

FHLB *Indepth*



Volume 6, Issue 1
Summer 2011

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

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Building Partnerships. Serving Communities.

The FHLBI recently hosted conferences in Indianapolis and Lansing specifically designed for our insurance company members. The event was well attended by a strong mix of current members, prospects, insurance regulators and industry advisors. Of particular interest was the afternoon panel discussing why their companies joined the FHLBI and how they use our products. *Read article on page 4.*

Dates to Remember

REGIONAL MEMBER MEETINGS 2011

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

AFFORDABLE HOUSING PROGRAM

July 29	2011 AHP Awards announced
August 31	Additional set-aside funds released

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

On the Cover:

Left to right: Nick Sargen, Ft. Washington Investment Advisors; Jeff Poxon, Vice President - Investment Research, Lafayette Life Insurance Co. (Ret.) and FHLBI Vice Chairman; Andrew Edelsberg, A.M. Best; Joe Kearney, Blue Cross Blue Shield of Michigan; Jim Eibel, FHLBI's Insurance Market Manager.

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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.

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MESSAGE FROM THE PRESIDENT - CEO

For many of our members, summer includes joining FHLBI staff, colleagues, and industry experts at one of the FHLBI's Regional Member Meetings held in six different locations from Roscommon in northern Michigan to Jasper in southern Indiana. This year's keynote speaker for the Michigan meetings is Charles Ballard, a member of the economics faculty at Michigan State University. Indiana meeting attendees will hear from Larry DeBoer, a professor and extension specialist in agricultural economics at Purdue University. Both experts will offer insight into state and national economies. These gatherings also provide an excellent opportunity to learn more about the FHLBI as well, as participants will hear from staff about the value of membership.



Milton J. Miller

The FHLBI also recently hosted a conference specifically designed for our insurance company members and prospects. Because insurance companies domiciled in Indiana and Michigan manage over 75 percent of our district's total assets, we have employed several staff members with specialized knowledge about the insurance industry who are focused on understanding the needs of our insurance company members. The conference was well attended, with many attendees commenting on how much they learned about the FHLBI and how to benefit from membership, including participation in the FHLBI's affordable housing grant program.

In the coming months, you'll be hearing more about an initiative to strengthen the capital position of all 12 Federal Home Loan Banks. Under the Joint Capital Enhancement Agreement, each FHLBank will build additional retained earnings and enhance capital when the required Resolution Funding Corporation (REFCORP) obligation is fulfilled later this year. As you may recall, the government established REFCORP to issue bonds to fund the Resolution Trust Corp., which then used the proceeds to pay the cost of liquidating failed savings institutions. Since 1989 the FHLBanks have made principal and interest payments on the bonds, designating 20 percent of annual earnings under the most current formula. Once the REFCORP obligation is fulfilled, 20 percent of earnings will be directed on a quarterly basis to a restricted retained earnings account at the FHLBI until the balance equals at least one percent of our total outstanding consolidated obligation debt. This capital initiative will help to strengthen the financial soundness of the FHLBank System and increase our capital base, providing both a cushion against potential losses as well as an opportunity to enhance future earnings for the long-term benefit of our members.

Finally, I'd like to express my gratitude to our members, trade groups, and non-profit organizations that wrote letters to the Federal Housing Finance Agency in response to an Advanced Notice of Proposed Rulemaking regarding potential changes to membership rules in the FHLBank System. This is an important issue for both our members and the FHLBI, and your continued support is greatly appreciated.

Sincerely,

A handwritten signature in black ink that reads "Milton J. Miller". The signature is fluid and cursive, with the first name being the most prominent.

Milton J. Miller
President - CEO

Industry News

Paragon Life Insurance Company Joins FHLBI

FHLBI • INDUSTRY NEWS

The FHLBI recently added a new insurance company to its membership roster – Paragon Life Insurance Company of Indiana. Paragon, a newly created subsidiary of Guggenheim Capital, LLC, assumed the outstanding advances of Standard Life Insurance Co., which had been placed into a court-ordered rehabilitation under the control of the Commissioner of the Department of Insurance of the State of Indiana since Dec. 18, 2008.

FHLBI credit management became involved in the rehabilitation process on day one, working cooperatively with the State of Indiana and Standard Life to assist them in seeking the best resolution for all stakeholders, including policyholders and employees.

