State of the GSE’s:
An Update of the Four Largest Government Sponsored Entities

California Municipal Treasurers Association
April 2012
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All This Numbers Deal with the U.S. Debt

- Avg Interest Rate: 2.2%
- Avg Maturity: 62.8 months
- FY 2011 Interest Exp.: $454 Billion
- Debt Coming Due Next 5 Yrs: $6.5 Trillion

Debt of the $10.3 billion
<table>
<thead>
<tr>
<th>Agency</th>
<th>Creation</th>
<th>Purpose</th>
<th>Use of Funds</th>
<th>Guarantee</th>
<th>Owner(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHLB</td>
<td>1932</td>
<td>Restore confidence in the thrift industry</td>
<td>Advances (loans) to member banks</td>
<td>None; joint and several obligations of the FHLBs (12)</td>
<td>Member banks: 7,781 (as of 9/30/11)</td>
</tr>
<tr>
<td>FNMA</td>
<td>1938 (1968)</td>
<td>Provide liquidity to the U.S. mortgage market</td>
<td>Purchase mortgage loans</td>
<td>&quot;Essentially Guaranteed&quot; by the U.S. Treasury</td>
<td>Conservatorship of the U.S. Treasury- (preferred stock);</td>
</tr>
<tr>
<td>FHLMC</td>
<td>1970 (1988)</td>
<td>Increase liquidity to the U.S. mortgage market</td>
<td>Purchase mortgage loans</td>
<td>&quot;Essentially Guaranteed&quot; by the U.S. Treasury</td>
<td>Conservatorship of the U.S. Treasury- (preferred stock);</td>
</tr>
<tr>
<td>FFCB</td>
<td>1971 (1916)</td>
<td>Act as financial intermediary to provide credit to farmers</td>
<td>Provide short and long term loans to farms and affiliated businesses</td>
<td>None; joint and several obligations of the FFCBs (4)</td>
<td>Cooperative of borrowers</td>
</tr>
</tbody>
</table>
FNMA / FHLMC Timeline

- Jul 2008: Federal Housing Finance Agency (FHFA) Created
- Jul 2008: U.S. Treasury Granted Emergency Authority to Assist GSEs
- Sep 2008: FNMA/FHLMC Placed into Conservatorship
- Sep 2008: Senior Preferred Stock Purchase Agreement (SPSPA) by the Treasury ($100Bil Each)
- Feb 2009: U.S. Treasury Raises SPSPA to $200Bil Each FNMA/FHLMC
- Mar 2009: Fed Announces Program to Buy $200Bil GSE Debt and $1.25Tril MBS
- May 2011: Campbell (R-CA) / Peters (D-MI) Bill Introduced in the House of Representatives
- Aug 2011: S&P Downgrades GSE Senior Debt from AAA to AA+

Campbell/Peters Bill Highlights

- Encourages Private Sector Investment in the Secondary Mortgage Market
- Limited Charter for FNMA and FHLMC
- Limits Taxpayer Liability
- Accurately Prices Risk
- Winds down FNMA and FHLMC
FNMA/FHLMC Conservatorship Provisions

- US Treasury is permitted to make unlimited investments in FNMA and FHLMC senior preferred stock through 12/31/12 to maintain positive net worth in GSEs. After year-end 2012, maximum investment is limited to $200B per agency.

- Senior preferred stock held by US Treasury carries a 10% annual dividend, payable quarterly.

- Payment of quarterly dividend to US Treasury for support provided under SPSPA began in first quarter 2011.

- Retained portfolio limits were set at $810B per agency as of 12/31/10. Starting in 2011, the portfolio year-end limits were set at 90% of the previous year’s cap.
"These agreements support market stability by providing additional security and clarity to GSE debt holders – senior and subordinated – and support mortgage availability by providing additional confidence to investors in GSE mortgage backed securities. This commitment will eliminate any mandatory triggering of receivership and will ensure that the conserved entities have the ability to fulfill their financial obligations."

“Fannie Mae and Freddie Mac are so large and so interwoven in our financial system that a failure of either of them would cause great turmoil in our financial markets here at home and around the globe.”


“… we [the U.S. Treasury] have essentially guaranteed Fannie Mae and Freddie Mac securities ”

FNMA/FHLMC Possible Reform Scenarios

**Nationalization**
- Fold the GSEs into the federal government, like the FHA, VA, and GNMA.

**Privatization**
- Reconstitute the GSEs as private companies with no government support or replace the GSEs with alternative approaches to mortgage finance.

**Hybrid Model**
- Combine private capital with some level of government support or backing.

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April 18 (Bloomberg) -- U.S. Treasury officials are leaning toward recommending that Fannie Mae and Freddie Mac be replaced with a government safety net for the mortgage finance system and continued federal backing for loans to lower-income homebuyers, according to three people briefed on the discussions. Treasury Secretary Timothy F. Geithner has said in recent public appearances that an agency recommendation for winding down the two taxpayer-owned mortgage companies could be released in coming weeks. It hasn’t yet been determined whether the plan, likely to be a broad outline rather than a detailed prescription for legislation, will be released that soon, the people said.

