

FHLB *Indepth*



Volume 4, Issue 1
June 2009

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

IN THIS ISSUE

FHLBI & Industry News

page 2

Regional Member Meeting

page 3

Collateral Discussion

page 4

Underwriting Basics

page 5

Retained Earnings

page 6

Lincoln Avenue

page 8

Making a Difference

page 9

Financial Literacy

page 10



Building Partnerships. Serving Communities.



These “Before and After” photos of The Hattle in Goshen in northwestern Indiana show the dramatic transformation of a dilapidated building into 16 affordable apartments. The historic renovation of this building and the nearby Shoots Building were partially funded with a grant from the Affordable Housing Program. Read the article on page 8 to learn more.

Dates to Remember

COMMUNITY INVESTMENT WORKSHOPS

July 14	Okemos Conference Center • Okemos, MI
July 22	IBA Center for Prof. Dev. • Indianapolis, IN

AFFORDABLE HOUSING PROGRAM

August 14	2009 Round B AHP application released
August 17	Additional set-aside funds released
September 9	2009 Round B AHP application deadline
December 4	2009 Round B AHP awards announced

REGIONAL MEMBER MEETINGS

August 11	Shanty Creek Resort • Bellaire, MI
August 12	Egypt Valley Country Club • Ada, MI
August 19	French Lick Springs Resort • French Lick, IN
August 20	Purgatory Golf Club • Noblesville, IN
August 25	Oakland University • Rochester, MI
August 27	White Hawk Country Club • Crown Point, IN

FHLBI WILL BE CLOSED ON THE FOLLOWING DAYS:

September 7	Labor Day
October 12	Columbus Day
November 11	Veterans Day

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

TABLE OF CONTENTS

FHLBI & Industry News	2
Regional Member Meeting	3
Collateral Discussion	4
Underwriting Basics	5
Retained Earnings	6
Lincoln Avenue	8
Making a Difference	9
Financial Literacy	10
FHLBI Performance	12

Indepth is a publication of the Federal Home Loan Bank of Indianapolis Communications Department. Your comments and suggestions are welcome. Contact **Miriam Lemen** at **317.465.0438**, e-mail mlemen@fhlbi.com.

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DISCLAIMER

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MESSAGE FROM THE PRESIDENT & CEO

In a recent letter to members, I discussed the FHLBI's first quarter financial results, particularly the impact of other-than temporary impairment to the first quarter's net income, and the 2.25% B-1 stock dividend. To reiterate, the dividend was lower than what our members have come to expect, but adding to retained earnings and increasing our regulatory capital are essential to ensuring the safety and soundness of the FHLBI and protecting our members' investment. The FHLBI, like many of our member financial institutions, is operating in unprecedented times, but the FHLBI's financial condition remains strong, and we are committed to fulfilling our role as a reliable source of wholesale funding for our member institutions.



Milton J. Miller
President & CEO

The community investment staff has been busy scoring the 45 applications received for the first funding round of our Affordable Housing Program (AHP). Ten percent of our annual net earnings is allocated to fund the grants awarded through the AHP. Due to our record net income in 2008, we have \$21.8 million available in grants for 2009. These dollars help to build, renovate, or repair hundreds of homes in Indiana and Michigan. The Lincoln Avenue project featured on the cover is a fine example of how an entire community can work together to create affordable homes for area residents. Likewise, when you read about how AHP is helping people like LaToya Lee, the young woman featured on page 9, you realize the importance of the program. Many of our members are steady users of AHP, working with local organizations to help meet the housing needs in their communities. With the large number of delinquencies and foreclosures in our two states, it's an excellent time to consider using the AHP.

The 2009 Regional Member Meetings, will be held in six locations during August. The keynote speaker, Brian Wesbury of First Trust Advisors, will present an interesting perspective on the current state of the economy and an outlook for its recovery. My staff and I encourage our members to register for the event as I will have the opportunity to answer questions about our financial performance and issues affecting the FHLBI and financial services industry in general.

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

Securitization Study Due July 30



Senator Evan Bayh, (D-IN)

The Housing and Economic Recovery Act of 2008 (HERA) requires that the FHLBanks' regulator, the Federal Housing Finance Agency (FHFA), conduct a study on the securitization of home mortgage loans purchased or to be purchased from the FHLBanks' members under the Acquired Member Assets (AMA) programs, which include the FHLBI's Mortgage Purchase Program.

In the study, the FHFA will address, among other things, the benefits and risks associated with securitization, the ability of the FHLBanks to manage the risks, and the impact of securitization on the existing activities of the FHLBanks.

Securitization is not a new topic for the FHLBanks. Shortly after they were given permission to develop AMA

programs in the late 1990s, the FHLBanks discussed with their regulator, members, and legislators about the possibility of securitizing mortgages in order to grow the AMA programs. The topic was set aside for a few years and is now being revisited.

The FHFA issued a Notice of Concept Release on February 27, 2009, and requested public comment on several questions regarding a possible securitization program with the FHLBank System. The comments, which were due on April 28, 2009, will assist the FHFA with the preparation of a report to Congress by July 30, 2009.

