

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

Mortgage Purchase Program: An Improved Opportunity

presented by

Don Erwin, VP

Mortgage Purchase Program Director





- **Introduced in 2001 as a program for prime traditional mortgages**
 - Fixed rate, fixed term 5-30 years
 - Maximum LTV / CLTV of 95%
 - Minimum FICO of 680
- **154 members approved for MPP, and 109 members have been active, selling us \$19.3 billion**



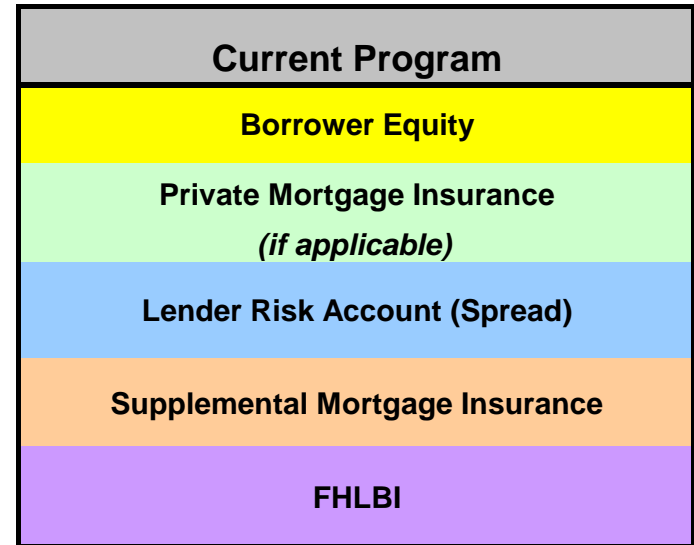
- **MPP offers a benefit other GSEs don't**
 - Income potential for good credit quality via the Lender Risk Account (LRA)
- **LRA potential**



MPP Structure

Building Partnerships. Serving Communities.

- **MPP acquired loans are credit enhanced with:**
 - Private mortgage insurance (if applicable)
 - Lender Risk Account (LRA)
 - Supplemental Mortgage Insurance (SMI)
- **SMI similar to primary mortgage insurance and protects FHLBI to about 50% LTV**
 - SMI provided by MGIC or Genworth
 - SMI premiums thru 3/31/10 over \$47 million





MPP Structure

Building Partnerships. Serving Communities.

	Annual Yield
Note Rate	5.00
Servicing Fee	-0.25
Passed to FHLBI	<u>4.75</u>
Funding of Lender Risk Account (Spread)	-0.10
Payment of SMI	<u>-0.20</u>
Net Yield to FHLBI	4.45

- **Under our current master commitments nearly twice the amount of resources are required for SMI rather than LRA**
- **However, the LRA has absorbed nearly all loss claims...**



MPP Loss Claims

Building Partnerships. Serving Communities.

MPP Credit Waterfall
Borrower Equity
Private Mortgage Insurance <i>(if applicable)</i>
Lender Risk Account (Spread)
Supplemental Mortgage Insurance
FHLBI

MPP Loss Claims as of 3/31/2010		
	\$ Claim	#
Paid by LRA	\$ 7,417,902	222
Paid by SMI	\$ 180,804	7
Paid by FHLBI	\$ 284,491	13

- **SMI has been expensive – \$47+ million premiums vs. \$181k of losses**
- **In comparison, \$41+ million funded in the LRA which has covered \$7.4 million of losses, and \$11 million has been returned to selling members**



New Opportunity

Building Partnerships. Serving Communities.

- **FHLBI has recently received conditional approval to credit enhance MPP without SMI by using an improved or enhanced LRA***
- **Funds previously used for SMI premiums will be used to enhance the LRA**
- **This new structure permits FHLBI to take advantage of the inefficient SMI structure and dramatically improve the value to MPP participants**

* Program to commence following FHLBI's compliance with certain terms and conditions as required by the Finance Agency.



- **Introducing....MPP Advantage**
 - The Advantages are:
 - **Dramatically improved LRA opportunity**
 - **LRA funded up front – “Fixed LRA”**
 - **No prepayment risk – simpler LRA valuation**
 - **No reliance on SMI**
 - Subject to final approval by FHFA
 - FHLBI will assess a small administrative fee for MPP Advantage LRA releases
 - No impact to existing MCCs



- **Dramatically improved LRA opportunity**
 - MPP Advantage offers 2-3 times the value opportunity from the LRA compared to existing program
 - **Funded at loan acquisition minimum of 100-120bps**
 - **Is NOT subject to prepayment risks**
 - **Has extended release term**

