FHLB Indepth

Volume 3, Issue 2
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A publication for the membership of the Federal Home Loan Bank of Indianapolis.

IN THIS ISSUE

Building Partnerships. Serving Communities.

The Federal Home Loan Banks were recently given permission to guarantee letters of credit to support tax-exempt bonds for purposes other than multifamily housing projects. A wellness pavilion in Berne, Indiana, is set to open January 2009 and is the first project to be completed under this new purpose. The pavilion is part of the Swiss Village retirement center but will also be open to residents of this small northeast Indiana community. *Read article on page 4.*

Dates to Remember

INDEPENDENT DIRECTOR ELECTION

Ballots will be mailed and should be returned in December.

FHLBI WILL BE CLOSED ON THE FOLLOWING DAYS:

December 25	Christmas Day
January 1	New Year's Day
January 19	Martin Luther King, Jr.'s Birthday
February 16	Presidents' Day

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

About the Cover:
From left: Mike Schwartz, General Contractor
Kent Liechty, Executive Vice President at First Bank of Berne,
Daryl Martin, Executive Director of Swiss Village,
Andrew Briggs, President of Bank of Geneva at the Arthur
and Gloria Muselman Wellness Center in Berne, IN

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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.**

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

Anyone involved in the mortgage industry understands the challenges in managing the risks associated with the current turbulent market, and the FHLBI is not immune to those challenges. Our knowledgeable and experienced staff, however, is focused on the risks and is optimistic about our performance. Our income is strong, but we must be financially prepared to deal with this risky environment.

One way to do that is to build retained earnings. Our third quarter dividend of 4.75 percent was lower than the second quarter dividend of 5.25 percent, but management and our Board of Directors felt that it was prudent at this time to add more to retained earnings. This will help to support the FHLBI in its mission of being a reliable source of liquidity for our member financial institutions.

We understand that many of our members are also going through difficult times, but most are responding very well and working actively to resolve problems. They too face the difficult task of meeting not only the financial needs of their customers but also their own earnings goals that satisfy their shareholders. The FHLBI recognizes the vital role that a community bank plays in supporting local businesses and residents and will do its part to keep low-cost funds flowing into neighborhoods throughout Indiana and Michigan.

The wellness center in Berne, Indiana, featured on the cover is a great example of how the FHLBI, its members, and their partners are improving local communities. With the passage of the Housing and Economic Recovery Act, FHLBank letters of credit can now be used to guarantee tax-exempt bonds issued for purposes other than multifamily housing. We're excited to be a part of a project that can improve the quality of life for the residents of Swiss Village and the surrounding communities.

Additionally in this issue of the magazine, you'll meet Greg Teare, SVP and Chief Banking Officer. Greg joined the FHLBI in September and is managing all areas of member services, including community investment, MPP, credit services, and marketing. His familiarity with the Home Loan Bank system is helping him to make a smooth transition into his new position. Congratulations and welcome also to the newly elected members of our Board of Directors, Chris Wolking and Maurice Winkler. They are joining a group of experienced board members and will provide additional expertise and insight into the issues the FHLBI will be addressing in 2009. Our current chairman, Paul Clabuesch, was re-elected, and we look forward to continuing to work with him.

Sincerely,

Milton J. Miller
President & CEO

Additional Data for Whole Loan Collateral Requested

Regulations set by the new regulator for the FHLBanks, the Federal Housing Finance Agency, require that all pledged collateral have an ascertainable market value. Traditionally, the FHLBI has been able to value pledged whole loan collateral by calculating a loan's present value through discounted cash flows and making prepayment speed assumptions. The accuracy of our whole loan pricing has been, and continues to be, validated quarterly through an independent third-party pricing firm. Due to market illiquidity, over the past 12 months we have noticed a widening gap between the FHLBI internal pricing model and current market pricing.

To close this gap, the FHLBI needs to capture more credit risk details on loans being pledged. What this means is that in the very near future members reporting collateral on specific listings or through physical delivery will be asked to provide additional loan level data on their pledged loans including FICO score, current LTV/CLTV, delinquency, type of income documentation, reason for loan, and property type.

For the FHLBI this information allows for a more accurate market value estimate of the loans being pledged and helps to determine whether pledged collateral warrants haircut adjustments. Without loan level detail, we would be forced to make conservative assumptions, which would lead to lower market valuations for most members.

Realizing that it may take time for some members to be able to capture the additional loan data in their collateral reporting, the FHLBI will initially begin requesting this data from members. Time will be given for members to make changes to their current reporting methods before the data will be required. Gathering and submitting additional data may initially be an inconvenience for some members, but accurate market valuations benefit both the FHLBI and its members. The FHLBI can calculate more accurate pricing on collateral which could lead to increased borrowing capacity for members.

Questions concerning collateral may be directed to Scott Stansberry, Collateral Manager, at 317.465.0505 or dstansberry@fhlbi.com.

Greg Teare named new FHLBI Senior Vice President of Member Services

The FHLBI welcomes Greg Teare who recently began his position as Senior Vice President - Chief Banking Officer. Teare is responsible for member services, which includes credit services, the Mortgage Purchase Program, affordable housing and community investment programs, and marketing.

