

Ratings On Select GREs And FDIC- And NCUA-Guaranteed Debt Lowered After Sovereign Downgrade

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- On Aug. 5, 2011, Standard & Poor's lowered its long-term sovereign credit rating on the United States of America to 'AA+' from 'AAA'.
- As a result, we have also lowered the long-term issuer credit ratings and related issue ratings on select government-related entities (GREs) to 'AA+' from 'AAA'.
- The issuer credit ratings of these financial institutions and their relevant debt issues are removed from CreditWatch, where they were placed July 15, 2011.
- The outlooks for all 12 FHLBs, and the issue level ratings for Fannie Mae, Freddie Mac, the FHLB System, and the Farm Credit System are negative.

NEW YORK (Standard & Poor's) Aug. 8, 2011--Standard & Poor's Ratings Services said today that it lowered its issuer credit ratings and related issue ratings on 10 of 12 Federal Home Loan Banks (FHLBs) and the senior debt issued by the FHLB System to 'AA+' from 'AAA'. We have also lowered the ratings on the senior debt issued by the Federal Farm Credit Banks to 'AA+' from 'AAA'. The ratings on the individual farm member banks are not affected.

In addition, we have lowered the senior issue ratings on Fannie Mae and Freddie Mac to 'AA+' from 'AAA'. Our 'A' subordinated debt rating and our 'C' rating on the preferred stock of these entities remain unchanged. Finally, we have affirmed the short-term issue ratings for these entities at 'A-1+' and removed them from CreditWatch Negative where they were placed July 15, 2011.

The downgrades of Fannie Mae and Freddie Mac reflect their direct reliance on the U.S. government. Fannie Mae and Freddie Mac were placed into

conservatorship in September 2008 and their ability to fund operations relies heavily on the U.S. government. In addition to the implicit support we factor into our ratings, the U.S. Treasury has demonstrated explicit support by providing these entities with capital quarterly, as necessary.

The downgrades of 10 of the 12 FHLBs and the FHLB System's senior debt reflect a one-notch reduction in the U.S. sovereign rating. Before we downgraded the U.S., under our GRE criteria, 10 of the 12 FHLB banks were rated 'AAA', the same level as the U.S. sovereign because they have either 'aa+' or 'aa' stand-alone credit profiles and we classify them as having a very high likelihood of receiving support from the government if needed. The FHLBs of Chicago and Seattle were already rated 'AA+' prior to the U.S. sovereign downgrade as they have lower stand-alone credit profiles ('aa-' and 'a+', respectively) than the other 10 FHLBs. The FHLB System is classified as being almost certain to receive government support if necessary under our GRE criteria. Thus, the FHLB System debt is rated at the same level as the U.S. sovereign rating. The implicit support that we factor into the issuer and issue credit ratings relates to the important role the FHLBs and the FHLB System play as primary liquidity providers to U.S. mortgage and housing-market participants.

The downgrade of the senior debt issued by the Farm Credit System reflects a one-notch reduction in the U.S. sovereign rating. Under our GRE criteria, the Farm Credit System is classified as having a very high likelihood of receiving support from the government if needed. The Farm Credit System's stand-alone credit profile is 'aa'. Thus, under our criteria, the notches of uplift that we factor into the ratings on debt issued by the System decrease to one notch from two notches when the sovereign has a 'AA+' rating rather than a 'AAA' rating. The issuer credit ratings on the four Farm Credit System Banks that we rate are unaffected by the downgrade of the U.S. sovereign given their 'a+' stand-alone credit ratings and high likelihood of support classification under our GRE criteria. The implicit government support that we factor into our ratings for the Farm Credit System debt and the four rated banks considers the system's mission to provide stable and reliable funding to the U.S. agricultural and rural sectors.

We have also lowered the ratings on 126 Federal Deposit Insurance Corp.-guaranteed debt issues from 30 financial institutions under the Temporary Liquidity Guarantee Program (TLGP), and four National Credit Union Association-guaranteed debt issues from two corporate credit unions under the Temporary Corporate Credit Union Guarantee Program (TCCUGP) to 'AA+' from 'AAA'. The downgrades on the TLGP and TCCUGP issues reflect their direct credit support from the U.S. Treasury for timely and ultimate repayment.

The TLGP was formed to facilitate capital-markets borrowing for U.S. banks and bank holding companies during the global credit crisis. Similarly, the TCCUGP was formed to assist corporate credit unions that ran into financial difficulties as a result of significant losses in their investment portfolios.

For related rating actions on other U.S. financial services companies, please see *Ratings On The U.S. Central Securities Depository And Three Clearinghouses Lowered Following U.S. Sovereign Downgrade*, published Aug. 8, 2011, on RatingsDirect on the Global Credit Portal.

RELATED CRITERIA AND RESEARCH

- United States of America Long-Term Rating Lowered To 'AA+' On Rising Debt Burden And Political Risks; Outlook Negative, Aug. 5, 2011
- NCUA Guaranteed Debt 'AAA' Ratings Placed on CreditWatch Negative, July 22, 2011
- The Implications of the U.S. Debt Ceiling Standoff for Global Financial Institutions, July 21, 2011
- 'AAA' Ratings on Three U.S. Clearinghouses, One CSD, and Select GSEs on Watch Negative after Sovereign Action, July 15, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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