# FULL CONCENTRATION

## CRE demand means high concentration levels

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

In April, I attended the American Bankers Association's Real Estate and Commercial Lending conference, and one of the main topics was commercial real estate (CRE) loan growth. Influenced in part by strong demand for CRE credit, many institutions' CRE concentration levels have been rising.

The three primary federal regulators (FDIC, OCC, Fed) corroborated this trend when they released a joint statement indicating CRE asset and lending markets are experiencing substantial growth, therefore contributing to increased competition along with historically low capitalization rates and rising property values.

Here in the 10th District, we are seeing similar growth, as the Kansas City Fed reported CRE loans up $7 billion over the last 12 months. There are no signs of this sector slowing down, as illustrated in the pie chart. Eight in 10 banks are planning to increase loan to capital concentrations in 2016. But, this growth brings concerns as well, such as increased

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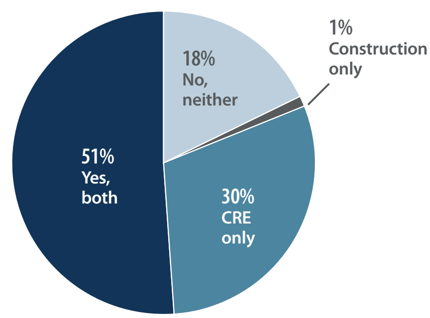
**Does your bank anticipate increasing your CRE/capital concentrations in 2016?**




Source:1st Annual ABA Commercial Real Estate Survey regulatory burden, lower capital rates, rising interest rates, competition and market conditions, just to name a few. FDIC Chairman Martin Gruenberg, says community banks hold a larger share of longer-term assets, which has helped them sustain profitability in a low-rate environment, but also has left them more exposed to interest rate risk. He noted that risk is being monitored, particularly for those institutions that moved out further on the yield curve to generate revenue, subjecting them to interest rate risk (IRR) as rates rise.

So, how do you balance strong CRE loan demand, IRR, concentration levels and proper underwriting standards? FHLBank Topeka's Lending staff is here to assist with minimizing the IRR piece of the puzzle, allowing you to focus on generating quality loans and business. Our easy online models on Members Only will allow you run custom funding scenarios using fixed rate amortizing advances or bullet advances. Following are two examples of funding scenarios you can create using the online models.

## Amortizing advances

Features:

- Customizable term, amortization period, prepayment speeds and principal payment schedules
- Available in amounts as little as $10,000
- Fixed rates up to 30 years

Benefits:

- Fixed rate allows you to offset the interest rate risk associated with putting long-term fixed rate loans on the books
- Can be structured to meet practically any asset or cash flow
- Can accommodate a front-end construction period on your customer's loan
- Low minimum amount allows for loan-by-loan funding

## Bullet advances

Features:

- No principal payments until maturity
- Fixed rate terms from 4 months to 30 years
- Available in amounts as little as $10,000
- Multiple terms can be combined to build a funding ladder

Benefits:

- Unlike a CD, you select the term and amount needed
- Fixed rate helps offset interest rate risk associated with fixed-rate assets
- Effective tool for filling balance sheet funding gaps or funding loans

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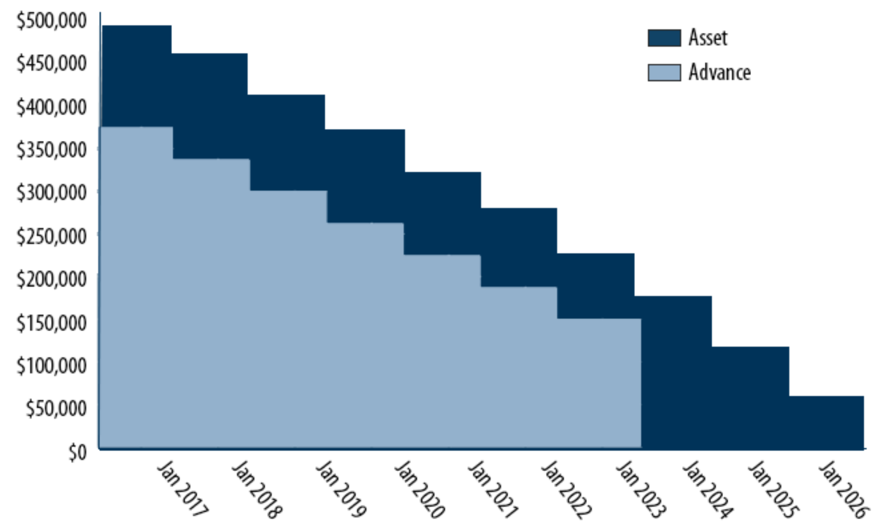
## Funding Strategies

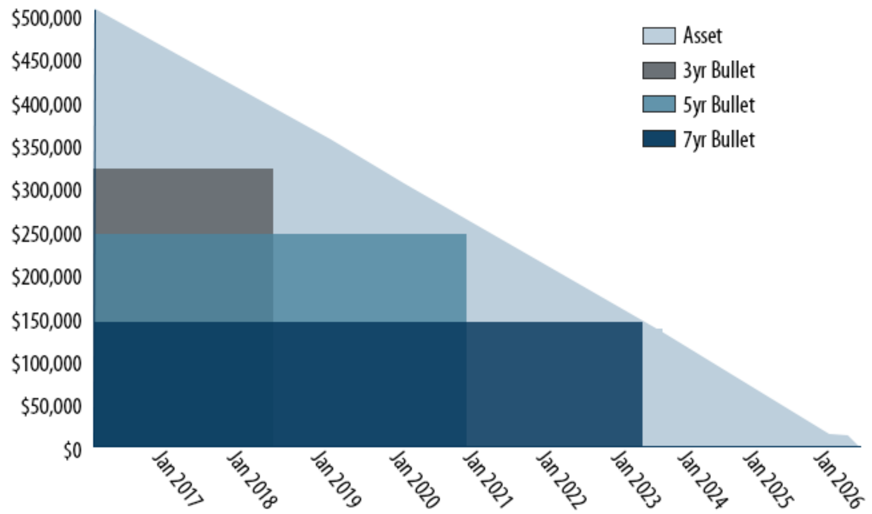
### Short Funding

This example shows how the amortizing advance can be used to increase spread by blending in deposits along with short funding the maturity. The result would be an initial spread of 287 bps. This strategy also protects you from early prepayments as you are not funded to the maturity of your customer's loan or your pool of assets. Should the loan or assets remain outstanding until maturity, it can be funded with deposits or short term advances.




### Ladder of Bullets

This example shows how to create a funding ladder, based on the cash flow of your asset(s). The result would be an initial spread of 305 bps. Similar to the amortizing strategy, you can blend in deposits along with short funding the maturity. However, bullet advances can be prepaid in part, which provides you options if your customer/asset prepay early. Should the loan or assets remain outstanding until maturity, it can be funded with deposits or short term advances.




If you need added flexibility, both the amortizing and bullet advances can be structured with call options that allow the advance to be prepaid without fee.

These are only a couple of examples of the many different funding options available to you as an FHLBank member. Give the Lending Desk a call at 800.809.2733 to discuss our online models or your specific funding needs.

**Contact Bobbi today for solutions that work for you.**

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