

market commentary

STRONG MARKET RATES RULE

What's driving healthy portfolio spreads?

This month, our spreads continue to flourish mainly due to lower long-term advance rates at the beginning of October.

your
**RESIDENTIAL
SPECIALIST**



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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.

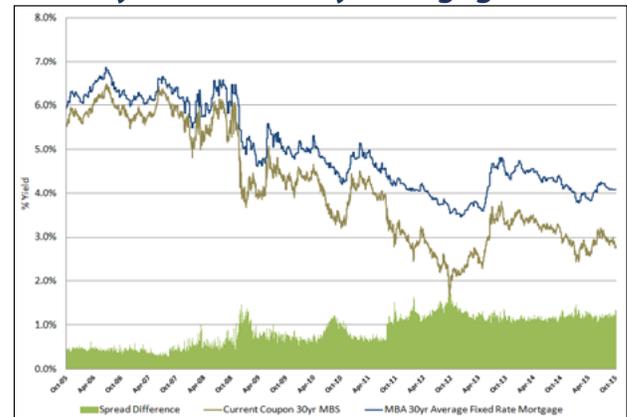
Find out more about Jenny and our funding specialists at **FHLBTOPEKA.COM/INTELLIGENCE.**

The chart to the right shows how the primary mortgage yields continue to be significantly better in comparison to agency MBS yields. The biggest reason for the gap between the primary and secondary market yields is due to large guarantee fees being charged by FNMA and FHLMC to take on the credit risk of mortgage originations.

The tables below the chart compare all types of fixed and callable rate FHLBank advances that could be used when funding mortgages. Any mix of these are applicable to our strategy. With continued high yields on mortgage originations, we see wide margins when holding loans in portfolio.

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Primary vs. Secondary Mortgage Rates



Advance Costs Low in Early October

POSSIBLE FIXED ADVANCE STRUCTURES	
Structure	Rate
Line of Credit	0.290
3 mo RFR	0.440
1 yr - Regular Fixed	0.680
2 yr - Regular Fixed	0.960
3 yr - Regular Fixed	1.210
4 yr - Regular Fixed	1.520
5 yr - Regular Fixed	1.700
7 yr - Regular Fixed	2.005
10 yr - Regular Fixed	2.306
15 yr - Regular Fixed	2.592
20 yr - Regular Fixed	2.729
30 yr - Regular Fixed	2.936

POSSIBLE CALLABLE ADVANCE STRUCTURES	
Structure	Rate
RFC - 7nr1	1.033
RFC - 5nc1	1.961
RFC - 7nc1	2.362
RFC 10nc1	2.870
RFC - 15nc1	3.476

Rates as of 10/02/15.

continued from front

The tables to the right illustrate the funding costs associated with the advances used for the 30-year strategy and details the different advance types selected to fund this mortgage. This scenario employs equal amounts of callable rate advances and fixed rate advances.

The next graphs demonstrate how the balances perform in an up 100 and down 100 rate environment. As shown in each graph, we are able to provide a funding mix with the flexibility to manage varying mortgage prepayment speeds. That mix of callable and fixed rate advances provides stability throughout different rate situations.

The 15- and 30-year Portfolio Lending Strategy links below provide low cost funding while maintaining sufficient spreads.

see our full strategies:

[15-year Funding Strategy](#)

[30-year Funding Strategy](#)

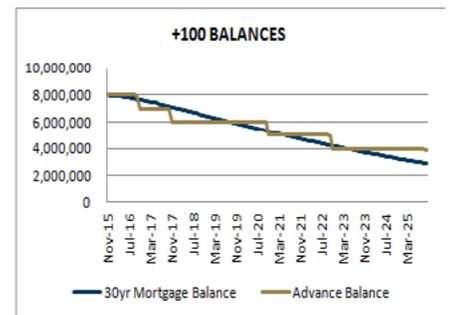
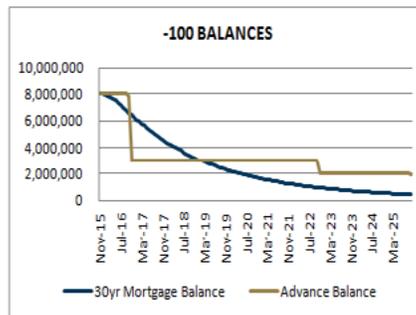
Consider a Mix of Callable and Fixed Rate Advances

TRANSACTION DETAIL	
Transaction Size	8,000,000
Asset Term	30 years
Asset Yield	4.03%
Funding Cost	2.13%
Initial Spread	1.90%

ADVANCE SUMMARY			
Structure	Amount	Initial Rate	Transaction %
RFC - MO 5nc1	1,000,000	2.05	12.50%
RFC - MO 2nc1	1,000,000	1.17	12.50%
RFC - MO 15nc1	1,000,000	3.56	12.50%
RFC - MO 10nc1	1,000,000	2.95	12.50%
7 yr - Regular Fixed	1,000,000	2.01	12.50%
10 yr - Regular Fixed	2,000,000	2.32	25.00%
1 yr - Regular Fixed	1,000,000	0.68	12.50%
Total/Weighted Avg.	8,000,000	2.13	100.00%

SPREAD SUMMARY				
Syr Average	-100	0	100	200
Asset Yield	4.01%	4.06%	4.18%	4.27%
Liability Cost	1.33%	2.22%	2.40%	2.57%
Spread	2.69%	1.84%	1.78%	1.70%
Average Spread	2.00%			

Flexible Funding Mix Provides Stability With Rate Movement



Contact Lending today for solutions that work for you.

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