

ADVANCEMENTS

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



SUMMER 2008 • Volume 11 • Number 1

in side

Regional Stockholder Meetings Roundup *page 2*

**Member Feature:
Merchants National Bank, Hillsboro, Ohio** *page 4*

**The Proof is in the Numbers:
Widespread Use of FHLBank Advances** *page 14*

**New Program Helps Homeowners
Avoid Foreclosure** *page 16*

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

Melissa Dallas, Vice President, Public Affairs, at 513-852-7084, e-mail DallasMD@fhlbcin.com or **Connie Kolita**, Projects Manager, Public Affairs, at 513-852-7666, e-mail KolitaCM@fhlbcin.com.



TABLE OF CONTENTS

- 1 President's Message
- 2 Cover story: Regional Stockholder Meetings Roundup
- 3 David Hehman Speaks at Ohio Bankers' Day
- 4 Member Feature: Merchants National Bank, Hillsboro, Ohio
- 6 Department Profile: Credit Risk Management
- 8 From the Hill
- 9 Director News
- 9 Director Profile: Jim DeRoberts, Arlington Bank, Upper Arlington, Ohio
- 10 Up Close... with Joe Castlen, Mortgage Purchase Program
- 11 Charts: FHLBank at a Glance/ Member Approvals at a Glance/ New Members
- 12 On the Web Site
- 12 Spotlight on...Putable Fixed Rate Advance
- 13 Reminder: 2008 In the District Workshops Coming in August
- 14 The Proof is in the Numbers: Widespread Use of FHLBank Advances
- 16 New Program Helps Homeowners Avoid Foreclosures
- 17 FHLBank Calls for Broad AHP Rule
- 17 Returning Abandoned Homes to Occupancy



SUMMER 2008 • Volume 11 • Number 1

Cover: FHLBank President and CEO David Hehman (left) and Board Chair Carl Wick (right) address the membership during this year's Regional Stockholder Meetings. The events were held in six Fifth District cities in April and May.



For over 75 years, the Cincinnati FHLBank has fulfilled its housing finance mission of providing liquidity to community lenders engaged in residential mortgage lending and economic development. This mission has been tested to the core over the past year and a half, and economic indicators suggest there is more turbulence to come. In this issue of *Advancements*, you will read about our efforts to keep funding costs low and liquidity available as well as to work with our members to minimize the impact of rising foreclosures and weak economies on Fifth District homeowners and communities.

The FHLBank has taken measures to help mitigate defaults and delinquent properties in the District. Andy Howell, the FHLBank's Executive Vice President and Chief Operating Officer, participated in a Congressional Hearing this summer in Cleveland, Ohio, to address the scope of the foreclosure crisis. Earlier this year, your Board of Directors introduced "Preserving the American Dream," a voluntary program beyond our mandated affordable housing commitment. At its July meeting, the Board approved \$2.1 million in program grants distributed through FHLBank members in partnership with qualified counseling agencies to eligible households. Additional program details can be found in this issue.

In related political news, President Bush signed into law the widely publicized *Housing and Economic Recovery Act of 2008* on July 30, 2008. This legislation includes GSE reform, FHA expansion, state grant assistance and several tax-related measures. The GSE provisions create a new regulator for the FHLBanks, Fannie Mae and Freddie Mac; establish Treasury authority to purchase GSE debt; and mandate a consultative role with the Federal Reserve Chairman. As we transition to a new regulator, we will continue to focus on housing finance service to our members.

Closer to home, we met with hundreds of members during our annual Regional Stockholder Meetings this spring and updated them on the activities of the FHLBank. We look forward to seeing more members as we visit six communities to hold District Workshops in August. Also in this publication, you will read about the continued demand for our Advance programs among members of all asset size classifications, and you will learn about one member's widespread use of FHLBank products: Advances, Letters of Credit, the Mortgage Purchase Program and housing Welcome Home Program.

Your Directors continue to work hard with management to meet the challenges of our current housing and economic environment. The FHLBank was well represented at this year's annual Directors Conference, hosted by the Council of FHLBanks in Washington, D.C. In the District, Directors and Advisory Council Members were instrumental in new housing and community investment initiatives to assist at-risk homeowners and communities. We continue to value your feedback and your ongoing support as we strive to remain your bank for housing finance.

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*

Regional Stockholder Meetings Roundup



FHLBank EVP and COO Andy Howell gives an in-depth discussion about Credit Services, the MPP and Housing.

The FHLBank recently concluded its 2008 Regional Stockholder Meetings, which were held throughout the Fifth District. This year, more than 570 lenders from 221 member institutions attended one or more of the annual meetings, which updated them on the financial

performance and other activities of the FHLBank. Specific locations included Lexington, Kentucky; Toledo, Dayton and Nashport, Ohio; and Knoxville and Nashville, Tennessee. The format for each meeting included a half-day business session, a keynote guest speaker, and a round of golf followed by dinner.

FHLBank Board Chairman **Carl Wick** opened the meetings, welcoming participants and bringing a Board of Directors perspective to the group. FHLBank President and CEO **David Hehman** updated the membership on the “state of the FHLBank” as well as on industry issues and trends.

Executive Vice President and Chief Operating Officer **Andy Howell** spoke about the FHLBank’s programs, Credit Services, the Mortgage Purchase Program and Housing and Community Investment, and how they could be helpful to members in the current economy. Following these speakers was a keynote address by Brian Wesbury, Chief Economist, First Trust Advisors LP, Lisle, Illinois, who shared his professional opinions on the economy.



Brian Wesbury shared his entertaining and thought-provoking economic outlook at each of the meeting locations this year.

Continued on page 3

David Hehman Speaks at Ohio Bankers' Day

FHLBank President and CEO **David Hehman** spoke to a group gathered in Columbus, Ohio, on May 1 for Ohio Bankers' Day. He was invited to share his views on liquidity issues facing financial institutions as well as the services the FHLBank has to offer community banks. More than 300 executive officers and directors of Ohio's state- and nationally-chartered banks and thrifts, along with industry regulators, were in attendance at the annual conference, which was presented by the Ohio Department of Commerce, Division of Financial Institutions. ♦



Mr. Hehman shares his perspectives with the Ohio Bankers' Day group.



