

# FHLB *Indepth*



Volume 7, Issue 1  
Summer 2012

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

## IN THIS ISSUE

**Insurance Company Conference Recap**

*page 2*

**Regional Member Meetings**

*page 3*

**MPP Advantage**

*page 4*

**CIP Supports Library Expansion**

*page 6*

**AHP Rebuilds Paoli Square**

*page 7*

**Investing in Tax Credits**

*page 8*

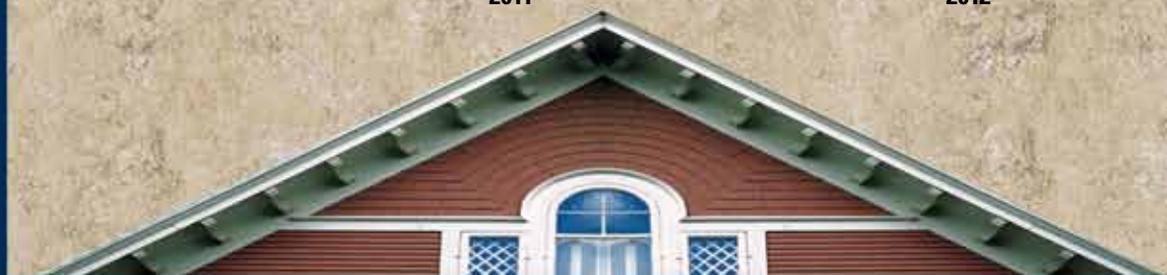
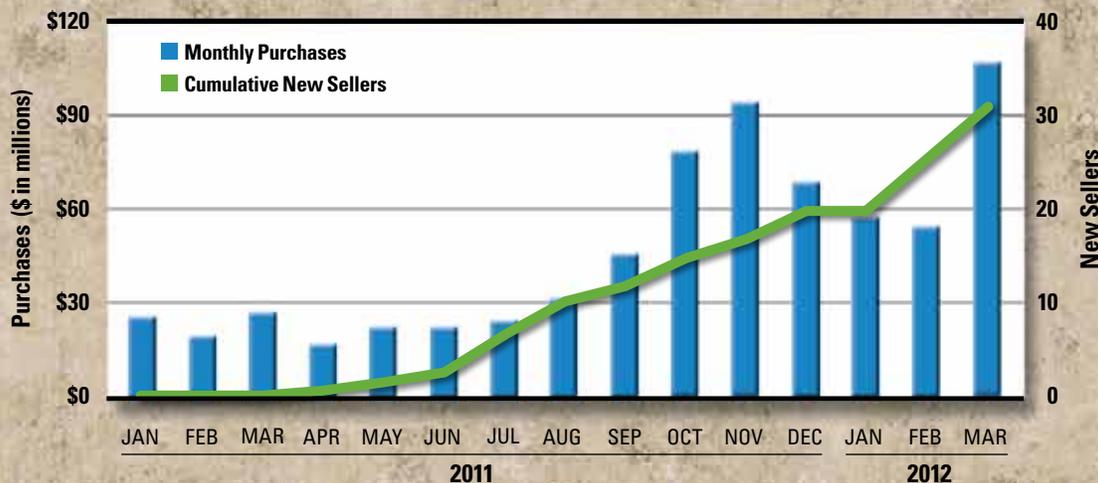
**FHLBI's CU Workshops**

*page 10*

**Community Spirit Award**

*page 12*

## MPP Growth



*Building Partnerships. Serving Communities.*

**MPP Advantage continues to grow in popularity as is evidenced by the pattern of increasing monthly purchases and addition of new sellers. Sellers often regard the enhanced Lender Risk Account and simple yet competitive pricing as two of the program's hallmarks. *Read article on page 4.***

# Dates to Remember

## REGIONAL MEMBER MEETINGS 2012

### August 14

Belterra Resort, Vevay, IN

### August 16

South Bend Country Club, South Bend, IN

### August 20

Warwick Hills Country Club, Grand Blanc, MI

### August 22

Upfront and Company Banquet Facility - *Meeting*  
Greywalls Golf Course - *Golf*, Marquette, MI

### August 27

Bridgewater Club, Carmel, IN

### August 29

Thousand Oaks Golf Club, Grand Rapids, MI

## COMMUNITY INVESTMENT 2012

### June 1 - December 31

Funds available for Disaster Relief Program 2012  
Southern Indiana Tornadoes

### September 7

2012A AHP Awards announced

Check the events calendar at [www.fhlbi.com](http://www.fhlbi.com) for updates.

## TABLE OF CONTENTS

Insurance Conference Recap	2
Regional Member Meetings	3
MPP Advantage	4
CIP Supports Library Expansion	6
AHP Rebuilds Paoli Square	7
Investing in Tax Credits	8
FHLBI's CU Workshops	10
Community Spirit Award	12

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

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## DISCLAIMER

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

**MESSAGE FROM THE PRESIDENT - CEO**

The graph on the cover tells a great story about MPP Advantage. Both monthly mortgage purchases and new or reactivated sellers have increased since MPP Advantage began late in 2010. In addition to our customer service, members often cite the simplified pricing and enhanced Lender Risk Account (LRA) as the foremost reasons for participating in program. The LRA rewards customers for selling high-quality loans and provides a payout over time of the LRA funds not used to cover loan losses. I encourage members not currently selling us loans to talk with our MPP or Marketing staff to learn more about the LRA and other program benefits.



