

INDEPTH

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FHLBI Hosts Successful Shareholder Symposium

Nearly 400 people attended the FHLBI's inaugural Shareholder Symposium featuring nationally recognized speakers. [PAGE 6](#)

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FHLBI PERFORMANCE

(\$ in millions, unaudited)

As of September 30, 2013

Assets	\$39,577
Advances outstanding	\$ 18,796
Purchased mortgage loans, net	\$ 6,160
Total retained earnings	\$ 687

For the three months ended September 30, 2013

Net income	\$ 29.0
Return on average equity	4.82%

**New members approved from July 2013
through November 2013**

**Metro Community Development, Inc.
Flint, Michigan**

EDITORIAL BOARD

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

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On the cover: Representatives from Peoples State of Munising meet basketball legend Jalen Rose. (LEFT TO RIGHT) Rick Nebel, Pres. & CEO; Dick Bowerman, Director; Jalen Rose; Charlie Nebel, Director; Dale Immel, Director.

Message from the President - CEO

Six months ago, I was named FHLBI's President-CEO, and while new to the position, I have worked at the FHLBI in finance since 1984. During my tenure, I have learned a great deal, and am, along with the entire staff, dedicated to the FHLBI, our mission, our members, and our collective success. Additionally, the solid foundation that was built under our former CEO Milton Miller's leadership and my strong working relationship with him made the transition to CEO seamless. Milton was both a friend and a mentor, and we all wish him well in his retirement.



Cindy L. Konich

As I have shared with FHLBI staff in meetings and with attendees at this summer's Shareholder Symposiums, my strategy for the FHLBI is to "maintain and adjust." Maintaining the well thought-out business practices and strategies is important, but at the same time, we must make any necessary adjustments to serve our member shareholders in the best manner as the economy, the business environment, and the regulatory and legislative arenas evolve. FHLBI has repeatedly demonstrated its ability to perform at a level that is among the best in the FHLBank System. We have the right team, the right financial and business strategies, and the right risk management culture to meet our members' funding needs.

I was pleased to meet many leaders from our member institutions at our Shareholder Symposiums in Grand Rapids and Indianapolis. The large attendance and favorable feedback were encouraging and will help us plan next year's event, which has already been set for August 18-19 in Dearborn, Michigan and August 26-27 in Indianapolis. Mark your calendars, as I look forward to seeing you there.

For eight decades we have been the most reliable source of funding and liquidity for our diverse membership in all economic situations. The article on page 10 discusses how to use our fixed-rate bullets to manage interest rate risk in a simple low-cost way. Our Mortgage Purchase Program continues to grow. A refresher on guidelines for selling mortgages through our popular MPP Advantage program appears on page 15. Also, two stories of successful use of our Affordable Housing Program grants are showcased beginning on page 12.

GSE reform, although complex, is becoming a priority on Capitol Hill as Mel Watt has finally been confirmed by the Senate to head our regulator, the Federal Housing Finance Agency, and two draft housing finance reform bills are working their way through Congress. Bill Hamilton, our government relations consultant, points out in his column on page 3 the need for the FHLBanks to educate public policymakers on the FHLBank cooperative business model, to remind them of the critical liquidity role we played during the financial crisis, and to reinforce the message that we are a model that works.

Finally, I want to thank Paul Clabuesch for his capable leadership and guidance. Paul has served as Chair of FHLBI's Board of Directors since 2005 and will be greatly missed. Congratulations to Jim MacPhee, who was elected Chair, and to Mike Hannigan, who was elected Vice Chair, beginning January 2014. Congratulations also to Jeff Poxon, Matt Forrester, Jim Logue and Mike Hannigan, who were recently re-elected to our Board. Their past contributions have been invaluable, and we look forward to working with them for another term. Best wishes to Rev. Adrian Brooks, who leaves our Affordable Housing Advisory Council, and we welcome Stephanie Tenbarger and Vincent Tilford, whose expertise in affordable housing will no doubt be an asset to our Council.

The FHLBI wishes all of our members and their many community partners a prosperous 2014

Sincerely,

A handwritten signature in black ink, appearing to read "C. Konich".

Cindy L. Konich
President-CEO

Capitol Hill *Highlights*

BY BILL HAMILTON, FHLBI GOVERNMENT RELATIONS CONSULTANT

The government shutdown and extension of the debt ceiling dominated the news for many months. With those issues at least temporarily resolved, congressional leaders have now turned to serious and ongoing discussions about one key element to a vibrant national economy — an efficient and effective housing finance system.

As Fannie Mae and Freddie Mac remain in conservatorship, lawmakers have begun considering whether and how to replace the two enterprises. The House Financial Services Committee has already approved legislation that eliminates Fannie and Freddie and relies on the private sector to meet the nation's housing finance needs. In the Senate Banking Committee, a bipartisan group is working on a proposal that eliminates the enterprises but offers a limited government backstop under catastrophic circumstances.

The Federal Home Loan Banks (FHLBanks) have unsurprisingly been drawn into the discussion over the future of housing finance. Because of their cooperative nature and close relationship with members, some congressional leaders are looking to expand the role of the FHLBanks in making housing finance available to Americans.

While the FHLBanks are well regarded on Capitol Hill (thanks in no small part to the efforts of members and their Washington representatives), the FHLBanks are working closely with policymakers to make sure that unintended changes that damage the successful FHLBank model are not included in any housing finance reform initiatives.

