

FEDERAL HOME LOAN BANK OF CHICAGO 2010 COMMUNITY LENDING PLAN

Executive Summary

Pursuant to 12 C.F.R. Sections 952.4 and 944.6, the Federal Home Loan Bank of Chicago (the “Bank”) presents its 2010 Community Lending Plan (the “Plan”) for the Bank’s district, which is composed of the states of Illinois and Wisconsin (the “District”). The Plan outlines the Bank’s community lending initiatives for the year based on market research and the District’s community lending needs. The 2010 Plan continues to consider the expanded credit needs of the District as a result of the housing and mortgage crisis and economic recession. Although certain sectors of the economy are experiencing slower rates of decline or showing signs of improvement, the affordable housing and community lending needs of the District remain pronounced. Accordingly, the products and programs sets forth in the Plan are useful in responding to the credit needs of the communities they serve.

The Plan consists of four parts. Part I presents an overview of market conditions and a needs assessment of the Bank’s District. Part II describes Bank Initiatives for 2010; Part III outlines Quantitative Performance Goals for 2010; and Part IV reviews how members are notified of opportunities to meet the Federal Housing Finance Agency (“FHFA”) Community Support requirements and engage in economic development lending.

I. Market Analysis and District Needs

In 2009, the Bank assessed market conditions and community lending needs of its District using a variety of primary and secondary resources, including insight and information from member banks and housing associates, the Bank’s Board of Directors and its Affordable Housing Advisory Council, as well as research conducted by public and private economic development and affordable housing organizations.

According to recent data analysis of the Federal Reserve Bank published in its *October 2009 Beige Book*, the Seventh Federal Reserve District, which includes the Bank’s District states of Illinois and Wisconsin, is experiencing marginal improvements in certain sectors. Although much of 2009 showed deterioration in the economy, manufacturing activity is showing signs of firming and residential real estate conditions are beginning to improve in the Seventh District. There have been recent increases in home sales and decreases in housing inventory.¹ However, foreclosures and mortgage delinquencies are still on the rise in both Illinois and Wisconsin. Although credit conditions are improving, they remain tight. The availability of financing remains a significant concern for potential home buyers. Tight credit conditions are also affecting nonresidential construction, which is experiencing weak demand particularly for commercial construction. Small businesses continue to be negatively impacted by restricted credit flows. Lenders’ are challenged with balance sheet constraints, capital preservation and loan loss provisions.² Rising unemployment, increasing foreclosures and decreasing state

¹ *The Beige Book*. (October 2009). The Federal Reserve Board.

² *The Beige Book*. (October 2009). The Federal Reserve Board.

revenues are putting significant pressure on the fiscal health of Illinois and Wisconsin. This puts state services and funding for critical programs at the risk of contraction.

The weakening credit markets in the Bank's District have made it difficult for smaller bond issuers to obtain credit enhancement for community economic development and housing projects. Many large, highly-rated regional and national banks that historically provided credit enhancements have reached their exposure limits and/or stopped lending to all but the highest-rated borrowers. The collapse of the bond insurance industry also dramatically impacted the bond markets. Some rated banks in the District are being downgraded thus limiting their ability to credit enhance new bond issuances and impacting the marketability and cost of previously issued bonds. These events put local projects at risk of not being able to move forward towards completion. The ability of the Federal Home Loan Banks (FHLBanks) to provide credit enhancement for a wide variety of taxable and tax-exempt projects, including health, education and manufacturing businesses, allows its members to serve their local customer needs and communities in a new way. The FHLBank's credit enhancement requires member involvement and allows for multi-member consortiums. *See the discussion below under **Regulatory Developments** for additional information on letters of credit.*

Illinois

The Illinois economy is suffering from recession and has historically lagged the nation in economic cycles.³ In September 2009, Illinois' unemployment rate hit a 26-year high of 10.5%.⁴ Employment declines are most prevalent in the manufacturing, construction and financial sectors of the state economy.

