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
- ✓ Liquidity and funding strategies
- ✓ Tools and products available through your membership in FHLBank Topeka

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Presenters



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Poll Question

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

a. Market & economic update
b. Member financial trends
c. Collateral discussion with Zachary Thompson, collateral review officer
d. Liquidity and funding strategies

Discussion Topics

- Economic Update
- Member Financial Trends
- FHLBank Conversation on Collateral
- Liquidity and Funding Strategies
- FHLBank is Here to Help

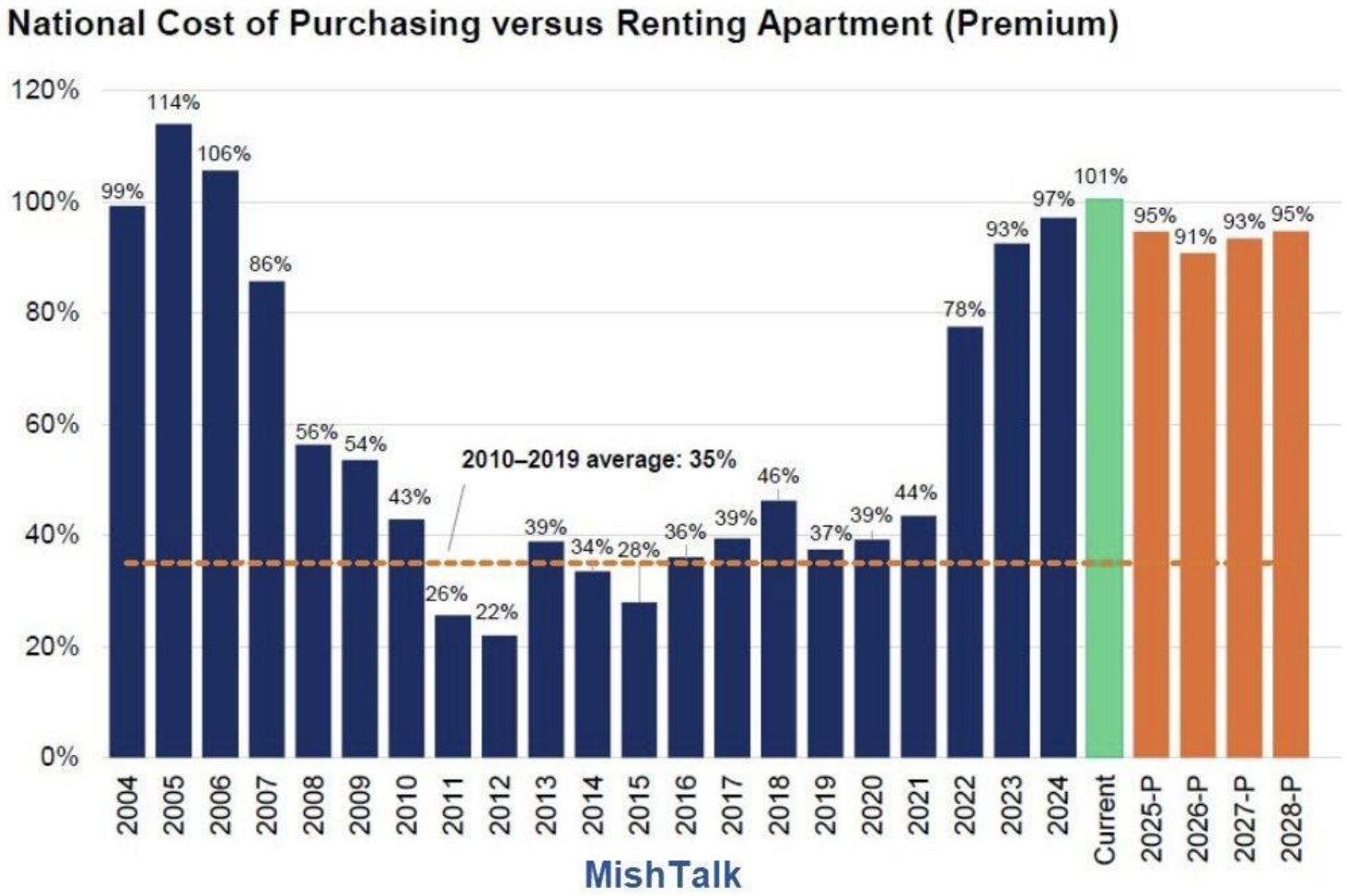
FHLBank Topeka

Economic Update

Economic Outlook

Core Inflation Moderately Higher & Possible Rate Cuts

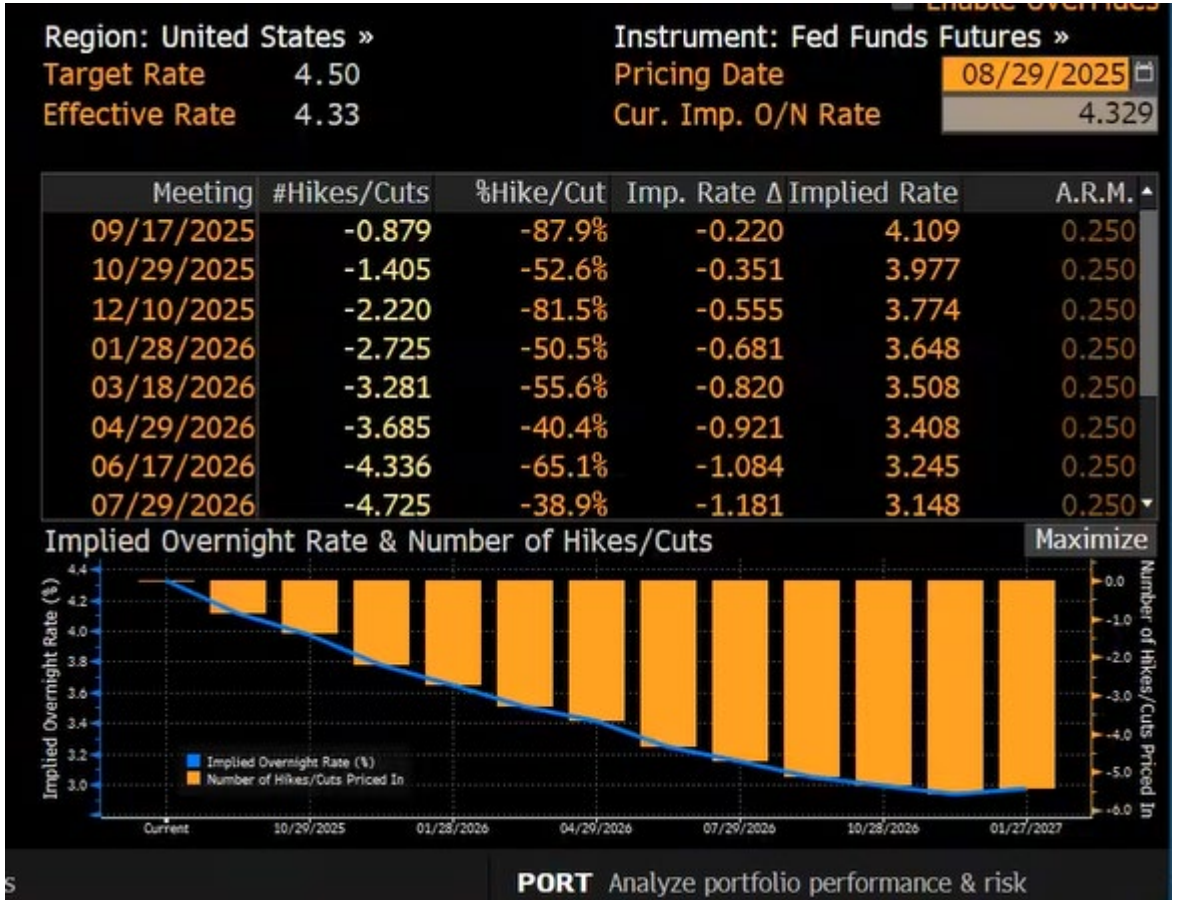
- Fed Hinting at Sept Rate Cut
- GDP | 3.30%
- Core PCE | 2.90%
- Core CPI | 3.10%
- U3 Unemployment Rate | 4.20%
- Payrolls job growth slowing significantly
- HPI YOY | 2.89%
- Home Affordability Challenges



87% Chance of a September Rate Cut

From Fed Chair Powell at Jackson Hole:

"The shifting balance of risks may warrant adjusting our policy stance"



Source: Bloomberg.

Poll Question

How much will the Fed cut rates this year?

a. 0 bp
b. 25 bp
c. 50 bp
d. 75 bp
e. > = 100 bp
f. Cut? Nope, rate hike.

When will next recession begin?

a. It's already started!
b. 2H 2025
c. 2026
d. 2027
e. No recession, successful soft landing

February 2025 Poll Question Recap:

What is your outlook for the Fed's policy decisions in 2025?

67% - Another pause followed by a few rate cuts

10% - Another pause followed by a few rate hikes

23% - Unsure

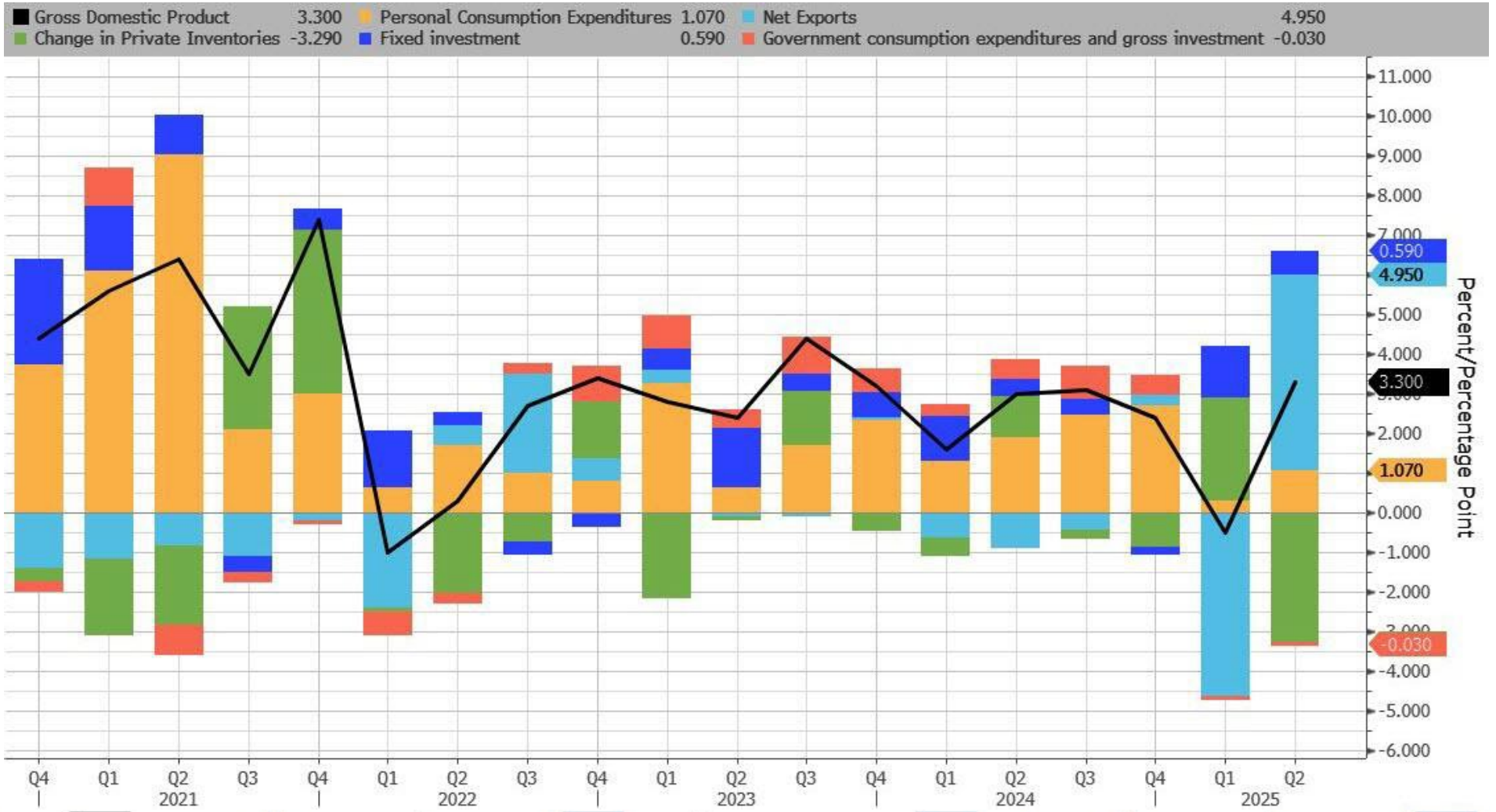
May 2025 Poll Question Recap:

