Federal Home Loan Bank Seattle

The Return of the Auction Rate Advance

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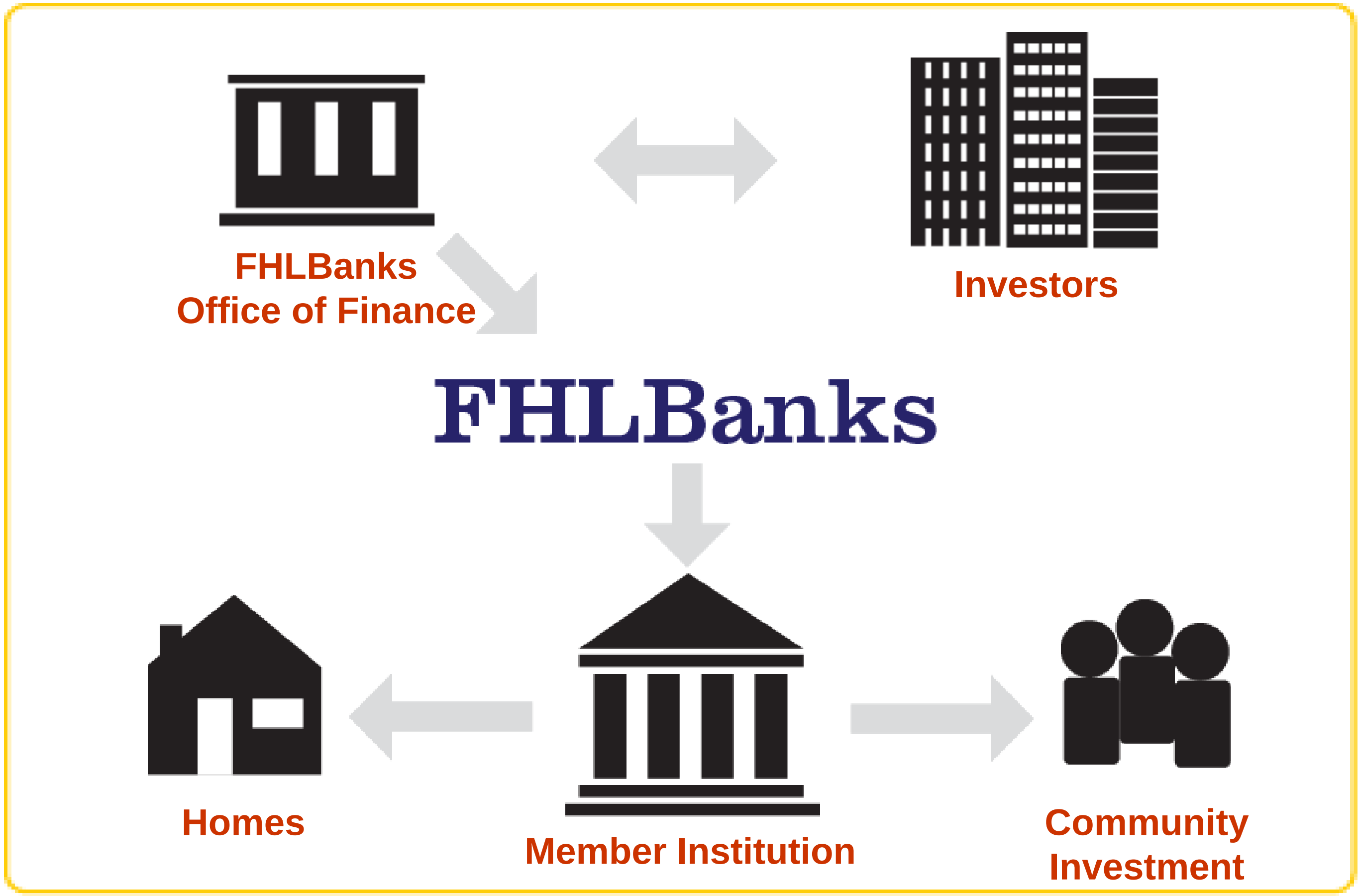
“So, what’s cooking with these auction advances?”

Auction Advances – The Basics

- Competitive funding that is tied to the Seattle Bank's issuance of debt, passed through to the member via discount note funding offered by the FHLBank System's Office of Finance.
- Offered twice per week on Tuesdays and Thursdays.
- Orders must be received by 8:15 a.m. Pacific Time.
- Proceeds are available the following day (i.e., Wednesdays and Fridays)
- Frequently below-posted rates charged for fixed-rate advances with similar maturities.

