

# FHLB *Indepth*



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

## IN THIS ISSUE

### Letters of Credit Legislation

page 2

### FHLBI & Industry News

page 3

### New Roles for FHLBI Employees

page 4

### Advance Auction

page 6

### HomeRetain

page 7

### Michigan's Housing Fund

page 8

### Quality Assurance

page 10

### FHLBI Membership Provides Shelter During Mortgage Crisis

page 12

### '07 Regional Member Meetings

page 14

### Affordable Housing Tour

page 15

### Community Spirit Award

page 16

### Bank Performance

page 16

## FHLBank System Advances

December 31, 2006 – September 30, 2007



*Building Partnerships. Serving Communities.*

**The FHLBank System can advance a substantial amount of money to member institutions, as long as the companies requesting advances have collateral and have purchased the required FHLBank capital stock to support their advances. As of June 30, 2007, the 12 FHLBanks had advanced a collective \$640 billion to members. The amount of outstanding advances rose to \$822 billion as of September 30, 2007, an unprecedented increase of \$182 billion in just three months.**

*Read article on page 12.*

# Dates to Remember

Dec. 7	2007 Round B AHP awards announced
Dec. 25	FHLBI closed for Christmas Day
Jan. 1	FHLBI closed for New Year's Day
Jan. 21	FHLBI closed for Martin Luther King, Jr. Holiday
Feb. 18	FHLBI closed for Presidents' Day
Apr. 16	2008 Round A AHP deadline

Check the events calendar at [www.fhlbi.com](http://www.fhlbi.com) for updates.

## TABLE OF CONTENTS

Letters of Credit Legislation	2
FHLBI & Industry News	3
New Roles for FHLBI Employees	4
Advance Auction	6
HomeRetain	7
Michigan's Housing Fund	8
Quality Assurance	10
FHLBI Provides Shelter	12
'07 Regional Member Meetings	14
Affordable Housing Tour	15
Community Spirit Award	16
Bank Performance	16

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](mailto:mlemen@fhlbi.com).

## EDITORIAL BOARD

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## DISCLAIMER

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

**MESSAGE FROM THE PRESIDENT & CEO**

It's a pleasure to write my first message to you as FHLBI President & CEO. I'm grateful to have the opportunity to lead the bank and to work with an exceptionally talented staff. I'm extremely proud of the people who have stepped into new roles as a result of a staff reorganization. Having employees who can assume new duties demonstrates the depth of experience and talent that our bank has developed over the years. I look forward to working with these people and the entire FHLBI staff; together, we'll look for opportunities to better serve our membership and continue to address the challenges the FHLBI and our member institutions face.



One of those challenges has been the uncertainty in the mortgage markets. Delinquencies and foreclosures plague institutions across the country but especially in Indiana and Michigan. The majority of our community financial institution members maintain appropriate underwriting standards and make prudent loans to their customers but nonetheless are feeling the effects of the subprime crisis, including an increase in the cost of credit. The good news is, however, that the Federal Home Loan Banks are fulfilling their mission as developed by Congress 75 years ago – to be a reliable source of liquidity for our member institutions so they in turn can support their local communities with financing for housing and community development. Data released by the Office of Finance, our fiscal agent, tell our story. At the end of August, advances outstanding for the 12 FHLBanks increased by \$110 billion from July 31 to total \$769 billion. In September, system members accessed the advances window for another \$53 billion, demonstrating the FHLBank system's relevance and the vital role that it plays in supplying funds to financial institutions of all sizes during all types of markets.

Recently, I joined our Affordable Housing Advisory Council and several directors on a tour of Affordable Housing Program (AHP) projects in downtown Indianapolis. We were all moved to see how our AHP dollars are being used to help improve the lives of individuals and families in nearby communities. We at the FHLBI are proud to be part of an organization that makes providing quality, affordable housing an important part of its mission.

Sincerely,

A handwritten signature in black ink that reads "Milton J. Miller". The signature is written in a cursive, flowing style.

Milton J. Miller  
President & CEO

# Letters of Credit Legislation



Senator Debbie Stabenow  
(D-MI)

This proposed bipartisan legislation (S.1963) has been co-sponsored by Senator Debbie Stabenow. The proposal amends Section 149(b) of the Internal Revenue Code by allowing our members to underwrite tax-exempt economic development through the use of FHLBank letters of credit (LOCs). The proposal adds the FHLBanks to the list of government-sponsored enterprises authorized to provide credit enhancements for tax-exempt non-

housing economic development bonds.

Under current law, FHLBanks offer LOCs for housing and taxable economic development bonds. Tax-exempt financing through our community bank members will enable local governments to finance important non-housing projects at lower costs. Allowing the use of FHLBank LOCs will provide an additional credit enhancement option as issuers work to structure cost-effective financing on projects such as water treatment facilities, fire stations, long-term care facilities, medical clinics, school buses, bridges and other infrastructure improvements. This will enhance competition in the marketplace and expand access to critical funding for projects and authorities often overlooked by larger players.

The FHLBI thanks Senator Stabenow and Congressman Sander Levin (D-MI), who first introduced this bill in the House (H.R. 2091) for their continued support of our industry.

## Supporters of FHLBanks participating in tax-exempt municipal financing:

### *Private sector*

**American Bankers Association**

**America's Community Bankers**

**Council of Development Finance Agencies**

**Council of FHLBanks**

**Independent Community Bankers of America**

**Mortgage Bankers Association**

**National Association of Home Builders**

### *Public sector*

**National Association of Counties**

**National Association of Higher Educational Facilities Authorities**

**National Association of Towns and Townships**

**National Council of Health Facilities Finance Authorities**

**National League of Cities**

**The U.S. Conference of Mayors**

# FHLBI & Industry News

## FHLBank System Celebrates 75th Anniversary

FHLBank staff, boards of directors, and special guests celebrated the FHLBank system's 75th anniversary at a reception at the Sewall-Belmont House & Museum near Capitol Hill. The reception, held in conjunction with an annual meeting of system directors and FHLBank presidents, was hosted by the Council of FHLBanks, a non-profit trade association that represents the positions and views of all 12 FHLBanks to Washington policy makers.

For the last several years, the Council has hosted a meeting and reception as an orientation for new FHLBank directors. Since several public interest directors for each FHLBank were appointed earlier this year, the meeting provided an opportunity for them to learn more about the system.



A meeting of the FHLBank system communications officers was also held, during which Dawn Keller, FHLBI's graphics designer, was recognized for designing the 75th anniversary logo.

Paul Clabuesch, Chairman of the FHLBI Board of Directors; Milton Miller, President & CEO; and Tom Sullivan, Director, at the FHLBank directors' meeting in Washington, DC.

