

# MEMBER SOLUTIONS



**SYMMETRICAL PREPAYMENT**



**FORWARD-STARTING**

For audio, please dial into: (855) 489-5832, Conference ID 45767270

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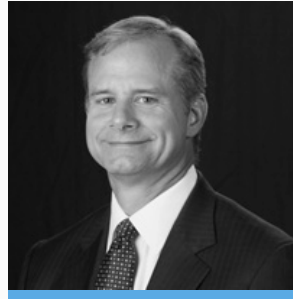
This webinar is being recorded.

# Thank You and Welcome



**Zimri Hunt**

Director of Member Solutions



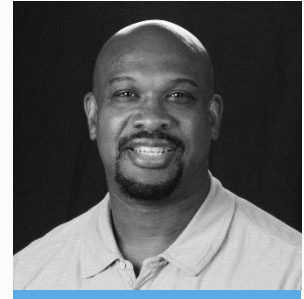
**Steve Otto**

Director of Member Sales



**Bud Gill**

Assistant Treasurer



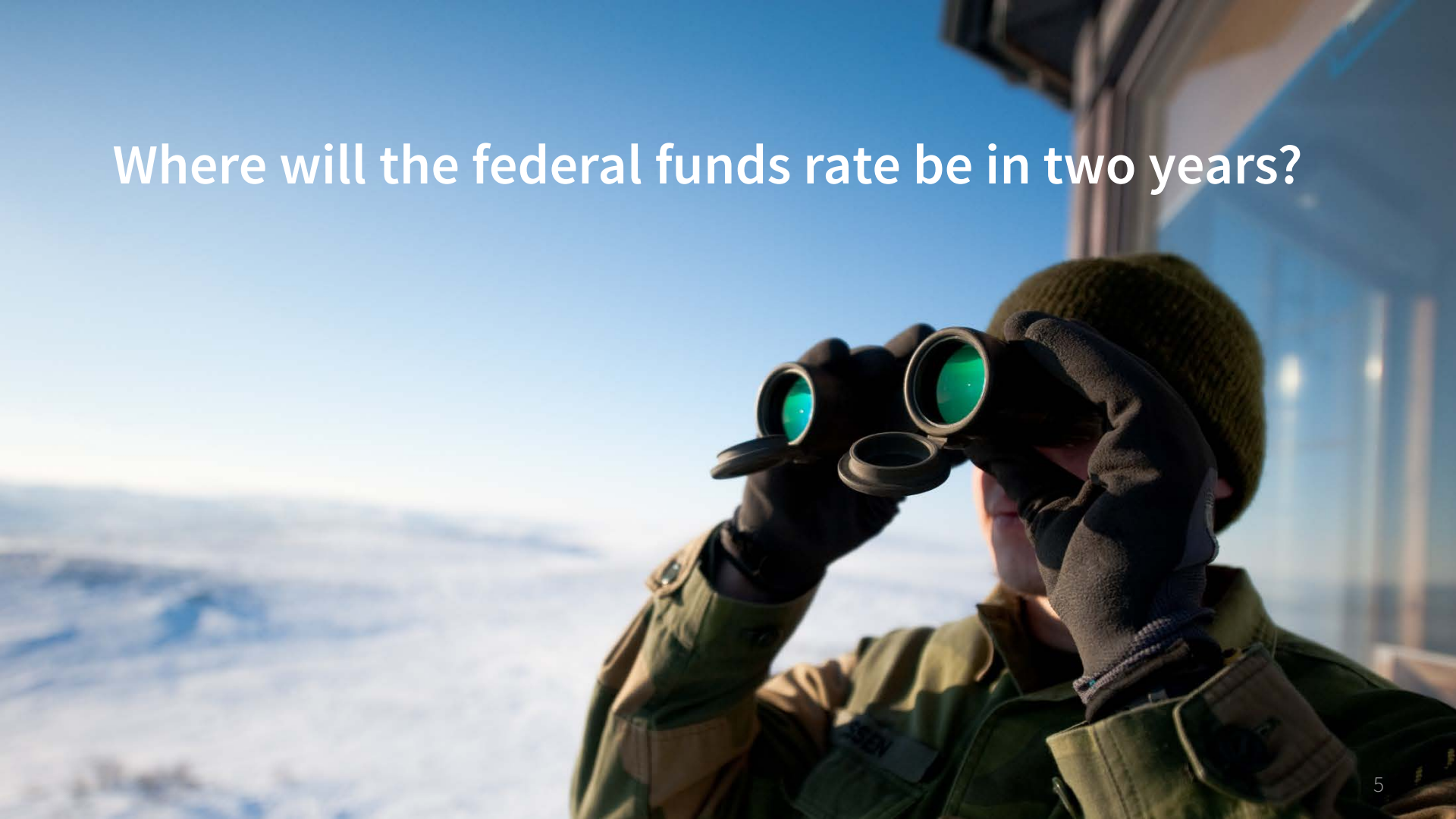
**Glenn Carraway**

Controller

# Agenda

- Symmetrical Prepayment Advances
- Forward-Starting Advances

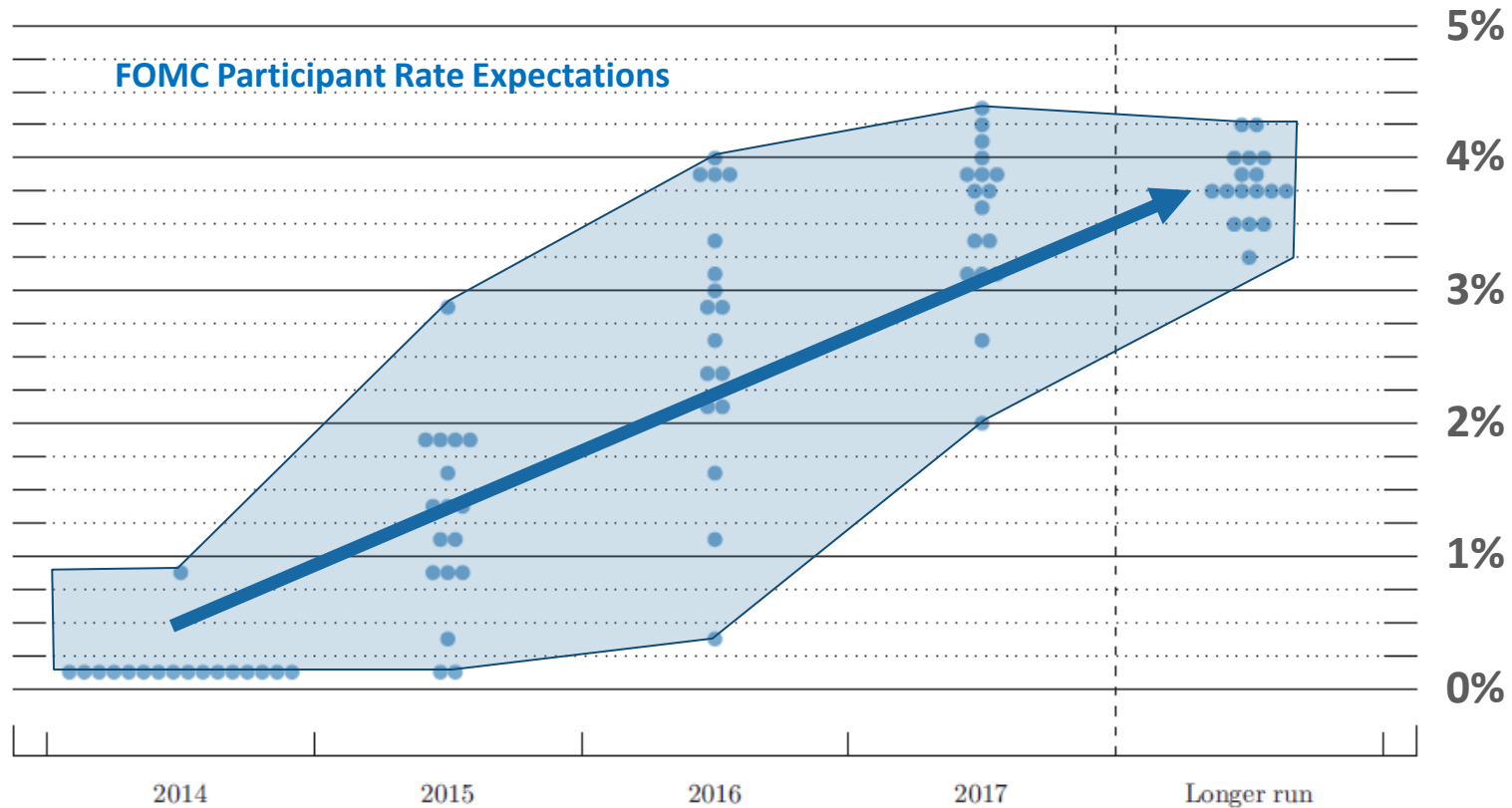
Where will the federal funds rate be in two years?



