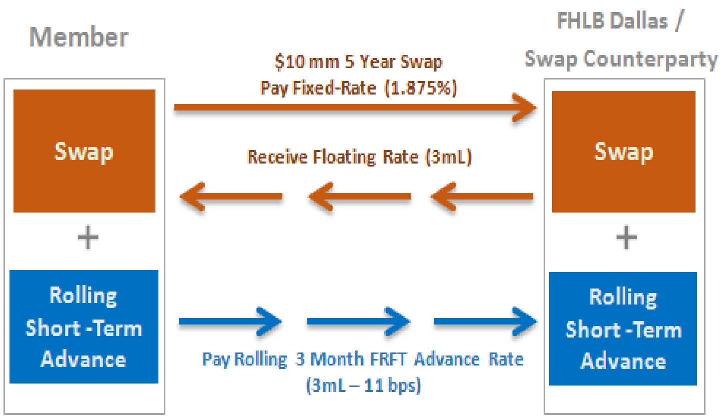
FHLBANK DALLAS

Lower Long-Term Funding Costs with Synthetic Borrowing

Funding Strategy: Pay-Fixed Swap + Rolling Short-Term Advance

By combining a swap and a rolling short-term advance, you may be able to obtain a net lower cost of long-term funding versus traditional wholesale funding. Specifically, you may be able to take advantage of spread differentials between the swap and advance pricing curves to achieve net lower, long-term borrowing costs compared to traditional advances or other wholesale funding. The following figures illustrate how you may be able to “Beat the Spread.”

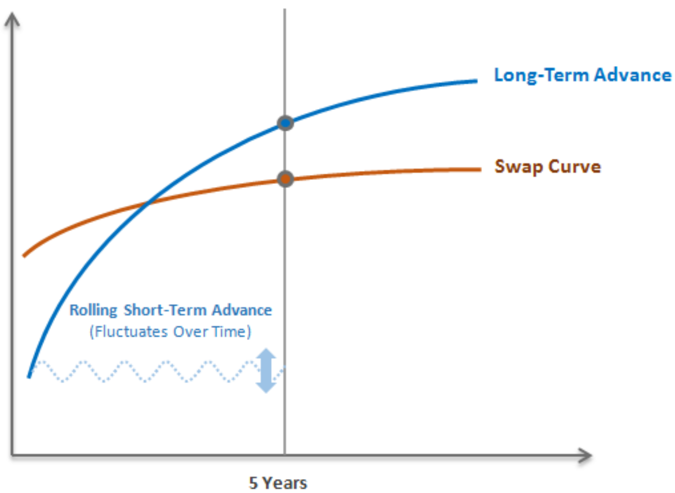
Swap + Rolling Short-Term Advance



Net Hypothetical Cost, First 3 Months* = **1.875% – 3mL + (3mL – 11 bps) = 1.765%**

Comparable $10 million (mm) 5 Year Bullet = **1.858%**

Hypothetical Swap versus Advance Curve



* Rates/spreads are hypothetical. Net costs are determined by the relationship between 3-month LIBOR (3mL) and the 3-month advance rate, which may fluctuate at each 3- month interval.

How Does This Strategy Work?

This funding strategy provides an alternative to a long-term advance or other long-term wholesale borrowing. As illustrated above, you could enter into successive, short-term (e.g., 3-month), fixed rate advances and a long-term swap, whereby you pay a fixed-rate and receive a floating-rate (e.g., 3-month LIBOR). The usefulness of this strategy depends on the relative position of the swap curve to the advance pricing curve in the short- and long-term. If swap rates are consistently higher than advance rates in the short-term and lower in the long-term, you may be able to create a synthetic long-term borrowing with net lower costs. Pairing a pay-fixed swap with a rolling, short-term advance in this scenario results in a lower all-in cost because it eliminates the long-term credit spread.

Potential Uses and Benefits

- Pay a net lower, long-term borrowing cost – Beat the Spread!
- Create a synthetic long-term borrowing that could be used to match fund long-term fixed-rate assets
- Replace higher cost long-term funding such as brokered CDs
- Offset unrealized losses recorded in accumulated other comprehensive income (AOCI) by hedging the risk of changes in cash flows due to changes in a benchmark interest rate (i.e., LIBOR) for the forecasted issuance of fixed-rate debt

Potential Implications / Risks

Members interested in this strategy should consider all risks and costs associated with this strategy prior to execution, especially institutions that have no or limited experience with swaps. Hedging the interest rate risk associated with the forecasted issuance of rolling fixed-rate advances requires sophisticated operational infrastructure including, but not limited to, knowledgeable risk management and accounting personnel.

For more information, visit fhlb.com or contact Member Services at 844.FHL.BANK or member.services@fhlb.com

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