The FHLBank System



Auction Advances – "Rules of the Road"

- **Minimum Balance:** $100,000.
- **Interest:** Calculated on an actual/360 day basis; payable monthly by automatic DDA debit, on first business day of each month and at maturity.
- **Maturity Dates:** The Auction Advance is a fixed-rate advance with terms of 28, 63, 91 and 182 days.
- **Other Terms, Conditions:**
  – May be repaid prior to maturity, subject to applicable prepayment penalties.
  – Because advance is funded through an auction process, the Seattle Bank cannot guarantee the rate will be lower than the posted rate.
  – Members will be notified of the auction rates following the auction.

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Posted Rates vs. Auction Rate Advances www.fhlbsea.com/Rates

TO PLACE AN ORDER OR INQUIRE ABOUT OUR PRODUCTS:

Contact our Business Development Team to find out how our structured advance products can complement your funding mix.
Toll free: 800.340.3452

Contact our Member Services Team to order or inquire about any other advance product.
Toll free: 800.426.7538

Alternatively, please contact any member of our Member Services or Business Development Teams on their direct telephone lines. Contact Us

Related Information

WHAT COUNTS YOUR FINANCIAL STRATEGIES NEWSLETTER Read the Current Issue

Advance Products
Letters of Credit

Putable Rate Analysis (pdf)
Reduced Rate Advances for Community Investment
Historical Rates (xls)
Emergency Funding Instructions

Transaction Authorization for Funding (pdf)

Short-Term, Fixed-Rate Advances

Bullet:

Maturity	Rate
7 days	0.76
14 days	0.75
30 days	0.75
60 days	0.66
90 days	0.57
120 days	0.61
180 days	0.66
365 days	0.79

Auction:

As of: 11/05/2009

Maturity	Rate
28 day	.66
63 day	.57
91 day	.49
182 day	N/A

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Intermediate/Long-Term, Fixed-Rate Advances

Bullet:

Maturity	Rate	CIP/EDF
2 year	1.46	
3 year	2.08	1.78
4 year	2.57	2.27
5 year	3.04	2.74
7 year	3.84	3.54
10 year	4.51	4.21
15 year	5.13	4.83
20 year	5.50	5.20
30 year	5.89	5.59

Amortizing:

Maturity	Rate	CIP/EDF
2 year	1.22	
3 year	1.63	1.33
4 year	2	1.70
5 year	2.35	2.05
7 year	2.96	2.66
10 year	3.64	3.34
15 year	4.33	4.03
20 year	4.77	4.47
30 year	5.29	4.99

Amortizing rates assume equal principal payments over the life of the advance. Customized amortization schedules are available to participants

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Today's Yield Curve and Strategic Implications

Today's Yield Curve

- Tighter Spreads: Spread between 2-year and 10-year Treasuries (and G.O. muni's) has exceeded 250 bps only twice during the past 20 years – during the recessionary periods of 1992 and 2003.
- Fed Tightening: 18 months after the peak in 1992 and 10 months after the peak in 2003, the Fed started tightening – historical precedent for the notion that when the yield curve gets this steep, the Fed tightens and some point down the line.

Strategic Implications

- For investors:
  - 2- to 3-year sector provides maximum yield curve "roll-down"
- For borrowers:
  - Antithesis of investing: avoid the 2- to 3-year sector
  - Consider a "barbell" strategy:
    - Borrowing beyond one year is expensive, given yield curve steepness.
    - Borrowing beyond 5 years offers opportunity to lock in historically low rates.

