

COMMUNITY INVESTMENT CASH ADVANCE (CICA)

2012 Community Lending Plan

Board Approved, January 19, 2012



FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

1: Background

The CICA regulation requires each FHLBank to develop a Community Lending Plan. This plan is approved by the FHLBank's board of directors and requires each FHLBank to

1. conduct market research in its district;
2. describe how it will address the identified credit needs and market opportunities;
3. consult with its Advisory Council, members, nonmember borrowers, and public and private economic development organizations in its district; and
4. establish quantitative community lending performance goals.

The CICA regulation defines "community lending" as "providing financing for economic development projects or activities for targeted beneficiaries." The FHLBI's 2012 Strategic Plan, the 2012 Affordable Housing Program Implementation Plan, and this plan will provide a comprehensive approach to serving our members using all of the FHLBI's products and services. This approach is highlighted in our mission as follows.

Mission

To help families afford housing by partnering with member financial institutions in Indiana and Michigan to meet their funding needs for liquidity, residential mortgage loans, and loans to support the economic growth and job creation for their communities. The FHLBI also provides grants for building and rehabilitating low-income housing. The FHLBI expects to deliver a market return on the equity investment by its member/owner institutions.

Strategic Objectives

Be the reliable provider of wholesale funds to member institutions for their spectrum of funding and financial flexibility needs.

Provide an attractive secondary market outlet for members wishing to sell mortgage loans.

Deliver funding solutions designed to specifically assist low- to moderate-income families obtain decent, safe, and affordable housing and to promote economic growth and employment within local communities.

Provide a risk-adjusted return on our members' equity investment that reflects the FHLBI's well controlled, low-risk profile and makes ownership of FHLBI stock a desirable investment.

2: Market Needs Assessment

Starting in 2008, the Community Investment staff significantly increased its training and outreach efforts. In 2008 in collaboration with the Marketing staff, Community Investment participated in five regional member meetings throughout the district, featuring member institutions and successful AHP project sponsors and describing CID resources at each of these well-attended meetings. At these regional member meetings, members were requested to complete a Community Lending Survey, identifying the most critical lending needs in their market area. Fifty-five members (35 Michigan and 20 Indiana members) responded to this survey, identifying job creation/retention and small business creation/expansion as the most critical areas.

This survey of members and community partners continued in 2010 and was done using an on-line survey tool. A total of 118 responses were received, 48 from IN and 74 from MI with 48% of the respondents being non-profit community partners. Responses were fairly well distributed throughout all regions of FHLBI's district. By far the highest need identified was lending for job creation or retention (82% of respondents rated it high or critical). The CIP advance is the only CID resource available for this purpose. A common response to the use of CIP advances indicated by members is they have sufficient

liquidity and do not need to use CIP advances to fund available loans. This has been evidenced by the low usage of CIP in 2010, other than for letters of credit. Financing for existing affordable housing was the second highest need identified with 56% of respondents rating it as high/critical and 35% as a moderate need. Down payment and closing cost assistance was a close third critical need, as rated by 55% of respondents, followed by foreclosure assistance at 50% and existing homeowner improvements by 43% of respondents.

In 2011 the Community Investment staff continued its collaboration with the Marketing Department, to broaden the impact of both AHP and CIP. We responded to members' needs using joint venues and training workshops throughout the district to promote FHLBI products and resources. Through these and other outreach efforts, we increased the number of new member participants. This collaboration will continue in 2012. We also will continue working with the Affordable Housing Advisory Council to determine the housing needs in our district and survey members and community partners to assess district market needs.

3: Affordable Housing Program (AHP)

FHLBI benefits from a very engaged and active Affordable Housing Advisory Council (AHAC) and Affordable Housing Committee (AHC). In addition to the quarterly meetings, an Implementation Plan Subcommittee met monthly by conference call from June through early November to review the results of the 2011 Plan and recommend changes for 2012. The Implementation Plan Subcommittee completed its work in November, allowing for the 2012 AHP Implementation Plan to be submitted for AHAC/AHC consideration and recommendation for Board approval at the November Board of Directors meeting.