Teare began his career in banking at United Savings Association in Cleveland, his hometown. From there, he gained experience in the mortgage industry, and in 2000 accepted the position of Vice President and Director of Mortgage Purchase at the FHLBank of Seattle. After leaving the Seattle bank in 2005, he became Senior Manager-Risk Management at PricewaterhouseCoopers in Seattle.

Teare earned a BS in business administration from The Ohio State University and an MBA from the University of Akron.

"I'm happy to be back in the Midwest and working for the FHLBI," said Teare. "It's a challenging time for the financial services industry, but I'm looking forward to getting to know the staff here and working with them to help them meet our members' needs."

Gregory L. Teare
FHLBI Senior Vice President, Chief Banking Officer

Member Link Updated

The FHLBI has updated both its public and secure websites in 2008.

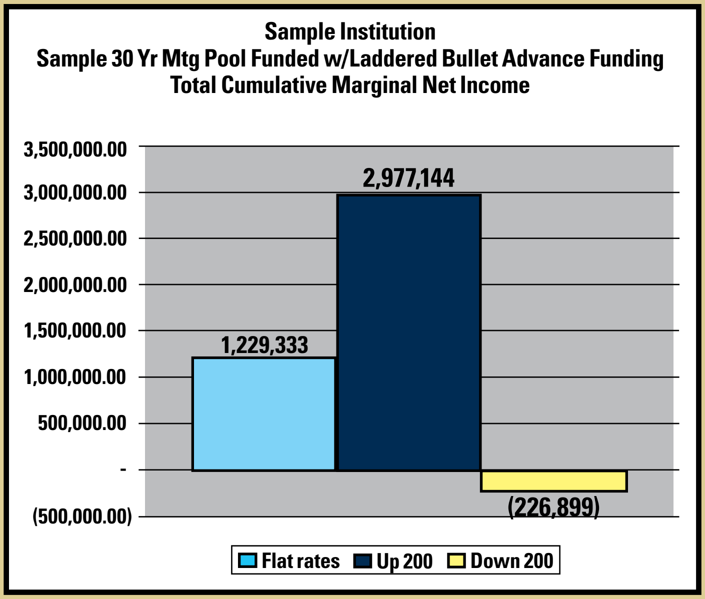
The new public site, www.fhlbi.com, was launched in March and included changes to the design, content, and navigation.

More recently, a similar design was applied to Member Link, the secure site for FHLBI members. Content was thoroughly reviewed and evaluated to ensure that it was accurate and up to date, and new content was added.

Additionally, content was reorganized and navigation changed to make information more easily accessible. Menu tabs across the top and down the left side enable users to quickly find the content they're looking for. Many of the same features available in the previous version of Member Link are still available. For example, users can still customize their home pages by clicking on the Utilities link at the top of the page.

MEMBER PROFILE

One new feature on Member Link is the member profile section. The FHLBI is providing access to its customer information database called Business Partner to someone at a member institution who will act as a coordinator for keeping the information current. When there are changes to personnel, phone numbers, e-mail addresses, and institution names, the coordinator will e-mail the FHLBI's Business Partner coordinator to have the information updated. Doug Iverson, marketing director and chairman of the committee in charge of the web makeovers, believes that enlisting the help of the member institution will help to ensure that the FHLBI's contact information is current and that information is delivered to the appropriate person.



FHLBI Mortgage Funding Model - This sample of model results based on assumed loan and funding information is one of many financial models available to members on Member Link. Contact an FHLBI Account Manager or Financial Strategist to have a tailored analysis completed for your instituion.

WORK IN PROGRESS

Iverson also commented, "In updating both the public and secure websites, our goal was to reflect a positive image of the bank, present accurate and timely information, and most important have a website that's a resource our members can use easily to get information and to do business with us," he said. "Of course, a website is a work in progress, and we're always looking for ways to improve both sites."

FHLBI Director Elections

With terms beginning Jan. 1, 2009, and ending Dec. 31, 2012, elected to the Board in Indiana:

- **Christopher A. Wolking**, Senior Executive Vice President & CFO, Old National Bank, Evansville, IN.

- **Maurice F. Winkler III**, President & CEO, Peoples Federal Savings Bank of DeKalb County, Auburn, IN.

With a two-year term beginning Jan. 1, 2009, and ending Dec. 31, 2010, re-elected to the Board in Michigan:

- **Paul Clabuesch**, Chairman & CEO, Thumb National Bank & Trust Co., Pigeon, MI. Clabuesch is currently Chairman of the Board.

INDEPENDENT DIRECTOR ELECTIONS

Under the new Housing and Economic Recovery Act, for the first time independent directors will be elected by the entire district. The slate, selected by the Board of Directors with input from our Affordable Housing Advisory Council and the Federal Housing Finance Agency, will be mailed to members in December. For the election to be final, a candidate must receive at least 20 percent of the members' vote. Upon receiving a ballot, members are encouraged to promptly vote and return it the FHLBI.

Wellness Pavilion to Benefit Retirement Center Residents and Community

FHLBI Letters of Credit Lower Project Funding Costs

BY MIRIAM LEMEN, AVP, MGR., COMMUNICATIONS & SPECIAL PROJ.

Living in a small community has its advantages. People know each other and can work together easily to meet the needs of the entire community. Such is the case in Berne in north-eastern Indiana.