# What has the Federal Reserve indicated?



Appropriate pace of policy firming: Midpoint of target range or target level for the federal funds rate



<http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20140917.pdf>



Is your institution ready for a  
rising rate environment?





FHLB Dallas can help.

# Two FHLB Dallas advance products / features for a rising rate environment



**Symmetrical Prepayment**



**Forward-Starting**

*Available for fixed-rated/fixed-term or principal amortizing advances*



# Symmetrical Prepayment

## Benefits:

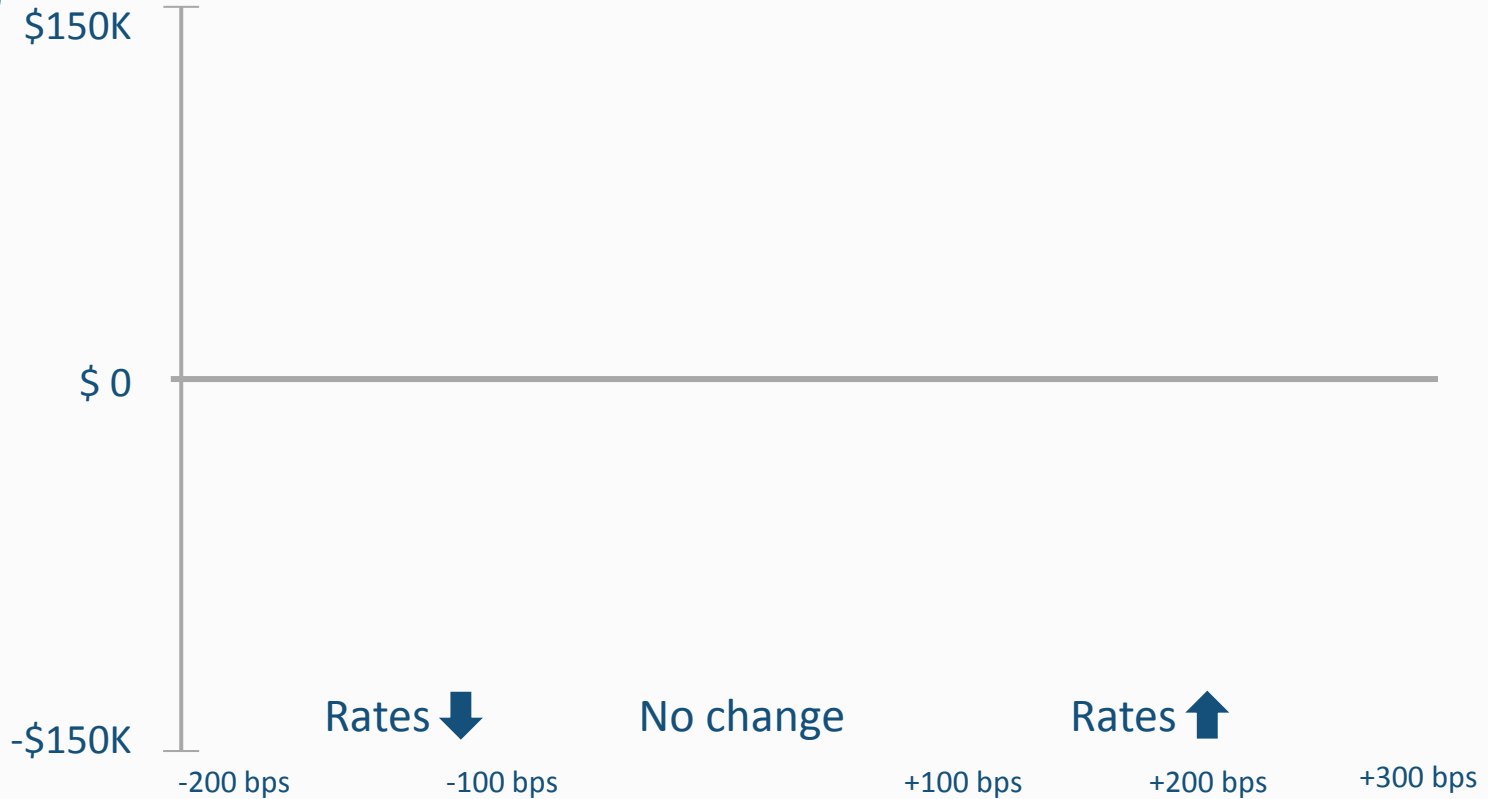
- Get credit when you prepay in a rising rate environment
- Cost-effective: Not more than an additional 2 bps to keep this flexibility