As part of ongoing efforts to become more knowledgeable of current trends in the district, representatives of the Indianapolis Land Bank and a leading Michigan county land bank were invited to the July 29, 2011 AHAC/AHC Joint meeting. Land Banks are a relatively new player in the disposition of foreclosed properties and the redevelopment of vacant and abandoned properties in both Michigan and Indiana. The Land Bank option on a county-wide basis offers a streamlined approach to property reclamation, as Michigan has 83 counties, but over 1775 local government entities (townships, villages, and cities). Land banks' ability to streamline the land transfer process, provide a regional perspective on land use and development, and their need for revolving lines of credit for land banks to allow them to grow and leverage their resources were all discussed. Since the development of housing, particularly affordable housing, has been primarily the domain of housing authorities, land banks must work in partnership with other entities. Other municipalities within the county must also be convinced of the benefits of sharing tax revenues with the land bank. This is accomplished by showing the overall increase in tax revenues as a result of land bank activities. The Indianapolis Land Bank has created an advisory committee including CDCs, bankers, and other stakeholders, with the opportunity to improve tax revenues used as a primary marketing tool.

The Indiana and Michigan housing finance agencies have representatives on the AHAC, providing valuable input during meetings and various conference calls. Community Investment staff participated in focus groups and hearings for each state's Qualified Allocation Plans for Low Income Housing Tax Credits and provided written feedback to assist in assuring compatibility and coordination of resources to respond to affordable housing needs in the district. Michigan has embarked on a Building Together Summit process, engaging the non-profit and for-profit development community with the staff of the Michigan State Housing Development Authority and other key stakeholders in a strategic planning and development process to which FHLBI staff have been invited. AHAC members Jacob Sipe and Sally Harrison participated in the initial meeting of the 2012 Implementation Plan Subcommittee to provide perspective and information on the identified housing needs in each state and their respective housing finance agencies' future strategies in Indiana and Michigan. Mr. Sipe was an on-going member of the 2012 Implementation Plan Subcommittee. Based on previous regulatory authority, FHLBI has entered into monitoring compliance arrangements with the IHDA and the MSHDA regarding compliance reviews on AHP projects utilizing low-income housing tax credits. This change has greatly improved the efficiency of the monitoring process,

although the number of AHP projects using these credits represents approximately 30% of the total AHP portfolio. Projects receiving an AHP award of \$500,000 or greater must by regulation be monitored by FHLBI staff.

4: Marketing, Outreach and Community Support

Community Investment staff continue to coordinate meetings to include other community economic development partners such as state housing finance agencies, state community development trade organizations and the USDA, at the request of our member institutions.

A bulletin in December 2010 signaled the anticipated change to a single AHP competitive round, advising all sponsors to start early in the process of identifying member partners and the increased AHP award cap. Community Investment staff fielded numerous calls from Michigan sponsors seeking potential member partners and coordinated with Marketing staff to identify and provide member contacts. Southeastern Michigan and Detroit in particular continue to be underserved. With the assistance of the Marketing Department, several potential AHP projects were matched up with members, and CIP and set-aside contacts were developed.

As a follow-up to the successful collaboration of outreach efforts between the Marketing and Community Investment Departments in Michigan in 2010, a total of six sessions were offered in February 2011, divided equally between Indiana and Michigan. These sessions and their locations were arranged and supported by the Marketing staff, with Community Investment staff providing the speakers and agenda. In addition to providing overview information about the Affordable Housing Program (AHP) and more detailed information about the ease of application for the Community Investment Program (CIP), CID used these outreach sessions as one of several training opportunities for members interested in participating in the Homeownership Initiatives (HI). This face to face training for Homeownership Initiatives supplemented the usual round of Webinars, since substantive changes to the Homeownership Initiatives were implemented in 2011.

A total of 251 attendees took advantage of these six half day sessions, with 104 at the Indiana sessions and 147 in Michigan. Of the attendees in Indiana, 25 member banks were represented, sending a total of 45 people. Other attendees in Indiana included 2 member credit unions, 6 consultants/developers, 41 non-profit organizations and 8 governmental representatives. In Michigan, 24 member banks and a former member bank attended, sending 52 representatives. Six member credit unions sent 8 representatives and 2 insurance companies sent a total of 3 representatives. There were 63 non-profit representatives, 6 consultants, 4 developers and 11 state or local government attendees.

