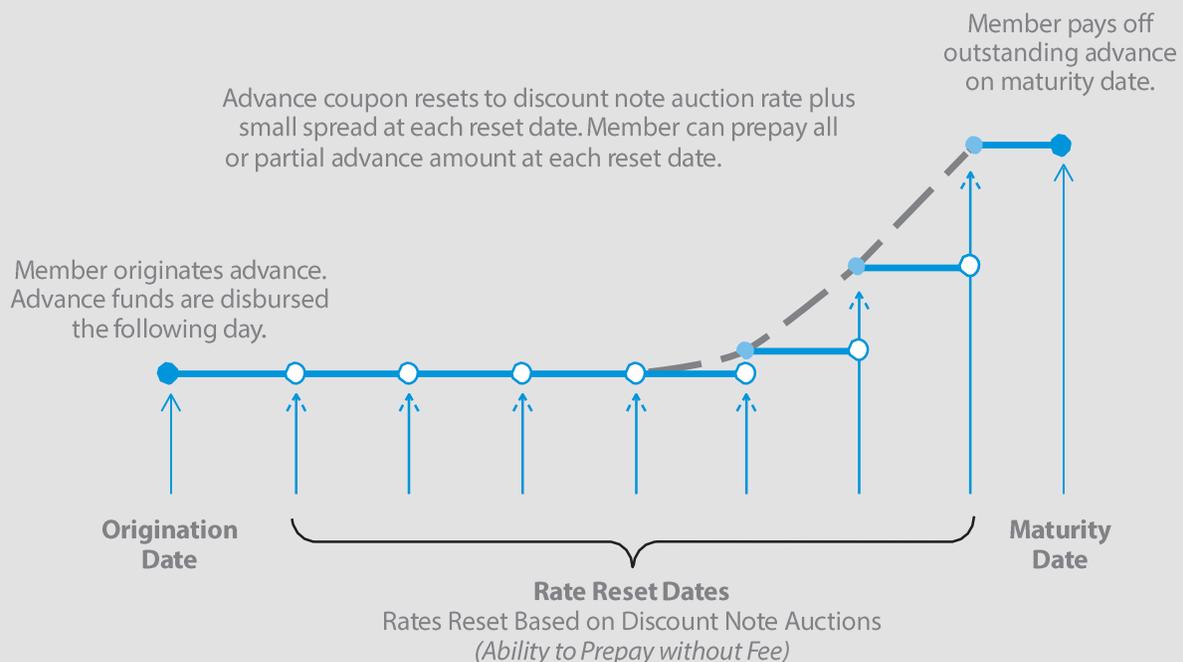


Discount Note Floating Rate Advances

What is a Discount Note Floating Rate Advance?

A discount note floating rate advance is a fixed-term, adjustable-rate, non-amortizing advance that allows your institution the ability to maintain liquidity or leverage your balance sheet while managing balance sheet interest rate sensitivity. This advance product provides your institution with the ability to prepay part or all of your outstanding balance, without a fee, on specified reset dates, every four, eight, 13, or 26 weeks.

Example of a Discount Note Floating Rate Advance in an Increasing Rate Environment



What are Discount Notes and why are they used as a basis for an advance product?

Discount notes are shorter-term debt securities issued through the Federal Home Loan Banks' (FHLBank) Office of Finance (OF) and are a source of shorter-term funds for the FHLBanks. Structuring an advance product based on discount note costs enables a member institution to borrow longer-term advances at the FHLBanks' cost of funds plus a small spread.

Since 2000, the 13-week maturity on discount note rates have been typically lower than comparable the three month LIBOR rates; so, institutions wanting to fund adjustable rate mortgages or other interest-rate sensitive investments with similar repricing characteristics may have an interest in match funding with this advance product.

Discount note floating rate advances are based on the yield of discount notes with maturities of four, eight, 13, and 26 weeks issued via auctions. The OF typically schedules auctions twice a week on Tuesdays and Thursdays, and the yields* from these issued securities plus a small spread are used to determine the rates for the four respective discount note floating rate advance structures.

* Appropriate FHLBank discount note auction's weighted average money market rate (MMY).

Why Use a Discount Note Floating Rate Advance?

If your institution needs low-cost, adjustable rate funding with the ability to prepay without fee, then a discount note floating rate advance may be an attractive funding option for your institution.

