DEFYING GRAVITY

CRE market not held down by global concerns

your
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Find out more about Bobbi and our funding experts at **FHLBTOPEKA.COM/INTELLIGENCE.**

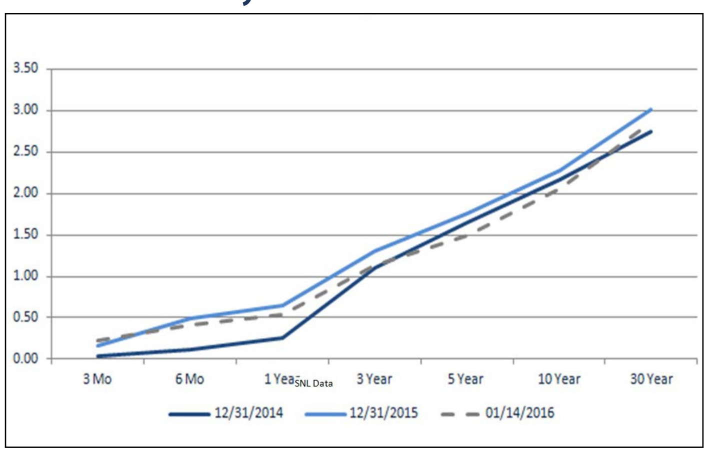
Now that the suspense of the first Federal Reserve rate hike has passed, we can all take a deep breath ... until the next meeting. In all seriousness, Federal Reserve Vice Chairman Stanley Fischer expects four rate hikes in 2016, but global uncertainty could veer this prediction off course. Volatility in the market will likely continue given the uncertainty of global events.

Since the end of 2014, volatility and the Federal Reserve move seem to have only affected the yield curve on the short end. The long end has remained fairly stable, as depicted in the graph to the right.

Even with market uncertainty, lending activity was strong in 2015, specifically in the commercial sector. The Kansas City Federal Reserve reports new loan growth in the 10th District of $18.7 billion

continued on back

30-Year Treasury Curve



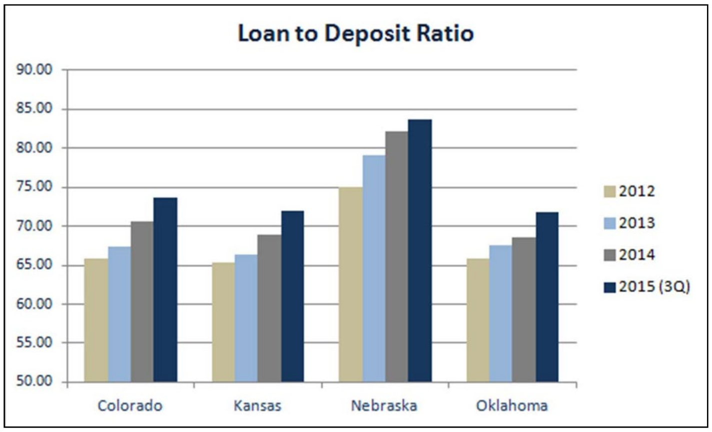
as of third quarter 2015. The majority of this growth was in commercial real estate (CRE) ($6.7 billion) and commercial-and-industrial (C&I) loans ($3.7 billion).

American Banker reports regulators have begun ringing alarms about possible bubbles in C&I and CRE loans. However, problem and non-current assets continue to decline, except in the oil and gas sector, along with provisions outpacing net charge-offs.

In another article in American Banker, Jason Ware, the chief investment officer at Albion Financial Group, an asset-management firm that invests in banks, observed only slight blemishes for commercial lending.

"We see a pretty firm commercial loan market, but with pockets of weakness, like oil and gas."

Even with the weakness, a delinquency rate below 1.00% is still extraordinarily good by historical standards. Loans have also outpaced deposits by over $7 bil-



lion since the end of 2014. Research shows FHLBank members' have experienced an upward trend in the loan-to-deposit ratio since 2012.

Experts predict construction growth in 2016 and beyond

A recent article published by CoStar Group shows a series of forecasts released by industry groups. Construction of office, shopping center, warehouse and hotel properties is expected to accelerate through 2017.

Three economists — National Association of Home Builders (NAHB) Chief Economist David Crowe, Associated Builders and Contractors (ABC) Chief Economist Anirban Basu and American Institute of Architects Chief Economist Kermit Baker — predict continued construction industry growth in the next year.

"Overall nonresidential construction was up 12.4% in September 2015. Not bad for an economy that's been growing at around 2-2.5%," Basu said. "Nonresidential construction has emerged as one of the leading engines of the economy."

Deutsche Bank reports a surge in service sector job growth of more than 3.5 million since July 2014, which correlates to CoStar Group's data of lodging construction up 32.8%, office construction up 19.3% and health care construction up 9% (year over year in September 2015).

Research shows that FHLBank member institutions' construction and loan development loans have increased $6.3 billion since 2012, with growth more than $2 billion at the end of third quarter 2015.

SNL Financial reports lending competition will be fierce for commercial loans along with continued demand in the construction sector. Strong demand coupled with an easing of CRE underwriting standards has nurtured the significant growth in commercial real estate lending.

Easing standards, new loan growth and declining problem assets all lead to a window of opportunity for your institution to gain a competitive advantage in this market.

