S&P Global
Ratings

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Federal Home Loan Bank of Topeka

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Federal Home Loan Bank of Topeka

SACP: aa → **Support: +1** → **Additional factors: 0**

Anchor	bbb+	
Business position	Strong	+1
Capital and earnings	Very strong	+2
Risk position	Very strong	+2
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	+1
Group support	0
Sovereign support	0

Issuer credit rating
AA+/Stable/A-1+

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

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

Overview

Key strengths	Key risks
Government-related entity with a very high likelihood of extraordinary government support	Some concentrations by borrower and collateral type
Important funding and liquidity source for the U.S. banking system, thereby supporting the housing market	Restricted to a limited region
Very strong risk-adjusted capitalization	Profitability that is often low, as a function of the cooperative structure
Solid asset quality, supported by collateral and other factors, with a history of no losses on advances	Some uncertainty regarding potential regulatory and legislative changes, though the FHLB System is likely to retain its importance

Our issuer credit rating on Federal Home Loan Bank of Topeka reflects the wholesale bank's government-supported role in providing liquidity to member institutions, strong asset quality and capitalization, low funding costs, and conservative risk management. S&P Global Ratings expects Federal Home Loan Bank of Topeka (FHLB Topeka) and the other FHLBs to maintain their strong financial profiles and controls, provide for members' additional liquidity needs, support the U.S. housing sector, remain consistently profitable, and build retained earnings.

The rating on FHLB Topeka is one notch higher than 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 and the U.S. banking system.

Outlook

S&P Global Ratings' outlook on FHLB Topeka is stable, in line with the stable outlooks on the ratings on the U.S. sovereign and the debt of the FHLB System. The outlook reflects our expectation that the bank will continue to perform well with very strong capital and asset quality over the next two years and that it will maintain its important role in providing funding and liquidity to its members.

Downside scenario

We could lower our ratings on the FHLB System if our sovereign rating on the U.S. were lowered.

We could also lower our ratings on FHLB Topeka if:

- Its role as a funding and liquidity provider and supporter of the housing market was unexpectedly diminished, weakening its very high likelihood of receiving government support.
- Its stand-alone credit profile, currently 'aa', fell by more than a notch, perhaps due to a material deterioration in its financial position.

Upside scenario

We could raise our ratings on the FHLB System if our sovereign rating on the U.S. were raised.

The FHLB System faces some uncertainty related to potential legislative and regulatory changes associated with reform that would update the mission of the system to reflect the core objectives of providing stable and reliable liquidity to its members and supporting housing and community development. Still, in our view these potential initiatives, which we do not see as imminent, are unlikely to meaningfully change the role of the FHLB System in housing finance and as a liquidity provider for the U.S. banking system. We will continue to monitor any proposed changes to the system and the possible impact they would have on our view of the likelihood of it receiving extraordinary government support if needed.

Anchor: Adjusted To Reflect FHLB's Regulated Status, Strong Competitive Position, And Favorable Funding

Our anchor for our ratings on U.S. finance companies that we rate under our financial institutions criteria, including the FHLBs, is 'bb+'. Because of the FHLBs' public policy role and regulatory status, we apply a sector-specific anchor adjustment to raise the anchor for these entities by three notches to 'bbb+'. This is to account for the Federal Housing Finance Agency's (FHFA) regulatory oversight; the favorable funding FHLBs enjoy through their close relationship with the U.S. government; their strong competitive position alongside other housing-related government-sponsored enterprises (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 numbers and ratios are as of March 31, 2024, unless otherwise specified.

Business Position: Stable Operating Model And Important Public Policy Role Offset Concentration Risks

FHLB Topeka has an established market position, recurring business volumes, and important role in public policy, which we believe offset some of the risks associated with its relative lack of business diversification.

The FHLBs are wholesale lenders that help finance the U.S. housing industry. They provide secured loans, known as advances, to their members, which include commercial banks, savings institutions, credit unions, and insurance companies. Like those of other FHLBs, FHLB Topeka's advance volumes and revenues are generally countercyclical since members rely more on the bank in times of stress as a reliable funding source.

The bank's cooperative structure allows it to provide immediate and low-cost funding to its member institutions (particularly during periods of market stress), with less focus on short-term profitability.

