SOFR-Indexed Adjustable Rate Advances

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PRODUCT PROFILE

Maturity: Four months to two years

Rate: Adjustable rate indexed using the Secured Overnight Financing Rate (SOFR)

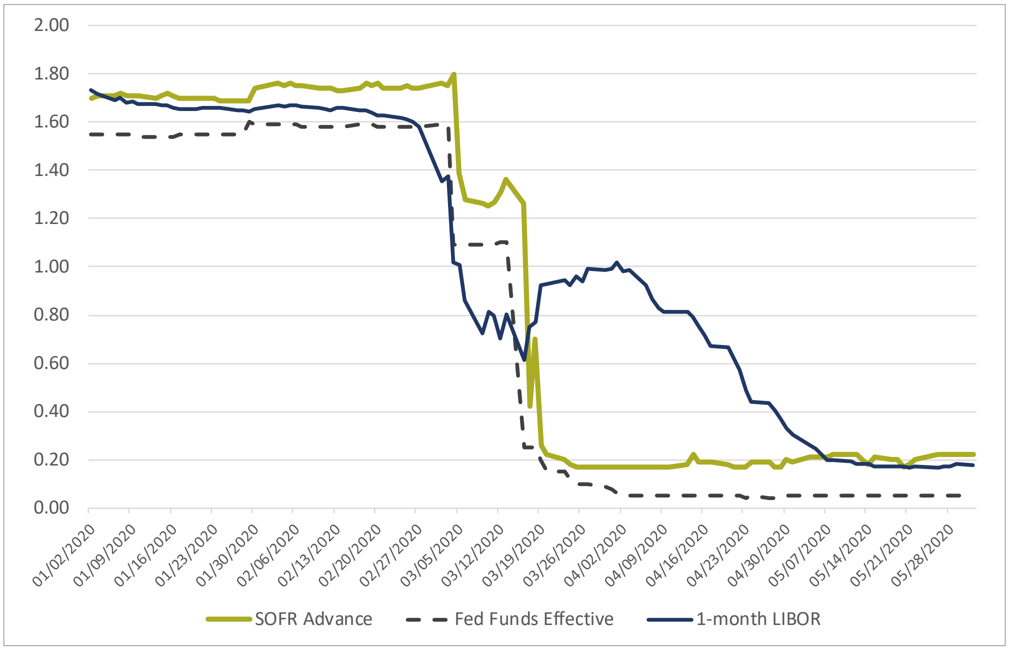
Advantages:

- Indexed to SOFR, which was established as an alternative index to the London Interbank Offered Rate (LIBOR).
- The longer maturity provides regulatory certainty in the availability of funding and can be used to match the maturity of various financial instruments.
- The SOFR index provides rate resets that correlate well with other short-term indexes.

ADJUSTABLE-RATE ADVANCE BENEFITS

Adjustable-rate advances have many uses and benefits including the ability to fund adjustable rate assets or provide funding matched to interest rate swaps being used to fund longer-term fixed-rate assets. These advances price very similarly to line of credit and short-term advances while also offering longer maturities that provide funding certainty. Additionally, newly adopted prepayment provisions significantly lessen the prepayment fee should you need to prepay the funding prior to maturity. See next page for details.

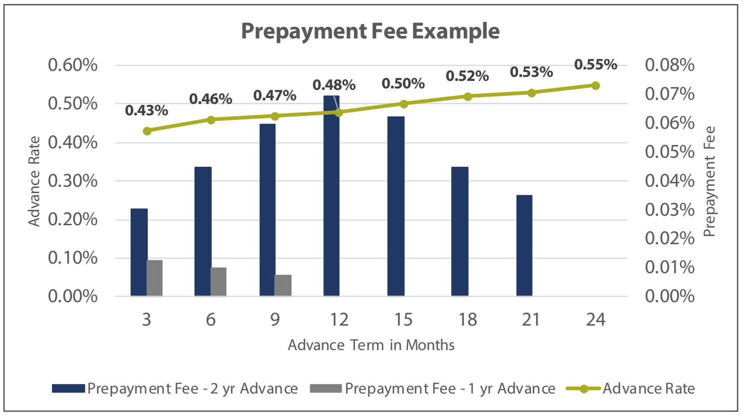
The graph below illustrates the funding cost of a one-year adjustable-rate advance indexed to SOFR relative to other market indexes.



Advance rates assume a 24 basis point cost reduction from the Class B dividend and are based on advance pricing spreads as of June 16, 2020.

PREPAYMENT CONSIDERATIONS

The prepayment fee on adjustable rate advances has been modified to reference current advance rates in determining the fee. Because adjustable rate advances reprice to a market rate each time a rate adjustment occurs, significant changes in the market value of the advance do not need to be collected upon prepayment.



The graph at right illustrates the prepayment fee that would be collected on 1- and 2-year SOFR-indexed advances as the advances "roll down the curve" and become shorter in term. Assuming the same relationship between the various maturities of the offered SOFR advance rates in the future, the prepayment fees are generally small as a percentage of the advance. A steeper SOFR advance curve would result in slightly higher prepayment fees.

PREPAYMENT DETAILS

Prepayment is permitted in full or in part on rate reset dates with one business day notice. Prepayment equals the present value (discounted at the reference rate) of the difference between:

a. the scheduled interest payments to be paid on the advance through remaining maturity, assuming the advance rate remains constant, and
b. the interest payments that would be collected on the advance through remaining maturity if it bore interest at the reference rate, assuming the reference rate remains constant.

The reference rate is the effective yield of a similarly indexed advance having the closest remaining maturity to the advance being prepaid on the date of prepayment. If the reference rate is greater than the rate on the advance, no fee is charged. See an example calculation below.

Dollar amount borrowed:	$1,000,000
Advance rate:	0.55%
Original term:	24 months
Remaining term on prepayment date:	18 months
Effective yield on 18 month similarly indexed advance:	0.52%
Prepayment frequency (N1):	12 (advance pay interest monthly)
Difference in rate:	.0003 (.0055-.0052)
Term (N2):	18 months
Payment:	**$25.00***

$$*\$1{,}000{,}000 \times \frac{(.0055 - .0052)}{12} = \$25.00$$

$$PV = \frac{1 - \dfrac{1}{\left(1 + \dfrac{.0052}{12}\right)^{18}}}{\dfrac{.0052}{12}} \times \$25.00$$

Present Value (fee paid to FHLBank): $447.75, or 4.5 basis points of the advance amount

LAST UPDATED JUNE 19, 2020