FHLBank Topeka

FINANCIAL INTELLIGENCE / LIVE

A NEW WEBINAR FROM FHLBANK TOPEKA

- ✓ What's going on in the market and economy
- ✓ Peer analysis and member trends data
- ✓ Balance sheet strategies
- ✓ Tools and products available through your membership in FHLBank Topeka

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Discussion Topics

- Economic Update
- Member Financial Trends
- Funding Strategies & Considerations
- FHLBank Update on Capitol Hill
- FHLBank Community and Grant Programs

Poll Questions

Do you need CPE credit for today's webinar?

a. Yes
b. No

Which area of the webinar are you most excited to learn about today?

a. market and economic update
b. peer analysis and member trends
c. funding strategies and considerations
d. FHLBank update

FHLBank Topeka

Economic Update

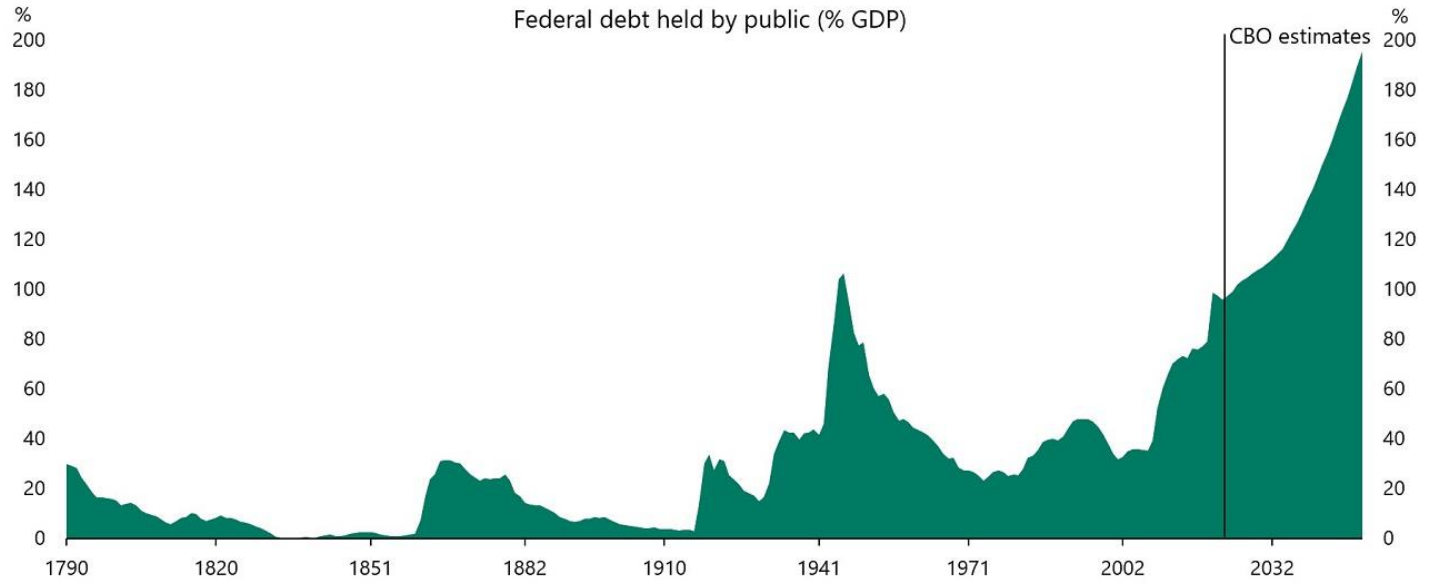
Economic Outlook

Inflation Improving, Debt Bubble, & Long-Term Rates Rising

- Fed Considering a Pause?
- GDP | 2.80% ⬇
- Core PCE | 2.70% ⬇
- Core CPI | 3.30% ⬆
- U3 Unemployment Rate | 4.10% ⬇
- HPI YOY | 5.73% ➡
- Pending Home Sales | 2.20% ⬆
- Debt Bubble?

APOLLO

CBO: Under current policies, government debt outstanding will grow from 100% to 200% of GDP

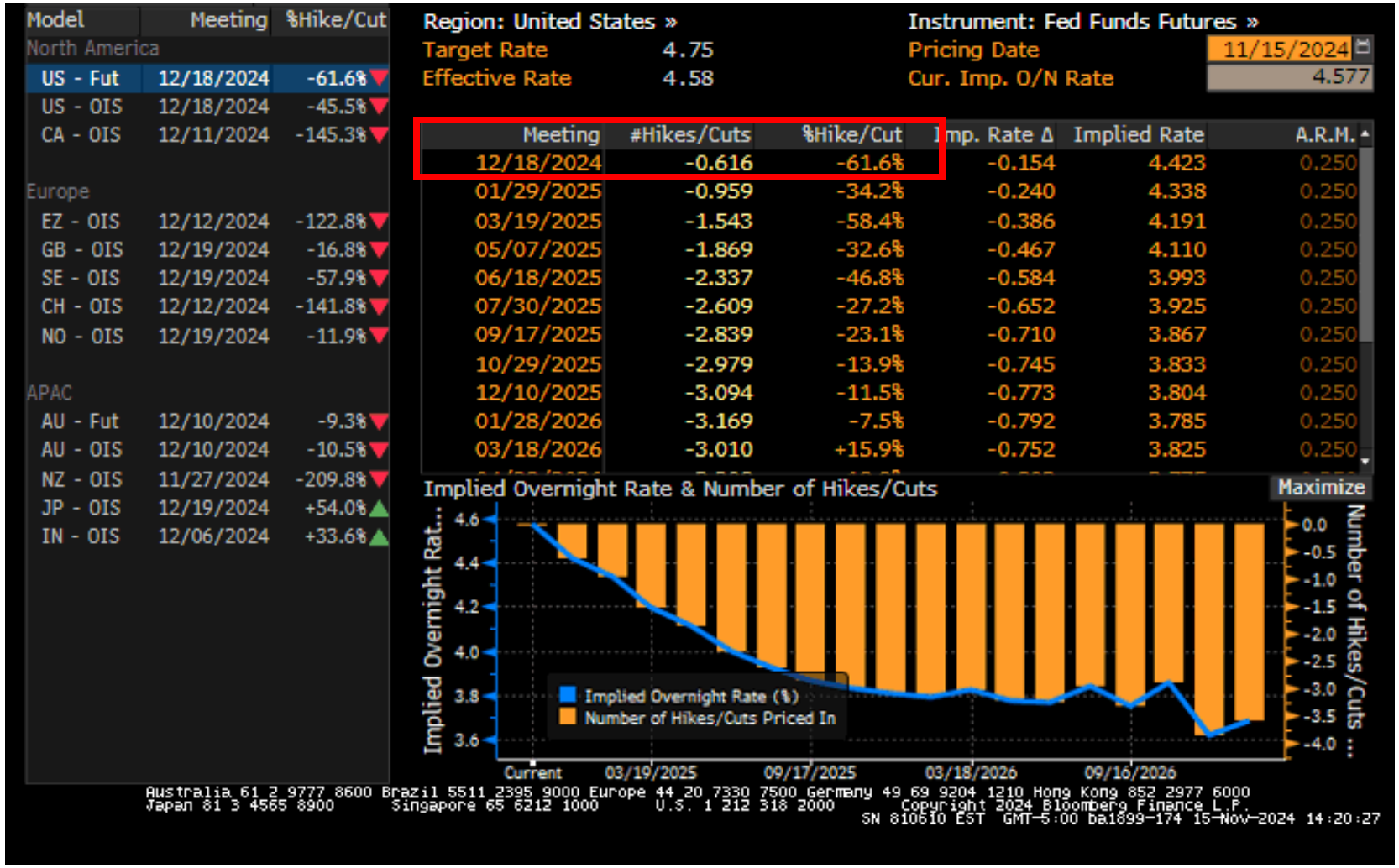


Poll Question

Where do you think the terminal low will land for the Fed's Rate Cuts?

a. 4%+
b. 3-4%
c. 2-3%
d. 1-2%
e. 0-1%

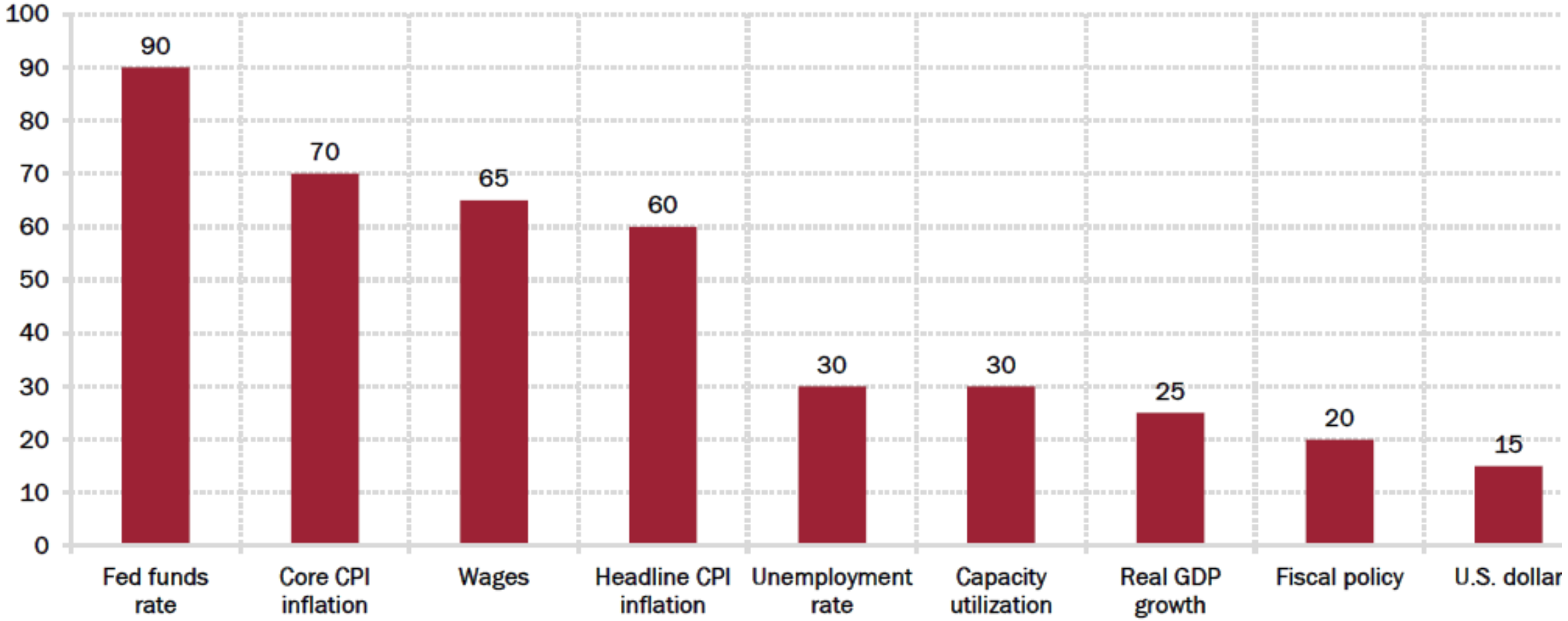
Fed Funds Futures | 60% Chance for December Rate Cut



NOTHING MORE IMPORTANT FOR BONDS THAN THE FED!

10-year Treasury Note Historical Correlations

(percent)



Source: Haver Analytics, Rosenberg Research

14 Prior Fed Hikes, 11 Landed in Recession

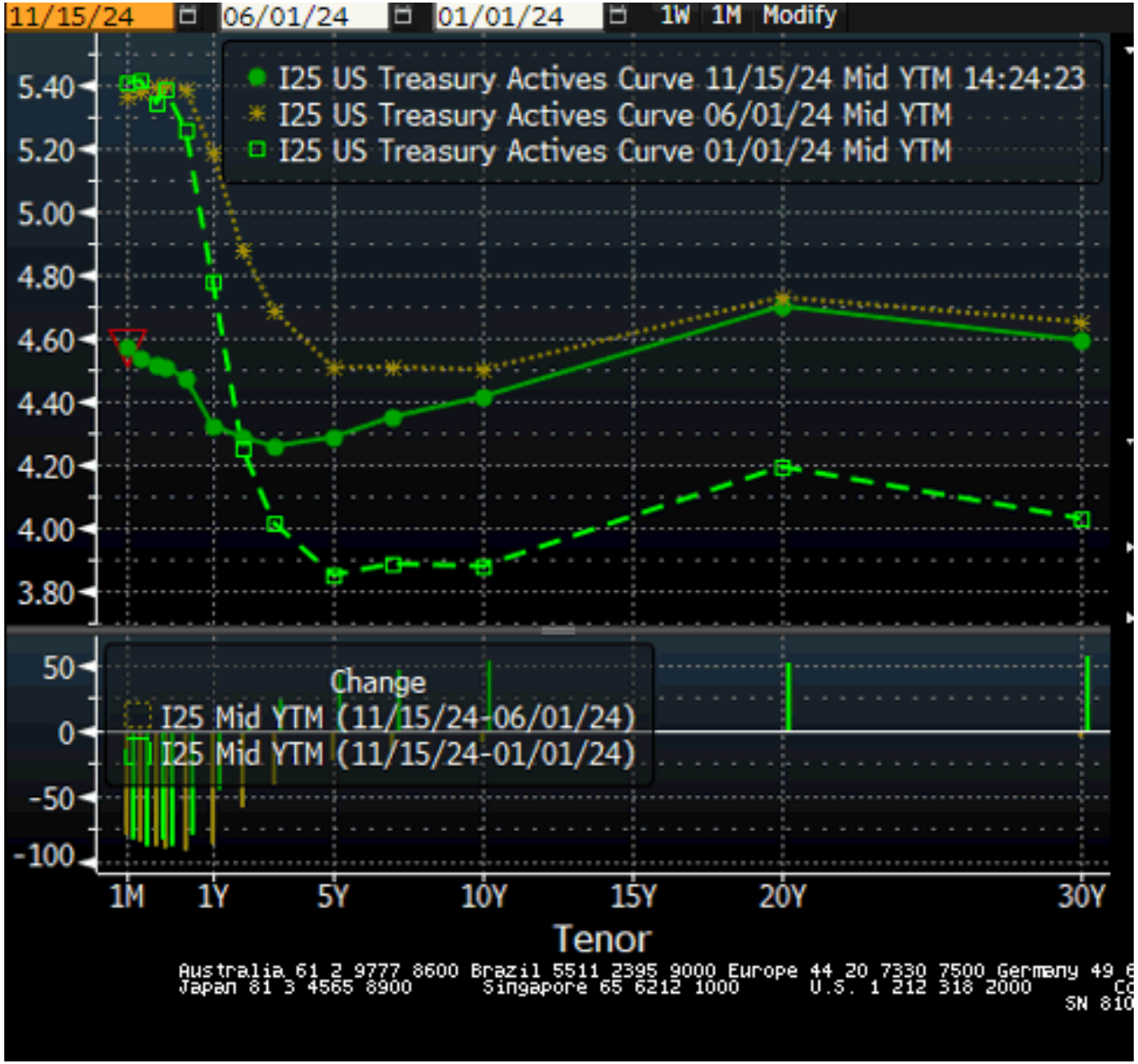
Start of Hiking Cycle	Start of Recession	From The Start of the Fed Hiking Cycle to Start of Recession (Months)
August 1958	April 1960	20
July 1967	December 1969	29
April 1971	November 1973	31
May 1977	January 1980	32
March 1988	July 1990	28
July 1999	March 2001	20
June 2004	December 2007	42
March 2022	?	32?
Average		29

