market commentary

PORTFOLIO FANS UNITE!

Conference speakers tout portfolio benefits

Several speakers at our Annual Management Conference (AMC) in April spoke about the benefits received by institutions that are holding their loans in portfolio. Read on to see how you can keep your loans in portfolio and remain profitable.

As illustrated by the chart below, our primary mortgage yields continue to be attractive in comparison to the agency MBS yields. The gap between primary and secondary has remained wide over the last three years. The main cause of higher primary market yields can be attributed to the guarantee fees FNMA and FHLMC charge to take on the credit risk of mortgage originations. This forces up mortgage rates because originators must require higher note rates to meet profit objectives.

In addition to relatively high yields on mortgage originations, funding costs

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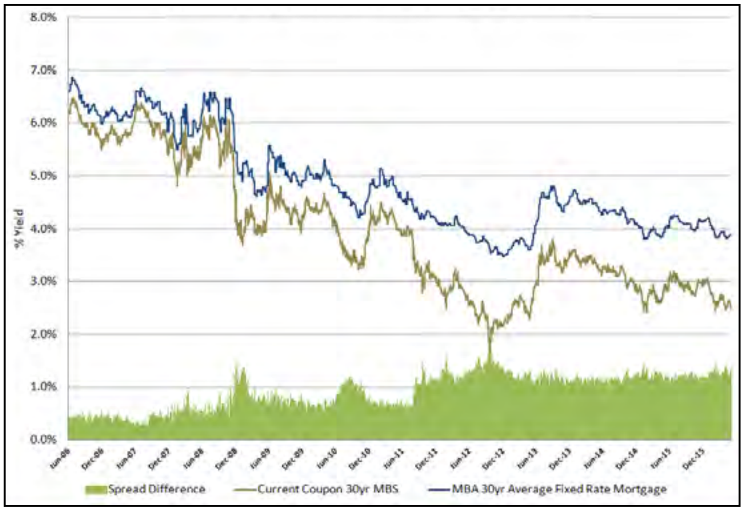
Primary vs. Secondary Spreads



your
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Jenny has served in a number of analysis roles in her 11 years at FHLBank Topeka, including her current role as pricing manager. She is a graduate of Washburn University.

Find out more about Jenny and our funding specialists at **FHLBTOPEKA.COM/INTELLIGENCE.**

FHLBank Topeka

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remain very low supporting wider margins on loans being funded with advances. The first graph on the next page illustrates the historic level of interest rate volatility, which is a key determinant of the option cost associated with callable advances. Lower interest rate volatility brings down the cost of the call option and contributes to a wider net interest margin.

The tables to the right illustrate the funding costs associated with the advances used for the 30-year strategy and details the difference advance types that were selected to fund this mortgage. This scenario utilizes 40% callable rate advances and 60% fixed rate advances.

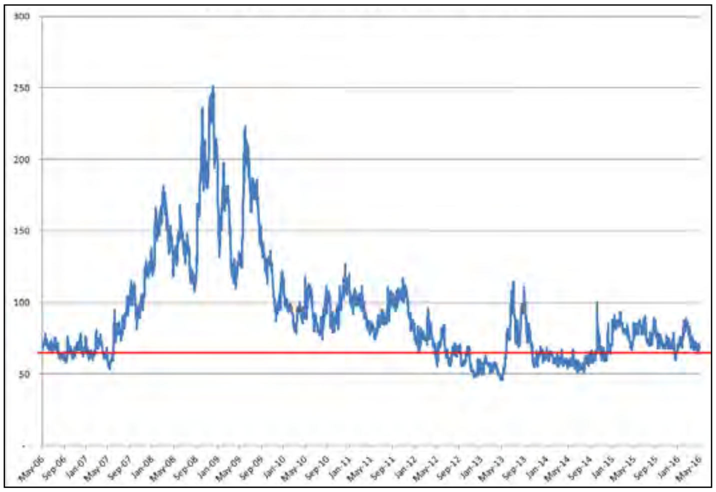
Our 15- and 30-year strategies (linked below) also demonstrate how the balances perform in a down 100 and up 200 rate environment. We are able to provide a funding mix that has the flexibility to manage varying mortgage prepayment speeds and with that mix of callable and fixed rate advances it can provide stability throughout different rate situations.

see our full analysis:

15-year Funding Strategy

30-year Funding Strategy

Credit Suisse Interest Rate Volatility Index



Funding Mix | Callable and Fixed Advances

TRANSACTION DETAIL	
Transaction Size	10,000,100
Asset Term	30 years
Asset Yield	3.78%
Funding Cost	2.08%
Initial Spread	1.70%

SPREAD SUMMARY				
5yr Average	-100	0	100	200
Asset Yield	3.50%	3.76%	3.90%	4.00%
Liability Cost	1.82%	2.10%	2.10%	2.10%
Spread	1.69%	1.66%	1.79%	1.89%
Average Spread	**1.76%**			

ADVANCE SUMMARY		
Structure	Amount	Initial Rate
2 yr - Regular Fixed	1,000,000	1.16
5 yr - Regular Fixed	1,000,000	1.69
10 yr - Regular Fixed	1,000,000	2.03
7 yr - Regular Fixed	3,000,000	1.79
RFC - MO 10nc1	1,000,000	2.80
RFC - MO 5nc1	1,000,000	2.04
RFC - MO 7nc1	1,000,000	2.34
RFC - MO 15nc1	1,000,000	3.36
Total/Weighted Avg.	**10,000,000**	**2.08**

Contact your account manager today to find out more about our portfolio lending strategies.

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