

# ADVANCEMENTS

A publication of the Federal Home Loan Bank of Cincinnati designed expressly for Fifth District members



WINTER 2007/08 • Volume 10 • Number 2

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**Advancements** is a publication of the Federal Home Loan Bank of Cincinnati's Member Services Department. Your comments and suggestions are welcome. Contact:

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**Cover:** The FHLBank hosted a series of educational workshops for Fifth District members on maximizing the benefits of FHLBank services, led by Andy Howell, Executive Vice President. Insets: Senior Vice President Kyle Lawler, Credit, and Assistant Vice President Jim O'Toole, Marketing, were among the presenters at the Lexington, KY, workshop.



## PRESIDENT'S MESSAGE

As the 75th anniversary of the FHLBank System comes to a close this year, a new chapter is unfolding in the nation's housing markets. Similar to events leading up to the FHLBank's 1932 creation, current conditions affect both Main Street and Wall Street. Years of unprecedented housing growth has taken a swift turn that directly impacts thousands of homeowners, investors and mortgage-related businesses. The degree to which the indirect impact will be felt among neighborhoods, communities and the overall economy remains uncertain at best. As designed by Congress, the FHLBank finds itself in the center of this perfect storm, a conduit between homeowners and capital markets. As demonstrated by strong Advances demand through the first three quarters of 2007, the FHLBank remains a steady, reliable source of liquidity for our members and their customers.

In this issue of *Advancements*, you will read about our efforts to help our members assist with the foreclosure crisis through the HomeProtect Advance program, as well as through continuous provision of Advances and our well-established affordable housing programs. Our cover story highlights the very successful member workshops held throughout the Fifth District. FHLBank staff provided members with product and services updates, and small-group sessions to focus on specific program applications. Our profile on Legends Bank in Clarksville, Tennessee, illustrates the value and use of supplemental collateral to increase a member's borrowing capacity.

Your Board of Directors ratified the 2007 Director elections this fall. Please join me in congratulating Jim DeRoberts, The Arlington Bank, Upper Arlington, Ohio, Bill Carroll, Sr., SmartBank, Pigeon Forge, Tennessee, and Stan Puckett, GreenBank, Greeneville, Tennessee. Each Director will serve a three-year term beginning January 1, 2008. I wish to extend my thanks and gratitude to retiring Director Jim Powell, Liberty Savings Bank, Wilmington, Ohio, who will complete his maximum allowable third three-year term of service at year-end 2007. In Washington, D.C., the Federal Housing Finance Board appointed two Public Interest Directors, Carl Wick and Charles "Bud" Koch. Carl continues to serve as your Chairman, and Bud, former FHLBank Chair, will return to the Board after a one-year absence. Both Directors' three-year terms will begin January 1, 2008. Bud replaces retiring Public Interest Director Stephen Smith of Nashville, Tennessee, to whom I extend my thanks for his years of service.

Your Directors continue to work hard with management to help us navigate the churning waters of the current housing finance environment. The FHLBank was well represented at this year's annual Directors Conference, hosted by the Council of FHLBanks in Washington. We heard from regulatory agencies and the housing industry and met with Members of Congress serving our District. We will continue to openly communicate with the many parties – nationally and locally – who are interested in helping ease the housing market correction as smoothly and quickly as possible. As always, we welcome your suggestions, thank you for your continued support throughout 2007, and wish you a healthy and prosperous New Year.

Sincerely,

A handwritten signature in black ink that reads "David H. Hehman". The signature is written in a cursive, flowing style.

David H. Hehman, *President*

# FHLBank Hosted Member Workshops . . . in a City Near You

*Todd Berry, Assistant Vice President, Marketing, meets during the August 29 Jackson, TN, workshop with McCall Wilson, CEO, Bank of Fayette County, Moscow.*



Customer service takes many forms at the FHLBank. From individual member visits and phone calls, to regional stockholder meetings, to time-saving webinars, we look for multiple ways to keep you informed and connected to your FHLBank. Our latest outreach to members was through a series of eight member workshops in Jackson, Kingsport, Knoxville and Murfreesboro, Tennessee; Bowling Green and Lexington, Kentucky; and Columbus and Findlay, Ohio. “With a number of new FHLBank products and

services introduced this year, and ever-increasing demands on members’ busy schedules, we felt it was a good time to take our message to our members,” said David Hehman, President.

Members clearly agreed. Over 20 percent of all members attended one of the workshops with more than 300 individuals representing 150 institutions. The half-day sessions included an overview of FHLBank performance, current legislative and regulatory matters, and Credit, Mortgage Purchase Program (MPP) and Housing and Community Investment updates. The General Session covered Credit Services, MPP, and other resources including member specific peer group reports, Web site reports, and financial modeling tools. Concurrent sessions offered more in-depth discussions of the uses and benefits of Credit Services and MPP. The workshops concluded with a luncheon and informal discussions.