Milton J. Miller

The FHLBI has held several workshops and conferences already this year, and the summer's Regional Member Meetings are rapidly approaching. The 2012 Regional Member Meetings will feature an economist and an expert speaking about community development lending. I invite you to attend one of the events as they provide a tremendous opportunity to learn more about the economy, industry issues and the FHLBI, as well as an excellent chance to network with your peers.

Over 70 representatives from our insurance company members and prospective members attended our recent insurance conference. Participants listened to guest speakers and peers talk about the economy and legislative issues, as well as investment and FHLBI borrowing opportunities. Two credit union seminars and six Affordable Housing and Community Investment Program workshops were also well attended. We appreciate our members' interest in learning more about our products and for their taking the time to attend our various events.

Our 2011 Affordable Housing Advisory Council Annual Report featured the theme "Investing in Neighborhoods." An excellent example of that theme is in Paoli, IN, where a building is being constructed around Paoli's historic courthouse square on the site of a massive fire. The photo on page 7 shows construction well underway, and soon Orange County residents will have more affordable housing options, along with ground-level retail space to help to create jobs and spur economic development. The project received an Affordable Housing Program (AHP) grant through Old National Bank, Evansville, IN.

We're proud of the difference that our AHP continues to make in communities across Indiana and Michigan. Applications for the 2012 round of grants have been submitted, and our community investment staff is busy scoring them to determine the recipients of the \$9 million grant allocation this year. Our members play a critical role in this program, and their partnerships with community organizations are vital in meeting our mission of improving the availability of affordable housing in our two states.

Congratulations to Bernie Williams, CEO of Wanigas Credit Union in Saginaw, MI, for receiving the FHLBI's 2012 Michigan Community Spirit award. The success of our AHP depends on individuals like Bernie who are committed to helping local residents have a decent, affordable place to live. The Indiana award recipient will be selected and announced later this year.

As our first quarter 2012 financial results revealed, the FHLBI remains on solid footing, and we are committed to fulfilling our role as a reliable provider of wholesale funds to our member institutions for their spectrum of funding and financial flexibility needs.

Sincerely,

A handwritten signature in black ink that reads "Milton J. Miller". The signature is fluid and cursive, with the first name being the most prominent.

Milton J. Miller  
*President-CEO*

# Industry News

## FHLBI Hosts Insurance Conference

FHLBI insurance company members and potential members, along with guest speakers and FHLBI staff, gathered at the Conrad Indianapolis for the annual Insurance Company Conference. The goal of the conference is to broaden insurance company members' knowledge about FHLBI products and services and to provide a venue for insurance companies interested in membership to learn more about the FHLBI.

Milton Miller, FHLBI President – CEO, opened the conference by reviewing the FHLBI's first quarter 2012 financials and the importance of insurance companies to recent growth in advances. As of Mar. 31, 2012, insurance companies held \$7.5 billion or 45 percent of member advances. Miller believes that the FHLBI's district has the potential for further growth in insurance company business.

Following Miller was Steve Robertson, Commissioner of the Indiana Dept. of Insurance, who addressed issues within the insurance industry, including reducing exam fees, developing effective market regulation programs, and current retaliations against neighboring states.

Chuck Chamness, President & CEO of the National Association of Mutual Insurance Companies (NAMIC), spoke next and reviewed benefits of FHLBI membership, followed by Ben McKay of the Property Casualty Insurers Association, who updated the audience on emerging issues for insurance companies at the federal level. McKay ended with a discussion of presidential election projections, using statistics and research on consumer confidence, unemployment, changing demographics and polls to support his views.

Returning to this year's conference was Nick Sargen, CIO of Ft. Washington Investment Advisors. He provided a 2012 mid-year update, focusing on the slow economic recovery and the current volatility in the eurozone.

The afternoon session began with Jonathan Groesbeck of Redwood Trust talking about Redwood's role in restoring the private mortgage securitization market. He was followed by Rob McCollum, Managing Director, Deutsche Asset Management, speaking about investment opportunities for FHLBI members.

A panel discussion led by Rick Beard of Cardinal Investment Advisors and a presentation by Kevin Clement of Amerisure Mutual Holdings about Amerisure's involvement in the FHLBI's Affordable Housing Program rounded out the afternoon session.



### Conference Speakers.

**ROW 1: Milton Miller**, President – CEO, FHLBI; **Kevin Clement**, Director of Enterprise Risk Management, Amerisure Mutual Holdings; **Rob McCollum**, Managing Director, Deutsche Insurance Asset Management; **Jonathan Groesbeck**, Managing Director, Redwood Trust.

**ROW 2: Ben McKay**, SVP - Federal Government Relations, Property Casualty Insurers Association; **Nick Sargen**, SVP – Chief Investment Officer, Ft. Washington Investment Advisors; **Rick Beard**, Managing Director, Cardinal Investment Advisors; **Chuck Chamness**, President & CEO, NAMIC.

**ROW 3: Jim Eibel**, VP – Business Development Director, FHLBI; **Steve Robertson**, Commissioner, Indiana Department of Insurance; **Dan Graf**, VP - Investments, Amerisure Mutual Insurance Co.



**Doreen Koning**, Business Development Strategist for FHLBI LEFT, and **Jim Eibel**, FHLBI Business Development Director RIGHT, presented **Andrew Luck's #12 jersey** to **Nick Sargen**, a Colts fan and Stanford graduate.

