



MORTGAGE PURCHASE PROGRAM POLICY (PUBLIC)

The Federal Home Loan Bank of Indianapolis (FHLBI) Mortgage Purchase Program (MPP) was created and designed to assist member institutions in providing mortgage lending opportunities to their customers, as well as in increasing flexibility for managing their mortgage loan portfolios and supporting member liquidity. One of the principal activities of the FHLBanks is to encourage housing finance, and MPP was developed with that mission in mind.

In addition, FHLBI has purchased participations in mortgage loans through the Mortgage Partnership Finance (MPF) program overseen and managed by FHLB Chicago.

MPP and MPF encourage housing finance by providing strategic alternatives for the sale of mortgage loans. With MPP, members are able to meet the credit needs of their communities, while benefiting from increased liquidity and the ability to originate additional loans. The program also allows members that have not traditionally participated in the secondary market to experience the benefits of selling mortgage loans.

1. MPP PROGRAM STRUCTURE

MPP allows FHLBI to purchase conventional, fixed-rate mortgage loans and, to a limited extent, government-insured mortgage loans,³ which are acquired from member participating financial institutions⁴ (Sellers). Program pricing is competitive and features additional benefits. The program allows Sellers to originate mortgage loans that may be easily and profitably sold to the FHLBI without bearing the ongoing interest rate risk and capital requirements of holding the investment in their own portfolios. The FHLBI's Lender Risk Account (LRA) will, based on the performance of the loans sold, provide funds back to the Seller. Better than expected performance by a Seller's pool of loans results in part of the LRA being returned to that Seller over time.

Based on the mission of FHLBI, MPP is intended to be attractive to Sellers that already do business with the secondary market as well as Sellers that have not participated in the secondary market due to up-front entry costs and technology barriers. The FHLBI's intent is to make MPP easily accessible to as many Sellers as reasonably possible; therefore, FHLBI makes all reasonable efforts to accommodate members who wish to participate.

Under its conventional program, the FHLBI purchases conforming, fixed-rate, fully-amortizing loans from eligible Sellers within the guidelines of MPP. Underwriting is based on standard industry guidelines. Sellers are analyzed and approved for MPP based on financial strength, management experience, past loan quality performance, underwriting practices, and servicing capabilities, as applicable. FHLBI has the authority to make exceptions to the MPP Guide when mitigating circumstances exist.

The risk of credit loss to the FHLBI is minimized through a layered credit enhancement structure. Borrower equity, private mortgage insurance (PMI) (as applicable), the LRA, and supplemental mortgage insurance (SMI) (where applicable) are in place prior to the FHLBI having exposure to credit loss risk. Where SMI is in place, these layers of protection together provide coverage down to a 50% loan-to-value or lower. The SMI coverage may be limited by an aggregate loss/benefit limit ("stop loss") on master commitment contracts (MCC) issued after 2004.

The LRA for each pool must meet or exceed FHLBI's definition of Investment Grade⁵. Investment Grade takes into account losses such that the "...Bank has a high degree of confidence that it will be paid principal and interest in all material respects, even under reasonably likely adverse changes to expected economic conditions."⁶ To do this the Bank must use a rules-based, non-discretionary methodology to determine various downward shock stress scenarios which it applies on a state-by-state basis to each state's Housing Price Index (HPI) and also Rate Scenarios. While rate scenarios are applied nationwide, the HPI scenarios are at state level, where idiosyncrasy is considered. The level of credit enhancement, determined at the time of acquisition of the loan, is set to withstand

³ 12 C.F.R. § 1268.3.

⁴ 12 C.F.R. § 1268.4(a).

⁵ 12 C.F.R. § 1268.5 (a)

⁶ 12 C.F.R. § 1268.1



the expected losses resulting from the application of distressed HPI and Rate scenarios over the life of the mortgage asset.

The FHFA provided stress tests scenarios (Countercyclical Mortgage Asset Stress Test, CMAST) is produced based on objective rules or defined relationships derived from fundamental economic dynamics. These rules affect the adjustment to the severity of the stress test that is applied for current economic conditions, considering the existing level of house prices relative to the ongoing house price cycle, hence the stress test incorporates different house-price level (HPI) stress paths for each state, not necessarily in a synchronized fashion.