Due to the strong positive response to this format, the FHLBank is considering a second series of similar workshops next year. Watch for more information as dates and locations are identified, possibly in a city near you. If you have questions or suggestions, please contact **Tom Ciresi**, Vice President, Member Services at 877-925-3452 or [ciresitj@fhlbcin.com](mailto:ciresitj@fhlbcin.com). ♦



*Tom Ciresi, Vice President, Member Services, presents a Credit segment during the August 22 Knoxville, TN, workshop.*

*“With a number of new FHLBank products and services introduced this year, and ever-increasing demands on members’ busy schedules, we felt it was a good time to take our message to our members.” - David Hehman, President*



*Rush Bricken (center), Vice President and CFO of The Coffee County Bank in Manchester, TN, talks with FHLBank presenters Robin McNulty, Vice President, MPP, and Paul Imwalle, Senior Vice President, Member Services, during the Murfreesboro, TN, workshop held August 30.*



*Among membership attending the October 24th workshop in Lexington, KY, are: (front row) Janie King Salyer from Family Bank, Paintsville; Leslie Inman from Winchester Federal Bank, Winchester; and (second row) Todd Johnson from Ohio Valley Bank, Henderson.*



### DAVID HEHMAN ADDRESSES OHIO AND ILLINOIS BANKERS

FHLBank President David Hehman addressed some 300 banking executives from Ohio and Illinois at their joint annual meeting this fall, held in historic Williamsburg, VA. Mr. Hehman reviewed FHLBank System issues including pending legislation and regulation. He also presented a financial performance summary of the Cincinnati District along with some of the distinct challenges and opportunities in the region. ♦

## Fixed or Floating? A Closer Look at Putable and Floating-to-Fixed Rate Advances

The FHLBank's option-based Putable Fixed Rate (PFR) Advance has become an increasingly popular funding tool for Fifth District members this year. As of September 30, 133 members held outstanding PFR Advance balances totaling \$1.9 billion. Many of these PFR borrowers have taken advantage of the frequent special offerings of PFR Advances that allow members to borrow far less than the usual \$5.0 million minimum commitment required for Putable and certain other option-based Advances. Those members that find the PFR a low-cost and suitable funding source for their balance sheet may want to take a closer look at the Floating-to-Fixed Rate (FTF) Advance, another option-based Advance that offers many of the same benefits and characteristics as the PFR Advance.

### PUTABLE FIXED-RATE ADVANCE

The Putable Fixed-Rate (PFR) Advance provides members with the opportunity to fund the balance sheet at rates significantly lower than those of traditional long-term, fixed-rate funding vehicles. The member receives a fixed-rate Advance with a stated term to maturity and an initial "lockout" period during which the FHLBank cannot terminate the loan. Subsequent to the end of the "lockout" period, the FHLBank has either one (European option) or a series (Bermudan option) of quarterly exercisable "put" options that would require the member to prepay the Advance prior to the stated final maturity. For the duration of the original PFR Advance, the rate remains fixed.

For example, consider a PFR Advance with a five-year term to maturity, a one-year "lockout" period and quarterly "put" options. The member is assured of having a fixed-rate Advance product for at least the first year of the five-year term. Subsequent to the end of the first year, the FHLBank has the right each quarter to either require the member to prepay or leave the fixed-rate Advance intact. The main advantage gained by the member is funding at a rate considerably lower than for one-year or five-year funding alternatives.

*continued on page 5*

## FHLBANK INDICATIVE RATES, AS OF NOVEMBER 26, 2007

### PUTABLE FIXED-RATE ADVANCES

TERM	RATE
5 / 1	3.43%
5 / 2	3.65%
10 / 1	3.15%
10 / 2	3.35%

### REGULAR FIXED-RATE ADVANCES

TERM	RATE
1 YEAR	4.26%
2 YEAR	4.05%
5 YEAR	4.50%
10 YEAR	5.04%

### 5 YEAR / 1 YEAR FLOATING-TO-FIXED RATE ADVANCE

FRONT END: 3-MONTH LIBOR – 50 BPS	4.55%
BACK END: FIXED RATE	2.95%

## Advance Specials: Member Appeal Continues

Many of you receive e-mails from the FHLBank notifying you of an upcoming Advance special. These are occasions when the FHLBank is offering an Advance product under special terms or circumstances that benefit most members. There are generally two different types of Advance specials.

The majority of recent Advance specials this year have involved an option-based Advance product such as Putable Fixed Rate (PFR) Advances. Due to the type of funding the FHLBank uses to finance these and other option-embedded Advances, typically a minimum \$5.0 million Advance transaction size is required. At the same time, we recognize that many of our members may not want to borrow that much of this type of Advance. The Advance special helps solve the problem. The minimum commitment per member for these PFR specials is reduced from \$5.0 million to as little as \$100,000. As long as the aggregate commitment by all participating members of a particular PFR structure reaches \$5.0 million, the FHLBank can execute the funding and the Advance. The reduced commitment size, therefore, enables all members to use this type of Advance if they choose to do so. Members are notified of Putable specials about a week ahead of time.

The FHLBank also offers Advance specials arising from attractively-priced global debt issuances facilitated through the Office of Finance, the funding arm of the Federal Home Loan Banks. These debt issuances, which are commonly in fixed-rate terms from one to 10 years, can be used as a funding source for attractively-priced Regular Fixed Rate Advance specials. The settlement mechanics of these debt issuances usually allow the FHLBank to notify members of this type of special only a day or two in advance.

In 2007, Advance specials have been well received by members. Through September, 150 members, or 20 percent of the membership, had participated in at least one special and had borrowed a total \$2.5 billion in Advances.

