FHLB Indepth

FHLBI

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

IN THIS ISSUE

Building Partnerships. Serving Communities.

Because FHLBI offers many different products, including overnight and option-embedded advances, Letters of Credit, and community investment project specific funding, members like First Internet Bank can access the capital markets to attain a competitive advantage. By using our products, members have an efficient means to leverage their capital. Whenever possible, the FHLBI strives to be flexible in meeting members' needs, and we frequently offer specials that members may find attractive.

Dates to Remember

AFFORDABLE HOUSING PROGRAM

on or about
June 16 2007 Round A, AHP awards announced

on or about
September 13 2007 AHP Round B opens

REGIONAL MEMBER MEETINGS

July 17 Shepherd's Hollow, Clarkston, MI
July 23 The Bridgewater Club, Carmel, IN
July 31 Eagle Eye Golf Club, Bath, MI
August 7 Blackthorn Golf Club, South Bend, IN
August 21 French Lick Resort Casino, French Lick, IN

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

About the cover:
David Becker, President & CEO, and Laurinda Swank, Senior Vice President/Chief Financial officer, of First Internet Bank of Indiana. First Internet Bank, appropriately located on Innovation Boulevard on the northwest side of Indianapolis, advertises "No branches. No lines. No banker's hours." Opened in February 1999, First IB was the first state-chartered, FDIC-insured institution to operate solely via the Internet.

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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.**

LETTER FROM THE INTERIM PRESIDENT & CEO

As you know Marty Heger, former President & CEO of the FHLBI, retired at year-end 2006. I am honored to have been selected by our Board of Directors to serve in the interim until a permanent president is named. Marty and the other senior managers who accepted the early retirement package left behind a capable staff with long service records. I am proud of their willingness to accept additional responsibilities during our re-organization and thank them for their support. As a team, we have continued to focus on the implementation of several important expense reduction initiatives begun last year to improve the FHLBI's financial performance without sacrificing service to our members.

In addition to the changes in senior management, there are also a number of new faces in the board room. In March, we were all saddened by the passing of our friend and colleague, Ron Seals. Ron had been a director of the FHLBI since 2003. His advice and counsel will be greatly missed. In May, our Board appointed a replacement for Mr. Seals to serve for the remainder of his unexpired term. After adopting a regulation to govern the process, the Federal Housing Finance Board appointed four new public interest directors to our Board in April. These appointments provided us with a full slate of directors for the first time since the end of 2004. We are pleased to welcome each of the new directors – Jonathan Bradford, Michael Hannigan, James Logue III, Robert Long and Michael Petrie. You can read more about each of them on page 2.

The Board and bank staff have begun the strategic planning process for 2008-2010. We are tackling a number of challenges, such as the loss of two of our largest advance users and three of our largest MPP participants. The financial services landscape is constantly changing due to mergers and acquisitions, and having a detailed plan in place ensures that we are prepared for the future.

We have been actively pursuing insurance companies over the last couple of years as a way to expand our business, and that membership segment now numbers 23. Insurance companies have always been eligible to join the FHLBank System, but the Gramm-Leach-Bliley Act of 1999 made using our products and services easier for them. Advances to this important customer group grew an impressive $719 million in the first quarter of this year.

We recently completed our first year of filing financial statements as an SEC registrant and are now busy assessing the effectiveness of our internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Registering with the SEC and filing required documents have not necessarily been easy tasks, but doing so provides greater disclosure of our financial condition, which is good for both our stockholders and investors in FHLBank bonds.

Our annual Regional Members Meetings begin July 17, and I encourage you to attend one of the five venues in Michigan and Indiana. These gatherings provide an excellent educational opportunity and, just as importantly, an occasion to talk with FHLBI staff and industry colleagues.

On a final note, 2007 marks the 75th anniversary of the FHLBank System. The history book that many of you have received in the mail documents the development of the System and highlights milestones for the FHLBI. The System was created during the Great Depression to make mortgage financing readily available so that more people could realize the dream of homeownership. Our focus remains on that important mission. If you would like a complimentary copy of *Financing the Dream*, contact the FHLBI at 317.465.0200.

75 YEARS
FHLBank System
Service to members & communities

Sincerely,

Brian K. Fike

Brian K. Fike
Interim President & CEO

FHLBI Adds New Directors To Board

The FHLBI's Board of Directors recently elected **Michael F. Petrie** to fill the remainder of a three-year term that commenced on January 1, 2006. This Indiana elective seat became vacant due to the death of Director Ronald G. Seals on March 31, 2007. Petrie serves as Chairman and CEO of Greensfork Township State Bank, Spartanburg, Indiana, and is an officer of P/R Mortgage & Investment Corporation, a mortgage banking subsidiary of Greensfork Township Bank, which primarily originates and services multifamily rental housing agency loans. Petrie also served as chairman of the Mortgage Bankers Association in 2004-2005. Mr. Petrie holds a BS and an MBA degree from Indiana University and is a Certified Mortgage Banker and an Accredited Mortgage Professional.

The Board also has four new public interest directors as a result of the Federal Housing Finance Board's rule establishing procedures for the selection of appointive directors to the boards of FHLBanks. The Finance Board has appointed the following people to serve on the FHLBI's Board.

Robert D. Long: Recently retired from KPMG where he worked for 30 years, Long served as an Audit Partner and the Managing Partner of the Indianapolis office of KPMG after transferring from KPMG's Atlanta office in 1980. Currently, Mr. Long serves on the advisory committees for Indiana University's Kelley School of Business and the Kelley School Accounting Department.

Michael J. Hannigan: Hannigan is president of the Hannigan Company, LLC. Most recently, he was an executive vice president with the Precedent Companies, Inc. Prior to that he founded the Precedent Financial Corporation where he served as CEO from 1986 to 1996. From 1971 through 1986 he was an executive with the Waterfield Financial Corporation/Union Federal Savings Bank. Hannigan served on the FHLBI's Board as a public interest director from 2001 through 2003, serving as vice chair in 2002-2003.

Jonathan P. Bradford: Bradford is President and CEO of the Inner City Christian Federation in Grand Rapids, Michigan. Mr. Bradford holds a master's degree in social work from the University of Michigan, Ann Arbor, where his study concentration was Housing/Community Development Policy and Planning.

James L. Logue III: Logue is Senior Vice President and Chief Operating Officer of the Great Lakes Capital Fund, a non-profit real estate investment firm specializing in affordable multifamily rental development. It conducts business in Indiana and Michigan. Logue is a former Executive Director of the Michigan State Housing Development Authority.

