



FHLB *Indepth*

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

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Building Partnerships. Serving Communities.

The revitalization of the Seward Street corridor on the west side of Grand Rapids, Michigan, is breathing new life into an area once dominated by empty warehouses and manufacturing facilities. The Israels family is playing an important role in the area's transformation with their latest project, the redevelopment of the Drueke Building. The building, once home to a game manufacturer and more recently a recycling center's warehouse, is being converted into office space for a technology firm. FHLBI member Founders Bank & Trust obtained an advance under the FHLBI's Community Investment Program to assist with the redevelopment. *Read article on page 4.*

Dates to Remember

COMMUNITY INVESTMENT WORKSHOPS:

July 15	Okemos Conference Center, Okemos, MI
July 22	IBA Center for Professional Development, Indianapolis, IN

AFFORDABLE HOUSING PROGRAM:

August 2	Additional set-aside funds released
August 11	2010 Round B AHP application released
September 23	2010 Round B AHP application deadline
December 10	2010 Round B AHP awards announced

REGIONAL MEMBER MEETINGS:

August 16	Warwick Hills Country Club, Grand Blanc, MI
August 18	Blackthorn Golf Club, South Bend, IN
August 24	Tullymore Golf Club, Stanwood, MI
August 26	Greywalls Golf Club, Marquette, MI
August 30	Meridian Hills Country Club, Indianapolis, IN
September 2	French Lick Resort, French Lick, IN

FHLBI WILL BE CLOSED ON THE FOLLOWING DAYS:

July 5	Independence Day
September 6	Labor Day
October 11	Columbus Day
November 11	Veterans Day

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

On the Cover:

Touring the Drueke Building construction site in Grand Rapids were (left to right) Greg Conway, Senior Vice President & Chief Lending Officer, Founders Bank & Trust; Laurie Beard, President & CEO, Founders Bank & Trust; David Israels, General Manager, Israels Home Furnishings; David Kinsman, Vice President, Commercial Lending, Founders Bank & Trust.

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

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MESSAGE FROM THE PRESIDENT & CEO

Public policy makers continue to study ways to improve our nation's housing finance system, in particular how to restructure Freddie Mac and Fannie Mae. To start the discussion, the Obama Administration is seeking comment on seven broad questions, which are outlined on pages two and three of this magazine. Because of the importance of this issue to the FHLBI, our members and their housing partners, I encourage you to submit comments by July 21, 2010, and share your view on how community lending and the Federal Home Loan Bank System play important roles in the nation's housing finance system. When the policy makers address the problems of Freddie and Fannie, we want our industry and the FHLBanks to remain unaffected in the process.



Milton J. Miller
PRESIDENT & CEO

Another legislative proposal already passed by the House will extend for one year the FHLBanks' authority under tax laws to use letters of credit to guarantee tax-exempt bonds issued for nonhousing projects, such as water treatment plants, hospitals, and schools. Using letters of credit for these purposes helps to lower project costs for state and local governments when issuing bonds to finance the initiatives. We thank Rep. Sander Levin (D-MI), Chairman of the House Ways and Means Committee, for his continued support of our letter of credit authority.

Members of the FHLBI's Board of Directors, Affordable Housing Advisory Council and staff will be present when the National Housing Conference (NHC) presents its annual "Housing Person of the Year" award to the Federal Home Loan Banks' Affordable Housing Program (AHP), now in its 20th year. The NHC award is a tribute not only to the AHP but also to the FHLBI's members and the partnerships they have developed with organizations that work to ensure individuals and families have safe, decent and affordable housing. Locally, FHLBI employees are celebrating this milestone anniversary by helping to build a Habitat for Humanity home for an Indianapolis family. We're proud to support the efforts of this organization, which has received \$13.1 million in AHP grants from the FHLBI.

On a related note, congratulations to Sonali Allen, Vice President, Community Development Officer at Mercantile Bank in Grand Rapids, Michigan. Sonali recently received the FHLBI's 2010 Michigan Community Spirit Award in recognition of her dedication to affordable housing and community economic development. The success of the AHP and other FHLBI community development programs is due to the commitment of people like her. Indiana's Community Spirit Award recipient will be announced later this summer.

The FHLBI's Regional Member Meetings begin Aug. 16 in Grand Blanc, Michigan. The day will begin with a report on the FHLBI's financial condition and a review of products and services, followed by this year's keynote speaker, Alan Beaulieu, Principal and President of the Institute of Trend Research in Boscawen, New Hampshire. His discussion about economic forecasts and trends promises to be interesting. We look forward to seeing you at one of the six meetings to be held across Indiana and Michigan.

Sincerely,

Milton J. Miller
President & CEO

Industry News

Reforming the Housing Finance System

As part of the “President’s Open Government Initiative,” the Obama Administration is seeking public comment on how to reform the housing finance system. Constituents, industry groups, community organizations, and others have until July 21, 2010, to submit written responses to the Administration’s seven questions. Additionally, a series of public forums across the U.S. will provide another opportunity for interested parties to have input into the reform process.

