FHLB *Indepth*

Volume 1, Issue 2
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A publication for the membership of the Federal Home Loan Bank of Indianapolis.

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Building Partnerships. Serving Communities.

City Rescue Mission of Lansing uses AHP Grant to help Fund Rehabilitation.

With the cooperation of Summit Community Bank of East Lansing and FHLBI, the City Rescue Mission was able to fund its much needed building renovation. Programs offered through the Mission include an overnight shelter for single men, a 12-month residency program for men with substance abuse problems and a family center for women and children in need of emergency shelter.

Dates to Remember

on or about

Dec. 8 — 2006 Round B AHP awards announced

Dec. 25 — FHLBI closed for Christmas Day

Jan. 15 — FHLBI closed for Martin Luther King, Jr. Holiday

Feb. 19 — FHLBI closed for Presidents' Day

on or about

Apr. 15 — 2007 Round A AHP deadline

Check the events calendar at www.fhlbi.com in early 2007 to view a list of MPP, Financial Strategies, or Marketing workshops, conferences, and seminars.

About the Cover:
Mark Criss (left), executive director of the City Rescue Mission of Lansing, stands outside the mission with Chris Nugent of Summit Community Bank.

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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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LETTER FROM THE PRESIDENT

Since the publication of the first issue of *FHLBIndepth*, much has happened at the FHLBI. We successfully filed our first quarter 2006 financials with the SEC, but our second quarter results were delayed because of an issue regarding the documentation of historical methods used to statistically measure hedge effectiveness prior to 2006 in portions of our derivatives portfolio. This issue was resolved with the SEC, and we are now back on schedule with our filings. The FHLBI is new to the SEC registration process, but we're working closely with Pricewaterhouse-Coopers, the Federal Housing Finance Board, and the SEC to ensure that we meet all of the SEC's requirements.

I want to extend a thank you to those of you in our district who wrote letters to the Finance Board in response to the proposed regulation on capital stock and retained earnings for the FHLBanks. (More on page 3) At the time this magazine went to print, we still had not received final word from the Finance Board. However, I'm certain that the over 1,000 letters sent were in part responsible for the September congressional hearing. Further, I extend a thank you to the FHLBI members that wrote letters to the FDIC that opposed including FHLBank advances in the definition of volatile liabilities. We just learned that the FDIC revised the proposal.

Our Regional Member Meetings were again well attended. It is always good to see so many of my colleagues. As you noted, my message this year was more serious in nature as FHLBI continues to adjust to changes in regulations, the make up of our members, and economic conditions in our district.

I have asked FHLBI staff to start using the word "opportunity" instead of "change" going forward. If you read our most recent 8-K, you know that the FHLBI's board of directors has offered an early retirement package to employees that are 50 years of age and have been employed at the bank for at least 10 years. Three top executives are included in the group of 28 that received the offer: our CFO Milton Miller, our senior vice president of Information Systems and Operations Vince Cera, and me.

While this early retirement incentive is part of an overall cost-reduction initiative, it is important to note changes in structure will allow "opportunities" for employees. The board and management feel that this initiative is a positive step in moving the bank toward a new generation of leadership. The window of opportunity to accept the retirement package closes December 15, 2006.

As we look ahead to 2007, the FHLBank system will be celebrating 75 years of helping families realize the dream of homeownership. The system has endured changes and challenging times but has remained a financially sound and reliable source of wholesale funding. As we approach this milestone in our history, I would ask you to watch for the FHLBI publication, *Financing the Dream*. This book shares the story of our Indiana and Michigan FHLBank.

In closing, the FHLBI never loses its focus to serve its members and to that end we just added an enhancement to MPP – pool aggregation. Please contact our MPP division for more information. Lastly, I wish you and your families the many blessings of the approaching holiday seasons. As I offer thanks on Thanksgiving, I will include my gratitude for the gift of your friendship and loyalty over the years.

Sincerely,

Martin L. Heger
President & CEO

New Directors, Council Members Selected

FHLBI Board of Directors Election Results

Two seats for Indiana and one for Michigan were filled.

Elections for three seats on the FHLBI's board of directors were recently completed.

Continuing their service on the Board will be:
Gregory F. Ehlinger, Senior Vice President & CFO, Irwin Union Bank & Trust Company, Columbus, IN

Jeffrey A. Poxon, Senior Vice President Investments & Chief Investment Officer, Lafayette Life Insurance Company, Lafayette, IN

Thomas R. Sullivan, President & CEO, Firstbank Corporation, Alma, MI

Gregory F. Ehlinger

Jeffrey A. Poxon

Thomas R. Sullivan

Ehlinger and Poxon were appointed to the board earlier this year to fulfill the terms of two directors whose institutions were involved in out-of-district mergers.

Sullivan was re-elected to serve his second three-year term.

Directors may serve up to three consecutive three-year terms.

New Advisory Council Members

The FHLBI's Affordable Housing Advisory Council will consist of five new members in 2007.

Joining the Council will be:
Jack Brummett, Great Lakes Capital Fund, Indianapolis, IN

Jacquelyn Dodyk, Affordable Housing Corp., Marion, IN

Marjorie Green, Michigan State Housing Development Authority, Lansing, MI

Michelle LaJoie, Chippewa-Luce-Mackinac Community Action Human Resource Authority, Sault Ste. Marie, MI

J. Jacob Sipe, Indiana Housing and Community Development Authority, Indianapolis, IN

Members of the Council continuing their terms are **Jane Clingman-Scott**, **Meg Haller**, **Mark Lindenlaub**, **Harold Mast**, **Ted Rozeboom**, **Linda Smith**, and **Bill Taft**.

Council members are selected from nominations from the FHLBI's member institutions, community organizations, or other interested parties. The board of directors appoints Council members based on recommendations by the board's Affordable Housing Committee. Members serve three-year terms, but the terms are staggered to provide continuity in experience.

Jack Brummett

Jacquelyn Dodyk

Michelle LaJoie

FHLBI & Industry News

Thank You, Industry and Council of FHLBanks

Martin L. Heger, FHLBI President and CEO, and Paul Clabuesch, FHLBI chairman, are pictured here with John von Seggern, president of the Council of FHLBanks, a non-profit trade association based in Washington that represents the positions and views of all 12 FHLBanks to Washington policymakers. The Council, as well as national, Indiana, and Michigan banking trade groups, weighed in on the Federal Housing Finance Board's capital and retained earnings proposal. Over 1,000 public comments were filed with the Finance Board. On September 7, 2006, an oversight hearing was held with Finance Board Chairman Ronald Rosenfeld testifying before the House Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee. Although it is doubtful that it will be scrapped as many commenters have suggested, the high level of industry scrutiny and public debate may result in a much improved and workable final regulation for the 12 FHLBanks and their members.