Guggenheim worked with our staff and the rehabilitator to develop a plan that created Paragon. Not only did Paragon assume the FHLBI advances, but it also reinsured many of Standard Life's policies via a reinsurance agreement with Guggenheim Life and Annuity.

"The resolution not only protected policyholders, but it also retained the jobs of Standard Life employees, who are now employed by Guggenheim Insurance Services,

right here in Indianapolis," explained Jon Griffin, First Vice President - Credit Services Director. "The FHLBI remains fully collateralized and experienced no losses on the outstanding advances, and we now have a healthy, newly capitalized member operating as a going concern that we can continue to do business with."

Unfortunately, bank failures have been numerous during the last few years, so there's a great deal of precedence about what to do, but that's not the case with insurance companies, especially for those with advances. Insurance companies have been allowed to be FHLBank members since the System was created in 1932, but it's only been in the last six years that their membership numbers have significantly increased. The Standard Life failure is only the third in the System where the insurance company had advances outstanding, but it was the largest.

The FHLBI is a leader within the FHLBank System in recruiting insurance companies for membership with 42 insurance company members as of March 31, 2011.

Regulatory Membership Proposal

The FHLBI appreciates our members and other interested parties supporting our business of being a stable, low-cost provider of funding for liquidity, housing and economic development.

Several Indiana and Michigan groups raised concerns with the FHFA about the Advanced Notice of Proposed Rulemaking (ANPR) concerning our membership rules:

- 2 banks
- 3 credit unions
- 5 insurance companies
- 3 trade groups
- 1 regulator
- 2 nonprofits

FHFA's request for public comment indicated that additional ongoing recordkeeping and reporting for members might be required. Public consensus felt this unnecessary.

We look forward to constructively working with the industry and our regulator if any rulemakings are proposed.

Regional Member Meetings Will Feature Economists

The FHLBI will host six Regional Member Meetings across Indiana and Michigan beginning August 15 in Grand Blanc, MI.



Charles Ballard

DEPT. OF ECONOMICS
MICHIGAN STATE UNIVERSITY

Keynote speaker for the Michigan meetings will be Charles Ballard, a member of the economics faculty at Michigan State University. Ballard has taught classes in microeconomics, tax and expenditure policy, the economics of poverty and income distribution, and the economics of taxation. He is on the Board of Directors of the Michigan League for Human Services and has been a consultant with the U.S. Departments of Agriculture, Health & Human Services, and Treasury. Ballard has authored numerous articles, papers and books, which include *Michigan at the Millennium* and *Michigan's Economic Future*. Ballard earned his AB and MA in economics from Princeton University and his PhD from Stanford University.



Larry DeBoer

DEPT. OF AGRICULTURAL ECONOMICS
PURDUE UNIVERSITY

The keynote speaker for the Indiana meetings will be Larry DeBoer, a professor and extension specialist in agricultural economics at Purdue University. DeBoer studies state and local government public policy, including government budget and taxing options, issues of property tax assessment, local government revenue options, and the fiscal impact of economic development. DeBoer teaches an undergraduate course in macroeconomics and has authored a macroeconomics textbook. He earned his undergraduate degree at Earlham College in Richmond, IN, and his PhD at Syracuse University in Syracuse, NY.

Begun in 1995, the Regional Member Meetings offer an excellent opportunity for attendees to learn more about the FHLBI, the economy and the financial services industry. "Each year, we strive to deliver programs that our members will find interesting and beneficial," commented Bill McDowell, Vice President - Sales Director for the FHLBI. "I believe our members will enjoy the economists' presentations and encourage them to join FHLBI staff and peers at one of the six venues."

AGENDA

- 8:15 AM Registration & Continental Breakfast
- 8:45 AM FHLBI Update
Milton Miller, President - CEO
- 9:30 AM The Value of Membership
Cindy Konich, Executive Vice President, COO - CFO
Jonathan West, Executive Vice President, COO - Business Operations
- 10:00 AM Break
- 10:15 AM Keynote Speaker
- 12:00 PM Lunch
- 1:00 PM Golf Scramble
Hole-in-One Contest
Shotgun Start
- 6:00 PM Reception & Golf Prizes

DATES

Monday, August 15
Warwick Hills Country Club
Grand Blanc, MI

Tuesday, August 16
Forest Dunes Golf Club
Roscommon, MI

Tuesday, August 23
Brickyard Crossing Golf Club
Indianapolis, IN

Wednesday, August 24
Sultans Run Golf Club
Jasper, IN

Monday, August 29
Thousand Oaks Golf Club
Grand Rapids, MI

Tuesday, August 30
Sand Creek Country Club
Chesterton, IN

Members and invited guests should begin receiving registration materials in early July. Online registration at www.fhlbi.com is now open.