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Bloomberg 4/18/2012
### Ratings

<table>
<thead>
<tr>
<th>Agency</th>
<th>S&amp;P LT</th>
<th>Moody's LT</th>
<th>Fitch LT</th>
<th>S&amp;P ST</th>
<th>Moody's ST</th>
<th>Fitch ST</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHLB</td>
<td>AA+ (Neg)</td>
<td>Aaa (Neg)</td>
<td>AAA (Neg)</td>
<td>A-1+</td>
<td>P-1</td>
<td>F-1</td>
</tr>
<tr>
<td>FNMA</td>
<td>AA+ (Neg)</td>
<td>Aaa (Neg)</td>
<td>AAA (Neg)</td>
<td>A-1+</td>
<td>P-1</td>
<td>F-1</td>
</tr>
<tr>
<td>FHLMC</td>
<td>AA+ (Neg)</td>
<td>Aaa (Neg)</td>
<td>AAA (Neg)</td>
<td>A-1+</td>
<td>P-1</td>
<td>F-1</td>
</tr>
<tr>
<td>FFCB</td>
<td>AA+ (Neg)</td>
<td>Aaa (Neg)</td>
<td>AAA (Neg)</td>
<td>A-1+</td>
<td>P-1</td>
<td>F-1</td>
</tr>
</tbody>
</table>

“On August 5, 2011, Standard & Poor’s (S&P) lowered the credit rating of long-term U.S. government debt from AAA (the highest possible rating) to AA+. The downgrade reflects S&P’s judgment that (1) the recent Budget Control Act (P.L. 112-25) falls short of what is needed to stabilize the government’s fiscal situation and (2) the capacity of Congress and the Administration to deal with the debt has become less stable, effective, and predictable.”

Congress created Freddie Mac to provide stability, liquidity, and affordability to the U.S. residential mortgage market.
### Outstanding GSE Debt Per Issuer

#### Total Debt Outstanding ($Billions)*

<table>
<thead>
<tr>
<th>Agency</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHLMC</td>
<td>869</td>
<td>937</td>
<td>952</td>
<td>1,190</td>
<td>1,252</td>
<td>931</td>
<td>796</td>
<td>692</td>
</tr>
<tr>
<td>FHLB</td>
<td>952</td>
<td>764</td>
<td>772</td>
<td>805</td>
<td>883</td>
<td>786</td>
<td>794</td>
<td>742</td>
</tr>
<tr>
<td>FNMA</td>
<td>733</td>
<td>762</td>
<td>773</td>
<td>774</td>
<td>861</td>
<td>807</td>
<td>729</td>
<td>677</td>
</tr>
<tr>
<td>FFCB</td>
<td>98</td>
<td>113</td>
<td>134</td>
<td>154</td>
<td>176</td>
<td>176</td>
<td>187</td>
<td>183</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,653</strong></td>
<td><strong>2,577</strong></td>
<td><strong>2,630</strong></td>
<td><strong>2,922</strong></td>
<td><strong>3,171</strong></td>
<td><strong>2,700</strong></td>
<td><strong>2,506</strong></td>
<td><strong>2,295</strong></td>
</tr>
</tbody>
</table>

*At Year End

Source: RBS
Total Outstanding GSE Debt

Percent of Total Debt Outstanding*

<table>
<thead>
<tr>
<th>Agency</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FHLMC</td>
<td>33%</td>
<td>36%</td>
<td>36%</td>
<td>41%</td>
<td>39%</td>
<td>34%</td>
<td>32%</td>
<td>30%</td>
</tr>
<tr>
<td>FHLB</td>
<td>36%</td>
<td>30%</td>
<td>29%</td>
<td>28%</td>
<td>28%</td>
<td>29%</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>FNMA</td>
<td>28%</td>
<td>30%</td>
<td>29%</td>
<td>26%</td>
<td>27%</td>
<td>30%</td>
<td>29%</td>
<td>30%</td>
</tr>
<tr>
<td>FFCB</td>
<td>4%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

*At Year End

Source: RBS
Annual Draws from U.S. Treasury

- **2008**: $15 (FNMA), $15 (FHLMC)
- **2009**: $6 (FNMA), $6 (FHLMC)
- **2010**: $15 (FNMA), $13 (FHLMC)
- **2011**: $26 (FNMA), $8 (FHLMC)

Sources: FNMA and FHLMC websites

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FNMA/FHLMC Cumulative Draws from U.S. Treasury

- **2008**: $15 (FNMA), $15 (FHLMC)
- **2009**: $46 (FNMA), $52 (FHLMC)
- **2010**: $75 (FNMA), $65 (FHLMC)
- **2011**: $90 (FNMA), $72 (FHLMC), $116 (Cumulative)

Sources: FNMA and FHLMC websites
Annual Review: Conforming Loan Credit and GSE Financial Condition

