

FHLB

Indepth



Volume 5, Issue 2
Winter 2010

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

IN THIS ISSUE

FHLBI & Industry News

page 2

MPP Advantage

page 4

CFI Collateral

page 7

Using Letters of Credit for PUDs

page 7

AHP in Michigan

page 10

Community Spirit Award

page 12



Building Partnerships. Serving Communities.

Since 1999, FORUM Credit Union, headquartered in Fishers, Indiana, has been an FHLBI member, first using advances and then selling mortgages to the Mortgage Purchase Program (MPP). FORUM and other members will be taking another look at MPP. The new MPP Advantage will have a modified credit structure that should provide FHLBI members with a significant income opportunity. *Read article on page 4.*

FORUM

Dates to Remember

AFFORDABLE HOUSING PROGRAM

December 10 2010 Round B AHP awards announced

REGIONAL MEMBER MEETINGS 2011 *(Tentative)*

August 15 Warwick Hills Country Club, Grand Blanc, MI
 August 16 Forest Dunes Golf Club, Roscommon, MI
 August 23 Brickyard Crossing Golf Club, Indianapolis, IN
 August 24 Sultans Run Golf Club, Jasper, IN
 August 29 Thousand Oaks Golf Club, Grand Rapids, MI
 August 30 Sand Creek Country Club, Chesterton, IN

Check the events calendar at www.fhlbi.com for updates.

On the Cover:

FORUM Credit Union headquarters in Fishers, IN.

TABLE OF CONTENTS

FHLBI & Industry News	2
MPP Advantage	4
CFI Collateral	7
Using Letters of Credit for PUDs	7
AHP in Michigan	10
Community Spirit Award	12
FHLBI Performance	12

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.

EDITORIAL BOARD

Lisa Chilcote	<i>Correspondent Services</i>
Jim Eibel	<i>Marketing</i>
Cathy Garrett	<i>MPP</i>
Jon Griffin	<i>Credit Services</i>
Miriam Lemen	<i>Editor</i>
Jonathan West	<i>EVP, COO-Business Operations</i>
MaryBeth Wott	<i>Community Investment</i>
Dawn Keller	<i>Art Direction/Graphic Design</i>

DISCLAIMER

The articles in this magazine have been presented for educational purposes only. The FHLBI is not a financial or investment advisor. It is solely the reader's responsibility to evaluate the risks and merits of any funding strategy or business proposal before its implementation and to monitor its performance over time. If you need information for use in evaluation of a funding strategy, please contact our marketing staff.

MESSAGE FROM THE PRESIDENT & CEO

During the most severe financial crisis, the FHLBI has once again proved itself to be a stable, reliable funding source that our members know they can access in any economic environment. At the height of the crisis in 2008 and 2009, the 12 Federal Home Loan Banks responded to a dramatic increase in the liquidity needs of our members and have remained profitable throughout this difficult period.

As Congress debates the future of the government-sponsored enterprises, we are taking the message to Washington, DC that it's important to protect the unique benefits of the FHLBanks' cooperative structure. Our actions as "first responders" to the housing liquidity crisis reaffirmed our GSE structure and the need for the FHLBank System.



Milton J. Miller

New leadership in the House, Senate, and at the Federal Housing Finance Agency will likely provide more ideas about how the industry and the GSEs should be structured. It is too early to know what the potential impact these legislative reforms will have on us and our members, but we will work with the industry to address any possible policy concerns.

As always, the FHLBI remains focused on meeting our members' funding needs by offering a variety of programs, as well as modifying existing product offerings. For example, the Blend and Extend program is an option that allows members to extend the maturity of eligible advances at a reduced rate. Indiana members will soon be able to use our letters of credit to collateralize public unit deposits. Members will also be interested in learning more about MPP Advantage, which offers a significant change to the credit structure of the original Mortgage Purchase Program by replacing secondary mortgage insurance with an enhanced Lender Risk Account. This new structure should offer our members a greater income opportunity.

FHLBI staff continue to exhibit their commitment to affordable housing and community investment through both volunteer efforts and their work. Employees built wall panels for a Habitat for Humanity home for Shana Jewell and her son Brandon. Shana received the keys to the home near downtown Indianapolis on Oct. 23, along with our best wishes. Congratulations also to Trish Lewis, a member of our community investment department, on receiving the Robert O. Zdenek Staff Member of the Year Award, a prestigious honor that recognizes dedication to community economic development, as well as innovation and leadership within the person's own organization. I'm proud of the contributions our affordable housing and economic development programs make to improve communities throughout the district and especially proud of our staff for their dedication to promoting and administering these important programs.

As 2010 draws to a close, the FHLBI will continue to aggressively work to ensure that our members have reliable access to low-cost funding to meet the credit needs of their communities. We look forward to serving our valued members in 2011.

