



WHITE PAPER FROM THE **SOLUTIONS DESK**

Advance Ladders: A Stronger, More Flexible Funding Blueprint for Members

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Introduction

In an interest rate and liquidity environment that can shift quickly, treasurers need funding tools that are both flexible and easy to manage. An Advance Ladder is a funding strategy that can spread borrowings across multiple maturities instead of concentrating them on a single date, or on a single product. This staggered approach helps members manage refinancing risk by smoothing out funding costs, and aligning liabilities with the natural cashflow rhythm of their assets, resulting in a more controlled and predictable liquidity profile

Laddering is not just an asset-liability management (ALM) exercise; it is a strategic way to make funding decisions more manageable over time. By avoiding large, one-time refinance events, laddering turns funding into a series of smaller, more manageable decisions. This reduces exposure in any interest rate environment and supports more stable net interest income (NII). Members can use FHLBank Chicago Advances for funding ladder strategies to better match asset cash flows, satisfy regulatory expectations for stable funding, strengthen liquidity planning and align balance sheet needs with evolving market conditions.

Why Advance Ladders: The Case for Staggered Funding

Members may take unnecessary concentration risk when their funding profile relies on a few large bullet maturities, such as increasing sensitivity to interest rate movements. These “cliff events” can force refinancing under unfavorable market conditions.

An Advance Ladder spreads advance maturities over time (often across two to five years) so only a portion of funding rolls in any given environment. This helps smooth funding costs, reduces exposure to interest rate spikes, and helps manage refinancing decisions.

Most asset portfolios do not mature in one large block. Instead, assets tend to roll off gradually across multiple tenors. An Advance Ladder allows treasurers to align liabilities with asset cash flows. This improves duration alignment, reduces asset-liability mismatch, and helps stabilize NII. Where portfolios involve meaningful amortization of assets, adding amortizing advances to the ladder creates a liability pattern that mirrors the underlying asset behavior.

Advance Ladders also strengthen liquidity metrics and make stress testing easier. Rather than facing a single decision point, treasurers get multiple opportunities to adapt to interest rate changes, deposit moves or widening spreads. Because the structure of the Advance Ladder is modular—reminiscent of

how building blocks can be combined and rearranged—members can size or reshape advance “rungs” by adding advances with strategic, staggered maturities as their outlook evolves.

FHLBank Chicago’s wide variety of advance products, including those with optionality (for example, callable and putable advances), adds another layer of flexibility. It allows individual rungs to be resized or restructured when market conditions move in the member’s favor, without rebuilding the entire ladder.

Designing the Ladder: A Strategic Blueprint

Building an effective funding Advance Ladder starts with clearly defining objectives and guardrails, and typically involves the following inputs:

- Defining a target effective duration (often 2.5 to 3 years)
- Setting acceptable earnings sensitivity limits under interest rate shocks
- Establishing liquidity buffers and concentration limits
- Analyzing asset cash flows by rate type, amortization, and growth expectations

These inputs help identify the appropriate spacing and sizing of ladder rungs and improve alignment between assets and liabilities and can increase the stability of NII.

Evaluate your desired tenor mix and construct advance rungs with annual maturities spanning several years aligned to asset duration and growth plans. Determine the blend of fixed and floating rate advances to achieve the desired net interest income behavior and interest rate sensitivity. Where appropriate, incorporate amortizing rungs to reduce mismatch and enhance predictability. Members may incorporate advances with embedded options, such as callable or putable advances. Overlay strategies—such as swaps, caps, or floors—can further fine-tune exposure and help keep the ladder aligned with balance-sheet objectives.

Ongoing monitoring and maintenance help keep Advance Ladders effective over time. Establishing a regular quarterly review cadence allows members to refinance maturing advance rungs at the far end of the ladder, preserve ladder length, and rebalance structures asset mix or interest rate outlook changes.

How to Structure an Advance Ladder

Structure	Description	Suggested Usage
Equal Weight Rungs	Evenly sized advance rungs with staggered maturities that roll annually	When simplicity and steady funding cadence are priorities
Front-Loaded Ladder	Larger near-term advance rungs; smaller long-term advance rungs	When visibility is uncertain or the loan pipeline is evolving
Back-Loaded Ladder	Larger long-term rungs to anchor duration	When asset yields are stable and long-term plans are clearer
Hybrid Ladder	Mix of fixed, floating, and/or amortizing advances	When members want to hit specific ALM targets while keeping flexibility

Example. A member seeking \$50 million in term funding could structure five \$10 million advance “rungs” with staggered annual maturities over five years. Each year, the maturing rung is rolled to the far end of the ladder, allowing the structure to evolve based on current market conditions, and the member’s asset mix and funding needs.

Advance Type	Description	Best Use Case
Fixed Rate Term Advances	Core ladder rungs for predictable interest expense and duration anchoring (1 month–30-year terms)	Members seeking stability and long-term interest rate certainty/cost
Floating Rate (SOFR Indexed) Advances	Adds variable exposure to match floating assets or maintain earnings sensitivity to interest rates	Members with floating-rate loan portfolios or interest rate-sensitive strategies
Amortizing Advances	Align liability amortization with amortizing assets (e.g., installment loans, mortgage pools)	Ideal for portfolios with scheduled principal paydowns, such as mortgages and auto loans
Callable/Puttable Advances	Optionality to exercise calls or puts when rate movements favor resetting tenor or cost	Members wanting flexibility to reset tenor or cost
Forward Starting Advances	Lock in future funding for known pipelines or maturity rollovers; reduce execution risk	Useful for managing refinancing risk and pipeline certainty
Custom/Structured Solutions	Combine features to targeted convexity, duration, and cost profiles to specific ALM targets	Complex or rapidly changing/evolving balance sheets

Summary of Benefits

Advance Ladders transform funding from a series of one-off decisions into a disciplined, modular strategy. By staggering advance maturities and blending advance structures, members can reduce refinancing risk, improve duration matching, and support more stable earnings across interest rate cycles.

FHLBank Chicago makes laddering simple and effective. As your strategic partner, we provide more than funding; we deliver flexibility and insight. Our advance products include fixed-rate term funding, SOFR-based floaters, amortizing and callable structures, forward-starting options, as well as customizable products—all designed to fit your balance sheet objectives.

The result is a resilient liability framework that adapts to market conditions, supports liquidity planning, and enhances earnings stability.

To discuss how an Advance Ladder could support your funding and liquidity strategy, contact your FHLBank Chicago sales director or visit our [Contact Us](#) page.

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Appendix A: Sample Advance Ladder Design (Conceptual) for \$100M to Fund a Mixed Asset Profile

Rung	Tenor (Years)	Size	Structure	Purpose
1	1	\$20,000,000	Fixed-Rate Term Advance	Near-term refinance; anchor cost predictability
2	2	\$20,000,000	SOFR Floating Rate Advance	Maintain earnings sensitivity; match floating assets
3	3	\$20,000,000	Amortizing Fixed Rate Advance	Align with amortizing loan pool cash flows
4	4	\$20,000,000	Callable Fixed Rate Advance	Optionality to adjust in favorable rate moves
5	5	\$20,000,000	Forward-Starting Fixed Rate Advance (starts in 90 days)	Lock in future funding for pipeline/maturity

Each year, the maturing advance rung is rolled to the far end of the Advance Ladder at the optimal tenor/structure at the time; advance rungs can be resized to reflect asset changes and strategy updates.

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