

FHLB *Indepth*



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A publication for the membership of the Federal Home Loan Bank of Indianapolis.

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Building Partnerships. Serving Communities.

The partnership that Amerisure Mutual Insurance Company in Farmington Hills, MI formed with Vista Maria in nearby Dearborn Heights in 2004 continues to be strengthened by their latest endeavor. A grant from the FHLBI's Affordable Housing Program will help to fund the extensive renovation of an existing building into Shepherd Hall Studio Apartments. *Read article on page 4.*

Dates to Remember

AFFORDABLE HOUSING PROGRAM

May 23 AHP Applications Due

REGIONAL MEMBER MEETINGS 2012

August 14 Belterra Resort, Vevay, IN
 August 16 South Bend Country Club, South Bend, IN
 August 20 Warwick Hills Country Club, Grand Blanc, MI
 August 22 Upfront and Company Banquet Facility (*Meeting*),
 Greywalls Golf Course (*Golf*), Marquette, MI
 August 27 Bridgewater Club, Carmel, IN
 August 29 Thousand Oaks Golf Club, Grand Rapids, MI

Check the events calendar at www.fhlbi.com for updates.

On the Cover:

Participating in the check presentation at the Vista Maria campus were Milton Miller, FHLBI President-CEO; Russell Agosta, Vista Maria Board Chairman; Carol Taylor, Amerisure's Vice President, Counsel & Compliance Officer; and Dan Graf, Vice President, Investments at Amerisure.

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Indepth is a publication of the Federal Home Loan Bank of Indianapolis Communications Department. Your comments and suggestions are welcome. Contact **Miriam Lemen** at **317.465.0438**, e-mail mlemen@fhlbi.com.

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MESSAGE FROM THE PRESIDENT - CEO

The Affordable Housing Program (AHP) project featured on the cover exemplifies what can happen when our members and nonprofit organizations join forces to make a difference in their communities. I was honored to attend a ceremony in Dearborn Heights, MI during which FHLBI member Amerisure Mutual Insurance Co. presented a check to Vista Maria for \$750,000, the amount of the AHP grant awarded in July. Learning about Vista Maria's mission and the impact their work is having on the lives of the young women who live there was truly heartwarming. Also impressive was hearing about Amerisure employees' involvement with Vista Maria. Several staff members, including Carol Taylor, Vice President, Counsel & Compliance Officer at Amerisure, are mentors to residents, working with them throughout their stay at the facility to increase their odds of becoming successful adults.



Milton J. Miller

It is gratifying to see that our insurance company members are increasingly becoming involved in the AHP. In addition to Amerisure Mutual's AHP award, two other insurance companies have had projects approved. Brotherhood Mutual Insurance Co., in Ft. Wayne, IN received a \$750,000 grant in 2009 to help build Charis House, a residential care facility for women and their children, and Jackson National Life Insurance Co., in Lansing, MI was awarded \$130,000 in 2011 to help build six new Habitat for Humanity homes. While many of our insurance company members are already engaged in affordable housing and community development initiatives, FHLBI staff continues to educate them about our programs and to help them find ways to integrate them into their activities.

Another of the FHLBI's successes is MPP Advantage, an enhanced version of the original Mortgage Purchase Program (MPP). MPP Advantage's credit structure is different from the prior structure in that the supplemental mortgage insurance premium was replaced by an enhanced lender risk account owned by the seller. This means a significantly greater opportunity for members to profit from selling high credit quality loans without any change in risk. This change is a great example of a product innovation that provides value to our members and has spurred a renewed interest in MPP.

The October US House of Representatives subcommittee hearing concerning oversight of the Federal Home Loan Banks provided an ideal opportunity to reiterate to members of Congress the FHLBanks' vital role as a reliable source of liquidity for nearly 8,000 member institutions, especially during the recent financial crisis. Testimony provided by representatives of the ABA and the ICBA, who are also CEOs of FHLBank member institutions and understand the value of membership, revealed broad support for the System, emphasizing that our business model works and should not be changed.

Congratulations to Paul Clabuesch, John Skibski, Tim Gaylord, Bob Long, and Christine Narayanan, who were recently re-elected to the FHLBI's Board of Directors. Their past contributions to the Board have been invaluable, and we appreciate their continued service. Congratulations also to Paul Clabuesch and Jeff Poxon who were elected by the Board of Directors to serve as chairman and vice chairman of the Board for 2012 through 2013.

In closing, members attending our Regional Member Meetings this summer will recall the presentation titled: "The Value of Membership." Our message was that the FHLBI has provided quality products that can help to improve their institution's profitability and risk management. I encourage our members to take full advantage of their membership in the FHLBI by considering the many benefits our credit programs, MPP and AHP can deliver.