FHLBI members are encouraged to submit written responses and can use the FHLBI’s position statements below as a foundation for their own comments. Sample letters and other materials are available under “Current Interest” on our website home page at www.fhlbi.com. Comments must be submitted electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>. In the Keyword or ID search box, insert HUD-2010-0029 and follow the instructions for submitting public comment.

QUESTION 1: How should federal housing finance objectives be prioritized in the context of the broader objectives of housing policy?

Policy for sustainable homeownership; rental policy; balancing rental and ownership; accounting for regional differences; affordability goals.

FHLBI POSITION STATEMENT

Among the strongest attributes of the Federal Home Loan Bank System (System) are its regional structure; its ability to deliver low-cost funds to member financial institutions; and its Affordable Housing Program (AHP), which is used across the country in combination with many other local, state and federal resources. The AHP is the largest private source of funds for affordable housing in the U.S.

By charter, the System is divided into 12 districts. Each FHLBank is regionally controlled, allowing it to be focused on the specific credit needs of its 8,000 members and their communities.

QUESTION 2: What role should the federal government play in supporting a stable, well-functioning housing finance system and what risks, if any, should the federal government bear in meeting its housing finance objectives?

Level of government involvement and type of support provided; role of government agencies; role of private vs. public capital; role of any explicit government guarantees; role of direct subsidies; monitoring and managing risks; incentives to encourage appropriate alignment of risk bearing in private sector; mechanisms for dealing with episodes of market stress; how to promote market discipline.

FHLBI POSITION STATEMENT

To create a more sound housing finance system, the federal government should promote a structure that relies on putting more private capital at risk before the taxpayers.

Through its self-capitalizing, cooperative structure, the System already functions in a way that keeps down the costs of funds for housing and communities while relying on private capital to protect taxpayers.

To become a member of an FHLBank, a financial institution must purchase FHLBank stock that is not publicly traded. FHLBanks are entirely owned by their members, and as cooperatives, they do not have the pressure for higher rates of return as do publicly traded companies.

To qualify for funds, members must pledge high-quality collateral and purchase additional FHLBank stock in proportion to their borrowing.

The System works well, as proven during the liquidity crisis when the FHLBanks were a crucial source of liquidity as other sources disappeared. Prior to the coordinated response of the federal government, the FHLBanks increased their advances by 33% between year-end 2006 (\$640 billion) and year-end 2008 (\$928 billion), ensuring that community lenders had access to much needed liquidity provided in a safe and sound manner.

QUESTION 3: Should the government approach differ across different segments of the market, and if so, how?

Differentiation of approach based on mortgage size or other characteristics; rationale for integration or separation of functions related to the single-family and multifamily market; whether there should be an emphasis on supporting the production of subsidized multifamily housing.

FHLBI POSITION STATEMENT

The toughest segments in the market to serve are very low-, low- and moderate-income housing sectors. These income groups need support, especially for affordable rental housing. Thousands of local nonprofit housing groups depend on dollars from the FHLBanks' AHP and Community Investment Program (CIP) for these housing segments.

The FHLBanks contribute 10% of their net income to affordable housing through the AHP, distributing nearly \$4 billion in AHP funds since 1990.

The CIP offers below market-rate loans to members for long-term financing for housing and economic development that benefits low- and moderate-income families and neighborhoods. CIP has lent more than \$56 billion for a variety of projects since its inception two decades ago.

These programs are important sources of funds for local affordable housing initiatives, which combine this funding with many other private and public resources.

QUESTION 4: How should the current organization of the housing finance system be improved?

What aspects should be preserved, changed, eliminated or added; regulatory considerations; optimal general organizational design and market structure; capital market functions; sources of funding; mortgage origination, distribution and servicing; role of existing government-sponsored enterprises; challenges of transitioning from current system to desired future system.

FHLBI POSITION STATEMENT

The FHLBanks are a source of strength and stability for the community banking financial system. They enable the delivery of credit to communities for homeownership and rental housing, businesses, infrastructure and jobs.

The role the FHLBanks have played in the financial system is vitally important. Their advances permit banks, thrifts, credit unions, insurance companies and community development financial institutions to serve the credit needs of communities, better manage their balance sheets, and enhance their risk management.

In any restructured financial system, the FHLBanks must continue to function as steady and reliable sources of funds for housing and community development through local institutions that need or depend on such funding.

QUESTION 5: How should the housing finance system support sound market practices?

Underwriting standards; how best to balance risk and access; extent to which housing finance systems that reference certain standards and mortgage products contribute to this objective.

FHLBI POSITION STATEMENT

The FHLBanks support sound mortgage products that will help to keep housing affordable while being careful not to create new classes of renters through inappropriate use of exotic subprime or other interest-only products.

Community banks require the liquidity provided by FHLBanks to originate the quality mortgage products that will bring back investor confidence.

QUESTION 6: What is the best way for the housing finance system to help ensure consumers are protected from unfair, abusive or deceptive practices?

