



FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

CREDIT BULLETIN

The FHLBI is pleased to announce a new advance offering effective Monday, May 14, 2007. The new advance offering is the “**Flipper**” putable advance, which is a combination of a sub-LIBOR floating rate advance and a fixed rate putable advance.

The new **Flipper** advance provides members the opportunity to enjoy sub-LIBOR floating rate funding for an initial period, followed by a fixed-rate feature. As with our existing putable advances, the member sells the FHLBI an option to put the advance back to the member after a predetermined floating rate period. By selling the put option, the member receives sub-LIBOR pricing during the lockout period.

With the **Flipper** advance, the member can choose the level of sub-LIBOR pricing, which in turn will dictate the fixed rate applied after the lockout period. As with our existing putables, the borrower can choose to sell a one-time option in a “*European*” structure or multiple options in a “*Bermudan*” structure.

Flipper structures can be tailored to suit your needs (*Bermudan or European*, LIBOR minus 50 or 100 basis points, 5/1 or 3/1 structures, etc.). As with other advances program offerings, we will offer the **Flipper** advance from time to time with varying terms and structures; however, if you would like a specific structure, we can often accommodate such requests.

Due to the funding requirement of putable advance structures, a minimum of \$5 million will be required to execute the Flipper; however, we will have special offerings from time to time, which will allow members to obtain smaller advances.

Please read the accompanying [Flipper Q & A](#) for more details regarding this new product.

If you are interested in the Flipper advance, or you would like more information about this product, please call your Relationship Manager or the Advances Operations area of the FHLBI at 800-442-2568.

Sincerely,

A handwritten signature in black ink that reads "Brian K. McCoy". The signature is written in a cursive, slightly slanted style.

Brian K. McCoy
AVP, Advances Manager



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FLIPPER Q & A

- Q:** Is the interest rate on a Flipper advance floating or fixed?
- A:** Both. The Flipper starts out as a floating rate advance and then “Flips” to a fixed-rate putable advance at a predetermined date.
- Q:** How is the initial floating rate on a Flipper advance determined?
- A:** You decide! Choose from among a couple of rate options. Typically, the initial rate options for the Flipper will be 3 month Libor minus 50, 75 or 100 basis points. The interest rate floats quarterly based on the chosen spread to 3 month Libor.
- Q:** When does the floating rate period end (when does the advance “flip” to a fixed rate)?
- A:** The advance “flips” to a fixed rate putable advance after a lockout period at a predetermined date, usually at the end of the 1st or 2nd year. Other lockout periods are available.
- Q:** How can the initial rate be set at such a deep discount (50, 75 or 100 bps) to 3 month Libor?
- A:** Because you are selling the FHLBI an option(s) to “put” the advance. Also, the floating rate will “flip” to a fixed rate at the end of the lockout period, and the fixed rate is determined by - in part - where the initial spread to 3 month LIBOR is set.
- Q:** What factors determine if the advance will get “put” back to us?
- A:** Main Factor: If, after the lockout period, prevailing market rates for the remaining term of the advance are *below* the rate on the advance, the FHLBI will likely not elect to put the advance. If prevailing market

rates for the remaining term of the advance are *above* the rate on the advance, the FHLBI would likely exercise the option.

Q: What are our options if the FHLBI exercises the put option and “puts” the advance back to us?

A: The member would have two options: 1) pay off the advance, or 2) allow the advance to convert back to a floating rate advance for the remaining term. The interest rate would be the current market interest rate quoted by the FHLBI at the time of the conversion for a similar 3 month Libor advance with a quarterly reset.

Q: Is the option(s) we are selling to the FHLBI in the Flipper structure a Bermudan (multiple options) or a European option (one-time option)?

A: You may choose either a Bermudan or European structure.

Q: What are the risks associated with the Flipper advance?

A: As with all Option-Embedded Advances (Flipper, Puttable, etc.) a member should carefully consider how an option embedded advance could affect its financial and/or business strategies under alternative interest rate scenarios. One of the major risks to consider is that if interest rates decline significantly, prepayment fees can be significant. These prepayment fees are ultimately fees the FHLBI must collect to offset the fees that our counterparty charges us to unwind the transaction.

While this analysis is the responsibility of the member’s management, the Bank does offer pre-purchase analytics on various puttable structures to assist members with this task. As with the regular puttable advance, you will be asked to sign a disclosure statement prior to taking the Flipper advance, certifying that the suitability of such advances has been duly considered by your management.

If you are interested in the Flipper advance, or you would like more information about this product, please call your Relationship Manager or the Advances Operations area of the FHLBI at 800-442-2568.