FHLBI Hosts Insurance Company Conference

The FHLBI recently hosted two insurance company conferences, one in Indianapolis and one in Lansing. The conferences were held to broaden current members' knowledge of FHLBI products and services and to provide a venue for insurance companies interested in joining the FHLBI to learn more about the benefits of membership. The event was well attended by a strong mix of current members, prospects, managers, consultants, analysts, and regulators from Indiana, Michigan, and Delaware.

"The format for the day was excellent. Each speaker did well, and I found each instructive. The meeting was particularly relevant for our company."

"The session was excellent. I can't imagine why an insurance company would not want to join FHLBI after they attended. The enthusiasm and message of the afternoon panel was especially powerful."

Milton Miller, FHLBI President – CEO, opened the conference and commented on the importance of the insurance industry to our district. In his remarks, Miller commented that insurance companies manage over 75 percent of the FHLBI district's total assets and held \$5.2 billion or 30 percent of advances at Dec. 31, 2010. Because of the increased number of insurance companies joining the FHLBI, the FHLBI has knowledgeable and experienced staff dedicated to understanding the insurance company sector. Additionally, the FHLBI is the only FHLBank with an elected director representing the insurance sector on its board.

The morning's guest speakers included Andrew Edelsberg, Vice President, Life/Health at A.M. Best, who provided an overview of how A.M. Best viewed FHLBank use. Mr. Edelsberg also discussed how FHLBank membership can be used to improve an insurer's financial flexibility and liquidity profile.

Following Edelsberg was Nick Sargen, PhD, Chief Investment Officer at Ft. Washington Investment Advisors, Inc. Sargen provided an interesting look at expectations for interest rates, the stock market, and the overall economy. He described a lackluster recovery due to a continued slow housing market, but consumer spending has increased more than some experts have expected.

The day's events concluded with a panel of three current FHLBI insurance company members speaking about how life, health, and property/casualty companies have used FHLBI products and services. Jeff Poxon, CFA, Senior Vice President Investments & Chief Investment Officer (Ret.) at Lafayette Life Insurance Company, said that his company was the first life insurance company to join the FHLBI and the first insurance company to actively borrow, executing its first advance in 1999. Lafayette Life has also used advances under the FHLBI's Community Investment Program (CIP) to support five economic development initiatives.



A panel of FHLBI insurance company members discussed why they joined the FHLBI and how they benefit from membership. Speaking were (l to r) Jeff Poxon, Lafayette Life Ins. Co.; Joe Kearney, Blue Cross Blue Shield of Michigan; and John Mason, OneAmerica.

Joe Kearney, Director, Corporate Investments, Blue Cross Blue Shield of Michigan, began his discussion by claiming that joining the FHLBI "was the best business decision Blue Cross Blue Shield has made in the last 10 years." Blue Cross Blue Shield of Michigan, along with their affiliated companies, Accident Fund and Blue Care Network, has grown from simply replacing their expensive commercial lines of credit with the FHLBI's to actively using long-term advances to fund working capital, investment, and capital management strategies. They also have used CIP to fund a corporate parking facility and the new world headquarters for Accident Fund in Lansing.

Continued on next page.



Jim Eibel (left), Insurance Market Manager at the FHLBI, welcomed Steve Robertson, Commissioner of Indiana’s Department of Insurance.

FHLBank advances were used to leverage their investment portfolio in a safe and profitable manner, commenting that they’re “another liquidity tool in the toolbox.”

Attendees also heard from FHLBI employees – Jim Eibel, Vice President - Insurance Market Manager; MaryBeth Wott, Vice President – Community Investment Officer (Indianapolis); and Marjorie Green, Assistant Vice President – Community Investment Development Manager (Lansing). Eibel provided some statistics on insurance company membership at the FHLBI and across the System and offered insight on how insurers have benefited from membership in the FHLBI. The Community Investment staff explained the essentials of the Affordable Housing Program and Community Investment Program, showing examples of projects that insurance companies have supported with grants or low-cost advances.

