FHLBI
FEDERAL HOME LOAN BANK OF INDIANAPOLIS

# INDEPTH

SUMMER 2014 | VOLUME 9 | ISSUE 1 | FHLBI.COM

## The question is, who is to be master - that's all.

A Systemically Important Financial Institution is whoever a majority of the FSOC says it is, leading many institutions to feel as though they are *Through the Looking Glass* with Humpty Dumpty.

Read an excerpt from an article by Symposium speaker, William Isaac, PAGE 6

IN THIS ISSUE

## FHLBI PERFORMANCE

*($ in millions, unaudited)*

**As of March 31, 2014**

| | |
|---|---|
| **Assets** | **$ 36,522** |
| **Advances outstanding** | **$ 17,129** |
| **Purchased mortgage loans, net** | **$ 6,175** |
| **Total retained earnings** | **$ 763** |

**For the three months ended March 31, 2014**

| | |
|---|---|
| **Net income** | **$ 34.0** |
| **Return on average equity** | **5.40%** |

**New members approved from December 2013 through June 2014**

**Alpena Community Credit Union, Alpena, MI**
**Astera Credit Union, Lansing, MI**
**Citizens State Bank of Ontonagon, Ontonagon, MI**
**IAS Services LLC, Detroit, MI**
**Indianapolis Neighborhood Housing Partnership, Inc., Indianapolis, IN**
**Sun Life Assurance Co. of Canada (U.S.), Indianapolis, IN**



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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# Contents

# Message from the President - CEO

Cindy L. Konich

It's hard to believe that a year has passed since I welcomed members and guests to the inaugural Shareholder Symposium. The 2014 events in Dearborn and Indianapolis promise to be as valuable. I'll open the Symposium with an update on the FHLBI's financial performance, followed by the morning's keynote address by William Isaac, former FDIC chairman. This year's luncheon speaker, Jason Redman, will deliver an inspiring message about leadership and rising above adversity to accomplish your goals. We listened to attendees' comments about the 2013 event and have included presentations from FHLBI staff to help members learn more about our products and services and how to gain the most benefit from membership. Additionally, representatives from familiar firms, such as the Baker Group, Stifel Financial Corp. and Plante Moran, will lead breakout sessions on specific topics, including asset/liability and risk management. Members are asked to register for the Symposium at fhlbi.com.

Our Affordable Housing Program (AHP) continues to be a catalyst for improving neighborhoods. The West End project in Muncie, Ind., featured on page 10, is a great example of what can happen when a member institution and a partner organization work toward a common goal of revitalizing a neglected neighborhood and creating quality affordable homes. I encourage you to seek opportunities to improve housing and economic development in your own communities and put our grant dollars from the AHP and our homeownership initiatives to use.

At the FHLBI we believe in offering products that best meet our members' funding needs. The symmetrical advance, described on pages 8-9, is the latest addition to our product offerings. Members should contact their account manager or the advances desk to learn about how it can become part of their funding strategy. Our new partner for servicing-released loan sales to the Mortgage Purchase Program, Capital Markets Cooperative (CMC), is introduced on page 7. We're confident that our servicing-released MPP customers will receive exceptional customer service, and we look forward to working with CMC.

Congratulations to Brian Hofstra of Founders Bank & Trust on receiving our Michigan Community Spirit Award. The FHLBI is proud to recognize our members' good work in their communities. Clearly, Brian understands the benefits of our programs, and we applaud his efforts to improve the lives of Grand Rapids residents.

As Bill Hamilton points out in his article on page 3, GSE reform remains elusive as debates continue about the details of the legislation. In the meantime, members can still rely on the FHLBI for their funding needs. Our steady access to the capital markets means the liquidity that all of our member institutions need will be readily available when they need it.

Sincerely,

Cindy L. Konich
President-CEO

# Capitol Hill
## *Highlights*

By Bill Hamilton, FHLBI Government Relations Consultant

### Narrow Senate Banking Vote Casts Doubt on Housing Finance Reform

The Senate Banking Committee took a small step forward on the road to mortgage finance reform on May 15 when it approved legislation pushed by Chairman Tim Johnson (D-SD) and Ranking Member Mike Crapo (R-ID) that would wind down the operations of Fannie Mae and Freddie Mac. To replace Fannie and Freddie, the Johnson-Crapo bill would create a new mortgage securitization platform and government backstop.

