

INDEPTH

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25
YEARS of Affordable Housing & Community
Investment Programs



The Hawks Opens to Artists, Entrepreneurs

FHLBI celebrates 25 years of the Affordable Housing Program by showcasing several projects that have opened in 2015, including The Hawks, a former furniture factory along the historic Mill Race Canal in Goshen, Indiana. [PAGE 12](#)

IN THIS ISSUE

2015 Shareholder Symposium [PAGE 6](#) | **Forward-starting Advance** [PAGE 10](#) | **Homeownership Initiatives** [PAGE 14](#)

FHLBI PERFORMANCE

(\$ in millions, unaudited)

As of March 31, 2015

Assets	\$43,651
Advances outstanding	\$ 21,826
Mortgage loans held for portfolio, net	\$ 7,412
Retained earnings	\$ 791

For the three months ended March 31, 2015

Net income	\$ 30.6
Return on average equity	4.43%

New members from January through June 2015

ACREFI Insurance Services, LLC, Detroit, MI
Credit Union Plus, Bay City, MI
Five Oaks Insurance LLC, Detroit, MI
Gleaner Life Insurance Society, Adrian, MI
Great Lakes Insurance Holdings, Inc., Detroit, MI
Mackinaw Insurance Company, LLC, Detroit, MI
Meadowlark Insurance Company, Detroit, MI
Partners 1st Federal Credit Union, Ft. Wayne, IN
People Driven Credit Union, Southfield, MI

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

DISCLAIMER: The articles in this magazine have been presented for educational purposes only. The FHLBI is not a financial or investment advisor. It is solely the reader's responsibility to evaluate the risks and merits of any funding strategy or business proposal before its implementation and to monitor its performance over time. If you need information for use in evaluation of a funding strategy, please contact our marketing staff.

4 Money Laundering and Financial Crime Risks

Criminals are moving money quickly and easily, challenging community financial institutions to keep abreast of current financial crime prevention and detection methods.

BY AGATA MAURER



3 Capitol Hill Highlights

5 Security Safekeeping

14 Homeownership Initiatives

16 Community Spirit Award

6 2015 Shareholder Symposium

Begin this two-day event in August with golf followed by a networking dinner to reconnect with peers or meet FHLBI staff and guests. Next, enjoy a day of outstanding speakers and presenters, including author and entrepreneur Josh Linkner and former CNBC economist Marci Rossell.



10 Forward-starting Advance

The forward-starting advance allows members to plan ahead for future liquidity needs based on current interest rates.

BY TODD HARGREAVES



12 Celebrating 25 Years of AHP

FHLBI members and their partners continue to access Affordable Housing Program grants, improving the lives many, including senior citizens, veterans, the homeless and disabled, and low-income families.

BY MIRIAM LEMEN



Message from the President and CEO



Cindy L. Konich

Twenty-five years ago, the Federal Home Loan Bank System unveiled its Affordable Housing (AHP) and Community Investment (CIP) programs, strengthening communities across the U.S. by awarding 10% of system profits in the form of home-building grants, and offering

low-cost loans for projects that benefit low- to moderate-income families or neighborhoods each year.

In that first round in 1990, FHLBI funded 12 projects with \$2.1 million in AHP grants, helping to create 314 affordable homes throughout Michigan and Indiana. Fast forward to 2014, when FHLBI sponsored 43 projects with \$17.6 million in AHP grants, supporting the creation of 1,500 affordable housing units in our district.

Last year, FHLBI also set aside \$7.8 million in grants to members to directly help their customers – existing or potential low-income homeowners – purchase or rehabilitate their homes. And we issued just shy of \$300 million in low-cost advances and letters of credit through the CIP in 2014, in support of local job creation, low-income housing solutions, and infrastructure improvements.

Come July 17th, we'll be announcing the 2015 AHP awards – our community investments team is scoring 45 AHP applications as I write, and preparing to award over \$10 million in support of affordable community housing this year. This issue includes several articles that will give you a flavor of our affordable housing commitment and history.

If your financial institution has not yet explored our AHP or CIP offerings, I hope these stories (beginning on p. 12) whet your appetite for a different opportunity to engage with your customer base.

FHLBI reported strong financial results for the first quarter of 2015, thanks in large part to our members' use of our products and services. Advances outstanding totaled \$21.8 billion at March 31, 2015, a \$1.1 billion increase over the December 31, 2014 total, driven by a 7% growth in advances to depositories and a 4% increase to insurance companies. Mortgage loans held for portfolio increased \$592 million from year-end 2014 to end the quarter at \$7.4 billion.

As a result of our members' active involvement, FHLBI again paid a 4% dividend on Class B-1 stock for the first quarter. We appreciate your ongoing support and will continue to provide you with solutions designed to meet your funding and liquidity needs.

Our regulator, the Federal Housing Finance Agency (FHFA), continues to mull over the more than 1,300 letters it received in opposition to its proposed FHLBank membership rule, which introduces several troubling hurdles and limits to FHLBank membership. In May, Sen. Richard Shelby (R-AL) introduced a sweeping regulatory reform bill that among other things would require FHFA to withdraw the proposal. Our government relations consultant Bill Hamilton weighs in on these legislative issues and more on p. 3.

We're finalizing plans for this summer's Shareholder Symposiums in Grand Rapids and Indianapolis and look forward to seeing you there. FHLBI has an incredible agenda of guest speakers, including Josh Linkner, founder of Detroit Venture Partners, and Marci Rossell, former Chief Economist for CNBC, along with Bill Cosgrove and Bill Emerson from the Mortgage Bankers Association. We'll also feature targeted break-out sessions, offering a great opportunity for you to learn and network with your peers and meet FHLBI staff. For a taste of Josh Linkner's approach to entrepreneurship, please see p. 6.

Sincerely,

A handwritten signature in black ink that reads "C. Konich".

