

market commentary

# A HEALTHY OUTLOOK

## Big spreads continue without end in sight

Both 15- and 30-year mortgages continue to see a large gap between the primary and secondary markets (see graph below). The current 30-year MBS remains at extremely low levels which gives way to a large spread difference between that and the 30-year MBA average fixed rate mortgage.

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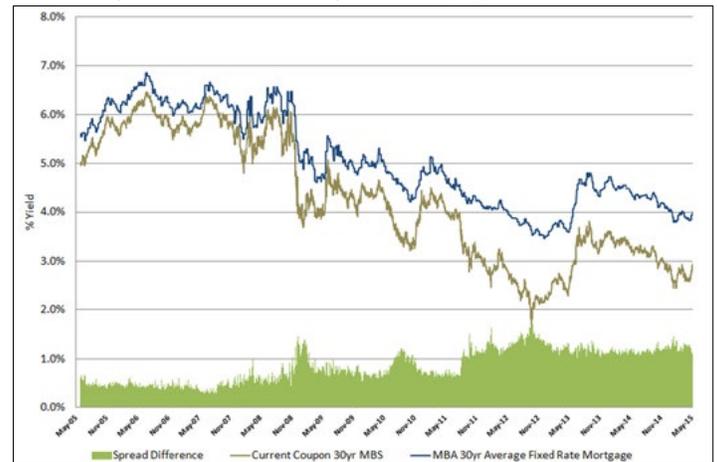
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The large spread between the 30-year MBS and 30-year MBA average has been around for four years and doesn't show signs of changing any time soon. How can you take advantage of this?

This month's scenario is funded with 75% callable advances and 25% fixed advances. The callable advances remain relatively cheap and allow for flexibility in many different rate environments.

*continued on back*

### Primary vs. Secondary Mortgage Rates



## A Good Mix of Callable/Fixed Advances to Fund a 30-year Mortgage

| ADVANCE SUMMARY            |                  |              |                |
|----------------------------|------------------|--------------|----------------|
| Structure                  | Amount           | Initial Rate | Transaction %  |
| RFC - MO 15nc1             | 1,000,000        | 3.96         | 12.50%         |
| RFC - MO 7nc1              | 4,000,000        | 2.95         | 50.00%         |
| 15 yr - Regular Fixed      | 1,000,000        | 3.12         | 12.50%         |
| 5 yr - Regular Fixed       | 1,000,000        | 2.17         | 12.50%         |
| RFC - MO 2nc1              | 1,000,000        | 1.46         | 12.50%         |
| <b>Total/Weighted Avg.</b> | <b>8,000,000</b> | <b>2.81</b>  | <b>100.00%</b> |

We can choose from many different scenarios, but we chose one with good coverage no matter what rates decide to do.

We are hedged for rising or falling rates with this scenario. See the table at the left for a breakdown of our strategy.

## Income and Duration: Two Key Factors in Choosing a Strategy

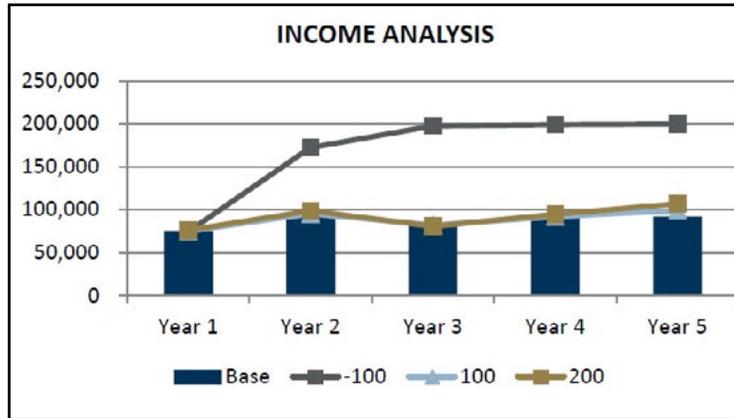
The tables to the right illustrate a few different factors that we look at when choosing a scenario. Duration and income are big issues because we want to make sure we help you hedge risk as well as keeping your bank profitable. This strategy is very risk averse. We are matching duration very closely while still managing to generate good income in many rate scenarios.

Visit the 15- and 30-year strategies below to see how the loan and advance balances perform in significant rate scenarios. Again, with the mix of callable and fixed rate advances, we have abundant coverage in both the down 100 and up 200 rate scenarios. The strategies below also provide more specific details for each mortgage.

*more strategies:*

**15-year Funding Strategy**

**30-year Funding Strategy**



| DURATION    |        |        |        |        |
|-------------|--------|--------|--------|--------|
|             | -100   | 0      | 100    | 200    |
| Assets      | 3.49   | 5.94   | 6.86   | 7.03   |
| Liabilities | (2.89) | (5.20) | (6.05) | (6.37) |
| Net         | 0.60   | 0.74   | 0.81   | 0.66   |

| NET INCOME   |        |         |         |         |         |
|--------------|--------|---------|---------|---------|---------|
| 5 yr Horizon | Year 1 | Year 2  | Year 3  | Year 4  | Year 5  |
| Base         | 74,709 | 92,006  | 84,287  | 90,045  | 91,934  |
| -100         | 74,539 | 172,059 | 197,408 | 198,728 | 199,336 |
| 100          | 75,402 | 95,156  | 82,143  | 91,964  | 99,143  |
| 200          | 76,156 | 98,769  | 80,619  | 94,415  | 106,676 |

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