The banking sector disruption that unfolded in March 2023 highlighted the FHLB System's importance to the U.S. banking sector. When several banks experienced deposit outflows, FHLBs provided liquidity by extending advances to members. The FHLB System's advances rose to $1.05 trillion as of March 31, 2023, from $827 billion at year-end 2022. Since then, advances have fallen to $770 billion as deposit pressures on the banking sector have moderated in recent quarters, and certain member banks chose to hold less on-balance-sheet liquidity relative to elevated levels in the first half of 2023. The FHLB System's role during the COVID-19 pandemic in 2020 and the U.S. mortgage crisis of 2008 further illustrates its importance to the U.S. banking sector in times of uncertainty and economic and liquidity dislocations.

FHLB Topeka is one of the smallest of the 11 FHLBs, with $73.7 billion in assets and $41.7 billion in advances serving member institutions in Colorado, Kansas, Nebraska, and Oklahoma.

Although FHLB Topeka has some diversity across its 677 members (as of year-end 2023) consisting of banks (79%), credit unions (13%), insurance companies (4%), savings and loan (3%), and community development financial institutions (1%), member borrowing needs are highly correlated to the housing market. Also, FHLB Topeka's business is concentrated exclusively in a limited region of the U.S. where local economic conditions play a significant role in the bank's business.

Furthermore, most of the advances made by FHLB Topeka are to a relatively small number of its members, as is typical among other FHLB banks, which we believe exposes the bank to member concentration risk. FHLB Topeka's top five borrowers represented 54% of total advances, close to the peer average of 53%. About 20% of total advances were held by the bank's top borrower--MidFirst Bank--compared with 29% in March 2023. The concentration in advances could cause volatility in asset levels, earnings, or even capital ratios. In our view, the fully collateralized nature of the lending business mitigates much of FHLB Topeka's concentration risk.

Capital And Earnings: Collateralized Lending To Financial Institutions And Member-Capitalized Co-Op Structure Limit Risk

We believe FHLB Topeka is well capitalized, reflecting the member-capitalized co-op structure and low-risk collateralized lending business. The bank had some cushion above the FHFA's regulatory capital-to-assets ratio (5.4% versus a 4% requirement) and leverage ratio (7.8% versus a 5% requirement).

Given that advances make up a significant portion of FHLB Topeka's assets (about 57%), the bank's S&P Global Ratings risk-adjusted capital (RAC) ratio is higher than the regulatory capital ratios because we view advances as relatively low risk and all exposures are to financial institutions. FHLB Topeka had a RAC ratio of 20.2% (peer average was 20.9%), well above 15%, which we typically consider very strong.

We expect operating performance will be slightly lower in 2024 than in 2023 with total adjusted income slightly below the 2023 level and expenses slightly higher in 2024 than in 2023. We also expect provisions for loan losses on mortgage loans likely will see a smaller reversal in 2024 than in 2023 with delinquency trends remaining lower than national delinquencies on conventional mortgages. That said, FHLB Topeka reported net income of $114 million in first-quarter 2024, up 34.5% from first-quarter 2023, benefitting from the impact of higher interest rates. Of note, we do not consider the absolute level of FHLB Topeka's earnings to be an important consideration in our assessment, given the bank's very strong capital ratios and co-op structure.

Risk Position: No Losses On Member Advances And Minimal Interest Rate Risk

Thus far, no FHLB has ever suffered a loss on a collateralized advance to a member, which we view favorably. Although the bank has a relatively homogenous lending portfolio, with all advances made to financial institutions backed by a majority of residential and commercial mortgages, all such advances are overcollateralized by loans and securities with an estimated market value significantly in excess of loans extended.

FHLB Topeka had $49.2 billion in advances and letters of credit. Although we believe some of the collateral could come under stress in an economic downturn, we also believe the amount of collateral in place substantially reduces the potential for losses. FHLB Topeka monitors the financial condition of its members, and closely manages collateral guidelines, advance rates, and security agreements to further mitigate credit risk.

In addition, 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. For nondepositories, FHLB Topeka, like its peers, relies on stricter borrowing limits and collateral guidelines to mitigate associated credit risks for which an FHLB is not guaranteed priority status in liquidation.

In line with that of peers, the bank's $23 billion investment portfolio has high exposure to mortgage loans of about 13% of total assets (the peer average was 15%), or $10 billion. While this could add to risk, the mortgages are almost entirely agency-backed, with minimal credit risk. The bank purchases residential mortgage loan products from participating financial institutions under the Mortgage Partnership Finance (MPF) program, a secondary mortgage market structure created and maintained by FHLB Chicago.

