FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

INDEPTH

WINTER 2015 | VOLUME 10 | ISSUE 2 | FHLBI.COM

as of September 30, 2015

397
FINANCIAL INSTITUTION MEMBERS

$2.3 BILLION
QUALIFYING MORTGAGES PURCHASED FROM MEMBERS

28% GROWTH
ADVANCES TO DEPOSITORY MEMBERS

70%
OF FHLBI'S MORTGAGE ACQUISITIONS COME FROM SMALLER DEPOSITORY MEMBERS*

**defined as those with <$1B assets*

4.25% 3RD QUARTER 2015 CLASS B-1 DIVIDEND

$10 MILLION
AFFORDABLE HOUSING PROGRAM GRANTS
22 projects
538 units

$4.6 MILLION
HOMEOWNERSHIP INITIATIVES
grants to members

IN THIS ISSUE

FHLBI PERFORMANCE

($ in millions, unaudited)

As of September 30, 2015	
Assets	$ 46,736
Advances outstanding	$ 24,297
Mortgage loans held for portfolio, net	$ 8,084
Retained earnings	$ 822

For the three months ended September 30, 2015	
Net income	$ 28
Return on average equity	4.89%

New members from July through November 2015

Harvester Financial Credit Union, Indianapolis, IN

Michigan Educational Credit Union, Plymouth, MI

Neighborhoods Inc. of Battle Creek, Battle Creek, MI

TruNorth Federal Credit Union, Ishpeming, MI

Indepth is a publication of the Federal Home Loan Bank of Indianapolis Corporate Communications and Planning Department. Your comments and suggestions are welcome. Contact Linda Calvin at 317.465.0226, e-mail lcalvin@fhlbi.com.

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Message from the President and CEO

Cindy L. Konich

For those of you who were able to join us at one of FHLBI's Annual Shareholders' Meetings in Indianapolis or Grand Rapids in 2015, I hope you enjoyed catching up with colleagues, hearing from a variety of industry experts, and meeting face-to-face with the staff of FHLBI. At those meetings I emphasized FHLBI's three key pledges to members: growing and diversifying our membership, modernizing our Capital Plan, and continuing to evolve our liquidity solutions. Let me explain.

As our industry continues to face regulatory, economic and political uncertainty, FHLBI firmly believes that a composite of healthy member institutions is a key to our safety, our soundness and our ability to meet your liquidity needs. That's why we're so committed to growing our diverse membership mix of depositories and insurance companies.

As a bank, we've worked hard to create this well-rounded membership base. That means we're at a good place to modernize our Capital Plan so that it meets the needs of all members. We sent out a survey earlier this year to gather member insights on FHLBI's membership and activity stock requirements. Approximately 50% of weighted membership representation provided feedback, and we are now reviewing responses and evaluating next steps to make sure our capital plan works for each and every member.

And finally, let's talk liquidity solutions – specifically FHLBI's Mortgage Purchase Program (MPP). We designed MPP so that our smaller member institutions have reliable, continuous access to the secondary mortgage market. The program has been an unprecedented success and we believe MPP has even more to offer. That's why we'll continue to grow and enhance this program to help ensure we're meeting the needs of a variety of members.

The success we're delivering to members translates directly to successes for our Indiana and Michigan communities through our Affordable Housing Program (AHP). 2015 marks the 25th anniversary of AHP – an incredible tool that provides real affordable housing solutions for our members to implement in their own communities. In July we awarded $10 million to 22 projects that will add 538 units of affordable housing throughout the district. We disbursed an additional $4.6 million in grants to members that help people in their own communities purchase, repair or renovate homes. I encourage more members to evaluate whether our AHP initiatives might be a good fit for their organizations.

Thank you for your active partnership with FHLBI. I assure you that we'll continue to work to meet the liquidity needs of every member, along with delivering robust earnings and solid dividends this year and every year.

Here's to a wonderful holiday season and a prosperous and healthy 2016!

Sincerely,

Cindy L. Konich
President-CEO

FHLBI Director Elections

FHLBI members re-elected one Michigan member director, two independent directors to the FHLBI Board of Directors and elected a new Michigan member director, each for a four-year term running through Dec. 31, 2018. The Board will be comprised of 16 member and independent directors in 2016.

RE-ELECTED INDEPENDENT DIRECTOR

Robert D. Long

Retired Managing Partner – KPMG, Indianapolis, IN

Long is member of the board for Beefeaters Holding Company and is a member of the board and chair of the audit committee for Celadon Group. He is a graduate of Indiana University and is a Certified Public Accountant.

RE-ELECTED INDEPENDENT DIRECTOR

Christine Coady Narayanan

President and CEO – Opportunity Resource Fund, Lansing, MI

Coady Narayanan has held various positions with Opportunity Resource Fund and its predecessor organization since 1989, and served as its executive director from 1997 to 2004. She holds a Bachelor's degree from Spring Arbor University.

NEWLY-ELECTED MEMBER DIRECTOR

Michael Manica

President and CEO – United Bank of Michigan, Grand Rapids, MI

Manica has held various positions at United Bank of Michigan over the last 35 years. He currently serves as the treasurer of the Michigan Bankers Association. Manica has a Bachelors degree from the University of Michigan and attended the Graduate School of Banking at the University of Wisconsin.

RE-ELECTED MEMBER DIRECTOR

John L. Skibski

Executive Vice President and CEO – Monroe Bank and Trust, Monroe, MI

Skibski has over 25 years' experience in banking in various financial controls capacities. He holds a Bachelor's degree and an MBA from the University of Toledo.

Advisory Council Selects 2016 Chair, Vice Chair

FHLBI's Affordable Housing Advisory Council (AHAC) selected **Anthony Fraizer** as chair. Fraizer is responsible for all aspects of IACED's operations, including administrative, program development, budgets, personnel, public policy and public relations. Before joining IACED, Fraizer was Director of Community Development for the City of Indianapolis. Fraizer is a past chair and board member with Horizon House, a homeless day center in Indianapolis, and has been involved with several other organizations, including Family Development Services, LISC and United Way. He earned a bachelor's degree from Indiana State University and a master's degree from Indiana University-Purdue University Indianapolis.