From left: **Michael Petrie, Jonathan Bradford, Chuck Crow (Board Vice Chairman), Michael Hannigan, and Robert Long.** *Not pictured:* **James Logue.**

FHLBI & Industry News

REP. JULIA CARSON VISITS FHLBI

Rep. Julia Carson (D-IN), a member of the House Financial Services Committee, spoke to about 25 people during a luncheon at the FHLBI. Co-sponsored by the Indiana Bankers Association (IBA), the visit provided an opportunity for Rep. Carson to bring us up to date on issues currently being discussed in Congress and for attendees to ask questions.

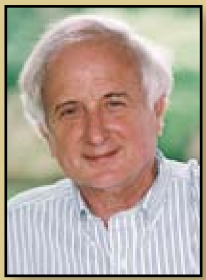
Rep. Carson, a member of the Financial Services Committee for 12 years, is currently helping to draft legislation for a bill to protect consumers from identity theft. She said the current version of the bill holds a financial institution responsible for losses incurred by victims of identity theft, something which she is somewhat opposed to.

To help combat foreclosures and mortgage fraud, Rep. Carson is serving on a local task force that is working to develop ways to bring the lender and the borrower together. Early intervention could mean fewer foreclosures and less fraud. A hotline has been established for people to report possible fraud and to seek assistance. About 500 people a month call into the hotline; the task force's goal is to double that number.

Rep. Carson also spoke about predatory lending, financial literacy, and Wal-Mart entering the financial services business.

Standing: **Jonathan West**, SVP General Counsel, FHLBI; **Chuck Crow**, Chairman, President & CEO of Community Bank, Noblesville, IN; **Brian Fike**, Interim President & CEO, FHLBI; **Beth Neese**, Vice President, Government Relations at IBA; *Seated:* **Rep. Julia Carson**, (D-IN).

LAWMAKERS INTRODUCE BILL TO PERMIT FHLBANKS TO CREDIT SUPPORT TAX-EXEMPT BONDS



Rep. Sander Levin (D-MI)

Representative Sander Levin (D-MI), a senior member of the House Ways and Means Committee, introduced HR 2091 on May 1. He was joined as original co-sponsors by Ways and Means member Phil English (R-PA), and the Chairman and Ranking Member of the House Capital Markets Subcommittee Rep. Paul Kanjorski (D-PA) and Rep. Deborah Price (R-OH).This legislation will allow community banks to help municipalities. The bill fosters economic development by reducing the financing costs of non-housing, tax-exempt community bond issues.

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

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

This proposal has been endorsed by numerous groups in the private and public sector. The FHLBI thanks Congressman Levin for his leadership on this important issue.

For more information on the FHLBI's letter of credit program, contact Brian McCoy, advances manager, or Mark Pascarella, lending officer, at 800.442-2563.

Supporters of banks participating in tax-exempt municipal financing:

Private sector:

- America's Community Bankers
- American Bankers Association
- Council of Federal Home Loan Banks
- Independent Community Bankers of America
- Mortgage Bankers Association
- National Association of Homebuilders

Public sector:

- National League of Cities
- U.S. Conference of Mayors
- National Council of Health Facilities Finance Authorities
- National Association of Higher Education Facilities Authorities

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, or the Finance Board's website at www.fhfb.gov.

During a meeting with one of your largest business customers, you learn they need to wire funds to Japan, England, Spain or China and expect you to handle the transfers.

FHLBI Now Offers International Wire Service

Instead of your staff spending valuable time tracking down exchange rates or searching (perhaps in vain) for U.S. correspondent banks, why not let FHLBI help you save time and money?

BY PAULA MITCHELL, FUNDS TRANSFER ANALYST

INTERNATIONAL WIRES

An international wire is any transfer of funds between a financial institution in the U.S. and one in a foreign country. These transfers can be created either in the currency of the originating country or the receiving country. While many international wires facilitate the needs of the business community, they are also an effective way to help your customers meet the needs of travelers or family members.

There is no single payment system to transfer funds between countries, so banks must rely on correspondent relationships to facilitate international transfers. FHLBI has partnered with the Bank of New York to provide members with foreign wire service. Through this partnership, we are able to provide members' customers a way to transfer funds from the U.S. to foreign countries in either U.S. dollars or several foreign currencies. FHLBI uses its wire system to transfer funds to the Bank of New York.

After receiving the transfer, Bank of New York uses its extensive correspondent relationships to credit the funds to the foreign banks and format the payment instructions into SWIFT messages. SWIFT (Society for Worldwide Interbank Financial Telecommunication) is an industry-owned cooperative supplying secure, standardized messaging services to nearly 8,000 financial institutions in 206 countries and territories.

Your customer's supplier in a foreign country has informed them they need to start including an IBAN when sending payments. Your customer wants to know more about IBANs. Are they required on payments going to all foreign countries and should they all be formatted the same way? Again, a phone call to Cash Management can help you answer these questions.

An International Bank Account Number (IBAN) is an alphanumeric code that may contain up to 34 characters. This number identifies the specific country, bank and account number of a payments beneficiary, only if the account is held within the European Economic Area (EEA). IBANs are not intended to be replacements for the local bank account number but are meant to co-exist with it. They were created to facilitate the automatic processing of transfers within the EEA and minimize routing errors caused by manual processing and/or repairs.

As the EEA banking system has evolved, the use of IBANs has become more accepted. Regulations passed in 2005 allow (but do not require) banks inside the EEA to reject Eurodollar and Swedish Krona payments originating inside the EU (European Union) that do not include both the beneficiary bank's Bank Identifier Code (BIC) and the beneficiary's IBAN beginning in 2007. BICs are a standardized unique identification code for a particular Bank. SWIFT is responsible for the registration of these codes, which is why they may also be referred to as SWIFT addresses or codes. Recently, the Bank of New York informed FHLBI that many European banks have stated that they plan to apply significant repair fees to payments that do not contain both the beneficiary bank's BIC and the beneficiary's IBAN—no matter the currency involved or the country in which the transfer originated. Both Bank of New York and FHLBI strongly recommend that customers sending funds into the EU include BICs and IBANs on all U.S. dollar and foreign currency payments.

IBANs consist of a two letter ISO Country Code, two check digits and the Basic Bank Account Number (BBAN). Currently the EU consists of 25 member countries and 5 candidate countries waiting for admission to the Union. The following table includes the major countries in the EU and the correct formatting for their IBANs. Additional country formatting can be provided upon request.