In addition, the LRA for each Seller in the pool must exceed the Expected Losses⁷ for the loans the Seller sold. Therefore, in aggregate pools (credit risk sharing structure⁸), mortgage loans from different Sellers can be combined such that certain Sellers may contribute less than Investment Grade for the loans sold, yet must have enough of their LRA to cover Expected Losses for their loans. No later than 30 days after the pool closes⁹, MPP will confirm:

- a. The total LRA (credit enhancement) for the pool exceeds the Investment Grade¹⁰ losses determined by the model,
- b. The total LRA for each Seller exceeds the Expected Losses for their loans as determined by the model.

In the event that the credit enhancement is insufficient, the Seller is contractually required to have credit enhancements equivalent to “Investment Grade” as defined by the Bank.

The model is considered a critical model by the Bank, and as such is independently validated on a regular basis in accordance with the Bank’s Model Risk Management Policy and Framework, as well as subject to change based on FHFA’s input¹¹.

Under government insured or guaranteed programs such as FHA, USDA, Section 184, or Veteran Affairs (VA), the FHLBI purchases fixed-rate, fully-amortizing loans that are underwritten and insured or guaranteed according to applicable guidelines. Sellers are analyzed and approved for the government related programs based on the same factors included in the evaluation for qualification for the conventional program as well as the Seller’s ability to originate and service the applicable loans, as they must be approved by the applicable agency. Additional credit enhancement does not apply to government loans purchased as the loans are insured or guaranteed and the servicer is responsible for any losses.

2. PRICING

It is the objective of FHLBI to acquire mortgage loans in accordance with the mission of FHLBI to meet the funding needs of members for residential mortgage loans, while expecting to deliver a market return on the equity investment of FHLBI member institutions.

Determination of the price, established for the acquisition of mortgage loans through FHLBI’s MPP, is derived through base pricing and MCC level adjustments. FHLBI’s pricing policy is to offer consistent pricing that is fair, impartial, and without unlawful or arbitrary discrimination. MPP pricing will conform to the guidance provided by

⁷ 12 C.F.R. § 1268.5 (c) (1) (i) Bear the direct economic consequences of actual credit losses on the asset or pool:
(A) From the first dollar of loss up to the amount of expected losses.

⁸ 12 C.F.R. § 1268.5 (c)

⁹ 12 C.F.R. § 1268.5 (b)

¹⁰ The methodology for determining the Investment Grade is documented in the model documentation prepared by ERM (model owner).

¹¹ 12 C.F.R. § 1268.5 (f)



Finance Agency Advisory Bulletin 2017-03, “Acquired Member Asset Price Risk Governance”, or such successor guidance as may be promulgated.

Base pricing is established by FHLBI’s Investment Department using current mortgage market pricing information and includes a servicing fee factor, which is consistently applied to all Sellers. Base pricing is not controlled by or subject to discretionary changes by FHLBI’s MPP Department.

An adjustment to MPP base price is established for each MCC by FHLBI’s MPP Department as outlined below.

The basis for the adjustment is the credit cost structure, which is the sum of the costs to fund the LRA and the SMI premium (where applicable). The actual adjustment may be set higher or lower than the credit cost structure based on factors such as:

- Anticipated risk of the pool – This includes (but is not limited to) loan term, property type, loan purpose, geographic dispersion, and loan to value ratios.
- Expected volume of the seller – Larger volume contracts provide greater benefits and lower costs than smaller volume contracts.
- Economic conditions – With mortgage pricing, shifts in the underlying MBS, debt, swap, and option markets will impact FHLBI’s mortgage acquisition needs.
- Servicing fee rate – Higher servicing fee rates will reduce the price paid for the loans.
- Competitive secondary market pricing – Shifts in mortgage market competition must be balanced with the FHLBI’s desire to be competitive with a member’s alternative secondary market outlets and a member’s price sensitivity. For a Seller to request a change in pricing, they should provide documentation or verifiable evidence to FHLBI that substantiates their request. This may include, but is not limited to, the following:
 - Competitive alternatives available from other secondary market sources, excluding other Federal Home Loan Banks.
 - An analysis by the Seller of the LRA benefit and its impact on their pricing model.
 - Other relevant data.