Vice Chair for 2016 will be **Vincent Tilford**, Executive Director of the Luella Hannan Memorial Foundation. Previously he served as Executive Director for Habitat for Humanity Detroit. Under his leadership, the organization had built or rehabilitated over 100 homes. He has an extensive background in affordable housing and community development, previously serving as president of the Arkansas Development Finance Authority and senior program director for the Local Initiatives Support Corporation in Detroit. He was also a member of the board of the Church of the Messiah Housing Corp. in Detroit.

The FHLBI Board of Directors also reappointed **Anne Grantner**, President & CEO, Shelter of Flint, Flint MI. Grantner consistently seeks opportunities for agency growth, both in housing and supportive services. She serves as vice president of the Genesee County Continuous Quality Improvement Committee, vice chair of the Genesee Community Health Clinic, and as a member of both the Community Economic Development Association of Michigan and the Genesee County Continuum of Care. Grantner earned a degree in psychology from Michigan State University.

The FHLBI Board of Directors appointed **Tony Lentych**, Executive Director of the Traverse City Housing Commission, to his first term. Lentych leads an organization that provides affordable housing opportunities for Traverse City and the surrounding region. He administers federal housing resources and coordinates the development of new affordable housing opportunities. Previous positions include serving as Executive Director of the Community Economic Development Association of Michigan and the Indianapolis Coalition for Neighborhood Development. He received a Bachelor of Arts from Wabash College and a Master of Public Affairs from Indiana University.

The FHLBI Board of Directors also reappointed **Todd Sears**, Executive Vice President - Portfolio Management & Analysis, Indianapolis, IN. From 2000 to 2005, Sears served as Executive Vice President of the Indianapolis Neighborhood Housing Partnership, and held various positions at the Indiana Housing Finance Authority and the Indiana State Board of Tax Commissioners, focusing on policy issues related to residential property and reassessment. Sears serves on the board of the CFA Society of Indianapolis. He received a Bachelor's degree in finance and a Master's degree in economics from Indiana University. In 2008, Sears completed his CFA.

MEMBER SERVICES

Working with FHLBI is now easier

FHLBI.com gets a new look and feel.

FHLBI rolled out a refreshed website this fall featuring improved navigation, robust visuals and quick and easy access to information on products and services.

The website was designed with FHLBI key audiences in mind: members, regulatory bodies, nonprofits and the general public. Members will still find the global navigation present at the top right of the homepage to easily access key destinations popular on the old site – Member Link and LAS. They'll also enjoy the convenience of industry-specific pages as well as one-click access to information on the bank's products and services, including credit services, the Mortgage Purchase Program (MPP) and the Affordable Housing Program (AHP).

All users will like the new resources section that conveniently organizes forms and guides in one place. For those unfamiliar with the FHLBank System, the simple homepage format provides visitors information about who we are and what we do through pages such as "Reliable Liquidity," "Mortgage Purchasing," and "Communities & Housing."

Other new features include a robust search engine and an expanded news section. Even job seekers can more easily explore career opportunities with FHLBI by using the tab at the top of the screen.

To fully exploit the features of the new website, members should take note of Internet Explorer browser support changes in 2016.

Check out the new fhlbi.com!

FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

FHLBI IS PROUD TO UNVEIL
THE NEW FHLBI.COM

Please visit **FHLBI.com** now and explore our new features!

Designed with the visitor in mind, the refreshed website features easy navigation and streamlined organization to speed up access to information about FHLBI products and services.

New features include:

- A robust search engine
- Resource section for forms and applications
- More news
- Expanded content about FHLBI – who we are, our mission, and how we support member financial institutions as they strengthen their local communities.

IT SERVICES

Microsoft Support of Internet Explorer in 2016

Beginning January 12, 2016, only the most current version of Internet Explorer available for a supported operating system will receive technical support and security updates. The browsers will continue working, but Microsoft will halt technical support and stop serving security updates for the non-supported versions. The impact of this information is critical if you use other browser-based applications.

Roger Capriotti, Senior Director at Microsoft, has cited a number of reasons for the change, including better security, less version fragmentation for web application and site developers, and improved compatibility with third-party and Microsoft's own web-based applications and services, like Office 365.

LEARN MORE ABOUT THE INTERNET EXPLORER LIFECYCLE AND SUPPORT ON THE FAQ PAGE OF MICROSOFT'S WEBSITE.

The Latest on Fair Lending Best Practices

Fair Lending. It's easy to understand why these two simple words cause so much anxiety in the banking industry. The reputational and financial risks are obvious; no financial institution wants customers complaining about unfair treatment, examiners finding Fair Lending violations, or the Department of Justice investigations.

In light of the June 25, 2015 decision by the United States Supreme Court upholding the use of "disparate impact" theory in fair housing cases, now is the ideal time to reevaluate and update your institution's Fair Lending Program. The process should include revisiting policies and procedures to determine if risks are being minimized as much as possible for both the financial institution and borrowers. Below are some best practices to consider.

Consider an Independent Review

Fair Lending reviews are some of the most challenging engagements to perform. Some financial institutions become highly defensive of their lending practices even before the first question is asked. Questioning an institution's Fair Lending Program is usually met with, "We don't have Fair Lending issues here." Remember, consultants are there to help, even if it means uncovering potential problems. They can shed light on areas of concern while helping to develop compliant and realistic solutions. Independent reviewers travel to many institutions and possess in-depth understanding of best practices and recent exam hot topics in your region.

Provide Ongoing Training

Fair Lending training programs often focus on lenders only. Consider developing an institution-wide training program to ensure all employees, including the Board of Directors, understand Fair Lending and its implications. Everyone needs to know that even discouraging someone from submitting an application could be a Fair Lending violation. For example, a teller discouraging a woman from applying for a car loan before discussing the purchase with her spouse can trigger a Fair Lending violation.

