Prepayment Fee Methodology

FHLB Des Moines calculates prepayment fees for all advances initiated on or after May 1, 2009 using the methodology shown below. Prepayment fees on advances dated prior to May 1, 2009, generally used a methodology to discount the value of the lost interest spread over the remaining life of the advance. Advance confirmations detail the methodology for determination of prepayment fees.

All future cash flows (i.e., interest and remaining principal) scheduled up to and including the stated maturity date (or expected maturity date based on the Bank's assessment of the option exercise date in the case of an option-embedded advance) shall be discounted based on the Bank's current available cost of funds for each scheduled future cash flow payment date. The present value of the cash flows in excess of the remaining face amount of the advance plus any time value associated with option-embedded advances shall be deemed the prepayment fee. The computed prepayment fee excludes accrued interest. Accrued interest, the remaining face amount of the advance, and the prepayment fee shall be due to the Bank on the date of prepayment.

Prepayment fee = Present Value of Cash Flows (formula defined below) + any Time Value (time value is applicable to option-embedded advances only) – the outstanding face amount of the advance.

$$\mathrm{NPV} = \sum_{t=1}^{n} \frac{C_t}{(1 + r_t)^t} - C_0$$

NPV = Net present value
t = The time of the cash flow;
n = The time to stated maturity (or expected maturity for advances with embedded option);
r = The discount rate (the Bank's cost of funds at time t);
C_t = The net cash flow (the amount of cash) at time t;
C_0 = The outstanding face amount of the advance on the computation date (t = 0).

Upon payment of the prepayment fee, the rights and obligations of each party for the advance shall cease.

Please contact the Money Desk for further information at 800.544.3452, ext. 2122 or by email at moneydesk@fhlbdm.com.