Fannie Mae and Freddie Mac have entered a pivotal year, a major test of their view that existing reserves are adequate to handle the majority of the losses embedded in the 2005-2008 vintage portfolio. After that analysis is completed, the focus swings immediately to the ability of a “normalized” operation to fund quarterly dividend payments to the Treasury. It continues to make sense at this stage to examine combined metrics of the two firms, as their similarities are more important than the small differences between the two. In order, this review covers:

- Legacy credit issues and reserve adequacy
- Regional nature of the thorniest loan problems
- Forward earnings capacity of guarantee business
- An update on Treasury support remaining

Legacy Credit and Reserves

Summary

- Credit losses are becoming more sensitive to the easier terms borrowers are receiving in loan modifications than to loss severities on foreclosure sales.
- Loan loss severities have stabilized even as home prices continue to slowly decline.
- Reserves appear to be sized against loss severities that incorporate further declines in home prices in the 3% to 5% area for conventionally financed properties.
Loan Modifications vs Pool of Nonaccruing Loans
Number of Modifications (Thousands) and Unpaid Principal Balance of Non-Accrual Loans (Billions)
Fannie Mae and Freddie Mac Combined
2010-2011
Quarterly

Source: FHFA, Fannie Mae, and Freddie Mac
# U.S. Treasury Support

<table>
<thead>
<tr>
<th></th>
<th>FNMA</th>
<th>FHLMC</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Treasury Support</td>
<td>100</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>+ Additional Treasury Support</td>
<td>100</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Total Treasury Support</td>
<td>200</td>
<td>200</td>
<td>400</td>
</tr>
<tr>
<td>Treasury Disbursements Pre 2010</td>
<td>-75</td>
<td>-51</td>
<td>-126</td>
</tr>
<tr>
<td>Balance Available</td>
<td>125</td>
<td>149</td>
<td>274</td>
</tr>
<tr>
<td>+ Estimated Dec 2011 Reserves</td>
<td>75</td>
<td>35</td>
<td>110</td>
</tr>
<tr>
<td>Resources Available</td>
<td>200</td>
<td>184</td>
<td>384</td>
</tr>
<tr>
<td>Est. Value of Non-Performing Loans (Dec 2012)</td>
<td>-173</td>
<td>-95</td>
<td>-268</td>
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<tr>
<td>&quot;Cushion&quot;</td>
<td>27</td>
<td>89</td>
<td>116</td>
</tr>
</tbody>
</table>

Sources: FTN, U.S. Treasury, FHFA
Treasury Draw Requests and Dividend Payments

$ in Billions

<table>
<thead>
<tr>
<th>Treasury Draw Requests(^1)</th>
<th>Cumulative Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$116.1</td>
<td></td>
</tr>
<tr>
<td>Dividend Payments</td>
<td>$19.8</td>
</tr>
</tbody>
</table>

Cumulative percentage of dividends to Treasury Draw: 17.1%

Legend:
- Draw Request from Treasury\(^3\)
- Dividend Payment to Treasury\(^4\)
Dividend Scenario
A series of estimates/projections of the next 10 years and how the math of a 10% dividend erodes the amount set aside for post 2012 deficits in net assets. Investors prone to worry will note Fannie Mae’s pile of billions runs out in this particular scenario much faster than Freddie Mac’s. There are a series of easy steps that Treasury can take as the owner of the preferred to redress an imbalance between the two companies to avoid the absurd circumstance that one has sufficient funds and the other doesn’t.

<table>
<thead>
<tr>
<th>FNMA 2012 Ending Balance : 124,800</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Fannie Mae</strong></td>
</tr>
<tr>
<td><strong>2013</strong></td>
</tr>
<tr>
<td>Est Dividend Shortfall</td>
</tr>
<tr>
<td>Est Credit/Extraordinary Loss</td>
</tr>
<tr>
<td><strong>Total Shortfall</strong></td>
</tr>
<tr>
<td>Available</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FHLMC 2012 Ending Balance: 149,300</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Freddie Mac</strong></td>
</tr>
<tr>
<td><strong>2013</strong></td>
</tr>
<tr>
<td>Est Dividend Shortfall</td>
</tr>
<tr>
<td>Est Credit/Extraordinary Loss</td>
</tr>
<tr>
<td><strong>Total Shortfall</strong></td>
</tr>
<tr>
<td>Available</td>
</tr>
</tbody>
</table>

The U.S. Treasury has the authority to modify the dividend provisions.
U.S. Mortgage Market Share - MBS Issuance Volume

Source: FHFA Conservator’s Report 4th Quarter 2011
U.S. single-family mortgage debt in relation to total value of housing stock

Value of U.S. Housing Stock\(^1\)

U.S. Home Equity \(^2\)

U.S. Single-family Mortgage Debt Outstanding\(^3\)

\(^1\) Value of U.S. housing stock: Federal Reserve Board’s Flow of Funds Accounts, December 8, 2011, Table B.100 (line #49). This figure includes homes with and without underlying mortgages.

\(^2\) U.S. home equity is the difference between the value of the U.S. housing stock and the amount of U.S. single-family mortgage debt outstanding.