Specifically, the FHLBanks are communicating the following principles to Washington policymakers:

- The FHLBanks must be a part of the solution in creating a newly restructured U.S. housing finance system.
- The FHLBanks' core strength is their member-driven cooperative structure.
- The FHLBanks' role to support housing and providing lower-cost funding and liquidity to their members through secured wholesale lending and other products, programs and services must be preserved.
- The FHLBanks must have the authority to build upon existing mortgage programs to improve their members' access to the secondary markets.
- The FHLBanks should have the option through statutory authority to securitize mortgage loans.
- The FHLBanks' Affordable Housing Program (AHP), which is based on a set-aside of 10 percent of earnings and administered through members, should be preserved.
- Existing FHLBank investment authorities should be preserved so that members and partners can, in all economic conditions, rely on the benefits of the FHLBanks.
- Existing qualifications for FHLBank membership and members' access to all FHLBank services should be preserved.
- The FHLBanks support the concept of a single stand-alone regulator.

Given any number of factors, including the lateness of the year, Washington gridlock and partisanship and the complexity of housing finance, it may be difficult for lawmakers to find consensus on the future of reform efforts during this session of Congress. However, we remain diligent in our education efforts with senators, representatives and their staffs as whatever language governing the FHLBanks that comes together today may well serve as the template for future statutory authority for the FHLBanks.

In the coming months, we will not hesitate to call on members and other individuals and groups interested in housing and community development-related issues in order to preserve and enhance an FHLBank System that has worked so effectively for over 80 years.



Jonathan West (LEFT) and Cindy Konich (CENTER) meet with John von Seggern (RIGHT), President and CEO of the Council of FHLBanks. The Council represents the positions and views of the FHLBanks and their members to Washington policymakers.

Gruwell named Senior Vice President - Chief Financial Officer

Robert E. Gruwell is responsible for all treasury department functions, including bank funding, asset/liability management, bank investments, treasury risk analytics and also oversees corporate communications and planning. Previously, he was First Vice President - Chief Capital Markets Officer.

Before joining the FHLBI in 2008, Gruwell served as Senior Vice President and Treasurer with responsibility for both treasury and mortgage banking at Commercial Federal Bank and in various portfolio and risk management positions at Citibank.

Gruwell earned a BS in accountancy from the University of Illinois.



Robert E. Gruwell

Advisory Council Welcomes New Members; Chair, Vice Chair Selected

The FHLBI has named two new members to the Affordable Housing Advisory Council (Council).

Stephanie Tenbarge – *Executive Director of ECHO Housing Corp. in Evansville, IN*

Under Tenbarge's leadership, ECHO has developed and operated Lucas Place, 20 units of transitional housing for homeless families, and Lucas Place II, 20 units of permanent supportive housing for homeless disabled veterans. Both projects received FHLBI Affordable Housing Program grants. Tenbarge is active in local organizations, including the Chamber of Commerce and Coalition of Inner City Neighborhoods.

Vincent Tilford – *Executive Director, Habitat for Humanity Detroit*

Since 2007, Tilford has led the Detroit chapter of Habitat for Humanity, which has built or rehabilitated nearly 100 homes. His extensive background in affordable housing and community development includes service as president of the Arkansas Development Finance Authority and senior program director for the Local Initiatives Support Corp. in Detroit.

Further, the Council selected Sherry Seiwert to chair the group in 2014. Seiwert, president of Indianapolis Downtown, Inc., served as vice chair in 2013 and has been a member of the Council since 2012.

Serving as 2014 vice chair is Jamie Schriener-Hooper, Executive Director of the Community Economic Development Association of Michigan (CEDAM). She has been a member of the Council since 2011.

The Council is comprised of 12 housing and community development leaders in Michigan and Indiana who are actively involved in providing or promoting low- and moderate-income housing or community lending. The Council collaborates with the FHLBI's Board of Directors and staff to find ways for the FHLBI to carry out its housing finance and community investment mission.

For a complete Council roster or to nominate someone for the 2015 Council, visit the Community Investment section of www.fhlbi.com.

FHLBI Welcomes First CDFI - Metro Community Development, Inc. in Flint, Michigan, joined the FHLBI in August. Metro Community, a community development financial institution (CDFI), partners with public and private organizations, provides technical and financial resources and promotes the creation of stable neighborhoods and communities.

Metro is FHLBI's first CDFI. CDFIs were authorized to become members of the Federal Home Loan Bank System in 2010. Their membership offers increased access to funding, expanding their capacity to promote economic growth and stability in their local communities.

FHLBI Board of Directors News

Four members of the FHLBI's Board of Directors were re-elected to additional three-year terms beginning Jan. 1, 2014. Additionally, James D. MacPhee and Michael J. Hannigan were elected Chair and Vice Chair.



FHLBI CHAIR

James D. MacPhee

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

MacPhee's tenure with Kalamazoo County State Bank began in 1972. He is a director of the Independent Community Bankers of America and a

past chairman of this national trade group. Locally, he is a director and past president of the Community Bankers of Michigan. MacPhee joined the FHLBI's Board in 2008.



FHLBI VICE CHAIR

Michael J. Hannigan

President - The Hannigan Company, LLC., Carmel, IN

Hannigan has been involved in mortgage banking and related businesses for more than 25 years. His career began at Waterfield Financial Corporation, and later he founded Precedent Financial Corp.,

which later became part of The Precedent Companies, Inc. In 2006 he launched his own real estate development firm. Hannigan has been a Board member since 2007 and was recently elected Vice Chair for a two-year term beginning Jan. 2014.