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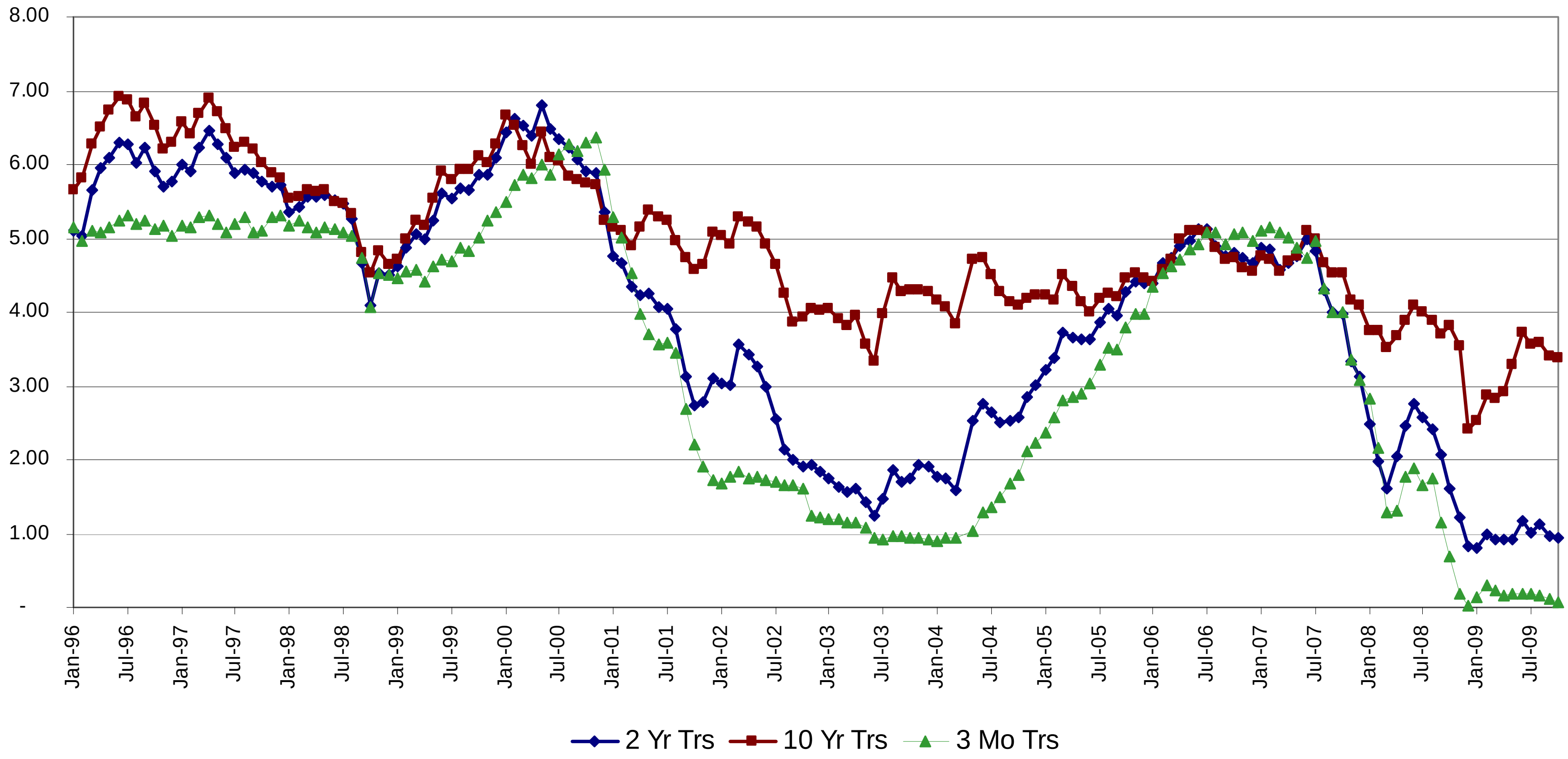
Rate History for 3-Month, 2-Year, and 10-Year Treasuries