Ending the panel discussion was John Mason, CFA, Vice President – Fixed Income Securities at OneAmerica, FHLBI member since 2007. Mason explained how OneAmerica developed a funding agreement program in which

Accident Fund Opens New Headquarters

Accident Fund Insurance Company’s use of an advance under the FHLBI’s Community Investment Program (CIP) was first featured in a 2009 issue of the *FHLBI* *InDepth*. Then, the project was just getting underway, but Accident Fund’s new headquarters opened earlier this year, revitalizing the waterfront in downtown Lansing.



Accident Fund used a CIP advance and a letter of credit to help complete the transformation of a former power plant into its headquarters in downtown Lansing, MI.

The Ottawa Street station, a coal burning power plant, was constructed in downtown Lansing, MI in 1938 and decommissioned in 1992. From October 2008 through April 2011, the former power plant was transformed completely with a combination of renovation and new construction to become the national headquarters for Accident Fund Insurance Company of America.

Steve Reynolds, Vice President of Strategic Planning and Corporate Secretary for Accident Fund, described the importance of this

renovation to the Lansing Community. With 334,000 square feet and a 1,000 space parking deck, the building can accommodate up to 1,200 employees. Accident Fund now has the opportunity to expand in the near future from its current level of 650 employees, creating crucial new employment opportunities in Michigan’s capital city.

The development incorporates sustainable design features, and Reynolds expects they will receive no less than a Silver LEED certification. The building is a historic landmark and the small lobby area that served public customers when they came to pay their bills has been restored with original 1930s Art Deco design elements. Architectural elements from the original power plant are incorporated into the new office spaces for a seamless presentation on the seven-acre campus.

The FHLBI provided a \$50 million CIP advance to help fund the building’s renovation and construction. A \$31.3 million CIP letter of credit provided credit enhancement for the issuance of a private activity Recovery Zone municipal bond to construct the adjacent parking deck.

For more information about insurance company membership, call 800.442.2568 or contact Jim Eibel, Insurance Market Manager, at 317.465.0423 or jeibel@fhlbi.com or visit www.fhlbi.com.

MPP Advantage

New credit structure should add significant value to high credit quality loan sales.

BY MIRIAM LEMEN, AVP – MANAGER COMMUNICATIONS & SPECIAL PROJECTS

Ten years ago, the Mortgage Purchase Program (MPP) was introduced as a program for prime traditional mortgages, specifically conforming, fixed rate, fixed term of 5-30 years. To help members reap the most benefits from selling the FHLBI quality loans, the Lender Risk Account (LRA) was developed and has become the program's highlight, rewarding customers with a payout over time of funds set aside and not used to cover loan losses.

In late 2010, FHLBI launched a significant product enhancement called MPP Advantage. MPP Advantage differs from the original program in that the supplemental mortgage insurance portion of the credit structure was replaced with an increased LRA that is now funded up front with excess balances released on a fixed, predetermined schedule over the projected life of each loan pool if available after loan losses. This simple 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 enhancement structure for MPP Advantage.

From the seller's perspective, increased predictability of balances and rebates under the enhanced LRA simplifies valuation for income recognition and/or best-execution analysis. Since loan losses have consistently been very low since the program's inception in 2001, MPP Advantage's credit structure should be expected to add significant value to high credit quality loan sales.

FHLBI members are starting to take another look at MPP now that the LRA has the potential to increase their income stream.

Crossroads Bank in Wabash, IN, recently began selling mortgages through the MPP for two main reasons. "First, we like dealing with the FHLBI," explained Roger Cromer, President

& CEO of Crossroads. "It's local and we know who we're doing business with. We can get someone on the phone right away if we need assistance.

Second, we like the fact that over time, we'll be rewarded for making good credit decisions," added Cromer, referring to MPP's Lender Risk Account, which rewards members for selling high credit quality loans.

Founders Bank & Trust in Grand Rapids, MI, has been an MPP customer since 2003 and continues to sell mortgages under MPP Advantage. "The competitiveness of the program in terms of pricing and execution is outstanding," commented Greg Conway, Senior Vice President & Chief Lending Officer. "Our LRA has experienced few losses, which has allowed us to see sizeable deposits coming back into the bank. Additionally, the service that the FHLBI provides is excellent. MPP staff members are smart and make our experience great."



