstanding or
- (2) an institution that is not a Member and has acquired a Member (or former Member) and assumed the Extensions of Credit held by that Member (or former Member)

NRSRO means a nationally recognized statistical rating organization, defined as a credit rating agency that –

- (1) has been in business as a credit rating agency for at least the three consecutive years immediately preceding the date of its application for registration under Section 15E of the Exchange Act;
- (2) issues credit ratings certified by qualified institutional buyers with respect to (A) financial institutions, brokers or dealers; (B) insurance companies; (C) corporate issuers; (D) issuers of asset-backed securities; (E) issuers of government securities, municipal securities or securities issued by a foreign government; or (F) a combination of one or more categories of obligors described in any of clauses (A) through (E); and
- (3) is registered under Section 15E of the Exchange Act.

OCC means the Office of the Comptroller of the Currency or any successor regulator.

Other Real Estate Related Collateral has the meaning specified in Section III.C.2.b.vi of this Policy.

OTS means the Office of Thrift Supervision or any successor regulator.

Partnership Grant Program means the Bank's CICA through which the Bank provides grants to help fund the operational needs of nonprofit community-based organizations within the District.

Par Value means the par value of the Bank's Class B Stock (\$100 per share).

PCA means prompt corrective action standards, as determined by a Federal banking agency or the FDIC.

PMI means private mortgage insurance.

Policy means this Member Products & Credit Policy.

Privately-issued Residential Mortgage-Backed Securities has the meaning specified in Section III.C.2.b.iii of this Policy.

Product and Service Guides means the Advances Products Guide, the Implementation Plan, the Affordable Housing Program Funding Manual, the Homebuyer Equity Leverage Partnership Program Funding Manuals, the Community Investment Program Housing Advance Guidelines and Application, the Economic Development Program Community Lending Advance Guidelines and Application, the Disaster Relief Program Housing and Community Lending Advance Guidelines and Application, the Partnership Grant Program Guidelines and Application, the Economic Development Program Plus Small Business Grant and Advance Guidelines and Application, the Safekeeping Guide, the Correspondent Services Guide, the Federal Reserve Pass-Through Circular, the Securities Safekeeping Circular, the Settlement Circular, the Security Access Circular, and all other policies, bulletins, schedules, guides, and circulars made available to Customers, each as are in effect from time to time.

Project Sponsor means a not-for-profit or for-profit organization or public entity that partners with a Member in the development of an AHP project and otherwise qualifies as a "project sponsor" under the Regulations and the Implementation Plan.

Provision Expense Percentage means the average for the most recent calendar quarter and the immediately preceding six (6) calendar quarters of the ratio, expressed as a percentage, of a Member's provision for loan and lease losses divided by net interest income, each as reported on a Member's Regulatory Financial Reports filed with its Appropriate Regulator for the applicable calendar quarter, as such reports are available to the Bank.

PV means present value, defined as the amount that a future sum of money is worth today given a specified rate of return.

Qualifying Collateral means Collateral that qualifies as security for Extensions of Credit under the Act and the Regulations and that satisfies any requirements that may be established by the Bank, including those requirements set forth in Section III.C.2 of this Policy.

Regulations means the regulations promulgated by the Director or its predecessor agencies, located at 12 C.F.R. parts 900 through 998.

Regulatory Examination Report means a written report of examination prepared by an Applicant's or Member's Appropriate Regulator, containing, in the case of Insured Depository Institution Applicants or Members, a composite rating assigned to the institution following the guidelines of the Uniform Financial Institutions Rating System, including a CAMEL rating, a MACRO rating, or other similar rating.

Regulatory Financial Report means a financial report that an Applicant or Member is required to file with its Appropriate Regulator on a specific periodic basis, including the quarterly call report for commercial banks, thrift financial report for Savings Associations, quarterly or semi-annual call report for Credit Unions, the National Association of Insurance Commissioners' annual or quarterly report for insurance companies, or other similar report, including such report maintained by the Appropriate Regulator on a computer on-line database.

Return on Equity means the average for the most recent calendar quarter and the immediately preceding six (6) calendar quarters of the ratio, expressed as a percentage, of a Member's net income after taxes and extraordinary items divided by the average of a quarter's beginning and ending total equity, each as reported on a Member's Regulatory Financial Reports filed with its Appropriate Regulator for the applicable calendar quarter, as such reports are available to the Bank.

Savings Association means a savings association as defined in Section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. § 1813(b)).

SecureConnect means the Bank's secure on-line communication channel through which the Bank provides access to many of its products, services, and reports.

Securities means –

- (1) for Members, (i) U.S. Government and Federal Agency Securities, (ii) Privately-issued Residential Mortgage-backed Securities, (iii) State or Municipal Securities and (iv) other securities, each as described in Section III.C.2.b. of this Policy;
- (2) for Housing Associates, insured securities, as described in Section III.C.2.d of this Policy; and
- (3) for State Housing Finance Agencies using the proceeds of an Advance to facilitate mortgage lending in compliance with 12 C.F.R. § 950.17(b)(2), (i) U.S. Government and Federal Agency Securities and (ii) Privately-issued Residential Mortgage-backed Securities.

Short Option Advance means any Advance in which a Member or Housing Associate grants the Bank any of one or more types of options to terminate the Advance. The Regulations refer to a Short Option Advance as a “puttable” or “convertible” Advance (12 C.F.R. § 950.5(d)).

Small Business Administration Guaranteed Loans has the meaning specified in Section III.C.2.b.v of this Policy.

SNAP means the Bank’s Special Needs Assistance Program, through which the Bank provides grants to provide funds to rehabilitate a single-family home that is used as a Special Needs household’s primary residence.

Special Needs means households with elderly, mentally or physically disabled persons, persons recovering from physical, alcohol or drug abuse, or persons with HIV/AIDS.

Standby Letter of Credit means a definite undertaking by the Bank to a Beneficiary, at the request of or for the account of an LOC Applicant, under the terms of the standby letter of credit, to honor a draw or demand for payment by the Beneficiary.