How many rate cuts do you expect in 2025? (1 cut = 25 bp)

57% - 1 cut

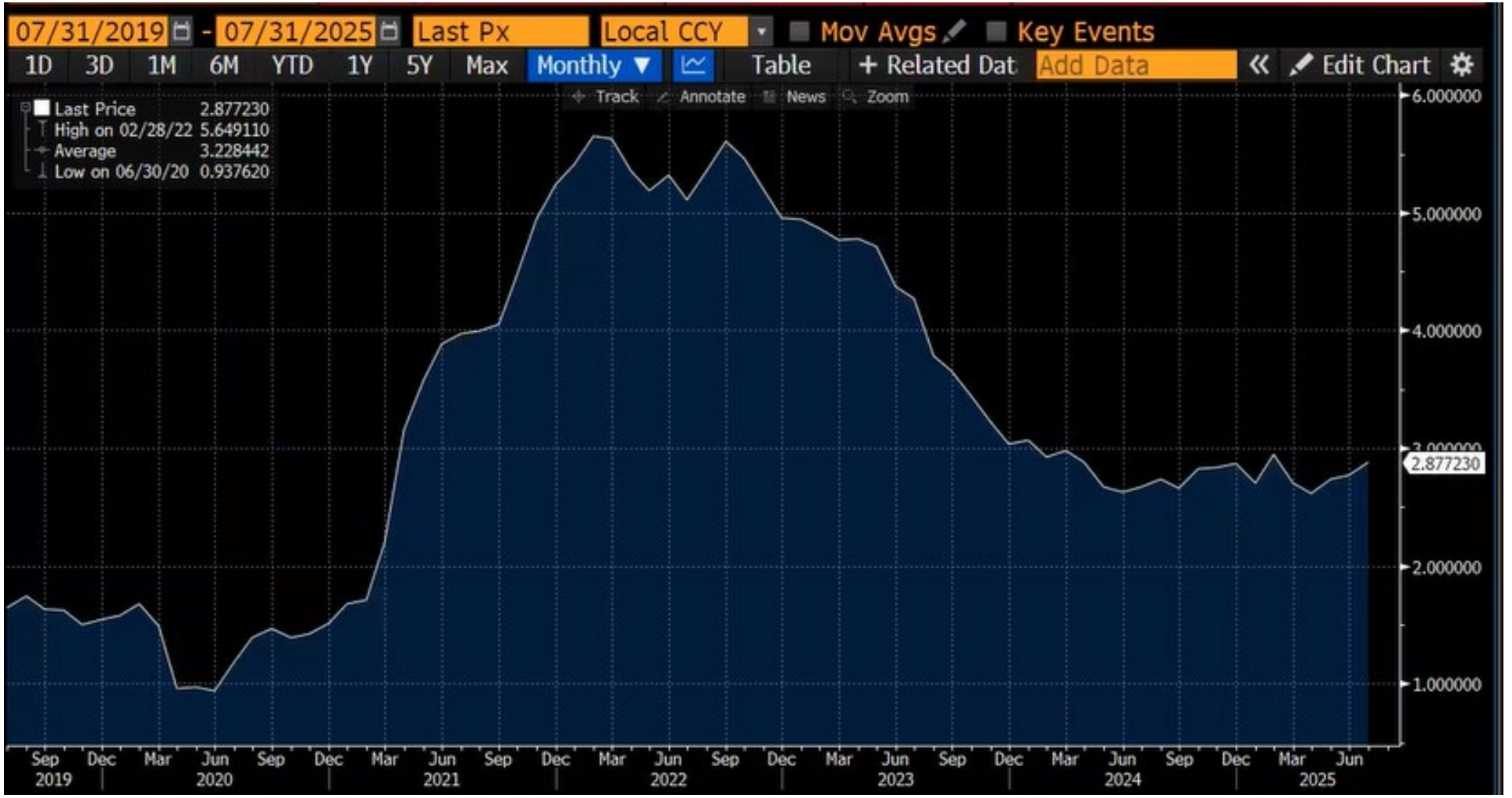
43% - 2 cuts

Q2 GDP Increases to 3.30% Net Exports



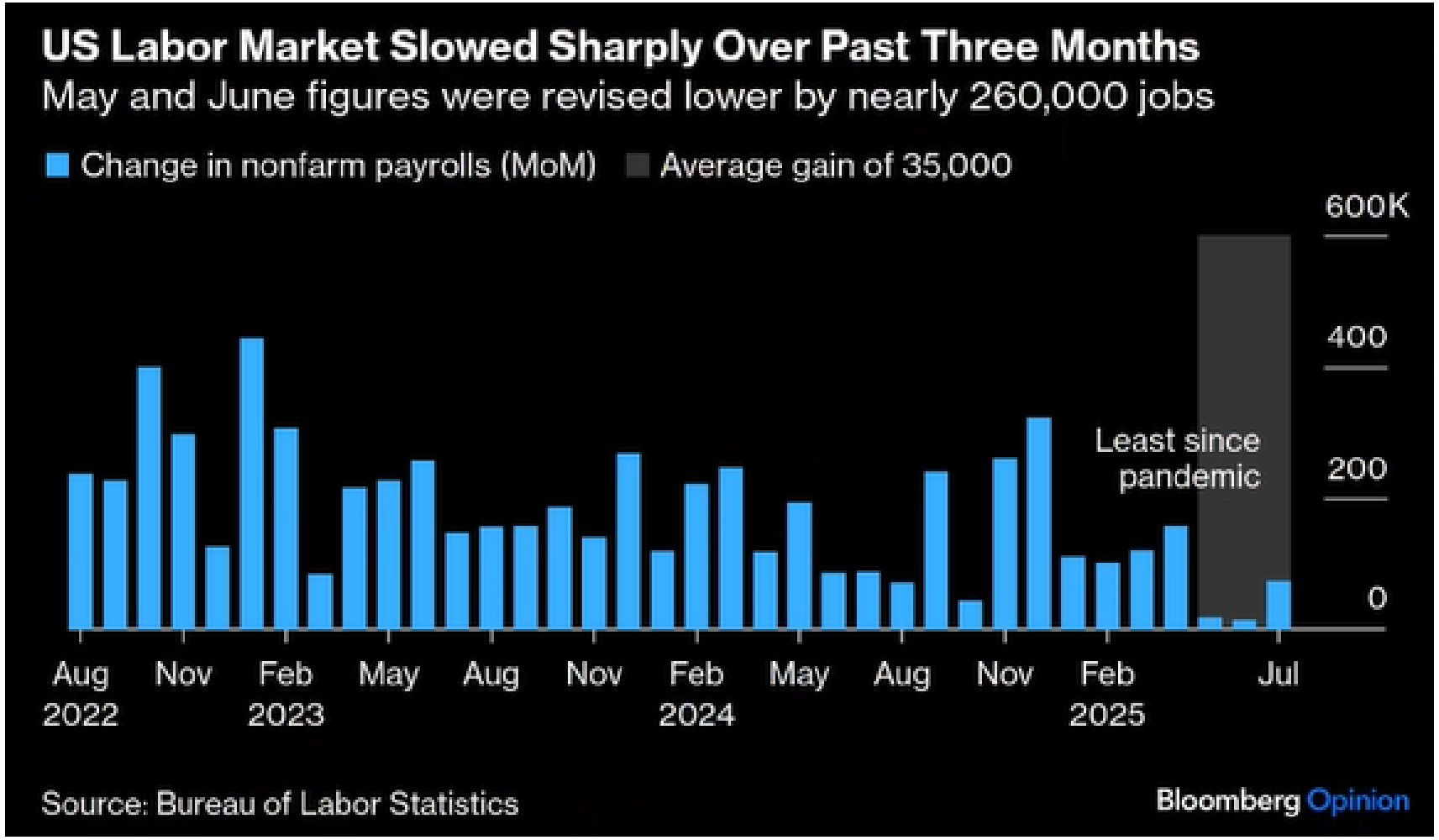
Source: Bloomberg.

Core PCE Moderately Higher – 2.90% YoY

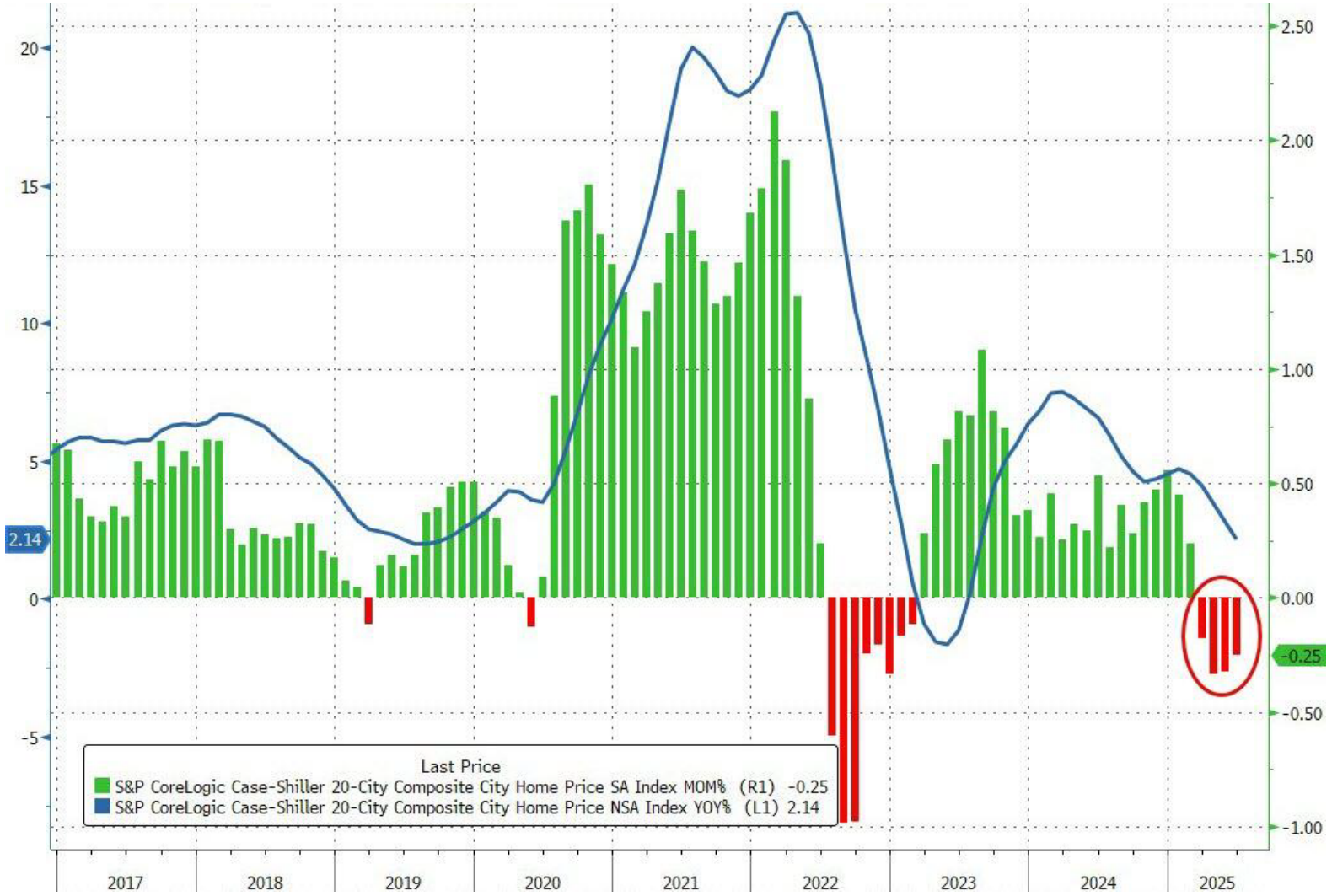


Source: Bloomberg.