But the narrow 13 – 9 margin by which the legislation passed in Committee makes it unlikely that the full Senate will take up housing finance reform legislation this year.

Opponents of the bill came from both the political right and left. Senator Richard Shelby (R-AL), opposed the bill arguing "it may further complicate an already complex problem by expanding the role of the federal government in our private housing finance market." Senator Sherrod Brown (D-OH), a leading candidate to assume chairmanship of the Banking Committee if Democrats retain control of the Senate, suggested the Johnson-Crapo bill "further distorts an already unlevel playing field for our community institutions."

*While legislators disagreed about the future for Fannie and Freddie, there appeared to be a consensus in support of a strong, vibrant Federal Home Loan Bank (FHLBanks) system. No senators spoke or offered amendments that would hamper the FHLBanks' current authorities to serve their members.*

However, the bill's managers did not include two amendments to Johnson-Crapo sought by the FHLBanks. One would have required that one director of the new regulator created by the legislation have some FHLBank experience. The other amendment not accepted by the bill's authors would have authorized the FHLBanks to apply to be mortgage guarantors through a subsidiary or affiliate.

Continuing division in Congress over the appropriate role, if any, of the government in the housing finance system raises real questions whether Congress can reach any consensus on the issue in the foreseeable future.

**FHLBI Board members, Tom Sullivan** (LEFT) **and Jonathan Bradford** (RIGHT) **met with Bill Hamilton** (CENTER) **on Capitol Hill.**

That makes it more likely the Federal Housing Finance Agency, the independent regulator that currently oversees Fannie and Freddie, as well as the FHLBanks, will step into the vacuum. Mel Watt, the Agency's new Director, recently indicated the agency would not move to reduce or move away from previous efforts to reduce the size of conforming loan limits for Fannie and Freddie in an effort to stabilize the mortgage market. Watt noted he would not require Fannie and Freddie to reduce their purchases of multifamily loans. He also said FHFA would move forward cautiously on the common securitization platform initiative begun by his predecessor in order to "de-risk it."

**Mel Watt, Director, Federal Housing Finance Agency**

At the same time, Watt has indicated his belief that reform of Fannie Mae and Freddie Mac is the responsibility of the Congress and Administration. Watt said his role is to make sure there is "a solid plan to continue operations of Fannie and Freddie and the Federal Home Loan Banks so there will be liquidity and efficiency in the housing market and that we continue to operate as we have operated without interrupting housing finance."

# Sharpen Your Edge

## PLAN TO ATTEND

## 3 EVENTS
## 3 OPPORTUNITIES

**1 GOLF**

### TPC Michigan, Dearborn • August 18

Designed by Jack Nicklaus and opened in 1990 on land that Henry Ford purchased in 1915, the TPC hosted the Ford Senior Players Championships from 1991 to 2006.

### Brickyard Crossing, Indianapolis • August 26

Voted One of America's Top 100 Public Courses, Brickyard Crossing features four holes inside the oval of the Indianapolis Motor Speedway. It has hosted numerous professional events and was designed by Pete Dye.

**2 RECEPTION**

### Welcome Reception

All attendees are invited to gather at The Henry in Dearborn, August 18 or The Conrad in Indianapolis, August 26 beginning at 7:00 pm. Enjoy cocktails and hors d'oeuvres while making new acquaintances and reconnecting with old friends. The reception is a prime opportunity to meet FHLBI staff and Symposium speakers.

**3 SYMPOSIUM**

### The Henry, Dearborn • August 19
### The Conrad, Indianapolis • August 27

Keynote speakers include former FDIC Chairman William Isaac who will discuss timely issues affecting financial institutions. You'll be inspired by the luncheon speaker, Jason Redman, who has turned his experiences as a Navy SEAL into a message of courage and hope.