A Seller should understand that FHLBI’s pricing model starts from a credit cost structure that is independently determined by the provider. The premium for this credit enhancement is a variable cost relative to the size of the pool and in some cases the credit quality of the loan submission.

3. MASTER COMMITMENT CONTRACTS AND MANDATORY DELIVERY CONTRACTS

In MPP, the FHLBI and Sellers enter into agreements for loan deliveries on two levels. First, an MCC documents the types of loans, LRA, SMI requirements (if applicable), overall dollar amounts of expected deliveries, and any other relevant terms and conditions. All MCCs are written to expire 15 months or less after execution and define the dollar amount limit of loans to be delivered under that agreement. MCCs may be extended at the discretion of the FHLBI’s MPP Department in order to have the MCC comply with the necessary credit rating.

Secondly, the Seller and the FHLBI enter into mandatory delivery contracts (MDC) that are specific and enforceable agreements committing the Seller to deliver a specific dollar amount of loans at agreed upon prices to the FHLBI within a set time frame. All MDCs are written and delivered under a previously existing MCC and either completely or partially fills the appropriate MCC. Pair-off fees for non-delivery of loans under an MDC may apply.

4. QUALITY ASSURANCE

Quality assurance (QA) of originated loans is an important element of MPP. Although FHLBI relies on the representations and warranties of the Seller and the pre-approval review of the Seller’s mortgage program, it also conducts a review of the loan pools after the fact. The objective of the QA program is to review the lender’s overall capability and performance, evaluate and manage risk to the FHLBI, and provide a tool to ensure a high-quality loan portfolio. The QA program provides an increased level of risk protection.



5. COMPLIANCE WITH LAWS

FHLBI requires that any Seller represent and warrant that the loans being sold have been made in compliance with, and do not violate, any applicable federal, state, local, and municipal laws including consumer protection or predatory lending laws. Any loan that is determined to be in violation of any such laws shall be repurchased by the applicable Seller and the Seller shall indemnify the FHLBI for any losses or damages that it may suffer as a result of such loan or loans.

6. FAIR LENDING STATEMENT

The Bank is committed to compliance with all fair lending requirements prescribed by the Fair Housing Act, Equal Credit Opportunity Act and Regulation B, and all other applicable laws and regulations. The Bank is committed to ensuring that it operates consistently with the public interest and with sufficient overall risk management by providing fair, equitable and nondiscriminatory access to credit and housing. Fair lending is central to the principles under which the U.S. housing finance system operates and is a requirement of law. As such, the Bank strives to comply with both the spirit and the letter of fair lending laws, as applicable. This commitment extends to ensuring that where required, there is appropriate oversight of third parties with which we do business, to ensure that those third parties engage in proper fair lending compliance management.

It is the policy of the Bank to make all products and programs available without unlawful discrimination against any recipient, including on the basis of:

- Race
- Color
- Religion
- National origin
- Sex
- Age (provided the individual is of legal age to have the capacity to contract)
- Marital Status
- Familial Status
- Disability/Handicap
- Receipt of Public Assistance
- The fact that an individual has exercised their rights under the Consumer Credit Protection Act.

Compliance with this policy statement applies to:

- The Bank
- All Bank Employees and directors;
- Members of the Bank's Affordable Housing Advisory Council;
- The Bank's vendors and contractors;
- The Bank's service providers

7. ANTI-PREDATORY LENDING POLICY FOR ACQUIRED MEMBER ASSETS

See the FHLBI *Anti-Predatory Lending Policy*.

8. REPRESENTATIONS AND WARRANTIES

FHLBI requires that all Sellers agree and comply with the representations and warranties that are outlined in the Mortgage Selling and Servicing Master Agreement (Master Agreement). This includes representations and



warranties on underwriting, documentation, compliance, insurance, and collateral.

Nontraditional and subprime conventional loans are not purchased by the FHLBI MPP.

See the FHLBI *Subprime and Nontraditional Residential Mortgage Policy* for additional information regarding subprime and nontraditional mortgages.

