



FEDERAL HOUSING FINANCE BOARD
OFFICE OF GENERAL COUNSEL
1625 Eye Street NW, Washington DC 20006
Fax: 202/408-2580

September 23, 2005

Mr. Martin L. Heger
President & CEO
Federal Home Loan Bank of Indianapolis
8250 Woodfield Crossing Boulevard
Indianapolis, IN 46240

Dear Mr. Heger:

On May 6, 2005, the Federal Housing Finance Board (Finance Board) received your notice that the Federal Home Loan Bank of Indianapolis (Bank) plans to accept small farm loans as collateral for advances to certain members. The notice was submitted in accordance with the Finance Board's regulation for new business activities found at 12 C.F.R. part 980.

Pursuant to delegated authority, I am sending this letter to provide the Finance Board's consent to the Bank accepting as collateral qualifying small farm loans along the parameters described in the Bank's notice.

The Bank has acknowledged that it has limited experience in assessing the liquidity and credit quality of small farm loan collateral. As a result, the Bank indicates that it will apply a conservative "haircut" to the book value of small farm loans when computing the level of advances that can be made to a member. The Bank also indicates it will apply other techniques to limit risk. It is the Finance Board's expectation that, over time, as the Bank gains experience in evaluating and lending on small farm loan collateral, the Bank will modify its underwriting procedures appropriately to include, among other things: (a) a discounted cash flow model to value pledged small farm loans; and (b) a flexible "haircut" methodology to reflect more accurately the relative liquidity and credit quality of small farm loan collateral.

Sincerely,

for John P. Kennedy
General Counsel

cc: Stephen M. Cross
Duane V. Creel
Louis Scalza

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