**Advance Types:** Fixed-rated/fixed-term or principal amortizing

*Provides flexibility and potential credit when prepaying advances in a rising-rate environment.*

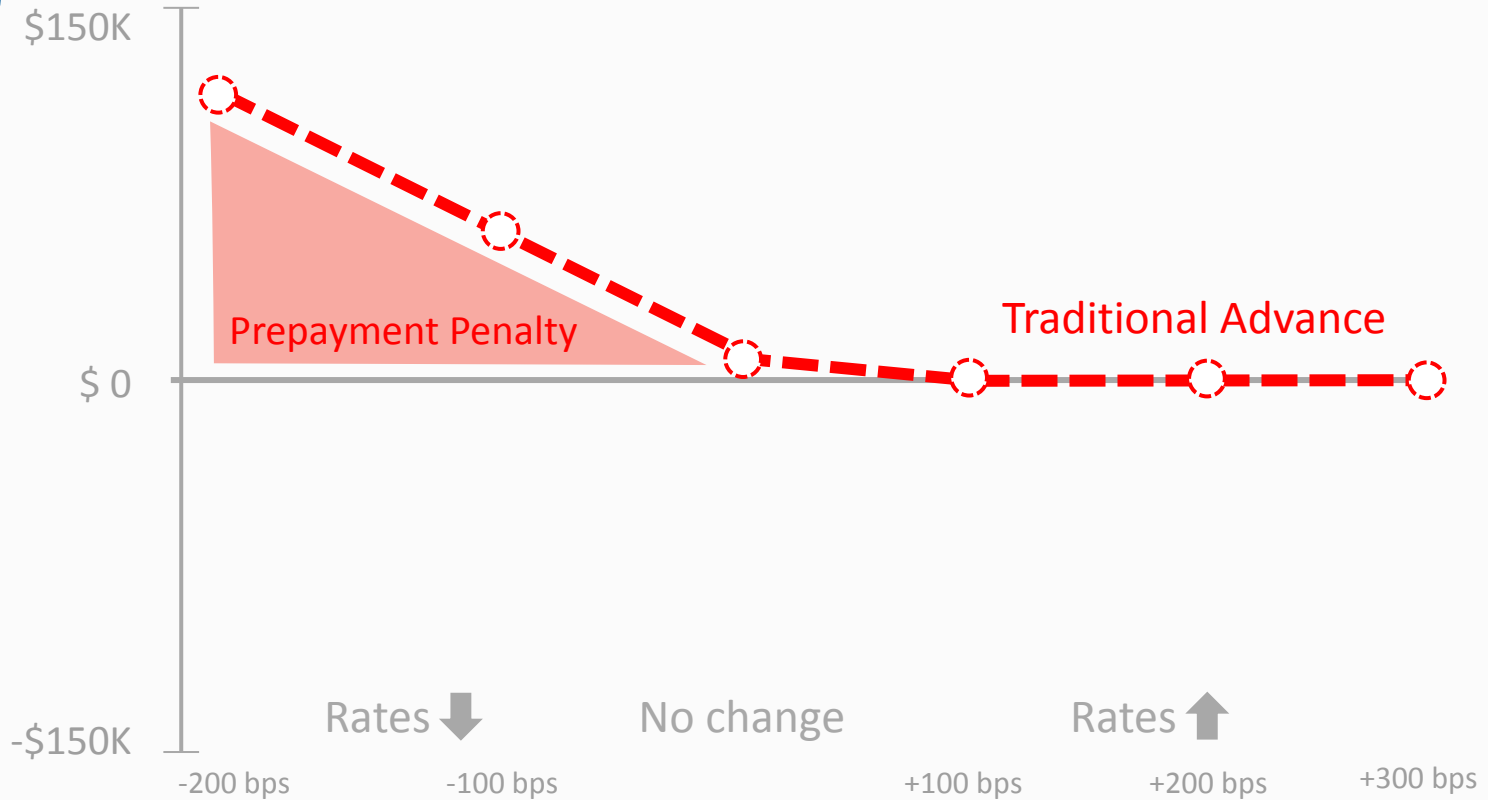


# Prepayment fees in hypothetical scenarios for \$1 million, five-year, fixed rate advance with and without a Symmetrical Prepayment