



# Credit Policy

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## **I. FHLBI CREDIT MISSION**

The Federal Home Loan Bank of Indianapolis (FHLBI) will extend credit and take other actions relating to credit in conformity with the Federal Home Loan Bank Act, the regulations of the Federal Home Loan Bank System (System), the policy directives of the Federal Housing Finance Agency (Finance Agency), and the Board of Directors of the FHLBI.

Recognizing that a strong and viable bank is necessary to serve the membership and carry out its role in the provision of housing finance, the FHLBI will maintain an effective financial strategy for the issuance of credit and the scope of credit programs available. This strategy will be designed to add to the available supply of housing credit, to support members' financing needs and liquidity requirements, and at the same time to ensure the financial stability of the FHLBI.

The FHLBI offers members a wide range of advances and other credit programs designed to fit many financial management needs. The general terms and conditions of each program are outlined in the FHLBI's Credit Programs manual. From time to time, the FHLBI may offer additional credit programs that are consistent with its credit mission.

Since the FHLBI will seek to be flexible in meeting members' needs, exceptions to its Credit Policy will be considered on a case-by-case basis. Such policy exceptions shall comply with the Federal Home Loan Bank Act and the regulations and policy guidelines of the Finance Agency.



## II. AVAILABILITY OF CREDIT

Credit will be extended to FHLBI member institutions based on factors including membership status, the financial condition of the borrower, and the adequacy of collateral pledged to secure the credit.

The FHLBI's availability of funds, which depends on many factors, may also affect the availability of the amount and type of credit. Credit decisions shall be made at the sole discretion of the FHLBI.

### A. Eligible Uses of Advances

A member may apply for advances for any sound business purpose in which the institution is allowed to engage under applicable laws and regulations.

The FHLBI will make long-term advances, defined as advances issued for an original term to maturity of greater than five years, only for the following purposes:

#### 1. Residential Housing Finance

Residential housing finance includes the following activities:

- The origination or purchase of loans made to develop, purchase, refinance, construct, improve, or repair domestic residential housing or manufactured housing;
- The origination or purchase of home equity loans;
- Investments in securities backed by or representing an interest in mortgages secured by domestic residential housing or manufactured housing; and
- Other investment or activity, including but not limited to the restructuring of the liabilities of a member engaged in residential housing finance, which the FHLBI determines is related to a member's residential housing finance activity.

#### 2. or, for Community Financial Institution (CFI) Members

- Providing funds for small business loans, defined as commercial and industrial loans that are within the legal lending limit of the reporting CFI member and that are reported on regulatory financial reports;
- Providing funds for small farm loans, defined as loans secured primarily by farmland that are within the legal lending limit of the reporting CFI member and that are reported on regulatory financial reports;
- Providing funds for small agribusiness loans, defined as loans to finance agricultural production and other loans to farmers that are within the legal lending limit of the reporting CFI member and that are reported on regulatory financial reports.

A CFI is an institution whose deposits are insured by the FDIC that has less than the CFI asset cap in total assets based on an average of total assets for the three most recent calendar year ends. The CFI calculation shall be made annually and be effective April 1 of each year. The CFI asset cap is determined annually by the Finance Agency.



The FHLBI may, at its sole discretion, extend credit to qualifying housing associates, including state housing finance authorities.

**B. Capital Stock Requirements**

In accordance with the FHLBI’s *Capital Plan*, each member is required to hold shares of capital stock in an amount equal to its stock requirement. A member’s stock requirement is based upon the following:

1. Membership Stock Requirement

The FHLBI *Capital Plan* mandates that members own sufficient Class B stock to maintain membership. The membership stock requirement calculations are fully defined in the FHLBI *Capital Plan*. The membership stock requirements subject to a minimum and maximum investment as defined in the FHLBI *Capital Plan*. Members' required stock holdings will be calculated annually by the FHLBI, on or about April 1, per the requirements of the FHLBI *Capital Plan*.

2. Activity-Based Stock Requirement

The activity-based stock requirement is comprised of the following activities and associated percentages:

<u>Type</u>	<u>Range</u>
Credit Products	
Advances	1.0-6.0%
Lines of Credit	1.0-6.0%
Letters of Credit	0.1-6.0%
Derivative contracts	1.0-6.0%
Acquired member assets	0.0-6.0%

Percentages may be changed by the FHLBI Board of Directors, within a range defined by the FHLBI’s *Capital Plan* (or by amendment to the *Capital Plan*, with Finance Agency approval).

The activity-based requirement is calculated as the aggregate of the stock required for each type of activity:

Credit products = total advances + approved line of credit + outstanding letters of credit;

Derivative contracts = collateral required for interest rate swaps, caps, floors, collars, corridors, and other derivatives; and

Acquired member assets = the principal balance of assets, as adjusted from time to time, acquired by the FHLBI from a member that meet the requirements of 12 C.F.R. § 1268.

As a condition of entering into an activity-based transaction with the FHLBI, a member will be required to purchase additional capital stock if its capital holdings are insufficient



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to comply with the policy guidelines. In that event, the FHLBI will charge the member for the required stock purchase on the “determination date” as defined in the *Capital Plan*. Changes in capital stock requirements that result from changes in the collateral required on derivatives will be calculated monthly. If a member's capital holdings are insufficient, the member will be notified of the required stock purchase.

Members will receive notification of any capital stock deficiency. Members will be required to make any necessary stock purchases within a stated time period. Unless otherwise requested by the member, all stock purchases will be charged to the member's Cash Management Services Account (“CMS account”). For further information regarding capital stock requirements, refer to the FHLBI’s *Capital Plan*.

### **C. Underwriting**

Each request for an extension of credit will be underwritten by the FHLBI. The underwriting may lead to approval, modification, or denial of the amount or the terms requested.

Standard financial reports submitted to the member's appropriate regulatory authority will be used to evaluate the member's creditworthiness and the member’s ability to repay. The FHLBI may also review regulatory exams, rating agency reports, and other relevant materials in determining creditworthiness. An institution applying for extensions of credit or having outstanding credit obligations to the FHLBI may be required to submit additional information to help it determine the institution's financial condition and operating policies; including information regarding affiliated entities that are material to the member’s operations. Members should be conscious of the need for accuracy of all information submitted to the FHLBI.

Borrowing members that are subject to SEC reporting requirements may be requested to file copies of all SEC reports (including Forms 10-K, 10-Q, and 8-K) with the FHLBI.

The FHLBI's evaluation of the member's creditworthiness and ability to repay will be based on, but not limited to, the following criteria (as deemed applicable for a specific member):

- Capital adequacy; including absolute level and anticipated stability of capital, adherence to regulatory requirements, the ability to raise additional capital independently and/or anticipated capital support from a parent organization;
- Quality and composition of assets;
- Interest rate risk exposure and actions to reduce interest rate risk;
- Current profitability and prospects for future earnings;
- Liquidity levels;
- Cash flows, especially as balanced against commitments;
- Outstanding advances from the FHLBI and borrowings from other sources, in respect to their amount and maturity;
- Expertise and depth of management;
- Corporate structure, including the financial strength of a member’s parent company and whether the parent company is subject to “inspection and regulation” by a state and/or



federal regulatory authority;

- For captive insurance company members, an evaluation of its insurance activities.

In addition, the purpose, amount and the projected impact of the transaction on each of the above items will be considered.

#### **D. Lending to Capital Deficient Members**

The FHLBI is limited by Finance Agency regulation (12 C.F.R. § 1266.4) on extending credit to capital deficient members or members without positive tangible capital. Tangible capital is capital, calculated according to GAAP, less intangible assets. The FHLBI may include a member's purchased mortgage servicing rights to the extent such assets are included for the purpose of meeting regulatory capital requirements.

#### **E. Other Borrowing Limitations**

1. Credit Products exceeding 40% of a depository member's total assets, 25% of an insurance company member's total general account assets (net admitted assets less separate accounts), or 25% of a non-depository CDFI member's total assets are subject to written approval. The calculation of borrowing capacity is subject to FHLBI determination and will typically be based on the individual member's most recently filed regulatory financial report.
2. For the purpose of compliance with the "long-term, advances proxy test" imposed by 12 C.F.R. § 1266.3(b)(1), the FHLBI shall determine the total book value of residential housing finance assets held by the member at the beginning of a business day. During a business day, however, a member may submit reliable documentation of a change in the total book value of its residential housing finance assets, and the FHLBI may take such change into account in determining compliance with 12 C.F.R. § 1266.3(b)(1).