Located 35 miles south of Ft. Wayne, Berne is home to Swiss Village, a large retirement community that serves 350 residents and employs 340 people. Opened in 1968, the Village is a continuing care retirement center, offering a range of services from independent living to nursing home care. “We try to provide an enriched environment so that residents are living their lives to the fullest extent possible,” said Daryl Martin, Executive Director of Swiss Village. “We don’t encourage the secluded rocking chair mode here.”

HEALTHY LIVING

Because the Village’s desire to help keep residents healthy and active, a fitness program was initiated, but with only a few pieces of equipment available, residents and other Village supporters saw a need for a larger facility. “Our board of directors agreed to expand the program,” commented Martin, “and basically said let’s do it to improve the wellness of both the community and the residents.”

A fundraising campaign was launched to raise $4 million to support the construction of the Arthur and Gloria Muselman Wellness Pavilion, named after two residents who were staunch supporters of the wellness program. To date, over $3.7 million has been pledged.

James Beitler and Mildred Weimer exercise three days a week in the current wellness facility at Swiss Village. Mr. Beitler, a long-time resident of Swiss Village, said that he’s looking forward to exercising in the pool in the new wellness center.

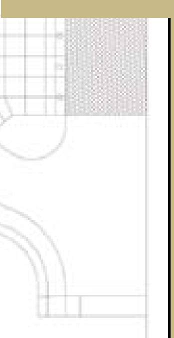
Construction on the 21,200 square foot facility began shortly after groundbreaking on April 11, 2008, and is set to open January 15, 2009. The pavilion will include an aquatic center, strength-building fitness area, and game room. The room reserved for aerobic exercise will also be available for special events such as receptions and card clubs.

TIMING IS EVERYTHING

The $3.7 million in pledges was enough to get the project started, but other financing was needed. Swiss Village hired Lancaster Pollard & Co., an investment banking firm that specializes in financing for the senior living, health care and affordable housing sectors, to explore finance options for the center. Lancaster Pollard had used FHLBank letters of credit (LCs) previously but knew that they couldn't be used for the center because FHLBank LCs could not be used to support tax-exempt bonds for non-housing projects.

However, the Housing and Economic Recovery Act of 2008 (HERA) enacted at the end of July amended the IRS tax code to allow LCs to be used to support tax-exempt bond issuances for municipal projects, including bridges, hospitals, fire stations, and, as in the case in Berne, a wellness center. This legislation was championed by Rep. Sander Levin (D-MI) and without his leadership projects such as Swiss Village's, if they happen at all, will be more costly.

"We were ready to finalize our options when we learned about the new uses for FHLBank letters of credit," explained Steve Kennedy, Vice President at Lancaster Pollard. "Using an FHLBank letter of credit to provide credit enhancement for a tax-exempt bond issue was the most cost effective way to finance the wellness center. The cost of capital and terms of the FHLB enhanced financing were notably better than those of other funding options. Additionally the FHLB structure enabled us to keep two local banking institutions involved in the deal. It's important to a small community like Berne to keep the project at a local level if possible."



According to Kennedy, completing a bond issuance during this challenging economic environment was much easier because of the strength of the FHLBI's AAA rating. He has found that the institutional investors are more apt to purchase bonds backed by the credit strength of the FHLBanks when compared with some other more traditional bank LCs.

To illustrate the cost savings a project can realize when it is backed by an LC, financing costs for the wellness center were nearly half the costs of the best option from another institution. Additionally, other funding options frequently require onerous conditions that add overhead costs.

SUPPORT FROM COMMUNITY BANKS

Mark Pascarella, who handles the letter of credit business for the FHLBI, got the project rolling once he confirmed that it qualified for an LC under the new authority. As the FHLBI's representative for this type of transaction, it's his job to connect all the parties involved and ensure that guidelines are being followed. "The wellness center definitely qualified for an LC," said Pascarella, "and it was exciting to have a request for this type of project so quickly after being given permission under the new legislation."

First Bank of Berne, one of two FHLBI members to secure an LC, is an active user of FHLBI products and services, including advances, the Mortgage Purchase Program, and Community Investment Program. "We felt very comfortable working with the FHLBI because of our good experiences in conducting business with them," stated Kent Liechty, Executive Vice President at First Bank of Berne. "Everyone involved in this project wins. The bank gets a business opportunity, the Village gets the benefit of lower pricing on the bond issuance because of the letter of credit, and the community and Village residents get a facility that helps to improve quality of life."

Andrew Briggs, President of Bank of Geneva, agreed that helping Swiss Village to achieve its goals was a good business opportunity and an excellent way to support the town's largest employer. "Getting involved in this project truly supports our corporate culture. Bank of Geneva believes in wellness and improving the quality of life for our employees and others in the community."

The FHLBI appreciates the support of Rep. Sander Levin (D-MI) and his role in ensuring that the amendment to the tax code was included in the Housing and Economic Recovery Act of 2008.

New Uses for Letters of Credit

BY BRIAN MCCOY, VP, ADVANCES MANAGER

AMENDED CODE COULD HELP REDUCE BORROWING COSTS

The Housing and Economic Recovery Act of 2008 (HERA) signed into law on July 30, 2008, permits the FHLBanks to issue letters of credit (LCs) to guarantee tax-exempt bonds for economic development projects through December 31, 2010. In particular, section 149 of the Internal Revenue Code was amended as part of an effort to allow FHLBanks and their community lenders to help municipalities reduce the financing costs of federally tax-exempt bond issues.