9. SERVICING

Servicing requirements are standard for the secondary market. Sellers either retain servicing or sell servicing to an FHLBI-approved servicer who services the loans in accordance with MPP requirements. Servicing may be transferred to any institution approved by FHLBI, including an institution that is not a member of any Federal Home Loan Bank, provided that the loans, after such transfer, continue to meet all requirements to qualify as Acquired Member Assets.¹² A third-party master servicer is under contract to the FHLBI to oversee the loan accounting and reporting functions of MPP. Individual servicers are required to report delivery and accounting information to the master servicer. The master servicer delivers loan accounting information and reports to the FHLBI on a monthly basis. Delinquencies are monitored through reports submitted by servicers. The SMI providers will guide servicers through the foreclosure process when applicable. FHLBI will provide foreclosure process guidance to servicers for pools of loans that are not SMI-enhanced.

10. LOSS MITIGATION

Federal Government programs that provide for modifications or certain types of loss mitigation do not always take into account the role credit enhancement plays in MPP. Offering certain Federal Government loss mitigation programs has significant conflicts with the credit enhancement structure. In most cases, if not all, FHLBI would incur an immediate loss on the income statement for the change in terms. The credit enhancement structure does not reimburse FHLBI for this loss.

On a limited case-by-case basis, management may – with the concurrence of the SMI provider (if applicable) – approve modifications that do not conflict with regulation or change the interest rate of the mortgage.

11. DEFAULTS

When a loan defaults and proceeds have been received, the servicer provides a detailed loss report (Claims). The MPP department will review all servicer and SMI provider (if applicable) Claims. Each Claim requires FHLBI's approval before funds are released from the LRA or FHLBI losses are incurred.

12. POLICY LIMITATIONS

Approval of MCCs is authorized by individuals designated by the FHLBI's Board of Directors.

All conventional loan pools (an MCC or a group of MCCs) are qualified as "Investment Grade" as defined by the Bank in accordance with 12 C.F.R. § 1268.5. Eligibility guidelines for individual loans are maintained in the MPP Guide.

Additional MPP limits are as follows and are calculated using the participated amounts:

Calendar Year	Limit
Growth of Portfolio	
New Acquisitions ¹³	30%
Net Growth ¹⁴	25%

¹² 12 C.F.R. § 1268.6

¹³ New Acquisitions Growth Percentage = Settlement Balance / Prior Year-End Portfolio Balance

¹⁴ Net Growth Percentage = (Portfolio Unpaid Principle Balance – Prior Year-End Portfolio UPB) / Prior Year-End Portfolio Balance



Portfolio Limits	Limit
Geographic Concentration	
#1 in District CBSA Portfolio % of MPP Portfolio	30%
#1 Out of District CBSA Portfolio % of MPP Portfolio	10%
Loan Characteristics	
Third-Party Originated (TPO)	18%
High Balance	18%

13. PARTICIPATIONS

MPP enables FHLBI to sell participated interests to other FHLBanks and members. Federal Housing Finance Agency approval is warranted if the activity is considered a new business activity, within the meaning of 12 C.F.R. Part 1272. Participations will allow FHLBI to continue to serve members while maintaining any balance sheet or regulatory volume thresholds.

14. MPF PROGRAM STRUCTURE

FHLBI may purchase MPF to further invest in mortgage loans. This aids FHLBI when member demand for MPP is not sufficient to match portfolio run-off. MPF is overseen by FHLB Chicago. FHLBI may purchase participation interest or whole loans from other FHLBs in the MPF program. FHLBI does incur credit and interest rate risk with these acquisitions. The credit risk is mitigated by credit enhancement provided by the seller as established under MPF program guidelines.

Through MPF, FHLBI purchases conforming, fixed-rate, fully-amortizing loans. Pricing and interest rate risk is monitored by Treasury, but pricing is ultimately set by FHLB Chicago and/or the selling FHLB. Credit risk is managed by FHLB Chicago using credit enhancement provided by the seller.

MPF requires enough credit enhancements to comply with the MPF definition of "Investment Grade."

When the MPF par unpaid principal balance is over \$5 million, FHLBI will annually obtain the SSAE 16 report (superseding SAS 70) from FHLB Chicago. FHLBI will review the SSAE 16 report for controls that are not effective. In addition, FHLBI will review the SSAE 16 report for limitations of the review as identified by the independent reviewer and determine if action is warranted.