\(^3\) U.S. single-family mortgage debt outstanding: Federal Reserve Board’s Flow of Funds Accounts, December 8, 2011, Table L.100 (line #26).

Source: Federal Reserve Board’s Flow of Funds Accounts. Data as of September 30, 2011.
Home price performance by state
June 2006 to September 2011

United States -25%

The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac’s single-family credit guarantee portfolio.

Source: Freddie Mac.
Mortgage originations are expected to decline by 15 percent in 2012.

Total single-family mortgage originations


Note: Estimates and forecasts by the Office of the Chief Economist do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac’s business prospects or expected results, and are subject to change without notice.
A large inventory overhang remains within the housing market

Note: The excess unsold homes were estimated using a vacancy rate of 1.7%, which represents the average vacancy rate from 1996Q1 to 2006Q4.
Source: U.S. Census Bureau.
Housing affordability increased in the fourth quarter of 2011

Note: An index of 100 indicates a median income family has exactly enough income to qualify for a mortgage on a median-priced home. An index above 100 signifies that a median income family has more than enough income to qualify for a mortgage on a median-priced home. Data seasonally adjusted.

Agency Supply is Declining

Expect net issuance of -$235 bn in 2012 vs. -$208 bn in 2011 driven by declines in the GSE’s portfolios.

If realized net issuance since 2009 would total -$1.1 trillion shrinking outstandings by 37%.

We currently project gross 2012 issuance of about $821 bn vs. $993 bn in 2011.
Risk of Substantial Decrease in Supply?

- FHFA may sell FN/FR delinquent loans to investors who intend on renting the properties.
  - Goal: provide housing to former homeowners and reduce the pipeline of foreclosed properties.
  - $210 bn in delinquent loans or 16% of debt outstanding. FN $143bn/ FR $67 bn as of Q4 2011 (Excluding all re-performing trouble debt restructurings)
  - Result: sharp decline in agency supply (scarcity vs. liquidity)
- Reform could limit FHLB advances and reduce FHLB investment portfolios.

Fannie Mae & Freddie Mac Retained Portfolio Trends & Projections

Source: RBS, FNMA, FHLMC, FHLB, FFCB
U.S. mortgage securities are one of the largest fixed-income sectors

Outstanding public and private bond market debt – $36.4 trillion

- Treasury: $9.5 trillion (26%)
- Municipal: $3.7 trillion (10%)
- Corporate Debt: $7.7 trillion (21%)
- Agency Debt: $2.4 trillion (7%)
- MBS: $8.5 trillion (24%)
- Money Market: $2.7 trillion (7%)
- Asset-Backed: $1.9 trillion (5%)

Approximately $120,000 per person

1. Interest-bearing marketable public debt.
2. Includes Freddie Mac, Fannie Mae, Federal Home Loan Banks, Farmer Mac, the Farm Credit System, and federal budget agencies (e.g. TVA).
3. MBS include Ginnie Mae, Fannie Mae and Freddie Mac mortgage-backed securities and CMOs, CMBS and private-label MBS/CMOs.
4. Includes auto, credit card, home equity, manufacturing, student loans and other. CDOs of ABS are included.
5. Includes commercial paper, bankers acceptances and large time deposits.

Note: Percentages may not add up to 100% due to rounding.

Annual Review: Federal Home Loan Banks

The Federal Home Loan Banks System (the "System") has moved well past the various dangers of the 2007-2010 period. Answers concerning its performance and financial health are no longer found in audited financials or rating agency reports. Rather, the new questions are about how the System will transition from its old model of member service/dividends to a tightly regulated liability management resource for the country's banking and insurance industry. Unless it can find a profitable niche in its new role, any level of current financial strength could be irrelevant in 3-5 years.

In looking at 2011, then, we start the discussion with a scorecard on the year's progress, using a 1-100 point scale:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Notes</th>
<th>2012-2013 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member Retention</td>
<td>80</td>
<td>40</td>
<td>Key to Post 2014 Transition</td>
<td>Stable to slight improvement</td>
</tr>
<tr>
<td>Adequate Advance Pricing</td>
<td>75</td>
<td>70</td>
<td>Big room for improvement</td>
<td>Mgt unwilling to change</td>
</tr>
<tr>
<td>Expense Management</td>
<td>45</td>
<td>60</td>
<td>Intractable problem</td>
<td>Major profitability hurdle</td>
</tr>
<tr>
<td>Capital Management</td>
<td>85</td>
<td>75</td>
<td>Turnaround almost complete</td>
<td>No longer an issue</td>
</tr>
<tr>
<td>Bank Consistency</td>
<td>80</td>
<td>65</td>
<td>Reduces headline risk</td>
<td>Merger discussions again?</td>
</tr>
<tr>
<td>Credit Costs</td>
<td>70</td>
<td>60</td>
<td>Reduced importance</td>
<td>Home prices still an issue</td>
</tr>
<tr>
<td>Dividend Policy</td>
<td>70</td>
<td>90</td>
<td>More work needed</td>
<td>Payouts move up slowly</td>
</tr>
</tbody>
</table>
All Senior Debt is Joint & Several

- The twelve FHLBanks are linked by i) a common mission to support housing, ii) a shared safety and soundness regulator (FHFA), and iii) a shared responsibility to repay debt obligations.