A survey of the 251 participants conducted within several weeks of the last session received 83 responses, of which 39 were from attendees of the Indiana sessions and 44 from Michigan. Of these responses, 37 were from bank members, 4 were credit union members, one insurance company member, 5 from government officials, and 27 from non-profits. Others such as consultants, for-profit developers and social service agencies comprised the balance of respondents. The overall response was very positive, with most topics receiving a Very Useful rating from a significant portion of survey respondents.

Community Investment staff also participated in two outreach and training events for current and potential insurance company members in May 2011 in Indianapolis and Lansing, Michigan. AHP and CIP insurance company member projects were highlighted in both sessions. Two AHP awards in 2011 were to first time AHP insurance company member applicants, Amerisure Mutual Insurance Company and Jackson National Life Insurance Company.

On September 29, 2011, a CIP Webinar was offered by Marketing and CID staff to encourage members to use this resource for affordable housing and community economic development activity. The e-blast invitation was sent to all

Marketing member contacts, with 19 members registering for this 30 minute webinar. Three of these participants were from credit unions, one insurance company, and the balance were banks or thrifts. In 2011 the Community Investment staff provided outreach to all member financial institutions and to partner organizations in Michigan and Indiana through its extensive mailing list and each state's non-profit housing and economic development trade organizations. Staff participated on several task force groups or councils and served as panelists for training sponsored by the state housing finance authorities, the Corporation for Supportive Housing, and statewide housing and community and economic development conferences. Webinar training sessions were held during the competitive AHP funding round, as well as three training institutes offered in Indianapolis for first time AHP applicants and members. For the first time, technical reviews were offered for Indiana applicants at FHLBI's offices and in Michigan at the Michigan Conference on Affordable Housing. Community Investment staff also exhibited and distributed program information at Indiana and Michigan banking and credit union conferences, and presented at community development, CRA association, Land Bank Habitat, and small town and rural development conferences.

An on-line survey of members and community partners was conducted in June 2011 to gather feedback about the AHP training offered in 2011. There were 28 responses, 13 from members and 15 from community partners. Eighteen of the responses came from Michigan, 9 from Indiana and one from a national entity. The Webinars were considered very useful, with many comments related to the difficulty of traveling to the training institutes, particularly if these are only offered in Indianapolis. If more extensive training is provided, the preference is split between a series of trainings versus a 2-day concentrated session. Members were asked to identify the minimum time prior to application needed for contact from a sponsor, with 6 months being the minimum recommendation. There was no change overall recommended regarding the timing of the AHP competitive round although May 15 was suggested as a due date, as well as earlier in the year. There is also an interest in a longer window of opportunity to be working on AHP applications.

The 2012 outreach and training calendar anticipates a repeat of the successful regional outreach efforts with Marketing staff, which will be conducted in both Indiana and Michigan to give an overview of all Community Investment offerings while providing extensive training on the 2012 AHP competitive round. In addition, we will present program information at the state affordable housing conferences in our district as well as at conferences sponsored by CRA associations, Credit Union Leagues, Community Action Agencies and various other organizations involved in housing and community economic development and community lending. We will also offer a series of Webinars regarding CICA lending and AHP, including the homeownership initiatives. Working with Marketing and other bank staff, opportunities for affordable housing and community investment for our members are continually identified.

5: Homeownership Initiatives Programs (set-aside programs)

The FHLBI will continue contributing the maximum 35% allowable for 2012. FHLBI will make the set-aside funding available as *Express* (first come, first served) in two rounds (spring and fall), without allocation to specific uses to allow maximum flexibility for our member institutions to utilize funding based on district needs.