Payrolls Significant Slowing – Averaging Only 35K Last 3 Months

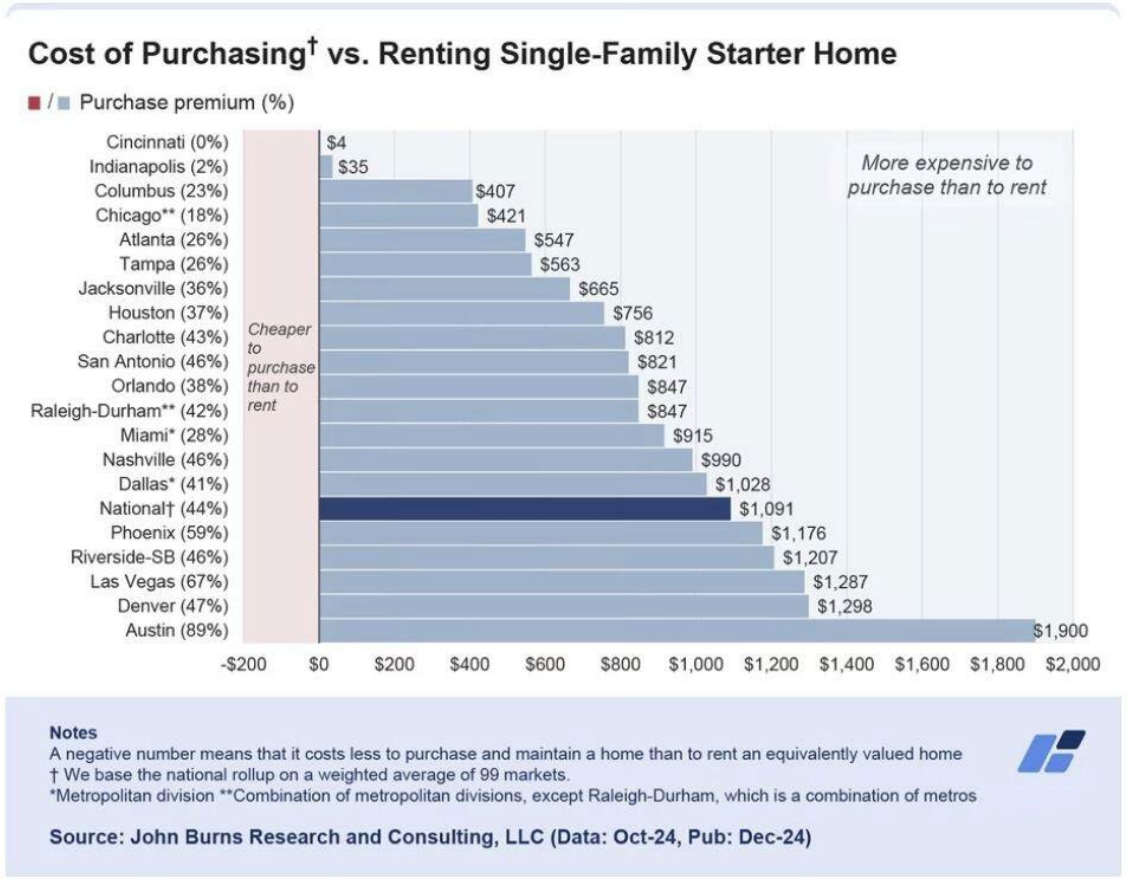


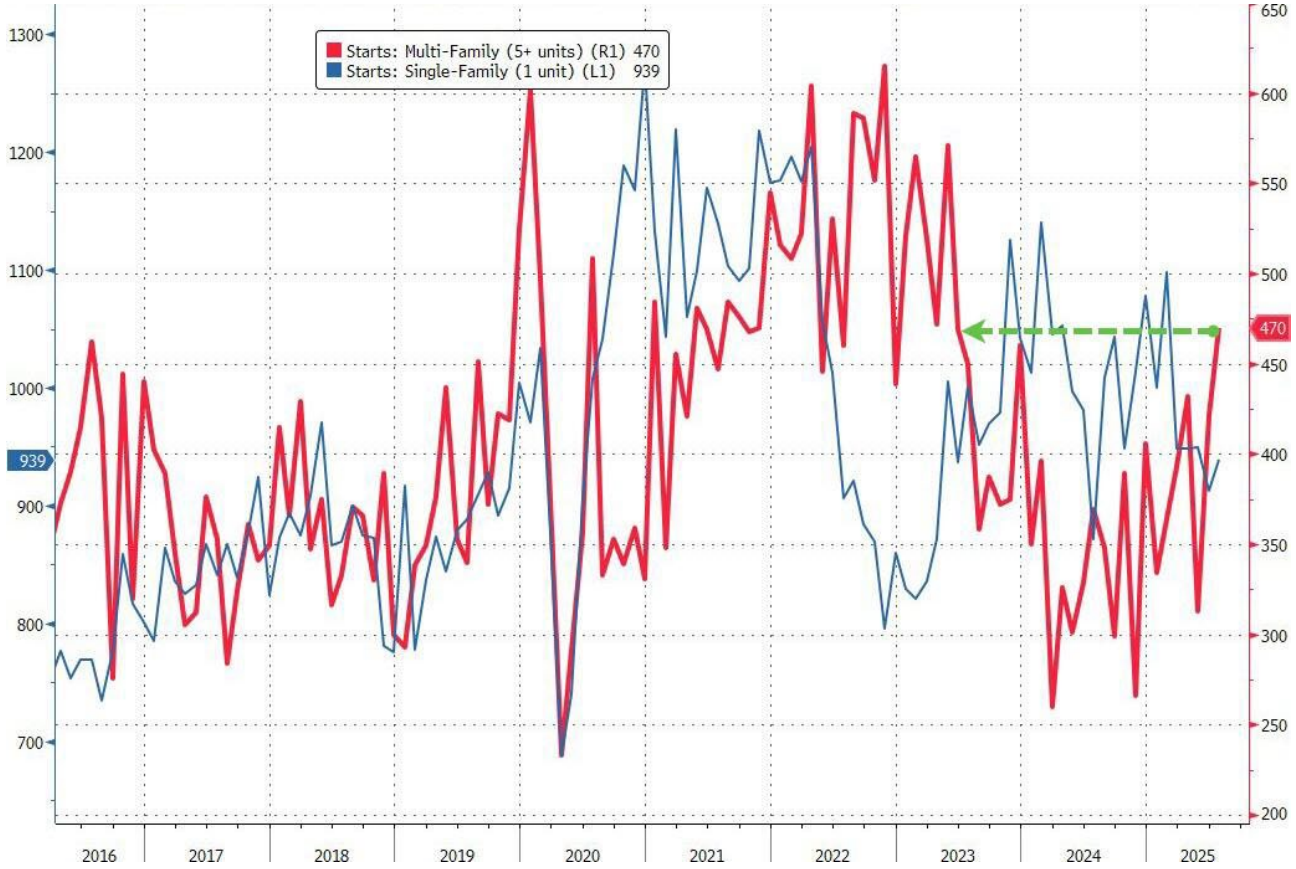
Case-Shiller Home Prices Continue to Fall



Source: Bloomberg.

“Renters Nation” as Multi vs Single-Family Units Diverge





Source: Bloomberg.

Home Affordability at Crisis Levels

Geography	Median 2019 HH Income	2019 Max Target Home Price	Share of Homes For Sale < Target (July 2019)	Median 2025 HH Income	2025 Max Target Home Price	Share of Homes For Sale < Target (July 2025)
USA	$68,073	$325,000	55.7 %	$78,770	$298,000	28.0 %
Oklahoma City, OK	$60,605	$289,000	62.9 %	$71,503	$271,000	40.5 %
Kansas City, MO-KS	$70,215	$335,000	63.5 %	$80,127	$304,000	34.2 %
Denver-Aurora-Centennial, CO	$85,641	$409,000	37.9 %	$106,833	$405,000	19.2 %

Source: Realtor.com.

30yr Mortgage Rate

UST 10yr

Fed Funds Rate



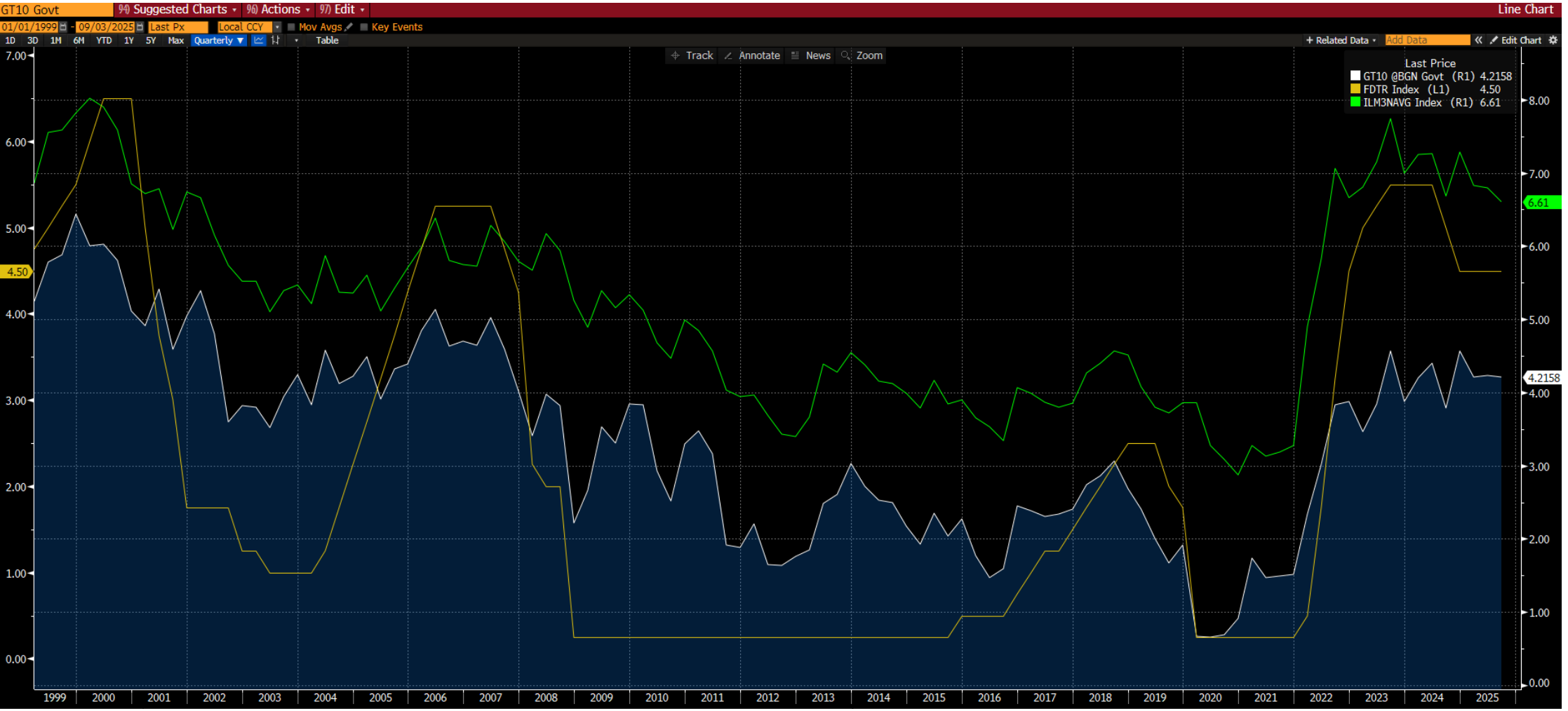
6.61%

4.21%

4.50%

Source: Bloomberg LP

30yr Mortgage / 10yr Treasury Spreads | 1999-Today



1999-Today
186bps

2022-Today
292bps

Source: Realtor.com.