# Economists To Speak at Regional Meetings

The FHLBI will host six Regional Member Meetings beginning August 14 at the Belterra Resort in Vevay, IN. Each of the 2012 meetings will feature an economist familiar with national and regional economic environments and speakers with extensive knowledge about business and economic development opportunities.

FHLBI staff presenting at the 2012 meetings will include Milton Miller, President-CEO, who will update attendees on the FHLBI's financials and current issues of interest to the FHLBank System.

Bill McDowell, Vice President, Business Development Director – Depositories, commented, "This year's meetings offer another excellent opportunity for our members to hear experts speak about the economy as well as community lending opportunities. I'm confident our members will find the presentations informative."

*Members and invited guests should begin receiving registration materials in early July. Online registration at [www.fhlbi.com](http://www.fhlbi.com) is now open.*

## 2012 FHLBI Regional Member Meetings Business & Economic Development in Indiana & Michigan

### AUGUST 14

#### Belterra Resort • Vevay, IN

##### KEYNOTE SPEAKERS:

Gerry Dick - Host, Inside INdiana Business  
Dr. Stephen Happel - Emeritus Professor of Economics,  
Arizona State University W.P. Carey School of Business

### AUGUST 16

#### South Bend Country Club • South Bend, IN

##### KEYNOTE SPEAKER:

Dr. Stephen Happel - Emeritus Professor of Economics,  
Arizona State University W.P. Carey School of Business

### AUGUST 20

#### Warwick Hills Country Club • Grand Blanc, MI

##### KEYNOTE SPEAKERS:

Eric Hanna - Director, Debt Capital Programs,  
Michigan Economic Development Corp.  
Dr. Stephen Happel - Emeritus Professor of Economics,  
Arizona State University W.P. Carey School of Business

### AUGUST 22

#### Upfront & Company Banquet Facility (Meeting) Greywalls Golf Course (Golf), Marquette, MI

##### KEYNOTE SPEAKERS:

Eric Hanna - Director, Debt Capital Programs,  
Michigan Economic Development Corp.  
John D. Herrmann - Managing Director, Senior Economist,  
Capula Investment Management

### AUGUST 27

#### Bridgewater Club • Carmel, IN

##### KEYNOTE SPEAKERS:

Gerry Dick - Host, Inside INdiana Business  
John D. Herrmann - Managing Director, Senior Economist,  
Capula Investment Management

### AUGUST 29

#### Thousand Oaks Golf Club • Grand Rapids, MI

##### KEYNOTE SPEAKERS:

Eric Hanna - Director, Debt Capital Programs,  
Michigan Economic Development Corp.  
John D. Herrmann - Managing Director, Senior Economist,  
Capula Investment Management

# MPP Advantage

*Combining focus on customer service and new credit structure proves successful*

CATHY GARRETT, AVP, MORTGAGE ACQUISITIONS MANAGER

The FHLBI's objective for the MPP from its inception in 2001 was to provide members with a competitive alternative for selling loans into the secondary mortgage market. To reach this objective, one goal was to provide comparable internal processes that will reward sellers for high-quality loan performance. With the introduction of MPP Advantage in late 2010, the FHLBI maintained its commitment to customer service while keeping guidelines and pricing consistent and simple. Sellers appreciate their direct phone and email access to the MPP staff so that their questions can be handled promptly, frequently on the first call.

The growing popularity of MPP Advantage is evidenced by the pattern of increasing monthly purchases and addition of new sellers. Monthly mortgage purchases have increased from approximately \$30 million per month at the start of 2011 to over \$100 million in March 2012. Thus far, 35 members that had never sold loans or reinstated selling again to the FHLBI saw the improved benefits of selling through MPP Advantage, raising the total number of members currently selling loans to 76.

## MPP ADVANTAGE CREDIT STRUCTURE

The Lender Risk Account (LRA) has always been a cornerstone of the MPP credit support framework. LRA funds are held to offset potential loan losses, and all funds not used for losses are returned to the sellers over time. The LRA can only be a positive to the seller. The

delinquency rate for MPP loans remains well below the national averages (Fig. 1), indicating a high probability that a significant portion of LRA funds will be returned to the sellers.

A key benefit of the MPP Advantage credit enhancement structure, compared to the original program, is the elimination of supplemental mortgage insurance (SMI). Funds previously allocated to third-party SMI providers now flow to the LRA where they may be returned to the selling member when the loans sold perform. Removing the SMI provider eliminates the provider-imposed limitations and allows default servicing/claims processing to be conducted by FHLBI staff instead of a third party.

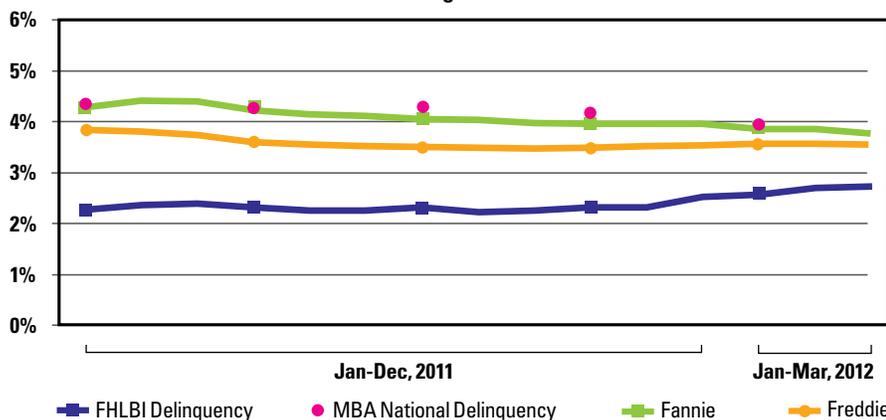
The LaPorte Savings Bank is one of many members returning to MPP after being inactive for a number of years. In 2011, Collins took another look at the program, liked what he saw and became an active seller again in early 2012.