- **Provides an inexpensive source of funds.**

The cost of discount note floating rate advances is based on the relatively lower cost, shorter-term debt issued by the FHLBank System. As seen below, the costs of the 13-week maturity discount notes issued via auction have been below the three-month LIBOR, respectively, since 2000.

- **Provides ability to prepay full or partial amounts with or without fees.**

Discount note floating rate advances can provide member institutions access to potentially lower cost, adjustable rate funding while providing the ability to prepay all or part of the principal amount without fees on specified reset dates.

If an institution were to prepay this advance product between reset dates, the prepayment fee would be the interest forgone to the next reset date.

Discount Notes (DNs) via Auctions Versus Comparable LIBOR Rates Since 2000

DNs Versus LIBOR Spread Since 2000 (under)/over	Discount Notes (DNs) vs. LIBOR Spreads		
	Range	Median	Average
Thirteen-Week DN less Three Month LIBOR	(6 bps) to (296 bps)	(17 bps)	(25 bps)

What Are Some Specific Uses of a Discount Note Floating Rate Advance?

There are many ways to use a discount note floating rate advance. A few commonly used examples are described below.

- **Increase leverage while managing interest rate sensitivity.**

If a member institution wanted to increase leverage and manage the related interest-rate sensitivity, this institution could benefit from a discount note floating rate advance.

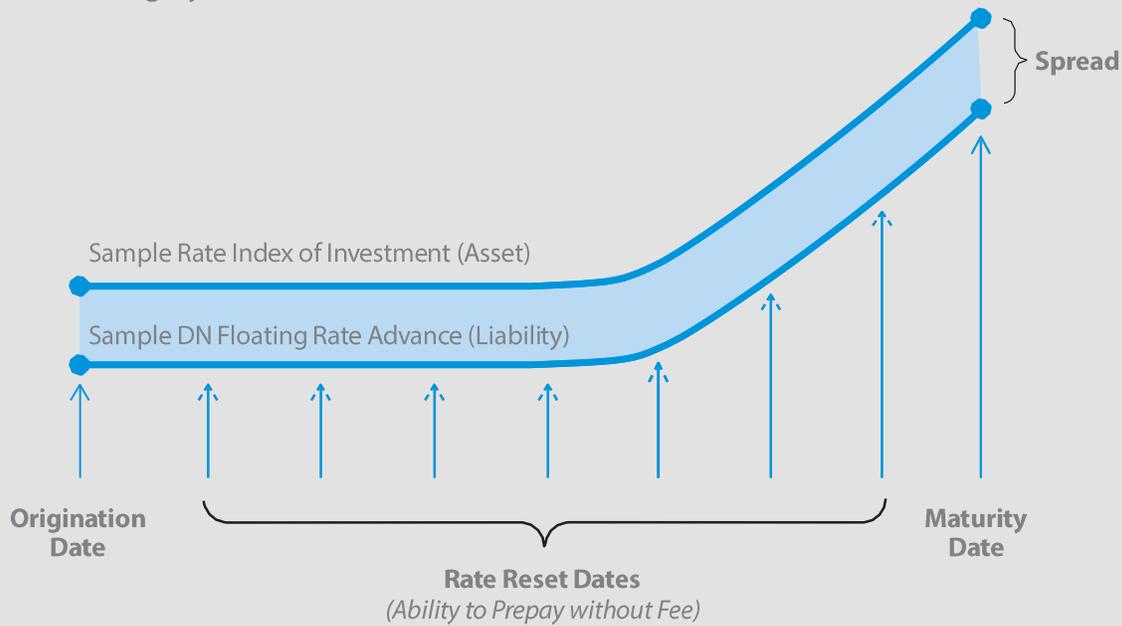
Discount note floating rate advances could be used to fund adjustable-rate mortgage loan portfolios or interest-rate sensitive investments such as mortgage-backed securities with similar maturities and repricing characteristics. If your institution could match fund investments with discount note floating rate advances assuming similar maturities and characteristics, your institution may be able to achieve a consistent spread by reducing repricing risk.

- **Increase longer term liquidity with the ability to prepay prior to maturity with or without a fee.**

Since the financial crisis, there has been increased emphasis from regulators for banks to hold sufficient liquidity. Discount note floating rate advances may assist member institutions in meeting their institution's evolving liquidity standards.