COUNTRY	IBAN FORMAT *country code shown in bold*
Great Britain	**GB**KK BBBB SSSS SSCC CCCC CC
Denmark	**DK**KK BBBB CCCC CCCC CC
France	**FR**KK BBBB BGGG GGCC CCCC CCCC CKK
Germany	**DE**KK BBBB BBBB CCCC CCCC CC
Greece	**GR**KK BBB BBBB CCCC CCCC CCCC CCCC
Ireland	**IE**KK AAAA BBBB BBCC CCCC CC
Portugal	**PT**KK BBBB BBBB CCCC CCCC CCCK K
Spain	**ES**KK BBBB GGGG KKCC CCCC CCCC

A= first alphanumeric characters of SWIFT code B=bank/branch code S=sort code C=account number G=code guichet K=check digit

Several days after you send a transfer for your customer, they call complaining the beneficiary has not yet received the funds. This delay could have several causes which FHLBI can assist you in resolving.

Wire transfers between U.S. banks typically have a current Value Date (the date on which the funds are made available to the beneficiary) since the receiving bank can reasonably be expected to process the transfer the same day the funds are sent. However, this is not the case with international transfers. Because banks can not be expected to process transactions outside their normal business hours, the Value Date for international wires is a future date. Typically, wires sent to Canada or Mexico will have a Value Date of the next business day, while funds sent to other countries will not be credited until the second business day.

Other delays may be caused by providing incorrect or incomplete wiring instructions. This is the most common problem and the easiest to avoid. Another common reason is the beneficiary account is held in a branch located in a remote region. In some less developed countries, payment instructions may be sent by messenger from a main city out to the branch many miles away, which could take several days to reach the receiving branch. If you or your customer feel sufficient time has passed and the beneficiary has not been credited, contact the Cash Management area to begin the trace process. We will send a message out asking that the receiving bank notify us of the date and amount credited to the beneficiary or to let us know if more information is required to assist them in applying the funds. Once we receive a response, we will contact your organization with the outcome.

Next, your customer informs you that they need to send 250 Eurodollars to France. How are you going to figure out what to charge him for the transfer? Cash Management will help you solve your dilemma.

FHLBI can create international transfers in either U.S. dollars or the currency of most countries. The transfers sent in U.S. dollars are typically sent "bene-deduct." This means that additional processing fees charged by any bank other than FHLBI will be deducted from the amount of the transfer. In most cases this is the most economical option for your customer, as they only pay the wire transfer fee your institution charges. This option has become the industry standard, since most businesses are aware that fees will be deducted from the transfer amount and are willing to accept the lower amount.

But that is not the only option available to your customers. Through our partnership with Bank of New York, we have daily access to exchange rates for most commonly traded foreign currencies. When you call the Cash Management staff, we are able to give an exchange rate and the equivalent U.S. dollar amount for over 45 different currencies. FHLBI also has access to Bank of New York's foreign exchange traders who may be able to secure a more beneficial exchange rate on transfers equal to or greater than $50,000 U.S. dollars. Sending transfers in foreign currencies typically costs more since the originator pays all the processing fees up front.

Now your customer needs to receive money from overseas. The overseas bank is insisting on a SWIFT address for the receiving bank. You aren't a member of the SWIFT network, so how can the overseas bank get these funds to your customer?

An exciting new benefit of the partnership between FHLBI and the Bank of New York will help you solve this problem. FHLBI can now provide detailed wire instructions for inbound international transfers that include a specific Bank of New York SWIFT address. The originator will provide these instructions to their bank which directs the funds into FHLBI's account at Bank of New York. The transfer will then be automatically remapped into a FEDWIRE transaction the same day it is received and sent on to FHLBI for credit to your account. All the information, including your customer's name and account number, originally included in the SWIFT message, will be included in the FEDWIRE message.

* * *

For more information about international wires or other correspondent services, contact Lisa Chilcote, cash manager, at 317.465.0477 or Betty Craven, advances/correspondent services operations manager, at 317.465.0374.

Another structured funding solution, the "Flipper" advance, is the FHLBI's latest product offering for member institutions.

FHLBI Launches Flipper Advance

The Flipper structure is a combination of a sub-LIBOR floating-rate advance and a fixed-rate putable advance.

flip

BY BRIAN MCCOY, AVP, ADVANCES MANAGER

BERMUDAN OR EUROPEAN STRUCTURE

The Flipper advance is the FHLBI's latest product offering for member institutions. The Flipper structure is a combination of a sub-LIBOR floating-rate advance and a fixed-rate putable advance.

The Flipper provides members the opportunity to enjoy sub-LIBOR floating rate funding for an initial period, followed by a fixed-rate putable feature. As with our existing putable advances, the member sells the FHLBI an option(s) to put the advance back to the member after a predetermined floating rate period. By selling the put option(s), the member receives sub-LIBOR pricing during the lock-out period. The member can choose the level of sub-LIBOR pricing it receives, which in turn will dictate the fixed rate applied after the lock-out period. As with the existing putables, the borrower can choose to sell a one-time option in a *"European"* structure or multiple options in a "*Bermudan*" structure.

As an example, the following is a 5/1 Flipper *Bermudan* structure, priced at 3 month LIBOR minus 50 basis points. For the initial one-year period, the rate will adjust on a quarterly basis at 3 month LIBOR minus 50 basis points. At the end of one year, the advance will "flip" or convert to a fixed-rate putable advance at a predetermined interest rate (putable quarterly by the FHLBI). If, after the one-year lock-out period prevailing market rates for the remaining four years are *below* the rate on the putable advance, the FHLBI will likely not elect to put the advance. In this case, the advance would convert to the predetermined fixed rate and become a four-year fixed-rate putable advance. On the other hand, if prevailing market rates for the remaining four years are *above* the predetermined rate on the advance, the FHLBI would likely exercise the option and the member would have two options: pay off the advance and obtain alternative funding, such as another type of advance, or allow the advance to convert to a floating rate product at the prevailing pricing for 3 month LIBOR floaters. Other factors, such as volatility and remaining term, may affect the FHLBI's decision to put the advance.

The Flipper could also be structured with a *European* conversion option, which means that the FHLBI will have the option to put the advance only once (after the initial lock out). During the one-year lock-out period, the advance would be priced at 3 month LIBOR minus 50 basis points as with the *Bermudan*. The rate would adjust quarterly during the first year, and on the one-year anniversary, the FHLBI would have the option to put the advance. If the FHLBI elected not to put the advance, the advance would convert to a predetermined fixed rate and become a four-year fixed-rate advance. As with the *Bermudan*, if the FHLBI exercises its option to put the advance, the member will have two options: pay off the advance and obtain alternative funding, such as another type of advance, or allow the advance to convert to a floating rate product at the prevailing pricing for 3 month LIBOR floaters.

