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Ratings

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Federal Home Loan Bank of Topeka

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Major Rating Factors

Issuer Credit Rating
AA+/Stable/A-1+

Strengths:	Weaknesses:
• Very important role in the implementation of U.S. government housing policy • Very strong risk-adjusted capitalization • Very strong loan-asset quality and limited risk from peripheral activities	• Concentrated exposure to the U.S. mortgage market • Geographically restricted to a limited region of the U.S. • Uncertainty with regard to the impact of future potential legislative changes

Outlook

The stable outlook on the Federal Home Loan Bank of Topeka (FHLB Topeka) reflects S&P Global Ratings' view of the bank's strong and stable operating performance, as well as the rating on the U.S. We could lower the rating if, in the context of government-sponsored enterprise (GSE) reform, the role of the FHLB System in housing finance is diminished, reducing its importance to the government. If we changed our rating or outlook on the U.S., we would likely reflect that change in our ratings on the Federal Home Loan Bank System's (FHLB System's) debt and its individual banks, including FHLB Topeka, according to our government-related entity (GRE) criteria. We expect FHLB Topeka to maintain its strong financial profile, given its comprehensive and conservative governing policies and management's intention to maintain them.

Rationale

Our issuer credit rating on FHLB Topeka reflects our view of the wholesale bank's government-supported role in providing liquidity to member institutions, very strong loan-asset quality and capitalization, low funding costs, and conservative risk management. It also reflects the bank's regulated status, overseen by the Federal Housing Finance Agency (FHFA). Based on our criteria for rating GREs, the rating on FHLB Topeka includes a one-notch uplift from the bank's stand-alone credit profile (SACP) of 'aa'. This reflects our expectation that the likelihood of the bank receiving extraordinary government support, if needed, is very high, because of the FHLB System's importance to the U.S. housing market. For more information on the FHLB System, see the full analysis published Aug. 28, 2019, on RatingsDirect.

Anchor: Adjusted for an FHLB to reflect regulated status, strong competitive position, and favorable funding

Our starting point, or anchor, for our ratings on U.S. finance companies (fincos), which include FHLBs that we rate under our nonbank financial institutions (NBFI) criteria, is 'bb+'. We initially set the anchor for fincos three notches below our anchor for banks in the same country to reflect their typical lack of central bank access, less-stringent regulatory oversight, and greater competitive risk. We base the bank anchor for a given country on our view of the economic and industry risks in that country as part of our Banking Industry Country Risk Assessment. Our anchor for a bank operating only in the U.S. is 'bbb+'.

Because of FHLBs' public policy role and regulatory status, we raise the anchor for FHLB Topeka and its sister banks to 'bbb+', three notches above our anchor for U.S. fincos. This is to account for the FHFA's regulatory oversight, the favorable funding an FHLB enjoys through its close relationship with the U.S. government, its strong competitive position alongside other housing-related GSEs, including Fannie Mae and Freddie Mac in the U.S. housing finance market, and the statutory priority of liens in a bank wind-down situation.

All figures are as of June 30, 2019, unless otherwise specified.

Business position: A unique and strong market position with longstanding members

We view FHLB Topeka's business position as strong, reflecting the company's established market position, recurring business volumes, and public policy role, which we believe offset some of the risks associated with its lack of geographical and business diversity.

FHLB Topeka is one of the smallest of the 11 FHLBs with $60.1 billion in assets and $31.1 billion in advances. The company's business position is hindered by its lack of business and geographic diversity, in our view. Revenues at FHLB Topeka are not particularly volatile, but they do vary with economic cycles, like those of other system banks. FHLB Topeka has some diversity across its 721 member institutions (as of year-end 2018), which consist of 586 banks, 87 credit unions, 25 savings and loan associations, 21 insurance companies, and two community development financial institutions. On the other hand, it serves only Colorado, Kansas, Nebraska, and Oklahoma, and FHLB Topeka's member borrowing needs are all highly correlated to the housing market.

FHLB Topeka's concentration in advances is high, with 62.9% of its advances to the top five borrowers and 51.1% to the top two borrowers. This concentration can increase the potential for asset, earnings, or even capital volatility. The bank's advance volume and therefore revenue are typically countercyclical, as members rely more on the bank in times of stress as a reliable source of funding. Moreover, members are concentrated within a limited region of the U.S. However, the fully collateralized nature of the lending business does mitigate much of that concentration risk, in our view.

Capital, leverage, and earnings: Collateralized lending to financial institutions limits risk

We believe FHLB Topeka's capital is very strong, reflecting the member-capitalized co-op structure and low-risk collateralized lending business. The bank's regulatory capital-to-assets and leverage ratios were 4.2% and 6.2%, respectively, above regulatory requirements. The majority of its assets are overcollateralized advances to financial institutions, limiting risk. We expect our S&P Global Ratings risk-adjusted capital ratio to remain, through the next two years, above our 15% (16.9%) threshold for a very strong capital, leverage, and earnings assessment. We expect capital to remain relatively stable because members must scale their capital contribution to support their borrowings.