Sincerely,

Milton J. Miller
President & CEO

FHLBI's Trish Lewis Receives Award

Patricia (Trish) Lewis, a member of the FHLBI's Community Investment Department, received the Robert O. Zdenek Staff Member of the Year Award at the Indiana Conference on Housing and Community Economic Development in September. In addition to the award, Trish received \$1,000 to donate to an organization of her choice.

The Zdenek award is named for a man who has made significant contributions to affordable housing and community development, working with organizations such as the National Congress for Community Economic Development, Neighborhood Reinvestment Corp., and the Corporation for Enterprise Development. It recognizes outstanding professional leadership and commitment of a person working for a housing or community economic develop-



Indiana's Lt. Governor Becky Skillman (left) congratulates Trish Lewis on receiving the Robert O. Zdenek Staff Member of the Year Award.

ment organization. Nominees embody the dedication and principles of community economic development as well as innovation and leadership within their own organization.

Trish was commended for her leadership, knowledge of complex tax credit projects and her ability to treat people with dignity and respect.

"It is rare to have the opportunity to combine one's passion with work, and I am very fortunate that in my capacity as AHP Compliance Manager for the Affordable Housing Program that I get to do just that," commented Lewis.

"I am deeply honored to be recognized for the work that I do, but our members that partner with low- and moderate-income housing providers are the true champions by providing decent, safe, and affordable housing in our communities."

FHLBI Supports Habitat Home

To celebrate 20 years of the Federal Home Loan Banks' Affordable Housing Program, the FHLBI hosted a panel build in its parking lot for a Habitat for Humanity home. FHLBI employees worked an entire morning in June building the panels that would become the interior walls of the home. Large sections of panels were assembled and then loaded onto a truck that hauled them to a storage facility until it was time to build the home on a site near downtown Indianapolis.

During September and October, FHLBI employees helped to finish building the home and were invited to a ribbon-cutting ceremony on October 23 during which the new homeowners, Shana Jewell and her son Brandon, were presented the keys.

Family, friends, neighbors and the many sponsors and volunteers of Habitat for Humanity gathered in the front yard to celebrate the occasion. A minister from a local church opened the ceremony with a prayer and a blessing of the new home and its owners.

On behalf of the FHLBI, Greg Teare, Senior Vice President – Chief Banking Officer, welcomed the Jewells to their new home and presented Shana with a \$700 gift card to help with expenses. FHLBI employees raised the funds as part of a "Mini-Masters" golf tourney. Shana expressed her thanks to everyone in attendance, and Brandon was eager to take a look inside their new home and stake a claim on one of the three bedrooms.

The Federal Home Loan Bank System is the single largest funding provider to Habitat for Humanity.



Shana and Brandon Jewell enter their completed home for the first time at the dedication ceremony.



FHLBI employees assemble wall panels for the Jewell family's home in the parking lot in June. The panels were then stored until it was time to build the home on the lot near downtown Indianapolis.

2010 Member Meetings Conclude

The bank hosted six Regional Member Meetings beginning Aug. 16 at Grand Blanc, MI and concluding Sept. 2 at French Lick, IN. Attendance at this year's meetings totaled 401.

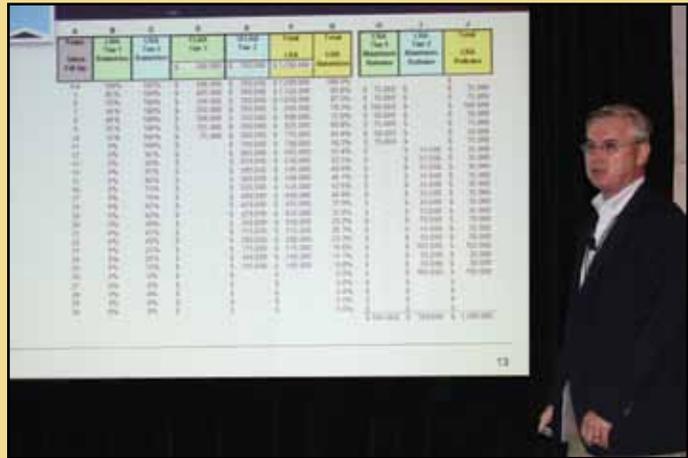
Milton Miller, FHLBI President and CEO, opened each meeting with an update on the FHLBI's financials, which included a discussion about advances, MPP, and private-label mortgage-backed securities. Don Erwin, Director of the Mortgage Purchase Program (MPP), continued the program with a presentation about the new structure for the Lender Risk Account. Called MPP Advantage, the LRA will be funded up front with funds previously earmarked for SMI premiums so that there will be no reliance on SMI. MPP Advantage offers a substantial increase in LRA opportunity for MPP participants, and participants can anticipate similar competitive pricing for loan sales as they've received in the past.