In addition, lenders should pay attention to complaints they receive and check for undertones of potential Fair Lending issues or discriminatory practices. Customer complaints will often lead you to the departments or branches in need of additional training or monitoring.

Establish Consistency in Lending

Loan and credit policies exist for a reason, including preventing Fair Lending violations. Not every borrower will fit into the pre-established credit box. Thus it's imperative that someone be responsible for monitoring all exceptions to ensure proper documentation. EXAMPLE: A lender from Branch A makes an exception for an auto loan for a male applicant with a credit score of 600 and debt-to-income (DTI) ratio of 45%; at the same time, another lender from Branch B declines an auto loan for a female applicant with a credit score of 615 and a DTI ratio of 42%.

Both applicants fell outside the credit policy of 620 credit score and 40% DTI, but an examiner or attorney will not look kindly on making the exception for one applicant while declining another who happens to belong to a protected group. By asking lenders to thoroughly document every exception and adding a step to your process where two people review every exception and denial, you have just added an effective control to make sure lending practices remain consistent.

Focus on Facts, Not Opinions

Ask lenders to avoid using personal opinion statements when evaluating loan applications. Loan files should not contain statements such as "Jim has a low credit score but he is a good customer. He is a pillar of the community and attends our local church every Sunday." Such comments have nothing to do with the loan application and are not indicators of credit-worthiness. Instead, they may lead to the perception of preferential or discriminatory treatment.

Instead, an appropriate loan application summary would be, "Jim's credit report shows several late payments from 2012. Those are attributed to a job loss and he was only unemployed for a period of three months. No history of late payment since. Excellent DTI ratio." It's not unusual in a community financial institution for the lender to know the borrower or his/her family personally; however, while that could be shared in verbal discussions with other decision-makers, inserting personal opinion statements in loan application files should be avoided.

Ultimately, consistent policies, annual training, ongoing exception/denial monitoring, and periodic independent loan file reviews are keys to Fair Lending success. In our current environment, "We've always done it this way" is only an excuse – not a valid defense. It's important to remember Fair Lending doesn't mean protected groups should get preferential treatment; Fair Lending means everyone should get the same, equal treatment. As financial professionals, we should expect nothing less.

If you have questions about Fair Lending best practices, please contact Agata Maurer, FHLBI Compliance Director, 317.465.0353, amaurer@fhlbi.com.

community spirit

Jennifer Gilbert with Old National Bank receives 2015 FHLBI Indiana Community Spirit Award

Each year, FHLBI and its Affordable Housing Advisory Council present the Community Spirit Award to honor an individual at one of its member financial institutions who has shown outstanding dedication to affordable housing and community economic development.

Jennifer Gilbert
Vice President of Corporate Lending
Old National Bank

In addition to the award, FHLBI also makes a donation in the recipient's honor to a nonprofit organization or charity of their choice. On August 27, 2015, FHLBI announced Jennifer Gilbert, Vice President of Corporate Lending at Old National Bank (ONB), Evansville, IN, as the recipient of the Federal Home Loan Bank of Indianapolis 2015 Community Spirit Award.

Gilbert joined ONB nine years ago with little experience in affordable housing. ONB had previously received grants from FHLBI's Affordable Housing Program (AHP) but had not participated for several years. "As we developed relationships with more clients involved in affordable housing initiatives, I began to learn about AHP, which helped ONB to reconnect with the program," Gilbert said. "Community involvement is very much a part of Old National's philosophy, so working with AHP makes sense."

Gilbert established a system at ONB to approve projects, which she credits with helping to make AHP's grant application process run smoothly. During her tenure at ONB, Gilbert has been instrumental in the development and financing of 16 affordable housing projects in Indiana, securing $7.1 million of AHP grants to support the projects, including:

- **Phoenix on the Square in Paoli, a combination of retail and affordable apartments built on the courthouse square where a fire destroyed several historic buildings;**
- **Stalker School Apartments in Bedford, the redevelopment of a former school into 18 apartments for low-income families; and**
- **Prince Street Cottages in Princeton, offering 36 apartments for area seniors.**

Hoosier Uplands Economic Development Corp. received a $360,000 grant from FHLBI's Affordable Housing Program to help renovate and give new life to the abandoned Stalker School built circa 1899. The Stalker School Apartments in Bedford, IN provide 18 new 2-bedroom units for individuals and families.

Gilbert was surprised to receive the award and praised her partnerships with sponsors like David Miller, CEO of Hoosier Uplands Economic Development Corp., and affordable housing developers such as Milestone Ventures for making her job easy and rewarding. "When you're on the banking side of a housing initiative, you see the numbers," Gilbert said. "But when you see the finished project, as I have had the privilege of doing, you see the huge impact that it has on people's lives. It really drives home that fact that you're making a difference."

In addition to her work at ONB, Gilbert serves on the boards of the Deaconess Foundation and the Student Financial Aid Association of Evansville. Gilbert is also an instructor with Junior Achievement.

Nominate Someone for the 2016 Community Spirit Awards

You can help FHLBI recognize the contributions of its Indiana and Michigan member institutions that help revitalize their local communities or increase the availability of quality affordable housing. Judging is based on a nominee's dedication to community, spirit, and action. Deadline for nominations for the Michigan Community Spirit Award is February 19, 2016. Indiana nominations are due July 15, 2016. Visit fhlbi.com for information and nomination materials.

Strengthening Communities through Quality Affordable Housing

Two FHLBI Members share their AHP Success Stories.

Over the past 25 years, FHLBI's Affordable Housing Program (AHP) has become one of the most flexible funding sources available for housing for families whose incomes are 80% or less of the area median. FHLBI member institutions partner with developers and local non-profit housing organizations to submit applications to compete for the grants funded with 10% of FHLBI's earnings. Since 1990 FHLBI has awarded more than $253 million to support the acquisition, construction, or rehabilitation of properties for use as affordable housing.

At FHLBI's 2015 Shareholder Symposium, two members shared their AHP experiences – how they became involved, their partnerships with local organizations, and the projects that improve the quality of life for residents.

