

market commentary

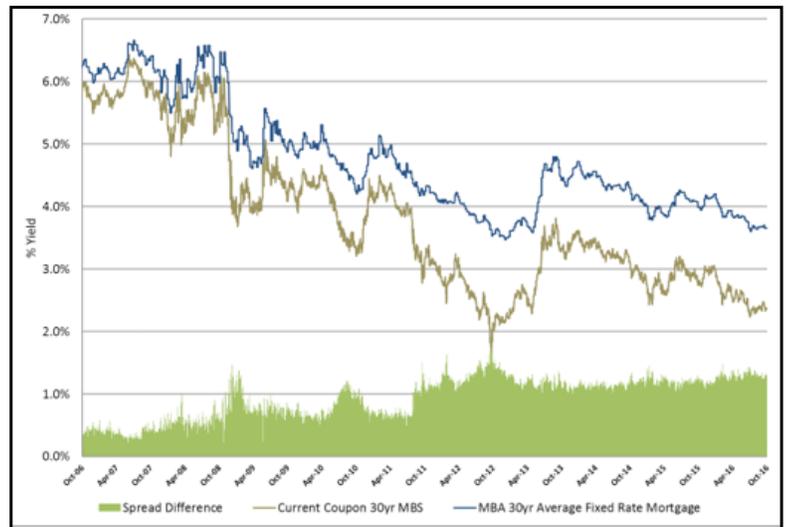
# SUSTAINED PERFORMANCE

## Strong primary market rates endure

Our portfolio lending strategy (PLS) continues to show good spreads time after time. The current PLS illustrates how our spreads remain wide this month mainly due to lower long-term advance rates at the beginning of October.

The chart below shows how the primary mortgage yields continue to be significantly better in comparison to agency MBS yields. This gap between the primary and secondary market yields has been ongoing for the last five years due to the large guarantee fees FNMA and FHLMC charge to take on the credit risk of mortgage originations.

Primary vs. Secondary Spreads



The tables on the next page provide several types of fixed and callable rate FHLBank advances you could use to fund mortgages. Any mix of these could be used in the PLS. When you combine low advance rates with continued high yields on mortgage

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your  
**RESIDENTIAL  
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Jenny has served in a number of analysis roles in her 12 years at FHLBank Topeka, including her current role as pricing manager. She is a graduate of Washburn University.

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

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originations, we continue to see wide margins when holding loans in portfolio as shown in the 15- and 30-year strategies.

## Funding Mix on 30-year Mortgages

The tables to the lower right illustrate the funding costs associated with the advances used for the 30-year strategy and detail the different advance types that were selected by the PLS model to fund these mortgages. This scenario utilizes equal amounts of callable rate advances and fixed rate advances and results in a good risk adjusted spread of 143 bps.

The graphs at the lower right demonstrate how the balances perform in an up 100 and down 100 rate environment. As shown in each graph, we are able to provide a funding mix with the flexibility to manage varying mortgage prepayment speeds. With that mix of callable and fixed rate advances, the result is a well-matched portfolio throughout different rate scenarios.

*see our full analysis:*

- 15-year Funding Strategy
- 30-year Funding Strategy

## Advance Rates

POSSIBLE FIXED ADVANCE STRUCTURES	
Structure	Rate
Line of Credit	0.530
3 mo RFR	0.640
1 yr - Regular Fixed	0.980
2 yr - Regular Fixed	1.250
3 yr - Regular Fixed	1.380
4 yr - Regular Fixed	1.540
5 yr - Regular Fixed	1.660
7 yr - Regular Fixed	1.735
10 yr - Regular Fixed	1.889
15 yr - Regular Fixed	2.060
20 yr - Regular Fixed	2.152
30 yr - Regular Fixed	2.313

POSSIBLE CALLABLE ADVANCE STRUCTURES	
Structure	Rate
RFC - 2nc1	1.414
RFC - 5nc1	1.963
RFC - 7nc1	2.212
RFC - 10nc1	2.619
RFC - 15nc1	3.144

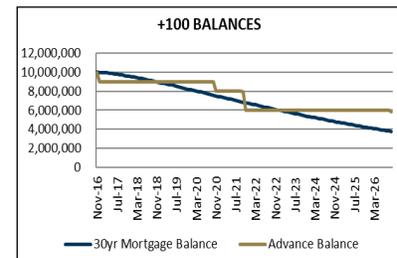
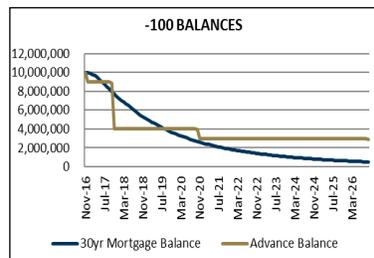
*Advance costs remain low at the beginning of the fourth quarter.*

## Funding Mix | Good use of callable and bullet advances

TRANSACTION DETAIL	
Transaction Size	10,000,000
Asset Term	30 years
Asset Yield	3.53%
Funding Cost	2.10%
Initial Spread	1.43%

ADVANCE SUMMARY			
Structure	Amount	Initial Rate	Transaction %
4 yr - Regular Fixed	1,000,000	1.54	10.00%
10 yr - Regular Fixed	3,000,000	1.90	30.00%
RFC - MO 10nc1	1,000,000	2.69	10.00%
RFC - MO 5nc1	2,000,000	2.05	20.00%
RFC - MO 15nc1	2,000,000	3.22	20.00%
LOC	1,000,000	0.54	10.00%
<b>Total/Weighted Avg.</b>	<b>10,000,000</b>	<b>2.10</b>	<b>100.00%</b>

## Versatile Funding | Use a combination of mortgages and advances



Contact your account manager today to find out more about our portfolio lending strategies.