We certainly want to keep conducting Advance specials, but to ensure their continued success we need your help. If you have a particular funding need and would like the FHLBank to consider offering a certain Advance product as part of a special, please let us know by contacting the **Member Services Department** at 877-925-3452. ♦

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*continued from page 4*

### FLOATING-TO-FIXED RATE ADVANCE

The primary difference between the PFR and the FTF Advance is the initial Advance rate during the lockout period. The initial rate is fixed with the PFR; under the FTF the initial rate floats, typically at a spread below 3-Month LIBOR. Like the PFR, if the FHLBank does not require the member to prepay the Advance at the end of the lockout period, the Advance adjusts to a fixed rate, which was determined prior to the execution of the Advance. This fixed rate remains in effect until the stated final maturity or until the FHLBank chooses to exercise its Bermudan (quarterly) options to terminate the Advance.

Further, the borrower can customize the FTF structure by setting either the front-end floating rate or the back-end fixed rate and then having the FHLBank solve for the other rate. Members are encouraged to contact the Credit Services Department to discuss the FTF pricing methodology that best suits their funding needs.

### CAREFUL ANALYSIS RECOMMENDED

While both the PFR and FTF Advances offer rates significantly lower than other funding sources of similar maturity, the FHLBank urges members considering using either product to analyze the impact from option risk prior to utilizing either Advance, including SFAS 133 and other accounting issues. For more information on either of these Advances, please contact either your FHLBank Member Services representative or the **Credit Services Department** at 800-828-4191. ♦



*Legend Bank's Tommy Bates and Lee Pedigo*

# LEGENDS BANK, CLARKSVILLE, TN



**Legends  
Bank**

**W**hen it was founded in November 1998, Legends Bank in Clarksville, Tennessee, faced the same challenges any startup business faces, and then some. Less than three months after opening its doors, a tornado cut a trail of devastation through this town, about 45 miles northwest of Nashville.

“January 22, 1999,” recalls Legends Chief Operating Officer Tommy Bates, like it was yesterday. “We were actually still in a trailer back then. The tornado came through and pretty much devastated our downtown.”

Five blocks of downtown were practically leveled. In all, 124 buildings in Clarksville were destroyed and more than 500 damaged, including many at Austin Peay State University. Luckily, because the tornado struck early in the morning before people arrived for work, there were only five injuries, none serious. “We fully rebuilt from that, and we’ve tried to participate in the rebuilding as much as possible, as far as providing financial assistance,” Mr. Bates said.

## AT A GLANCE • LEGENDS BANK • CLARKSVILLE, TENN.

ESTABLISHED	1998	OFFICES	6
CEO	Billy P. Atkins	EMPLOYEES	75
ASSETS	\$250 million	FHLBANK MEMBER SINCE	1999

This year, Legends faced a challenge of a different sort: the loss of \$20 million in municipal deposits. How would it replace those funds? Legends turned to the Federal Home Loan Bank of Cincinnati.

**HOME OF FORT CAMPBELL**

With a population of 113,000, Clarksville is Tennessee's fifth largest city. Major employers include Florim USA (porcelain tile), Bridgestone Metalpha (steel cord for radial tires), Convergys Corp. (call center), Quebecor (printing), Trane Co. (heating and air conditioning equipment) and Austin Peay State University.

The economy's driving force, however, is the Fort Campbell military base, home of the 101st Airborne Division. It boasts 40,000 military personnel, 4,300 civilian employees, an annual budget of nearly \$4.5 billion and an annual payroll of \$1.4 billion. Add to that 56,000 family members on and off the base, and a community of 134,000 retirees and their families, and it's clear Fort Campbell is a local powerhouse.

Economically, "It's the largest economic engine in the state. It's like having two Nissan plants sitting in your town," Mr. Bates said. "Beyond their impressive payroll, the capital improvement dollars are staggering."

The banking needs of the general population are met largely by an established network of banks and credit unions, so Legends Bank sought a different clientele: small business. "The consumer market is crowded," Mr. Bates said. "We really will make our mark through loaning to the businesses that service the military consumers, whatever type of small business it might be."

In nine years, Legends Bank has grown to \$250 million in assets. The trailer is gone, and the bank now has six offices and 75 employees in the region.

**JOINED THE FHLBANK**

Joining the FHLBank was an early goal of Legends Bank. "We've been a member of the FHLBank since the first quarter we were able to sign up," Mr. Bates said. "We like the funding sources that are available. When we started, we were growing so fast we needed good solid wholesale sources of funds. We really looked to the Federal Home Loan Bank as opposed to going into brokered CDs."

That affiliation came in handy this year when Legends Bank lost a big client: The City of Clarksville pulled \$20 million in deposits. "We had the city's deposits for about five years. They put it up for bid and we lost the bid," Mr. Bates said. "That caught us by surprise, because we thought we would keep it."

Legends looked to the FHLBank to replace those funds, but Mr. Bates and CFO Lee Pedigo were unsure about its collateral position with the FHLBank. Because Legends is essentially a commercial bank, "we don't carry a huge balance of 1- to 4-family loans on our balance sheet to use as collateral. We do a lot of construction loans," Mr. Pedigo said.

Mr. Bates discussed the situation with FHLBank Assistant Vice President Todd Berry, who said Legends didn't know what assets it had eligible to pledge that would allow the bank to raise \$20 million. "They needed to know, what could they pledge to allow them to borrow that much money? What were their options?" Mr. Berry said. "I suggested they needed to look into supplemental collateral."

The two Legends Bank executives attended an FHLBank workshop in Murfreesboro in August, and learned more about supplemental collateral, which allows members to pledge assets other than residential mortgages as collateral for advances. Such collateral could include commercial real estate loans, home equity lines of credit, second-mortgage loans, farm real estate loans and – for community financial institutions – small business and agribusiness loans.