*Residential housing finance assets* means any of the following:

- Loans secured by residential real property;
  - Mortgage-backed securities;
  - Participation in loans secured by residential real property;
  - Loans qualifying as community lending;
  - Loans secured by manufactured housing;
  - For CFI members, small business loans, small farm loans, and small agribusiness loans.
3. Other considerations, such as the adequacy of the member's collateral or its overall financial condition, may result in further limitations on the amount or the terms of available credit.





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## **F. Collateral**

The FHLBI accepts certain securities, loans and cash assets as collateral for securing advances and other borrowings. Borrowing by members is limited by the amount and value of the member's total eligible collateral pledged to the FHLBI. Further details regarding collateral eligibility, market valuation, pledge requirements, and over-collateralization requirements, etc. are provided in the *Collateral Policy* section.

In the event that a member does not have sufficient eligible collateral to secure outstanding advances and other credit extensions from the FHLBI, the member will be required to reduce its level of outstanding advances promptly and prudently in accordance with a schedule determined by the FHLBI.

## **G. Advance Pricing and Volume Discounts**

The FHLBI is required by regulation to price its credit products consistently and without discrimination to all members applying for advances. The FHLBI is also prohibited from pricing its advances below its marginal cost of matching term and maturity funds in the marketplace, including embedded options, and the administrative costs associated with making such advances to members. However, the FHLBI may price advances on a differential basis, based on the credit and other risks to the FHLBI of lending to any particular member, or other reasonable criteria applied consistently among all members (12 C.F.R. § 1266.5).

The FHLBI prices credit products according to market conditions and various criteria such as the following:

- The FHLBI's cost of funds;
- The size of the requested transaction;
- The level of a member's competitive sources of funds;
- The FHLBI's alternative investment opportunities;
- The FHLBI's cost of delivering products (such as general and administrative expenses);
- The FHLBI's marginal and overall profitability targets.

While the criteria listed above denote the basis on which the FHLBI will differentiate among members in pricing advances, the FHLBI will apply the criteria consistently so as not to discriminate against members.

Based primarily on the operating efficiencies that accrue from large transactions, and market considerations, interest rate discounts are offered as needed to secure profitable business for the FHLBI that would otherwise be transacted by members into competing, non-FHLBI products. The FHLBI periodically offers advance specials for all members which approximate terms offered on single, large transactions, subject to market conditions at the time of the offerings.

From time to time, interest rates that are discounted from the standard indications on transactions of smaller size may be available on single advances transactions of \$10 million or more. Periodically, based on some or all of the criteria listed above, authorized management



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will establish spreads to be used to set interest rates for the following transaction ranges of single advances transactions:

- \$1 < \$10 million
- \$10 million < \$15 million
- \$15 million < \$25 million
- \$25 million < \$50 million
- \$50 million < \$100 million
- \$100 million < \$250 million
- \$250 million < \$500 million
- \$500 million < \$1 billion
- \$1 billion and greater

Normally, the level of interest rate discounts will progressively increase as the size of the range increases. Commonly-owned members may consolidate advance requests of the same term to achieve volume discounts.

Volume discounts are not applicable to Affordable Housing Program (AHP) advances or Community Investment Program (CIP) advances.

## **H. Affordable Housing and Community Investment Programs**

AHP and CIP advances provide funding for members to undertake community-oriented mortgage lending. These advances will be made available to members through periodic offerings.

### **1. CIP Advances**

The annual CIP new advance origination goal will be announced via the FHLBI Community Lending Plan. Refer to the Credit Programs manual for the current list of programs available as CIP advances.

### **2. AHP Advances**

In each offering, the applications will be received by the Community Investment department for scoring. Applications receiving the highest ratings per the AHP scoring system, as established by the AHP Implementation Plan, will be recommended to the Board of Directors for approval. Refer to the Credit Programs manual for specific procedures.

## **I. Community Support Requirements**

Once every two years, members must file an acceptable Community Support Statement in order to maintain access to advances with a term to maturity greater than one year.

A Community Support Statement is a compilation of information prepared by the member and reviewed by the Finance Agency, as required by the Federal Home Loan Bank Act [12 U.S.C. §1430 (g)]. A Community Support Statement is not an examination and is designed to require a minimum of paperwork.

A Community Support Statement typically consists of three parts, including:

### **1. Part I: CRA Standard**

Members subject to Community Reinvestment Act (CRA) requirements may complete this section, providing the institution's most recent federal CRA evaluation rating and date.

### **2. Part II: First-time Homebuyer Standard**

All members, except those with "outstanding" CRA ratings, must complete this section.



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Section A of this part requests information about lending performance while Section B addresses participation in programs that assist first-time homebuyers.

3. Part III: Certification

All members must complete this section. An appropriate senior officer must certify that the information in the Statement is correct to the best of his/her knowledge.

The Community Investment department will provide appropriate forms and instructions for completing the Community Support Statement approximately 30 days prior to the due date. Contact the Community Investment department for further assistance and information.

**J. Required Documents**

Before granting any credit request, the FHLBI must have on file current executions of the following applicable forms:

1. Certified Resolutions for Advances and Derivative Transactions (CRADV-01 and CRSWP-01)

The Certified Resolution for Advances (CRADV-01) authorizes certain individuals to act on behalf of the member organization to request and secure advances from the FHLBI. A total dollar limitation on advance borrowings must be established by each institution's Board of Directors. Advance borrowings include lines of credit and letters of credit, but do not include Affordable Housing Program direct-pay subsidies. This form should be updated periodically to reflect not only changes in borrowing dollar limits but also changes in the personnel authorized to borrow.

A separate but similar resolution, Certified Resolution for Derivative Transactions (CRSWP-01), allows the member to engage in derivative transactions with the FHLBI. This resolution also specifies member personnel authorized to execute derivatives and limits the amount of notional principal allowed as a basis for such derivatives.

2. Advances, Pledge, and Security Agreement (APSA)

This is the primary legal document supporting all credit and service agreements between each member and the FHLBI. It details the member's contractual legal liabilities and outlines such specifics as the type of collateral to be used to secure advances. The same document supports all types of advances and credit products.

3. Member Representation and Warranty Agreement Regarding Collateral

Prior to a member pledging 1-4 family mortgages, the member must execute this agreement, which is also referred to as a "Representation and Warranty Agreement." By signing this document, the member is certifying (1) its understanding and compliance with the Anti-Predatory Lending (APL) Policies and Subprime and Nontraditional Residential Mortgage Policies and all applicable local, state or federal laws, and regulatory guidance including but not limited to, all applicable APL, subprime or alternative mortgage product laws or regulations; (2) that it will maintain qualifying collateral and substitute eligible collateral for any residential mortgage collateral that does not comply in all material respects with applicable Anti-Predatory Lending Laws or the APL Policies; and (3) indemnifies, defends and holds FHLBI harmless. (See *Subprime and Nontraditional*



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*Residential Mortgage Policy and Anti-Predatory Lending Policy at Member Link.)*

4. Subordination Agreement

In order to secure an advance with a member the FHLBI must have a priority lien on pledged assets. This agreement must be executed whenever another creditor has a priority lien over assets that may be pledged to support credit products (e.g., Corporate Credit Unions).

5. Correspondent Services Agreement

This agreement is required to establish correspondent services with the FHLBI, including wire transfers, security safekeeping, coin and currency, net settlement, ACH and miscellaneous. The APSA must be executed prior to entering into Correspondent Services with the FHLBI.

Other agreements that may be required, as determined by the FHLBI, or may be executed based upon the members' usage of credit programs include the following:

1. Advance Application Form (CRADV-03)

This form is necessary to apply for advances (derivative transactions are handled separately). The completed application form must be in the FHLBI's possession before credit approval or commitments are issued. Generally, the application may be completed by contacting the Advances Desk by telephone or electronic mail, but the FHLBI reserves the right to require written submission by the member.