Cindy L. Konich
President-CEO

Capitol Hill

Highlights BY BILL HAMILTON, FHLBI GOVERNMENT RELATIONS CONSULTANT

Partisan division has come to be the norm in our nation's capitol. Whatever the issue – environmental, social, domestic or international – hard, intractable division between Republicans and Democrats has been the rule. *And that is before the 2016 election cycle has even officially begun.*

One notable exception to that rule has been lawmakers' views toward community-based financial institutions and the Federal Home Loan Bank (FHLBank) System. To a considerable extent, Republican and Democratic senators and representatives have sought to shelter community banks from many of the legal and regulatory initiatives adopted or considered in reaction to the financial crisis.

Washington being Washington, bipartisan-ship can only go so far. The Senate Banking Committee on May 21 approved a regulatory relief bill on a 12-10 straight party line vote. The bill, drafted by Banking Committee Chairman Richard Shelby (R-AL), includes changes to the Federal Reserve and Federal Financial Oversight Council among other provisions, as well as easing regulatory burdens on small banks and credit unions.



Sen. Richard Shelby

Because of the nature of Senate procedure, Republicans must garner at least six Democrat votes to add to their 54-vote majority to ensure passage of the Shelby legislation on the Senate floor. Democrats on the Committee opposed the Shelby bill on the grounds that it was overly broad, stating they would support a more targeted bill focused primarily on small bank regulatory relief. In response, the senior Democrat on the Committee, Sherrod Brown (D-OH), introduced a bill that more narrowly focuses on regulatory relief for small banks and credit unions.

Notably, the Shelby bill would require the Federal Housing Finance Agency (FHFA), regulator of the FHLBanks, to withdraw a proposed rulemaking limiting FHLBank membership. Banks, credit unions, insurance companies and other supporters of the FHLBank system submitted a flood of negative comment letters to FHFA in response to the proposal.

In addition, 68 members of the House of Representatives crossed party lines to submit a joint comment letter urging FHFA to consult with Congress on membership changes to the FHLBanks. The agency received a similar bipartisan letter with the signatures of 29 senators, or nearly one-third of the U.S. Senate. Numerous members of both parties of the Michigan and Indiana congressional delegations signed on to the House and Senate letters.

The 2016 election cycle unofficially begins in September. After that date, the challenge of enacting legislation only becomes greater as lawmakers focus increasingly on re-election. Regardless of whether new laws are adopted, a continuing bright spot in the contentious politics of Washington today is Congress's recognition of the partnership between the FHLBanks and their members in communities nationwide and the public policy goals that it achieves.



IN MEMORIAM Milton J. Miller

September 9, 1955 - March 16, 2015

Milton joined FHLBI as a research associate in 1978, working his way up to President and CEO, a position he held from 2007 to 2013.

Milton will be remembered for his vision, humor, intelligence and drive.

Financial Crimes Pose Risks at Community Banks and Credit Unions

By AGATA MAURER, CRCM, CAMS,
FHLBI COMPLIANCE SPECIALIST

“The only thing that is constant is change.” We’ve all heard some version of this famous quote by Greek philosopher Heraclitus. The same can be said about financial crime affecting our industry. It continuously evolves, becoming more complex and sophisticated. When law enforcement and financial institutions uncover new schemes and create controls and detection tools, the criminal networks behind them swiftly adapt.

Similarly, over the last decade we have seen incredible changes in the way we conduct banking. Not only do traditional financial institutions offer new products not seen in past decades, we have witnessed the creation of entirely new services and methodologies. Think mobile banking, remote deposits, internet banking, and digital and online currencies. All these advances provide numerous conveniences to legitimate customers – but they also enable criminals to move money quickly and easily, with the added benefits of anonymity and invisibility.

Community banks and credit unions have done an outstanding job of adapting to and implementing new technology, with many at the forefront of innovation and change. But this means many financial crimes, such as money laundering, can no longer be dismissed as “big bank” problems.

Money laundering provides illicit proceeds to the multibillion dollar drug trafficking and human trafficking industries, and the reality is, a portion of this money is being moved through smaller, community banks and credit unions. As community financial institutions continue to rise to the challenge of financial crime prevention and detection, it’s important to understand how illicit funds could be laundered through your institution.

Don’t Overlook Established Accounts

Financial crimes are not limited to just new customers and accounts. Existing customers can also pose risks because criminal rings have learned that there may be less scrutiny on accounts with an established transaction history on record.

One known case involves members of an entire family opening accounts at several financial institutions, establishing a pattern of legitimate and low-risk transaction activity, becoming acquainted with bank employees, and striking when the timing was right. None of the branch tellers could believe the “sweet, elderly couple” that brought in chocolates was part of the con.

A new trend involves existing customers, both business and retail, selling their established bank accounts to the highest bidder. In addition, there is always the risk of a family member or an acquaintance/associate taking control of an existing account and using it for unauthorized transactions. The best controls for this include continuous employee training, the BSA/AML Risk Assessment, and ongoing account monitoring and review.

Avoid the “Good Customer” Trap

Too often we hear this vague term of “good customer,” yet frequently this term is completely undefined. Is this customer a “good” one because of the balances he keeps? Is it because of how long she has had accounts at your institution? It’s important to foster a culture of compliance where employees don’t feel discouraged from questioning a transaction or reporting unusual activity just because of a “good customer” tag. Relationship managers and loan officers should be careful not to inadvertently shut down inquiries from other employees for fear of offending the customer.

Not everyone feels comfortable questioning customers directly so a possible solution would be to create a process for

employees to report questionable activity to the compliance department or another designee. As my long-time AML mentor said, “If you find suspicious activity, report it, even if I or anyone else tells you not to.” It is crucial to train and encourage all employees that it’s not only acceptable – but expected – to question suspicious transactions.

Position Your Institution for Compliance Success

With the onslaught of new and changing regulations and increased regulatory scrutiny on AML programs, it’s important to continuously evaluate the compliance structure at your institution.

In many places, the compliance officer wears multiple hats: lending and deposits compliance, BSA/AML compliance, risk, operations or branch management. While this may have worked in the past, it’s important to reevaluate whether the compliance structure in place can continue to be successful going forward. This doesn’t necessarily mean hiring new employees – sometimes it’s about assigning the right responsibilities to the people who have the knowledge, skillset, and readiness to manage compliance successfully.