First Hike	Last Hike	Result
October 1950	May 1953	**Recession**
October 1955	August 1957	**Recession**
September 1958	September 1959	**Recession**
December 1965	September 1966	No Recession
November 1968	June 1969	**Recession**
April 1972	September 1973	**Recession**
May 1977	March 1980	**Recession**
August 1980	December 1980	**Recession**
March 1983	August 1984	No Recession
March 1988	May 1989	**Recession**
February 1994	February 1995	No Recession
June 1999	May 2000	**Recession**
June 2004	June 2006	**Recession**
December 2015	December 2018	**Recession**
March 2022	July 2023	**?**

Source: Federal Reserve, Rosenberg Research

Yield Curve – Bull Steeping

- 1mo down 80bps
- 5yr up 50bps
- 20yr & 30yr up 60bps



Treasury 10s/2s Spread – Back to Positive



10-Year Treasury Has Nearly Reversed Prior Rally

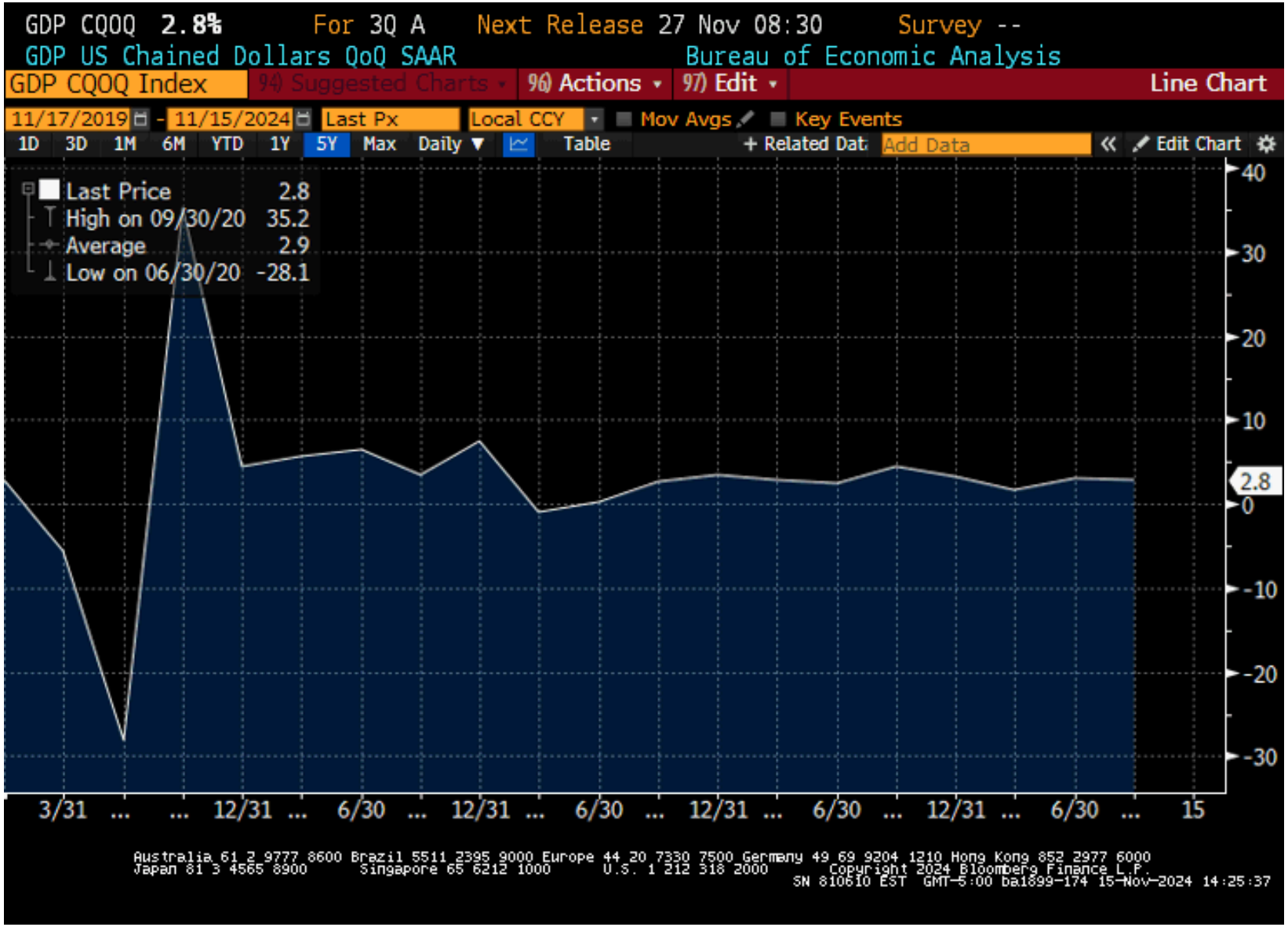


Source: Bloomberg

14

Q2 GDP – 2.80%

- GDP Inching Lower
- Debt Inhibits Growth

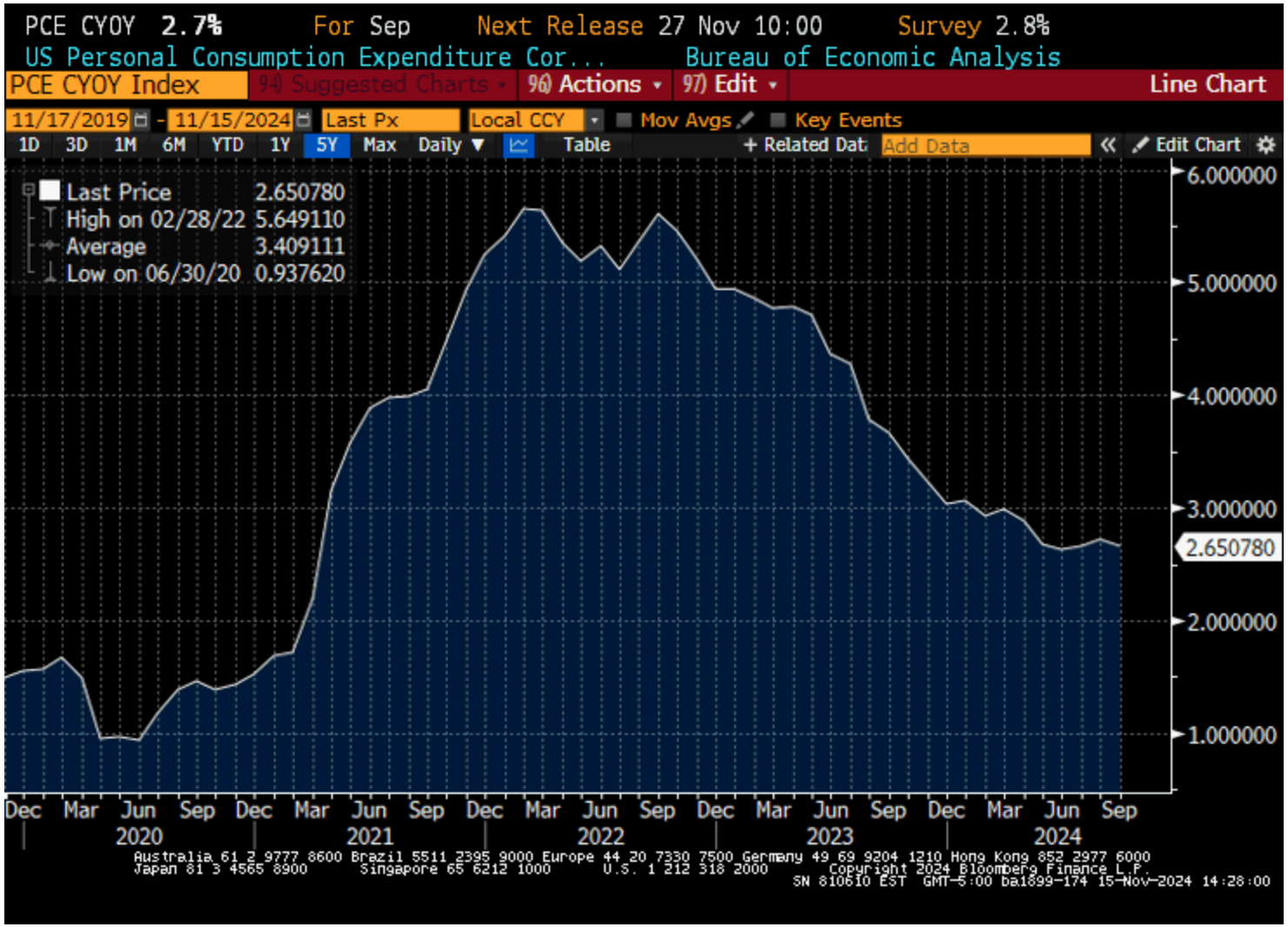


Source: Bloomberg

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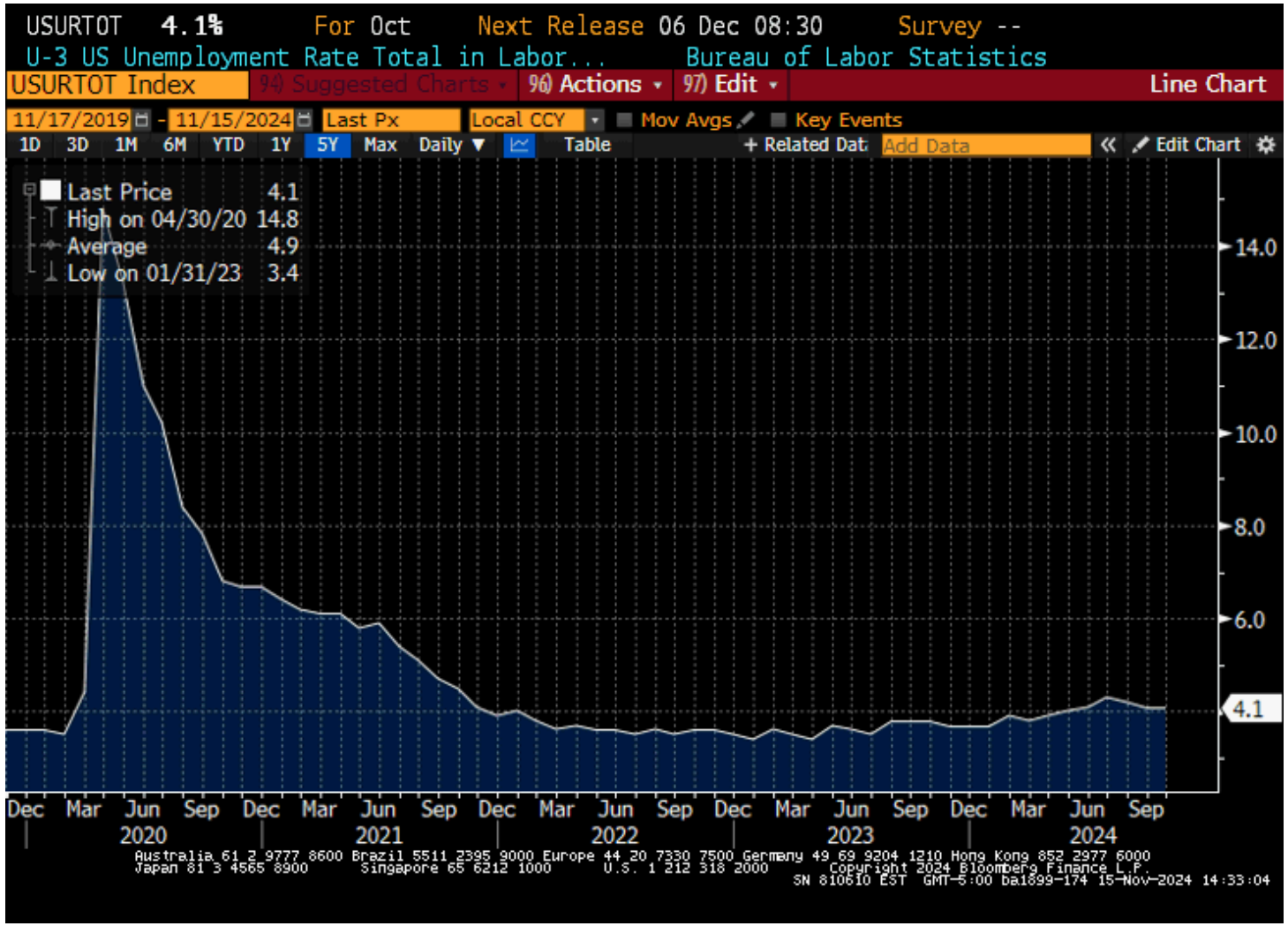
Quarterly Core PCE| 2.70%

- PCE Nearing Fed Target of 2%
- Disconnect w/ CPI due to shelter inputs
- CPI ex-shelter already at Fed Target



Unemployment Rate – 4.10%

- Unemployment rate fell after increasing for most of the year
- But is the labor market improving?