The keynote speaker was Alan Beaulieu from the Institute of Trend Research in Boscawen, NH. Beaulieu, a self-described "pro-business economist," believes that the recession ended in 2009, with several economic indicators beginning to tick upward, albeit slowly. In August, unemployment stood at 9.5%, which Beaulieu believes will gradually decrease. Rather than just looking at the unemployment number, he also looks at the "employment" number. Monthly data show growth, but it will be years before job losses from 2008 are recouped. Beaulieu predicts a mild economic recovery in 2011 and 2012, beginning with an increase in retail sales at year-end 2010 over year-end 2009.

Other topics Beaulieu discussed included mortgage delinquencies, the Housing Price Index, household net worth, and demographics. He also commented on regional economic conditions.

Attendance Report

- Warwick Hills, Grand Blanc, MI – 101
- Blackthorn, South Bend, IN – 50
- Tullymore, Stanwood, MI – 57
- Greywalls, Marquette, MI – 33
- Meridian Hills, Indianapolis, IN – 106
- French Lick, IN – 54
- Total – 401 attendees representing 170 member institutions



Don Erwin, Director of the Mortgage Purchase Program, reviews the upcoming changes to the program at the Regional Member Meeting at Meridian Hills in Indianapolis.



Employees from our insurance company members also participate in the Regional Member Meetings. Jim Eibel, Vice President – Insurance Market Manager (standing), greets a few of his customers.



Doug Iverson, Senior Vice President – Director of Marketing (left), and Mike Hannigan, member of the FHLBI's Board of Directors (right), enjoy meeting Alan Beaulieu, keynote speaker.

MPP Advantage Captures Value Members Create

For FORUM Credit Union, MPP is another option for secondary market sales.

By JIM EIBEL, CFA, VP & INSURANCE MARKET MANAGER
MIRIAM LEMEN, AVP, MANAGER COMMUNICATIONS & SPECIAL PROJECTS

FORUM Credit Union is building on a relationship it established with the FHLBI in 1999 when it became a member. As FORUM began ramping up mortgage production, staff there learned that they could use FHLBI advances to help mitigate interest-rate risk in the mortgage portfolio. In addition to this use, FORUM used advances under the Community Investment Program to support the expansion of its Fishers headquarters and to build two branches.

As an FHLBI account manager, Chuck Rainey works with FORUM to facilitate its use of the FHLBI's programs and services and provide guidance about how advances might fit with FORUM's funding needs. "FORUM embraced the FHLBI at a strategic level early in its membership by using our funding programs," stated Rainey. "FORUM continues to do that today in their use of MPP."

For example, the FHLBI's latest offering, called "Blend & Extend," enables members to roll their eligible long-term advances into a lower rate advance in an easy and efficient way. "We've looked at the Blend and Extend program and see it as a viable option for us," commented Jeff Welch, Senior Vice President – Finance, "It's something that we will continue to examine to see if it will be an appropriate product for us to use."



Jeff Welch (left), Senior Vice President – Finance at FORUM Credit Union, works with Chuck Rainey, one of FHLBI's account managers, to learn about the FHLBI's products and how they might meet FORUM's funding needs.

Rainey encourages members to contact their account manager when they have questions about any of the FHLBI's products and services.

FORUM ENROLLS IN MPP

FORUM's established relationship with FHLBI encouraged it to consider other FHLBI programs, and in 2009 it became a participant in the Mortgage Purchase Program (MPP). Greg Dugger, Secondary Marketing Manager for FORUM, is glad to have another option for secondary market sales. "We started offering mortgages for our members in the early nineties and are now originating more mortgages than we ever have. We needed another option for selling mortgages into the secondary market and the FHLBI's MPP was a good fit for us."

Cathy Garrett, Mortgage Acquisitions Manager, works closely with Greg Dugger and his team and is pleased that FORUM joined the program. "The MPP was designed to provide an outlet to our community lending membership that would allow them to be competitive with the large national lenders," Garrett said. "The program has become even more attractive as our members consider the changes in our industry with many aggregators leaving the business and the uncertainty of the future of Fannie and Freddie."

The MPP recently completed nine years of operation and has purchased over \$19 billion in mortgages from members. As MPP approaches its tenth birthday, the FHLBI is launching a significant product enhancement called MPP Advantage.

NEW CREDIT STRUCTURE IMPROVES POTENTIAL PROFIT

The proposed MPP Advantage product will differ from the current offering in that the supplemental mortgage insurance (SMI) portion of the credit structure will be eliminated through the use of an enhanced lender risk account (LRA) owned by the seller. The new credit structure will provide members with a greater opportunity to profit from selling high credit quality loans without any change in risk.

time. If losses are high, LRA funds are exhausted and SMI and/or the FHLBI absorbs additional losses without recourse to the seller. In either case, the LRA provides the seller with income potential without any downside risk.