## NEW DIRECTORS ELECTED

The FHLBI recently held an election for open seats on its board of directors. Charles Crow, Chairman, President & CEO, Community Bank, Noblesville, IN, was re-elected to another three-year term.

Elected to fill the four open seats in Michigan were: incumbent Timothy P. Gaylord, President & CEO, Mason State Bank, Mason; John L. Skibski, EVP & CFO, Monroe Bank & Trust, Monroe; James D. MacPhee, CEO, Kalamazoo County State Bank, Schoolcraft; and Mark A. Hoppe, CEO, LaSalle Bank Midwest N.A., Troy.



Attending the 75th anniversary reception in Washington, DC, from the FHLBI were: Row 1: Tom Sullivan, Dawn Keller, Chuck Crow, Teresa Lubbers, Miriam Lemen, June Gotts, Judi Sullivan, Barbara Hembree, and Andrew Eskin. Row 2: Jonathan West, Paul Clabuesch, Mike Petrie, Bob Long, Milton Miller, Jim Logue, Tim Gaylord, Jonathan Bradford, and Mike Hannigan.



# New Roles for FHLBI Employees

BY MIRIAM LEMEN, AVP, COMMUNICATIONS MANAGER

## STAFF CHANGES

In addition to a new President – CEO, the FHLBI has had several other staff changes since the beginning of 2007. A reorganization resulted in the creation of a Member Services division, which encompasses credit services, the Mortgage Purchase Program, community investment, and marketing. Leading this team is **Brian Fike**, with Jon Griffin, Don Erwin, MaryBeth Wott, and Doug Iverson managing the respective departments.

**Jon Griffin** began his career at the bank as a Credit Operations Analyst in 1996 and was promoted to Advances Manager in 2000. After one and a half years as a Relationship Manager in marketing, he has returned to the credit services department as Credit Services Director. “The marketing experience gave me the chance to meet with members in person to gain a better understanding of the challenges they face in today’s competitive banking environment. It allowed me the opportunity to listen to members and try to assist them with using our products and services to better meet their needs,” Jon commented. “Understanding those needs and the reality of the challenges they face will benefit me greatly in my new role.”

Other staff changes in credit include **Scott Stansberry**, who was recently named Collateral Manager, replacing MaryBeth Wott. Scott joined the bank’s collateral department three years ago and has previously worked with members on submitting collateral and maintaining collateral requirements. Continuing their roles in credit



Seated: MaryBeth Wott, Jon Griffin. Standing: Brian McCoy, Don Erwin, Scott Stansberry.

services are Brian McCoy, Advances Manager, and Dennis Haworth, Underwriting Manager.

With **Doug Iverson’s** move to Director of Marketing, **Don Erwin** was promoted to Mortgage Purchase Program Director. Don began working for MPP in September 2003 as the Mortgage Acquisitions Manager and played a lead role in implementing new MPP options, such as actual/actual servicing and a pool aggregation program. Don’s staff includes Mark Holt, Operations Manager; Cathy Garrett, Senior Mortgage Acquisitions Representative; and Sara Hausermann, Quality Assurance Manager.

**MaryBeth Wott**, a 21 year FHLBI employee, was named Community Investment Officer late this spring. MaryBeth’s experience as the Collateral Manager provided her with extensive knowledge of the bank’s operations and programs. “I appreciate the bank providing me this new opportunity to learn even more about the bank’s mission of supporting affordable housing. I’ve already seen many examples of how our AHP grants and CIP loans are improving communities in our district,” commented MaryBeth.

Also new to community investment is **Marjorie Green**, a Community Investment Relationship Manager based in Michigan. Marjorie's role is to promote the FHLBI's community investment programs with members, community-based organizations, and local government agencies and assist with the development of affordable housing policies and procedures. As a former member of our Affordable Housing Advisory Council, Marjorie understands our community investment programs and has witnessed how these programs are improving housing and economic conditions in Indiana and Michigan. According to Marjorie, her main goals are to improve communication and access to Michigan members and sponsors interested in affordable housing and to become familiar with all bank operations.

Other FHLBI employees that have recently stepped into new roles include Cindy Konich, Chief Financial Officer; Paul Weaver, Chief Accounting Officer; Steve Poynter, Controller; and Brad Burnett, Assistant Controller.

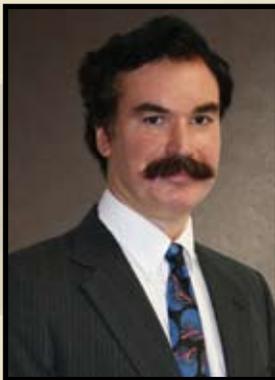
"The bank is fortunate to have experienced, knowledgeable employees who can transition to positions as they become available," said Milton Miller, President & CEO. "I congratulate everyone receiving the promotions and look forward to working with them in their new roles."



**Marjorie Green, Community Investment Relationship Manager.**



**Cindy Konich, Senior Vice President, Chief Financial Officer.**



**Steve Poynter, First Vice President, Controller.**

## KEY FHLBI CONTACTS

### Member Services:

<b>Jon Griffin,</b> <i>Credit Services Director</i>	<b>465.0459</b>
<b>Brian McCoy,</b> <i>Advances Manager</i>	<b>465.0503</b>
<b>Scott Stansberry,</b> <i>Collateral Manager</i>	<b>465.0505</b>
<b>Don Erwin,</b> <i>MPP Director</i>	<b>465.0547</b>
<b>Cathy Garrett,</b> <i>Sr. Mortgage Acquisitions Rep.</i>	<b>465.0553</b>
<b>MaryBeth Wott,</b> <i>Community Investment Officer</i>	<b>465.0368</b>
<b>Doug Iverson,</b> <i>Director of Marketing</i>	<b>465.0559</b>
<b>Bill McDowell,</b> <i>Sales Director</i>	<b>465.0429</b>
<b>Chuck Rainey,</b> <i>Relationship Manager</i>	<b>465.0422</b>
<b>Jim Eibel,</b> <i>Insurance Market Relationship Manager</i>	<b>465.0423</b>

### Toll-free:

<b>Credit Services or Marketing</b>	<b>800.442.2568</b>
<b>Mortgage Purchase Program</b>	<b>800.274.4636</b>
<b>Community Investment Department</b>	<b>800.688.6697</b>

Unlike some auctions where the interest rate is determined by the auction results, in the FHLBI advance auction, the member decides the interest rate it is willing to pay.

