FHLBI
FEDERAL HOME LOAN BANK OF INDIANAPOLIS

INDEPTH

WINTER 2014 | VOLUME 9 | ISSUE 2 | FHLBI.COM

Celebrating FIRREA's 25th Anniversary

President George H.W. Bush signs legislation expanding FHLBank membership to include commercial banks and credit unions and establishing the highly successful Affordable Housing and Community Investment Programs. PAGE 4

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Thanks to all FHLBI members, affiliates and friends who took the time to comment on the FHFA proposed rule concerning changes to the FHLBank membership.*

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Bloomfield State Bank

Michael Brown
Kalamazoo Gospel Mission

Mary Buikema
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Ron Buit, Jr.
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David Carroll
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Bart Colwell
Terre Haute Savings Bank

Peter Confer
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Marc Craig
Community Housing Network

Vicki DenBoer
West Michigan Community Bank

Eric Eishen
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Marvin Elenbaas
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Former FDIC Chairman

David Kashian
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Mike Worden
Honor Bank

Ravi Yalamanchi
Metro Community Development, Inc.

It's not too late to submit comments. Contact your Account Manager or FHLBI's Credit Services desk at 800.442.2568 for assistance. You can also visit the fhlbi.com home page for a direct link to the FHFA comment portal.

** Posted as of 11.26.14 on the FHFA comment portal*

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.**

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On the cover: President George H.W. Bush signed the Financial Institutions, Reform, Recovery and Enforcement Act in August 1989. Pictured clockwise from Pres. Bush (seated), are Michigan Senator Don Riegle, Treasury Secretary Nicholas Brady, Senator Phil Gramm, Budget Director Richard Darman, and Representatives Henry Gonzalez and Chalmers Wylie.

Photo: FHLBI Archives

Message from the President and CEO

Cindy L. Konich

FHLBI: Full Steam Ahead

In late September the Federal Home Loan Banks of Seattle and Des Moines announced plans to merge.

Members of both banks are expected to vote to approve the combination in early 2015, with the completion of the merger expected during the first half of the year. The consolidated bank, serving financial institutions in 13 states and the U.S. Pacific territories, will be based in Des Moines with a regional presence in Seattle.

It is in this context that I'd like to take a moment to underscore an important message to our members: the Federal Home Loan Bank of Indianapolis is not considering a merger.

Our goal is to be best positioned to serve our customers moving forward, and we're confident that we're on track to keep delivering: we've got the strategy and balance to focus on serving our members' needs, and the stability and the access to liquidity that our members want.

FHLBI is profitable, pays out excellent dividends, and has developed and implemented strategies focused on meeting the needs of our nearly 400 members now, and also in the future. In short, I am confident in FHLBI's ability to safely and soundly serve our members.

Perhaps more importantly, moving forward we have the dexterity, flexibility and forethought needed to ensure we'll be ready to deliver on our mission: providing reliable access to low-cost funding for our member financial institutions and the Indiana and Michigan communities they serve.

Over the years, we've invested thoughtfully in building our future, and more importantly, your future:

- It's why we introduced the Mortgage Purchase Program (MPP) in 2001, providing an innovative opportunity for our members to sell mortgages without the usual associated guarantee fees and with financial incentives based on the quality of the loan being sold. And don't forget, all FHLBI members benefit from the profitability of the MPP Advantage program through our cooperative structure.
- It's why we've worked so hard to understand our insurance industry members and to build robust institutional expertise, so that we can meet their financing requirements with confidence that we are protecting and serving the liquidity needs and dividend expectations of all of our members.
- It's why we've made significant investments and commitments in people and technology, building full-service front-to-back capabilities designed to improve the efficiency and effectiveness of everything we do. We've put together nimble teams that work cohesively with the member-facing parts of the organization to ensure we're ready to effectively react and adapt as the environment changes, so that we can always put members first.

As you can see, we've developed – and continue to nurture – strategic advantages that mean FHLBI is built to last. It also means we're agile – and ready to thoughtfully transform as needed.

Diverse Membership Helps Weather All Storms

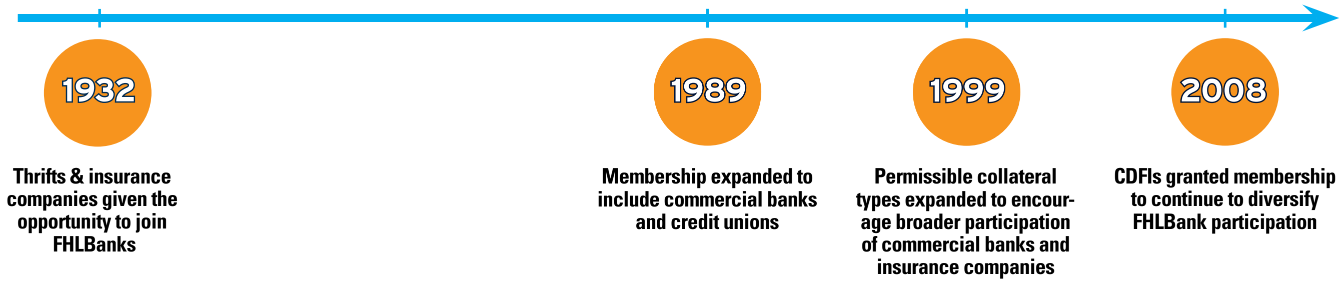
One key element of our strength as a Federal Home Loan Bank is that we take our commitment to the Bank's mission seriously, for all of our different member types.

We understand that diversified membership ensures a platform for reliable and secure access to cash for all members. For example, because banking and insurance business cycles are not highly correlated, this type of diversification adds stability to the FHLBI's overall advances portfolio, with the added benefit of a healthy and consistent dividend.

Congress certainly embraced the collective power of diverse membership as it initially designed – and then expanded – FHLBank membership over the years.

