

BUILDING YOUR LIQUIDITY WITH FHLBANK TOPEKA PRODUCTS

A recent Interagency Policy Statement on Funding and Liquidity Risk Management defines the process that depository institutions should follow in appropriately identifying, measuring, monitoring, and controlling their funding and liquidity risks. **As regulators increase their focus on liquidity and contingency funding plans, it is more important than ever to have the tools you need to test your funding sources and find ways to increase your liquidity.**

TESTING YOUR ACCESS TO LIQUIDITY

FHLBank has products designed to satisfy short-term liquidity needs, like our line of credit and short-term advances, and products that can help minimize your liquidity risks. FHLBank’s Test Your Line (TYL) Program helps satisfy the requirements of the Interagency Policy Statement related to testing your contingency funding plan, by *“ensuring the roles and responsibilities are up to date and appropriate”* as well as *“ensuring that contingent liquidity lines can be drawn when needed.”*

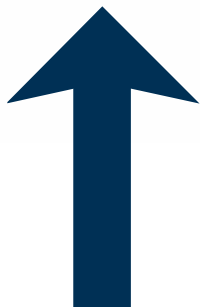
How the TYL Program works

1. A minimal amount is drawn on your FHLBank line of credit.
2. The cost of the transaction is offset by investing the amount drawn in your overnight deposit account, which earns a Fed Funds-type of return.
3. The following day, we automatically reverse the transaction and provide documentation of the successful test.

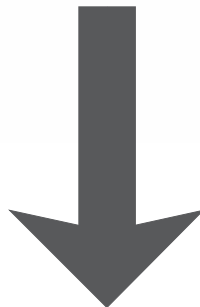
INCREASING YOUR LIQUID ASSETS

Used primarily to collateralize public unit deposits, FHLBank letters of credit (LTCs) may not be the first tool that comes to mind to increase on-balance-sheet liquidity. If you are pledging Treasury or Agency securities to collateralize the amount of public unit deposits over and above the FDIC coverage, you could be missing out on an opportunity to increase your cushion of liquid assets. Because pledged securities are encumbered and do not count toward liquidity, using them to

ON-BALANCE-SHEET LIQUIDITY



FHLBANK'S
LETTER of CREDIT



ENCUMBERED
SECURITIES

support PUDs lowers the amount of liquid assets on your books. Your relationship with FHLBank can doubly benefit you if you use LTCs to secure these deposits. Your on-balance-sheet liquidity increases because you can pledge one- to four-family loans or other acceptable loans to FHLBank as collateral, an option that isn't available with most secured borrowings.

To illustrate, let's run through an example. Assume a \$100 million institution has 65%, or \$13 million, of its securities portfolio pledged. Of the \$13 million in securities pledged, \$10 million are supporting PUDs. If the institution instead uses \$4 million in LTCs as collateral for the PUDs, and pledges its loan collateral to FHLBank for the letter of credit, it frees up \$4 million in securities that can now

(continued on next page)

MORE ABOUT OUR LETTER OF CREDIT

Our Web site features more information about FHLBank Topeka highly rated letters of credit. You can find the letter of credit agreement, application and specific state materials.

www.fhlbtopeka.com/letters

If you have questions about how FHLBank's letter of credit can help you increase your on-balance-sheet liquidity, contact us.

Lending Officers | 800.809.2733

Ann Meier
Bobbi Shinn
Jeff Steiner

(continued from previous page)

be used as additional on-balance-sheet liquidity. Since loans are not considered on-balance-sheet liquidity, using them to collateralize the LTCs actually adds to the institution's cushion of liquid assets. An additional benefit of this transaction is that the institution has reduced its pledged securities to total securities, which is a common liquidity measure used by regulators, to 45%.

INCREASING YOUR MARGINS

FHLBank LTCs can also improve your institution's profitability by allowing you to reallocate the investment dollars you are holding in low yielding Treasury and Agency securities to higher yielding securities or loans. In turn, adding certain types of additional loans to your balance sheet can increase your borrowing capacity at FHLBank by giving you more pledgeable assets.

BENEFITS TO YOUR PUBLIC ENTITY DEPOSITOR

In addition to all the benefits to your institution, LTCs have multiple benefits to your public unit depositors. Our LTC is an highly rated Standby Irrevocable Letter of Credit that **guarantees** the safe return of non-insured funds to public unit depositors. It is an authorized form of collateral for public entities in Colorado, Kansas, Nebraska and Oklahoma. In total, approximately 600 PUDs have accepted FHLBank LTCs as collateral. (View www.fhlbtopeka.com/letters for a complete list).

The value of the LTC never changes from the face amount you establish, which makes it a preferred form of collateral for many public entities because it eliminates the burden of monitoring the market value of securities. You establish the amount and maturity date of the LTC, so you can customize it to fit the situation of each unique depositor. With flexible terms and a low fee of 12.5 basis points per annum, the LTC is the preferred method of collateralizing PUDs for many FHLBank members.