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FHLBANK INDIANAPOLIS

# NEW CAPITAL PLAN

WHAT IT MEANS FOR MEMBERS





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**JON GRIFFIN, SVP,  
CHIEF BUSINESS DEVELOPMENT OFFICER**

*JGRIFFIN@FHLBI.COM*



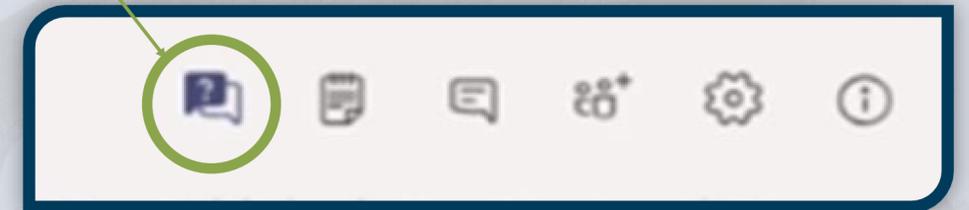
**TODD HARGREAVES, FVP,  
MEMBER LENDING DIRECTOR**

*MHARGREAVES@FHLBI.COM*



## Q&A (15 MINUTES)

- SUBMIT QUESTIONS IN Q&A BOX
- FEEL FREE TO SUBMIT QUESTIONS THROUGHOUT THE PRESENTATION
- QUESTIONS WILL BE ANSWERED AT THE END





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# INTRODUCING THE NEW CAPITAL PLAN

# What We'll Cover Today:

Why a New Plan?

Key Changes and Benefits

Stock Redemptions and Repurchases

Timeline and Impact

Key Takeaways

Questions

# Why a New Plan?

The current Capital Plan was approved in 2002, with minor amendments in subsequent years. Our member composition and needs have changed. The 2015 comprehensive member survey provided clear direction.

## Key findings:

- All members value dividends.
- Advance users support a 2<sup>nd</sup> stock class offering a shorter redemption period and lower activity requirement.
- Members want membership stock to be simple.
- Community depositories did not favor regular stock repurchases and prefer to hold stock as an investment.

Members prefer options and flexibility.

- Our classes of stock address these attributes.

# Key Changes and Benefits

| OFFERINGS               | <b>A STOCK</b><br><i>Activity stock</i>                                                                | <b>B-1 STOCK</b><br><i>Membership stock</i>                                                                                                                                                                                                                                                                           | <b>B-2 STOCK</b><br><i>Activity stock</i>                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------|--------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| REDEMPTION              | <br><b>6-month</b> | <br><b>5-year</b>                                                                                                                                                                                                                 | <br><b>5-year</b>                                                                                                                                                                                                                                                                                                           |
| KEY FEATURES + BENEFITS | <p>When available, this new stock class will give members additional stock redemption flexibility.</p> | <ul style="list-style-type: none"> <li>• Requirement based on total assets. This simplified formula eliminates time-consuming paperwork on mortgage asset calculation.</li> <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> |

# Key Changes and Benefits

1. Simplified membership stock requirement.
2. Members will have more options for fulfilling activity stock requirements.
3. Activity is rewarded.

# 1. Simplified membership stock requirement

- Based on total assets versus total mortgage assets.
- Initial membership cap of \$5 million.

## 2. Members will have more options for fulfilling activity stock requirements

- Advantage MPP users will have the flexibility to acquire activity stock related to their mortgage sales.
- Plan introduces Class A-stock option with a shorter redemption period and the potential for greater leverage in exchange for a lower dividend.

## 3. Activity is rewarded

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 or those that are actively using credit products and/or “opt-in” to the MPP stock requirement.
- A-stock, when available, would likely receive a lower dividend and a shorter 6-month redemption period.
- Activity stock under redemption no longer receives a reduced dividend.

# 3. Activity is rewarded

## IMPACT ON ADVANCES: 1-YEAR BULLET

\$1 million advance: posted rates\*

| Bifurcation Level |       | Advance Amount | Advance Term | Stock Required | Current B-1 Non-Activity Stock | Posted Rate | Dividend Adjusted Rate |
|-------------------|-------|----------------|--------------|----------------|--------------------------------|-------------|------------------------|
| B-1               | B-2   |                |              |                |                                |             |                        |
| 0.50%             | 3.50% | \$1,000,000    | 1 year       | \$45,000       | \$45,000                       | 0.32%       | 0.298%                 |
| 2.00%             | 2.50% | \$1,000,000    | 1 year       | \$45,000       | \$45,000                       | 0.32%       | 0.231%                 |
| 3.00%             | 2.00% | \$1,000,000    | 1 year       | \$45,000       | \$45,000                       | 0.32%       | 0.187%                 |
| 4.00%             | 1.50% | \$1,000,000    | 1 year       | \$45,000       | \$45,000                       | 0.32%       | 0.142%                 |
| 5.00%             | 1.00% | \$1,000,000    | 1 year       | \$45,000       | \$45,000                       | 0.32%       | 0.098%                 |

\* POSTED RATES AS OF 9/17/20. ACTUAL RATES MAY DIFFER AND ARE DETERMINED AS THE TIME OF ISSUANCE.