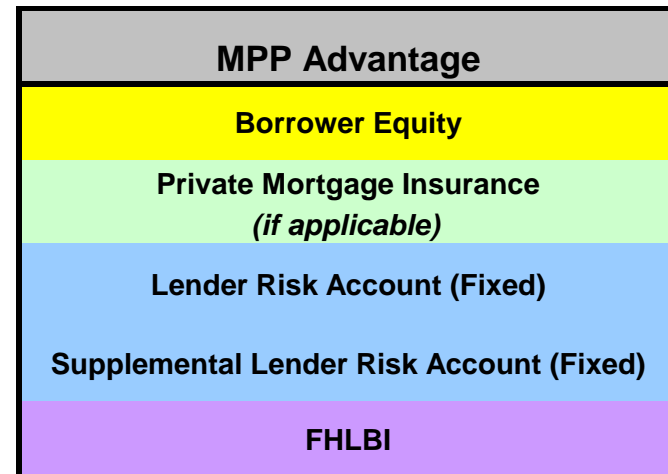
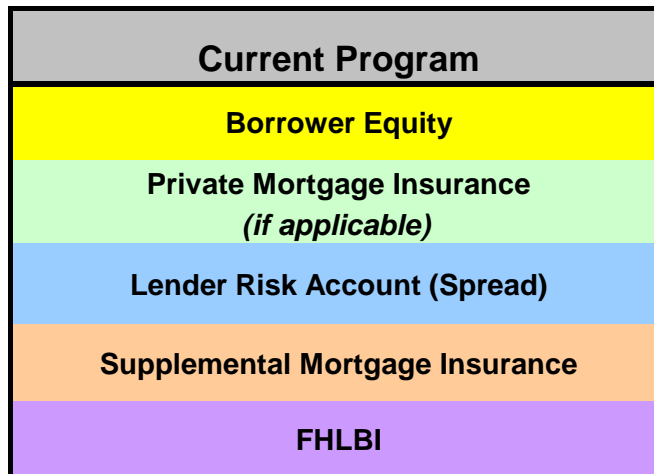


- **LRA funded up front – “Fixed LRA”**
 - Total funded value of fixed LRA is known up front. The LRA amount is funded at the time loan is acquired by FHLBI
- **No prepayment risk***
 - Once the LRA is funded, prepayments do not reduce the future value of the fixed LRA
 - Improved simplicity in valuing the LRA

** Loans prepaid in full within 120 days of acquisition by FHLBI may be subject to LRA recapture*



- **No reliance on SMI**
 - Cost of SMI has been redirected to the LRA
 - Improved overall efficiency of the structure
 - Eliminates confusion by SMI provider on product quality





- **Sample pool:**
 - Aggregate pool of \$100 million
 - LRA requirement of 120 bps
 - LRA segregated into two tiers
- **LRA Tier 1 of 50bps minimum**
 - About the same as the lifetime value of LRA under current program
 - Tier 1 released in same timeframe as today: years 5 – 11 after contract fill up
- **LRA Tier 2 of 70bps**
 - Provides dramatic additional LRA opportunity
 - Tier 2 released in years 12 – 26 after fill up



MPP Advantage Example

Building Partnerships. Serving Communities.