Senator Evan Bayh (D-IN), a member of the Senate Committee on Banking, Housing and Urban Affairs and former Governor of Indiana, wrote a letter to the FHFA in support of allowing the FHLBanks to securitize mortgages. Other supporters include the Mortgage Bankers Association, the National Association of Home Builders, and the Mortgage Insurance Companies of America. Mayer Brown, LLP submitted comments on behalf of the FHLBI and the FHLBanks of Cincinnati and Boston.

FHLBI Partners with Housing Authority

In April, MaryBeth Wott, Vice President-Community Investment Officer for the FHLBI, was invited to join Indiana Lt. Governor Becky Skillman at a news conference to announce an initiative to improve neighborhoods hit hard by foreclosures.

The Indiana Housing and Community Development Authority (IHCDA) is offering loans up to \$15,000 through the Market Stabilization Program to assist homebuyers with the purchase and/or rehabilitation of a foreclosed home. Homebuyers can obtain another \$10,000 through the FHLBI's new set-aside program called Neighborhood Stabilization Assistance (NSA).

"The NSA includes many benefits to our members and their communities," commented MaryBeth Wott. "It improves the market competitiveness of NSP-assisted homes, strengthens neighborhoods hard hit by foreclosures, develops relationships between financial institutions and their communities, and empowers homebuyers. The resulting partnerships among various members and sponsors assure that our district will have quality affordable housing for years to come."



Lt. Governor Becky Skillman and MaryBeth Wott announce IHCDA and FHLBI programs to help income-qualified homebuyers.

For more information on the IHCDA's program and a list of available properties go to www.in.gov/ihcda and click on Homebuyers link. For information about the NSA, visit www.fhlbi.com or call 800.688.6697.

Wesbury Featured Speaker at Regional Meetings

Brian Wesbury, Chief Economist at First Trust Advisors L.P. in Wheaton, IL, will be the keynote speaker at the 2009 Regional Member Meetings. In his presentation, entitled "Inflation, Deleveraging and Recovery," Wesbury will suggest that the economy and stock market will rebound strongly in 2009, even while others predict years of slow economic growth and high unemployment.



Brian S. Wesbury
Chief Economist,
First Trust Advisors L.P.
Wheaton, IL

Bill McDowell, Vice President, Director of Sales, has been in charge of planning the Regional Member Meetings since they began in 1995 and is particularly looking forward to having Wesbury at the 2009 meetings. "The Federal Home Loan Bank of Indianapolis is pleased to have Brian Wesbury as keynote speaker at our annual Regional Member Meetings," stated McDowell. "Brian is well known nationally and appears as a speaker at many industry events and on many cable business news broadcasts as an eternally optimistic economist. I believe our members will enjoy his presentation, and look forward to seeing many of them at one of the six meetings."

Other presentations at the meetings include an update on the FHLBI and FHLBank System by Milton Miller, FHLBI President-CEO, and an overview of issues concerning the changes in credit services and how they affect members by Jon Griffin, 1st VP, Credit Services Director.

To learn more about Wesbury's work, visit www.ftportfolios.com. An excerpt from his commentary on auto sales is reprinted below.

Auto Sales Updated

We recently made the bullish forecast that auto sales (cars and light trucks) would start recovering from the abysmally low 9.1 million annual rate of February 2009. We expected that a V-shaped recovery could take sales to a 15.9 million rate by the end of 2010. The 15.9 million pace is the long-term underlying sales trend based on "scrappage" (due to old age and accidents) and population growth. While it's only one month's data, yesterday's reports on March auto sales show the recovery has begun and is even ahead of our forecast. Vehicle sales increased 7.8% in March to a 9.8 million annual rate.

Some analysts have argued that, despite scrappage and population growth, auto sales will lag below a 15.9 million rate well beyond the end of 2010 because there are just too many cars on America's roads, largely due to the artificially easy credit conditions of recent years. They argue that consumers bought beyond their means and the US should not have a car on the road for every person, which is what the ratio averaged between 2001 and 2007. *continued on page 12*

Independent Director Elections

The Housing & Economic Recovery Act of 2008 (HERA) changed the way that independent directors are elected to the boards of FHLBanks. Previously, independent directors were appointed by the regulator, but with the passage of HERA, they are now elected by the entire membership. A slate of candidates is developed by the FHLBI's Board of Directors with input from the Affordable Housing Advisory Council and the Federal Housing Finance Agency.

Independent directors elected to the board in 2009 are

Larry Swank
President and CEO
The Sterling Group
Mishawaka, IN



Carl Liedholm
Professor of Economics
Michigan State University
East Lansing, MI



Other independent directors are

Jonathan Bradford, President & CEO, Inner City Christian Federation, Grand Rapids, MI

Christine Coady, President and CEO, Michigan Interfaith Trust Fund, Lansing, MI

Mike Hannigan, President, The Hannigan Company, LLC, Indianapolis, IN

Jim Logue, Senior Vice President and COO, Great Lakes Capital Fund, Lansing, MI

Bob Long, Corporate Director and Audit Committee Chair, Kenra, Ltd., Indianapolis, IN

Elliot Spoon, Assistant Dean for Career Development & Professor of Law in Residence, Michigan State University, College of Law, East Lansing, MI.