Under this program, Legends Bank was able to pledge commercial real estate loans toward Advances, positioning the bank to replace the lost deposits. "Even though we lost that large deposit, by making some fundamental balance sheet changes to account for it leaving, using the sources of wholesale funding that were available to us, particularly the Federal Home Loan Bank Advances, we feel like we may be more profitable going forward," Mr. Bates said.

This might not have happened had the Legends Bank executives not attended the FHLBank workshop in Murfreesboro. "The outreach the Federal Home Loan Bank does provides us with some good information, and we actually picked up something we didn't realize was available," Mr. Bates said. "I try to make all of those seminars I can." ♦



James DeRoberts



William Carroll



Stan Puckett



Carl Wick



Charles "Bud" Koch

### DIRECTOR ELECTIONS ANNOUNCED

The FHLBank Cincinnati's Board of Directors announced the results of the FHLBank's 2007 director elections. A new director was elected from Ohio, and the board reappointed two Tennessee directors who stood for election without opposition. Each director will serve a three-year term beginning January 1, 2008.

Elected from Ohio was **James R. DeRoberts**, Chairman of The Arlington Bank, a \$191 million-asset financial institution based in Upper Arlington, Ohio. In addition to his position at Arlington Bank, Mr. DeRoberts is a partner in Gardiner Allen DeRoberts Insurance LLC, an independent insurance agency in Columbus, Ohio. He will succeed **James R. Powell**, Chairman and CEO, Liberty Savings Bank, FSB, Wilmington, Ohio, who is completing his third three-year term on the board, the maximum currently allowed by federal regulations.

In Tennessee, **William Y. Carroll, Sr.**, Chairman of SmartBank, Pigeon Forge, Tennessee, returns for his third term on the Board, and **R. Stan Puckett**, Chairman and CEO, GreenBank, Greeneville, Tennessee, returns for his second term. Mr. Carroll and Mr. Puckett were unopposed for re-election, and were declared directors-elect by the Board in accordance with federal rules governing the election of Federal Home Loan Bank directors.

### PUBLIC INTEREST DIRECTORS APPOINTED

The Federal Housing Finance Board (Finance Board) announced the appointment of two Public Interest

Directors to the FHLBank Cincinnati Board in October 2007. Appointed were **Carl F. Wick** of Centerville, Ohio, and **Charles J. Koch** of Cleveland, Ohio. Each will serve a three-year term beginning January 1, 2008.

Mr. Wick is currently Chairman of the FHLBank Board of Directors and is a representative of the FHLBank to the Council of Federal Home Loan Banks. He is the principal/owner of Wick and Associates Business Consulting. Mr. Wick is serving his second term as a member of the Ohio State Board of Education. He is also a member of the Institute of Electrical and Electronic Engineers and an adjunct instructor at Wright State University.

Mr. Koch also returns to the FHLBank Board of Directors. A long-time Ohio bank executive and former FHLBank Chairman, Mr. Koch retired in 2004 as Chairman of Charter One Bank, N.A., of Cleveland, and is a Director of the Royal Bank of Scotland Plc and Assurant Inc. Mr. Koch sits on the boards of John Carroll University and Case Western Reserve University, both in Cleveland. He is past Chairman of Neighborhood Progress Inc. and Village Capital Corp., both of which assist with affordable housing and community investment in Cleveland.

The Public Interest Directors are selected from nominees who represent consumer or community interest organizations involved in banking services, credit needs, housing, or financial consumer protections. ♦



**Grady P. Appleton**

**BACKGROUND**

Mr. Appleton was appointed as a Public Interest Director, with a Community Interest Director designation, to the FHLBank Board for the remainder of a three-year term which expires December 31, 2009. He serves on the Board’s Audit and IT (Information Technologies) Committees.

Mr. Appleton is Executive Director of East Akron Neighborhood Development Corporation in Akron, Ohio, where he has overseen the construction or rehabilitation of over 2,000 units of housing, and he has helped create more than 400 jobs and facilitated more than 100 new businesses. Mr. Appleton also serves on the boards of Ohio Capital Corporation, Ohio Equity Fund, Ohio Housing Council, and the Ohio and Housing Trust Fund. Mr. Appleton is a former member of the FHLBank Advisory Council.

**FHLBANK PERSPECTIVE**

“The Cincinnati FHLBank’s strengths lie with its highly skilled staff and management who are truly experts in lending, investing and innovation. This leads to the creation of resources to support the FHLBank’s mission. Further, the FHLBank is a leader in providing programs that support the production and development of affordable housing by its member and sponsor institutions. As a result of its mandatory and discretionary housing programs, homeownership opportunities for low-to-moderate income families continue to grow throughout the Fifth District.

“One of the challenges that the FHLBank faces is the volatile nature of financial industry mergers and acquisitions. The Board will continue to evaluate strategies to expand FHLBank membership and usage of FHLBank products and services.”



**Donald R. Ball**

**BACKGROUND**

Mr. Ball was appointed as a Public Interest Director, with a Community Interest Director designation, to the FHLBank Board for the remainder of a three-year term expiring December 31, 2009. He is a member of the Board’s Budget and Housing & Community Development Committees.