Affordable housing is in short supply for both renters and homeowners in Illinois. This need is further exacerbated by the state's weakening economy and rising number of foreclosures. At the end of the 3rd quarter 2009, Illinois had the fifth highest total of foreclosures in the nation. For the third quarter, Illinois had the 10th highest foreclosure rate – 1 in every 141 housing units receive a foreclosure filing during that period. Kendall, Kane, Lake and Will counties had the highest county foreclosure rates for the quarter and Cook County reported the highest number of foreclosure filings for the period.

Rising property taxes, energy bills and property maintenance costs make it difficult for sustainable homeownership.⁵ The cost burden remains the most frequent housing problem. Low- and moderate-income working families are finding it more and more difficult to meet their needs as the cost of housing becomes a greater financial burden. As employment declines and housing costs precipitate, working families have less money to spend on food, clothing and healthcare. There is a striking need in Illinois for the creation and preservation of affordable rental and owner-occupied housing, as well as for the strengthening of employment opportunities paying living wages.

³ *FY 2010 Economic & Revenue Forecast and Updated FY 2009 Revenue Estimate.* (April 2009). Illinois Commission on Government Forecasting and Accountability.

⁴ *Illinois Foreclosure Activity Rises in Third Quarter.* November 10, 2009. www.realtytrac.com

⁵ *2008 Affordable Housing Briefing Book.* (February 2008). Illinois Housing Roundtable.

Wisconsin

According to the *Wisconsin Economic Outlook* published by the Wisconsin Department of Revenue Division of Research & Policy in November 2009, the Wisconsin economy, like the nation's, was in recession from the end of 2007 through mid 2009. Wisconsin housing indicators (home sales, house starts and permits) are showing signs of stabilization. However, continued increases in foreclosures and mortgage delinquencies still pose significant risk to the recovery of the housing market.⁶ Wisconsin's total number of foreclosures were up for the third quarter 2009 and in comparison to the third quarter 2008, ranking it 18th in the country in total foreclosures. Its foreclosure rate ranked 19th with one in every 229 housing units receiving a foreclosure filing. Rock, Milwaukee and Columbia counties had the highest county foreclosure rates in the state for the third quarter, and Milwaukee County led in the total number of foreclosure filings for the quarter.⁷

Between December 2007 and August 2009, Wisconsin lost 138,900 jobs. Although employment is expected to continue to decline through the first quarter 2010, the monthly declines are estimated to be more moderate than those in early 2009. The forecast suggests that after the unemployment rate peaks around 9.3% during first quarter 2010, employment will begin a slow recovery, reaching pre-recessionary levels by the end of 2012. The Construction, Manufacturing and Trade, and Transportation and Utilities sectors experienced the largest job losses. The housing crisis had a direct impact on the state's construction industry and the tightening of credit markets were a key factor in the reduced demand for these sectors.⁸

Wisconsin's "Program Year 5 Action Plan" for the period between April 1, 2009 and March 31, 2010 states that "the composition of [its] population continues to see increases in the elderly population with the birth rate remaining steady."⁹ The housing needs of the elderly shift as they require greater assistance with daily activities. Similar to Illinois, Wisconsin low-income households have greater difficulty finding adequate and affordable housing that accommodates their needs. Wisconsin households, especially those in the low-income ranges, are facing rising housing costs that are outpacing inflation. The creation and preservation of affordable multifamily rental housing is even more critical now in the face of families losing their homes to foreclosure. Independent living housing for persons with disabilities also remains a significant need in the state. Appropriate and affordable financing is critical for meeting the state's housing needs.

Regulatory Developments

Certain recent legislative and regulatory developments impact the Bank's community lending and affordable housing initiatives for 2010. The Housing and Economic Recovery Act of 2008 temporarily expanded each FHLBank's authority to issue letters of credit on behalf of members

⁶ *Wisconsin Economic Outlook*. (November 2009). Wisconsin Department of Revenue Division of Research & Policy.