He receives a token of appreciation from John Reardon, Superintendent, Ohio Department of Commerce, Division of Financial Institutions.

Regional Stockholder Meetings Roundup *(continued from page 2)*



FHLBank AVP-Investment Services Jerry Bauer (left) meets with National Bank and Trust, Eaton, Ohio, employees Mark Indloff (middle) and Brian Spera (right).



FHLBank AVP-Member Services Jim O'Toole (middle) meets with Farmers Bank and Capital Trust Co., Frankfort, Kentucky, representatives Chip Banks (left) and Hobbs Cheek (right). ♦



Merchants National Bank's Tom Schoettle, Paul Pence and Jim Evans.

MEMBER FEATURE

A REAL COMMUNITY BANK... WITH REAL CUSTOMER SERVICE

Merchants National Bank, Hillsboro, Ohio

Walking into Merchants National Bank (MNB), Hillsboro, Ohio, you know customer service is a top priority. Executive Vice President/Board Secretary Jim Evans greets customers with a smile and a handshake and, more importantly, by name. He asks about their families and thanks them for stopping by. Jim's sincerity is one of the ways this \$400 million FHLBank member institution brings to life its company motto: a real community bank with real customer service.

MERCHANTS NATIONAL BANK

MNB has eight branches in central and southern Ohio, with a ninth under construction in Springfield. It was founded in 1879 and employs 106. "Our main office in Hillsboro is one hour from downtowns Dayton, Columbus and Cincinnati," said

President/CEO Paul Pence. "There are about 6,500 residents in the city, 10,000 in the area, and 43,000 in the county (Highland)." There are two large lakes nearby, Rocky Fork and Paint Creek, which attract seasonal tourism.

SPECIALTY: AGRICULTURE

Hillsboro is a rural community with roots in agriculture and, as such, much of its customer base has ag-related financial needs. These are MNB's specialty. "Several of our loan officers have agriculture or animal science degrees, and most run farms themselves," Jim said. "In order to do ag loans you have to know your product and know your customers. We think few banks in Ohio can match our knowledge about farm-related loans."

ESTABLISHED	1879	OFFICES	9
CEO	Paul Pence	EMPLOYEES	106
ASSETS	\$400 million	FHLBANK MEMBER SINCE	1993

SOLID PORTFOLIO

MNB has a solid portfolio of approximately \$325 million in real estate, commercial, consumer and agriculture loans. Nearly 80 percent of these loans are 1-4 family residential.

The bank’s net income grew to \$2.2 million in May 2008, from \$1.8 million a year earlier. The loan portfolio has grown, originations have increased, and MNB has experienced few loan losses. “We’re not just a conservative community bank that doesn’t take on risk,” explained Chief Lending Officer Tom Schoettle. “To be a true community bank, you have a responsibility to provide financial solutions for your customers and not just sit on the sidelines waiting this one out.”

With regard to the current economy, MNB remains relatively unscathed. “We decided a while back we weren’t going to originate higher risk loans,” Jim said. “We never had an appetite for non-traditional products such as no-income-verification loans or the option ARM.” Added Tom, “We have a full range of mortgage banking products, but at the same time we use conservative underwriting standards.”

FHLBANK USAGE AS A GROWTH TOOL

In order to stay competitive while maintaining its outstanding customer service, MNB relies on the FHLBank to assist with growth strategies. The bank makes use of the FHLBank’s Advances, Letters of Credit (LOCs), Mortgage Purchase Program (MPP) and Housing and Community Investment Department’s Welcome Home Program (Welcome Home). It has been an FHLBank member for 15 years.

As of first quarter 2008, MNB held \$37 million in FHLBank Advances. “We feel all the Advance products are important, depending on market conditions and opportunities for us within our markets,” said Paul. MNB has used Convertible/Puttable

Fixed Rate, Regular Fixed Rate and Select Pay Mortgage-Matched Advances to fund securities purchases and match-fund certain assets.

MNB also has \$23 million in FHLBank LOCs. These allowed the bank to bid on public funds it normally wouldn’t have. “We have a high loan-to-deposit ratio so, in turn, we don’t have a large securities portfolio to pledge for public funds,” said Jim. “We consider the LOCs more efficient than offering high CD rates to raise more funds to buy additional securities to pledge.”

During a 2003 visit to MNB, FHLBank Assistant Vice President-Marketing Tom Muth introduced a relatively new FHLBank program at the time: the MPP. “I felt their mortgage goals would be a good match with the MPP,” he said. MNB was approved for the MPP by the FHLBank’s Asset/Liability Committee in fall 2003, marking the institution’s entry into the secondary market.

As of mid-year 2008, MNB has sold more than 200 loans to the FHLBank totaling approximately \$21 million. It offers 3- and 5-year ARMs and 10-, 15- and 30-year fixed-rate loans, with the 15s and 30s available for sale to the MPP. “We retain the servicing on the loans we sell for the sake of our rural customers,” noted Tom Schoettle. “We believe our customers appreciate that service. They know that if they have a question, they’re calling us.”

MNB has utilized Welcome Home, the FHLBank’s downpayment and closing cost assistance program, the past five years. “We like this housing program because it’s great for young people who need assistance getting into their first homes,” said Tom. “It’s gratifying to put a good, solid young couple into their first house, and Welcome Home grants help us do that.” MNB may consider branching out to other housing-related programs in the future, such as the Affordable Housing Program.

continued on page 7



The Courthouse is located across the street from Merchants National Bank in “downtown” Hillsboro.