PUBLIC INTEREST DIRECTOR APPOINTMENTS

The FHLBank System is awaiting official word whether or not the Finance Board will appoint public interest directors before the end of 2006. The Finance Board has not appointed public interest directors for the last two years. As a result, only two public interest directors remain on the FHLBI's board, Sen. Valde Garcia of Michigan and Senator Teresa Lubbers of Indiana, and their terms expire at the end of 2006. The chairmen and vice chairmen of all 12 FHLBanks wrote to Ronald Rosenfeld, chairman of the Finance Board, in early October, asking the regulator to appoint public interest directors by the end of the year. Each FHLBank's board of directors consists of individuals who are elected by the membership and public interest directors appointed by the Finance Board.

GSE LEGISLATION

Congress in the lame duck session continues to consider a bill to reform the regulatory structure for Fannie Mae, Freddie Mac, and the FHLBanks. The House passed a bill (H.R. 1461) in October 2005, but the Senate version of the bill has been stalled because of a debate about imposing limits on Fannie Mae's and Freddie Mac's mortgage portfolios. At the time this magazine went to press, it is doubtful that Congress will pass a bill in 2006. We anticipate that GSE legislation will still be debated by the next Congress.

NEW FINANCE BOARD DIRECTOR

Geoffrey S. Bacino was confirmed by the Senate in late July as a member of the Federal Housing Finance Board to replace Franz Leichter, who had been a Finance Board director since 2000. Most recently, Bacino was senior vice president of legislative and regulatory affairs at Centrix Financial. He also has served on the board of the National Credit Union Administration.

FHLBI OUTLOOK REVISED TO STABLE

On November 7, 2006, Standard & Poor's Ratings Services affirmed its 'AAA/A-1+' counterparty credit rating on the FHLBI. The outlook was revised to stable from negative. In its news release, S&P stated, "The financial profile of the FHLBI reflects the bank's conservative financial policies and practices and the unique charter that governs its business."

If you have questions about any of these issues, contact Jonathan West, general counsel, at 317-465-0515, or visit the FHLBI's website at www.fhlbi.com, the Finance Board's website at www.fhfb.gov.

Institutions that choose to take on more interest rate risk need more sophisticated tools to identify, measure, monitor and manage that risk.

Interest Rate Risk Analysis

Active asset/liability management (ALM), or A/L modeling, is one of the most important aspects of interest rate risk analysis as it allows you to adjust your exposure to changes in interest rates.

BY LEE MORGAN, AVP, SENIOR FINANCIAL STRATEGIST

ASSET/LIABILITY MANAGEMENT

How can you truly make informed decisions and not understand the bets in your balance sheet? Understanding how to measure income and value under different interest rate environments and how these measures are derived can improve your understanding of the dynamics of your balance sheet, and thus, help to improve decision making. Active asset/liability management (ALM) or dynamic A/L modeling is one of the more important aspects of interest rate risk analysis as it allows you to adjust your institution's exposure to changes in interest rates. If the effective duration of an institution's assets is equal to its liabilities, then the institution does not suffer from the effects of a volatile interest rate environment, i.e., it has no interest rate risk…no changes in interest rates, no interest rate risk.

However, regulators expect institutions to identify, measure, monitor and manage their exposure to changes in interest rates that may impact earnings and capital. Best practices would suggest that it should be done at a minimum quarterly and preferably monthly, as measuring and monitoring risk is a key component of regulatory compliance, but more importantly to assist in ongoing decision making.

So, how can you arm yourself to fight the battles you want and need to win when you are not able to effectively assess the risk level of your balance sheet? Are you measuring and monitoring what is effective today? What may possibly be effective tomorrow?

Best practices would also suggest utilizing your institution's risk profile to act strategically. Your risk position should no longer be a static barometer for your institution; it should not be an activity or an additional expense that some institutions embark on primarily as a mandate for regulatory compliance. It should, instead, provide insight into performance opportunities and bring to light potentially unforeseen risk exposures related to management decision making.

> **" It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change."**
>
> *Charles Darwin*

A/L modeling allows an institution's management to effectively quantify its current and future balance sheet performance and risk, as well as evaluate potential strategies or scenarios. Continuous asset/liability modeling will allow for better decision making due to the experience gained from the analysis of all A/L management issues and potential issues that are in an institution's balance sheet. When evaluating interest rate risk, net income (short-term view) should not be the only approach utilized. Market value of equity (MVE), also known as net economic value (NEV), provides a longer term view (viability) as it captures all expected cash flows and the optionality within your balance sheet. As we all know too well, positioning an institution's balance sheet to thrive in a volatile interest rate environment has become more complex. Inaccurately measuring the interest rate risk in a balance sheet with optionality can lead to missed opportunities or dire consequences.

REGULATORY COMPLIANCE VS. STRATEGIC TOOL

The measure of interest rate risk that is of paramount importance by regulators, such as the OTS, is the sensitivity of the net present value (NPV), also known as MVE or NEV. NPV is the present value of assets minus the present value of liabilities, as related to changes in interest rates – the S in the CAMELS ratings. Sensitivity of NPV is a valuable measure of interest rate risk because it estimates how the economic value of an institution changes when interest rates change. Sensitivity is the greatest negative change in an institution's MVE that would result from an interest rate shock of +/-200 basis points (+/-300 basis points for credit unions) as plotted on the chart (Thrift Bulletin 13) on page 5; the NCUA has developed a similar chart for credit unions.

The x-axis is the level of risk (sensitivity to rate changes) your institution is

taking, and the y-axis is your cushion to absorb interest rate risk (Current MVE net shocked rate environment MVE, i.e., post-shock MVE). The regulator's focus will be the worst case scenario – what falling/rising rate environment (+/-200bp or +/-300bp) is your institution most at risk. The regulator is less concerned with any positive sensitivity of your institution. Obviously, you run your institution based on what you believe is the most likely scenario not the worst case. You are aware of the worst case and plan accordingly, but that is not necessarily the key factor driving your decision making.

On the OTS guideline chart, sensitivity increases (becomes riskier) across the five sensitivity ranges as they progress right. Although both point A and B are in the minimal risk quadrant/category, point A is less risky than point B; however, point B has a larger cushion to absorb the increased risk.