2. Application for Overdraft Line of Credit (CRLOC-01)

This form is similar to the application for advances and may be completed for the member by the FHLBI's Advances Desk by telephone.

3. Application for Letter of Credit (CRLEC-01)

This form is similar to the application for advances and may be completed for the member by the FHLBI's Advances Desk by telephone.

4. Option-Embedded Advance Disclosure Statement

This form must be on file before the FHLBI will trade a putable or flipper advance for a member. In this form, the member represents that it has evaluated the merits and risks of the putable and/or flipper advance and that the putable and/or flipper advance is in compliance with policies established by the member's Board of Directors.

5. Affiliate Collateral Pledge Agreement

This agreement must be executed by a member's affiliate to pledge assets on behalf of the member as collateral to secure advances.

6. Affiliate Member Representation and Warranty Agreement Regarding Collateral

This document is similar in purpose to the "Rep and Warranty Agreement" described above; however, this document is necessary in the event a member's affiliate is pledging 1-4 family mortgages to secure the member's advances.



7. Third Party Custodian Agreement

Members pledging mortgages or securities held at a third party custodian must execute a Third Party Custodian Agreement (specifically for mortgages, securities or both depending on what is to be pledged). This agreement ensures that FHLBI has control of the pledged collateral and that the custodian will not release the collateral from their possession without FHLBI authorization.

8. Electronic Tracking Agreement (ETA)

This is a tri-party agreement between our member, the FHLBI, and Mortgage Electronic Registration Systems (MERS) that provides the FHLBI with the legal basis for requesting information on loans registered through MERS and allowing the FHLBI to provide MERS with instructions related to loans should there be an event of default by the member. The ETA must be executed prior to pledging loans registered through MERS as collateral.

9. Schedule to the Master Agreement (CRSWP-02)

This document must be executed in conjunction with the ISDA® Master Agreement and is similar to the APSA. These agreements support both derivative transactions with the FHLBI and standby letters of credit it issues on behalf of members to back an interest rate swap with a third party. The APSA must also be on file with the FHLBI for derivatives and letters of credit.

10. Application for Interest Rate Swap (CRSWP-03)

This form is similar to the application for advances and may be completed for the member by the FHLBI's Advances Desk by telephone.

11. Advice of Credit Replacement Agreement

Members may elect to execute this agreement, which eliminates the need for an Advice of Credit for certain advances as defined by the agreement. By signing this agreement, the member has agreed to use Member Link as the method to confirm the terms of an eligible advance pursuant to the Agreement.

12. eNotes Addendum to the Advances, Pledge, and Security Agreement

Members who desire to pledge eNotes to the Bank would enter into this addendum.



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### **III. BORROWING PROCEDURES**

#### **A. Applications**

The following summaries provide a general overview of the application procedures for both short-term and long-term advances and commitments. Please refer to the Credit Programs manual for specific application requirements.

1. Short-term Advances

Requests for short-term advances should be received by 10:30 a.m. Indianapolis time in order to be eligible for funding on the same business day. The member will normally be notified of the FHLBI's credit decision during the application process. Applications may be made by contacting the Advances Desk.

2. Long-term Advances

Requests for long-term advances should be received by 10:30 a.m. Indianapolis time in order to be eligible for funding on the same business day. Applications may be made by contacting the FHLBI's Advances Desk.

#### **B. Commitments**

Disbursement of any commitment is subject to a one-day prior notification requirement. However, in any mandatory funding situation, funding will automatically be made to the member's CMS account the final day of the commitment period. If the member's collateral is inadequate to support the advance on the final day of the commitment period, the commitment, or a portion thereof, will be disbursed to a time account pledged to the FHLBI.

Members will receive written commitments from the FHLBI. Refer to the Credit Programs manual for the specific details of each program.

1. Funds-Only Commitments

Funds-only commitments will normally be issued for the CIP and AHP advances.

Funds-only commitments constitute a firm agreement on the part of the FHLBI to fund an advance at the terms and conditions agreed upon at a rate to be determined. Funds-only commitments will normally be subject to mandatory funding on or before the expiration of the commitment period.

2. Rate-Guaranteed Commitments

Rate-guaranteed commitments may be available on long-term advances.

Rate-guaranteed commitments constitute a firm agreement on the part of the FHLBI to fund an advance at the terms and rate agreed upon. Rate-guaranteed commitments will normally be subject to mandatory funding on or before the expiration of the commitment period.



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### C. Fee Schedule

Unless otherwise requested by the member, all commitment fees will be charged to the member's CMS account. The following table contains typical fee ranges for most credit programs, but is not a comprehensive list of all credit programs. Refer to the Credit Programs manual for a more complete description of available programs. Commitment fees may be modified to take into account non-standard commitment periods, options, materiality, or other commercially necessary circumstances.

<b>Fee Schedule</b>	
<u>Program</u>	<u>Typical Fees</u>
Callable	0 - 1/4%
Mortgage advance (with an additional prepayment option)	0 - 1/4%
Adjustable rate	0 - 1/4%
Overdraft line of credit	up to 0.10% of credit line
Letter of credit (non-CIP)	up to 3/8% payable annually (minimum 1,000)
Letter of credit (CIP)	up to 1/5% payable annually (minimum \$500)
Letter of credit draw	\$50
Letter of credit termination	up to \$5,000
Remarketing draw (non-CIP)	\$1,000
Remarketing draw (CIP)	\$500
Change of Beneficiary/Trustee (non-CIP)	\$750
Change of Beneficiary/Trustee (CIP)	\$250

### D. Disbursements

All advance and/or commitment disbursements (except approved overdraft lines of credit) require that the member notify the FHLBI one day prior to the requested day of funding. Exceptions to this rule may be made in the event of an emergency and at the FHLBI's discretion. Unless otherwise requested by the member, all disbursements of advances and/or commitments will be made to the member's CMS account. All proceeds must be credited to a member's CMS or time account. Direct wires of funds will not be permitted.





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## **IV. REPAYMENT PROCEDURES**

### **A. Charging of Interest Payments**

On day 15 of each month (or the next business day), all interest accrued through day 14 on outstanding advances will be automatically charged to the member's CMS account. Interest on advances is charged on the day the advance is drawn, but is not charged on the day the advance is repaid. In the event of a partial advance prepayment, interest will continue to accrue until the advance is paid in full, or until the next interest payment date. In the event of a full advance prepayment, all accrued interest will be charged to the member's CMS account. The FHLBI will price advances to consider alternative interest payment structures. In all cases, the FHLBI shall perform the functions of a calculation agent and will never price an advance below zero percent at a reset date for an adjustable rate advance.

1. For an adjustable rate advance tied to an index (e.g. SOFR, FHLB Cost of Funds), the computed advance interest rate will be floored at the greater of zero percent or the advance spread to the index. In the event an index utilized in an adjustable rate advance is no longer published, becomes unlawful for the Bank to maintain, or in the Bank's determination fails to be a reliable market indicator, the Bank shall replace such index. In such an event, the Bank shall determine an alternate index plus a spread to make the Bank financially indifferent and will notify the member of the change in index and spread.
2. For fixed rate advances, the FHLBI may, at its discretion, price an advance below zero percent under certain market conditions.

### **B. Renewals and Repayments**

It is solely the member's responsibility to keep track of maturing advances and notify the FHLBI of its intent with regard to the disposition of the obligation. This is especially important for advances issued for a short term.

Members are encouraged to contact the FHLBI's Advances Desk by telephone at least one week prior to the maturity of an advance that they wish to renew. All of the above-mentioned time requirements will apply to renewals. When making a principal payment on an advance at maturity or any other time, the Advances Desk should be informed, either by telephone or in writing, of the following information by 2:00 p.m. Indianapolis time:

- The amount of principal payment;
- The specific advance number to which payment is to be applied;
- The account to which the payment should be charged (Time or CMS).

If the Advances Desk is not informed about maturing advances by 2:00 p.m. Indianapolis time, the institution's CMS account will be charged the principal and accrued interest.

Unless otherwise requested by the member, annual mortgage advance principal payments will be charged to the member's CMS account.

Any questions concerning borrowing procedures should be directed to the FHLBI's Advances Desk.