Credit Risk Management, front row, seated left to right: Mike Meiners, Dave Hedrick, Vicky Nocheck, Bob Oehler, Donna Renner. Back row, standing from left to right: Andy Ferrigno, Charlotte Kreinbring, Brad Baker, David Eastland, Ed Tepe, Clay Phillips, Greg Braun.

The FHLBank's Credit Risk Management (CRM) function of the Credit Services Department evaluates and monitors the financial condition and performance of member financial institutions, establishes collateral requirements, and checks Member collateral levels. Employees are instrumental in assuring that the FHLBank operates within the credit risk parameters set forth in its internal Credit Policy and complies with external regulatory requirements. The work involves activities such as assigning credit ratings to member institutions and performance ratings to the loan assets they pledge, determining collateral "haircuts" and the appropriate member collateral status, perfecting the FHLBank's security interest, processing pledge agreements and member collateral reporting, and ensuring that loan collateral is periodically "verified" by either auditing firms or FHLBank staff.

David Eastland, Vice President-Credit Risk Management, oversees the CRM day-to-day operations and leads two teams of specialty employees within Collateral Operations and Credit Risk Analysis. He monitors member collateral positions, evaluates collateral acceptability and helps develop new collateral

programs and internal software. CRM reports directly to Senior Vice President-Credit Services **R. Kyle Lawler**.

C. David Hedrick, Jr., Assistant Vice President-Credit Risk Management, evaluates the financial strength and creditworthiness of the FHLBank's credit customers and manages the field review personnel and financial analysts. The team of analysts that travels the Fifth District extensively validating and evaluating Member collateral includes Commercial Credit Analyst **Greg Braun**, who focuses primarily on commercial real estate collateral; Loan Review Analyst **Brad Baker**, who also performs commercial real estate reviews but is primarily responsible for residential collateral reviews; and Loan Review Analyst **Donna Renner** and Residential Lending Analyst **Charlotte Kreinbring**, who focus primarily on residential collateral. Ms. Kreinbring also conducts servicing reviews for Members participating in the Mortgage Purchase Program (MPP). The credit analysis team includes Unsecured Credit Risk Analyst **Bob Oehler**, who monitors the financial condition of the FHLBank's unsecured credit counterparties and broker/dealers and ensures compliance with Unsecured Credit

continued on page 7

Guidelines, and Financial Analyst III **Ed Tepe**, who monitors and analyzes financial data for secured and unsecured borrowers. Ed also participates in member collateral reviews.

Vicky Nocheck, Collateral Operations Manager, supervises the processing of incoming collateral, pledge agreements and related documents, auditor-performed collateral verifications, and oversees the testing of CRM system programming and enhancements. She also oversees the MPP servicing review process to ensure that purchased loans are serviced in accordance with MPP procedures. Collateral Coordinators **Mike Meiners** and **Clay Phillips** and Collateral Analyst **Andy Ferrigno** handle member loan and security pledge transactions, and process incoming collateral reporting. In addition, Messrs. Meiners and Phillips assist Mr. Hedrick's team with reviews of pledged collateral.

Some may think that the CRM function has high standards that are not easily achievable. The reality is that the standards in place are for the protection of our membership. The FHLBank's conservative Credit Policy requires us to be overcollateralized by an amount commensurate with the perceived credit risk as reflected in the financial condition of each member and the quality of the collateral being pledged (and as a result we have never experienced a loan loss). This

process is complex and requires a large amount of information about the collateral being pledged and the operations of the members pledging it.

Collateral review employees are not regulatory examiners. The purpose of their visits to institutions throughout Kentucky, Ohio and Tennessee is simply to perform necessary tasks of any good "asset-based" lender: validate the accuracy of reporting and gain a better understanding of the quality of assets being pledged. This serves to protect the FHLBank against credit losses and thus the soundness of FHLBank, its earnings and the dividends paid to members. The FHLBank and its credit risk managers understand that member financial institutions must often make their way through difficult economic and credit environments, which is especially true today. By ensuring that pledged assets meet certain minimum standards, it is our goal both to assist members along the way as well as protect the interests of the FHLBank, including all member stockholders. This often requires that institutions meet the operational challenge of preparing collateral certifications and/or detailed loan level reporting. Please contact the FHLBank's Credit Department toll-free at 800-828-4191 with any questions you have that will be helpful in this process. ♦

MEMBER FEATURE

A REAL COMMUNITY BANK... WITH REAL CUSTOMER SERVICE *continued from page 5*

In addition to the variety of flexible FHLBank products, MNB's management team appreciates the FHLBank's stock dividend. "We feel we are getting a great return on our investment," said Tom.

IN THE COMMUNITY

MNB spends the majority of its business hours tending to customers, but it makes time to be present in the Hillsboro community, too. "One of the things we're proud of is our volunteer involvement," explained Jim. "We encourage our employees to get involved in local events." The bank has ties to such nonprofit activities as Relay for Life, Hospice fundraising and Habitat for Humanity. Jim adds that volunteering is an accepted part of the MNB culture. Besides the hours spent at

bank-supported events, many employees serve on local nonprofit boards.

MNB's ability to utilize FHLBank products has helped the institution meet its growth goals. "I can't imagine a member considering its liquidity position without thinking about the FHLBank," said Tom. "This relationship is very valuable to us." FHLBank membership has also helped it become a better bank for its customers. "It's a strategic alliance for us on all levels, whether you're talking about the mortgage program or short-term liquidity needs," said Paul. "Membership lets us sleep a little easier knowing we have a trusted partner to help us manage cash and short-term investments." ♦



REGULATORY UPDATE

The Federal Housing Finance Board (Finance Board) issued a proposed rule for public comment on April 9, 2008, to authorize the FHLBanks to establish Affordable Housing Program (AHP) homeownership set-aside programs for the purpose of refinancing or restructuring low- or moderate-income households' nontraditional or subprime mortgage loans. The Cincinnati FHLBank appreciates the opportunity to temporarily expand the AHP to meet the needs of at-risk homeowners. The FHLBank submitted a comment letter prior to the June 16, 2008, deadline, suggesting some modifications to the proposed rule. We look forward to implementing an expanded program targeted to those members that can best serve stressed communities and households. You may view a copy of our letter on our Web site, www.fhlbcin.com, or on the Finance Board's Web site, www.fhfb.gov. See related article on page 16.