A member institution could lock in longer-term advances at shorter-term rates as a source of liquidity, but still have the ability to prepay principal at specified reset dates without a fee. For example, an institution could fund a high quality liquid asset with a discount note floating rate advance to manage 30-day Basel III liquidity coverage requirements, continue to reinvest funds into shorter-term high quality liquid assets over the longer term, and prepay the advance as funding strategies change.

Sample of Two Highly Correlated Rates Used to Match Fund an Investment



Available Structures

•Adjustable rate, fixed-term advances

Four types of discount note floating rate advances are currently available. Depending upon the reset term chosen, the advance's coupon will reset every four, eight, 13, or 26 weeks based on the results of the

FHLBank System's discount note auctions that have typically occurred each Tuesday and Thursday.

This advance product is subject to the Bank's standard credit and collateral policies.

Please contact Member Services at 844.FHL.BANK for additional information.

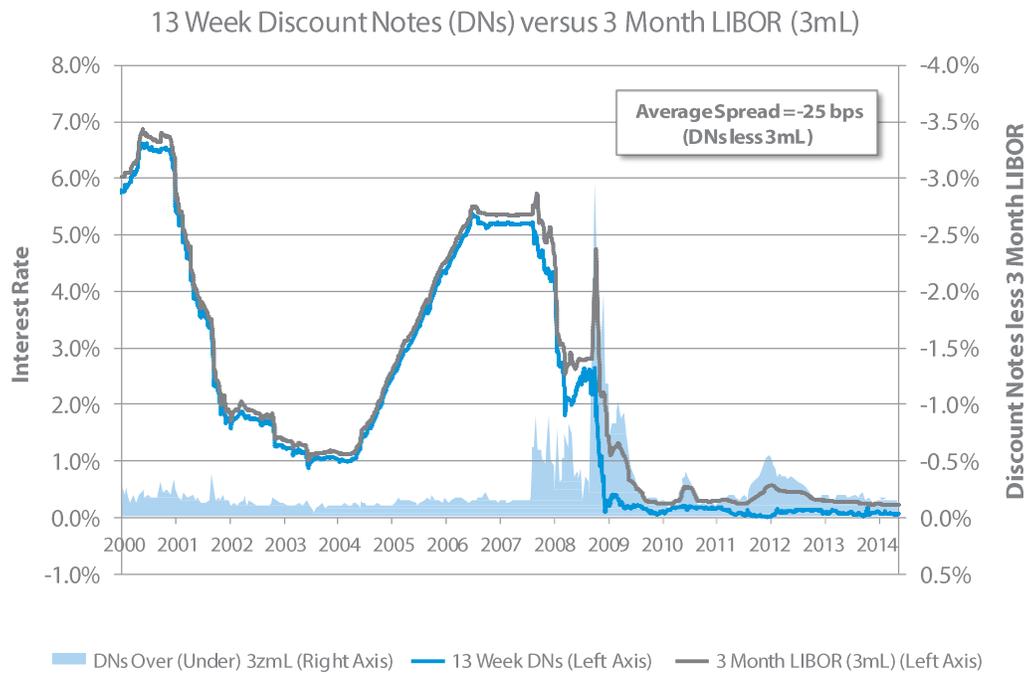
Structures	4 Week	8 Week	13 Week	26 Week
Rate Resets	Every 4 weeks	Every 8 weeks	Every 13 weeks	Every 26 weeks
Maturity Terms	1 year		1 to 10 years	
Minimum Initial Transaction Size	None			
Settlement	One day following the origination			
Availability	Contact Member Services at 1.844.FHL.BANK by 9:30 a.m. CT, Tuesdays and Thursdays*			
Prepayments without Fee	Full or partial prepay on each reset day with at least two business days' advance notice			

*If a holiday falls on a Tuesday or Thursday, FHLBank System discount note auctions are typically held on the preceding business day in which funding requests will be accepted. Also, if an auction does not occur or discount notes are not issued on any given determination date, the auction rate for that date will be the estimated rate at which the FHLBank System could have issued such discount notes, via auction, as calculated by FHLB Dallas in its sole discretion.

Full or partial prepayments are allowed without a fee on each reset day with at least two business days' advance notice. If an advance is prepaid between resets, a prepayment fee equal to the interest foregone to the next reset date will be charged.

The Federal Home Loan Bank of Dallas does not act as a financial adviser. Member institutions should evaluate the risks and suitability of advances.

Appendix: Discount Notes from Auctions Versus LIBOR



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