FHLBANK ATLANTA COMPOUNDING ADVANCES

FHLBank ATLANTA
A FEDERAL HOME LOAN BANK

FHLBank Atlanta is now offering SOFR-based Floating Rate advances with a compounding daily average interest rate calculation.

While Floating Rate advances are often used as a funding source for floating rate assets, tying them to a pay fixed swap to create a synthetic fixed rate has grown in popularity recently as it creates cost savings over the equivalent Fixed Rate Credit advance. Now, with the option to use daily compounded SOFR as the floating rate basis, these advances can better align with the attributes of cleared pay fixed swaps.

The example below demonstrates the effect of simple average and compounding on the overall rate for a one-year advance at a cost of SOFR+26, keeping SOFR at 5.00% for the entire quarter. Only the daily SOFR is part of the calculation and the advance term spread (+26) is added at the end.

			Daily SOFR Interest	
	Notional	SOFR Rate	Simple Avg	Compounded
Day 1	$10mm	5.00%	$1,388.89	$1,388.89
Day 2	$10mm	5.00%	$1,388.89	$1,389.08
Day 3	$10mm	5.00%	$1,388.89	$1,389.27

Day 2 Calculation:
$10,001,388.89 (notional plus day 1 interest) x 5.00%/360days

End of period total (90 days)	Simple Avg	Compounded
Period SOFR Interest Calc	$125,000.00	$125,775.73
Advance spread calc	$6,500.00	$6,500.00
Period Interest Expense	$131,500.00	$132,275.73
Effect Interest Rate	5.260%	5.291%

At the end of the quarter, the interest payment is made and the compounding calculation starts over.

In this example, the impact is just over 3 basis points.

Ready to Get Started?

Please reach out to your relationship manager to discuss how your institution can leverage this new offering.

FEDERAL HOME LOAN BANK OF ATLANTA
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