Sincerely,

A handwritten signature in black ink that reads "Milton J. Miller".

Milton J. Miller
President - CEO

Subcommittee Holds GSE Hearing

Testifying at an October House Financial Services subcommittee hearing on the oversight of the Federal Home Loan Banks (FHLBanks) were Lee Gibson, Chairman of the Council of Federal Home Loan Banks and Chairman of the Federal Home Loan Bank of Dallas; Tim Zimmerman, president of Standard Bank, testifying on behalf of the Independent Community Bankers of America; Anthony Costa, chairman of Empire State Bank, testifying on behalf of the American Bankers Association; and Bruce Morrison, former chairman of the Federal Housing Finance Board.

Their testimony carried the same basic message regarding any potential GSE reform: "Leave the Federal Home Loan Banks alone." In his oral statement, Gibson stressed the importance of the FHLBanks to the future of community banks and that during the recent financial crisis they proved to be a "model that works." Gibson expressed concern that any changes to the System that Congress might be considering would ultimately change the structure of the FHLBanks, which their member institutions have relied on for nearly 80 years.

Costa echoed Gibson's praise of the System by commenting on its vital role in mortgage financing and economic development. He added that any reform of the secondary mortgage market should protect the FHLBanks' traditional business and their members' access to liquidity. "Failure to do so will have a detrimental effect on mortgage funding and home ownership for many years to come," stated Costa.

After opening remarks, committee members questioned the witnesses about the FHLBanks' core mission, the amount of investments in mortgage-backed securities, the optimal number of FHLBanks, and the importance of FHLBank funding. During a discussion about GSE bailouts, profits, and implicit government guarantees, Zimmerman reminded the congressional panel that the FHLBanks received no bailout from the government during the most recent financial crisis and that ultimately American citizens benefit from the FHLBanks. "When I get an advance at a very good rate and I then lend that money out to a small business or residential housing, the consumer benefits from that loan," commented Zimmerman.

The message from this hearing is clear. The FHLBanks have effectively served their housing mission for nearly 80 years. They stepped into the liquidity gap during the recent mortgage crisis and kept funds flowing. The FHLB System is clearly a "model that works" and will continue working to serve families, neighborhoods, and communities in partnership with its member financial institutions.

FHLBI Directors Elected

Congratulations to the newly elected members of the FHLBI's Board of Directors. With terms beginning January 1, 2012 and ending December 31, 2015, three people re-elected to fill the three open seats for Michigan were:

- **Paul Clabuesch** - *Chairman Emeritus of Thumb National Bank and Trust, Pigeon, MI*
- **John L. Skibski** - *EVP/Chief Financial Officer/Director of Monroe Bank & Trust, Monroe, MI*
- **Timothy P. Gaylord** - *President/Chief Executive Officer of Mason State Bank, Mason, MI*

Re-elected to fill two independent director seats in the district-wide election were:

- **Robert D. Long** - *retired CPA and former Audit Partner of KPMG, LLP, Indianapolis, IN*
- **Christine Coady Narayanan** - *President and CEO of Opportunity Resource Fund in Lansing and Detroit, MI*

Member Link Access Changing in 2012

FHLBI Member Link provides our members secure online access to product and account information. Currently, a RSA token is physically issued to each authorized user that displays a password that changes every 60 seconds. In 2012, Member Link users will be transitioned to a new security system based on adaptive authentication technology. This will alleviate the need to have the physical token card, minimize security concerns that have arisen regarding potential data breaches of RSA information, and make it quicker and easier for members to log on. Look for additional information to be sent to Member Link users in 2012.

FHLBI Member Meetings Featured Economists

“This was my fifth member meeting and it continues to be one of my favorite days of the year. The speakers are informative and interesting.”

The FHLBI hosted six Regional Member Meetings (RMMs) beginning Aug. 15 at the Warwick Hills Country Club in Grand Blanc, MI and concluding Aug. 30 at the Sand Creek Country Club in Chesterton, IN.

Milton Miller, FHLBI President – CEO, opened each meeting with a discussion of the bank’s second quarter financial results, as well as comments on advances, MPP, retained earnings, and the overall financial health of the FHLBank System.

Cindy Konich and Jonathan West, FHLBI Chief Operating Officers, continued the program with a presentation about the value of FHLBI membership, educating members on the major product lines and emphasizing their ease of use, competitiveness, and quality.