Mr. Ball is co-founder of Ball Homes, Lexington, Kentucky, and creator of Barkham, Inc., and LexLinc. Barkham is a nonprofit builder and general contractor organization that supports affordable housing activity. LexLinc is a private, nonprofit organization that assists welfare recipients transition to full employment. Mr. Ball is currently Chairman of Kentucky Housing Corporation. He is a previous member of the FHLBank’s Board of Directors and Advisory Council.

**FHLBANK PERSPECTIVE**

“Our commitment to helping Americans find ways to affordably realize the dream of homeownership and our support of community initiatives through the support of our members are not only the focus of our mission, they are our ongoing strengths. The FHLBank is strong because we invest in the hopes and dreams of America.

“Adapting to change is a natural hurdle for any organization. The current uncertainty over legislation now being considered for GSEs, the changes this legislation may introduce, and how we may have to adapt to those changes pose our most immediate challenges.”



**Leslie Dolin Dunn**

**BACKGROUND**

Ms. Dunn was appointed as a Public Interest Director to the FHLBank Board to fill the remainder of a three-year term expiring

December 31, 2008. She serves on the Board’s Audit and Credit Policy Committees.

During her 30-year business and legal career in Cleveland, Ohio, Ms. Dunn was most recently Senior Vice President of Business Development, Secretary and General Counsel of Cole National Corporation, a New York Stock Exchange listed specialty retailer. Prior to joining Cole in 1997, she was a partner in the Business Practice Group of Jones Day. She started her legal career at Squire, Sanders & Dempsey and was a partner at the time she joined Jones Day. Ms. Dunn co-chairs Cuyahoga County Invest in Children, a private/public partnership providing comprehensive health, human services and preschool education to over 65,000 children annually and serves on the boards of several charitable foundations.

**FHLBANK PERSPECTIVE**

“As a resident of Greater Cleveland, I am acutely aware of the impact current mortgage market conditions are having on some city and suburban neighborhoods. The changing economic environment in our region exacerbates the problem in the Fifth FHLBank District. As the FHLBank recognizes its 75th anniversary this year, its housing finance mission is especially relevant. The significant increase in our Advances business demonstrates that our members agree.

“As a newcomer to the Board and FHLBank System, I am impressed with the scope of the FHLBank’s mission to address both the housing and economic development needs of communities, while standing ready to meet the liquidity needs of its members. I am hopeful that any regulatory and legislative mortgage-relief interventions which may come out of the current situation are balanced and consider many factors, including our members’ ability to serve their customers.”



**Charles J. Ruma**

**BACKGROUND**

Mr. Ruma was appointed as a Public Interest Director to the FHLBank Board to fill the remainder of a three-year term expiring

December 31, 2008. He serves on the Board’s Asset/Liability Policy, Housing & Community Development, and MPP Policy Committees.

Mr. Ruma is President and CEO of Virginia Homes, Ltd., in Columbus, Ohio. He has 36 years of real estate development experience in single-family, multi-family and commercial projects. Mr. Ruma serves on the Ohio Housing Finance Agency, where he chairs the Single Family Committee. He is a former president of the National Association of Homebuilders, and he is a former member of the FHLBank Board of Directors.

**FHLBANK PERSPECTIVE**

“The FHLBank’s strength is its mission of providing liquidity to its members, and thus providing capital needed to fuel the economies of Ohio, Kentucky and Tennessee, through low cost Advances. The FHLBank is a stabilizing force in the mortgage market and provides a significant source of funds to enhance the development of affordable housing in the Fifth District.

“Over the next year, the FHLBank faces uncertainty with respect to the outcome of federal legislation regarding GSEs. It will be difficult to predict the outcome of legislation, which calls for a new regulator of the FHLBank System, among other issues important to the FHLBank. As Board Members, we will need to pay close attention to the legislation and, at the same time, maintain the higher standards placed on us by the Federal Housing Finance Board regarding risk assessment and retained earnings reserves.”♦



***Mortgage Purchase  
Program Department***

*Seated from left to right is Pat Cope, Scott Alsip, Heike Scott; standing, left to right, is Kimberly Smith, Peg Bruggeman, Robin McNulty, Joe Castlen, and David Bailey.*

The Mortgage Purchase Program (MPP), with a recent program enhancement and District-wide member outreach effort, expanded the opportunity for members to sell mortgage loans into the secondary mortgage market. The Actual/Actual remittance program enhancement was deployed in August 2007 and provides Participating Financial Institutions (PFIs) with an alternative to Schedule/Schedule remittance. Educational workshops throughout the 5th District during the year introduced many members to MPP features and benefits.

There were also several staff changes in MPP during 2007.

**Robin McNulty** was designated Vice President in charge of the Mortgage Purchase Program replacing **R. Kyle Lawler** who was designated as Senior Vice President, Credit Services, effective May 1, 2007. “This year we were able to roll out Actual/Actual, completing our first trade in September,” said Robin. “Also this year, members responded very positively to our April seminar on ‘Fundamentals of Selling Mortgages into the Secondary Market.’ Over 80 institutions participated in this seminar which offered specific guidance for new PFIs into the program. We followed that up with eight MPP/Credit workshops on ‘Funding the Balance Sheet and Selling Mortgages’ throughout Tennessee, Kentucky and Ohio during the remainder of the year with 150 participating institutions. We were able to reach almost one-third of our total membership through the efforts of the Member Services Department who produced and hosted the outreach events.”