The agenda includes an update from President - CEO Cindy Konich and will be packed with breakout and general sessions to provide attendees valuable tools to sharpen their business edge. Topics include:

- **Asset/Liability Management**
- **Advance Strategies**
- **FHLB Debt & Global Capital Markets**
- **Investment Strategies**
- **Optimizing Income - Mortgage Purchase Program**
- **Mortgage Market**
- **Economic Update**
- **Inside info on the state of Michigan & Indiana business**

# FHLBI 2014 SHAREHOLDER SYMPOSIUM

## AGENDA

**Registration & Continental Breakfast**

**Welcome/Introduction**

**State of the Bank - Cindy Konich**

**Keynote Speaker - William Isaac**

### CONCURRENT BREAKOUT SESSIONS

1

**A. Asset/Liability Management -**
**McQueen Financial Group -** *(Dearborn)*
**The Baker Group -** *(Indianapolis)*

**B. Advances Strategies - FHLBI**

**C. FHLB Debt & Capital Markets - Office of Finance**

2

**A. Investment Strategies - Robert Colvin, Stifel Financial Group**

**B. Advances Strategies - FHLBI**

**C. Mortgage Sales - Plante Moran**

**Lunch & Keynote Speaker - Jason Redman**

**Affordable Housing Program Video**

*Dearborn*

**Mortgage Market - Sean Dobson, Amherst Securities**

**Michigan Business Update - Michael Finney, MEDC**

*Indianapolis*

**Economic Update - Nick Sargen, Western & Southern Financial Group**

**Indiana Business Update - Gerry Dick, Inside INdiana Business**

## REGISTER AT FHLBI.COM

# SYMPOSIUM KEYNOTE SPEAKERS

**William Isaac** - *FDIC Chairman (1978-85), Senior managing director of FTI Consulting & Global Head of FTI's Financial Institutions practice*

Mr. Isaac authored *Senseless Panic: How Washington Failed America*. In it, he provides an inside account of the banking and S&L crises of the 1980s and compares that period to the financial crisis of 2008-2009. Mr. Isaac's articles are published in leading publications, such as the *Wall Street Journal, Washington Post* and *American Banker*. He appears regularly on television and radio and testifies before Congress.

**Jason Redman** - *Former Navy SEAL and author of The Trident: The Forging and Reforging of a Navy SEAL Leader*

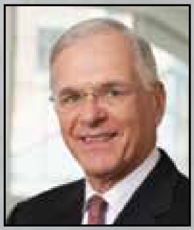
Mr. Redman spent 11 years as a Navy SEAL and almost 10 years as a SEAL Officer. Additionally, he graduated from the US Army Ranger Course of Instruction and was subsequently deployed to Fallujah, Iraq. After being severely wounded in Iraq, Mr. Redman returned to active duty before retiring in 2013. He uses his experiences as a severely wounded service member and positive attitude to motivate others and to continue to raise awareness of the sacrifices of America's military forces and their families.

**Sean Dobson** - *CEO and Chairman of Amherst Securities (Dearborn Symposium)*

Mr. Dobson returns to 2014 Symposium with fresh thoughts about the mortgage market. Mr. Dobson has been the head mortgage analyst and trader at Amherst Securities since 2000. He has over 20 years' experience in the mortgage industry and currently serves on the board of the American Securitization Forum, and his advice on mortgage policy matters is regularly sought by congressional leaders, housing policy leaders at the Treasury and other government agencies and senior administration officials at the White House.

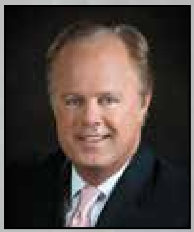
**Michael Finney** - *President & CEO, MEDC (Dearborn Symposium)*

MEDC is the state's lead agency for business and job growth. Mr. Finney's responsibilities include serving as Governor Snyder's Economic Growth Group Executive and as President and Chairman of the Michigan Strategic Fund. Under his leadership, MEDC developed Pure Michigan Business Connect, one of the most innovative economic development programs in the country. Mr. Finney currently serves on several boards of directors, including for the Michigan Strategic Fund, the Michigan Economic Growth Authority and Governor Snyder's Talent Investment Board.



**Nick Sargen** - *SVP & Chief Economist, Western & Southern Financial Group (Indianapolis Symposium)*

Mr. Sargen's experience encompasses many years as an international economist and global money manager. He previously held positions with JP Morgan Chase, Prudential Insurance Company, the Federal Reserve Bank of San Francisco and the U.S. Department of Treasury. Mr. Sargen frequently contributes research articles on global investing to various publications and appears on television business programs. He has also taught courses at Xavier University.