On March 24, 2008, the Finance Board authorized the FHLBanks to increase the purchases of agency mortgage-backed securities (MBS). The expanded authority would increase MBS investment authority from 300 percent of capital to 600 percent of capital for two years.

LEGISLATIVE UPDATE

President Bush signed into law H.R. 3221, *The Housing and Economic Recovery Act of 2008*, on July 30, 2008. The bill includes GSE reform creating an independent regulator, Federal Housing Finance Agency (Agency), for Fannie Mae, Freddie Mac and the FHLBanks; a \$300 billion expansion of the FHA; and a package of housing-related tax credits and incentives.

Prior to any regulatory action or guidance, the new Agency is required to take into account specified differences between the FHLBanks and Fannie and Freddie, including the FHLBanks' cooperative structure; liquidity mission; affordable housing and community development mission; capital structure; and joint and several liability. Among the tax provisions is an amendment to the 1986 Internal Revenue Code to allow bonds guaranteed by the FHLBanks' Letters of Credit to be treated as tax exempt. Several other provisions, ranging from temporary authorities granted to the Treasury Department and the Federal Reserve to expanded regulatory Agency authority over capital requirements, business operations and board governance, are being reviewed for interpretation. We will share related developments with members.

The bill was effective upon enactment and designated the Director of OFHEO, James Lockhart, to serve as acting Agency Director, until such time as the President appoints the Director subject to Senate confirmation. The Finance Board has been given one year from date of enactment to complete the transition. ♦



Some members of the Cincinnati delegation at the Directors Conference Reception, from left to right: FHLBank Directors Bob Brosky and Billie Wade; FHLBank Board Chair Carl Wick; FHLBank Director Leslie Dunn; and FHLBank President David Hehman.

FHLBANK DIRECTORS CONFERENCE HELD IN D.C.

The 2008 FHLBank System Directors Conference, sponsored by the Council of FHLBanks, was held April 29-30, in Washington, D.C. Cincinnati Directors attending included:

- ★ **Grady Appleton**, Executive Director, East Akron (Ohio) Neighborhood Development Corporation;
- ★ **Bob Brosky**, Chairman, First Federal Savings and Loan Association of Lorain, Ohio;
- ★ **Jim DeRoberts**, Chairman, The Arlington Bank, Upper Arlington, Ohio;
- ★ **Leslie Dunn**, Retired Partner, Jones Day, Cleveland, Ohio;
- ★ **Charlie Ruma**, President, Virginia Homes, Columbus, Ohio;
- ★ **Billie Wade**, President and CEO, Citizens Union Bank, Shelbyville, Kentucky; and
- ★ **Carl Wick**, Principal, Wick and Associates, Centerville, Ohio.

The conference agenda featured keynote speaker Roy Bernardi, Acting Secretary of HUD; a Capitol Hill program; and presentations from the Finance Board and the financial and political private sectors.

2008 DIRECTOR ELECTION UNDER WAY

The FHLBank's 2008 Director election features four open seats in Ohio. On June 20, Ohio members received a nomination certificate via U.S. mail, and the certificates are due to the FHLBank by July 25. Election results will be announced October 20 following ratification by the Board of Directors. For a complete timeline of this year's election, see our Web site, www.fhlbcin.com, membership button, Director Elections button, Election Calendar button. ♦



Jim DeRoberts

BACKGROUND

Mr. DeRoberts is an elected member of the FHLBank board of directors serving a three-year term that became effective on January 1, 2008. He is a member of the board's Audit and Information Technology Committees.

Mr. DeRoberts is chairman of The Arlington Bank, a \$200 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 is also currently director of the Upper Arlington Education Foundation, and Central Ohio Chairman for Miami University's For Love and Honor capital campaign. Mr. DeRoberts is a graduate of Miami University in Oxford, Ohio. He and wife Shelly have three children, Andrew, Abigail and Allison.

FHLBANK PERSPECTIVE

"The challenging housing and financial markets of the past 12 months have raised the awareness of our FHLBank and demonstrated its value to our members and the broader financial community. We should all be proud of the solid, steady role the FHLBank has played in the current environment. I am impressed with the depth of analysis and diligence our management demonstrates in our financial operations. Our quality, long-term operating results and strong, stable management have established our FHLBank as one of the best in the System.

"As a director, I hope to raise the awareness and usage of the FHLBank by our community financial institution members and promote the continued growth of our affordable housing programs. It is gratifying to see our FHLBank deliver so strongly on our mission of supporting housing finance at all levels during the current interesting financial times." ♦



Joe Castlen is Assistant Director, Mortgage Purchase Program (MPP). He generates new business activity and provides assistance to Participating Financial Institutions (PFIs) in the areas of trade execution, Master Commitment Contracts, Mandatory Delivery Contracts and the Loan Acquisition System.

Joe began his FHLBank career in 2000 as a Program Analyst in the Housing and Community Investment Department. In 2005 he became a Financial Analyst II in Credit Services, then joined the MPP Department in 2007. He earned a bachelor's degree in economics from the University of Kentucky in Lexington and also holds an MBA from Xavier University in Cincinnati.

YOU INTERACT DAILY WITH MANY OF OUR MEMBERS OVER THE PHONE. WHAT EXACTLY DO YOU DO FOR THEM?

“One of my priorities is to manage loan pools during fill-up of the Master Commitment Contracts. On a daily basis, my contact with our membership can revolve around a host of activities, including the resolution of transaction and underwriting issues as well as pricing inquiries. Along with helping to train PFIs on our Loan Acquisition System (LAS), I direct the development and testing of enhancements to the system. I also promote the MPP to members who are not yet on board.”