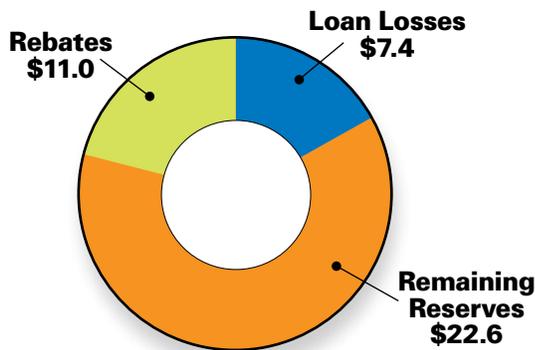
LRA'S PROVEN PERFORMANCE

MPP's credit structure has performed remarkably well through the mortgage crisis. While over \$41 million in funds were dedicated to LRAs during MPP's first nine years, cumulative loan credit losses totaled less than 0.0415% during the period. For this reason, the FHLBI was able to return \$11 million in LRA rebates even through the program has operated through the heart of the mortgage crisis (Figure 1).

FIGURE 1

Disposition of LRA Funds

\$ in millions



The primary distinction of MPP is its credit structure, which can create significant value for institutions that sell high credit quality loans. Rather than charging credit guarantee fees, the original MPP used a combination of supplemental mortgage insurance (SMI) and the member-owned LRA for credit enhancement. In this arrangement if loan losses are low, sellers receive LRA rebates over



Cathy Garrett, Mortgage Acquisitions Manager for the Mortgage Purchase Program, answers Greg Dugger's questions about MPP Advantage. Dugger is Secondary Marketing Manager at FORUM Credit Union in Fishers, IN.

MPP Advantage

MPP CREDIT STRUCTURE

Borrower's Equity & PMI

Lender Risk Account
(owned by seller)

FHLBI
(residual 50%)

- > **Dramatically improved LRA opportunity**
 - Funded at loan acquisition
 - Minimum of 100-120bps
- > **LRA funded up front - "Fixed LRA"**
 - Amount is funded at the time the FHLBI acquires the loan
- > **No prepayment risk - simpler LRA valuation**
 - Once LRA is funded, prepayments do not reduce the future value
- > **No Supplemental Mortgage Insurance**
 - Cost of SMI has been redirected to the LRA, improving the overall efficiency of the structure

For more information about the FHLBI's Mortgage Purchase Program call 800.274.4636 or contact Cathy Garrett at 317.465.0553 or at cgarrett@fhlbi.com

FIGURE 2

MPP Credit Structure Funding & Losses
as of 3/31/10 (unaudited)

	% Total Credit Support Funds	Claims Paid	% Total Claims
LRA's	46.6%	\$7,417,902	94.1%
SMI Premiums	53.4%	180,804	2.3%
FHLBI	NA	284,491	3.6%
Totals	100.0%	\$7,883,197	100.0%

Since the LRA provides the first layer of credit support, it should be expected to absorb the majority of loan losses. During the first nine years of MPP's operation, LRAs paid over 94% of all credit claims (Figure 2), but accounted for less than half of the funds dedicated to credit support. While more funding was dedicated to SMI, SMI paid only 2.3% of credit claims. By changing MPP's credit structure to replace SMI with a larger LRA, MPP sellers can capture income historically transferred to mortgage insurers without incurring additional risk.

As MPP Advantage was developed, MPP staff determined that to provide sufficient credit support the new LRA design would need to be funded up front and excess balances released based on a fixed, predetermined schedule over the projected life of each loan pool. This simple fixed structure insulates the LRA from prepayment risk and provides greater predictability of LRA value. Increased LRA balance predictability allows for a more efficient, lower cost credit structure for MPP Advantage.

