

Amortizing Mortgage Advance

Effectively Match the Duration of Mortgage Assets

Residential mortgage securities and 1-4 family mortgage loans continue to be attractive assets to acquire. Holding residential mortgage assets on the balance sheet can provide income and collateral for future borrowing needs, but it can also impact an institution's interest rate risk exposure. Selling long term mortgage originations has been a strategy used by some, but this means giving up high-quality earning assets. The FHLBank Indianapolis amortizing mortgage advance can help by providing long-term funding with amortization and prepayment characteristics built into the repayment structure of the advance.

The Amortizing Mortgage Advance offers terms up to 12 years to effectively match the duration of mortgage securities and mortgages held in portfolio. Repayment of the advance consists of either monthly or annual principal payments based on the amortization schedule of the mortgages, plus additional principal payments based on the expected prepayment speed of the mortgages. This strategy of matching the cash flows of the mortgages with the repayment of the advances can be an effective asset/liability management tool.

As an example, assume you fund a 30-year 4.25% mortgage with a 10 year Amortizing Mortgage Advance. Based on a CPR (Constant Prepayment Rate) of 6% that is phased in over 3 years, the amortizing mortgage advance rate indication would be 3.19%¹. Please note, the actual performance of the transaction can vary based on actual prepayment speeds as well as other factors.

The following shows the Real-Time Mortgage Advance Rate Indication Worksheet available on Member Link under the "Advance Rates" Menu which can be used to obtain real-time indications.

> Credit Services
Credit Availability
Advances
 Advance Rates
 Advance Products
Your Account Inquiries
Collateral
Credit Services Forms
Policies & Procedures
Financial Models
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Advance Rates

Real-Time Mortgage Advance Rate Indication Worksheet - Page 1

1. Type of advance (Click here for more information on advance types)
 - Regular
 - Community investment
2. Total amount of advance
3. Enter the term of the advance in years
4. Amortization schedule (Click here for more on how to determine a payment schedule)
 - Calculate the payment schedule based on the characteristics of mortgage loans being funded.
 - Let me input the payment schedule manually.
5. Click on the button below to continue

Actual rates on advances issued will depend on a variety of factors, including the actual market conditions at the time of the rate lock.

¹ Advance indication as of February 1, 2018. Actual rates on advances may differ from the indications noted, depending on the market conditions, prepayment speeds, and other factors at the time of issuance.

Rates

Real-Time Mortgage Advance Worksheet - Page 2

So far, you have chosen the following options for your mortgage advance:

- Regular advance
- Total amount of \$1,000,000
- Term is 10 years
- Principal payments to be calculated based on the characteristics of the mortgages being funded.

If you would like to change any of these items, [click here](#).

4. Enter the weighted average coupon (WAC) of the mortgages being funded in percent. % (click here for more information on WAC)

5. Enter the weighted average maturity (WAM) of the mortgages being funded in years (click here for more information on WAM)

6. Enter an estimated prepayment speed for the mortgages being funded as a CPR (click here for more information on prepayment CPR)

7. Phase in CPR gradually over a period of 3 years
 yes no (Click here for more information phasing in the estimated prepayment speed)

8. That's it! Now click on the button below to calculate the rate indication and payment schedule.

[Continue](#)

Rates

Real-Time Mortgage Advance Worksheet - Results

Parameters used for this mortgage advance worksheet

Advance type: Regular advance
 Advance amount: \$1,000,000
 Advance term: 10 years

Payment schedule calculated using the following parameters

WAC: 4.2500%
 WAM: 30 years
 CPR: 6.0000% with ramping

Results

Mortgage advance **indication** is 3.19%

Payment schedule is:

Period (year)	Advance rate used in calculation	Principal payment schedule	Balance after payment
0			1,000,000
1	2.24*	28,893	971,107
2	2.42	51,937	919,170
3	2.57	71,787	847,383
4	2.76	67,146	780,237
5	2.86	62,790	717,447
6	2.98	58,703	658,744
7	3.05	54,867	603,877
8	3.14	51,267	552,610
9	3.24	47,890	504,721
10	3.31	504,721	0

* The period (year) 1 advance rate used in calculation is based upon the current morning's posted rate.

The rate shown above is an indication only.
 Actual rates on advances issued will depend on a variety of factors, including the actual market conditions at the time of the rate lock.
 Mortgage advance terms and structures are subject to availability of appropriate funding.

[Click here to change the WAC, WAM or CPR.](#)
[Click here to start over](#)
[Click here to return to rates menu.](#)

For additional assistance in analyzing funding strategies, contact FHLBank Indianapolis Member Services 800.442.2568 or memberservices@fhlbi.com

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