**Peg Bruggeman** was promoted to MPP Operations Supervisor. She is a familiar name to PFIs for being the front end of operations. Peg processes applications for new PFIs, facilitates LAS training and coordinates the start-up process for all new sellers.

She also manages all aspects of servicing (under Service Retained). **Heike Scott** and **Pat Cope**, both Operations Assistants, are involved in all stages of funding and remittance, investor reporting/servicing and internal reports.

**Joe Castlen** was promoted to Assistant Director, joining MPP in September having served previously in the Credit Department. He manages the flow of business through the Loan Acquisition System (LAS), focusing on generating new business activity, Master Commitment Contracts (MCC), Mandatory Delivery Contracts (MDC) and assistance to PFIs in their execution of trades. **Scott Alsip**, Senior Production Specialist, coordinates the delivery and purchase of mortgage loans into the LAS technology platform and interacts daily with PFIs for the execution and troubleshooting of MDCs.

**David Bailey**, Reporting/Compliance Specialist, joined the MPP Department this fall, coming from Credit Risk Management. He coordinates the development of internal risk management procedures and controls for compliance with Bank-wide policies and procedures and oversees quality assurance.

Members calling MPP’s toll-free line will be initially greeted by **Kimberly Smith**, Secretary II, who recently transferred into the department’s administrative role. Kimberly provides general customer service, targeted PFI communications, and she assists with new PFI application processing. MPP was approved by the Federal Housing Finance Board (FHFB) in 2000 to complement the FHLBank’s product line. There are currently 132 PFIs. Since inception through third quarter of 2007, MPP has purchased 135,313 loans from PFIs totaling \$18.5 billion. ♦



#### LEGISLATIVE UPDATE

##### **GSE Bill Stalled in Senate**

The Federal Housing Enterprise Regulatory Reform Act of 2007, introduced in the Senate Banking Committee by Senators Hagel, Dole, Sununu and Martinez in April 2007, would create an independent agency to oversee the housing enterprises Freddie Mac, Fannie Mae and the FHLBanks. The companion legislation, H.R. 1427, passed out of the full House in May 2007.

##### **Mortgage Relief Bills**

More than a dozen bills aimed at mortgage foreclosure relief have been introduced in both chambers of Congress this year. Proposed solutions include, among others, debt forgiveness, premium mortgage insurance tax deductions, judicial modification of mortgages in foreclosure, enhanced mortgage broker oversight and assignee liability. The White House supports FHA and GSE reforms and recently announced policy guidelines that would freeze certain adjustable rate mortgages for up to five years prior to pending reset dates. The FHLBank will continue to monitor proposed government intervention and work to minimize any potential negative consequences to our members.

##### **LOC Bills Introduced**

Over two dozen Members of Congress have signed on as co-sponsors of H.R. 2091 and S. 1963, House and Senate bills to amend the 1986 Internal Revenue Code to allow non housing-related bonds guaranteed by the FHLBanks (Letters of Credit) to be treated as tax exempt bonds. These bills are also supported by dozens of state and local municipalities and national trade associations, including ABA/ACB, ICBA, National Association of Homebuilders, and National League of Cities.



*Rep. Geoff Davis talks with FHLBank Cincinnati Directors and executive staff.*



*Left to right: David Hehman, Leslie Dunn, Carl Wick, Senator Bunning, Bob Brosky, Andy Howell.*



#### FHLBANK DIRECTORS CONFERENCE HELD IN DC

The 2007 FHLBank System Directors Conference, sponsored by the Council of FHLBanks, was held September 18 – 19, 2007, in Washington, DC. Cincinnati Directors attending included **Bob Brosky**, President and Chairman, First Federal Savings and Loan Association of Lorain, Lorain, Ohio; **Leslie Dolin Dunn**, Retired Partner, Jones Day, Cleveland, Ohio; and **Carl Wick**, Principal, Wick and Associates, Centerville, Ohio. The conference agenda featured speakers from regulatory agencies, the housing industry, FHLBank management and Congress. Directors also participated in a board leadership training session, facilitated by the National Association of Corporate Directors.

#### 75TH ANNIVERSARY CELEBRATION

FHLBank Directors and staff joined Members of Congress and Capitol Hill staff to celebrate the System's 75th anniversary. Chartered in 1932 by an act of Congress to provide liquidity to financial institutions for residential lending, the FHLBank System's mission remains relevant to today's housing markets. Fifth District Members of Congress attending the reception included **Senator Jim Bunning** (KY), **Representative Geoff Davis** (KY-4th), and **Representative Deborah Pryce** (OH-15th). ♦



*Left to right: David Hehman, Leslie Dunn, Rep. Deborah Pryce, Bob Brosky, Carl Wick, Andy Howell.*

## FHLBANK AT A GLANCE

Assets	\$ 86.6 billion (at September 30, 2007)
Net Income	\$ 202.4 million (at September 30, 2007)
Dividend Rate	6.50 percent (third quarter 2007)
Number of Members	731 (at September 30, 2007)

## MEMBER STOCKHOLDERS AT A GLANCE

<i>At September 30, 2007</i>	KY	OH	TN	Total
Thrifts and Savings Banks	20	99	17	136
Commercial Banks	189	146	155	490
Credit Unions	18	57	20	95
Insurance Companies	0	7	3	10
<b>Total</b>	<b>227</b>	<b>309</b>	<b>195</b>	<b>731</b>

## WELCOME TO THE FHLBANK

New Member  
Stockholders:  
Second, Third Quarter  
2007 Approvals



### KENTUCKY

Investors Heritage Life Insurance Company, *Frankfort*

### OHIO

Ohio Commerce Bank, *Beachwood*

The Union Central Life Insurance Company, *Cincinnati*

### TENNESSEE

First Vision Bank, *Tullahoma*

SmartBank, *Pigeon Forge*

## ON THE WEB SITE



The FHLBank recently added a Foreclosure Guidance link to its home page to direct members and area residents to information addressing foreclosure prevention. Check the link for periodic updates.