These MPF assets have very limited credit risk, as they are either government guaranteed or credit enhanced by the member institutions. More than 87% of the MPF portfolio has a FICO score greater than 700, and more than 79% has a loan-to-value ratio less than 80%. The bank does not have exposure to private-label mortgage-backed securities.

The bank takes little interest-rate risk, helped by the short duration of its securities portfolio. It issues fixed-rate callable and noncallable bonds to fund and manage interest-rate risk in its fixed-rate assets but swaps most of its fixed-rate exposures to floating rate.

Funding And Liquidity: Stable And Favorable Funding Supports The Business Model

The FHLB System has a diverse investor base, and it readily sells its debt at a small spread to U.S. Treasury obligations. For example, the demand for liquidity from borrowing members increased significantly in the first half of 2023 in response to the banking sector disruption. FHLBs were able to manage the surge in advances through their access to capital markets. We view positively the fact that FHLBs were able to scale back quickly once the spike in demand for funds subsided.

The FHLBs have recently been moving toward floating-rate notes to address investor preferences amid higher interest rates, with a vast majority of issuance linked to SOFR since 2020. FHLB Topeka has selected SOFR as its preferred primary replacement rate for LIBOR-indexed instruments in accordance with the recommendations of its regulator.

We consider FHLB Topeka's liquidity as adequate relative to potential cash flow requirements. The FHFA requires between 10 and 30 days of liquidity--with a 20-day target--to cover a temporary inability to issue consolidated obligations. FHLB Topeka's liquidity position complies with the FHLB Act.

Support: A Very Important Cog In The Policy Framework For U.S. Housing Finance

Our ratings on FHLB Topeka reflect our opinion that there is a very high likelihood that the U.S. government would provide the bank with timely and sufficient extraordinary support in the event of financial distress. Therefore, our issuer credit rating on the bank reflects a one-notch uplift from the SACP.

We base our opinion on:

- FHLB Topeka's very important role in 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
- The bank's very strong link with the U.S. government, because a financially distressed or defaulted FHLB could significantly damage the government's reputation, and we believe the government has the administrative capacity and mechanisms (via the FHFA) for responding 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: for example, their inclusion in a U.S. Treasury GSE credit facility created in September 2008.

We continue to monitor legislative proposals and judicial decisions that could affect the FHLBs. In November 2023, the FHFA released its report (FHLBank System at 100: Focusing on the Future) containing the results of its year-long comprehensive review of the FHLB system along with a series of proposed regulatory reforms. The FHFA proposed four categories of reform related to the mission of the FHLB System of providing liquidity to members and supporting housing and community development:

- Update and clarify the mission of the FHLB System;
- The system's role in providing liquidity to its members relative to the Federal Reserve Discount Window in times of stress;
- The system's role as a facilitator of affordable housing and community development; and
- The system's operational efficiency, structure, and governance.

In our view, it remains unlikely that the proposed changes, some of which would likely require Congressional action, would meaningfully diminish the FHLBs' role in the U.S. housing market or as a liquidity provider to their member institutions. However, we will continue to evaluate details of any potential changes as they emerge.

Environmental, Social, And Governance (ESG)

Social factors are a positive consideration in our rating of FHLB Topeka. As the FHLB is a GSE with a mandate to support housing and community development, its public policy role and regulated status reinforce our view of a very high likelihood of government support.

FHLB Topeka has an established governance framework, including a climate change risk and ESG steering committee, to ascertain the implications of climate change for itself and its members.

FHLB Topeka published its first corporate social responsibility report in 2023 and is collaborating with FHLB System to evaluate climate risk exposure and future ESG reporting requirements. It is also evaluating other mission-based products and services, including ESG readiness and special purpose credit programs.

Ratings Score Snapshot

Issuer credit rating: AA+/Stable/A-1+

Stand-alone credit profile: aa

Anchor: bb+

- Sector-specific anchor adjustment: +3
- Business position: Strong (+1)
- Capital & earnings: Very strong (+2)

- Risk position: Very strong (+2)
- Funding and liquidity: Adequate and adequate (0)
- Comparable ratings analysis: 0

Support: +1

- Government-related entity support: +1
- Group support: 0
- Sovereign support: 0

Additional factors: 0

Related Criteria

- Risk-Adjusted Capital Framework Methodology, April 30, 2024
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 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

Ratings Detail (As Of August 7, 2024)*	
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+

Ratings Detail (As Of August 7, 2024)*(cont.)	
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+

*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.