

IS YOUR INSTITUTION AN INTEREST RATE RISK OUTLIER?



What's at Risk?

Examination teams from the OCC, FDIC, NCUA and other regulatory bodies are on the lookout for “interest rate risk outliers.” It’s more important than ever for institutions to take asset-liability management seriously.

A significant threat to your financial institution’s future economic performance has emerged: interest rate risk. From hampering your bottom line to becoming a growing concern for regulators, it’s time for your institution to take the necessary steps to ensure your own interest rate risk profile doesn’t make you an outlier.

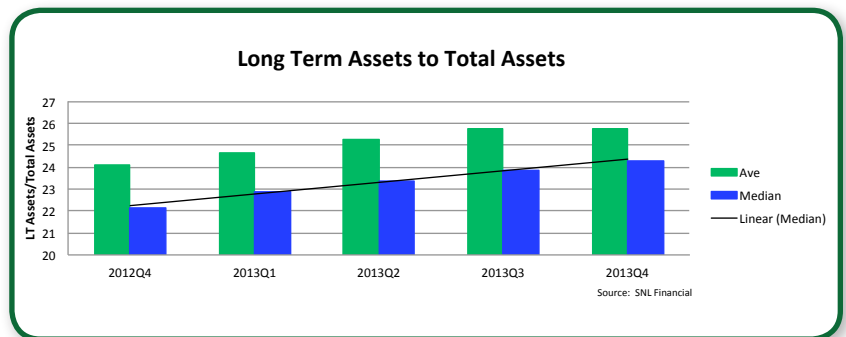
You have access to one of the most efficient sources of long-term funds through Federal Home Loan Bank of Des Moines. With products for a wide variety of loan situations, FHLB Des Moines is your duration provider.

Use the solutions in this toolkit to help navigate an increasingly uncertain interest rate environment.

Balance Sheet Impact

Definition of an outlier: net long-term to total assets ratio over 25 percent

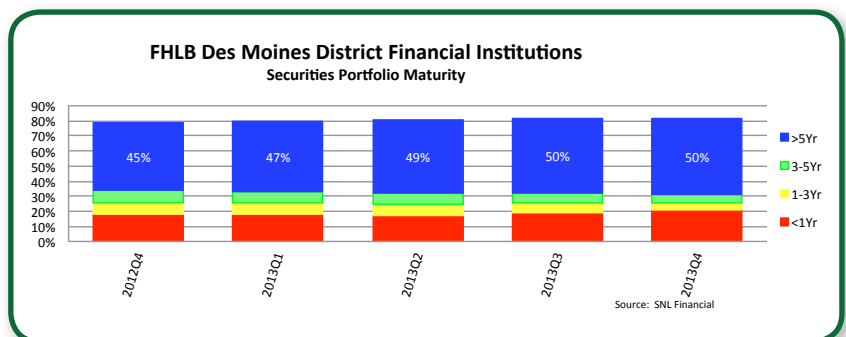
As the graph to the right indicates, many members in our district have increased asset base duration to prevent margin compression as a result of the prolonged low interest rate environment.



Investment Portfolio Impact

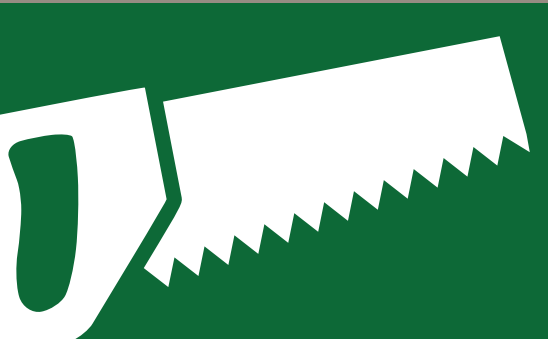
Definition of an outlier: investment of funds further out along the curve or added optionality

Your investments, particularly those with a low coupon rate, embedded options and high duration, may experience significant price depreciation as interest rates rise. The graph to the right illustrates that, on average, members have increased their investment duration over the past five quarters.



Are you an outlier? We have the solution. The advance products in this toolkit can offset potentially debilitating balance sheet cash flow mismatches.

① MAKE NEW LOANS CUSTOMERS WANT



Meet long-term demands with confidence. Federal Home Loan Bank of Des Moines solutions are designed to help you overcome balance sheet mismatches now and tackle interest rate changes in the future.