**Gerry Dick** - *Creator and Host, Inside INdiana Business (Indianapolis Symposium)*

*Inside INdiana Business with Gerry Dick* is Indiana's most watched business TV program. The show has received an EMMY for best interview/discussion program or series. Mr. Dick is a frequent speaker and moderator on the Indiana economy and serves as a business analyst for NBC affiliate WTHR and 93.1 WIBC. Prior to the creation of Grow INdiana Media Ventures, Mr. Dick served as a field anchor for ABC affiliate WRTV and prior to that as senior vice president of the Indianapolis Economic Development Corp.

# "The question is, who is to be master— that's all."

Excerpted from "The crisis was not wasted, unfortunately," by William M. Isaac & Alex J. Pollock. *American Banker,* March 13, 2014.

With sharp insight and the cynicism natural to a Chicago politician, Rahm Emanuel famously pronounced in 2008, "You never want a serious crisis to go to waste." A crisis, he continued, "provides the opportunity…to do things that you could not do before." How true.

So we got the Dodd-Frank Act of 2010. Dodd-Frank is part of a predictable pattern, as were the previous overreactions to various corporate scandals. The Sarbanes-Oxley Act of 2002, remember, was supposed to assure the identification and management of risk. It didn't work. Neither will Dodd-Frank. Two other major banking crises during our careers were the real estate bust of 1974-76 and the multiple disasters of 1980-1992. In each case, Congress responded by piling on more burdensome laws and regulations. Each time, it failed to prevent the next crisis.

Nonetheless, we are all stuck with the most recent expansion of regulatory power and bureaucratic discretion, largely unencumbered by legal limits and definitions. Take, for example, the all-purpose regulatory expansion rationale, the fuzzy idea of "systemic risk" and its cousin "reputational risk." The often-quoted line of Justice Potter Stewart is that he could not define obscenity, but "I know it when I see it."

To address systemic risk, whatever it is, Dodd-Frank created the Financial Stability Oversight Council - a big committee of regulators, mostly bank regulators, chaired by the Secretary of the Treasury. It turns out that "systemic risk" means whatever a majority of FSOC says it means. Who besides big banks might be a "Systemically Important Financial Institution"? Whoever a majority of the FSOC says is one.

As Humpty Dumpty asserts in *Through the Looking Glass,* "A word means just what I choose it to mean." When Alice wonders how that can be, Humpty explains, "The question is who is to be master — that's all." Asset managers and insurance companies threatened with being branded as SIFIs now feel they are in a Through the Looking Glass world and are discovering the real question is: Who is to be master — that's all.

Consider that Fannie Mae is bigger than JPMorgan Chase, but unbelievably, FSOC does not consider Fannie a SIFI. Freddie Mac is bigger than Citigroup, but neither is Freddie a SIFI. Unleveraged asset managers are probably SIFIs, we are told, but the infinitely leveraged Fannie and Freddie, which continue to distort the housing market and create potential liability for taxpayers, are not. The Federal Reserve, which has effectively become the biggest savings and loan in the world, with an unhedged $1 trillion long-term, fixed-rate mortgage portfolio, is more likely to generate systemic risk than a long-term funded insurance company is. But can FSOC admit that its own most important member is itself a massive SIFI?

Thus the Fed, which utterly failed to recognize the housing bubble, which failed to anticipate the massive resulting bust, which failed to forecast the following steep recession, is going to tell SIFIs how to run their business. The credulity of Congress, when legislating in the wake of a crisis and applying Emanuel's maxim, appears unlimited.

**William Isaac**
*FDIC Chairman (1978-85), Senior managing director of FTI Consulting & Global Head of FTI's Financial Institutions practice*

"I am looking forward to interacting with the attendees at this year's FHLBI Shareholder Symposium. My career in public service and the financial industry spans 45 years, including chairing the FDIC (1978-1985) during the most tumultuous period in US banking since the Great Depression. I have taken this experience and now spend my time writing and speaking about public policy issues and consulting to financial institutions and the government. I encourage FHLBI members to visit my website, williamisaac.com, and obtain insight from my publications on current regulations and topics affecting them, including the one excerpted here co-written with Alex Pollock. I look forward to speaking and, more importantly, addressing your questions at the Dearborn and Indianapolis symposiums."