Some indicative pricing for selected Flipper Advances as of 5.22.07.

3yr non put 1yr

Floating Rate for Year 1	Fixed Rate for Year 2-3
3 month LIBOR - 50bps	4.97%
3 month LIBOR - 75bps	5.21%
3 month LIBOR - 100bps	5.42%

5yr non put 1yr

Floating Rate for Year 1	Fixed Rate for Year 2-5
3 month LIBOR - 50bps	4.50%
3 month LIBOR - 75bps	4.71%
3 month LIBOR - 100bps	4.88%

5yr non put 2yr

Floating Rate for Year 1-2	Fixed Rate for Year 3-5
3 month LIBOR - 50bps	5.06%
3 month LIBOR - 75bps	5.42%
3 month LIBOR - 100bps	5.71%

David B. Becker, Chairman, President & CEO, First Internet Bank and Chuck Rainey, Relationship Manager, FHLBI.

"FHLB advances complement our retail deposits and have been an important source of wholesale funding for First Internet Bank. By offering advance structures not available via retail channels the FHLBI has helped First Internet Bank grow while allowing us to mitigate interest rate risk."

David B. Becker, Chairman, President & CEO
First Internet Bank, Indianapolis, Indiana

SUMMARY

The Flipper Advance offers FHLBI members a tool for macro-balance sheet management, potentially lower funding costs, and sub-LIBOR pricing. In exchange, the member sells the FHLBI an option(s) to put the advance back to the member after a predetermined floating rate period. In a worse case scenario, if, after the lock-out period, market rates are lower than the conversion rate and the advance remains on your books, you've still enjoyed having the sub-LIBOR funding for a meaningful period of time. Members should consider how the Flipper could fit into their overall asset/liability management strategy. Flipper structures can be tailored to suit members' needs (Bermudan or European, LIBOR minus 50 or more, 5/1, 3/1, etc.).

OTHER PRODUCTS

In addition to the flipper, the FHLBI offers a variety of advances to meet our members' funding needs. Two of the most widely used products are the variable-rate and fixed-rate advances. The variable-rate provides a way for members to fund their day-to-day liquidity needs. It's easy to use and is prepayable at any time. The fixed-rate bullet with terms up to 30 years is frequently used for protection against rising interest rates, funding loan originations, or to support an asset that has just been purchased.

Members also like the mortgage advance, which can be used to fund the origination or purchase of mortgage loans or the purchase of mortgage-backed securities. The putable advance is attractive because it initially offers a below-market interest rate in exchange for selling the FHLBI an option(s) to put the advance before maturity on the exercise date(s).

Because we offer many different products, including overnight and option-embedded advances, Letters of Credit, and community investment project specific funding, members can access the capital markets to attain a competitive advantage. By using our products, members like First Internet Bank have an efficient means to leverage their capital. Whenever possible, the FHLBI strives to be flexible in meeting members' needs, and we frequently offer specials that members may find attractive.

For more information about any of FHLBI's advances, including the new flipper advance, call our advances operations staff at 800.442.2568 or your relationship manager.

Advocacy 101 A brief

Through the community investment department, the FHLBI is a member of the Indiana Association for Community Economic Development (IACED). IACED was founded in 1986 to serve community development organizations working on behalf of the disadvantaged and low-income populations in Indiana. The organization serves its members in a variety of ways, including advocating for effective public policy.

Meet the Advocates

ABOUT SANDY BICKEL:
Ms. Bickel, Of Counsel, at Ice Miller LLP, has main practice areas of property tax and public affairs. She is a member of the Indiana Municipal Lawyers, the International Association of Assessing Officials and the Indiana Bar Association. Before entering law school, Ms. Bickel taught in the Elkhart Community School Corporation. She served as Commissioner for the Indiana State Board of Tax Commissioners before joining the firm in 1993. Ms. Bickel holds a BS and MS from Indiana University and earned her J.D. from the Indiana University School of Law, Indianapolis.

ABOUT MARK ST. JOHN:
Mr. St. John is a partner at Lambda Consulting, a governmental affairs and non-profit management consulting business. He is extensively involved in civic activities, some of which include serving as president of the Indiana Coalition for Human Services, treasurer of Rural Opportunities, Inc., and advisory board chair for Rural Opportunities Housing Corporation of Indiana. Prior experience includes serving as manager of community housing development programs for the Indiana Housing Finance Authority and executive director of the Indiana Coalition on Housing and Homeless Issues. Mr. St. John holds a bachelor and master degree in public administration from Indiana University.

BY COMMUNITY INVESTMENT STAFF

IACED contracts with Sandy Bickel and Mark St. John who serve as advocates to represent the memberships' housing and economic development issues. They recently met with Community Investment staff to discuss the 2007 Indiana General Assembly and the issues that are currently affecting the industrly.

LEGISLATIVE GOALS

According to Sandy Bickel, a main purpose of her services on behalf of the IACED has been giving a voice to community and economic development issues in the General Assembly as well as in the governor's office.

"We wanted to give IACED a profile in the General Assembly so that they are the authority on affordable housing. When a legislator has a question about affordable housing we want them to come looking for IACED as the experts," said Bickel.

Bickel says the ultimate goal is to garner the respect the members of IACED deserve for the work they do. "Members of the IACED help provide shelter for those who are in dire need of assistance, including the homeless, low-income and most importantly children, "said Bickel."A stable home goes a long way in helping a child develop the emotional security that is needed to get by in life."

St. John points out that the challenge in making these goals a reality is to make sure legislators are aware of the variety of programs that are available for affordable housing and community economic development activities.

"Non-profits are doing a great job but are still struggling with hiding their light under the bushel a little bit. Locally, they are already coordinating with lending institutions such as FHLBI member banks. The main issue is to be visible on a state level," said St. John.

LOW-INCOME HOUSING TRUST FUND

According to both St. John and Bickel, the most important housing-related legislation going through the General Assembly this year is funding the affordable housing and community development fund (HB 1351). Currently, the law does not provide the trust fund with such a permanent source. As it is currently written, the funding would be generated by new fees from the county recorder's office, a portion of the interest from other state funds and an adjustment in large retailers' sales tax collection discount.