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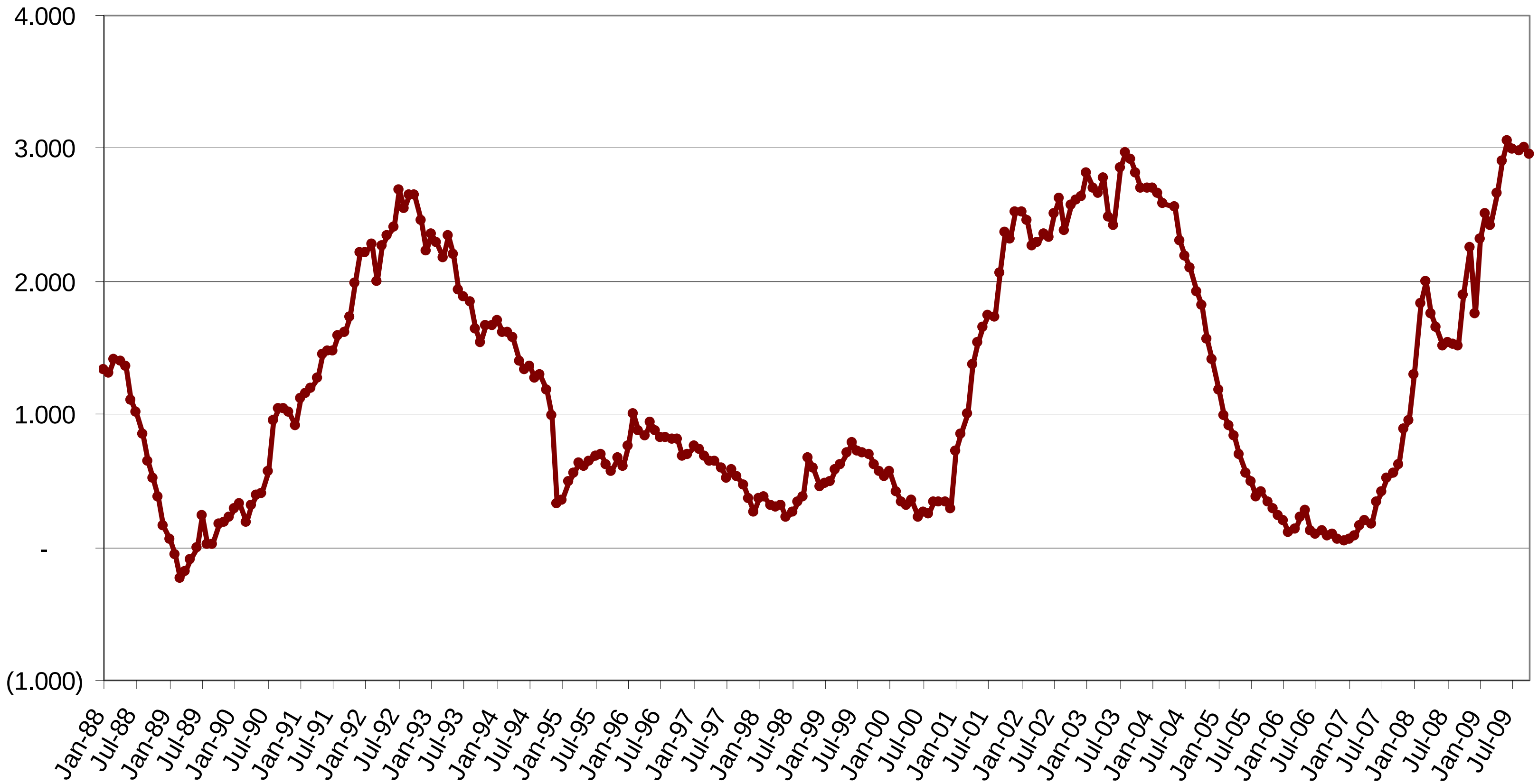
Spread Between Two- and 10-Year Advances



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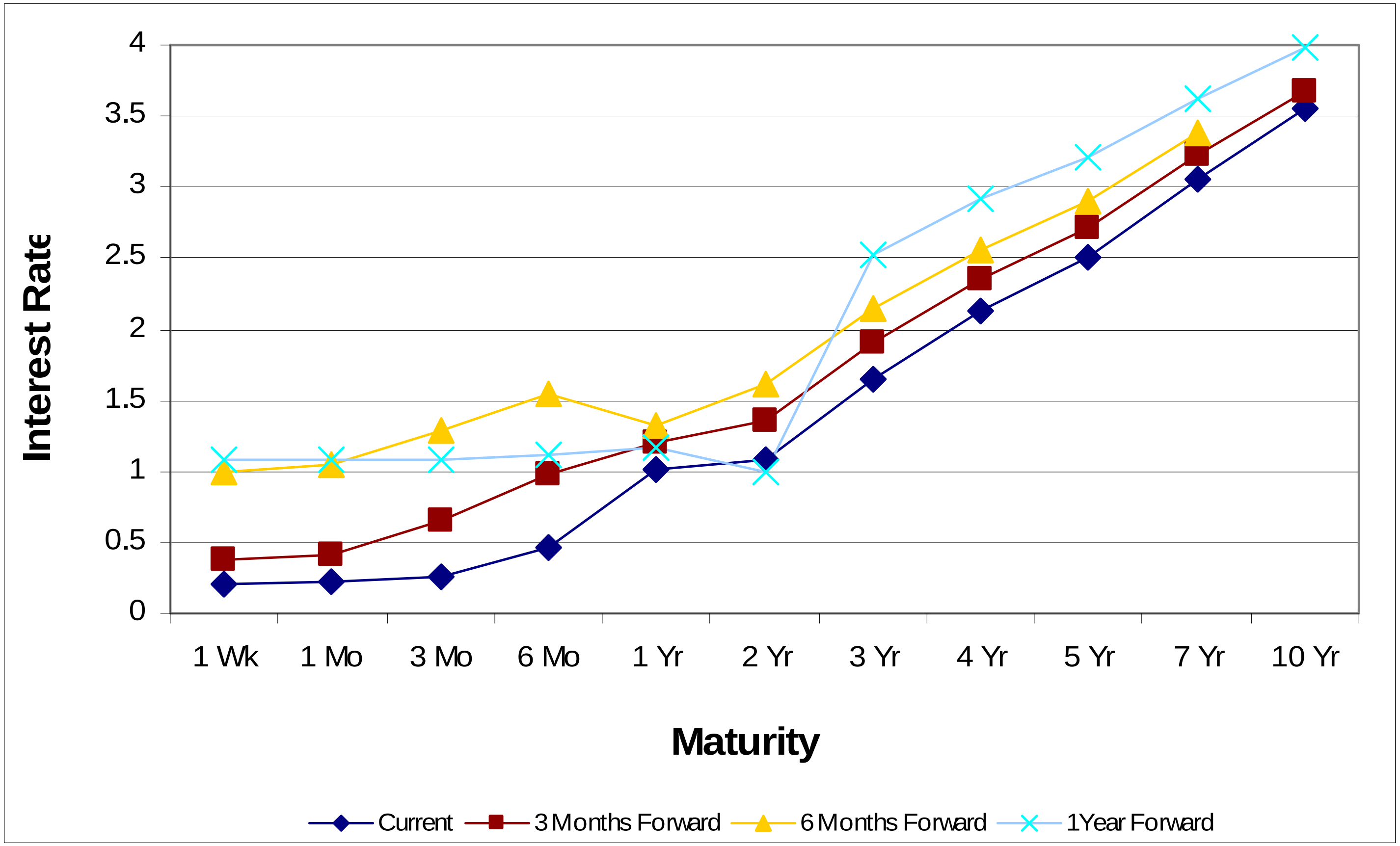
Current vs. Implied Forward Rate Curve December 8, 2009