*"We anticipate the new venture between the Federal Home Loan Bank of Indianapolis and CMC Funding will increase our efficiencies and lower our expenses on loan sales, while also making the transfer of the loan servicing rights a seamless transition for our mortgage customers."*

MIKE LORY
DIRECTOR
SECONDARY MARKETING
FIRST INTERNET BANK

# FHLBI Partners with CMC

BY CATHY GARRETT, AVP - MORTGAGE ACQUISITIONS MANAGER

Over a decade ago, FHLBI began offering a servicing released option for our members through the Mortgage Purchase Program (MPP). We are now happy to announce a new strategic alliance with CMC Funding, Inc. for this servicing purchase. When we began the search for a new mortgage servicing partner, our goal was to select a provider that shares our focus on providing a competitive product with the best possible execution, ease of use and superior customer service.

"We're excited about this new partnership with CMC," commented Greg Teare, Senior Vice President-Chief Banking Officer for the FHLBI. "The company has a solid reputation in the mortgage industry led by experienced mortgage professionals that focus on small and medium-sized institutions, making CMC a good fit for our MPP."

**Questions about MPP, the servicing released program or CMC Funding? Contact Cathy Garrett, AVP, Mortgage Acquisitions Manager at 317.465.0553 or cgarrett@fhlbi.com. You can also call our marketing staff at 800.442.2568.**

## Q: Who is CMC Funding?

**A:** CMC Funding is a wholly-owned subsidiary of Capital Markets Cooperative. Founded in 2003, the Cooperative has grown to a network of 180 patrons and sellers, mostly small- to mid-size lenders, with a collective annualized production of about $100 billion. CMC believes that by leveraging their nationwide network of mortgage bankers, they can build innovative products and services for their members. Their mission: Greater Growth Through Collective Strength.

## Q: What about CMC's management team?

**A:** CMC's team of mortgage banking professionals is dedicated to working with each MPP Seller to ensure every transaction is smooth and seamless. Leading the organization is President & CEO Tom Millon. Tom is one of the nation's top executives in the mortgage capital markets, as well as a recognized author and frequent speaker. Bill Lisnerski, with over 25 years in the mortgage industry, is Executive Vice President and is responsible for strategic planning for acquiring mortgage and servicing assets. Jeff Harry, Executive Vice President and Managing Principal, leads CMC's sales and marketing initiatives and brings over 20 years' experience to the company. "The partnership between CMC and FHLBI is a natural. We share a common philosophy to provide its members outstanding value and top-notch support," stated Tom Millon.

## Q: What can MPP customers expect from CMC Funding?

**A:** CMC is focused on flexibility, adaptability and service for MPP customers. For example, MPP Sellers can deliver documents either manually or electronically, and Sellers will have a single point of contact for managing questions or issues. CMC's "fund as you go" program means that CMC will fund the servicing release premium three to five business days after the asset purchase, providing better cash management for the Seller.

MEMBER SERVICES

# Symmetrical Advances

Introducing a product that can hedge rising rates and mitigate adverse mark-to-market fluctuations.

By Todd Hargreaves, VP - Advances Manager

As discussed in the Winter 2013 issue of FHLBI *InDepth*, regulators are starting to pay closer attention to how financial institutions are managing rising interest rates, particularly on investment securities portfolios because as interest rates rise, the value of an institution's existing fixed-rate investment securities portfolio will decline.

## Accounting for Rising Rates

Many institutions currently account for investment securities in the available-for-sale category. These securities are typically accounted for at fair value with market value changes flowing through Accumulated Other Comprehensive Income (AOCI), which is not included in regulatory capital.

Institutions now have to consider changes brought about by new, complex Basel III rules that could potentially change how AOCI impacts the calculation of regulatory capital. The AOCI account will still include unrealized gains and losses from the investment securities portfolios, but the mark-to-market changes will flow through to common equity tier 1 capital. However, all but the largest institutions will have a one-time opportunity to "opt out" of including AOCI in regulatory capital. The irrevocable election to opt-out would reduce the mark-to-market volatility of their securities portfolio on regulatory capital and is consistent with existing accounting practices.