State Housing Finance Agency means –

- (1) a public agency, authority, or publicly sponsored corporation that serves as an instrumentality of any state or political subdivision of any state and functions as a source of residential mortgage loan financing in that state; or
- (2) a legally established agency, authority, corporation, or organization that serves as an instrumentality of any Indian tribe, band, group, nation, community, or Alaskan Native village recognized by the United States or any state, and functions as a source of residential mortgage loan financing for the Indian or Alaskan Native community.

State or Municipal Securities has the meaning specified in Section III.C.2.b.vii of this Policy.

State Regulator means a state insurance commissioner or state regulatory entity with primary responsibility for supervising a Member that is not a federally Insured Depository Institution.

Subsidized Advance means an Advance to a Member at an interest rate reduced below the Bank’s cost of funds by use of a subsidy.

Tangible Capital means –

- (1) capital, calculated according to GAAP, less “intangible assets” except for purchased mortgage servicing rights to the extent such assets are included in a member’s core or Tier 1 capital, as reported in the Member’s Thrift Financial Report, for Members whose primary federal regulator is the OTS, or as reported in the Report of Condition and Income for Members whose primary federal regulator is the FDIC, the OCC or the FRB.
- (2) capital calculated according to GAAP, less intangible assets, as defined by the Bank for Members that are not regulated by the OTS, the FDIC, the OCC or the

FRB; provided that a Bank shall include a Member's purchased mortgage servicing rights to the extent such assets are included for the purpose of meeting regulatory capital requirements.

Term Deposit means a deposit of a Member or Housing Associate with the Bank that offers the Member or Housing Associate a fixed rate of interest for a specific term.

U.S. Government and Federal Agency Securities has the meaning specified in Section III.C.2.b.ii of this Policy.

EXHIBIT B

PREPAYMENT FEE POLICY

These examples in this Prepayment Fee Policy are illustrative only. All prepayment fee amounts shown in the examples include only the prepayment fees and exclude any accrued and unpaid interest and other amounts, if any, contractually payable pursuant to the provisions of the applicable Advance or the Bank's borrowing agreement applicable to that Customer. If there is any conflict between the examples and the other provisions of this Policy, the other provisions of this Policy shall control.

Customers can prepay all Advances for a prepayment fee at any time with at least 24 hours' notification to the Bank.

In no event will the prepayment fee be less than zero. The total amount paid to the Bank by the Customer will be equal to or greater than the remaining outstanding principal balance and any accrued and unpaid interest and other amounts, if any, contractually payable pursuant to the provisions of the applicable Advance or the Bank's borrowing agreement applicable to that Customer.

Fixed Rate, Nonamortizing Advances

The prepayment fee is calculated as the PV of the difference between –

- (1) each interest payment that would have been payable on the Advance (if it had not been prepaid) at the interest rate currently being paid on the Advance for the period commencing on the date of the prepayment of the Advance and ending on the maturity date of the Advance

and

- (2) each interest payment the Bank would receive by investing the amount of the Advance being prepaid in U.S. Agency securities at the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance for the period commencing on the date of the prepayment of the Advance and ending on the maturity date of the Advance.

The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance being prepaid will serve as the discount rate for calculating the PV of the difference in interest payments.

If the Customer prepays an Advance when the interest rate on the Advance is less than or equal to the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance, no prepayment fee is due.

Example: Fixed Rate, Nonamortizing Advance

A \$2,000,000 fixed rate, nonamortizing Advance with an interest rate of 7.00 percent and an original term of eight years is prepaid after three years. The market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a maturity equal to the remaining term of the Advance (five years) is 6.00 percent.

Original Advance Terms:

Advance principal:	\$2,000,000
Advance interest rate:	7.00%
Advance term:	8 years

Prepayment Fee Parameters:

Remaining term on prepayment date:	5 years (60 months)
Market yield (U.S. Agency Fair Market Curve):	6.00%

Prepayment Fee Calculation:

Difference between Advance interest rate and market yield (7.00% - 6.00%):	1.00%
Monthly difference in interest payments to Bank (\$2,000,000 * 1.00% / 12):	\$1,666.67
Discount rate (U.S. Agency Fair Market Curve):	6.00%
Monthly discount rate (6.00% / 12):	0.500%

Prepayment Fee (PV of 60 decreased interest payments of \$1,666.67, discounted at a monthly discount rate of 0.500%):	\$86,209
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Principal Repayment:	\$2,000,000
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Total Amount Paid to Bank (excluding accrued interest) (principal repayment + prepayment fee):	\$2,086,209
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Fixed Rate, Amortizing Advances

The prepayment fee is calculated as the difference (if positive) between –

- (1) the remaining principal balance of the Advance on the prepayment date
and
- (2) the PV of the remaining cash flows of the Advance (the monthly principal and interest payment) on the prepayment date, using a discount rate of the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a duration equal to the duration of the remaining cash flows of the Advance.

If the Customer prepays an Advance when the interest rate on the Advance is less than or equal to the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a duration equal to the duration of the remaining cash flows of the Advance, no prepayment fee is due.

Example: Fixed Rate, Amortizing Advance

A \$500,000 fixed rate, amortizing Advance with an interest rate of 6.00 percent, a monthly payment of \$4,219.28 and an original term of 15 years is prepaid after two years. The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a duration equal to the duration of the remaining cash flows (principal plus interest) of the Advance (4.5 years) is 5.00 percent.