MPP Staff

FRONT ROW LEFT TO RIGHT: **Mark Holt, Cathy Garrett, Steve Broviak**

BACK ROW LEFT TO RIGHT: **Keith Pempek, Aimee Tate, Don Erwin, Jeff Gentner, Afshan Memon**

MPP Celebrates 10th Anniversary

The Mortgage Purchase Program (MPP) became operational in April 2001 when Springs Valley Bank and Trust in Jasper, IN, became the first member to sign a mandatory commitment to deliver mortgages to the FHLBI.

Valerie Wilkins, Vice President at Springs Valley, spoke briefly about the company's experience with MPP. "The reason we began using the MPP is really the same reason we still participate in the program today. We needed a place to sell 30 year mortgages, but we wanted to retain servicing because it's important to our customers to be able to come into our bank and know that they'll be talking with someone from the community that knows them and the problems they might be facing. The LRA has provided additional revenue for us, which is another important benefit of the program. The MPP staff has been great to work with over the years. Their guidance always considers what's best for us and our customers."

Shortly after the program began, MPP automated its purchase operations through the Loan Acquisition System (LAS). Sellers use LAS to view pricing, trade, and deliver mortgages via a secure Internet connection. Additionally, for those members that do not want to service their own mortgage loans, a servicing released option was developed.

Now in its tenth year, the MPP staff remains focused on delivering a competitive option for secondary market sales by making changes to the program that best suit our members' needs. For example, in 2006 MPP began offering pooled aggregation, which can provide better up-front pricing for our small to mid-sized sellers. In that same year, we began offering an actual/actual remittance option in response to members' requests and suggestions for program enhancements. However, the most significant enhancement to MPP has been MPP Advantage and the changes made to the original credit structure.

Don Erwin, Vice President, Director of MPP, has been with the program since 2003, working with the MPP team to implement changes to the program to ensure that it continues to meet the needs of FHLBI members. "Since I joined FHLBI, MPP has encountered a number of significant changes. Fortunately, we've had the support of our Board and executive management. This support combined with our ability to adapt in difficult times has allowed MPP to succeed," commented Erwin. "A critical key to MPP's success has been the attention to customer service that the MPP staff provides to our members."

MPP Advantage

MPP CREDIT WATERFALL

Borrower's Equity & PMI

Lender Risk Account

(Owned by seller. Used to cover losses or returned to seller.)

FHLBI

- **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 MPP Advantage, call 800.274.4636 or contact Cathy Garrett, Mortgage Acquisitions Manager, at 317.465.0553 or cgarrett@fhlbi.com or visit www.fhlbi.com.

Stimulus Programs Instrumental in Creation of Affordable Housing

BY MIRIAM LEMEN, AVP – MANAGER COMMUNICATIONS & SPECIAL PROJECTS

In 2010, the FHLBI's Affordable Housing Program (AHP) awarded \$16.4 million to help build or renovate 1,678 homes in Indiana and Michigan. Rarely, however, do AHP dollars work alone. They are regularly combined with other funding sources, which recently include programs created by the American Reinvestment & Recovery Act, such as the Neighborhood Stabilization Program (NSP) and Section 1602 tax-credit exchange program.

As MaryBeth Wott, FHLBI's Community Investment Officer, explained, "When the economic crisis hit late in

2007, several projects already in the development pipeline couldn't continue because the tax-credit markets dried up. The stimulus programs have allowed some of those projects to now move ahead, and we're pleased that AHP is being used to support these projects."

The projects featured are excellent examples of how the stimulus programs, working in tandem with AHP and other funding sources, have created quality homes for low-income families and people with special needs.

Dogwood Estates: An Exercise in the Power of Partnerships

Nearly 12 years after residents of Walkerton, IN envisioned a revitalization of the West York area, their dream is finally becoming a reality.

At the groundbreaking ceremony of this \$12 million redevelopment in April, Phil Buckmaster, Economic Development Specialist for Walkerton, spoke about the many challenges and complexities of the project. "The redevelopment of West York into Dogwood Estates has always been about improving the quality of life for residents," stated Buckmaster. With that idea in mind, he assembled what he dubbed the "Dream Team," who set about assembling the funding sources necessary to complete the redevelopment.

The redevelopment includes the acquisition and demolition of 84 deteriorated structures, relocation of current residents and construction of 40 three- and four-bedroom lease/purchase homes to give residents an opportunity to become homeowners after 15 years of leasing.