S&P Overbought?

PASSIVE INDEX FUNDS NOW EXCEED MORE THAN 50% OF THE STOCK MARKET

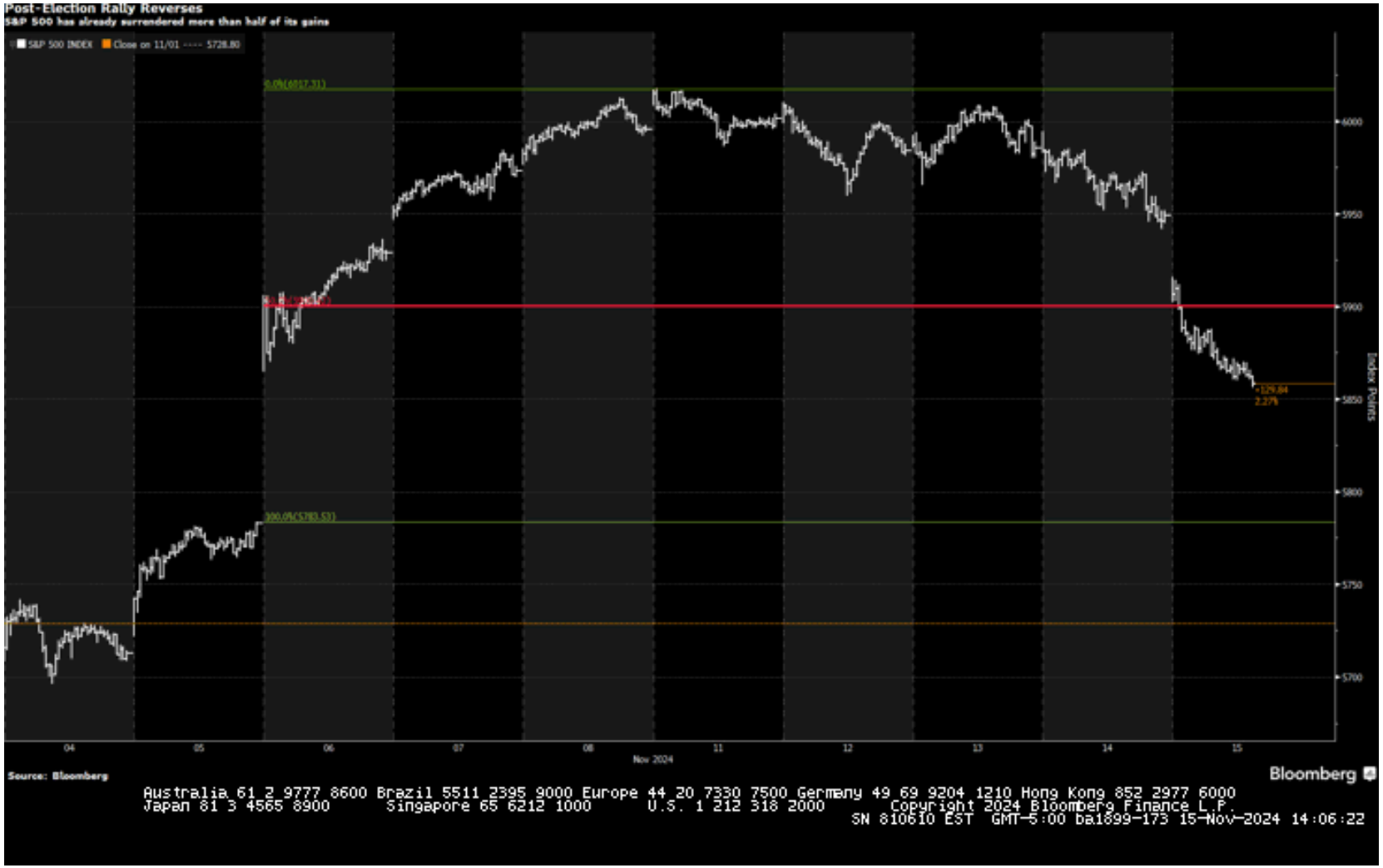
Historical Fund Assets: Active vs. Passive
(orange line; Active Assets; $ billions)
(green line; Passive Assets; $ billions)



Source: Morningstar Direct Asset Flows

23

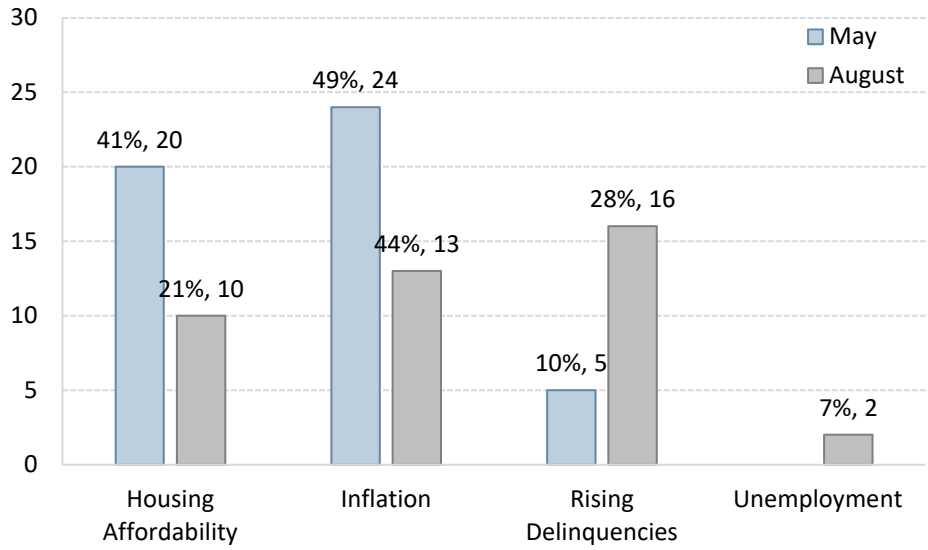
S&P Reversed the Election Rally



Poll Question

What's the biggest concern you have for your local economy?

a. Inflation
b. Housing Affordability
c. Unemployment
d. Rising Delinquencies



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Member Financial Trends

3rd Quarter Key Balance Sheet Takeaways

- Change in on-balance sheet liquidity positions mixed across bank and credit union members
- Loan growth **slowed across all segments**
- Although the need for alternative funding remains elevated
  - Deposit inflows for larger institutions while smaller members face **persistent core funding pressure**
- **Continued** shift in share/deposit composition towards higher-rate, term products
- Provision expense accelerates, **reserve build mode underway** at credit unions, growth in reserves minimal at bank members
  - Net charge-offs surge across larger institutions
- **Equity positions stable**, tangible equity positions improved with favorable rate volatility in the third quarter

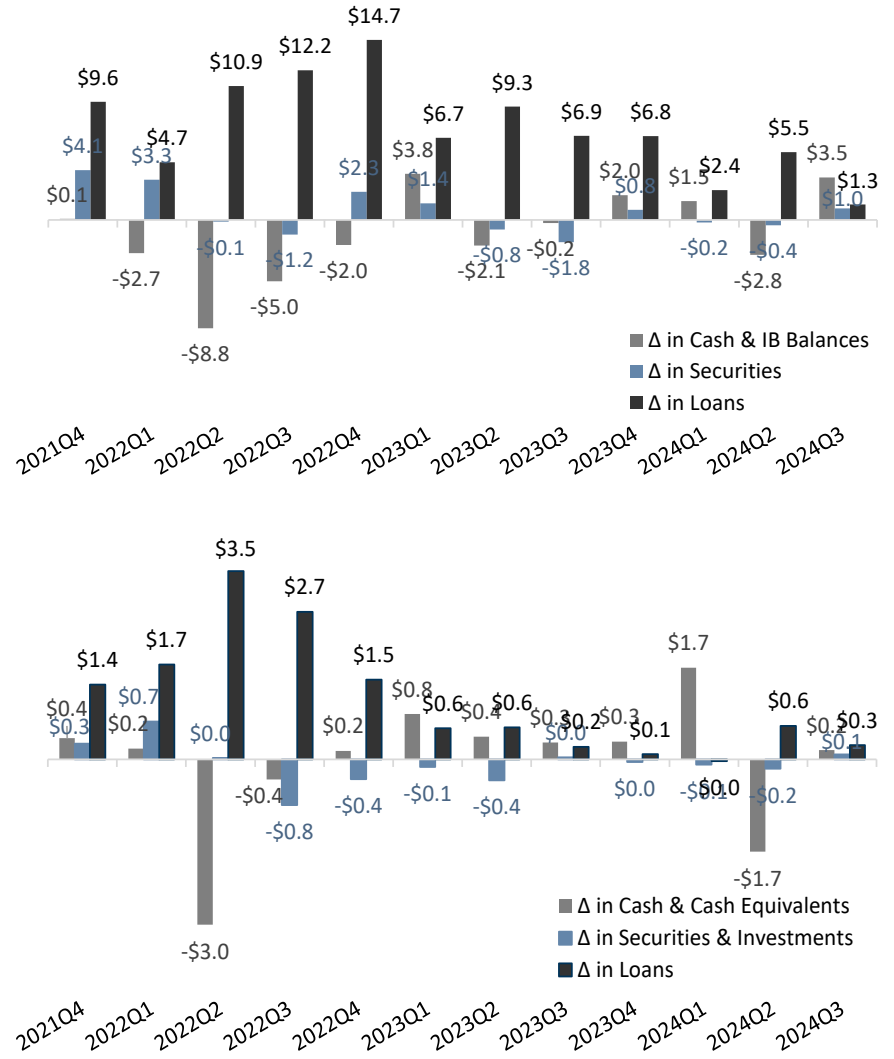
Balance sheet changes

Quarter-over-quarter change in asset and funding composition

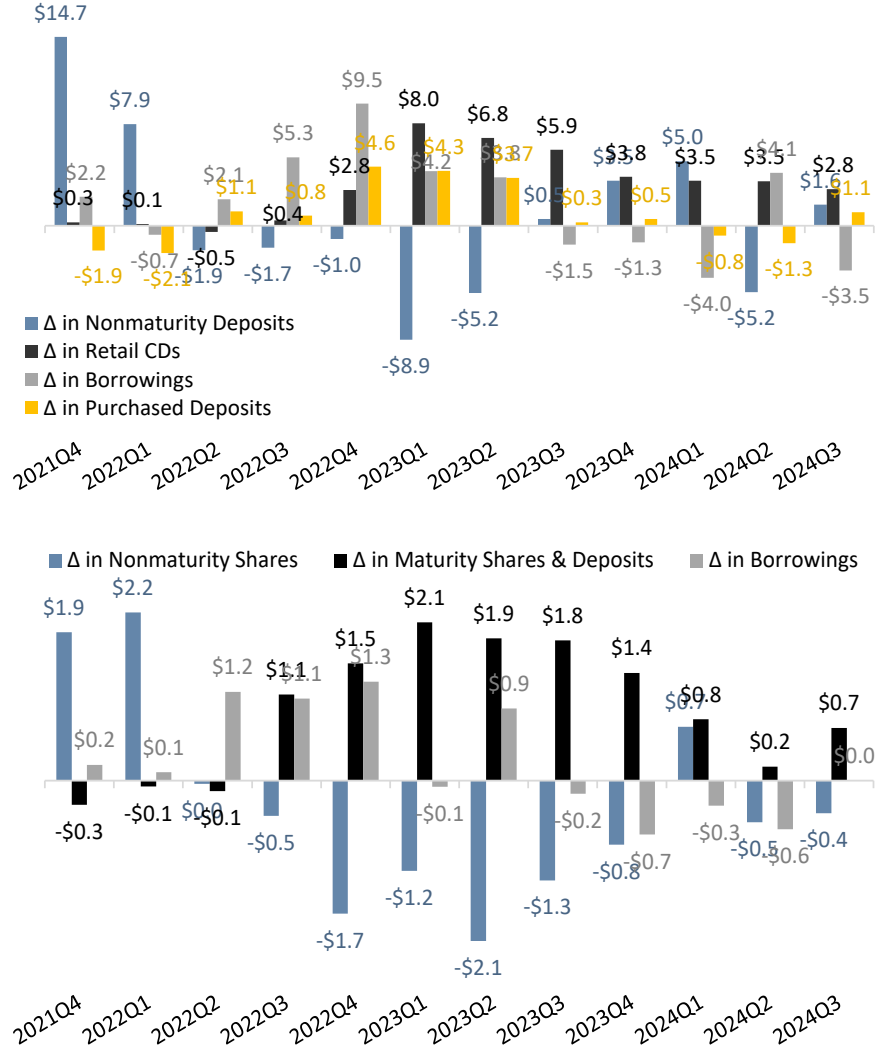
Banks

Credit Unions

Use of Funds ($bn)



Source of Funds ($bn)



Poll Questions

What are your deposit growth expectations for 2025?

a. decline in balances
b. flat balances
c. minimal growth
d. moderate growth
e. strong growth

What is your expected use of funds in the next 12-18 months?