On the NCUA Guideline chart, point B is the asset-sensitive (assets repricing quicker than liabilities) institution's current risk profile and point A is the projected (from budget) risk profile. Given the base strategy, this institution may have an opportunity to achieve higher levels of performance by restructuring its balance sheet, e.g., reducing the size of lower yielding investments and/or originating and putting into portfolio some longer duration, higher yielding fixed-rate mortgages and possibly, if necessary, some wholesale funding given its risk profile. This institution can act strategically to leverage its current risk profile by electing to add some additional risk to improve its bottom line. In this case its risk profile not only serves to fulfill the

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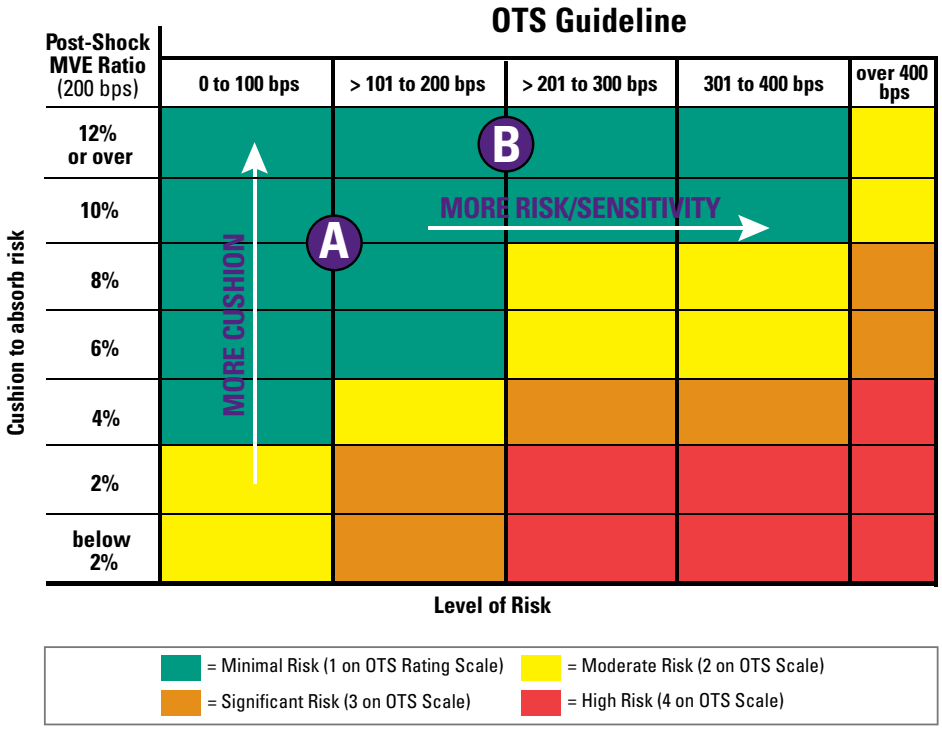

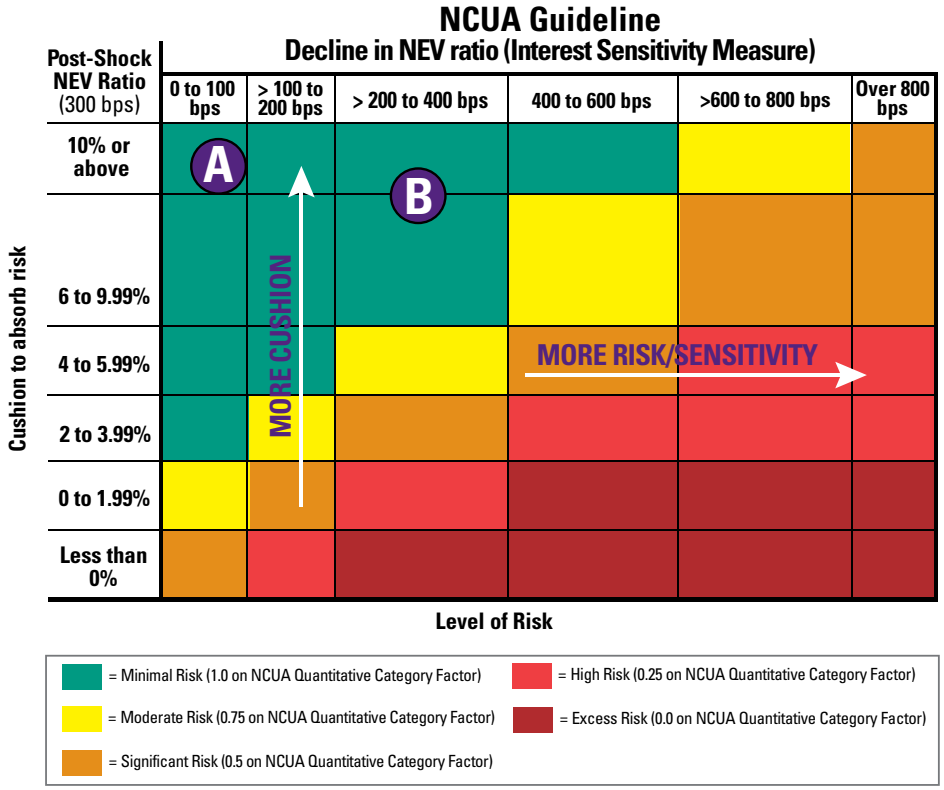

If you would like help in understanding the bets in your balance sheet and in assessing and strategically utilizing your risk profile, please contact a Financial Strategies Group Financial Strategist: Dr. Bob Ott, Lee Morgan or Doreen Koning at 317.465.0431.

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compliance mandate but also becomes a strategic tool that management uses to improve the performance of its institution. Obviously, management will need to decide if the increased risk (sensitivity) is worth the additional levels of performance – a classic risk/reward conundrum.

The process of assessing and monitoring the bets in your balance sheet is (or should be) continuous. Institutions that choose to take on more interest rate risk need more sophisticated tools to identify, measure, monitor and manage that risk – a dynamic ALM process. AND they need to thoroughly document this to satisfy the regulators while utilizing their risk profile, as highlighted in the previous example, to produce an enhanced return. Your interest rate risk profile can be used to evaluate the risks/rewards of various strategies or "what-ifs." This is the safe place for "learning opportunities." As Will Rogers said, "Good judgment comes from experience, and a lot of that comes from bad judgment."

Utilize your risk profile strategically by running various scenarios or what-ifs. Continued use of your A/L model as a decision-making tool will enhance management's knowledge of the drivers behind their balance sheet and their key relationships and will enable them to analyze the earnings and risks impact.

As illustrated, interest rate risk analysis is not just a regulatory compliance obligation, and those institutions that continue to view it as such will miss out on opportunities to more profitability grow their institutions while managing the inherent interest rate risk. Continually ask yourself if you are fully aware of the major risks taking place in your institution's balance sheet today (tomorrow)? As Charles Darwin stated and it continues to ring true: "It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change."

Network with Member to Member

Some of the potential uses for Member to Member include requests for partners in loan participations, either in buying or selling loans, and solicitations for employment opportunities.

BY DOREEN KONING, AVP, CPA, SENIOR FINANCIAL STRATEGIST

FHLBI members not only have access to the resources within the FHLBI, but they also have a vehicle to network with the other approximately 430 members across Indiana and Michigan. Members' ability to interact is not limited to the scheduled FHLBI Regional Member Meetings or various educational seminars but can be done at any time through FHLBI's online Member to Member service.