Level of consumer protections and limitation; supervising agencies; specific restrictions; role of consumer education.

FHLBI POSITION STATEMENT

An FHLBank study found that foreclosure rates for AHP ownership projects are lower than those under other mortgage programs. This may be attributed to the fact that AHP users, who are mostly first-time homebuyers, must enroll in homeownership classes.

Ultimately, the purpose of financial literacy is to promote social and economic participation by all citizens. Now that trust in the financial system has fallen to historic lows, financial literacy plays a critical role in restoring the faith of American people.

QUESTION 7: Do housing finance systems in other countries offer insights that can help inform U.S. reform choices?

FHLBI POSITION STATEMENT

The FHLBank System, a network of locally connected, member-owned cooperatives that help make it responsive to the needs of local institutions, is a system that works.

Our public/private partnership model is often studied internationally and is held up as an ideal model.

Community Investment Program

The combination of a lower cost structure and the ability to offer a variety of terms makes CIP a powerful tool for community bankers.

BY MARYBETH WOTT, VP, COMMUNITY INVESTMENT OFFICER

The 20th anniversary celebration of the Affordable Housing Program also includes commemoration of the Community Investment Program (CIP), which was designed to ensure that members can help their communities experience economic growth. Every year, the FHLBI designates a target amount of funds at its cost for the CIP. CIP funding can be structured as either variable or fixed rate, with terms as long as 20 years and with a variety of amortizations.

THE MAJORITY OF CIP PROJECTS COULD BE CLASSIFIED INTO ONE OR MORE OF THE FOLLOWING CATEGORIES:

Commercial loans that create or retain jobs

Commercial loans that benefit low- to moderate-income areas

Small business concern loans according to the Small Business Administration standards

Infrastructure improvements

Low- to moderate-income community housing

Although many FHLBI members routinely provide financing for projects benefiting their local communities, only 13 members utilized advances under the CIP in 2009. Given that CIP advances are typically priced 25 to 30 basis points below comparable FHLBI funding, many members have been missing a golden opportunity to reduce their funding costs.

The combination of a lower cost structure and the ability to offer a variety of terms (up to 20 year fixed rates) makes CIP a powerful tool for community bankers. Low- to moderate-income borrowers may not be flexible when rising interest rate ARM products increase their mortgage payments, exposing members to credit risk. Fixed-rate funding offers an opportunity for members to finance highly desirable fixed-rate products while managing interest rate and credit risk.

Low-cost, long-term CIP funding has enabled many FHLBI members to differentiate their offerings in competitive bidding situations. Also, the same factors can be the difference in making certain community and economic development loans viable. CIP credit products are made on a secured basis only with collateral requirements consistent with those for all FHLBI credit programs. Prepayment fees may also apply.

CIP Assists with Revitalization in Grand Rapids

Abandoned and dilapidated warehouses and factories are blights on communities, becoming targets for vandals and ruining surrounding property values. The Israels family in Grand Rapids, MI, however, is working to improve such an area on the city's westside, which includes redeveloping the Drueke Building. The building is just one of five buildings on Seward Street that has been redeveloped by the Israels family beginning in 2001.

"My father grew up 12 blocks from the Drueke Building," explained David Israels, General Manager for several home furnishings businesses owned by the Israels family. "So he had strong ties to the community and a vision to revitalize the area. His current office is actually now in

the building where he worked with his own father in the furniture industry."

Named after a game manufacturer that had once occupied the building, the Drueke Building had been part of a recycling company for 20 years, serving as a storage facility for recycling materials. The building consists of a three-story structure that had originally been a coffin factory and a more modern one-story structure built by Drueke. Major renovations to the building include a new brick exterior, windows and clock tower.

Open Systems Technologies, a technology firm with about 50 employees, will be the building's first tenant, leasing

Laurie Beard, President & CEO, Founders Bank & Trust, admires the Grand Rapids skyline during a recent tour of the construction site. "It's great to see companies moving back into this neighborhood." Founders Bank used an advance under the FHLBI's Community Investment Program to help finance the redevelopment.



The Drueke Building, located at the corner of 3rd St. and Seward St. in Grand Rapids, MI, is being developed into office space by the Israels family. The green-topped tower pictured in the upper left is a new clock tower that connects to the roof-top deck for employees of the first tenant, a technology firm.



the first and second floors of the three-story section. In addition to office space, the firm will provide employees with a fitness room, locker rooms, kitchen on both floors, and a roof-top deck with wireless Internet access.

Founders Bank & Trust in Grand Rapids, a locally owned community bank, assisted with the financing by obtaining an advance from the FHLBI under the Community Investment Program. David Kinsman, Vice President, Commercial Lending, at Founders Bank said the bank has used CIP advances against qualifying residential properties, but the Drueke Building was the first time it had applied for a CIP advance for a commercial property. "The application process for a CIP advance is smooth and easy. I would definitely recommend it to other FHLBI

members," stated Kinsman. "At the time we took the CIP advance, we saved about 30 basis points over a standard advance."

