

SPRING BRINGS MORE GREEN

Economists say ag loans may grow this season

The forecast this spring calls for warmer weather, greener lawns and ... increased loans? The Federal Reserve's Nathan Kauffman and Maria Akers said it's a possibility. In a November 2014 article, the economists said institutions could see a growth in loan demand due to increasing input costs, decreases in land values and decreased farm income. These market factors result in lower farm operating income and increased demand for loans.

your
**AGRICULTURE
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Find out more about Tony and our funding specialists at

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"In areas heavily dependent on crop production, such as Kansas and Nebraska, more bankers reported declines in farm income, a sharp rise in the demand for operating loans and lower loan repayment rates compared with last year," the article read. "However, bankers in areas with high concentrations of livestock operations, such as Oklahoma, reported increased farm income, a modest increase in loan demand and solid

loan repayment rates."

The economists went on to say that "when crop prices were at record highs, Nebraska posted some of the strongest annual cropland value gains in the District; however, after crop prices dropped, cropland values in Nebraska edged down. Cropland values in Oklahoma and the Mountain States, however, posted stronger year-over-year gains in the third quarter."

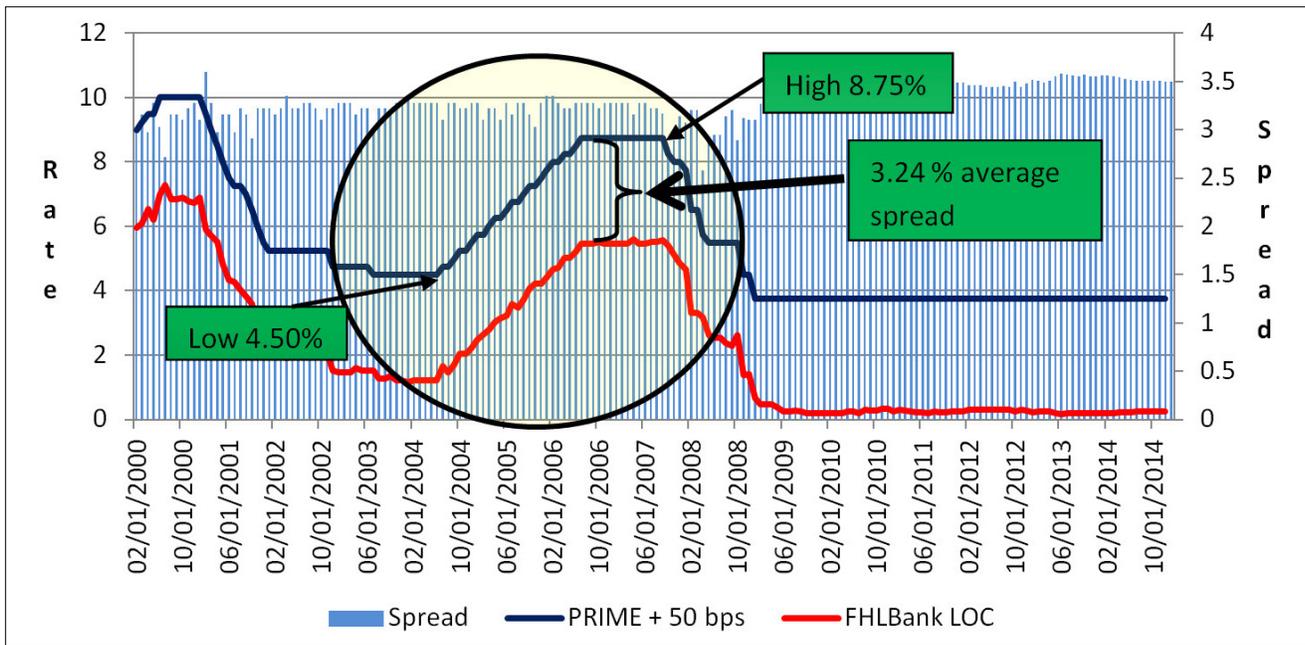
All of this may translate

into higher loan demand for your institution as your customers look to purchase inputs for the spring and extend lines of credit.

FHLBank's line of credit is a good funding vehicle for these types of working capital and operating loans. The line of credit has been priced well under Prime for the last 15 years, which will help you earn a good spread. Today's spread is 3.50% (Prime based loan + 50 bps).

continued on back

15-year Prime versus FHLBank's Line of Credit



Additionally, the graph above takes a look at the spread your institution would have earned if you tied your Prime based loan (plus 50 bps) to FHLBank's LOC rate over the same 15 years.

More specifically, the targeted

area of the graph shows the correlation of the rates before and during a rising-rate environment. Further analysis indicates 4.50% (lowest) and 8.75% (highest) Prime rate plus 50 bps during the same rate environment, which generated an

average spread of 3.24%.

Based upon a prime-based loan plus 50 bps, the lowest rate charged to your customer would have been 4.5% with a high of 8.75%. At these rates, an average spread of 3.24% would have been obtained.

Benefit of Your Short Term Line of Credit

- ▶ Potential for constant spread during a rising rate environment
- ▶ Reprices daily for greater management of operating cycles
- ▶ Hold LOC funds overnight or until no longer needed

- ▶ Prepayment anytime without a fee
- ▶ Convenient source of liquidity
- ▶ Auto renewal
 - As you evaluate the line of credit, remember to take the Class B

stock dividend of 6% into account.

The dividend could make your effective borrowing rate close to or below zero percent.

Contact our lending desk to take down a line of credit advance today.

Contact Tony today for solutions that work for you.

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