Accessible through Member Link, this feature provides a clearinghouse or bulletin board for all FHLBI members that wish to post information that they would like other FHLBI members to see. Some of the potential uses for Member to Member include requests for partners in loan participations, either in buying or selling loans, and solicitations for employment opportunities. The postings can include text, pictures, artwork, or logos.

There are approximately 800 individuals representing FHLBI member institutions accessing Member Link on a monthly basis, demonstrating the widespread use of Member Link and the potential this feature has to reach other institutions in Indiana and Michigan.

MEMBER LINK

Return to Members' home (secured services)

NEWS LINK

Member to Member

FHLBI

Subject: FHLBI Capital Stock for Sale
By: Citizens Financial Bank
Date: March 2006

Citizens Financial Bank, FSB is looking for an FHLBI member to purchase up to $10,000,000 of excess FHLBI capital stock. The stock is available immediately since there is no redemption period associated with a transfer between member institutions. The trade would be at par and handled in book-entry form internally at the FHLBI. Please contact Michael Prisby at Citizens Financial Bank at (219) 836-5500.

Members interested in posting on Member to Member should submit their content to Bill McDowell by mail, e-mail at wmcdowell@fhlbi.com, or fax 317.465.0498. If you have questions about this service, please call Bill McDowell at 800.442.2568.

Regional Member Meetings Feature Darling Consulting Group

FHLBI REGIONAL MEMBER MEETINGS

The FHLBI's annual Regional Member Meetings were held at seven venues throughout Indiana and Michigan and drew 460 attendees from 190 member financial institutions.

The 2006 meetings featured representatives from the Darling Consulting Group from Newburyport, Mass., who spoke about balance sheet strategies in a flat yield curve environment. Attendees also watched a video in which Marty Heger, FHLBI President and CEO, addressed current challenges facing the FHLBI, including proposed regulations and legislation.

RMM attendees view a video of FHLBI President & CEO Martin L. Heger speaking to them about current issues.

The FHLBI has sponsored the summer meetings since 1995 to inform and educate members on FHLBI products, in addition to current trends and issues in the financial services industry. Bill McDowell, FHLBI vice president and director of sales, said, "The Federal Home Loan Bank of Indianapolis regards the Regional Member Meetings as a very important opportunity to deliver a quality educational program that benefits the operations of our member institutions. We also anticipate being able to further develop the relationships that we enjoy with our co-operative membership base."

Chuck Rainey *(center)*, **FHLBI relationship manager, has lunch at the Grand Rapids meeting with Jim Costello** *(left)* **and Brian McVey** *(right)* **of NuUnion Credit Union.**

To make the meetings as useful as possible, attendees are asked to complete a survey at the end of each session. We are pleased to report that 97 percent of the survey respondents indicated that they would attend another Regional Member Meeting.

"Best part of the meeting is the opportunity to discuss relevant issues with other industry professionals in a casual atmosphere."

"Always a class act. We appreciate the insight into new and creative investment strategies and to network with fellow bankers."

"As always, you put on a quality program at an outstanding location."

2006 REGIONAL MEMBER MEETINGS
Attendance by Venue

LOCATION	# of ATTENDEES
Iron Mountain, MI	56
Gaylord, MI	33
South Bend, IN	68
Clarkston, MI	82
Carmel, IN	124
Newburgh, IN	30
Grand Rapids, MI	67
TOTAL	460

For more information about the FHLBI Regional Member Meetings, contact Bill McDowell by e-mail at wmcdowell@fhlbi.com, or call toll free 800.442.2568.

Mark Criss, executive director of the City Rescue Mission of Lansing, talks with Chris Nugent, vice president of Summit Community Bank, about the services provided to the homeless through the Mission. The single men's overnight dorm can serve up to 60. All of the beds in the Mission are covered by handmade quilts, made by a 90-year-old woman who has been making them for over 20 years. When program participants graduate, she makes them their own quilt with a personalized memory verse.

City Rescue Mission of Lansing: Meeting Physical Needs to Strengthen the Spirit

AHP grant helps fund rehabilitation to make building safer and more accessible.

BY CHELSEA CHURCH, COMMUNITY INVESTMENT COMMUNICATIONS ADMINISTRATOR

The City Rescue Mission of Lansing, founded in 1911, was granted $325,000 in AHP funds in the first round of 2006 through Summit Community Bank of East Lansing, Michigan. With these funds, the Mission was able to do major rehabilitation to its existing building located in downtown Lansing.

"Three years ago we decided that we needed to start doing something about this building. The ceiling was leaking and the floor was sinking and sagging. It was just too much liability. We started a capital campaign and applied for the AHP grant with Summit Community Bank. We are extremely thankful for the cooperation of Summit and the FHLBI to fund this much needed rehabilitation," said Mark Criss, executive director of the Mission. Total rehabilitation project cost was in excess of $500,000. Criss said that the main purpose of the renovation was to make the building safer and more accessible. Improvements included the addition of a central fire and sprinkler system, handicap-accessible bathroom facilities and doubling the size of the shower facilities. In addition, the laundry facilities were doubled, the program lounge and chapel were renovated and several beds were added to the men's overnight dormitory.

"When our contractor came in to do the demolition of the inner wall, he told us that God had his hand on this building a lot longer than we knew. The wall was falling down on itself, which could have been a major safety issue," said Criss. The inner wall comprises part of the chapel, which was also renovated with AHP funds.

"Summit was very happy that the Mission approached us to be a partner on the AHP application. We were already the Mission's banker, so we were glad to be a bigger part of the project and the Mission as a whole," said Chris Nugent, vice president of Summit Community Bank.

"Lansing is very lucky to have the Mission here to serve its homeless population and Summit is very proud to be involved."

MORE THAN JUST AN OVERNIGHT SHELTER

The Mission serves the Lansing homeless population in a multitude of ways. Three of the programs offered by the Mission include an overnight shelter for single men, a 12-month residency program for men with substance abuse problems and a family center for women and children in need of emergency shelter. With a staff of 35 full- and part-time employees, including a full-time counselor and a volunteer base of over 6,000, the Mission was able to serve over 25,000 people in 2005. The single men's overnight dormitory

has 36 beds; 12 beds were added as part of the rehabilitation. The dormitory is filled to capacity most every night, serving 50 to 60 men. In the winter floor mats are brought in to accommodate the overflow.

The Mission provides over 60,000 meals a year, with half of those meals being delivered to the Family Center that houses women and children. Two meals a day are served from the shelter, each beginning with a service in the chapel. The Mission is a non-denominational Christian organization and is supported by several local churches.

"The chapel is the primary room in the Mission because it's where we share the Gospel, which is the main purpose for such a shelter," said Criss.