IS THE TIGHTER HOUSING MARKET AFFECTING MPP ACTIVITY

“The unrest in the housing market has highlighted the importance of the FHLBank as a partner in mortgage banking. Sellers in the secondary market have seen higher fees and increased complexity in pricing from the other government-sponsored enterprises (GSEs). As a result, we have seen an increase in business activity from current PFIs and a dramatic jump in interest from non-participating members. Members that have not been active in the

secondary market have also expressed interest, citing the desire to offer long-term fixed rate products without incurring interest rate and prepayment risks. Our hands-on approach and staff availability have made the transition to secondary-market activity an easy one. Participation in the program continues to grow as more and more recognize the benefits of partnering with the MPP. The continued success and stability of the program during these turbulent times underscores its strength and soundness. We are always pleased to answer questions from members if they think they have interest in becoming a PFI.”

WHAT ARE THE PRIMARY BENEFITS OF THE MPP TO OUR MEMBERS?

“Many advantages of partnering with the MPP stem from the nature of the FHLBank. As a triple-A-rated GSE, we are able to maintain cost-effective pricing on a consistent basis which we pass along to our members. Furthermore, as a cooperative organization our focus is solely on the membership. We take pride in our commitment to outstanding “member service,” which means our staff is always available to respond to questions or concerns. Facilitating our commitment to service is our customer-focused LAS. The system is designed to be simple to use and easily adaptable by any size lending shop. Finally, it is important to note that the MPP enhances the value of membership in the FHLBank with increased dividends, which in turn increase the long-term profitability of stockholders’ capital investment. These advantages make the MPP user-friendly and profitable for both the smallest and largest of sellers.” ♦

JOE CASTLEN, PHONE 513-852-7557, LIVES IN ANDERSON TOWNSHIP, OHIO, WITH HIS WIFE, KERRI, AND THEIR CHILDREN, KAYLA, 4, AND WILL, 2. WHEN NOT AT WORK, JOE ENJOYS SPENDING TIME WITH HIS FAMILY AND WORKING ON HOME REHAB PROJECTS.

FHLBANK AT A GLANCE

Assets	\$ 95.0 billion (at June 30, 2008)
Net Income	\$ 114.0 million (for the six months ended June 30, 2008)
Dividend Rate	5.50% (at June 30, 2008)
Number of Members	731 (at June 30, 2008)
Number of Borrowers	568 (at June 30, 2008)
Borrower Penetration Rate	78% (at June 30, 2008)

MEMBER APPROVALS AT A GLANCE

<i>At June 30, 2008</i>	KY	OH	TN	Total
Thrifts and Savings Banks	19	97	17	133
Commercial Banks	178	145	159	482
Credit Unions	21	59	21	101
Insurance Companies	1	10	4	15
Total	219	311	201	731

WELCOME TO THE FHLBANK

New Members:
Fourth Quarter 2007/
First, Second
Quarters 2008

KENTUCKY

AutoTruck Federal Credit Union, *Louisville*
Beacon Community Credit Union, *Louisville*
Members Choice Credit Union, *Ashland*

OHIO

Abbey Credit Union, *Vandalia*
CBank, *Cincinnati*
Credit Union of Ohio, *Hilliard*
First National Bank, *Blanchester*
Milton Banking Company, *Wellston*
The Farmers and Merchants Bank, *Caldwell*
United Ohio Insurance Company, *Bucyrus*
Universal 1 Credit Union, *Dayton*
Universal Guaranty Life Insurance Company, *Columbus*

TENNESSEE

Commerce Union Bank, *Springfield*
ETMA Federal Credit Union, *Louisville*
Foothills Bank and Trust, *Maryville*
Independent Bank, *Memphis*
Protective Life Insurance Company, *Brentwood*
Reliant Bank, *Brentwood*
TriSummit Bank, *Kingsport*
Triumph Bank, *Memphis*



The FHLBank continues to offer **webinars** to the membership on a variety of topics. An abbreviation of “Web-based seminar,” a webinar is a presentation/lecture/workshop/seminar that is broadcast via the Internet. It typically lasts from 30 to 60 minutes.

Webinars were first brought on board at the FHLBank in early 2007, and they continue to be well received by our members. The most common webinar topics involve our Housing and Community Investment products and Mortgage Purchase Program. Past webinar titles include “Navigating the AHP Application Online” and “MPP Operations: Things to Think About.”

Members learn about upcoming webinars either by checking the home page of our Web site (www.fhlbcin.com) or by signing up to be on an email **webinar notification list**. If you would like to be added to this list, contact Jamie Helmes in Marketing at HelmesJM@fhlbcin.com.

If you missed a presentation and would like to review it, you can find **past webinars** on our Web site at [affordable housing button/webinars/past webinars](#).

In addition, FHLBank staff has been hard at work on a **new Web site**. Look for a redesigned, user-friendly home page in the fall. ♦

SPOTLIGHT ON... PUTABLE FIXED RATE ADVANCE

The Putable Fixed Rate (PFR) Advance has become a popular source of funding for members of all asset sizes across the District. It is similar to a Regular Fixed Rate Advance with one important exception – the member has sold an option or series of options to the FHLBank to terminate the Advance prior to final maturity but not before the lockout period.

PFR Advances are available in a variety of structures. For example, a 7/2 PFR with Bermudan options features a 7-year final maturity and a 2-year lockout period, after which the FHLBank may exercise quarterly options to terminate the Advance. Therefore, the member will have the funds at a fixed-rate of interest for a guaranteed 2-year period or for as long as 7-years. That depends on whether the FHLBank chooses to exercise its quarterly options after the lockout period. PFR Advances are also available with one-time European options.

This Advance provides members with attractive pricing at rates relative to Treasury securities of comparable maturity. However, a member should carefully analyze the potential impact of the associated option risk on its balance sheet. Additional information on the PFR Advance includes:

Maturity: Terms are subject to the availability of comparable term financing to the FHLBank.