- All senior debt securities issued through the Office of Finance (Consolidated Obligations) are joint and several obligations of the entire FHLBank System.

<table>
<thead>
<tr>
<th></th>
<th>S&amp;P</th>
<th>Moody's</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Senior Debt Rating</td>
<td>AA+</td>
<td>Aaa</td>
</tr>
<tr>
<td>Outlook</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Short-term Issuer Rating</td>
<td>A-1+</td>
<td>P-1</td>
</tr>
</tbody>
</table>
How the FHLB System Works

- **Investors**
  - Debt Securities → Investment Capital
  - Issuance Proceeds → Debt Securities

- **FHLBanks**
  - Advances
  - Collateral
  - Issuance Proceeds

- **Members**
  - Mortgage Lending & Community Investment

- **Dealers**
  - Debt Securities
  - Issuance Proceeds

- **Office of Finance**
  - Issuance Proceeds

- **Homeowners**

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The 12 FHLBanks are government-sponsored enterprises (GSEs) organized under an act of Congress (Federal Home Loan Bank Act of 1932).

FHLBanks serve the general public by providing readily available, low-cost funding to over 7,700 members, thereby increasing the availability of credit for residential mortgage lending and investment in housing and community development.

FHLBanks fund their operations principally through the sale of debt securities through the Office of Finance.
# System Financial Highlights

<table>
<thead>
<tr>
<th>$ in billions</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advances</td>
<td>875</td>
<td>929</td>
<td>631</td>
<td>479</td>
<td>418</td>
</tr>
<tr>
<td>Investments</td>
<td>299</td>
<td>306</td>
<td>284</td>
<td>330</td>
<td>271</td>
</tr>
<tr>
<td>Mortgage Loans Held for Portfolio&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>92</td>
<td>87</td>
<td>71</td>
<td>61</td>
<td>53</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>27</td>
<td>30</td>
<td>8</td>
<td>24</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$1,274</strong></td>
<td><strong>$1,349</strong></td>
<td><strong>$1,016</strong></td>
<td><strong>$878</strong></td>
<td><strong>$766</strong></td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>3.7</td>
<td>2.9</td>
<td>6.0</td>
<td>7.5</td>
<td>8.6</td>
</tr>
<tr>
<td>Total Capital (GAAP)</td>
<td>54</td>
<td>51</td>
<td>43</td>
<td>44</td>
<td>40</td>
</tr>
<tr>
<td>Regulatory Capital&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>56</td>
<td>60</td>
<td>60</td>
<td>57</td>
<td>53</td>
</tr>
<tr>
<td>Regulatory Capital Ratio</td>
<td>4.41%</td>
<td>4.42%</td>
<td>5.92%</td>
<td>6.53%</td>
<td>6.91%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$2.8</td>
<td>$1.2</td>
<td>$1.9</td>
<td>$2.1</td>
<td>$1.6</td>
</tr>
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</table>

<sup>(1) MPP/MPP</sup>

<sup>(2) The difference between total capital (GAAP) and regulatory capital relates primarily to accumulated other comprehensive income (loss), which is excluded from regulatory capital, and mandatorily redeemable capital stock, which is included in regulatory capital.</sup>

Source: Historical Combined Financial Reports – subject to rounding
Collateral Securing Advances

At YE11, 70 Borrowers had Advances Outstanding of at Least $1 Billion, Representing Approximately $255 Billion, or 63% of Total Advances

Advances, Other Credit Products, & Collateral Outstanding

- Credit Outstanding
- Collateral Outstanding

- 2.7 collateralization ratio for borrowers with at least $1 billion outstanding
- 3.3 ratio for all borrowers

Type of Collateral Securing Advances to Borrowers with at Least $1 Billion Outstanding

- Single-family mortgage loans 52%
- Commercial real estate loans 12%
- HEC/HELOC 17%
- Multifamily mortgage loans 8%
- Agency MBS/CMO 6%
- CMBS 2%
- FHA/VA Loans <1%
- Private-label MBS/CMO <1%
- Other 1%

Source: YE11 Combined Financial Report  *Eligible collateral divided by total credit outstanding
FHLBank Atlanta Shareholders

as of September 30, 2011

1,073 Total Members

766 Commercial Banks

152 Credit Unions

15 Insurance Companies

42 Thrifts

97 Savings Banks

1 CDFI

Credit unions
Insurance Companies
Thrifts
Savings Banks
Comerical Banks
Community Development Financial Institution
FHLBanks Invest Primarily In Highly-Rated Securities

- No FHLBank has purchased private-label MBS since 2008
- Regulation limits MBS investments to 300% of capital \(^1\)
- FHLBank policies generally permit purchase of triple-A rated MBS only
- FHLBanks purchased private-label MBS that may contain one or more forms of credit protection or enhancement such as a guarantee of P&I, subordination, over-collateralization, or an insurance wrap