Independent director elections will be conducted in November. An application form and information about qualifications can be found at www.fhlbi.com/about/Independentdir.asp. Applications are due Sept. 15, 2009.

Releasing Assets to Other Secured Lenders

Impact on FHLBI Borrowing Capacity Must Be Considered

BY JON GRIFFIN, 1ST VP, CREDIT SERVICES DIRECTOR

WHY A BLANKET LIEN?

The blanket lien on a member's assets taken by the Federal Home Loan Bank of Indianapolis (FHLBI) via the Advances, Pledge, and Security Agreement is a critical element to establishing over-collateralization requirements. The blanket lien provides room for uncertainty and allows the FHLBI to lend against a variety of assets owned by a member institution without the necessity for precise valuation. The FHLBI lends against a range of varying degrees of illiquid whole loan assets, partly as a result of the availability of additional asset classes accessible via the blanket lien. In addition, by taking a blanket lien on a member's assets, member institutions are able to sell, commingle and dispose of assets in excess of the collateral maintenance requirements.

IMPACT OF ASSET RELEASE

The challenges of the current market environment emphasize the importance of the lien against additional assets as the value of traditional collateral continues to deteriorate and loan delinquencies rise. When the FHLBI releases assets to other secured lenders, the position of the FHLBI as a secured lender is effectively weakened. This weakened position is exacerbated when the assets released are asset classes that the FHLBI would normally lend against (e.g., commercial real estate loans, multifamily loans). When the FHLBI receives a request to release a lien against specific asset classes, an analysis must be performed to estimate the impact of the release on the secured position taken by the FHLBI. For members with borrowings and little excess eligible collateral, releasing other asset classes may have a significant impact on the over-collateralization requirement as the member would have few options to maintain sufficient eligible collateral in the event of continued asset deterioration. In addition, if the asset classes released account for a significant portion of the institution's balance sheet, the value of the blanket lien is considerably impaired.

FHLBI'S RESPONSE

While the FHLBI is often amenable to discussing the release of certain asset classes, the results of the subsequent analysis may cause the FHLBI to respond by increasing the over-collateralization requirements on existing collateral; requiring the member to increase the level of precision in reporting loans and thus our ability to value such loans; requiring the member to decrease the current level of borrowings; or a combination of each option above.

The FHLBI understands and supports its members maintaining a viable liquidity plan, which often includes allocating assets to their most productive use. However, when evaluating such decisions, keep in mind the impact it may have on borrowing capacity with the FHLBI and make sure the level of such releases are appropriate, given the anticipated level of borrowings desired from other secured lenders.

If your institution is considering releasing assets to a secured third party, please contact Scott Stansberry, Collateral Manager, first to discuss options to mitigate the impact on your FHLBI borrowing capacity.



AUTOMATED COLLATERAL PROCESS COMING

Currently underway is the development of an improved and automated member interface for maintaining mortgage collateral pledged through specific listing or physical delivery. FHLBI collateral staff currently receives most of the collateral data via Excel spreadsheets, although a few members use other formats. Once the data is received, the collateral staff is responsible for uploading the data into the FHLBI's system, which often includes making spreadsheet formatting adjustments, checking for loan data errors, and communicating with members to work through errors or omissions.

The new system enhancement is being designed to allow members to securely upload collateral data files from Member Link directly into the FHLBI collateral system. The system will validate the data, check for errors, process it, and provide members with feedback regarding the collateral submission. Collateral staff will receive notice of the collateral upload, and upon acceptance the data will be seamlessly imported into FHLBI's active operating system. The new system will decrease member reliance on FHLBI staff while providing a more efficient, timely method of pledging, updating, and releasing mortgage collateral. The target date for rollout is currently set for the end of September 2009.

As always, Credit Services staff will work diligently to assist members and to ensure a smooth transition as we implement these initiatives. We appreciate your membership in the FHLBI and the opportunity to serve your institution's funding needs.

PLEASE CONTACT CREDIT SERVICES AT 800.442.2568 WITH QUESTIONS REGARDING THIS INITIATIVE.

Mortgage Loan Underwriting: Back to Basics

A summary of a presentation made at the Indiana Bankers Association Mega Conference is presented below.

BY CATHY GARRETT, AVP, MORTGAGE ACQUISITIONS MANAGER

Fewer mortgage brokers, as well as mergers and acquisitions in mortgage banking, has dramatically changed the competitive playing field for mortgage loans. The stage is set for the community lender to take back market share at a time when there is increased scrutiny on lending decisions and regulatory changes are taking place.

“Back to Basics” in underwriting is necessary, but which standards apply today? Gone are the days of documenting every loan file the same way. Credit scores and automated underwriting systems are great tools, but they are not without flaws and are only as good as the information being input. They are not intended to be decision makers but offer great insight in analyzing credit risk.

Getting “back to basics” begins with a complete and accurate application. This is the time to learn everything about the borrower and his expectations for the loan. Most importantly, by signing the application, the borrower is certifying that the information is **accurate** and **complete**. Any discrepancies found later raises a red flag for the underwriter.