INDIANA

The keynote speaker for the Indiana meetings was Larry DeBoer, a professor and extension specialist in agricultural economics at Purdue University. His presentation compared the recent recession with the one in the early 80s and reasons why it is taking longer for the economy to improve, citing slow growth in consumer spending, high unemployment rate, high gas prices, and the continued depressed housing market as some of the reasons for the slower recovery.

MICHIGAN

At the Michigan meetings, Charles Ballard, a member of the economics faculty at Michigan State University, provided a look at the economic trends specific to Michigan and pointed out positive trends. He believes that the recession nationwide would be long, due to the lack of positive employment.

ATTENDANCE REPORT

The 2011 Regional Member Meetings drew 358 participants, representing 148 member institutions.



Guests listen to presentations at the Brickyard Crossing Golf Club in Indianapolis. The Brickyard meeting drew 90 representatives from 41 member institutions.



Larry Swank, member of the FHLBI’s Board of Directors, and Cindy Konich, FHLBI COO – CFO.



Jon Griffin, FHLBI Chief Credit & Marketing Officer (left), and Mel Ward, President and CEO, Kentland Bank, Kentland, IN.



LEFT TO RIGHT: Todd Brown, VP-Finance, Teachers Credit Union, South Bend, IN; Jim Eibel, FHLBI Insurance Market Manager; Cameron Jeffreys, Director, Senior Research Analyst, Forethought Life Insurance Company, Indianapolis, IN.

Amerisure Mutual Insurance Co. Awarded AHP Grant

Shepherd Hall Studio Apartments will offer housing as well as supportive services

BY MIRIAM LEMEN, AVP, MANAGER COMMUNICATIONS & SPECIAL PROJECTS

Depository institutions have historically been the primary users of the Affordable Housing Program (AHP), but more recently insurance companies are realizing that they, too, can help to meet the housing and economic development needs of their communities by competing for grants awarded through the AHP.

Amerisure Mutual Insurance Company in Farmington Hills, MI, partnered with Vista Maria in nearby Dearborn Heights to successfully complete its first AHP application and was awarded an AHP grant of \$750,000 earlier this year. The subsidy will help to finance the renovation of an existing building on the Vista Maria campus into dorm-style housing.

Shepherd Hall Studio Apartments will house young women aging out of the foster care system who need a place to live, help with finding a job, or a support system. Each of the 22 units will be fully furnished and include both a microwave and mini-refrigerator. The women will also have opportunities to participate in programs to help them complete their education and develop employment and life skills that will assist them in becoming productive members of society.

Angela Aufdemberge, newly named President and CEO of Vista Maria, is delighted about the partnerships with Amerisure Mutual Insurance Company and the FHLBI. "Creating hope and a future for our children requires strong programming, continuing education and support from community partners," said Aufdemberge. "Together we are going to work miracles for our children as we build new and innovative programs to help victimized

youth create a successful future as an adult." Aufdemberge added that the \$750,000 grant will allow Vista Maria to provide transitional housing for young women, many of whom have no one to turn to as they have not been adopted and are no longer eligible for foster care. "Because of the tremendous support provided by Amerisure and the FHLBI grant," she continued, "we are able to create a brighter future for young women through housing, support and continuing education. Together we will make a difference year after year."

AMERISURE'S PARTNERSHIP

Amerisure Mutual Insurance Company has been a long-time supporter of Vista Maria and its mission of providing education and support to young women and their families. Carol Taylor, Vice President, Counsel & Compliance Officer at Amerisure, has been a mentor for Vista Maria residents since 2004 and has encouraged other employees to become involved. Her relationship with Vista Maria has permeated throughout the company over the years, with Amerisure participating in a career fair at Vista Maria and making monetary donations to fulfill the residents' many needs, including clothing.

According to Taylor, she was approached by her co-worker Dan Graf, Vice President, Investments, who knew about the AHP and asked her if Vista Maria needed any grant money. She made a phone call, found out about the residence hall renovation project and immediately began learning more about the program. Taylor attended an FHLBI AHP workshop being held nearby and began the application process, working closely with Vista Maria to ensure all application materials were complete.



Amerisure Mutual Insurance Co. was awarded an Affordable Housing Program grant of \$750,000 to help Vista Maria rehab an existing building into studio apartments. Attending the check presentation ceremony were (left to right) Kevin Clement, Director of Enterprise Risk Management, Amerisure; Greg Teare, SVP-Chief Credit Officer; Jim Eibel, VP-Insurance Market Manager; Carol Taylor, VP-Counsel & Compliance Officer, Amerisure; Dan Graf, VP-Investments, Amerisure; Milton Miller, FHLBI President-CEO; Gerald Chiddick, VP-Marketing, Amerisure; and Pat Zurlinden, Interim President, Vista Maria.