RE-ELECTED DIRECTOR

Matthew P. Forrester

President & CEO, River Valley Financial Company, Madison, IN

Forrester has led River Valley Financial Bank since October 1999. His prior banking experience includes chief financial officer at Home Loan

Bank in Fort Wayne, IN, and senior vice president and treasurer for its holding company, Home BanCorp for 14 years. He joined the FHLBI's Board of Directors in 2010.



RE-ELECTED DIRECTOR

Jeffrey A. Poxon, CFA

Director - Lafayette Savings Bank and retired Chief Investment Officer - Lafayette Life Insurance Company, Lafayette, IN

Poxon's career in financial services and capital markets spans nearly 40 years. His community service

affiliations include The Greater Lafayette Museum of Art, The Greater Lafayette Community Foundation and Lafayette Home Hospital. Professional activities include ACLI Committee on Investment Executive Seminars, The Institute of Chartered Financial Analysts and The Indianapolis Society of Financial Analysts. He has served as the vice chairman of the FHLBI's Board since 2010, after being first elected in 2006.



RE-ELECTED DIRECTOR

James L. Logue III

Chief Operating Officer - Great Lakes Capital Fund, Lansing, MI

Logue joined Great Lakes Capital Fund in 2003 after spending 12 years as Executive Director of the Michigan State Housing Develop-

ment Authority. Prior positions include Director of Programs and Policy at the National Council of State Housing Agencies and Deputy Assistant Secretary for Multifamily Housing Programs at HUD. He has been a member of the FHLBI's Board of Directors since 2007.



The FHLBI is deeply grateful to Paul Clabuesch for his dedicated service as a member of our Board of Directors since 2003. Paul served as Board Chair since 2005 and also chaired the Executive/Governance Committee. One Michigan seat on the Board was eliminated due to the Finance Agency's implementation of a regulation that stipulates the number of member directors be based on the approximate amount of FHLBank stock held by members in each state. Because of the reduced amount of stock held by our Michigan members, the number of Michigan member director seats was reduced to four from five.

FHLBI HOSTS SUCCESSFUL SHAREHOLDER SYMPOSIUM

Nearly 400 people attended the FHLBI's inaugural Shareholder Symposium in Grand Rapids, Michigan and in Indianapolis, Indiana this past summer.

The Symposium raised the bar on FHLBI's regional meetings previously held in six locations throughout Indiana and Michigan. "We decided to change the format of our successful Regional Member Meetings to keep the event fresh and interesting," explained Jon Griffin, FHLBI's Chief Credit and Marketing Officer. "We also thought it would be beneficial to bring our membership together into larger groups to provide greater networking opportunities with FHLBI staff, peers and speakers."

Each two-day event began with a golf outing, followed by a welcome reception for all attendees at the Symposium venue.

Cindy Konich, President-CEO, began the full-day program by giving an update on FHLBI's performance.



(LEFT TO RIGHT) **Jim Eibel**, FHLBI's Director of Business Development; **Roger Lowenstein**, best-selling author and Symposium guest speaker; **Cindy Konich**, FHLBI President-CEO.



Sean Dobson, CEO and Chairman of Amherst Securities.

In her remarks, Konich reviewed the FHLBI's second quarter financials and highlighted selected Federal Home Loan Bank System financials, which allowed the audience to see how FHLBI compared to other Home Loan Banks. The final slide in her presentation reminded members that they are both our customers and our shareholders. As customers, members can access FHLBI's advances products and mortgage purchase and affordable housing programs; as shareholders, they have the benefit of FHLBI's strong core earnings and solid regulatory capital position that help to generate attractive dividends well above LIBOR.

The Symposium featured nationally recognized keynote speakers, including

- Roger Lowenstein, Bloomberg columnist and author. Lowenstein delivered a history of central banking that included an in-depth look at the Federal Reserve.
- Andrew Busch, commentator for CNBC's "Money in Motion" and other media outlets. Busch provided an energetic discussion of international financial markets, touching on GDP rates, the Fed's quantitative easing program, China's strategic shifts, and a 2014 outlook for the U.S.
- Sean Dobson, CEO and Chairman of Amherst Securities. Dobson discussed housing and the mortgage markets and commented on some of the Federal Reserve's current strategies.

Additionally, participants attended one of three break-out sessions on industry-specific topics, which included asset/liability management led by The Baker Group; mortgage sales pipeline management led by Compass Analytics; and an insurance industry round-table moderated by Jim Eibel.

"Lunch speakers at both Grand Rapids and Indy were inspirational."

– Survey response

“FHLBI has deservedly gained a reputation in our organization for putting on excellent events of substance and quality.”

– Survey response

A highlight at both events was the lunch keynote address by local heroes. Jalen Rose, 2013 Michiganian of the Year and member of the legendary “Fab Five” University of Michigan basketball team, spoke at the Grand Rapids meeting about growing up in Detroit, his family and his success at basketball. Rose now sponsors the Jalen Rose Leadership Academy, a charter school in Detroit with 200 ninth and tenth grade students enrolled.

Josh Bleill, a Greenfield, Ind. native and Purdue University graduate, spoke at the Indianapolis meeting. He related the moving story of how he lost both legs while serving in the Marines during the Iraq war, his long road to recovery, and his determination to walk again using his prosthetic legs. He is now a community spokesman for the Indianapolis Colts, making public appearances to motivate others to overcome obstacles and find ways to make a difference in the lives of other people.