The Birth of an Idea: the Merici Village

In 2005, a group of parents concerned about who would care for their adult children with developmental disabilities when they were no longer able established the Village of Merici (pronounced "Mer-ee-chee") in Indianapolis. The Village was named after St. Angela Merici, patron saint of the disabled. The group envisioned a place where their children could live affordably with access to services and support staff to help them live as independently as possible.

With plans in hand, three mothers approached the board of directors of Archdiocese of Indianapolis for assistance with developing the property. The group presented their proposal to the members of the board, but unfortunately the board was unable to support the project. However, as luck would have it, Mike Petrie, CEO and Chairman of Merchants Bank of Indiana (MBI), sits on the Archdiocese board, and with 30 years experience in the affordable housing business, he knew how to help the Merici group.

"After the board meeting, I talked to the mothers who had made the presentation and told them what they needed was a tax credit project," Petrie said. "They asked me if I would help them. I said yes, and when they started crying, I was hooked." That chance meeting marked the beginning of a partnership between the Village of Merici and Merchants Affordable Housing Corp., the nonprofit arm of MBI that works specifically on affordable housing initiatives.

If at first you don't succeed...

The Merici Apartments project involved redeveloping a former barracks at Ft. Benjamin Harrison, into 21 apartments. The Merchants-Merici partnership received low-income housing tax credits that allowed it to raise private capital through investors to purchase and renovate the building. As a former member of FHLBI's board of directors, Petrie was familiar with the Affordable Housing Program (AHP) and knew it could be a crucial piece of the project's financing as well.

Mike Petrie, *CEO & Chairman, Merchants Bank of Indiana* with Mary McClamrock who is one of the original residents at Merici Village. Mary enjoys being on her own and particularly appreciates the new friends she has made while living at Merici Village. Merici Village is a former barracks at Ft. Benjamin Harrison located in Indianpolis, IN.

Petrie and the Merici parents applied for an AHP grant, but did not win a grant. Undeterred, Petrie attended an AHP application review session hosted by FHLBI's Community Investment Department to learn why the application was not funded and re-applied the following year. MBI's second attempt was successful, and FHLBI awarded it a $500,000 grant, which the partnership used to pay down the building's debt. "The AHP grant made it possible to not have any debt on the property," he explained. "This is key to making the rent affordable for residents because the owner doesn't have to charge higher rents to help pay down the mortgage."

Merici Apartments officially opened August 2014, and over a year later, the original residents are still there, leading busy lives by going to work, training or volunteering. The project draws visitors from around Indiana and neighboring states who are interested in creating similar housing in their own communities.

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Sage Advice on Getting Started with AHP

Institutions without extensive experience or expertise like Petrie's can still easily get involved in affordable housing initiatives.

Petrie's advice:

- First, find out who is doing affordable housing in the area and connect with them, perhaps by attending a non-profit's monthly meeting or networking with co-workers. FHLBI's annual AHP workshops offer an excellent forum for members to meet project sponsors looking for a member institution partner.
- Before submitting an application, make sure you're ready to move forward on it. Significant funding sources should be secured, the site with appropriate zoning should already be selected and the number of units and housing costs established.
- Attend FHLBI's technical review meetings to gain a full understanding of what's needed and to see where there might be issues in the application before submitting it.
- Ease into AHP by participating in an AHP project with another institution.

FORUMS, WORKSHOPS & REVIEWS

Plan now to attend FHLBI's Community Investment Workshops in March 2016 to learn more about AHP and network with member institutions and sponsors. The Community Investment staff also hold technical reviews of AHP applications to help address issues BEFORE submitting an application, as well as forums in the fall that are hosted at AHP-funded properties. Look for registration details at fhlbi.com.

For more information about AHP, visit fhlbi.com or contact MaryBeth Wott, Community Investment Officer, at 317.465.0368 or mwott@fhlbi.com.

Tapestry Square: AHP at work in Grand Rapids, Michigan

Brian Hofstra, Vice President of Commercial Lending at Old National Bank (ONB) in Grand Rapids, Michigan, had an established lending relationship with Inner City Christian Federation (ICCF), a local housing organization focused on creating quality affordable housing for individuals and families experiencing periods of homelessness. ICCF had previously partnered to develop several properties with ONB providing construction, permanent and gap financing. They then began talking with Hofstra about a project featuring retail space on the ground floor and 32 apartments on the upper floors.

Tapestry Square is a mixed-use, economically diverse urban housing development in downtown Grand Rapids.

Located in a downtown Grand Rapids neighborhood in desperate need of revitalization, the project, called Tapestry Square, provides a mix of market-rate and affordable apartments, creating a diverse income population that promotes community stability. Studies by the U.S. Department of Housing and Urban Development, the Joint Center for Housing Studies at Harvard and other housing policy groups have shown that mixed-income communities thrive better than isolated low-income ones. To fund the project, Hofstra obtained a low-cost Community Investment Program loan from FHLBI.

However, there was even more work to be done to revitalize the neighborhood. ONB and ICCF next joined forces on a second phase of Tapestry Square, applying for and receiving an AHP grant to help build three-bedroom market-rate and affordable townhomes nearby. The townhomes introduce a homeownership component to the area's revitalization effort, emphasizing economic diversity to bring stability to the 35-block area. The townhomes are currently under construction.

"One of the greatest benefits of an AHP grant is that it reduces overall debt and immediately increases equity," explained Hofstra. "It's a critical piece of funding to complete a project that might not otherwise get done."

Hofstra advises institutions wanting to get involved with AHP to begin by identifying a staff person to learn the program and manage the application process, preferably someone with a commitment to the community, and by working with an experienced developer. Regarding the AHP grant process, Hofstra counsels interested members not to be intimidated. "Don't let the process scare you," Hofstra commented. "It's not overwhelming or a huge time commitment. The FHLBI AHP staff are helpful and provide opportunities to learn more about the process."