# FHLBI Offers Another Liquidity Management Tool

*Advance auction provides competitively priced short-term funding.*

BY BRIAN MCCOY, AVP, ADVANCES MANAGER

Besides developing new products to meet the funding needs of its members, the FHLBI can also offer existing products through new channels, in this case the fixed-rate bullet, to give members more options. The latest offering is the weekly advance auction. The advance auction provides short-term funding opportunities (typically 4, 9, 13, and 26 week maturities) for members that need a competitive alternative to other sources of short-term funding.

Date	4 Week Fixed Rate Bullet	9 Week Fixed Rate Bullet	13 Week Fixed Rate Bullet	26 Week Fixed Rate Bullet
11/29/2007		X		X
12/06/2007	X		X	
12/13/2007		X		X
12/20/2007	X		X	
12/27/2007	NO AUCTION	NO AUCTION	NO AUCTION	NO AUCTION
1/3/2008	NO AUCTION	NO AUCTION	NO AUCTION	NO AUCTION
1/10/2008		X		X
1/17/2008	X		X	
1/24/2008		X		X
1/31/2008	X		X	

Access to the advance auction schedule and other details about the advances auction can be found under the Secure Services portal on FHLBI's Member Link website under **Credit > Products and Policies**.

The advance auction is offered in conjunction with the FHLBank discount note auction. The FHLBank discount note auction is used by FHLBI to issue debt with maturities of less than one year. Now members will be able to "participate" in this auction by submitting bids to the FHLBI for short-term advances at interest rate levels they select. This funding structure will provide the opportunity for members to access short-term advances that are priced below comparable posted advance rates

## HOW THE AUCTION WORKS

Unlike some auctions where the interest rate is determined by the auction results, in the FHLBI advance auction, the member decides the interest rate it is willing to pay. Once all bids are received, the FHLBI will determine a cut-off rate for each maturity. All eligible bids with rates equal to or greater than the cut-off rate will be included in the auction. After the auction is completed, the FHLBI will communicate to members whether or not their bid was accepted or rejected. Members may also submit a non-competitive bid. A non-competitive bid is a request to receive funds at the average rate of all approved bids for the term requested. Settlement will occur the day after the auction.

To start the process, the member must obtain a bid form via Member Link, complete and sign it, and then submit the form(s) via facsimile or e-mail to the FHLBI Credit Services Department. All bids must be received by 11:00 a.m. Indianapolis time on the day of the auction. Bids received after 11:00 a.m. will not be accepted. Member bids will be confirmed via telephone by the advances operations staff. The minimum amount will be \$100,000. Members must have sufficient borrowing capacity at the time the bid is submitted (collateral, board resolution and adjusted assets). Due to the time constraints associated with administering the advance auction, bid amounts must be within the member's established borrowing capacity.

Access to the bid form, the advance auction schedule and other details about the advance auction can be found under the Secure Services portal on FHLBI's Member Link website under **Credit > Products and Policies**. If you do not have access to Member Link, please call Security Administration at 317.465.0317 for assistance with registration. Please refer to this information to learn more about how to participate in the FHLBI auction.

If your institution is in need of short-term funding alternatives, the advance auction may fit your needs.

For additional information about any of FHLBI's advance programs, including the new advance auction, please call the advances operations staff at 800.442.2568 or your relationship manager.



## FHLBI Initiates HomeRetain Program

With both Michigan and Indiana among the states with high foreclosure rates, the FHLBI's member financial institutions now have another resource to help qualified homeowners in their local communities who are at risk of being delinquent or defaulting on their home loans. The FHLBI is earmarking \$100 million for its members (\$50 million for Indiana members and \$50 million for Michigan members) to access through its Community Investment Program.

The funds for this special offering, called the HomeRetain Program (HRP), may be used to modify or refinance mortgages for primary residences in Indiana, Michigan, or any other state in which a member does business. The new or modified loan provided to the consumer must be a fully amortizing, fixed-rate mortgage.

### HomeRetain DETAILS

HRP advances are priced daily at the FHLBI's cost of funds plus a small markup to cover administrative costs. Eligible advances include regular fixed-rate (1 to 20 years), callable, mortgage, and amortizing. HRP advances are available on a secured basis only and are subject to the FHLBI's normal credit and collateral policies.

HRP funds may be used with other mortgage or grant assistance programs, depending on the requirements of those programs, but they may not be used with other FHLBI programs such as the Affordable Housing Program, Homeownership Opportunities Program, or Neighborhood Impact Program. The per member cap for HRP advances is \$15 million. HRP advances are available until June 30, 2008, on a first-come, first-served basis, subject to availability.

### HOMEOWNER GUIDELINES AND REQUIREMENTS

Mortgages made with HRP funds may be used to pay off the current mortgage principal outstanding, any delinquent amounts owed including reasonable and customary fees, and loan origination and processing fees. Homeowners' incomes must be at or below 115% area median and cash out refinances are not permitted.

The homeowner must also complete a homeowner counseling program provided by, or based on one provided by, an organization recognized as experienced in homeowner counseling. At a minimum, the counseling program should include information on financial literacy, predatory lending, mortgage financing, credit-worthiness, household budgeting, and home maintenance.

### APPLICATION AND DISBURSEMENT GUIDELINES

To apply for HRP advances, members should obtain an HRP application from the FHLBI's website at [www.fhlbi.com/housing/comminv.asp](http://www.fhlbi.com/housing/comminv.asp), complete it, and submit to the FHLBI's community investment department for approval. Once approved, the application will be sent to Credit Services for regular underwriting approval. A funds-only commitment is established for up to six months. Members may draw down the commitment in a lump sum or make multiple draws. Funds are disbursed into the member's FHLBI CMS or Time account.

For additional information about the HomeRetain program go to [www.fhlbi.com/housing/comminv.asp](http://www.fhlbi.com/housing/comminv.asp) or contact MaryBeth Wott, Community Investment Officer, 317.465.0368, [mwott@fhlbi.com](mailto:mwott@fhlbi.com) or Marjorie Green, Community Investment Relationship Manager, 517.230.2361, [mgreen@fhlbi.com](mailto:mgreen@fhlbi.com).

The coalition for Michigan's Housing and Community Development Fund has come a long way in raising the awareness among legislators.

# A Giant Step With A Tiny Shoe

*Michigan's Housing and Community Development Fund Gets \$2.1 Million.*

BY DONOVAN & SMITH MARKETING AND MEDIA, INC.

## LOW-INCOME HOUSING TRUST FUND

For over 20 years, human service agency providers, community developers, housing advocates and the Michigan State Housing Development Authority (MSHDA) have been seeking a Housing and Community Development Fund in Michigan. In 2004 the Fund was created and signed into law but without any dollars allocated to it.