a. loans
b. bonds/investment portfolio
c. cash
d. unchanged

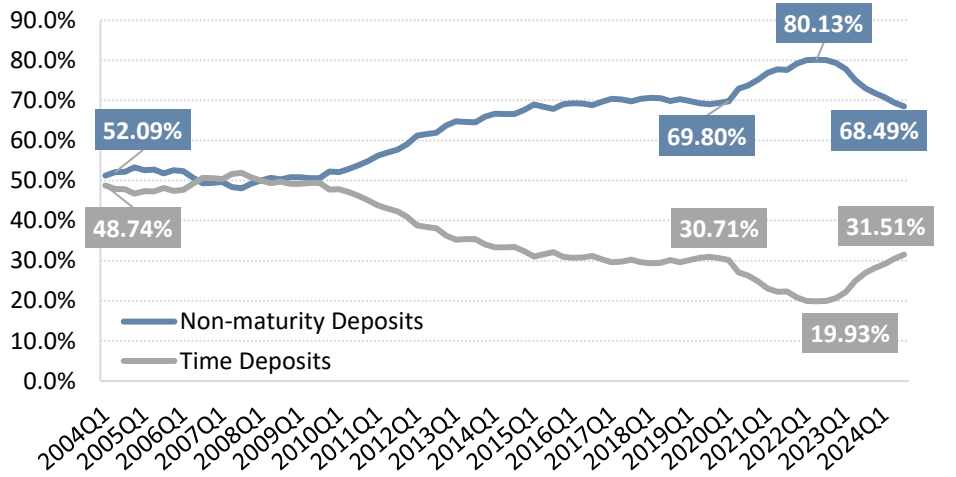
Share/deposit composition returns to pre-pandemic mix

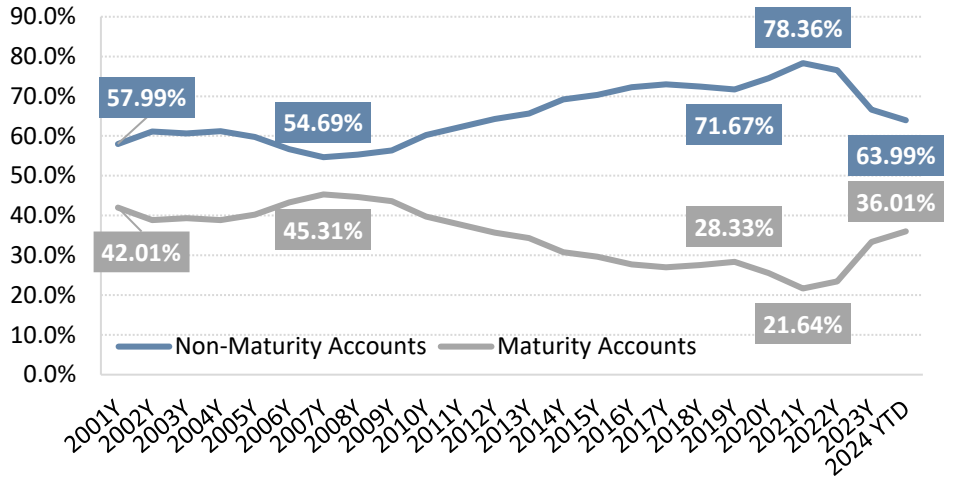
Wholesale funding use remains elevated amid tight liquidity

Banks

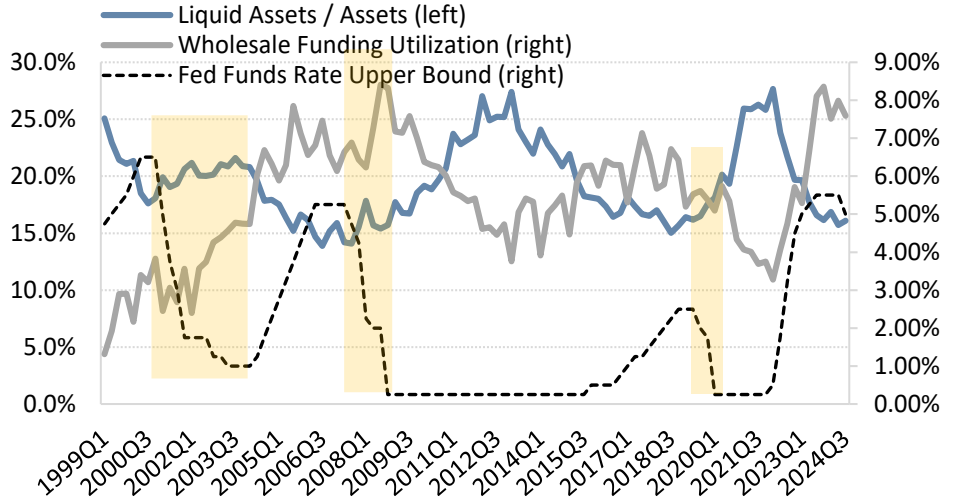
Credit Unions

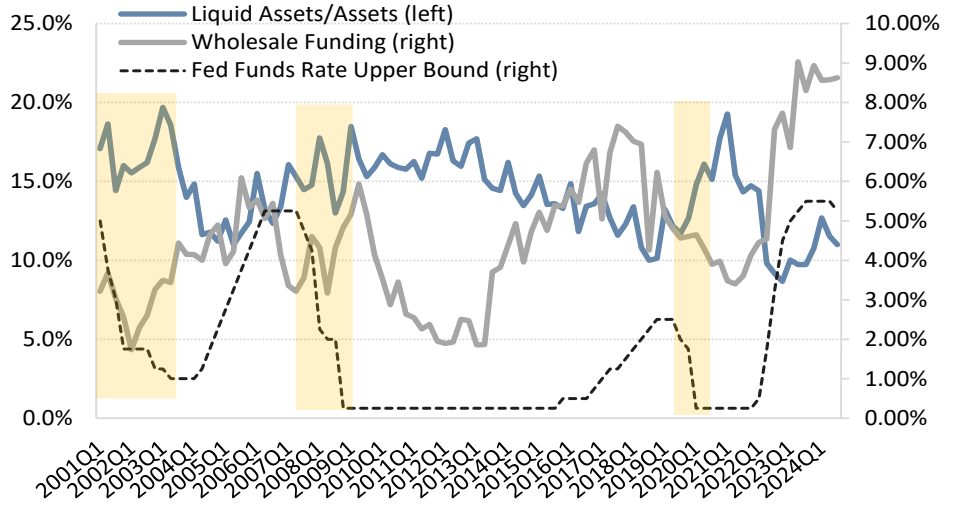
Share/Deposit Composition





Liquidity vs. Wholesale Funding vs. Fed Funds Rate

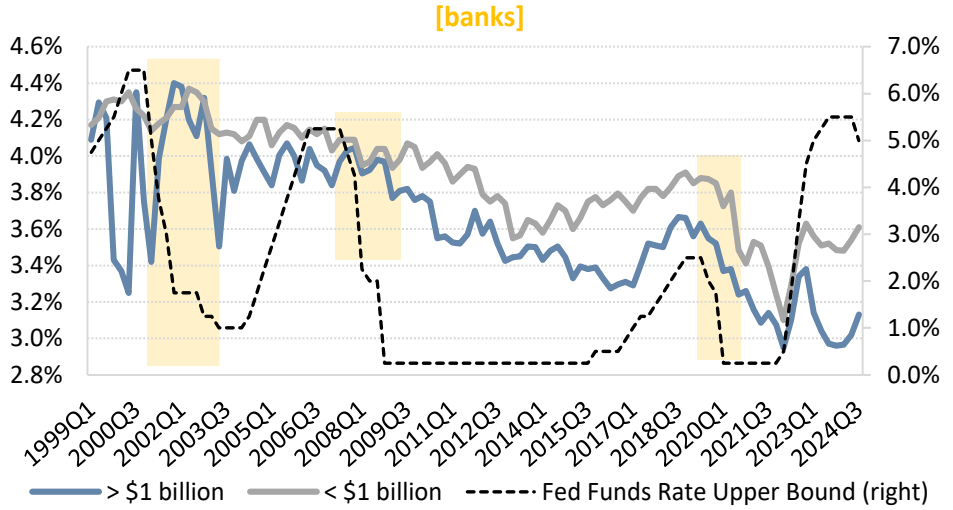


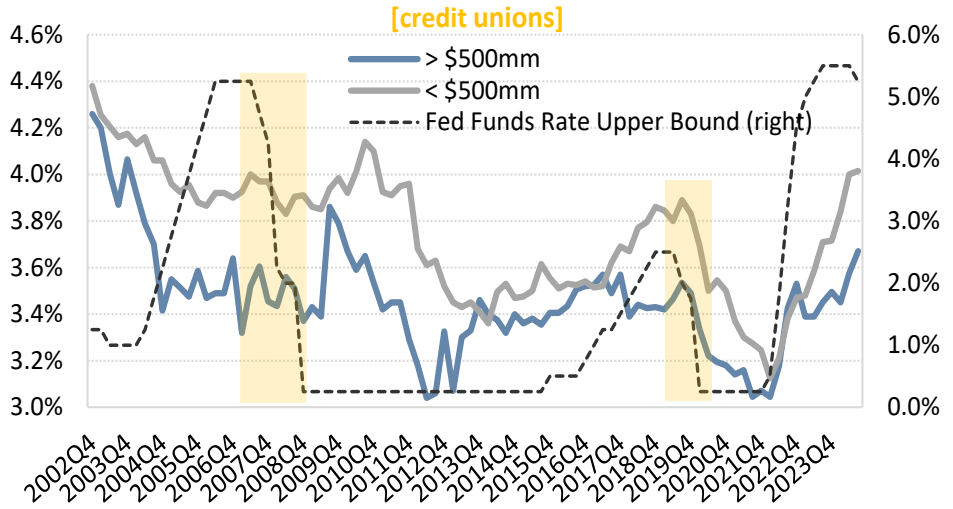


Recent margin improvement for banks, continued credit union expansion

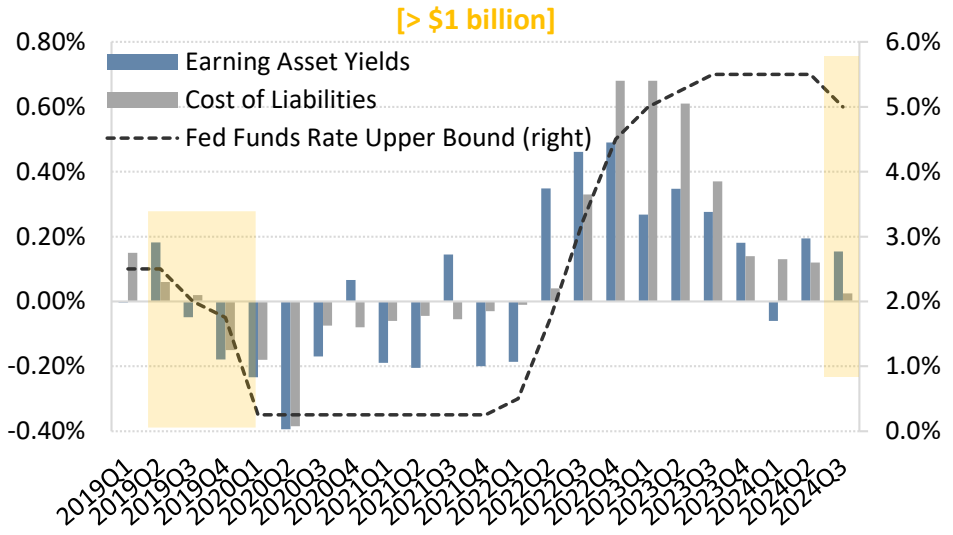
Will earning asset yields and funding costs follow prior cycle patterns?

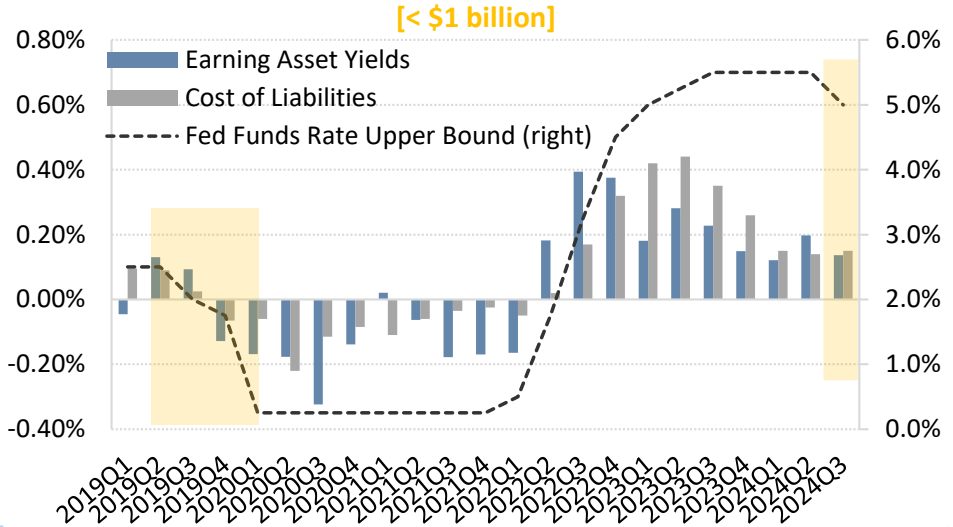
NIM vs. Fed Funds Rate





Change in Yields/Costs vs. Fed Funds Rate [banks]