According to Israels, more businesses have expressed interest in leasing other parts of the building. To entice tenants, Seward Street is in Grand Rapids's Renaissance Zone, providing local, state, and federal tax incentives for companies locating there. A building next door, the Widdicomb, is 100 percent leased. "We believe that if you build something well, it will be a success," Israels proudly stated. "There are 1,000 jobs in this neighborhood that weren't here before, and we're excited to be a part of this revitalization."

CIP HELPS TO PRESERVE JOBS IN DECATUR, INDIANA

Decatur native Victor B. Porter and three employees began building small fiberglass boats in 1958. That family-owned business, now known as Formula Boats, has turned into a major player in the racing and high-end leisure boat markets.

As the economy soured, though, sales of boats and other luxury items plummeted, causing layoffs, restructurings, and even closures of many manufacturers. This can be devastating for small communities such as Decatur.

"The worst of the downturn for us came in the fall of 2008," commented Scott Porter, President of Formula Boats. "We thought that business would improve when

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Formula Boats in Decatur, IN, is able to work through tough economic times with the help of a CIP advance. The low-cost advance obtained by FHLBI member First Bank of Berne provided working capital for the boat manufacturer.

If you have any questions about or would like to apply for CIP funding, please contact Shannon Fountain at 317.465.0428 or MaryBeth Wott at 317.465.0368.

New Collateral Regulatory Requirements for Pledged Private-label MBS

By SCOTT STANSBERRY, VP, COLLATERAL MANAGER

In 2006 and 2007 the federal banking agencies issued interagency guidance on nontraditional mortgage product risk and subprime mortgage lending. Since that time the Federal Housing Finance Agency (FHFA), regulator for the FHLBanks, has issued multiple advisory bulletins, which include guidance on the FHLBI's acceptance of nontraditional and subprime loans as collateral. The latest advisory bulletin (issued April 6, 2010) potentially impacts the eligibility of private-label mortgage-backed securities (PLMBS) acquired by members after July 10, 2007.

Guidance began with the publication of *Interagency Guidance on Nontraditional Mortgage Product Risks* (October 4, 2006). This guidance established loan terms and underwriting standards, portfolio and risk management practices and discussed consumer protection issues. *The Statement of Subprime Mortgage Lending* (July 10, 2007) provided joint guidance on risk management practices, workout arrangements, consumer protection principles, control systems, and supervisory review of subprime mortgage lending. Interagency guidance can be found in the *Federal Register*.

The FHFA followed this issuance of interagency guidance with additional guidance to the FHLBanks through multiple advisory bulletins. These advisory bulletins are available for review at www.fhfa.gov. Advisory Bulletin 2007-AB-01: *Nontraditional and Subprime Residential Mortgage Loans* (April 12, 2007) led to the creation of the FHLBI's *Subprime and Nontraditional Residential Mortgage Policy* (available at www.fhlbi.com).

Next, Advisory Bulletin 2008-AB-02: *Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets* (July 1, 2008) restricted the allowance of borrowing capacity for collateral securing advances on mortgages originated or acquired by a member after July 10, 2007, requiring that each loan comply with all aspects of interagency guidance. Similarly, PLMBS issued after that same date may receive borrowing capacity as collateral securing advances only if the underlying mortgages comply with all aspects of the interagency guidance. This bulletin required members to obtain an enforceable representation and warranty from the issuer that the residential mortgages included in the loan pools securitized by those PLMBS comply with the interagency guidance. At that time FHLBI policies were updated to comply with the requirements listed in the bulletin.

On April 6, 2010, the FHFA released Advisory Bulletin 2010-AB-01: *Clarification of Advisory Bulletin 2008-AB-02: Application of Guidance on Nontraditional and Subprime Residential Mortgage Loans to Specific FHLBank Assets*. This bulletin potentially impacts the eligibility of PLMBS acquired by members after July 10, 2007, and clarifies the following.

1. PLMBS that were either issued **or acquired** by an FHLBI member institution after July 10, 2007, may only receive borrowing capacity as collateral securing advances if the underlying mortgages comply with all aspects of the interagency guidance.
2. In order for an FHLBank to accept (as eligible collateral for Advances) PLMBS issued after the July date, members must have enforceable representations and warranties that the underlying mortgages comply with the interagency guidance. Subject to confirmation by the FHFA, the FHLBI may be able to determine that the underlying loans conform to the interagency guidance through analysis of the prospectus, servicing tapes, and other documented information sources.
3. Re-certifications of PLMBS may be approved as pledged collateral upon approval by the FHFA provided it has a federal agency guaranty backed by the full faith and credit of the U.S. government.
4. Eligible PLMBS collateral obtained by an FHLBank member through merger or acquisition will generally continue to be eligible collateral, subject to the FHLBI's consultation with the FHFA regarding the specific circumstances of the transaction.

