

## **Collateral Policy and Procedures**

The FHLBI secures all advances. The availability of its advances to each borrower is based in part on the degree of security provided via the collateralization of advances. Members may obtain a complete copy of the FHLBI collateral procedures from the Credit Services department or via Member Link. Although the FHLBI will make every effort to keep each member apprised of any significant changes to its collateral policy or collateral procedures, it reserves the right to change any collateral policy or procedure at any time without advance notice.

### **Collateral Accepted for Pledge**

#### **Category 1: 1-4 Family, Whole Mortgage Loans**

Fully disbursed, whole first mortgage loans on improved 1 to 4 family residential real property, not more than 60 days delinquent, and which do not violate FHLBI's Anti-Predatory Lending Policy.

#### **Category 2: Government and Agency Securities**

Securities issued, insured, or guaranteed by the United States Government or any agency thereof (including mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae). Certain stripped securities, residuals, and other price-volatile mortgage derivative products (as determined by the FHLBI) are not eligible under this category. Pledged Category 2 collateral must be held in a safekeeping account with the FHLBI or with an FHLBI approved third party custodian that enters into a third party custodian agreement.

#### **Category 3: Private Mortgage-backed Securities**

Securities representing a whole interest in mortgage loans of the type described in Category 1 or 5. The term "whole interest" refers to an unsubordinated interest in first mortgages. This includes private mortgage-backed securities, collateralized mortgage obligations (CMOs), and real estate mortgage investment conduits (REMICs). Certain stripped securities, residuals, and other price volatile mortgage derivative products (as determined by the FHLBI) are not eligible under this category. These securities must have a time of acceptance and must maintain a quality rating within the top three rating levels established by Moody's, Fitch, and/or Standard & Poor's and must remain at or above investment grade levels. Securities rated BBB must be rated by more than one of the three above mentioned rating agencies. Pledged Category 3 collateral must be held in a safekeeping account with the FHLBI or with an FHLBI approved third party custodian that enters into a third party custodian agreement.

#### **Category 4: FHLBI Deposits**

#### **Category 5: Multifamily Whole Mortgage Loans**

Fully disbursed, whole first mortgage loans on improved multifamily residential real property, not more than 30 days delinquent.

#### **Category 6: Other Real Estate Related Collateral (ORERC)**

Under certain circumstances, when the member has exhausted its supply of eligible conventional collateral (Categories 1, 2, 3, and 5), it may request to pledge Category 6 – ORERC. The member must meet specific underwriting criteria determined by the FHLBI.

The FHLBI defines ORERC as follows:

- a. Second lien closed-end residential mortgage loans
- b. Home equity lines of credit (HELOCs)
- c. Commercial real estate (CRE) loans
- d. Securities backed by second mortgages or CRE loans

#### **Category 7: CFI Eligible Collateral**

Under certain circumstances, when a CFI (Community Financial Institution) member has exhausted its supply of eligible conventional collateral (Categories 1, 2, 3, and 5), it may request to pledge CFI collateral. As with Category 6 collateral, CFI members must meet specific underwriting criteria determined by the FHLBI.

The FHLBI currently defines CFI collateral as follows:

- a. Small business loans fully secured by collateral other than real estate. Loans guaranteed by the U.S. Small Business Administration (SBA) are **not** eligible collateral. Individual business loans in excess of \$1,000,000 (current balance) are also not eligible.
- b. Small farm real estate loans primarily secured by farmland.

Note: The aggregate amount of outstanding advances secured by ORERC and CFI eligible collateral combined shall not exceed 200% of the member's core capital. The lendable value of pledged ORERC and CFI collateral is also limited to a maximum of 50% of conventional collateral (Categories 1 to 5). This "50% Limitation" requirement may be waived at FHLBI's discretion based upon positive results from an on-site collateral review performed by FHLBI along with satisfactory member financial strength as determined by FHLBI. Specific selection and eligibility criteria for all categories of eligible collateral are contained in the members' Collateral Procedures Manual. The FHLBI reserves the right to maintain flexibility with its selection criteria.

Pursuant to Section 10(c) of the Federal Home Loan Bank Act, the FHLBI has a lien upon and shall hold the stock of a member as further collateral security for all indebtedness of the member to the FHLBI. Stock is not included in eligible collateral for purposes of meeting required coverage ratios.

### **Collateral Pledge Options (Collateral Status)**

#### **BLANKET**

The FHLBI can choose to enter into blanket lien collateral agreements with financially sound members that have and maintain core or leverage capital ratios of at least 5%. Members with a blanket collateral agreement are required to submit a quarterly Blanket Collateral Report (BCR).

#### **SPECIFIC LISTINGS**

A member institution that has a core or leverage ratio below 5% (but not below 4%) must provide a specific listing of eligible mortgage loans. Loan level data must be updated monthly.

#### **PHYSICAL DELIVERY**

An institution that has a core or leverage ratio that falls below 4% must deliver collateral to the FHLBI or a custodian designated by the FHLBI. Also, members that are assigned a CAMELS composite rating of 4 or 5 are required to deliver collateral. This is in addition to the monthly reporting required of members pledging on Specific Listings status.