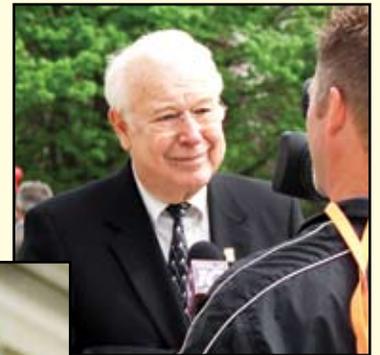
The mission for the fund is to provide housing opportunities for all Michigan residents and to help transform our economy by improving the quality of life in Michigan's cities, towns, and villages – especially those with

high concentrations of poverty – to create vibrant communities where people want to live, work, and retire. Building and sustaining vibrant cities is central to any plan to revitalize Michigan. Michigan's Housing and Community Development Fund will accomplish its mission by:

- **Financing improvement projects for downtowns and neighborhoods to make them attractive places to live and do business.**
- **Financing affordable and market rate housing for young people, knowledge workers, immigrants, early retirees, and people with low and moderate incomes.**

- **Financing supportive housing for the homeless and people with disabilities.**

A massive coalition in Michigan has been campaigning in pursuit of \$100 million of annual state funding. The coalition has named and marketed the campaign - "Living in Michigan." Finally, on November 1, 2007, Michigan's legislature dedicated



Above, Ken Bensen, President of Habitat for Humanity of Michigan. Left, Rep. Steve Tobocman (D-MI). Below, Sen. Mark Jansen (R-MI).



The coalition for Michigan's Housing and Community Development Fund gathered at the state's capital on May 2, 2007, for one of the largest showings in decades. Over 1,500 people rallied to support the Fund. Since that day we have made hundreds of contacts within the legislature to elevate the issue and solicit support.

\$2.1 million for the 2008 fiscal year. This is a trickle that the coalition hopes will become a stream.

Over 30 statewide organizations, including the Habitat for Humanity of Michigan, Community Economic Development Association of Michigan (CEDAM), Michigan Home Builders Association, the Michigan Association of Counties, the Michigan Community Action Agency Association, the Michigan Housing Council, Great Lakes Capital Fund, and Michigan Interfaith Trust Fund, are members of this grassroots campaign.

The coalition, led by Ken Bensen, President of Habitat for Humanity of Michigan, is hopeful the 2008 budget will be the beginning of a larger pool of dedicated tax dollars to the Fund. "The next phase for our coalition is to advocate for full funding. It just makes sense, all around, to fully fund this initiative. With \$100 million we create 6,000 good paying jobs and leverage an estimated \$280 million in private investment," says Bensen. "Michigan has a strong Housing Finance Authority and dozens of top-notch non-profit community and neighborhood developers. These great organizations can only do so much with federal pass-through dollars. There needs to be more flexible funds available if we want to have a greater impact."

In getting to this \$2.1 million funding point, the coalition for Michigan's Housing and Community Development Fund used a mix of old fashioned public showing and some rather aggressive marketing and technology strategies. There was a gathering at the state's capital on May 2, 2007, for one of the largest showings in decades. Over 1,500

people rallied to support the Fund. And, since that day, coalition members have managed to secure dozens of meetings with a well-targeted group of legislative opinion leaders. On the tech side, the coalition built a website that permitted individuals to become members online and allowed them to send a postcard(s) to their legislator from the site. The data collected from new members was used to send "Action Alerts" to give specific action goals for the grass roots efforts.

Katie Donovan, the contract consultant charged with implementing the strategy of the coalition says, "In many ways, the job is just beginning. The hurdles in Michigan are many. The state's economy has been in a recession for more than eight years and tax revenue has been shrinking. At a time when many eliminations were made to get to nearly \$800 million in budget cuts, this coalition succeeded in a small way." MHCDF had some strong champions inside the legislature - Senator Mark Jansen (R) and House Representative Steve Tobocman (D). The "Living in Michigan" campaign was well-supported with their leadership.

"As we go about attracting jobs in Michigan, we have to recognize that our thinking needs to change" says Lisa Smith, business partner with Katie Donovan. "No longer can we rely on the old belief that if we attract "big business" to our state, jobs and workers will follow. There are two problems with this thinking, according to a CEO's For Cities report. First, big business wants proof that "job ready" workers are in the area and that the area is one that offers a high quality of life. Second, the most attractive sector of the workforce - 25-35 year olds - will first decide

where they want to live and then look for the job that they want. So, it is incumbent upon us to take the steps necessary to be competitively perceived by companies looking for a new location. Funding Michigan's Housing and Community Development Fund is a giant step in the right direction. The problem now is that we are taking this step with a tiny shoe, or \$2.1 million."

The experts such as Michigan Future's Inc, Brookings Institute, CEO's For Cities, Charles Ballard (economics professor at Michigan State University and author of several books including Michigan's Economic Future), and Richard Florida (professor of regional economic development at Carnegie Mellon University and author) conclude that Michigan needs to look to the future in a new way. There are 39 states, not including Michigan, that have committed money to a housing and community development fund. Michigan is ranked 48th among 50 states for its investment in housing.

The coalition for Michigan's Housing and Community Development Fund has come a long way in raising the awareness among legislators. Now the job is convincing them of the benefits of funding \$100 million annually.

\* \* \*

#### **The Team**

**Donovan & Smith  
Marketing & Media, Inc.,  
Lansing, Michigan**

The Michigan State Housing Development Authority has been a long time client of Donovan & Smith and has brought the firm many opportunities to be of service to the affordable housing and community development industry. Katie Donovan & Lisa Smith have attained a profound understanding and insight into affordable housing as well as the unique challenges facing the State of Michigan. That is why putting Donovan & Smith's team of eleven full service staff members to work developing and coordinating the Living in Michigan Campaign - a grassroots advocacy crusade for the Michigan Housing and Community Development Fund - was a logical choice.

# Mortgage Professionals Rethink Quality Assurance

*Robust post closing QA plans help identify and prevent errors that could become very costly if they are not discovered and addressed early.*

BY SARA HAUSERMANN, AVP, MPP QUALITY ASSURANCE MANAGER

Mortgage Quality Assurance (QA) programs have always protected investors, but it has become increasingly clear in today's climate that effective QA programs protect originators, borrowers, and communities.

We have all heard about the recent turmoil in the secondary mortgage market, particularly with subprime origination and sales. It is important to emphasize that FHLBI does not purchase subprime loans through the Mortgage Purchase Program (MPP), a policy that has not changed since the program's inception. Recent events, however, have caused many to re-think their company's strategy, including the value of a comprehensive QA plan.

