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FHLBANK INDIANAPOLIS

# NEW CAPITAL PLAN

BREAKING DOWN THE 4<sup>TH</sup> QUARTER  
DIVIDEND BIFURCATION



# Presenters:

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# What We'll Cover Today:

Brief Review of the New Plan

Concept of Bifurcation

Details of 4Q 2020 Bifurcation

Dividend Calculation Example

Demonstration of Analytical Tools

Questions

# Welcome & Housekeeping



For the best video & audio experience, we recommend disconnecting from VPN.

Please submit questions throughout the presentation...but use the Q&A box in Zoom.

Questions will be answered at the end.

Feel free to use the chat function to connect with other attendees, but we will not be monitoring the chat box for questions.



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# REVIEW OF NEW CAPITAL PLAN

# Key Changes and Benefits

1. Simplified membership stock requirement.
  - New minimum stock requirement calculation: 10 bps of YE total assets.
2. Members will have more options for fulfilling activity stock requirements.
  - May opt-in to hold stock against loans sold to MPP.
3. Activity is rewarded.
  - FHLBank Board can declare a higher dividend for B-2 activity stock.

# Key Changes and Benefits

OFFERINGS	<b>A STOCK</b> <i>Activity stock</i>	<b>B-1 STOCK</b> <i>Non-activity stock (including membership and excess stock)</i>	<b>B-2 STOCK</b> <i>Activity stock</i>
REDEMPTION	 <b>6-month</b>	 <b>5-year</b>	 <b>5-year</b>
KEY FEATURES + BENEFITS	<p>When available, this new stock class will give members additional stock redemption flexibility.</p>	<p>Membership requirement based on total assets. This simplified formula eliminates time-consuming paperwork on mortgage asset calculation.</p> <ul style="list-style-type: none"> <li>• Converts automatically to B-2 Activity stock to support product usage.</li> <li>• All B stock not required for activity.</li> </ul>	<ul style="list-style-type: none"> <li>• B-2 stock reflects the stock members are required to own to support an FHLBank advance, line of credit, letter of credit, or MPP sales (for those MPP sellers that opt-in).</li> <li>• Converts automatically to B-1 stock when not required.</li> <li>• Under the new plan, B-2 stock has the potential to pay a higher dividend rate than B-1 or A stock.</li> </ul>

# Implementation Requirements

Membership Stock Requirements (MSR) Effective September 26, 2020			
	Range (%)	Requirement (%)	Min/Max Requirements
Total Assets	0.01-0.50%	0.10%	\$7,500/\$5,000,000
Activity-Based Stock Requirements (ABSR) Effective September 26, 2020			
	Range (%)	Class B Requirement (%)	Min/Max Requirements
Advances	1.0-6.0%	4.50%	n/a
Lines of Credit	1.0-6.0%	4.50%	n/a
Letters of Credit	0.10-6.0%	0.10%	n/a
Derivative Contracts	1.0-6.0%	4.50%	n/a
MPP (Mandatory)	0.0-6.0%	0.00%	n/a
MPP (Opt-In)	0.0-6.0%	4.50%	n/a
CIP Advances	1.0-6.0%	4.50%	n/a
AHP Grants and Setasides	n/a	n/a	n/a



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# WHAT DOES BIFURCATION MEAN?

# Concept of Bifurcation

Under the new plan, members can be rewarded with competitive dividends when they use the Bank's products. The Board has the flexibility to establish different dividend rates for each stock class.

- B-2 stock (Activity Stock) can pay a higher dividend for those that are actively using credit products and/or “opt-in” to the MPP stock requirement.
- These dividends may change over time.

# Q4 2020 Actual Bifurcation

FHLBank Indianapolis declared 4th quarter dividends of:

- 1.75% for Class B-1 (Non-Activity Stock)**
- 3.00% for Class B-2 (Activity Stock)**

Dividends were paid in cash on February 24<sup>th</sup>.

Dividends are paid on average stock balances during the quarter.



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# EXAMPLE OF BIFURCATION CALCULATION

# Accessing the Capital Stock Statement

The link to the Capital Stock Statement can be accessed from Member Link.