One of the best defenses against financial crime is to have a strong BSA/AML program – and the strength of this program depends on the strength of the person in charge of it. Your institution is filled with talented people. Right now is a great time to make sure they are positioned for success.

ABOUT THE AUTHOR:

Agata Maurer has 17 years of experience in the banking industry, with over 11 years spent managing all aspects of AML, financial fraud, and regulatory compliance. If you have any questions regarding this article, please contact Agata directly at amaurer@fhlbi.com.



FHLBI Streamlines Security Safekeeping Process for Customers

FHLBI's security safekeeping customers are enjoying faster and more user-friendly transactions when they notify FHLBI that they're buying and selling securities, thanks to changes that have streamlined the process.

"Many customers told us that using Member Link for security transactions was too slow and complicated," explained Security Safekeeping Analyst Alicia Briggs. "We listened to them and simplified the process to encourage more members to log on to Member Link."

Safekeeping customers now initiate a security transaction on Member Link by filling out a simple, one-page online form instead of clicking through several screens that were often slow to load. Customers have fewer data fields to complete and can select from prepopulated choices, further speeding up the process. FHLBI also extended the notification period for same-day transactions to 12 PM, giving customers two additional hours to enter their trades on Member Link.

After the changes rolled out, customers immediately noticed the improvements. Cathy Diethorn, senior financial analyst and risk specialist at Level One Bank in Farmington Hills, Michigan, frequently logs on to Member Link to conduct safekeeping business and noticed the difference between the old and new processes right away.

"What used to take me one and a half minutes to do now takes under ten seconds," Diethorn said. "Fewer pages of data entry and less time transitioning between screens means that I have more time to focus on high-impact tasks."

In addition to security safekeeping, FHLBI offers several other correspondent services, including wire transfers and automated clearinghouse services. To learn more about our correspondent services, call 800.765.0465 or contact Lisa Chilcote, Cash Manager, at 317.465.0477 or lchilcote@fhlbi.com.



LEFT TO RIGHT: Jennel Cameron - Correspondent Services Representative and Alicia Briggs - Safekeeping Analyst.

BOARD OF DIRECTOR ELECTIONS

ALL NOMINATIONS DUE BY JULY 31

FHLBI has begun the 2015 Board of Directors election process. Two Michigan member director seats and two independent director seats, each for a four-year term, are open for the 2015 election. Each Michigan member of record as of December 31, 2014, may nominate up to two member director candidates. The nomination period for Michigan member directors opened on June 26, 2015 and closes at 5:00 PM (EDT) on July 31, 2015.

Similarly, to be considered for the 2015 election, applications for independent directorships must be received by FHLBI no later than 5 PM (EDT) on July 31, 2015. Individuals interested in independent directorships should visit fhlbi.com for more information, including eligibility requirements and an application.

On June 26, 2015, each member's listed contact person should have received an email from Survey and Ballot Systems (SBS) with detailed instructions for logging into the SBS website and submitting nominations. If you have not received this email, or if you have any questions, please contact Mike Zaradich, FHLBI Assistant General Counsel, at 317.465.0295 or mzaradich@fhlbi.com.

Voting for the 2015 director election begins October 1, 2015 and ends November 2, 2015.

EXCERPT FROM

The Road to Reinvention

by Josh Linkner

Creating a culture that empowers creativity at all levels is critical for leaders who have an interest in competing. Creativity has shifted from a nice-to-have to becoming the most powerful (yet often dormant) asset of an organization. The world has become too complex to have team members simply follow an operating manual and expect to succeed. Today, team members must thrive in a state of constant change, making judgment calls in the face of ambiguity. The challenge for leaders is to provide a philosophical framework that allows people to express their creativity and have the confidence to innovate.

What are the principles that lead to a reinvention culture? How can you craft a culture that supports responsible risk taking and creative expression? What approaches and techniques can be used to build and sustain a sense of imagination and wonder? Having studied hundreds of high-performance, creative organizations, I find that these are common threads of cultural brilliance:

FUEL PASSION

Passion is the essential ingredient for building a creative culture. Every great invention, every medical breakthrough, and every advance of humankind began with passion: a passion for change – for making the world a better place; a passion to contribute – to make a difference; a passion to discover something new. With a team full of passion, you can accomplish just about anything as long as you are able to focus that raw passion into a collective sense of purpose. Steve Jobs wanted to “put a ding in the universe.” Whole Foods Market was founded with the goal of becoming the world’s leading natural and organic foods supermarket retailer. Pixar wanted to reinvent the animated film industry. Pfizer is about saving lives. Your specific purpose must be your own, but the bigger and more important your purpose is, the more passion it can create within your team. That passion will allow you to achieve the goal you’ve outlined, the purpose driving you forward.

HUNT AND KILL ASSUMPTIONS

As organizations and industries progress, assumptions codify and become unwritten rules. Someone may comment, “That’s just the way we do it around here,” or, “That is how it’s done in our industry.” Those phrases should be considered fighting words since they blindly follow the past with no regard for current circumstances. The most dynamic organizations challenge their core beliefs on a regular basis and refuse to accept policies, processes, or procedures solely based on tradition. Just because something hasn’t been achieved in the past does not in any way forbid it from happening now or in the future. By definition, all great advances in business and society are those that forge new ground.



“I’m thrilled to be able to contribute to the two FHLBI events this August. The industry is in the midst of significant change, making the need for fresh, innovative approaches mission critical. I look forward to sharing stories and best practices on bold strategies to drive growth, creativity, and meaningful outcomes. I’m excited to deliver a talk that’s both energizing and practical in order to drive tangible results.” JOSH LINKNER

For more insights from Josh Linkner on creating a culture of creativity, join us at the 2015 FHLBI Shareholder Symposium this August. Learn more at joshlinkner.com.

REGISTER @ FHLBI.COM

ADVANCE

YOUR BUSINESS

FHLBI's 2015 ANNUAL SHAREHOLDER SYMPOSIUM

Two convenient locations. One great event.