Prior to the passage of this legislation, bonds issued for a non-housing purpose and enhanced by an FHLBank LC would not receive tax-exempt status. HERA facilitates the use of LCs to support tax-exempt non-housing municipal bond issuances by permitting their use without jeopardizing the tax-exempt status of the bonds.

IMPROVE RATINGS & PROVIDE LIQUIDITY

FHLBI members might have the opportunity to assist their customers who are active participants in the financing of essential community projects funded with tax-exempt bonds. Backed by an FHLBank's individual credit rating (FHLBI's current rating is AAA), an LC may improve the credit rating of certain transactions, help provide liquidity, and help to lower the borrowing costs of those transactions.

FHLBank LCs have previously guaranteed only taxable bonds and tax-exempt bonds for multifamily housing. With this new authority, LCs can be used to back infrastructure improvements, such as water treatment plants and bridges, as well as fire stations, nursing homes, medical clinics, and schools, and other economic development initiatives.

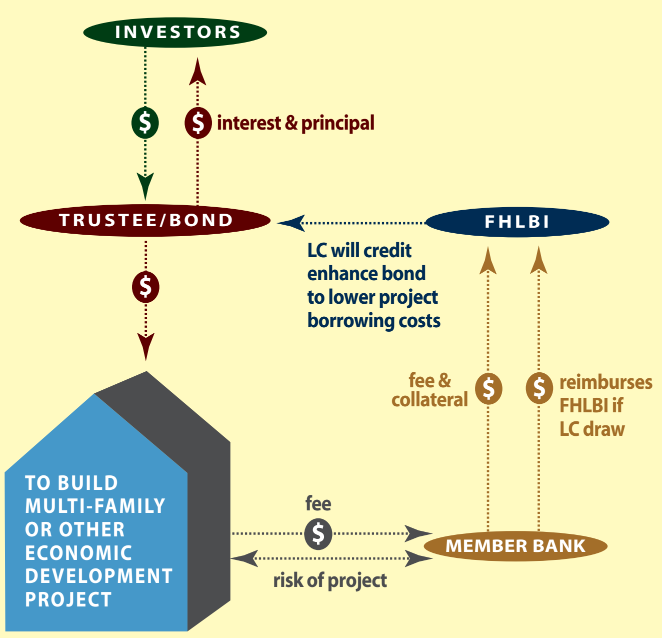
An LC can allow a member's customer to issue debt using the FHLBI's AAA credit rating. This is achieved by the member applying for an LC through the FHLBI. The FHLBI will then write a Direct Pay LC that guarantees payment to the trustee who represents the investor and who processes payments on behalf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

APPROVED USES

LCs must be secured as any other advance would be and is subject to regular borrowing limits. Collateral requirements and capital stock holdings will be adjusted at the time the LC is issued. Terms up to 20 years are available. A fee (up to 3/8%) based on the approved principal amount will be payable annually on the issue date, and an administrative fee will be charged for each draft presented for payment under the LC. Approved uses for the LCs include facilitating residential housing finance, assisting members with asset/liability management, and providing members with liquidity and other funding. LCs can also facilitate community lending that is eligible for the Community Investment Cash Advance (CICA) Program. For example, the Berne project qualified for the FHLBI's Community Investment Program since it's located in a low to moderate income census tract, lowering the LC fee.

This temporary exception granted by HERA provides the FHLBI an opportunity to support an underserved market by allowing members access to the capital markets at a lower cost than might otherwise be available. Consequently, the member provides a service to its customer, who does not have to directly fund a loan, yet still facilitates low-cost financing for tax-exempt non-housing transactions.

How a letter of credit works.



If you need additional information on the FHLBI's LC program, or if you are ready to initiate an LC application, please call Mark Pascarella at 317.465.0457 or visit our website at www.fhlbi.com.

MPP Credit Quality in Turbulent Times

A look at property value analysis

BY CATHY GARRETT, AVP, SR. MORTGAGE ACQUISITIONS REP

The mortgage industry is experiencing challenges as a result of the subprime market meltdown and the impact it's had on all financial markets. Credit standards have tightened and both fees and costs have risen for even "A+" borrowers.

A consistent and reliable partner for mortgage sales, however, has been the Mortgage Purchase Program (MPP). MPP has responded to the turbulent mortgage market by providing sellers with a pricing structure that is easy to calculate and that utilizes net funding at settlement eliminating surprises post closing. The use of a nationally recognized statistical rating organization model (e.g., Standard & Poor's) to analyze risk factors of the loans allows us to manage credit risk by limiting the amount of purchases in some categories, such as second homes and cash out refinances.

A more difficult risk to manage today is the potential decrease in property values, which requires increased scrutiny when analyzing the appraisal reports. As shown in the Case-Shiller 20 Index, index value has been declining following a long period of rapid increase. Underwriters may assume that the appraisal report written by a licensed appraiser reflects an accurate market value, but before selling the loan through the MPP, Sellers have the responsibility of carefully reviewing the report to ensure that adjustments and final values are reasonable and correct.

New appraisal guidelines are being implemented for the secondary market including the Form 1004MC that will provide more information regarding property value trends. This information will assist you and the appraiser in determining a reasonable market value in these turbulent times.