"Establishing a permanent revenue source has been a multiple year effort, "said St. John, "Once the fund has an ongoing revenue source, there will be greater funding flexibility, allowing the state to invest dollars in a wider range of affordable housing and community economic activities on a local level."

Many states are working to provide, or already have established, permanent funding sources for similar affordable housing funds. On a federal level, there is movement of the Federal Housing Finance Reform Act of 2007, which includes an Affordable Housing Fund. Also making headway on a national level, through the National Low-income Housing Coalition, in partnership with over 500 housing advocacy groups across the country, is a campaign to create a National Affordable Housing Trust Fund.

HB 1351 passed the House and was rolled into SB 500 in its entirety. Included in the state budget is $7.8 million to be dedicated for the Indiana Affordable Housing and Community Development Trust Fund and will be administered by the Indiana Housing and Community Development Authority. In addition, the legislature allowed local counties the option of approving a recording fee, 60% to be deposited in a local housing fund and 40% to be deposited in the state's affordable housing and community development fund. Based upon the number of transactions in 2005, it is estimated that if every county were to adopt the recording fee, $11.9 million would be raised for affordable housing.

AFFORDABLE HOUSING ADVISORY COUNCIL NOMINATIONS

The FHLBI is seeking nominations for its Affordable Housing Advisory Council. We're looking for a diverse range of individuals involved in community development and nonprofit organizations. Contact MaryBeth Wott at 317.465.0368 or mwott@fhlbi.com for more information.

**More information on both pieces of legislation can be found at http://www.in.gov/apps/lsa/session/billwatch/.
For information about our community investment programs, please call 800.688.6697 or e-mail housing@fhlbi.com.**

Homeownership Initiatives

BY MARYBETH WOTT, VP, COMMUNITY INVESTMENT OFFICER

HOP AND NIP

Helping families own their own homes is our business. And we know that saving the cash to buy a home is a big hurdle for some, especially first-time homebuyers. For others who already own their own home, having enough money to maintain it can also be a challenge. That's why we designed Homeownership Initiatives. These programs provide funds for owner-occupied housing. Portions of the funds available under the Affordable Housing Program (AHP) are set aside for members to assist homebuyers or homeowners.

Pictured above is the home of Genoveva and Jose Ramos, located in Spring Lake, Michigan. The Ramos family received a $5 ,000 grant in HOP funding through Chemical Bank for a Tri-Cities Area Habitat for Humanity build.

Pictured at left, Krissy Denny with her daughter on the steps in front of their new home in Logansport, Indiana. Krissy was awarded a HOP grant through Security Federal Savings Bank in 2006.

The Homeownership Initiatives Program (HOP) provides up to $5,000 of downpayment and closing cost assistance to first-time home-buyers. The program is administered and marketed by participating members to best serve their customers. The program is fairly simple to use and, therefore, provides member institutions with an additional benefit for their mortgage borrowers.

Neighborhood Impact Program (NIP) provides rehabilitation assistance up to $15,000 for owner-occupied homes. Eligible rehab costs can include roof, gutters, siding, air conditioning, windows and handicap accessibility features as needed.

To maximize funding throughout the year, there are two categories of HOP and NIP – *Express* and *Reserve*.

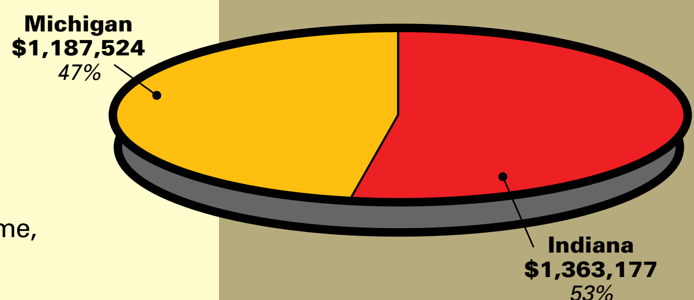
EXPRESS

Under the *Express* component, funds are available on a first-come, first-served basis. In order to participate in the program, FHLBI member financial institutions submit a Registration Form and Agreement, and upon approval, request funds as needed until no funds remain or they reach the maximum allowed amount. *Express* funds are released in two funding rounds, one in March and one in August of each year.

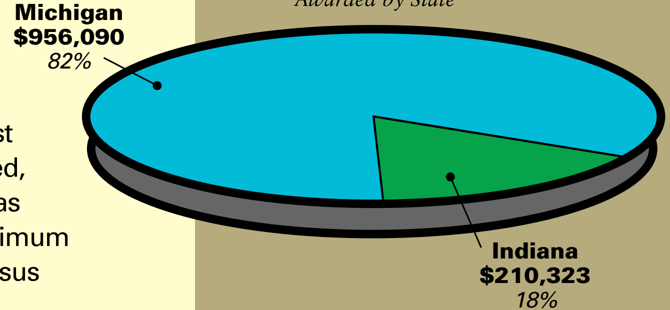
RESERVE

Under the *Reserve* component, member financial institutions must submit an application for a specified amount of funding. If awarded, funds are reserved for a designated period and can be requested as needed until the deadline, usually in February each year. The maximum amount of NIP funds under *Reserve* is $15,000 per household, versus $5,000 with *Express*.

2007
HOP Reserve Subsidy
Awarded by State



2007
NIP Reserve Subsidy
Awarded by State



Regional Member Meetings Feature A.M. Best, Local Economists

Representatives from our member financial institutions are invited to join FHLBI staff, guest speakers, and colleagues at one of the FHLBI's annual Regional Member Meetings at various locations throughout Indiana and Michigan.

The 2007 meetings will feature presentations by FHLBI staff that will help our members understand how our advance products can be used effectively at their financial institutions. Attendees will also hear about enhancements to our Mortgage Purchase Program and opportunities with our successful Affordable Housing and Community Investment Programs.

At two of the meetings – Eagle Eye Golf Club in Bath, Michigan, and The Bridgewater Club in Carmel, Indiana – Khanh Vuong of A.M. Best will provide a banking sector overview, while Andrew Edelsberg will address insurance company issues in a separate break-out session designed especially for our insurance company members that includes a roundtable discussion.

All meetings will include a general session featuring a local economist who will address concerns specific to Indiana and Michigan, such as the brain drain and the decline in manufacturing.