The screenshot shows the FHLBank Indianapolis Member Link interface. At the top left is the FHLBank Indianapolis logo. To its right is a list of utility links: > LOG OUT, > CONTACT US, > FHLBI.COM, > UTILITIES, and > SITEMAP. Below these is a dark blue navigation bar with white text for the following categories: HOME, CREDIT SERVICES, COMMUNITY INVESTMENTS, MORTGAGE PURCHASE PROGRAM, MEMBER SERVICES, CORRESPONDENT SERVICES, and CAPITAL STOCK. A red arrow points from the top right towards the CAPITAL STOCK link in the navigation bar.

Capital Stock

## Capital Stock

Capital Stock consists of the following reports.

**Capital Stock Statement**  
Capital Stock Statement Details

**Capital Stock Composition**  
Historical Month End Composition of Capital Stock

**Capital Stock Annual Verification**  
Capital Stock Annual Verification Forms

>Capital Stock

## Capital Stock Statement

As Of 02-19-2021

Date	Transaction Description	A Amount	B1 Amount	B2 Amount	Class A Stock Balance	Class B1 Stock Balance	Class B2 Stock Balance	Total Stock Balance	Cash Dividend
09/28/2020	Stock Redesignation			2,276,300.00					
	Stock Redesignation	-2,276,300.00			.00	2,547,400.00	2,276,300.00	4,823,700.00	
10/06/2020	Stock Redesignation			6,000.00					
	Stock Redesignation		-6,000.00		.00	2,541,400.00	2,282,300.00	4,823,700.00	
10/29/2020	Cash Dividend Payment								746.33
	Cash Dividend Payment								835.21
	Cash Dividend Payment				.00	2,541,400.00	2,282,300.00	4,823,700.00	34,793.90
12/15/2020	Stock Redesignation			-1,131,000.00					
	Stock Redesignation	1,131,000.00			.00	3,672,400.00	1,151,300.00	4,823,700.00	
12/21/2020	Stock Redesignation			7,000.00					
	Stock Redesignation		-7,000.00		.00	3,665,400.00	1,158,300.00	4,823,700.00	
02/01/2021	Stock Redesignation			-7,000.00					
	Stock Redesignation		7,000.00		.00	3,672,400.00	1,151,300.00	4,823,700.00	

# Q4 2020 Sample Dividend Calculation

## Factors: Example

- Weighted Average B-1 stock balance: \$200,000  
Weighted Average B-2 stock balance: \$300,000
- B1 dividend rate: 1.75%
- B2 dividend rate: 3.00%
- Day count/Accrual Basis: Actual/Actual with 92 days in 4Q20 and 366 in full-year 2020
- Accrual period is the last day of the 3<sup>rd</sup> quarter (Sep 30<sup>th</sup>) thru the 2<sup>nd</sup> to last day of the 4<sup>th</sup> quarter (Dec 30<sup>th</sup>)

## Calculation:

- $(\$200,000) \times (1.75\%) \times (92/366) + (\$300,000) \times (3.00\%) \times (92/366) = \$3,142.08$   
dividend