The FHLBI continues to develop policies and procedures to ensure compliance with the latest advisory bulletin and to work to determine which PLMBS are not eligible to be pledged as a result of the guidance from this bulletin. If your institution has recently acquired or is in the process of acquiring assets that may be subject to the guidance outlined above, please contact Scott Stansberry, Collateral Manager, at 317.465.0505 with any questions regarding the eligibility of pledging the assets as FHLBI collateral.

Letters of Credit and Public Unit Deposits

By BRIAN MCCOY, VP, ADVANCES MANAGER

Many FHLBI members are already familiar with letters of credit (LCs) and how they may be a cost-effective way to improve the credit rating and help lower the costs of certain transactions. The FHLBI is authorized to issue LCs on behalf of members for the following purposes.

- Residential housing finance
- Community lending eligible for the FHLBI's community investment programs
- Asset/liability management
- Liquidity management

Now, members have an opportunity to use an FHLBI LC to collateralize public unit deposits (PUDs) in Indiana. The Indiana General Assembly recently passed House Enrolled Act 1336 (HB1336), specifying that irrevocable letters of credit issued by the FHLBI are acceptable collateral.

Essentially, the FHLBI can issue an LC on behalf of the member, in place of the member pledging other forms of collateral, to the board for depositories. The amount of the LC issued is based on the amount of the public funds then on deposit with the member institution. If the board for depositories should draw on the letter of credit to satisfy losses to the public deposit insurance fund, then the FHLBI would draw on the member's deposit account at the FHLBI, which may be funded with a variable rate advance.



Meeting at the FHLBI to discuss how FHLBI letters of credit can be used to collateralize public unit deposits were Jon Griffin, 1st Vice President, Credit Services Director at FHLBI; Cris Johnston, Chairman of the Indiana Board for Depositories; and Brian McCoy, Vice President, Advances Manager at FHLBI.

The letter of credit provides members with an additional option to collateralize public unit deposits, should the board for depositories issue an order to require collateral. By utilizing an FHLBI letter of credit, members benefit by substituting other forms of collateral currently pledged to the FHLBI for securities collateral that would be required to be submitted as collateral per HB 1336. The FHLBI's credit services staff is in discussions with state officials to work out the details of the program.

CIP Helps To Preserve Jobs In Decatur, Indiana • continued from page 5

oil prices dropped, but with other problems in the marketplace that didn't happen. The good news is that we're riding out the challenge and boat sales are trending upward." The company currently employs 155 area residents, drawing a few from Ft. Wayne but most are from small surrounding towns and just across the state line into Ohio.

Over the last few years, Formula Boats developed a good working relationship with First Bank of Berne in nearby Berne, IN. To help the company make it through these tough economic times, First Bank of Berne obtained a CIP advance. The loan provides working capital for Formula Boats to use to help keep employees building boats and supporting the local economy. The influx of working capital combined with an increase in orders is allowing

Formula Boats to recall some employees who were laid off during the downturn.

"Formula Boats is a premier employer in Adams County," stated Joe Caffee, Vice President, First Bank of Berne. "They take good care of their employees – employees who also are good customers for our bank. The Porter family's contributions to this community are huge, and the bank shares the same values. Using a CIP advance to minimize our costs so we can help the Porters with their business is a win-win situation."

Porter realizes that commercial lending at large regional banks continues to be tight, and is grateful for First Bank of Berne's assistance. "The bank has been a great partner," he said.

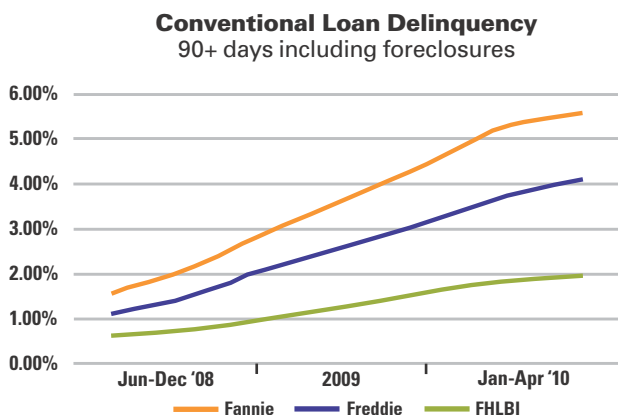
For more information about the current FHLBI letter of credit program, please call Credit Services at 800.442.2568.

MPP Update

The 2010 MPP Guide includes new guidelines that reflect the market's tighter underwriting standards for "A" paper loans.

BY CATHY GARRETT, AVP, MORTGAGE ACQUISITIONS MANAGER

The Mortgage Purchase Program (MPP) is now in the tenth year of providing FHLBI members with a competitive secondary market outlet that also rewards lenders for the quality loans that they originate. The program has purchased over 122,000 loans for a total of \$19.2 billion through March 31, 2010. Although MPP has seen increased delinquency during this current economic downturn, it has performed much better than the national mortgage market as shown in the delinquency graph below, and we are very pleased with the quality of the loans we have purchased from our members.