"I love the program and was thrilled to participate," Taylor said. "The FHLBI staff answered all of our questions and couldn't have made the process any easier." Taylor added that the well-established relationship that Amerisure had with Vista Maria was key to being comfortable with sponsoring the project.

Russell Agosta, Retired Partner, Grant Thornton and Vista Maria Board Chairman, is particularly appreciative of Amerisure's willingness to support the AHP application for the renovation project. "We are extremely grateful to Amerisure Mutual Insurance Company for

sponsoring our grant application to the FHLBI," Agosta said. "Amerisure is a great advocate for our girls in the community, and corporate support is critical to furthering our mission. Support of this magnitude catapults Vista Maria forward in its efforts to help at-risk children and their families. Without the support of insurance companies, like Amerisure, we would not be able to provide the level of care to as many girls as we do today."

Vista Maria plans to begin the renovation project in spring 2012 with an expected completion date in the fall.

About Vista Maria Vista Maria is a private, not-for-profit, residential and community-based treatment agency that provides education, therapy, spiritual support, shelter and care to young women and their families who are struggling to cope with challenges, such as abuse and neglect. Founded as an orphanage in 1883 by the Sisters of the Good Shepherd, the House of the Good Shepherd was renamed Vista Maria in 1942 after an extensive expansion project that included building residence halls and a school.

In the '70s, laypersons assumed control of operations and the agency's focus evolved to provide abused and neglected girls with emotional, educational, psychological and spiritual guidance. Today, Vista Maria is recognized as providing best-in-class residential and community-based treatment and therapy for girls, young women and their families.



Angela's Story I was born to a teenage mom and a father who had an existing family. Our family was riddled with multi-generational addiction, poverty, abuse and neglect. I experienced all first hand.

By sixth grade, I was unclear about my future. I had become the primary caretaker for my younger brother and sisters, a referee for my parents and my mother's confidant. Instinctively, I knew that if I told someone about my family it surely would lead to dire consequences for all of us. On some level I also understood that I was far from living a normal childhood, but it didn't matter.

Unaware of the risks, my curiosity and tenacity impulsively led me down the same path as my parents. I began experimenting with drugs and alcohol at the tender age of 12. My mother and I became homeless, and the day after my 14th birthday I entered the foster care system.

Then I came to Vista Maria. I will never forget my first night. I felt angry, hopeless and scared. One of the toughest things for me to overcome was that I was powerless to stop my family's self-destruction. The staff helped me to understand that what happened to me, and to them, was not my fault.

Vista Maria started me on my path to follow my dreams. I graduated from high school, and was the first in my family to attain such an achievement. Twelve years later, despite all odds, I completed my master's degree in clinical psychology and I am working on my doctorate.

At Vista Maria, I had people that believed in me and never gave up on me. Because of them, I have a new beginning.

Pathway to Recovery

BY MARY BETH WOTT, VP, COMMUNITY INVESTMENT OFFICER

Earlier this fall, Pathway to Recovery celebrated the grand opening of Pathway VI – sober living for homeless Hoosiers. Pathway to Recovery is an organization based in Indianapolis focused on serving homeless individuals in need of stable housing as a part of their addiction recovery. Old National Bank sponsored Pathway's \$500,000 grant application for the FHLBI Affordable Housing Program (AHP) in the 2010A funding round. Although Pathway VI is the organization's first AHP project, it is their sixth initiative and one that offers a permanent housing solution.

The project involved the rehabilitation of a vacant, deeply distressed apartment building located near downtown Indianapolis into 18 one-bedroom and 2 two-bedroom units of affordable housing to accommodate homeless individuals and families who are exiting transitional recovery programs. In addition to the AHP grant, funding sources include the Indiana Housing Trust Fund, a private donor, Old National Bank Foundation, the Ruth Lilly Philanthropic Foundation, and sponsor equity.

PATHWAY VI ADDRESSES THE FOLLOWING PLAN OUTCOMES:

- Blueprint to End Homelessness by providing permanent housing for persons exiting transitional living programs minimizing their risks of relapse.
- Indianapolis 2010 – 2014 Consolidated Plan by stabilizing distressed neighborhoods through targeted development by rehabilitating substandard units to create affordable rental housing opportunities.
- Neighborhood Stabilization Program by restoring housing stock lost to neglect or abandonment and removing urban blight.