Tuesday, July 17 – Shepherd's Hollow, Clarkston, MI
Tuesday, August 7 – Blackthorn Golf Club, South Bend, IN
Tuesday, August 21 – French Lick Resort & Casino, French Lick, IN

Time	Session
8:15 am - 8:45 am	Continental Breakfast
8:45 am - 9:15 am	General Session, CEO Message
9:15 am - 10:15 am	General Session, Regional Economist
10:15 am - 10:30 am	Break
10:30 am - 11:00 am	Option A: Increasing Your FHLBI Borrowing Capacity
	Option B: Community Lending Opportunities with AHP & CIP
11:00 am - 11:15 am	Break
11:15 am - 11:45 am	Option A: New Products & Funding Strategies in a Challenging Yield Curve Environment
	Option B: MPP Update, New Program Enhancements
11:45 am	Lunch
1:00 pm	Golf
6:00 pm	Cocktails & Hors d'oeuvres
6:45 pm	Prizes

Monday, July 23 – The Bridgewater Club, Carmel, IN
Tuesday, July 31 – Eagle Eye Golf Club, Bath, MI

Time	Session
8:15 am - 8:45 am	Continental Breakfast
8:45 am - 9:15 am	General Session, CEO Message
9:15 am - 10:15 am	General Session, Regional Economist
10:15 am - 10:30 am	Break
BANKS, CREDIT UNIONS, THRIFTS	
10:30 am - 11:45 am	Option A: AM Best Financial Services
	Option B: New Products & Funding Strategies in a Challenging Yield Curve Environment; MPP Update, New Program Enhancements
INSURANCE	
10:30 am - 11:45 am	AM Best Insurance
11:45 am	Lunch
1:00 pm	Golf
6:00 pm	Cocktails & Hors d' oeuvres
6:45 pm	Prizes

REGISTER ON-LINE
WWW.FHLBI.COM

For more information about the Regional Member Meetings, contact Kim Spencer or Bill McDowell at 800.442.2568 or call your relationship manager.

The Mortgage Purchase Program (MPP) is well into its sixth year of purchasing 5 to 30 year term fixed-rate mortgages from FHLBI's member financial institutions. From the onset, the program was developed with members' needs in mind.

MPP Streamlines Operations & Offers Better Pricing, New Options

MPP has evolved to better meet the needs of our members. Recently, several program enhancements, such as more favorable pricing and improved operations, have been causing many to take a fresh look at MPP. While it is not new, many sellers are also taking another look at MPP's servicing released program, which helps them to be more successful in what has become a very competitive environment.

BY SARA HAUSERMANN, AVP, MPP QUALITY ASSURANCE MANAGER

BETTER PRICING

Better pricing comes directly from the new pool aggregation enhancement, which was developed in cooperation with FHLBI's supplemental mortgage insurance (SMI) partners, MGIC and Genworth Financial. Essentially, by pooling smaller master commitment contracts (MCCs) together, FHLBI is able to purchase a blanket policy on groups of MCCs. This allows FHLBI to purchase SMI at a discounted rate.

This significant reduction in the credit enhancement cost of the program yields a savings that is passed on to members participating in the program in their upfront price. This cost savings benefits our small- to mid-sized mortgage sellers – those that have MCCs of less than $100 million.

LENDER RISK ACCOUNT

MPP is set apart from other industry outlets in that it offers the advantage of the unique "Lender Risk Account" (LRA). The LRA allows sellers to receive cash payouts when a pool experiences less than expected losses down the road. With the Pool Aggregation program, sellers receive improved upfront pricing due to lower credit enhancement costs achieved by aggregating loans from various members. The LRA for the Pool Aggregation program differs slightly from the original structure as the LRAs for sellers participating in the Pool Aggregation program are pooled together to cover all loans in the pool in the unlikely event that an individual seller exhausts its own LRA. As always, sellers have no exposure to credit losses beyond the value of their LRA.

In addition to improved pricing, many sellers are taking a fresh look at MPP because of improved operations.

Simplified MPP application – The information obtained for the application to participate in the Mortgage Purchase Program has been streamlined, reducing the information required and eliminating a required sample data file.

Elimination of Final Certifications – As of June 2005, MPP suspended the requirement of final certifications for document custodian files. MPP used to require that documents sent for recording (the original mortgage, interim assignments, etc.) be forwarded to the document custodian upon completion of the recording process and certified within one year by the document custodian. Now, copies of these documents are submitted with the initial certification package and no final certification is needed. This change reduces costs and improves operations for sellers in several ways including reducing the fees paid to document custodians to perform multiple certifications, reducing overnight and postage fees, and reducing time spent tracking items.

Streamlining Quality Assurance Process – As of January 2006, MPP selects random files for Quality Assurance (QA) quarterly instead of monthly. This change streamlines operations and reduces costs for sellers by reducing overnight and postage fees and streamlining the labor involved in pulling files, tracking items, and responding to QA letters. This enhancement was achieved without reducing the effectiveness of an active QA program.

Actual/Actual Servicing – MPP now allows servicers to choose between Scheduled/Scheduled and Actual/Actual servicing, which puts the servicer at an advantage to pick the option that is the right fit. Both remittance types have advantages, but often in the world of servicing it comes down to which type is better based on the ability to integrate it into the servicer's current systems and operations. This option allows a servicer to choose the remittance type that integrates the easiest with existing platforms, staff, and experience levels.

Eliminating Signatures on MDCs – When MPP was first developed, the concept of performing electronic trades was still relatively new. Because of that, MPP used to require sellers to print and sign copies of Mandatory Delivery Contracts (MDCs) and fax these copies to FHLBI to confirm the trade. Now that electronic transactions in banking have become part of how the industry does business, this second step has been eliminated. In June 2005, MPP announced that it no longer requires sellers to sign a copy of an MDC and fax it to FHLBI. This change reduces time, money, and waste, which all help to streamline the operations of the program.

