

# Beat the Spread Strategy



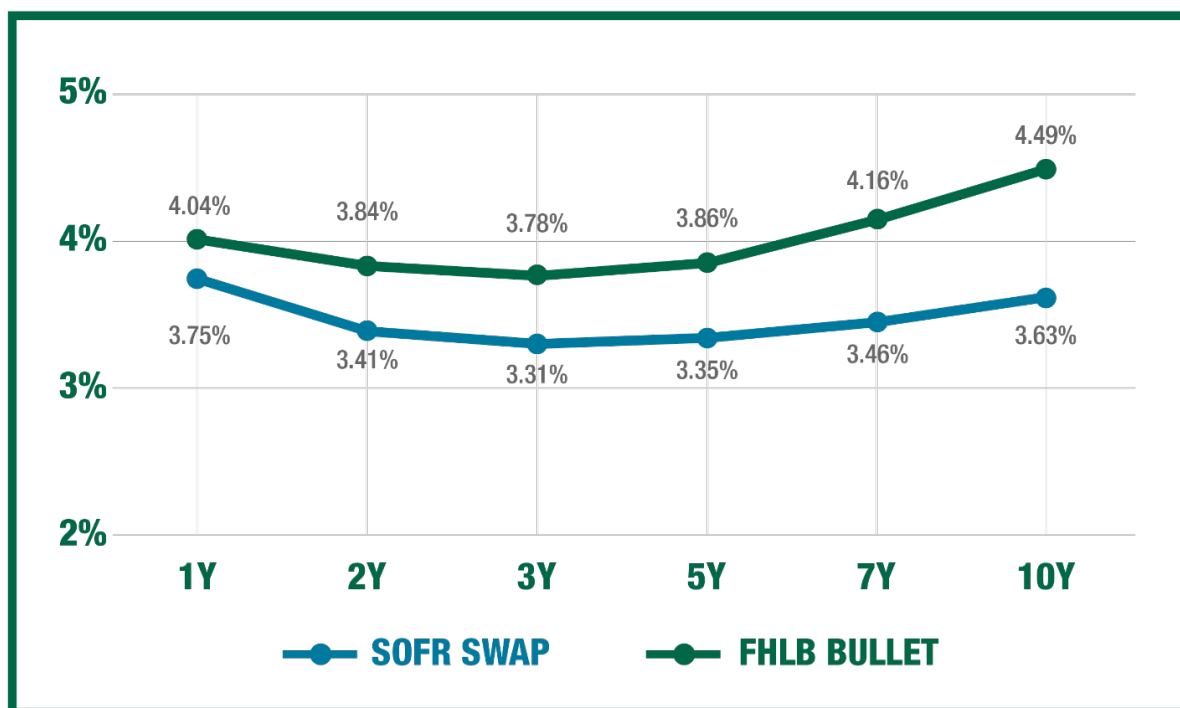
If your institution is in the market for low-cost, long-term funding, the Federal Home Loan Bank of Des Moines has a strategy for you to lock in and “Beat the Spread”.

What do you need to execute this strategy? Your institution will need accounting expertise for implications of using derivatives in addition to leveraging your available access to FHLB Des Moines. Together, we can help find the absolute lowest funding cost possible.

What does the “Beat the Spread” strategy entail? By combining a long-term fixed-rate swap with a short-term FHLB Des Moines advance, your institution can lock in funding below the cost of the corresponding advance term.

This pay-fixed, borrow-short strategy can be achieved when the long end of the swap curve is below that of the advance curve. Typically, the larger the difference, the bigger the cost savings. Figure 1 highlights the current relationship between SOFR swap rates and long-term bullet FHLB advance rates.

Figure 1 - Rate indications as of Aug. 5, 2025<sup>1</sup>.



The relationship between the swap curve and FHLB Des Moines bullet advances is not the only consideration when looking at this strategy. It is important to monitor the difference between the floating rate received from the swap and the corresponding FHLB Des Moines advance rate.

