FHLB Indepth

Volume 1, Issue 1

A publication for the membership of the Federal Home Loan Bank of Indianapolis.

IN THIS ISSUE

Building Partnerships. Serving Communities.

Insurance Company Membership in the FHLBank of Indianapolis

Since the passage of the Financial Modernization Act, insurance company membership and use of the Federal Home Loan Bank (FHLBank) System has increased sharply. FHLBank members include a diverse group of large and small life, property and casualty, health, and specialty insurers. The primary attraction of membership is access to low-cost loans for liquidity, interest rate risk, and profitability management.

Dates to Know

REGIONAL MEMBER MEETINGS

INSIDE THE BLACK BOX OF INTEREST RATE RISK MODELING

June 13	Grand Traverse Resort, Traverse City, MI
June 14	Amway Grand Plaza, Grand Rapids, MI
June 15	Weber's Inn, Ann Arbor, MI
June 20	University Plaza Hotel, Bloomington, IN
July 11	Holiday Inn Lakeview, Clarksville, IN
July 12	Argosy Hotel & Casino, Lawrenceburg, IN
July 27	Best Western, Lafayette, IN
Aug. 3	Roberts Hotel, Muncie, IN
Aug. 10	Landmark Hotel, Marquette, MI
Aug. 23	Franklin Inn, Bad Axe, MI
Aug. 24	Ashman Court Marriott, Midland, MI
Aug. 25	Kellogg Hotel & Conf Cntr, E. Lansing, MI
Sept. 6	FHLBI, Indianapolis, IN
Sept. 19	Marriott Detroit Troy, Troy, MI

THE BASICS OF MORTGAGE PIPELINE HEDGING STRATEGIES

July 13	Pine Mountain Resort, Iron Mountain, MI
July 19	Treetops Resort, Gaylord, MI
July 21	Marriott, South Bend, IN
July 26	Marriott Detroit Troy, Troy, MI
Aug. 1	FHLBI, Indianapolis, IN
Aug. 7	East Lansing, MI
Aug. 15	Airport Marriott, Evansville, IN
Aug. 22	Grand Rapids, MI

MPP CONFERENCES

Aug. 2	Embassy Suites North, Indianapolis, IN
Aug. 8	Marriott, East Lansing, MI

TABLE OF CONTENTS

Indepth is a publication of the Federal Home Loan Bank of Indianapolis Communications Department. Your comments and suggestions are welcome. Contact **Miriam Lemen at 317.465.0438, e-mail mlemen@fhlbi.com**.

LETTER FROM THE PRESIDENT

Welcome to the first issue of our new magazine FHLBIndepth. I believe that you'll find the articles in it to be helpful and informative. As your partner, the FHLBI strives to strengthen its relationship with its member financial institutions, and we feel that providing information about our products and services does just that.

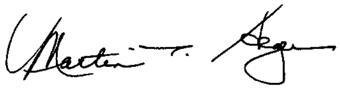
We are well into 2006, and the FHLBI has much to report. All 12 of the Federal Home Loan Banks were asked by our regulator, the Federal Housing Finance Board, to voluntarily register their stock with the Securities and Exchange Commission (SEC). After 18 months of hard work, we completed the restatement of our financials and filed an amended Form 10 in March. As of April 14, 2006, FHLBI is officially an SEC registrant. The SEC reporting environment is new to us, but we believe disclosure under SEC guidelines will provide members, investors, and other interested parties a greater understanding of our business and operations.

Many of our members have expressed concern about the proposed Finance Board regulation that addresses retained earnings and excess stock. We encourage you to write to the Finance Board, as a few already have, expressing your opinions or concerns about this proposal. As stockholders in the FHLBI, your voices should be heard. A copy of the proposal is available on our website in the News section, and a summary is included on page 2.

As you read through the magazine, you'll note that several workshops and seminars have been scheduled not only to educate our members about our products and services but also to give them a chance to interact with their colleagues. Our popular Regional Member Meetings are scheduled for seven locations throughout Indiana and Michigan. MPP, Financial Strategies, and Community Investment have also sheduled several events that you'll want to attend. Check our event calender at www.fhlbi.com for the latest information.

I hope you enjoy the inaugural issue of FHLBIndepth. Look for another issue in your mailbox later this fall.

Sincerely,



Martin L. Heger
President & CEO

Excess Stock Restrictions and Retained Earnings Requirement for the Federal Home Loan Banks

Key provisions of the regulation proposed by the Federal Housing Finance Board:

- Establish a minimum retained earnings requirement equal to $50 million plus 1.0 percent of an FHLBank's average balance of non-advance assets.
- Absent regulatory approval, limit dividend payments by FHLBanks that have not achieved compliance with the minimum retained earnings requirement to 50 percent of the FHLBank's quarterly net income.
- Once an FHLBank has achieved compliance with its minimum retained earnings requirement, prohibit the payment of dividends without regulatory approval if the FHLBank subsequently falls below its requirement.
- Require each FHLBank to declare and pay dividends only after the close of the quarter to which the dividend payment pertains and the FHLBank's earnings for that quarter have been calculated.
- Prohibit the payment of dividends in the form of additional shares of capital stock.
- Limit the aggregate amount of stock held by members in excess of their minimum investment requirements (excess stock) to 1.0 percent of an FHLBank's total assets.
- The Finance Board has established a comment period of 120 days to respond to their proposal. The comment period ends July 13, 2006. A copy of the proposed regulation, which includes instructions on submitting comments, was published in the Federal Register on March 15, 2006, and can be found in the News section on www.fhlbi.com.

Contact Barbara Hembree, Vice President, Manager Communications/Media Relations (317.465.0445) if you have questions.