*“One of the main reasons we began selling mortgages to the FHLBI again was the pricing. With MPP there’s only one price adjustment. We also like the LRA and the option of Actual/Actual servicing remittance.”*

Patrick Collins

SVP, MORTGAGE WAREHOUSE LENDING  
LAPORTE SAVINGS BANK • LAPORTE, IN

Fig. 1 **90 Day Conventional Loan Delinquency**  
including foreclosures



FHLBI's increasing delinquency ratio reflects the effect of an overall declining portfolio balance since 2009, while delinquent loan balances have remained constant. Our portfolio balance has been declining due to purchases not keeping pace with the prepayment of existing loans. Even with this slight increase, the delinquency rate for MPP loans remains well below the national averages.

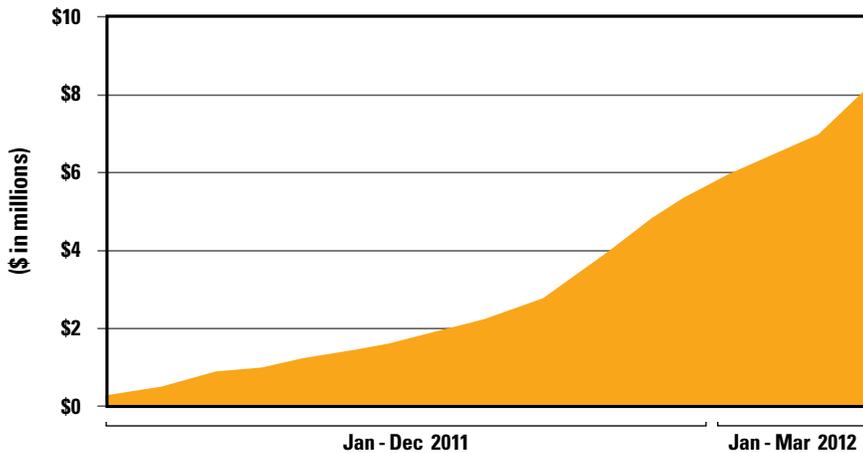
For additional information about MPP Advantage, call 800.274.4636 or contact Cathy Garrett, Mortgage Acquisitions Manager, at 317.465.0553 or cgarrett@fhlbi.com or visit www.fhlbi.com.

Another attractive feature of MPP Advantage is up-front collection of the LRA to build an immediate buffer against loan losses (Fig. 2). This structure protects each pool from the credit enhancement being eroded by higher than expected prepayment speeds. Additionally, the potential value of the LRA is easier to estimate based on loss expectation since there is less variability in the amount and timing of cash flows. As a result, sellers are beginning to view the LRA value in the same manner as servicing rights and are considering income recognition at the time of sale. At a minimum, a better LRA valuation helps sellers compare alternatives to achieve the best loan sale execution.

**LEARN MORE**

The MPP Advantage LRA valuation model can be found at [www.fhlbi.com/mpp/lend-erriskacct.asp](http://www.fhlbi.com/mpp/lend-erriskacct.asp). It provides estimates of the present value of LRA for loan pools based on your inputs for expected losses and discount rates. These estimates can help when comparing loan sale alternatives and when evaluating the timing of income recognition.

**Fig. 2 MPP Advantage LRA Totals**



MPP Advantage also featured a change from a spread LRA to a fixed LRA. The spread LRA built up slowly from the monthly remittance, and prepayment speeds had a major impact on how quickly an amount in the account can build up. With MPP Advantage the LRA is funded at the time of loan purchase and quickly becomes a significant amount. This feature helps to improve the accuracy of LRA value estimates, making price comparisons easier.



**Service Highlights**

**FHLBI**  
*Your Partner for  
 Correspondent  
 Services*

**Securities Safekeeping**

Hold and protect investments involving both book-entry and physical securities.

**Funds Transfer**

Transfer funds both domestically and internationally using our secure wire transfer services.

**Other Services include**

- ACH Services • Coin and Currency • Settlement Services

**Use Member Link**

- Save valuable time and expense
- Conduct transactions and run reports when it's convenient for you
- Control the movement of funds between your accounts
- Take advantage of Member Link's research capabilities

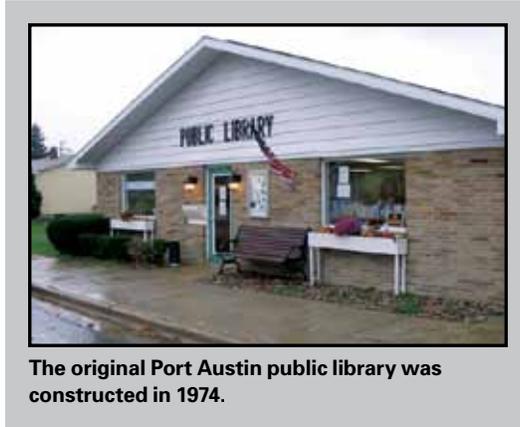
To reach the Correspondent Services team or inquire about any of the services, call 800.765.0465 or e-mail [gencm@fhlbi.com](mailto:gencm@fhlbi.com).