⁷ *Wisconsin Foreclosure Activity Inclines in Third Quarter*. (November 2009). www.realtytrac.com

⁸ *Wisconsin Economic Outlook*. (November 2009). Wisconsin Department of Revenue Division of Research & Policy.

⁹ *2005-2009 Consolidated Plan – Program Year 5 Action Plan*. State of Wisconsin.

to include qualified tax-exempt economic development projects for new or refunded bond issuances. This expanded authority is making a positive impact on the Bank's Letter of Credit Program and providing new opportunities for our members to support their customers and communities.

Between October 31, 2008 and October 31, 2009, the number of outstanding standby letters of credit issued for bond financings doubled. The Bank expanded its program further mid-year with the introduction of the direct pay letter of credit product, also for the purpose of credit enhancing bond issuances. The outstanding balance of standby and direct pay letters of credit as of October 31, 2009 reflects a 170% increase from one year prior. The Bank continues to receive positive feedback from its membership and the public on its Letter of Credit Program, and will continue its marketing efforts and educational outreach during 2010 while monitoring progress towards extending the expanded authority discussed above past the December 31, 2010 sunset date.

This development was taken into consideration in establishing the Bank's initiatives and performance goals for 2010.

II. Initiatives for 2010

The Plan establishes a community lending strategy that addresses anticipated member and community-based economic development needs for 2010. The following initiatives help address the District needs and economic trends described above.

A. Community Lending Programs

1. Community Investment Cash Advances (CICA) and Letters of Credit Program

- Coordinate marketing efforts with Banking, Communications and Government Relations to increase awareness of the Bank's Community Lending and Affordable Housing products and impact
- Update and enhance marketing materials, to include expanded product information on the Bank's website
- Update and revise application documents for CICA and letters of credit to improve the ease of use for members
- Host informational seminars and webinars for members and community organizations and conduct joint member calls with the Bank's Relationship Bankers
- Support and participate in conferences and workshops with housing and community economic development organizations
- Support system installation, upgrades, and enhancement efforts for new letter of credit database

2. MPF[®] Endowment

In 2003, the MPF Endowment was established as a permissible activity under the Community Investment Cash Advance (CICA) regulations of the FHFA, currently Federal Regulations (12 C.F.R. Section 952). The MPF Endowment (“Endowment”) provides recoverable assistance to member financial institutions, either independently or in partnership with community-based financial intermediaries supporting small businesses, commercial enterprises, mixed-use projects, and other economic development initiatives benefiting low- and moderate-income residents and areas.

The Endowment, capitalized with Bank earnings, is a five-year pilot program available to and through members of the Bank. The Endowment provides recoverable assistance, and will offer flexible financing and repayment terms to leverage and enhance member investments in targeted lending activities.

Member financial institutions may use Endowment assistance in conjunction with the Bank’s other community investment credit products, facilitating ongoing community impact resulting in long-term sustainable economic, industrial and business growth, and job retention and creation.

Financial intermediaries with a proven track record in serving small businesses and managing micro-enterprise and community investment lending programs, consistent with the Endowment’s program focus and eligibility requirements, may be considered for program participation by submitting a request through a member financial institution of the Bank.

- Although the Bank has not funded the MPF Endowment since the second quarter of 2007 and although the five-year pilot period ended June 30, 2009, the Bank will continue to consider potential recipients for MPF Endowment commitments using funds repaid to the endowment by current investment partners. Potential recipients may include current or new investment partners. The MPF Endowment will therefore remain a pilot program with participants strategically selected based upon geographic location and a prior history of success in economic development and small business lending and programming.
- Enhance tools to monitor and track the implementation and efficacy of the program.

3. Financing to Small Business Investment Companies.

For the past eleven years, the Bank has partnered with the U.S. Small Business Administration (SBA), in providing "Just-in-Time" funding to over 300 Small Business Investment Companies (SBICs). Through the "Just-in-Time" funding program, the Bank makes bridge financing available to SBICs in support of their small business initiatives, until longer term financing can be arranged by the SBA.

