HEDGING YOUR BETS

Adding advances to your funding blend

With the economy showing signs of a rebound and institutions beginning to ease credit standards, it would appear we are starting to turn the corner on the economic downturn. The Federal Reserve Tenth District reports that between Dec. 31, 2013, and Dec. 13, 2014, provisions for loan losses have outpaced charge-offs and problem assets continue to decline. Commercial and industrial loans have increased by $2 billion and non-farm/non-residential by $1.8 billion.

FHLBank Topeka's member institutions saw commercial loan growth exceeding 5% in 2014, and 2015 is off and running with early indications of positive growth in the commercial sector.

In a recent survey conducted by FHLBank Topeka, more than 75% of respondents fix commercial loan rates for no longer than three to five years, whether for real estate or equipment loans. The vast majority of respondents use Prime as an index to price commercial real estate and equipment loans.

With the Fed signaling a rate hike, now might be the time to consider blending in some FHLBank advances to hedge the interest rate risk in your commercial portfolio.

Current offerings priced with 3- to 5-year balloons or repricing frequency are in the efficient part of the interest rate curve with good spreads between asset yields and funding costs existing.

continued on back

your
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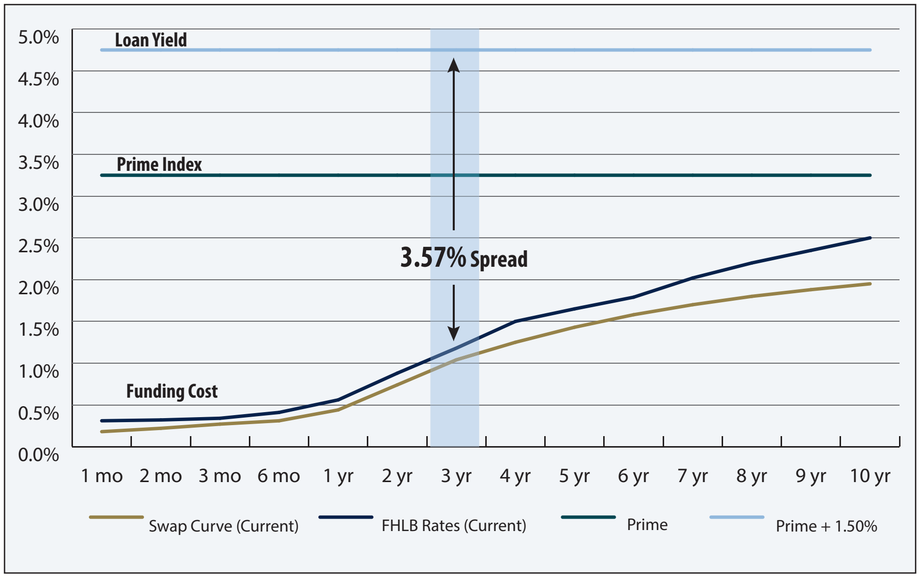
Bobbi has been in banking for 14 years, eight at FHLBank. She is a graduate of Washburn University and Colorado's Graduate School of Banking. Contact her today.

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

The Current Commercial Environment

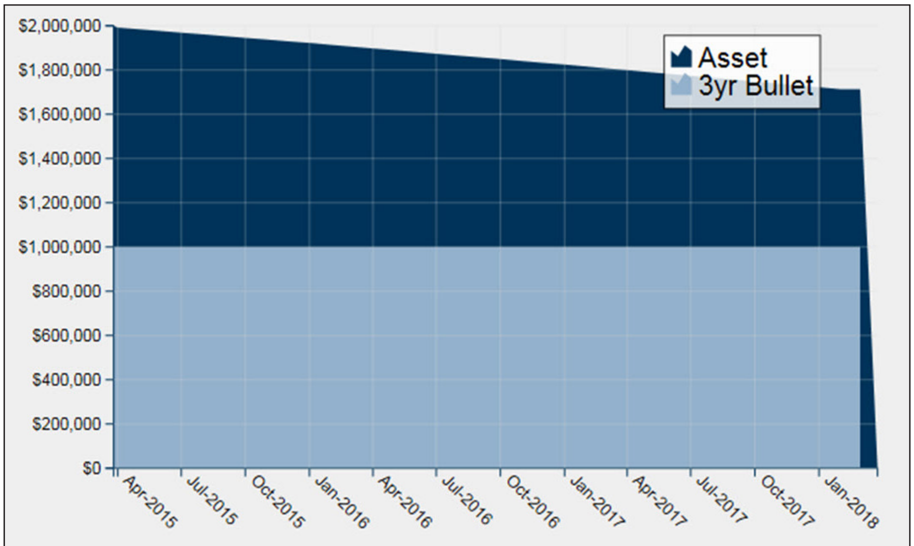


The graph at the left illustrates the current market environment with commercial loans being priced around 150 bps above Prime.

Many members are locking the rate for 3 to 5 years with those terms at very efficient funding costs.

Members repricing the loan rate every 3 years at Prime+150 bps would have a net interest spread of 357 bps.

Blending Advances with Deposits



Advance Results	Bullet Rate and Spread	Asset Results
Average Advance Rate: 1.380 % Deposit COF: 0.500 % Initial Spread: 381 Asset Life Spread: 378	3yr: 1.38 %, 378 adv life	Yield: 4.750 % Par: $2,000,000 Start: Mar-15 Maturity: Mar-18 Amort: 180 mo Maturity: 36 mo Am: Monthly Type: Mortgage CPR: 0.000 %

Members with additional available liquidity may choose to blend deposits into the funding mix. This will often increase the initial spread. Because deposit repricing often lags upward movements in interest rates, margins over the 3-year repricing period will likely hold up.

The graph at the left illustrates a 15-year commercial loan that reprices every 3 years to Prime+150 bps with a blend of advances and deposits. Because the deposit cost of funds is lower than the advance, the member's inital spread would widen to 381 bps.

Contact Bobbi today for solutions that work for you.

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