feature



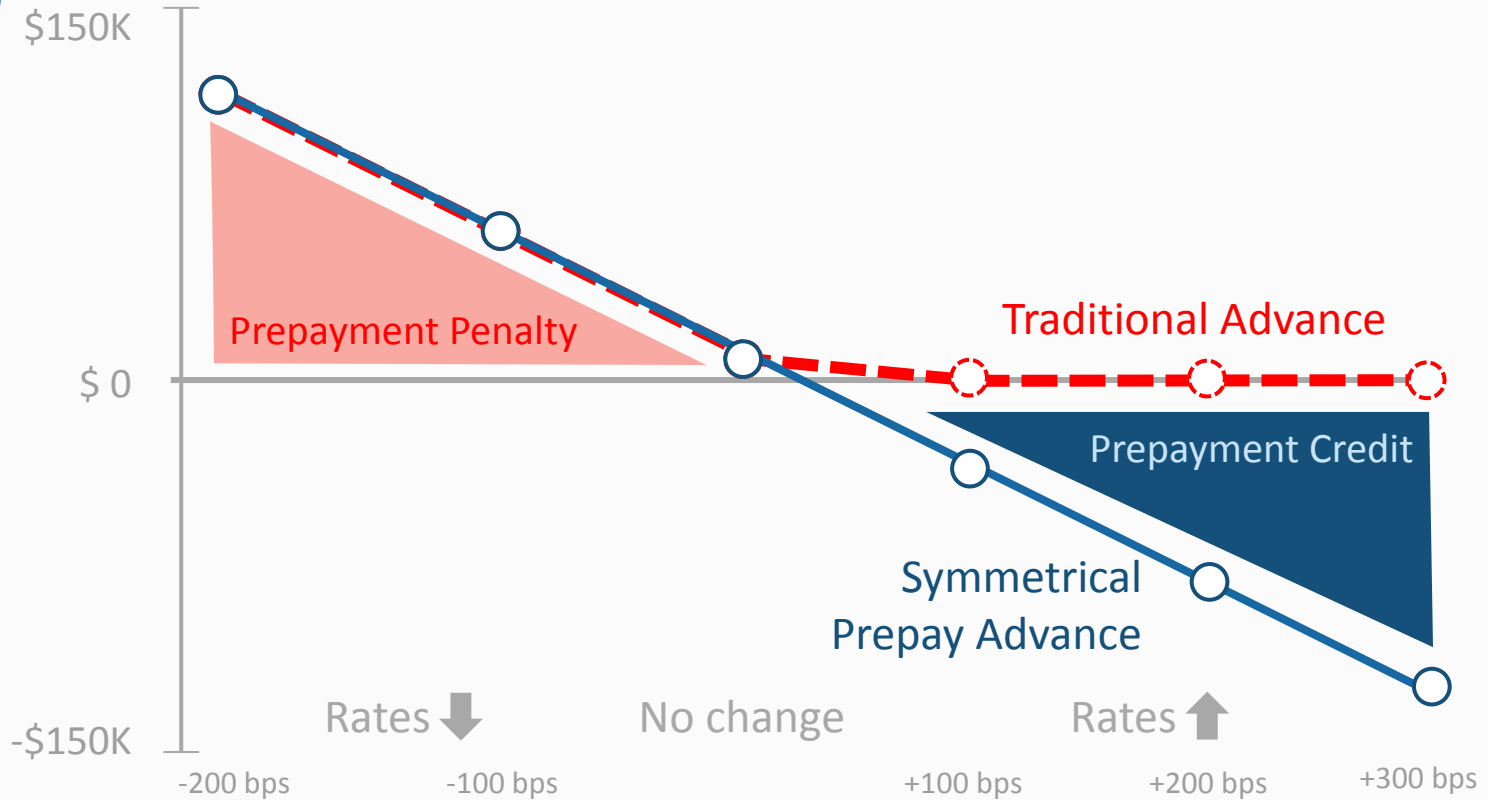


# Prepayment fees in hypothetical scenarios for \$1 million, five-year, fixed rate advance with and without a Symmetrical Prepayment feature





Prepayment fees in hypothetical scenarios for \$1 million, five-year, fixed rate advance with and without a Symmetrical Prepayment feature.