Homeownership Opportunities Program

Making the American Dream Come True in Indiana and Michigan Communities

Down payment and closing cost requirements frequently prohibit people from buying a home. By the time they pay their monthly bills, there's nothing left to set aside for a home purchase. However, FHLBI's Homeownership Opportunities Program (HOP) is helping people realize their dream.

Launched in 2003, HOP offers grants of up to $10,000 to help qualified first-time homebuyers with down payment and closing costs.

How Members Benefit from Participating in HOP

In addition to increasing local homeownership rates, HOP has other benefits. For example, HOP can boost a financial institution's profile in the local market. "By offering HOP," said Community Lending Manager Shannon Fountain, "the lender has a product that other institutions in the community don't, which gives them a competitive edge."

"Furthermore, participation in HOP may assist members in satisfying Community Reinvestment Act requirements. HOP allows members to develop relationships with local housing agencies that might refer future customers, " added Fountain. "It can also encourage first-time homebuyers to seek a deeper relationship with the institution that originated their mortgage and recommend the institution to family and friends."

Members Use HOP to Make a Difference

In 2015, seven FHLBI members participated in HOP for the first time, bringing total participation to 60. Both large and small member institutions, as well as banks, credit unions, and insurance companies request HOP grants.

- Freedom Bank, a community financial institution based in Jasper, Indiana, began using HOP in 2015 and requested $150,000 to help 15 first-time home buyers.
- Until recently, Wanigas Credit Union in Saginaw, MI was only a modest user of HOP. Between 2009 and 2015, their annual HOP volume increased from $5,000 to over $100,000. In 2015, they ramped up their HOP participation, accessing $140,000 to help 14 first-time homebuyers.

First Home, First Child

In May 2014 Ryan Meeusen and Kelsey Boyce were ready to purchase their first home in Zeeland, Michigan, located about 30 miles southwest of Grand Rapids. Ryan and Kelsey learned about HOP from their realtor, who felt that the young couple would be excellent candidates for a grant. Through Macatawa Bank, the family received a grant to purchase their home just a few blocks west of downtown Zeeland.

The couple, who welcomed their first child in October, painted the kitchen and moved in. Later, they renovated the downstairs bathroom after the tile around the tub fell off during the middle of the night. Home maintenance is part of being a homeowner as the couple learned through the mandatory homeownership counseling that comes with a HOP grant.

"We had to go through fairly intensive online counseling and complete some paperwork," said Ryan. "But it was all worth it. It got us where we are—stable and prepared for our baby."

FHLBI Encourages Members to do More with HOP

The HOP grant application is not competitive like the Affordable Housing Program. It's relatively simple with just a few forms to fill out. HOP requests are reviewed quickly, usually within 10 business days. "Our staff is happy to answer all of our members' questions and guide them through the funding request process," Fountain said. "Although funding has been exhausted for the 2015 program year, we encourage members to look ahead to next year for ways to put HOP to use in their communities."

ABOUT THE HOMEOWNERSHIP OPPORTUNITIES PROGRAM

80%

Assists first-time homebuyers with household incomes of 80% of the area median or below with down payment and/or closing costs.

$10k

Provides up to $10,000 per household if a member originates the first mortgage or up to $5,000 if a non-member originates the first mortgage and if a $3 to $1 matching funds requirement is met.

$500k

Funds are available on a first-come first-served basis with an annual $500,000 member limit.

Members must register to participate and complete a required training course.

Complete guidelines available in the Community & Housing Programs section at fhlbi.com.

Visit the Community Investment section at fhlbi.com to learn more about how HOP can increase homeownership opportunities in local communities. Members can also contact Shannon Fountain, Community Lending Manager, at sfountain@fhlbi.com or toll free at 800.688.6697.

FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

SAVE THE DATE

Affordable Housing & Community Investment Program Workshop

"The workshops provide an excellent networking opportunity. Plus, they are informative and give all of us an opportunity to meet face to face."

2015 WORKSHOP PARTICIPANT

These workshops are an excellent opportunity for FHLBI members to connect with housing developers, local nonprofits, consultants, and housing agencies to get started on affordable housing initiatives in their local communities.

AFFORDABLE HOUSING PROGRAM
Competitive grants for affordable rental and homeownership projects.

COMMUNITY INVESTMENT PROGRAM
FHLBI's lowest priced advances for community economic development.

HOMEOWNERSHIP INITIATIVES

- Down payment assistance for first-time homebuyers
- Home rehabilitation for existing homeowners.
- Accessibility modifications for seniors or households with a person(s) with a permanent disability

WHO SHOULD ATTEND

This training is designed for retail lending staff, commercial lending staff, CRA staff, CFOs and others involved in community lending, as well as affordable housing project sponsors, local housing and community development agencies. Habitat for Humanity affiliates and others interested in affordable housing and community economic development.
Note: The required member HOP/NIP/AMP training will be offered via webinar at a future date.

REGISTRATION OPENS JANUARY 2016 @ FHLBI.COM

WORKSHOP DATES, LOCATIONS & AGENDA

A block of hotel rooms has been reserved at most locations. Visit the registration page for details.

MARCH

Indianapolis, IN *Marriott North*	**2**
Grand Rapids, MI *JW Marriott*	**9**
Gaylord, MI *Treetops Resort*	**16**
Troy, MI *Marriott Detroit Troy*	**17**
Evansville, IN *Holiday Inn Evansville Airport*	**23**
South Bend, IN *Hilton Garden Inn*	**24**

8:30 AM
Registration & Continental Breakfast

9:00 AM
Workshop Starts

12:00 PM
Lunch & Networking

1:00 PM
Next Steps & Adjourn

Interest Rates have Nowhere to Go but Up. Will You be Ready?

FHLBI's Marginal Cost Model can help members manage the cost of deposits.

Interest rates can't stay at zero forever, can they? Recent market events have demonstrated yet again the difficulties in predicting the decisions of the "will-they-won't-they?" Federal Reserve. When the Fed postponed the much-anticipated September rate hike because of bad economic news out of China, 13 out of 17 members of the Federal Open Market Committee still indicated that a 2015 rate hike was possible.

