

Credit Opinion: Federal Home Loan Bank of Pittsburgh

Federal Home Loan Bank of Pittsburgh

Pittsburgh, Pennsylvania, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aaa/P-1

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Key Indicators

Federal Home Loan Bank of Pittsburgh

	[1]2006	2005	2004	2003	2002
ROAA (%)	0.32	0.30	0.18	0.06	0.11
ROAE (%)	7.13	6.81	3.91	1.30	2.48
Net Interest Margin (%)	0.44	0.42	0.22	0.20	0.28
Exp. / Avg. Assets (%)	0.10	0.08	0.07	0.08	0.09
Advances (\$bil)	45.29	47.49	38.99	34.67	28.23
Investments (\$bil)	11.90	11.37	9.32	7.80	7.41
Assets (\$bil)	74.66	72.90	61.40	53.52	45.55
Equity (\$bil)	3.44	3.26	2.78	2.37	1.90
Avg. Equity / Avg. Assets (%)	4.53	4.46	4.48	4.31	4.38
Avg. Cash & Inv. / Avg. Assets (%)	24.02	21.19	19.79	19.01	18.84
Avg. Advances / Avg. Assets (%)	62.39	65.00	64.10	63.49	65.05

[1] As of June 30, 2006

Opinion

Credit Strengths

Credit strengths include:

- US Government-sponsored Enterprise (GSE) status
- Joint and several liability reduces default risk of Systemwide liabilities
- Derivatives risk exposures are low
- Excellent asset quality reflects conservative underwriting standards and strong quality-monitoring policies
- Capital rules establish a more permanent capital structure

Credit Challenges

Credit challenges include:

- Mortgage acquisition activities and expanded types of collateral for advances elevate FHLBanks' exposure to interest rate, credit and operational risks

- Substantial loans-to-one borrower concentrations

Rating Rationale

FHLBank of Pittsburgh's Aaa deposit rating incorporates Moody's rating methodology for government-related issuers (GRIs). The rating reflects the combination of the following factors: 1) a baseline credit assessment of 2 (on a scale of 1 to 21, where 1 represents the lowest credit risk), 2) Aaa local currency rating of the US Government, 3) high dependence between the FHLBank of Pittsburgh and the US Government, and 4) high support between the two. The Bank's baseline credit assessment reflects its good risk-adjusted profitability, sound liquidity and excellent asset quality. In addition, the joint and several liability for debt provides significant support to the baseline credit assessment. The Bank has a substantial single borrower concentration to its top advance-holding member, which retains about 25% of advances outstanding. The top five advance-holding members retain about 49% of advances outstanding. However, concerns about these concentrations are mitigated by overcollateralization of advances by high quality assets and a no-loss track record. In addition, the Bank participates in the MPF (Mortgage Partnership Finance) Program, through which it acquires mortgages. The Bank has been expanding its mortgage purchases, which introduces increased interest rate, credit and operational risks. While advances comprise the majority of assets, mortgages have grown. Given the complexity of the growing mortgage portfolio and unexpected prepayments previously experienced, the Bank set up a mortgage finance group dedicated to funding and hedging of mortgage-related assets. The Bank also implemented improvements in its financial management team, and accounting and control groups. Moody's views these steps to improving oversight and risk management. Legislative changes that establish a more permanent capital structure, including a leverage limit and a risk-based capital requirement, are a plus. The Bank's capital plan has been approved. Although, the System's GSE status is a strength, the FHLBank System's debt securities are neither obligations of, nor guaranteed by, the US Government. While each of the 12 FHLBanks is a separate bank with its own management and board of directors, the funding requirements of the banks are carried out centrally. All 12 banks are jointly and severally liable for the consolidated securities (Aaa) issued in the name of the System. Obligations of the individual banks do not benefit from the joint and several guarantee. The Bank primarily provides low-cost funding to member institutions in Delaware, Pennsylvania and West Virginia.

Rating Outlook

The stable outlook for the FHLBank of Pittsburgh's ratings reflect Moody's expectation that the FHLBanks will continue to receive strong bipartisan political support and that there will be minimal changes, if any, to its GSE status over the long-term. Moody's also anticipates that the Bank will retain its conservative risk management.

What Could Change the Rating - DOWN

Highly material changes in asset/liability management or asset quality could adversely affect the Bank's ratings. Regulatory or statutory changes to the System's mission or GSE status that alter the Bank's risk profile could also impact the ratings. Moody's views these events as highly unlikely to occur for the foreseeable future.

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