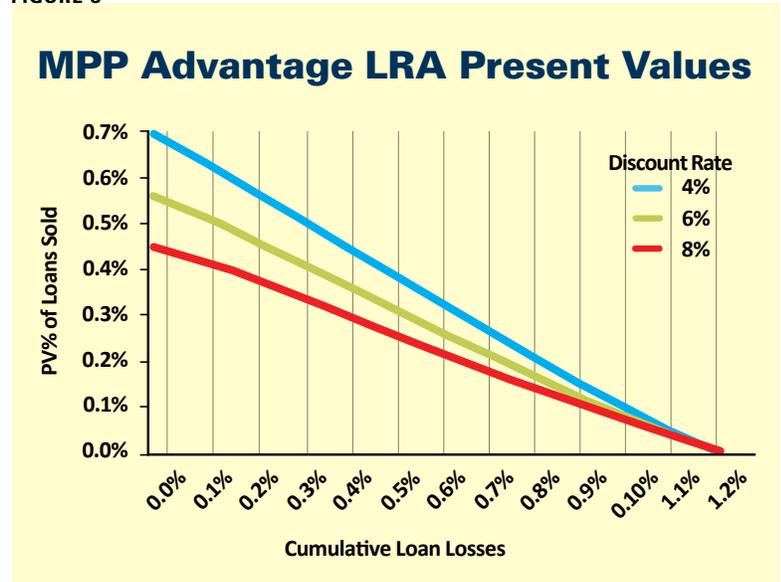
From the seller's perspective, increased predictability of LRA balances and rebates simplifies valuation for income recognition and/or best-execution analysis. The fixed LRA structure reduces valuation variables to loan loss levels, loss patterns, and discount rates. Figure 3 illustrates the value that a 120 basis point MPP Advantage LRA would provide to a loan sale program based on a variety of discount rates and cumulative loan losses. For simplicity, the analysis assumes loan losses occur uniformly over a 25 year period.

Since loan losses have been very low during MPP's first nine years of operation, MPP Advantage's credit structure should be expected to add significant value to high credit quality loan sale programs. Referring again to Figure 3, if loan losses are 20 basis points or less and the applicable discount rate is below 8%, MPP Advantage would add no less than 35 basis points to loan execution. Given that MPP's credit losses for the first nine years have totaled just 4.15 basis points, the proposed MPP Advantage product should provide FHLBI members with a significant income opportunity.

The most important benefit to MPP Advantage that is attracting more members to participate is the increased income stream from the enhanced LRA. "It will help to offset the added cost of loan origination in today's market with new disclosures, stricter underwriting that is requiring more documentation and added QA reviews," Garrett believes.

The FHLBI's regulator has approved MPP Advantage, and customers will soon receive new contracts enabling them to sell mortgages under MPP Advantage.

FIGURE 3



Pledging Small Business & Farm Real Estate Loans as Collateral

BY SCOTT STANSBERRY, VP, COLLATERAL MANAGER

The FHLBI provides all of its members funding to support small business and farm lending. Additionally, it has the authority to accept small business and farm real estate loans as collateral from members deemed community financial institutions (CFIs)¹. The FHLBI began accepting small business loans (loans secured by non-real estate assets) as collateral from CFIs in 2002 and small farm real estate loans in 2005. CFI members can use these assets to increase funding availability.

HOW IT WORKS

To request approval to pledge CFI-eligible collateral, the CFI member must first exhaust its supply of eligible 1-4 family whole first mortgage loans, government and agency securities, private-label mortgage-backed securities, and multifamily mortgage loans. Requests are made to the Collateral Department accompanied by a copy of the member's loan policy. The approval process includes reviewing the member's financial performance and loan policy.

Pledging this type of collateral is easy for blanket reporting members as eligible loan totals are reported quarterly through a Blanket Collateral Report, which is accessible through Member Link. Members pledging loan collateral through Specific Listings report loan level data on a monthly basis.

CFI small business loan collateral criteria:

- Member must be a qualified CFI.
- Collateral must be fully disbursed, fully amortizing commercial loan with an outstanding balance no greater than \$1 million.
- Loans must be commercial and industrial business loans as reported on Call Reports or Thrift Financial Reports.
- Loans must include regular principal & interest payments (no interest only or LOCs).
- **Ineligible** loans include the following types: construction loans, classified loans, employee or director loans, loans > 30 days delinquent, and US government guaranteed SBA loans.

CFI small farm loan collateral criteria:

- Member must be a qualified CFI.
- Collateral must be fully disbursed, whole first mortgage loans on farm real estate property.
- Loans must be farm real estate loans as reported on Call Reports (commercial banks).
- Loans must include regular principal & interest payments (no interest only or LOCs). Annual or semi-annual principal and interest loans are acceptable.
- **Ineligible** loans include the following types: construction loans, classified loans, employee or director loans, and loans > 30 days delinquent.

Small business and farm real estate lending and development continues to be a focus at the FHLBI, and we welcome and support opportunities to work with our members in providing funding to Indiana and Michigan communities.

¹ A Community Financial Institution (CFI) member is an FDIC-insured depository institution with average total assets over the preceding three-year period of less than the FHFA CFI Asset Cap, which is currently \$1,029,000,000.

Letters of Credit & Public Unit Deposits

BY JON GRIFFIN, FVP, CREDIT SERVICES DIRECTOR

As reported in the Summer 2010 *FHLBI* *InDepth*, the Federal Home Loan Bank's letter of credit has been approved as acceptable collateral to support public unit deposits per the passage of the Indiana General Assembly's House Enrolled Act 1336 (HB1336). In response to HB1336, the Indiana Board of Depositories, which oversees the Public Deposit Insurance Fund, has issued rules to outline the requirements and procedures to collateralize public unit deposits. **A link to the rules can be found on the Indiana Board of Depositories website: <http://www.in.gov/tos/deposit/2552.htm>.**

The rules provide further clarification as to the types of government and agency securities that may be pledged as collateral. They also provide further details on the use of a third-party custodian appointed by the Board of Depositories for purposes of holding securities collateral, along with a description of the process to set collateral requirements, ranging from 0% - 100%.