Today's mortgage market continues to challenge us. In accordance with FHLBank regulations, MPP loans are analyzed using a credit risk model that specifies the amount of credit enhancement necessary for our loans to achieve an implied credit rating of "AA." In addition to the Lender Risk Account or "LRA," we use supplemental mortgage insurance (SMI) to provide this credit enhancement. SMI is similar to primary mortgage insurance, except that SMI provides coverage down to about

MPP staff have an average of 18 years' experience in mortgage banking and an average of over 5 years with the FHLBI.

PICTURED LEFT TO RIGHT:
Don Erwin – MPP Director; **Afshan Memon** – MPP Quality Assurance Specialist; **Keith Pempek** – MPP Compliance & Quality Assurance Manager; **Cathy Garrett** – Mortgage Acquisitions Manager; **Rori Chaney** – Mortgage Acquisitions Support Specialist; **Jeff Gentner** – MPP Financial Analyst II; **Jason Reeves** – MPP Financial Analyst II; **Mark Holt** – MPP Operations Manager



50% LTV. Turmoil in the residential mortgage market has led to tighter underwriting requirements, even for our "A" paper loans based on our credit analysis model as well as that of our current SMI provider Genworth. The 2010 MPP Guide includes some new or revised guidelines that reflect these tighter underwriting standards. In addition Genworth has increased its QA audits on loans it insures based on documentation errors discovered during these audits specific to each Seller.

Recently, Genworth provided training flyers and a webinar to cover most of the basic underwriting standards for MPP and the secondary market. The basic requirements for loan documentation remain the same, but the attention to detail and how we obtain verification of those details is changing. Below are a few items to remember.

- **Be sure to take a COMPLETE application that is signed by all parties.**
- **Income is verified with a VOE, W-2s and paystubs and/or tax returns and must be verified with a 4506T from the IRS prior to closing.**
- **Assets needed to close and cash reserves must be verified. Bank statements must include ALL pages.**
- **Appraisals are subjective; the seller is responsible for the objective review of the report to be sure that it is a reasonable reflection of the market. The appraiser should provide a written explanation for areas that do not meet the standards outlined in the MPP Guide.**

As we face the changing mortgage market and look to the future, we do so with our members and their needs in mind. We anticipate an MPP conference later this

year when we can share new information and changes about MPP and get input from our members on how we can be successful together as we face the challenges ahead.

2010 Regional Member Meetings

TRENDS

CYCLES

INDICATORS

The FHLBI will host six Regional Member Meetings across Indiana and Michigan beginning August 16. The keynote speaker at the 2010 events will be economist Alan Beaulieu, Principal & President of the Institute for Trend Research (ITR) in Boscawen, New Hampshire. He is co-author of *Make Your Move*, a book on how to increase profits through business cycle changes.

Beaulieu is a Principal and Managing Partner of ITR Capital Partners and is an active member of its Investment Committee. He is also Senior Economic Advisor to the National Association of Wholesale Distributors and Chief Economist for the international refrigeration trade group HARDI.

Beaulieu has been providing workshops and economic analysis seminars across the U.S. to thousands of business owners and executives for the last 20 years. His Regional Member Meeting presentation will discuss:

- **Economic forecast for Indiana and Michigan**
- **Short-term and long-term economic forecasts (U.S. and /or abroad) and how those forecasts impact your company.**
- **Is the economy going to grow?**
- **What about inflation?**
- **Republican or Democrat – what impact does each type of administration have on the economy?**
- **Does the stock market give us a true reading of the economy?**
- **What leading economic indicators should we be watching for?**

Comments from ITR and Beaulieu have appeared in major media outlets, including the *Wall Street Journal*, *New York Times*, *USA Today*, *Business Week*, and the *Washington Times*, as well as on CBS Radio, CNN Radio and Sirius talk radio.

Also presenting at the 2010 meetings will be FHLBI staff members, including Milton Miller, President & CEO.

“The FHLBI again has planned an outstanding program for our members and guests. Alan Beaulieu is a dynamic speaker with an accurate record of predicting economic trends in all types of economic environments,” stated Bill McDowell, FHLBI’s Director of Sales. “The Regional Member Meetings provide an excellent opportunity for participants to learn more about the FHLBI and the benefits of membership, as well as the economy and financial services industry.”

Members and invited guests should begin receiving registration materials in early July.

Online registration at www.fhlbi.com is now open.