### C. Prepayment Procedures

Members intending to prepay an outstanding obligation are required to notify the FHLBI of its intent to prepay and depending on advance type, could be subject to prepayment fees. In such cases, the FHLBI shall perform the functions of a calculation agent.

#### 1. Notification

- *Variable Rate Advances*

Notification for same day prepayment is required by 2:00 p.m. Indianapolis time.

- *Fixed Rate Advances*

Any member wishing to prepay a fixed rate advance must notify the FHLBI of its intent to prepay at least one business day prior to the repayment date requested. Prepayments on advances of \$5 million or greater or originated as part of an advance special will usually require a two-day notification. The FHLBI reserves the option to waive the one or two business day prior notification requirement. The prepayment fee will be based on rates quoted on the prepayment date. The quoted rates may be adjusted to reflect market conditions at the time of prepayment.

#### 2. Fees

- a. *Variable Rate Advances*

There is no prepayment fee for variable rate advances.

- b. *Fixed Rate Advances (includes Short-term Fixed Rate, and Long-term Fixed Rate)*

Calculations are either the greater of 1/4% of the principal or the following:

$$\frac{(R_o - R_n) \times \text{Prin}}{12} \times \frac{1 - (1 + [R_n/12])^{-(DTM/30.42)}}{(R_n/12)} \times \text{coefficient}$$

Where:

- R<sub>o</sub> = Rate on prepaid advance
- R<sub>n</sub> = Rate quoted by FHLBI on prepayment date, for an equivalent fixed rate advance with maturity closest to the remaining maturity of the prepaid advance, converted to same day count basis as R<sub>o</sub>
- Prin = Principal amount to be prepaid
- DTM = Days to maturity remaining on the prepaid advance

#### Coefficient Table:

Ro-Rn	Coefficient
0.00 - 3.00%	1.10
3.01 - 4.00%	1.09
4.01 - 5.00%	1.08



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5.01 - 6.00%	1.07
6.01 - 7.00%	1.06
7.01 and greater	1.05

- c. *Symmetrical, Forward-Starting, Adjustable Rate, Putable, Callable, Option-embedded, Mortgage, and Amortizing Advances (including Rate Commitments, certain Community Investment Program Advances, and Affordable Housing Program Advances)*

Conditions and fees for prepayment of these advance types will be specified in the advice of credit, confirmation, and/or the applicable terms sheet.

- d. *Interest Rate Swaps, Caps, Floors, and Collars*

Conditions and fees for early termination of these types of interest exchange agreements will be specified in the applicable contracts between the FHLBI and the member.

- e. The FHLBI, at its discretion, may pay a fee to a member that prepays an advance with a below-market rate. The fee paid will be based upon the net present value of the difference between the cash flows the FHLBI may reasonably expect to obtain by reinvesting the prepaid advance proceeds at current market rates and the contractual cash flows the FHLBI had a right to receive from the prepaid advance. In some circumstances, FHLBank bonds may also be used to repay advances.

This program is subject to various restrictions. Members interested in prepaying below-market rate advances should contact the Advances Desk for more information on the pricing and qualifications for this program.

- f. Under certain circumstances, the FHLBI may be willing to accept prepayments in connection with advance restructuring proposals that leave the FHLBI financially indifferent.
- g. The FHLBI is forbidden by regulation from accepting prepayments in an amount which will leave the FHLBI with a loss.



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## **V. OTHER PROVISIONS**

### **A. Transfer of Credit**

The FHLBI may in some circumstances allow an FHLBI member to assume an advance obligation of another member. All transfers will be subject to the prior approval of the FHLBI. Such a transfer of advances will be made only within such guidelines, if any, as may be prescribed by the Finance Agency, including the creditworthiness of all parties involved in the transaction. The FHLBI will charge a fee for processing the transfer on its books, typically \$250 per advance.

### **B. Defaults**

Events of default and remedies are specified in the APSA.

It shall also be an event of default under the APSA if a member, based on the exclusive judgment of the FHLBI's Credit Management, fails to immediately inform the FHLBI in writing (which may also be by email) of any material adverse change that has occurred that affects the member's financial condition, including without limitation, the occurrence of adverse events such as the discovery of fraud, a material asset write-off, a significant decline in capital, significant regulatory action, or other material event which may not be reflected in the member's most recent financial statements but which may affect the member's creditworthiness. An event of default declared by the FHLBI under this paragraph shall trigger such remedies as the FHLBI may select under the APSA.

### **C. Termination of Membership**

If any member's membership in the FHLBI is terminated, the indebtedness of such member to the FHLBI shall be liquidated in an orderly manner, as determined by the FHLBI. Any such liquidation of advances prior to maturity shall be deemed a prepayment, and shall be subject to the applicable prepayment fees. In such instances, the FHLBI will establish appropriate arrangements with respect to the orderly redemption of stock held by the member per the FHLBI's *Capital Plan*.

### **D. Member Notification of Legal Name Change, Domicile Change or Change in Principal Place of Business (PPOB)**

A member must notify the FHLBI prior to changes to its legal name, the legal name of an affiliate pledging collateral, or the location of its home office or domicile. Additionally, a member must promptly notify the FHLBI in writing whenever it relocates its principal place of business.



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## VI. COLLATERAL POLICY

The FHLBI secures all advances. The availability of its advances to each borrower is based in part on the degree of security provided via the collateralization of advances. The following pages outline collateral policy, and collateral procedures can be obtained from the Member Link Portal or the Collateral Operations department. Although the FHLBI will make every effort to keep each member apprised of any significant changes to its collateral policy or collateral procedures, it reserves the right to change any collateral policy or procedure set forth in this manual at any time without advance notice.

The Board of Directors of the FHLBI, in consideration of the guidelines set forth by the Finance Agency, has established the following policy guidelines for the collateralization of advances and other credit services.

### A. Collateral Policy Guidelines

#### 1. Collateral Lien Perfection

The FHLBI will file a UCC-1 Financing Statement and continuation statements, as appropriate, on all members that have a signed APSA on file with the FHLBI. In some cases, the FHLBI may refrain from filing a financing statement when collateral is otherwise perfected through physical possession. The FHLBI's filing of UCC-1 Financing Statements and continuation statements, as appropriate, in no way modifies or changes a member's ability to borrow under the convenience of our blanket lien arrangement, nor does it affect a member's ability to sell or dispose of assets pledged as collateral for advances, provided that the member remains in compliance with all terms of the APSA and the *Credit Policy*.

#### 2. Affiliate Collateral

Assets owned or held by an affiliate of a member that are eligible as collateral may be used to secure advances to that member. An affiliate is defined as any business entity that controls, is controlled by, or is under common control with a member. Collateral pledge arrangements are typically limited to entities controlled by the member, however other arrangements may be considered on a case-by-case basis. The FHLBI will obtain a legally enforceable security interest through an Affiliate Collateral Pledge Agreement pursuant to which the FHLBI's legal rights and privileges with respect to the collateral are functionally equivalent in all material respects to those that the FHLBI would possess if the member were to pledge the same collateral directly.

#### 3. Collateral Status

There are three primary methods for pledging collateral: Blanket, Specific Listings, and Physical Possession (a/k/a Physical Delivery). Members may be able to pledge collateral under a combination of these three methods, resulting in Hybrid collateral status. The standard coverage ratios by collateral type and by collateral status are provided in the Over-Collateralization Matrix of this manual. The ratios listed in the Matrix for Specific Listings and Physical Possession are based on the market value of the loans as determined by the FHLBI. Ratios for Blanket over-collateralization levels are based on reported book value.

The FHLBI reserves the exclusive right to determine market value and coverage



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requirements of pledged collateral (including collateral status), and the FHLBI may require higher collateral coverage ratios based on the quality and liquidity of the collateral and the current financial condition of the member. The scope of the security interest granted to the FHLBI is set forth in the APSA. The FHLBI reserves the right to change the minimum collateral requirement applicable to members from time to time.