THE FOUR Cs

When underwriting a mortgage loan, it is important to remember “The Four Cs”:

Capacity (Employment/Income)
Capital (Assets)

Credit (History/Liabilities)
Collateral (LTV)

These components identify areas of risk; strength in one area can compensate for weakness in another. For example, combining frequent job changes with a high LTV and debt ratio shows too many layers of risk and will require additional documentation to show why the loan should be considered an acceptable risk.

Capacity – Verification of stable employment/income can be obtained through the employer or by W-2s and current paystub. Self-employed borrowers or those with commission or Schedule C income will require 2 years’ full tax returns for analysis. These items should always be in the file:

- 2 year employment history
- Stable, verifiable income history; 3 year continuance documented
- 2 year average for non-base income

Capital – Verification of assets includes funds needed to close, cash reserves, and the borrower’s ability to accumulate savings. When verifying assets, remember that

- 2 months’ bank statements or VOD with 2 month average balance is required. Be sure to verify the source of any large deposits;
- LTVs over 80% require 5% of the borrower’s own funds and a minimum of 2 months’ PITI in cash reserves;
- funds for closing and cash reserves need to be liquid; and
- all assets input into an AUS must be verified since they were used as part of the analysis.

Credit – The applicant’s ability and willingness to pay mortgage debt is determined by reviewing his credit history. Does the applicant have

- a pattern of responsible repayment history;
- strong compensating factors if he has excessive over use of credit; and
- a good FICO score?

Collateral – Collateral involves evaluating the property’s value and marketability to determine the loan-to-value ratio, a critical step especially during this period of declining property values. The lender is responsible for the integrity of the report so ask the appraiser for additional information or comments as needed. When reviewing the appraisal, consider the following:

- Check calculations in the adjustment grid for the comps
- Check for substantial adjustments (both net and gross), which should be adequately explained
- Are the comps in the same neighborhood? If not, is it similar. Is there an explanation of why the appraiser went outside the area?
- Additional comps may be necessary to provide a fair and reasonable assessment of the property’s market value.

Remember that property value affects the borrower’s ability and willingness to repay; appraisal data analysis is crucial to sound loan decision; and HVCC guidelines require an independent home valuation.

2008: A Successful Year from Either Perspective

BY JIM EBEL, CFA, VP & INSURANCE MARKET MANAGER

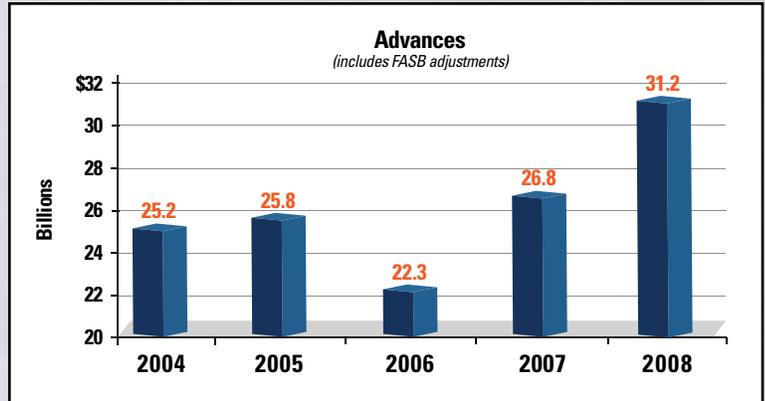
CUSTOMER/INVESTOR MEMBER

The Federal Home Loan Bank of Indianapolis (FHLBI) is an unusual organization. Before an institution can become a customer, it must first become a member and an investor. Also, as a member's usage increases, its equity stake must grow proportionately. This self-capitalizing business model compels FHLBI members to wear two different hats: one of customer and the other of equity investor.

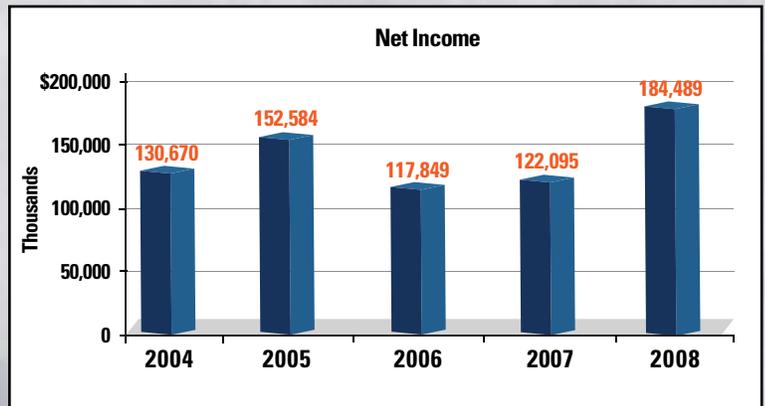
From the customer's perspective, 2008 was a very successful year. The FHLBI continued to fulfill its mission of being a liquidity provider during the greatest financial crisis since the Great Depression. As of Dec. 31, 2008, FHLBI advances reached a record year-end total of \$31.2 billion.