2006 DIRECTOR ELECTION SCHEDULE

2 Indiana Director Seats and 1 Michigan Director Seat Will Be Up For Election

July 3	Requests for nominations sent out by FHLBI
August 4	Nominations due back to FHLBI
September 13	Ballots mailed
October 18	Ballots due to FHLBI
November 1	Election results announced

Insurance Company Membership in the FHLBank of Indianapolis

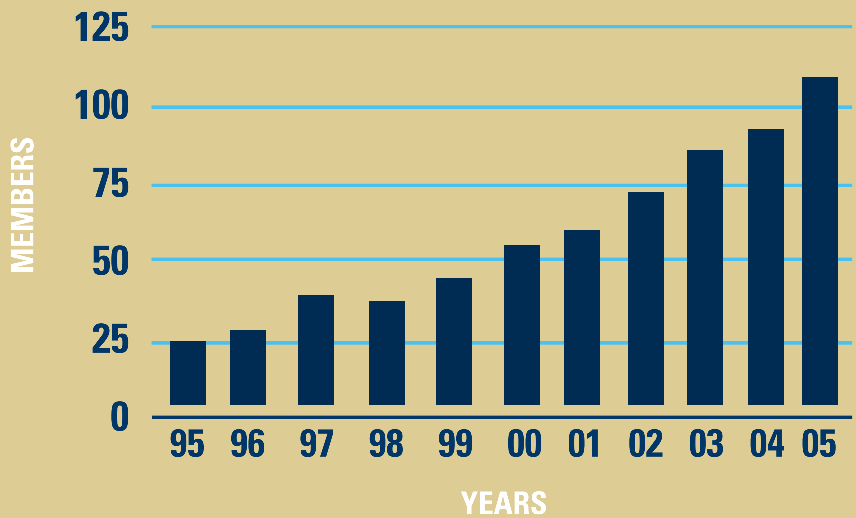
BY JIM EIBEL, CFA, VP & INSURANCE MARKET MANAGER

Insurance companies have always been a part of the FHLB System. Due to their large mortgage holdings, insurance companies were included in the original 1932 Federal Home Loan Bank Act. However, it was not until the 1999 passage of the Gramm-Leach-Bliley Act (GLB) that FHLB membership became an attractive option for most insurers. GLB eliminated the 10% mortgage asset test and provided insurers with the same FHLB stock leverage as other members. As can be seen in the graph below, insurance company membership activity has increased sharply since the passage of GLB.

During 2005, the FHLBI began to actively recruit insurance companies for membership. As a result, insurance company membership more than doubled to a total of sixteen institutions. Current FHLBI members include a diverse group of large and small life, property and casualty, and health insurers. As with all FHLBank members, the primary attraction of membership is ready access to low-cost funding for liquidity, interest rate risk, and profitability management.

As industry awareness increases, it is anticipated that the FHLBI will continue to add insurance company members.

FHLBank System Insurance Company Members



The following insurance companies are FHLBI members as of 4/30/06:

AAA Life Insurance
Livonia, MI

Accident Fund Insurance
Lansing, MI

Amerisure Mutual Insurance
Farmington Hills, MI

Amerisure Insurance Company
Farmington Hills, MI

Amerisure Partners Insurance
Farmington Hills, MI

Auto Club Insurance
Dearborn, MI

Auto Club Life Insurance
Dearborn, MI

Blue Cross And Blue Shield
Detroit, MI

Grain Dealers Mutual
Indianapolis, IN

Indianapolis Life Insurance
Indianapolis, IN

Jackson National Life
Lansing, MI

MEEMIC Insurance
Auburn Hills, MI

Michigan Millers Mutual
Lansing, MI

ProNational Insurance
Okemos, MI

The Lafayette Life Insurance
Lafayette, IN

Wolverine Mutual Insurance
Dowagiac, MI

To speak with a marketing representative about this program or other issues, call toll free 800.442.2568. Visit the FHLBI website for more information at www. fhlbi.com/about/abothome.asp.

We have all seen it. Competition is enticing your potential customers with a bold rate that seems too good to believe. Does the customer notice the fine print specifying that only those who have never stepped into the bank before and who can whistle the "Star Spangled Banner" qualify? More importantly, do you notice it as you rush to increase your deposit rates to ward off potential outflow of funds?

"I Actually Paid What For Those New Deposits?"

Using the Art of Segmenting to Minimize Marginal Cost

BY DOREEN KONING, AVP, CPA, SENIOR FINANCIAL STRATEGIST

CANNIBALIZATION RATE

What is the cost of offering the same high rate as the competition? The cost of bringing in that additional dollar of funding is a factor of the new rate and the percentage of existing deposits that you had to reprice to the new rate. This is what we call the cannibalization rate.

Marginal Cost = Rn + (Rn – Ro) x [C/(1-C)]
where: Rn = new rate
Ro = current rate needed to maintain deposits
C = cannibalization rate

For instance, let's say you choose to increase your money market rate from 3.0% to 4.0% and, by doing this, you bring in an additional $6 million in new funds to your institution. But, it caused you to immediately reprice $14 million of your existing money market deposits. The cannibalization rate would be $14m/($6m+$14m) or 70% in this case. So, what was the marginal cost of bringing in the additional $6 million dollars in deposits? Not the 4% rate being offered, but 6.33%.

Marginal Cost = 4% + (4%-3%) x [70%/(1-70%)] = 6.33%

Alternatively, you can utilize the "Marginal Cost" or "Run-Off" web model found on the Financial Strategies web page in the secure services area. The model will compare the marginal cost to the current FHLB advance rate for a similarly termed product so that you can instantly compare the cost of the deposit promotion to the wholesale alternative.

If you knew this previous to the promotion, would wholesale funding have been a better option? Or, would there have been a way to minimize the cannibalization rate and therefore lower the marginal cost? It doesn't take long to realize that the amount of existing funds you are repricing has a profound effect on the success of your deposit campaigns. The trick is knowing how much of your deposits you have to reprice to keep them from leaving, the rate sensitive vs. the rate insensitive. Segmenting your customers is a valuable tool to minimize your marginal cost.

RATE SENSITIVE VS. INSENSITIVE

How can you tell which of your existing and potential customers are rate sensitive vs. insensitive? Do they indicate by checking a box on your signature cards? Every industry faces this challenge of learning what it actually takes to keep their customers individually happy while still maintaining costs. Segmenting your current customers into who is rate sensitive vs. insensitive can be based on the following criteria:

- **Size of account**
- **Characteristic of account**
- **Personality of account holder**
- **Geography**

Looking first at the size of the account, most institutions realize that an account that maintains a $50,000 balance will be paying closer attention to rates as opposed to an account with a $500 balance. Each basis point in rate change will have a greater monetary impact on them and therefore they are more apt to be watching. A proper tiering structure in a competitive rate environment will help minimize your marginal cost of deposit promotions. In the previous example, let's assume the new money market rate of 4% was only for accounts with balances greater than $25,000 for which you have a total of $5 million dollars in balances currently. If you were still able to attract $6 million in additional funds, your marginal cost would be:

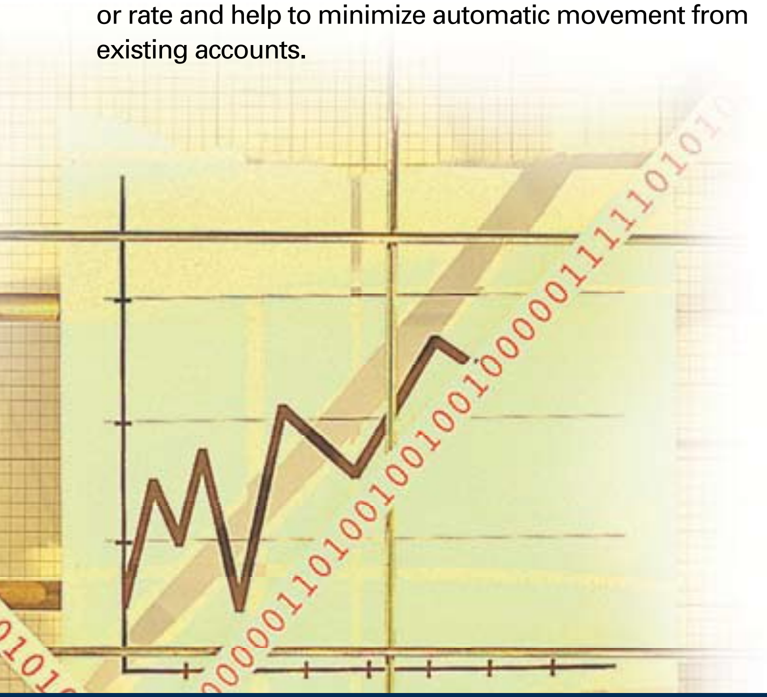
Marginal Cost = 4% + (4%-3%) x [45.5%/(1-45.5%)] = 4.8%

This should still be compared to the wholesale funds alternative, but due to the value in potentially converting these new deposits to core deposits, you may decide this is an acceptable premium to pay. What is the proper tier breakout? To minimize your marginal cost, tiering should only be done when there seems to be rate sensitivity differences. For each decision to add or remove a tier, the marginal cost can be calculated using assumptions as to the cannibalization rate for the new tier. The marginal cost should then be compared to the wholesale funding rate to determine if the tier pricing is optimal.

MINIMIZING CANNIBALISM & MARGINAL COSTS

Characteristics of an account attract different rate sensitivities and therefore help you minimize marginal cost. A checking account customer that actively uses bill pay, uses your extensive ATM network, and writes a high volume of checks may not be as rate sensitive as the customer who maintains the same high balance but just wants the liquidity while he parks his funds until the next good deal. So, as you contemplate offering a high rate checking account, take a look at the services needed for that account to help prevent your existing checking account customers from migrating to the new account. If services are offered, are service fees helping to reduce the marginal cost of the new deposits?

Why would one customer with $10,000 have a 3.5% Money Market Savings account and another customer with $10,000 have a 1% Statement Savings account? Is that fair? Defining the personality of the account to match the personality of the account holder may seem to be just smoke and mirrors, but it allows the institution to identify which account holders are just looking for a "basic" savings account and which are looking for the "premium market driven elite" account. Do they place value in having a convenient account with you or do they place value in feeling as if they are receiving the best rate possible. Creating image accounts such as a "Power Saver," "Saver Max," "High Tech Checking," or "Entrepreneurial Checking" attract the types of customers who are looking specifically for that perceived service or rate and help to minimize automatic movement from existing accounts.



SEGMENTING BY GEOGRAPHY

One way of segmenting that community institutions have been slow to adapt is by geography. Who is to say that the same rate has to be paid on a 1 year CD in all locations? The toughest competition comes when a new bank comes into an area and offers a high paying rate to attract new business. Does a 5% CD cost the new bank the same as it would if you offered a 5% CD? If you have an established customer base in the area, you will experience high cannibalization as your existing customers are attracted to this new product. The newcomer to the market will not since it is starting from scratch.

CANNIBALIZATION	MARGINAL COSTS
0%	5.00
10%	5.11
20%	5.25
30%	5.43
40%	5.67
50%	6.00
60%	6.50
70%	7.33
80%	9.00
90%	14.00

For a deposit product where you are moving a rate from 4% to 5% to keep up with competition, the chart above shows how the newcomer, not affecting their current base, has an advantage over the current market dominator.

Here are some final points regarding minimizing cannibalization and your marginal cost. In order to know how rate sensitive your customer base is, you need to build a historical base of how your customers have reacted in the past to promotions and rate changes. There is no standard cannibalization rate to use when predicting the marginal cost of your next promotion. It is based on your individual market and the segmentation you are building into your accounts.

MONITOR AND STUDY PAST PROMOTIONS

- **What was the actual cannibalization rate?**
- **What did you expect it to be?**
- **Should wholesale funding have been used?**
- **What could have been done to improve new deposits brought in?**
- **What could have been done to reduce the movement of existing accounts?**

Only from understanding your own history will you build a better knowledge base for improved future decisions.

To learn more about the services and educational seminars offered through the FHLBI Financial Strategies department, log onto Member Link and click on the Financial Strategies link or call toll free 800.442.2568.

Actual Scheduled

What's the difference difference?

BY DON ERWIN, AVP, MPP ACQUISITIONS MANAGER

In response to members' requests and suggestions, the FHLBI has been working on enhancing the Mortgage Purchase Program by adding an actual/actual remittance option. In preparing for this option, we became aware that some members may want more detail on the difference between scheduled/scheduled and actual/actual.

REMITTANCE TYPES

When mortgage servicing folks start talking shop, it is not unusual to hear them use terms like scheduled/scheduled and actual/actual. When you first hear these terms you may have a sense that you are part of an old Twilight Zone episode or people are talking like a record album (for those of us old enough to remember what that was) or CD with dirt in the groove.

Mortgage servicers use these terms in relation to how they handle the borrower's monthly payments for principal and interest. The terms— known as remittance types—describe how mortgage loan servicers remit interest and principal to the investor, such as the FHLBI, Fannie Mae, and Freddie Mac. The first word in the phrase refers to the remittance of interest; the second word refers to the remittance of principal.

So, actual/actual means that a servicer would remit actual interest and actual principal collected on the investors loans. Scheduled/scheduled refers to the remittance of scheduled interest and scheduled principal. Another common remittance type is scheduled/actual, which refers to the remittance of scheduled interest and actual principal. In each case, the servicer retains a servicing fee before remitting funds to the investor.

DIFFERENCES BETWEEN THE TWO REMITTANCE TYPES

There are two key components to address in covering the differences in actual/actual and scheduled/scheduled: what is remitted and when it is remitted. Under actual/actual, the servicer remits what is actually collected from the borrower, that is, the actual interest and actual principal. If a borrower prepays, the servicer immediately forwards the prepayment to the investor. Remitting under actual/actual generally requires the servicer to remit funds collected to the investor on a daily basis. Even though the funds are remitted daily, the servicer would provide the investor with monthly activity reports.