Rate: Due to the special nature of the PFR Advance, the FHLBank provides rate indications upon request.

Prepayment option: A PFR Advance may be prepaid in whole only subject to a termination fee that would make the FHLBank economically indifferent to prepayment.

Minimum transaction size: \$5.0 million with \$500,000 increments due to limitations on hedge funding availability.

Application documents required: PFR Advance Application and a pre-execution Market Valuation Disclosure Form.

Principal and interest: Interest paid monthly; principal due at final maturity or on the FHLBank termination date.

For more information about the Putable Fixed Rate Advance, contact **Credit Services** toll-free at 800-828-4191 or your Marketing representative. ♦

Please note, the FHLBank's In the District Workshops are coming to a city near you in August! We mailed registration materials to all members at the end of June.

The dates and locations are:

Wednesday, August 6, *Nashville, Tennessee*;
Thursday, August 7, *Louisville, Kentucky*;
Wednesday, August 13, *Pigeon Forge, Tennessee*;
Thursday, August 14, *Lexington, Kentucky*;
Wednesday, August 20, *Dayton, Ohio*; and
Wednesday, August 27, *Akron, Ohio*.

Learn more about the FHLBank's:

Credit Services;
Mortgage Purchase Program;
Housing and Community Investment Services;
General news;
Recent financial performance; and
Member Services activities.

The workshop is geared toward:

Member CEOs;
CFOs;
Directors;
Mortgage Lending Officers;
Secondary Mortgage Officers; and
Compliance Officers.

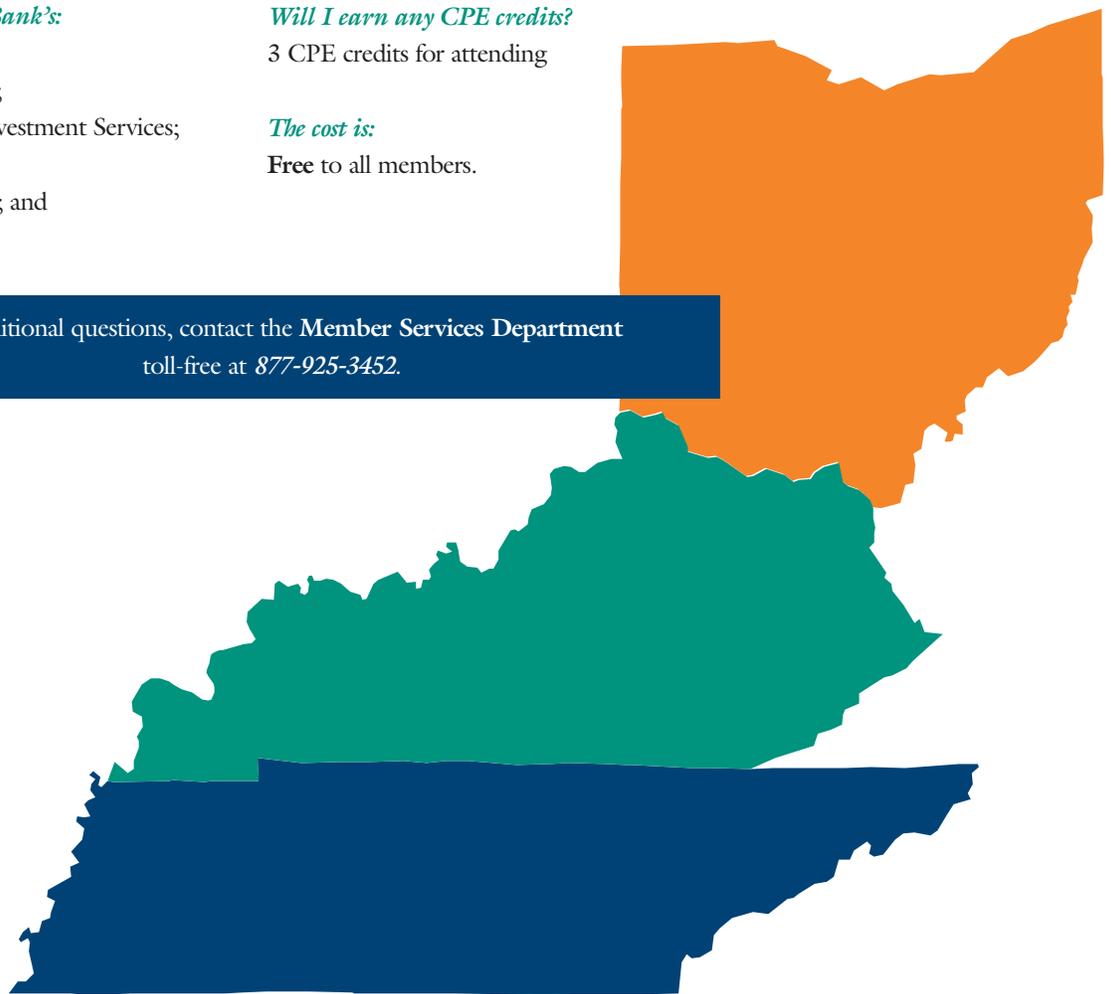
Will I earn any CPE credits?

3 CPE credits for attending

The cost is:

Free to all members.

For additional questions, contact the Member Services Department
toll-free at 877-925-3452.



"We are actually surprised at all of the ways we've been able to utilize FHLBank products and services...we started this as a 'plan B' liquidity alternative, but now it's grown into so much more" ~FHLBank Member

With just over 16,000 Advances outstanding to 568 members at June 30, 2008, FHLBank Advance products have become an important factor in overall balance sheet funding. From a demographics standpoint, Advance usage crosses the spectrum from the smallest community banks to some of the industry's largest companies. Consider the statistics for quarter-end June 2008:

MEMBER GROUPING	ASSET SIZE	# IN GROUP	% ADVANCE USERS
Smaller community institutions	<\$200 Million	457	72.2%
Larger community institutions	\$200-\$1 Billion	222	86.5%
Regional institutions	>\$1 Billion	29	93.9%
		728	78.0%

The popularity of Advances can be measured in both total dollars and by the percentage of members utilizing the product. In terms of total dollars, the most popular Advances differed among the three member groupings. By percentage use, however, the popularity of several Advance products held true among all categories. The difference lies in the percent of total members in each group using these products. As the assets for the institution group increased, the percentage of members using the same product types increased as well.