Alan Beaulieu
PRINCIPAL & PRESIDENT,
INSTITUTE FOR TREND RESEARCH
BOSCAWEN, NEW HAMPSHIRE

2010 Regional Member Meetings

AUGUST

- 16** Warwick Hills Country Club
Grand Blanc, MI
- 18** Blackthorn Golf Club
South Bend, IN
- 24** Tullymore Golf Club
Stanwood, MI
- 26** Greywalls Golf Club
Marquette, MI
- 30** Meridian Hills Country Club
Indianapolis, IN

SEPTEMBER

- 2** French Lick Resort
French Lick, IN

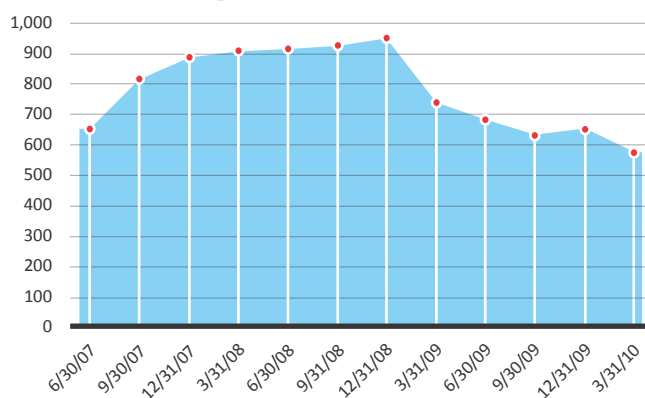
Lock and Load Liquidity

BY JIM EIBEL, CFA, VP & INSURANCE MARKET MANAGER

A key component of risk management is the reduction or elimination of uncertainty. FHLBank membership provides a means for financial institutions to reduce funding uncertainty by providing reliable capital market access. To fully realize these liquidity risk reduction benefits, members must eliminate potential operational hurdles to achieving same-day funding. The credit crisis that began in August 2007 underscored several important issues regarding liquidity risk management.

First, the FHLBank System effectively played a key role as a crisis first-responder. While the Federal Reserve and policy makers were busy discussing and debating possible courses of action, the FHLBank System acted by meeting the increased funding demands of members. During third quarter 2007 alone, FHLBank System advances spiked by a record \$172 billion or 27% in response to member needs. At the height of the crisis (during fourth quarter 2008) FHLBank advances crested the \$1 trillion mark. As the crisis has abated, FHLBank lending contracted as members' demand for liquidity declined.

FHLB System Advances \$ Billions



As stress began to mount on the financial system, many institutions found themselves at the FHLBanks' borrowing window for the first time. In some cases, these institutions experienced unnecessary funding delays due to stale lending agreements and/or collateral issues. By taking the following steps, members can assure themselves of quick and simple access to FHLBank borrowings if a liquidity need arises.

STEPS TO ACCESS LIQUIDITY

Periodically Review Key Borrowing Documents

While certified resolutions for advances and wire authority should be modified as personnel and business needs change, best practices include an annual review of the agreements to make sure they are reflective of the organization's structure and funding needs.

Pledge Excess Collateral to Fund Unexpected Needs

While it is usually possible to assign collateral and access FHLBI funding on the same day, there are scenarios for which this may not be possible. For example, if a liquidity need occurs late in the day or during a period of market-wide stress, it may not be possible to complete the pledging process and execute the borrowing prior to the FHLBI's cut-off times. By maintaining a pledge of excess collateral at all times, under most circumstances same-day funding is only a phone call away.

Test and Document the Process

The only way for an institution to prove its FHLBI access is to execute a test borrowing. By periodically conducting and documenting this "fire drill," an institution can test both the FHLBI's and its own capabilities. Documentation of these tests should be part of an institution's risk management plan and shared with the board, regulators, and rating agencies.

Consider the FHLBI Line of Credit

The surest and fastest way to access FHLBI funding is through the "free" line of credit product. The line of credit is a pre-authorized variable rate advance accessed by simply overdrawing an approved cash management account. Since establishing a line eliminates all operational hurdles except wiring funds out of the FHLBI, the product reduces an organization's funding uncertainty during a liquidity crunch.

The line of credit has the following specifications:

- Maximum of \$50 million per institution
- Six-month term
- No commitment fee
- No compensating balances required
- No clean-up period required
- A non-usage fee of 1 basis point is charged if the line is not used at least once during term
- The line must be pre-collateralized and sufficient stock must be held to capitalize the maximum draw

If you would like more information on reviewing your borrowing agreements, collateral, or establishing a line of credit, please contact Credit Services at 800.422.2568.

Cash Management Undergoes Changes

BY PAULA MITCHELL, FUNDS TRANSFER ANALYST

To better serve FHLBI members, several correspondent services are now being handled by the Cash Management staff. In addition to wire and security safekeeping services, Cash Management now includes TT&Ls, Savings Bonds, Coin & Currency and ACH services.

Holly Smith is the new contact for TT&L and Savings Bonds processing. Members that accept tax deposits from corporate customers can utilize FHLBI's Federal Reserve account to forward the payments to the U.S. Treasury, allowing the tax payments to flow through their CMS accounts. Holly can also assist with the processing of series EE or series I Savings Bonds. As with TT&Ls, members that sell series EE or series I Savings Bonds to their customers can use the FHLBI's Federal Reserve account to forward the purchase information to the U.S. Treasury along with bond redemptions. This process also allows the payments or deposits to flow through CMS accounts.