Tim Joyce, Executive Director of the Coalition for Homelessness Intervention and Prevention, served as the master of ceremonies at the grand opening. He recognized the efforts and dedication of Pathway to Recovery Executive Director Sandy Jeffers and thanked the project partners. The Honorable Gregory Ballard, Mayor of Indianapolis, offered remarks about the importance

of stabilizing neighborhoods and reiterated the City's support of this project and infrastructure improvements to the neighborhood. The Honorable Greg Porter of the Indiana House of Representatives relayed stories of growing up in the neighborhood and commended Pathway for its work to help clients let their light shine. The final speaker was resident David Toliver, who shared his testimony as a Pathway success story whose road to recovery has included being reunited with his family.

The Pathway VI project is an excellent example of how AHP, in conjunction with financial involvement from member financial institutions and other funding sources, creates stable housing for homeless individuals so they can sustain healthy, independent living.



David Toliver left home at age 16. For the next 14 years, he was in and out of prison, homeless and addicted to alcohol and drugs. After two years of being in the Pathway to Recovery program, he now works two part-time jobs, is sober and drug free, and has been reunited with his children and their mother.

COLLEGE HILL OPENS IN GRAND STYLE

College Hill Apartments in Paoli, IN, featured in the Summer 2011 issue of *Indepth*, officially opened in late September following a grand opening ceremony in the new community room. Hundreds of residents and dignitaries turned out to tour the apartment building to see the remarkable transformation of a dilapidated school building into 24 beautiful, affordable one-, two-, and three-bedroom apartments.

A recurring phrase during the dedication ceremony was "What a great day." Partners involved in the renovation project commented on the extraordinary teamwork involved to see the project through to completion. John Thompson of Thompson Thrift, the project developer, conveyed the sentiments of most people in attendance when he commented, "Taking something old and turning it into something useful is particularly satisfying. The school is an important symbol to the community, and the project was successful because of a great team."

Old National Bank partnered with Hoosier Uplands and received an AHP grant of \$440,000. Their partnership will continue in Paoli with the development of "Phoenix on the Square," a mixed-use building to be constructed on the downtown circle.



ABOVE: **The former Paoli High School in Paoli, IN, was transformed into College Hill Apartments, featuring 24 affordable apartments and a community room.**

RIGHT: **A standing-room-only crowd gathered in the community room for the dedication ceremony.**



FHLBI Affordable Housing Program

Shepherd Hall Studio Apartments sponsored by Amerisure Mutual Insurance Company and Vista Maria was one of 23 projects awarded a direct subsidy by the FHLBI in the 2011A competitive round of the Affordable Housing Program (AHP). The FHLBI awarded AHP grants totaling \$12.5 million to 23 projects, helping to create 596 units of homeownership, rental or transitional housing. Four members supported their first AHP project – Amerisure Mutual Insurance Company, Jackson National Life Insurance Company, Bank of Holland and Indiana University Credit Union. We are also proud that several members supported projects that culminate in comprehensive community development strategies to re-utilize vacant, abandoned properties and senior housing deploying an aging-in-place model.

The focus for the 2011 round was affordable housing for the homeless, seniors, special needs and young individuals aging out of foster care.

Grants awarded included:

- New construction and rehabilitation of housing for seniors
- New construction and rehabilitation of housing for low-income families
- Habitat for Humanity homes
- Campus designed for autistic persons
- Apartments for individuals with special needs
- Rehabilitation of group homes for homeless youth and domestic violence survivors



The 2012 AHP will offer a single round of funding with an application deadline of May 23. Awards will be announced in early September.



For additional information about the Affordable Housing Program, contact MaryBeth Wott, Community Investment Officer, at 317.465.0368 or mwott@fhlbi.com or Marjorie Green, Community Investment Development Manager, at 517.230.2361 or mgreen@fhlbi.com or visit www.fhlbi.com.

Reducing Interest Expenses with CIP

FHLBI Members are often surprised by the volume of CIP-eligible loans they fund on a regular basis.

By JIM EIBEL, INSURANCE MARKET MANAGER
MARJORIE GREEN, COMMUNITY INVESTMENT DEVELOPMENT MANAGER
SHANNON FOUNTAIN, COMMUNITY LENDING MANAGER

The Community Investment Program (CIP) provides FHLBI members with the opportunity to borrow at the FHLBI's cost to fund loans that meet the eligibility criteria of community or economic development. When the FHLBI's bank, thrift, credit union, and insurance company members review their lending activity, they are often surprised by the volume of CIP-eligible loans. Since CIP advances typically price 20-30 basis points below FHLBI posted rates, the exercise is well worth the effort.

This article highlights several recent CIP projects and the experiences of FHLBI members that funded them.