From the equity holder's perspective, 2008 was both suspenseful and successful. While several FHLBanks were stung by other-than-temporary (OTTI) investment charges, the FHLBI successfully navigated stormy waters to post record earnings of \$184.5 million.

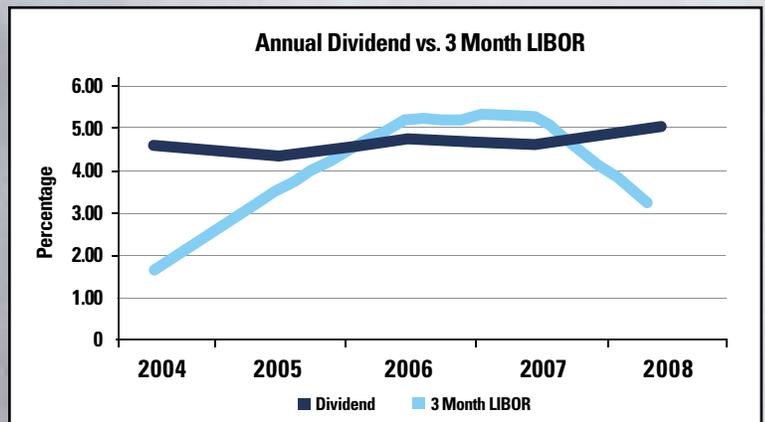
Record profitability provided the FHLBI with the luxury of paying out an attractive dividend while also retaining earnings at a record clip. During 2008, the FHLBI's dividend averaged 5.01% or 208 basis points over three-month LIBOR. For the five-year period ending Dec. 31, 2008, the FHLBI's dividend averaged 4.65% or 93 basis points over three-month LIBOR.



Advances increased 17% over 2007.



2008 income increased 51% increase over the prior year and 21% above the previous record set in 2005.



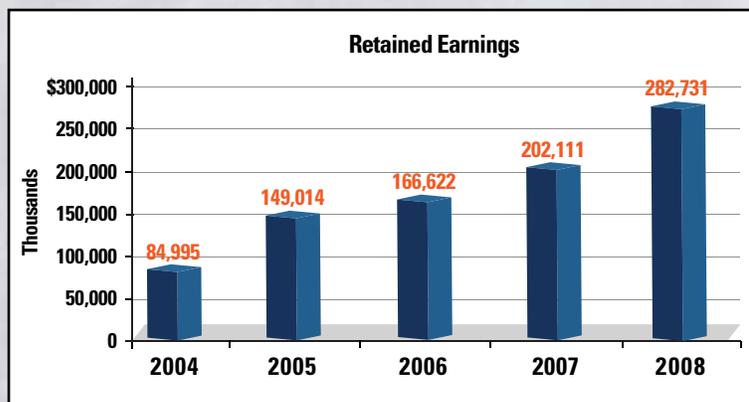
For the five-year period ending Dec. 31, 2008, the FHLBI's dividend averaged 4.65% or 93 basis points over three-month LIBOR.

Customer

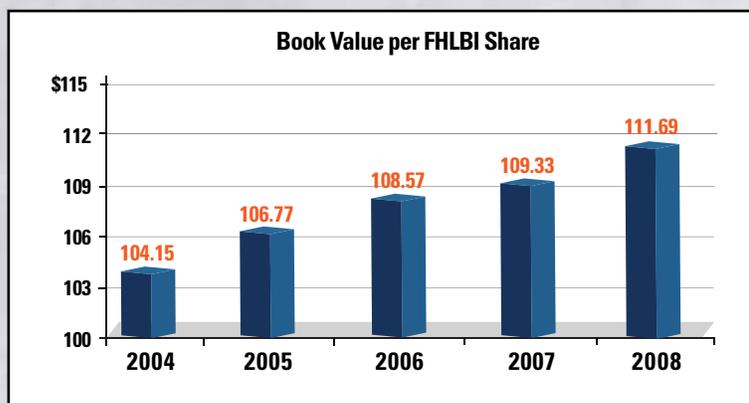
From an equity perspective, building retained earnings was a major emphasis during 2008. Deterioration in the mortgage market and OTTI concerns led the FHLBI (and many other FHLBanks) to increase earnings retention. The FHLBI's relatively high profitability enabled it to increase retained earnings by 40% (\$80.6 million) during 2008 while continuing to pay a historically attractive dividend. As of Dec. 31, 2008, retained earnings reached a historic high of \$282.7 million or 13.5% of total GAAP capital. When viewed in the context of total capital stock, the retained earnings build-up provided each FHLBI share with a book value of \$111.69.

While retained earnings are a buffer against stock impairment, they are also an endowment for future earnings power and financial flexibility. For example, based on the FHLBI's three-year average costs, yields, and spreads, \$282.7 million in retained earnings would produce approximately \$20.6 million per year of net income. In addition to increasing income available for dividends, this increased profitability would add approximately \$1.8 million per year to the Affordable Housing Program. Alternatively, the retained earnings endowment could be used to improve product pricing, to invest in new products or services, redeem excess stock, and/or to reduce the FHLBI's risk/return profile without adversely impacting the dividend. In short, the retained earnings build-up has strengthened and positioned the FHLBI to meet the needs of its membership today and in the future.