From the System's original mandate – providing liquidity to thrifts and insurance companies in 1932 in the aftermath of the Great Depression, to its expansion to welcome commercial banks and credit unions in 1989 and CDFIs in 2008 – Congress has always understood that a foundation built on several types of financial institutions is the best way to securely build homeownership and benefit communities. The intent: all members are held to the same stringent rules of membership, for the mutual benefit of all members.

FHLBank- Congressionally Mandated Expansions to FHLBank Membership and Collateral Requirements have Enabled Mission-Driven Participation from a Variety of Member Types.



In 1999, Congress provided additional support to members' economic development activity by allowing members to pledge other real estate-related collateral, including commercial real estate, to secure FHLBank advances. In these ways, Congress has recognized the value of a diverse FHLBank membership base, one that expands to reflect the changing demands of housing trends and markets.

It's my view that congressionally defined membership – appropriately understood and vetted and aligned with the FHLBI housing finance mission – better serves our communities and provides greater security against economic uncertainties to all membership.

All Hands On Deck

As you're well aware, we now face a new challenge to our members' access to reliable liquidity – the Federal Housing Finance Agency's (FHFA) September notice of proposed rulemaking affecting FHLBank membership.

The proposed rule introduces several troubling new membership hurdles, including ongoing home mortgage asset tests and residential lending tests, as well as new definitions that would disqualify some current and potential members from membership.

And perhaps most importantly, limiting membership will have a direct negative impact on the availability of Affordable Housing Program (AHP) funds that mean so much to our Indiana and Michigan communities. The AHP program was initiated 25 years ago and has become a crucial element of our Bank and our mission.

Historically, Congress has established FHLBank membership requirements. This unprecedented proposal could be the first in a series of additional membership requirements, limitations and administrative hurdles from FHFA.

We've embarked on an aggressive communications campaign, reaching out directly to each and every member, asking them to commit to filing comments with FHFA explaining how the proposed rule will affect their financial institution, their access to liquidity, the local economy, and the people in their communities.

We urge you to make your voice heard regarding the FHLBI membership proposal. FHFA is accepting comments until January 12, 2015. If you've not already done so, please consider filing comments describing the impact these rule changes would have on your institution and the communities you serve. If you'd like our assistance, please reach out directly to your FHLBI Account Manager or the Credit Services desk at 1.800.442.2568.

And to those of you that have already let your voice be heard at the Finance Agency, thank you.

FHLBI has always worked hard to provide these services and solutions to our members. That's why we're here, and that's why we intend to stay here over the long haul.

Thanks for your continued support of the Federal Home Loan Bank of Indianapolis.

Sincerely,

Cindy L. Konich
President-CEO

Celebrating FIRREA

25 Years of Commercial Bank and Credit Union FHLBI Membership

Currently, banks and credit unions together comprise more than 77 percent of the Federal Home Loan Bank of Indianapolis' 400 members. Sometimes it's easy to forget that wasn't always the case. But it wasn't until 1989 that these key players in housing finance gained admittance into FHLB after the savings and loan crisis of the 1980s.

Congress originally established the Federal Home Loan Bank System in 1932 in response to the Great Depression. The intent: to bolster middle- and working-class homeownership through broader availability of long-term fixed-rate mortgage loans. At that time, savings and loan associations and insurance companies were FHLBI's only members, per congressional intent.

It took another significant housing finance collapse, in the 80s, to spur Congress to adapt the FHLB System to keep its membership vital and liquid. The national savings and loan crisis, born of soaring interest rates, relaxed restrictions on savings and loans, and additional Reagan-era deregulation resulted in numerous S&L collapses and a serious threat to national housing liquidity.

President George H.W. Bush signed the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) into law in August 1989. FIRREA overhauled federal savings and loan industry regulations and expanded FHLBank membership to include commercial banks and credit unions.

During the 25 years since FIRREA's enactment, the FHLBanks have grown into a system of 7,500 member institutions nationwide, providing all members with reliable access to liquidity in all economic cycles.

FIRREA's other legacy was the creation of the Affordable Housing Program (AHP) and the Community Investment Program (CIP), strengthening communities across the U.S. by awarding 10% of system profits in the form of homebuilding grants and offering lower cost loans to borrowers for projects that benefit low- to moderate-income families or neighborhoods each year.

Since 1989, FHLBI has awarded nearly $250 milion in grants and provided over $2.5 billion in low-cost advances and letters of credit through the CIP that, among other things, support job creation, infrastructure and rental housing.

The 25th anniversary of FIRREA is a great reminder that the FHLBanks continue to evolve, diversify, and make a difference to communities across the country, thanks to our strong and mission-focused membership.

Indiana and Michigan's First Five Commercial Bank Members

INDIANA

Terre Haute First National Bank
Terre Haute, July 1990

Irwin Union Bank & Trust Co.
Columbus, October 1990

First State Bank
Brazil, October 1990

The Farmers Bank
Frankfort, October 1990

Owen County State Bank
Spencer, October 1990

MICHIGAN

1st Northern National Bank
Manistique, July 1991

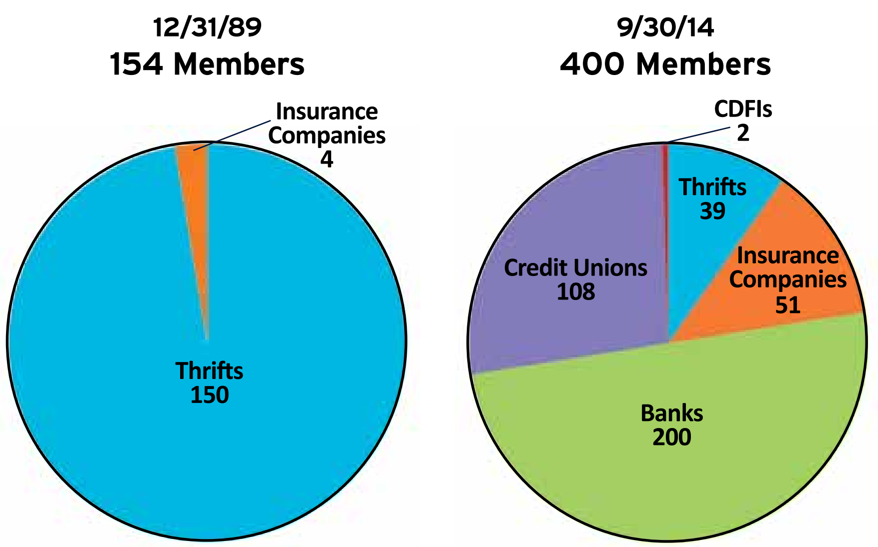
Newberry State Bank
Sault Ste. Marie, July 1991