A high percentage of Symposium participants indicated that they plan to attend the event next year. Preparation for the 2014 Shareholder Symposium has already begun. FHLBI staff looks forward to seeing members and invited guests in either Dearborn, Mich. on Aug. 18-19 or in Indianapolis on Aug. 26-27.



Andrew Busch, featured commentator for CNBC's "Money in Motion."



Symposium participants filled the ballroom at the Marriott North in Indianapolis.

SAVE THE DATE

8.18.14

SYMPOSIUM GOLF OUTING

TPC Michigan, Dearborn, MI

WELCOME RECEPTION

The Henry, Dearborn, MI

8.19.14

FHLBI SHAREHOLDER SYMPOSIUM

The Henry, Dearborn, MI

8.26.14

SYMPOSIUM GOLF OUTING

Brickyard Crossing Golf Course, Indianapolis, IN

WELCOME RECEPTION

The Conrad, Indianapolis, IN

8.27.14

FHLBI SHAREHOLDER SYMPOSIUM

The Conrad, Indianapolis, IN

"The golf outing is a fun way to network and a relaxing way to catch up with people from FHLBI..."

– Survey response



Jalen Rose, basketball legend from the University of Michigan and luncheon speaker at the Grand Rapids Symposium.



(LEFT TO RIGHT) Chuck Rainey, FHLBI Account Manager, and Josh Bleill, Community Spokesman for the Colts and luncheon speaker at the Indianapolis Symposium.



(LEFT TO RIGHT) From Logansport Savings Bank: Chad Higgins, David Wihebrink, and Arden Cramer.



(LEFT TO RIGHT) From Amherst Securities Group, Ryan Clinton; Sean Dobson, CEO & Chairman; and Jeff Switzer.



(LEFT TO RIGHT) From 1st State Bank of East Detroit, Eastpointe, MI: Bill Pilkington, Phil Ruggeri, Marc Renault, Al De Flaviis.



(LEFT TO RIGHT) Dennis King, Wayne Bank and Trust Co.; Janice Ringo, Ball State FCU; Randy Glassburn, Ball State FCU; Rick Cowen, Wayne Bank and Trust Co.



(LEFT TO RIGHT) **Fred Foote, First National Bank of America; Jonathan West, FHLBI's Chief Operating Officer; Jon Griffin, FHLBI's Chief Credit and Marketing Officer; Mark Wahl, First National Bank of America.**



(LEFT TO RIGHT) **Jeff Buttars, FHLBI's MPP Director; Cathy Garrett, MPP Acquisitions Manager; Terry Stevens, Alliance Bank in Evansville, IN.**



(LEFT TO RIGHT) **Dave Hauser, BCBS of MI; Carolyn Walton, BCBS of MI; Keith Terhall, AAA Life Insurance; Chuck Schervish, BCBS of MI.**



(LEFT TO RIGHT) **Lee Brady, The LaPorte Savings Bank; Jeremy Taylor, MainSource Bank; Chuck Rainey, FHLBI Account Manager; Scott Stansberry, FHLBI Credit Risk Director; Jim Phelps, Evansville Federal Credit Union; Todd Hargreaves, FHLBI Advances Manager.**



(LEFT TO RIGHT) **Julie Zink, Marshall Community Credit Union; James Bosserd, ChoiceOne Bank; Kyle Purdy, ChoiceOne Bank.**



(LEFT TO RIGHT) **Mike Hannigan, FHLBI Board member; Bernie Zielinski, Lynnville Nat'l Bank; Dan Moore, FHLBI Board member; Lowell Short, FHLBI's Chief Accounting Officer.**

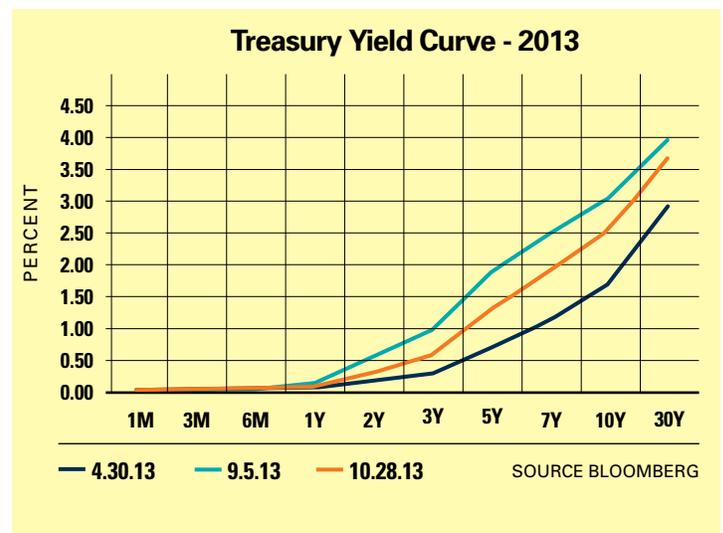
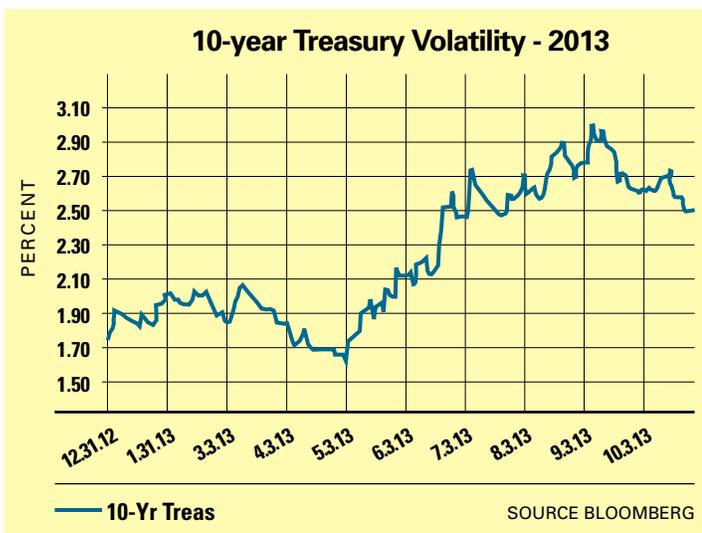
Fixed-rate Bullets can protect against Rising Interest Rates

