

# **FEDERAL HOME LOAN BANK OF CHICAGO 2011 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 2011 Community Lending Plan (the “Plan”) for the Bank’s district, which is composed of the states of Illinois and Wisconsin (the “District”). The Plan summarizes current market conditions and trends and outlines the Bank’s community lending initiatives for the year based on the District’s community lending needs.

In 2007, the District suffered a credit crisis that resulted in a deteriorating economy evidenced by high foreclosure rates, failed businesses and significant job losses. Capital constraints on financial institutions and falling revenues in units of state and local government created a gap in critical funding sources for housing and economic development projects. Although both Illinois and Wisconsin entered into economic recovery in late 2009, growth is slow and the need for affordable housing and strategic comprehensive economic development remains pronounced. As our communities face these challenges, the Bank’s commitment to fulfilling its mission remains steadfast. The products and programs provided by the Bank and set forth in this Plan are useful tools in responding to the credit needs of our communities as they emerge from these challenges.

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 2011; Part III outlines Quantitative Performance Goals for 2011; 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**

The Bank remains current on market conditions and community lending needs by consulting a variety of primary and secondary resources. Resources include insight and information from member banks and housing associates, the Bank’s Board of Directors (“Board”) and its Affordable Housing Advisory Council (“Advisory Council”), as well as research conducted by public and private economic development and affordable housing organizations.

On-going outreach and technical assistance for members provide the Bank with up to date information on how its programs are best utilized and most impactful in the communities served by its members. The Bank establishes and maintains partnerships with community development organizations and fosters collaboration between member financial institutions and community organizations. Participation in conferences and forums provide the Bank opportunities to build its knowledge base, as well as promote the Bank’s mission and programs and create linkages between it and other community development programs.

In May 2010, the Bank began its annual needs assessment discussion with the Board’s Affordable Housing Committee and the Advisory Council to identify and discuss the housing and community development needs of the District. The goal of this and subsequent discussions is to determine how the

Bank's Affordable Housing Program ("AHP") Implementation Plan may be modified on an annual basis to address the District's most pressing needs. Based on these discussions, as well as market analysis and outreach efforts, the Bank continues to update its AHP and community lending programs to best reflect the District's priorities and needs.

### ***Market Conditions***

According to recent data analysis of the Federal Reserve Bank published in its *October 2010 Beige Book*, the Seventh Federal Reserve District, which includes the Bank's District states of Illinois and Wisconsin, is experiencing increased economic activity. Manufacturing production and public infrastructure projects are expanding. Construction activity is showing slight signs of improvement. Although credit conditions are gradually improving, limited availability of credit for small businesses and conventional home mortgage financing remains a concern. The housing markets in the Seventh Federal Reserve District remain weak.<sup>1</sup>

Similar to other parts of the country, both Illinois and Wisconsin have been experiencing signs of economic recovery since late 2009; however, growth is small and occurring at a slow pace. The Illinois economic recession began in December 2007 and ended in June 2009. The state's recovery, now in its second year, appears weaker than expected and lags behind the pace of the U.S. This may lead to a more prolonged period of high unemployment. As of September 2010, the state's unemployment rate was at 9.6% and expected to increase over the coming months.<sup>2</sup> Furthermore, Illinois's foreclosure rate remains one of the highest in the nation. As of the third quarter, Realty Trac reported that Illinois has the ninth highest state foreclosure rate – one in every 110 housing units received a foreclosure filing during the quarter.<sup>3</sup>

Wisconsin also experienced a recession for approximately 18 months that ended mid-2009. Although the number of jobs is not expected to reach pre-recession levels until 2013, Wisconsin added approximately 25,400 jobs since the end of 2009, 43% of which were in the manufacturing sector. Wisconsin housing indicators (home sales, house starts and permits) are showing signs of improvement. However, continued foreclosure filings and mortgage delinquencies pose risk to the recovery of the housing market.<sup>4</sup> Wisconsin's total number of foreclosure filings during the third quarter was up slightly from the previous quarter. Ranked 18<sup>th</sup> in the U.S., Wisconsin has a foreclosure rate of one in every 199 housing units receiving a foreclosure filing as of the end of third quarter 2010.<sup>5</sup>

The Federal government responded to the economic crisis with various housing and employment recovery programs. During 2010, the Bank saw its AHP funds from both the Competitive and Set-Aside programs paired with Federal funds to assist with the acquisition, construction and/or rehabilitation of single- and multi-family affordable housing units in Illinois and Wisconsin.

The Homebuyer Tax Credit Program, which ended in April 2010, provided a tax credit to new and existing homebuyers. The incentive helped stabilize falling home prices and reduce the increasing

<sup>1</sup> *The Beige Book*. (October 2010). The Federal Reserve Board.

<sup>2</sup> *Monthly Briefing*. (September 2010). Illinois Commission on Government Forecasting and Accountability.

<sup>3</sup> *Illinois Foreclosure Activity Up in Third Quarter*. [www.realtytrac.com](http://www.realtytrac.com)

<sup>4</sup> *Wisconsin Economic Outlook*. (August 2010). Wisconsin Department of Revenue Division of Research & Policy.

