S&P Global
Ratings

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Federal Home Loan Bank of Cincinnati

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Federal Home Loan Bank of Cincinnati

Major Rating Factors

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

Strengths:	Weaknesses:
• Critical to the implementation of U.S. government housing policy • Very strong risk-adjusted capitalization • Strong loan-asset quality and limited risk from peripheral activities • Important funding source for the U.S. banking system	• Concentrated exposure to the U.S. mortgage market • Geographically restricted to a limited region of the U.S. • Vulnerable to future potential legislative changes

Outlook

The stable outlook on Federal Home Loan Bank of Cincinnati (FHLB Cincinnati) reflects the company's stable operating performance, as well as S&P Global Ratings' stable outlook on the U.S. Despite recent and possible changes in the FHLB System, we expect FHLB Cincinnati to maintain its adequate financial profile and build retained earnings, given its comprehensive and adequate governing policies and management's intention to maintain them for at least the next two years. If we change our rating or outlook on the U.S., we would likely reflect that change in our ratings on the FHLB System debt and our ratings on its individual banks, including FHLB Cincinnati. We could also lower the rating in the next two years if, in the context of government-sponsored entity (GSE) reform, the role of the FHLB System in housing finance was diminished, thereby reducing its importance to the government.

Rationale

S&P Global Ratings' issuer credit rating on FHLB Cincinnati reflects 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). The rating on FHLB Cincinnati includes a one-notch uplift from the bank's stand-alone credit profile (SACP) of 'aa', reflecting our expectation there is a very high likelihood of the bank receiving extraordinary government support given the FHLB System's high importance to the U.S. housing market.

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+'. Because of FHLBs' public policy role and regulatory status, we raise the anchor for FHLB Cincinnati 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.

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

We view FHLB Cincinnati's business position as strong, reflecting the company's established market position, recurring business volumes, and public policy role (for more detail, see "Federal Home Loan Banks," published Aug. 28, 2019), which we believe offset some of the risks associated with its lack of business diversity.

With total assets of $96.4 billion and advances of $42.9 billion, as of June 30, 2019, FHLB Cincinnati is the seventh–largest of the 11 FHLBs. At year-end 2018, its portfolio consisted of 646 member institutions: 374 commercial banks, 134 credit unions, 83 savings institutions, 48 insurance companies, and seven community development financial institutions in Ohio, Kentucky, and Tennessee.

FHLB Cincinnati has the second-highest concentration in advances by borrowers among the FHLB peers. The top five largest borrowers held approximately 67% of advances, as of March 31, 2019. The largest is JPMorgan Chase Bank N.A., with over 45% of all advances. The second- and third-largest borrowers held just 6.5% each. Members are concentrated within a limited region of the U.S. We believe that this concentration poses a risk to the bank's revenues and profitability. However, we do not see a risk to its financial condition because capital is not returned to members until advances are repaid.

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

Our assessment of FHLB Cincinnati's capital reflects its member-capitalized co-op structure and low-risk collateralized lending business. FHLB Cincinnati is required by the FHFA to keep capital in excess of 4.0% of assets and a leverage ratio above 5.0%. As of June 30, 2019, its capital ratios was 5.05% and its leverage ratio was 7.57%.

At March 31, 2019, FHLB Cincinnati's S&P Global Ratings risk-adjusted capital (RAC) ratio was 19.7%. Since 44% of FHLB Cincinnati's assets are advances (loans) to members, which have a relatively low risk weight in our methodology because all of the exposure is to financial institutions, FHLB Cincinnati's capital on a risk-adjusted basis is stronger than it might otherwise appear. The company has continued to pay a cash dividend each year since year-end 2008, when its excess stock first exceeded 1% of total assets. At nearly 90% (as of June 30, 2019), the bank's dividend payout ratio exceeds that of several other banks.