FHLBI members have a distinct advantage for collateralizing public unit deposits by utilizing less liquid whole loan assets already on the balance sheet in lieu of highly liquid investment grade securities. In addition, members can substitute types of collateral at any time as the FHLBI lends against a pool of collateral assets, as long as the member remains in compliance with collateral policies. Finally, FHLBI members already have security and safekeeping agreements in place with the FHLBI, eliminating the need to manage additional custodial relationships.

The FHLBI is committed to providing its members with a cost-effective way to collateralize public unit deposits should the Board of Depositories issue an order to require it. Once an order is instituted, an application and informational materials will be available on Member Link. Members may also contact their account manager or Credit Services directly at 800.442.2568 with any questions they may have or to initiate an application.

For more information concerning the eligibility and pledging of small business and farm real estate loans as collateral, contact Scott Stansberry, Collateral Manager, at 317.465.0505 or Doug Houck, Collateral Operations Manager, at 317.465.0508.

EXHIBIT 1



Old Memories Die Hard: Preparing for Higher Rates

Old memories make me cry and torture me each day.

Old memories never die and they don't fade away. Glen Campbell

BY JIM EIBEL, CFA, VP & INSURANCE MARKET MANAGER

During the “Great Recession” of 2007-2010, interest rates dropped to lows not seen since the early 50s. While some prognosticators believe low rates are here to stay, many bankers with scars from the late 70s and 80s remain skeptical.

With rates near historic lows, it is prudent to prepare for a significant cycle of rising rates. Since long-term interest rates have fallen over 1,500 basis points from their peak in 1981 (Exhibit 1), it is reasonable to assume that standard rate shock analysis could prove to be inadequate.

While falling rates have allowed depository institutions to reduce funding costs across the maturity spectrum, they have also reduced the protection provided by early withdrawal penalties, especially for long-term CDs. For institutions seeking to lengthen liabilities, the risk and potential impact of early CD withdrawals must be considered. Exhibit 2 details the rate increase necessary before depositors benefit from early withdrawal and reinvesting the proceeds in a similar term CD at prevailing market rates.

Since withdrawal penalties are a function of offer rates, when CD rates are at historic lows the protection

provided by withdrawal penalties are as well. Consider the case of a 2.5% five-year CD, which approximated the national average during October 2010. A standard six months’ interest penalty would have imposed a 125 basis point penalty for early withdrawal. If this interest penalty is annualized over the five-year life of the CD, rates need only increase 27 basis points before a depositor could pay the penalty, reinvest the proceeds for five years, and break even. While it is unlikely that all CD holders will exercise withdrawal options efficiently, the presence of the option should not be ignored. After all, a mere 200 basis point rate shock would enable nearly all CD customers to profitably walk away from their current CD contracts.

Financial institutions need to capture value from the options they provide their customers. In the current environment, the withdrawal penalty is a valuable option for CD customers. For institutions seeking to lengthen their CD portfolio duration, withdrawal penalties present a major challenge. While withdrawal penalties could be increased or offer rates could be reduced to capture the value of the option, either strategy is likely to dampen depositor demand.

EXHIBIT 2

Early CD Withdrawal Break-even Rate Increases
Based on six months interest penalty and monthly compounding

Remaining Term	Offer Rate						
	0.50%	1.00%	1.50%	2.00%	2.50%	3.00%	3.50%
1 year	0.25%	0.51%	0.77%	1.03%	1.30%	1.57%	1.84%
2 year	0.13%	0.26%	0.39%	0.52%	0.66%	0.80%	0.94%
3 year	0.08%	0.17%	0.26%	0.35%	0.44%	0.54%	0.64%
4 year	0.06%	0.13%	0.20%	0.27%	0.34%	0.41%	0.49%
5 year	0.05%	0.10%	0.16%	0.22%	0.27%	0.33%	0.40%

In the present environment, long-term fixed rate FHLBI advances may be the best strategy for lengthening liabilities. Unlike retail CDs, fixed-rate FHLBI advances do not provide the lender (in this case, the FHLBI) the option of early withdrawal. In addition, FHLBI advances are always available in the exact amount and term desired. For these reasons, FHLBI funding is a sure thing for uncertain times.

LENGTHENING LIABILITIES THROUGH FHLBI ADVANCE RESTRUCTURING

Turmoil in the financial services sector has led many institutions to conserve capital. While shrinking the balance sheet is generally not a time to increase FHLBI borrowings, it could be an opportunity to restructure an existing portfolio to hedge against rising rates.