By TODD HARGREAVES, VP - ADVANCES MANAGER

Anticipating Tapering

During my frequent conversations with members as FHLBI's advances manager, many of them talk about their ample liquidity. In the midst of these conversations, the landscape continues to evolve. Industry observers are beginning to note that loan growth has increased and deposit growth has slowed. A recent article from Reuters entitled "U.S. Banks Get Ready for the Day When Deposits Shrink" by Peter Rudegeair and Carrick Mollenkamp highlighted the fact that regulators are encouraging banks to begin considering strategies for dealing with an outflow of deposits. The authors further state that banks find it difficult to model expected changes in depositor behavior since rates are close to zero, and money can move much more quickly by using online and mobile banking channels to transfer money relative to previous low deposit rate periods. The duration of bank deposits will be much shorter when short-term rates begin to rise. At the same time, the durations of assets will lengthen as depositories begin originating more loans. In light of these issues, more focus has been given to balance sheet funding.

Furthermore, and important for institutions funding longer-duration assets, we saw a significant increase in longer-term rates. The idea of tapering became an important concept to most individuals that follow the capital markets and refers to when the Federal Reserve will begin reducing its bond-buying programs. Market expectations surrounding tapering had a significant impact on longer-term rates in 2013. The indicative 10-year Treasury rate, for example, fell as low as 1.63 percent at the end of April only to rise to 3.00 percent on September 5. However, on September 18, the Federal Reserve indicated that bond buying would continue and that it planned to re-evaluate tapering in future meetings. That sent the 10-year Treasury lower, and it has continued to decline as expectations surrounding future tapering subside. The graphs below illustrate the volatility of the Treasury rates in 2013. The graph on the left shows the rate increasing more than 135 basis points from the low to the high.



Thanks to the concept of tapering, we have been given a clear signal that intermediate-term and longer-term interest rates will be headed higher when tapering begins or as the expectation for tapering reignites.

Fixed-rate bullet and bullet variations

As our members evaluate ways to mitigate liquidity risk or interest rate risk, the FHLBI stands ready to provide assistance. The FHLBI offers a variety of advances products to meet our members' funding needs. Given the necessity to extend liability duration and the fact that we likely know where intermediate and long-term rates are headed when talk of tapering reignites, it may be time to consider one of the simplest FHLBI products, the fixed-rate bullet. The fixed-rate bullet is available with terms up to 10 years (longer maturities may be available) and is used by members to provide protection against rising interest rates, funding loan originations or to support asset purchases. Fixed-rate bullet advances are always available in the exact amount

and term needed. The FHLBI does not have the ability to “call” the advance or renegotiate the rate, and that certainty cannot be undervalued relative to future expectations of depositor behavior and interest rates.

The FHLBI also offers variations of the fixed-rate bullet advance. The callable advance allows members to obtain a fixed-rate bullet advance with an option to prepay the advance on predetermined dates. The callable advance would be priced higher than a fixed-rate bullet advance with the same term, but members have the option to prepay the advance without penalty on certain dates and “reset” their liabilities if rates have acted differently than expected. Many depository members have a significant amount of optionality on the asset side of the balance sheet. Depositories offer free options to members when issuing residential mortgage loans and auto installment loans but own few, if any options, on the funding side.

The FHLBI has offered a number of specials during 2013 that have provided members with fixed-rate bullet advance opportunities with maturities ranging from 1 year to 10 years. Often, specials include option-embedded structures. For example, in August, we offered a 7-year no-call 3-year callable advance special. One of the reasons to offer these variations in a special offering is to remind members that the FHLBI offers these products and to get members thinking about the different alternatives available to them as they consider balance sheet funding alternatives.

If your institution is interested in learning more about fixed-rate funding alternatives, please call your marketing representative or contact the FHLBI Credit Desk at 800.442.2568 or visit www.fhlbi.com.

FHLBI Funding can help Manage Balance Sheets

BY ALAN RIEGER, BUSINESS DEVELOPMENT ANALYST

As everyone knows, it's a tough time to be a banker. In an environment with historically low rates, compressed margins, increasing regulatory costs, and scarce opportunities for loan growth, bankers have been given a Goldilocks problem of managing their assets and liabilities so as to keep earnings robust while mitigating the ever-present threat of a sudden spike in interest rates.

The FDIC recently issued Financial Institution Letter (FIL) 46 that cautions banks against the risk of being too liability sensitive and too asset sensitive. Institutions are being asked to get the “porridge” just right, neither too cold nor too hot.

On the liability side, there is the question of how to model core deposits in a competitive environment.