October's announcement of disappointing September employment numbers coupled with a downward revision for August's numbers pushed the 10-year Treasury below 2% and an October rate hike largely off the table. A December rate hike now seems unlikely as well.

Nevertheless, whether the rate hike happens in 2015 or gets pushed to 2016, rates have to rise eventually. In the meantime, depositories are working hard to prepare for rising rates and are now well-positioned on the asset side to take advantage of a higher-rate environment.

The $25,000 question is what happens on the liability side. How aggressively are deposits going to reprice? The message depositories are getting from regulators: "Probably more aggressively than they'd like."

Deposits Set To Move

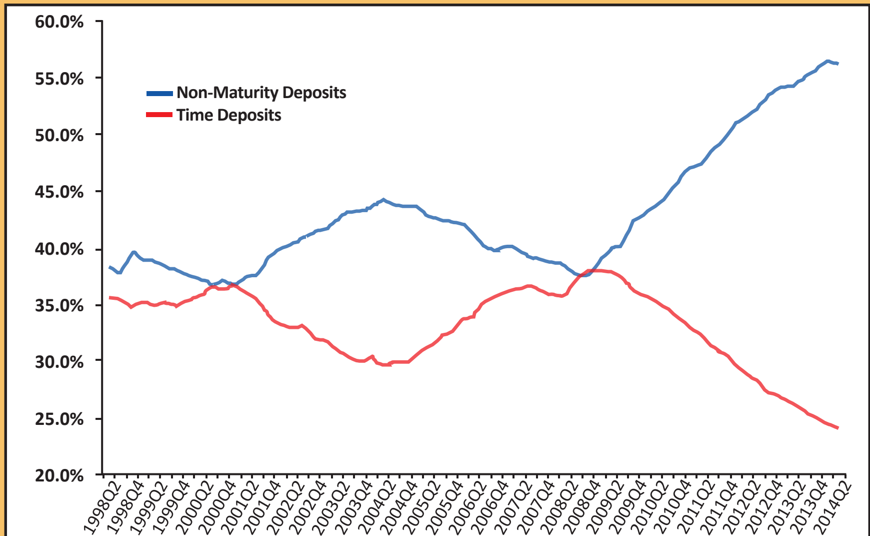
The Winter 2014 issue of the FDIC's Supervisory Insights magazine states:

It is important to recognize that depositors may be more aggressive in seeking higher-yielding products than previous experience. Of particular note, traditionally stable deposits could behave with greater rate sensitivity as a result of structural, technological, and preferential changes that were not present the last time rates increased after a sustained low-rate environment.

What are some of those "structural, technological, and preferential changes" that are new to the current low interest rate environment? Let's consider the following three factors that may lead to increased price sensitivity for deposits.

1. Deposits have shifted from Time to Demand accounts outside the historical norm. The FDIC chart below gives the picture.

DEPOSITS COMPOSITION AS A PERCENTAGE OF TOTAL ASSETS FOR BANKS LESS THAN $10 BILLION



Source: FDIC Call Report data.

In this prolonged zero rate environment, non-maturity deposits (Demand, NOW, and MMDA) have grown from 38% of total assets in 2008 to 56% in 2014, while the percentage of Time (CD) deposits has correspondingly dropped. Non-maturity deposits are now more than 10% higher as a percent of assets than at their previous high in 2004. There is a great deal of pent-up rate sensitivity built into this picture. Time deposits are traditionally more rate sensitive than Demand deposits. The graph suggests that deposits that would normally be placed in higher rate CDs are temporarily parked in non-maturity deposit accounts due to the unusually low rate differential between the two products. When rates begin to move, we can expect those parked deposits to behave more like Time deposits than non-maturity deposits—that is, to be more sensitive to opportunities to receive higher rates in the market.

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2. Big banks may go after retail deposits more aggressively than in the past

The new Basel III Liquidity Coverage Ratio regulation requires big banks (those over $250 billion in assets) to maintain highly liquid assets sufficient to cover estimated net cash outflows over a 30-day period under stress conditions. Under the new regulation, retail deposits get favorable treatment in the calculation of cash outflows since they are considered more stable, giving big banks an incentive to pursue these deposits more aggressively. The result of this increased competition could be higher prices for retail deposits once rates begin to move. On their second quarter earnings call, JPMorgan CFO Marianne Lake said: “We are expecting retail deposits to reprice higher and faster in this cycle than in previous rising rate cycles, given the competition for good, high-quality, LCR-compliant retail deposits.” *See American Banker, July 14, 2015. “JPMorgan is Poised to Pay Up for Deposits When Rates Rise.”*

3. Here come the Millennials

Millennials represent the fastest-growing segment of banking customers. According to a 2014 Independent Community Bankers of America study, 80-million American millennials are poised to transform banking forever. Consider the 20-year-old millennial who does all of her banking on a smartphone: she can quickly compare rates from competing institutions, change accounts with comparatively little hassle, and is comfortable aggressively seeking service providers that offer the best value. If millennials can jump from Facebook to Twitter to Instagram to Snapchat to whatever’s next without batting an eye, they can jump ship from financial institutions too. And, in fact, that’s just what they do.

In April 2015, an Accenture study of 4,000 consumers indicated almost one in five millennials had switched banks in the past 12 months, and 30% of millennials surveyed by FICO said they had already switched a primary checking account from one bank to another.

Hard as it is to believe, many millennials have never experienced a non-zero interest rate environment as adults, so it is difficult to predict their rate-seeking behavior. Surveys do show, however, that they are sensitive to fees. Given the ease with which millennials armed with mobile technology can switch accounts from one institution to another and given their comfort in doing so, we should be prepared for their deposits to reprice more quickly than retail deposits have repriced in the past.

Calculating Marginal Cost of Deposits

In this competitive environment, financial institutions must consider the marginal cost of retaining the most price-sensitive deposits. For example, suppose a bank has $10 million in Money Market deposits on which it pays an interest rate of 1%. Its annual funding cost for those deposits equals $100,000. What if a competitor raises its interest rate for similar deposits to 1.25%?