## FROM THE INVESTOR'S POINT OF VIEW

MPP participating sellers know that MPP has a robust post sale QA plan in place for review of loans sold to the FHLBI, which includes quarterly sampling, 100% sampling of severely delinquent loans, and special state specific testing. The FHLBI also requires that sellers have their own post closing QA plans in place.

The need for post closing QA plans is often questioned by members when they sign up for MPP, but in today's climate, the protection they afford is invaluable, regardless of whether the plan is executed in house or outsourced.

It is easy to see why the investor desires post closing and post sale QA plans. The plans protect the investor by ensuring that loans meet or exceed program requirements, and they help prevent possible financial risks associated with fraud or predatory lending. Loans that don't meet investor requirements are put back to the seller. But how do these plans protect originators, borrowers, and communities?

## QA BENEFITS ORIGINATORS, BORROWERS, & COMMUNITIES

Originators that sell loans to investors benefit from robust post closing QA plans because the plans help identify and prevent errors that could become very costly for their company if they are not discovered and addressed early. Investors, including FHLBI, will return a loan to the seller if misrepresentation, fraud, predatory lending, or other defects are found in the file. Identifying issues and weaknesses early helps sellers avoid repeating costly mistakes. Additionally, helping to identify and avoid fraud for housing and inflated appraisals helps originators protect their communities.

## FRAUD FOR HOUSING

One of the single most overlooked problems in mortgage lending is fraud for housing, which differs from fraud for profit in that the fraud is committed with the intention of getting a borrower into a house, who intends to make payments on the loan. This type of fraud has often been perceived as more "innocent" than fraud for profit, and many lenders found themselves not looking at it, or its risks, closely. Traditionally, originators, investors, and even the FBI have focused on investigating fraud-for-profit scams, since these typically involve multiple parties and large dollar losses. However, fraud for housing can be very damaging for borrowers and communities over the long term.

With fraud for housing, borrowers seek to overextend their borrowing ability by falsifying key information on their application (such as income, time on the job, or assets), thus falsely qualifying for more home than they can afford. When times are good (i.e., real estate prices are

You can refer to the FHLBI's MPP Guide on Member Link for information about developing a good QA plan.

f. Credit summary documentation requirements.

	History/Documentation Requirements
All Files	<ul style="list-style-type: none"> <li>Borrower file must contain</li> <li>Residential mortgage credit report (RMCR), or</li> <li>Two-repository, in-file, merged/purged credit report, and</li> <li>Mortgage/rental history for 12 months must be verified.</li> <li>Minimum credit score of 620</li> </ul>
Borrowers with Established Credit	<ul style="list-style-type: none"> <li>Minimum four credit references</li> <li>Three open and active in the last 24 months</li> </ul>
Borrowers with Non-...	<p>If four credit references cannot be documented through RMCR or a two-repository, in-file, merged/purged credit report, the FHLBI requires alternative credit sources for each alternative credit source for 12 months.</p>

rising), if a borrower gets into a jam, he can place his house on the market, turn a profit, and leave if he can't afford the payments long term. However, in a market where real estate prices are steady or falling, these borrowers are faced with living in a property that they can't afford and can't unload. If too many loans go into foreclosure in a neighborhood, property values can continue to shrink, and the problem perpetuates.

Fraud for housing negatively impacts borrowers and communities by harming property values due to increases in foreclosures. Additionally, fraud for housing can negatively impact a community lender's borrowing base by affecting customers' creditworthiness. Overextending a borrower's ability to pay on a mortgage can ultimately impact other lending areas too, such as small commercial loans and consumer loans.

Fraud for housing is usually identified in post closing QA by re-verifying loan documentation such as employment verifications, pay stubs, tax returns, and verifications of deposit. QA often detects problems such as a borrower who hand carried his verification of employment to be filled out by the employer. In a fraudulent instance, the borrower may have someone at their work other than human resources sign the documentation, which provides the opportunity to inflate their salary or length of time on the job. The original loan documentation looks real, but when the post close QA runs a re-verification through the company's human resources department, it comes back with conflicting information. If a lender's QA process discovered this and found a pattern

existed with a specific loan originator, branch, or third party originator, they could take action to prevent this from happening in the future.

### OVERSTATED APPRAISALS

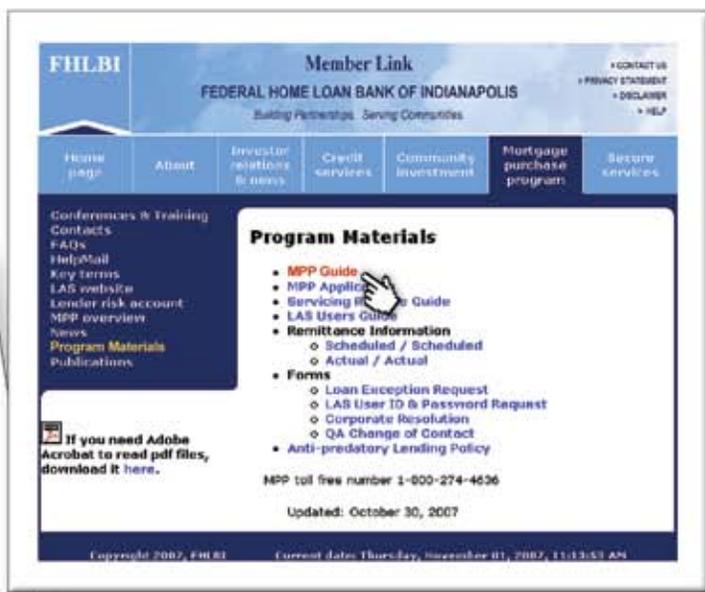
As we have seen in the past few months, mortgage lending and real estate values have a huge impact on communities and the economy at large. Post closing QA plans can identify problems, such as inflated values on appraisals, which, if addressed early, could help keep bubbles in check. Additionally, post closing QA plans help protect neighborhood values overall by ensuring that property values are in line and that borrowers are not entering into a riskier transaction than they think.

Overstated appraisals have a similar impact on the community to that of fraud for housing. By falsifying value, appraisers are creating a situation with the potential to over issue debt, which can lead to problems should the borrower need to sell the house. While the mortgage may appear to be 80% loan to value on paper, a good appraisal may show that it is a 95% loan to value deal. This could mean that if the buyer had to sell the house shortly after purchase, he could be "upside down" in the equity position of the home. Identifying appraisers that have a pattern of misstating values is a key component of a good QA program; committing to stop using that appraiser once a pattern surfaces helps to mitigate future risks.