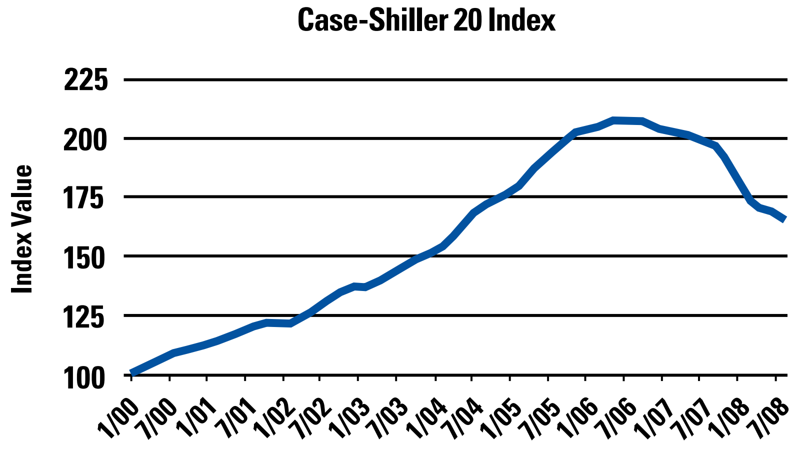
SELLERS SHOULD CONSIDER THE FOLLOWING GUIDELINES WHEN REVIEWING APPRAISALS:

Date-of-sale comparable sale adjustment - comps must be sold properties that closed in the last 6 to12 months and adjustments may be appropriate for changes in marketing conditions. Do the comp sale dates reflect the appraiser's marketing time information shown in the Neighborhood housing trends section? If not, did the appraiser satisfactorily explain the difference? Did the appraiser address any comps outside the typical age requirement?

Are the comps in the same neighborhood as the subject property? If not, did the appraiser satisfactorily explain the use of comps outside the neighborhood?

The sale price of the comparables should be similar to the market value of the subject property. Guidelines for the net and gross percentage adjustments that underwriters may rely on as a general indicator of whether a property should be used as a comp are: the net adjustments for each comp should not exceed 15% of the sales price of the comp and the gross adjustments (gross adjustment is determined by adding all adjustments regardless of whether it is positive or negative) for each comp should not exceed 25% of the sales price of the comp. When the above adjustments exceed the guidelines, the appraiser must satisfactorily explain the reasons for not using a more similar comp.

Sales concessions are being seen in more purchase agreements and the appraisal should show any concessions for the comparables used as well as the subject property. Adjustments to the comps for sales concessions are based on the market reaction to the specific concession and the appraiser should attempt to provide comp sales that did not include sales concessions whenever possible.



The Case-Shiller index is a leading measure of U.S. home prices. The graph above shows a trend of declining home prices for the 20 largest metropolitan statistical areas.

For more information about MPP, contact Cathy Garrett at 317.465.0553 or 800.274.4636 or e-mail at cgarrett@fhlbi.com.

The Credit Crisis: How Bad Is it?

BY JAMES B. EIBEL, CFA

"No one knows what to do...this is a different game and we are going to have to figure out how to do it."

Senate Majority Leader Harry Reid, D-Nevada
Interview with National Public Radio 9/17/08

What began in a small corner of the U.S. mortgage market has rippled across the globe, affecting every asset class from money market funds to emerging markets. The brutality and scope of the "subprime mortgage crisis" has befuddled policy makers, politicians, and the man on the street alike. While painful, the crisis is not without precedent.

Credit crises have been part of the global experience ever since the first time money flowed from a mattress to a financial institution. While some regions and countries tend to be repeat customers, credit events have impacted Argentines as well as Americans.

According to International Monetary Fund (IMF), nearly every country had been impacted by a significant banking crisis in the 30 years prior to the subprime credit crisis. Systemic banking crises, defined as events wiping out 50% or more of a country's banking capital, have occurred 117 times in 93 countries from 1976-2006. During this period, another 51 significant non-systemic banking crises have impacted 45 countries.

Based on the IMF's definition, the only systemic banking crisis experienced in the United States over the last century was the Great Depression of 1929-1932. During the Great Depression, 7,000 banks failed, unemployment levels reached 25%, and real GDP fell by 29% in the United States. The Great Depression was more than just an American problem. Between 1929 and 1933, world trade collapsed by more than 60%, spreading misery across the globe.

Since the Great Depression, the United States has experienced a relatively placid banking environment. Disregarding the current crisis, the worst financial event since the Great Depression was the S&L crisis of 1984-1991. The total cost of the S&L crisis was 3.7% of GDP, or approximately one year of GDP growth.

