

LIBOR (London Interbank Offered Rate) Indexed Advance

Features

The LIBOR Indexed Advance provides a source of short-term and long-term financing traditionally priced below short-term money market instruments. The rate resets at periodic intervals; therefore, pricing

adjusts automatically to changing market conditions. The rate is variable and resets either every month or every three months.

Advantages

- Indexed to a rate that is often below traditional short-term money market instruments

- Matches the return on many variable rate mortgage-backed security products
- Prepayment fees based on marketability or terms of the contract

Example

A particular bank was experiencing very strong commercial loan demand. Due to the historically large spread between three-month LIBOR and Prime as well as the strong correlation between three-month LIBOR and Prime (0.96 over the last ten years), the bank started funding its commercial loans based on Prime with advances based on three-month LIBOR from the Des Moines Home Loan Bank. To minimize the re-pricing risk in this transaction, the customer matched up the re-pricing dates from the asset and corresponding liability.

For more information about the LIBOR Indexed Advance, please call the Money Desk at 800.544.3452, ext. 1013 or email moneydesk2@fhlbdm.com.

Certain restrictions apply. Please reference the Bank's Member Products Policy.