Several changes to the HOP and NIP subsidy and match were implemented in 2011. A member focus group was conducted in November 2010 prior to the finalization of the 2011 AHP Implementation Plan to assess the impact of the major changes being proposed for 2011. Each member gave a brief description of how they administer the program and the benefits they receive as a result of participation in NIP. The member participants were generally very supportive of the proposed NIP changes. In addition to the usual Webinar training, the six regional outreach meetings were used for face-to-face training on Homeownership Initiatives, with positive feedback on this enhanced training opportunity. The NSA subsidy offering will continue with an expiration date of December 31, 2012, as federal Neighborhood Stabilization funding is projected to be spent down in the district.

In 2011, NIP disbursements exceeded 50% of the set-aside disbursements for the first time, a trend that has been accelerating in recent years. Existing homeowners in Indiana and Michigan have seen their home values impacted by

foreclosures in their neighborhoods and a depressed housing market. NIP grants to repair roofs, replace windows or a furnace, or add handicap accessibility help to make homes safe and living expenses more affordable. Rehabilitated homes provide stability in neighborhoods and communities and often help to keep seniors in their homes longer. While by regulation at least one third of FHLBI's homeownership set-asides must be available for first time home buyers, NIP allows members to respond to the needs of their existing mortgage customers and to work with local governments and other housing partners to maintain and improve owner-occupied single family housing in their communities.

The Neighborhood Stabilization Assistance (NSA) offered by FHLBI is unique among the FHLB system and supports the sale of federal Neighborhood Stabilization Program assisted homes in the district. This program is scheduled to sunset on December 31, 2012 concurrent with the winding down of the federal program it matches.

6: 2011 Goals and Accomplishments

Goals	Accomplishments
Originate at least \$50 million Community Investment Program (CIP) credit products.	2011 CIP originations totaled \$78.5 million. Advances totaled \$48.1million and letters of credit including interest totaled \$30.4 million.
Support multifamily housing, small business, small farm, or small agri-business lending by increasing the Bank products used by community financial institutions (CFI) 5% annually. Letters of credit will be available to credit enhance bond issues for residential housing finance and taxable community economic development projects, and to facilitate member asset/liability management and liquidity.	CFI advances decreased \$665.5 million or 23.8% in 2011. CIP standard letters of credit issued to CFIs increased \$1.3million or 14.4%. In addition, letters of credit securing public unit deposits were utilized by CFIs averaging about \$200.6 million each quarter.

<p>Broaden the impact of both AHP and CIP by increasing the number of new participants through focused outreach and training workshops. Partner with members, housing associates, member trade organizations, and economic development organizations to develop affordable housing and community development opportunities.</p> <ul style="list-style-type: none"> ○ Contact 100% of member institutions with program outreach materials. ○ Increase attendance at training events by 10%. ○ Achieve a target of 4 new AHP member participants. ○ Achieve a target of 4 new set-aside member participants. 	<ul style="list-style-type: none"> ● All members contacted through 12 Community Investment Bulletins, the Community Investment Annual Report, and the <i>FHLBInDepth</i> bi-annual magazine, which regularly features successful AHP projects. ● Attendance increased at face-to-face workshops in the district by over 30%, primarily due to the addition of educational and networking sessions offered in both states in February. ● Ten AHP applications were received from 8 members using AHP for the first time or that had not submitted an application in at least 5 years. Five of these applications were awarded, 4 to members that applied in 2011 for the first time. ● Seven members became new set-aside participants and two participants expanded their set-aside usage to NIP.
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7: 2012 Goals

Goals for 2012 are as follows.

- Expand the impact of both AHP and CIP by increasing the number of new participants through focused outreach and training workshops. Partner with members, housing associates, member trade organizations, and economic development organizations to create affordable housing and community development opportunities.
 - Contact 100% of member institutions with program outreach materials.
 - Increase attendance at training events by 10%.
 - Achieve a target of 4 new AHP member participants.
 - Achieve a target of 4 new set-aside member participants.
- Conduct 50 – 210 meetings and presentations with members on the availability and benefits of using CIP advances.
- Support multifamily housing, small business, small farm, or small agri-business lending by encouraging community financial institutions (CFI) use of advances for these purposes through targeted promotional initiatives, monitoring over collateralization requirements for “CFI eligible” collateral, and monitoring amount of “CFI eligible” collateral pledged.