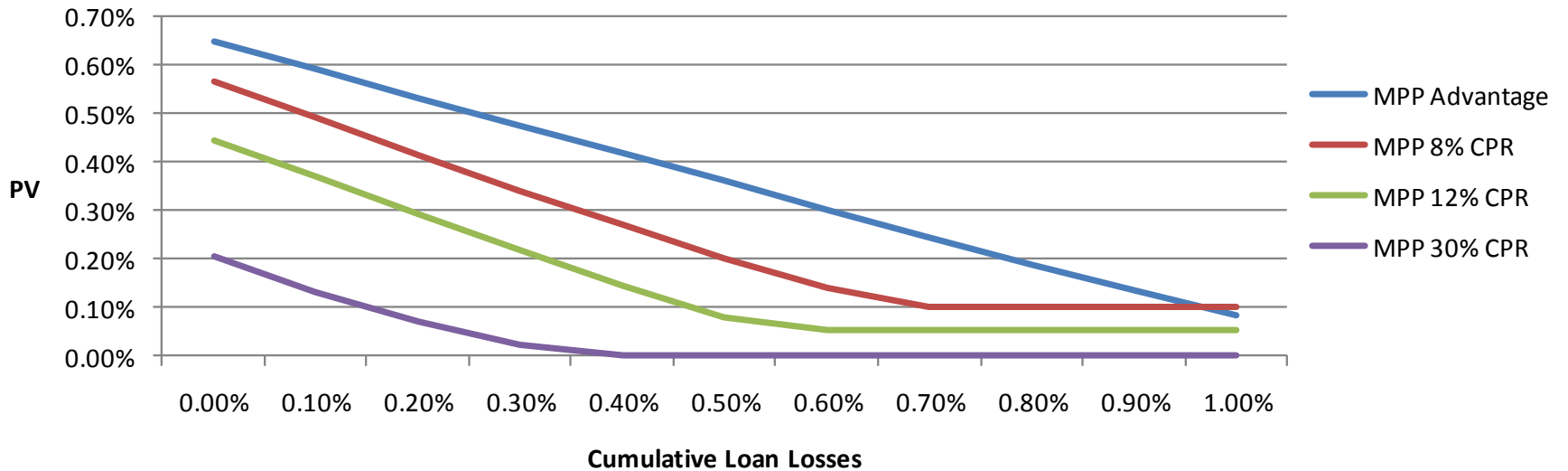
A	B	C	D	E	F	G	H	I	J
Years Since Fill Up	LRA Tier 1 Retention	LRA Tier 2 Retention	FLRA Tier 1	SFLRA Tier 2	Total LRA	Total LRA Retention	LRA Tier 1 Maximum Release	LRA Tier 2 Maximum Release	Total LRA Release
			\$ 500,000	\$ 700,000	\$ 1,200,000				
0-4	100%	100%	\$ 500,000	\$ 700,000	\$ 1,200,000	100.0%			\$ -
5	85%	100%	\$ 425,000	\$ 700,000	\$ 1,125,000	93.8%	\$ 75,000	\$ -	\$ 75,000
6	70%	100%	\$ 350,000	\$ 700,000	\$ 1,050,000	87.5%	\$ 75,000	\$ -	\$ 75,000
7	50%	100%	\$ 250,000	\$ 700,000	\$ 950,000	79.2%	\$ 100,000	\$ -	\$ 100,000
8	40%	100%	\$ 200,000	\$ 700,000	\$ 900,000	75.0%	\$ 50,000	\$ -	\$ 50,000
9	25%	100%	\$ 125,000	\$ 700,000	\$ 825,000	68.8%	\$ 75,000	\$ -	\$ 75,000
10	15%	100%	\$ 75,000	\$ 700,000	\$ 775,000	64.6%	\$ 50,000	\$ -	\$ 50,000
11	0%	100%	\$ -	\$ 700,000	\$ 700,000	58.3%	\$ 75,000	\$ -	\$ 75,000
12	0%	95%	\$ -	\$ 665,000	\$ 665,000	55.4%	\$ -	\$ 35,000	\$ 35,000
13	0%	90%	\$ -	\$ 630,000	\$ 630,000	52.5%	\$ -	\$ 35,000	\$ 35,000
14	0%	85%	\$ -	\$ 595,000	\$ 595,000	49.6%	\$ -	\$ 35,000	\$ 35,000
15	0%	80%	\$ -	\$ 560,000	\$ 560,000	46.7%	\$ -	\$ 35,000	\$ 35,000
16	0%	75%	\$ -	\$ 525,000	\$ 525,000	43.8%	\$ -	\$ 35,000	\$ 35,000
17	0%	70%	\$ -	\$ 490,000	\$ 490,000	40.8%	\$ -	\$ 35,000	\$ 35,000
18	0%	65%	\$ -	\$ 455,000	\$ 455,000	37.9%	\$ -	\$ 35,000	\$ 35,000
19	0%	60%	\$ -	\$ 420,000	\$ 420,000	35.0%	\$ -	\$ 35,000	\$ 35,000
20	0%	50%	\$ -	\$ 350,000	\$ 350,000	29.2%	\$ -	\$ 70,000	\$ 70,000
21	0%	45%	\$ -	\$ 315,000	\$ 315,000	26.3%	\$ -	\$ 35,000	\$ 35,000
22	0%	40%	\$ -	\$ 280,000	\$ 280,000	23.3%	\$ -	\$ 35,000	\$ 35,000
23	0%	25%	\$ -	\$ 175,000	\$ 175,000	14.6%	\$ -	\$ 105,000	\$ 105,000
24	0%	20%	\$ -	\$ 140,000	\$ 140,000	11.7%	\$ -	\$ 35,000	\$ 35,000
25	0%	15%	\$ -	\$ 105,000	\$ 105,000	8.8%	\$ -	\$ 35,000	\$ 35,000
26	0%	0%	\$ -	\$ -	\$ -	0.0%	\$ -	\$ 105,000	\$ 105,000
27	0%	0%	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -
28	0%	0%	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -
29	0%	0%	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -
30	0%	0%	\$ -	\$ -	\$ -	0.0%	\$ -	\$ -	\$ -
							\$ 500,000	\$ 700,000	\$ 1,200,000



MPP Advantage Example

Building Partnerships. Serving Communities.

LRA Present Values*



Above based on following assumptions:

- **Single aggregate pool of \$100MM**
- **Loan losses experienced uniformly over 25 years**
- **LRA released to seller as scheduled**
- **Discount at 4.5%**

* Estimates based on FHLBI's cash flow model



Summary

Building Partnerships. Serving Communities.

- **MPP Advantage offers substantial increase in LRA opportunity**
- **MPP Advantage eliminates prepayment risk from value of LRA**
- **MPP Advantage offers similar competitive price as today**
- **MPP Advantage reflects the long term commitment of FHLBI members to mortgage financing**



▪ Questions?

▪ Contact Info:

- Don Erwin, MPP Director
(derwin@fhlbi.com) 317.465.0547
- Cathy Garrett, MPP Acquisitions Mgr.
(cgarrett@fhlbi.com) 317.465.0553