Original Advance Terms:

Advance principal:	\$500,000
Advance interest rate:	6.00%
Advance monthly payment:	\$4,219.28
Advance term:	15 years

Prepayment Fee Parameters:

Remaining term on prepayment date:	13 years (156 months)
Duration of remaining cash flows:	4.5 years

Prepayment Fee Calculation:

Discount rate (U.S. Agency Fair Market Curve):	5.00%
Monthly discount rate (5.00% / 12):	0.416666%
PV of remaining cash flows of the Advance (PV of 156 payments of \$4,219.28, discounted at a monthly discount rate of 0.416666%):	\$483,275
Remaining principal balance of the Advance on the prepayment date:	\$456,275

Prepayment Fee (PV of remaining cash flows minus remaining principal balance): **\$27,000**

Principal Repayment: **\$456,275**

Total Amount Paid to Bank (excluding accrued interest) (principal repayment + prepayment fee): **\$483,275**

Floating Rate Advances

To calculate the base prepayment fee on a floating rate Advance, the Bank first converts the floating rate Advance into a comparable fixed rate Advance. The Bank determines the interest rate for the comparable fixed rate Advance by adding (i) the spread above or below the index rate used to determine the interest rate of the floating rate Advance (for example, -0.05% if the interest rate on the floating rate Advance were five basis points below three-month LIBOR) and (ii) the then-current market yield for an interest rate swap with the same remaining term to maturity as the floating rate Advance.

After determining the interest rate for a comparable fixed rate Advance, the base prepayment fee is calculated as the PV of the difference (if positive) between –

- (1) each interest payment that would have been payable on the floating rate Advance (if it had not been prepaid) at the fixed interest rate

and

- (2) each interest payment the Bank would receive by investing the amount of the floating rate Advance being prepaid in U.S. Agency securities at the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the floating rate Advance for the period commencing on the date of the prepayment of the floating rate Advance and ending on the maturity date of the floating rate Advance.

The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the floating rate Advance being prepaid will serve as the discount rate for calculating the PV of the difference in interest payments.

If the Customer prepays a floating rate Advance when the comparable fixed interest rate on the Advance is less than or equal to the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance, no prepayment fee is due.

If the base prepayment fee is calculated for a floating rate Advance on a date other than a scheduled interest rate reset date for the Advance, and the index rate has declined between the most recent reset date and the date on which the Advance is prepaid, the total prepayment fee will include (in addition to the base prepayment fee) an amount equal to the PV of the difference in interest due at the next interest rate reset date attributable to the change in the index rate. The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the floating rate Advance will serve as the discount rate for calculating the PV of the difference in interest payments. If the index rate has remained the same or increased between the most recent reset date and the date on which the Advance is prepaid, no index rate change fee will be charged.

Example: Floating Rate Advance

A \$2,000,000 floating rate Advance with an interest rate that resets quarterly to three-month LIBOR minus 5 basis points and an original term of eight years (96 months) is prepaid after three years and one month (37 months). The market yield for an interest rate swap having a maturity equal to the remaining term to maturity of the Advance (59 months) is 5.10 percent.

The market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a maturity equal to the remaining term to maturity of the Advance (59 months) is 4.90 percent.

Three-month LIBOR has decreased from 2.75 percent to 2.5 percent since the Advance's previous interest rate reset date.

Original Advance Terms:

Advance principal:	\$2,000,000
Advance interest rate:	3-mo LIBOR - 5 basis points
Advance spread below index rate:	-0.05%
Advance term:	8 years

Base Prepayment Fee Parameters:

Remaining term on prepayment date:	59 months
Market yield (interest rate swap):	5.10%
Comparable fixed rate Advance interest rate (-0.05% + 5.10%):	5.05%
Market yield (U.S. Agency Fair Market Curve):	4.90%

Base Prepayment Fee Calculation:

Difference between comparable fixed rate Advance interest rate and market yield (U.S. Agency Fair Market Curve) (5.05% - 4.90%):	0.15%
Monthly difference in interest payments to Bank (\$2,000,000 * 0.15% / 12):	\$250
Discount rate (U.S. Agency Fair Market Curve):	4.90%
Monthly discount rate (4.90% / 12):	0.4083%

Base Prepayment Fee (PV of 59 decreased interest payments of \$250, discounted at a monthly discount rate of 0.4083%): **\$13,084**

Index Rate Change Fee Parameters:

Current three-month LIBOR rate:	2.5%
Three-month LIBOR rate at last reset date:	2.75%
LIBOR rate change:	-0.25%
Remaining term to next reset date:	2 months

Index Rate Change Fee Calculation:

Monthly difference in interest payments to Bank due to LIBOR rate change (\$2,000,000 x 0.25% / 12):	\$416.67
Discount rate (U.S. Agency Fair Market Curve):	4.90%
Monthly discount rate (4.90% / 12):	0.4083%

Index Rate Change Fee (PV of 2 decreased interest payments of \$417, discounted at a monthly discount rate of 0.4083%): **\$828**

Total Prepayment Fee (base prepayment fee + index rate change fee):	\$13,912
Principal Repayment:	\$2,000,000
Total Amount Paid to Bank (excluding accrued interest) (principal repayment + total prepayment fee):	\$2,013,912

Capped/Floored Floating Rate Advances

To calculate the base prepayment fee on a capped/floored floating rate Advance, the Bank first converts the floating rate Advance into a comparable fixed rate Advance. The Bank determines the interest rate for the comparable fixed rate Advance by adding (i) the spread above or below the index rate on a comparable term uncapped/unfloored floating rate Advance (for example, +0.06% if the interest rate on a comparable term uncapped/unfloored floating rate Advance were six basis points above three-month LIBOR) and (ii) the then-current market yield for an interest rate swap with the same remaining term to maturity as the floating rate Advance.

After determining the interest rate for a comparable fixed rate Advance, the base prepayment fee is calculated as the PV of the difference (if positive) between –

- (1) each interest payment that would have been payable on the amount of the Advance being prepaid (if it had not been prepaid) at the fixed interest rate

and

- (2) each interest payment the Bank would receive by investing the amount of the Advance being prepaid in U.S. Agency securities at the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance for the period commencing on the date of the prepayment of the Advance and ending on the maturity date of the Advance.

The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the floating rate Advance being prepaid will serve as the discount rate for calculating the PV of the difference in interest payments.