First National Bank of Gaylord
Gaylord, August 1991

Southern Michigan National Bank,
Coldwater, February 1992

Peninsula Bank
Ishpeming, February 1992

In the 25 years since FIRREA came into law, FHLBI's membership has grown and diversified.



FHLBI Director Elections

FHLBI members re-elected one Indiana member director, two Michigan member directors, and one independent director to the FHLBI Board of Directors, each for a four-year term running through Dec. 31, 2018. The Board will be comprised of 16 member and independent directors in 2015.

RE-ELECTED MEMBER DIRECTOR

James D. MacPhee

CEO and Director – Kalamazoo County State Bank, Schoolcraft, MI

MacPhee was named CEO of Kalamazoo County State Bank in 1991. He has held leadership positions with the Community Bankers of Michigan and is a past chair of the Independent Community Bankers of America. MacPhee joined FHLBI's Board in 2008 and has served as Chair beginning in 2014.

RE-ELECTED MEMBER DIRECTOR

Dan L. Moore

President and CEO – Home Bank, Martinsville, IN

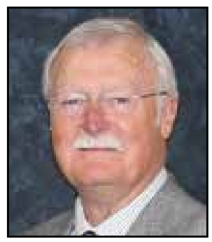
Moore joined Home Bank in 1978 and served as Executive Vice President and Chief Operating Officer before being named President and CEO in 2006. He is a board member of IU Health Morgan and a former board member of the Indiana Bankers Association. He began serving on FHLBI's Board in 2011.

RE-ELECTED MEMBER DIRECTOR

Thomas R. Sullivan

Vice Chair and Director – Mercantile Bank of Michigan, Grand Rapids, MI

Sullivan was appointed President and CEO of Firstbank Corp. in January 2000 and served in that capacity until the 2014 merger with Mercantile. He has served as a director of the Michigan Bankers Association and as a member of the Regulation Review Committee of the Independent Community Bankers of America.



RE-ELECTED INDEPENDENT DIRECTOR

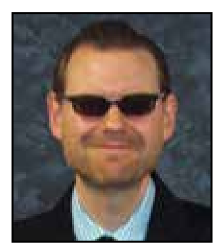
Larry A. Swank

CEO and Chairman – Sterling Group, Inc., Mishawaka, IN

Swank is the founder and CEO of Sterling Group, which acquires, develops, constructs and manages multifamily housing in over 15 states. He has also served as a director of the National Association of Home Builders since 1995. Swank joined the Board in 2009.

Advisory Council Selects 2015 Chair, Vice Chair

FHLBI's Affordable Housing Advisory Council (AHAC) selected **Jamie Schriner-Hooper** as chair for 2015. Schriner-Hooper has served as the Executive Director of the Community Economic Development Association of Michigan (CEDAM) since 2010. Prior to joining CEDAM, she was an Organizational Specialist with the Michigan Main Street Center@MSHDA. Schriner-Hooper's community involvement includes serving on the Big Brothers Big Sisters Michigan Capital Region Board of Directors and as secretary for the National Alliance of Community Economic Development Associations Board. She has been a member of the Council since 2011 and was AHAC's vice chair in 2014.



Vice Chair for 2015 will be **Andy Fraizer**, Executive Director for the Indiana Association for Community Economic Development. Before joining IACED, Andy was Director of Community Development for the City of Indianapolis. Andy is a past chair and board member of Horizon House, a homeless day center, and has served on other boards and committees, including Family Development Services, LISC Local Advisory Committee and United Way Planning and Research Committee.

FHLBI PERFORMANCE *($ in millions, unaudited)*

Assets	**$ 41,038**
Advances outstanding	**$ 19,325**
Mortgage loans held for portfolio	**$ 6,472**
Total retained earnings	**$ 800**

For the three months ended September 30, 2014

Net income	**$ 34**
Return on average equity	**4.66%**

New members approved from July 2014 through December 2014

- **My Personal Credit Union, Wyoming, MI**
- **Oakland County Credit Union, Waterford, MI**
- **U.S. #1364 Federal Credit Union, Merrillville, IN**

Capitol Hill *Highlights*

By Bill Hamilton, FHLBI Government Relations Consultant

November Elections

Following the November elections, newspapers, television news and Internet blogs have been full of speculation about the implications of Republican control of the U.S. Senate and an enhanced GOP majority in the House of Representatives.

What does the election and changing composition portend for the Federal Home Loan Banks?

Most likely, very little.

While it often feels in the current political environment that the two parties cannot come together on any issue, to a remarkable degree both Republicans and Democrats recognize that the FHLBank System effectively serves its role as there appears to be no support for major restructuring of the FHLBanks or the manner in which they operate.

That is not to suggest the FHLBanks may not be a topic of conversation in Congress in 2015 and 2016. Housing finance reform is one obvious area where the FHLBanks could come into play.

For the upcoming congressional session, Rep. Jeb Hensarling (R-TX) with his limited government world views remains chair of the House Financial Services Committee. Senate leadership is yet to be determined, but Sen. Richard Shelby (R-AL) is likely to retake his former position as Senate Banking Committee Chair.

