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## FEDERAL HOUSING FINANCE AGENCY



### NEWS RELEASE

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### **FHFA Reaffirms Undercapitalized Status of the Federal Home Loan Bank of Seattle**

Washington, DC – Federal Housing Finance Agency (FHFA) Acting Director Edward J. DeMarco today announced that he has reaffirmed the status of the Federal Home Loan Bank of Seattle (Seattle Bank) as “Undercapitalized” under the FHFA’s Prompt Corrective Action Regulation. This determination continues the restrictions currently imposed on the Federal Home Loan Bank of Seattle that prohibit it from redeeming or repurchasing any capital stock or paying any dividends. Acting Director DeMarco took this action because of uncertainty concerning collateral values and potential for future losses on the Seattle Bank’s private-label mortgage-backed securities portfolio.

Preliminary data indicate that the Federal Home Loan Bank of Seattle met all of its statutory and regulatory minimum capital requirements as of September 30, 2009. However, Acting Director DeMarco made the discretionary determination, authorized by statute, that the Seattle Bank is “Undercapitalized” because of several factors, including the possibility that modest declines in the value of its private-label mortgage-backed securities could cause it again to fall below its risk-based capital requirement. In addition, the Bank would be in jeopardy of exhausting its retained earnings if credit losses on these securities in the fourth quarter were of similar magnitude to the third-quarter credit losses.

“I am taking this action today to promote the longer-term financial stability of the Federal Home Loan Bank of Seattle,” said DeMarco. “This action should ultimately benefit all of the Bank’s member-owners by maintaining their existing capital investments and enhancing the Bank’s opportunity to strengthen its financial position.” “FHFA will re-assess the capital classification of the Federal Home Loan Bank of Seattle each quarter,” DeMarco added.

A capital classification of “Undercapitalized” as of September 30, 2009 maintains the classifications assigned to the Seattle Bank for the first and second quarters of 2009. All mandatory actions and restrictions that accompanied those determinations remain in effect, including the requirement that the Seattle Bank submit an acceptable capital restoration plan.

FHFA will take the information contained in the Bank’s capital restoration plan and its record of performance pursuant to the plan into account in future capital classification decisions. Capital redemptions will resume once the Seattle Bank demonstrates performance in line with the plan and that the improvements in performance and capital strength appear sustainable.

The Federal Home Loan Bank of Seattle had assets of \$54.1 billion at September 30, 2009, and secured loans to members (advances) of \$24.9 billion. Its GAAP capital was \$927 million. This total includes GAAP capital stock of \$1.853 billion, retained earnings of \$70 million, and accumulated other comprehensive loss of \$996 million, almost all of this loss reflects the non-credit portion of “other than temporary impairment” on its private-label mortgage-backed securities. The Seattle Bank’s regulatory capital was \$2.865 billion. This total includes GAAP capital stock, retained earnings, and \$942 million of “mandatorily redeemable capital stock,” which is the capital stock of members that have submitted a stock redemption request, usually associated with a merger. While the Seattle Bank’s core business of making advances to members remains profitable with its net interest income averaging \$47 million over the past five quarters, it has recorded net losses in each of those quarters because of the credit deterioration of its private-label mortgage-backed securities portfolio.

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*The Federal Housing Finance Agency regulates Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks. These government-sponsored enterprises provide more than \$6.3 trillion in funding for the U.S. mortgage markets and financial institutions.*