NOT READY FOR PRIME TIME

FOMC has channels crossed about rate hikes

The FOMC and federal funds rate increases are like costars on a hit summer show. You know they're going to get together. It's just a matter of when. Similiarly, there is no more "if" about the FOMC increasing rates. The committee continues to project a gradual rise in the federal funds rate over the next few years based on improvements in the baseline forecast, but experts don't know when to tune in.

In April, the FOMC indicated rates would rise most likely in June. However, many analysts believe the decision to raise rates could be part of the fall lineup or possibly even held off until the end of the year.

While their objective is to be more transparent, the FOMC has waffled over the decision about when to raise rates. Chair Janet Yellen has implied the schedule would be different than in the past. Instead of a predetermined schedule, rate increases would be data dependent.

American Banker's Investment Banker Christopher Whalen argues both quantitative easing and zero rates may cause deflation to worsen. The current situation is also having a negative impact on earning asset yields.

Consider U.S. banks in the fourth quarter of 2014. Their assets earned 0.69% versus 0.80% in 2010. Bank assets increased by 12%, but income fell almost 10%.

Let's look at a few of the leading economic indicators projecting improvements in the baseline forecast:

1 Credit conditions have eased for both large and small firms. Credit tightening in 2009 was the highest it has been in the 21st century. Conditions today are back to where they were in 2007. This situation creates a greater chance for both consumers and businesses to obtain funding from their local institution.

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your
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Ann has been in banking for 13 years, all 13 at FHLBank. She is a graduate of Washburn University and the Colorado Graduate School of Banking. Contact her today.

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

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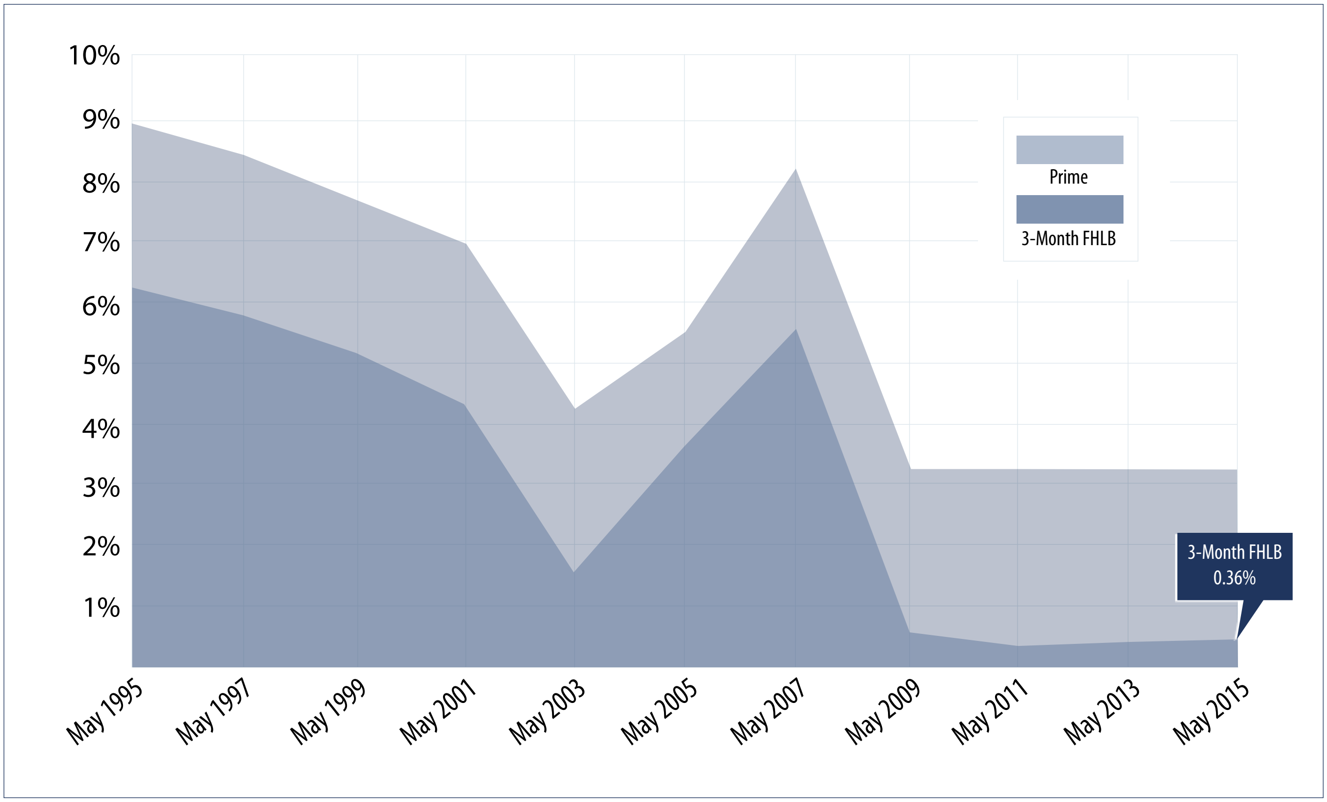
RAC vs. Prime makes RAC a very attractive option



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2 Balance sheet repair is nearly complete as non-performing loans to total loans including loans 90 days or more past due have decreased to nearly a pre-crisis status.

3 The U.S. home price index from the Federal Housing Finance Agency shows a 1.3% increase in housing prices making it the fifteenth consecutive quarter to show an increase. As a matter of fact, Colorado is the state that has seen the greatest increase over the last year with an increase of 11.2%.

4 Mortgage rates have reached an all time high for 2015 with the 30-year fixed-rate mortgage at an average of 3.87%.

5 Perhaps most significantly, unemployment, which has steadily declined from 10% in October 2009 to 5.5% in March 2015. More specifically, unemployment is down over the last year in all four of the 10th district states, indicating the regional economy is very close to full capacity.

As a result of these positive economic trends, consumers are likely to start feeling more certain about the economy and may look to take on additional debt to fund home improvement projects and other purchases.

One avenue for accessing additional credit is through Home Equity Lines of Credit (HELOCs). Promoting HELOCs with attractive terms is a good opportunity to generate additional loan demand and FHLBank's Regular Adjustable Callable (RAC) advance can help provide attractive terms and spreads.

If you compare historical rates for Prime-based loans to FHLBank short-term advances, you can achieve a profitable spread.

With the 3-month FHLBank rate at 0.36% and Prime at 3.25, your spread would be just under 3%. On average throughout the the last 20 years the spread would have been 2.73%.

Other advantages include the free prepayment on RACs to maintain a match between the unpaid balance on HELOCs and the advance funding. Also, in a rising rate environment, the repricing of the three-month advance index will lag Prime and other shorter term rates.

Contact Ann today for solutions that work for you.

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