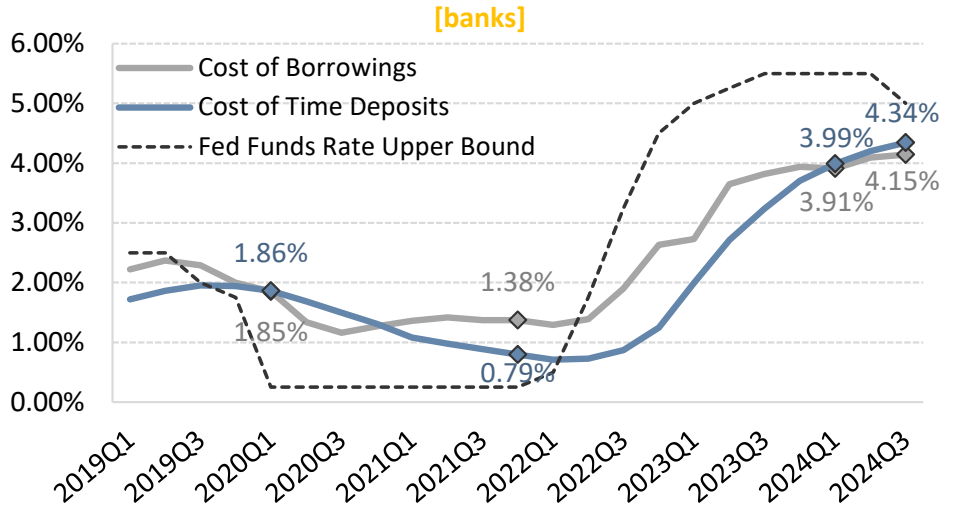




Upcoming term maturities keeps pressure on funding costs

Along with increased reliance on term funding

Cost of Time Deposits vs. Cost of Borrowings



$112bn
bank term funding maturing < 1 year

87%
retail CDs maturing < 1 year

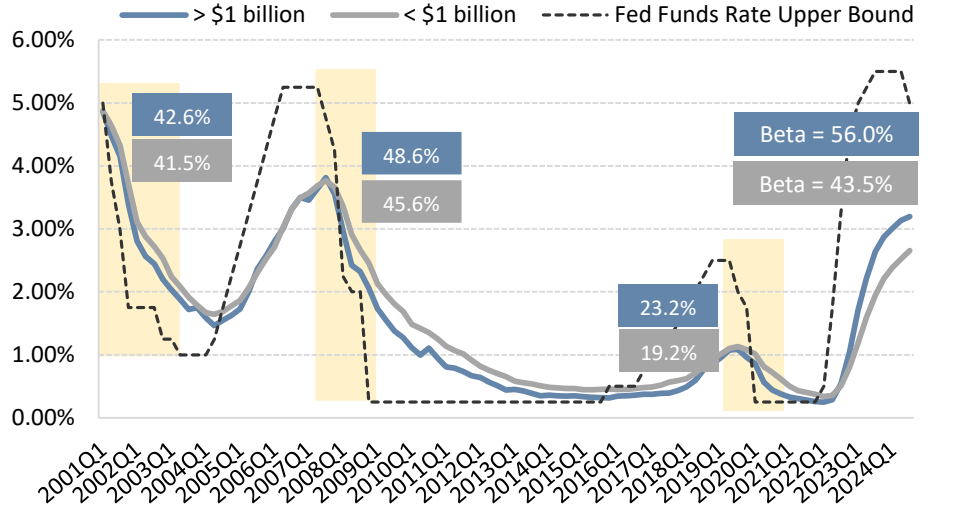
99%
brokered deposits maturing < 1 year

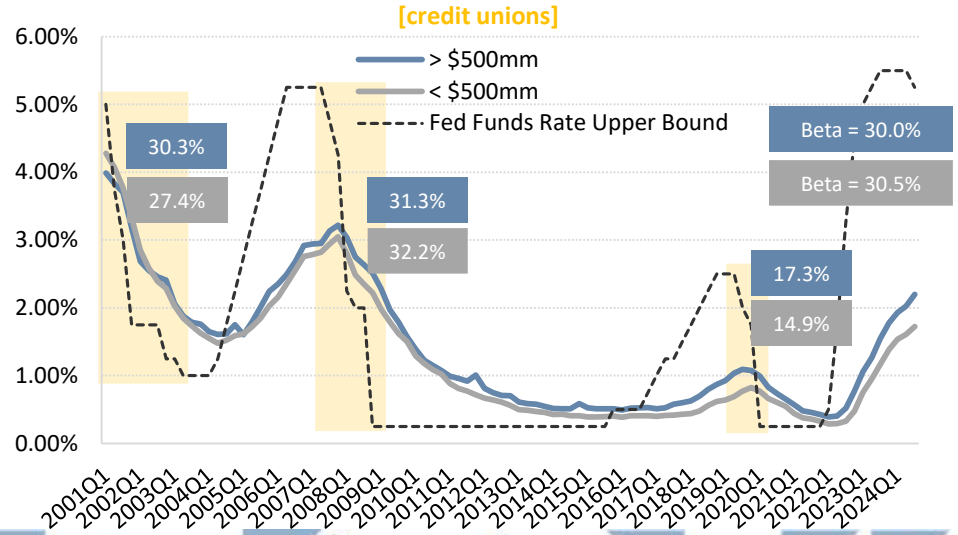
$22bn
CU term funding maturing < 1 year

87%
share certificates maturing < 1 year

50%
brokered deposits maturing < 1 year

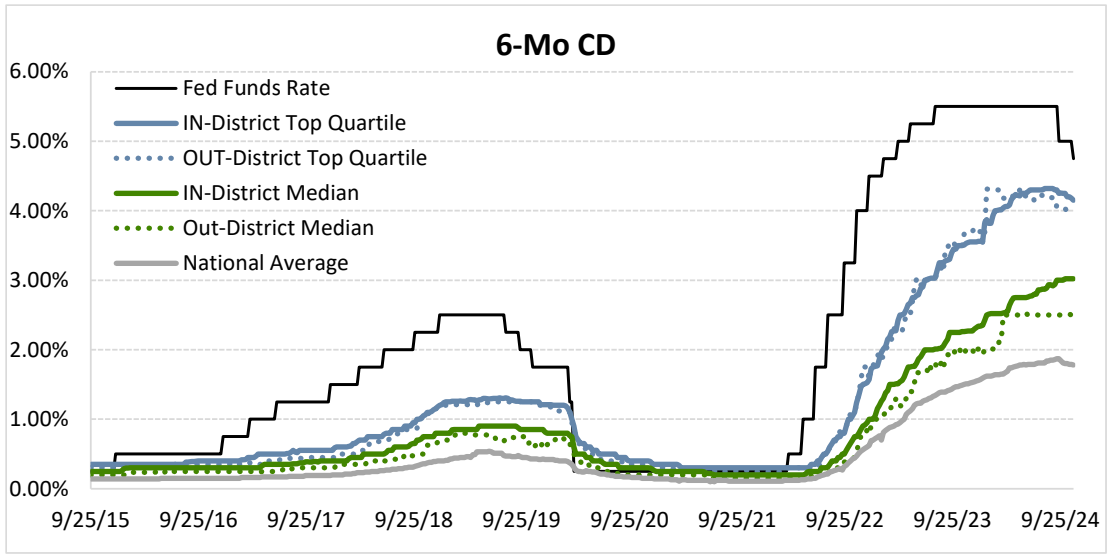
Cost of Shares/Deposits vs. Fed Funds Rate

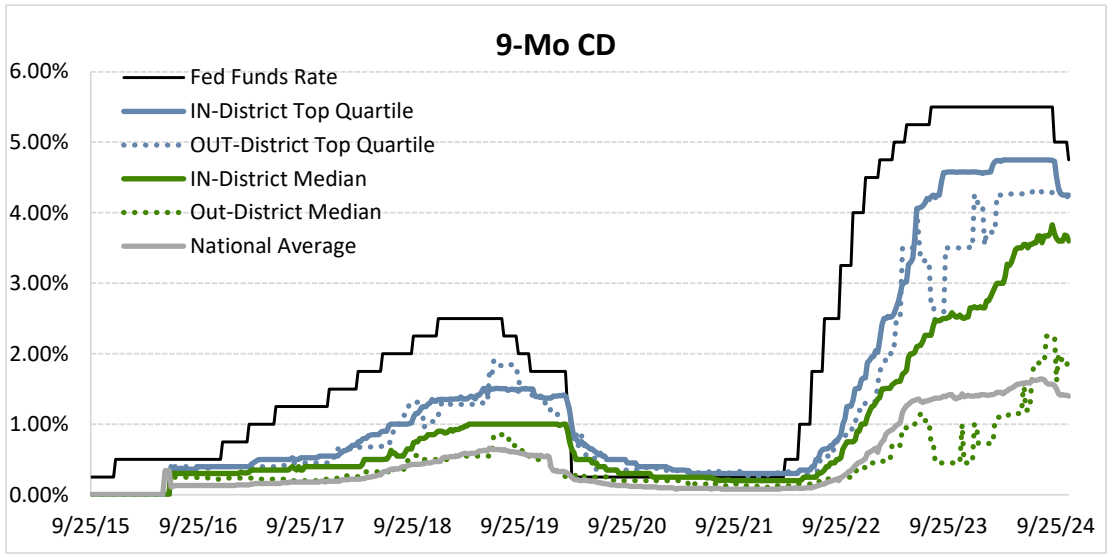


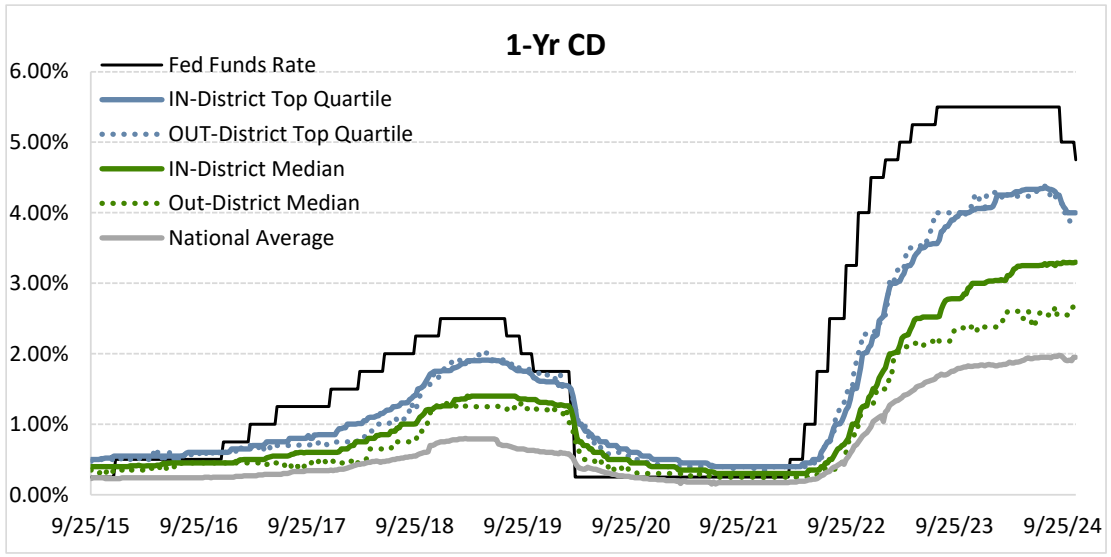


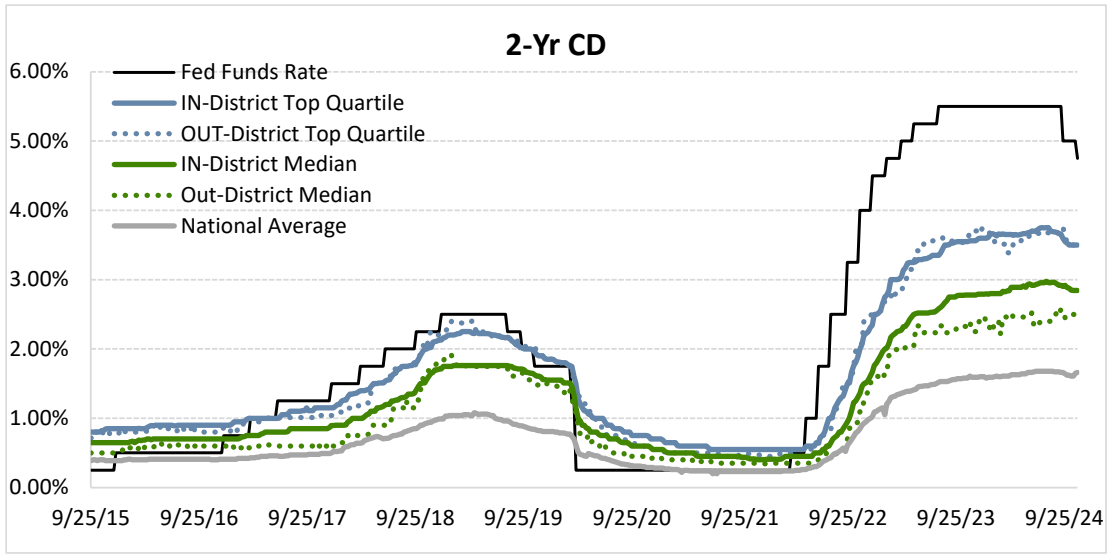
Shorter-term CD pricing remains high

Near-term repricing relief not expected with approaching maturities





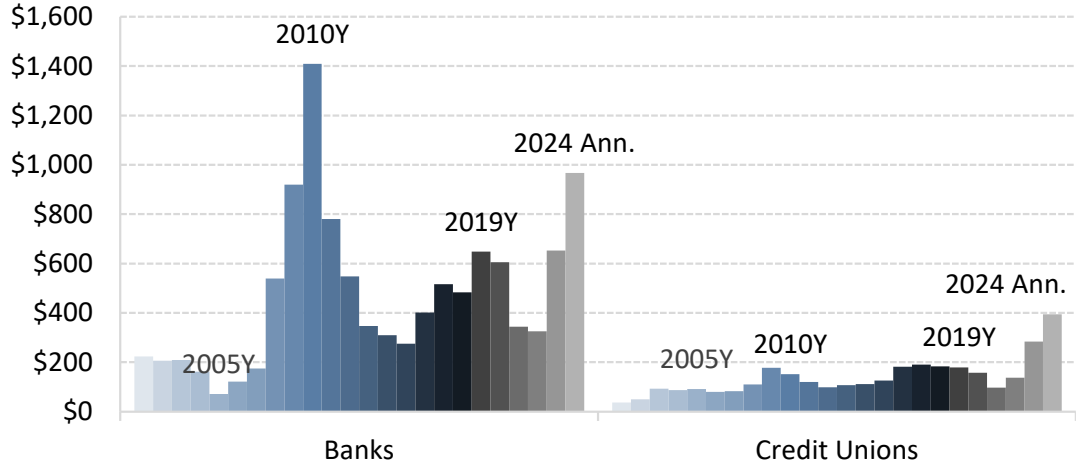




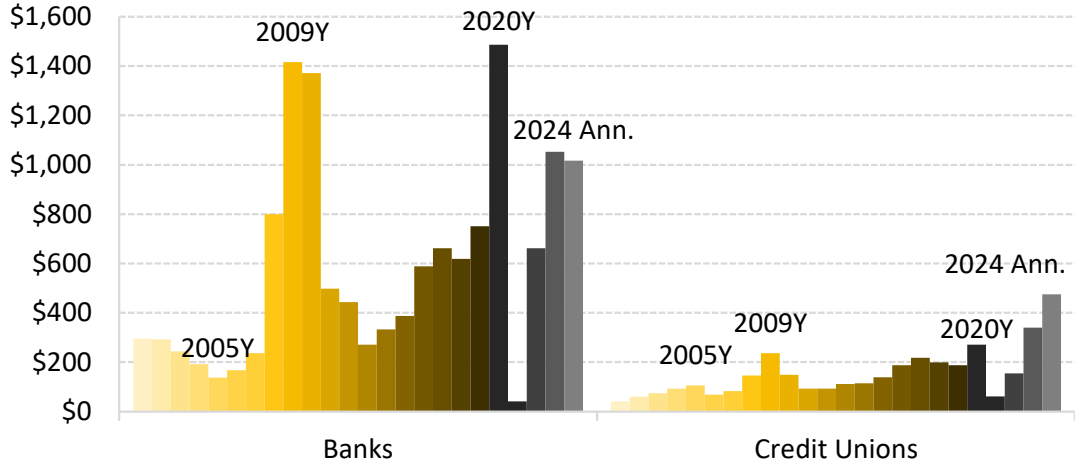
Credit remains on solid footing, normalizing towards pre-Covid levels

