

COMMUNITY INVESTMENT CASH ADVANCE (CICA)

2013 Community Lending Plan

Board Approved, January 17, 2013



FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

1: Background

The CICA Regulation, 12 C.F.R. Part 952¹, 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 2013-2015 Strategic Plan, the 2013 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-attuned 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

In planning for the 2013 Community Lending Plan, a survey of members and community partners was conducted using an on-line survey tool. Responses to this survey of economic development and community lending needs in the district totaled 120 with 34 FHLBI members responding. Eleven banks and thrift responses were from Indiana and 15 from Michigan. Seven credit unions responded, of which 6 were from Michigan. The balance of responses was from community partners and others, such as consultants. The total responses were nearly equally divided between Indiana and Michigan.

Similar to responses in 2011 and earlier, job creation and retention were high priorities, with industry attraction and expansion of local industry ranked as important or somewhat important by nearly all respondents. Down payment assistance and rehabilitation and development of rental housing were also ranked similarly important, which may be partially reflective of the large proportion of responses from community partners who are primarily focused on housing issues. Support for entrepreneurial enterprises and home improvement loans were the next highest ranking needs identified.

¹ Note: Effective 2-11-13, the new citation for the CICA regulation will be 12 C.F.R. Part 1292. The citation changes will be reflected in this document at that time.

Members with Community Reinvestment Act (CRA) obligations reported modest results from the use of Community Investment programs.

The survey also attempted to measure the familiarity of respondents with Community Investment programs, with 41 responses indicating an extensive knowledge of the Affordable Housing Program (AHP). The Community Investment Program (CIP) and related Letters of Credit were the least familiar programs. Program usage was significantly less than program knowledge with comments noting difficulty in finding a member partner, lack of time and staff to administer the programs, and timing issues or lack of previous success in being awarded an AHP application. While the results were somewhat mixed, the majority of respondents did not project economic development or community development needs to change significantly in the next five years.

In 2012, we also continued to receive considerable input from the Affordable Housing Advisory Council (AHAC) and Affordable Housing Committee of the Board of Directors on the housing and lending needs of the district. We will continue to use their input and will survey members and community partners following outreach and training events and as part of the planning for the 2014 Implementation Plan and Community Lending Plan.

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 2012 Plan and recommend changes for 2013. The Implementation Plan Subcommittee completed its work in November, allowing for the 2013 AHP Implementation Plan to be submitted for AHAC/AHC consideration and recommendation for Board approval at the November Board of Directors meeting. For 2013, the first district priorities are permanent supportive housing (including special needs housing and elderly housing promoting Aging in Place), member financial involvement and economic diversity. Second district priorities support comprehensive community development plan initiatives and project readiness to proceed.

2012 was the second year that the competitive AHP funding was offered through a single funding round. One funding round creates a competitive funding environment in which awarded projects more closely meet the scoring criteria and priorities in the AHP Implementation Plan. Through one funding round and the 2012 addition of readiness points, awarded projects are more likely to be ready for funding, reducing the number of decommitments going forward. Community Investment staff will continue to monitor the impact of one funding round. Although sponsor organizations appreciate a second application opportunity, member financial institutions and FHLBI staff benefit from the efficiencies of a single funding round.

To observe the impact AHP projects have on a community, Community Investment staff arranged for an AHP project tour as part of the July 2012 Board of Directors meeting in Kalamazoo, MI. Members of the AHAC and AHC toured the Ark Cottages, Kalamazoo Gospel Mission and Rickman House properties. The Ark Cottages were constructed to serve older homeless youth ages 10 – 17. The Rickman House involved extensive rehabilitation of a historic property to convert 84 existing units into 49 efficiency apartments for people with special needs. The KGM Men's Center contains 118 units for four-phased homeless resolution program with overnight, emergency shelter and transitional housing. An FHLBI member financial institution and the three sponsor organizations described how AHP was a critical funding component in the completion of their project and demonstrated how they are meeting the needs of their community.

