



## Partnership That Pays

### Benefiting from FHLBank Indianapolis (B2) activity stock

There are many benefits from being a member of the Federal Home Loan Bank of Indianapolis (FHLBI) but one that needs to be further explored is the value of owning B2 (activity) stock. The FHLBank Indianapolis Board of Directors recently declared the Q1 2021 dividend for members of 1.50% for B1 (non-activity) shares and 3.25% for B2 (activity) shares. The spread of 1.75% (3.25%-1.50%) rewards members who are users of FHLBI Advance, MPP, and LOC products with a higher dividend since use of these products contribute to the financial success of the cooperative. This potential increased dividend is a factor to consider when evaluating funding costs, selling mortgages, or securing a line of credit (LOC). Let's explore this value further.

### Advances

Let's look at a hypothetical 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. wholesale funds at a rate of 1.00%. Comparing the posted 1.06% advance indication\* for a 5 yr. FHLBank Indianapolis bullet advance to the wholesale alternative rate, the member at first glance might conclude that the alternative rate is the better option. 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 .98%**.

A member can calculate the dividend-adjusted rate for any term being considered using the tool found in Member Link. Given the assumptions in the example shown, this member would realize the equivalent of a **7.8 bps** all-in rate reduction by converting non-activity stock to activity stock.



**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 viewable when field selected.

Data as of: **4/30/2021**

Inputs/Assumptions				
Advance Amount				\$10,000,000
Term of Advance (in Months)				60
Advance Rate				1.06%
Alternative Investment Rate (Actual/360)				1.00%
<b>Stock</b>				
B1 Stock Dividend (Non-Activity)				1.50%
B2 Stock Dividend (Activity)				3.25%
B2 Incremental Dividend Pickup				1.75%
<b>Activity Based Requirement</b>				
Stock Required for Transaction				4.50%
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	1.06%	60	\$537,361.11
Required Stock Opportunity Cost	\$0	1.00%	60	\$0.00
Total Interest Paid				\$537,361.11
<b>Activity Stock Dividend</b>				
- From converting B1 to B2 stock	\$450,000	1.75%	60	\$39,375.00
- From purchase of B2 stock	\$0	3.25%	60	\$0.00
<b>Net Interest</b>				<b>\$497,986.11</b>
		Advance Rate		1.060%
		Estimated Interest Cost Reduction		-0.078%
		<b>Dividend Adjusted Advance Rate</b>		<b>0.982%</b>
		Alternative Funding Rate		1.00%
		<b>Estimated "All-in" Benefit of FHLBank Indianapolis Advance</b>		<b>0.018%</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.

\*based on advance indications as of 4/30/21 11:00 a.m. EST. Actual advance rates may differ from the indications below depending on the market conditions at the time of issuance.

## Advantage MPP

Another way to increase your B2 (activity stock) is to utilize the “**MPP Opt-in**” feature of the FHLBI Capital Plan. This can be done when a member elects to have loans under an MCC supported by B2 activity stock. The 4.50% activity stock requirement will be calculated based on the loan balance at the time of loan settlement. The potential impact of the higher B2 dividend should be considered when you are considering the total financial benefit of your mortgage loan sales. FHLBI has developed an analytical tool for you to use to estimate the value of the incremental increase in FHLBI dividend which can be found in Member Link.

## Line of Credit

A third way to take advantage of maximizing the dividend of your FHLBI stock is through use of the Line of Credit product, which is supported by a 4.50% activity stock requirement. Members pay an annual commitment fee for the line, based upon the amount of the line. (See chart below) Assuming a bifurcation spread between B1 and B2 of 1.75%, the increase in dividend for lines with limits of up to \$25m are accretive to member’s income when you compare the incremental dividend income to the cost of the annual commitment fee. If you are interested in learning more about the Line of Credit product, please contact your account manager or the Credit Desk.

<u>Commitment Amount</u>	<u>Annual Fee</u>
<= \$5 million	0.02% (2 bps)
>\$5 million & <=\$25 million	0.05% (5 bps)
>\$25 million	0.10% (10 bps)

## Conclusion

One of the objectives of the recently implemented FHLBI capital plan is to reward members based upon their usage of FHLBI products that contribute to the financial success of the cooperative of which members have ownership with FHLBI stock. This is achieved through differentiating between B1 (non-activity) and B2 (activity) share classes. It is also worth noting that even though B1 (non-activity) stock pays a lower dividend, recent dividend rates are still at a level that compares favorably to other investment options available in today’s low-rate environment.

If you have questions about how you can maximize your FHLBI dividend, or questions about the products and services discussed in this article, please reach out directly to your account manager or the Credit Desk.

**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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