Legislation

Both the House Financial Services Committee and Senate Banking Committee approved housing finance reform bills in the current session of Congress. However, each bill faced significant opposition in committee and was not considered by the full House or Senate. Neither bill changed the fundamental operations of the FHLBanks.

The foremost challenge to housing finance reform legislation may be the current profitability of Fannie Mae and Freddie Mac. Fannie and Freddie together will return to taxpayers $6.8 billion in the third-quarter of 2014, even though both have repaid the government bailouts that were necessary during the financial crisis. Their renewed profitability contributed to making last year's federal budget deficit the smallest in five years, so a contentious battle could be brewing between policymakers who want to wind down the GSEs and those who will likely loathe giving up a source of significant revenue.

Many observers in the industry and Congress also caution that eliminating a federal backstop to the mortgage market would destabilize the housing market, drive housing costs higher, and threaten the nation's slow economic recovery.

With so many issues for Congress to grapple with, legislative changes to the successful partnership between the FHLBanks and its members remain unlikely.

Update on FHFA's Proposed Rule on FHLBI Membership

If enacted, the Federal Housing Finance Agency's (FHFA) recently proposed rule would disqualify some current FHLBI members and impose ongoing membership tests. These changes would reduce the availability of liquidity for housing and economic development in local communities throughout Indiana and Michigan.

As of Nov. 26, 39 members, non-profits, trade associations and other supporters have filed comment letters on FHLBI's behalf. Across the country, over 300 other stakeholders have submitted comments asking the FHFA to withdraw the proposal because of the harm it could do to financial institutions.

In addition, 66 House members signed on to a Nov. 17th letter reminding FHFA Director Melvin Watt that Congress does in fact have authority over the scope of FHLBank membership. The letter, which asks Watt to reconsider the NPR, received bi-partisan support from seven Indiana and Michigan House members: André Carson (D-IN), Marlin Stutzman (R-IN), Bill Huizenga (R-MI); Dale Kildee (D-MI); Gary Peters (D-MI); Mike Rogers (R-MI); and Tim Walberg (R-MI). FHLBI is currently working on a similar letter with Indiana and Michigan Senators.

We encourage all members and stakeholders to provide comments to FHFA by January 12, 2015. Please contact the Marketing Department at 800.442.2568 to request assistance. You can also visit the fhlbi.com home page for a direct link to the FHFA comments portal.

New Anti-Money Laundering Requirements

What the FinCEN Final Rule means for FHLBI and our members.

By Agata Maurer, CRCM, CAMS, FHLBI Compliance Specialist

When the Financial Crimes Enforcement Network (FinCEN) Final Rule took effect on April 28, 2014, FHLBI became a "financial institution" under the Bank Secrecy Act. As a result, like most of our members, FHLBI had to implement a formal anti-money laundering (AML) program and begin filing Suspicious Activity Reports (SARs) with FinCEN effective August 25, 2014.

On the surface, it may seem like a minor change. Since FHLBI is a financial institution, wouldn't it have been subject to Bank Secrecy Act and its related regulations all along? The not-so-simple answer is yes... and no.

AML Program

As our members know, FHLBI is not a traditional financial institution. We do not serve retail customers, and we do not offer any consumer bank products or services. Our customers are our members – banks, credit unions, insurance companies, community development financial institutions, and housing associates in the states of Indiana and Michigan. So implementing a formal and comprehensive AML program was an interesting and challenging task. We considered the risks associated with money laundering, terrorist financing, and financial fraud and tried to determine how such activity would potentially present itself throughout our various business channels.

As a cooperative financial institution, owned by and serving other financial institutions, this process was far different from establishing an AML program at a retail financial institution. For example, there is no ChexSystems-like report we can obtain on our members for Customer Identification Program purposes. Furthermore, with most members already subject to their own regulatory scrutiny and BSA/AML regulations, how much further should we go? How often, if at all, should we screen our entire membership base against Office of Foreign Assets Control lists?

The resulting AML program addressed these questions and set a very strong foundation for FHLBI's contribution to the ongoing battle against money laundering and other financial crimes.

Suspicious Activity Reporting

The other major new compliance requirement for FHLBI is the filing of Suspicious Activity Reports (SARs). The Final Rule requires that FHLBI file SARs directly with FinCEN instead of the previous practice of filing narrower-scope fraud reports with our regulator, the Federal Housing Finance Agency. Filing detailed SARs directly with FinCEN is intended to provide law enforcement with a more complete and timely national picture of suspected financial fraud and money laundering, as well as assist with investigations and prosecutions of significant mortgage fraud schemes.

What does this mean for our members? FHLBI is committed to continuing to be a safe and sound partner for all of our members by helping reduce the risk of harm from financial crimes and money laundering. We ask that our members notify FHLBI whenever they identify questionable or potentially fraudulent activity associated with transactions involving FHLBI.

We do not ask, nor will we ever ask, for our members to violate any privacy or information sharing rules; in fact, we specifically ask our members to never disclose their own SARs, SAR-filing decisions, or investigations. However, if you find facts or circumstances that suggest potentially questionable, fraudulent, or criminal activity involving an FHLBI transaction, please report the facts or circumstances to FHLBI by email to compliance@fhlbi.com so that we may evaluate the activity as well.

If you have any questions regarding this article, please contact Agata Maurer directly at amaurer@fhlbi.com or 317.465.0353.

Symmetrical Advances Help Mitigate Losses when Interest Rates Rise

By Todd Hargreaves, VP - Advances Manager & Matt Fix, AVP - Account Manager

Members were introduced to the symmetrical fixed-rate bullet advance in the previous issue of *FHLBIndepth* and learned even more about it at this summer's Shareholder Symposium. Since then, several members have taken a symmetrical advance because of the protection it provides against rising interest rates.