## 3. Activity is rewarded

### ADVANTAGE MPP OPT-IN

- Capital Plan includes a provision for members to purchase Activity Stock to support MPP loan sales.
  - Class B activity requirement set at 4.5% of principal balance of loans sold.
  - Opt-in at the MDC level within an MCC.
- Members have the right to “opt-in” and later decide to “opt-out” within an MCC.
- Stock requirement stays with the life of the loans sold associated with the MDC.

# 3. Activity is rewarded

## IMPACT ON MPP (WITH OPT-IN)

\$5 million MDC: 30 Yr Mtg, 3.25% Rate, 6% CPR\*

| Bifurcation Level | Bifurcation Level |       | MDC Amount  | Stock Required | Current B-1 Non-Activity Stock | MPP Price* | Value of LRA* | Value of Dividend | Estimated Total Value |
|-------------------|-------------------|-------|-------------|----------------|--------------------------------|------------|---------------|-------------------|-----------------------|
|                   | B-1               | B-2   |             |                |                                |            |               |                   |                       |
| <b>0.50%</b>      | 3.50%             | 4.00% | \$5,000,000 | \$225,000      | \$225,000                      | 102.72     | 0.58          | 0.16              | 103.46                |
| <b>2.00%</b>      | 2.50%             | 4.50% | \$5,000,000 | \$225,000      | \$225,000                      | 102.72     | 0.58          | 0.65              | 103.95                |
| <b>3.00%</b>      | 2.00%             | 5.00% | \$5,000,000 | \$225,000      | \$225,000                      | 102.72     | 0.58          | 0.98              | 104.28                |
| <b>4.00%</b>      | 1.50%             | 5.50% | \$5,000,000 | \$225,000      | \$225,000                      | 102.72     | 0.58          | 1.30              | 104.60                |
| <b>5.00%</b>      | 1.00%             | 6.00% | \$5,000,000 | \$225,000      | \$225,000                      | 102.72     | 0.58          | 1.63              | 104.93                |

\* MPP PRICE BASED ON 9/17/20 PRICING. VALUE OF LRA ESTIMATED BASED ON MPP ADVANTAGE LRA VALUATION TOOL ASSUMING A 1% DISCOUNT RATE AND 0.50% POTENTIAL CUMULATIVE LOSS.



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# STOCK REDEMPTIONS AND REPURCHASES

# Stock Redemptions (section VI.B.)

- Members may submit a written notice to redeem stock.
  - 5 years from date of receipt for class B stock.
  - 6 months from date of receipt for class A stock.
- Members may cancel a redemption request by notifying the Bank in writing.
- At the end of the redemption period, stock must be excess stock to be redeemed by the Bank.

# Stock Repurchases (section VI.C.)

- Upon 15 days notice, the Bank may repurchase any excess capital stock.
  - Repurchases will be managed on a pro rata basis.
  - May repurchase excess class A or class B stock.
- Mandatory stock repurchases.
  - If the Bank exceeds 6% regulatory capital ratio at month end:
    - Must provide members 5 days advance notice.
    - Bank will repurchase sufficient excess stock to return to a regulatory capital ratio of 5.75% or less.



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# TIMELINE AND IMPACT

# Timeline Overview

|                    |                                      |
|--------------------|--------------------------------------|
| September 25, 2020 | Last day of existing capital plan    |
| September 26, 2020 | New capital plan implementation date |
| April 1, 2021      | Annual membership calculation date   |

# 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                  |

# September 26, 2020:

## CAPITAL PLAN EFFECTIVE DATE

- Current stock reclassified to B-1 or B-2.
  - Activity stock reclassified as B-2.
  - All other stock becomes B-1.
- Members may elect to “Opt-in” to a 4.5% activity requirement on MPP loan sales.
  - Members will “Opt-in” at the MDC level.
- Class A stock not being offered initially.

# Sample Impact Scenario

## STOCK RECLASSIFICATION

- \$1,732,500 of stock owned.
- \$15,000,000 of advances outstanding (@ 4.5%).
- \$5,000,000 of line of credit (@ 4.5%).
- \$5,000,000 of letters of credit (@ 0.10%).

|            | Current         | As of 9/26/2020 |           |
|------------|-----------------|-----------------|-----------|
|            | Class B-1 Stock | Class B-1       | Class B-2 |
| Member ABC | \$1,732,500     | \$827,500       | \$905,000 |

# April 1, 2021:

## MEMBERSHIP STOCK RECALCULATION

- Annual Membership calculation:
  - Used for calculating voting shares
  - Performed annually
- Initial requirement of 0.10% of total assets:
  - Based on December 31, 2020 total assets
  - Minimum of \$7,500 and maximum of \$5 million

# Sample Impact Scenario

## MEMBERSHIP STOCK REQUIREMENT

- Total assets of \$700 million as of 12/31/2020.
  - Membership requirement equals 0.10% of total assets.
- Residential mortgage assets of \$85 million as of 12/31/2019
  - Supports current membership requirement.
  - Membership requirement equals 0.75% of residential mortgage assets.

|            | Current Membership Stock | Projected Membership Stock | Change   |
|------------|--------------------------|----------------------------|----------|
| Member ABC | \$637,500                | \$700,000                  | \$62,500 |



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# KEY TAKEAWAYS

# We Heard You.

1. Simplified membership stock requirement.
2. Members will have more options for fulfilling activity stock requirements.
3. Activity is rewarded.

Put your FHLBank Indianapolis  
membership to work for you!



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QUESTIONS?

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