MBS & Investment Portfolio

- $202 billion
  - US Treasuries <1%
  - Agency RMBS/CMBS 48%
  - Private-Label MBS (3) 15%
  - GSE/TVAs Debt 14%
  - TLGP 9%
  - Other (2) 10%
  - FFELP ABS (4) 4%

\(^1\) Current regulatory policy prohibits an FHLBank from purchasing MBS if its investment exceeds 300% of previous month-end regulatory capital on the day it purchases the securities

\(^2\) Includes state/local housing agency obligations, GNMA, Ex-Im Bank, SBA, NCUA, IADB, IBRD, & taxable munis

\(^3\) Includes RMBs, CMBS, home equity ABS, & MH loan ABS

\(^4\) Federal Family Education Loan Program

Source: YE11 Combined Financial Report - Based on carrying value and subject to rounding
Term Debt Issuance

Issuance Tracks Advances & Adapts to Shifts in Investor Preference

$ in billions

- Callables/Structured
- FRNs
- Bullets/TAPs
- Global

Total Term DNs Issued (in billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td>Value</td>
<td>158</td>
<td>249</td>
<td>159</td>
<td>196</td>
<td>302</td>
<td>230</td>
<td>$99 billion issued thru 3/31</td>
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<tr>
<td>$</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$236</td>
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</table>

Source: FHLBanks Office of Finance – by settlement date – as of 3/31/12 and subject to rounding
Term Debt Refunding

Scheduled Bond Maturities ($ in billions)

$61 billion maturities YTD 2012

$253 billion maturities in 2011

Projected Calls ($ in billions)

Estimates based on certain rate and volatility assumptions. Actual call activity may differ and can be affected by a variety of factors including but not limited to shifts in the interest rate environment, the amount of callable debt outstanding, debt refunding costs, FHLB asset/liability strategy and the overall funding environment.

Source: FHLBanks Office of Finance and subject to rounding
Discount Notes

- Active window program with maturity and settlement flexibility and twice weekly auction program for 1-, 2-, 3-, and 6-month maturities
- 19 member selling group (and broader realallowance group)
- Term DNs represent approximately 30% of total debt outstanding and had an outstanding WAM of 52.95 days as of 3/31
- Overnight DNs sales averaged $22.2 billion per day in 2010, $12.4 billion in 2011, $7.7 billion through 3/31

Window Sales by Maturity
($ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1- to 3-Weeks</th>
<th>1- to 3-Month</th>
<th>4- to 6-Month</th>
<th>7- to 9-Month</th>
<th>10- to 12-Month</th>
<th>4- to 6-Month Issued thru 3/31</th>
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<tr>
<td>2007</td>
<td>$767 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2008</td>
<td></td>
<td>$1,678 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2009</td>
<td></td>
<td>$848 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>$418 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>$292 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</table>

Auction Sales by Maturity
($ in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>4 Week</th>
<th>9 Week</th>
<th>13 Week</th>
<th>26 Week</th>
<th>4 Week Sold thru 3/31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$913 billion</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$854 billion</td>
</tr>
<tr>
<td>2009</td>
<td>$639 billion</td>
<td>$591 billion</td>
<td></td>
<td></td>
<td>$778 billion</td>
</tr>
<tr>
<td>2010</td>
<td>$778 billion</td>
<td>$745 billion</td>
<td></td>
<td></td>
<td>$755 billion</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$200 billion sold thru 3/31</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$200 billion</td>
</tr>
</tbody>
</table>

Source: FHLBanks Office of Finance – by settlement date – as of 3/31/12 and subject to rounding
Callable Debt

FHLBanks are a Significant Issuer of Callables

Benefits to the FHLBanks

- Essential component of core funding for both advances and investment portfolios
- Provides a natural hedge to embedded optionality in MBS investments

Benefits to Investors

- Flexible reverse inquiry process delivers a high degree of customization
- Callables offer enhanced yield over comparable bullets and allow investors to express views on volatility and/or the yield curve without sacrificing credit quality or utilizing derivatives

Source: FHLBanks Office of Finance – by settlement date – 4/11 thru 3/12 and subject to rounding
Global Bond Distribution

Bullet Issues – April 2011 through March 2012

By Region
- US 66%
- Asia 15%
- Europe 3%
- Other/Unknown 16%

By Investor Type
- Fund Managers 34%
- Central Banks 29%
- Banks 15%
- State/Local 7%
- Pension/Insurance 6%
- Other/Unknown 9%

Source: FHLBanks Office of Finance – subject to rounding – “Other” may include investors not specified by underwriters
OVERVIEW OF THE SYSTEM