The Symmetrical Difference

The symmetrical advance's foundation is similar to FHLBI's most popular advance product, the traditional fixed-rate bullet advance: fixed rate, fixed term, and non-amortizing. In fact, in declining rate environments, essentially no difference exists between a traditional fixed-rate bullet advance and a symmetrical advance. If members want to prepay an advance with an above-market interest rate, prepayment fees for both advance types are calculated the same way.

The benefits of the symmetrical advance become evident in a rising interest rate environment.

Lower Capital Stock Requirement

Effective Dec. 31, 2014:
- **4.5% activity-based requirement for credit products, down from 5%**
- **0.75% of total mortgage assets, down from 1%**

Refer to the Credit Bulletin on Member Link for more details.

In a rising rate environment, symmetrical advances can appreciate in value. For a small premium over traditional fixed-rate bullet advance rates, members are eligible for a prepayment credit of up to 10% of the advance's principal balance, allowing members to monetize gains.

With the markets anticipating an increase in interest rates in 2015, now is the time to begin thinking about the symmetrical advance.

What Members are Saying

Farmers & Merchants in Boswell, Indiana traditionally has a high concentration in agricultural loans on its balance sheet. A recent increase in residential real estate lending led executives to begin considering strategies to lengthen liabilities as longer-term assets on their balance sheet grew.

"We were thinking of taking a seven- to ten-year advance, but hadn't done anything yet," said Jason Hume, Farmers & Merchant's CFO. "We were very comfortable when we pulled the trigger. We were going to go with bullet funding anyway, and we viewed the symmetrical feature as a bonus."

Hume had noted the release of the symmetrical advance and called the Marketing Department to learn more. After a few phone conversations and studying some educational pieces provided by FHLBI, Farmers & Merchants participated in an advance special featuring the symmetrical. "These specials allow smaller institutions to take advantage of products that normally have a minimum trade size," noted Hume.

The entire process was simpler for Farmers & Merchants because they were ready to borrow. All agreements were in place and up to date, and they had already pledged collateral. "We were amazed at how easy the process was," said Hume.

FHLBI Account Manager Matt Fix (left) visits customer Jason Hume, Farmers & Merchant's CFO.

MutualBank in Muncie, Indiana was one of FHLBI's first members to take a symmetrical advance. Chris Cook, SVP and CFO, already knew about the product but learned more about it at the Shareholder Symposium. "At first I was skeptical of the symmetrical advance. More specifically, I had a hard time understanding why I would prepay a below-market rate advance in a rising rate environment. However, after the Shareholder Symposium, I had a much better understanding of the product and its advantages," said Cook.

Interest rate volatility during May 2013 gave Cook a good glimpse into the potential impact rising interest rates could have on MutualBank's investment portfolio. As such, he noted that the symmetrical advance is a wholesale funding tool that could help mitigate the impact of rising interest rates.

Cook said that at some point, MutualBank may want to either reduce the size of its securities portfolio or realign it by liquidating some existing positions. Faced with the prospect of liquidating portions of the investment securities portfolio at a loss, Cook is always looking for ways to reduce the overall impact on MutualBank. If rates rise, Cook could realize a gain upon prepayment of the symmetrical advance that would offset some of the securities liquidation losses.

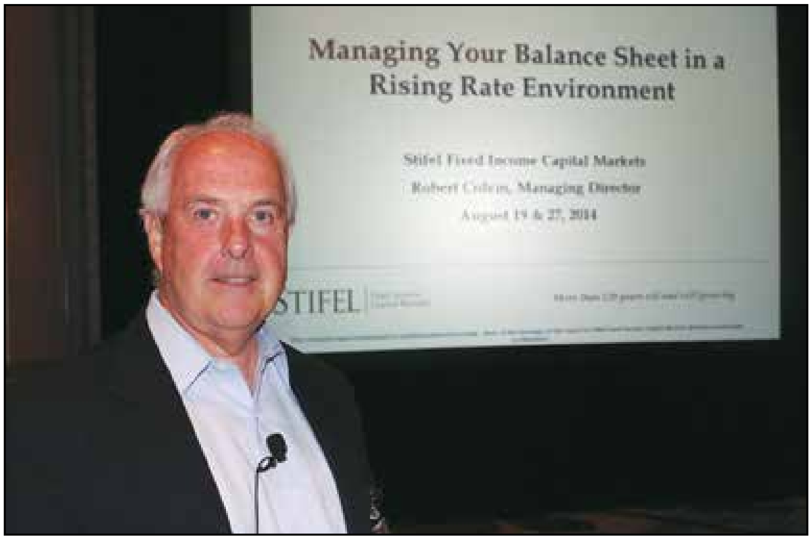
A symmetrical fixed-rate bullet advance is a long-term fixed rate bullet advance that, if prepaid, can appreciate in value up to 10% in a rising interest rate environment.

- **Term:** Maturities are offered from 1 to 10 years.
- **Rate:** An additional spread is applied to the fixed-rate bullet advance rate offered to the member in exchange for the right to receive a prepayment credit.
- **Termination Fee:** The advance termination fee is the greater of 10 basis points multiplied by the advance notional value or 10% of the difference between the advance's present value and its principal balance.
- **Prepayment:** If the advance rate is above market rates relative to an advance with a similar term, the settlement amount will be similar to the prepayment fees calculated for long-term fixed-rate bullet advances as outlined in our Credit Policy. If the advance rate is below current market rates relative to an advance with a like maturity, the member would be eligible for a prepayment credit and realize up to a 10% gain when the advance is prepaid.

What Others are Saying

Industry experts, including **Bob Colvin, Managing Director at Stifel Nicolaus & Company**, have highlighted the unique attributes of the symmetrical advance. During a breakout session at FHLBI's Shareholder Symposiums, Colvin focused almost exclusively on the likelihood of interest rates rising in the not-too-distant future and the potential impact that will have on our members. He encouraged attendees to ask themselves some serious questions related to the effect that rising interest rates would have on their balance sheets and to not delay taking action.