This year's symposium provides an excellent opportunity to listen to national industry experts and gain insight into the economy, mortgage markets and funding strategies relevant to your business needs.

SPEAKERS



Josh Linkner

As founder and CEO of four tech companies, Josh Linkner built his businesses from a blank page into a combined value of over \$200 million. He is now an internationally recognized thought leader and top-rated speaker on innovation, creativity, reinvention, and hyper-growth leadership. His keynotes are focused on not only inspiring audiences, but also sharing actionable strategies to drive meaningful outcomes. Josh is a weekly contributor to *Inc.*, *Forbes*, and the *Detroit Free Press*. He has twice been named the Ernst & Young Entrepreneur of the Year and is a President Obama Champion of Change Award recipient.



Marci Rosell

Marci Rosell electrifies audiences nationwide, speaking on the nexus of economics, politics, culture and the media. Previously, Marci was Senior Economic Advisor for Delphin Investments, and the Chief Economist for CNBC in the months immediately following September 11, 2001. Prior to her career in broadcast journalism, Marci served as Corporate Economist and Investment Spokesperson for OppenheimerFunds. She earned a PhD in economics from Southern Methodist University, where she was named a Young Alumni of the Year in 2002.



Bill Cosgrove

Bill Cosgrove, Chairman of the Mortgage Bankers Association, is the owner and CEO of Union Home Mortgage Corp., in Strongsville, Ohio. He served as president of the Ohio Mortgage Bankers Association from 2007 to 2008 and as the National Chairman for MBA's MORPAC Committee from 2008 to 2010, raising \$1.1 million for industry activism during his tenure. In 2011 Bill received MBA's annual Burton C. Wood Legislative Service Award. He has testified before a U.S. House Financial Services Subcommittee, the U.S. Senate Committee on Banking, Housing, and Urban Affairs, and the Ohio House of Representatives. Bill has also been interviewed by the *Wall Street Journal*, *USA Today*, and numerous trade publications.



Bill Emerson

Bill Emerson is the Mortgage Bankers Association's Chairman-Elect and will soon become the 2015 Chair of MBA's Diversity Committee. In addition, Bill serves on MBA's Board of Directors and is a member of the Financial Services Roundtable's Housing Policy Council. He is Chief Executive Officer of Quicken Loans, the nation's largest online home loan lender and second largest retail mortgage lender. Bill joined Quicken Loans in 1993 as a mortgage banker before being named CEO in 2002. He has testified before the U.S. House Financial Services Subcommittee on Financial Institutions and Consumer Credit.



ADVANCE

YOUR BUSINESS

FHLBI's Shareholder Symposium brings together CEOs, CFOs, Chief Investment Officers, and lending and treasury professionals from each of our membership sectors – banks, credit unions and insurance companies – providing participants an ideal opportunity to share insights while networking with fellow industry leaders.

GOLF

Egypt Valley Country Club, Grand Rapids August 10

Legendary golf course architect Arthur Hills designed the two championship courses, The Ridge and The Valley, relying on the wooded Michigan landscape to challenge even the best golfers.

Highland Golf & Country Club, Indianapolis August 24

Host to the 2013 and 2014 Indianapolis Open Championships, Highland has a nearly 100-year history of providing an enjoyable experience for both novice and expert golfers.

NETWORKING DINNER

All attendees are invited to gather at the JW Marriott in **Grand Rapids on August 10** or the Marriott North in **Indianapolis on August 24** to relax, make new acquaintances, reconnect with old friends, and meet FHLBI staff and Symposium speakers. Enjoying cocktails during the reception and continue your conversation during dinner in the hotel ballroom.

SHAREHOLDER SYMPOSIUM

JW Marriott, Grand Rapids – August 11
Marriott North, Indianapolis – August 25

AGENDA

- 7:30 AM** Registration & Continental Breakfast
- 8:30 AM** FHLBI Update - Cindy Konich, President & CEO
- 9:15 AM** *"The Road to Reinvention"* (Grand Rapids)
Josh Linkner, Author and Co-founder
Detroit Venture Partnership
- Economic Update (Indianapolis)
Marci Rossell, former CNBC Economist

CONCURRENT BREAKOUT SESSIONS

- 10:45 AM**
 - A. Advancing Your Borrowing Capacity
FHLBI Collateral
 - B. Advancing Your Community
FHLBI Community Investment Programs
 - C. Asset Liability Management - The Baker Group
- 11:30 AM**
 - A. Trends in Commercial Real Estate - DebtX
 - B. Advancing Your Community
FHLBI Community Investment Programs
 - C. Asset Liability Management - The Baker Group
- 12:15 PM** **LUNCH**
- 1:00 PM** Mortgage Bankers Association
Bill Emerson, Chairman-Elect (Grand Rapids)
Bill Cosgrove, Chairman (Indianapolis)
- 2:00 PM** Economic Update (Grand Rapids)
Marci Rossell, former CNBC Economist
"The Road to Reinvention" (Indianapolis)
Josh Linkner, Author and Co-founder
Detroit Venture Partnership
- 3:00 PM** **ADJOURN**

REGISTER @ FHLBI.COM

Strong Turnout at MPP Conference

Nearly 140 attendees from 81 member institutions gathered in Lansing and Indianapolis for FHLBI's two Mortgage Purchase Program (MPP) Conferences.



MPP conference participants listen to Vance Edwards from Mortgage Guaranty Insurance Corp. discuss current U.S. economic and housing market conditions.

Mortgage Acquisitions Manager Cathy Garrett opened each conference, introducing the MPP team, including new MPP Senior Director Dan Green and Deron Streitenberger, FHLBI's Chief Information/MPP Operations Officer.

Dan has returned to his native Indiana after over 30 years serving in various mortgage industry positions, including 15 years at Freddie Mac in Chicago where he worked with Midwest mortgage customers. "I'm glad to be back in the Midwest, working for a well-run organization with a successful mortgage purchase program," Dan commented. "I look forward to meeting our members and learning about how we can improve MPP to best meet their mortgage sales needs."