Prepayment fees in hypothetical scenarios for \$1 million, five-year, fixed rate advance with and without a Symmetrical Prepayment feature

Market profile of a **Traditional Advance**<sup>1</sup>

\$1 million, 5-year at 2.01%	Interest Rate Shocks (in basis points)					
	Rates ↓		No Change	Rates ↑		
	-200 bps	-100 bps		100 bps	200 bps	300 bps
<b>Market Value</b>	\$ 1,100,067	\$ 1,048,817	\$ 1,000,223	\$ 954,286	\$ 910,536	\$ 869,286
<b>Traditional Prepayment Fee</b>	<b>\$ 110,692</b>	<b>\$ 58,817</b>	<b>\$ 9,911</b>	\$ -	\$ -	\$ -

<sup>1</sup> Assumes parallel shock scenarios with no associated change in the slope of the yield curve.



Prepayment fees in hypothetical scenarios for \$1 million, five-year, fixed rate advance with and without a Symmetrical Prepayment feature

Market profile of an advance with the **Symmetrical Prepayment feature**<sup>1</sup>

\$1 million, 5-year at <u>2.03%</u>	Interest Rate Shocks (in basis points)					
	Rates ↓		No Change	Rates ↑		
	-200 bps	-100 bps		100 bps	200 bps	300 bps
<b>Market Value</b>	\$ 1,100,069	\$ 1,048,819	\$ 1,000,226	\$ 954,288	\$ 910,694	\$ 869,288
<b>Symmetrical Prepayment Fee/(Credit)<sup>2</sup></b>	\$ 111,632	\$ 59,913	\$ 10,851	\$ (34,638)	\$ (76,602)	\$ (116,279)

*For details concerning the Symmetrical Prepayment Calculation, please see the Member Products and Credit Policy at [fhlb.com](http://fhlb.com) and / or contact Member Sales*

<sup>1</sup> Assumes parallel shock scenarios with no associated change in the slope of the yield curve.

<sup>2</sup> The Symmetrical Prepayment fee/(credit) includes estimated make-whole and hedge termination adjustments.





# Symmetrical Prepayment Advances

## Available Structures

<b>Maturity Terms</b>	1 Year – 10 Years
<b>Minimum Transaction Size</b>	\$1 Million
<b>Advance Types with Symmetrical Prepayment Feature</b>	Fixed-Rate, Fixed-Term or Principal Amortizing (PRAM) Advances
<b>Availability and Pricing</b>	Contact Member Sales at 800.442.9841

## Risks

- FHLB Dallas does not act as a financial advisor. Member institutions should evaluate the risks and suitability of an advance with the Symmetrical Prepayment feature.
- Members should consider risks associated with potential interest rate movements, especially in the event rates decrease or rise less than implied.



# Why use a Symmetrical Prepayment Advance?

- ✓ Get credit when you prepay in a rising rate environment
- ✓ Cost-effective: Not more than an additional 2 bps to keep this flexibility

FHLB Dallas does not act as a financial advisor. Member institutions should evaluate the risks and suitability of an advance with the Symmetrical Prepayment feature.