SMALLER COMMUNITY INSTITUTIONS

In total dollars outstanding, the leading Advance type for the institutions with assets less than \$200 million was the Fixed Rate Advance (both regular and amortizing) at 37 percent of total Advances for the group. The second and third-most popular were FHLBank-Option Advances at 30 percent and Mortgage-Matched Advances, both Regular and Select Payment types (MMAs) at 18 percent. These were also the top products with respect to the percentage of members in the group using the Advance type. As of June 30, 2008, 43 percent of members in this asset size group held Fixed Rate Advances. The second most popular product was MMAs, used by 37 percent of asset group members. FHLBank-Option Advances were third at 28 percent.

LARGER COMMUNITY INSTITUTIONS

With respect to total dollars, the most popular Advance products for larger (\$200 million-\$1 billion in assets) community institutions were FHLBank-Option Advances at 37 percent of total Advances for the group. Second were Fixed Rate Advances at 29 percent, then MMAs at 9 percent. Fixed Rate Advances were used by 64 percent of members in this group at quarter-end June 2008. The second most popular product, FHLBank-Option Advances, was held by 55 percent of the group. The MMA products were used by 39 percent of the institutions.

REGIONAL INSTITUTIONS

For the largest regional institutions, with assets greater than \$1 billion, the LIBOR-Based Advance represented 50 percent of total dollars outstanding. In second place were the FHLBank-Option Advances at 21 percent. Repo Advances were 18 percent of the total outstanding balance. With respect to the percentage of members using particular products, the fixed rate Advance was held by 80 percent of these institutions. The MMAs were the next most popular with 63 percent usage, followed by FHLBank-Option Advances at 51 percent.

MULTIPLE USERS, MULTIPLE USES

The diversity of FHLBank Advance offerings underscores the various reasons members have for utilizing these products. In many cases products can address more than one issue for the member, as shown on the following table:

CHALLENGE	ADVANCE TYPES TO CONSIDER
Managing short-term liquidity	Cash Management; Short-Term Fixed Rate; Repo; LIBOR-Based
Supplementing retail deposits	Short-Term Fixed Rate; Regular Fixed Rate; Callable Fixed Rate; Putable Fixed Rate; Floating-to-Fixed
Funding fixed rate mortgages or securities	Regular Fixed Rate; Callable Fixed Rate; Regular or Select Payment MMA; Balloon Payment; Putable Fixed Rate
Funding adjustable rate assets	LIBOR-Based; Prime-Based; Adjustable Rate Treasury
Funding consumer and installment loans	Regular Fixed Rate; Constant Monthly Payment; Prime-Based

The successful integration of FHLBank Advances to most members' balance sheet funding plan is an indication that the funds can serve multiple purposes.

"We've been a member of the FHLBank since the first quarter we were able to sign up...we liked the funding sources that are available...we really looked to the Federal Home Loan Bank as opposed to going into brokered CDs" ~FHLBank Member

The primary Advance product among members of all asset sizes, FHLBank Fixed Rate Advances have been mentioned as both a substitute for higher-cost or volatile deposits and a suitable funding source for intermediate-and-long-term asset growth. In terms of total loan dollars, Fixed Rate Advances were the number one type among the smaller community institutions at June 30, 2008. Among larger community institutions they were the number two product and among the largest institutions the number four Advance type. In the past several years the percentage of assets funded with retail deposits has steadily declined. At year-end 2002, retail deposits funded 78.9 percent of member assets. By year-end 2005, the percentage had fallen to 77.7 percent and further to 76 percent by the end of the first quarter of 2008. To help fill the gap caused by the challenging deposit market, some members have turned to brokered deposits as a funding alternative. These deposits can be more volatile and have come under increasing scrutiny by the FDIC and other regulators.

"The SPMMA simulates regular mortgage principal and interest payments, so it provides fixed-rate financing for a specific period of time...use of the SPMMA is a good way to maximize profitability while managing interest rate risk." ~FHLBank Member

At June 30, 2008, Regular and Select Payment MMAs represented the number one Advance product in terms of total number of loans outstanding, but number five in terms of loan dollars. These products have been frequently used by members to match-fund fixed rate mortgages. At June 30, 2008, MMA loans represented 76 percent of the total number of loans held by the smaller community institution group, but just 18 percent of total loan dollars. In the past few years use of the Select Payment eclipsed the Regular MMA as members became more comfortable trading the prepayment optionality inherent in the Regular MMA for an increased funding spread.

"We are excited about the opportunity to join the Federal Home Loan Bank. Membership in the Federal Home Loan Bank expands our portfolio of liquidity sources and will help us continue to efficiently manage our balance sheet" ~FHLBank Member

The needs of a diverse membership base comprised of small-, medium- and large-sized banks, thrifts, credit unions and insurance companies means that the products offered need to be equally diverse. The FHLBank has made every effort to provide a comprehensive group of Advance products that can meet the varying challenges facing the membership. Many of the products we now offer began as discussions with our members about their funding needs. We encourage you to become familiar with all of our Advance products, either through our Web site, www.fhlbcin.com, with a call to your Member Services representative or by contacting the Credit Services Department. Do we have a product you can use? The proof is in the numbers. ♦

NEW PROGRAM HELPS HOMEOWNERS AVOID FORECLOSURE



Can a few thousand dollars have a profound impact on someone's life? It can, if it helps to avoid foreclosure and keep a family in their home.