In the summer, the Mission has a 30-day stay policy. After the 30 days the men have to leave the shelter unless they are doing something positive to change their homeless situation. If they are pursuing their GED, or working on job related skills, the Mission will extend their stay for another two weeks. During the winter, however, this policy is waived and the men can stay as long as is needed.

"With the limited stay policy, many men are more motivated to get jobs and a place of their own," said Criss, "We want the shelter to serve as a transition time for these men, not just a place to sleep overnight."

Other services include a food bank and a free store. The free store provides clothing and household items to those in need at no cost. Men can also receive vouchers for haircuts and medical referrals to local physicians.

The Transformation Program for Men provides biblical counseling, personal assistance and job-training skills for up to 12 men during a 12-month process. The Mission asks that these men desire to be free from addiction and to pursue a relationship with God. The men are also able to earn their GED during this time as well as obtain substance abuse counseling.

At the time of the interview, Criss said that six men were enrolled in the program. Also during that time, the Mission was in the process of becoming a licensed rehabilitation program through the state of Michigan. Once that is approved, judges can refer men to the Mission's program, allowing the Mission to serve those men who are in the most need of rehabilitation and counseling.

SERVING THE LARGEST HOMELESS POPULATION

According to Criss, Lansing is well positioned to assist single men in need of overnight and transitional housing. But the need that isn't being met is for the largest increasing homeless population…women and children. "Over fifty percent of the current homeless population is women and children. At the Mission, we receive five to six phone calls a day from mothers that we have to turn away. If there is an immediate danger to the women, we find a way to get them out of their situation, but it's becoming more difficult with our current facility," said Criss.

The Mission's next major project is the purchase and rehabilitation of a 30,000 square foot, former elementary school that is positioned between a women's medical facility and the Michigan Works headquarters in Lansing. Michigan Works is a third-party organization that assists the unemployed in résumé building and job searches. Currently, the Family Center is able to house 40 to 50 women and children per night. With the new building, according to Criss, they hope to double the center's capacity.

"Late summer and early fall are the busiest times of the year for the Family Center. Women want to get their children out of the current situation to try to give them a fresh start for the new school year," said Criss.

The purchase and rehabilitation of the new site will be funded by private donations, a line of credit through Summit Community Bank and hopefully additional AHP funds. The Mission has already collected $200,000 in donations, with another $250,000 pledged. "God will provide. He has been since 1911," said Criss.

WHAT IS STILL LEFT TO BE DONE

"The three major challenges that the homeless face are the ability to find permanent affordable housing, the lack of a living wage, and housing for women and children," said Criss.

The Mission hopes that the Family Center will act as transitional housing for the women and children, with their next move into their own permanent housing.

"This ministry is difficult and challenging but also a pleasure to be serving our community in this capacity. The Lansing community has been extremely supportive. We are thankful for that. It's not necessarily the money; it's their true support for the Mission and Lansing's most vulnerable," said Criss.

For more information about the Community Investment department, please call 800.688.6697 or e-mail housing@fhlbi.com.

The MPP Credit Report: A Five-year History

Unlike other loan sale outlets, MPP does not charge sellers credit guarantee fees. Instead, MPP utilizes a combination of a member-owned lender risk account (LRA) and supplemental mortgage insurance to create a AA-rated credit structure.

BY JIM EIBEL, CFA, VP & INSURANCE MARKET MANAGER

MORTGAGE PURCHASE PROGRAM

The Mortgage Purchase Program (MPP) has provided a new sale outlet for Federal Home Loan Bank of Indianapolis (FHLBI) members. As of April 30, 2006, MPP completed its fifth year of operation. As of that date, the FHLBI had purchased a total of $14.8 billion in conventional mortgages and was managing a portfolio of $9.9 billion. MPP sellers were a diverse group that included large mortgage banking operations, thrifts, agricultural banks, commercial banks, and credit unions. A total of 115 institutions had been approved to sell loans, 69 of which had sold loans to MPP.

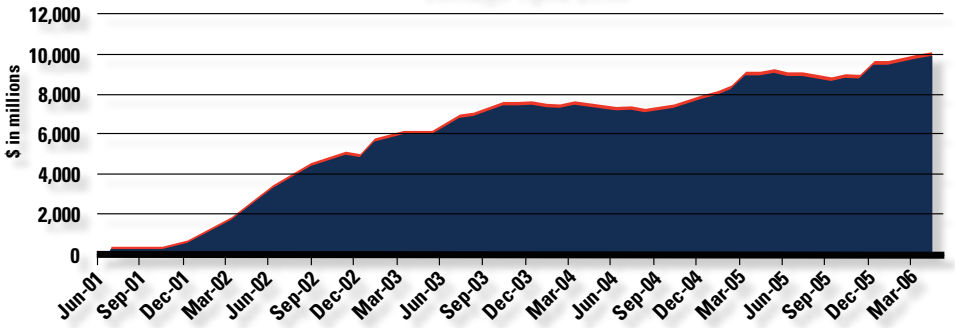
MPP'S HIGH CREDIT QUALITY

The FHLBI has built an exceptionally high credit quality loan portfolio through MPP. While loans with credit scores as low as 620 qualify, over 80% of the 91,123 loan purchases had scores greater than 700. The portfolio's raw average credit score was 743. When weighted by loan size, the portfolio's average credit score increased to 763.

While MPP's underwriting guidelines are conservative, credit scores (and other metrics) suggest that FHLBI members have tended to sell loans with substantially higher quality than the program requires. While some of this is rooted in the high quality of FHLBI member loan originations, MPP's economic incentives are a key driver.