If the Customer prepays a floating rate Advance when the comparable fixed interest rate on the Advance is less than or equal to the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance, no prepayment fee is due.

If the base prepayment fee is calculated for a capped/floored floating rate Advance on a date other than a scheduled interest rate reset date for the Advance, and the index rate has declined

between the most recent reset date and the date on which the Advance is prepaid, the total prepayment fee will include (in addition to the base prepayment fee) an amount equal to the PV of the difference in interest due at the next interest rate reset date attributable to the change in the index rate. The then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining term to maturity as the Advance being prepaid will serve as the discount rate for calculating the PV of the difference in interest payments. If the index rate has remained the same or increased between the most recent reset date and the date on which the Advance is prepaid, no index rate change fee will be charged.

The total prepayment fee for a capped/floored floating rate Advance *will also* include the PV of the difference (if positive) between

- (1) the spread above or below the index rate of the floating rate Advance
- and
- (2) the spread above or below the index rate of a comparable term uncapped/unfloored floating rate Advance.

The then-current market yield for an interest rate swap with the same remaining term to maturity as the Advance being prepaid will serve as the discount rate for calculating the PV of the difference in index rate spreads.

The Bank will subtract from the prepayment fee any amount received by the Bank in connection with the termination of any hedge transaction associated with the Advance.

Example: Capped Floating Rate Advance

A \$2,000,000 floating rate Advance with an interest rate that resets quarterly to three-month LIBOR plus 20 basis points with the LIBOR index capped at 7.0% and an original term of five years (60 months) is prepaid after two years (24 months). The market yield for an interest rate swap having a maturity equal to the remaining term to maturity of the floating rate Advance (36 months) is 5.57 percent. The spread above three-month LIBOR on a comparable term uncapped floating rate Advance when the capped floating rate Advance was funded was 6 basis points.

The market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a maturity equal to the remaining term to maturity of the capped floating rate Advance is 5.63 percent.

Three-month LIBOR has decreased from 5.75 percent to 5.52 percent since the Advance's last interest rate reset date.

Original Advance Terms:

Advance principal:	\$2,000,000
Advance interest rate:	3-mo LIBOR + 20 basis points
Advance spread above index rate:	+0.20%

Advance term:	5 years
Base Prepayment Fee Parameters:	
Remaining term on prepayment date:	3 years (36 months)
Market yield (interest rate swap):	5.57%
Comparable term uncapped floating rate Advance interest rate:	3-mo LIBOR + 6 basis points
Comparable uncapped Advance spread above index rate:	0.06%
Comparable fixed rate Advance interest rate (5.57% + 0.06%):	5.63%
Market yield (U.S. Agency Fair Market Curve):	5.63%

Base Prepayment Fee Calculation:

Difference between comparable fixed rate Advance interest rate and market yield (U.S. Agency Fair Market Curve) (5.63% - 5.63%):	0.00%	
Monthly difference in interest payments to Bank (\$2,000,000 * 0.00% / 12):	\$0	
Base Prepayment Fee:		\$0

Index Rate Change Fee Parameters:

Current three-month LIBOR rate:	5.52%
Three-month LIBOR rate at last reset date:	5.75%
LIBOR rate change (5.52% - 5.75%):	-0.23%
Remaining term to next reset date:	3 months

Index Rate Change Fee Calculation:

Monthly difference in interest payments to Bank due to LIBOR rate change (\$2,000,000 x 0.23% / 12):	\$383.33	
Discount rate (U.S. Agency Fair Market Curve):	5.63%	
Monthly discount rate (5.63% / 12):	0.47%	
Index Rate Change Fee (PV of 3 decreased interest payments of \$383.33, discounted at a monthly discount rate of 0.47%):		\$1,139

Index Rate Spread Fee Parameters:

Advance interest rate:	3-mo LIBOR + 20 basis points
Advance spread above index rate:	+0.20%
Comparable term uncapped floating rate Advance interest rate:	3-mo LIBOR + 6 basis points
Comparable uncapped Advance spread above index rate:	+0.06%
Index rate spread difference (0.20% - 0.06%):	0.14%

Index Rate Spread Fee Calculation:

Monthly difference in interest payments to Bank due to

index rate spread difference (\$2,000,000 x 0.14% / 12):	\$233.33
Discount rate (market yield of interest rate swap):	5.57%
Monthly discount rate (5.57% / 12):	0.464%
Interest Rate Spread Fee (PV of 36 decreased interest payments of \$233.33, discounted at a monthly discount rate of 0.464%):	\$7,719
Termination Value of Hedge (paid to Bank) (termination value of 3-mo LIBOR 7% rate cap for three years (36 months)):	\$2,975
Total Prepayment Fee (base prepayment fee + index rate change fee + index rate spread fee – termination value of hedge):	\$5,883
Principal Repayment:	\$2,000,000
Total Amount Paid to Bank (excluding accrued interest) (principal repayment + total prepayment fee):	\$2,005,883

Example: Floored Floating Rate Advance

A \$2,000,000 floating rate Advance with an interest rate that resets quarterly to three-month LIBOR plus 22 basis points with the LIBOR index floored at 4.50% and an original term of five years (60 months) is prepaid after two years (24 months). The market yield for an interest rate swap having a maturity equal to the remaining term to maturity of the floating rate Advance (36 months) is 5.378 percent. The spread above three-month LIBOR on a comparable term unfloored floating rate Advance when the floored floating rate Advance was funded was 8 basis points.

The market yield derived from the U.S. Agency Fair Market Curve for a U.S. agency security having a maturity equal to the remaining term to maturity of the floored floating rate Advance is 5.21 percent.

Three-month LIBOR has increased from 5.35 percent to 5.36 percent since the Advance's last interest rate reset date.