The WWII-era homes in the West York area of Walkerton, IN, are being demolished to make way for 40 lease/purchase homes. An AHP grant of \$556,750 to 1st Source Bank helped to finance the project.

The redevelopment also encompasses new infrastructure, including sewers, water lines, streets, curbs, street lights, and sidewalks.

The West York neighborhood has an interesting history. During the early 1940s, the U.S. government built homes to house workers for the nearby Kingsbury Ordnance Plant. Because the units were intended to be temporary, they were poorly constructed with plywood walls and floors, thus earning the area the nickname "Plywood Village."

After WWII, instead of tearing down the homes, the government decided to make them permanent to help address the housing shortage following WWII. Over the years, some homeowners upgraded their properties; other homes were purchased by landlords and rented; and many increasingly fell into disrepair. Police activity had become commonplace, and the entire area became a blight on the small northern Indiana town.

For homeowners who had lived in West York most of their lives, relocating has been especially difficult.

Mary Hahn and her husband, a WWII veteran, moved into West York in 1946. At the groundbreaking ceremony, Mrs. Hahn commented that it was somewhat sad to lose their first home, but they love their life in their new one.

Other guests at the groundbreaking commended West York residents for their sacrifice and cooperation to make Walkerton a better place and praised the community's leaders for their commitment and perseverance. "The transformation of West York into Dogwood Estates is not just about homes," commented Hodge

Patel, District Director for Rep. Joe Donnelley (D-IN), "It's about jobs and long-term economic development."

The project involved many partners. The FHLBI awarded an AHP grant of \$556,750 to 1st Source Bank in partnership with the City of Mishawaka Redevelopment Department. Another significant partner was Neighborhood Development Associates in South Bend, IN. Anne Mannix, Rosie Leyva and David Hatch were integral in working with homeowners and convincing them to leave their homes for the good of the entire community.

Trish Lewis, FHLBI's AHP Compliance Manager, commented, "It was absolutely a relationship-building exercise that came down to 'what's your favorite color' to find some common ground to convince homeowners and tenants to leave their homes. Neighborhood Development Associates is no ordinary consultant, as most would not take on such an enormous endeavor."

Other partners included Great Lakes Capital Fund, Indiana Housing & Community Development Authority, and Habitat for Humanity.

Barnett Station Adds to Affordable Housing Supply

Affordable rental housing is in short supply in Shelby, MI, located near the western shore of Lake Michigan. The area relies heavily on tourism, which drives up rental costs, according to Ron May, Executive Director of OCEANA'S HOME Partnership. "There are few rentals in the area that are affordable," commented May. "A recent housing assessment revealed a need for about 300 units of affordable housing. Barnett Station will help to fill that need."

Barnett Station Village Apartments will feature 32 two- and three- bedroom apartments for low-income families with 20 units reserved for those with special needs, such as chronic mental illness. The apartments' convenient location across from the hospital and within walking distance to schools and a retail district will assist tenants with access to services. A community room will be available to the town's residents.

Barnett Station exemplifies the partnerships that make affordable housing projects succeed, and these partnerships were critical in getting

the project rolling. The project received an AHP grant of \$384,000 through West Shore Bank in 2007, but the onset of the credit crisis left a large funding gap that threatened the project. Tim Hovey of Gryphon Group, LLC, the developer and consultant for the project, explained that the few tax-credit investors remaining in the market during the economic slowdown were mainly in large metropolitan areas, not in the Midwest, particularly in Michigan. Lack of investors slowed the project's development as Hovey found other ways to structure the financing.

The 1602 tax-credit exchange program helped to move the project forward. In 2010, Barnett Station received \$1.7 million from the 1602 program, which, coupled with an equity investment by West Shore Bank and the AHP grant, moved Barnett Station Village Apartments from paper to reality. "The FHLBI bent over backwards to help us," Hovey stated. "Trish Lewis did everything she could do to help us keep the AHP grant because without it, the project couldn't have moved forward."



West Shore Bank was awarded an AHP grant of \$384,000 to help build Barnett Station Village Apartments. The apartments will help to address a critical shortage of affordable rental housing.

Although significant modifications to funding sources and development costs were needed due to amendments in site layout and project design features, Ray Biggs, President and CEO of West Shore Bank, credits OCEANA's commitment, along with the support of Gryphon Group and Great Lakes Capital Fund, for seeing the project through to completion. Each partner played an important role in OCEANA's mission to create much-needed affordable housing in rural Michigan.