CRE exposure to play out over next few years while consumer stress on high alert

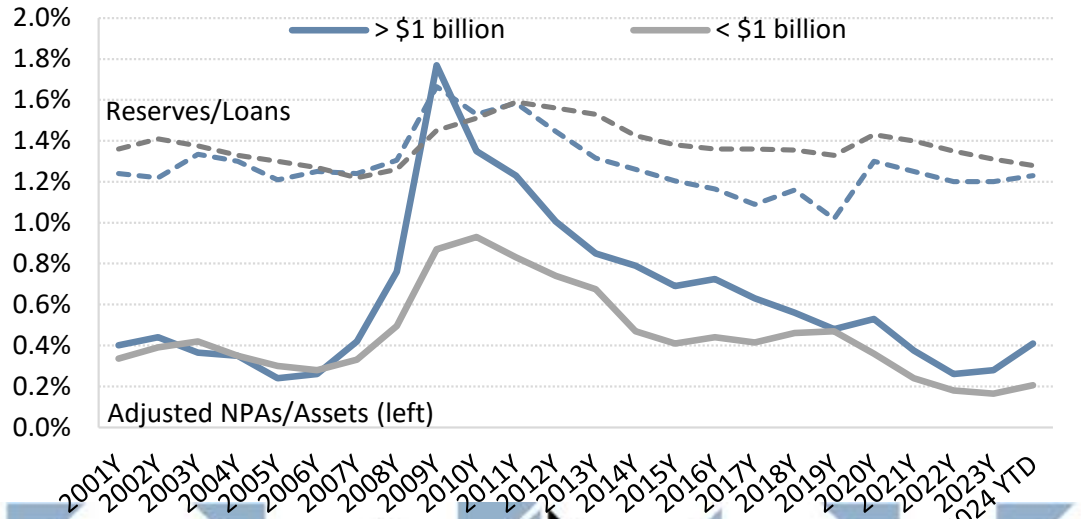
Net Charge-offs ($mm) | 2001Y – 2024 YTD Annualized



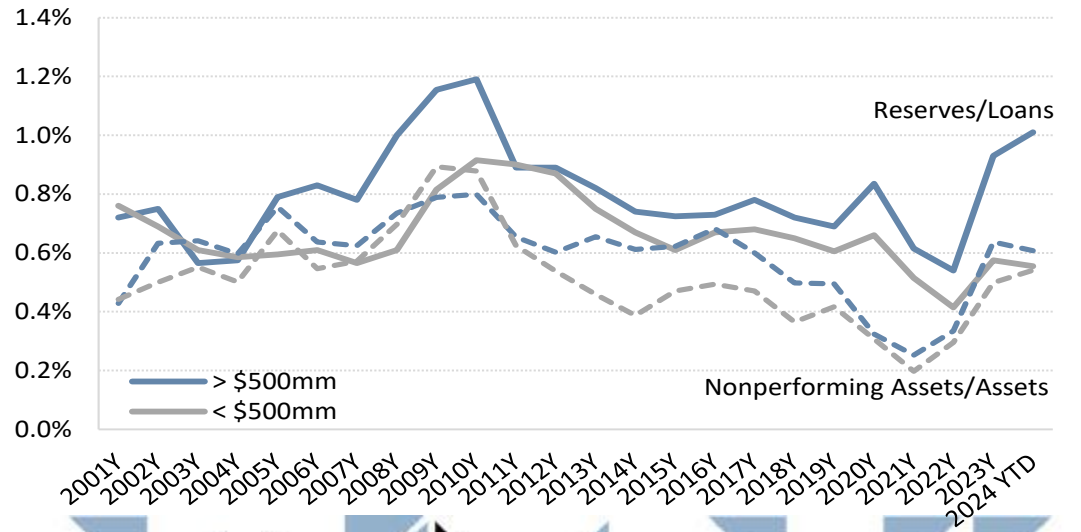
Provisions ($mm) | 2001Y – 2024 YTD Annualized



Adjusted Nonperforming Assets & Reserves [banks]



Nonperforming Assets & Reserves [credit unions]



Poll Questions

Over the past three months, how have your institutions underwriting credit standards changed?

CRE and C&I loans

a. tightened considerably
b. tightened somewhat
c. remained basically unchanged
d. eased somewhat
e. eased considerably

Consumer loans

a. tightened considerably
b. tightened somewhat
c. remained basically unchanged
d. eased somewhat
e. eased considerably

Agricultural loans

a. tightened considerably
b. tightened somewhat
c. remained basically unchanged
d. eased somewhat
e. eased considerably

Looking ahead to close out 2024 and turn into 2025

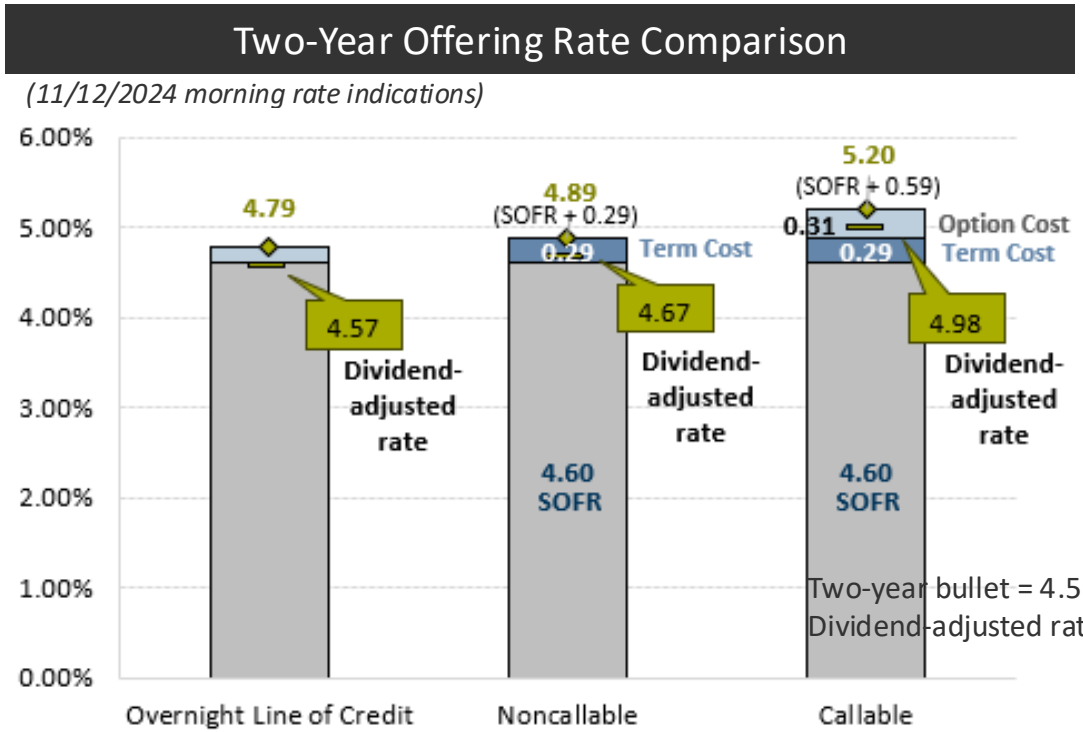
EARNINGS!/Margin management	→	Cost of funds top of mind
Deposit funding environment	→	Persistent headwinds
Interest rate policy pivot	→	Outlook complicated
Economic outlook	→	Soft landing on doorstep?
Credit containment	→	Concerns linger
LIQUIDITY!	→	Regulator emphasis on access and stress scenario analysis

FHLBank Topeka

Funding Strategies & Considerations

New terms added to popular SOFR adjustable advance

- **Both 1-month and 2-month terms added to maturity mix**
  - Maturities available up to 10 years for noncallable advances
  - Terms of one to five years for advances with call options



Attributes

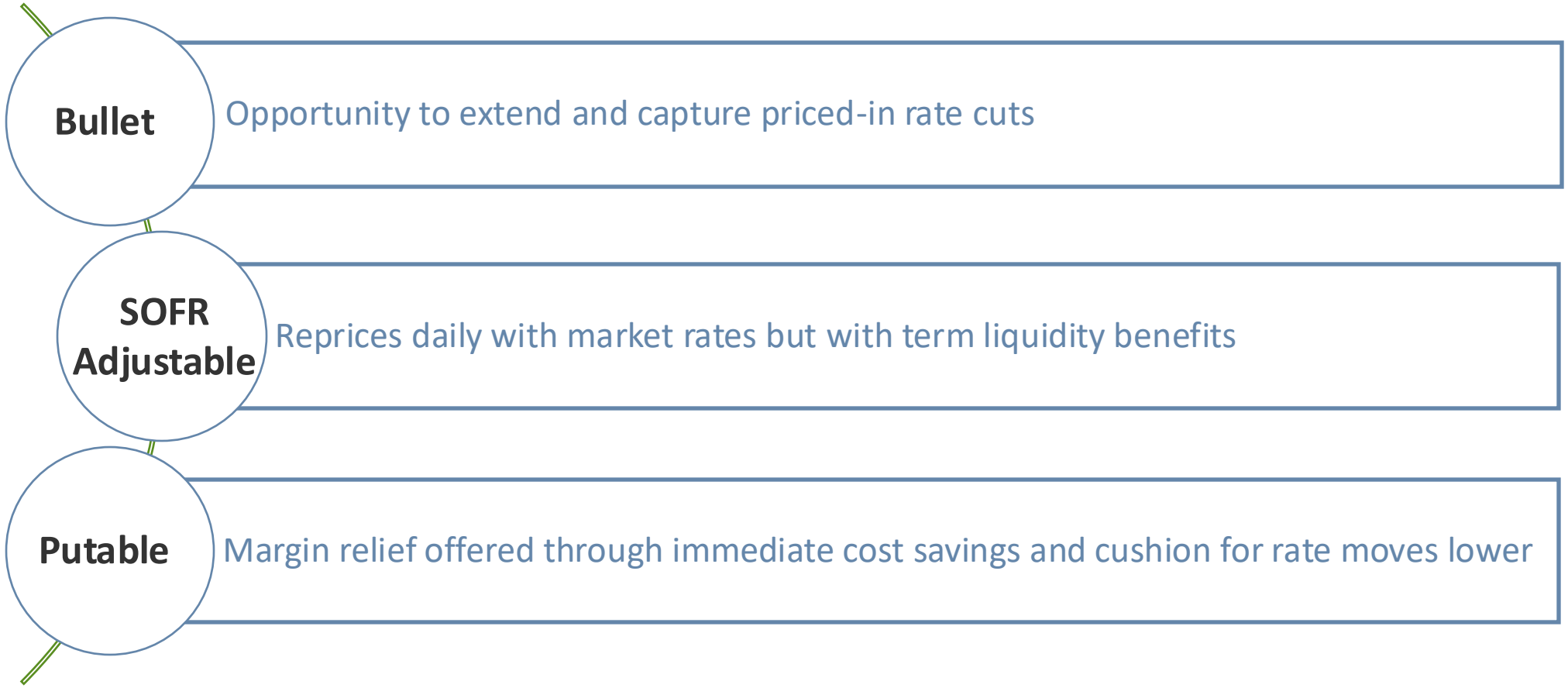
- ✓ Provides benefit to liquidity metrics
- ✓ Spread component to SOFR fixed for life of advance
- ✓ Reprices daily
- ✓ Correlates well with the Effective Fed Funds Rate

Funding strategy considerations for an evolving rate outlook

Preparing for different rate scenarios

- Soft landing? Hard landing? Higher for longer?
- Funding considerations for upcoming maturities and general balance sheet funding:
  - Cost
    - What does market have priced into yield curve?
    - Potential for market expectations to change over time
    - What does balance sheet need – gaps to fill – and what does our interest-rate risk profile look like?
  - Liquidity
    - Deposit growth expectations
    - Loan demand, capacity to grow
    - Organic cash flows
- When we think about incremental funding needs, do we look to fund short or extend? Or maybe consider a blended funding strategy?
  - Determining optimal point on yield curve function of balancing interest-rate risk management, liquidity needs and market conditions

Alternative funding strategies to consider in today's environment



Poll Questions

Where are you concentrating your funding needs?

a. short, stay less than 12-months
b. medium term, 12-60-months
c. longer-term, > 60-months
d. blend of terms
e. not borrowing in near future

What types of funding structures are you evaluating?

a. call or put features
b. variable rate structures
c. fixed rate funding
d. blend of structures
e. not borrowing in near future