Inflated appraisals are usually identified in post closing QA by a desktop review of the appraisal, which involves closely looking at the comparables, adjustments, and comments. Often, simply looking at the map of where the comparables are located helps. In many situations, neighborhood lines are very distinct on maps; they may be divided by an interstate or body of water. If it appears that comparables were pulled from another neighborhood, and adjustments are not in line, the QA provider will often order a review appraisal. Using automated valuation models (AVMs) has also proven effective unless an entire area has already been inflated in value.

### WHERE DO WE GO FROM HERE?

The MPP Guide, which is published on [www.fhlbi.com](http://www.fhlbi.com), is a good place to start to research the elements that constitute a good mortgage post closing QA plan. Additionally, the Mortgage Bankers Association ([www.mbaa.org](http://www.mbaa.org)) publishes books, kits, and teaches classes on starting post closing QA plans.



For more information on executing a mortgage QA plan in house or outsourcing one, call the FHLBI MPP department a call at 1.800.274.4636. Visit [www.fhlbi.com/mpp/progmaterials.asp](http://www.fhlbi.com/mpp/progmaterials.asp) to view the MPP Guide.

# FHLBI Membership Provides Shelter During Mortgage Crisis

BY DOREEN KONING, AVP, CPA SENIOR FINANCIAL STRATEGIST

The mortgage market in 2007 will go down in history as the year of the subprime crisis, the credit squeeze, and unprecedented adjustable rate resets – all creating the perfect storm for financial institutions that originate or hold mortgage related assets. We have all seen the news headlines on loan sale channels closing, the cost of credit increasing and liquidity drying up. The perceived risks have been affecting market value for institutions holding even high quality mortgage products. Providing shelter from the storm during this period of crisis has been the Federal Home Loan Bank System and the programs offered by the FHLBI.

## DEMAND FOR ADVANCES INCREASES

The Federal Home Loan Bank System (System) has seen a spike in demand from its members since late July as liquidity pressure increased on many financial institutions. The System can advance a substantial amount of money to member institutions, as long as the companies requesting advances have collateral and have purchased the required FHLBank capital stock to support their advances. As of June 30, 2007, the 12 Federal Home Loan Banks had advanced a collective \$640 billion to members. The amount of outstanding collateralized loans rose to \$822 billion as of September 30, 2007, an unprecedented increase of \$182 billion in just three months.

The jump in the demand for advances points to the fact that many members are experiencing increased demand as broker channels diminish or become less attractive to consumers. Also, member institutions may be holding on to mortgages they might have sold previously because of turbulence in the mortgage market.

So how does being a member of the FHLBI help institutions during this volatile time?

## ACCESS TO COST EFFECTIVE ADVANCES TO FINANCE LOAN PRODUCTION

The competitive pricing of FHLBank advances has sparked an increase in demand. Many lenders have historically funded loans by borrowing short-term money until the loans can be packaged for sale. Some are now finding it impossible or prohibitively expensive to borrow through issues of commercial paper or other financing options. Why is it that FHLBI advance rates remained attractive in light of recent market events? The reliability and consistent quality of the FHLBanks have made the AAA-rated FHLBank consolidated obligations used to fund advances even more attractive to investors during these turbulent times. This allows the System to have a substantial supply of funds for its members at affordable rates. Below is a graph depicting 3 month FHLBI advance rates, 3 month AA rated commercial paper and 3 month brokered CDs versus 3 month LIBOR during the 3 months ending October 1, 2007.

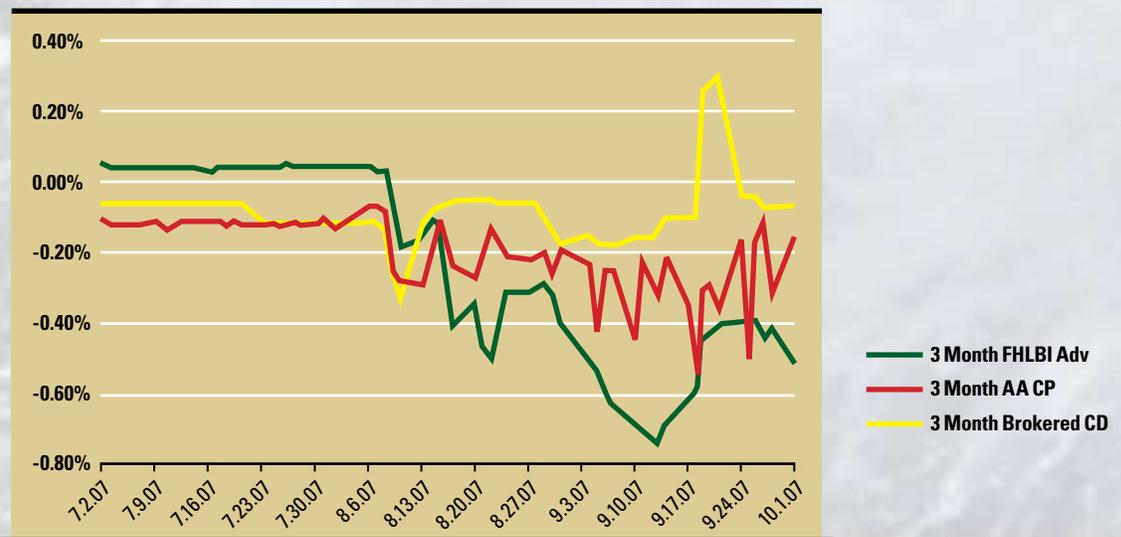
## 3 Month Market Spreads

Rate vs. 3 Mo. LIBOR

3 Month FHLBI Advance rates are based on rack rates for advance blocks less than \$10M.

3 Month AA Financial Commercial Paper Rates from Federal Reserve Statistical Release H.15.

3 Month Brokered CD rates are from Merrill Lynch with all cost-in converted to 360 day monthly accrual.



**ACCESS TO LIQUIDITY TO AVOID SELLING INVESTMENTS AT FIRE-SALE PRICES**

Another liquidity option has been to sell marketable securities or execute repurchase agreement transactions. However, the market value of many mortgage-backed securities has been adversely affected by the perceived risk factor of the underlying mortgages. By having access to FHLBI advances, which can potentially be collateralized by the mortgage-backed securities themselves, liquidation at fire-sale prices can be avoided.

**A RELIABLE CHANNEL FOR SELLING QUALITY FIXED-RATE MORTGAGES**

An alternative channel for loan sales has always been a prudent plan for institutions, but never more than during this year. Members can become approved sellers through FHLBI's Mortgage Purchase Program (MPP), which continues to offer a reliable sales outlet for fixed-rate conventional mortgage loans with terms up to 30 years. The underwriting standards for this program are geared for "A" quality paper, not subprime loans. Additionally, sellers may retain the servicing, sell through the MPP servicing released program, or participate in both programs. In the servicing released program, the seller enjoys a competitive up-front execution combined with a servicing released premium. Recent enhancements, such as pool aggregation, allow for even more competitive pricing for our small and mid-size lenders.