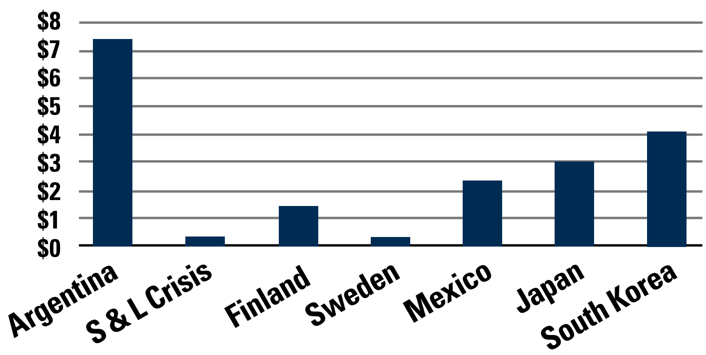
While significant, the magnitude of the S&L crisis does not qualify as a systemic banking crisis. Since 1970, the average banking crisis has cost 13.3% of the GDP, net of recoveries. Consider the long-suffering people of Argentina, who have suffered through four major financial crises since 1980. The 1980 Argentina crisis cost nearly 15 times more than the S&L Crisis. (See table below.)

Fiscal Costs of Recent Banking Crises

Country/Crisis	Start Date	Gross Fiscal Cost as a % of GDP
Argentina	1980	55.1%
S & L Crisis	1988	3.7%
Finland	1991	12.8%
Sweden	1991	3.6%
Mexico	1994	19.3%
Japan	1997	24.0%
South Korea	1997	31.2%

While the ever-impatient media won't wait for the final tally, it will likely be a decade or more before an accurate accounting for the current crisis can be made. The duration and depth of financial crises vary considerably and are difficult to predict. To provide reference points, previous credit crises can be scaled to the current United States GDP of $14 trillion. (See graph below.) Based on this metric, a credit event equal to the S&L Crisis would have a net cost of $420 billion in 2008.

Banking Crises Costs Scaled to 2008 US GDP



As of November 2008, $879 billion had been earmarked for the "rescue" of Bear Stearns and AIG, and for the Troubled Asset Relief Program (TARP) alone. Policy makers have been quick to point out that taxpayers have the potential to profit, net of recoveries, from astute financial management of TARP and other initiatives.

Unfortunately, IMF studies indicate these government initiatives are rarely, if ever, profit centers. Policy makers tend to over-sell the potential for recoveries to gain acceptance from a skeptical public. On a positive note, policy makers have been coordinating actions internationally to contain and mitigate the credit crisis. While some of the remedies appear ad hoc, most have been pulled from the IMF play book. For example, TARP equity injections are similar to measures successfully implemented by the Swedish government during their 1990s crisis. While Sweden spent approximately 3.6% of GDP on capital injections into the banking sector, they nearly broke even when stock prices recovered in subsequent years.

For his part, Ben Bernanke spent a great deal of his academic life studying the Great Depression and is considered an authority on the subject. The subprime credit crisis presents him with a rare opportunity to take his theories from the laboratory to the real world. To be sure, he and other policy makers will make every effort to avoid mistakes of the past.

Sources:
Patrick Honohan and Luc Laeven (eds.), Systemic Financial Crises: Containment and Resolution. Cambridge, U.K.: Cambridge University Press.

Hoelscher, David, and Marc Quintyn, 2003, "Managing Systemic Banking Crises," IMF Occasional Paper No. 224, Washington, DC: International Monetary Fund.

Luc Laeven and Fabian Valencia, 2008, "Systemic Banking Crises: A New Data Base," IMF Working Paper, Washington, DC: International Monetary Fund.

FHLBanks Are Important Liquidity Source

by Laura Di Cioccio, VP, Funding & Derivatives Mgr.

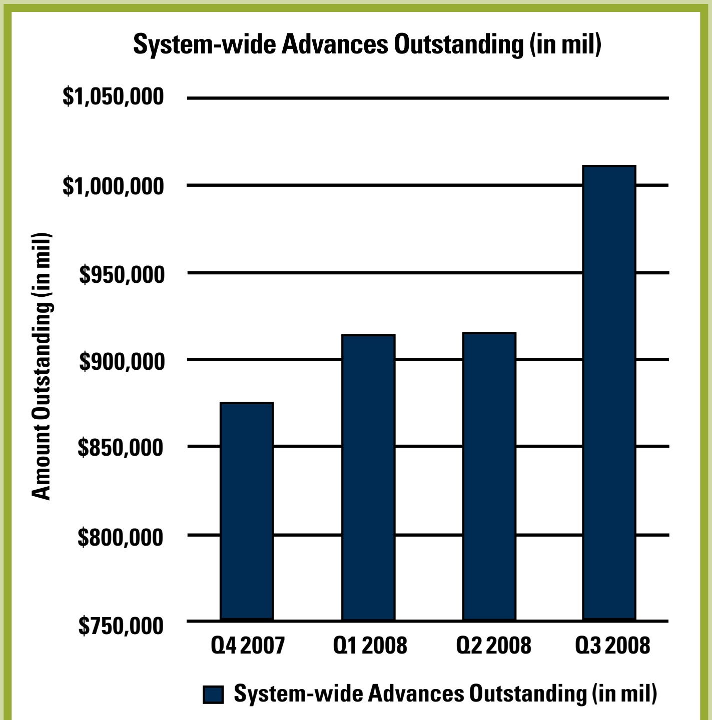
The FHLBanks are responding to the recent financial market turmoil by continuing to provide liquidity to member institutions. Over the past year, advances for the FHLBank system have grown from $875 million on Dec. 31, 2007, to $1.01 trillion on Sept. 30, 2008.

The primary source of funds to allow members to borrow advances from the FHLBanks is the issuance of consolidated obligations (COs) in the capital markets. These consist of discount notes with maturities of less than one year and bonds that have maturities of one year and longer. There are many programs, including auctions and window postings, designed to deliver these instruments to dealers and investors.