Funding Strategy Illustrations

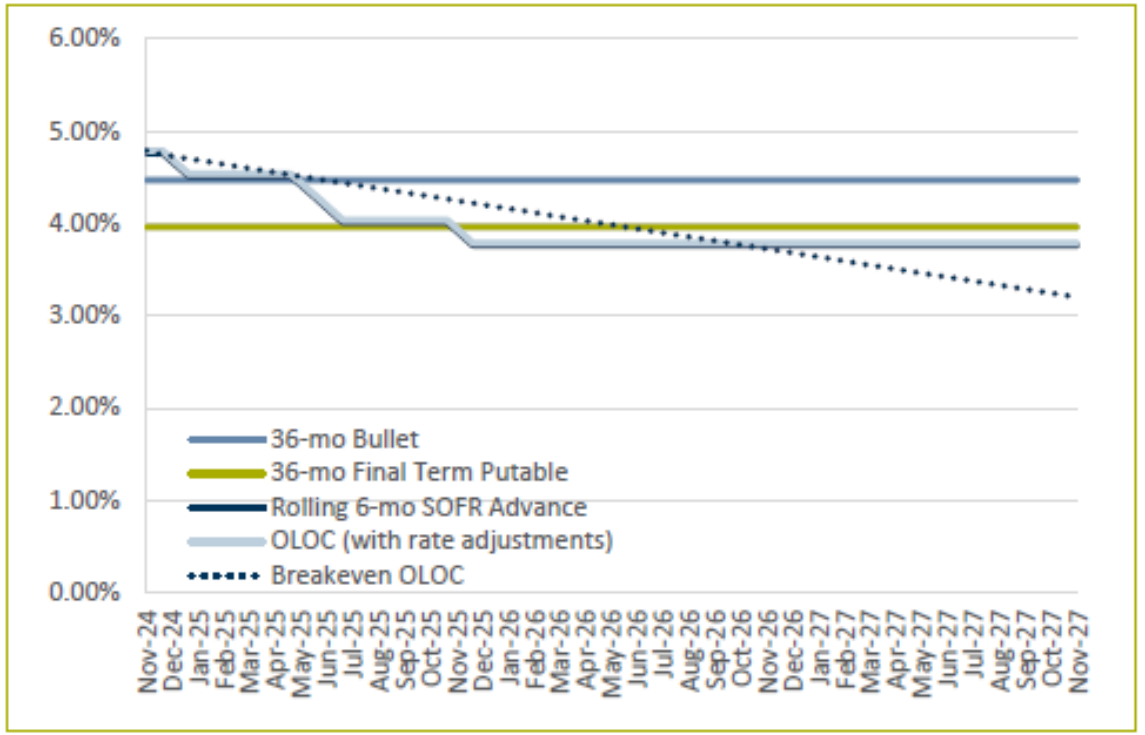
New tool offered by Member Solutions

36-months Funding Scenario | WIRP + Dot Plot Expectations

Funding Assumptions			
Funding Amount:	$ 5,000,000	Settlement Date:	11/12/2024
Funding Term:	36-months	Maturity Date:	11/12/2027

Funding Strategy Comparison	Total Interest Paid Over Life	Weighted Average Rate
36-month Bullet Advance	$ 670,468.21 *actual/actual*	4.47%
Putable Advance (3yr/6-mo Berm)	$ 593,971.84 *actual/actual*	3.96%
Rolling 6-mo SOFR Advance	$ 598,427.08 *actual/360*	3.94%
OLOC Funding (w/rate adjustments)	$ 602,229.17 *actual/360*	3.97%

Expected FOMC Rate Adjustments			FOMC Rate
Reset 1: 2-mos	(25 bps)	January-25	4.50%
Reset 2: 7-mos	(25 bps)	June-25	4.25%
Reset 3: 8-mos	(25 bps)	July-25	4.00%
Reset 4: 13-mos	(25 bps)	December-25	3.75%



Note: Interest is collected on the first business day of each month.

Breakeven OLOC rate reflects average monthly interest rate change of -0.044% or quarterly rate change of -0.131% at which OLOC has same average lifetime rate as the 36-month putable rate.

Cumulative FOMC Rate Adjustments = (100 bps)

Utilize marginal cost analytics with upcoming wave of maturities

Even in shift to falling rate environment

- Objectives of marginal cost pricing:
  - Manage average cost of funds
  - Retain existing or raise new money at the lowest marginal cost of funds
- Higher interest expense on repricing maturing shares/deposits has adverse effect on ability to manage spread
- Deposit pricing strategies:
  - Research: evaluate composition and rate sensitivity of depositors, know your competition
  - Pricing: incorporate advance funding as a companion to deposit growth strategies
  - Analysis: understand how deposit pricing impacts overall profitability
- FHLBank Topeka's Deposit Portfolio Pricing Strategies Tool is available to help analyze various scenarios and strategies associated with the potential restructure or repricing of your share/deposit portfolio and resulting impact on your cost of funds

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FHLBank Topeka Marginal Cost of Funds / Deposit Portfolio Pricing Strategies Tool Overview

The tool includes two versions to illustrate the marginal cost of funds concept:

1. Marginal Cost Analysis: simpler, more concise version
   - Provides ability to illustrate the cost of implementing a retail strategy versus using FHLBank advances
   - Allows for cost comparison between acquiring purchased deposit funds or using FHLBank advances
2. Portfolio Pricing Strategies: builds on the Marginal Cost Analysis with increased scope and capabilities
   - Provides ability to show the impact of restructuring the cost components of the deposit portfolio and the related inter-portfolio movement of funds
   - Can illustrate various retail funding strategies compared to wholesale funding strategies, or a blend thereof
   - Demonstrate the impact of various funding strategies in both rising rate and falling, or zero rate, environments
   - Compares up to three potential strategies to find the optimum strategy from the perspective of the lowest cost alternative

Sign up for daily rate indications!

FHLBank Topeka

Rate Indications as of November 12, 2024

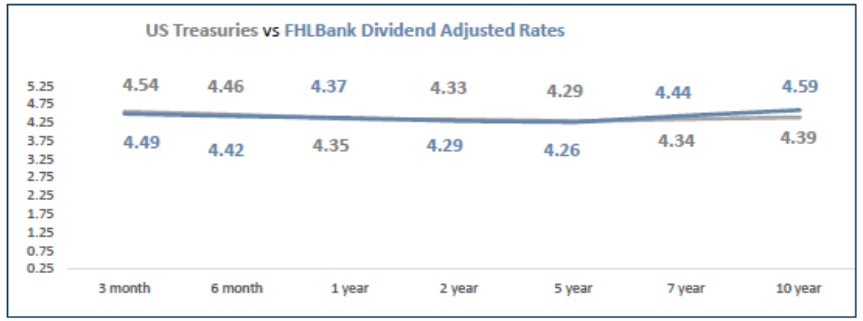
Contact Lending at 800.809.2733 to discuss your funding options.

Start of day indications. Visit members only for the most current rates. Under rates/historical advance rates

Short Term Bullet		
Term	Rate	Div Adj [1]
Overnight	4.79	4.57
1 week	4.79	4.57
2 week	4.79	4.57
3 week	4.79	4.57
1 month	4.79	4.57
2 month	4.75	4.53
3 month	4.71	4.49

Amortizing [2]		
Term	Rate	Div Adj [1]
1 year	4.610	4.390
2 year	4.575	4.355
3 year	4.546	4.326
5 year	4.534	4.314
7 year	4.603	4.383
10 year	4.709	4.489
15 year	4.905	4.685

Regular Fixed Callable		
Term	Rate	Div Adj [1]
5yr/3yr	4.76	4.54
7yr/3yr	4.93	4.71
10yr/3yr	5.04	4.82
10yr/5yr	4.91	4.69
15yr/3yr	5.49	5.27
15yr/5yr	5.35	5.13
20yr/5yr	5.40	5.18



Long Term Bullet		
Term	Rate	Div Adj [1]
6 month	4.64	4.42
1 year	4.59	4.37
2 year	4.51	4.29
3 year	4.47	4.25
4 year	4.48	4.26
5 year	4.48	4.26
6 year	4.62	4.40
7 year	4.66	4.44
8 year	4.73	4.51
9 year	4.78	4.56
10 year	4.81	4.59
15 year	5.04	4.82
20 year	5.25	5.03
30 year	5.25	5.03

SOFR Adjustable [3]		
Term	Rate	Div Adj [1]
3 month	4.745	4.525
4 month	4.755	4.535
6 month	4.765	4.545
1 year	4.825	4.605
2 year	4.885	4.665
3 year	5.025	4.805
4 year	5.075	4.855
5 year	5.135	4.915
6 year	5.270	5.050
7 year	5.315	5.095
8 year	5.400	5.180
9 year	5.440	5.220
10 year	5.480	5.260

Inclusive of SOFR at 4.60%

Regular Adjustable Callable [3]		
Term	Rate	Div Adj [1]
1yr/one time	4.920	4.700
1yr/quarterly	4.940	4.720
1yr/monthly	5.205	4.985
2yr/one time	5.050	4.830
2yr/quarterly	5.070	4.850
2yr/monthly	5.195	4.975
3yr/one time	5.290	5.070
3yr/quarterly	5.315	5.095
3yr/monthly	5.410	5.190
4yr/one time	5.400	5.180
4yr/quarterly	5.420	5.200
4yr/monthly	5.490	5.270
5yr/one time	5.520	5.300
5yr/quarterly	5.540	5.320
5yr/monthly	5.600	5.380

Inclusive of SOFR at 4.60%

Putables		
Term/First Put	Rate	Div Adj [1]
2yr/6mo Berm	4.24	4.02
3yr/6mo Berm	3.96	3.74
3yr/1yr Euro	4.11	3.89
5yr/6mo Berm	3.61	3.39
5yr/1yr Berm	3.76	3.54
5yr/1yr Euro	3.92	3.70
5yr/2yr Berm	4.02	3.80
5yr/2yr Euro	4.07	3.85
5yr/3yr Berm	4.23	4.01
10yr/6mo Berm	3.26	3.04
10yr/1yr Berm	3.41	3.19
10yr/2yr Berm	3.60	3.38
10yr/3yr Berm	3.90	3.68
10yr/3yr Euro	4.01	3.79
10yr/5yr Berm	4.30	4.08

Other structures available upon request

Forward Settlement		
Term	1 year	2 year
1 year	4.55	4.49
2 year	4.52	4.55
3 year	4.55	4.56
4 year	4.55	4.77
5 year	4.72	4.81
6 year	4.82	4.95
7year	4.90	5.00
8 year	4.95	5.04
9 year	4.99	5.08
10 year	5.04	5.13

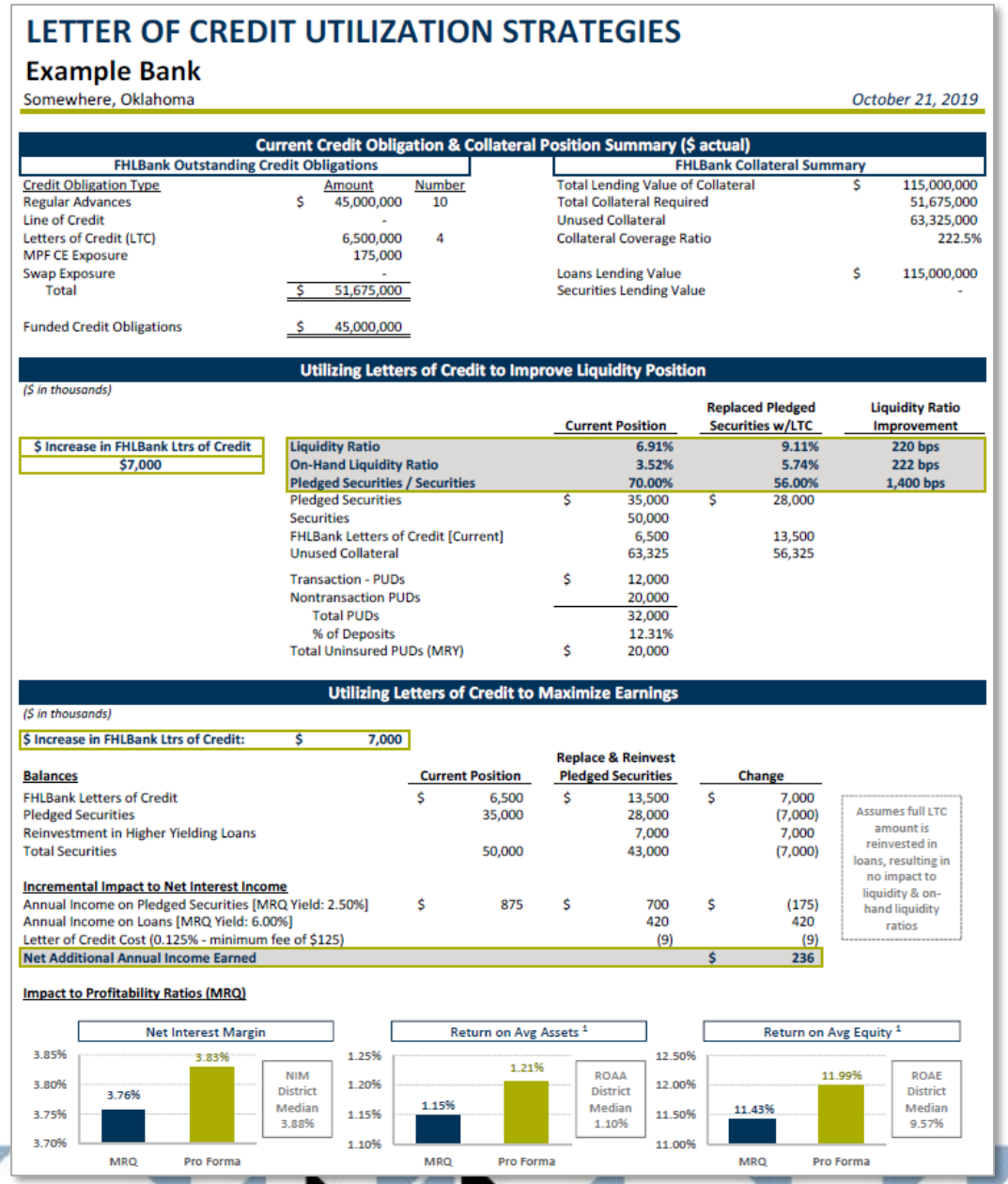
These rates are for FHLBank use only and are not intended to be used by third parties as reference rates or in any manner other than conducting FHLBank business.
These rates are indications only and are subject to change. Contact the Lending Desk for advance pricing and dividend adjusted pricing for products not shown above.

