FINANCIAL INTELLIGENCE
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LOW RATES DRIVING CAR LOANS

Economic outlook presents auto opportunities

Automobile loans could get the green light this summer. Among the many positive trends indicated by September 2014 data from the Federal Reserve Bank of Kansas City, auto lending has surged as a result of lower interest rates combined with strong auto buying from consumers.

The Federal Reserve data showed loan growth continued to outpace growth in deposits allowing institutions to more profitably deploy funding. Plus, net interest margins stabilized to a district average of 3.62%. While this creates opportunities for FHLBank members, the prospect of rising rates may slow auto lending and prompt consideration of new loan offerings and funding strategies.

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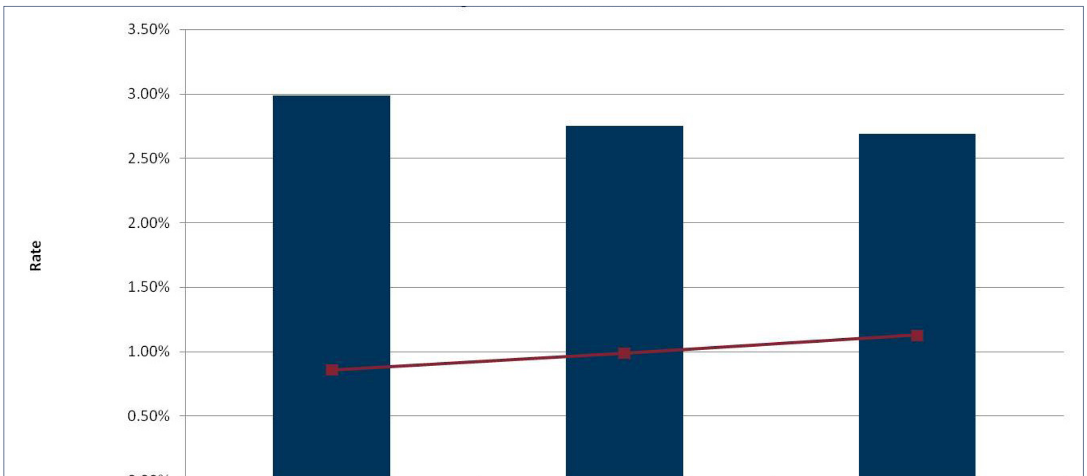
Three-Year Average Auto Loan vs. FHLBank Bullet Rates



	2012	2013	2014
New Auto Rates	2.99%	2.75%	2.69%
FHLB Bullet	0.86%	0.99%	1.13%

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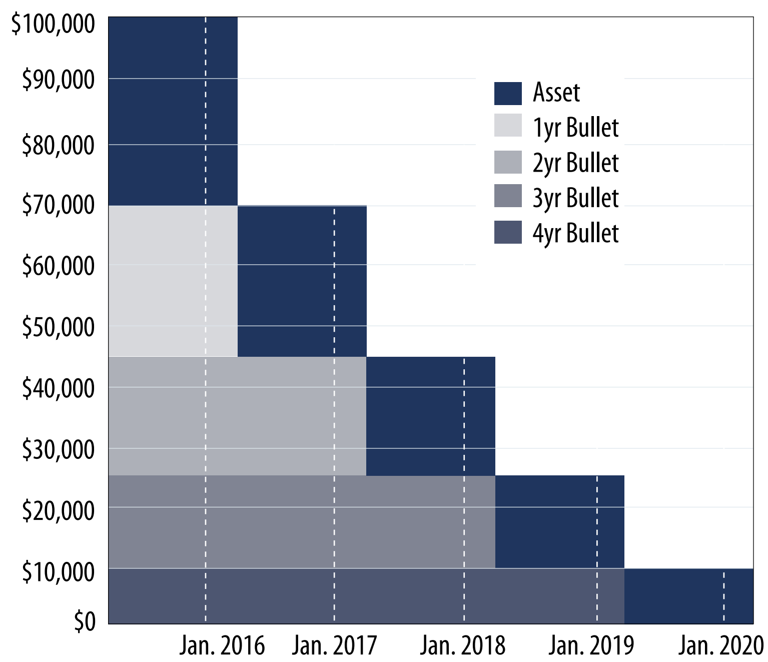
Find out more about Ann and our funding specialists at **FHLBTOPEKA.COM/INTELLIGENCE.**

Amortizing Bullet Strategy



Advance Results	Bullet Rate and Spread	Asset Results
Avg Adv Rate: 1.068%	4 year: 1.73%, 200 adv life	4 year is $10,000
Deposit COF: 0.5%	3 year: 1.42%, 200 adv life	3 year is $15,000
Initial Spread: 209	2 year: 1.07%, 200 adv life	2 year is $20,000
Asset Life Spread: 202	1 year: 0.59%, 200 adv life	1 year is $25,000
		Total funding is $70,000

Several auto lenders are currently offering 6- and 7-year maturities to offset larger loan amounts. These longer term auto loans may become even more common should interest rates move higher. With auto loan delinquencies remaining low and competition for loans increasing, lending rates have moved lower with margins likely compressing over the past few years.

The graph on the first page illustrates the median yield on auto loans held on member balance sheets and shows the decline in yields that have taken place over the past few years.

In addition, the average rate on FHLBank advances on a 3-year advance, as a pricing proxy, have increased over the same period of time suggesting the competition for auto loans has resulted in narrower margins.

Members that match fund specific loans or pools of loans often blend in deposits to help more profitably allocate deposit funding while increasing the match funded spread. A possible approach related to auto lending would be to create a ladder of term advances that will help hedge rising interest rates while blending in deposits to help enhance the margin on the loans.

The graph to the right demonstrates a ladder of bullet advance funding for 5-year auto loans. Deposits are being used to fund 30% of the loan pool, which helps lessen the overall funding cost and increase the spread on the loans.

In this example, the loans are priced competitively at 3% with the blended funding providing a spread of more than 200 basis points.

As auto loan terms lengthen into the 6- and 7-year maturities, or as interest rates begin to increase, it may be helpful to consider similar transactions to help preserve the spread on auto loans.

Please contact me to discuss different solutions for funding your auto loan portfolio.

Contact Ann today for solutions that work for you.

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