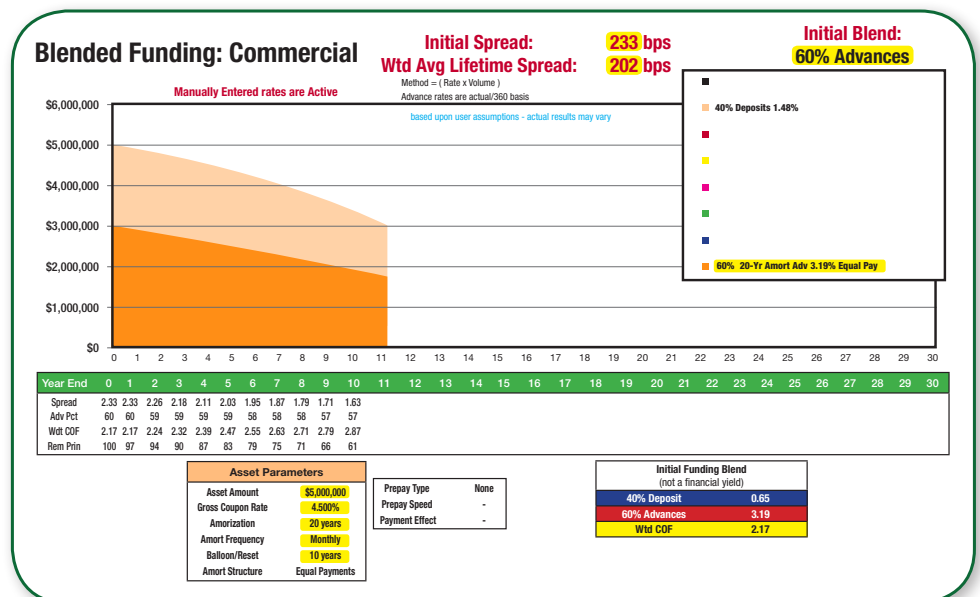
Are you experiencing one of these situations?

- Your customers are asking for longer-term, lower-rate loans, but due to the short-term nature of your deposit base, you are reluctant to meet their demands.
- You are losing good agriculture loans to competitors.

WE HAVE THE SOLUTIONS.

With the blended funding model, you can focus on retaining your agriculture and commercial customers and let FHLB Des Moines mitigate the interest rate risk. We can help you determine the best way to match cash flows of a long-term loan with a blend of funds from your deposit base and various non-amortizing or amortizing advances.

MEMBER EXAMPLE: This member used a 10-year fixed rate monthly amortizing advance on a 20-year amortization schedule and no prepayment option to match the cash flows of the asset and retain a large commercial loan customer. These amortizing advances can be structured to include an option that allows the member to pay off any or all of the advance amount without a prepayment fee after a predetermined period of time. The length of the prepayment window utilized is at the member's discretion.



We are here to discuss solutions and provide strategies.
 Contact your FHLB Des Moines Vice President-Member Services for details.

2

KEEP GOOD LOANS THAT ARE NOT SECONDARY MARKET ELIGIBLE



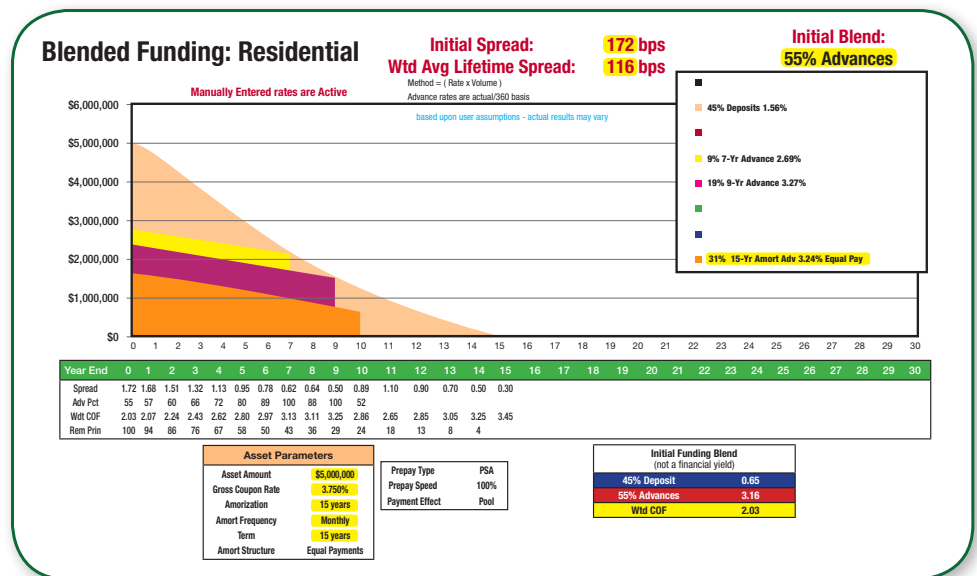
Make mortgages that work for you. Federal Home Loan Bank of Des Moines has the products to help you keep quality home loans on your balance sheet.

Are you experiencing one of these situations?

- You live in a rural community which limits comparables. Due to tighter appraisal and credit standards, Fannie and Freddie aren't willing to purchase your mortgages. Investment yields are low, so you are forced to hold cash.
- You have a good commercial customer that comes to you for a mortgage loan. By definition, the loan is not a qualified mortgage.

WE HAVE THE SOLUTIONS.

With the blended funding model, you can focus on retaining customers that need mortgages and let FHLB Des Moines mitigate the interest rate risk. We can help you determine the best way to match cash flows of a long-term loan and retain a pool of 15-year mortgages with a blend of funds from your deposit base and amortizing or non-amortizing advances.