We believe earnings at FHLB Cincinnati are relatively stable. The bank's mortgage portfolio continues to contribute significantly to earnings. As of June 30, 2019, FHLB Cincinnati's earnings were in line with those of peers, with a return on average assets of 0.26%. We do not believe the absolute level of earnings is an important ratings consideration because of the firm's strong capital level, as well as its co-op structure, which ensures that profit maximization is not a goal.

Risk position: Limited risk from peripheral activity

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

FHLB Cincinnati requires each member to provide a security interest in eligible collateral before it can undertake any secured borrowing. We believe that FHLB Cincinnati maintains a robust analytical process to support its collateral market valuation and haircut methodology. The company monitors the financial condition of its members, advance rates, and security agreements to further mitigate credit risk. FHLB Cincinnati uses a proprietary credit scoring model as one of its tools to implement a risk-based approach to underwriting and monitoring.

The bank has a relatively homogenous lending portfolio, considering all advances are made to financial institutions backed by a majority of residential and commercial mortgages, and its first-lien position with regard to Federal Deposit Insurance Corp.-backed institutions has prevented it from suffering any losses on advances. Therefore, we do not view the concentration of its portfolio as a material risk.

As part of its core mission assets, FHLB Cincinnati has a mortgage purchase program whereby it invests directly in residential mortgage loans originated by its members. Mortgages held for investment totaled $10.6 billion at June 30, 11% of assets, higher than the system average. The bank follows strict underwriting standards and credit requirements from borrowers. At Dec. 31, 2018, 77% of the portfolio had scores at an excellent level of 740 or above and 94% had scores above 700, which is a threshold generally considered indicative of homeowners with good credit quality.

The bank is exposed to interest rate risk primarily from the effect of interest rate changes on its interest-earning assets and on the funding sources that finance these assets. However, it manages the risk within appropriate limits using various derivatives, which may include interest rate swaps, etc.

Funding and liquidity: Stable and cheap funding supports the business model

The FHLB System has a diverse and global investor base, and it readily sells its debt at a small spread to U.S. Treasury obligations. Both of these factors support FHLB Cincinnati's funding and liquidity. Also, we expect that, based on the availability of funding for the system in the 2008 liquidity crisis, access to funding is unlikely to be an issue in stress scenarios.

We consider FHLB Cincinnati's liquidity adequate compared with its potential cash flow requirements in the next year. Regulatory liquidity requirements are relatively modest, and we believe the company has a good liquidity management system. New regulatory liquidity requirements mandate that the FHLBs maintain up to 20 days of contingent liquidity. We believe FHLB Cincinnati is adequately prepared for these enhanced requirements.

External influence: Very important to U.S. housing policy

The ratings on FHLB Cincinnati 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 one-notch uplift from our SACP.

In accordance with our criteria on NBFIs, our view of government support on our assessment of FHLB Cincinnati reflects the following factors:

- 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) 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, such as their inclusion in a U.S. Treasury GSE credit facility created in September 2008.

Ratings Score Snapshot

Federal Home Loan Bank of Cincinnati--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	Average and Adequate (0)
External Influence	1
Government Influence	1
Group Influence	0
Rating Above the Sovereign	0
Additional Factors	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

Related Research

- Federal Home Loan Banks, Aug. 28, 2019
- Federal Home Loan Bank of Dallas, Sept. 6, 2019
- Federal Home Loan Bank of Des Moines, Aug. 28, 2019
- Federal Home Loan Bank of San Francisco, Aug. 28, 2019
- Federal Home Loan Bank of Topeka, Aug. 28, 2019
- Federal Home Loan Bank of Pittsburgh, Aug. 28, 2019
- Federal Home Loan Bank of Chicago, Aug. 27, 2019
- Federal Home Loan Bank of Atlanta, Aug. 27, 2019
- Federal Home Loan Bank of Boston, Aug. 27, 2019
- Federal Home Loan Bank of New York, Aug. 22, 2019

Ratings Detail (As Of September 10, 2019)*	
Federal Home Loan Bank of Cincinnati	
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 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+

Ratings Detail (As Of September 10, 2019)*(cont.)	
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 Bank of Topeka	
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.