Fig. 1

**IN & MI Banks (-) AOCI as % of Equity Capital**

| Total Assets | >15% | 10-15% | 5-10% | <5% | Total (-) AOCI | All Banks | % All Banks |
|---|---|---|---|---|---|---|---|
| >$10B | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| $1-10B | 0 | 0 | 1 | 17 | 18 | 23 | 78 |
| $500M - 1B | 0 | 0 | 2 | 14 | 16 | 25 | 64 |
| $250M - 500M | 2 | 1 | 7 | 30 | 40 | 55 | 73 |
| $100M - 250M | 1 | 2 | 8 | 52 | 63 | 91 | 69 |
| <$100M | 2 | 0 | 7 | 30 | 39 | 62 | 63 |
| TOTAL | 5 | 3 | 25 | 143 | 176 | 256 | 69 |
| % All Banks | 2% | 1% | 10% | 56% | 69% | | |

*Source: Call Report Data (includes Thrifts) as of 12/31/13.*

## Opting Out

Community banks have until the first regulatory report filed after January 1, 2015 to determine how to handle the impact of AOCI on regulatory capital. It is anticipated that most community banks will elect to opt-out of including market value fluctuations for investment securities in AOCI and will continue using the existing approach to track the volatility. However, opting-out will not necessarily result in regulators ignoring the potential impact of AOCI on regulatory capital. In fact, many are anticipating the opposite. As shown in **Fig. 1**, 69% of Indiana and Michigan institutions already have negative AOCI accounts that would impact regulatory capital in 2015 if not for the opt-out provision.

Choosing to opt-out does not hedge against the potential portfolio impact from a rise in interest rates and does not alleviate regulatory concerns.

## Risk Mitigation Tool

FHLBI Credit Services and Marketing staffs regularly talk with members to see how existing advance products can be enhanced to meet funding strategy needs. As a result of those discussions, FHLBI is introducing the Symmetrical Fixed-rate Bullet Advance. Historically, FHLBI fixed-rate bullets have had a minimum prepayment fee of 25 basis points, even when the advance being prepaid is at a rate below current market rates. With a Symmetrical Advance, the member will have an opportunity to realize a gain from a rise in interest rates when the advance is prepaid. If rates rise and the advance remains, a member would still have the benefit of an unrealized gain on a Symmetrical Advance, providing a hedge against unrealized losses in the investment securities portfolio. The prepayment fee calculation would be the same as a traditional fixed-rate bullet advance if rates declined from the time of origination.

For example, assume a member borrowed $10 million using a Symmetrical Advance. As of April 30, the rate for a 5-year fixed-rate bullet Symmetrical Advance would have been 1.87%. The 1.87% rate includes the 3 basis point premium over standard fixed-rate bullet advance rates. Below is a table showing the market value of the advance upon issuance in several rate shock scenarios.

As **Fig. 2** shows, the member now has the ability in certain situations to generate value in its liabilities with a straight-forward funding alternative from the FHLBI.

The Symmetrical Fixed-rate Bullet Advance can be used as a balance sheet management tool for other assets besides the investment securities portfolio. Symmetrical advances can assist members in extending liability duration with the anticipation of rising interest rates. In addition, the ability to prepay the advance and realize a gain after interest rates rise allows members the flexibility to restructure liabilities if funding needs change.

## Symmetrical Fixed-rate Bullet Advance Features

- Term: Symmetrical advances will be offered on long-term fixed-rate bullet (non-amortizing) advances with maturities from 1 to 10 years.
- Rate: An additional spread will be applied to the fixed-rate bullet advance rate in exchange for the right to receive a prepayment credit in certain market conditions. The initial premium for a Symmetrical Fixed-rate Bullet will be 3 basis points above the like term non-symmetrical fixed-rate bullet advance rates, and is subject to change based upon market conditions.
- Minimum Advance Amount: The minimum advance amount is $10 million. However, advance special offerings may offer members the opportunity for smaller advance amounts.
- Prepayment: The member may elect, with at least 2 business days' prior written notice to FHLBI, to terminate in whole this transaction. The early termination settlement amount will be based upon a formula similar to the existing prepayment fee calculation for long-term fixed-rate bullet advances as outlined in the Repayment Procedures section of the FHLBI Credit Policy. However, with a Symmetrical Advance, a member could be eligible for a prepayment credit, if the advance rate is below current market rates. The early termination settlement amount payable to the member/due to FHLBI will be based on the mark-to-market value of the advance, less a termination fee payable to the FHLBI.
- As a result of accounting constraints, the settlement amount due to the member, including termination fees, cannot exceed 10% of the advance principal balance being prepaid.