Deron is no stranger to MPP or financial services operations. He and his team have been integral to designing, developing and upgrading key technology assets that serve as the keystone to our MPP system. In fact, MPP will soon roll out a new version of its proprietary Loan Acquisitions System (LAS) that customers can run on a variety of Internet browsers, improving speed and functionality. Prior to joining FHLBI, Deron served as Chief Information Officer and Vice President at North Carolina-based Republic Financial Indemnity Group, where he oversaw all operational aspects of Republic Financial and four of its subsidiaries.



At the Indianapolis MPP Conference, Jeff Harry of Capital Markets Cooperative Funding (CMC) spoke about the company's strategic alliance with FHLBI. CMC is focused on flexibility, adaptability and service, making it an ideal partner for MPP's servicing released option.

After Dan Green provided an overview of 2014 MPP highlights, FHLBI Community Investment Officer MaryBeth Wott explained how the bank's Affordable Housing Program can be a strong fit with members' mortgage businesses. The morning session ended with roundtable discussions covering topics such as underwriting guidelines and loan delivery using FHLBI's LAS technology.

Following lunch, Jeff Harry and Rex Lau with Capital Markets Cooperative Funding (CMC), MPP's mortgage servicing partner, provided background on the company and how the partnership with FHLBI fits well with CMC's business strategy.

Vance Edwards from Mortgage Guaranty Insurance Corp., another MPP partner, discussed the U.S. economy, focusing on the health of the housing and mortgage markets. FHLBI's Marketing Director, Brett Vanderkolk, wrapped up the conference with a presentation on the benefits of doing business with FHLBI.



LEFT TO RIGHT: Dan Green - Senior Director MPP Operations, Cathy Garrett - Mortgage Acquisitions Manager with Lansing conference speaker Rex Lau of Capital Markets Cooperative Funding (CMC). CMC services loans for MPP's servicing released customers.

Forward-starting Advances

Members can meet both immediate and future funding needs.

By TODD HARGREAVES, VP - ADVANCES MANAGER

One of FHLBI's newest advance product variations, the forward-starting fixed-rate bullet, provides members more options when managing their balance sheets in a variety of interest rate environments.

Planning for the Future

The forward-starting fixed-rate bullet advance is designed to help members mitigate the impact of rising interest rates by letting them plan ahead for their future liquidity needs based on current interest rates. Simply put, a member executes a rate commitment for a fixed-rate bullet advance today that would start in the future. The advance combines a forward-rate commitment during the initial "forward-starting" period, followed by a fixed-rate bullet advance after settlement. The advance rate is determined at the time of the commitment.

With the forward-starting advance, FHLBI can offer much longer rate commitment periods – up to three years – so members benefit from the current low interest-rate environment without adding immediate liquidity. In comparison, the forward

settlement commitment for a standard fixed-rate bullet advance with a term of one year or longer is capped at five business days. Further, the member pays no interest on the forward-starting advance until the fixed-rate bullet advance is funded. And because all pricing, hedging, and funding costs are built into the forward-starting advance rate, there are no associated up-front costs.

Current Market

Current interest-rate spreads indicate that timing may be right to consider a forward-starting advance. One way FHLBI evaluates the attractiveness of the forward-starting advance is by analyzing the change in the spread between the 2-year and 10-year Treasury yields. The chart below provides insight into the 2-year/10-year spread from January 2010 through the end of April 2015. The Treasury yield curve has flattened and the spread is at – or close to – period lows. Typically, a flatter yield curve results in a less expensive forward-starting advance. While the absolute rate environment and the length of the forward settlement do play a role in the pricing of the forward-starting advance, we have not seen a better time in the recent past

to consider the potential benefits of the forward-starting advance.

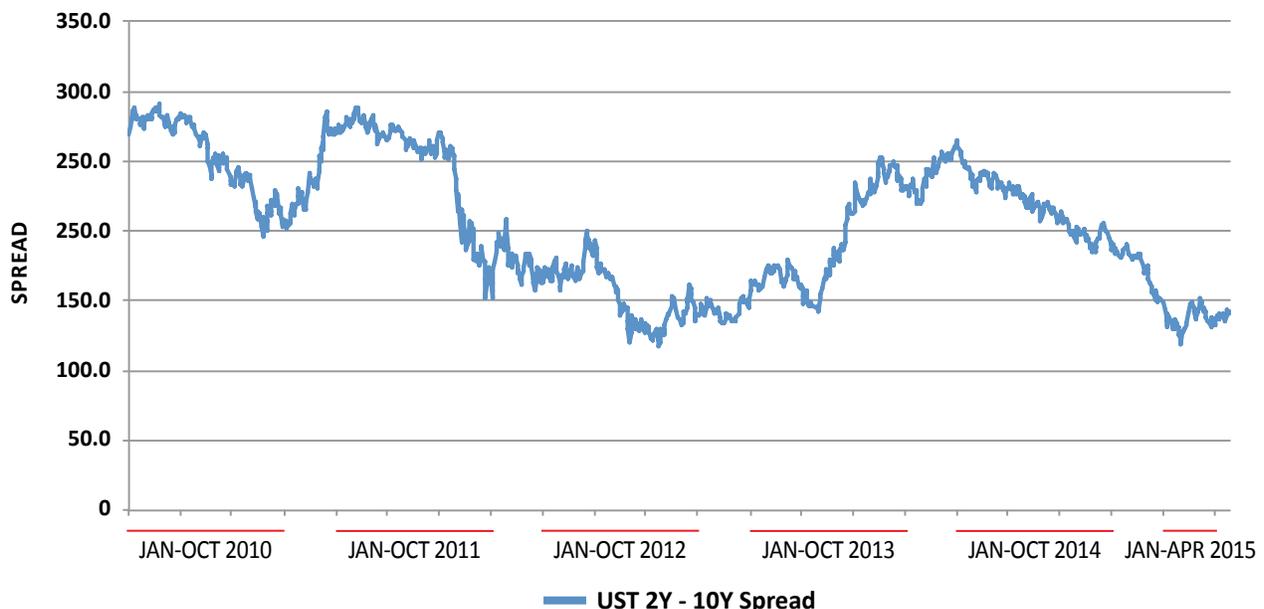
How it Works

Let's look at an example of how a forward-starting advance works.