Colvin has urged clients to use the symmetrical advance as opposed to incurring losses today by shortening the duration of their bond portfolio or entering into an interest rate swap. He believes the symmetrical advance is worth considering. "While symmetrical advances are secured like any other FHLBI advance, they appreciate as rates rise. As rates change, the market value of the advance changes and you can execute at the market value of your choosing," stated Colvin.



Bob Colvin, Managing Director, Stifel Nicolaus & Company, touted the benefits of our symmetrical advance at both the Dearborn and Indianapolis Shareholder Symposiums.

Meeting Funding Needs

While our symmetrical advance has garnered attention during many recent interactions with members, the FHLBI continues to offer a suite of products designed to assist members with a variety of funding needs.

Please call your account manager or contact the FHLBI Advances Desk at 800.442.2568 if your institution is interested in discussing symmetrical advances or any other FHLBI product.

LRA Provides Income Stream

Year end signals time to consider Lender Risk Account valuation

By Cathy Garrett, AVP–Mortgage Acquisitions Manager

FHLBI introduced the Mortgage Purchase Program (MPP) in 2001 to provide members with a competitive alternative to selling loans into the secondary mortgage market while rewarding them for high-quality loan performance through the Lender Risk Account (LRA). While LRA funds are held to offset potential loan losses, all funds not used for losses will be returned to the sellers over time.

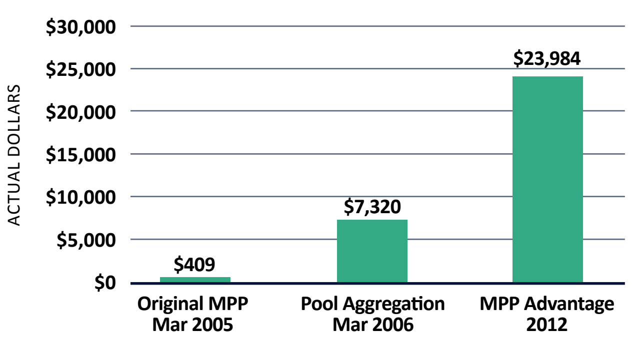
In the original MPP design, the seller remitted principal and interest payments monthly, and FHLBI stripped off a portion of each remittance to fund the LRA. In November 2010 FHLBI introduced MPP Advantage, changing the way that the LRA is funded. The LRA is now funded at the settlement date of the loan purchase.

When determining best execution, the seller should consider the LRA present value along with the bank's simple pricing structure with only one loan level adjustment.

Many factors should be considered when determining where to sell a loan: MPP offers customers good execution, value added for their FHLBI ownership interest and great customer service.

To provide perspective on how the LRA has evolved, the chart below compares the current balances on a $2 million Master Commitment Contract (MCC) in the original MPP, Pool Aggregation and MPP Advantage. As you can see, the fixed LRA builds to significant amounts very quickly and becomes a material part of your financials.

LRA Balances Based on $2 Million Master Commitment Contract



That is why as 2014 draws to a close, it is a good time to revisit your LRA balances and valuations. Auditors looking closely at LRA balances and the materiality they have on members' year-end financials. As of September 30, 2014, FHLBI's MPP balance was $5.8 billion with total LRA balances of $55 million. FHLBI has paid out LRA funds of nearly $15 million to date.

LRA valuation considerations differ based on the MPP product. Before MPP Advantage, LRAs were funded by spread, so MPP sellers will need to consider the discount rate, expected loss ratio and prepayment speeds. In contrast the fixed LRA is fully funded at the time of loan purchase, which means the LRA balances and the seller's valuation is no longer subject to prepayment speeds, making the LRA valuation simpler and less volatile. It is important to note that in either case the LRA can only be a positive; if the LRA is depleted, FHLBI does not require sellers to replenish the account.

To help our members further understand their LRA, a breakout session at FHLBI's Shareholder Symposium featured representatives from Plante Moran, the nation's 13th largest CPA firm, discussing LRA valuation. Plante Moran explained that from an accounting perspective, if the LRA represents an overfunding of expected losses, then the present value of future cash flows should be considered an asset. The company recommends monitoring LRA balances, reviewing the actual versus expected losses over similar time periods and adjusting the general ledger at appropriate intervals. Plante Moran also noted that the LRA value can be impacted by swings in the discount rate, higher than expected losses, and recapture for significant underwriting issues.

Since MPP's inception the nation has experienced a variety of refinance booms and significant increases in property values prior to 2008. Even through the ensuing property value bubble burst and lenient underwriting guidelines, FHLBI weathered the storm well. While some of the LRAs in the 2005 to 2008 vintage have been depleted, we have made the appropriate adjustments and have stress-tested the risk valuation though sophisticated modeling to protect the program and the value of each seller's LRA.

For more information about MPP or valuing your Lender Risk Account, please contact your account manager at 800.442.2568 or Cathy Garrett, Mortgage Acquisitions Manager, 317.465.0553.

FHLBI: A Mission Beyond Housing

The passage of FIRREA legislation in 1989 expanded our mission to include community and economic development and created the Community Investment Program (CIP).

By Jim Eibel, CFA, CTP, Business Development Director

For 25 years now, our CIP has provided subsidized funding to assist members with community and economic development projects, including multifamily loans and commercial loans that create or retain jobs and infrastructure improvements.

One of the most exciting results of CIP is that insurance companies have found innovative ways to make significant contributions in the area of local job creation. Organizations such as Accident Fund Insurance Company and Jackson National Life Insurance Company are using CIP to create more than 1,500 jobs in the mid-Michigan area.

In 2011, Accident Fund Insurance Company of America opened their national headquarters in a revitalized brownfield and power plant in downtown Lansing. The project was funded with CIP dollars and is projected to create 500 jobs.