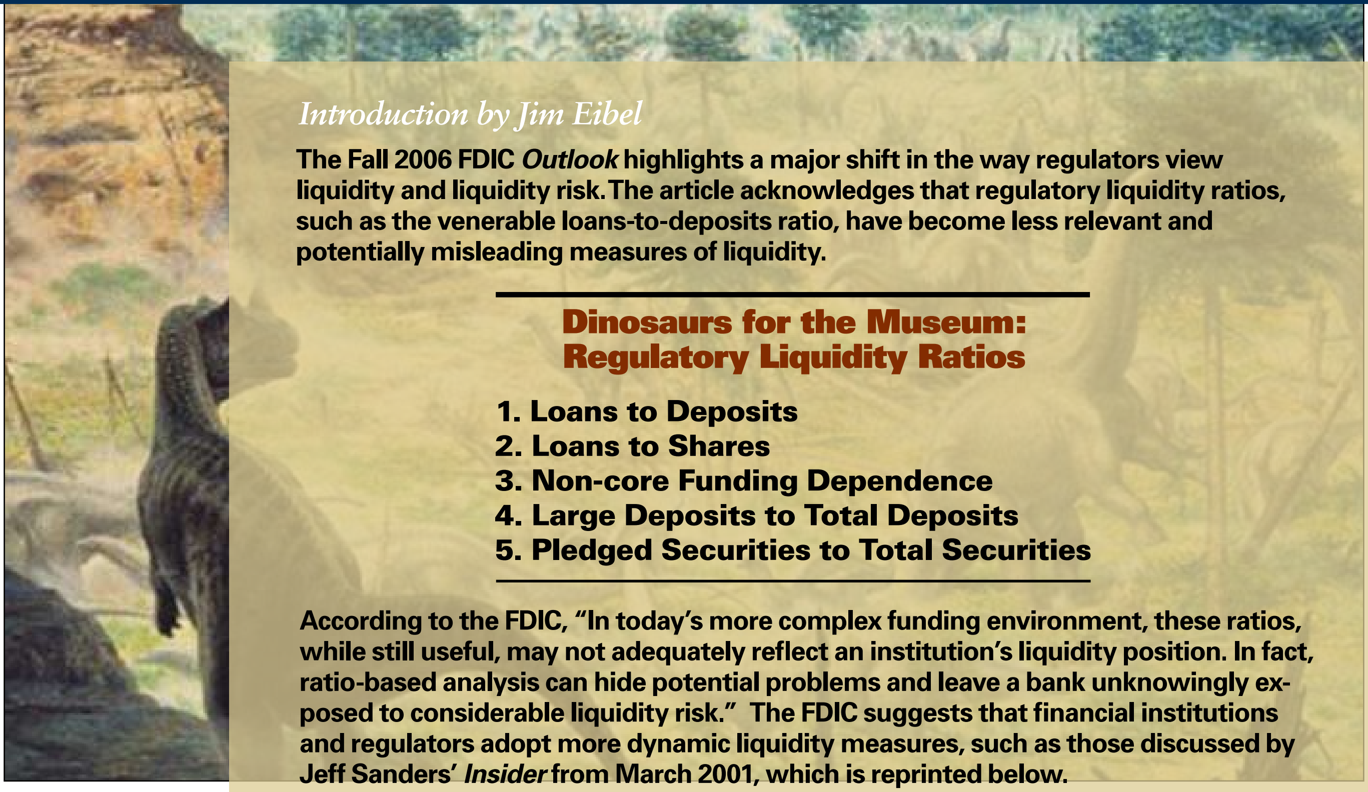
Enhanced Website – MPP has added the MPP Guide, MPP application package, and other MPP forms and materials to FHLBI's main website at

http://www.fhlbi.com/mpp/progmaterials.asp

This makes certain that the necessary forms, materials, and tools are available for sellers and prospective sellers at the click of a mouse. You can use the materials online, save them to your hard drive, or print them for easy reference. This added feature is at no cost to sellers, unlike other agencies that require a subscription to a third party service to view their guidelines.

Servicing Released Option – Another way to maximize profit with minimum operational change is to consider selling to MPP via the servicing released option. By utilizing this strategy, sellers receive the same competitive upfront pricing, which can be through pool aggregation or the original structure, plus a competitive servicing released premium that is paid at the time of the sale. This option adds to MPP's flexibility and allows sellers to choose the method of selling to FHLBI that suits their institution's goals and objectives.

For more information on pool aggregation, improved MPP operations, or the servicing released option, please call FHLBI's MPP Department at 800.274.4636 and ask for an acquisitions representative.



Introduction by Jim Eibel

The Fall 2006 FDIC *Outlook* highlights a major shift in the way regulators view liquidity and liquidity risk. The article acknowledges that regulatory liquidity ratios, such as the venerable loans-to-deposits ratio, have become less relevant and potentially misleading measures of liquidity.

Dinosaurs for the Museum: Regulatory Liquidity Ratios

1. **Loans to Deposits**
2. **Loans to Shares**
3. **Non-core Funding Dependence**
4. **Large Deposits to Total Deposits**
5. **Pledged Securities to Total Securities**

According to the FDIC, "In today's more complex funding environment, these ratios, while still useful, may not adequately reflect an institution's liquidity position. In fact, ratio-based analysis can hide potential problems and leave a bank unknowingly exposed to considerable liquidity risk." The FDIC suggests that financial institutions and regulators adopt more dynamic liquidity measures, such as those discussed by Jeff Sanders' *Insider* from March 2001, which is reprinted below.

The Fall 2006 FDIC Outlook (http://www.fdic.gov/bank/analytical/regional/ro20063q/na/index.html)

Regulators are looking much harder at advance usage by Federal Home Loan Bank members.

Liquidity Management & Other Regulatory Issues: Beyond Loans to Deposits

Usually, additional regulatory scrutiny focuses on activities that could increase a bank's risk profile. With advances, the attention stems from a solution to a problem: funding asset growth during periods of low deposit growth.

BY JEFF SANDERS, VP, DIRECTOR OF CORPORATE AND OPERATONAL RISK

LIQUIDITY CONCERNS

Portfolio yields can be increased by replacing liquid investments with loans. When liquidity declines, borrowing capacity must be part of ongoing liquidity assessment. Traditional liquidity measures such as loans-to-deposit and dependence ratios may be used to challenge any reduction of liquidity. Meet the challenge by noting that borrowing FHLBank funds delivers liquidity just as quickly as selling investment securities, provided borrowing capacity is readily available. Taking this opportunity to construct a higher yielding asset portfolio should be supported by clear policy guidelines and sound cash management procedures.

However, when growing advance balances deplete the borrowing capacity, action is needed so that funds will be available to prevent an unanticipated funding crisis. A contingency funding plan can address the issue by quantifying what internal (asset sales) and external funding sources would be available during a crunch. Active monitoring of potential cash flows is another important step in minimizing the likelihood of a liquidity shortfall.

Regulators are very focused on how reliable advance funding would be if an institution's financial condition began to deteriorate, fearing the loss of liquidity just when it is needed most. But since members borrow on a secured basis, the FHLBI can lend to troubled institutions with liquidity needs as long as they have adequate collateral. However, these members would face more stringent collateral requirements and additional monitoring, and only certain advance types would be available.