MEMBER EXAMPLE: This member used non-amortizing bullet advances and a 10-year fixed-rate monthly amortizing advance on a 15-year amortization schedule and a 5-year prepayment window to match the cash flows of the asset.

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3

LOWER YOUR COST ON OUTSTANDING ADVANCES AND EXTEND DURATION



Add value to your existing advances. Federal Home Loan Bank of Des Moines has the solutions to help you restructure outstanding advances to meet long-term goals.

Are you experiencing one of these situations?

- You need to extend duration, but don't want to add to the size of your balance sheet.
- You are capital constrained and need to protect against rate risk without growing your balance sheet.
- You would like to offset longer-term securities.

WE HAVE THE SOLUTIONS.

Use advance restructuring to potentially blend the prepayment fee of an existing advance into the rate on a new advance, lowering the cost on outstanding advances and extending duration.

MEMBER USE: By restructuring several existing advances, a member was able to lower their cost on advances by 76 basis points and extend their liability maturities by over three-and-a-half years. This decrease in the cost on advances resulted in a yearly interest savings of \$589,000. Ultimately, this restructuring strategy allowed the member to hold some of their 15-year mortgage production on balance sheet without increasing advance balances.

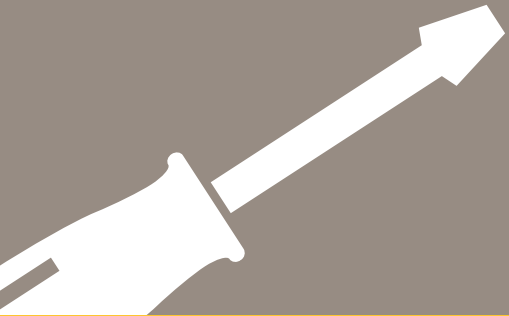


Please note: Members must determine if the restructuring would be accounted for as a debt modification or extinguishment. FHLB Des Moines does not offer nor provide any accounting guidance with regard to advance restructuring, the appropriate accounting treatment or possible accounting implications. Members should consult with their own internal and/or external accountants and/or auditors prior to entering into an advance restructuring transaction.

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4

ADDRESS EXTRA CASH AND RISING RATE CONCERNS



Transform cash-on-hand situations into new opportunities. Federal Home Loan Bank of Des Moines has products that can help strengthen your bottom line for future lending.

Are you experiencing one of these situations?

- A customer needs a construction loan, and you would like to match the funding and turn it into a permanent loan.
- You have cash and need to lock in a spread.
- Your balance sheet displays cash flow mismatches out into the future, and you need to offset and replace the loans or securities as they roll off.
- You believe rates will rise faster than the market anticipates.
- You are flush with cash, but worried about interest rate risk.

WE HAVE THE SOLUTIONS.

Use the Bank's newest funding solution, the Forward Starting Fixed-Rate Advance, to lock in funding for future anticipated needs without adding immediate liquidity.

MEMBER EXAMPLE: When its customer was looking to build a new home, this member used a Forward Starting Fixed-Rate Advance to provide a construction-to-permanent loan that allowed the family to buy a lot, build and finance construction.

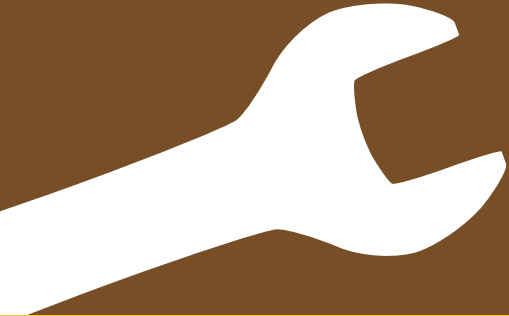


Forward Starting Fixed-Rate Advance

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5

PROTECT YOUR SECURITIES PLEGGED AS COLLATERAL



Give your customers the confidence they need to pursue their projects. Federal Home Loan Bank of Des Moines can help you provide valuable collateral to customers without sacrificing your securities investment.

Are you experiencing one of these situations?

- You purchased longer-term and optionable securities to enhance portfolio yield and the curve is steepening.
- You need to sell securities to limit portfolio underperformance and rebalance the portfolio, but securities are pledged as collateral.

WE HAVE THE SOLUTIONS.

Letters of Credit provide an attractive alternative to pledging securities as collateral for various transactions.

MEMBER EXAMPLE: A member submits the best bid for a local school district's deposit in the amount of \$1 million. Since the FDIC will only insure \$250,000, the member requests a FHLB Des Moines Letter of Credit to be issued in the amount of \$750,000 to the local school district as collateral. FHLB Des Moines issues the Letter of Credit, and the member receives the \$1 million Public Unit Deposit. By using the Letter of Credit, the member has more flexibility. The Letter of Credit allows members to use less liquid forms of collateral instead of securities.

**Letters of
CREDIT = FLEXIBILITY**

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