The following sections describe the general eligibility requirements for each type of collateral status; however, the FHLBI reserves the right to require a stricter collateral level or additional collateral whenever deemed necessary by its management. For purposes of eligibility determination, FHLBI will use a *capital ratio* which is defined as follows:

- For banks and thrifts, *capital ratio* shall mean the leverage ratio and its associated thresholds as outlined in 12 CFR § 324.403;
- For credit unions, *capital ratio* shall mean the net worth ratio and its associated thresholds as outlined in 12 CFR § 702.102.

*a. Blanket Collateral (Depository Institutions Only)*

The FHLBI may allow financially sound members, which have and maintain a “well capitalized” capital ratio over the four most recent quarters, to pledge collateral under Blanket reporting. If the capital ratio is likely to cure the following quarter, an exception to this requirement may be requested by the member and approved at the FHLBI’s discretion. The member must be of sound financial condition in the judgment of the FHLBI. Criteria used to determine a member’s eligibility or continued eligibility for Blanket collateral status may include the member’s profitability, type of operation, composite CAMELS rating, and any other criteria deemed relevant by the FHLBI.

Members pledging collateral under Blanket reporting are required to submit a Blanket Collateral Report (BCR) at least quarterly, updating pledged collateral balances. Members must at all times maintain an unencumbered portfolio of eligible collateral with outstanding balances not less than the required over-collateralization requirements as listed in the Over-Collateralization Matrix, contained within this policy.

*b. Specific Collateral Listings (Depository Institutions Only)*

To be eligible for Specific Listing status, the member must have and maintain a “well capitalized” capital ratio. Members with unrealized security losses that, if realized, would cause the member’s capital ratio to be considered “undercapitalized” will be required to pledge collateral under Specific Listings, and will be evaluated for Physical Possession/Delivery. Members that are on Blanket collateral status may choose to move to Specific Listings status in order to improve their collateral coverage requirements. Additionally, members may be required by the FHLBI to be on Specific Listings status for a variety of reasons, including but not limited to financial issues or adverse collateral verification review results. Members on Specific Listings status are required to provide updated loan level data at least monthly.

Members on Specific Listings status will be permitted to retain the original documents evidencing home mortgages assigned to the FHLBI. However, the member must agree to hold such documents for the benefit of, and subject to the direction and control of, the FHLBI. Securities pledged as collateral must be held by the member in a



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safekeeping account with the FHLBI or with an approved third party custodian that enters into a Third Party Custodian Agreement.

*c. Physical Possession/Delivery*

Physical Possession will be required if a depository member has a capital ratio that is considered not “well capitalized.” Insurance company members, de novo institutions, Community Development Financial Institutions (CDFI), credit union members with less than \$25 million in total assets, and members assigned a CAMELS composite rating of 4 or 5 are required to be on Physical Possession. In addition, Physical Possession will be required if a member’s overall financial condition or membership status is such that the FHLBI determines it will be sufficiently protected only if it is in possession of the collateral.

The member will be required to deliver pledged notes, mortgages, and other relevant documentation as requested by the FHLBI to a third party document custodian unless notified otherwise by the FHLBI. Members on Physical Possession are subject to the same reporting requirements as Specific Listings, including providing updated loan level data at least monthly.

All pledged securities must be held in a safekeeping account with the FHLBI or with an FHLBI approved third party custodian upon execution of a Third Party Custodian Agreement. The FHLBI reserves the right to perfect its security interest in pledged securities through any other method permitted by the Uniform Commercial Code (“UCC”).

*d. Hybrid*

In certain cases, members may report eligible collateral using multiple methods. The FHLBI will attempt to be flexible in order to allow members to maximize borrowing capacity. However, members must choose one reporting method for each asset type to avoid double pledging.

*e. eNote Collateral*

Notwithstanding the Member’s collateral status, all eNote collateral must be delivered to the Bank’s eVault, or another eVault arrangement approved by the Bank.

4. Requests for Collateral Status Change

A member may request permission to change its collateral status. Such requests will be granted at the FHLBI's sole discretion, and normally the member will be required to have met the requirements for the new collateral status for two consecutive quarters immediately preceding the request. For members switching from physical possession, the requirement is typically four consecutive quarters. Such requests should be submitted in writing to the FHLBI and must be approved prior to the collateral status change.

5. Collateral Status Conversion

Upon written notification from the FHLBI, members will have up to 60 days to identify, pledge, and/or deliver collateral when moving to a stricter collateral status. After the lapse of the 60-day period, requests for new credit and renewals of existing credit may be limited



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or denied, and the FHLBI reserves the right to send representatives to the institution to assist in the preparation of collateral assignments. The FHLBI reserves the right to extend the 60 day requirement at its sole discretion.

6. Collateral for Other Credit Programs and Obligations

In addition to the collateral requirements for advances, members must maintain collateral sufficient to secure other credit transactions with the FHLBI. The FHLBI may also require, from time to time, members to maintain collateral sufficient to secure all other *Indebtedness* or *Obligations*, as such term may be defined in the APSA with the FHLBI.

- a. *Lines of credit and letters of credit require the same collateral coverage as advances.*
- b. *The collateral requirement for interest rate derivatives, including interest rate swaps, caps, collars, and floors, will be composed of two parts, an initial margin and a variation margin.*

- i. **Initial Margin:** The initial margin for an interest rate derivative represents the minimum amount of collateral that must be maintained at all times. The initial margin will be set at the time a derivative is entered into according to the following formula:

$$(\text{Notional principal balance}) \times (1.5\%) \times (\text{years remaining to maturity})$$

- ii. **Variation Margin:** The variation margin will be no less than the market value of the derivative. The variation margin must be equal to or greater than zero and will be in addition to the initial margin requirement. Variation margins will be adjusted at least monthly to reflect changes in the derivatives markets.

If a member is offsetting an existing derivative, the collateral requirement may be recalculated, but at a minimum, collateral will be maintained at the net market value of the two agreements.

- c. *Pursuant to the APSA, the FHLBI may require a member to pledge additional collateral to cover exposure resulting from prepayment fee estimates on advances, AHP (excluding set-aside programs), the Mortgage Purchase Program, and other products or services provided by the FHLBI, and as otherwise required by the FHLBI (Additional Exposure).*

- i. Conditions that will be evaluated by the FHLBI in determining whether an insurance company member will be required to pledge additional collateral to cover Additional Exposure include, but are not limited to, the following:
1. RBC capital ratio (control level) of less than 400%.
  2. A.M. Best Financial Strength rating of B or lower, if rated by A.M. Best.
  3. De novo insurance company (chartered and licensed for less than three years or not active during the most recent three-year period).
- ii. Conditions that will be evaluated by the FHLBI in determining whether a depository member will be required to pledge additional collateral to cover such Additional Exposure include, but are not limited to, the following:





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1. Capital ratio that is considered “undercapitalized” as defined in section VI.A.3 of this Credit Policy.
  2. Composite CAMELS rating of 5.
  3. De novo depository (chartered less than three years).
- iii. Conditions that will be evaluated by the FHLBI in determining whether a CDFI or Housing Associate member will be required to pledge additional collateral to cover such Additional Exposure include, but are not limited to, the following:
1. Lack of financial statements (audited or unaudited) provided to the FHLBI on a quarterly basis. Lack of audited financial statements provided to the FHLBI on at least an annual basis.
  2. De novo CDFI or Housing Associate (organized for less than three years).
- iv. For purposes of complying with the requirement to collateralize such Additional Exposure, the FHLBI, at its sole discretion, may allow a member to include certain otherwise ineligible types of securities that otherwise meet this Policy’s NRSRO rating, pricing and delivery requirements.

## **B. Schedule of Eligible Collateral**

Eligible collateral for advances and other credit extended to member institutions shall consist of any property which is an authorized investment for the member institution and does not violate FHLBI’s *Anti-Predatory Lending Policy* or *Subprime and Nontraditional Residential Mortgage Policy*, and which falls within one of the categories identified below.

For collateral to be acceptable to the FHLBI, it must determine that such collateral has a readily ascertainable market value, that it can be reliably discounted to account for liquidation, and that it can be liquidated in due course. Further, the FHLBI must be able to perfect a security interest in such collateral.

### **1. Traditional Collateral**

- *Category 1: One-to-four Family, Whole First Mortgage Loans*

Fully disbursed, whole first mortgage loans on improved one-to-four family residential real property, not more than 60 days delinquent, and including both eNotes and paper notes.