Special Note Regarding Forward-looking Statements
 Statements in this article may be "forward-looking statements." These statements may use forward-looking terminology, such as "anticipates," "believes," "could," "estimates," "may," "should," "expects," "will," or their negatives or other variations on these terms. We caution that, by their nature, forward-looking statements involve risk or uncertainty and that actual results either could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized.



As of Dec. 31, 2008, retained earnings reached a historic high of \$282.7 million or 13.5% of total GAAP capital.



When viewed in the context of total capital stock, the retained earnings build-up provided each FHLBI share with a non-GAAP book value of \$111.69.

Investor

LaCasa Redevelops Lincoln Avenue

To provide more affordable housing opportunities, LaCasa, Inc. purchased two historic buildings on Lincoln Avenue in downtown Goshen, IN, and renovated them into 28 one-and two-bedroom apartments for individuals and small families. An AHP grant of \$266,000 through Fifth Third Bank assisted with the renovations, along with a CIP loan to 1st Source Bank.

The Hattle, formerly the Lincoln Hotel, was the first of the two buildings to be renovated. Built in the late-1800s, the Hattle had fallen into a state of disrepair and had become a boarding house of sorts. Tenants rented small rooms on a weekly or even daily basis and shared one bathroom on each floor. Police and fire runs were constant, and tenant safety was a major concern. LaCasa renovated the old hotel into 12 apartments that were quickly leased.

The nearby Shoots Building, was built in the early 1900s and wasn't in any better condition. Former office space on the upper floors was converted into 16 apartments. An appliance store once occupied the ground floor, but that space is now used for offices for ADEC, a service organization for people with physical and developmental disabilities. A community center within the space allows disabled adults to spend the day in Goshen rather than having to be transported to neighboring towns that have similar facilities.



Formerly known as the Lincoln Hotel, The Hattle in downtown Goshen, IN, was renovated into 12 apartments. Original woodwork was saved as much as possible, as depicted in the photo above of the lobby.



The Shoots Building was transformed into 16 apartments with a branch of a service organization located in the ground floor. Hundreds of volunteers working with LaCasa, Inc., helped to historically renovate both the Shoots and the Hattle.



The entire community has been pleased with the results. "These buildings had become a real eye sore, and the community has been thrilled with the renovations," commented Larry Gautshe, President and CEO of LaCasa. He estimates that over 900 volunteers logged 19,000 hours of labor, performing tasks such as sanding drywall, painting, and refinishing floors, trim, and doors. Local college students pitched in by hauling out mattresses and other junk from the buildings. Neighborhood associations collected food and linens for residents who need assistance and purchased benches for residents who want to spend some time outside.

LaCasa received a regional preservation award from the Historic Landmarks Foundation and a Governor's Award for Excellence for their work in restoring the structures and maintaining their original features.

Since its inception in 1970, LaCasa has formed strong partnerships with local government and businesses, as well as neighborhood, church, and civic groups to provide housing and other services to low- and moderate-income residents throughout Elkhart County. It has a strong volunteer program and a history of community support.

Working Together to Make a Real Difference

The FHLBI and its members take great pride in the Affordable Housing Program (AHP). We have been told and we have seen first hand the positive impact that the funds have had on communities, non-profits, and individuals. Lives are really changed.

The following story of one family, a single mother and her two children, is representative of the stories of hundreds of individuals who need a little help, and in receiving it, a real difference was made.

We first met LaToya Lee in the June 2008 edition of this magazine as part of an article about a ribbon-cutting ceremony for Mapleton Park, an apartment building near downtown Indianapolis.

LaToya arrived in Indianapolis homeless and jobless after serving in the Navy as an air traffic controller on the JFK aircraft carrier. She connected with the Homeless Initiative Program and received an affordable two-bedroom apartment at Mapleton Park for her and her two children, son D'Andre and daughter Destiny, as well as assistance in obtaining a college degree.

The family lived at Mapleton Park for about a year while LaToya attended classes. After graduating from MedTech College in September 2008 with a license in practical nursing, LaToya obtained a job at a senior community in Mooresville administering various medical treatments to residents. The family moved into a three-bedroom apartment on the eastside of Indianapolis. A nearby playground offers slides, swings, and a climbing apparatus for D'Andre and Destiny's enjoyment, and LaToya can easily get to gas stations, the post office, restaurants, and retail stores.

LaToya has a positive attitude about the future and credits the Homeless Initiative Program for helping her to get back on her feet. At the ribbon-cutting ceremony last



LaToya Lee and her children, D'Andre and Destiny, now live in a three-bedroom apartment with a playground nearby. The family had been living in Mapleton Park, a building near downtown Indianapolis that offers apartments for homeless veterans and social services to help them achieve independence.

spring, LaToya spoke to the crowd saying that she was determined to finish her education and that the assistance she received made it possible for her to be successful. The Homeless Initiative Program would have also helped her find a job, but LaToya found her nursing position herself. "I'm pretty proactive about things," said LaToya.