Continued on page 10.

NSP Jump Starts College Hill Apartments

In Paoli, IN a historic school building is being transformed into 24 affordable apartments. Built in 1927, the brick structure was home to Paoli High School until 1967 and then a middle school until the early 1980s. The building subsequently became a warehouse for a furniture manufacturer until it closed in 2002. Since then the building has remained empty, deteriorating with the help of a leaky roof, broken windows and nesting birds. Because the building sits on a hill overlooking the center of town, it had become a highly visible eyesore that needed to be addressed.

After an earlier successful renovation of a historic building in nearby Loogootee, IN, Hoosier Uplands Economic Development Corp., a frequent user of the AHP, began to consider renovating the College Hill building in 2007, first conducting a feasibility study with a grant it received. Unfortunately, the cost estimate was simply too high for the plans to continue.

The catalyst that got the project rolling again came in 2009 when it received \$4.4 million from the Neighborhood Stabilization Program (NSP). "The NSP funding absolutely made the project feasible," commented David Miller, CEO of Hoosier Uplands. "Many people in the area attended school in the building and have fond memories. We're glad that we are able to preserve aspects of this historic building and renovate it to create quality, affordable housing for Paoli."

The former Paoli High School in Paoli, IN, is being renovated into 24 affordable apartments. Hoosier Uplands partnered with Old National Bank to obtain an AHP grant of \$440,000.



In addition to a HOME grant from the Indiana Housing and Community Development Authority, Hoosier Uplands received a \$440,000 AHP grant awarded to Old National Bank in Evansville in 2010. "AHP grants are critical to rural projects like College Hill. I can honestly say that without the AHP to fill the gap in funding, the College Hill project wouldn't have happened," Miller added. "Smaller projects like the ones we do have higher costs per unit, and there just aren't many funding sources for these types of projects."

Old National Bank has partnered with Hoosier Uplands in previous projects. Jennifer Gilbert, Corporate Relationship Manager, AVP for Old National, credits Hoosier Uplands' expertise and a history

of successes as reasons why Old National continues to be a partner. "Giving back to communities that we have a presence in is very much a part of Old National's philosophy," commented Gilbert. "We have a great partnership with Hoosier Uplands and look forward to working with them on more projects."

College Hill consists of 6 one-bedroom, 15 two-bedroom and 3 three-bedroom apartments. Tenants will have access to a computer room, exercise room, and playground. The original auditorium is being renovated into an activity room that will be available to the entire community. Hoosier Uplands will provide many supportive services including literacy, after school, and employment-related programs.

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

Letters of Credit Available for Variety of Purposes

An LC can allow a member's customer to issue debt using the FHLBI's AAA credit rating.

The FHLBanks' authority to issue letters of credit (LCs) to guarantee tax-exempt bonds for economic development projects expired December 31, 2010, but the LC program remains available to members for a variety of projects. Backed by an FHLBank's individual credit rating, an LC may improve the credit rating of certain transactions, help provide liquidity and help to lower the borrowing costs of those transactions.

Members have most often used LCs under the Community Investment Program to support municipal bonds issued to fund such projects as apartment complexes for low-income renters.

An LC can allow a member's customer to issue debt using the FHLBI's AAA credit rating. This is achieved by the member applying for an LC through the FHLBI for the specific debt issuance. The FHLBI will then write a Direct Pay LC that guarantees payment to the trustee who represents the investor(s) and who processes payments on behalf of the investor(s). The credit risk associated with the member's customer is still with the member, as any draws made on the LC (by the trustee) and made by the FHLBI will be reimbursed by the member.



The FHLBI's advances team can assist members with any of our credit products.

LEFT TO RIGHT: **Brian McCoy** - *Advances Manager*, **Rori Chaney** - *Lending Officer*, **Rob Hovermale** - *Lending Officer*

STANDBY LCs CAN BE ISSUED FOR

- Residential housing finance
- Community lending that is eligible for any of the FHLBI's community investment programs
- Asset/liability management
- Liquidity or other funding, including collateralizing Indiana Public Unit Deposits

Our LCs must be secured as any other advance would be and are subject to regular borrowing limits. Collateral requirements and capital stock holdings will be adjusted at the time the letter of credit is issued. Terms up to 20 years are available. A fee (up to 3/8%) based on the approved principal amount will be payable annually on the issue date, and an administrative fee will be charged for each draft presented for payment under the LC.