- Some types of nontraditional residential mortgage loans are eligible collateral, such as a fully amortizing interest-only mortgage with a stub period that does not exceed 120 months.
- Negative amortization mortgages and payment option mortgages are ineligible for pledge.
- Loans Held for Sale or Available for Sale may be eligible for pledge, subject to alternative reporting and/or additional over-collateralization requirements.
- Subject to the FHLBI’s prior written approval, delinquent FHA-insured mortgages





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may be eligible for pledge, to the extent that the mortgage is insured or guaranteed by the United States or any agency thereof, or otherwise is backed by the full faith and credit of the United States, and such insurance, guarantee or other backing is for the direct benefit of the holder of the mortgage.

- *Category 2: Government and Agency Securities*

Securities issued, insured, or guaranteed by the United States Government or any agency thereof (including mortgage-backed securities issued or guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae). Certain stripped securities, residuals, and other price volatile mortgage derivative products (as determined by the FHLBI) are not eligible under this Category.

Members must hold Category 2 collateral in a safekeeping account with the FHLBI or with an FHLBI-approved third party custodian that enters into a Third Party Custodian Agreement.

- *Category 3: Private Mortgage-backed Securities*

An equity security representing an ownership interest in fully disbursed, whole first mortgage loans on improved residential real property; or mortgage pass-through or participation securities, which are themselves backed entirely by fully disbursed, whole first mortgage loans on improved residential real property; or an obligations, bond or other debt security backed entirely by the assets described above. This includes private mortgage-backed securities, collateralized mortgage obligations (CMOs), and real estate mortgage investment conduits (REMICs). These securities must have at time of acceptance a quality rating within the top three rating levels established by Moody's, Fitch, and/or Standard & Poor's and must remain at or above investment grade levels. Securities rated BBB must be rated by more than one of the three rating agencies. Interest-only, principal-only, residual interest, mezzanine, subordinated, collateralized debt obligations, Re-REMICs, and other mortgage derivative products (as determined by the FHLBI) are not eligible under this category.

Any security, the ownership of which represents an undivided equity interest in underlying assets, all of which qualify either as eligible collateral in Categories 1, 2, or 3 (one-to-four family, government and agency securities, or private mortgage-backed securities) or as cash or cash equivalents, will be considered an eligible mutual fund.

Members must hold Category 3 collateral, with the exception of mutual funds, in a safekeeping account with the FHLBI or with an FHLBI approved third party custodian that enters into a Third Party Custodian Agreement.

- *Category 4: FHLBI Deposits*

Cash deposits with the FHLBI.

- *Category 5: Multifamily Whole Mortgage Loans*

Fully disbursed, whole first mortgage loans on improved multifamily residential real property, not more than 30 days delinquent. Multifamily property means real property that is solely residential and which includes five or more dwelling units; or real property which includes five or more dwelling units with commercial units combined, provided



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the property is primarily residential. Multifamily property includes nursing homes, dormitories, and homes for the elderly. Blanket collateral members have the option to request inclusion of multifamily collateral on their quarterly BCR.



## 2. Expanded Collateral

Members may request to pledge commercial real estate, second mortgage, and participation loan collateral (Categories 6a, 6c, 6d and 6g). Interested members must meet specific underwriting criteria determined by the FHLBI and receive written approval.

The aggregate amount of outstanding advances secured by eligible commercial real estate (6d), second mortgage (6a and 6c), and participation (6g) loan collateral combined shall not exceed 200% of the depository member's core capital or insurance company member's capital plus surplus. Any exception to the core capital limitation is subject to written approval. In addition, the lendable value of expanded whole loan collateral cannot exceed 50% of the institution's total Category 1-5 collateral lendable value until after a satisfactory collateral verification review has been completed.

- *Category 6: Other Real Estate-Related Collateral (ORERC)*

The FHLBI defines other real estate-related collateral as follows:

### Category 6a. Second Lien Closed-end Residential Mortgage Loans

Fully disbursed second lien mortgage loans on improved 1-4 family residential real property, not more than 30 days delinquent.

### Category 6b. First Lien Home Equity Lines of Credit

First lien mortgage lines of credit on improved one-four family residential real property, not more than 30 days delinquent.

### Category 6c. Second Lien Home Equity Lines of Credit

Second lien mortgage lines of credit on improved one-four family residential real property, not more than 30 days delinquent.

### Category 6d. Commercial Real Estate (CRE) Loans

Fully disbursed, whole mortgage loans on improved commercial or mixed-use real property, not more than 30 days delinquent. For members reporting collateral through Specific Listings or Physical Possession the maximum lendable value for any one loan is capped at \$150 million. Exceeding this cap requires FHLBI written approval.

### Category 6e. Securities backed by second mortgages or CRE loans

Securities representing an interest in mortgage loans of the type described above (Categories 6a, 6b, 6c and 6d). Mezzanine and subordinated tranches will be accepted on a case-by-case basis. Interest-only tranches, principal-only tranches, collateralized debt obligations, RE-REMICs, residual interest tranches, and other mortgage derivative products (as determined by the FHLBI) are not eligible under this category.

### Category 6f. Municipal Securities

General obligation and revenue municipal securities ("Municipals") issued or



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guaranteed by state or local governments, their agencies or authorities in the United States to the extent in which the proceeds have been or will be used to finance the acquisition, development, or improvement of real estate (“Real Estate Improvements”). The eligible balance of pledged Municipals is limited to that portion that finances real estate improvements.

**Category 6g. Mortgage Loan Participations**

Mortgage Loan Participations on improved residential, commercial, or mixed-use real property, not more than 30 days delinquent.

Subject to the FHLBI’s review and written approval, mortgage loan participations held by the member, its affiliate or a wholly owned subsidiary may be eligible to pledge if the member effectively controls 100% of the participation.

Securities backed by second mortgages or CRE loans must meet the same rating agency requirements that apply to private mortgage-backed securities as described under Category 3. Municipals must be rated A- or better by Moody’s, Fitch, and/or Standard & Poor’s. Members must hold Category 6e and 6f collateral in a safekeeping account with the FHLBI or with an FHLBI-approved third party custodian that enters into a Third Party Custodian Agreement.

- *Category 7: CFI Eligible Collateral*

The FHLBI currently defines CFI eligible collateral as small business loans fully secured by collateral other than real estate (Category 7a) and small farm loans secured primarily by farmland (Category 7b). Loans guaranteed by the U.S. Small Business Administration are not eligible collateral.

If the FHLBI determines that a member no longer qualifies as a CFI, and the member has total advances outstanding that exceed the amount that can be fully secured by collateral in Categories 1 – 6, the FHLBI may:

- Permit the advance of such member to run to its stated maturity, and;
- Renew such member’s advances to mature no later than March 31 of the year following the year of stated maturity, provided that the member’s total advances remain fully secured.

**3. General Provisions Regarding Eligibility**

- One-to-four family, whole first mortgage loans or private-label residential mortgage backed securities encumbered by private transfer fee covenants effective on or after February 8, 2011 are ineligible for pledge unless such covenants are excepted transfer fee covenants as described in 12 C.F.R. § 1228.
- Assets subject to a repurchase agreement (“repo”) or re-hypothecation are ineligible as collateral without written approval from the FHLBI.
- All residential loans originated on or after 1/10/2014 must comply with, or be exempt from, the Consumer Finance Protection Bureau’s Ability-to-Repay (ATR)



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requirements.

- Written FHLBI approval is required to pledge loan collateral encumbered by energy retrofit programs such as Property Assessed Clean Energy (PACE) liens that provide first lien priority over mortgage liens. Considerations for approval may include, but are not limited to, adjusting LTV and DTI/DSCR ratios and/or increasing over-collateralization requirements.
- High volumes and/or concentrations in 144A private-placement securities and other asset types may lead to higher over-collateralization requirements.
- More detailed selection criteria for all Categories of eligible collateral are available to members on Member Link.
- The FHLBI reserves the right to maintain flexibility with its selection criteria.
- eNote collateral must comply with the Bank's eNotes Collateral Acceptance Requirements and Guidelines

### **C. Market Valuation of Collateral**

The FHLBI will determine the market value for all collateral accepted to secure advances and other credit products under Specific Listings or Physical Possession collateral status. Methods used shall be consistently applied to all borrowers, and valuations shall be conclusive. The following list provides a summary of market valuation guidelines for each type of eligible collateral currently accepted by the FHLBI. Blanket collateral over-collateralization requirements are applied to the outstanding principal balance. The FHLBI reserves the right to evaluate pricing of any collateral on a case-by-case basis at the time of acceptance as collateral and periodically thereafter.