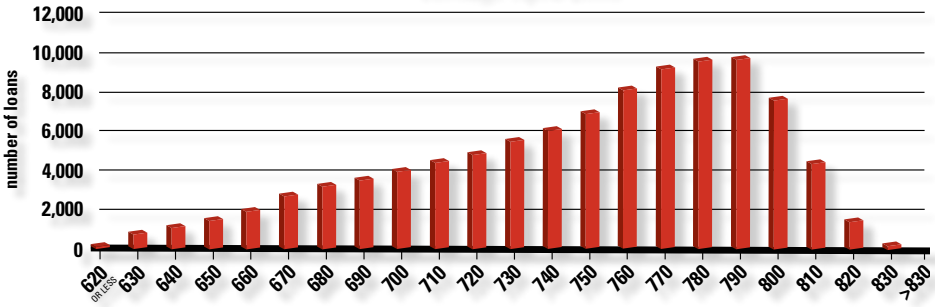
MPP Balances

Through April 2006



MPP Portfolio Credit Scores

Through April 2006



LENDER RISK ACCOUNT (LRA) PERFORMANCE

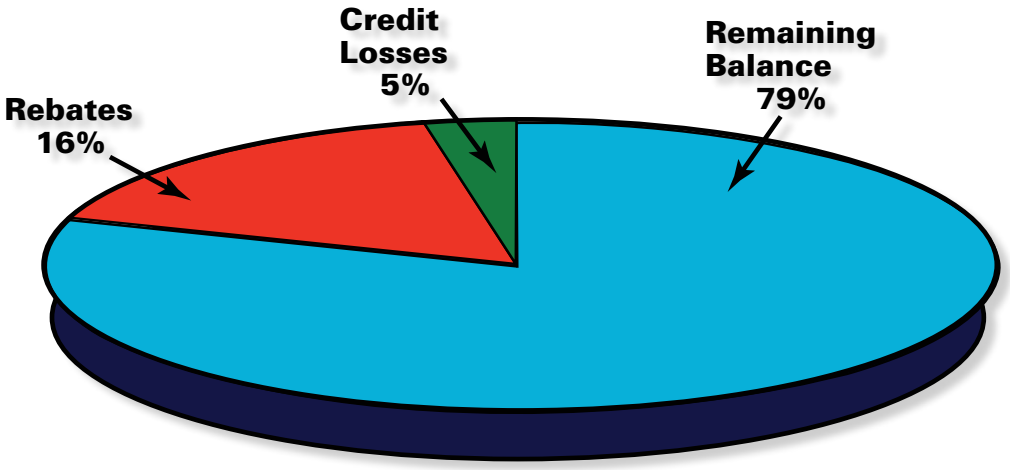
The high quality of MPP loan purchases has been validated by the first five years of LRA performance. During this period, a total of $17.7 million had been collected in 249 separate lender risk accounts. As of April 30, 2006, $14 million or 79% of LRA funds remained in these seller owned accounts and $2.8 million or 16% had already been rebated to loan sellers. The remaining 5% of LRA funds had been used to cover loan losses totaling $846,673. Based on the FHLBI's $14.8 billion purchase volume, these credit losses appear negligible.

Remarkably, only 16 or 6% of LRAs had experienced any credit losses for the period. All of these contracts had been filled by sellers engaged in third-party originations.

As of April 30, 2006, LRAs were being funded at an annualized average of 7.35 basis points of outstanding principal, or approximately $545,000 per month.

Given current LRA balances, robust monthly inflows, and the persistence of low loan losses, LRAs have emerged as a significant economic asset for MPP sellers.

Disposition of LRA Funds



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Mortgage Purchase Program Enhancement

The Federal Home Loan Bank of Indianapolis, (FHLBI) now offers a significant enhancement to its Mortgage Purchase Program (MPP).

Effective immediately, member institutions participating in MPP can choose to participate through the "Pool Aggregation" program. Developed in cooperation with FHLBI's supplemental mortgage insurance partners, MGIC and Genworth Financial, the MPP Pool Aggregation program provides a considerable reduction in credit enhancement cost. When compared to our existing program, this reduced credit enhancement cost results in better up front pricing for our small- to mid-sized mortgage sellers, defined as those with a master commitment contract of less than $100 million.

The Pool Aggregation program will pool together multiple sellers' master commitments for the purpose of obtaining supplemental mortgage insurance (SMI) credit enhancement. The MPP's unique "Lender Risk Account" (LRA) enhancement will remain in place under the Pool Aggregation program, and in the unlikely event that losses exceed any single seller's LRA balance, the LRA from other Pool Aggregation program sellers will be used to absorb a seller's excess losses.

FHLBI members may now choose to participate in MPP under the existing program or under the new Pool Aggregation program.

For more information and details about MPP Pool Aggregation, please contact the MPP Division at 800-274-4636.

For more information about MPP or your institution's lender risk account, please contact the MPP Division at 317.465.0544 or toll free at 800.274.4636.

FHLBI Members Use Advances for a Wide Variety of Purposes

by Tim Zapf, First VP, Director of Credit Services

FLEXIBILITY & EASE OF ACCESS

Advances have been the core business of the FHLBI for almost 75 years. Over the years, the number and types of products have changed, but the FHLBI's commitment to its members to be a reliable source of funding has remained constant. FHLBI members use advances for a variety of purposes and find that the flexibility of available terms, along with the ease of access, make advances particularly applicable to a variety of funding needs.

How can advances be used?

- Match funding fixed- or adjustable-rate mortgages
- Covering seasonal and cyclical cash needs
- Enhancing liquidity management
- Defensive liability pricing/controlling deposit costs
- Macro asset/liability and interest rate risk management

Below are some real-life examples of how the FHLBI's member financial institutions have used advances.

Long-term CIP Advances for Construction:

Member A used long-term, fixed-rate, Community Investment Program (CIP) advances to fund the construction of a rural branch in a strategic location. The branch created a number of new jobs for families that met the targeted income levels for the community. Through the CIP fixed-rate program, the member was able to lock in attractive long-term financing rather than cannibalize funding that could be put to use in more profitable loans.

Fixed-rate Advances for Gap Funding:

Member B operates in a very competitive deposit market where financial institutions are aggressively bidding for deposits through odd-term CD specials. Member B has been experiencing solid commercial loan growth and is concerned by lackluster deposit growth. Initially, Member B responded in kind by offering CD specials targeted at retaining maturing CDs and gathering new deposits. The member tracked the composition of the money attracted through the CD special and noted a high percentage of cannibalization from its non-maturity products. After review, Member B calculated its marginal cost on the new deposits to be 50% higher than the CD special rate. Member B decided to utilize fixed-rate advances to fill the gap and keep CD rates at more normalized levels. While deposits did decline slightly as money left to chase higher returns at other institutions, Member B was able to maintain interest margins and use advances to better match the assets being originated.

Expanded Collateral Options for More Advances:

Member C, a de novo bank, started with a plan to focus on asset generation, primarily through long-term relationships that management had already established with commercial customers. Member C knew from the outset that deposit growth was not going to match loan growth and its business plan called for heavy usage of wholesale funding. Because Member C's business plan centered on commercial lending, it had relatively little traditional collateral. As the FHLBI's other real estate related collateral options have grown and as the process for pledging collateral has been made easier, Member C has increased its advance usage. With the new collateral changes recently announced, the de novo is going to look at pledging more collateral, which would allow it to almost double its advance usage. Member C is also looking at increasing its advance sizes from $5 million blocks to $10 million to take advantage of better pricing.

Advances for A/L Management:

Member D, an insurance company, uses advances for asset/liability management purposes. The asset side of its balance sheet was not matched closely enough with the liability side of the balance sheet. Specifically, the duration of its liabilities was longer than the duration of its assets. In order to correct that imbalance, Member D would have normally needed to sell short duration assets and reinvest the proceeds in longer term assets such that the duration of both sides of the balance sheet was approximately the same.