# Questions?

## To Submit a Question:

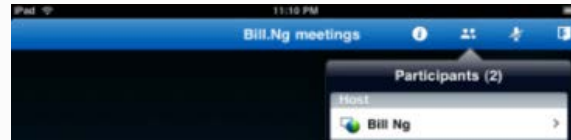
### PC:

1. Hover over the green bar at the top of the screen until a menu appears
2. Click on the “Chat” option
3. Once a dialog box appears, enter your question and submit



### iPad / iPhone:

1. Select the participant icon in the upper right of the screen
2. Choose “Erica Herd”
3. Type your message



# Agenda

- Symmetrical Prepayment Advances
- **Forward-Starting Advances**



# Forward-Starting Advances

## Benefits

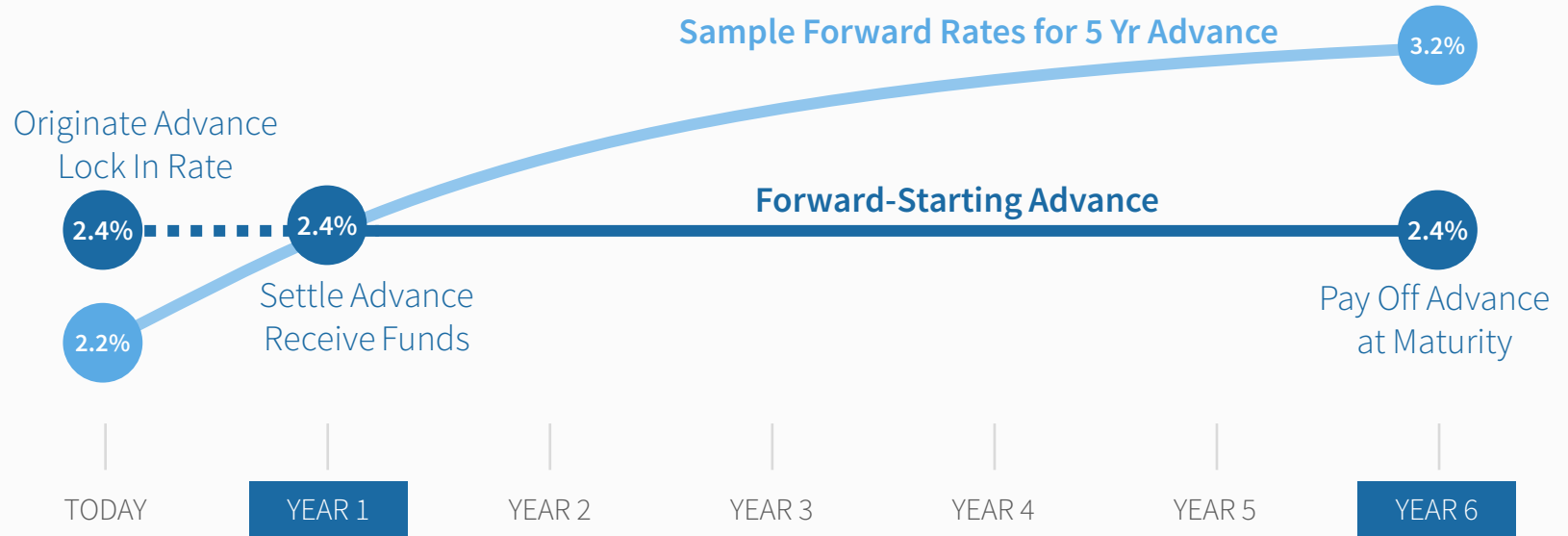
- Lock in a low rate today on an advance that settles at a future date
- Ideal for rising-rate environment

*Take advantage of current low interest rate environment by locking in a rate today for an advance that settles in the future*