## SAMPLE RATE SHOCKS

*$ in thousands*

**Fig. 2**

| | -100 bps | -50 bps | -25 bps | -0 bps | +25 bps | +50 bps | +100 bps |
|---|---|---|---|---|---|---|---|
| **Advance Balance** | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 | $10,000 |
| **Market Value of Symmetrical Advance** | 10,489 | 10,242 | 10,120 | 10,000 | 9,881 | 9,764 | 9,535 |
| **Termination Fee** | 49 | 24 | 12 | 10 | 12 | 24 | 47 |
| **Settlement Amount** *(Due to FHLBI)/Due to Member* | $ (538) | $ (266) | $ (132) | $ (10) | $ 107 | $ 212 | $ 419 |
| **Standard Fixed-Rate Bullet Prepayment Fee** | $ (538) | $ (266) | $ (132) | $ (25) | $ (25) | $ (25) | $ (25) |


**Join the breakout session at the Shareholder Symposium to learn how advances can be an integral part of your funding strategy.**

**If you are interested in learning more about symmetrical advances, you'll want to attend Robert Colvin's breakout session at the FHLBI Shareholder Symposium. Colvin, Managing Director, Stifel Financial Corp., will primarily speak on investment portfolio and interest rate risk management and the use of symmetrical fixed-rate bullet advances to hedge rising interest rates and investment portfolio losses.**

**If your institution is interested in learning more about Symmetrical Fixed-rate Bullet Advance alternatives, please call our marketing staff or the Advances Desk at 800.442.2568.**

# Old West End Apartments ✴ Muncie, Indiana

# Strengthening Neighborhoods

By Marjorie Green, AVP - Community Investment Development Manager

**Time and luck seemed to be running out for a historic home in the Old West End Neighborhood of Muncie, Indiana. The home at 723 W. Main had been carved into four apartments and has been vacant for several years. In foreclosure, it passed to MutualBank. Its prospects brightened as the neighborhood was targeted with federal NSP and CDBG funding. MutualBank demolished an out building on the grounds and donated the home to PathStone Corporation.**

PathStone is a not-for-profit community development and human service organization providing services to low-income families and economically depressed communities in Indiana, New York, Pennsylvania, New Jersey, Ohio, Virginia, Vermont, and Puerto Rico. Annette Phillips, Community Development Director for PathStone, said, “We were using federal funding to acquire and renovate other homes in the neighborhood for resale to homeowners. This building was vacant and without a lot of prospects, but the neighborhood wanted to save it because of its significant character and visibility on a major roadway.”

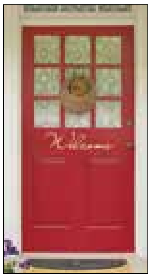
An AHP award of $500,000 from MutualBank, city of Muncie HOME funds of $86,000 and construction and permanent financing from MutualBank will allow for reconfiguration of the four 2-bedroom units as well as a substantial rehabilitation of the entire building. Ball State University students were involved in assessing the structure’s potential for rehabilitation. Studio 3, a local architectural firm, was selected to design the renovations, including green building features, while preserving the historic exterior design and making the building as practical and sustainable.

Patrick Botts, President and COO of MutualBank, is very familiar with the power of AHP to make affordable housing projects happen. He said, “It’s very hard to do this type of project without grant funding of some type. It’s difficult to look at this large historic home in the condition it was in and have the vision to see its potential.” MutualBank had two other successful AHP projects funded in 2013 and has submitted two applications for funding this year. MutualBank also offers FHLBI’s HOP and NIP grants to first-time homebuyers and existing homeowners.

PathStone will be offering homebuyer education classes to residents of Old West End Place Apartments when it’s complete in early 2015. This is part of a long-term strategy to prepare renters to be successful homebuyers, hopefully in the Old West End Neighborhood. With all the investment in rehabilitation, property values are improving for this close-to-downtown neighborhood with good access to businesses and services. PathStone intends to report timely rent payments for their residents to help them establish credit. They also partner with Work One to provide user-friendly access to employment training for their residents. All these efforts seem likely to assure the viability of the Old West End Place Apartments and its neighborhood, creating a positive community impact in Muncie.

# CREATIVE PORTFOLIO

*As changes in the mortgage industry made it harder to sell mortgages with seconds to investors, First Merchants created its own portfolio mortgage product for first-time homebuyers.*



**FIRST MERCHANTS BANK**, based in Muncie, Indiana has been a consistent and active participant in FHLBI's Homeownership Opportunities Program (HOP), providing down payment and closing cost assistance to eligible first-time homebuyers since 2001.