Under scheduled/scheduled, the servicer remits the scheduled interest and scheduled principal. As the name implies, these amounts are the amounts that are scheduled to be paid. This is important because under scheduled/scheduled remittance, the servicer must remit the scheduled payments, even if the borrower did not make the payment to the servicer (delinquent loans). Scheduled interest is calculated as one month's interest on the prior month's ending scheduled balance. Scheduled principal is the difference between the borrower's stated principal and interest payment or 'P&I' as defined on the note, and the scheduled interest calculated above. Scheduled/scheduled payments are remitted to the investor in the month they are due, generally the 18th of the month.

Actual Scheduled

Unscheduled payments (principal curtailments and payoffs) are held by the servicer and will be reported and remitted the month following receipt. Regular payment prepayments are held by the servicer and remitted in the month they are due.

As you think about the remittance process for actual/actual and scheduled/scheduled, you can see some distinct differences in the servicer's responsibilities and the potential advantages or disadvantages of each.

IN SUMMARY

Scheduled/scheduled provides for the maximum amount of deposit float on the P&I funds, but requires tracking of a scheduled balance on the loan, advancing delinquent payments, and potential for interest loss on curtailments and payoffs.

Actual/actual provides for simple reporting, requires remitting only what is received, but requires daily remittance and no float opportunity.

ADVANTAGES & DISADVANTAGES

	Scheduled/ Scheduled	Actual/ Actual
Are daily reports of remittances required?	NO	NO
Require tracking of scheduled balance?	YES	NO
When is the borrower's P&I remitted to the investor? ** whether collected or not from the borrower*	18th of month payment is due*	as received by servicer
When are principal curtailments and paid in full proceeds remitted to the investor?	18th of month following month received by servicer	as received by servicer
Potential for interest loss on curtailments and paid in full loans?	YES	NO
Deposit float opportunity on P&I funds?	YES	NO

If you would like to have more information about the remittance types available for MPP, please call FHLBI's MPP Division at 800.274.4636 and ask for an acquisitions representative.

The FHLBI secures all advances, and the availability of advances to each member is based in part on the security provided through collateral.

FHLBI accepts wide variety of collateral to help members increase borrowing capacity

Credit Services staff can help you select the right mix of eligible assets.

BY MARY BETH WOTT, VP, COLLATERAL MANAGER

Bankers know that one of the 5 C's of credit is collateral. Collateral is the primary cushion against losses on the FHLBI's advances, its largest portfolio of assets. It assures that, even in event of receivership, our members' capital investment in the FHLBI will remain secure. As such, collateral is the primary reason that FHLBanks can provide access to capital markets to even the smallest of member institutions.

According to Federal Housing Finance Board (FHFB) regulations, FHLBanks may take a variety of assets as eligible collateral. FHLBanks must be able to perfect a security interest in their collateral, determine the value of the collateral, and periodically verify the existence of collateral. From the group of eligible assets on the balance sheet, members may choose to report various collateral categories in order to support credit products. The FHLBI's Credit Services staff is available to assist members with choosing the mix of eligible assets for an optimal collateral strategy.

SECURITIES COLLATERAL

Many FHLBI members utilize their investment portfolio to provide borrowing capacity. Eligible securities include U.S. government securities, government agency securities, and mortgage-backed securities. Securities have the lowest coverage ratios which range from 105% - 115%, meaning the value of the securities must equal this proportion of outstanding advances. This collateral category is also popular because it requires the least amount of reporting. Securities must be held at the FHLBI or at an approved third-party custodian that enters into a third-party custodian agreement.

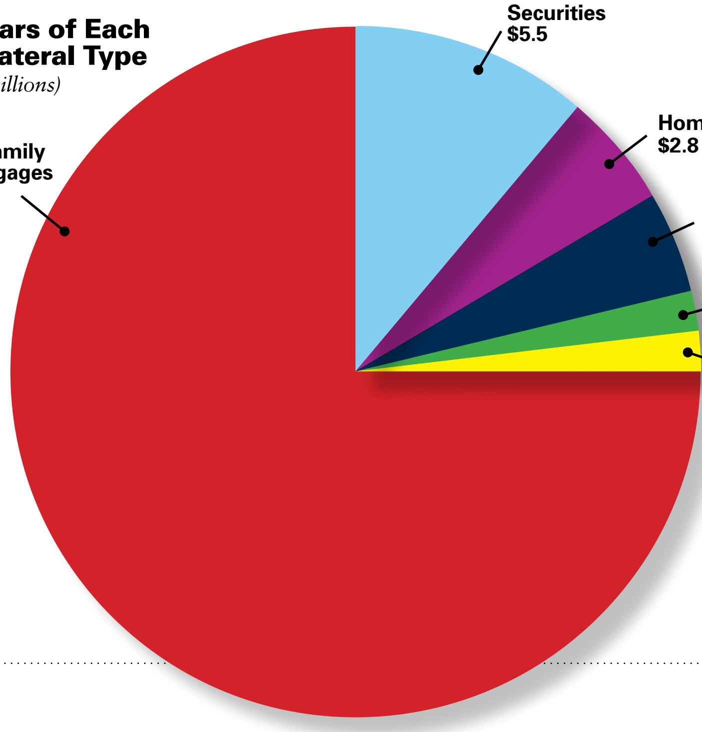
MORTGAGE COLLATERAL

Although some members meet all their borrowing needs using their investment portfolio, most members also utilize mortgage loans. Single family first lien mortgage loans comprise the bulk of the FHLBI's collateral as this type of lending fits our mission to support residential housing. Mortgage collateral may be reported to the FHLBI on a blanket or specific listing basis. Blanket collateral is the most popular option because it involves merely completing a one to two-page report on a quarterly basis. The standard coverage ratio for single family mortgage loans reported on blanket collateral is 145%.

SPECIFIC LISTING COLLATERAL

The credit services department encourages members to consider the specific listing collateral option. Specific listing collateral can also be a simple option depending on the technological capabilities of the reporting member. Coverage ratios are more favorable because reporting is more frequent and because the loan level detail allows us to estimate the market value of the collateral. Specific listing members typically submit properly formatted files monthly via FTP, e-mail, diskettes or CDs. Only about a dozen data fields are needed to add mortgage loan data to the collateral system, although a few additional items are requested for adjustable-rate mortgages. Members with frequent portfolio turnover re-add their collateral each month while other members simply update

Dollars of Each Collateral Type
($ in billions)



the outstanding balance of loans previously added to the system. The standard coverage ratio for single family mortgage loans reported on specific listing collateral is 125%.