For example, if you were to receive 1-month SOFR as the floating rate in the swap arrangement, the funding from FHLB Des Moines would be a 1-month bullet advance. This would eliminate repricing risk as both legs would reprice on the same date.

Another consideration for your institution to consider is the current value of the FHLB Des Moines activity stock dividend. The activity stock dividend is paid quarterly and helps reduce

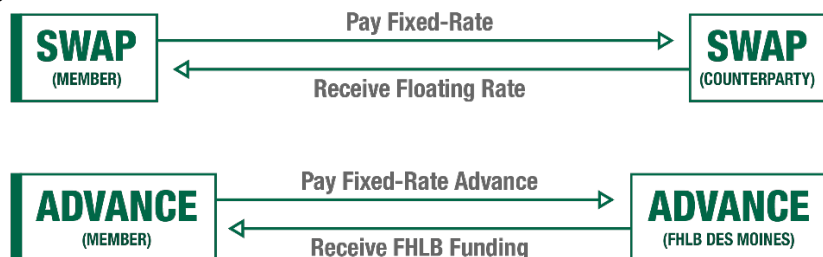
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the “all-in” borrowing cost of any advance. The current activity stock dividend is 9.75%<sup>2</sup> and the present value of the dividend is anywhere from 20 basis points to 40 basis points, depending on how your institution calculates it.

### BEAT THE SPREAD IN ACTION

Figure 2 below shows the strategy at work. Your institution would enter into a swap agreement in which you pay the long-term, fixed-rate swap rate and receive the floating rate in return. At the same time, you would borrow a short-term advance from FHLB Des Moines, matching the term of the floating rate of the swap. In essence, the cost of your funding would be the long-term fixed rate swap, plus (or minus) the difference between the floating rate and the FHLB Advance.

Figure 2



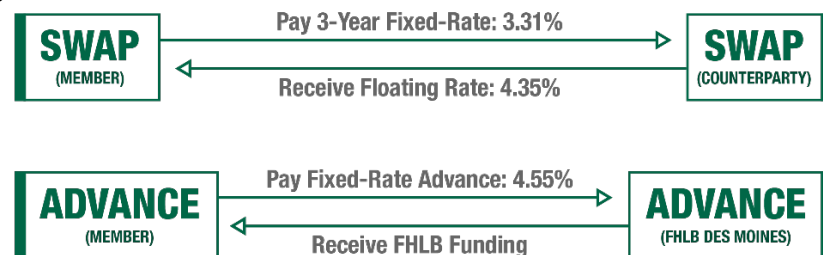
Now, let's look at the same relationship, but using today's rate. For this example, let's assume you are looking for three-year funding.

- The current rate for a 3-year FHLB Des Moines bullet advance is 3.78%.
- The 3-year SOFR swap rate is 3.31%.
- Using a swap and the “Beat the Spread” strategy, you can get funding at an initial cost of 3.51%, for an initial savings of 27 basis points over the 3-year bullet advance.

Figure 3 below demonstrates the cost, or it can be thought of as:

**Fixed-Rate Swap + (FHLB Advance – Floating Rate), which in this case would be  $3.31\% + (4.55\% - 4.35\%) = 3.51\%$**

Figure 3



It is important to note that this cost can change slightly throughout the course of the swap, depending on the correlation of the short-term advance rate and floating swap rate. In theory, these components should move in tandem but may not be 100% correlated. Going forward, your institution will need to continue to renew your 1-month advance at each maturity date to maintain your funding.

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Do not hesitate to reach out to your [relationship manager](#) or our [strategies team](#) with any questions you may have around the "Beat the Spread" strategy or tool.

<sup>1</sup>The rate information provided above are INDICATIONS ONLY.

<sup>2</sup>9.75% activity dividend for second quarter 2025. FHLB Des Moines does not project dividend payments.