Partners in Housing Development Corp. used an AHP grant of \$297,500 awarded to Greensfork Township State Bank (now Merchants Bank of Indiana) and a CIP loan to help renovate Mapleton Park, which offers 25 units for low-income households with 15 units reserved for homeless veterans. Partners in Housing works with a number of other agencies, such as the Homeless Initiative Program, to provide services to apartment residents.

Financial Literacy: Key Ingredient to Successful Homeownership

BY MARJORIE GREEN, AVP, COMMUNITY INVESTMENT RELATIONSHIP MANAGER

The public's interest in all matters financial has burgeoned with the recent economic crisis, with more than sufficient blame being assigned. While the causes of this crisis will long be debated by Americans, the ramifications play out as the government, financial industry, and consumers struggle to return to a level of restored trust and confidence. An often-cited root cause of the crisis has been the willingness of consumers to take on debt which proved to be unsustainable. A key question in all of this debate and finger pointing is whether a more financially literate society would have helped to avert this crisis.

Last summer, FHLBI members, when surveyed about community lending needs, identified financial literacy as a critical need within our district. Families in Indiana and Michigan and across America face an array of financial decisions in an increasingly complex financial environment. Consumers are expected to navigate the financial services market in order to save for retirement, higher education, and homeownership. Those with low-incomes – who disproportionately lack both financial know-how and relationships with financial institutions – are especially vulnerable.

What are some of the effects of a lack of financial knowledge? Little savings, excess debt, badly structured debt, and unfortunately, foreclosures and bankruptcies. Why is financial education so challenging? It would be fair to say most people don't know what they don't know... and are often intimidated when they once try to learn. We lack a consistent educational model to teach personal finance to children, and it is very difficult to reach adults until they are in crisis. There is also limited research on what educational strategies work best.

MEMBERS PROMOTE FINANCIAL LITERACY

FHLBI members actively support financial literacy efforts through sponsorships and by providing financial training and expertise. Robert Burgess, VP and Community Reinvestment Officer for Chemical Bank, is responsible



"Dollar the Squirrel was introduced to let our communities

know Chemical Bank is committed to providing children with financial education, and is a fun way for both children and adults to learn about saving. As Dollar says, "Spend a Little, Save A Lot!"

Chemical Bank also partners with the MSU Extension office to offer a monthly money management course and with Habitat for Humanity for homebuyer education. Not satisfied with some literacy efforts, Chemical Bank has initiated programs in Bay City, Midland, Saginaw, and other mid-Michigan communities. Bob also works with the Financial Literacy Committee of the Michigan Association of Community Bank-

ers to support financial literacy efforts statewide. The MACB committee has a simple mission, "Promoting Financial Literacy through Michigan Community Banks." It is their goal to help Michigan's community banks work within their communities to help neighbors, friends, and co-workers keep moving on a forward path to financial well being. More information about Training the Trainer sessions and useful resource links is located at Michigan Association of Community Bankers - Financial Literacy and at www.macb.org. Bob is also a board member of the Michigan Council on Economic Education (MCEE), part of a network of state councils and university-based centers providing economic literacy. The MCEE programs help educators bring economic success and understanding to students who must function in a complex, rapidly changing environment. More information about this effort is available at www.mceeonline.org.

Financial literacy resources

Michigan Association of
Community Bankers
www.macb.org

Michigan Council on Economic
Education
www.mceeonline.org

Indiana Council for Economic
Education
www.econed-in.org



FINANCIAL EDUCATION SHOULD BEGIN EARLY

All these efforts are worthwhile, but what do we really know about the effectiveness of financial education. Studies have found that education and counseling positively impact mortgage default rates. Staten, Elliehausen and Lundquist (2002) documented "borrowers who received credit counseling experienced significant increases in their credit scores and/or had improved overall credit health. This was demonstrated through higher credit scores, fewer late payments, lower credit-card balances and less frequent use of credit lines, relative to non-counseled borrowers over a three-year period." Housing counselors report that those they worked with have generally NOT been victims of the current crisis. Financial education has also been shown to enhance savings and impact participation in retirement plans.

EXPANDING FINANCIAL LITERACY

Is there more to be done? Without question. Financial education advocates agree more could be done to integrate financial education into K-12 education, linking it to standardized tests, and providing funds for teacher training. Other ideas include better training for financial advisors, include training those who are regularly in touch with low- and moderate-income consumers and expanding workplace education beyond retirement planning. Recognizing the importance of financial literacy for both individual households and the broader economy can help forge a new responsibility framework for consumer financial services and will help Americans to better manage their debt and make wise financial decisions.



Terri Riley, Mortgage Loan Officer for Security Federal Savings Bank in Logansport, IN, is passionate about financial literacy. She recently conducted a successful Teach Children to Save Month, having helped

Security Federal reach out to over 600 area third graders. Volunteers from every Security Federal department have been trained and converge on the classrooms to read *The Three Cups* and play *Save or Spend*, a fun game with the children. The specially designed children's book and game are donated to each classroom.

Terri and her peers began noticing the low credit scores of the younger generation of applicants. Not one to be daunted, she proposed an initiative to provide financial education, and since 2004 Security Federal staff has been providing credit counseling classes for high school seniors in the spring and fall of each year. Identity theft education has recently been added. She also works with Roger Rayburn and the Logansport Housing Authority to deliver homeownership counseling classes in Cass, Carroll, Howard, and Miami counties and is working on a Saturday pre-purchase homebuyer education class for Spanish-speaking households.