Consistent with our housing mission, we also have some multifamily loans reported as collateral at the same standard coverage ratios as single family mortgage loan collateral. This is unusual in the FHLB system, as most FHLBanks categorize these loans as commercial real estate loans and charge higher coverage ratios.

Standing: **Thomas O. Schlueter** • President of Keystone Community Bank.
Seated: **Clint Harris** • Senior Collateral Risk Review Auditor.

REAL ESTATE RELATED COLLATERAL

Members that exhaust the traditional collateral categories described above may also use other real estate related collateral (ORERC). The FHLBI accepts second lien term loans, home equity lines of credit and commercial real estate loans under this category. Members that meet the definition of a Community Financial Institution or CFI (currently defined as an FDIC-insured depository institution with average total assets over the preceding three-year period of less than $587 million) may pledge additional assets known as CFI collateral. The FHLBI accepts small business loans and small farm real estate loans as CFI collateral. The coverage ratios on ORERC and CFI collateral range from 125% - 300% depending on the reporting method and the credit quality of the eligible assets.

VERIFICATION

FHFB regulation mandates that the FHLBanks verify collateral securing the advances portfolio. Prior to 2004, we complied with the verification requirement through opinion letters submitted by the members' external auditors. Concern about the lack of information in the CPA letters combined with members' complaints about high CPA fees led the FHLBI to re-evaluate this situation. In December 2003, the board of directors authorized hiring a field audit team to conduct onsite reviews of all members. During onsite verifications, auditors review a sample of loan files to ascertain that the loan is eligible collateral and that the loan file contains the required documentation. Members with higher risk profiles receive a more extensive review during which auditors also assess each loan's credit quality in addition to verifying the documentation. Thus far, we've received positive feedback from members regarding this valuable, reasonably priced service.

ADVISORY BULLETINS

In addition to its regulations, the FHFB periodically issues regulatory advisory bulletins. The most recent bulletin regarding collateral is AB 05-08, dated August 25, 2005, which addresses predatory lending. As a result of this bulletin, all FHLBanks adopted anti-predatory lending policies. Members reporting single family mortgage collateral must complete a certification that they are in compliance with the FHLBI's Anti-predatory Lending Policy for Collateral. The AB requires that the FHLBanks verify the members' certifications that pledged collateral does not contain predatory loans. The FHLBI is drafting procedures for this verification process.

Members are able to pledge more types of assets as collateral than ever before, hopefully providing more borrowing capacity than ever before. Borrowing capacity is critical to our members, since greater borrowing capacity generally equates to less of a need for liquid assets.

The FHLBI continuously strives to improve its credit and collateral processes and programs to provide the best service prudently possible to its members. We are currently utilizing the information gathered during onsite collateral verifications, along with other research, to improve the coverage ratios for commercial real estate loans and other real estate related collateral. Stay tuned!

COLLATERAL CONTACTS

TOLL FREE: 800.442.2568
FAX: 317.465.0473

Listed below are the primary contacts working within the Credit Services Department. Staff members can be contacted via e-mail or their direct phone number. All numbers are area code 317.

Tim Zapf *VP, Director of Credit Services*	465-0459
Mary Beth Wott *VP, Collateral Manager*	465-0455
Scott Stansberry *Sr. Collateral Operations Analyst*	465-0505
Rebecca Baskerville *Collateral Analyst II*	465-0462
Becca Young *Collateral Operations Coordinator*	465-0458
Doug Houck *Commercial Loan Analyst*	465-0508
Dave Heithaus *AVP, Collateral Auditing Manager*	465-0426

Advocates, Politics and Progress...

A Look at Sixth District Community Development Issues

by Patricia Gamble-Moore, VP & Community Investment Officer

THE ADVOCATES

In both Michigan and Indiana, there are organizations that provide strong and influential leadership that help advance the industry, as well as give insight to the FHLBI on how to better serve its members and communities. Affordable housing and community development advocates are vital to the success of the FHLBI Affordable Housing Program and a conversation with two such leaders provides this inaugural magazine with food for thought.

Tony Lentych • *Executive Director of the Community Economic Development Association of Michigan*

Tony Lentych, Executive Director of the Community Economic Development Association of Michigan (CEDAM), shared his thoughts about the community investment industry in Michigan. CEDAM focuses much attention on state and local politics and how policy affects the strength of Michigan's affordable housing and community economic development.

Michigan is expecting a heated race for governor this fall, as well as many new faces in the legislature due to term limits.

"Election years always add interesting dynamics to the housing industry, as you can imagine, especially a gubernatorial election year," said Lentych.

Christie Gillespie, Executive Director of the Indiana Association for Community Economic Development (IACED), shares many of Lentych's sentiments about the power of elected officials and the effect of politics on the housing industry. The IACED and other Indiana affordable housing organizations had a positive year in 2005. One significant change was the state housing authority changing its name to the Indiana Housing & Community Development Authority. The new name reflects a renewed mission of the agency, as its focus has been broadened to include programmatic innovation and new partnerships.

Christie Gillespie • *Executive Director of the Indiana Association for Community Economic Development*

"We've experienced a lot of positive change because of the authority changing their focus to be broader and to include issues other than just housing. This gives the local non-profit organizations the opportunity to bring their local issues to the agency and to build partnerships – something that wasn't as easy before," said Gillespie.

Both organizations advocate on behalf of their members for state and local policy change, train and deliver knowledge to their members and local organizations, and work to build relationships and linkages on behalf of their members.

THE POLITICS

The state of the affordable housing and community development industry is affected by the dynamics of politics. In both Michigan and Indiana, much of the success of the industry relies on the dedication of local and state elected officials, and their willingness to set politics aside and reinvest in communities.

"Once elections are over, they really are over in terms of politics. And it seems that those communities that can't put the politics aside don't have the ability to move forward on economic and community development, and affordable housing issues," said Gillespie.

"If elected officials can look at the affordable housing problem and analyze it in an objective and realistic way, instead of through a political lens, communities can truly be successful," said Gillespie.

Lentych continued by emphasizing that if elected officials take housing policy seriously, they will be successful. That means hiring people that know what they are doing and developing programs and policies that matter.

According to both directors, local politicians have a powerful role in the success of their community's housing and development success, if they choose to take the commitment seriously.

Lentych said that CEDAM's primary focus for the remainder of this legislative term is a report that was released in January called *Helping Working Families Achieve Financial Security*. The report is the inaugural report of the Asset Building Policy Project, a bi-partisan initiative being led by CEDAM.