- Created by an Act of Congress (1916)
- Government Sponsored Enterprise (GSE) created to provide funding for American agriculture
- Specific mission – to provide sound, dependable funding for American agriculture and rural America
- Network of cooperatives owned by its borrowers (farmers, ranchers, agricultural cooperatives and rural customers)
- Regulated and examined by the Farm Credit Administration (FCA), an independent agency in the Executive Branch of the US Government
- Federal Farm Credit Banks Consolidated Systemwide Debt Securities are issued to fund the System’s loan portfolio and operations
- The Farm Credit System funds approximately 41% of all US farm business debt. (August 2011, USDA ERS)
STRUCTURE/OWNERSHIP

Farm Credit Administration

MEMBER/BORROWERS*

RETAIL ASSOCIATIONS

FARM CREDIT SYSTEM BANKS**

FFCB FUNDING CORPORATION

SELLING GROUP/BOND DEALERS

U.S. & GLOBAL INVESTORS

Farm Credit Council | Farm Credit System Insurance Corporation

* Farmers, ranchers, rural homeowners, ag cooperatives, rural utility systems & agribusinesses

** Farm Credit System Banks - AgFirst, AgriBank, FCB of Texas, CoBank.

CoBank has lending authority to Associations within its District as well as nationwide lending authorities to agricultural cooperatives, rural utilities and other eligible borrowers.
GROSS LOANS

- Steady loan growth through 2008, loan growth moderated in ‘09-YTD.
- A variety of loan types are available to qualified borrowers

<table>
<thead>
<tr>
<th></th>
<th>($ billions)</th>
<th>12/31/06</th>
<th>12/31/07</th>
<th>12/31/08</th>
<th>12/31/09</th>
<th>12/31/10</th>
<th>12/31/11</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Agricultural Export Finance</td>
<td>2.2</td>
<td>6.1</td>
<td>7.0</td>
<td>4.1</td>
<td>4.0</td>
<td>3.8</td>
</tr>
<tr>
<td>2</td>
<td>Rural residential real estate and other loans</td>
<td>5.3</td>
<td>10.8</td>
<td>14.0</td>
<td>14.6</td>
<td>15.1</td>
<td>15.6</td>
</tr>
<tr>
<td>3</td>
<td>Communication, energy &amp; water/waste disposal loans</td>
<td>9.6</td>
<td>26.9</td>
<td>23.6</td>
<td>29.6</td>
<td>24.7</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Agribusiness loans</td>
<td>21.1</td>
<td>37.5</td>
<td>39.6</td>
<td>40.6</td>
<td>41.3</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Production &amp; intermediate-term loans</td>
<td>28.7</td>
<td>63.5</td>
<td>71.9</td>
<td>75.4</td>
<td>78.0</td>
<td>80.7</td>
</tr>
<tr>
<td>6</td>
<td>Generally ag loans - collateralized by land</td>
<td>56.5</td>
<td>63.5</td>
<td>71.9</td>
<td>75.4</td>
<td>78.0</td>
<td>80.7</td>
</tr>
</tbody>
</table>
NET INCOME

- Increased net interest spreads and increasing level of earning assets contributed to net income.
- Funded in part by capital
- Net Interest Spread = 2.68% (average rate on total earning assets – average rate on interest bearing liabilities)
- Net Interest Margin = 2.86% (net interest income / average earnings assets)
AGRICULTURAL DIVERSIFICATION

- Broad diversification within the Farm Credit System loan portfolio
- Highest concentration is 17%
- Diversification minimizes concentration risk

Farm Credit System Loan Portfolio
(at 12/31/11)

- Cash Grains (corn, wheat, soybeans) 17%
- Forestry, agricultural services, fishing 8%
- Dairy Farms 8%
- Field Crops (cotton, sugar beets, potatoes, vegetables) 5%
- Tree fruits, nuts, grapes 4%
- Farm supplies & marketing 5%
- Food products 6%
- Rural home loans, farm landlords, part-time farms 7%
- Energy & water/waste water 7%
- General farm, primarily crop 4%
- General farm, primarily livestock 2%
- Poultry and eggs 3%
- Communications 2%
- Agricultural export finance 2%
- Horticulture 2%
- Biofuel products (includes ethanol) 1%
- Other livestock 1%
- Livestock (cattle, hogs) 12%
- Other 4%

Source: Based on loans described in the Farm Credit System Annual Information Statement – 2011
**DISCOUNT NOTES (as of 3/31/12)**

### Reported Orders

*(April 1, 2011 – March 31, 2012)*

- Investment Managers: 77%
- Banks/Credit Unions: 2%
- Corporations: 3%
- State & Local Gov'ts: 1%
- Insurance Companies: 4%
- Other/Undisclosed: 15%

*Excludes overnight maturities*

- Offerings posted at approx. 4:00 pm New York time
- Priced next morning
- Bloomberg – FFCB <go>
- Reuters – FFCB04

### Maturity

- 1- to 365-days

### Issued

- Daily, based on needs of System Banks (or customer inquiry)

### Settlement

- Cash (*regular*)

### Avg. Maturity (o/s)

- 123 days

### Avg. Issuance (ytd)

- $186 million daily *(approx. $859 million in overnight maturities)*

### Outstanding

- $15.4 billion

### YTD Issuance

- $53.3 billion *(overnight maturities)*
- $11.5 billion *(excludes o/n maturities)*

### Distribution Method

- 10 member core group/available to all selling group members with re-allocation
DESIGNATED BONDS (as of 3/31/12)

Reported Orders
(April 1, 2011 – March 31, 2012)

Maturity: 2 through 10 year Non-Callable and Callable Bonds

Issued: As needed by the System Banks (generally quarterly)

Settlement: 3 – 5 business days

Issuance:
- $1.0 billion minimum for New Issue Non-Callables
- $500 million minimum for New Issue Callables

Outstanding: $20.0 billion

YTD Issuance: $0 billion

Distribution: Syndicated underwriting group. Bonds are available to entire selling group.