New Programs Provide Additional Assistance

The FHLBI initiated two new set-aside programs as part of the Affordable Housing Program – the Refinance Assistance Program (RAP) and Neighborhood Stabilization Assistance (NSA).

The RAP uses funds for refinancing assistance for homebuyers wanting to use FHA's HOPE for Homeowners (H4H) program. Homeowners at or below 80% of area median income may receive up to \$5,000 for principal reduction and closing costs to improve their eligibility for H4H mortgage financing.

Working in conjunction with the federal Neighborhood Stabilization Program, the FHLBI's NSA helps homebuyers at or below 80% of area median income with down payment and closing costs when they purchase a foreclosed home. Qualified homebuyers can receive up to \$10,000 but must contribute a minimum of \$500 of their own cash.

To participate in both RAP and NSA, FHLBI members must attend a two-hour webinar and complete a Homeownership Initiatives Master Agreement and Registration. Members may request RAP and NSA funds up to 60 days prior to closing on a mortgage.

The funds are distributed on a first-come, first-served basis, with 70% of funds available in March and the remaining 30% in August. Currently, RAP funds can only be used for the H4H program, but other programs may be approved in the future.

For more information, forms, and fund balances, please visit the community investment section of the FHLBI's website at www.fhlbi.com. For assistance with the programs, contact the community investment staff at 800.688.6697.

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.

Auto Sales Updated continued from page 3

But that ratio has been falling since early 2008 and, even with our bullish sales forecast, is likely to fall to 0.94 by the end of 2010. At 0.94, the ratio of autos per adult will be the lowest since 1993. So even if easy credit conditions earlier this decade helped keep the auto ownership ratio artificially high, the recent weakness in auto sales will cut the ratio down to levels last seen well before that period of easy credit.

Real disposable income per person is up 112% since 1970 while autos per adult are up only 35%.

Moreover, auto sales were never as far above the norm as some analysts suggest. Since 1970, real disposable

income (income after taxes, adjusted for inflation) has increased much faster than the number of autos on the road. Real disposable income per person is up 112% since 1970 while autos per adult are up only 35%.

Of course, part of the rise in income per person has been absorbed by higher automobile quality rather than just quantity. But, total consumer spending on motor vehicles and parts peaked at 6% of disposable income in 2001, which is not an unprecedented share. Not only was spending much higher as a share of income in many previous years, the share of income devoted to vehicle purchases and upkeep was already on the down slope before recent economic problems.

The bottom line is that auto sales and, in turn, auto production are set to increase substantially in the US over the next couple of years. Whether this happens fast enough to help the Big Three is still an open question.

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

FHLBI PERFORMANCE

(\$ in millions, unaudited)

As of March 31, 2009

Assets	\$56,009
Advances outstanding	\$27,899
MPP mortgages outstanding	\$ 8,436
Retained earnings	\$ 286

For the three months ended March 31, 2009

Net income	\$ 21.80
Return on average equity	4.18%

New members approved from October 2008 through May 2009

Ann Arbor State Bank, Ann Arbor, MI

Bank of Birmingham, Birmingham, MI

Crestmark Bank, Troy, MI

Evansville Teachers Federal Credit Union, Evansville, IN

Gogebic Range Bank, Bessemer, MI

Mennonite Mutual Aid Association, Goshen, IN

Michigan Insurance Company, Grand Rapids, MI

Michigan Professional Insurance Exchange, Grand Rapids, MI

PARDA Federal Credit Union, Auburn Hills, MI

Selective Insurance Company of South Carolina, Carmel, IN

Selective Insurance Company of the Southeast, Carmel, IN

United Educational Credit Union, Battle Creek, MI



Regional Member Meetings

Tuesday, August 11
Shanty Creek Resort
Bellaire, MI

Wednesday, August 12
Egypt Valley Country Club
Ada, MI

Wednesday, August 19
French Lick Springs Resort
French Lick, IN

Thursday, August 20
Purgatory Golf Club
Noblesville, IN

Tuesday, August 25
Oakland University
Rochester, MI

Thursday, August 27
White Hawk Country Club
Crown Point, IN

FEDERAL HOME LOAN BANK
OF INDIANAPOLIS

8250 Woodfield Crossing Blvd.
Indianapolis, IN 46240
800.442.2568 www.fhlbi.com

The Federal Home Loan Bank
of Indianapolis invites you to attend
the 2009 Regional Member Meetings

featuring keynote speaker

Brian S. Wesbury

Chief Economist

First Trust Advisors L.P., Wheaton, IL



Mr. Wesbury writes frequently for the editorial page of *The Wall Street Journal* and is the Economics Editor of "The American Spectator." He is also a frequent guest on Fox, Bloomberg, CNBC TV and BNN Canada TV.

Mr. Wesbury is currently working on a new book, scheduled to be published in 2009 by John Wiley & Sons.

**For more information or to register
online, go to www.fhlbi.com.**



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