1. Cash Deposits (Category 4)

Deposit account funds pledged as collateral will be valued on a dollar-for-dollar basis.

2. Securities (Categories 2, 3, 6)

Market values for U.S. government securities, U.S. Agency securities, private mortgage-backed securities, municipal securities, and ORERC securities will be based upon prices obtained from independent pricing sources, or any other source deemed appropriate by the FHLBI. Prices may be capped at the FHLBI's discretion.

3. Loans and Lines of Credit (Categories 1, 5, 6, 7)

Whole loan and ORERC loans and lines of credit valuations are calculated using a discounted cash flow methodology. Loan level cash flows are generated based upon loan characteristics, anticipated voluntary prepayments, and expected losses given the calculated probability of default.

Default and loss severity expectations are based upon credit risk characteristics for each loan using loan-level detail provided by the member. LTV, location, credit score (FICO), DTI, DSCR, loan type, occupancy type, and loan purpose are some of the factors used in generating probabilities of default and expected losses given default.



Prepayment speed estimates will be based upon licensed data provided by industry-accepted third party vendors and/or guidance from industry experts. These estimates are updated periodically.

The resulting cash flows will then be discounted using an appropriate index. The discount rate for each Category will be reviewed regularly and updated on an as-needed basis. FHLBI Mortgage Purchase Program indicative pricing, data from third party vendors, and collateral data may be used to establish discount rates.

All loans pledged as collateral are assumed to be pre-payable at par at the option of the borrower. Consequently, no loan collateral will be given a market value in excess of current unpaid principal balance.

Loans with missing or improper data or loans not in compliance with selection criteria will not receive a lendable value.

#### **D. Other Provisions Regarding Collateral**

- Pursuant to Section 10(c) of the Federal Home Loan Bank Act, the FHLBI has a lien upon and shall hold the stock of a member as further collateral security for all indebtedness of the member to the FHLBI. Stock is not included in eligible collateral for purposes of meeting required coverage ratios.
- If the FHLBI determines in its sole discretion that additional collateral is required to adequately secure a member's obligations, the FHLBI may obtain such collateral from the member's safekeeping accounts held with the FHLBI, and to instruct third party custodians accordingly.

#### **E. Over-Collateralization Matrix**

Over-collateralization requirements (OCR) for eligible collateral are listed by reporting method in the following table. Investment securities collateral may receive a reduction in the OCR of up to 0.50% if the pledged securities are safekept with FHLBank Indianapolis.



<b>Standard Over-Collateralization Requirements (OCR)</b>			
Qualifying Collateral to Secure FHLBank Indianapolis Credit	Reporting Method		
	Blanket Reporting	Specific Listings	Physical Possession
	OCR applied to current	OCR applied to market value	OCR applied to market value
<b>Category 1</b>			
<b>1 to 4 Family, Whole First Mortgage Loans</b>	140%	125%	125%
1 to 4 Family, Whole First Mortgage Loans - FHA/VA	140%	120%	120%
<b>Category 2</b>			
<b>Government and Agency Securities</b>			
Treasuries & Agency Debt (<3 years to maturity)	N/A	N/A	103%
Treasuries & Agency Debt (≥3 - <5 years to maturity)	N/A	N/A	105%
Treasuries & Agency Debt (≥5 - <7 years to maturity)	N/A	N/A	106%
Treasuries & Agency Debt (≥7 - <10 years to maturity)	N/A	N/A	107%
Treasuries (≥10 years to maturity)	N/A	N/A	110%
Agency Debt (≥10 years to maturity)	N/A	N/A	112%
Treasuries & Agency Debt Principal Strip Securities			
<3 years to maturity	N/A	N/A	104%
≥3 - <5 years to maturity	N/A	N/A	105%
≥5 - <7 years to maturity	N/A	N/A	107%
≥7 - <10 years to maturity	N/A	N/A	115%
≥10 years to maturity	N/A	N/A	125%
Other Govt/Agency	N/A	N/A	107%
SBA Securities	N/A	N/A	107%
GNMA HMBS	N/A	N/A	107%
Agency MBS	N/A	N/A	105%
Agency CMOs Principal Only (POs)	N/A	N/A	113%
Agency CMO Z Tranches	N/A	N/A	110%
Agency CMBS Interest Only (IOs)	N/A	N/A	140%
<b>Category 3</b>			
<b>Private MBS</b>			
AAA rated	N/A	N/A	112%
AA rated	N/A	N/A	120%
A rated	N/A	N/A	130%
BBB rated	N/A	N/A	180%
<b>Mutual Funds</b>	145%	125%	125%
<b>Category 4</b>			
<b>FHLBI Deposits and CDs</b>	N/A	N/A	100% of face amt.
<b>Category 5</b>			
<b>Multifamily Mortgage Loans</b>	155%	140%	140%
<b>Multifamily Affordable Housing Mortgage Loans</b>	N/A	225%	225%
<b>Category 6</b>			
<b>Other Real Estate Related Collateral</b>			
First Lien Home Equity Lines of Credit	140%	125%	125%
Home Equity Term Loans (closed-end)	190%	165%	165%
Home Equity Lines of Credit (HELOCS)	190%	165%	165%
Commercial Real Estate Loans	165%	155%	155%
Home Equity and Commercial Mortgage Backed			
AAA rated	N/A	N/A	115%
AA rated	N/A	N/A	125%
A rated	N/A	N/A	135%
BBB rated	N/A	N/A	190%
Municipal Securities			
AAA rated	N/A	N/A	110%
AA rated	N/A	N/A	115%
A rated	N/A	N/A	120%
Multifamily Mortgage Loan Participations	170%	155%	155%
CRE Mortgage Loan Participations	180%	170%	170%
<b>Category 7</b>			
<b>CFI Eligible Collateral</b>			
Small Business Loans	200%	200%	200%
Farm Real Estate Loans	175%	175%	175%



## **F. Collateral Verification Reviews**

The FHLBI is required by regulation to regularly verify the existence of the collateral securing its advances. The FHLBI or one of its agents will periodically perform a collateral verification review, at the member's expense, to determine whether the member's collateral complies with Finance Agency regulations and FHLBI collateral requirements.

The FHLBI will waive the collateral verification review requirement for members pledging only securities and for members with no outstanding credit products for the past 12 months. Also, collateral verification reviews may be waived for a member with outstanding credit products less than \$1,000,000 and less than 1.0% of the member's assets over the past 12 months. The FHLBI retains the contractual right to review and audit all documents and records pertaining to collateral.

## **G. Collateral Fees**

The FHLBI charges fees to cover its overhead and other costs relating to the receipt, maintenance, and redelivery of collateral. Members are responsible for any collateral fees charged by a third party custodian. Fees may be charged by the FHLBI to offset the costs of collateral verifications performed by, or on behalf of, the FHLBI. In some circumstances, the collateral verification and eVault fee may be reduced or waived at the FHLBI's discretion.

### **Collateral Fee Schedule**

#### Physical Possession of Notes and Mortgages

Applicable third party custodian fees apply

#### Physical Possession of Securities

Applicable safekeeping fees apply

#### FHLBI On-site Collateral Verification Fees

Home equity loans	\$50 per file
Multifamily and commercial real estate loans	\$75 per file
<u>eVault Fee</u>	
eNotes delivery	\$1 per loan





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## **VII. POLICY FOR BORROWING BY STATE HOUSING FINANCE AGENCIES**

The Housing and Community Development Act of 1992 amended Section 10(b) of the Federal Home Loan Bank Act to facilitate borrowing from the Federal Home Loan Banks by housing associates, especially state housing finance agencies (SHFAs). The following policy governs the extension of credit by the FHLBI to SHFAs:

### **A. Requirements to Borrow**

To qualify for an advance as a housing associate, an SHFA must meet the following requirements:

- It must be chartered under the law and have succession.
- It must be subject, pursuant to statute or regulation, to the inspection and supervision of a federal, state, or local government agency.
- Its principal activity in the mortgage field must consist of lending its own funds.
- It must be approved by the Department of Housing and Urban Development (HUD) as a "mortgagee."