Lock in Long-term Funding Rates with Blend & Extend Program

In the current interest rate environment, many FHLBI members have been evaluating strategies to lock in favorable long-term funding rates in order to hedge against rising rates, despite having little appetite or need for additional funding. One strategy that allows members to accomplish this goal is to pre-fund and extend existing higher rate advances that are scheduled to mature in the next several quarters.

The FHLBI has worked with members on a strategy commonly referred to as “Blend & Extend.” In effect, the Blend & Extend program allows members to take advantage of the current rate environment, extend the term of their advance portfolio, and lower the weighted average rate on the replacement advances. Simply put, a member prepays existing advances and either funds the prepayment fee with a new advance, or in certain circumstances, embeds or blends the prepayment fee into the replacement advance rate.

In addition to extending liabilities, restructuring advances is an opportunity for members to boost their net interest margin. If the restructuring qualifies as a modification, the accounting treatment requires the prepayment fee to be amortized over the life of the new advance, while a debt extinguishment is accounted for by recognizing the prepayment fee into current income. To determine the appropriate accounting treatment, any advance prepayment or restructuring should be thoroughly evaluated with the member’s accountants.

The Blend & Extend program is available on most maturing advance types, but is limited on the replacement advance structures.

This information does not constitute an offer or a commitment on the part of the FHLBI to enter into any transaction.

If you would like to discuss possible restructuring options for your advance portfolio, please call your account manager or the credit services department at 800.442.2568.

Ann Arbor Tour Showcases AHP

BY MARYBETH WOTT, VP, COMMUNITY INVESTMENT OFFICER

The FHLBI Board of Directors, Affordable Housing Advisory Council, and staff participated in a tour of Affordable Housing Program projects in Ann Arbor, MI as part of the July board meeting. Two sponsor organizations were featured, Avalon Housing, Inc. and Michigan Ability Partners. The first stop was Carrot Way Apartments, an Avalon Housing project completed in 2005. These 30 new apartments for low-income households and individuals with disabilities provide larger family units and barrier-free units with onsite supportive services. Avalon staff welcomed everyone in the Carrot Way Community Center for a video and brief presentation.

The next stop was Maple View, a Michigan Ability Partners project providing 10 units of permanent supportive housing with intensive case management for homeless men and women with a history of substance abuse,

mental disability, or chronic homelessness. A brief presentation and video explained how Maple View used an innovative hands-on, green construction method. It was surprisingly constructed by its future residents.

The tour concluded with visits to two Maple View units where tour participants met the residents and experienced the positive impact of permanent supportive housing projects. While enroute between these projects, the bus drove by several additional Avalon rental properties involving rehabilitation of wood-framed buildings into smaller scale supportive housing. Collectively, tour participants saw the impact and stability these two sponsor organizations provide and the real difference they make in the Ann Arbor community.



Carrot Way Apartments in Ann Arbor provide homes for individuals and families with disabilities. Avalon Housing received an AHP grant of \$153,000 to help build the apartments.



A tour of Maple View allowed guests to learn more about the project and its residents. The apartments house homeless men and women.

Tim Gaylord, President & CEO of Mason State Bank in Mason, MI and member of the FHLBI's Board of Directors (left), meets Maple View resident, Charles Freeman.



AHP Supports Housing in Michigan

BY MARJORIE GREEN, AVP, COMMUNITY INVESTMENT RELATIONSHIP MANAGER



Rouge Woods in Detroit consists of 23 one- and two-bedroom apartments. An AHP grant of \$221,869 helped to renovate the once-vacant building.

ROUGE WOODS PROVIDES AFFORDABLE HOUSING IN NORTHWEST DETROIT

Michigan is home to many successful AHP projects, including Rouge Woods in northwest Detroit. Milton Miller, FHLBI President and CEO; Paul Clabuesch, Chairman of the FHLBI's Board of Directors; and Greg Teare, Senior Vice President – Chief Banking Officer, toured the apartment building to see first hand how the FHLBI's AHP dollars are providing quality affordable housing for Detroit residents.

Rouge Woods is the renovation of a vacant building into 23 units of garden-style apartments with many amenities. Four of the units serve as transitional housing for homeless and severely mentally ill households. The developer, Michael Chateau of Northwest Detroit Neighborhood Development, Inc., and John O'Brien, Executive Director, provided the tour of the \$3.7 million project. This local non-profit housing organization has been working in the Brightmoor area of Detroit for over 20 years and has developed or renovated more than 350 affordable units. The Rouge Woods project received a \$221,869 AHP grant in 2007.

After a tour of the Brightmoor neighborhood, the group visited Springwells Village Townhomes, a 24 unit new construction project in southwest Detroit.