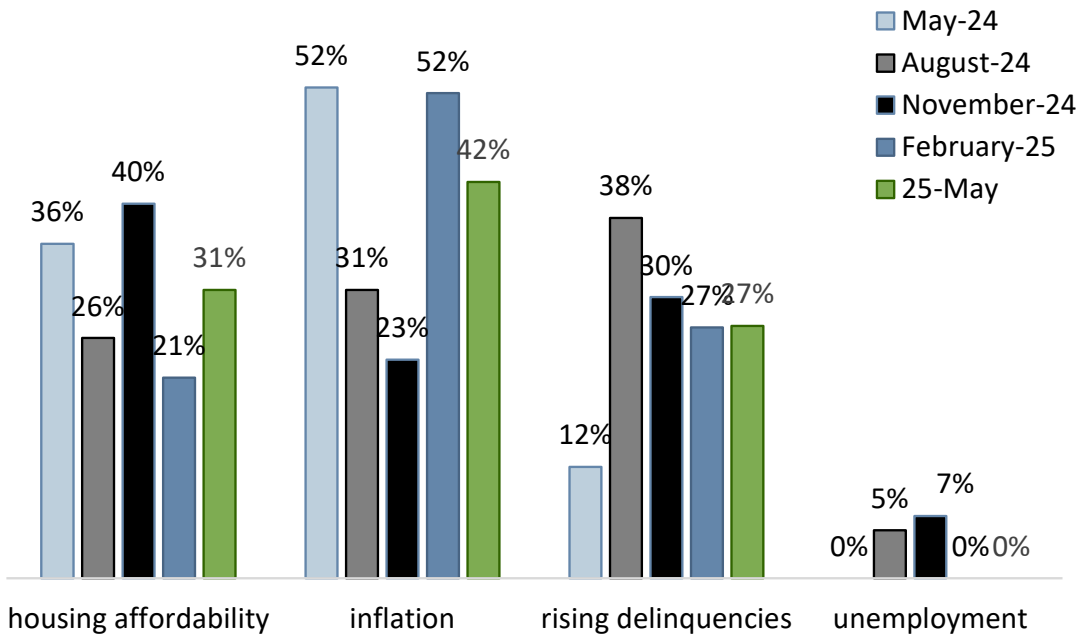
Poll Question

Where do you think mortgage rates will be in 12 months?

a. < 5.00%
b. 5.00% - 5.50%
c. 5.50% - 6.00%
d. > 6.00%

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

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



FHLBank Topeka

Member Financial Trends

2nd Quarter Key Balance Sheet Takeaways

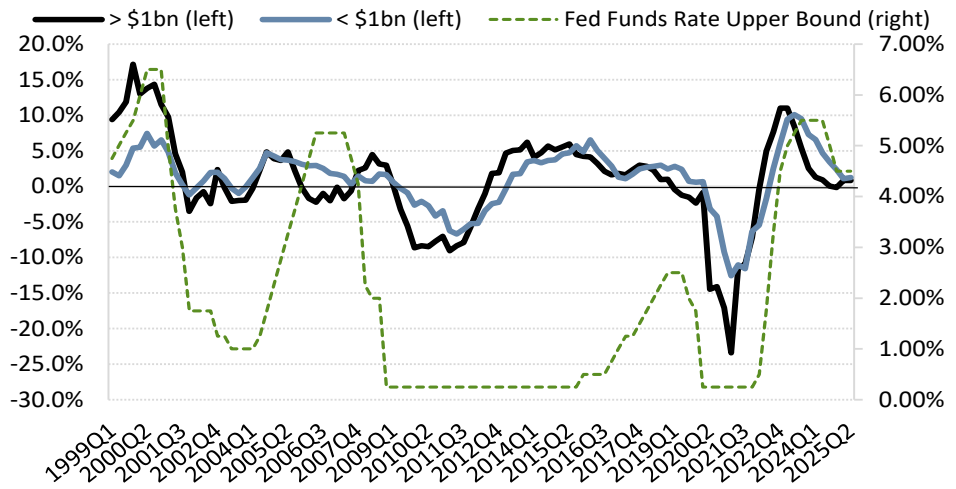
- Liquidity and deposit pressures persist
- Strong rebound in lending activity across all sectors and institution size
- Growth in core funding gap filled with FHLBank advances
  - FHLBank advance utilization expanded most at commercial and rural-based institutions
- Contraction in deposit balances across district on median basis
  - But, pockets of deposit growth seen in more urban areas
- Reserve build continues at credit unions, unchanged at bank members
  - Nonaccrual loans move higher
- Capital positions improve, remain solid

Loan growth accelerated while deposits contract

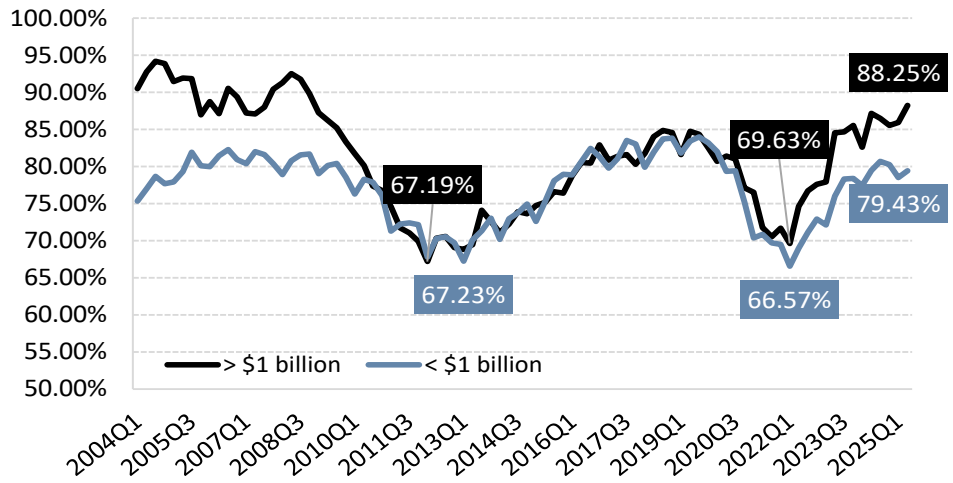
Navigating policy and economic uncertainty impact lending outlook

Banks

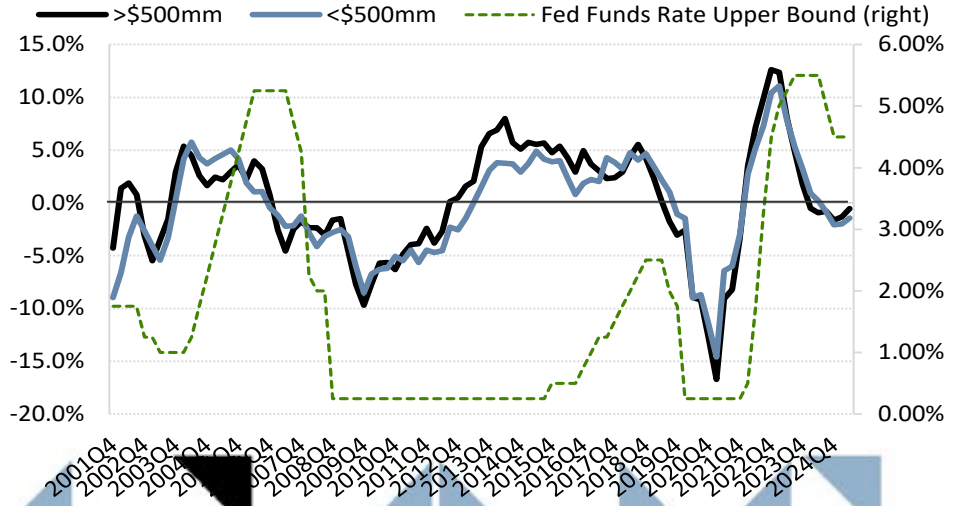
Loan Growth less Deposit Growth (4 qtr avg)

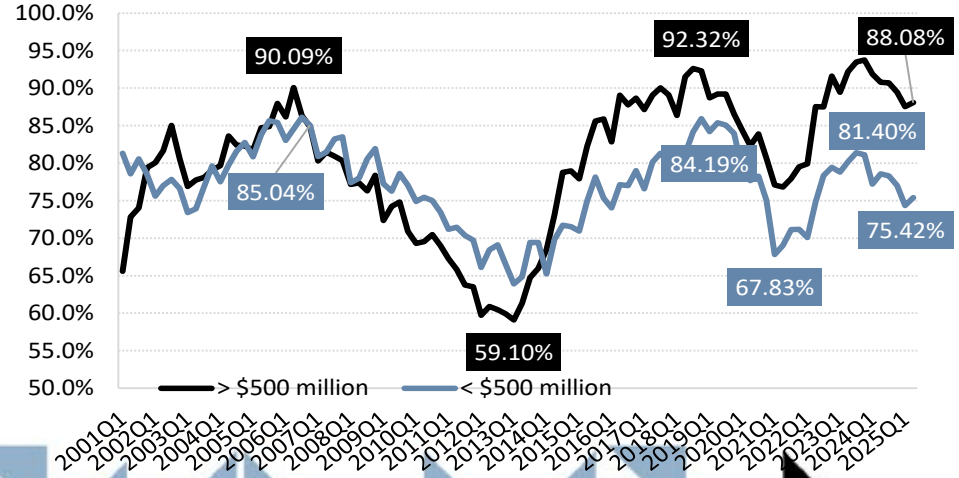


Loans / (Shares &) Deposits



Credit Unions





Source: S&P Global Market Intelligence.

Poll Questions

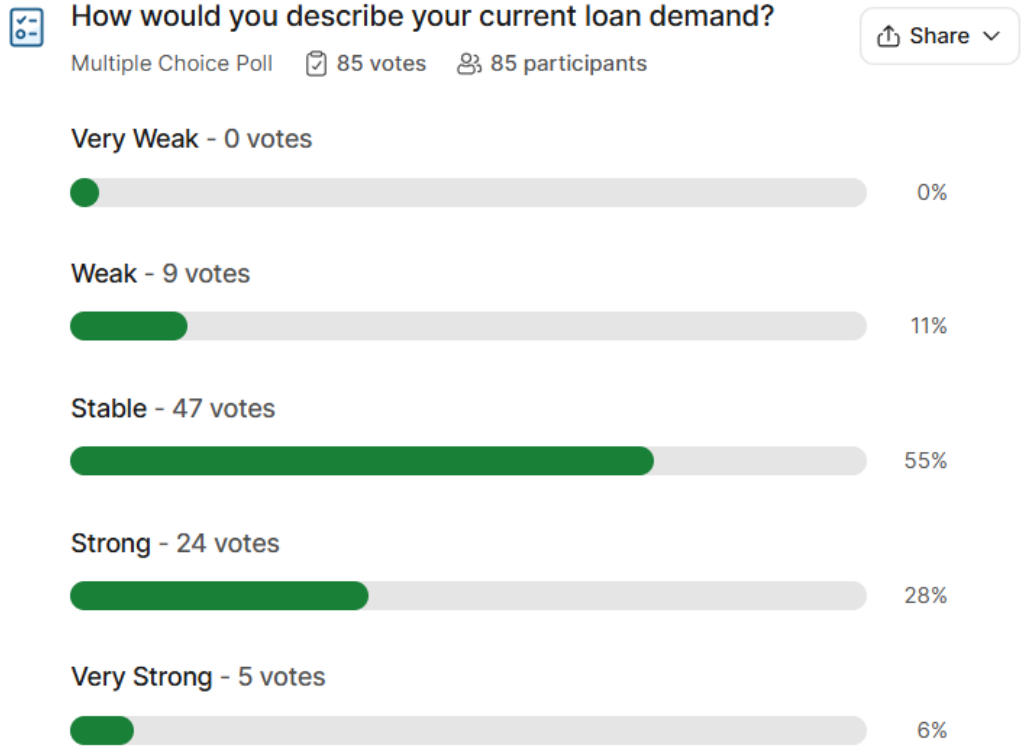
How would you describe your current loan demand?

a. Very weak
b. Weak
c. Stable
d. Strong
e. Very strong

Deposit growth expectations for next 12-18 months?

a. Strong growth
b. Moderate growth
c. Flat/Minimal growth
d. Decline in balances

Nebraska Regional Meeting Poll Insight (from Baker Group):