# Library Expanding with Support of CIP

*The FHLBI's Community Investment Program offers low-cost advances for economic development initiatives*

MARJORIE GREEN, AVP, COMMUNITY INVESTMENT DEVELOPMENT MANAGER

The Port Austin Township Library is an important community asset located in Port Austin, MI at the tip of Michigan's Thumb. It's so important to local residents that last fall they approved, by a 2:1 margin, a \$750,000 millage to double the size of the library and assure its ongoing operations for the next 20 years. That's quite an endorsement in the current economic climate. The Port Austin State Bank stepped in with a \$650,000 20 year mortgage to finance the construction of the addition and overall renovation of the original building that was constructed in 1974. Richard Yaroch, President of the Port Austin Township Library Association, said, "The new library will have much more public space, with updated technology. We'll have an entire bank of computers available for public use." All library services are free of charge, not only to township residents but also to the many summer visitors to the area.



The original Port Austin public library was constructed in 1974.

## LIBRARY STAFF EXPANSION

The library's expansion qualified for the FHLBI's CIP based on the income level of the area being served. It is also anticipated that the library will expand its staff

to support the library's additional services. Steve Schmidt, President of The Port Austin State Bank, commented, "We wouldn't have been able to offer this financing without being able to match fund with the CIP. We wanted to be involved in this community project, but couldn't have offered a fixed rate for 20 years." Both Yaroch and Schmidt are looking forward to the imminent letting of the construction contract for this project, providing much needed jobs for local

contractors. Construction is expected to be wrapped up within the next 6 months.

**CIP provides members with a continuous, favorably priced source of funds for a variety of community and economic development uses, including first-time homebuyer loans, small business loans, community and economic development loans, and affordable rental housing. Advances are available to members at FHLBI's lowest rates for up to 20 years, with 30 year amortization available. CIP is designed to support FHLBI's members' efforts to undertake community-oriented mortgage lending and economic development in the communities they serve.**



This architectural drawing shows the original structure to the right with the new addition and entry to the left.

NORTH ELEVATION

Community Invest

**ARCHITECT/ENGINEER:**  
**WAK** Architects/Engineers/Planners  
 William A. Hibbe & Associates, Inc.  
 1875 S. University Avenue, Troy, MI 48063

Call Shannon Fountain, FHLBI's Community Lending Manager, at 317.465.0428 to find out if your project qualifies for CIP.



The aerial photo shows the construction of Phoenix on the Square on the southwest corner of Paoli's courthouse square. It will feature 30 affordable apartments with retail space on the ground floor.

Hoosier Specialty Company • Aerial Photography Division • French Lick, IN

## Apartments, Retail Space Rise from Ashes

MARYBETH WOTT, VP, COMMUNITY INVESTMENT OFFICER

One of the awards from the 2011A Affordable Housing Program (AHP) competitive round is the Phoenix on the Square project in Paoli, IN, a mixed-use redevelopment that will provide 12 affordable units and retail space. This initiative, a partnership between FHLBI member Old National Bank in Evansville, IN and the Hoosier Uplands Economic Development Corp., redevelops an area decimated by fire.

The Town of Paoli, IN suffered a catastrophic loss in November 2010 from a fire that ravaged apartments, businesses, and government offices anchoring the southwest quadrant of their historic courthouse square. It took 30 fire departments with over 100 firefighters more than 13 hours to extinguish the flames. The fire destroyed structures, leaving behind asbestos-filled rubble. With no warning, this area of downtown Paoli became the most prominent instance of blight and distressed property. As the community housing development organization serving Orange County, Hoosier Uplands felt compelled to step in and take action.

When determining how to best redevelop the site, Hoosier Uplands decided that reinstating the previous mix of housing and retail space would be the most appropriate,

although not the easiest, approach to take. A mixed-use redevelopment initiative complements the comprehensive community development efforts already underway with the conversion of the former Paoli High School into College Hill Apartments. Phoenix on the Square provides yet another opportunity to direct funding resources toward a project to make a dramatic difference in the town's environment. In addition to the housing component that is partially funded by AHP, the Phoenix on the Square total funding package includes an allocation of New Market Tax Credits to build a Head Start Center at a separate location.

David Miller, CEO of Hoosier Uplands, reports that the project is ahead of schedule due to the mild winter and is estimated to be complete by October 1. "The people in Paoli are ecstatic!" noted Miller. Many people have come together to work on this project, and Miller is happy with how the project is progressing and equally happy with the partnership with Old National Bank. "In a lot of ways, this project would not have happened without Old National Bank and the FHLBI funding."

For additional information about the Affordable Housing Program, contact MaryBeth Wott, Community Investment Officer, at 317.465.0368 or [mwott@fhlbi.com](mailto:mwott@fhlbi.com) or Marjorie Green, Community Investment Development Manager, at 517.230.2361 or [mgreen@fhlbi.com](mailto:mgreen@fhlbi.com). Or visit [www.fhlbi.com](http://www.fhlbi.com).

# Tax Credit Investing for FHLBI Members

MARGE NOVAK, VP-INVESTOR RELATIONS, GREAT LAKES CAPITAL FUND  
JIM EIBEL, CFA, CTP, VP-BUSINESS DEVELOPMENT DIRECTOR, FHLBI

The Low Income Housing Tax Credit (LIHTC) market provides attractive opportunities for investors guided by either social or economic rationales through current taxable-equivalent yields that are at or above 6 percent and a relatively low-risk profile. Financial institutions benefit from a long-term tax-advantaged investment alternative to municipal bonds. For bank investors, LIHTCs provide the added benefit of positive consideration toward their Community Reinvestment Act (CRA) rating.