The SBIC securities purchased by the Bank are guaranteed by the SBA, which guarantee carries with it the full faith and credit of the U.S. government. The Bank also worked with the SBA in the development of the Low- and Moderate-Income (LMI) Debenture Program. Through this program the Bank provides long-term funding to SBICs that invest in, and provide management expertise to, small businesses that operate in low- and moderate-income areas, or that provide employment opportunities to low- and moderate-income individuals. LMI debentures are privately placed with the Bank, are guaranteed by the SBA, and have payment and prepayment features customized to assist the SBIC. These securities have a term to maturity of 5 or 10 years.

4. Financing to SBA New Market Venture Capital Companies.

The SBA's New Markets Venture Capital (NMVC) Program is designed to offer long-term funding assistance to NMVC companies and specialized SBICs that provide equity capital investment and operational assistance to small business enterprises located in low-income rural and urban areas of the country. At the SBA's request, this program incorporates a funding structure that similar to the structure of the LMI Debenture Program, except that all NMVC debentures have a 10-year term to maturity.

5. Financing to the SBA Energy Saving Debenture Program

The Small Business Administration Act has been amended to allow SBICs the ability to support small businesses engaged in researching, manufacturing, developing or providing products, goods or services that reduce the use or consumption of non-renewable energy resources. The Energy Saving Debenture Program will incorporate a funding structure that replicates that employed in the LMI Debenture Program.

6. WHEDA and IHDA Bond Purchase Facilities

The Wisconsin Housing and Economic Development Authority (WHEDA) and the Illinois Housing Development Authority (IHDA), both housing associate members of the Bank, issue variable rate bonds in the capital markets to raise funds to make mortgage loans to low- and moderate-income households. In the event that a bondholder does not wish to continue to hold the bond during the variable rate period, it has the right to tender the bond to a remarketing agent, which attempts to sell the bond to another investor. The market for these bonds is such that if the remarketing agent is unable to remarket the bond, either temporarily or permanently, then another investor must step in to purchase the bond.

Under the standby bond purchase facilities that the Bank has entered into with WHEDA and IHDA, respectively, the Bank agrees to purchase bonds that have not been remarketed within the allotted time. The Bank holds such bonds while the remarketing agent continues its remarketing efforts. If such efforts are unsuccessful, the Bank holds the Bonds for a period of five years, receiving interest and semi-

annual principal payments. The bond purchase facilities provide needed liquidity for WHEDA and IHDA to continue making mortgages to low- and moderate-income homebuyers.

7. Government-Insured or Government-Guaranteed Loans

The Bank continues to acquire mortgage loans insured or guaranteed by government agencies (“Government Loans”) from our members under the MPF Government Product. This product provides members with an alternative to holding Government Loans in portfolio or selling them to secondary market investors. Only Government Loans where the Bank’s risk of loss is insured under HUD Section 184 or guaranteed under RHS Section 502 are eligible for delivery. The member institution may choose to either service the Government Loans or sell the servicing of RHS Section 502 loans to Colonial Savings, F.A. or the servicing of HUD Section 184 loans to another qualified servicer. Investment in Government Loans constitutes yet another way for the Bank to pursue its mission of assisting members in providing affordable housing financing in their communities.

B. Affordable Housing Program

- Implement 2010 Affordable Housing Implementation Plan, which includes priorities for foreclosure intervention
- Increase Member utilization of Affordable Housing Program
 - Provide up-front technical assistance to avoid potential monitoring and compliance issues.
 - Continue to host online training and informational seminars for program delivery, monitoring and compliance.
 - Review and update AHP Competitive Program application for more efficient use by the member and sponsor organization.

C. Other Activities

1. Operational Efficiency

Enhance the member value proposition through effective and efficient use of the Affordable Housing Program, the CICA lending products, and Letter of Credit products.