COs continued to be issued throughout recent market events. However, the FHLBanks were required to adapt to changing conditions and be flexible in their debt issuance requirements and processes. One significant change that affected the FHLBanks was investors' preferences for short-term investments. This resulted in an increase in the demand for FHLBank discount notes and benefited our members as rates on advances with short maturities became very attractive.

Investor demand for longer term instruments, and specifically GSE debt, declined due to the reduction in the number of dealers, constrained investor balance sheets, and general credit uncertainties in the market. This resulted insignificant credit premiums incorporated into the yield on longer term COs. However, FHLBanks have been able to offer longer term funding to members by issuing in maturity sectors where investors have specific requirements and utilizing debt that becomes available as other assets roll off.

As the country navigates through the tumultuous financial landscape, restoring liquidity to the markets is a primary focus. The FHLBanks play an important role in this process by maintaining liquidity to fund its members.



Daryl Crockett Honored with Community Spirit Award

Front Row: RoseMarie Roberts, Trish Lewis, Daryl Crockett, MaryBeth Wott, and Deb Conley. Back Row: Thomas Edwards, ***President & Chief Operating Officer, Horizon Bank,*** Ronna Edwards, and Steven Kring, ***Vice President, Horizon Bank.***

Daryl Crockett, Vice President, Community Development Officer at Horizon Bank in Michigan City, Indiana, was presented the FHLBI's Affordable Housing Advisory Council's Community Spirit Award.

The FHLBI, along with its Affordable Housing Advisory Council, presents the annual award to honor an individual from a member financial institution who has shown outstanding dedication to affordable housing and community economic development.

Daryl has over 37 years of banking and not-for-profit experience. His initiative and leadership have brought together many entities to fund worthwhile projects including nine low- to moderate-income housing projects in conjunction with FHLBI. Daryl's involvement with the community includes the Martin Luther King Center of Michigan City, Michigan City Boys and Girls Club, CDBG Citizens Advisory Board, Michigan City Housing Development, and Michigan City Chamber of Commerce.

Daryl credits Horizon Bank with allowing him to become involved in the community. "Horizon believes in investing in area businesses and neighborhoods because it adds value to the community," commented Daryl. "And, of course, the root of all community development is homeownership. People who are able to own their own homes have pride in their community."

Horizon Bank and the FHLBI have worked together on many affordable housing projects. Daryl particularly remembers an area on the west side of Michigan City that benefited from grants from the Neighborhood Impact Program. Ten homes were awarded $20,000 each for home repairs, such as new siding, porches, and windows. Other city funds helped to pave the streets and improve the sidewalks. "This was a neighborhood with an elderly population – good caring people but without the financial means to make improvements on their homes. The entire neighborhood has now been uplifted and it's very gratifying to be a part of this," Daryl said.

Tom Edwards, President and COO of Horizon Bank, nominated Daryl, with supporting letters from Harbor Habitat for Humanity and the Michigan City Mayor. His nomination describes multiple community organizations that have been positively affected through his hard work.

Daryl received the award at the Indiana Statewide Conference on Housing and Economic Development. Earlier this year Robert Burgess, Vice President and Community Reinvestment Act (CRA) Officer at Chemical Bank, received the Community Spirit Award for Michigan.

HOPE FOR HOMEOWNERS AND AHP

HOPE for Homeowners is a new FHA program created to help those at risk of default and foreclosure refinance into more affordable, sustainable loans. The program is effective from October 1, 2008, to September 30, 2011.

In conjunction with HOPE for Homeowners, the Federal Housing Finance Agency (FHFA) has proposed a rule that would allow the FHLBanks to use Affordable Housing Program (AHP) set-aside funds to provide direct subsidies to low- or moderate-income households that qualify for refinancing assistance under the HOPE for Homeowners program.

FHLBI members and their affordable housing partners are invited to comment on the proposed rule on or before Dec. 16, 2008. The rule was published in the Federal Register on Oct. 17 and can be found at http://edocket.access.gpo.gov/2008/pdf/E8-24320.pdf .

Heritage Homes Celebrates Grand Opening

By Marjorie Green, AVP, Community Investment Relationship Manager

On September 9, 2008, Heritage Homes, Inc. celebrated the completion, rapid rent-up and full occupancy by 45 families and individuals of their new permanent supportive housing projects. The grand opening celebration featured the many partners supporting this initiative and included a trolley tour of the finished apartment units. Heritage's unique approach targeted the development of separate sites in three Ottawa County communities: Grand Haven, Zeeland, and Holland Township. The new housing is attractively integrated into existing neighborhoods, with careful attention to scale and design.

Fifth Third Bank was a key partner, assisting Heritage Homes, Inc. by applying for and being awarded AHP funds of $295,461 for two of the three sites.

The Beeline Road development in Holland is home to 24 low-income families in three buildings. Seven of these units are designated for those who are homeless.

FHLBI member Fifth Third Bank was awarded an AHP grant of $295,461 to assist Heritage Homes, Inc. provide quality, affordable housing in Zeeland, MI.

The Zeeland development provides 12 families with affordable housing units on N. Elm Street, also in three buildings. Three of these units are designated for the homeless.