"The report examines a lot of the policy initiatives across the state of Michigan. We came up with twelve recommendations, both long and short term. One of the long-term recommendations is to create a universal savings account for children. We'll be making some pitches to legislators in the next few months to see how we might try to accomplish this in the next couple of years," said Lentych.

According to the report, Lentych said that a community can't be physically redeveloped without paying some attention to the people living there. And, he continued, you can't just focus on the people without looking at their physical environment as well.

> *"The opportunity is there for smaller financial institutions. Our members are desperate for long-term partnerships and don't want to necessarily deal with out-of-state banks. The window of opportunity is there. It's the time to come in and grab this market."*
>
> **Christie Gillespie**
> **Tony Lentych**

THE CHALLENGES

Both states have faced budget deficits in the past few years, directly affecting the housing industry.

"The state budgets have been so tight that it is now affecting the municipality's budgets. They are no longer as vital and healthy as they used to be, and it is even to the point of cutting services like police and fire departments," said Lentych.

Gillespie agrees and continued to explain that local governments are so dependent on property taxes that they are strangling financially. The results are the same in both states, and unless the legislature acts and rethinks how local government is financed, communities will continue to suffer.

Neither state uses general fund tax dollars to fund affordable housing developments, said both directors. Although there are state authorities dedicated to housing and community development that utilize existing federal programs and bonding authority, funding projects remains a major challenge.

THE PROGRESS AND OPPORTUNITIES FOR FHLBI MEMBERS

In the face of budget problems and political challenges, Michigan and Indiana have been making great strides in the right direction. By forming creative partnerships, using different investment opportunities, and advocating for housing organizations, both directors know that good things will happen.

"We work to promote the rebuilding of neighborhoods and revitalization of communities across the state. That is a challenge in Michigan, as well as Indiana, where you have large rural areas and some metropolitan areas," said Lentych.

Rural development continues to be a challenge but can be seen as a great opportunity for smaller financial institutions to be a part of development deals. Smaller communities are the future in Michigan and Indiana, according to both directors. Lentych and Gillespie said that it makes good business sense to put together smaller deals that can be replicated over and over again, especially in distressed and rural areas.

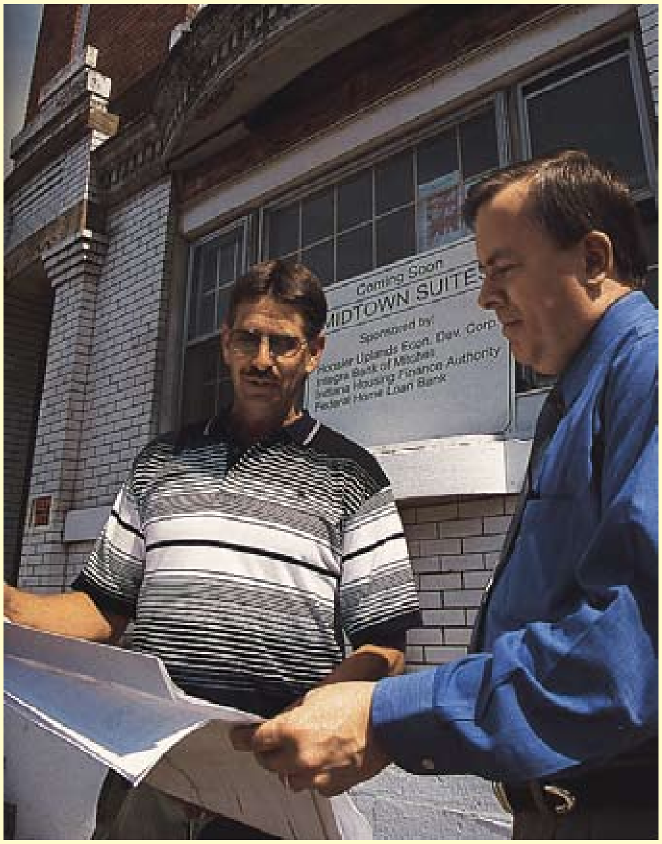
The IACED and CEDAM can be used as vehicles to link local FHLBI member financial institutions to their local members. For example, many smaller institutions cite that they lack the staff and time to support AHP projects, or other such affordable housing endeavors. Both directors feel that if there are common local barriers to FHLBI members getting more involved with affordable housing and community economic development projects, then the state associations can serve as the convening body to help break down these barriers.

"The opportunity is there for smaller financial institutions. Our members are desperate for long-term partnerships and don't want to necessarily deal with out-of-state banks. The window of opportunity is there. It's the time to come in and grab this market."

To learn more about the FHLBI's Community Investment and Affordable Housing Program, please contact Patricia Gamble-Moore at 317.465.0368. Visit the Community Investment website at www. fhlbi.com/housing/comminv.asp.

Rural Affordable Housing in Southern Indiana

BY CHELSEA CHURCH, COMMUNITY INVESTMENT COMMUNICATIONS ADMINISTRATOR



This 100 year old building in Mitchell, Indiana, is now known as Midtown Suites. This project received a 2000 AHP grant of $45,000 through a partnership with Integra Bank. Kevin Sutton and David Miller of Hoosier Upland review plans early in the renovation process.

Hoosier Uplands Economic Development Corporation is a non-profit community action agency that was established in 1966. Beginning in 1999 and 2000, the organization started looking into the housing situation in its five-county service area in southern Indiana.

"Our counties, Lawrence, Orange, Washington, Martin and Crawford, aren't necessarily worse off as far as affordable housing goes compared to other communities in Indiana. The stock is just deteriorating," said David Miller, Executive Director of Hoosier Uplands.

Miller joined the organization after serving on its board of directors in 1987. He came to Hoosier Uplands with the intention of running it like a business, while serving the people to the best of his ability.

Hoosier Uplands has had six projects that have received AHP grants since 1998. Along with the critical AHP funding, Miller said that funding from the USDA, the Indiana Housing and Community Development Authority, low-income housing tax credits and other sources have made it possible for the projects' success. Miller explained that Hoosier Uplands has developed into what it is today based on trying to meet the needs of the area, and affordable housing was something that the area is in severe need of.

Miller cites that a major challenge of development is the competition for funding and the problems that come along with rehabilitation.

"The challenges of rural areas aren't much different from those of cities; there are the same problems with funding and deterioration of existing stock. However, cities do have other funding opportunities compared to rural areas and small towns," said Miller.

