



August 15, 2002

Mr. Martin L. Heger
President and CEO
Federal Home Loan Bank of Indianapolis
Post Office Box 60
Indianapolis, IN 46206-0060

RE: Implementation of Federal Home Loan Bank of Indianapolis Capital Plan (2002-APP-02)

Dear Mr. Heger:

On July 10, 2002, the Board of Directors of the Federal Housing Finance Board (Finance Board) approved the capital plan of the Federal Home Loan Bank of Indianapolis (Bank) subject to the Bank receiving approvals of its risk assessment procedures and controls and internal market risk model pursuant to 12 C.F.R. § 932.1. Finance Board staff has reviewed the materials that the Bank submitted in support of its request for these approvals, as well as supervisory materials related to the Bank's risk exposure and management. Staff also has had conversations with the Bank about its risk management policies and market risk model.

The Bank's Strategic Plan and pro forma financial statements for the period 2002 to 2004 indicate that [REDACTED]

[REDACTED] Staff finds that, [REDACTED] it is appropriate that the Bank systematically review a broader range of risk factors to ensure that all material risk factors are monitored and, if necessary, limited. Discussions with Bank staff have demonstrated that they are aware of and understand these additional risk factors. To ensure that the Bank incorporates these risks into its written risk management policies and procedures, Finance Board staff believes that the Bank should take certain actions, set forth below, [REDACTED]

Finance Board staff also reviewed the Bank's internal market risk model. As part of its review, staff considered the written description of the model and the modeling process submitted by the Bank. Based on Finance Board staff review of the modeling assumptions included in these materials, and in discussions with Bank staff, Finance Board staff has indicated that the Bank should incorporate into its written description, certain adjustments to those assumptions, set forth below, in order to more accurately reflect market conditions.

Based on the results of staff's review and recommendation, pursuant to 12 C.F.R. § 932.1, the Finance Board approves the Bank's risk assessment procedures and controls and internal market risk model, based on the assurances provided by the Bank in its letters of April 29, 2002 and August 8, 2002, review of the materials discussed above and conversations with Bank staff subject to the conditions set forth below:

Regarding risk assessment procedures and controls, the Bank shall:

[REDACTED]

Regarding the Bank's internal market risk model, the Bank shall:

[REDACTED]

While the above outstanding issues with respect to the Bank's risk management policies and market risk modeling remain, staff is of the opinion that these issues can be resolved in a timely manner through normal business processes. The Finance Board anticipates that as the Bank undertakes the actions set forth above [REDACTED] the Office of Supervision will closely monitor the Bank's progress. Should there be a determination that the Bank is not progressing satisfactorily in completing these actions, the Finance Board may require the Bank to take immediate appropriate actions to curtail its risk-taking.

If you have any questions on this matter, please contact me at 202 408-2980.

Sincerely,

/s/ Stephen M. Cross

Stephen M. Cross
Director, Office of Supervision