Heritage Homes, Inc. was founded in 1971 as a provider of specialized residential services to people with disabilities. They now own and manage 112 units of supportive housing at 9 scattered sites throughout Allegan and Ottawa counties.

Verne Barry Place Serves Homeless in Grand Rapids

A $500,000 grant from the FHLBI's Affordable Housing Program (AHP) is at work in Grand Rapids creating housing for the homeless.

Located on Division Street in downtown Grand Rapids, Verne Barry Place consists of 116 studio apartments in a new five-story building on a former parking lot and in an older building that was renovated. Dwelling Place, the project's sponsor, provides supportive services and resident activities.

A dedication ceremony this summer drew a large crowd of project supporters, residents, dignitaries, family, and friends. One speaker, Casey Wondergem, was a close friend of Verne Barry's. He briefly told Barry's story – a New York successful businessman who became an alcoholic and homeless but later an advocate for the homeless, an author, and founder of Faith Incorporated. "He was proud to rise from sleeping in a 'cardboard condo' under a bridge to chair the Downtown Development Authority," related Wondergem. "This project is a concrete symbol of what Verne Barry envisioned for the neighborhood."

As part of an effort to help revitalize the neighborhood known as Heartside, Dwelling Place also developed a few live/work spaces on the ground level. These spaces feature a living space on the second floor connected to retail space on the ground floor via a metal spiral staircase. Division Street is being referred to as the "Avenue for the Arts" with several retailers already established.

Dennis Sturtevant, CEO of Dwelling Place, believes that the healthiest neighborhoods are where people live, work, and play and that there is a hopeful future for the Heartside neighborhood. As Verne Barry stated in his book entitled Faith: Reflections on Being Down But Never Out, "Our dream should be that the least in our midst need no longer be forgotten, but given hope."

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

Member Meetings Completed

The FHLBI hosted five Regional Member Meetings throughout Indiana and Michigan, which drew 385 representatives from 186 member institutions.

The morning session opened with a presentation by Milton Miller, President & CEO, or Jonathan West, SVP & General Counsel, updating the audience on the FHLBI's financial condition. The presenters answered several questions following the update, including ones dealing with the effects of the GSE legislation on the FHLBanks.

Next, MaryBeth Wott and Marjorie Green presented an overview of the FHLBI's various community investment programs, followed by a presentation by representatives of an organization and a member institution that have partnered to use one of the FHLBI's programs. The presentations emphasized the impact that Affordable Housing Program grants have had on their local communities. For example, the meeting in Plymouth, Indiana, featured Daryl Crockett from Horizon Bank and Michael Green of Harbor Habitat for Humanity in Benton Harbor who showed slides of Habitat builds and talked about how AHP dollars are working to improve their communities.

John Parker of The Baker Group and Pam Winters and Rick Barratt of Firstbank-Alma join Bill McDowell of the FHLBI for a round of golf after the morning's meeting.

Ed Krei, managing director of The Baker Group from Oklahoma City, was the keynote speaker at each of the RMMs. His presentation focused on the management practices that financial institutions need to implement to improve their overall performance. A breakout session designed especially for insurance companies was featured at two meetings. Nick Sargen of Fort Washington Investments, along with Jeff Poxon and Doug Kelsey of the Lafayette Life Insurance Company, conducted the sessions.

"We received many positive comments from our members about this year's meetings," stated Doug Iverson, Senior Vice President and Director of Marketing for the FHLBI. "They're a great way to promote the bank's products and services, and they provide an excellent forum for discussing current financial services issues. Our goal is that participants leave with new information or ideas that will help them in managing their own institutions."

MEMBER COMMENTS

Session was excellent!

Great speakers.Very relevant to current market

Thanks for another great program.

Ed's presentation was very informative.

FHLBI PERFORMANCE *($ in millions, unaudited)*

As of September 30, 2008

Assets	**$58,311**
Advances outstanding	**$30,690**
MPP mortgages outstanding	**$ 8,899**
Retained earnings	**$ 264**

For the three months ended September 30, 2008

Net income	**$ 48.43**
Return on average equity	**8.07%**

New members approved from May 28, 2008 to October 2008.

St. Francis X Federal Credit Union, Petoskey, MI
Public Service Credit Union, Romulus, MI
The Lincoln National Life Insurance Company, Ft. Wayne, IN
Farm Bureau General Insurance Company of Michigan, Lansing, MI
Farm Bureau Mutual Insurance Company of Michigan, Lansing, MI
Farm Bureau Life Insurance Company of Michigan, Lansing, MI
Anthem Insurance Companies, Inc., Indianapolis, IN
INOVA Federal Credit Union, Elkhart, IN
Level One Bank, Farmington Hills, MI
First Michigan Bank, Troy, MI


FHLBI
Reliability in Turbulent Times
The Federal Home Loan Bank of Indianapolis (FHLBI) remains a reliable and stable source of funding during this period of uncertainty. The FHLBI has the resources to offer attractively priced short- and long-term maturities that meet the wholesale funding needs of its Michigan and Indiana members.
Customized Advances
Liquidity
Asset Liability Management
Fixed or Floating
Structured Options to Meet Your Needs
Mortgage Purchase
Secondary Market Services
Servicing Retained or Released
LRA Income Opportunity
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