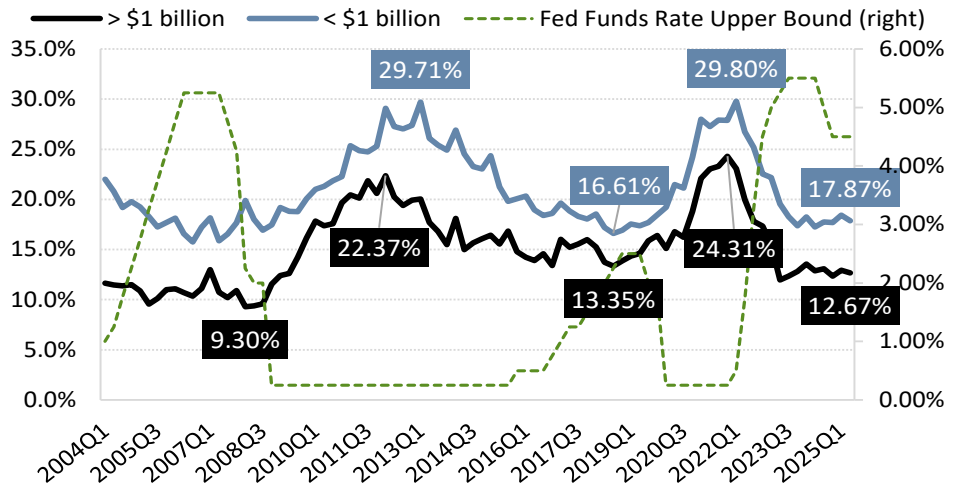


Wholesale funding needs increase to fill funding gap

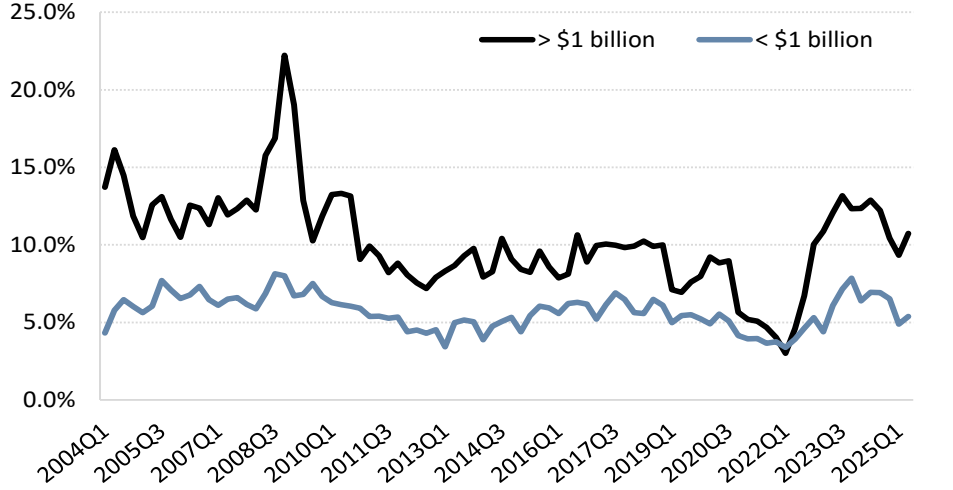
Liquidity metrics unchanged at banks while declining at credit unions

Banks

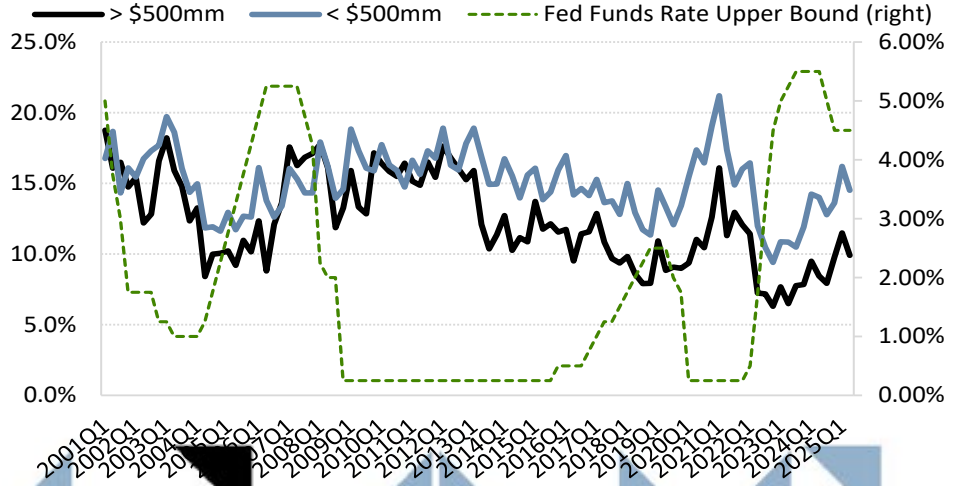
Liquid Assets / Assets

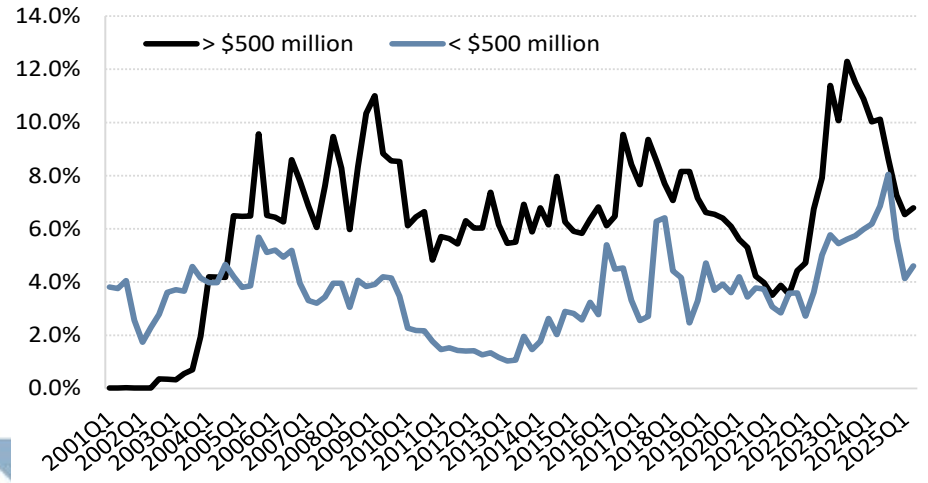


Wholesale Funding Utilization



Credit Unions



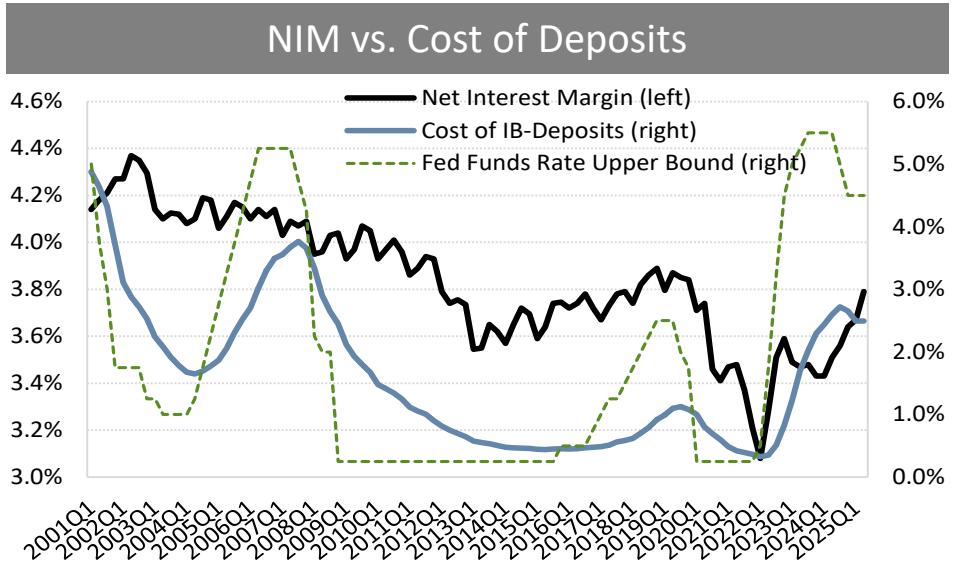


Source: S&P Global Market Intelligence.

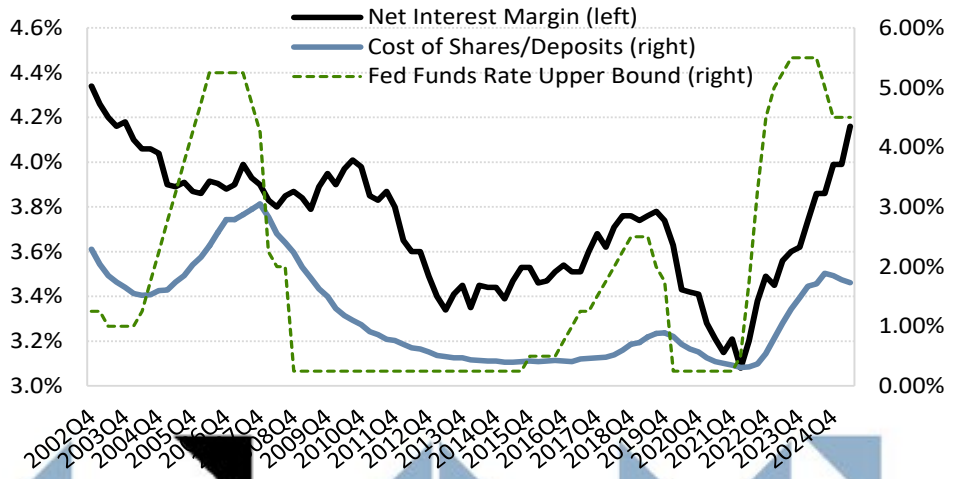
Continued margin expansion driven by loan repricing

Share/deposit funding costs stall

Banks



Credit Unions



- Opportunity remain for Covid era loans to reprice higher
- High-cost CD specials concentrated in shorter-terms, provide potential to shift maturities into non-maturity accounts
- Bond yields currently at 10- to 15-year highs, opportunity to lock in yield

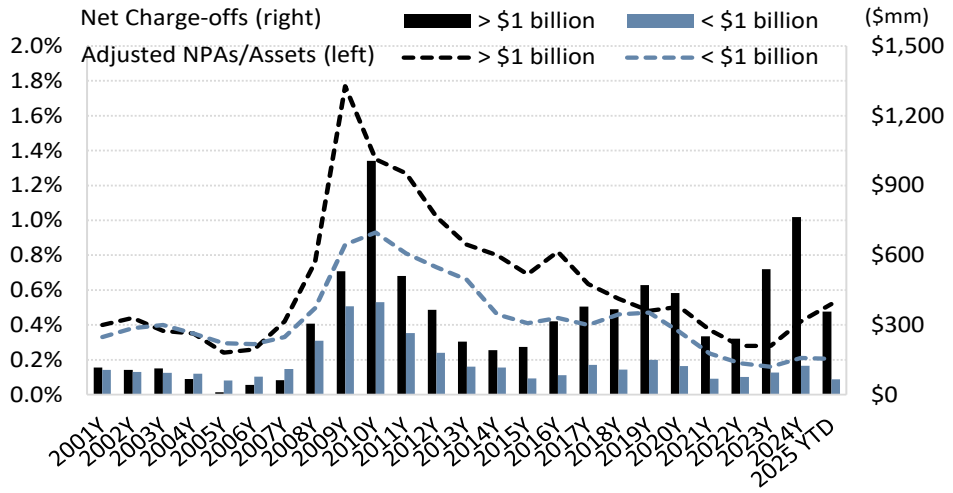
Source: S&P Global Market Intelligence.