"Thirty-five to forty percent of homes in our area are fifty years or older. We also have a high population of low-income and elderly households that we serve. There are many slum lords that buy homes and rent them out for high costs, but they aren't decent or suitable for living," said Miller.

The first project that Hoosier Uplands took on was the Shawnee Apartments in Bedford, Indiana. It was a new project construction that created 56 affordable housing units. The project was sponsored by Integra Bank and was well received in the community and maintains a high occupancy rate. Integra Bank has sponsored five of the six projects.

The second project (pictured here) was a rehabilitation project of a 100 year old building in downtown Mitchell.

"It was a huge eyesore in downtown Mitchell, but now it's a beautiful little building that created four affordable housing units. They have been occupied since the day they opened," said Miller.

New Horizon Apartments in Salem, a project that was funded in 2003, is also pictured. Hoosier Uplands negotiated with the owner of the deteriorating buildings and ended up taking over the property with the help of funding through several partners. Currently, New Horizons keeps a strong 92 percent occupancy rate.

"We intend to keep on doing what we can do. We have projects down the road that we are looking at, many rehabs of old, historic buildings in small downtowns. Businesses are leaving to move closer to highways, or can't afford to stay open, so the buildings just sit there. I see us saving these historic buildings and downtowns by creating affordable and decent housing," said Miller.

New Horizon Apartments is located in Salem, Indiana. It received an AHP grant in 2003 for $300,000 through a partnership with Integra Bank.

THINKING OUTSIDE THE BANK

THE CHANGING WORLD OF COMMUNITY INVESTMENT

Community investment takes creativity and the ability to think outside the normal realms of everyday business. The FHLBI has continued revamping, redesigning and improving its community investment programs to best serve the needs of its members and communities that they serve. As the need for affordable housing changes and the economy continues to be uncertain, the FHLBI is committed to designing its programs in the most effective ways possible.

In 2005, the FHLBanks celebrated 15 years of the Affordable Housing Program. The FHLBI has granted over $135 million in awards with an estimated $8 million to be awarded in 2006. The opening of the 2006 Round A was in March, with awards being announced in mid-June. Each year the AHP grows in competition and applicants, making it ever more important that the FHLBI adjusts to meet the needs of its members and sponsors.

"The time and dedication that it takes to apply for an AHP grant, to structure the project's financing and to monitor its success proves that our members are serious about the business of community growth and investment," said Pat Gamble-Moore, Community Investment Officer and Vice President of the FHLBI.

"The AHP funds play a partial but important part in these developments. The sponsoring organizations along with the member institutions are the driving force in the AHP's success. We just are extremely proud to have this as part of the bank's mission," said Gamble-Moore.

Gamble-Moore expects that the 2006 funding rounds will be about three to four times over subscribed. To help improve the quality of applications, the community investment staff has been holding several web-based training sessions, conference call help lines and onsite training seminars.

DATES TO KNOW

June 5-7
- **Michigan Conference on Affordable Housing**
- **FHLBI's Michigan Community Spirit Award Winner Announced**

June 15
- **Round A Award Announcements**

September 15 *(on or about)*
- **Homeownership Initiatives Fall *Express* Funds Released**

September 26-27
- **Indiana Statewide Conference on Housing & Community Economic Development**
- **FHLBI's Indiana Community Spirit Award Winner Announced**

October 6 *(on or about)*
- **Round B Deadline**

December 8 *(on or about)*
- **Round B Award Announcements**

For the most up-to-date information about the AHP, visit the community investment website at http://www.fhlbi.com/housing/comminv.asp.

Most members know that FHLBI offers its members services such as advances, community investment or mortgage purchase programs.

Correspondent services help members meet their business needs

BY PAULA MITCHELL, BETTY CRAVEN AND TERI RYPEL

WIRE TRANSFER SERVICE

We use our connection to the Federal Reserve Bank's wire system to move funds for both our members and their customers. Each employee at a member institution that wishes to perform wire transfers is assigned a unique identifier that enables him or her to create wire transactions against the institution's CMS or TIME account. As an added level of security, our staff will place calls to the member's authorized callers confirming the instructions for some outgoing wires before they are processed. We automatically fax a copy of each wire the member receives to assist with complying with Bank Secrecy Act requirements, and at the member's request, we will also fax copies of outgoing wires.

We can also help our members wire funds outside the U.S. As the markets have become more global, the need to transfer funds overseas has also increased, so FHLBI has partnered with Bank of New York to facilitate these types of transactions. This relationship allows funds to be sent directly to foreign banks without forcing our members' customers or staff to spend valuable time tracking down U.S. counterparties. FHLBI can process these foreign transactions in U.S. dollars, or we can obtain an exchange rate for most major currencies at the time the transaction is created.

Another method we offer to help streamline the wire process is recurring templates for those wire transfers done frequently. Once a template is created, employees only need to provide: authentication information, dollar amount, recurring code and any additional information, such as an invoice number to complete the wire. This process saves time and greatly reduces the chances for error.

You can process ACH transactions, order coin and currency, settle check clearing and transit deposits; maintain reserve balances, send or receive wire transfers or safekeep securities and clear all these transactions through either your CMS or TIME accounts.

RESERVE PASS-THROUGH ACCOUNTS

According to Regulation D, many members are required to hold reserve balances with the Federal Reserve. FHLBI offers the option of holding these reserves with us in a pass-through arrangement. A non-interest bearing account can be opened to hold only the funds required to meet your reserve requirements. Members simply call cash management staff to move funds between their CMS or TIME account and the reserve account to maintain the required amount for the current 14 day settlement period.

The Federal Reserve sends us a statement detailing the funds our members were required to hold during a settlement period. This report is used to determine if the appropriate amount was held and to create a Statement of Holdings after the end of the period showing the FRB calculated reserves, the excess/deficient balance calculation, and any deficiency fees. The statements are mailed to any member that had reserve activity during the settlement period. Seven days later any deficiency charges are applied to the member's CMS account.

SECURITY SAFEKEEPING

FHLBI offers its members a security safekeeping service to assist with their Fed, DTCC and physical security settlements. We provide a separate safekeeping account, process the purchases and sales of member inventories, collect interest payments, and provide market values.

Members provide FHLBI with a list of employees authorized to initiate transactions for their institution. Safekeeping transactions can be called or faxed into the cash management department. Transactions sent in via fax will receive a callback to ensure the validity of the trade. Members can also enter trade information over the Internet using Member Link and receive a reduced rate.