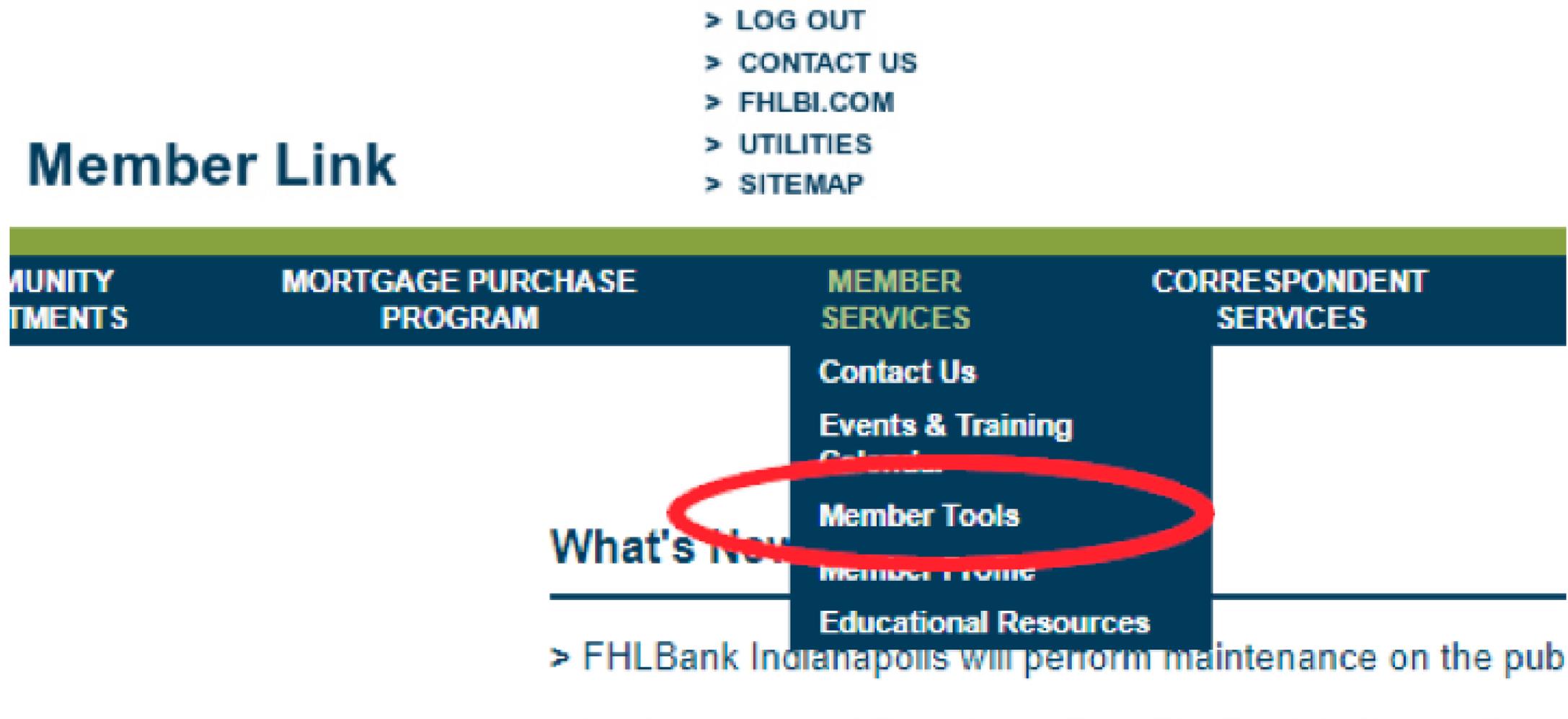


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# DEMONSTRATION OF ANALYTICAL TOOLS

# Accessing the Analytical Tools

The link to the Member Tools page can be accessed from Member Link.



> LOG OUT  
> CONTACT US  
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> SITEMAP

## Member Link

COMMUNITY INVESTMENTS	MORTGAGE PURCHASE PROGRAM	MEMBER SERVICES	CORRESPONDENT SERVICES
		<a href="#">Contact Us</a> <a href="#">Events &amp; Training</a> <a href="#">Member Tools</a> <a href="#">Member Profile</a> <a href="#">Educational Resources</a>	

What's New  
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# Activity is rewarded

## IMPACT ON ADVANCES:



### Dividend-Adjusted Advance Rate Calculator



The FHLBank Indianapolis Dividend-Adjusted Advance Rate Calculator is intended to provide members with a simple way to estimate the "all-in" cost of advances which takes into consideration the potential dividend pickup on FHLBank Indianapolis Bank activity stock.

Input fields indicated in yellow.  
Instructions viewable when field selected.