Delinquencies on the rise, consumer debt remains elevated

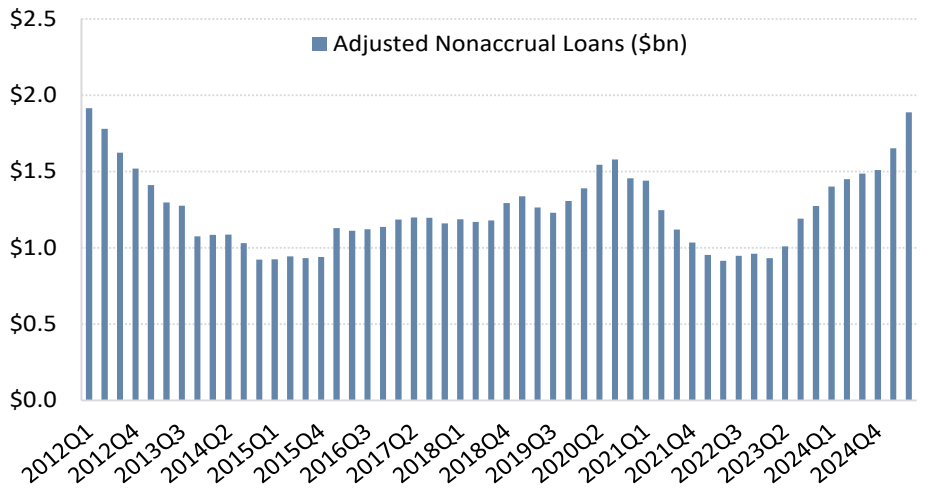
Credit concerns continue to linger

Banks

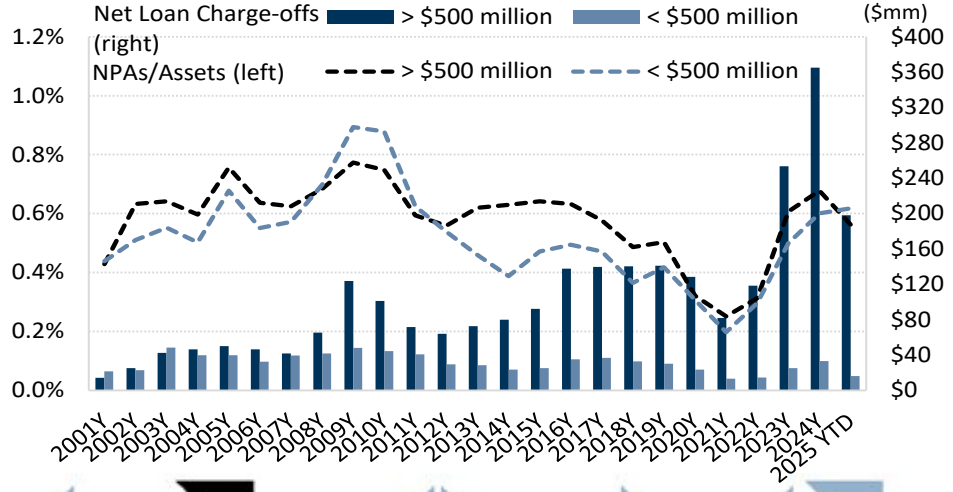
Nonperforming Assets & Net Charge-offs

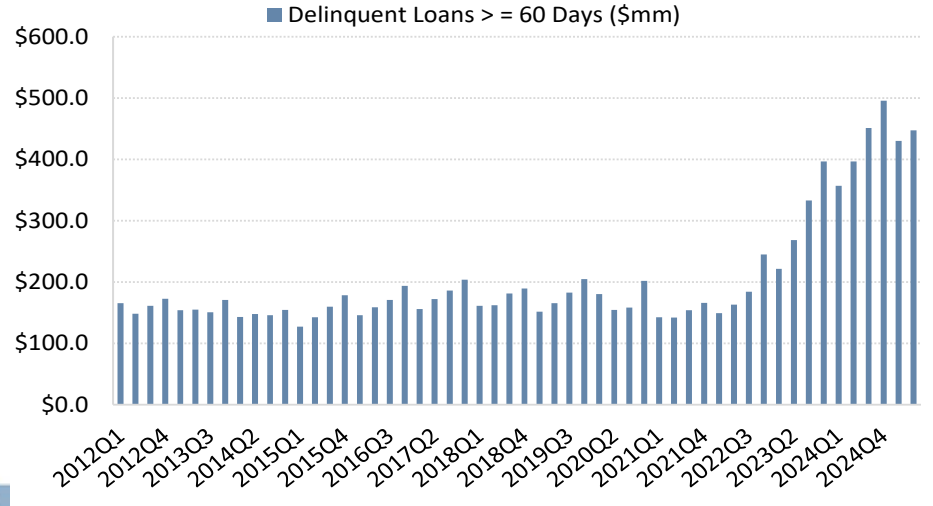


Adjusted Nonaccrual & Delinquent Loans



Credit Unions





Source: S&P Global Market Intelligence.

Poll Questions

Top financial concerns *(choose 3):*

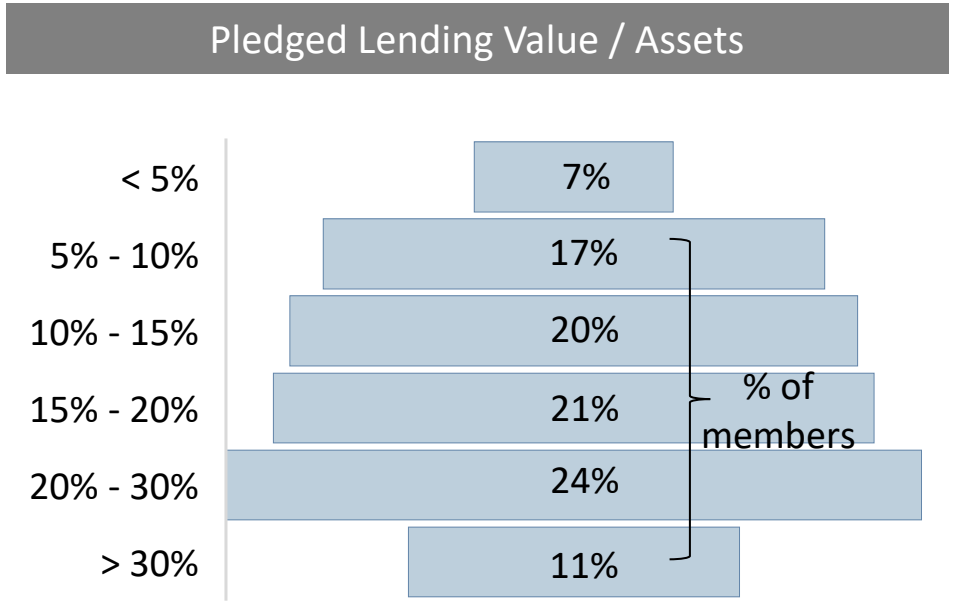
a. Cost of funds
b. Liquidity
c. Deposit growth
d. Loan growth
e. Asset quality
f. Capital
g. Other

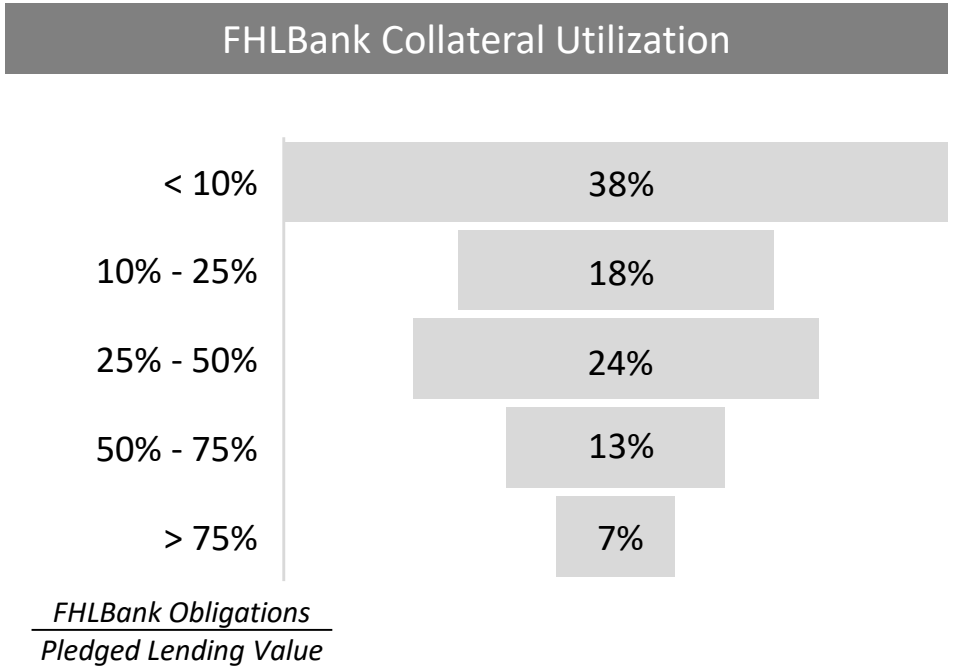
Top challenges *(choose 3):*

a. Succession planning
b. Regulatory compliance
c. Technology & speed of change
d. Cybersecurity/fraud
e. Talent acquisition/retention
f. Competition
g. Other

Liquidity Management: Building reliable access to funding is essential

Where does your current utilization and pledged collateral position stand against your peers?





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FHLBank Conversation on Collateral

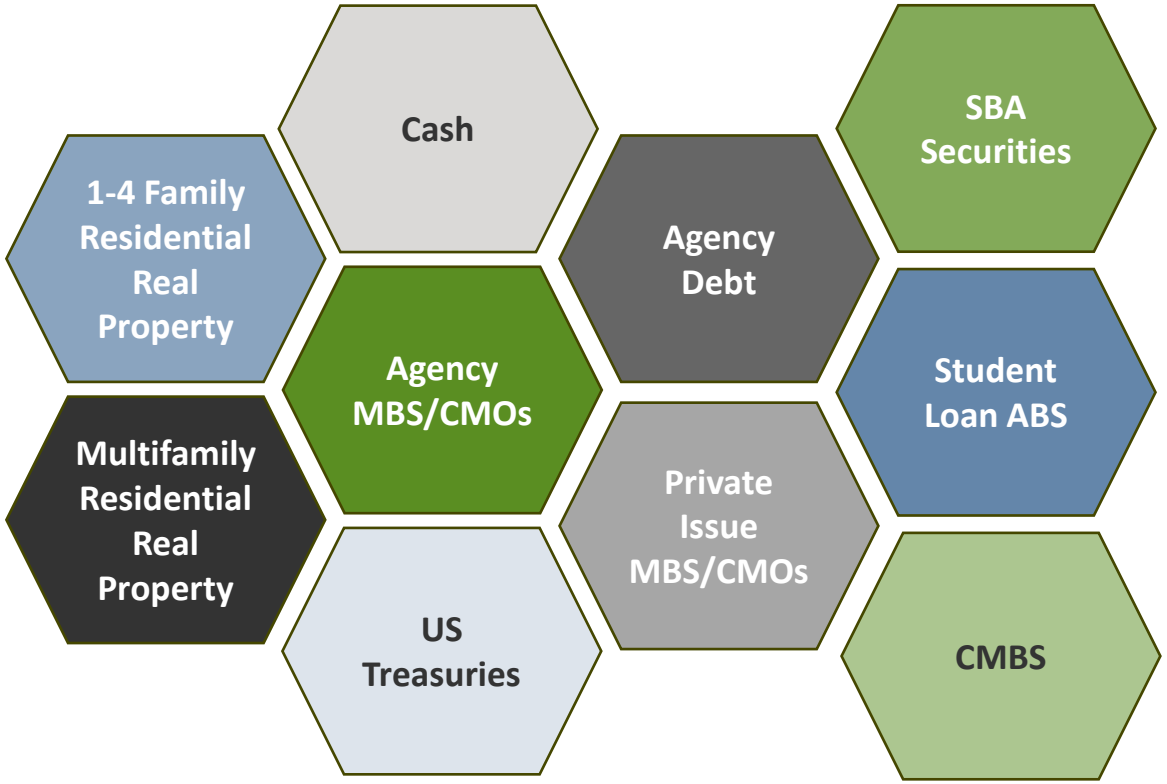
Zachary Thompson
Collateral Review Officer

FHLBank Topeka Eligible Collateral

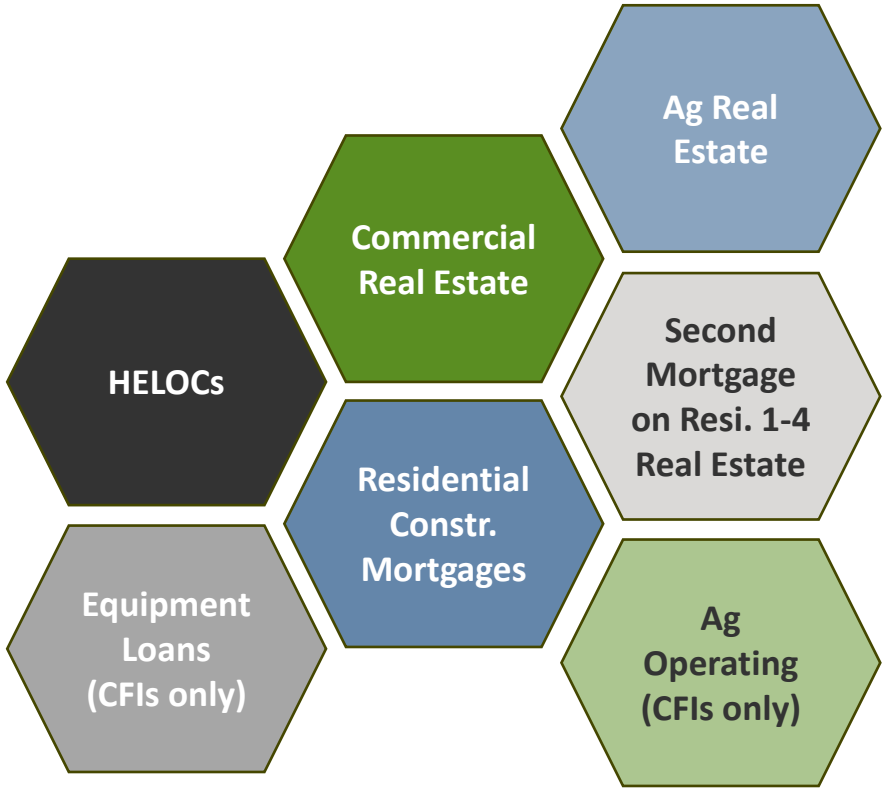
You may have collateral available to increase your borrowing base and dry powder reserve.