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Seattle Bank Yield Curve – Optimal Points Analysis (as of 12/09/09)

Advance Maturity Selected	Advance Rate	Yield Pick-up	Curve Roll-Down	Break-Even Rate Rise
1 Year	0.71			
2 Year	1.30	0.59	0.59	1.19
3 Year	1.87	1.16	0.57	1.17
4 Year	2.35	1.64	0.48	1.06
5 Year	2.83	2.12	0.48	1.05
6 Year	3.28	2.57	0.45	1.01
7 Year	3.69	2.98	0.41	0.97
8 Year	4.03	3.32	0.34	0.88
9 Year	4.22	3.51	0.19	0.71
10 Year	4.40	3.69	0.18	0.68

Take advantage of the steep yield curve with auction rate advances

To take advantage of the steep front-end of the yield curve:

- Fund 3-year (6-months at 1.125%, Years 2-3 at 1.375 to 4.00%) FHLBank Step-Up with 0.50% Short-Term Auction Advance – A Defensive Strategy Using Step-ups

Investment	**Funding**
$10 million 1.125%/4.00% 3.0-year FHLBank Step-Up	$10 million 0.50% 3-month Auction Rate Advance

Terms:

- Callable every three months
- 1.125% coupon to 6/28/10; semi-annual steps thereafter

Objectives:

- Deploy liquidity
- Take advantage of yield curve

Economics of a steep yield curve trade using auction rate advances

Investment	Funding
$10 million 1.125%/4.00% 3.0-Year FHLBank Step-Up Quarterly Call Starting 6/28/10	$10 million 0.50% 3-month Auction Rate Advance

Rate Scenario/ Result	Flat Rates	+50bps	+100 bps	+150 bps
Spread to Benchmark	98.30bps	81.90bps	58.20bps	34.40bps
Duration	Call 6/28/10	Call 12/28/10	Call 6/28/11	Call 12/28/11
NII to Duration Date (approx.)	$36,500	$19,800	$9,375	-$45,000

- Assumes rate shocks are instantaneous and parallel (unlikely, but a good litmus test)
- Benchmark spread is measured to same term interpolated Treasury Bill
- Re-investment is coupon + rate shift (+100bps =1.125% to 1.00% or 2.13%)

What is *your* Interest Rate Risk Profile?

Interest Rate Risk Profile	Effect of Rising Rates on Earnings	Effect of Rising Rates on Market Value
Asset Sensitive **A**	↑ ↑ ↑	↑
Liability Sensitive **L**	↓ ↓	↓ ↓ ↓
Neutral **N**	↔	↔

CHRISTIE'S AUCTION ROOM.

Questions?

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