Accident Fund Insurance Company of America, Lansing, Michigan

In 2013, Jackson National Life Insurance Company announced plans to double the size of its headquarters, using CIP for part of the project's financing. The expansion includes a conference center, cafeteria, and a 220,000-square-foot office building slated to open in fall of 2015. In addition to the numerous construction jobs created by the project, the expansion enables Jackson to add 1,000 jobs at its Michigan headquarters.

The Energy Star compliant project has drawn the attention of public officials in Michigan. "The company's continued commitment will strengthen these important relationships while also reinforcing Michigan's well-earned reputation as a great place to do business and create jobs. We are the nation's comeback state thanks to success stories like those of Jackson National," Michigan Governor Rick Snyder noted. "Jackson National has long been a good neighbor in mid-Michigan and a good partner with the entire state."

Jackson National Life Insurance Company Headquarters, Lansing, Michigan

Grants Open More Doors in 2014

After receiving Affordable Housing Program (AHP) awards and watching projects take shape, FHLBI members and their community partners have reason to celebrate as local residents move into new affordable homes. Throughout 2014, FHLBI staff attended many ribbon cuttings, often meeting residents who express their gratitude for a comfortable home that makes them feel safe and offers the support they need to live independently, obtain a job or learn a skill.

New Beginnings located on the campus of Vista Maria in Dearborn, Michigan provides 16 beds of transitional housing, as well as treatment and supportive services, to girls ages 11-18 who are victims of human trafficking and severe abuse or neglect. This program enables survivors to reach their full potential by achieving mental health wellness and successfully transitioning back into the community. Vista Maria, one of Michigan's largest private, nonprofit residential community-based treatment agencies for youth suffering the effects of severe abuse, neglect and other traumas, received a $500,000 AHP award through Amerisure Mutual Insurance Company.

Southside Villas provide 16 affordable one-bedroom apartments for very low-income seniors in Fort Wayne, Indiana. Because this type of housing is in great demand, Southside Villas filled up quickly. These energy-efficient apartments offer low-step showers, washers and dryers, individual balconies or porches and other amenities to allow residents to live independently longer. STAR Financial Bank partnered with the Fort Wayne Housing Authority to receive a $350,000 AHP award.

Merici Village Apartments in Lawrence, Indiana were once military barracks at Fort Benjamin Harrison on Indianapolis' eastside. Now 20 apartments provide affordable housing for adults with physical and developmental disabilities. A person that provides day-to-day client management services also resides on the property. The apartments are close to numerous amenities and employment opportunities. Merchants Bank of Indiana received a $385,574 AHP award in partnership with Merchants Affordable Housing Corp. to build Merici Village.

Peoples State Bank Improves Quality of Life for Local Families

By Miriam Lemen, AVP-Corp. Communications Manager

GOOD NEWS travels fast as Kirsten Rinne, Loan Officer for Peoples State Bank of Munising learned when she began talking about the FHLBI's Neighborhood Impact Program (NIP) to members of her community in Michigan's Upper Peninsula.

Kirsten Rinne
Loan Officer
Peoples State Bank

"Our involvement with NIP began after a conversation I had with the Munising Mayor and our CEO about FHLBI's new program called the Accessibility Modifications Program," explained Rinne. "We checked into qualifying for that program and then learned about NIP and decided that we could help even more people by using it as well."

Rinne then began her own grassroots marketing campaign. As president of the local Kiwanis, she spoke to the group about NIP. After another Kiwanian ran an article on NIP in a newsletter and Rinne inserted an item in her church bulletin, it didn't take long for her phone to start ringing.

Once Rinne conducts an initial phone conversation with potential NIP grant recipients, she meets with them in their homes, and they fill out the application together. Rinne believes this helps relieve any nervousness customers might have about the process and builds a stronger relationship with the bank.

One family of seven is especially grateful for the NIP grant they received from Peoples State Bank. The grant was used to purchase and install a safe, energy-efficient outdoor wood furnace. Rinne related that the family had an ancient wood burner in their basement that was inefficient, a fire hazard, and aggravated the children's allergies. Other people receiving grants include seniors on fixed incomes who want to stay in their homes but often can't afford the full cost of repairs.

"The NIP grants help lower energy costs and increase a home's warmth and comfort while also improving the home's value and aesthetics," said Rinne. "The impact on a grant recipient's quality of life is tremendous." Rinne is so impressed with how a NIP grant can make a difference in her customers' lives that when one customer asked Rinne, "What's in it for you?" she responded, "I do it for the hugs."

To date, Peoples State Bank has disbursed over $57,000 in grants to local homeowners, mainly for new furnaces, water heaters and roofing. These are all critical needs for "Yoopers," as they are affectionately called, who endure long, cold winters that can bring over 300 inches of snowfall to the area.

Help is readily available for members interested in participating in NIP or any other homeownership initiative. FHLBI's knowledgeable staff can assist with the application and disbursement process, and resources explaining program requirements and eligibility guidelines are posted in the Community Investment section at fhlbi.com.

"We understand that at first glance the process may seem a bit intimidating, but if members need assistance, we are happy to answer all of their questions and guide them through the process," said Shannon Fountain, FHLBI's Community Lending Manager. "We still have grant dollars available for the 2014 program year and encourage members to look for ways to put them to use in their local communities."

NIP dollars allowed a local family to replace an old wood burner (right) with a more efficient wood furnace (above).

NIP is a grant program that assists existing income-qualified homeowners with renovation needs, including

- **Repair/replacement of existing heating, ventilation, air conditioning, well/septic system and water heater**
- **Energy conservation improvements, such as repair/replacement of windows, soffits, siding, roofing, gutters, and exterior doors**

For more information about the program, visit the Community Investment section at fhlbi.com or call 800.688.6697.

community spirit

Bart Colwell, President and CEO, Terre Haute Savings Bank of Terre Haute, Indiana, received the FHLBI's 2014 Community Spirit award. FHLBI and our Affordable Housing Advisory Council present the Community Spirit Award each year to honor an individual from one of our member financial institutions who has shown an outstanding dedication to affordable housing and community economic development.