GROWTH ISSUES

Any asset growth can create legitimate regulatory concerns such as lower capital ratios, riskier loans, and declining ROAs. These issues are a concern in any strategic decision to grow. But once the decision to grow is made, the funding manager must locate the best available funding options consistent with internal policy guidelines. Normally, the choice is among FHLB advances, brokered CDs, reverse repurchase agreements, and aggressive deposit specials.

An institution's reliance on advances increases through funding growth or replacing existing deposits. Advances improve net income when their cost is less than the full cost of deposit specials. That full cost equals the rate paid for new deposits (including retention of deposits that would have been lost without the special rate) plus the additional cost of existing deposits shifting into the special rate category. The marginal cost model on Member Link helps estimate and document the full cost of deposit specials. Of course, directors should be actively involved in overseeing a shift in funding strategy.

Funding growth with advances may actually curtail an institution's ability to invest in higher risk assets due to collateral requirements. Borrowing capacity varies inversely with the risk level of the assets serving as collateral. Specifically, if a member shifts its loan mix toward higher risk products, its available collateral, and thus its capacity for advances, should decline.

INTEREST RATE RISK

Advances can be an integral part of an interest rate risk management program. Terms ranging from one day to thirty years are useful in structuring the risk profile. The greatest benefit occurs when a full balance sheet risk perspective drives the selection of advance terms.

The FHLBI routinely assists members in determining desirable advance term strategies, using full balance sheet analysis.

The conversion option in putable advances creates a separate issue. The FHLBI retains the ability to convert a putable advance from a fixed to an adjustable rate after a predetermined lock-out period. There is no liquidity risk at conversion since the member may choose to retain the funds until maturity as an adjustable-rate advance. However, there is interest rate risk, which the member is compensated for through a lower rate on the advance.

The FHLBI shares the regulatory view that putable advances require oversight. So, we 1) require a pre-purchase disclosure that the risk has been reviewed, 2) offer analytic support via customized modeling and on-line valuation reports, and 3) monitor usage as a proportion of advances. The potential use of putables should be reflected in the appropriate policies. Management should be able to demonstrate that putable risks are consistent with the desired balance sheet risk profile.

Members may use putables to improve their risk profile and lower their funding costs, provided they understand and measure the risks of the product. A lock-out period of five years provides the same protection against rising interest rates as a five-year fixed-rate advance or CD. Should rates decline, the advance rate may remain unchanged until the final maturity, making the total cost less attractive than a series of shorter-term advances.

Bottom Line

The following statement from RD Memo 00-046 issued by the FDIC on August 22, 2000, offers one regulator's perspective. "The FDIC does not discourage the use of FHLBI advances as part of a well-managed funding program. However, management of institutions that use advances should fully understand the risks that may be associated with their use." Essentially, regulators want management to show an understanding of the role of advances in conducting their business. To that end, members should do the following things.

- **Cover advance usage in the proper policies and in the business plan.**
- **Address advance usage only in policies pertaining to funding instruments.**
- **Make sure the board monitors a dvance activity.**
- **Monitor liquidity in terms of both assets and available borrowing capacity.**
- **Maintain a liquidity contingency plan.**
- **Document the rationale for funding strategies involving advances.**
- **Complete pre-transaction analysis for the use of putable advances.**
- **Contact the FHLBI to discuss concerns or emerging issues.**

Active planning and monitoring of funding strategies not only provide profit and risk management opportunities; they also help ensure the safety and soundness of your bank.

For more information about the FHLBI's advance products and how they can be used by your institution, call the advances operations staff at 800.442.2568 or your relationship manager.

New in 2007

Factor FDIC Insurance Premium into Your Funding Decisions

BY DOREEN KONING, AVP, SR. FINANCIAL STRATEGIST

EVALUATING GROWTH STRATEGIES

When evaluating funding costs, it has long been stressed to compare the marginal cost of deposits versus wholsale funding (i.e., FHLBI advances). Cannibalization from existing deposit balances can drive up marginal cost and now FDIC insurance premiums will be increasing the cost of raising deposits.

Effective January 1, 2007, the FDIC will be charging banks 5 to 43 basis points (bp) on deposits, based on the institution's risk of failure. This is being done in order to raise the Deposit Insurance Fund's ratio of reserves to deposits to 1.25% by the end of 2009. Most banks will qualify for the 5 - 7 bp charge (49%), many for the minimum 5 bp (41%), and the remaining banks will face steeper charges up to the 43 bp To help relieve the initial premium, banks will receive credit for their share of the 1996 deposit assessment base. The credit will not last forever, and, as it is phased out, many will face the reality of higher costing deposits.

For a bank that has a current base of deposits of $200M and is facing a 5 bp charge, the $100K premium will be a shock. Core deposits can bring a tremendous amount of value to an institution but when evaluating new funding growth strategies the new charge should not be forgotten. If an institution was developing a deposit special with a 5% APY but, due to cannibalization, the marginal cost was 5.50% the premium charge on the new deposits would increase the cost to 5.55%. If this was a 12 month term product, the marginal cost would be compared to a 1 year FHLBI advance rate which would not be subject to the premium charge.

For an institution that utilizes brokered or public deposits for its funding needs, the comparison between FHLB advances and wholesale deposits can no longer be based strictly on rate. All are wholesale options since they prevent cannibalization, are priced at market, and provide a means to manage marginal cost of funding. Since FHLB advances are not categorized as deposits, they have the advantage of not being subject to the FDIC insurance premium charge.

ABOUT FHLBI

BANK PERFORMANCE

($ in millions)

As of March 31, 2007

Assets	**$48,651**
Advances outstanding	**$22,077**
MPP mortgages outstanding	**$ 9,959**
Net income	**$26.5**
Retained earnings	**$169.9**
Return on average equity	**5.34%**
Number of members	**431**

New members approved from November 8, 2006 to May 23, 2007.

Auto-Owners Insurance Company
Lansing, MI

Auto-Owners life Insurance Company
Lansing, MI

Conseco Life Insurance Company
Carmel, IN

EECU,
Jackson, MI

Gerber Federal Credit Union
Fremont, MI

NAMIC Insurance Company
Indianapolis, IN

Symphony Bank
Indianapolis, IN

Contact FHLBI at 800.442.2568 for assistance in evaluating your marginal cost and funding alternatives. More information on the FDIC premium charge can be found at http://www.fdic.gov/deposit/insurance/risk/2007_01/fr_risk.html.

FHLBI

FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

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