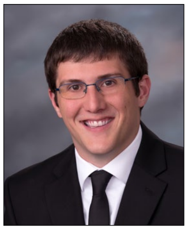

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Rates Go Up, You Lock In

Forward Settling Advance can offer savings and protection in this swiftly changing environment

With the Federal Open Market Committee (FOMC) predicting four to five more rate hikes in 2022, our members are looking for ways to protect themselves and their balance sheet.

Many have found value in the Forward Settling Advance (FSA), which hedges against rising rates and provides you an opportunity to lock in before additional FOMC increases.

With aggressive rate hikes, it is important now more than ever for institutions to be prepared. The FSA makes for a great funding option in the following scenarios.

- Locking in a rate for future funding such as construction to perm loans.
- Replacing maturing brokered CDs or advances.
- Protecting balance sheets against rising rates.
- Supporting future loan growth.

Many members have indicated their loan pipelines are starting to fill up. The FSA can give you and your loan customer peace of mind by locking in the rate today and providing protection from rising rates.

Another benefit to the FSA is you don't receive your funding until the settle date. If your institution is liquid right now but expects funding needs in the future as COVID stimulus deposits roll off the books, the FSA could be a great fit.

How the FSA Works

An FSA allows you to lock in a fixed rate (trade date) on a bullet or amortizing advance for settlement anywhere from five business days to two years in the future. It is also important to know that collateral, stock or any other obligation that comes with the advance is not required until it settles.

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Derek Layton is a Lending officer at FHLBank Topeka. He has been with FHLBank for four years and has nine years experience in the industry. Derek is a graduate of Washburn University and is now studying at the Graduate School of Banking at Colorado.

Product	Minimum Amount	Delay Period	Term
Fixed Rate Bullet	$10,000	5 days – 2 years	4 months – 10 years
	$2.5 million	5 days – 2 years	4 months – 30 years
Fixed Rate Amortizing	$2.5 million	5 days – 2 years	12 months – 30 years

In the table above, you can see the details and terms of our FSA product.

With low inventory in the housing market, our members are seeing increased demand for new construction homes. The FSA gives you and your customers the ability to lock the rate on the permanent financing and remove exposure to possible rate increases in the future.

We generally see members employing two possible strategies when using the FSA to fund construction to permanent loans — matched funding or blended funding.

Match funding — In this strategy, you set up your FSA to match the exact terms of your loan. By doing so, you eliminate essentially all the interest rate risk by locking the funding cost and related spread over the life with your loan.

Blended funding — In addition to using an advance to match a significant portion of the cashflow/amortization on the loan, blended funding also utilizes your institution's deposits. With this strategy, you still eliminate much of the interest rate risk while also likely enhancing the initial spread with lower costing deposits.

Both strategies require you to evaluate the prepayment risk and the possibility of a prepayment fee on the advance if the loan prepays quicker than the contractual terms. The blended strategy offers additional flexibility with the ability to reallocate deposits elsewhere.

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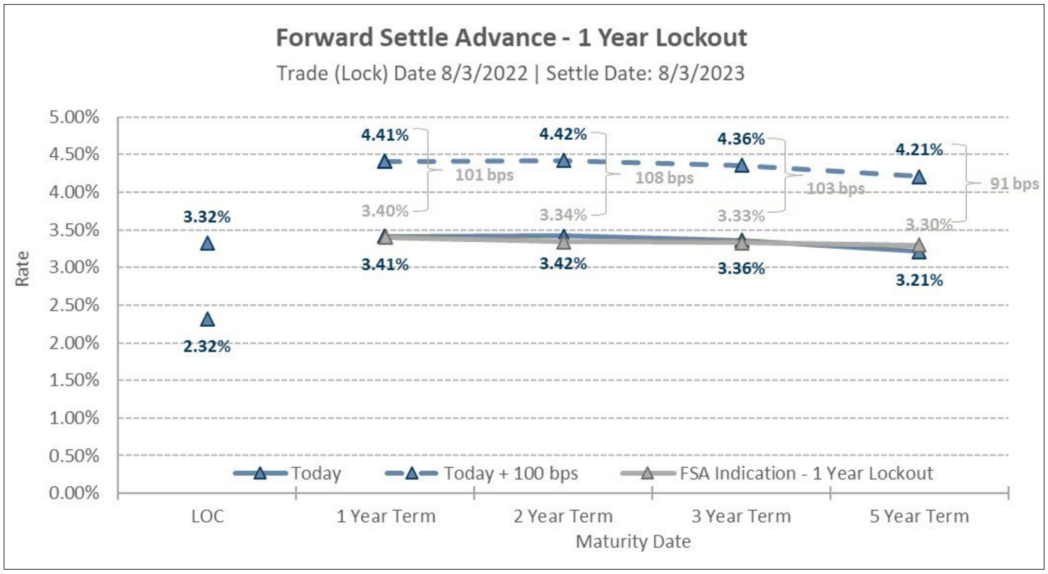

The primary consideration on using FSAs is how your institution will be impacted if rates rise in the future. This graph shows current FSA indications compared to today's advance rates as well as advance rates and a 100-basis point parallel shift in advance rates tied to the remaining FOMC hikes predicted in 2022.

Although the shape of the yield curve may remain flat or invert as the FOMC hikes short-term rates, some increases to long-term advance rates are expected over the next year based on current projections.

As another data point, consider an actual advance a member took down in February 2022 before rate increases. This member took down a 10-year bullet advance with a one-year delayed settle at a rate of 2.63%. If this member were to take down that 10-year bullet advance today (Aug. 3, 2022), their rate would be 3.48%. That represents a savings of 0.85% in just six months!

Locking in funding for the future can be daunting. However, if you have an asset to tie the advance to, it eliminates a lot of the risk. Give your Regional Account Manager or the Lending Desk a call today to discuss your funding opportunities.

Contact FHLBank Topeka today to discuss your advance solutions

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