Since LIHTCs support the FHLBI's mission, members often use two of FHLBI's community investment offerings to enhance their participation in this market:

- **Affordable Housing Program (AHP) grants can be used to fill funding gaps for projects meeting the requirements for the competitively scored program**
- **Community Investment Program (CIP) funds can be borrowed at the FHLBI's cost to either purchase any LIHTCs or to provide project debt financing**

The LIHTC market provides an opportunity to further both economic and social goals, in addition to representing a unique asset class that should be understood prior to making an investment.

## BACKGROUND

The LIHTC program was created by the Tax Reform Act of 1986 and is referenced by Section 42 of the tax code. The program makes federal tax credits available to corporations, insurance companies and banks that invest in high-quality, affordably priced housing for low-income families, seniors and individuals. Since its inception, the program has led to the construction or rehabilitation of more than 2.4 million affordable housing units (about 100,000 units per year) nationally and has been the driving force behind most of the affordable housing being produced today.

## HOW LIHTC INVESTING WORKS

The tax credit process begins after real estate developers apply to their state housing finance agency for an allocation of federal housing tax credits on behalf of a specific apartment community. Each real estate transaction is typically organized as a limited partnership (or a limited liability company - LLC). The developer (sponsor) serves



Dogwood Estates in Walkerton, IN was financed with a variety of funding sources, including LIHTC, the federal Neighborhood Stabilization Program and a \$556,750 grant from the FHLBI's Affordable Housing Program through FHLBI member 1st Source Bank.

## Tax Credits and Affordable Housing

Anne Mannix, President of Neighborhood Development Associates in South Bend, IN, regularly uses Low Income Housing Tax Credits (LIHTC) in the housing projects that her organization helps to develop, including the Dogwood Estates project. The complex project involved the acquisition and demolition of substandard housing, relocation of residents, installation of new infrastructure and construction of 40 lease/purchase homes.

"Tax credits can provide up to 80 percent of the project's total costs," said Mannix. "Using tax credits is more work at the outset, but in the long run they're worth it because generally you end up with a better project." To explain, Mannix said that a project demonstrating that tax credits will be used to meet community priorities, such as energy-efficient homes or those for the homeless, may have a greater chance of success and thus attract investors more easily.

Mannix noted that the tax-credit market is beginning to rebound after the onset of the economic crisis in 2008, making it somewhat easier to find investors. "Tax credits definitely make housing more affordable," Mannix concluded. "I can say with certainty that many projects would not be built without them."

as the general partner (or managing member) and sells the tax credits to investors who serve as the limited partner (or investor member). Virtually all of the tax benefits associated with each development flow to the investors. The sponsor must complete the development, rent it to

income-qualified households, keep it in compliance with IRS regulations and provide regular reports to investors and regulators. Unlike other federal housing programs that are administered by HUD, this program is administered by the Internal Revenue Service.

When tax credits are sold to investors, the proceeds become equity for the housing project. The increase in project equity improves creditworthiness and reduces both the amount and cost of debt financing. Ultimately, the reduction in project financing costs decreases the rents necessary to keep the project viable, making them more affordable to those with low incomes.

Although owners of LIHTC-financed properties are required to keep rents affordable for at least 30 years, the investment horizon for tax credit investors is generally shorter. Since the IRS cannot recapture tax credits after a 15 year compliance period is completed, investors have the option of exiting the partnership at this time.

The compliance period is 15 years; however, investors are permitted to claim the credits over an accelerated 10 year period. Tax credit investors may also be permit-

ted to shelter additional taxable income from state and federal taxes through deductions for project interest expense and depreciation.

**INVESTMENT RISK**

LIHTCs have a low historical loss experience and have out-performed other real estate investments through the recent credit crisis. According to an August 2011 report from the Reznick Group, LIHTC investments have had a cumulative foreclosure rate of 0.62 percent during the program’s first 25 years of existence.

The three primary risks associated with LIHTC investments are:

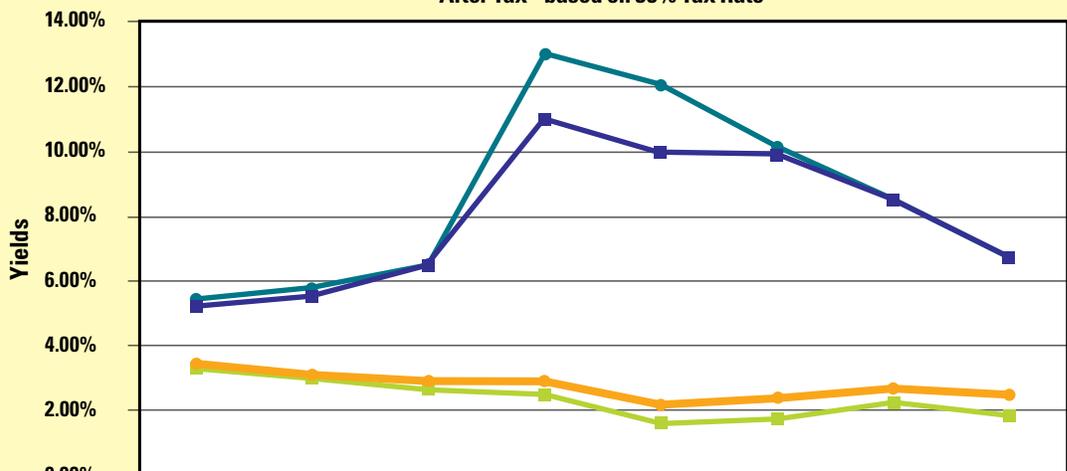
- 1** If property fails to rent its units to qualified low-income households within several years, it may lose its tax credits.
- 2** If property meets this initial lease-up requirement but fails to remain in compliance, the IRS may recapture the credits.
- 3** If property is foreclosed upon by the lender, this can result in a recapture of credits.