KEYSTONE VILLAGE OPEN HOUSE

Milton Miller and Greg Teare were also surprise guests at the open house for Keystone Village, a newly constructed 24 unit supportive housing development in Traverse City, MI. Recently completed by HomeStretch, a nonprofit regional developer of affordable housing, Keystone Village is composed of 3 two-story buildings, each containing 8 units, with a community room and office. HomeStretch's Executive Director, Bill Merry, led the tour of one of the units and provided valuable information about the many homes and affordable rental projects HomeStretch has developed in northern Michigan. The site is adjacent to the Goodwill Inn, another AHP-assisted project.

An AHP grant of \$250,500 helped to fill the financing gap this project experienced with the collapsing market for Low Income Housing Tax Credits. The populations served at Keystone Village are homeless families, homeless youth (ages 18-24), survivors of domestic violence, and chronically homeless individuals. The project has supportive services agreements with 12 different area service agencies and already has a waiting list for these attractive and affordable units.



Keystone Village in Traverse City, MI fulfills a critical housing need for homeless families and young adults, as well as for victims of domestic violence.

For additional information about the Affordable Housing Program, go to www.fhlbi.com or contact MaryBeth Wott, Community Investment Officer, 317.465.0368, mwott@fhlbi.com or Marjorie Green, Community Investment Relationship Manager, 517.230.2361, mgreen@fhlbi.com.

Spirit Award

Mark Gould Receives Community Spirit Award

Recognizing excellence in community economic development

FHLBI • COMMUNITY SPIRIT AWARD

The FHLBI and its Affordable Housing Advisory Council present the annual *Community Spirit Award* to honor an individual from one of its member financial institutions who has shown an outstanding dedication to affordable housing and community economic development.

Receiving the 2010 Indiana award is Mark Gould, Assistant Vice President, Community Development Officer at Old National Bank.

Mark was nominated by the Indianapolis Coalition for Neighborhood Development, a membership-based organization with 18 members from Indianapolis-area community development corporations (CDCs). Mark was selected for his and Old National Bank's work administering FHLBI programs to various CDCs. Nomination forms included the following comments about Mark's work with Old National and his community.



Mark Gould

ASSISTANT VICE PRESIDENT, COMMUNITY DEVELOPMENT OFFICER
OLD NATIONAL BANK, INDIANAPOLIS, INDIANA

Had Mark and Old National Bank not stepped up to the plate, the Indianapolis community would have less access to NIP (Neighborhood Impact Program) fund for owner-occupied rehab projects.

Mark's support, training and technical assistance were important to the development of our program.

Mark has been a powerful advocate for FHLBI and its programs in Indianapolis.

Mark has lots of enthusiasm and has worked hard over the years to leverage dollars for community reinvestment projects.

Mark is a leader in creating partnerships for many important low- to moderate- income development initiatives and serves in a leadership capacity as convener of the Indianapolis-based CRA lenders and member of other local boards and committees.

We are extremely grateful for Mark's efforts to build bridges within the community development field.

MaryBeth Wott, Vice President and Community Investment Officer for the FHLBI, presented the award at the Indiana Housing Conference, remarking that she and her staff enjoy working with Mark. She added, "Partnerships with financial institutions and community development organizations create the necessary stability to transform neighborhoods, and this is ultimately how we can make a real difference."

FHLBI PERFORMANCE *(\$ in millions, unaudited)*

As of September 30, 2010

Assets	\$44,862
Advances outstanding	\$18,914
MPP mortgages outstanding	\$ 6,487
Retained earnings	\$ 396

For the three months ended
September 30, 2010

Net income	\$ 51
Return on average equity	10.96%

New members approved from June 2010 through
November 2010

ACA Insurance Company
Indianapolis, IN

Western United Insurance Company
Indianapolis, IN



Strength. Stability. Reliability.

Through all economic cycles, the FHLBI remains committed to serving and supporting its members. Since 1932, the FHLBank System's purpose has been clear – to deliver on our mission to improve access to housing finance and to foster community investment. In today's challenging economy, the value of FHLBI membership has never been more relevant.

CREDIT PRODUCTS

Asset/Liability Management
Liquidity
Letters of Credit
Lines of Credit
Funding for Portfolio Mortgages

MORTGAGE PURCHASE PROGRAM

Secondary Outlet for Fixed-rate Mortgages

SUBSIDIZED FUNDING

Low- & Moderate- income Housing
Community & Economic Development
Down Payment & Rehabilitation
Assistance

CORRESPONDENT SERVICES

Wire Transfer
Security Safekeeping
ACH
Coin & Currency

**FEDERAL HOME LOAN BANK
OF INDIANAPOLIS**

Building Partnerships. Serving Communities.

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



FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

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