Tracie Simon, First Merchant's AVP/CRA Lender, said, "We already closed with six homebuyers, have two more in process and five pre-approved homebuyers looking for homes." Realtors and previous customers are spreading the word about the program. I've had customers who were paying over $700 in rent who now own their own home and are paying only $400 in mortgage payments. They feel like they've won the lottery with this product." The long awaited warm weather is definitely helping to motivate families to think about moving once their children are out of school.

With recent acquisitions, First Merchants has expanded into other markets throughout Indiana, as well as Ohio, Illinois and lower Michigan. With these acquisitions comes a renewed interest in using the Neighborhood Impact Program (NIP) homeowner rehabilitation grants and the new Accessibility Modifications Program (AMP). Simon reports using these programs is good for business for First Merchants. Thanks to the FHLBI's increase in each member's funding limit, First Merchants Bank is looking to maximize its use of FHLBI funding and assist many more households in 2014.

# Two Reasons to Celebrate

**Hamilton County Area Neighborhood Development (HAND) hosted an open house and ribbon-cutting ceremony at Lakeside Gardens in Cicero, Indiana to mark the opening of five 2-bedroom apartments for seniors age 62 and older. The apartments feature wide doorways and handicapped accessible bathrooms, along with other features that allow residents to age in place.**

Friends and supporters of HAND join in the ribbon-cutting ceremony for Lakeside Gardens in Cicero.

**Pathfinder Services in Huntington, Indiana celebrated the grand opening of the Front Door Supportive Housing Community. Pathfinder used an Affordable Housing Program grant of $289,500 awarded through 1st Source Bank to support the project. The three homes feature both shared and individual living space for adults with disabilities. Each resident has a front porch that opens into a studio bedroom and accessible bathroom. From the bedroom, residents can access a common living space, laundry room and kitchen. The homes are ADA compliant, allowing residents to age in place. In 2013, 1st Source was awarded a $500,000 AHP grant to help Pathfinder build another three homes.**

Lyle Juillerat (LEFT), representing FHLBI member 1st Source Bank, spoke at the grand opening celebration of the Front Door Supportive Housing Community. Joining him were Cindy Konich, FHLBI President-CEO (CENTER) and John Niederman (RIGHT), President of Pathfinder Services, the project's sponsor.

# community spirit

## Brian J. Hofstra, Vice President-Commercial Lending at Founders Bank & Trust in Grand Rapids, Michigan was honored with the FHLBI's Community Spirit Award.

Brian J. Hofstra

Brian was nominated for the award because of his dedication and commitment to helping the Inner City Christian Federation (ICCF) develop numerous properties by providing construction, permanent and gap financing. Brian and Founders have clearly made community lending a priority through their commitment to affordable housing and ICCF's mission. Through ICCF alone, Brian has directly enabled the construction of high-quality housing that is serving, or soon will serve, at least 200 households directly and thousands more indirectly. He has been deeply engaged in structuring financing for at least six substantial community development projects, several involving FHLBI Affordable Housing Program grants or Community Investment Program advances. With such engagement, he consistently displays an optimistic attitude and a "can do" spirit while diving deeply into the proposed finances of a deal. ICCF's Ryan Schmidt states that, "Brian Hofstra is by far the best banker I have ever worked with, hands down."

Brian's community commitment extends beyond his bank office as he is a member of the board and Treasurer of HeadStart of Kent County. He also serves on the Advisory Board of a faith-based jail and prison outreach effort known as the Criminal Justice Chaplaincy.

The FHLBI and its Affordable Housing Advisory Council presents its 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. Judging is based on a nominees' dedication to community, spirit and action.


**FHLBI member Founders Bank & Trust obtained a Community Investment Program advance for Tapestry Square (TOP) in downtown Grand Rapids, MI. Tapestry Square is a mixed-use development sponsored by ICCF. Founders also received an Affordable Housing Program grant to assist with the redevelopment of the Commerce Ave. Apartments (LEFT).**

**To nominate someone for the award, visit the Community Investment section at fhlbi.com. Guidelines and a nomination form are available.**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8250 Woodfield Crossing Blvd. | Indianapolis, Indiana 46240
317.465.0200 | fhlbi.com