These property-specific risks can be mitigated through diversification and/or investing in funds that are managed by experienced syndicators. *continued on page 11*

**GLCF LIHTC Yields vs. Long and 10-Year Treasuries**

After Tax - based on 35% Tax Rate

This graph shows fund-level internal rates of return for LIHTC funds administered by Great Lakes Capital Fund compared to 10 and 20 year Treasury rates, assuming a 35 percent tax rate. Since May 2006, LIHTC after-tax yields have ranged from approximately 200 to over 1000 basis points over the 10 year Treasury benchmark.



	Fund XIV May -06	Fund XV Oct -06	Fund XVII Nov -07	Fund XVIII Sep -08	Fund XIX Jan -09	Fund XX Jan -09	Fund XXV May -10	Fund XXVI Jul -11
Target IRR	5.20%	5.50%	6.50%	11.00%	10.00%	10.00%	8.50%	6.75%
Current Projection	5.49%	5.80%	6.56%	13.05%	12.08%	10.16%	8.57%	6.75%
10 Year Treasury	3.34%	3.02%	2.70%	2.50%	1.63%	1.76%	2.26%	1.90%
20 Year Treasury Yield	3.50%	3.15%	2.96%	2.93%	2.22%	2.42%	2.71%	2.51%

Great Lakes Capital Fund - Fund Investments

For further information about how the FHLBI’s AHP and CIP can be used with LIHTC investments, contact the Community Investment Department at 1.800.688.6697 or housing@fhlbi.com.

## Workshops Tailored for CU Members

The FHLBI hosted two workshops this spring specifically designed for its credit union members. The Lansing and Indianapolis seminars drew 59 attendees from 28 credit unions.

Dr. Thomas J. Parliment, Chairman and CEO of Parliment Consulting Services, began the morning session with a presentation titled “Retail Banking Strategies to Improve Credit Union Profitability.” At the outset, Parliment stated that his presentation was about ideas, and in his signature animated and enthusiastic style, he began to discuss ideas for improving profitability, such as creating capital out of member deposits and tailoring loan products to fit member demands.

The day concluded with another keynote presentation by Frank Farone, Managing Director, Darling Consulting Group. He discussed current topics in asset/liability and liquidity management for credit unions, including growing earnings, reducing deposit costs, and replacing deposits with FHLBI advances. During his presentation he commented that most credit unions are asset sensitive and well positioned for rising interest rates; therefore, they can afford to hold fixed-rate mortgages in portfolio.



One of the keynote speakers at the credit union workshop was Dr. Tom Parliment, Chairman and CEO of Parliment Consulting Services, who presented several ideas related to improving profitability.

FHLBI staff conducted other presentations, including increasing collateral capacity, using the Affordable Housing and Community Investment Programs and selling mortgages through the Mortgage Purchase Program.

Bill McDowell, Vice President – Business Development Director-Depositories at the FHLBI, commented, “We strive to enhance shareholder value through educational programs that might not only help our members improve operations at their own institutions but also inform them about FHLBI’s products. Thanks to all of our members that attended the workshops.”



Jon Griffin, FHLBI’s Chief Credit & Marketing Officer (left), speaks with Dave Mann of Eli Lilly Credit Union at the Indianapolis credit union workshop at the Montage.

FHLBI advances offer an attractively-priced, customizable, long-term funding solution for members with opportunities to grow their residential and commercial mortgage portfolios. Grants and low-cost financing for affordable housing and community economic development initiatives are also available. Call 800.442.2568 or visit [www.fhlbi.com](http://www.fhlbi.com) to learn more.

# FHLBI Switching to Adaptive Authentication

KEVIN KEATHLEY, VP, DIRECTOR OF INFRASTRUCTURE AND OPERATIONS

The FHLBI will be rolling out a new authentication method late this year for members and business partners that access FHLBI services. Advances in identification software can now allow access to systems such as LAS and Member Link without having to use a token.

## 2-FACTOR AUTHENTICATION

2-factor authentication is a method of identifying and authenticating a user before allowing system access. Generally, the user must present two different factors from the following list:

- Something you know – such as a username and password;
- Something you have – in the past, the token supplied this factor; or
- Something you are – some systems might use fingerprints or retinal scans.

While the user will still need two factors to access FHLBI services, the “something you have” factor can be done by comparing the current login to profile data captured during the registration process and continued use of the service including:

- Device Profile – information about the PC, tablet or other device used to access the system; and
- Behavioral Profile – the IP address, domain, time of day and other behavioral patterns.

## HOW THIS AFFECTS THE FHLBI LOGIN PROCESS

Previously, members would login to FHLBI using a user ID and a password derived by combining the digits appearing on the token with an assigned PIN. The new system creates profile information about the device and usage characteristics. As long as users log in from their normal devices at the same location and time of day, their profile data will match, and they will only need user IDs and passwords to gain access. Users will be allowed to select and maintain their own passwords in the new system as well.

