



## Partnership That Pays

### Evaluating the value of FHLBank Indianapolis activity stock

One of the biggest benefits of FHLBank Indianapolis membership is being an owner and shareholder. The FHLBanks are uniquely structured into districts where the member owners have a say in the decisions through elected board members and reap the benefits of ownership via dividends. With the new FHLBank Indianapolis Capital Plan, which went into effect September 26, 2020, dividends are now classified into B1 (non-activity) stock and B2 (activity) stock. The B2 (activity) stock can provide a higher dividend than non-activity stock. This potential increased dividend is a new factor to consider when evaluating funding cost. This article will show how to calculate the value of the potential higher dividend and highlight the online tools available on Member Link.

Let's look at a member that has current B1 (non-activity stock) and is evaluating funding costs. This member may be evaluating accepting \$10,000,000 in 5 yr. brokered deposits at a rate of .95%. Comparing the posted .98% advance indication\* for a 5 yr. FHLBank Indianapolis bullet advance to the brokered deposit rate, the member could believe the brokered rate is the better deal. By using the **Dividend-Adjusted Advance Rate Calculator**, the impact of a potentially higher dividend from converting non-activity stock to activity stock can be evaluated to calculate a **dividend-adjusted advance rate of .925%**.

A member can calculate the dividend-adjusted rate for any term they may be considering using the tool. Given the assumptions in the example shown, this member would realize the equivalent of a **5.5 bps** all-in rate reduction by converting non-activity stock to activity stock.

	Posted Rate	Dividend-Adjusted Rate*
Maturity	\$10 - \$14.99	
1 Year	0.30	0.245
2 Year	0.39	0.335
3 Year	0.59	0.535
4 Year	0.79	0.735
5 Year	0.98	0.925

\*based on advance indications as of 3/04/21 11:00 a.m. EST. Actual advance rates may differ from the indications below depending on the market conditions at the time of issuance.



#### Dividend-Adjusted Advance Rate Calculator

The FHLBank Indianapolis Dividend-Adjusted Advance Rate Calculator is intended to provide members with a simple way to estimate the "all-in" cost of advances which takes into consideration the potential dividend pickup on FHLBank Indianapolis Bank activity stock.

Input fields indicated in yellow. Instructions view able when field selected.

Data as of: 3/4/2021

Inputs/Assumptions	
Advance Amount	\$10,000,000
Term of Advance (in Months)	60
Advance Rate	0.98%
Alternative Investment Rate (Actual/360)	1.00%
<b>Stock</b>	
B1 Stock Dividend (Non-Activity)	1.75%
B2 Stock Dividend (Activity)	3.00%
B2 Incremental Dividend Pickup	1.25%
Activity Based Requirement	4.50%
Stock Required for Transaction	\$450,000
Current B1 Non-Activity Stock	\$450,000
B2 Stock Purchase Required (if Any)	\$0

"All-In" Cost of Borrowing				
	Amount	Rate	Term Mths.	Total Interest/Dividend
Advance Amount	\$10,000,000	0.98%	60	\$496,805.56
Required Stock Opportunity Cost	\$0	1.00%	60	\$0.00
Total Interest Paid				\$496,805.56
<b>Activity Stock Dividend</b>				
- From converting B1 to B2 stock	\$450,000	1.25%	60	\$28,125.00
- From purchase of B2 stock	\$0	3.00%	60	\$0.00
<b>Net Interest</b>				\$468,680.56
		Advance Rate		0.980%
		Estimated Interest Cost Reduction		-0.055%
		<b>Dividend Adjusted Advance Rate</b>		<b>0.925%</b>
		Alternative Funding Rate		0.95%
		<b>Estimated "All-in" Benefit of FHLBank Indianapolis Advance</b>		<b>0.025%</b>

Disclosure: This analysis is available for educational and illustrative purposes only. The FHLBank Indianapolis ("Bank") wants this information to be as up-to-date and accurate as possible, but we cannot guarantee and do not warrant that it is error-free. The results shown are highly dependent on the assumptions made to produce the results. Actual results may vary based on assumed comparable investment rates, assumed B1 and B2 dividend rates, and whether the analyzed advance requires a new stock purchase or use of excess stock. The Bank is not a financial advisor. It is solely the readers' responsibility to evaluate the risks and merits of any funding strategy or business proposal prior to entering into a transaction. The decision to obtain advances and/or credit products from the Federal Home Loan Bank of Indianapolis, and the analysis of how they may fit into a member's financial or business strategy, remain the member's sole responsibility.

Should a member not currently hold non-activity stock and need to purchase activity stock to support new credit activity, the benefit is greater since the full advantage of the assumed activity stock dividend is realized (less assumed opportunity cost of purchasing stock). Given the same example, but assuming no current B1 stock, the dividend-adjusted advance rate shows a benefit of **8.8 bps**.

	Posted Rate	Dividend-Adjusted Rate*
Maturity	\$10 - \$14.99	
1 Year	0.30	0.212
2 Year	0.39	0.302
3 Year	0.59	0.502
4 Year	0.79	0.702
5 Year	0.98	0.892

Inputs/Assumptions	
Advance Amount	\$10,000,000
Term of Advance (in Months)	60
Advance Rate	0.98%
Alternative Investment Rate (Actual/360)	1.00%
<b>Stock</b>	
B1 Stock Dividend (Non-Activity)	1.75%
B2 Stock Dividend (Activity)	3.00%
B2 Incremental Dividend Pickup	1.25%
<b>Activity Based Requirement</b>	
Stock Required for Transaction	\$450,000
Current B1 Non-Activity Stock	
B2 Stock Purchase Required (if Any)	\$450,000

  

"All-in" Cost of Borrowing				
	Amount	Rate	Term Mths.	Total Interest/Dividend
Advance Amount	\$10,000,000	0.98%	60	\$496,805.56
Required Stock Opportunity Cost	\$450,000	1.00%	60	\$22,812.50
Total Interest Paid				\$519,618.06
<b>Activity Stock Dividend</b>				
- From converting B1 to B2 stock	\$0	1.25%	60	\$0.00
- From purchase of B2 stock	\$450,000	3.00%	60	\$67,500.00
Net Interest				\$452,118.06

  

Advance Rate	0.980%
Estimated Interest Cost Reduction	-0.088%
<b>Dividend Adjusted Advance Rate</b>	<b>0.892%</b>
<b>Alternative Funding Rate</b>	
Alternative Funding Rate	0.95%
<b>Estimated "All-in" Benefit of FHLBank Indianapolis Advance</b>	<b>0.058%</b>

Factoring the benefits of FHLBank Indianapolis activity stock ownership into an "all-in" advance rate provides a complete picture of the benefits of utilizing funding from your partnership with FHLBank Indianapolis.

To learn more about the new Capital Plan, including how sellers to Advantage MPP can opt-in to holding activity stock on the mortgages they sell, see the [FHLBank Indianapolis Capital Plan webpage](#). For additional information on calculating the value of holding activity stock or learn about funding options, contact your Account Manager for a personalized presentation.

**For additional assistance in analyzing funding strategies, contact FHLBank Indianapolis Member Services 800.442.2568 or [memberservices@fhlbi.com](mailto:memberservices@fhlbi.com)**

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