**ACCESS TO COMMUNITY INVESTMENT PROGRAMS TO HELP CUSTOMERS**

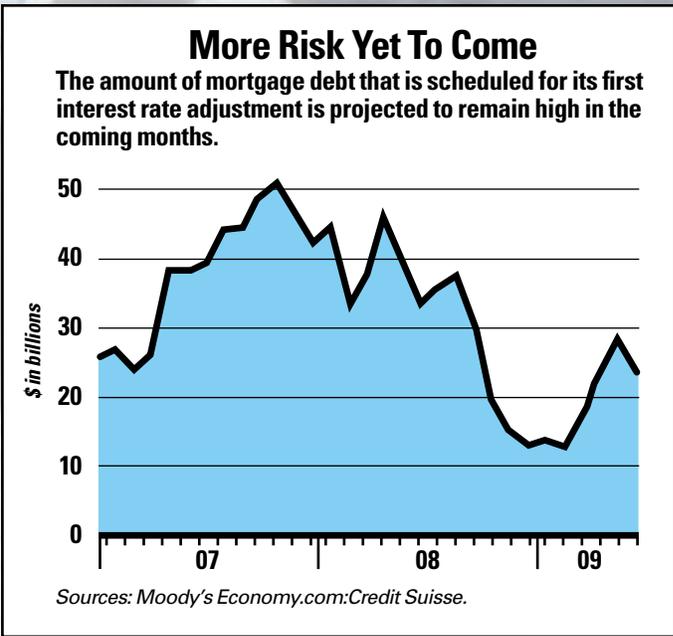
The peak month for the resetting of mortgages was October 2007, according to Credit Suisse, when more than \$50 billion in mortgages reset to a new rate for the first time. The level will remain above \$30 billion a month through September 2008. In all, the interest rates on about \$1 trillion of mortgages, or 12 percent of the nation's total, will reset for the first time this year or next. A couple of years ago, by comparison, only a few billion dollars was resetting each month.

To help prevent foreclosures in the face of rising adjustable rate mortgage payments, FHLBI members have

**DELINQUENCY & FORECLOSURE RATES**

	No. of loans	% past due	% in foreclosure
<b>IN</b>	<b>851,337</b>	<b>7.04%</b>	<b>3.01%</b>
<b>MI</b>	<b>1,499,090</b>	<b>7.55%</b>	<b>2.77%</b>
<b>US</b>	<b>44,248,029</b>	<b>5.12%</b>	<b>1.34%</b>

*Mortgage Banker Association Data*



the ability to utilize low-cost funding for the refinancing process through the HomeRetain Program.

This special program offers below-market rate advances through the FHLBI's Community Investment Program (CIP). As member institutions look to initiate programs to assist consumers in refinancing, the CIP advances could provide the funding needed. An application stating that the funding will finance mortgage loans made to individual homeowners whose incomes do not exceed 115% of the area median income will start the process. CIP documentation as evidence of this requirement is minimal. (See program details on page 7.)

The FHLBI has been a reliable shelter during the past year, as have our federally insured financial institution members that have been a solid source of credit for consumers. The quality of their loan offerings, strong underwriting, solid capital base and commitment to their customers have contributed to the ongoing strength of our members during this period of volatility. Consumers are looking to insured, trusted institutions that can assist them with their home refinancing and purchase needs. Quality and reliability stand the test of time. The FHLBI is happy to assist our members and look forward to helping with any future needs.

For more information about the benefits of FHLBI membership, contact a relationship manager at 800.442.2568.

# '07 Regional Member Meetings Completed

## REGIONAL MEETINGS FEATURE BREAKOUT SESSIONS

The FHLBI's annual Regional Member Meetings ended at the new French Lick Resort in French Lick, Indiana, on Aug. 21. The FHLBI hosted five meetings throughout Indiana and Michigan, which drew 394 representatives from 188 member institutions.

Breakout sessions were offered in addition to the opening general session. The '07 meetings featured presentations by economists Morton Marcus from Indiana and Samuel Kahan from the Detroit Branch of the Federal Reserve Bank of Chicago. Andrew Edelsberg of A.M. Best spoke at a special breakout session for insurance companies, and Khanh Vuong, also of A.M. Best, provided an overview of the financial services sector, addressing current issues, the role and importance of the FHLBanks, and A.M. Best's ratings methodology.

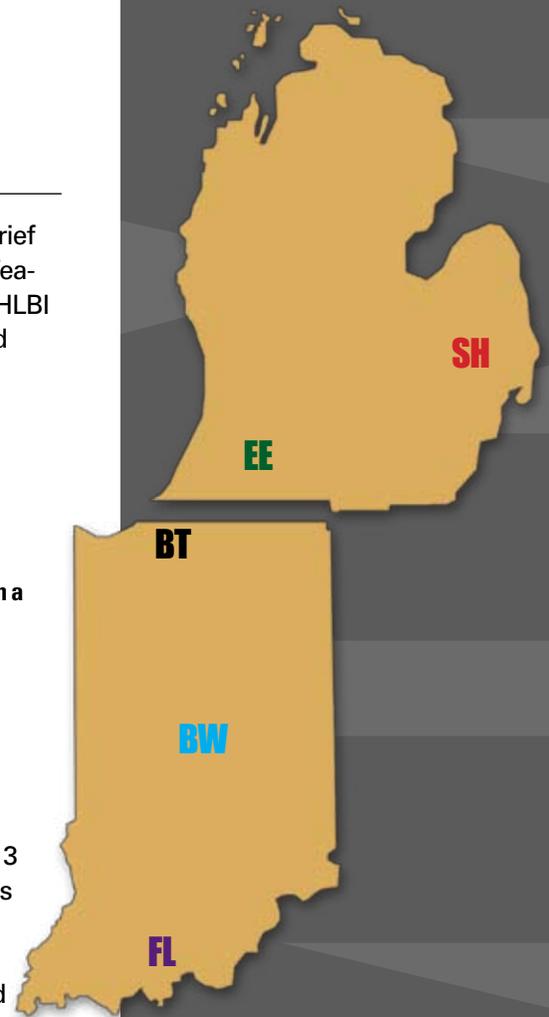
Each session was opened with brief comments by Milton Miller and featured various presentations by FHLBI staff. Staff presentations included

- **"Increasing your FHLBI Borrowing Capacity"** by *Brian McCoy and Scott Stansberry*
- **"Community Lending Opportunities with AHP & CIP"** by *MaryBeth Wott & Majorie Green*
- **"New Products & Funding Strategies in a Challenging Yield Curve Environment"** by *Jon Griffin and Chuck Rainey*
- **"MPP Update, New Program Enhancements"** by *Don Erwin and Cathy Garrett*

The FHLBI has been hosting the Regional Member Meetings for 13 years. The format of the meetings was a bit different this year with attendees given the opportunity to choose among sessions based on their interests. Prospective insurance companies were invited for the first time, which allowed them to talk to current members about how they use FHLBI products and services.