Original Advance Terms:

Advance principal:	\$2,000,000
Advance interest rate:	3-mo LIBOR + 22 basis points
Advance spread above index rate:	+0.22%
Advance term:	5 years

Base Prepayment Fee Parameters:

Remaining term on prepayment date:	3 years (36 months)
Market yield (interest rate swap):	5.378%
Comparable term unfloored floating rate Advance	

interest rate:	3-mo LIBOR + 8 basis points
Comparable unfloored Advance spread above index rate:	0.08%
Comparable fixed rate Advance interest rate (5.378% + 0.08%):	5.458%
Market yield (U.S. Agency Fair Market Curve):	5.21%

Base Prepayment Fee Calculation:

Difference between comparable fixed rate Advance interest rate and market yield (U.S. Agency Fair Market Curve) (5.458% - 5.21%):	0.248%
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Monthly difference in interest payments to Bank (\$2,000,000 * 0.248% / 12):	\$413.33
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Discount rate (U.S. Agency Fair Market Curve):	5.21%
Monthly discount rate (5.21% / 12):	0.434%

Base Prepayment Fee (PV of 36 decreased interest payments of \$413.33, discounted at a monthly discount rate of 0.434%):	\$13,748
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Index Rate Change Fee Parameters/Calculation:

Current three-month LIBOR rate:	5.36%
Three-month LIBOR rate at last reset date:	5.35%
LIBOR rate change (5.36% - 5.35%):	+0.01%

Index Rate Change Fee:	\$0
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Index Rate Spread Fee Parameters:

Advance interest rate:	3-mo LIBOR + 22 basis points
Advance spread above index rate:	+0.22%
Comparable term unfloored floating rate Advance interest rate:	3-mo LIBOR + 8 basis points
Comparable unfloored Advance spread above index rate:	+0.08%
Index rate spread difference (0.22% - 0.08%):	0.14%

Index Rate Spread Fee Calculation:

Monthly difference in interest payments to Bank due to index rate spread difference (\$2,000,000 x 0.14% / 12):	\$233.33
Discount rate (market yield of interest rate swap):	5.378%
Monthly discount rate (5.378% / 12):	0.4481%

Interest Rate Spread Fee (PV of 36 decreased interest payments of \$233.33, discounted at a monthly discount rate of 0.4481%):	\$7,741
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Termination Value of Hedge (paid to Bank) (termination value of 3-mo LIBOR 4.50% rate floor for three years (36 months)):	\$5,000
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Total Prepayment Fee	
(base prepayment fee + index rate change fee + index rate spread fee – termination value of hedge):	\$16,489
Principal Repayment:	\$2,000,000
Total Amount Paid to Bank (excluding accrued interest)	
(principal repayment + total prepayment fee):	\$2,016,489

Prepayable Fixed Rate, Amortizing and Nonamortizing Advances

A fixed rate, amortizing or nonamortizing Advance that is designated as prepayable (i.e., callable at the option of the Customer) at the time the Bank funds the Advance may be prepaid without a fee after a specified period of time (the option period). The Bank charges a market-determined fee for the right to prepay a fixed rate, amortizing or nonamortizing Advance, which fee is incorporated into the interest rate of the Advance.

If the Customer prepays the Advance prior to the end of the option period, the Bank charges a prepayment fee.

For a fixed rate, amortizing Advance that is designated as prepayable, the prepayment fee is calculated the same as the prepayment fee for a fixed, rate amortizing Advance that is not designated as prepayable (as discussed above), except that the Bank uses the **expected** remaining term of the Advance (the expected remaining term equals the duration of the Advance adjusted for the prepayment option) to determine the appropriate discount rate.

For a fixed rate, nonamortizing Advance that is designated as prepayable, to calculate the base prepayment fee, the Bank first converts the Advance into a comparable fixed rate, nonamortizing Advance using the **expected** remaining term of the Advance being prepaid (the expected remaining term equals the duration of the Advance adjusted for the prepayment option). The Bank determines the interest rate for the comparable fixed rate, nonamortizing Advance by adding (i) the spread above or below the index rate used to determine the interest rate of the Advance being prepaid (for example, 20 basis points if the interest rate on the Advance being prepaid is LIBOR plus 20 basis points) and (ii) the then-current market yield for an interest rate swap with a maturity equal to the **expected** remaining term of the Advance being prepaid.

After determining the interest rate for the comparable fixed rate, nonamortizing Advance, the base prepayment fee is calculated as the PV of the difference (if positive) between –

- (1) each interest payment that would have been payable on the Advance being prepaid (if it had not been prepaid) at the comparable fixed interest rate
- and
- (2) each interest payment the Bank would receive by investing the amount of the Advance being prepaid in U.S. Agency securities at the then-current market yield

derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a maturity equal to the expected remaining term of the Advance being prepaid (i.e., the duration of the Advance adjusted for the prepayment option).

The current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a maturity equal to the expected remaining term of the Advance being prepaid (i.e., the duration of the Advance adjusted for the prepayment option) will serve as the discount rate for calculating the PV of the difference in interest payments.

After calculating the base prepayment fee, the Bank then subtracts from the base prepayment fee any amount received by the Bank in connection with the termination of any hedge transaction associated with the Advance being prepaid. The resulting amount is the prepayment fee the Customer will owe to the Bank.

Example: Prepayable fixed rate, nonamortizing Advance (i.e., callable at the option of the Customer)

A \$6,000,000 fixed-rate, nonamortizing Advance designated as prepayable (i.e., callable at the option of the Customer) with an original term of 3 years, an option period of 2 years and an interest rate of LIBOR plus 20 basis points is prepaid after 15 months. The market yield for an interest rate swap having a maturity equal to the **expected** remaining term of the Advance (12 months) is 5.445 percent. The market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a maturity equal to the **expected** remaining term of the Advance (12 months) is 5.256 percent.