An FHLBI member's customer needs a \$5 million loan to construct a small retail store and provide permanent financing following construction. The customer, expressing concern about rising interest rates, asked about locking in the fixed rate on the permanent loan BEFORE construction begins. To meet the customer's needs, the member would need to simultaneously fund a construction-to-permanent loan with a construction period of one year and a permanent loan of five years. The illustration on the next page demonstrates how a \$5 million forward-starting advance with an initial 1-year commitment period addresses the customer's need while saving the member money by becoming a 5-year fixed-rate bullet advance with a rate of 2.12%.

The FHLBI member knows that it could get a standard fixed-rate bullet advance (current indication of 2.04%) for six years, with interest payments totaling \$612,000.

2-Year Treasury & 10-Year Treasury Spread



5-year fixed-rate bullet advance starting one year forward



Rate = 2.1%*
*Rate is an indication. Actual rate will be set at time of commitment.

But what if instead, the member borrowed the full amount in a variable rate advance (current indication of 0.44%) for the construction phase and used the forward-starting advance for the permanent loan at the terms referenced above? Total interest expense for the six years would be \$555,000, a nearly \$60,000 savings. Considering that most members would not borrow the full \$5 million at the beginning of the construction phase, the interest expense savings calculated here is conservative.

Members should also consider using the forward-starting advance to replace known deposit runoff or to fund expected loan growth on future dates using current rates.

If your institution is interested in learning more about the forward-starting advance, or any other FHLBI advance product, please call your account manager or contact the FHLBI Credit Desk at 800. 442.2568.

ABOUT THE FORWARD-STARTING ADVANCE

- Available only in conjunction with a fixed-rate bullet advance.
- TERMS
 - > For an advance term of 2 to 5 years, forward settlement dates up to 1 year.
 - > For an advance term of 3 to 5 years, longer forward settlement dates may be available.
 - > An application will be required to specify terms.

- Actual advance rates will be set at the time of origination/commitment. A Confirmation of Mandatory Takedown Rate Commitment for Term Advance must be executed by two of a member's authorized officers to confirm commitment and advance terms.
- Once a forward-starting rate commitment is made, takedown on the forward settlement date becomes mandatory.
- A member will be required to collateralize 10% of the principal amount of the advance. Upon settlement, customary collateral requirements per FHLBI's Collateral Policy apply.
- Given the complexities of funding this product, FHLBI must receive a total of \$5 million in requests to execute a forward-starting fixed-rate bullet advance.



ABOUT THE AUTHOR: With over 18 years of financial services experience, Todd Hargreaves oversees the daily operations of the advances, line of credit, and letter of credit portfolios. He earned his MBA with concentrations in finance and marketing from Vanderbilt University's Owen Graduate School of Management.

FHLBI IMPLEMENTS COLLATERAL POLICY CHANGES

FHLBI updated its minimum over-collateralization requirements (OCRs) for assets pledged as collateral effective May 1, 2015. In addition to modifying several existing OCRs for both securities and whole loan collateral, FHLBI lowered many OCRs – particularly for multifamily residential and commercial real estate loans – resulting in increased borrowing capacity for most members. However, some OCRs increased, including those for HELOCs, Term Seconds, and AAA-rated non-agency RMBS.

FHLBI last revised its OCRs in 2010, upholding our philosophy to maintain consistency and stability with OCRs to ensure our reliability as a liquidity provider. During these past five years, we have dedicated resources to enhancing our collateral market valuation methodology, processes, and models, allowing us to expand the types of assets we accept as collateral and the level of granularity within the OCR matrix, most notably for Treasuries and Agency securities based on remaining years to maturity.

Members can refer to FHLBI's Credit Policy posted on the Credit Services Policies & Procedures page on Member Link to learn more about minimum OCRs. Please contact Credit Risk Director Scott Stansberry at 317.465.0505 or dstansberry@fhlbi.com with any questions.



Affordable Housing & Community Investment Programs

Creating hope and opportunity for local communities.

In 1989 Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) that created the Federal Home Loan Bank System's Affordable Housing Program (AHP) and Community Investment Program (CIP), strengthening communities across the U.S. by awarding grants funded with 10% of system profits and offering lower cost loans to borrowers for projects benefitting low- to moderate-income families and neighborhoods.

AHP has positively impacted Indiana and Michigan communities because of its flexibility in providing quality affordable housing to all in need, including senior citizens, veterans, homeless, disabled, and low-income families. Our member financial institutions are, of course, key to meeting Indiana and Michigan affordable housing and economic development needs. They and their local partners work together to understand their communities' needs and find practical solutions, including the projects highlighted on the next few pages.



Hawks Center Opens for Goshen, Indiana Artists and Entrepreneurs

A former furniture factory built along Goshen, Indiana's historic Mill Race Canal reopened this spring as The Hawks, an affordable housing rental development specifically designed for artists and entrepreneurs. LaCasa, Inc., a nonprofit housing agency serving Elkhart County in northern Indiana, developed the \$7 million project supported by a \$500,000 FHLBI Affordable Housing Program (AHP) grant awarded to Lake City Bank.

Each apartment contains dedicated space with a utility sink and movable walls that residents can use, for example, as an art studio where they can paint, draw or sculpt, or as in-home business space. While the apartments were built to meet the practical needs of artists and entrepreneurs, their finishes reflect an artistic sensibility, including exposed duct work and bricks, sealed concrete floors, high ceilings with beams, and skylights to let in the natural light that artists often need. The Hawks also includes common areas such as shared gallery spaces, a meeting room and green space that encourage tenant engagement, cooperation and community involvement.

In addition to meeting affordable housing needs, the Hawks serves as an important economic redevelopment tool for the area. "The Hawks was the first project to be developed along the canal," explained LaCasa President Larry Gautsche. "As a result of our investment, other developers have purchased the remaining parcels of land, bringing a variety of housing to the community."