The FDIC is increasingly concerned that certain institutions may not be sufficiently prepared or positioned for sustained increases in, or volatility of, interest rates. For example, institutions with a decidedly liability-sensitive position could experience declines in net interest income and potential deposit run-off in a rising rate environment. Moreover, rate sensitive liabilities may re-price faster than earning assets.¹

Sentiment in the banking community has been mixed with respect to likely deposit behavior,² but data indicate that the rate insensitivity of deposits is turning around after years of continual deposit growth, despite precipitous declines in rates. FDIC second quarter 2013 data indicate deposit balances have declined for two consecutive quarters. Total domestic deposit balances declined by \$20 billion in first quarter 2013 and a further \$31 billion in the second quarter. While time deposits are down overall, CD balances for maturities of 3 months or less are up. Institutions flush with deposits may be insufficiently prepared for how “hot” their core funding really is when rates finally begin to move.

Potentially exacerbating the problem is the need for institutions to go farther out on the yield curve on the asset side to protect against earnings stagnation in the current prolonged low interest rate environment. As far back as April 2013, the Financial Stability Oversight Council, echoing comments by Ben Bernanke, was warning against duration risk.

In the commercial banking sector, publicly available data indicate that the mismatch between the average maturity of assets and average maturity of liabilities has increased recently at smaller banks. ...While duration extension ...may boost near-term earnings, it could significantly increase losses in the event of a sudden yield curve steepening [or] a large rise in rates.³

Many financial institutions may find that although liquidity remains high, they are in need of term funding to defend against rising interest rates. In FIL-46 the FDIC affirmed its 2010 recommendation that institutions manage against interest rate shocks of 300 to 400 basis points.

Financial institutions have a number of approaches that can be used to mitigate risks associated with outsized exposure to interest rate risk. These approaches can include rebalancing earning asset and liability durations, proactively managing non-maturity deposits, increasing capital, and hedging.⁴

The FHLBI's regular advance programs and occasional specials offer access to a variety of funding options to help manage members' earnings while protecting balance sheets against possible rising rates.

For questions regarding FHLBI advance products or to obtain rate indications, contact the FHLBI Credit Desk or your marketing representative at 800.442.2568.

1. FDIC FIL 46, October 8, 2013

2. For example, see John Reosti, “Deposit Pricing Creates Divide Among Bankers” Sept. 20, 2013, American Banker

3. 2013 FSOC Annual Report

4. FDIC FIL 46

Talmer Bank and Trust Partners with FHLBI to Support

Local Shelter Expansion

BY MARJORIE GREEN, AVP - COMMUNITY INVESTMENT DEVELOPMENT MANAGER



Turning Point, an emergency domestic violence shelter in Mt. Clemens, MI, was able to increase capacity to 52 beds from 37 with the help of a \$500,000 AHP grant through FHLBI member Talmer Bank and Trust.

Talmer Bank and Trust community development staff is assisting non-profit agencies to respond to local housing needs. Turning Point, an emergency domestic violence shelter for women and their families in Mt. Clemens, Mich., has expanded operations through significant fundraising and a \$500,000 Affordable Housing Program (AHP) grant from Talmer Bank and Trust, coupled with a commercial loan from the bank. While AHP was a new funding source for Turning Point and the first time Talmer had applied for AHP funding from the FHLBI, the Talmer Community Development staff has been a long-time user of the FHLB of Chicago's AHP in previous banking relationships. The bank's expansion into Michigan through the acquisition of several financial institutions has extended their lending footprint and philanthropic inclinations to the Detroit area, with their Michigan headquarters in Troy.

In recent years Michigan's funding for local projects has declined markedly as large regional financial institutions that previously were active AHP users are no longer applying for grants due to mergers, charter consolidations or acquisitions, resulting in fewer Michigan awards. Since AHP's inception in 1990 through 2013, dollars awarded to FHLBI's Michigan members total \$68.8 million, creating or preserving 10,323 units of housing.

Thomas P. FitzGibbon Jr., Talmer Bank and Trust's Managing Director of Corporate and Community Development, said, "Doing the first AHP project is a bit of a learning curve for everyone. Our Community Development staff have successfully been awarded more than \$11 million or 15 AHP grants through the Federal Home Loan Bank of Chicago, so we were happy to expand our use of the program in Michigan by sponsoring Turning Point's AHP project. We want to make a difference in Michigan too." FitzGibbon added, "Talmer was awarded a second AHP award of \$499,000 on Sept. 27, 2013, for another Michigan non-profit, Community Housing Network, to further support affordable housing and special needs housing in southeastern Michigan."

Hundreds of Turning Point supporters celebrated the grand opening of the new shelter in downtown Mt. Clemens. Sue Coats, President & CEO of Turning Point, said, "We have been planning this facility since 2007. We are very pleased and excited that our dream has come to fruition." Residents moved into the new shelter in early October.

The shelter increases capacity to 52 beds from 37. Thirteen rooms with private or adjoining bathrooms allow for the sheltering of both small and large families, families with teenage boys and families with physical illnesses or handicaps needing a private room. David Berryman, Talmer's Mortgage Operations Specialist and a Turning Point board member, talked with FitzGibbon about the project and Turning Point's 30 year track record of serving women and children in Macomb County.

They determined it was a perfect candidate for AHP funding, and since it was Turning Point's first AHP application, Talmer's experience with AHP helped to put together a successful application. According to FitzGibbon, "Angel Beltran, Integration Project Manager, helped guide the Turning Point staff on the application process, although FHLBI staff provided plenty of technical assistance and support. We often worked on joint projects in Illinois, so working together with Turning Point and FHLBI was a natural and comfortable process." *continued on page 14*



Thomas P. FitzGibbon Jr., Talmer Bank and Trust, and Mary Beth Wott, FHLBI Community Investment Officer, spoke to members about strengthening their communities by using Affordable Housing Program grants and FHLBI's lowest priced funding.