LISA WISHART, phone 513-852-7152, lives in Hillsboro, Ohio with her husband Nigel and their children Nicholas, age 10, and Aiden, age 7. When not at work, Lisa and her husband enjoy farming on their thirty-acre property.

**Lisa Wishart** is the Credit Services Manager in the Credit Services Department. She is often the primary contact with members, facilitating Advances activity and directing calls to various other points in the FHLBank for further service. Lisa began her FHLBank career as a co-op student in 1988 and was hired full time in 1990 as a NOW Accounts Clerk. In a series of progressively responsible promotions, she served as Collateral Custodian, Advances Clerk, Advances Coordinator and Supervisor until assuming her current position in January 2006. Lisa holds a bachelor's degree in business administration.

**YOU INTERACT WITH OUR MEMBERS VIA PHONE EVERY DAY. HOW EXACTLY DO YOU ASSIST?** On a daily basis, I assist our members with any and all Credit-related needs, whether it's short-term liquidity funding under our REPO or Cash Management programs, long-term funding the member may use to mitigate interest rate risk, or providing Letters of Credit on the members' behalf to collateralize public unit deposits. Often, I will help a member select the type of Advance product best suited for their particular needs. I work with a great team of three Credit Services staff who take the orders and process members' Advances transactions.

In addition to my primary contact with members, I also work with FHLBank staff in virtually every department fielding questions about pricing, specials, or product usage.

**HOW IS THE TIGHTER HOUSING MARKET AFFECTING THE ACTIVITY YOU SEE AT THE CREDIT WINDOW?** We've been busy! Advances demand has been especially strong this year. In recent months we've experienced a pretty dramatic increase in the dollar amount of Advances outstanding along with modest increases in the number of Advance transactions and total credit users. Additionally, we've been offering Advance specials on a regular basis which generates more concentrated interest from members during those peak times.

**YOU HAVE BEEN AN EMPLOYEE HERE FOR ALMOST 18 YEARS. HOW DO YOU THINK THE FHLBANK HAS ADAPTED OVER THE YEARS TO BETTER SERVE THE NEEDS OF THE MEMBERSHIP?** We have definitely become more flexible over the years, and we continue to adapt to our changing environment. Our Credit Services team is becoming better cross-trained so that we can step into each other's shoes when needed to keep the credit window operating as seamlessly as possible. We also have detailed reports at our fingertips that we can walk through with the members about their specific history and current activity. That is a great resource for both of us as we talk through the types of funding the member could use.

Another example of our flexibility can be found in the way in which many of our Advance specials are developed. It is not unusual to take input directly from our daily conversations with members, combine these requests with periodic funding discounts obtained through our capital markets area, and offer targeted lending that zeros in on what the members need. In other respects, our tried and true policies such as keeping the vast majority of our products free from a required minimum transaction size, continue to be very well received. Customer service is always the bottom line. ♦

## HOMEPROTECT PROGRAM AIDS HOMEOWNERS FACING INTEREST RATE MOVE

Homeowners facing a shocking adjustment on their mortgage rates may be eligible to get help through their local lenders using the HomeProtect Program (HPP), a low-cost Advance program established by the FHLBank Cincinnati Board.

The FHLBank has made available \$250 million in Advances at cost to its members, for use in helping homeowners facing an interest rate adjustment on the mortgage on their primary residences in Kentucky, Ohio and Tennessee or wherever the member does business. HPP is a \$250 million set-aside of the FHLBank's Community Investment Program and is targeted to homeowners with incomes at or below 115 percent of HUD area median incomes.

One FHLBank member to make use of the program is the ORNL Federal Credit Union, a \$1 billion institution in Oak Ridge, Tennessee. "We saw the need and wanted to have something available to help our members," said Maxine Allen, ORNL's vice president for mortgage loan administration. "We knew that when they came due some of them would find themselves in financial straits. We wanted to be there for them."

ORNL has opened the program to its members, whether or not

their mortgages were originated by the credit union. The credit union kicked off the program in mid-September with TV ads, direct mail and signage. Ms. Allen said the first applicants through the door had chronic delinquency problems and wouldn't qualify for refinancing. "We worked through those. Now we're getting more that we can do," she said.

She said a big plus for HomeProtect was a provision that allows borrowers to pay off second liens, something not allowed in programs from other GSEs. "I think it's a terrific program. It has the potential to help a lot of people," Ms. Allen said.

HPP has several restrictions. Homeowners may not take any "cash out" of the refinancing, and they are encouraged to complete an approved homeowner counseling program. As Advances, HPP funds are available to members on a secured basis only and are subject to the FHLBank's normal underwriting and collateral policies. Members may borrow HPP funds in amounts equaling up to 2 percent of assets, 25 percent of other borrowings, or a maximum of \$50 million per year.