Providence Housing Corporation nominated Colwell based on his partnership on many of their projects using a variety of FHLBI's affordable housing programs. Providence Housing and Terre Haute Savings Bank strengthened the West Terre Haute community by:

Bart Colwell
President and CEO
Terre Haute Savings Bank

- using the Neighborhood Impact Program to help rehab homes;
- making homeownership a reality for 17 low- to moderate-income first-time homebuyers with Homeownership Opportunities Program grants; and
- assisting with the construction of 53 apartments for low-income seniors by providing access to Affordable Housing Program grant funding.

Bart's community commitment extends beyond the Terre Haute Savings Bank office: he is a member of the board and chair-elect for both the Terre Haute Economic Development Corp. and the Indiana State University Foundation. He also serves as President of the Board of the Vigo County Education Foundation, in addition to holding several other leadership roles in the community.

The FHLBI is proud to honor Bart with this award to recognize his commitment to the Terre Haute community.

ABOVE: **Mosaic Housing, a faith-based, nonprofit organization that serves those with intellectual disabilities, broke ground this fall on a duplex housing development in Terre Haute that will provide six bedrooms for teenage boys. A $500,000 AHP grant through Terre Haute Savings Bank helped fund the construction, along with supporting the remodeling of a nearby adult group home. Both initiatives will have common living, kitchen and recreational space and offer supportive services to residents.**

LEFT: **As retired nuns aged, Providence Hall on the campus of Saint-Mary-of-the-Woods in Terre Haute required renovations to improve the sisters' access to all areas within the hall, as well as to provide them with private rooms instead of the dormitories that had been part of the original building. Terre Haute Savings Bank received a $750,000 AHP grant to help with renovations that encompassed making the building fully accessible and energy efficient, modernizing its systems and preserving its historic nature. The hall features 46 private bedrooms in addition to numerous common spaces for residents to socialize.**

Nominate someone for the Community Spirit Award. Guidelines and a nomination form are available in the Community Investment section at fhlbi.com.

Sharpen Your Edge

William Isaac, former FDIC chairman and keynote speaker (left) with FHLBI Chairman Jim MacPhee, President and CEO of Kalamazoo County State Bank.

Shareholder Symposium Featured Industry Experts

After a golf outing the day before each meeting and a welcome reception at the symposium venue, nearly 350 people in total gathered in Dearborn, Michigan and Indianapolis, Indiana for FHLBI's two 2014 Shareholder Symposiums last August.

FHLBI President and CEO Cindy Konich with David Messerly from the Office of Finance.

President and CEO Cindy Konich opened each symposium with an update on FHLBI's second quarter financial results. William Isaac, former FDIC Chairman and senior managing director of FTI Consulting, then delivered a thought-provoking analysis of the over-regulation of the community banking system, followed by a question and answer session.

The morning's breakout sessions included insights into asset/liability management, FHLBank debt and capital markets, and investment, mortgage and advances strategies.

LEFT TO RIGHT: **FHLBI Chief Credit and Marketing Officer Jon Griffin; Gerry Dick, host of Inside INdiana Business; FHLBI Advances Manager Todd Hargreaves.**

Following lunch at both venues, Jason Redman, a former Navy SEAL and author of *The Trident: The Forging and Reforging of a Navy SEAL Leader*, captivated attendees with his account of how he became a SEAL, the attack in Iraq that left him severely wounded, and his courageous recovery that led him to motivate others by talking about leadership lessons learned while serving his country.

Michael Finney, President and CEO of Michigan Economic Development Corp.

Each symposium concluded with presentations on the current mortgage market conditions, the U.S. economy and Indiana's and Michigan's business climate.

"We received many positive comments from members about this year's event," commented Jon Griffin, FHLBI's Chief Credit and Marketing Officer. "We strive to offer relevant content delivered by renowned experts and our own knowledgeable staff to help members stay on top of the industry and increase their knowledge about the FHLBI's products and services. In addition, the symposium is a prime opportunity to network with peers and build relationships with FHLBI staff."

2015 SHAREHOLDER SYMPOSIUM

SAVE THE DATE

August 11
GRAND RAPIDS, MI

August 25
INDIANAPOLIS, IN

Watch for Symposium details and registration at fhlbi.com

Nick Sargen, SVP – Chief Economist at Western & Southern Financial Group (left) with FHLBI marketing staff members Doreen Koning and Jim Eibel.

2014 SYMPOSIUM HIGHLIGHTS

LEFT TO RIGHT: **Jeff Berens and Phillip Koning, West Michigan Community Bank, and Ron Kirby, Crossroads Bank.**

The Napoleon State Bank team at the Brickyard Crossing. LEFT TO RIGHT: **Les Kessens, Joe Moorman, Chris Bedel and Mark Comer.**

LEFT TO RIGHT: **FHLBI Account Manager Bill McDowell; Mark Slade, Bank of Ann Arbor; Tim Otto, Mason State Bank.**

LEFT: **Jason Redman, former Navy SEAL and luncheon keynote speaker, signed copies of his book for symposium attendees.**

At TPC Michigan, the Amerisure Mutual Insurance team: Doug Kinnan (LEFT), **Dan Graf** (SECOND FROM LEFT), **and Kevin Clement** (RIGHT), **with FHLBI's Business Development Director Jim Eibel** (SECOND FROM RIGHT).

At TPC Michigan, LEFT TO RIGHT: **FHLBI Account Manager Matt Fix; Bill Walby, Michigan Schools & Government Credit Union; Patrick Stewart, Meadow-brook Ins. Group; and Steve Brewer, Michigan Schools & Government Credit Union.**

Mike Sills (LEFT) **and Jim Phelps** (RIGHT), **Evansville Federal Credit Union.**

FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

Building Partnerships. Serving Communities.

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