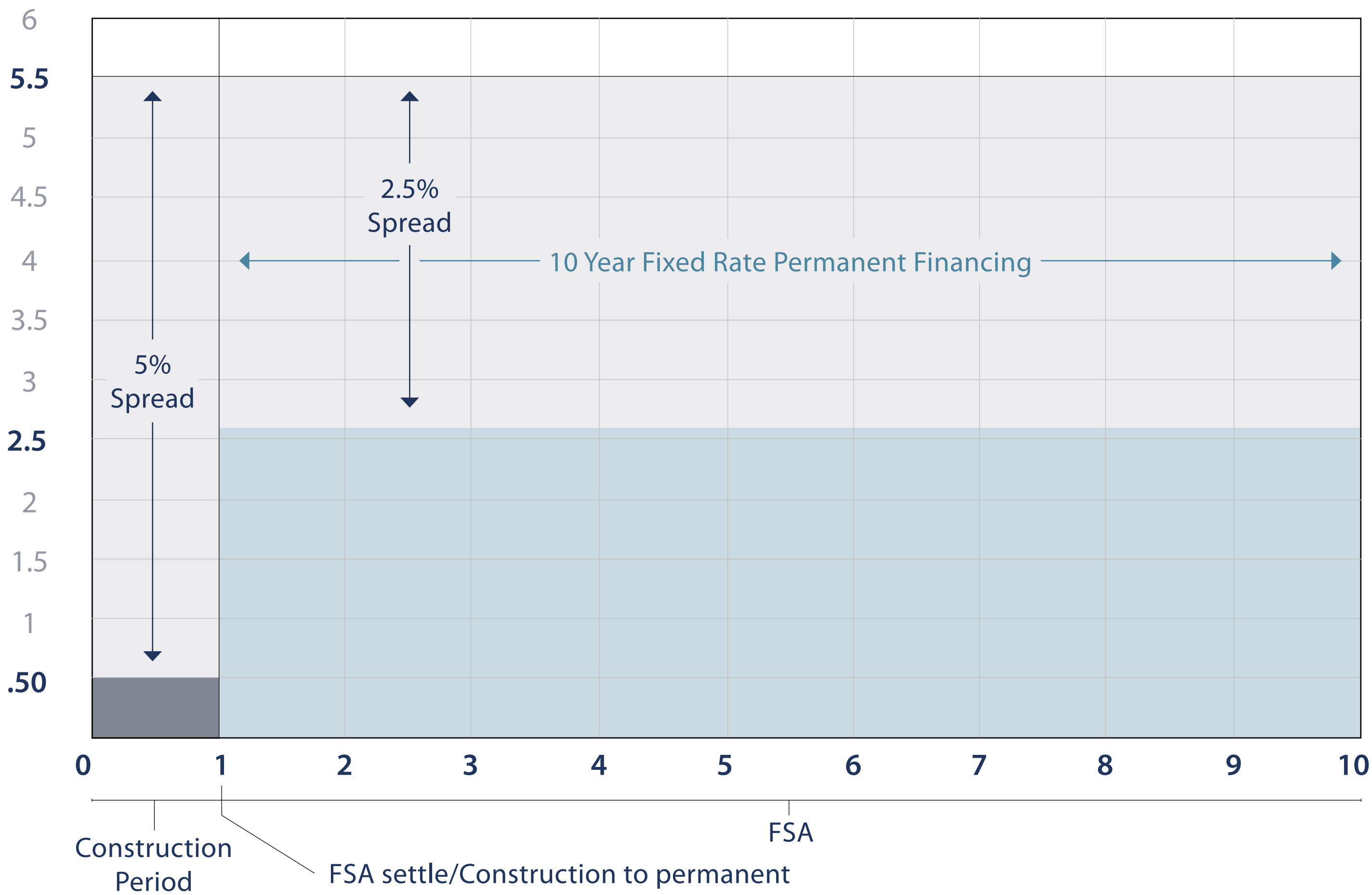
Recently, the Lending desk has had discussions with members who are interested in hedging interest rate risk on commercial construction loans.

The examples on the following page show how a Forward Settling Advance (FSA) can be used to fund these projects by allowing a fixed rate to be locked in today with a funding date at the end of the construction period.

FSA advances can be settled as much as two years in the future and are available in bullet or amortizing structures with maturities up to 30 years. To learn more about the FSA, click here.

Remember, the following strategies represent only a few of the ideas we can offer to help you fund CRE loans. The Lending staff is ready to help you develop a tailored strategy that fits your specific project.

Forward Settling Advance Scenario 1



SCENARIO 1
Match funding with fixed rate amortizing

Construction period of 1-year

Line of Credit at 0.50% (variable daily rate) to fund construction period
- Initial spread of 500 basis points with a floating rate to your customer at Prime + 2.00%

Permanent financing funded with a 15-year fixed rate amortizing FSA at 2.55%
- Spread of 295 basis points is achieved by charging your customer a rate of 5.50% for 15-years

SCENARIO 2
Match funding with fixed rate bullet

Construction period of 1-year

Line of Credit at 0.50% (variable daily rate) to fund construction period
- Initial spread of 500 basis points with a floating rate to your customer at Prime + 2.00%

Permanent financing funded with a 10-year fixed rate bullet FSA at 2.57%
- Spread of 243 basis points is achieved by charging your customer a rate of 5% on a 20-year amortization with a 10-year balloon

Contact Bobbi today for solutions that work for you.

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