(Refer to Member Products and Services Guide for case-by-case collateral types, lending value detail and underwriting requirements)

Unrestricted Collateral



Restricted Collateral



Poll Questions

Are you interested in more education around identifying collateral, pledging collateral, etc.?

a. Yes

b. No

Are you looking at ways to increase collateral capacity with FHLBank?

a. Yes

b. No

- *Review FHLBank's Schedule of Eligible Collateral in our Member Products and Services Guide for case-by-case collateral types, lending value detail and underwriting requirements*

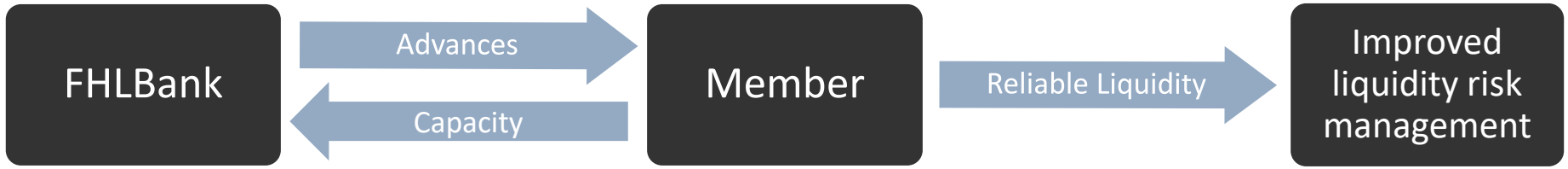
- *Visit the collateral resource page on FHLBank's public site (includes contact information for your collateral questions)*

FHLBank Topeka

Liquidity and Funding Strategies

Benefits of an improved collateral position

- Liquidity can cripple an institution significantly faster than credit
- Reduce examiner concern and enhance operating flexibility and strengthen contingency plans
- Agile and quickly reacting to stress scenarios and other liquidity needs
  - It's much easier to have the eligible collateral pledged and capacity available before a stress event occurs
- Fortifying a sufficient buffer against deposit migration and need to fill the funding gap when liquidity needs arise



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Building operational and contingent liquidity

Optimizing pledged collateral

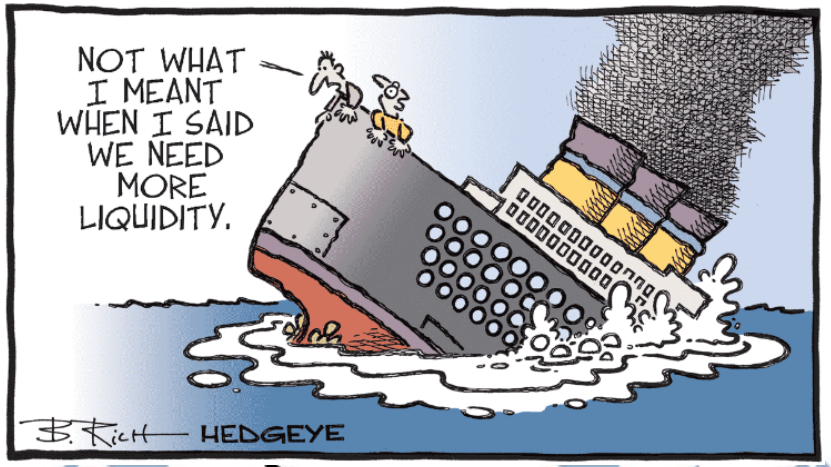
- Better responses to examiner inquiries about your liquidity position and management practices
- Pledging more loans will allow you to convert non-saleable loans to liquidity and will prevent idle non-productive cash from sitting on balance sheet
- Benefits of allocating a larger portion of your FHLBank funding limit to operational:
  - Familiarize your institution with the uses & benefits of advance products
  - Better interest rate risk management by having access to customizable funding and providing cost savings to enhance earnings
  - Provides funding for seasonally-based asset growth
- Economic uncertainty!

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Liquidity stress testing and contingency funding planning

Be proactive, not reactive – liquidity events happen fast!

- Proactively managing potential challenges that may arise should take into consideration the impact on future earnings, liquidity risk and deposit migration
- Think about the impact and probability of various scenarios
- Robust liquidity planning, policies, and stress testing has allowed banks to navigate through stress events
- Review and make necessary changes to policies to increase flexibility
  - Allocate time to ensure policies allow for meaningful flexibility, with outlets and collateral pledged to secure funding if needed



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Poll Questions

Do you have FHLBank funding allocated for use as both an operational and contingency liquidity source?

a. Yes
b. No, contingent only

What are your expectations for FHLBank advance utilization in 2025 and 2026?

a. Maintain
b. Increase
c. Decrease
d. No wholesale funding needs

- Based on the maximum borrowing capacity of up to 40% of assets, we suggest maintaining FHLBank utilization generally around 15-20% of total funding as part of your base liquidity strategy, keeping the remaining 20% of the policy limit available to fund the balance sheet during stress events.

FHLBank advance activity

What are other members doing?

- Staying short in anticipation of rate cuts
- SOFR adjustable-rate advances popular
  - SOFR adjustable-rate advances **+$2.9 billion** from year-end 2024 to 6/30/2025
  - 3 months or less most common SOFR terms
- Mixed activity by members with maturing advances (pay down, renew, replace)
- Elevated advance utilization across membership continues in third quarter

Source: FHLBank Topeka.

SOFR adjustable-rate advance

Short-term, floating rate exposure with longer-term liquidity protection

Funding Strategy Considerations

- ✓ Rates for 1-, 2- and 3-month terms favorable compared to OLOC
  - **Average benefit of 4-5 bps**
- ✓ Reduce spread risk that OLOC rate may widen out in periods of market stress or volatility
- ✓ Carrying an OLOC balance? Create ladder of SOFR adjustable-rate advances and retain portion in OLOC to maintain flexibility
  - Replace with deposits or term out as needed
- ✓ Adjustable-rate structure protects against falling rates

Advance Rate Indications | 8/29/2025

Short Term Bullet		
Term	Rate	Div Adj [1]
Overnight	4.54	4.32
1 week	4.54	4.32
2 week	4.54	4.32
3 week	4.54	4.32
1 month	4.48	4.26
2 month	4.43	4.21
3 month	4.35	4.13

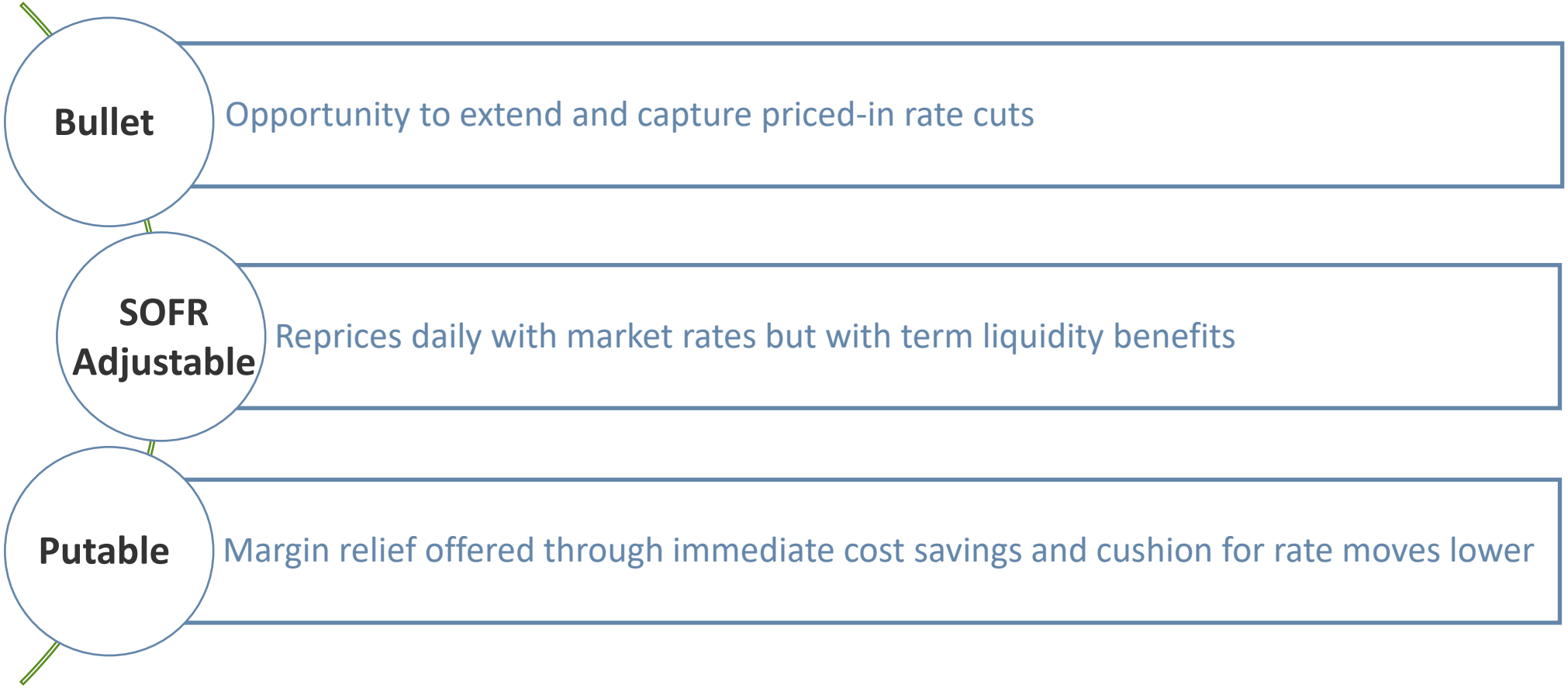
SOFR Adjustable [3]		
Term	Rate	Div Adj [1]
1 month	4.500	4.280
2 month	4.500	4.280
3 month	4.500	4.280
4 month	4.505	4.285
6 month	4.520	4.300
1 year	4.560	4.340
2 year	4.630	4.410
3 year	4.750	4.530
4 year	4.790	4.570
5 year	4.850	4.630
6 year	5.020	4.800
7 year	5.035	4.815
8 year	5.130	4.910
9 year	5.170	4.950
10 year	5.210	4.990

Inclusive of SOFR at 4.34%

Note: See daily rate sheet for footnote detail.

Alternative FHLBank funding strategies to consider

Balancing act of managing interest-rate risk, liquidity risk and margin performance



Funding Strategy Illustrations

Tool offered by Member Solutions

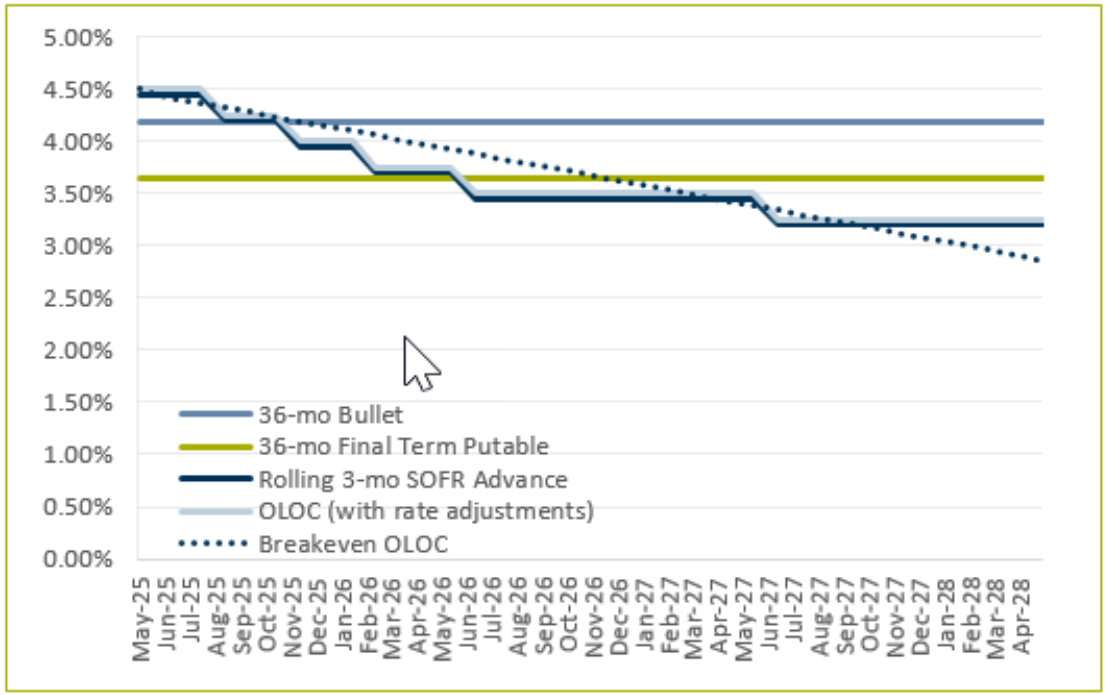
36-months Funding Scenario | WIRP + Dot Plot Expectations

Funding Assumptions			
Funding Amount:	$ 5,000,000	Settlement Date:	5/19/2025
Funding Term:	36-months	Maturity Date:	5/18/2028

Funding Strategy Comparison

	Total Interest Paid Over Life	Weighted Average Rate
36-month Bullet Advance	$ 628,283.58 *actual/actual*	4.19%
Putable Advance (3yr/6-mo Berm)	$ 555,104.17 *actual/360*	3.65%
Rolling 3-mo SOFR Advance	$ 542,881.94 *actual/360*	3.58%
OLOC Funding (w/rate adjustments)	$ 550,486.11 *actual/360*	3.63%

Expected FOMC Rate Adjustments			FOMC Rate
Reset 1: 4-mos	(25 bps)	September-25	4.25%
Reset 2: 7-mos	(25 bps)	December-25	4.00%
Reset 3: 10-mos	(25 bps)	March-26	3.75%
Reset 4: 14-mos	(25 bps)	July-26	3.50%
Reset 5: 26-mos	(25 bps)	July-27	3.25%



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

Breakeven OLOC rate reflects average monthly interest rate change of -0.045% or quarterly rate change of -0.134% at which OLOC has same average lifetime rate as the 36-month putable rate.