# Forward-Starting Advances

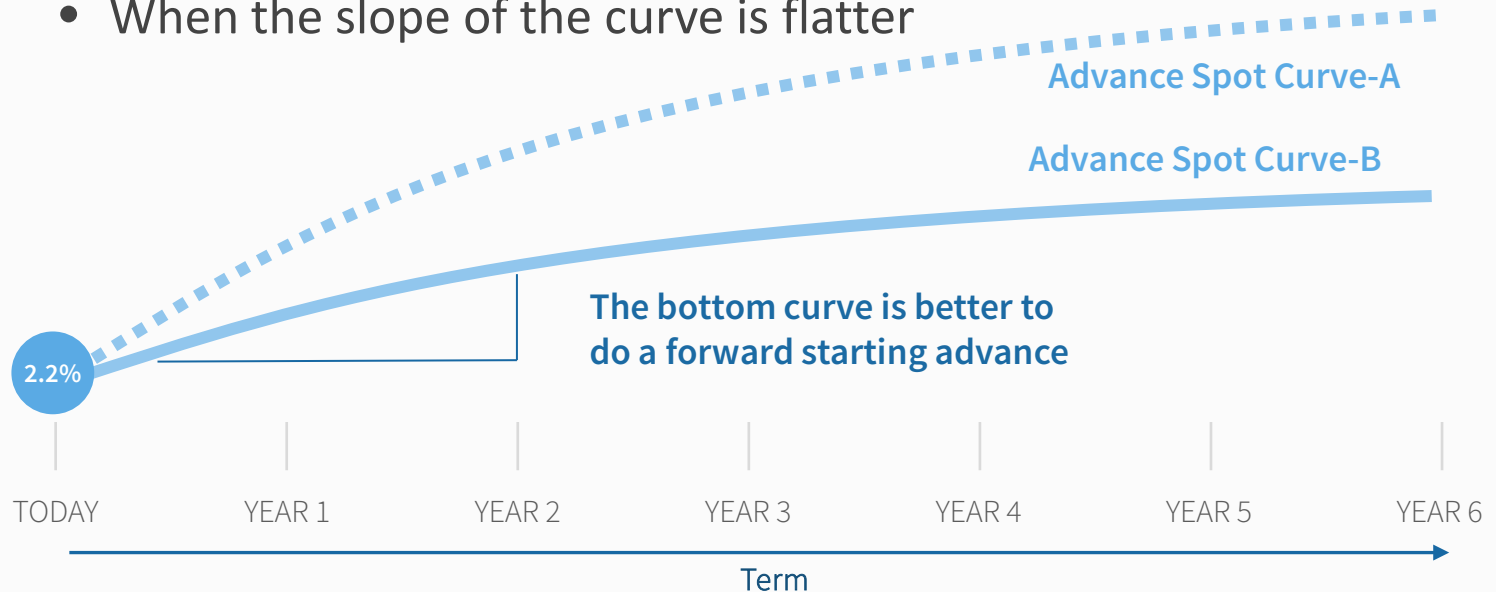
Hypothetical Example of Five-year Advance, Forward-Starting in One Year





# When should you consider this advance?

- When your view is that future rates will be higher than the forward rates already implied by the advances curve
- When the slope of the curve is flatter





# Forward-Starting Advances

## Potential uses

- If additional liquidity is not an immediate need
- Locking in future funds availability at today's forward rates can be an effective interest rate risk management strategy





# Forward-Starting Advances

## Potential uses

- Prepare for deposit outflows due to increasing rates
- Replace brokered CD funds with more competitively priced Bank funds
- Prepare for loan growth
- Match-fund and hedge against future rate increases
- Manage the impact of rising rate scenarios on net interest margin
- Unlock value in an historically low-rate environment
- Lock-in rates today to renew future maturing advances



# Forward-Starting Advances

## Available structures

Maturity Terms	Maximum allowable terms for Fixed-Rate, Fixed-Term and Principal-Amortizing advances
Minimum Transaction Size	No minimum up to 10 years. \$5 million minimum when: a.) Terms are beyond 10 years b.) Includes a Symmetrical Prepayment feature
Settlement	Available for up to 3 years. Longer periods may be available upon request by contacting Member Sales at 800.442.9841
Capital Stock	Capital Stock is not required until the settlement date
Prepayment Fees	If the Borrower cancels the Advance commitment in whole or in part, FHLB Dallas will charge the Borrower a cancellation fee equal to any prepayment fee that would have applied had FHLB Dallas funded the Advance and the Borrower had then immediately prepaid the Advance plus 25 basis points for each year of the advance term multiplied by the balance of the advance.
Availability and Pricing	Contact Member Sales at 800.442.9841

## Risks

- FHLB Dallas does not act as a financial advisor. Member institutions should evaluate the risks and suitability of an advance with the Forward-Starting feature.



# Why use Forward-Starting Advance?

- ✓ **Protect against rising interest rates**
- ✓ **Fund future loan growth**
- ✓ **Offset deposit outflows**

FHLB Dallas does not act as a financial advisor. Member institutions should evaluate the risks and suitability of an advance with the Forward-Starting feature.



# For Further Information

Member Sales,

 [lend@fhlb.com](mailto:lend@fhlb.com)

 800.442.9841

Steve Otto, Director of Member Sales\*

Zimri Hunt, Director of Member Solutions\*

\* Also accessible toll free at 800.442.9841