Bullet Advances

The Beauty of Simplicity

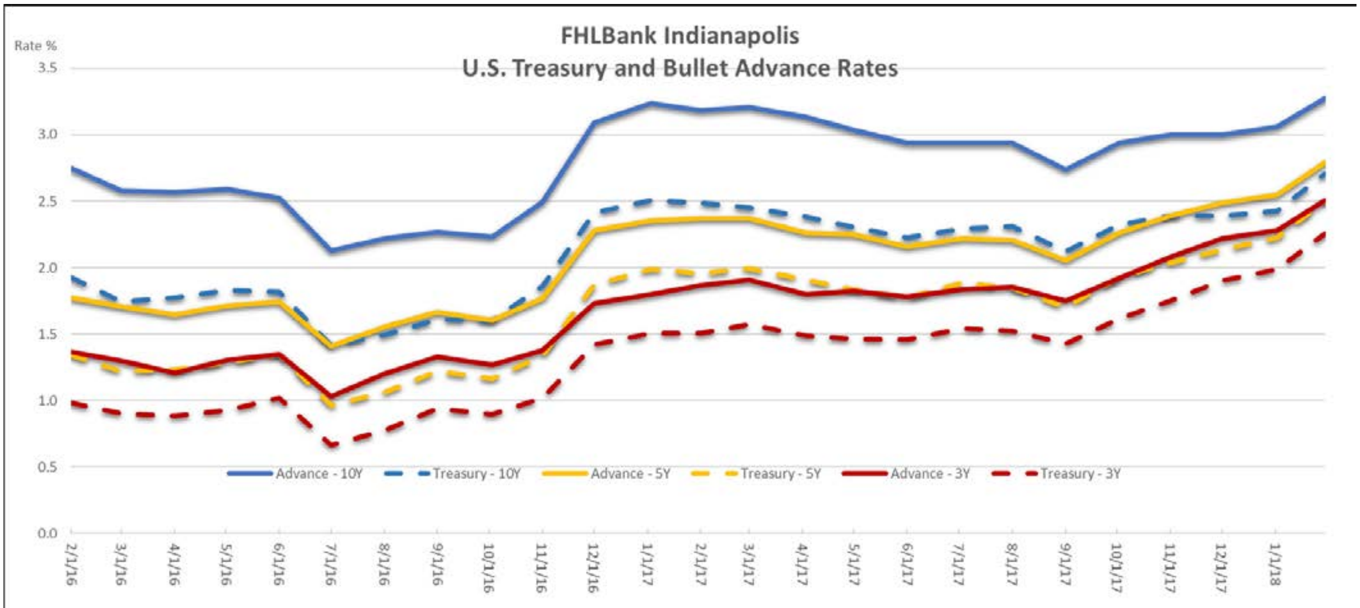
The bullet advance is one of the oldest FHLBank Indianapolis credit offerings. Over the years, FHLBank Indianapolis has provided members with a variety of funding structures, such as advances with floating rates, fixed rates, amortizing terms, pre-payments options, and interest rate caps. With structures becoming more complex, it may seem that the "plain vanilla" bullet advance would go the way of the flip phone; yet, simplicity, flexibility, and a lack of optionality often make the bullet advance a funding manager's favorite tool.

Flexible terms

Bullet advances can be used to target any maturity up to ten years (longer maturities may be available). Since the advance involves monthly payments of interest and principal at the end of the term, bullets are the wholesale equivalent of certificates of deposits (CDs). This provides financial institutions the ability to tailor terms from 7 days up to 10 years.

Ability to Lock-in During a Low Rate Environment

Interest rates remain near historic lows nearly 10 years following the financial crisis. Many in your financial institution may have never seen interest rates above today's nominal values. The 10-year Treasury rate has not been above 3.0% since 2011[1]. How many on your staff remember 1997 when the 10-year Treasury was above 6.0%? How many remember 1992 when it was above 7.0%? By locking in some longer fixed-term funding, protection against rising rates can be realized.



[1] Per www.treasury.gov Historical Treasury Rate Curve, 7/27/2011 10 Yr. Rate 3.01%.

Managing Interest Rate Risk

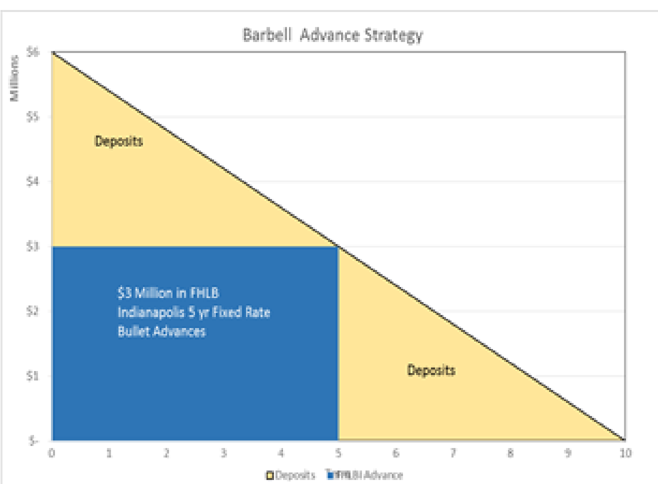
It is sometimes a balancing act comparing the duration of your earning assets to the duration or repricing characteristics, of your liabilities. As rates rise, will the increased yield from your assets outpace the increased cost from your liabilities or deposits? The rate sensitivity of depositors has not been tested during this prolonged period of low rates. When rates rise, how sensitive will your deposits be? To protect against liability sensitivity, longer-term fixed rate bullet advance funding can help manage that risk.

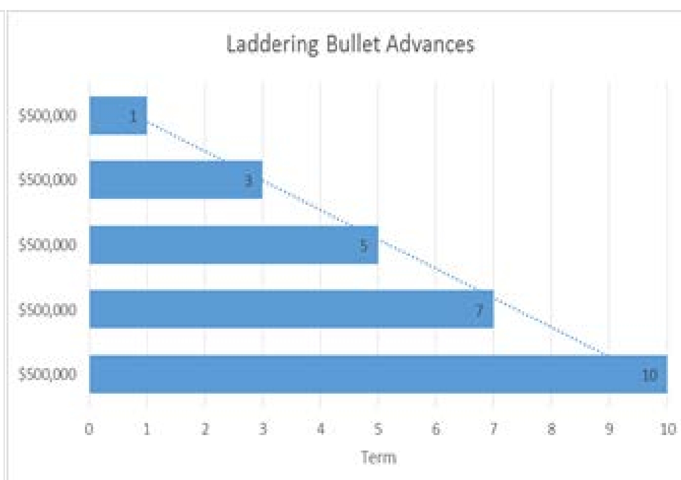
Avoid Optionality

Bullet advances are the perfect fallback position because they are always available in the exact amount and maturity needed and at market rates. Unlike CDs, bullet advances do not give the lender (in this case, the FHLBank Indianapolis) the option of early withdrawal. When a financial institution uses a bullet advance, FHLBank Indianapolis is locked in until maturity. Duration of deposits can be fickle, but FHLBank Indianapolis bullet advances have a set duration.

Use of "Barbell" and "Laddering" Strategies

Long term bullet advances can be combined with short term existing deposit funding to fund long term assets. Using a ‘barbell’ approach, the amount of long-term funding used can be adjusted based upon the liability sensitivity of the institution. ‘Laddering’ of different bullet advance terms can also be used to simulate the amortizing nature of loan assets being funded and could provide a blended lower overall rate.





For additional assistance in analyzing funding strategies, contact FHLBank Indianapolis Member Services 800.442.2568 or memberservices@fhlbi.com

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