While the bank has a good value relationship with its customers, it estimates it will lose 10% of its deposits if it keeps its rates flat, representing those customers who are more sensitive to opportunities to receive a higher rate. If the bank lets those deposits run off, its deposit base shrinks to $9 million with a $90,000 annual funding cost. If it raises rates to 1.25% to retain those $1 million in more price sensitive deposits, its annual funding cost increases to $125,000.

The difference in interest expense divided by the amount of retained deposits gives the bank the marginal cost of the deposits, which in this case is ($125,000-$90,000)/$1,000,000 = 3.5%. That is the true rate the bank is paying on those $1 million in more rate-sensitive deposits. The marginal cost analysis shows that holding onto those deposits can be quite costly.

Using FHLBI’s Marginal Cost Model

FHLBI’s Marginal Cost model, found in the Member Services section of Member Link, can help member institutions make strategic decisions about pricing deposits. The model weighs the cost of raising deposit rates to match a competitor’s versus holding rates steady, letting some deposits run off, and replacing those deposits with alternative funding, such as an FHLBI advance. The model is set up to simulate issuing a higher rate CD to attract new funds rather than keeping rates low and letting existing funds run off, so it’s necessary to reinterpret its inputs for this scenario.

The model requires four inputs:

1. **Funding Term in Months** - This is the term of the FHLBI advance you will use to replace the deposits you allow to run off.
2. **Promotional CD Rate (APR)** and **(APY)** - Input the APY that is competing for your deposits. In the example given, this would be 1.25%. (The APY is used in the calculation. APR is input for reference only.)
3. **Cannibalized Deposits** - This is the percent of deposits you expect to keep if you maintain deposit rates at their existing below-market rate. In our example this would be 90%. These deposits are said to be cannibalized at the higher rate because when you raise rates you are paying up for a percentage of deposits that you would have kept regardless.
4. **Average cost of cannibalized deposits** - This is the rate you are currently paying for deposits. In our example this would be 1.00%.

With these four inputs the model will calculate the marginal cost of the deposits retained by raising rates. In this case if we raise rates 25 basis points to prevent run-off of $1 million in deposits, the marginal cost of those deposits is 3.5%.

The model will also calculate the interest savings if we instead let those deposits run off and replace them with an FHLBI advance of a selected term. With the parameters chosen, the total interest expense of raising rates to 1.25% is $125,000 (1.25% x $10 million in deposits.) The total interest expense of maintaining rates at 1% and replacing the $1 million in run-off deposits with a $1 million 12 month fixed rate bullet advance is $99,200 (1% x $9 million deposits + .92% x $1 million advance.) The total interest savings is $25,800*.

Funding term in months	12 m	?
Promotional CD rate (APR)*	1.25 %	?
Promotional CD rate (APY)	1.25 %	?
Cannibalized deposits	90%	?
Average cost of cannibalized deposits	1.00 %	?
Click on "calc" button each time you update inputs	Calc	?
Marginal cost	3.5 %	?
Comparable FHLB advance rate (APR)	0.9 %	?
Comparable FHLB advance rate (APY)	0.92 %	?
Premium paid over FHLB advance	2.58 %	?

Option 2: Use FHLB advance to generate new funding		
Borrowings	$1,000,000	
Roll over money	$9,000,000	
Total balance	$10,000,000	
	Rate (APY)	Cost
Interest expense on new funds	0.92%	$ 9,200
Interest expense on roll over funds	1%	$ 90,000
Total interest expense		$ 99,200
Interest expense savings using FHLB advance		$ 25,800

Advance indication as of 11/18/15. Actual Advance rates are subject to change and are set at the time of issuance.

Plan Now for Rising Rates

Financial institutions are well-positioned on the asset side to benefit from rising rates. On the liability side, however, there is uncertainty about how deposits are going to behave once rates begin to move. A variety of cultural, technological, and regulatory changes, as well as evidence that Time deposits are parked in non-maturity deposit accounts, suggests that deposits may reprice more quickly and more sharply than in past experience.

In this environment it may be beneficial to strategically let the most price-sensitive deposits run off and replace them with alternative funding such as a fixed-rate bullet advance. While interest rates may not start to rise until 2016, the time to start strategizing is now.

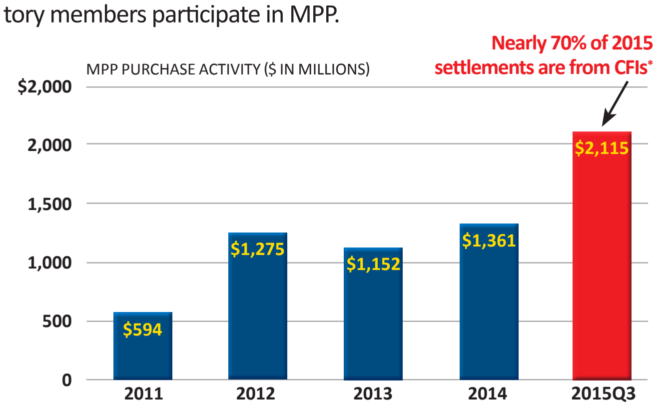
To learn more about how FHLBI products can help you with your funding needs, contact your account representative or call our Credit Desk at 800.442.2568.

Mortgage Purchase Program Sees Continued Growth in 2015

FHLBI launched the Mortgage Purchase Program (MPP) in 2001 to offer members a competitive option for secondary market sales designed to improve on their return on loans sold. Since then, MPP has grown to be a major business line for FHLBI, complementing the advances business by providing liquidity for mortgage lending.

Numbers Tell the Story

As an indicator of MPP's growing popularity, by the end of second quarter 2015, member loan sales already exceeded MPP's total loan purchases for 2014. Additionally, over one-third of FHLBI's depository members participate in MPP.