1 The dividend adjusted rate assumes funding is fully supported by Class B stock and the Class B stock expected dividend rate for the current quarter (see announcement for details), of 9.50%, and an opportunity cost of buying stock, estimated to be the

Secure public funds with FHLBank Letters of Credit

Influx of funds expected in Q4

- Convenient, fast, efficient
- Collateralize public unit deposits with typically illiquid loan collateral
- Utilization Strategies:
  - Improve liquidity position
  - Boost earnings



LETTER OF CREDIT UTILIZATION STRATEGIES

Example Bank

Somewhere, Oklahoma — *October 21, 2019*

Current Credit Obligation & Collateral Position Summary ($ actual)

FHLBank Outstanding Credit Obligations

Credit Obligation Type	Amount	Number
Regular Advances	$ 45,000,000	10
Line of Credit	-	
Letters of Credit (LTC)	6,500,000	4
MPF CE Exposure	175,000	
Swap Exposure	-	
Total	$ 51,675,000	
Funded Credit Obligations	$ 45,000,000	

FHLBank Collateral Summary

Total Lending Value of Collateral	$ 115,000,000
Total Collateral Required	51,675,000
Unused Collateral	63,325,000
Collateral Coverage Ratio	222.5%
Loans Lending Value	$ 115,000,000
Securities Lending Value	-

Utilizing Letters of Credit to Improve Liquidity Position

($ in thousands)

$ Increase in FHLBank Ltrs of Credit		Current Position	Replaced Pledged Securities w/LTC	Liquidity Ratio Improvement
$7,000	Liquidity Ratio	6.91%	9.11%	220 bps
	On-Hand Liquidity Ratio	3.52%	5.74%	222 bps
	Pledged Securities / Securities	70.00%	56.00%	1,400 bps
	Pledged Securities	$ 35,000	$ 28,000	
	Securities	50,000		
	FHLBank Letters of Credit [Current]	6,500	13,500	
	Unused Collateral	63,325	56,325	
	Transaction - PUDs	$ 12,000		
	Nontransaction PUDs	20,000		
	Total PUDs	32,000		
	% of Deposits	12.31%		
	Total Uninsured PUDs (MRY)	$ 20,000		

Utilizing Letters of Credit to Maximize Earnings

($ in thousands)

$ Increase in FHLBank Ltrs of Credit: $ 7,000

Balances	Current Position	Replace & Reinvest Pledged Securities	Change
FHLBank Letters of Credit	$ 6,500	$ 13,500	$ 7,000
Pledged Securities	35,000	28,000	(7,000)
Reinvestment in Higher Yielding Loans		7,000	7,000
Total Securities	50,000	43,000	(7,000)
Incremental Impact to Net Interest Income			
Annual Income on Pledged Securities [MRQ Yield: 2.50%]	$ 875	$ 700	$ (175)
Annual Income on Loans [MRQ Yield: 6.00%]		420	420
Letter of Credit Cost (0.125% - minimum fee of $125)		(9)	(9)
Net Additional Annual Income Earned			$ 236

Assumes full LTC amount is reinvested in loans, resulting in no impact to liquidity & on-hand liquidity ratios

Impact to Profitability Ratios (MRQ)

Funding Strategy Wrap-up

- FHLBank Topeka provides access to funding solutions that can be tailored to meet your desired balance sheet needs
- Scenario and breakeven analysis: when comparing funding strategies, look at the tradeoff between what the cost savings may be initially – in the shorter-term – and how much rates may have to move in order for one strategy to look better than another
  - **Contact your account manager to utilize our Funding Strategy Illustrations tool**
- Combat margin pressure with liability side of the balance sheet
  - Blended funding strategies
  - If you have capital and liquidity capacity, consider staying invested to support earnings in near-term
  - Advance products can provide a strong alternative to brokered deposits and alternative funding sources
    - Use marginal cost of funds analytics to help manage cost of funds as retail CD portfolios near maturity

FHLBank Topeka



FHLBank Update on Capitol Hill

Ryan Gilliland
FVP, Director of Government and Industry Relations
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ryan.gilliland@fhlbtopeka.com

FHLBank Topeka

FHLBank Housing and Community Development Grant Programs

Housing & Community Development (HCD) Programs

Affordable Housing Program (AHP)

The FHLBank system's Affordable Housing Program is the largest privately funded housing grant program in the United States. FHLBank members, in partnership with public and private housing development organizations, prepare a detailed application for this competitive program.

TurnKey (HSP, HSP+, HOPE)

TurnKey, FHLBank's new suite of products designed to provide assistance and address the challenges of attaining homeownership in Colorado, Kansas, Nebraska and Oklahoma.

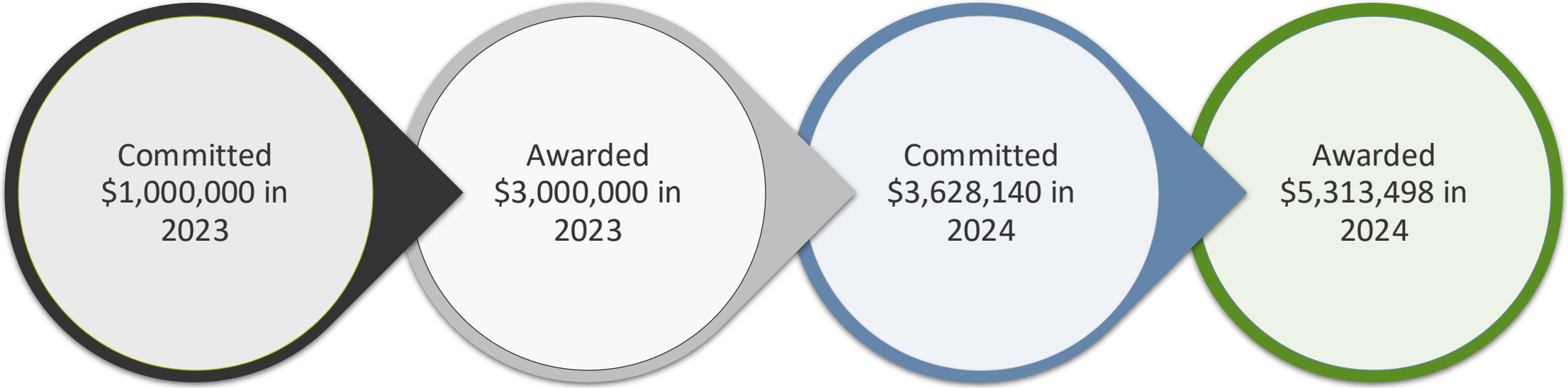
Community Housing Program (CHP)/Community Development Program (CDP)

CHP and CDP provide advances priced below FHLBank's regular advance rates to help members finance housing in their communities, and finance qualifying commercial loans, farm loans and community and economic development initiatives in the areas they serve.

Native American Housing Initiative (NAHI)

NAHI was first implemented in 2023 as a voluntary grant program, unique to FHLBank Topeka, benefiting our Native American communities across the district.

NAHI: Our Commitment



2024 NAHI Award Recipients

Awards announced October 31, 2024

- 12 recipients totaling $5,313,498
- 2 awards in Colorado
- 4 awards in Kansas
- 1 award in Nebraska
- 5 awards in Oklahoma

NAHI grants provide Native American Tribes and Tribally Designated Housing Entities access to grant funds intended to support housing for tribal members in our district. Grants with flexibility to apply funds for various purposes.

FHLBank Topeka

NAHI Grant Recipients (in no particular order)	FHLBank Members	Amounts
Citizen Potawatomi Nation Shawnee, OK	Exchange Bank	$333,265
Housing Authority of the Seminole Nation of Oklahoma	Security State Bank	$500,000
Iowa Tribe Housing Authority White Cloud, KS	Chickasaw Community Bank	$500,000
Muscogee Creek National Department of Housing Okmulgee, OK	Chickasha Community Bank	$500,000
Northern Ponca Housing Authority Norfolk, NE	First National Bank of Omaha	$500,000
Prairie Band Potawatomi Nation Mayetta, KS	CoreFirst Bank & Trust	$480,233
Southern Ute Indian Tribe Ignacio, CO	First National Bank	$500,000
Ute Mountain Ute Tribal Council Towaoc, CO	First National Bank	$500,000
Housing Authority of the Cherokee Nation Tahlequah, OK	Chickasha Community Bank	$500,000
Kickapoo Housing Authority Horton, KS	GNBank NA	$500,000
Sac and Fox Housing Authority Reserve, KS	Bank of Blue Valley	$250,000
Tonkawa Tribe of Indians of Oklahoma Tonkawa, OK	First National Bank of Oklahoma	$250,000

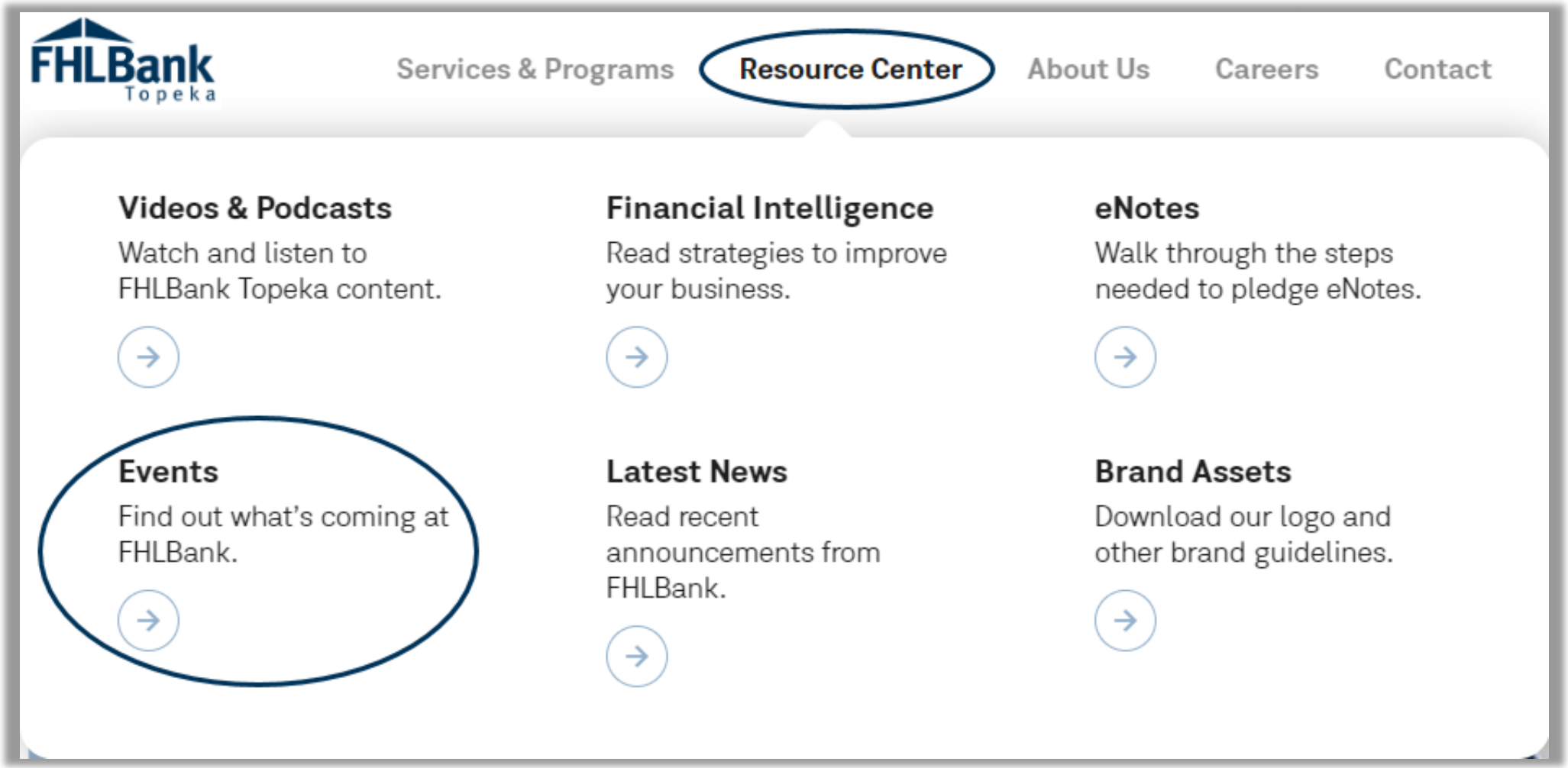
Prepare for TurnKey 2025!

- Be on the lookout for announcements, trainings and user guides in January/February
- Board approved Implementation Plan and Targeted Community Lending Plan will be published in early January and includes the “rules” of the program
- Link to TurnKey Resources, Links and Guides

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FHLBank is Here to Help

Visit our Resource Center for upcoming events!



[Resource Center - Federal Home Loan Bank Topeka (fhlbtopeka.com)] [link]

Save the Date! 2025 Annual Member Conference

Join us for in a new location in 2025! Hear from industry experts and expect a packed agenda that includes the return of special breakout track dedicated to helping new leaders sharpen their skills.

When: Wednesday, April 16 – Friday, April 18

Where: Wichita, Kansas | Hyatt Regency

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MPF Program
866.571.8171

Collateral & Safekeeping Operations
877.933.7803

Member Credit Analysis
800.905.2733

THANK YOU FOR JOINING US TODAY!

2025 FI Live Sessions:

- Thursday, Feb. 20th
- Wednesday, May 21st
- Thursday, Aug. 21st
- Thursday, Nov. 20th

REGISTER HERE!