We generate transaction advices for each transaction and with the assistance of our counterparty, check to see if the physical purchase could be transferred into a wireable format for future trades. Members will receive projected income reports along with final reports the afternoon that payments are due. Call notifications are sent the same day that we receive notification of a call. We provide end-of-month reporting that consists of four separate reports: an inventory report, a pledgor report, a projected maturity report and a billing report. The reports are available in a variety of forms including fax, e-mail, and Member Link. If members decide to receive reports through Member Link, they will receive a reduction on fees.

AUTOMATIC CLEARING HOUSE

FHLBI provides various Automated Clearing House (ACH) settlement services to members that do not have a Federal Reserve account. This allows them to use our account with the Federal Reserve and frees up their funds for investment purposes, since they won't have to keep compensating balances at the Federal Reserve.

We have the technology to receive ACH payments on behalf of our members for their customers. We can transmit these payments to whatever provider our members use to post to their customer accounts. We also offer ACH return processing and Notification of Change (NOC).

Our ACH Origination software package, teamed up with SBT business technologies, allows FHLBI to assist its members in marketing ACH services to their business customers. They can electronically process all types of transactions without the time-consuming task of writing all those checks. Some of the transaction types currently originated by FHLBI include payroll, mortgage, member dues, and bank to bank transactions.

Even though many of the services can be completed independently, using FHLBI's Member Link connection, FHLBI staff is always on hand to assist with each service for those members which prefer a more personal touch. Standing: **Alan Rieger** • Cash Management Analyst; **Shannon Thompson** • Coin & Currency Clerk; *Seated:* **Teri Rypel** • ACH Specialist.

NET SETTLEMENT

We offer members both retail and transit net settlement services. The Net Settlement service allows member to settle their checking account charges and transit deposit credits from their local FRB through FHLBI's FRB account. This service allows members to consolidate their activity and fund only the FHLBI account, rather than holding required balances in their own FRB account.

FHLBI passes all debits and credits to its members as represented to us by the FRB. However, FHLBI does not do the processing of the actual checks; the items are processed either by the member institution or a vendor. Members are given the same funds availability as we receive from the FRB to assist in funding the CMS account.

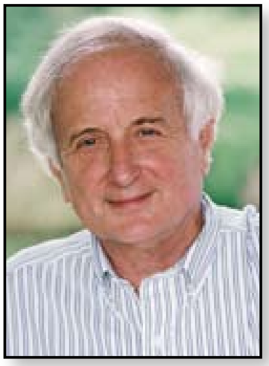
COIN AND CURRENCY

FHLBI offers a coin and currency service to help members meet their business needs. Members simply submit a cash order or return information to us via fax or Member Link and FHLBI does the rest. This service includes arranging for an armored car to deliver coin and currency to a member's office and charging its CMS account. We will also arrange to have coin and currency shipped to any number of branch locations or assist with emergency orders should the need arise. We even furnish most coin and currency supplies to our members.

To learn more about FHLBI Correspondent Services, please contact Lisa Chilcote, cash manager at 317.465.0477 or Betty Cravens, advances/correspondent services operations manager at 317.465.0374.

Lawmakers plan bill to permit FHLBanks to credit support tax-exempt bonds

BY JONATHAN R. WEST, SVP, GENERAL COUNSEL



Rep. Sander Levin (D-MI)

Rep. Sander Levine (D-M), working with Rep. Phil English (R-PA), has agreed to be a lead co-sponsor of tax legislation. This legislation will allow the FHLBI and our members to help municipalities reduce the financing costs of non-housing, tax-exempt community economic bond issues.

The FHLBI provides letters of credit to guarantee that the bond investors will be paid, while allowing local community banking institutions to take the underlying credit risk of the tax-exempt municipal financing. Our member assumes the credit risk of the municipal project, for a fee, while the FHLBI's letter of credit, if drawn upon, will pay off the bondholders. The FHLBI then will, on a fully collateralized basis, look to its members for repayment.

Many members are familiar with these arrangements because current law allows FHLBI's letters of credit to credit support tax-exempt municipal bond issues for multifamily housing projects. The new bill will allow member financial institutions to issue tax-exempt bonds to help with such projects as wastewater treatment facilities, fire stations, small businesses, medical clinics, school buses, and infrastructure improvements.

This proposal has been endorsed by the National League of Cities, U.S. Conference of Mayors, America's Community Bankers, and Independent Community Bankers of America. The FHLBI thanks Congressman Levin for his leadership on this important issue.

For more information on the FHLBI's letter of credit program, contact Brian McCoy, advances manager, or Mark Pascarella, lending officer, at 1.800.442.2568.

ABOUT FHLBI
BANK PERFORMANCE *(in millions)*

As of December 31, 2005

Assets	**$48,092**
Advances outstanding	**$25,907**
MPP mortgages outstanding	**$ 9,540**
Net income	**$152.60**
Retained earnings	**$149.00**
Return on average equity	**6.86%**
Number of members	**432**

New members approved from June 30, 2005 to April 30, 2006

Chief Pontiac Federal Credit Union, Pontiac, MI
Bell Com Credit Union, Grand Rapids, MI
Upper Peninsula State Bank, Escanaba, MI
ELGA Credit Union, Burton, MI
FinancialEdge Community Credit Union, Bay City, MI
Advance Financial Federal Credit Union, Schereville, IN

For a list of new insurance company members, see page 3.

2006 FHLBI REGIONAL
MEMBER MEETINGS

FHLBI REGIONAL MEMBER MEETINGS 2006

Managing your balance sheet risk in a flat yield curve environment.

A flat yield curve doesn't have to mean stagnated financial growth. At the 2006 FHLBI Regional Member Meetings, hear the Darling Consulting Group of Newburyport, MA, discuss strategies to help financial institutions continue to grow profitably.

And, get an update on current issues within the FHLBank System and the FHLBI.

Join us at one of the following locations:

July 12	**Timberstone Golf Club, Iron Mountain, MI**
July 18	**Treetops Resort, Gaylord, MI**
July 20	**Blackthorn Golf Club, South Bend, IN**
July 25	**Shepherds Hollow Golf Club, Clarkston, MI**
July 31	**The Bridgewater Club, Carmel, IN**
Aug.14	**Rolling Hills Country Club, Newburgh, IN**
Aug. 21	**Egypt Valley Country Club, Grand Rapids, MI**

Visit www.fhlbi.com for more information.

FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

Building Partnerships. Serving Communities.

8250 Woodfield Crossing Blvd. ^ Indianapolis, Indiana 46240 ^ 317.465.0200 ^ www.fhlbi.com

FHLBI

FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

8250 Woodfield Crossing Blvd.
Indianapolis, Indiana 46240
317.465.0200 www.fhlbi.com