



Evaluation of the New Direct Standby Fluctuating Balance Letter of Credit

MEMBER STRATEGIES

The Federal Home Loan Bank of Des Moines (FHLB Des Moines) has introduced a new Letter of Credit (LOC) product: the **Direct Standby Fluctuating Balance LOC (Fluctuating Balance LOC)**. LOCs continue to serve as a cost-effective and operationally efficient alternative to pledging securities, enabling institutions to enhance on-balance sheet liquidity while keeping investment portfolios unencumbered.

Similar to the Traditional Standby LOC, this new product allows institutions to collateralize public unit deposits. However, the key distinction lies in the fee structure. The Fluctuating Balance LOC assesses fees based on the average outstanding balance of public unit deposits, whereas the Traditional Standby LOC applies fees to a pre-determined notional amount established at settlement.

» This raises an important question: *which structure is most appropriate for your institution?*

PRODUCT COMPARISON

Feature	Traditional Standby LOC	Fluctuating Balance Standby LOC
Minimum Balance	\$1	\$5,000,000
Fee	10.5 bps	11.5 bps
Minimum Fee	\$250	\$725 (per calendar quarter)
Minimum Term	1 day	4 months
Available for Single or Multiple Public Unit Depositors?	Single or Multiple	Single Only

KEY CONSIDERATIONS

1 Pricing and Structural Requirements

The Traditional Standby LOC recently saw a reduction in pricing to **10.5 basis points**, compared to **11.5 basis points** for the Fluctuating Balance LOC. Additionally, the Fluctuating Balance LOC product carries more minimum thresholds, including:

- ✓ \$5 million minimum balance
- ✓ \$725 minimum quarterly fee
- ✓ 4-month minimum term

If your anticipated LOC needs fall below any of these thresholds, the Traditional Standby LOC will generally be the more appropriate and cost-efficient option.



2 Balance Stability and Cost Efficiency

For institutions with deposit balances exceeding \$5 million and terms longer than four months, the primary consideration becomes the **expected variability of public unit deposits**.

At current pricing, the Traditional Standby LOC cost equates to approximately **91% of the Fluctuating LOC cost** (10.5 bps ÷ 11.5 bps). As a result, the Fluctuating Balance LOC becomes economically advantageous only when the average utilized balance falls below approximately **91% of the notional amount**.

Illustrative Breakeven Example

Product	Balance	Rate	Fee
Fluctuating Balance LOC	\$9,130,435 (average)	0.115%	\$3,558
Traditional Standby LOC	\$10,000,000	0.105%	\$3,558

In practical terms, if the average balance is expected to exceed 91% of the notional amount, the Traditional Standby LOC may offer greater cost efficiency.

This dynamic also impacts minimum sizing considerations. While the stated minimum for the Fluctuating Balance LOC is \$5 million, applying the 91% breakeven threshold suggests that a notional amount closer to **\$5.5 million or greater** may be necessary before the Fluctuating Balance LOC structure provides a meaningful benefit.

3 Timing and Fee Optimization

Another important factor is the alignment of LOC settlement and maturity dates relative to calendar quarter-end. Because the Fluctuating Balance LOC carries a **minimum quarterly fee of \$725**, short initial periods may result in a disproportionately high effective cost. For example:

- ✔ A \$10 million Fluctuating Balance LOC incurs approximately **\$32 per day** in fees
- ✔ Over a 5-day period, this equates to roughly **\$160**, well below the minimum quarterly charge

In such cases, a **blended approach** may be more cost-effective:

- ✔ Initiate a short-term Traditional Standby LOC (minimum fee: \$250)
- ✔ Transition to a Fluctuating Balance LOC for the remaining term

This strategy can help minimize unnecessary fee expenses while preserving flexibility.



CONCLUSION

Both Standby LOC structures provide valuable tools for managing public unit deposit collateralization, but their optimal use depends on balance size, expected deposit volatility and timing considerations.

- ✔ **Traditional Standby LOCs** are generally better suited for smaller, shorter-term or more stable balances
- ✔ **Fluctuating Balance LOCs** may provide cost advantages in scenarios with larger, variable balances—provided average utilization remains meaningfully below the notional amount

We encourage you to contact your relationship manager or the FHLB Des Moines Strategies team to evaluate your institution's specific needs. We are available to help you assess these options and determine the most effective approach for your balance sheet and liquidity strategy.

QUESTIONS | CONTACT

Relationship Managers

www.fhlbdm.com/contact-us/member-solutions/

Strategies Team

www.fhlbdm.com/contact-us/strategies/

Strategy authored by: Brandon Casey, Member Strategist