Left, Morton Marcus, economist from Indiana speaks at the Bridgewater RMM. Below, Jim Eibel, FHLBI's insurance market manager (left), speaks with guests at the RMM in Carmel, Indiana.



## RMM Attendance

### Shepherd's Hollow

attendees	70
institutions	30

### Bridgewater

attendees	75
institutions	49

### Eagle Eye

attendees	130
institutions	61

### Blackthorn

attendees	70
institutions	27

### French Lick

attendees	49
institutions	21

# FHLBI Directors, Council, Staff Tour AHP Sites

“The Affordable Housing Program has worked very efficiently to close the gap in financing to provide housing that would not otherwise happen.”

*Jack Brummet, Regional President of Great Lakes Capital Fund and Affordable Housing Advisory Council member.*

“If not for the generous support of FHLBI, Theodora House would not exist.”

*Tim Campbell, Executive Director of Theodora House.*

Members of the FHLBI’s Board of Directors, Affordable Housing Advisory Council (AHAC), community investment department, and other FHLBI staff heard similar comments throughout the morning as they visited several projects funded with grants from the Affordable Housing Program (AHP).

Located a few blocks west of downtown Indianapolis in Haughville, where the average family income is about \$21,000, an AHP grant of \$360,000 helped to build Christamore House. The building contains 36 apartments for very low-income senior citizens. Residents have access to a community room, kitchen, computer, and exercise equipment.

The tour group walked down the block and saw how AHP dollars are improving the entire neighborhood. Single-family homes are being constructed using the skills of students enrolled in the construction trades program at a nearby vocational school and their instructors.

On their way across town to tour Theodora House, the group drove past the Barton Center, a shelter for victims of domestic violence and their children, and the Rink Savoy, a historic rehabilitation of a vacant building into 60 apartments for low-income families.

Theodora House provides transitional housing for women exiting the penal system. The women stay an average of six to nine months while they work on getting a job or improving job skills. Homelessness is often an issue so Theodora House staff also assists with helping them find affordable housing. The house contains both small and large dormitory rooms, a laundry facility, classrooms, a computer lab, vending area, and cafeteria. Reuniting children with their mothers is also a priority. Family suites are available for children to occasionally spend the night with their mothers, as well as a playroom and a “healing families” room for counseling where handprints are placed on the wall as participants complete the program.

The group also drove past four other AHP projects. The Gladstone, Colonial Park, and Lynnhurst housing complexes, which are side-by-side on East Washington St., and Walnut Ridge, a former elementary school on Emerson Ave. that has been converted into senior citizen apartments.



The group walked past several houses that have benefited from AHP dollars and were able to walk through a new home built by construction trades students.

The group toured one of the apartments at Christamore House, which had a living room, two bedrooms, one bathroom, kitchen, and laundry room. On the day of the tour there were 43 senior citizens on a waiting list for one of the apartments.



Top: Mary Leffler of Theodora House showed the group a newly opened section that contained 24 more beds, lockers for personal belongings and a dormitory-style bathroom.



Bottom: The last stop on the tour was the “healing families” room where participants put their handprints on the walls when they complete the counseling program.

For more information about the FHLBI’s affordable housing and community investment programs, contact the community investment department at 800.688.6697, 317.465.0376 or [housing@fhlbi.com](mailto:housing@fhlbi.com).

# 2007 Community Spirit Award Recipients

The Federal Home Loan Bank of Indianapolis (FHLBI) and its Affordable Housing Advisory Council have awarded the 2007 Community Spirit Awards to Janice Blackman, Vice President of Civic and Community Development at LaSalle Bank Midwest in Troy, Michigan, and David Phillipy, Vice President, Compliance & CRA Management at Monroe Bank in Bloomington, Indiana. The annual award honors an individual from one of the FHLBI's member financial institutions in Michigan and Indiana who has shown outstanding dedication to affordable housing and community economic development.

Janice Blackman was nominated by her co-workers at LaSalle and supported by various community organizations that have been positively affected by her hard work. Janice has over 20 years of banking experience, making her one of the most valuable community investment bankers in Michigan. In addition to the dedication she has to LaSalle's mission, Janice also serves on the board of directors for the Metropolitan Detroit Fair Housing Center, Warren Conner Development Coalition, Flint Area Community Housing Resource Board, City of Farmington Hills Loan Board and acts as board president for the Oak Park Business and Education Alliance. Janice also dedicates time to several community organizations and committees.

David Phillipy was proudly nominated by Options for Better Living, a not-for-profit organization which he has been closely involved with for many years. David's dedication to this organization includes past service on the event committee as well as assistance in obtaining funding for the Covey Lane project through the Affordable Housing Program of the Federal Home Loan Bank of Indianapolis. David is a long-time user of FHLBI programs.



MaryBeth Wott, FHLBI's community investment officer; award recipient Janice Blackman; and Paul Weaver, FHLBI's chief accounting officer.



David Phillipy of Monroe Bank in Bloomington, Indiana, and Susan Rinne of Options for Better Living, Inc.

<b>FHLBI PERFORMANCE</b>		
<i>(\$ in millions)</i>		
<i>As of September 30, 2007</i>		
<b>Assets</b>	<b>\$53,550</b>	<b>New members approved from May 2007 to November 2007.</b>  <b>Lotus Bank Novi, MI</b>  <b>Sterling-Van Dyke Credit Union Sterling Heights, MI</b>  <b>First National Bank of Michigan Kalamazoo, MI</b>
<b>Advances outstanding</b>	<b>\$24,170</b>	
<b>MPP mortgages outstanding</b>	<b>\$ 9,522</b>	
<b>Retained earnings</b>	<b>\$ 186</b>	
<b>Number of members</b>	<b>420</b>	
<i>For the nine months ended September 30, 2007</i>		
<b>Net income</b>	<b>\$ 84.2</b>	
<b>Return on average equity</b>	<b>5.49%</b>	



# Reliability in Turbulent Times

## Customized Advances

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Overnight to 30 Years

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