An SHFA seeking access to advances shall submit to the FHLBI documentation that it meets the definition of a housing associate. The SHFA must submit financial information required by the FHLBI to enable it to determine that advances may be safely made. In addition, an SHFA must submit appropriate FHLBI documentation evidencing that it is an SHFA.

Extensions of credit must be in compliance with the Federal Home Loan Bank Act, Finance Agency regulations, and advance guidelines. Extensions of credit must also conform to the FHLBI's credit and collateral requirements.

An SHFA, as part of each request to borrow from the FHLBI, shall submit its current financial statement and any other information necessary for the FHLBI to assess the financial condition of the SHFA.

The SHFA shall certify that the funds will be used in accordance with Section 10(b) of the Federal Home Loan Bank Act and shall describe the households to be served, including the income levels thereof.

### **B. Pricing**

Upon satisfying the requirements of this policy, the SHFA will be eligible for funding of advances. Pricing will be subject to market conditions at the time of rate commitment.

### **C. Other Documents**

The SHFA shall agree in writing to inform the FHLBI promptly of any change in its status as a housing associate. The SHFA shall provide such other documents and enter into such agreements as the FHLBI may require for such borrowing. The FHLBI may periodically require an SHFA borrower to provide evidence that it continues to satisfy all qualifications and requirements.



**D. Collateral**

Eligible collateral for housing associate borrowers includes mortgage loans insured by the Federal Housing Administration (FHA) and securities representing an interest in the principal and interest payments due on a pool of mortgage loans insured by the FHA. In addition, eligible collateral for SHFA borrowers includes collateral from Categories 1, 2, 3, 4, and 5 as described in the *Collateral Policy*.

Housing associate borrowers, including SHFAs, must safekeep pledged securities at the FHLBI and/or deliver pledged mortgage loans to the FHLBI or an FHLBI-approved third party custodian.



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## **VIII. DISCLAIMERS AND LEGAL MATTERS**

### **A. Investing and Consulting Advice Disclaimer**

The information in this *Credit Policy* and in the FHLBI's promotional and educational efforts (including without limitation FHLBI web site data and FHLBI-supplied financial models) is not intended to be investment advice or a consulting service upon which the member or non-member mortgagee may rely. The decision to obtain advances and other credit products and the analysis of how they may fit into a member's financial or business strategy remain the member's sole responsibility.

In marketing efforts involving advances and other credit products designed to match the payment characteristics of mortgage securities or other types of securities purchased with the proceeds of advances, the FHLBI is offering only its credit product and is not offering, selling or soliciting the purchase of any securities which may be purchased using the proceeds of advances. The FHLBI is not and shall not be deemed to be a partner or joint venturer, nor is it otherwise associated in any fashion with any issuer of securities, underwriter, or broker-dealer.

The FHLBI does not guarantee the accuracy of and methods used in its analysis of how certain securities will perform under certain interest rate scenarios. The FHLBI assumes no responsibility for ensuring that the payment terms of advances match payments on securities or for otherwise monitoring performance of any securities. The FHLBI is not responsible if the yield, prepayments, or other characteristics of securities differ from any projections, resulting in a lower return or loss to the member or results in a mismatch of payments due on the advances with prepayments on the securities, nor is it responsible for any loss that may otherwise be incurred as a result of the member's purchase of any security or obtaining of any advance.

The FHLBI is not responsible for any representations made by any issuer, underwriter, broker-dealer, or representative of such persons. The FHLBI shall not be deemed to be a fiduciary or agent, or to be otherwise acting in any capacity (other than lender) on behalf of the member institution.

### **B. Privacy Policy Statement**

The FHLBI acknowledges that in the course of its relationship with its members, the FHLBI may come into possession of certain "nonpublic personal information" as that term is defined under the Gramm-Leach-Bliley Act and various federal regulations promulgated there-under. Accordingly, the FHLBI agrees that, except where disclosure is required for legal, accounting or regulatory purposes, the FHLBI will not disclose or use such information, except in the ordinary course of business of performing services on behalf of the member. The FHLBI agrees to maintain the confidentiality of such information with the same level of security that the FHLBI uses to maintain the confidentiality of its own business records and shall take all reasonable steps necessary to prevent unauthorized access to or use of such information.

Except where disclosure is required for legal, accounting, or regulatory purposes, the member agrees that all information, including, without limitation, nonpublic personal information (of any person), items, records, data and other material provided by FHLBI pursuant to any of the services provided hereunder ("Confidential Information"), shall be kept in strict confidence,



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shall be used only for the purposes contemplated hereunder, and shall not be disclosed by member, its agents or employees, without, in each instance, the prior written consent of FHLBI. Member agrees to take all necessary precautions to prevent the unauthorized disclosure of Confidential Information, including complying with security procedures deemed necessary by the FHLBI. Member shall notify the FHLBI following discovery of any suspected breach or compromise of the security, confidentiality, or integrity of any Confidential Information. Member shall provide such notice to the FHLBI's Information Security Officer by phone, email or by overnight courier with confirmation of receipt within seventy-two (72) hours. Data breach notices should be sent to: Federal Home Loan Bank of Indianapolis, Attention: Chief Information Security Officer, 8250 Woodfield Crossing Blvd., Indianapolis, IN 46240, email: [tsc-iscontacts@fhlbi.com](mailto:tsc-iscontacts@fhlbi.com), telephone number: 317-465-0200.

### **C. Consumer Protection Laws**

Pursuant to the APSA, the FHLBI's *Anti-Predatory Lending Policy*, and the FHLBI's *Subprime and Nontraditional Residential Mortgage Policy*, all members represent and warrant that mortgage loans pledged as collateral do not violate any relevant state or federal protection laws, including laws prohibiting predatory lending in any form. The FHLBI will rely upon the representations and warranties of the members in this regard unless the FHLBI obtains actual knowledge that a loan does not comply with such laws and policies. The FHLBI may perform a sampling of the loans in the portfolio to determine if any loans are covered by any consumer protection laws and, if so, whether the loans are in compliance. The cost of the periodic sampling may be charged to the member. If non-compliant loans are discovered, the member will be required to replace such loans with those that are compliant. If such loans are not replaced promptly, the non-compliant loans shall not be considered eligible collateral for purposes of meeting required coverage ratios, and outstanding indebtedness to the FHLBI may need to be reduced.

### **D. Anti-Money Laundering and Bank Secrecy Act**

The FHLBI is subject to certain obligations arising under the Bank Secrecy Act (BSA).

Members and housing associates must report to the FHLBI all instances of suspicious activity involving FHLBI products and services related to money laundering, fraud, terrorist financing, or other financial crimes. This obligation applies in addition to the FHLBI Members' and housing associates' internal or regulatory requirements as to such activities. Members and housing associates are not required or authorized to disclose to the FHLBI whether the member or housing associate has filed, or intends to file, a Suspicious Activity Report (SAR) in connection with the reported activity.

To report instances of suspicious activity to the FHLBI, send the information to the following email address: [AML\\_Officer@fhlbi.com](mailto:AML_Officer@fhlbi.com).

### **E. Amendment of Credit Policy**

The FHLBI reserves the right to amend this *Credit Policy* at any time in its discretion without advance notice. Any amendments to the *Credit Policy* shall supersede prior or conflicting



provisions of the *Credit Policy*. No party shall be deemed to have any vested rights in the *Credit Policy* as it may exist from time to time.

**F. Incorporation by Reference**

This *Credit Policy* is subject in all respects to the FHLBI *Capital Plan*, which is incorporated herein by this reference. This *Credit Policy* is expressly incorporated by reference into the APSA.

**G. Section Headings and Titles**

Headings and section titles are included for convenience of reference only, and are to be disregarded in construing the language contained in the policy.

**H. Administrative Provisions**

The Board has adopted internal administrative provisions to implement this policy.