Cindy Konopinski is now handling Coin & Currency to assist members with their vault cash needs. This service includes arranging for armored service for cash and coin delivery

or returns with the fees flowing through a member's CMS account. Supplies, including currency straps, coin wrappers or bags, are also available.

Teri Rypel has joined the Cash Management staff and continues to specialize in ACH processing. Teri helps members settle funds and assists with transferring ACH files processed by the Federal Reserve. The FHLBI provides ACH Return and Notification of Change services and can assist with ACH originations. The FHLBI can accept an origination file and transmit to the Federal Reserve on a member's behalf. As with our other services, using FHLBI allows ACH debits and credits to flow through a CMS account.

CONTACTS

If you would like more information about any of the services offered through Cash Management, please contact:

Cash Management • 800.465.0474

Lisa Chilcote, Cash Manager • 317.465.0477

Affordable Housing Program Honored at Gala

In June, the National Housing Conference (NHC) is presenting its 38th annual "Housing Person of the Year" award to the Federal Home Loan Banks' Affordable Housing Program (AHP) in honor of its 20th year of fostering affordable housing throughout the country. The award acknowledges the importance of a program that has distributed nearly \$4 billion in grants to create 670,000 homes across the U.S. In the FHLBI's district of Indiana and Michigan, \$150 million in grants has supported 21,000 affordable homes.

In addition to the competitive grant program, homeownership initiatives have been developed over the years so that AHP dollars reach even more people. These programs have assisted with down payments, closing costs, repairs, and refinancings.

At the FHLBI, employees are honoring AHP's 20th anniversary by building wall panels for a Habitat for Humanity home. The panels will be assembled on a home site in Indianapolis this fall and the keys presented to the family in October.



An AHP grant supported the renovation of Mapleton Park Apartments in Indianapolis, IN which provide supportive housing for homeless veterans, including Tomeka and her son Teron.

BOTTOM One of the AHP's first grants helped Inner City Christian Federation to rehab the Madison Apartments in Grand Rapids, MI.



Spirit Award

Sonali Allen Receives Community Spirit Award

Recognizing excellence in community economic development

FHLBI • COMMUNITY SPIRIT AWARD

The FHLBI and its Affordable Housing Advisory Council present the annual Community Spirit Award to honor an individual from one of its member financial institutions in Michigan and one in Indiana who have shown outstanding dedication to affordable housing and community economic development.

Receiving the 2010 Michigan award is Sonali Allen, Vice President, Community Development Officer, at Mercantile Bank of Michigan in Grand Rapids.

Sonali has demonstrated outstanding dedication to community economic development for over 10 years. As a branch manager, she built strong relationships with small businesses and residents in the low- to moderate-income neighborhoods served by her branches. More recently, Sonali has created and developed an outstanding community development program at Mercantile Bank of Michigan and has formed numerous partnerships with nonprofit organizations. With her assistance, Mercantile Bank has increased its support of affordable housing by investing in tax credits and by increasing involvement in the FHLBI grants for affordable housing. Finally, because of Sonali's efforts in financial literacy, Mercantile Bank of Michigan received the Michigan Bankers Association financial literacy award in 2008 and 2010.

Sonali is also a community volunteer and sits on the boards for organizations such as Neighborhood



Sonali Allen

VICE PRESIDENT, COMMUNITY DEVELOPMENT OFFICER
MERCANTILE BANK OF MICHIGAN, GRAND RAPIDS, MI

Ventures, Habitat for Humanity of Kent County, LISC, Grand Rapids Opportunities for Women and the YWCA.

MaryBeth Wott, Vice President and Community Investment Officer for the FHLBI, remarked, "The FHLBI's community investment staff enjoys working with Sonali and appreciates the opportunity to recognize her talents and efforts to promote affordable housing and community development."

Sonali received the award at the Michigan Conference on Affordable Housing in Lansing.

FHLBI PERFORMANCE *(\$ in millions, unaudited)*

As of March 31, 2010

Assets	\$47,072
Advances outstanding	\$21,582
MPP mortgages outstanding	\$ 6,990
Retained earnings	\$ 373

For the three months ended

March 31, 2010	
Net income	\$ 32.3
Return on average equity	7.42%

New members approved from November 2009 through May 2010

First Community Federal Credit Union
Parchment, MI

Detroit Edison Credit Union
Plymouth, MI

Guggenheim Life and Annuity Company
Schererville, IN

The Peoples Bank
Brownstown, IN



A Real Difference

Since 1990, the Federal Home Loan Bank of Indianapolis through its Affordable Housing Program has awarded over \$150 million in grants throughout Indiana and Michigan creating housing for more than 21,000 individuals and families.

To find out more about the FHLBI and its community investment programs, visit www.fhlbi.com.



20 YEARS
Affordable
Housing Program

Federal Home Loan Bank
of Indianapolis

FEDERAL HOME LOAN BANK OF INDIANAPOLIS
8250 Woodfield Crossing Blvd. • Indianapolis, Indiana 46240
317.465.0200 • www.fhlbi.com



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