Original Advance Terms:

Advance principal:	\$6,000,000
Advance interest rate:	LIBOR + 20 basis points
Advance spread above index rate:	+0.20%
Advance term:	3 years

Base Prepayment Fee Parameters:

Expected remaining term:	12 months
Market yield (interest rate swap):	5.445%
Comparable fixed rate, nonamortizing Advance interest rate (0.20% + 5.445%):	5.645%
Market yield (U.S. Agency Fair Market Curve):	5.256%

Base Prepayment Fee Calculation:

Difference between the comparable fixed rate, nonamortizing Advance interest rate and market yield (U.S. Agency Fair Market Curve) (5.645% - 5.256%):	0.389%
Monthly difference in interest payments to Bank (\$6,000,000 x 0.389% / 12):	\$1,945
Discount rate (U.S. Agency Fair Market Curve):	5.256%
Monthly discount rate (5.256% / 12):	0.438%

Base Prepayment Fee (PV of 12 decreased interest payments of \$1,945, discounted at a monthly discount rate of 0.438%):	\$22,689
Termination Value of Hedge (paid to Bank) (termination of interest rate swap associated with the Advance):	\$5,220
Total Prepayment Fee (base prepayment fee – termination value of hedge):	\$17,469
Principal Repayment:	\$6,000,000
Total Amount Paid to Bank (excluding accrued interest) (principal repayment + total prepayment fee):	\$6,017,469

If the Advance is prepaid on any date after the two year option period, no prepayment fee is due.

Short Option Advances

Short Option Advances (also known as putable Advances) may be prepaid for a prepayment fee at any time with at least 24 hours' notification to the Bank.

To calculate the base prepayment fee, the Bank first converts the Short Option Advance into a comparable fixed rate, nonamortizing Advance using the expected remaining term of the Short Option Advance (i.e., the duration of the Short Option Advance adjusted for the Bank's option to terminate the Short Option Advance) as the deemed maturity date of the Short Option Advance. The Bank determinates the interest rate for the comparable fixed rate, nonamortizing Advance by adding (i) the spread above or below the index rate used to determine the interest rate of the Short Option Advance (for example, 5 basis points if the interest rate on the Short Option Advance is LIBOR plus 5 basis points) and (ii) the then-current market yield for an interest rate swap with a maturity equal to the expected remaining term of the Short Option Advance (i.e., the duration of the Short Option Advance adjusted for the Bank's option to terminate the Short Option Advance).

After determining the interest rate for the comparable fixed rate, nonamortizing Advance, the base prepayment fee is calculated as the PV of the difference (if positive) between –

- (1) each interest payment that would have been payable on the Short Option Advance (if it had not been prepaid) at the comparable fixed interest rate

and

- (2) each interest payment the Bank would receive by investing the amount of the Short Option Advance being prepaid in U.S. Agency securities at the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a maturity equal to the expected remaining term of the Short Option Advance (i.e., the duration of the Short Option Advance adjusted for the Bank's option to terminate the Short Option Advance).

The current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with a maturity equal to the expected remaining term of the Short Option Advance (i.e., the duration of the Short Option Advance adjusted for the Bank's option to terminate the Short Option Advance) will serve as the discount rate for calculating the PV of the difference in interest payments.

After calculating the base prepayment fee, the Bank then adds to the base prepayment fee any amount paid by the Bank in connection with the termination of any hedge transaction associated with the Short Option Advance. The resulting amount is the prepayment fee the Customer will owe to the Bank.

If the Bank exercises its option to terminate the Short Option Advance, the Bank will not charge a prepayment fee in connection with the Customer's payment of the Short Option Advance.

Example: Short Option Advance

A \$6,000,000 Short Option Advance with an original term of 10 years, an option period of 5 years and an interest rate of LIBOR plus 5 basis points is prepaid after 9 years. The market yield for an interest rate swap having a maturity equal to the **expected** remaining term of the Short Option Advance (9 months) is 5.307 percent. The market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security having a maturity equal to the **expected** remaining term of the Short Option Advance (9 months) is 5.314 percent.

Original Advance Terms:

Advance principal:	\$6,000,000
Advance interest rate:	LIBOR + 5 basis points
Advance spread above index rate:	0.05%
Advance term:	10 years

Base Prepayment Fee Parameters:

Expected remaining term:	9 months
Market yield (interest rate swap):	5.307%
Comparable fixed rate, nonamortizing Advance interest rate (0.05% + 5.307%):	5.357%
Market yield (U.S. Agency Fair Market Curve):	5.314%

Base Prepayment Fee Calculation:

Difference between the comparable fixed rate, nonamortizing Advance interest rate and market yield (U.S. Agency Fair Market Curve) (5.357% - 5.314%):	0.043%
Monthly difference in interest payments to Bank (\$6,000,000 x 0.043% / 12):	\$215
Discount rate (U.S. Agency Fair Market Curve):	5.314%
Monthly discount rate (5.314% / 12):	0.443%

Base Prepayment Fee (PV of 9 decreased interest payments)

of \$215, discounted at a monthly discount rate of 0.443%):	\$1,893
Termination Value of Hedge (paid by Bank) (termination of interest rate swap associated with the Advance):	\$10,200
Total Prepayment Fee (base prepayment fee + termination value of hedge):	\$12,093
Principal Repayment:	\$6,000,000
Total Amount Paid to Bank (excluding accrued interest) (principal repayment + total prepayment fee):	\$6,012,093

Non-Standard Advances

For an Advance for which a prepayment fee methodology is not otherwise defined by this Policy (a “non-standard Advance”), to calculate the base prepayment fee, the Bank first converts the non-standard Advance into a comparable fixed rate, nonamortizing Advance. The Bank determinates the interest rate for the comparable fixed rate, nonamortizing Advance by adding (i) the spread above or below the index rate used to determine the interest rate of the Advance being prepaid (for example, 20 basis points if the interest rate on the Advance being prepaid is LIBOR plus 20 basis points) and (ii) the then-current market yield for an interest rate swap with the same remaining maturity or duration (as applicable) as the non-standard Advance.