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. AHAC members Sherry Seiwert and Gary Heidel participated in the initial meeting of the 2013 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. Based on previous regulatory authority, FHLBI has entered into monitoring compliance arrangements with the IHCD and the MSHDA regarding compliance reviews on AHP projects utilizing low-income housing tax credits. This change has greatly improved the efficiency of the long-term monitoring process, although the number of AHP projects using these

credits represents approximately 50% of the total units in the AHP portfolio. Projects receiving an AHP award of \$500,000 or greater must, by regulation, be monitored by FHLBI staff.

An on-line survey of members and community partners was conducted in the fall of 2012 to gather feedback about the AHP programs offered in 2012. There were 54 responses, 16 from members and 35 from community partners. Eighteen of the responses came from Michigan, 23 from Indiana. 49 of the respondents had previously used the programs. There was general support for the first district priority scoring categories although there were several comments about the inability of homeownership projects to be competitive against rental projects. An expanded list of empowerment activities was also encouraged. The top ranked second district priority was special needs, with a point allocation of 10. Next was the Community Development category at 5 points, followed with a tie between Member Financial Involvement and Community Involvement at 5 points each. The question regarding the timing of the AHP application round garnered 26 responses, of which 16 favored a round with applications due in April. The website and email notification of program information was found to be useful and satisfactory. The survey results were reviewed with the Implementation Plan Subcommittee. The FHLBI will continue to mitigate the scoring challenges for homeownership projects by contributing 35% of our total AHP allocation to the homeownership initiatives, the maximum allowable per the AHP Regulation.

4: Marketing, Outreach and Community Support

In 2012, the Community Investment staff continued its collaboration with the Marketing Department to broaden the impact of all Community Investment programs, including CIP advances. 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 in AHP and the Homeownership Initiatives. CIP advances rebounded in 2012, along with overall advance growth. This collaboration will continue in 2013. 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 total of six outreach sessions were offered in February and March 2012, 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 for 2012. These sessions in 2012 also provided best practices training on the AHP competitive program, as well as detailed training on the scoring initiatives introduced in 2012.

A total of 245 attendees took advantage of these six sessions, with 123 at the Indiana sessions and 122 in Michigan. Of the attendees in Indiana, 26 member banks were represented, sending a total of 36 persons. Other attendees in Indiana included 2 member credit unions, 2 non-member banks, consultants/developers, non-profit organizations and governmental representatives. In Michigan, 25 member banks and a former member bank attended, sending 45 representatives. Other Michigan attendees included 2 member credit unions, non-profit representatives, consultants, developers and local government attendees. No insurance companies attended these outreach sessions.

A survey of the 245 participants conducted within several weeks of the last session received only 41 responses, of which 37 were from attendees of the Michigan sessions and 4 from Indiana. Since the early sessions were in Indiana and the last did not occur for a month, the low response from Indiana is attributed to the time delay which will be addressed in future evaluation requests. 11 of these responses were from bank members, 2 credit unions, and the balance from non-profits, consultants, for-profit developers and social service agencies.

The overall response was very positive, with most topics receiving a Very Useful rating from a significant portion of survey respondents. Both the Homeownership Initiatives and Competitive AHP sessions were rated favorably, as were the regional locations and the timing of the sessions. Comments for improvement included a request to have the sessions earlier in the

year, a request to return to two competitive rounds per year and a request to allow reservation of HOP funds, rather than the first come, first served system.

In 2012, in addition to the general outreach on Community Investment programs, a concerted effort to remind members of the benefits of Community Investment Program (CIP) Advances and Letters of Credit was initiated. The message on CIP was revamped to stress the importance to a member's bottom line, assuming members are likely making CIP-qualifying loans as part of their ongoing business and missing the opportunity to use the lower CIP rates and longer terms. CIP's many eligible uses, the ease of application, and FHLBI staff assistance in qualification are part of the message delivered to members by FHLBI staff on an on-going basis.