Cumulative FOMC Rate Adjustments = (125 bps)

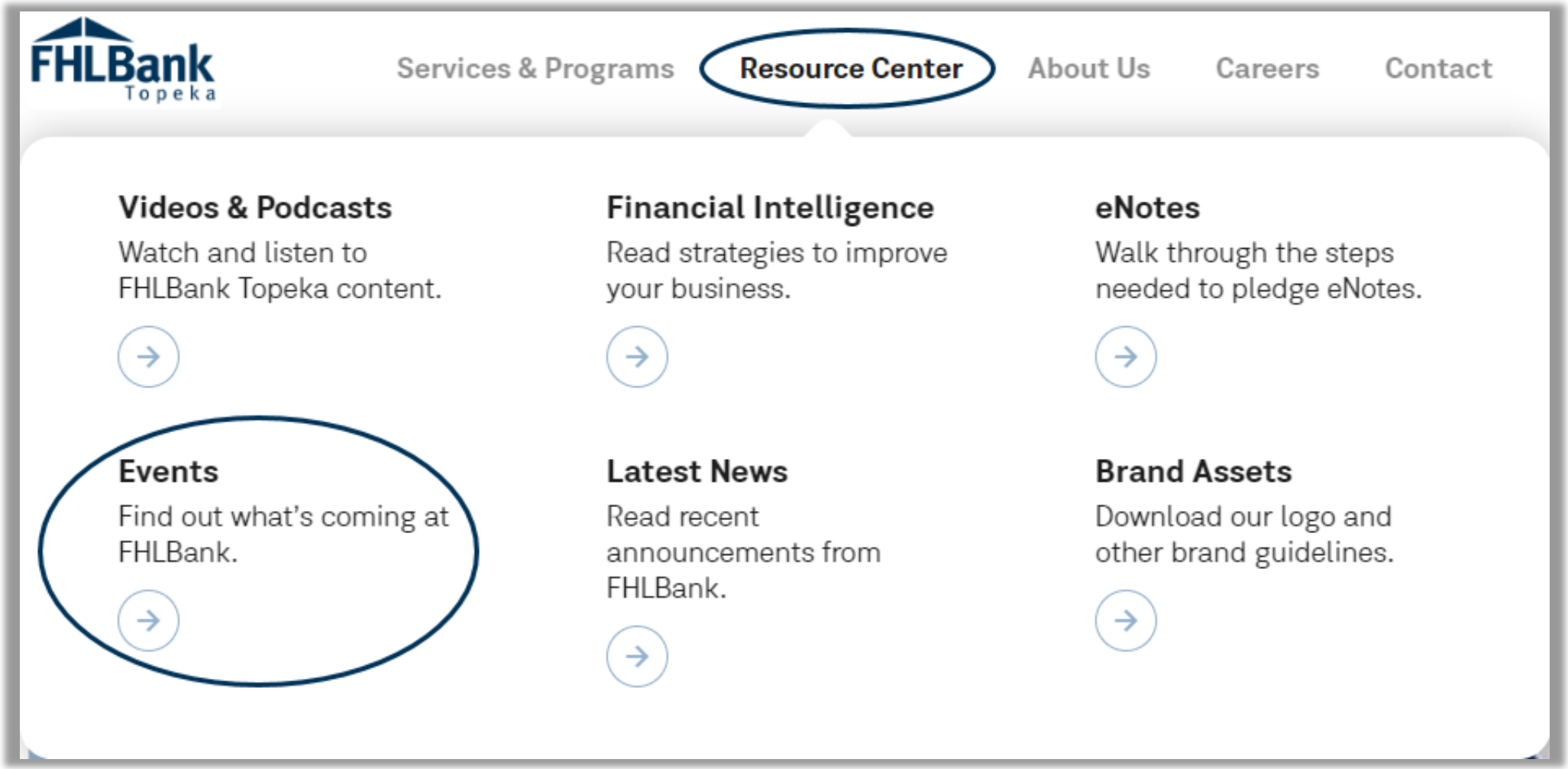
Funding Strategies – Planning Ahead

- Fixed or floating?
- 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**
- Advance restructure opportunities
- Improve earnings 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 (leverage or pre-fund)
  - Advance products can provide a strong alternative to brokered deposits and alternative funding sources

FHLBank Topeka

FHLBank is Here to Help

Visit our Resource Center for upcoming events!



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

Save the dates for our upcoming fall 2025 Regional Meetings

Kansas | Monday, September 29

- Colbert Hills Golf Course
- Manhattan, Kansas

Oklahoma | Wednesday, October 29

- Gaillardia Country Club
- Oklahoma City, Oklahoma

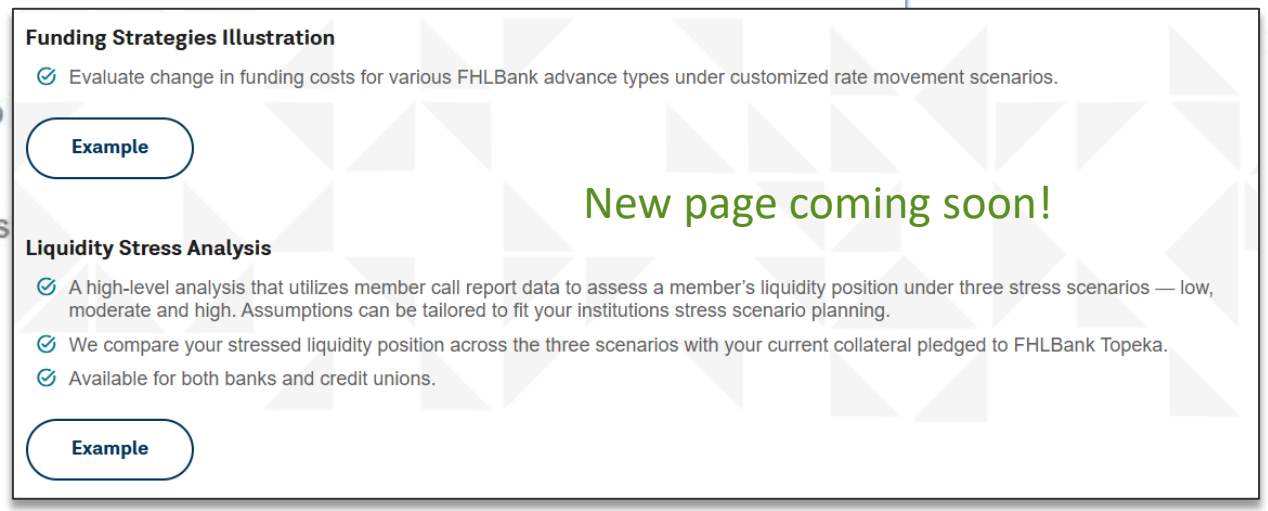
Visit **www.fhlbtopeka.com/resource-center/events** to mark your calendar. Registration links available.



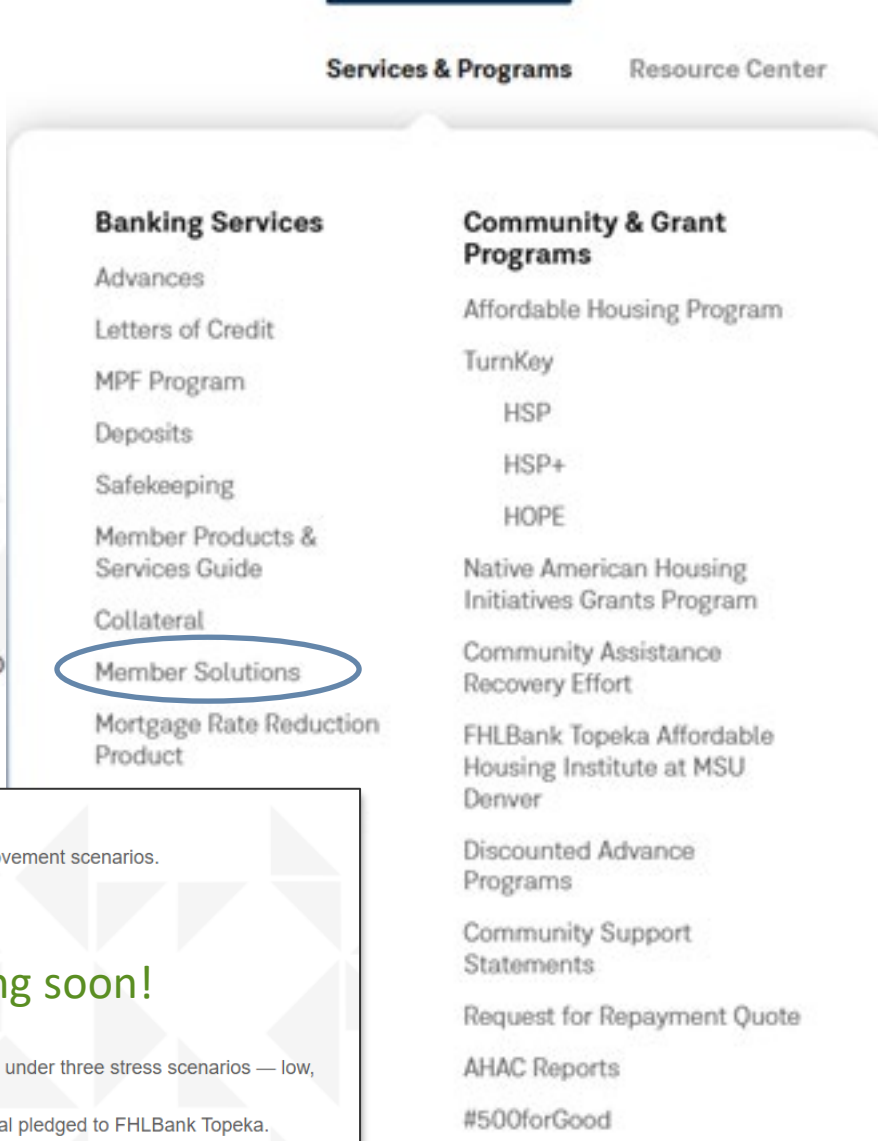
Member Solutions

Tools and Analysis Resources

- Funding Strategies Illustration
- Liquidity Stress Analysis
- Liquidity Management Analysis & Strategies
- Letter of Credit Utilization Strategies
- Brokered Deposit Analysis - We will ask you to provide information on your potential or current brokered p
- Blended and Match Funding Strategy Illustrations
- Dividend Benefit Analysis
- Collateral Capacity Analysis
- Marginal Cost of Funds & Deposit Portfolio
- Market Interest Rate Comparison
- Return on Average Equity (ROAE) Analysis



New page coming soon!



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THANK YOU FOR JOINING US TODAY!

Next 2025 FI Live Session:

- Thursday, Nov. 20th at 2 p.m. CT

REGISTER HERE!