After determining the interest rate for the comparable fixed rate, nonamortizing Advance, the base prepayment fee is calculated as the PV of the difference (if positive) between –

- (1) each interest payment that would have been payable on the Advance (if it had not been prepaid) at the comparable fixed interest rate

and

- (2) each interest payment the Bank would receive by investing the amount of the Advance being prepaid in U.S. Agency securities at the then-current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining maturity or duration (as applicable) as the non-standard Advance.

The current market yield derived from the U.S. Agency Fair Market Curve for a U.S. Agency security with the same remaining maturity or duration (as applicable) as the non-standard Advance will serve as the discount rate for calculating the PV of the difference in interest payments.

The Bank then adds to or subtracts from, as applicable, the base prepayment fee any amount received or amount paid, as applicable, by the Bank in connection with the termination of any hedge transaction associated with the non-standard Advance.

EXHIBIT C

ANTI-PREDATORY LENDING POLICY

The Bank carries out its housing finance mission by serving as a source of liquidity for housing and community development needs. Predatory loan terms and lending practices are inconsistent with the Bank's housing finance mission and may expose the Bank to risk of assignee liability. This APL Policy is intended to protect the Bank and its shareholders from that risk and inform the Bank's members and other pledgors of the types of residential mortgage loans that the Bank has determined would be inconsistent with its housing finance mission to accept as collateral securing obligations to the Bank.

Residential Mortgage Loans Pledged to the Bank. Residential mortgage loans will not be eligible to secure advances from or other obligations to the Bank if they do not comply with all applicable federal, state and local anti-predatory lending laws, or if the residential mortgage loans:

- have, at the time of origination, annual percentage rates or points and fees exceeding the annual percentage rate or points and fees thresholds of the Home Ownership and Equity Protection Act of 1994 and its implementing regulations (Federal Reserve Board Regulation Z), as such annual percentage rates or points and fees thresholds may be adjusted from time to time; or,
- require prepayment penalties for early payoff beyond the first five years of the loan; or,
- require the borrower to obtain prepaid, single-premium credit life or similar insurance; or,
- contain mandatory arbitration clauses with respect to dispute resolution, to the extent that such requirements are prohibited by applicable state and federal Anti-Predatory Lending Laws.

Customers pledging residential mortgage loans to the Bank as collateral are responsible for avoiding all lending practices and loan terms that are not in compliance with this APL Policy, regardless of whether they originate or purchase the residential mortgage loans being pledged to the Bank. The Bank reserves the right to require evidence reasonably satisfactory to the Bank that residential mortgage loans pledged to the Bank do not violate applicable Anti-Predatory Lending Laws or this APL Policy. With respect to purchased residential mortgage loans, the Customer is responsible for conducting due diligence reasonably sufficient to support its certification and indemnification agreements with the Bank with regard to this APL Policy.

If the Bank knows or discovers that residential mortgage loans pledged to the Bank violate applicable anti-predatory lending laws or this APL Policy, the Bank may: provide zero collateral value for those residential mortgage loans or, where appropriate, deny the Customer the ability to secure obligations to the Bank with residential mortgage loans; require the Customer to substitute eligible or, as needed, ineligible collateral to secure its obligations; and require the

Customer to undertake a review of its policies, practices, and procedures for complying with the Bank's collateral policies.

The Bank will monitor Customers' compliance with applicable anti-predatory lending laws in part by reviewing Customers' examination reports and regulatory enforcement actions. The Bank will monitor compliance with the elements of this APL Policy that address specific loan characteristics by reviewing loan documents for samples of Customers' loans pledged to the Bank.

For Customers borrowing under the blanket lien, beginning in 2007 the Bank will monitor compliance with this policy as part of all on-site collateral verifications conducted in accordance with the Bank's verification policy described in the Section III.C.2.i of this Policy.

For Customers delivering residential mortgage loans to the Bank, the Bank will verify compliance of single family loans delivered in 2006 by reviewing loan documents for a single representative sample of loans from the aggregate portfolio of all single-family mortgage loans in the Bank's custody as of a single date during the fourth calendar quarter of 2006. Customers pledging loans selected as part of this sample will be required to provide the Bank the documents necessary for testing.

Beginning in 2007, samples of loans for each Customer with residential mortgage loans held in custody by the Bank will be tested annually for compliance with this APL Policy. To facilitate that testing, beginning January 1, 2007, documentation necessary for the Bank to test compliance with this APL Policy will be required for all single-family mortgages delivered into the Bank's custody.

Affiliates of Customers pledging collateral to the Bank must execute a written agreement with the Bank that: (1) certifies its understanding and compliance with this APL Policy and all applicable Anti-Predatory Lending Laws; (2) certifies it will substitute eligible collateral for any residential mortgage loans that do not comply in all material respects with applicable Anti-Predatory Lending Laws or this APL Policy; and (3) indemnifies, defends and holds the Bank harmless from and against all losses, damages, claims, actions, causes of action, liabilities, obligations, judgments, penalties, fines, forfeitures, costs and expenses, including, without limitation, legal fees and expenses, that result from the pledge of any residential mortgage loan that does not comply in all material respects with applicable Anti-Predatory Lending Laws or this APL Policy.

Residential Mortgage Securities Pledged to the Bank. Securities backed by residential mortgage loans that are issued or guaranteed by the U.S. government or an agency or instrumentality thereof, or that are rated in the highest category by a NRSRO, comply with the requirements of this APL Policy.

EXHIBIT D

SUBPRIME AND NONTRADITIONAL MORTGAGE COLLATERAL POLICY

The Bank has identified certain types of single-family residential mortgage collateral that may present increased risk to the Bank. Accordingly, the Bank will monitor the volume of subprime residential mortgage loans and nontraditional residential mortgage loans pledged by its Customers to secure Extensions of Credit. If the Bank determines that the level of subprime or nontraditional residential mortgage loans pledged by a Customer indicates a potentially heightened risk, the Bank will perform an extended review of the Customer which may result in the Bank imposing restrictions designed to mitigate the Bank's risk exposure.