## WHEN THE PROFILE DATA DOESN'T MATCH

If users attempt to sign on from a new computer, for example, from home or a hotel, they may be asked to offer another confirmation of their identity. When users register for the new service, they will provide phone numbers where they can be reached. When the system needs this extra confirmation, a four-digit PIN and a drop-down box will be displayed that can direct a call to any of the phone numbers. The system will then call the selected number, and an automated message will prompt users for the PIN displayed on the screen.

This method provides strong security in a more convenient system for our members and partners. Adaptive authentication is a well-proven technology in the financial services sector for providing multifactor identity confirmation.

Members will receive full conversion instructions and details of use late in 2012, and FHLBI staff will be available to ensure a smooth transition to the new system.

*continued from page 9*

## FUND INVESTING

Most LIHTC investors participate in funds established by syndicators investing in multiple properties. By investing in funds rather than individual tax credit properties, investors are able to access sector expertise, simplify the investment process, and diversify holdings without making a major financial commitment. Typically, the syndicator screens, underwrites, closes, and monitors the ongoing compliance of the properties. Each fund contains a mix of

geographically diversified properties. Syndicators offer multi-investor funds that enable investors to purchase a slice of the fund, which provides greater flexibility in the size of the investment. The minimum fund investment amount is set by the syndicator.

Despite the LIHTC program's attractiveness and success, it continues to be unfamiliar to many investors.

Thanks to Great Lakes Capital Fund for contributing to this article. GLCF is a not-for-profit community development finance corporation that helps socially responsible corporations invest in affordable housing and community economic development activities. It was established in 1993 and has invested \$2.5 billion in equity and loans in 500 properties representing 30,000 homes. Its investors have consistently achieved a market rate of return while minimizing their investment risk through GLCF's solid underwriting and diligent asset management. **For additional information contact Marge Novak, GLCF VP Investor Relations, at 517.364.8929 or Joe Herbert, GLCF's Broker Agent at Bank of America Merrill Lynch, at 415.765.1825 or visit [www.capfund.net](http://www.capfund.net).**

# Spirit Award

## Bernie Williams Receives Community Spirit Award

*Recognizing excellence in community economic development*

FHLBI • COMMUNITY SPIRIT AWARD

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

Receiving the 2012 Michigan award was Bernie Williams, CEO of Wanigas Credit Union in Saginaw.

Bernie was nominated by the Saginaw Habitat for Humanity that noted how Bernie has successfully dedicated his professional life to the financial industry. He helped coordinate the First Annual Partners Forum on Revitalization for the City of Saginaw to provide awareness of affordable housing programs. Under his leadership, Wanigas Credit Union has received over \$3 million in FHLBI grant dollars benefitting nearly 300 households. Bernie has overseen the use of the FHLBI Homeownership Initiatives, which has helped Wanigas members and local residents obtain assistance with home improvements and down payment or closing costs for first-time homebuyers.



**Bernie Williams**  
CEO, WANIGAS CREDIT UNION  
SAGINAW, MICHIGAN

In 2009, Wanigas partnered with SVRC Industries, Inc. to receive an FHLBI Affordable Housing Program (AHP) award for the Post-secondary Transitional Living Facility project for developmentally disabled young adults. As a result of this partnership, SVRC Industries was recognized for its financial commitment to the community and named a 2011 Business of the Year by Saginaw Charter Township.

Also under Bernie's guidance, Wanigas partnered with Saginaw Habitat for Humanity to receive an AHP award for the rehabilitation of 12 vacant or foreclosed homes that will be sold to Habitat partner families.

Bernie also serves his community as a Board Member for Cen Corp, a member of the Michigan Credit Union League's Mid Michigan Chapter, and as a member of the American Institute of Certified Public Accountants.

Relationships with financial institutions create the necessary stability to allow residents to transform their lives. Bernie's belief in the philosophy of "people helping people" has guided him to be a strong voice in building Michigan communities.

### FHLBI PERFORMANCE

*(\$ in millions, unaudited)*

#### As of March 31, 2012

Assets	\$39,469
Advances outstanding	\$18,042
MPP mortgages outstanding	\$ 5,840
Retained earnings	\$ 527

#### For the three months ended March 31, 2012

Net income	\$ 41.5
Return on average equity	8.42%

### NEW MEMBERS APPROVED FROM DECEMBER 2011 THROUGH MAY 2012

- Centurion Federal Credit Union  
Evansville, IN
- Evansville Commerce Bank  
Evansville, IN
- Portland Federal Credit Union  
Portland, MI

Since 2001, the FHLBI has purchased over \$20 billion in high-quality loans from our members through the Mortgage Purchase Program. Now, program enhancements have made it an even better choice for secondary market sales.

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# Why MPP Advantage?

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## **Simple, competitive pricing.**

MPP Advantage pricing is straightforward and competitive with fewer loan-level price adjustments.

## **Greater income potential for originating high-quality loans.**

Sellers are rewarded through the enhanced Lender Risk Account (LRA). The FHLBI sets aside funds at acquisition to cover loan losses. Funds not used are returned to the seller over time.

## **Easy to use.**

A streamlined application process and user-friendly loan acquisition system to sell and deliver loans make conducting business simple.

## **Local decision making and problem resolution.**

MPP staff have the experience and expertise to answer questions and resolve issues quickly.

## **Financial stability of the FHLBI.**

The FHLBI's history of solid financial performance and dividends demonstrates our strength, stability and reliability.

**To discuss MPP Advantage, please contact your account manager or the FHLBI marketing department at 800.442.2568.**

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OF INDIANAPOLIS

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