*Defined here as depositories with assets < $1B

Most importantly, FHLBI's extensive knowledge about members' markets allows it to develop underwriting standards that make it possible to lend in some of rural Indiana and Michigan areas that have typically not been well served by the secondary market.

Sellers value the flexibility MPP offers as well. Depending on members' banking strategy and balance sheet needs, many MPP sellers hold a portion of their shorter-term fixed rate mortgage loans and sell the longer-term loans to MPP to eliminate the long-term interest rate risk. FHLBI benefits from the income stream that balances out the ebb and flow of the advance business, making this a win for all parties.

Good Customer Service is Key

When members sign up to participate in MPP, they know they'll be working with knowledgeable, experienced staff who know the mortgage business inside and out. "When customers talk to me about why they like MPP, I often hear that they like dealing with local staff," commented Cathy Garrett, MPP Business Development Manager. "They appreciate our focus on outstanding customer service. When they call an MPP staff member, they know we'll respond quickly to any question about the program. That's service they don't always get with other secondary market providers."

Lender Risk Account Remains Strong Selling Point

MPP participation has grown as more members understand the potential to increase their income stream through the LRA. FHLBI has changed and streamlined MPP over the years to meet customer needs, but the Lender Risk Account (LRA) remains the hallmark of the program since inception.

The LRA, established to reward MPP sellers for originating high quality loans, is funded up front at the settlement date of the loan purchase. If the funds are not needed to cover loan losses, they are slated to be released back to the seller on a fixed, predetermined schedule over the projected life of each loan pool.

This feature increases longer-term member value by creating a greater profit opportunity from selling high credit quality loans without any change in risk. It is the LRA structure that distinguishes MPP from other secondary mortgage market programs that charge non-refundable credit enhancement guarantee fees.

Focused on Member Needs

FHLBI remains focused on providing a consistent outlet for loan sales that members find easy to use, even as it evaluates additional mortgage purchasing solutions to ensure continued MPP growth.

To learn more about MPP and how it can be an additional income stream for your institution, contact Cathy Garrett, MPP Business Development Manager, 317.465.0553 or cgarrett@fhlbi.com.

Bank of New York Mellon Named New Master Servicer for Mortgage Purchase Program

FHLBI recently selected Bank of New York Mellon (BNY Mellon) as its new master servicer for the Mortgage Purchase Program (MPP). The master servicer works on behalf of FHLBI to analyze and reconcile all the monthly remittance reports submitted by MPP servicers.

Founded in 1784, BNY Mellon, a global investments company with $395.3 billion in assets, has provided master servicing since 1990. With an "Above Average" rating from Standard & Poor's Master Servicer Evaluation, BNY Mellon has a proven track record of delivering a quality program.

BNY Mellon began processing monthly remittance reports in November 2015. MPP Sellers will see minimal impact as BNY Mellon uses the same reporting system as our previous master servicer and does not require any new reporting format.

> *"Bank of New York Mellon's extensive experience as a master servicer was one of the deciding factors in the selection process. This experience coupled with their knowledgeable staff makes them a great partner for us as MPP enters its 15th year."*
>
> DAN GREEN - MPP DIRECTOR

For additional information and master servicing guidelines, visit fhlbi.com or contact Steve Broviak, 317.465.0546, sbroviak@fhlbi.com or Jeff Gentner, 317.465.0544, jgentner@fhlbi.com.

MEMBER SERVICES

2015 Shareholder Symposium Highlights

LEFT TO RIGHT: Cindy Konich-*CEO & President, FHLBI*; Carolynn Walton-*Blue Cross Blue Sheild of MI*, David Piner-*MI Dept. of Insurance & Financial Services*; Marc Fox-*Tuebor Captive Insurance Co*.

LEFT TO RIGHT: Jim MacPhee-*Kalamazoo County State Bank*; Jon Griffin-*FHLBI Chief Credit & Marketing Officer*; Byron Boston-*Dynex Capital, Inc.*; Steve Mumma-*Great Lakes Insurance Holdings, Inc*. at the Indianapolis Symposium.

LEFT TO RIGHT: Mark Jansen-*First State Bank*; Phil Ruggeri-*First State Bank*; and Rann Paynter-*Michigan Bankers Association* at the Grand Rapids Symposium.

LEFT TO RIGHT: Bill McDowell-*FHLBI Account Manager*; Mike Stearns-*Plante Moran*; Mel Ward-*Kentland Bank*; Kirby Drey-*Kentland Bank* at the Indianapolis Symposium.

Marci Rossell-*Economist,* was one of the featured speakers at the Grand Rapids and Indianapolis Symposiums.

Josh Linkner-*Author & Founding Partner of Detroit Venture Partners,* was one of the featured speakers at the Grand Rapids and Indianapolis Symposiums.

Visit the fhlbi.com home page to view Cindy's and other presentations from the 2015 Shareholder Symposium.

LEFT TO RIGHT: Peter Dann-*Lake Michigan Credit Union*; Matt Fix-*FHLBI Account Manager*; Josh Stevens-*Lake Michigan Credit Union*.

LEFT TO RIGHT: Jim Phelps-*Evansville Federal Credit Union*; Rob Hovermale-*FHLBI Lending Officer*; Mike Sills-*Evansville Federal Credit Union*; Kris Ploetz-*Centurion Federal Credit Union*.

LEFT TO RIGHT: Casey Mungall-*Amerisure Mutual Holdings*; Kevin Clement-*Amerisure Mutual Holdings; Dan Graf-Amerisure Mutual Holdings;* Jim Eibel-*FHLBI Senior Account Director*.

LEFT TO RIGHT: Mike Head-*First Federal of Evansville*; Marvin Veatch-*Jackson County Bank*; Bill McDowell-*FHLBI Account Manager*.

LEFT TO RIGHT: Brett Vanderkolk-FHLBI Marketing Director; Bob Dickin-SSB Bank; Bill White-Dearborn Federal Savings Bank; Matt DeWolf-Michigan Bankers Association.

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8250 Woodfield Crossing Blvd. | Indianapolis, Indiana 46240
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