To complement these efforts, a coordinated outreach to members who had been awarded AHP rental projects with debt within the past 3 years, which automatically qualify for CIP lending, were targeted with personal meetings. This effort represented outreach to 25 members, 18 in Indiana and 7 in Michigan. The meetings were set up by the Marketing Department and included both Marketing and Community Investment staff. The feedback from these meetings was very positive, with requests for multiple presentations from two members with staff in different locations. The benefits of the HOP and NIP programs and MPP were also discussed at these meetings, if a member was not currently registered to participate.

Community Investment staff also participated in two outreach and training events for current and potential credit union members in May 2012 in Indianapolis, Indiana and East Lansing, Michigan. AHP, HOP and NIP, and CIP programs were highlighted in both sessions.

In 2012, 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. AHP application technical reviews were offered for Indiana applicants at FHLBI's offices and in Michigan. Community Investment staff also exhibited and distributed program information at Indiana and Michigan banking and credit union conferences, and presented at various community development NAHRO, CRA associations, Land Bank, Habitat, and small town and rural development conferences in both states.

The 2013 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 the mandatory training for the 2013 Homeownership Initiatives. 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 2013. FHLBI will make the set-aside funding available as *Express* (first come, first served) in two rounds (spring and fall), without designating specific uses to allow maximum flexibility for our member institutions to utilize funding based on district needs. As part of the 2013 set-aside calculation, one-third of the aggregate allocation will be to assist first-time homebuyers.

Several changes to the HOP and NIP subsidy and match were implemented in 2012, so mandatory training participation was required for all members interested in using these programs. All Homeownership Initiative Programs were updated to include a Real Estate Retention Period Guide. 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.

In 2012, NIP disbursements continued the trend of being the largest use of Homeownership Initiatives. In 2012, NIP disbursements were 70% of total set-aside disbursements. 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 was unique among the FHLB system and supported the sale of federal Neighborhood Stabilization Program assisted homes in the district. This program expired on December 31, 2012 concurrent with the winding down of the federal program it matches. The FHLBI disbursed \$745,000 during the 3 years NSA was offered.

6: 2012 Goals and Accomplishments

Goals	Accomplishments
<p>Conduct 50 – 210 meetings and presentations with members on the availability and benefits of using CIP advances.</p>	<p>As a result of the general outreach efforts and the CIP meeting strategy, over 319 meetings and presentations with members took place in 2012 regarding the CIP. 2012 CIP originations totaled \$109.4 million. Advances totaled \$101.1 million and letters of credit totaled \$8.3 million.</p>
<p>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.</p>	<p>The FHLBIdepth magazine featured several articles to promote CIP advances, including an article on Low Income Housing Tax Credits, an article on using CIP advances to support economic development initiatives, and a piece on ag lending and recent training the on-site review group did at Purdue along with many of our ag lenders. In addition to the targeted CIP meetings, 95% of our CFI and credit union members participated in a direct outreach meeting with the FHLBI in 2012. As part of our quarterly analysis, CFI over-collateralization levels are reviewed as is the amount of CFI eligible collateral that is pledged. Both reports are presented quarterly to the Member Services Committee.</p>

<p>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 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 14 Community Investment Bulletins, the Community Investment Annual Report, and the <i>FHLBInDepth</i> bi-annual magazine, which regularly features successful AHP and CIP projects. ● Attendance at face-to-face workshops and events increased by 29% in 2012. Attendance at the 2012 outreach events was 245 compared to 251 in 2011. In 2012, about 80 members participated in face-to-face CIP meetings. ● Six AHP applications were received from 6 members using AHP for the first time or that had not submitted an application in at least 5 years. Three of these applications were awarded, 2 to members that applied in 2012 for the first time. ● Four members became new set-aside participants and two participants expanded their set-aside usage to NSA.
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7: 2013 Goals

Goals for 2013 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.
- 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.
- Originate \$50 – 100 million in CIP advances and letters of credit.