Why affordable housing for artists and entrepreneurs? Goshen is home to Goshen College, a small liberal arts school. According to Gautsche, during the past five years more graduates have decided to remain in Goshen to start their own businesses, strengthening their commitment to the town and contributing to the success of the entire community.

All 35 apartments were leased before The Hawks officially opened, speaking to the popularity and need for this type of housing. The tenant association is already quite active, with small groups meeting regularly to share ideas about similar interests, such as painting and gardening. "Seeing people collaborate is an incredible dynamic for the community," Gautsche said.



Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) signed into law.

1989

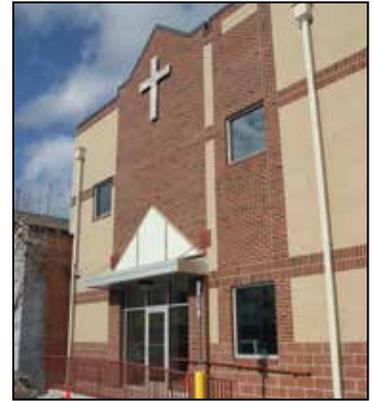


FHLBI's first Affordable Housing Program (AHP) round awarded \$2.1 million for 12 projects.

1990

Wheeler Mission Ministries' Shelter for Men

Completed in January 2015, this addition to the historic Wheeler Mission at the corner of Market and East streets in downtown Indianapolis provides daytime shelter for up to 300 homeless men. The shelter offers lockers, a large dayroom, and mission offices on the first floor. Showers, restrooms, a laundry and large community space for activities or sleeping make up the second floor. An elevator allows handi-capped men access to beds on the second floor. Previously, they had to sleep on mats in the first floor dining room. Wheeler Mission has increased its capacity to 174 from 124, and planned renovations on the original building will bring bed capacity up to 200. Old National Bank provided a \$500,000 AHP grant to help fund the Shelter for Men.



Pleasant-Prospect Homes

Inner City Christian Federation (ICCF), an AHP user since 1990, partnered with Mercantile Bank of Michigan to receive a 2014 \$500,000 grant for Pleasant-Prospect Homes in Grand Rapids, Michigan. The grant supported the substantial renovation of 30 duplexes built with AHP grants in the early 1990s, as well as the addition of 15 duplexes. The development also includes a community center that provides a conference room, work stations, laptops and a part-time resident support coordinator who provides additional services to residents. The duplexes embody ICCF's mission of providing quality homes to low-income families to help maintain their dignity as they work their way out of poverty.

Lincoln Park Lofts

Wayne Metropolitan Community Action Agency (Wayne Metro) developed Lincoln Park Lofts in Lincoln Park, Michigan, a Detroit suburb, converting the former Park Theater into 12 apartments with two commercial spaces, and constructing 26 new apartments with parking spaces at the back of the property.

Wayne Metro CEO Louis Piszker is excited about the project that officially opened in January 2015 as it combines blight removal, historic preservation, affordable housing, supportive services and commercial development into one initiative. Wayne Metro partnered with Talmer Bank and Trust, receiving a \$250,000 AHP grant to support the renovations and construction. Wayne Metro has also partnered with many local organizations to offer supportive services for Loft residents, including job training, mental health services, and crisis intervention.



Home Savings Program debuts, paving the way for our current initiatives.

1996



FHLBI launches Homeownership Opportunities Program & Neighborhood Impact Program.

2003

FHLBI Members Help Local Residents Purchase and Renovate Homes

BY SHANNON FOUNTAIN, COMMUNITY LENDING MGR.
MIRIAM LEMEN, CORP. COMMUNICATIONS MGR.

In 1996, 14 members participated in FHLBI's first homeownership initiative, a pilot program funded with \$500,000 to help local residents purchase homes. Nineteen years later, FHLBI remains committed to its affordable housing mission with three programs designed to address housing needs throughout the life cycle of homeownership: the Homeownership Opportunities Program (HOP) to help first-time homebuyers achieve their dream; the Neighborhood Impact Program (NIP) to assist low-income homeowners with home repairs; and the Accessibility Modifications Program (AMP) to aid seniors and households with disabled members with changes that allow them to stay in their current homes. Read about how three FHLBI members are accessing grants from these programs to improve the lives of their customers.

Freedom Bank

First-time homebuyers in southern Indiana have found an ideal partner in Freedom Bank. "We were working with several customers who qualified for a mortgage, but they didn't have enough money saved for a down payment," explained Freedom Bank Loan Officer Jeff Dicus. "So we began talking about what kind of assistance was available to help put families into homes."

That conversation led Dicus and Freedom Bank's Vice President Scott Neff to sign up for FHLBI's Homeownership Opportunities Program (HOP), a program that provides up to \$10,000 for down payment and closing cost assistance for first-time homebuyers. Within two months of signing up for the program, Freedom helped four local residents purchase homes with HOP grants.

As a locally owned and operated community bank with four branches in mainly small, rural towns, Freedom understands the community and knows its customers. "Word of mouth is essentially our marketing tool for HOP grants," commented Neff. "In small communities, once you help one or two people, others soon follow." Because of its positive experience with HOP, Freedom is thinking about participating in FHLBI's Neighborhood Impact Program (NIP), which provides grants up to \$10,000 for home repairs and renovations.

In the meantime, Freedom's commitment to making homeownership a reality for local residents continues. "We hope to be the first FHLBI member to reach the HOP per member limit of \$500,000," Dicus declared. FHLBI hopes that as well.



AHP Celebrates 15 years, 1990-2005
19,444 total units, \$136 million in grants.

2005

1st Source Bank

An elderly couple called the City of South Bend offices inquiring about getting financial assistance to install a lift chair so they could access their home's second story. Their first attempt yielded no help, but their persistence paid off when they called back a year later. The city, having heard about FHLBI's Accessibility Modifications Program (AMP), referred them to Shawn Carlton, Assistant Vice President at 1st Source Bank, who helped the couple obtain an AMP grant to purchase and install the lift chair, allowing them to remain in their family home. FHLBI launched AMP in 2014 to address the needs of Michigan and Indiana's rapidly aging population.