That's the idea behind "Preserving the American Dream," a foreclosure mitigation program from the FHLBank. The FHLBank Board of Directors committed \$2.5 million to the program this year to help at-risk homeowners in the Fifth District avoid foreclosure. The program will grant up to \$3,500 per household, through FHLBank members and qualified counseling agencies, to help with counseling and foreclosure mitigation. "We were trying to figure out how we could help our members help their customers avoid foreclosure," said Jeff Reynolds, Vice President in the FHLBank's Housing and Community Investment Department.

Preserving the American Dream is a voluntary program of the FHLBank, above and beyond the commitment of 10 percent of net earnings to the Affordable Housing Program mandated by Congress. The FHLBank began its voluntary housing program in 2003 with a \$1 million commitment to the American Dream Homeownership Challenge, aimed at helping minorities and households with special needs achieve homeownership.

That commitment grew to \$3 million in 2007 and included assistance for victims of natural disasters such as households displaced by Hurricane Katrina and those affected by floods in Findlay, Ohio.

Facing historic levels of foreclosures in the Fifth District, the FHLBank's Board this year raised its voluntary commitment to \$5 million. Of that, \$2.5 million was awarded to the American Dream Homeownership Challenge, with \$2.1 million awarded to date to Preserving the American Dream.

The intent of the new program is to team FHLBank members with housing counseling agencies that will work with members' borrowers who are behind in their mortgage payments. Up to \$3,500 per homeowner could be awarded, and the funds could be used for:

- ★ Operations directly related to the program, including outreach to identify potential eligible homeowners.
- ★ Foreclosure prevention counseling.
- ★ "Rescue" funds, up to \$2,500 per homeowner, to bring mortgage payments current or to pay late fees or other reasonable charges.
- ★ Foreclosure mitigation activities on behalf of homeowners, including negotiating loan modification on behalf of the borrower.

"The program grew out of conversations with members, the Board and the FHLBank's Advisory Council," Mr. Reynolds said. The Board was looking for a way to help members as foreclosures rose. Members of the FHLBank's Advisory Council, which provides guidance on housing policy, also discussed how foreclosures were affecting their communities.

Mr. Reynolds said he learned through the Advisory Council that housing counseling agencies were being overwhelmed by the number of homeowners seeking help to stay in their homes, and the agencies were seeing their resources strained by the crush. Advisory Council members said \$2,500 to \$3,500 would be enough to make a difference without being a bailout.

"Preserving" emerged as a way to help members help their borrowers and also provide needed resources to counseling agencies in the Fifth District. The program enlists qualified housing counseling agencies to help FHLBank members assist their borrowers in avoiding foreclosure. A "qualified" counseling agency is one with a history of providing homeowner counseling to its community.

The application deadline was June 2, and awards were announced at the July 17 Board meeting. For a complete list of award recipients, visit [www.fhlbcin.com/affordable housing/Recent Funding Awards](http://www.fhlbcin.com/affordable_housing/Recent_Funding_Awards). ♦

FHLBANK CALLS FOR BROAD AHP RULE

The FHLBank has asked our regulator, the Federal Housing Finance Board (Finance Board), for broad authority in using Affordable Housing Program (AHP) funds to help at-risk homeowners refinance their mortgages.

The FHLBank petitioned the Finance Board for a regulatory waiver to use AHP funds for refinancing programs. After receiving similar requests from other FHLBanks, the Finance Board proposed a new rule to allow such a use of AHP funds under very limited circumstances. The regulator, however, asked for comments on some 40 specific issues surrounding uses of AHP funds to help ease foreclosure situations faced by communities nationwide.

“That suggested a willingness to listen to ideas about how to confront these issues in different areas of the country,” said Jeff Reynolds, Vice President-Housing and Community Investment. “We know that the problems in our district are different from those in California, Nevada or Florida.”

The FHLBank submitted a comment letter June 13, responding to many of the Finance Board’s questions. In the end, the FHLBank asked the Finance Board to approve a rule that would grant each FHLBank greater flexibility. “We request that the regulation be more flexible to allow refinancing for homeowners regardless of who holds their current mortgages, and allow more than just subprime or non-traditional mortgages to be refinanced,” wrote Andrew Howell, the FHLBank’s Executive Vice President and Chief Operating Officer. “Doing so would allow our members to participate in improving their neighborhoods and communities even if they did not originate subprime or nontraditional mortgages.”

Nine of the System’s 12 FHLBanks submitted comment letters on the proposed rule. All letters are available online at the Finance Board’s Web site, www.fhfb.gov, in the “Rules, Notices and Public Comment” section. ♦

RETURNING ABANDONED HOMES TO OCCUPANCY



Help is on the way from the FHLBank for communities dealing with high rates of foreclosure and abandoned homes.

The criteria for the second round 2008 awards from the Affordable Housing Program has been redesigned to help communities recover from the effects of foreclosure. Acting with the approval of the Board of Directors and the housing Advisory Council, the scoring of AHP applications was changed to direct money towards projects that would return abandoned foreclosed homes to occupancy.

Here are some of the changes implemented for AHP second round 2008:

- ★ Points are added for projects within Kentucky, Ohio and Tennessee, based on the level of foreclosures in the counties targeted in the project.
- ★ Points are awarded for projects which target properties vacant because of foreclosure.
- ★ Points are added for rehabbing vacant properties, with more points for properties vacant because of foreclosure.
- ★ The scoring structure for Income Targeting reduces the incentive for targeting the very-lowest income households.
- ★ The definitions of First-time Homebuyers and Homeless Households include persons who have lost homes due to foreclosure.

The deadline for applications for the second round of AHP is August 29. Awards will be announced in November. For details, see the “Affordable Housing” section of the FHLBank’s Web site, www.fhlbcin.com, or contact the Housing and Community Investment Department at 888-345-2246. ♦

OH ★ KY ★ TN

Building Stronger Communities



To learn more about how we can help you **Build Stronger Communities**, please contact Member Services at 877-925-3452.

www.fhlbcin.com