FUNDING MULTIFAMILY LOANS

Since joining the FHLBI in 2010, Guggenheim Life and Annuity Insurance Company (GLAC) has actively sought ways to integrate the FHLBI's mission with its own. Since GLAC is part of diversified asset manager Guggenheim Partners, with \$125 billion of assets under management, it did not have to look any further than its sister company, Pillar Multi-family, LLC, and the FHLBI's CIP program.



Guggenheim Life and Annuity Insurance Company is using advances under the FHLBI's Community Investment Program to originate loans for multifamily developments such as Oakwood Shores in Chicago.

According to Guggenheim Life and Annuity's CEO Jeff Lange, "When we took a look at the CIP guidelines and the loans we were originating for our portfolio, we realized that a significant volume was CIP eligible. Just one example was Oakwood Shores phase 2A." Lange added that GLAC plans to expand its CIP portfolio in partnership with the FHLBI.

GLAC's Oakwood Shores Phase 2A project is a 199 unit mixed-income housing development on Chicago's near south side. The project is just one part of the massive revitalization of Madden/Wells/Darrow public housing, which was awarded a HOPE VI grant in 2000. When complete, the Oakwood Shores project will be a 3,000 unit mixed-income community in close proximity to downtown Chicago, University of Chicago, and Lake Michigan. The development is based on the Chicago street and alley grid system and incorporates architectural detailing consistent with the neighborhood, landscaped boulevards, public parks and pedestrian walks.

FHLBI approved the project for CIP financing because it will provide affordable housing to families earning incomes at or below 115% of the area median income.

FUNDING 1-4 FAMILY MORTGAGES

CIP provides the most economical way for FHLBI members to borrow long-term funds. As FHLBI credit union members have increased their fixed-rate mortgage holdings, many have discovered that a large percentage of their lending is to CIP-eligible low- to moderate-income borrowers. As such, many have incorporated CIP to provide economical long-term funding to hedge their mortgage portfolios against rising interest rates.

For example, United Federal Credit Union, St. Joseph, MI, has been using CIP advances as part of its mortgage funding strategy since 2003. As a long-time user of CIP advances, United FCU uses CIP to fund mortgages for households with incomes up to 115% of the area median income, which is \$66,010 in Berrien County. The advances have allowed United FCU to offer affordable fixed-rate mortgages to a wider range of members and hold them in portfolio while prudently managing interest rate risk.

According to Sara Deeter, United FCU's Finance Manager, "CIP advances are very easy to use; a report of eligible households can easily be submitted in a standard file format. The variety of advance terms along with the option of funding existing or new loans helps the program meet our business needs."

FUNDING COMMERCIAL LOANS TO CREATE JOBS AND GROW BUSINESSES

CIP-eligible commercial loan projects fall into one of the following qualifying categories:

- Loans that provide services to low- to moderate-income communities
- Economic development loans that create or retain jobs
- Loans to small businesses based on Small Business Administration size and revenue standards

Several FHLBI members have discovered that the bulk of new construction or expansion commercial loans are eligible for CIP funding. As an example, DeMotte State Bank financed the expansion of Belstra Milling Company in DeMotte, IN.

Belstra Milling Company is a second-generation family-owned agribusiness. The company employs approximately 20 people and manufactures a variety of feed for domestic animals. When Belstra decided to expand its operation, DeMotte State Bank applied for and obtained an advance under CIP. The loan will finance new construction, remodeling, and the purchase of equipment and will support job creation and retention.

If your organization is interested in obtaining CIP funding, a simple two-page application will need to be completed to outline project qualifications as an eligible housing or economic development transaction. Depending on the project, the application may also require basic documentation for support. Once a completed application is submitted, it is processed in three to five business days and a funds-only commitment is issued for up to six months after the loan's closing date. After it's approved, a CIP advance is accessed in the same manner as a regular FHLBI advance and is subject to the same FHLBI credit policies. Also, as with a regular advance, a CIP advance requires no post-funding monitoring or documentation.

Automatic ways to qualify for CIP

- Small Business Lending
- LIHTC Rental Housing
- Project located in a Qualified Area Designation
 - > Brownfield Designation
 - > Michigan Renaissance Zone
 - > Empowerment/Enterprise Zone
 - > Champion Community
 - > Federally Declared Disaster Areas

Reduce Funding Costs with CIP

Given that advances under the Community Investment Program (CIP) are typically priced 20-30 bps below comparable FHLBI funding, many members are missing a golden opportunity to reduce their funding costs.

CIP funding can be structured as either variable or fixed rate, with terms as long as 20 years and a variety of amortizations. The majority of CIP projects could be classified into one or more of the following categories:

- Commercial loans that create or retain jobs,
- Commercial loans that benefit low- to moderate-income areas,
- Small business concern loans according to the Small Business Administration standards,
- Infrastructure improvements, and
- Low- to moderate-income community housing.