A lift chair is one of many home improvements that qualified homeowners can make using AMP grants.

"The process of applying for the AMP grant was fairly quick and easy. The couple obtained the two bids required by the program and presented us with all the documentation that we needed to process the application."

SHAWN CARLTON, ASSISTANT VICE PRESIDENT, 1ST SOURCE BANK

Since this initial application, 1st Source Vice President Mark Gould has been developing relationships with other local organizations, such as Catholic Charities, to spread the word about AMP throughout the community.



Accident Fund Insurance Co.'s Lansing headquarters - an exceptional urban renewal project using CIP advances & letters of credit.

2008

Because 1st Source was already an active user of FHLBI's HOP and NIP products, adding AMP to their portfolio of customer's tools was simple. The bank has become one of only five FHLBI members to use all three initiatives in 2014.

Both Carlton and Gould have advice for other members thinking about participating in any of FHLBI's homeownership initiatives:

- **Be organized!** Develop checklists of necessary documentation, along with policies, procedures and memorandums of understanding to ensure everyone involved understands and agrees to the requirements.
- **Set expectations with clients up front.** Some applications are more complex than others and may take longer to process. It's also important to remember that not everyone is going to qualify.



Mercantile Bank of Michigan obtained a grant through FHLBI's Neighborhood Impact Program to help a Grand Rapids family improve their home with new windows, siding and doors.



Mercantile Bank of Michigan

Mercantile Bank, headquartered in Grand Rapids, Michigan, has used \$1.2 million in Neighborhood Impact Program (NIP) grants over the last 10 years to help 150 households with home repairs and renovations, frequently partnering with municipalities that match sources of funding with the appropriate organization. For example, a city inspector may encounter a homeowner that needs to make several improvements. The inspector might send the homeowner to Mercantile for a NIP grant to cover the costs of a new roof and windows but recommend other resources for the remaining improvements.

Mercantile has also participated in HOP for more than 10 years, matching low-income first-time home buyers with nearly \$900,000 to help with down payments and closing costs. Sonali Allen, Compliance & Community Development Officer at Mercantile, distributes information to local housing and supportive services agencies and realtors to get the word out about HOP. She also talks with Mercantile's loan officers, providing them with just enough information so they are comfortable referring a potential grant recipient to her without feeling they need to be an expert.

“It doesn't make sense NOT to actively promote the Homeownership Opportunities Program. It's a chance to establish a relationship with a potential customer, even if you can't give them a mortgage.”

SONALI ALLEN, COMPLIANCE & COMMUNITY DEVELOPMENT OFFICER

Allen is eager to start using AMP. She's already met with two local agencies that help people with disabilities to modify their homes. Allen agrees with 1st Source's advice to members on getting started with the initiatives. “Develop checklists and simple applications and put it all in one packet,” she suggests. “It keeps documentation together and makes applying for the grants easier.”

For more information about any of FHLBI's Homeownership Initiatives, visit Community Investment at fhlbi.com or call 800.688.6697.



Lincoln Apartments in Indianapolis - Indiana's first permanent supportive housing for veterans.



New Accessibility Modifications Program introduced.

2012

2014

community spirit

Martin L. (Marty) Heger, Jr.,

Vice President and Chief Lending Officer at Dearborn Federal Savings Bank, Dearborn, Michigan received FHLBI's 2015 Michigan Community Spirit Award. The award honors an individual from one of FHLBI's member financial institutions who shows outstanding dedication to affordable housing and community economic development.

Cass Corridor Neighborhood Development Corp., an organization dedicated to improving housing and economic conditions along Cass Ave., one of Detroit's main arteries, nominated Marty for the award based on his support of their Cass Plaza Apartments project. In partnership with Marty and Dearborn Federal, Cass Corridor was awarded a \$500,000 FHLBI Affordable Housing Program (AHP) grant to support the renovation of two vacant historic buildings in midtown Detroit into 47 apartments for low-income residents. When the project experienced significant delays, jeopardizing the disbursement of the AHP grant, Marty partnered with Cass Corridor to keep the project on track, spending countless hours strategizing with funders to ensure Cass Plaza Apartments would go forward. His efforts are paying off as one building is completed and fully leased, with the second building on track to open before year end.



Martin L. Heger, Jr.
Vice President & Chief Lending Officer
Dearborn Federal Savings Bank



Cass Corridor Neighborhood Development Corp. received a \$500,000 grant from FHLBI's Affordable Housing Program to help renovate two vacant historic buildings in midtown Detroit into 47 affordable apartments. The first building is complete and fully leased, with the second building set to open by year end. The apartments address a critical need for affordable housing in a struggling Detroit neighborhood.

"I would like to thank the Federal Home Loan Bank of Indianapolis for this prestigious award, as well as Bob Zinser and Patrick Dorn for the opportunity to work with the Cass Corridor Neighborhood Development Corporation," Heger said. "I am honored not only to receive this recognition but also to be part of a project that is dedicated solely to affordable housing in the City of Detroit." Heger also expressed his appreciation to Dearborn Federal Savings for supporting the AHP grant process.



Marty has served as Chief Lending Officer since 2002 and is responsible for all of the bank's residential and commercial lending activities. He holds a Bachelor of Arts degree in economics from the University of Michigan and an MBA from Wayne State University. Marty is also involved in his community, holding leadership positions with Michigan Bankers Title and the Dearborn Chamber of Commerce. An accomplished musician, he frequently shares his talents with various charitable organizations.

About the Community Spirit Award: FHLBI staff and its Affordable Housing Advisory Council select two Community Spirit Award recipients annually from among their nearly 400 member financial institutions, one in Michigan and one in Indiana, from nominations submitted by nonprofit organizations, for-profit housing developers or member institutions. The award recognizes efforts to revitalize local communities or increase the availability of quality affordable housing. In addition to the award, FHLBI makes a donation in the recipient's honor to a nonprofit organization or charity of their choice.



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