The Bank will continue to update and enhance its processes and procedures across all its Community Lending and Affordable Housing products. The Bank will pursue increased efficiency through administrative and technological improvements, provided resources are available. The Community Investment Group will update and revise website content and improve online navigation for member and community organization use.

2. Community First Newsletter

Pursuant to the 2009 Community Lending Plan, the Community Investment Group published the first quarterly edition of the *Community First* newsletter in October 2008. One year later, the newsletter continues to highlight member activities successfully utilizing the Bank's community lending and affordable housing products.

In 2010, the newsletter will continue to feature those member stories, provide tips on how to maximize the use of such products and educate members and community organizations on the latest development in the community economic development and affordable housing fields.

3. Community First Partnership Awards

The Community First Partnership Award and criteria were established in 2009 to recognize outstanding achievement in affordable housing and/or community economic development by a member bank and a non-profit community organization working in partnership to revitalize communities in Illinois or Wisconsin. The Bank will present awards to each member and community development organization in recognition of the partnership's commitment to the community it serves and its successful implementation of a program or project. The community organization will receive a monetary award to help further the partnership's goals and impact in the community. The five recipients of the first annual Community First Partnership Awards were announced in Fall 2009. In 2010, the Bank will host an award event in each of the communities served by the awarded partnership.

In the latter half of 2010, the Bank will call for nominations for the 2010 Community First Partnership Awards.

4. Technical Assistance.

The Bank will provide technical assistance to stockholders and housing and economic development organizations in the district on an ongoing basis, including assistance with the preparation of applications for community investment programs. Technical assistance activities include presentations and co-sponsorship of conferences, workshops and seminars, consultations with members and community development organizations, and continuous staff availability through phone contact.

5. Market Research

The Bank will continue to monitor current market conditions of its District and assess unmet credit needs and opportunities for community lending and affordable housing.

The Bank will consult with its Affordable Housing Committee, Advisory Council and with members, nonmember borrowers, and public and private community economic

development organizations in the Bank's district to identify District needs and to propose strategic actions and initiatives for its Community Lending programs and Affordable Housing Implementation Plan.

The Bank will continue to engage and seek input from its Affordable Housing Committee, Advisory Council and housing and economic development partners to further collect information and first-hand reports regarding the District's community economic development and affordable housing needs.

6. Staff Capacity Building

The Bank will encourage and support staff training opportunities that will enhance financial skills and knowledge of community economic development and affordable housing issues, all of which will build capacity for providing technical assistance to members and responding to District community lending needs.

7. Public Relations

- Continue to build relationships with housing and community economic development partners.
- Expand Bank support of and participation in affordable housing and community economic development conferences.

III. Quantitative Performance Goals for 2010

Overall Program Usage

- | | |
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| ➤ Percentage of members participating in CICA programs | 33% |
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Community Lending and Credit Products:

- | | |
|--|----------------|
| ➤ Dollars in CICA Advance Originations (CIP & CEDA) | \$ 200 Million |
| ➤ Number of letter of credit transactions (Originations) | 12 |

Affordable Housing Program:

- | | |
|--|----|
| ➤ Number of competitive AHP applications | 80 |
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MPF Endowment:

- | | |
|------------------------------------|------------|
| ➤ Dollars in Endowment investments | \$ 500,000 |
| ➤ Number of Endowment investments | 6 |

Public Relations and Community Involvement:

- Number of conferences, workshops, and community events in which the Bank will participate or support 30

III. Annual Notification to Member Institutions

Each year the Bank informs members and housing and community economic development organizations of the CICA financing program, Affordable Housing grant programs and other Bank activities that enable members to engage in community lending and meet the FHFA Community Support requirements. Notification is provided using the following methods:

- Press Releases
- Special mailings
- Community Investment Advisory Council Annual Report
- Bank publications, including the *CommunityFirst* quarterly newsletter
- The Bank's website, www.fhlbc.com
- Informational Seminars and Webinars

Approved this 17th day of

December, 2009

BOARD OF DIRECTORS



Corporate Secretary