LCs WORK WITH INDIANA PUDs

LCs were recently approved for use as collateral for Indiana public unit deposits (PUDs). Under this program, members can use less liquid whole loan assets already on their 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, provided the member remains in compliance with our collateral policies. Many FHLBI members already have security and safekeeping agreements in place with the FHLBI, eliminating the need to manage additional custodial relationships.

Members must collateralize the total amount of a PUD LC, and the LC will be included in the calculation of a member's capital stock requirement. The FHLBI will have an LC on file and a confidential schedule will be sent to the Indiana Board of Depositories with individual members' LC amounts. The fee for the PUD LC is 12 basis points and the term may be up to 1 year.

For additional information on the FHLBI's LC program, or if you are ready to initiate an LC application, call Brian McCoy, Advances Manager, at 317.465.0503 or bmccoy@fhlbi.com or Rob Hovermale, Lending Officer, at 317.465.0457 or rhovermale@fhlbi.com or visit www.fhlbi.com.

Spirit Award

Charlotte Edwards Receives Community Spirit Award

Recognizing excellence in community economic development

FHLBI • COMMUNITY SPIRIT AWARD

The FHLBI and its Affordable Housing Advisory Council present its annual Community Spirit Award to honor an individual from one of its member financial institutions in Indiana and one in Michigan who has shown an outstanding dedication to affordable housing and community economic development. Judging is based on a nominee's dedication to community, spirit and action.

Receiving this year's Michigan award was Charlotte Edwards, Assistant Vice President and Community Development Officer at Citizens Bank in Flint, MI.

Charlotte has been a strong advocate of the FHLBI's Affordable Housing Program and Homeownership Initiatives Programs. Over the years, Charlotte has been involved in 31 AHP projects since the inception of the program, with a focus on Habitat for Humanity housing. Charlotte has facilitated the distribution of nearly \$1 million to over 160 first-time homebuyers and homeowners for rehabilitation through the Homeownership Initiatives Programs. As a result of her efforts, low- and moderate-income families as well as people with disabilities have safe, affordable homes.

Charlotte is a passionate volunteer for community-focused activities. She has served on the board of the Salem Housing Community Development Corporation, the Flint CRA Bankers Forum, the Flint City Wide Advisory Committee, Hurley Medical Center, the Michigan Finance Authority and the Flint Urban League.

People who nominated Charlotte particularly noted that she is a person who embodies "community spirit," and the FHLBI commends her for her contributions toward the sustainability of Michigan's communities.



Charlotte Edwards

ASSISTANT VICE PRESIDENT & COMMUNITY DEVELOPMENT OFFICER
CITIZENS BANK, FLINT, MICHIGAN

FHLBI PERFORMANCE

(\$ in millions, unaudited)

As of March 31, 2011

Assets	\$43,901
Advances outstanding	\$ 17,679
MPP mortgages outstanding	\$ 6,468
Retained earnings	\$ 437

For the three months ended March 31, 2011

Net income	\$ 20
Return on average equity	4.08%

NEW MEMBERS APPROVED FROM DECEMBER 2010 THROUGH MAY 2011

Athene Life Insurance Co. Indianapolis, IN	Williamsburg National Insurance Co. Southfield, MI
Paragon Life Insurance Co. Indianapolis, IN	Ameritrust Insurance Corp. Southfield, MI
Bank of Michigan Farmington Hills, MI	Tech Credit Union Crown Point, IN
Star Insurance Co. Southfield, MI	Security Credit Union Flint, MI

10 YEARS
**Mortgage
Purchase Program**
Federal Home Loan Bank of Indianapolis

Since 2001, the FHLBI has purchased over \$20 billion in high quality loans from its members.

MPP Advantage Features

- FHLBI purchases fixed rate mortgages from 5-30 years
- Servicing retained & servicing released programs available
- Very competitive pricing
- Only one loan level price adjustment on cash out refis
- Expanded Lender Risk Account provides additional income for high quality loans
- Pricing, selling, & delivery through secure internet connection
- Local decision making & customer service

Contact your FHLBI Account Manager about profitable opportunities for your institution's mortgage sales.



FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

Building Partnerships. Serving Communities.



FEDERAL HOME LOAN BANK
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