Unfortunately, Member D's short duration assets were high coupon in nature and had significant unrealized capital gains embedded in them. Selling those assets and moving out on the curve would have caused them to take significant capital gains and subjected them to significant capital gains taxes.

The solution was to borrow from the FHLBI on a medium-term basis (laddered borrowings with terms from six to ten years) and invest the proceeds for a term of 20 years or longer.

This accomplished several objectives:

- The inclusion of the short-term liabilities (the borrowings) shortened the duration of the member's liabilities.
- The maturities of the short-term assets containing the significant capital gains would be available to pay off the borrowings when they came due.
- The proceeds of the borrowings were invested for a longer term, which increased the duration of the member's assets.
- The combination of shortening the duration of Member D's liabilities and extending the duration of its assets made its balance sheet much less sensitive to changes in interest rates.
- Member D avoided a hefty capital gains tax.

"We borrow extensively from the FHLBI. We have a large mortgage banking pipeline that we fund with advances, and we also use FHLBI advances to fund part of our loan portfolio.We could rely on deposits for funding, but deposits are often more expensive than FHLBI advances. It's also easier to pick up the phone to apply for an advance than it is trying to look for additional depositors. The FHLBI's collateral procedures match well with our operations. As we make more mortgage loans, we can use that collateral to pledge against additional advances and then make more loans to our customers.

Don Groenleer, First FSB, Rochester, IN

ADVANCES CONTACTS

TOLL FREE: 800.442.2568
FAX: 317.465.0473

For more information about advances, contact one of the staff members below. Staff members can be contacted via e-mail or their direct phone number. All numbers are area code 317.

Tim Zapf *First VP, Director of Credit Services*	465-0459
Brian McCoy *AVP, Advances Manager*	465-0503
Matt Fix *Advances Operations Analyst*	465-0456
Mark Pascarella *L/C Advances Operations Analyst*	465-0457

The rates section in the secure services area where members can check current as well as historical interest rates is one of the most popular links.

Doing Business with FHLBI Made Easier through Member Link

Secure site provides members with number of ways to transact business

by Miriam Lemen, AVP, Manager Library Services/Sr. Editor

HELLO WORLD WIDE WEB

When the World Wide Web began gaining popularity in the mid-1990s, it didn't take long for the FHLBI to realize that it needed to get on board. By 1996, plans were underway to launch a website called Member Link that would provide members and outside parties with information about the bank.

In 1997 the Member Link public web site was up and running. In 1998, Member Link secure services, which allowed the members to conduct business over the Internet, was rolled out. Bill Nicksin, now Director of Information Technology, led the development, implementation and initial promotion efforts. Beverly Murphy and Bill Davis were key members of the team. Since 2004, Bill Davis has led the development team responsible for Member Link.

RATES, SAFEKEEPING, CMS, ADVANCES, FUND TRANSFER

Member Link usage has increased over the past eight years. Within six months of Member Link's debut, 666 users, or 61% of our member institutions, had signed up to use Member Link. By July 31, 2006, the number of Member Link users had grown to 934 users at 372 member institutions.

The growth in Member Link usage can be attributed to general acceptance of the Internet as a business communication channel, convenience and accessibility of the channel, and to the increase in number of pages and types of business transactions available. The rates section in the secure services area where members can check current as well as historical interest rates is one of the most popular. Another widely used section is safekeeping. Members can view a list of safekeeping securities pledged to the FHLBI, all transactions related to a particular security, outstanding balance for each security, and income projections. In the CMS account section, members can check DDA and Time account activity and transfer funds between accounts.

The credit account inquiries area is frequently accessed by users that want to check on their borrowing capacity or the types of advances outstanding. Details about advances, including prepayment history, future payment schedule, and interest rate schedule, are available. Members can request short-term adjustable rate advances and prepay adjustable loans as well.

Bobbi Smith, assistant vice president and controller at Edgewater Bank in St. Joseph, Mich., uses Member Link on a daily basis. "Two Member Link features I use daily are the rates pages and transferring funds between our accounts," stated Smith. "Transferring funds through Member Link can be done up until 6:00 p.m., so that gives us a little more leeway in meeting our deadlines." Smith said that she frequently uses several other credit services features, including reporting blanket collateral, checking on the bank's outstanding advances portfolio, and referring to the putable advance pre-purchase sensitivity report. Edgewater (formerly LaSalle Federal Savings Bank) was an early Member Link user, signing up for access in 1999.

FINANCIAL MODELS

The FHLBI's financial strategies department supports the financial models section. These models can assist members in learning about how the FHLBI's products can be used to improve financial performance. For example, by using the mortgage funding strategies model, the user can evaluate using excess liquidity in conjunction with long-term advances to profitably manage the funding long-term fixed-rate mortgages. Other models include for marginal cost analysis, valuation of deposit special, and liquidity analysis.

LOOK FOR NEW FEATURES

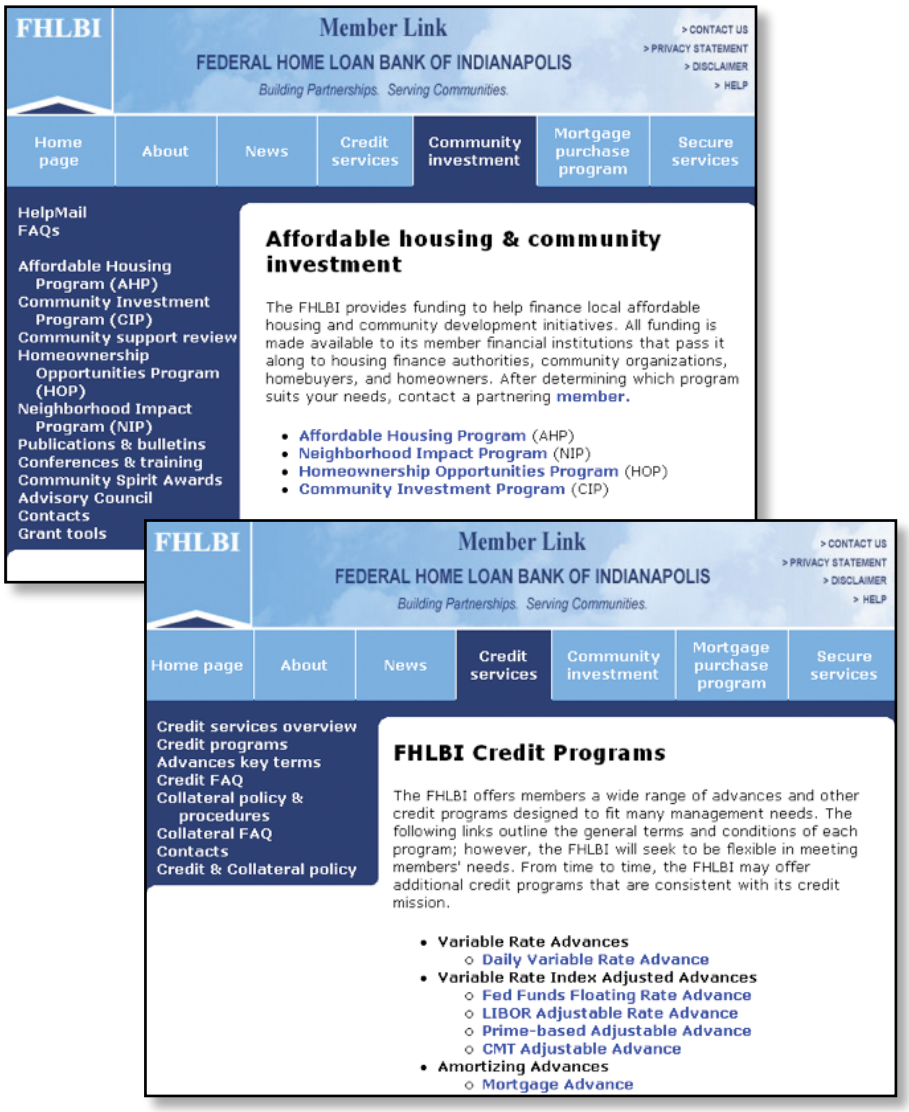
As Member Link matures, FHLBI staff looks for new functions to make the website more useful to members. One feature that will be added within the next six months is the ability to submit specific collateral via Member Link. Currently, members e-mail a list of specific collateral to pledge against advances or submit it on a diskette. Submitting it through Member Link will be more secure and create a more standardized submission file. Members will also receive feedback more quickly if there are problems with the collateral submission because errors will be detected as the submission occurs.