South Shore Commons Emphasizes Housing First



South Shore Commons in Gary, IN features one- and two-bedroom apartments, along with supportive services, for persons with special needs and those who were formerly homeless. The project was supported with a \$750,000 AHP grant awarded to Merchants Bank of Indiana.

6 units will be handicapped accessible. Along with supportive services, residents will have private kitchens and bathrooms, community room and library, laundry, bike racks, garden area, security cameras at entrances, exercise room and computer access for residents.

Mike Dury, Vice President of PR Mortgage and Investments, a subsidiary of Merchants Bank, said, “We are very pleased with the progress of this project and the mission it will serve. The experienced development team should have the project completed on budget and on schedule in time to deliver the tax credits. Along with the mission to provide affordable housing, Merchants Bank heavily relies upon the expertise of the development team when deciding to sponsor the AHP award and provide bridge financing for the housing tax credits.”

The project is near public transportation, shopping, daycare, financial institutions, public schools, churches, and small businesses that may serve as a jobs source for residents. South Shore Commons is based on the successful national strategy of Housing First, under which individual or family housing needs are met first, and residents have access to supportive services. This is the first “Housing First” project in northwest Indiana. Edgewater Systems will offer on-site therapeutic and case management services for residents.

Joe Alamillo of NSP Consultants commented, “This development will affect so many lives over the years and have a positive effect on a city that has had its challenges over the last 30 years. The AHP dollars were a deal maker for us and a continuing example of the spirit of the FIRREA legislation that created this great tool for assisting in the creation of safe, decent and affordable housing.”

South Shore Commons will offer residents a home, creating stability and greater control of their lives. Residents will experience an improved quality of life that will enhance physical, mental, and spiritual recovery.

THE DEVELOPMENT WILL:

- Provide safe, affordable housing;
- Help tenants meet the obligations of tenancy and increase residential stability;
- Begin and maintain recovery from mental illness;
- Increase tenants’ daily living skills and improve self-esteem;
- Increase job-readiness skills;
- Begin and/or maintain recovery from substance abuse;
- Promote appropriate use of community-based services; and, most importantly,
- Keep together or reunite parents and children.

Development costs totaled \$12 million and leveraged several funding sources, including federal tax credits, city of Gary HOME funds, a HOME loan from the Indiana Housing and Community Development Authority, as well as a \$750,000 grant to Merchants Bank from the FHLBI’s AHP. Construction is well underway with a target completion date of December 2013.

New Grant Program Improves Home Accessibility

By SHANNON FOUNTAIN, AVP - COMMUNITY LENDING MANAGER & MARJORIE GREEN, AVP - COMMUNITY INVESTMENT DEVELOPMENT MANAGER

FHLBI is pleased to introduce a new grant program designed to help senior homeowners and any household with disabled persons improve their home's accessibility.

The Accessibility Modifications Program (AMP) will be available beginning with the 2014 Homeownership Initiatives Programs offering.

WHO'S ELIGIBLE?

- Households with all members age 62 or older
- Households with a member at least 62 years old and the documented guardian of a household member(s) age 17 or younger
- Households with a disabled member of any age currently receiving Social Security Disability Insurance, Supplemental Security Income or reasonable equivalent state or federally funded disability benefits



The home must be the owner-occupant's primary residence and must be occupied for at least 18 months prior to AMP enrollment. Household incomes must be at or below 80% of the area median income. The maximum grant per household is \$10,000 with a minimum grant of \$1,000.

"AMP will address housing needs for seniors who wish to age in place," stated Greg Teare, Senior Vice President - Chief Banking Officer for the FHLBI. "This will become more common as greater numbers of baby boomers reach retirement age. Instead of moving into retirement homes, assisted-living facilities, nursing homes or with their children, boomers have more of a desire to remain in familiar surroundings." Teare added that agencies working with veterans might also find AMP useful.

Eligible repairs must address accessibility needs to assist with aging in place and independent living. When possible, modifications should comply with Americans with Disabilities Act (ADA) or Universal Design specifications. The AMP grant may only be used for repairs to the home's livable space or the accessibility route into the home.

ELIGIBLE REPAIRS INCLUDE:

- | | | |
|-------------|--------------------------------|--------------------|
| • Ramps | • Levered door handles | • Wheelchair lifts |
| • Handrails | • Pocket doors or swing hinges | • Widened doorways |
| | • Walk or roll-in showers | • Grab bars |

Up to 25% of AMP funds may be used for deferred maintenance items, such as roofing, siding and water heaters.

FHLBI members must attend mandatory training, which will certify them to participate in AMP, as well as the other two Homeownership Initiatives Programs, the Homeownership Opportunities Program (HOP) and Neighborhood Impact Program (NIP). All three programs are available on a household-by-household, first come first served basis. AMP and NIP have a member cap of \$300,000 per program year, and HOP's member cap is \$500,000. Training will be offered when the 2014 program opens in the spring.

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Talmer Bank and Trust Partners with FHLBI - FHLBI also assists affordable housing projects and other community economic development activities by making its lowest cost funding available to its members through Community Investment Program (CIP) advances. Talmer regularly uses CIP advances for funding a portion of its mortgage business serving households at 115% or less of the area median income and has used CIP advances for construction and permanent financing of AHP projects as well.

