FHLBANK DALLAS | Member driven. Community focused.

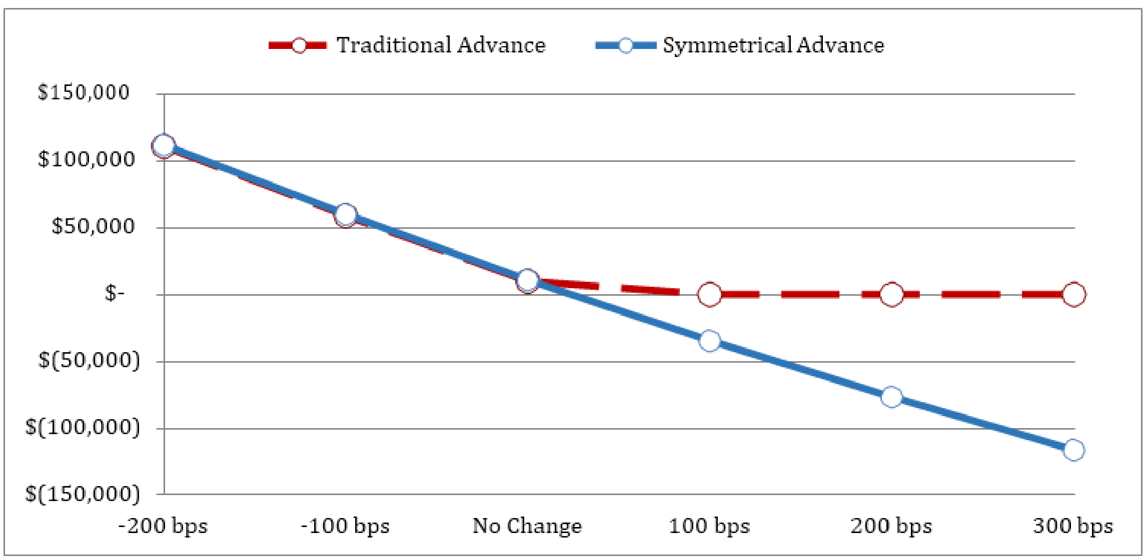
Symmetrical Prepayment Advance

A Symmetrical Prepayment advance is an advance that contains a feature that allows a member to prepay the advance below par and realize a gain if interest rates have risen sufficiently since the advance was originated.

Traditional advances without the Symmetrical Prepayment feature cannot be prepaid below par even if the rates on those advances are significantly lower than current rates. The Symmetrical Prepayment feature is available on certain Fixed-Rate, Fixed-Term or Principal-Amortizing (PRAM) advances.

Figure 1 compares the prepayment fee in different hypothetical scenarios for a $1 million, five-year, fixed- rate advance with and without the Symmetrical Prepayment feature. In this chart, a negative prepayment fee indicates that the member pays less than par upon early termination of the advance.

Figure 1: Comparison of Prepayment Fee Structures [1]



1 The prepayment fee, or credit, will be adjusted for any accrued interest.

As illustrated in Figure 1, if interest rates decline, a member would have to pay a fee to prepay an advance regardless of whether the Symmetrical Prepayment feature is in place. However, if interest rates rise, a potential credit can be applied to an advance with Symmetrical Prepayment, allowing a member to repay the advance at an amount below the outstanding par value.

(Note that FHLB Dallas will hedge the Symmetrical Prepayment advance and any prepayment fee or credit may be adjusted based on the gains or losses associated with terminating the related interest rate swap).

Why Use the Symmetrical Prepayment Advance?

- Liquidity and flexibility – A member could use the Symmetrical Prepayment advance to provide long- term liquidity but retain the flexibility to prepay and potentially receive a prepayment credit in a rising- rate environment.
- Offset losses in fixed-rate mortgages, loans, or other investments from rising interest rates – A member could use the Symmetrical Prepayment advance to fund a fixed-rate investment and, if interest rates rise, the increased value of the Symmetrical Prepayment advance may help offset market value declines of the fixed-rate investment.

How Does Symmetrical Prepayment Work?

Table 1 builds on the hypothetical example introduced in Figure 1 to illustrate how an instant 100 basis point change in market interest rates impacts the market value of a $1 million advance. A 100 basis point reduction in market interest rates reduces the value of the advance to the member as a comparable advance could be obtained at a lower market rate.

To prepay the advance in this scenario, a member would pay a prepayment fee of $59,913 plus the $1,000,000 outstanding balance, resulting in a total prepayment amount of $1,059,913.

Conversely, a 100 basis point increase in market interest rates increases the value of the advance to the member as a comparable advance would cost more to obtain. To prepay the advance in this scenario, a member would be entitled to a net credit of $34,638, resulting in a total prepayment amount of $965,362, which is less than the $1,000,000 outstanding balance.

Table 1: Market Value Profile of an Advance with the Symmetrical Prepayment Feature[2]

$1 million, 5-year at 2.03%	Interest Rate Shocks (in basis points)					
	Rates ↓		No Change	Rates ↑		
	-200 bps	-100 bps		100 bps	200 bps	300 bps
Market Value	$ 1,100,069	$ 1,048,819	$ 1,000,226	$ 954,288	$ 910,694	$ 869,288
Symmetrical Prepayment Fee/(Credit) [3]	**$ 111,632**	**$ 59,913**	**$ 10,851**	**$ (34,638)**	**$ (76,602)**	**$ (116,279)**

Table 2 illustrates the market value and prepayment fees for a comparable traditional advance. The prepayment fee for a traditional advance is slightly lower because the interest rate of the traditional advance is slightly lower (e.g., 2 basis points).

Table 2: Market Value Profile of a Traditional Advance[2]

$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
Market Value	$ 1,100,067	$1,048,817	$ 1,000,223	$ 954,286	$ 910,536	$ 869,286
Traditional Prepayment Fee	**$ 110,692**	**$ 58,817**	**$ 9,911**	**$ -**	**$ -**	**$ -**

[2] Illustrations assume parallel shock scenarios with no associated change in the slope of the yield curve.
[3] The Symmetrical Prepayment fee/(credit) includes estimated make-whole and hedge termination adjustments.

Available Structures

The Symmetrical Prepayment feature is available with a minimum transaction size of $1 million and is subject to FHLB Dallas' standard credit and collateral policies.

Structure	
Maturity Terms	1 Day to 10 Years
Minimum Transaction Size	$1 Million
Advance Types with Symmetrical Prepayment Feature	Fixed-Rate, Fixed-Term or Principal Amortizing (PRAM) Advances
Availability and Pricing	Contact Member Sales at 800.442.9841

Accounting Considerations

For U.S. GAAP purposes, FHLB Dallas views the Symmetrical Prepayment feature as an embedded derivative that requires bifurcation and separate accounting. However, FHLB Dallas believes the fair value of the bifurcated derivative is always zero. A member may request that any prepayment credit be limited to 10 percent of the original par value. FHLB Dallas believes that a symmetrical prepayment feature with this limit would not require bifurcation and separate accounting. However, it may not be advantageous for members to limit their potential gain.

FHLB Dallas does not provide accounting advice. If you are uncertain as to the potential accounting implications, please consult your accountant prior to entering into an advance with the Symmetrical Prepayment feature.

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.

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