Additionally, a security upgrade for the loan acquisition system (LAS) is being developed. If all goes well, the SecurID card used to to gain access to Member Link secure services will also be able to be used to access LAS so that users of both systems will not have to log in separately to each system.

AFFORDABLE HOUSING PROGRAM ACCESS VIA THE WEB

While secure services handles the business of the bank, the public web site is quite useful as well. The Community Investment section is particularly useful since it contains all the information and forms necessary to apply for grants through the Affordable Housing Program. More recent additions to the public site include program materials for the Mortgage Purchase Program and credit services. Also, since the Bank is now an SEC registrant, timely release of information to the public is even more critical. The public web site serves as one of the vehicles to communicate this information to our constituents.

"Member Link staff is committed to providing useful functionality and outstanding customer service," commented Bill Davis. "Members should be able to conduct business through Member Link easily in a secure environment. That's what we strive for."



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To sign up for access to secure services on Member Link, call Michael Ryan at 317.465.0317. Current users may call 317.465.0390 for assistance with their Member Link accounts.

Community Spirit Awards

FHLBI Honors Men for Dedication to Community

BY CHELSEA CHURCH, COMMUNITY INVESTMENT COMMUNICATIONS AMINISTRATOR

COMMUNITY, SPIRIT, ACTION

Each year, the FHLBI presents two Community Spirit Awards (CSA) to honor individuals from member financial institutions in Michigan and Indiana who have shown outstanding dedication to affordable housing and community economic development. Judging is based on a nominee's dedication to community, spirit and action.

Patrick Lonergan, vice president community affairs for Fifth Third Bank serving west Michigan, was honored in June at the Michigan Conference on Affordable Housing in Lansing. The conference brought together over 1,600 affordable housing leaders and is the largest of its kind in the nation.

Patrick Botts, president and COO of Mutual Federal Savings Bank of Muncie, was honored in September at the Indiana Statewide Conference on Housing and Community Economic Development in downtown Indianapolis. The awards ceremony was presided over by Lieutenant Governor Becky Skillman.

A respected veteran of the community investment industry, Lonergan has been a positive influence in Michigan communities for several years. He joined Fifth Third Bank as a credit analyst in June 1985 and for the last 11 years has served in his current position.

Lonergan serves on the Advisory Council of the Michigan Great Lakes Capital Fund for Housing, dedicated to creating sustainable communities for the poor and underprivileged through the use of tax benefits and investments. He is a board member for The Fair Housing Center of Grand Rapids and Capital Fund Services, Inc. He's also

Patrick Lonergan
Vice President
Community Affairs
Fifth Third Bank
Grand Rapids, Michigan

Patrick Botts
President & COO
Mutual Federal
Savings Bank,
Muncie, Indiana

a member of the Grand Rapids Urban League, which promotes diversity and empowers African Americans to enter the economical and social mainstream. He received a bachelor's degree and a masters in business administration from the University of Wisconsin.

Botts was nominated by the Muncie Mission Ministries, Inc. because of his dedication to the Mission's capital campaign. Botts served as fundraising chairman for the campaign that has raised over $2.9 million to date. In addition to the Muncie Mission, Botts is active in the Muncie community where he serves as a board member of Greater Muncie Habitat for Humanity, chair-elect of the United Way Board, and a member of High Street United Methodist Church and the Muncie Home Builders Association where he is a past board member and vice president.

Botts earned his bachelor's degree in finance from Ball State University. Additionally, he is a graduate of the Graduate School of Banking at the University of Wisconsin.

ABOUT FHLBI

BANK PERFORMANCE

($ in millions)

As of September 30, 2006

Assets	**$48,318**
Advances outstanding	**$22,955**
MPP mortgages outstanding	**$ 9,868**
Net income	**$90.5**
Retained earnings	**$162.5**
Return on average equity	**5.44%**
Number of members	**440**

New members approved from May 1 to November 8, 2006

Davison State Bank, Davison, MI
Michigan First Credit Union, Detroit, MI
Indiana Business Bank, Indianapolis, IN
American United Life Insurance Co., Indianapolis, IN
The State Life Insurance Co., Indianapolis, IN
Huron Valley State Bank, Milford, MI
Brotherhood Mutual Insurance Co., Fort Wayne, IN
Family First Credit Union, Saginaw, MI
Standard Life Insurance Co. of Indiana, Indianapolis, IN
Community Alliance Credit Union, Dearborn, MI
NStar Community Bank, Bingham Farms, MI

FHLBI

FEDERAL HOME LOAN BANK OF INDIANAPOLIS

In response to our members' request for another choice for secondary market sales, the FHLBI introduced the Mortgage Purchase Program in 2001. To date, over $17 billion in mortgage loans have been purchased from participating financial institutions.

Building Partnerships. Serving Communities.

The Federal Home Loan Bank of Indianapolis understands that to be successful it must be market driven and positioned to meet and exceed customer expectations.

For more information about FHLBI's products, contact your Relationship Manager at 800.442.2568.

For more information about the Mortgage Purchase Program, call 800.274.4636.

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

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