Data as of :

Inputs/Assumptions	
Advance Amount	\$1,000,000
Term of Advance (in Months)	12
Advance Rate	0.28%
Alternative Investment Rate (Actual/360)	1.00%
<b>Stock</b>	
B1 Stock Dividend (Non-Activity)	1.75%
B2 Stock Dividend (Activity)	3.00%
B2 Incremental Dividend Pickup	1.25%
Activity Based Requirement	4.50%
Stock Required for Transaction	\$45,000
Current B1 Non-Activity Stock	\$250,000
B2 Stock Purchase Required (if Any)	\$0

1.75%
3.00%
1.25%

"All-In" Cost of Borrowing				
	Amount	Rate	Term Mths.	Total Interest/ Dividend
Advance Amount	\$1,000,000	0.28%	12	\$2,838.89
Required Stock Opportunity Cost	\$0	1.00%	12	\$0.00
<b>Total Interest Paid</b>				<b>\$2,838.89</b>
Activity Stock Dividend				
- From converting B1 to B2 stock	\$45,000	1.25%	12	\$562.50
- From purchase of B2 stock	\$0	3.00%	12	\$0.00
<b>Net Interest</b>				<b>\$2,276.39</b>
		Advance Rate		0.280%
		Estimated Interest Cost Reduction		-0.055%
		<b>Dividend Adjusted Advance Rate</b>		<b>0.225%</b>

0.280%
-0.055%
0.225%

# Activity is rewarded

## IMPACT ON MPP (WITH OPT-IN)



### Advantage MPP: Estimated Value of Stock "Opt-In"

This tool will estimate the added value of selling to FHLBank Indianapolis Advantage MPP when a seller opts into holding FHLBank Indianapolis stock to support MPP balances.

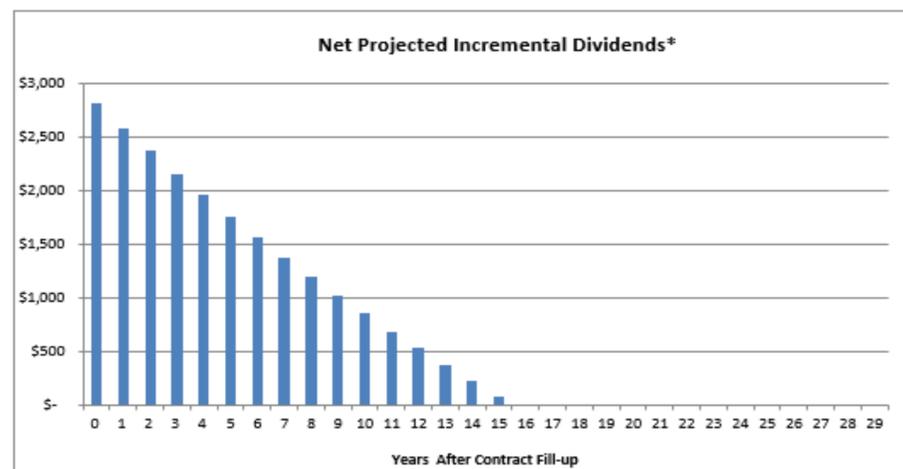
The value of the dividend, should the member choose to opt-in, is calculated based on the B2 dividend rate assumed for new activity stock purchased and the incremental dividend pickup when B1 non-activity stock is converted to B2 activity stock.

An assumed discount rate to calculate present value is required. All rates used for inputs are annualized rates.

Input fields indicated in yellow.  
Instructions viewable when field selected. Data as of

Input/Assumptions					
Master Commitment Contract (MCC) Size	\$ 5,000,000	Opt-in to Purchase FHLBI Stock? (Y/N)	Y	Discount Rate/Opportunity Cost	1.00%
Average Term (yrs.)	30	MPP Stock Requirement	4.50%	Assumed B1 (non-activity) Stock Dividend Rate	1.75%
Average Rate	3.00%	Stock Required for MCC	\$ 225,000	Assumed B2 (activity) Stock Dividend Rate	3.00%
Estimated CPR	6.00%	Current B1 (non-activity) Stock	\$ 500,000	Incremental Dividend Pickup	1.25%
		Additional Stock Purchase Requirement	\$ -		

### Estimated Value of Advantage MPP



Estimated Value of Advantage MPP	
Price	102.50
Value of LRA*	0.50
Value of FHLB Dividend	0.41
Total Est. Value of Advantage MPP	103.41

\* Estimated PV of LRA at time of MCC based on projected losses of .50% and discount rate of 1%. See MPP Advantage LRA Valuation tool to calculate.

102.50

0.50

0.41

103.41



# Accessing the Analytical Tools

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## Member Link

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**QUESTIONS?**

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