The FHLBI encourages more Michigan institutions to get involved in the AHP to fill the void created by the loss of the regional banks. For questions about the program, call Marjorie Green, FHLBI's Community Investment Development Manager at 517.230.2361 or MaryBeth Wott, Community Investment Officer, at 317.465.0368.

Qualified Mortgages: Back to Basics, Part 2

BY CATHY GARRETT, AVP - MORTGAGE ACQUISITIONS MANAGER

As I began writing this article, a feeling of déjà vu came over me when I realized that the information from an article I wrote in 2009 hadn't changed much.

VERIFY ASSETS

The Qualified Mortgage (QM) and Ability to Repay (ATR) standards truly take us "Back to Basics." Getting there begins with a complete, accurate application. Income sources for the last 2 years should be listed and then verified using a combination of paystubs, W-2s, VOEs and tax returns. Most importantly, by signing the application, the borrower is certifying that the information is accurate and complete. Any discrepancies found later raise a red flag for the underwriter.

When verifying assets, remember that they should be documented according to the AUS findings and the MPP Guide.

- **2 months' bank statements or VOD with 2 month average balance is required – be sure to verify the source of any large deposits;**
- **LTVs over 80% require 5% of the borrower's own funds;**
- **funds for closing and cash reserves need to be liquid; and**
- **all assets input into an AUS must be verified since they were used as part of the analysis.**

While QM/ATR stop short of giving guidance on if or how much is needed for residual income, proof that borrowers have reserves to allow for unforeseen emergencies is necessary as part of ATR.

VERIFY INCOME

Verification of stable employment/income can be obtained through the employer or by W-2s and current paystub. Self-employed borrowers or those with commission or Schedule C income require 2 years' full tax returns. FHLBI requires that income is validated using IRS Form 4506-T. These items should always be in the file:

- **Two-year employment history**
- **Stable, verifiable income history and a three-year likelihood of continuance**
- **Two-year history for non-base income and a two-year average should be used.**

The applicant's ability and willingness to pay mortgage debt is determined by reviewing his or her credit history. Does the applicant have a pattern of responsible repayment history, strong compensating factors if he has excessive over use of credit and a good FICO score?

INTEGRITY OF COLLATERAL

Collateral involves evaluating the property's value and marketability to determine the loan-to-value ratio, a critical step in determining overall loan risk. The lender is responsible for the report's integrity so the appraiser should be able to provide additional information or comments. When reviewing the appraisal, consider if the properties are similar in size, style, design, rooms and location, and if the comps are in the same neighborhood.

When analyzing the collateral portion of the risk, remember that property value affects the borrower's ability and willingness to repay; appraisal data analysis is crucial to sound loan decisions, and appraiser independence guidelines require that the appraisal be ordered from someone independent of the transaction.

FHLBI believes the Mortgage Purchase Program already meets the intent of both the QM and ATR rules that go into effect in January 2014, and we do not anticipate any major changes to our program. The impact of these rules is yet to be seen and how they will be changed and/or clarified will depend on the impact to the consumer in the months to come.

For any questions, contact Cathy Garrett at 317.465.0553 or cgarrett@fhlbi.com.

community spirit

Cindy Taylor, Assistant Vice President, Nonprofit Services, The National Bank of Indianapolis was honored with the FHLBI's Affordable Housing Advisory Council's annual Community Spirit Award.

Cindy was nominated by Partners in Housing based on a history of financial support, including sponsorship of FHLBI Affordable Housing Program applications. She has provided Partners in Housing and other organizations with valuable advice that has enabled them to achieve their mission.

Cindy's nomination was supported by four additional organizations, two which specifically mentioned her instrumental role in their turnaround and stabilization. All spoke very highly of her enthusiasm and exceptional work in the community, including her

- **advocacy of fundraising events;**
- **guidance through the complexities of housing development;**
- **leadership on the Board of Directors for School on Wheels not only as a tutor but as an advisor on processes and best practices;**
- **guidance through the challenges of the recent recession; and**
- **contributions to the success of organizations in the Indianapolis area.**

Mary Beth Wott, 1st VP-Community Investment Officer, presented the award made at Indiana's Statewide Conference on Housing and Community Economic Development, with the theme of "Impacting Solutions from the Ground Up - Leading Change."

The FHLBI and its Affordable Housing Advisory Council present the annual Community Spirit Award to honor an individual from one of the FHLBI's member financial institutions who has shown an outstanding dedication to affordable housing and community economic development. Judging is based on a nominee's dedication to community, spirit, and action.

To nominate someone for the award, visit the Community Investment section at www.fhlbi.com. Guidelines and a nomination form are available.



Community Investment staff members congratulate Cindy Taylor on her award. Left to right: Mark Stermer, MaryBeth Wott, Cindy Taylor, Shannon Fountain, Trish Lewis, Ronna Edwards, Rose Marie Roberts.



Theodora House in downtown Indianapolis provides transitional housing for women exiting the penal system. National Bank of Indianapolis was awarded an AHP grant of \$500,000 to help Volunteers of America with the project.



FHLBI member Founders Bank & Trust obtained a \$369,258 Affordable Housing Program grant to assist with the redevelopment of the Herkimer Apartments located in downtown Grand Rapids, MI.



At work in your neighborhood.

Since 1990, the FHLBI through its Affordable Housing Program, has awarded over \$195 million in grants creating housing for more than 23,000 individuals.

Learn how to put the FHLBI's affordable housing and community investment programs to work in your own neighborhoods by attending one of the upcoming 2014 Community Investment Workshops.

Check the Events & Training Calendar at www.fhlbi.com in early 2014 to register for a workshop near you.

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