Lead or Co-Managers:
- Barclays Capital Inc. ~ Credit Suisse Securities (USA) LLC
- Morgan Stanley & Co., Inc ~ UBS Securities LLC

TradeWeb
Bloomberg - FFCB<go>
Reuters - FFCB03

FEDERAL FARM CREDIT BANKS
Funding Corporation

Part of the Farm Credit System
Consistent use of established debt programs

SYSTEMWIDE DEBT SECURITIES OUTSTANDING

Outstanding (Par value)

($ billions)

12/31/06  12/31/07  12/31/08  12/31/09  12/31/10  12/31/11  3/31/12

$134.1  $154.1  $176.3  $176.1  $187.5  $183.5  $184.8

0.4  0.5  0.2  0.1  0.4  0.4  0.4

Other*

Floating-Rate Bonds

Fixed-Rate Non-Callable Bonds

Fixed-Rate Callable Bonds

Designated Bonds

Discount Notes

24.2  32.4  42.8  39.9  40.9  44.0  56.1

37.7  25.4  43.8  41.7  45.8  46.4  45.3

17.9  19.7  16.2  11.6  19.2  13.6  15.4

Part of the Farm Credit System

*Includes Linked Deposits and Retail Bonds
APPENDIX – U.S. AGRICULTURE

Agricultural Land Values

Average U.S. Cropland Value in Dollars per Acre, Jan 1, 2000 - 2011

Source: USDA Agricultural Land Values & Cash Rents Annual Summary 8/12/11
APPENDIX – U.S. AGRICULTURE

Farm Financial Conditions

- Farm financial conditions generally remained favorable due to high levels of farmers’ net cash income over the past several years.

- 2012 net cash income is forecast at 11% below 2011. That is 17% above the previous 10-year average.

- Farmers are using favorable conditions to reduce their leverage.
## Recent Agency Issuance

### Bloomberg's NIM2 (New Issue Monitor Page) March 19 - April 16

<table>
<thead>
<tr>
<th>Agency</th>
<th># of Issues</th>
<th>Amt Issued (Bil)*</th>
<th>Avg Size ($Mil)</th>
<th>Bullets</th>
<th>Calls</th>
<th>Step-Ups</th>
<th>FRNs</th>
<th>Key Points</th>
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<td>$23.3</td>
<td>$80.3</td>
<td>53</td>
<td>93</td>
<td>138</td>
<td>6</td>
<td>Most issues and amount</td>
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<tr>
<td>FNMA</td>
<td>98</td>
<td>$7.7</td>
<td>$78.8</td>
<td>0</td>
<td>66</td>
<td>32</td>
<td>0</td>
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<td>FFCB</td>
<td>67</td>
<td>$6.5</td>
<td>$96.8</td>
<td>22</td>
<td>38</td>
<td>0</td>
<td>7</td>
<td>Calls all continuous</td>
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<td>FHLMC</td>
<td>9</td>
<td>$6.4</td>
<td>$711.1</td>
<td>2</td>
<td>7</td>
<td>0</td>
<td>0</td>
<td>2 Bullets: $3Bil each</td>
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<tr>
<td><strong>Totals</strong></td>
<td><strong>464</strong></td>
<td><strong>$43.9</strong></td>
<td><strong>$94.6</strong></td>
<td><strong>77</strong></td>
<td><strong>204</strong></td>
<td><strong>170</strong></td>
<td><strong>13</strong></td>
<td></td>
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</tbody>
</table>

*Does not include discount note issuance
Spreads are Tight!!

Message from Broker

**TAX ADVANTAGED NAME AND PICK +1 BPS TO TREAS COUPONS**

---

**Bloomberg Description Page**

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**United States**

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<th>T/0-1</th>
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<th>T/2-4</th>
<th>24</th>
<th>T/4-7</th>
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<tbody>
<tr>
<td>31</td>
<td>1³/₄</td>
<td>413</td>
<td>101-17/101-17³/₄</td>
<td>0.225</td>
<td></td>
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<tr>
<td>32</td>
<td>3¹/₈</td>
<td>413</td>
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<td>0.228</td>
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<tr>
<td>33</td>
<td>5⁵/₈</td>
<td>413</td>
<td>100-13³/₄/100-13⁺</td>
<td>0.223</td>
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Matched Maturity Treasury Yields
Source: Bloomberg / FTN Financial