



Insurance Company Membership in the FHLBank of Indianapolis

Since the passage of the Financial Modernization Act, insurance company membership and use of the Federal Home Loan Bank (FHLBank) System has increased sharply. FHLBank members include a diverse group of large and small life, property and casualty, health, and specialty insurers. The primary attraction of membership is access to low-cost loans for liquidity, interest rate risk, and profitability management.

Overview of the FHLBank System

The FHLBank System is a government-sponsored enterprise (GSE) owned by banks, thrifts, credit unions, and insurance companies. The System was established after the Great Depression to provide liquidity to housing markets. The FHLBanks issue AAA-rated debt and pass the benefits on to their membership. Excess profits are distributed to members in the form of quarterly dividends.

The FHLBank System is comprised of 12 regional banks. In response to differing member needs, each FHLBank has developed different products and policies. This article focuses on the products and policies of the FHLBank of Indianapolis (FHLBI), which cover insurance companies domiciled in Indiana or Michigan.

Benefits of FHLBI Membership

For insurers, the primary benefit of FHLBI membership is ready access to low-cost funds. By phone call or internet, insurers can quickly access a variety of funding options. Since insurers tend to be rich in eligible collateral (treasuries, agencies, MBS, CMOs, and mortgage loans), FHLBI borrowing capacity can be a powerful tool for managing risk and profitability.

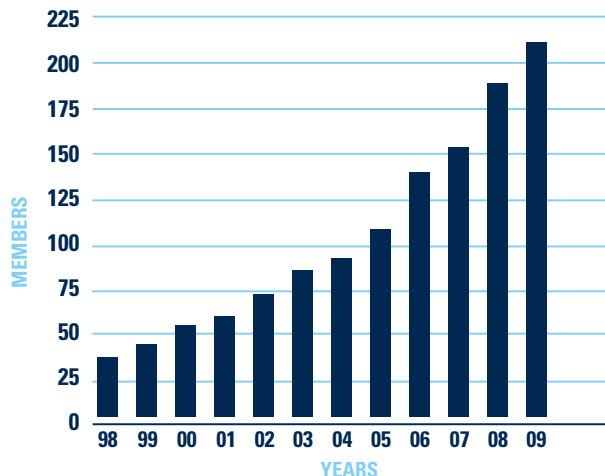
Specific membership benefits include:

- reducing cash and short-term liquidity balances, remaining fully-invested and picking up additional investment income
- reducing dependence and cost of existing liquidity options by gaining access to highly reliable FHLBI funding

- confidently managing unexpected cash flow dislocations and catastrophic liquidity events, such as 9/11 and Hurricane Katrina
- engaging in matched leverage trades to enhance investment income and utilizing excess capacity
- utilizing letters of credit to improve risk-based capital

The FHLBI's access to capital markets allows for a great deal of customization. Terms typically range from overnight to 30 years and can be either fixed or floating rate. Structures that amortize or contain embedded options as well as letters of credit are available. The FHLBI's GSE status, scale economies, and cooperative structure make the organization the low-cost funding provider for financial institutions. Finally, FHLBI funding can be classified as borrowings or as deposit-type contracts when structured as funding agreements.

FHLBank System Insurance Company Members

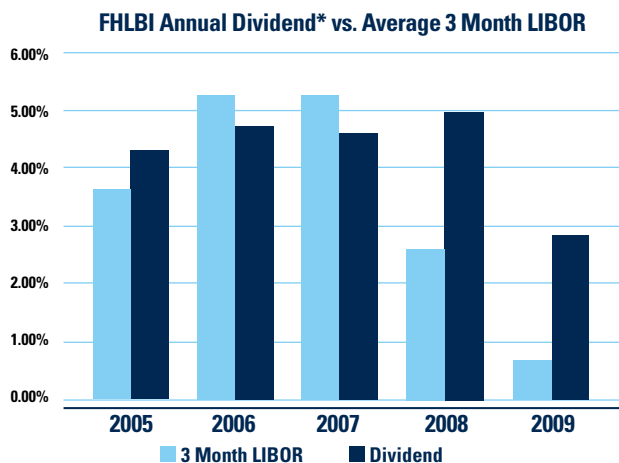


Requirements of FHLBI Membership

Only institutions with Indiana or Michigan domicile can apply for FHLBI membership. After application and approval, new members are required to purchase FHLBI stock. Since a stock purchase is required, the membership decision needs to be considered, in part, as an investment decision.

Additional information on FHLBI stock ownership:

- **FHLBI stock is classified by the NAIC as unaffiliated common stock and is class 1 preferred stock for risk-based capital purposes.**
- **Members are required to purchase and maintain 1% of total mortgage loans and mortgage-backed securities in FHLBI stock. Stock adjustments are made on an annual basis to account for asset growth.**
- **Stock must be maintained at 5% or more of outstanding borrowings. If additional stock is needed, it can be purchased at the time of borrowing.**
- **Stock is not publicly traded, but has a \$100 par value and a five-year redemption period.**
- **FHLBI stock has historically paid a quarterly dividend. Over the past 5 years, the average paid over LIBOR was 71 bps. (see graph below).**



FHLBI Insurance Company Members

as of 12/31/2009

AAA Life Insurance Co.
 Accident Fund Insurance Co. of America
 American United Life Insurance Co.
 Amerisure Insurance Co.
 Amerisure Mutual Insurance Co.
 Amerisure Partners Insurance Co.
 Anthem Insurance
 Auto Club Insurance Association
 Auto Club Life Insurance Co.
 Auto-Owners Insurance Co.
 Auto-Owners Life Insurance Co.
 Blue Cross & Blue Shield of Michigan
 Blue Care Network of MI
 Brotherhood Mutual Insurance Co.
 Conseco Life Insurance Co.
 Farm Bureau General Insurance Co. of MI
 Farm Bureau Life Insurance Co. of MI
 Farm Bureau Mutual Insurance Co. of MI
 Grain Dealers Mutual Insurance Co.
 Jackson National Life Insurance Co.
 Lafayette Life Insurance Co.
 Lincoln National Life Insurance Co.
 Mennonite Mutual Aid Association
 Merit Life Insurance Co.
 Michigan Insurance Co.
 Michigan Millers Mutual Insurance Co.
 Michigan Professional Insurance Exchange
 NAMIC Insurance Co.
 Pioneer State Mutual Insurance Co.
 Proassurance Casualty Co.
 Selective Insurance Co. of South Carolina
 Selective Insurance Co. of The Southeast
 Squire Reassurance Co. LLC
 Standard Life Insurance Co.
 State Life Insurance Co.
 United Farm Family Life Insurance Co.
 United Farm Family Mutual Insurance Co.
 Wolverine Mutual Insurance Co.

To learn more about insurance company membership at the FHLBI, contact us at 1.800.442.2568 or e-mail at insurancemembership@fhlbi.com.

This paper was written by James B. Eibel, CFA, Vice President and Insurance Market Manager.



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