<sup>5</sup> *Wisconsin Foreclosure Activity Increased in Third Quarter* [www.realtytrac.com](http://www.realtytrac.com)

housing supply. The Neighborhood Stabilization Program (NSP), currently in its second funding round, provides assistance for the redevelopment of abandoned or foreclosed homes and residential properties. The expectation is that NSP funds will also help stabilize housing prices and prevent neighborhood blight caused by the significant number of foreclosures.<sup>6</sup>

Further relief was provided to multi-family affordable housing projects struggling to obtain private investment under the Low Income Housing Tax Credit Program (“LIHTC”). The LIHTC equity market shrank significantly as a result of the credit crisis. The Tax Credit Assistance Program (“TCAP”) provided state housing finance agencies with a special allocation of HOME Investment Partnership Program funds to assist shovel-ready projects stalled due to gaps in financing.<sup>7</sup> Under the Tax Credit Exchange Program (“TCEP”), state housing finance agencies could exchange all or a part of their LIHTC allocation for TCEP funds.<sup>8</sup>

As these programs begin to phase out, the LIHTC equity market is showing signs of recovery with renewed investor interest. Individual bank investors are seeking out LIHTC proprietary funds that allow them to target specific projects and census tracts that fulfill Community Reinvestment Act (“CRA”) requirements.<sup>9</sup> The increase in available equity is also a result of corporate investors, such as insurance companies, who are new to the LIHTC market. Low equity prices stemming from a shrunken investor market appear to be rebounding as investor demand begins to increase.<sup>10</sup>

Community economic development projects also received support as a result of the Bank’s expanded authority to provide standby letters of credit for tax-exempt non-housing bonds. The authority, granted under the Housing and Economic Development Act of 2008, allows the Federal Home Loan Banks (“FHLBanks”) to provide credit enhancement on new or refunded bond issuances for economic development projects. The collapse of the bond insurance industry and the limitations on commercial bank exposure to the bond market resulted in a lack of credit enhancement providers. The ability of the 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 Bank will continue its outreach on this program while monitoring progress towards extending the authority past the December 31, 2010 sunset date.

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<sup>6</sup> U.S. Department of Housing and Urban Development. *Neighborhood Stabilization Program Plan*. Web. November 2010. [www.http://portal.hud.gov/](http://portal.hud.gov/)

<sup>7</sup> U.S. Department of Housing and Urban Development. *Tax Credit Assistance Program Plan*. Web. November 2010. <http://portal.hud.gov/>

<sup>8</sup> U.S. Department of The Treasury. *Frequently Asked Questions and Answers: Section 1602*. Web. November 2010. <http://www.nmhc.org/>

<sup>9</sup> Dockery, Jennifer. (June 2010). LIHTC Syndicators See Significant Increase in Proprietary Investments. *Journal of Tax Credits*. 1(6).

<sup>10</sup> National Housing & Rehabilitation Association. (October 2010). Multi-Investor Funds Popular Again as LIHTC Equity Volume Increases. *Tax Credit Advisor*. Web. November 2010. [www.statesidecapital.com](http://www.statesidecapital.com)

## II. Initiatives for 2011

The Plan establishes a community lending strategy that addresses anticipated member and community-based economic development needs for 2011. 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 expand product information on the Bank’s website
- 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 letter of credit database and online application

#### 2. **MPF<sup>®</sup> 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 CFR 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 replicates that employed in the LMI Debenture Program, with the exception 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 was recently 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 incorporates 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’s MPF Government product for our members provides an alternative to holding mortgage loans insured or guaranteed by government agencies in portfolio or selling them to secondary market investors. Eligible loans are HUD Section 184 and RHS Section 502. The risks associated with financing the loans are shared between the member institution and the Bank, and the member institution may choose to either service the loan or sell servicing of RHS Section 502 loans to Colonial Savings, F.A. Investment in government-guaranteed and government-insured 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 2011 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.
  - Continue to review and update AHP Competitive Program application for more efficient use by the member and sponsor organization.

## C. Other Activities

### 1. **Public Relations and Outreach**

- 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.

### 2. **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.

### 3. **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 2011, 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.

### 4. **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. FHLBC 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 with award events occurring in the first half of 2010.

In the first quarter of 2011, Bank will call for nominations for the 2011 Community First Partnership Awards.

## **5. 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.

## **6. 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.

## **7. 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.

### III. Quantitative Performance Goals for 2011

#### *Overall Program Usage*

- Percentage of members participating in CICA programs 30%

#### *Community Lending and Credit Products:*

- Dollars in CICA Advance Originations (CIP & EDA) \$ 120 Million
- Number of letter of credit transactions (Originations) 6

#### *Affordable Housing Program:*

- Number of competitive AHP applications 85

#### *MPF Endowment:*

- Dollars in Endowment investments \$ 250,000
- Number of Endowment investments 3

#### *Public Relations and Community Involvement:*

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

#### IV. 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](http://www.fhlbc.com)
- Informational Seminars and Webinars

APPROVED BY THE BOARD OF  
DIRECTORS THIS 16TH DAY OF  
DECEMBER 2010



Its Corporate Secretary