The combination of a lower cost structure and the ability to offer a variety of terms makes CIP a powerful tool. Low- to moderate-income borrowers may not be flexible when rising interest rate ARM products increase their mortgage payments, exposing members to credit risk. Fixed-rate funding offers members an opportunity to finance highly desirable fixed-rate products while managing interest rate and credit risk.

CIP credit products are made on a secured basis only with collateral requirements consistent with those on all FHLBI credit programs. Prepayment fees may also apply.

For additional information about the Community Investment Program, contact Shannon Fountain, Community Lending Manager at 317.465.0428 or sfountain@fhlbi.com or visit www.fhlbi.com.

Maximizing Collateral Capacity

Today, members have a much wider variety of eligible collateral to choose from to help build borrowing capacity.

BY SCOTT STANSBERRY, VP, COLLATERAL MANAGER

Federal regulations dictate which asset types are eligible for pledge to secure member advances and other FHLBI credit products. Working within this regulatory framework, the FHLBI has expanded its policies and procedures over the years to accept a growing number of asset types as eligible collateral. As shown in the chart on p.11, prior to the year 2000, members were limited to pledging 1-4 family and multifamily loans, mutual funds, US government and agency-backed securities, and private-label residential mortgage-backed securities.

Today, members have a much wider variety of eligible collateral to choose from to help build borrowing capacity. As many members are aware, commercial real estate loans, HELOCs, and residential term second lien loans can be pledged after exhausting all of their eligible traditional collateral. Additionally, Community Financial Institutions* (CFI) members may also pledge small business and farm real estate loans after exhausting traditional collateral, upon FHLBI approval. More recent additions to eligible collateral include delinquent FHA-insured 1-4 family loans (upon FHLBI written approval), TLGP and GNMA Home Equity Conversion Mortgage Backed Securities (HMBS).

REVIEW POLICIES PERIODICALLY

During the most recent credit crisis, the FHLBI frequently accommodated members' requests to release and/or subordinate its priority UCC lien on eligible collateral in favor of other lenders, primarily the Federal Reserve. The FHLBI supports its members' desire to maintain

Liquidity management policies should be periodically evaluated to ensure that assets are being utilized most efficiently.

multiple funding sources; however, the pledging of FHLBI eligible collateral to these sources negatively impacts the borrowing capacity of those members. First, the borrowing capacity from the subordinated asset is reduced. Second, over-collateralization requirements for the remaining pledged assets may be increased in some cases to offset sizeable reductions in the amount of assets for which the FHLBI retains a priority lien. Liquidity management policies should be periodically evaluated to ensure that assets are being utilized most efficiently. As such, Credit Services staff encourages members to evaluate collateral releases that have been requested over the last

several years to determine if now is the best time to move eligible collateral assets back to the FHLBI to increase readily available borrowing capacity.

MAXIMIZE BORROWING CAPACITY

Members can maximize their borrowing capacity with the FHLBI by pledging 1-4 family, multifamily, commercial real estate, HELOCs, and residential term seconds loans, as well as small business and farm real estate loans for CFI members. They can then pledge ineligible assets, which include auto, credit card, consumer, construction, agriculture, and private banking loans, as well as corporate bonds, municipal bonds, and credit card receivables, to other funding sources. This approach allows members to make the best use of funding and liquidity needs at multiple funding sources.

After pledging all eligible and available securities, 1-4 family, and multifamily loans as collateral, CFI members may contact the collateral group for approval to pledge their small business and farm real estate loans as collateral. To begin the approval process, members should send in a copy of their lending policies for the assets they wish to pledge. Typically, no additional information is required from the member prior to approval.

* A community financial institution is defined as any depository institution the deposits of which are insured by the FDIC and that has less than \$1.011 billion in average total assets (the inflation adjusted CFI limit for 2010) over the preceding three years.

Eligible small business loans must meet the following criteria.

- Must be “commercial and industrial loans” as reported on a regulatory call report.
- Must be in first lien position, and the principal balance must be under \$1 million.
- Must have a current LTV less than 90% and regular principal and interest payments (no interest-only loans or LOCs).

Eligible farm real estate loans must meet these guidelines:

- Must be reported as “small farm loans” on a call report.
- Must be a whole first-lien mortgage on farm real estate property.
- May include semi-annual or annual principal and interest payments (no interest only or LOCs), and have a current LTV less than 90%.

