FHLBANK DALLAS
Member driven.
Community focused.

Mandatory Forward-Starting Advance

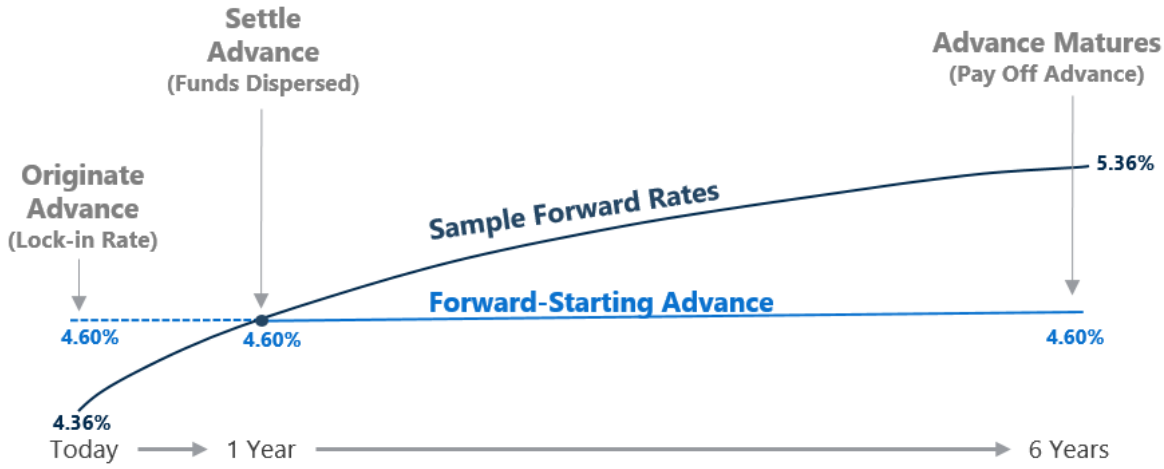
What is a Mandatory Forward-Starting Advance?

A mandatory forward-starting advance provides members the opportunity to take advantage of the current low-interest rate environment by locking in a rate today for an advance that settles at a future date.

Members that currently have sufficient liquidity but would like to take advantage of historically low rates should consider a forward-starting advance. Members that believe the economy will continue to strengthen, and that when rates rise they will rise rapidly, should consider a forward-starting advance.

Figure 1 illustrates a five-year, fixed-rate, fixed-term advance that settles one year from today. In this hypothetical example, the member could lock in a rate of 4.6 percent today. However, interest will not begin accruing until after the funds are received one year later.

Figure 1: Hypothetical Example of 5-Year Advance, Mandatory Forward-Starting in One Year



Sample Forward Rates: Sample rate based off of 5-year, fixed-rate, fixed-term (FRFT) Bullet advance

Forward-Starting Advance: Sample rate based off a 5-year forward-starting advance, starting in one year

Fixed-rate, fixed-term advances, including Community Investment Program and Economic Development Program advances, can be forward-starting. Mandatory forward-starting advances may be principal-amortizing.

Why Use a Mandatory Forward-Starting Advance?

If additional liquidity is not an immediate need, locking in future funds availability at today's rates can be an effective interest rate risk management strategy. Members can use mandatory forward-starting advances to support a wide range of near- and long-term objectives, including:

- **Prepare for deposit outflows due to increasing rates**
  A mandatory forward-starting advance can help a member that anticipates future deposit outflows from rising rates by fixing the cost of future funding while maintaining the near-term use of inexpensive deposit funding.
- **Replace brokered CD funds with more competitively priced FHLB Dallas funds**
  A member can use mandatory forward-starting advances to replace future brokered CD maturities and lock in low rates. Doing so enables a member to diversify wholesale funding sources and reduce concentration in brokered CDs for regulatory compliance.
- **Prepare for loan growth**
  A member that anticipates future loan growth can use a mandatory forward-starting advance to lock in future funding based on the current interest rate environment.
- **Match-fund and hedge against future rate increases**
  A mandatory forward-starting advance positions a member to serve commercial real estate customers that require loans with a future starting date such as mini-perm loans or construction to mini-perm financing for commercial real estate transactions. Use of a mandatory forward-starting advance helps the member lock in funding today for the future mini-perm commitment, while hedging against a potential increase in interest rates by locking in a low guaranteed rate.
- **Manage the impact of rising rate scenarios on net interest margin**
  The use of short-term deposits to fund long-term fixed rate loan portfolios may result in margin compression as interest rates rise and deposits become more expensive to retain.

  Members can combine the benefit of inexpensive, near-term deposits and guaranteed future borrowing at a locked-in rate to replace those deposits as rates rise.
- **Unlock value in an historically low-rate, flat-yield curve environment**
  In recent years, long-term Treasury and swap rates have been at or near historical lows. Members that foresee long-term economic improvement accompanied by market rate increases may benefit from the predictability of locking in future funding at a guaranteed rate.
- **Lock-in rates today to renew future maturing advance**
  A member can use mandatory forward-starting advances to replace future maturing advances and guarantee future funding in the current rate environment.

Available Structures

The mandatory forward-starting advance is subject to FHLB Dallas' standard credit and collateral policies as defined in FHLB Dallas' Member Products and Credit Policy.

Structure	Forward-Starting Advance
Maturity Terms	Maximum allowable terms for Fixed-Rate, Fixed-Term and Principal-Amortizing (PRAM) advances
Minimum Transaction Size	Minimum $5 million transaction size
Settlement	Available for up to 3 years Longer periods may be available upon request by contacting Member Sales at 800.442.9841
Capital Stock	Capital Stock is not required until the settlement date
Prepayment Fees	If the borrower cancels the advance commitment in whole or in part, FHLB Dallas will charge the borrower a cancellation fee equal to any prepayment fee that would have applied had FHLB Dallas funded the advance and the borrower had then immediately prepaid the advance plus 25 basis points for each year of the advance term multiplied by the balance of the advance
Availability and Pricing	Contact Member Sales at 800.442.9841

Accounting Considerations

For U.S. GAAP purposes, FHLB Dallas views the mandatory forward-starting advance as a firm commitment that is scoped out of ASC 815 *Derivatives and Hedging* under the exclusions for certain loan commitments. Accordingly, recognition and measurement at fair value is not required.

FHLB Dallas does not provide accounting advice. If you are uncertain as to the potential accounting implications, please consult your accountant prior to originating a forward-starting advance.

Risks

FHLB Dallas does not act as a financial advisor. Member institutions should evaluate the risks and suitability of a forward-starting advance. Forward-starting advances are subject to prepayment fees from the time of origination until maturity of the advance. Please refer to the Member Products and Credit Policy for further information.

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