Definitions. For purposes of this policy, the Bank defines subprime single-family residential mortgage loans as (i) loans made to borrowers with a FICO score of less than 620 or (ii) in the absence of a FICO score, loans having a loan-to-value ratio of greater than 90% (after taking into account mortgage insurance). Nontraditional residential mortgage loans, for purposes of this policy, include loans that allow borrowers to defer payment of principal or interest (as reported on FDIC Call Report Schedule RC-C, Memorandum Item 8.a; on OTS Thrift Financial Report Schedule LD, lines LD610 and LD620; or on NCUA Call Report Schedule A, section 2, line 16).

Identification of Borrowers. The Bank may initially identify a Customer as having a substantial concentration of subprime and/or nontraditional residential mortgage loans in any of the following ways:

Self Identification: A Customer may contact the Bank and ask the Bank to determine whether such Customer has a substantial concentration of subprime and/or nontraditional residential mortgage loans.

Identification Through Reports. The Bank will identify subprime and/or nontraditional residential mortgage loans by periodically reviewing the relevant data provided on the Customer's FDIC Call Report, OTS Thrift Financial Report, NCUA Call Report, or other similar report, as applicable.

Identification Through Collateral Verification. For a Customer on blanket collateral status, the Bank will identify subprime and/or nontraditional residential mortgage loan loans as part of the on-site collateral verifications the Bank conducts in accordance with this Policy.

Identification Through Delivered Collateral. For a Customer on delivery collateral status, the Bank will identify subprime and/or nontraditional residential mortgage loans as part of the Bank's review of the residential mortgage loans delivered to the Bank in accordance with this Policy.

Extended Credit Review.

If the Bank determines, based on its review of report data and/or its collateral review, that a Customer's portfolio of residential mortgage loans contains a high concentration of subprime and/or nontraditional residential mortgage loans, the Bank will perform a more detailed analysis

of that Customer to evaluate the Bank's risk. If, based on the Bank's detailed analysis, the Bank determines that the Customer's portfolio presents heightened risk to the Bank, the Bank will take the actions specified in paragraphs b., c., and f. below, and may take, among others, any one or more of the following actions specified in paragraphs a., d., and e., below:

- a. May deny the Customer the ability to secure obligations to the Bank with (i) any residential mortgage loans, (ii) residential mortgage loans originated by the Customer after July 10, 2007 that do not comply with the Final Interagency Guidance on Subprime Mortgage Lending, 72 Fed. Reg. 37569 (July 10, 2007), or (iii) residential mortgage loans originated by the Customer after October 4, 2006 that do not comply with such Customer's primary federal regulator's guidance on nontraditional residential mortgage loans as set forth in the Interagency Guidance on Nontraditional Mortgage Product Risks, 71 Fed. Reg. 58609 (October 4, 2006);
- b. Will assign a collateral value to residential mortgage loans of not greater than 55% (i.e. 45% haircut);
- c. Will determine, in its sole discretion, the applicable collateral valuation bases, which may vary from Customer to Customer based on the Bank's assessment of the relevant facts and circumstances;
- d. May require the Customer to list with the Bank or deliver to the Bank its residential mortgage loans;
- e. May conduct onsite collateral verifications more frequently than annually; and
- f. Will restrict the amount of residential mortgage loans securing obligations to the Bank to a multiple of the Customer's Tier 1 capital.

Member Certifications. As part of its collateral verifications and reviews, the Bank will require its Customers periodically to provide a certification indicating whether they are in compliance with all guidance issued by their federal and/or state regulator(s) on subprime residential mortgage lending and nontraditional residential mortgage lending.

Additional Requirements effective March 1, 2009 applicable to residential mortgage loans: Members will be required to execute a Confirmation that all subprime and nontraditional residential mortgage loans originated after July 10, 2007 comply with all aspects of the federal banking agencies' *Interagency Guidance on Nontraditional Mortgage Product Risk* (issued October 4, 2006) and *Subprime Mortgage Lending* (issued July 10, 2007 (collectively, the "Interagency Guidance")). Beginning January 1, 2010, the Bank will not be able to accept residential mortgage loans as collateral from any Member which has not executed the required Confirmation. Confirmation statements will be delivered by the Bank's collateral verification staff to all Members scheduled for an on-site collateral verification or a trial balance review in 2009. The collateral verification procedures will include steps designed to validate the Members' Confirmation statement. All Members not scheduled for an on-site collateral verification or a trial balance review will receive a Confirmation statement from the Bank via mail no later than March 31, 2009.

Additional Requirements effective March 1, 2009 applicable to Privately-issued Residential Mortgage-Backed Securities issued after July 10, 2007: The Bank will accept Privately-issued Residential Mortgage-Backed Securities issued after July 10, 2007 as collateral only if the Member can provide a copy of enforceable representations and warranties from the issuer of the security that the loans underlying the security were underwritten in conformance with all aspects of the Interagency Guidance. Alternatively, the Member may be able to assert and demonstrate (based on the security's prospectus or other related documentation) that the underlying loans were underwritten in conformance with the Interagency Guidance. The Bank will review each representation and warranty or assertion on a case-by-case basis to determine if the security is eligible as collateral. When the Bank has determined a security is eligible, the security will be eligible for all Members without further documentation requirements.

Transition rules applicable to Privately-issued Residential Mortgage-Backed Securities issued after July 10, 2007 which have previously been accepted as collateral by the Bank: Privately-issued Residential Mortgage-Backed Securities issued after July 10, 2007 which have been accepted as collateral by the Bank prior to March 1, 2009 will continue to be accepted as collateral if the Member can provide the necessary documentation that the underlying loans were underwritten in conformance with the Interagency Guidance by May 1, 2009. If the required documentation cannot be obtained, the Member will be required to make arrangements to ensure all Extensions of Credit are fully secured by other collateral by no later than December 31, 2009.