FOCUSED ON MEMBERS’ NEEDS

Throughout the credit crisis, the FHLBank System proved to be a reliable funding source by providing access to needed liquidity. The FHLBI has earned the opportunity to be the preferred funding source for all of our members and remains focused on offering a variety of tailored funding options, while continuing to explore further opportunities to maximize collateral capacity.

Evolution of FHLBI Collateral

1999

- ▶ 1-4 Family Loans
- ▶ Govt 1-4 Family
- ▶ Mutual Funds
- ▶ Private MBS
- ▶ Govt & Agency Securities
- ▶ Multifamily Loans

2007

- ▶ 1-4 Family Loans
- ▶ Govt 1-4 Family
- ▶ Mutual Funds
- ▶ Private MBS
- ▶ Govt & Agency Securities
- ▶ Multifamily
- ▶ HELOCs
- ▶ Term 2nds
- ▶ CRE
- ▶ Home Equity MBS
- ▶ Commercial MBS
- ▶ CFI Small Business
- ▶ CFI Farm RE

2011

- ▶ 1-4 Family Loans
- ▶ Govt 1-4 Family
- ▶ Delinquent FHA insured loans
- ▶ Mutual Funds
- ▶ Private MBS
- ▶ Govt & Agency Securities
- ▶ GNMA HMBS
- ▶ TLGP
- ▶ Multifamily
- ▶ HELOCs
- ▶ Term 2nds
- ▶ CRE
- ▶ Home Equity MBS
- ▶ Commercial MBS
- ▶ CFI Small Business
- ▶ CFI Farm RE

For additional information on how your institution can increase collateral capacity with the FHLBI, please contact your account manager or credit services at 1-800-442-2568.

Spirit Award

Randy Williams Receives Community Spirit Award

Recognizing excellence in community economic development

FHLBI • COMMUNITY SPIRIT AWARD

The Federal Home Loan Bank of Indianapolis and its Affordable Housing Advisory Council present the annual Community Spirit Award to honor an individual from one of its member financial institutions who has shown an outstanding dedication to affordable housing and community economic development.

Receiving the 2011 Indiana award was Randy Williams, President/CEO of Lafayette Savings Bank in Lafayette, IN.

Randy has served on the Board of Directors of Lafayette Transitional Housing Center for the past eight years and was instrumental in developing the funding structure to rehab the Lincoln School building into a 24 unit permanent supportive housing project. His financial background coupled with his dedication to help the homeless in the community created a perfect opportunity to apply for funds through the FHLBI's Affordable Housing Program. His leadership, passion and dedication have truly impacted the lives of those who are homeless.



Randy Williams
PRESIDENT/CEO
LAFAYETTE SAVINGS BANK
LAFAYETTE, INDIANA

In addition to his service for Lafayette Transitional Housing, Randy also serves on the Board of Directors of the Greater Lafayette Chamber of Commerce, as a Board Director of United Way of Greater Lafayette, and as an Advisory Council Member of the Tippecanoe County Council on Aging. He was recently appointed by Lafayette's Mayor to serve as a Board Director for the Region 4 Workforce Board.

FHLBI PERFORMANCE

(\$ in millions, unaudited)

As of September 30, 2011

Assets	\$40,950
Advances outstanding	\$ 18,564
MPP mortgages outstanding	\$ 6,107
Retained earnings	\$ 472

For the three months ended September 30, 2011

Net income	\$ 30
Return on average equity	6.19%

NEW MEMBERS APPROVED FROM JUNE 2011 THROUGH NOVEMBER 2011

Forethought Life Insurance Company
Indianapolis, IN

Hastings Mutual Insurance Company
Hastings, MI

Lapeer County Bank & Trust Co.
Lapeer, MI

Rivers Edge Community Credit Union
Allen Park, MI

SIR Federal Credit Union
Negaunee, MI

Washington National Insurance Company
Carmel, IN



FHLBI member Founders Bank & Trust obtained an advance under the FHLBI's Community Investment Program to assist with redevelopment of the Drueke Building in Grand Rapids, MI.

Small businesses, services, infrastructure... The essence of community life.

Consider a community that lacks jobs, vital services, decent housing, business activity, modern infrastructure. It is a community struggling to survive. But get just one piece of economic development up and running and others often follow.

Community Investment Program (CIP) loans from the FHLBI can kindle this revitalization, striking a spark that spreads through a neighborhood, filling the economic gaps with new possibilities for those who live there. School buses, a downtown mall, medical plazas, factories, recycling centers, apartment buildings, grocery stores, and many other projects have brought hope to low-income areas through CIP.

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

8250 Woodfield Crossing Blvd. ^ Indianapolis, IN ^ 317.465.0200 ^ www.fhlbi.com



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Indianapolis, Indiana 46240
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