FHLB Topeka's earnings have been relatively stable, with a steady return on average assets of 0.22%. However, we don't believe the absolute level of earnings is an important ratings consideration because of both the bank's strong capital level and co-op structure, ensuring profit maximization is not a goal.

Risk position: Limited risk from peripheral activity

We consider FHLB Topeka's risk position to be very strong, reflecting the fact that neither the company nor its sister FHLBs has ever suffered a loss on a collateralized advance to a member.

A member must own FHLB's capital stock based on its total assets as a condition of membership, and may be required to purchase additional activity-based capital stock as it engages in certain business activities with an FHLB. As additional security for a member's indebtedness, an FHLB has a statutory lien on that member's stock. All advances to member institutions are collateralized by loans (residential mortgage loans, primarily) and securities with an estimated value significantly in excess of loans extended. FHLB Topeka monitors the financial condition of its members, and manages collateral guidelines, advance rates, and security agreements to further mitigate credit risk. Most importantly, any security interest that an insured depository institution grants to the bank generally has priority over the claims and rights of other parties, including depositors. FHLB Topeka's investment portfolio is smaller than that of some of its peers. The investment securities portfolio totaled $12.4 billion, including $7.4 billion of mortgage-backed securities (MBS).

FHLB Topeka takes little interest rate risk. The bank primarily issues callable and non-callable fixed-rate bonds to fund its mortgage loan portfolio and a fair amount of its fixed-rate advance portfolio and uses interest rate swaps to convert some cash flows (both assets and liabilities) to a desired short-term index.

The bank purchases various residential mortgage loan products from participating financial institutions under the MPF Program, a secondary mortgage market structure created and maintained by FHLB Chicago. It has one of the highest exposures to these mortgages of its peers (15% of total assets). We expect the MPF portfolio will continue to grow and that the bank will continue to manage its size, including through selling whole loans to other FHLB banks. These mortgages carry very limited credit risk because they are either government guaranteed or credit enhanced by the member institutions from which FHLB Topeka purchases them.

Funding and liquidity: Stable and favorable funding

FHLB Topeka has adequate funding and liquidity in our view, reflecting the FHLB System's diverse and global investor base. It also reflects FHLBs' ability to issue debt at a small spread to U.S. Treasury obligations. Based on the availability of funding for the system in the 2008 credit crisis, access to funding is unlikely to be difficult in stress scenarios.

We consider FHLB Topeka's liquidity as adequate relative to its potential cash flow requirements for the upcoming year. The bank meets regulatory liquidity requirements. We view liquidity management as conservative.

New regulatory liquidity requirements mandate that the FHLB banks maintain liquidity in the range of 10 to 30 days. We believe FHLB Topeka is adequately prepared for these enhanced requirements, and will fully meet them at the time of implementation.

Comparable ratings adjustment: None

We don't include an adjustment in our rating on FHLB Topeka based on comparison with peers.

External influence: A very important cog in the U.S. housing finance policy framework

The ratings on FHLB Topeka reflect our opinion that there is a very high likelihood that the U.S. government would provide this GRE with timely and sufficient extraordinary support in the event of financial distress.

Our opinion is based on our assessment of the bank's:

- Very important role providing low-cost funding to support housing and community development in the U.S., which we believe are key economic and political objectives of the U.S. government; and
- Very strong link with the U.S. government, because a financially distressed or defaulted FHLB could significantly affect the government's reputation, and we believe the government has the administrative capacity and mechanisms (via the FHFA) to respond to an FHLB's financial distress in a timely manner. Moreover, we view the government as having a track record of providing very strong and timely credit support to the FHLBs, such as their inclusion in a U.S. Treasury GSE credit facility created in September 2008.

Federal Home Loan Bank of Topeka--Ratings Score Snapshot	
Issuer Credit Rating	AA+/Stable/A-1+
SACP	aa
Anchor	bb+
Entity-Specific Anchor Adjustment	+3
Business Position	Strong (+1)
Capital, Leverage, and Earnings	Very Strong (+2)
Risk Position	Very Strong (+2)
Funding and Liquidity	Adequate and Adequate (0)
Comparable Ratings Adjustment	0
External Influence	1
Government Influence	1
Group Influence	0
Rating Above The Sovereign	0

Related Criteria

- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of August 28, 2019)*	
Federal Home Loan Bank of Topeka	
Issuer Credit Rating	AA+/Stable/A-1+
Issuer Credit Ratings History	
10-Jun-2013	AA+/Stable/A-1+
08-Aug-2011	AA+/Negative/A-1+
15-Jul-2011	AAA/Watch Neg/A-1+
Sovereign Rating	
United States	AA+/Stable/A-1+
Related Entities	
Federal Home Loan Bank of Atlanta	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Boston	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Chicago	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Cincinnati	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Dallas	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Des Moines	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Indianapolis	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of New York	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of Pittsburgh	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Bank of San Francisco	
Issuer Credit Rating	AA+/Stable/A-1+
Federal Home Loan Banks	
Senior Unsecured	AA+
Senior Unsecured	AA+/A-1+
Senior Unsecured	AA+/Stable
Short-Term Debt	A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.