For details on applying for HPP funds, contact **Housing and Community Investment** at 888-345-2246. ♦

## WELCOME HOME PROGRAM UPDATE



Welcome Home is the most popular housing program among member financial institutions of the FHLBank Cincinnati. In 2007, 205

members participated in Welcome Home, aimed at helping create homeownership in the Fifth District.

Each year, the FHLBank Cincinnati allocates 10 percent of net earnings for the Affordable Housing Program. Of those AHP funds, 30 percent are set aside for Welcome Home. In 2007, about \$8.6 million will be disbursed to benefit some 1,850 homebuyers.

All Members are eligible to receive a maximum of \$200,000 of Welcome Home funds per year on a first-come, first-served basis and may use amounts up to a maximum of \$5,000 per home.

Each participating Welcome Home family must meet income eligibility guidelines and is required to provide \$500 of its own money and attend homebuyer counseling.

Among requirements for the program:

- Funds may be used only to assist households whose incomes are at or below 80 percent of Mortgage Revenue Bond (MRB)

income limits, as adopted by the appropriate state housing finance agency, adjusted for family size.

- The member who reserves the Welcome Home funds must originate and close the first mortgage in their name.
- Homebuyers must contribute at least \$500 of their own funds toward downpayment and closing costs (\$300 may be received as a gift). This requirement is waived if the borrower is disabled.

In 2008, Welcome Home is expected to open in mid-March. For details on applying for Welcome Home funds, contact **Housing and Community Investment** at 888-345-2246. ♦

### History of amounts disbursed and member participation:

2003	\$3.9 million	117 members
2004	\$7.7 million	169 members
2005	\$6.7 million	206 members
2006	\$8.3 million	207 members
2007	\$8.6 million*	205 members

\*projected



The American Dream Homeownership Challenge program has had its best year during 2007, drawing 91 applications competing for \$3 million in grants. “The response of our

membership to this program has been very gratifying,” said Carol Mount Peterson, Senior Vice President for Housing and Community Investment at the FHLBank Cincinnati. Those 91 applications represent requests for just short of \$10 million.

The swell of applications for American Dream funds came in a year when the FHLBank’s Board of Directors expanded the program, increasing the annual awards to \$3 million, compared to \$2 million in 2005. The FHLBank’s commitment to affordable housing is exercised primarily through the Affordable Housing Program, a set-aside of 10 percent of the FHLBank’s net income mandated by Congress. The American Dream program is a voluntary program above and beyond that mandate. First implemented in 2003, American Dream was created to help minority households buy their first homes, by providing grants for downpayment assistance and closing costs. The program has been expanded twice since then, and now includes assistance for households with special needs and those displaced by natural disasters such as 2005’s Hurricane Katrina.

Republic Bank & Trust Company of Louisville has won three American Dream grants to help minority and special needs homebuyers. “It brings money to the table that clients need to cover downpayment and closing costs. That’s the biggest sell, the most important benefit to the end user,” said Garry Throckmorton, Senior Vice President and CRA officer at Republic Bank. “From a bank standpoint, it increases our

opportunities to assist the low- and moderate-income borrowers, which we’re in many instances challenged to do.”

He said the grants also help to strengthen relationships with housing partners in the region. “It’s very competitive” among lenders in the region who seek to serve low- and moderate-income homebuyers, he said.

“We’re always looking to distinguish ourselves from the pack of lenders by what we can bring to the table,” and the American Dream grants help Republic Bank do that, Mr. Throckmorton said.

For details on applying for American Dream funds, contact **Housing and Community Investment** at 888-345-2246. ♦



*Pictured at a 2007 open house for Newport Commons, special needs affordable housing in Newport, Kentucky, are (from l to r) Steve Brunson and Garry Throckmorton from Republic Bank & Trust Company; Bob Breuster, Executive Director, Brighton Properties; U.S. Congressman Geoff Davis (KY 4th); Newport Commons resident Kelly Flynn; and FHLBank President David Helman.*

HOUSING PROGRAMS APPLICATION DEADLINES

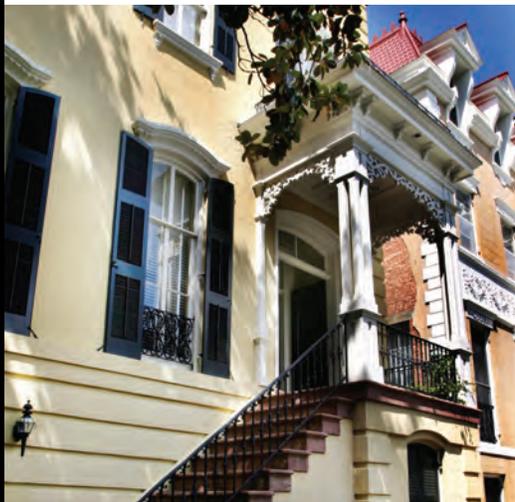
Deadlines for applications for two of the FHLBank housing programs are expected to be:

- **Affordable Housing Program:** The deadline for Round 1 is April 1, and the deadline for Round 2 is October 1.
- **Welcome Home:** The window for applications is expected to open in mid-March. Applications are taken until all Welcome Home funds have been allocated.

Deadlines for the American Dream Homeownership Challenge and Zero-Interest Fund have yet to be determined. Applications for other programs such as HomeProtect, the Community Investment Program and the Economic Development Advance Program are taken year-round. ♦



# Serving Our Members for 75 Years



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OF CINCINNATI**

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