

FEDERAL HOME LOAN BANK OF CHICAGO
2013 COMMUNITY LENDING PLAN
Executive Summary

Pursuant to 12 C.F.R. Sections 952.4 and 1290.6, the Federal Home Loan Bank of Chicago (the “Bank”) presents its 2012 Community Lending Plan (the “Plan”) for the Bank’s district, which is composed of the states of Illinois and Wisconsin (the “District”).

In 2012, the District continued to recover from the 2008 recession as the housing market showed signs of improvement and unemployment continued to decline. Throughout the year, the Bank’s Community Investment management and staff worked diligently to increase outreach efforts to members utilizing new communication materials. Staff made frequent trips throughout the District to meet face-to-face with members, providing personalized advice on the use of Community Investment programs. Due in large part to this increased outreach effort, we saw a significant increase in first time users of our programs. In addition to individualized training and technical assistance, the Community Investment staff increased the number of trainings and webinars for its grant programs. In 2013, the Bank will build on its successful marketing drive by pursuing strategic goals aimed at creating more efficient internal systems to support growing interest. As such, the Bank will continue to address a challenging market by furthering its mission of supporting community investment.

The 2013 Plan consists of four parts: Part I - Mission; Part II - Market Research, Analysis and District Needs; Part III - Initiatives and Goals for 2013; and Part IV - Community Support.

I. Mission

The mission of the FHLB Chicago is to partner with our member shareholders in Illinois and Wisconsin to provide them with competitively priced funding, a reasonable return on their investment in the Bank, and support for community investment activities.

The Bank is focused on enhancing service to its members and increasing their utilization of its products and services. Historically, the knowledge of the Bank’s Community Investment programs among the Bank’s membership has been limited and somewhat inconsistent. In response, and in support of the Bank’s mission, the Community Investment Group has collaborated with the Bank’s Members & Markets Group to increase outreach to members and public and community organizations. We will continue to expand our outreach efforts in 2013. By expanding its outreach, the Bank aims to (1) increase the visibility and understanding of Community Investment programs among its members and the District’s communities as a whole, (2) broaden utilization of its programs, and (3) establish strategic partnerships with community organizations that help to further the Bank’s housing and economic development mission. From these accomplishments, the Bank expects to also achieve a deeper understanding of market conditions and District needs.

II. Market Research, Analysis and District Needs

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.

To remain relevant to the community development field and to ensure Community Investment programs are responsive to District needs, the Bank will consult with its Board of Directors, Community Investment Advisory Council, members, and public and private community development organizations to identify District needs and to propose strategic actions and initiatives for its Community Lending and Affordable Housing programs. Community Investment staff will reference primary and secondary resources, and leverage the expertise of housing finance agencies and community development organizations, and will attend and participate in relevant workshops and conferences. Program users, both members and community organizations, will be solicited for feedback on their experience and satisfaction with programs and services. On-going research and outreach with members, partners, and communities will enable the Bank to develop and offer programs that support District needs.

National Market Trendsⁱ

At the close of 2011, the number of foreclosures, underwater mortgages, and vacant homes was still high and keeping housing prices low. However, single-family home sales were beginning to pick up in early 2012 as buyers moved through the excess housing stock leftover from the construction boom. The Federal Reserve Bank's October *Beige Book* described widespread improvement in the national housing market, including increased sales of existing homes and prices that were steady or rising. Improvement in new home construction was still mixed. The multifamily and rental markets were strong and growing in 2012. While viewed as the bright spot in the real estate market, the tight rental market is raising rents in even traditionally affordable locations.

Sustained employment growth is likely needed for the real estate market to return to its historical growth patterns; in the July *Beige Book* the Federal Reserve Banks described employment growth as "tepid." Furthermore, the Federal Reserve Banks have noted that small businesses continue to struggle with credit access through banks. Overall, the national economy has been expanding at a modest to moderate pace through the middle of 2012, but growth is still viewed as fragile.

District Market Trendsⁱⁱ

According to the *Beige Books*, the Seventh Federal Reserve District, which includes the Bank's District states of Illinois and Wisconsin, saw expanded economic activity throughout 2012, although the pace of growth slowed around mid-year.

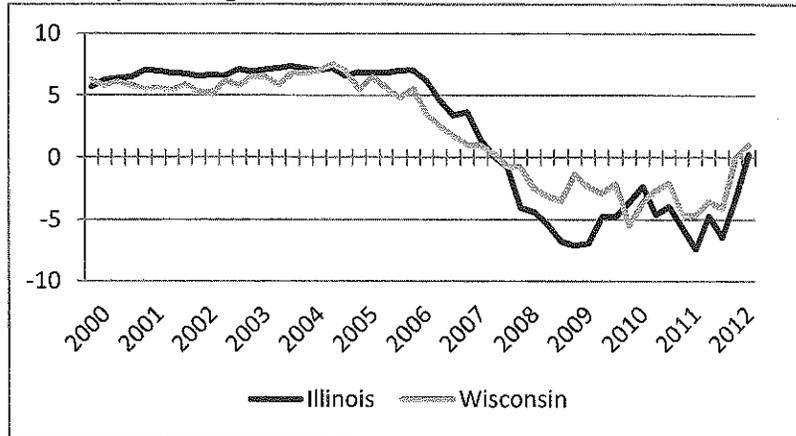
Foreclosures continue to plague the market, but they have declined. In 2010, one in every 110 housing units in Illinois and one in every 199 units in Wisconsin had been the subject of a foreclosure filing. By September 2012, that figure dropped to one in 376 in Illinois and one in 745 in Wisconsin, according to RealtyTrac.com. Foreclosures have kept single-family prices low, but home sales and prices are beginning to see improvement. The Illinois Commission on Government Forecasting and Accountability ("CGFA") suggests that the housing market has hit bottom and is now improving, citing increases in home sales, prices, and construction. Wisconsin's Department of Revenue ("WDR") considers the improvement in the housing market "timid." The Federal Housing Finance Agency's Housing Price Index shows both Illinois and Wisconsin experiencing significant improvement as housing prices begin to recover (see graph on the next page).

The programmatic priorities of the Illinois Housing Development Authority (“IHDA”) and the Wisconsin Housing and Economic Development Authority (“WHEDA”) underline the importance of addressing these challenges. IHDA’s 2012 Comprehensive Plan identified several focus areas, including revitalizing neighborhoods impacted by foreclosure and increasing viable homeownership opportunities.

Similar to the nation in general, the multifamily market has been strong in the Federal Reserve’s seventh district. However, increasing rental demand also increases affordability concerns. Building permit data from the U.S. Department of Housing and Urban Development (“HUD”) shows that the multifamily sector hit bottom in 2009, whereas the single-family sector had yet to see an increase in construction as of 2011 (see graph to the right), although recent data suggests that single-family home construction is beginning to rebound. WHEDA has prioritized the development of new sources of mortgage capital for homebuyers in 2012.

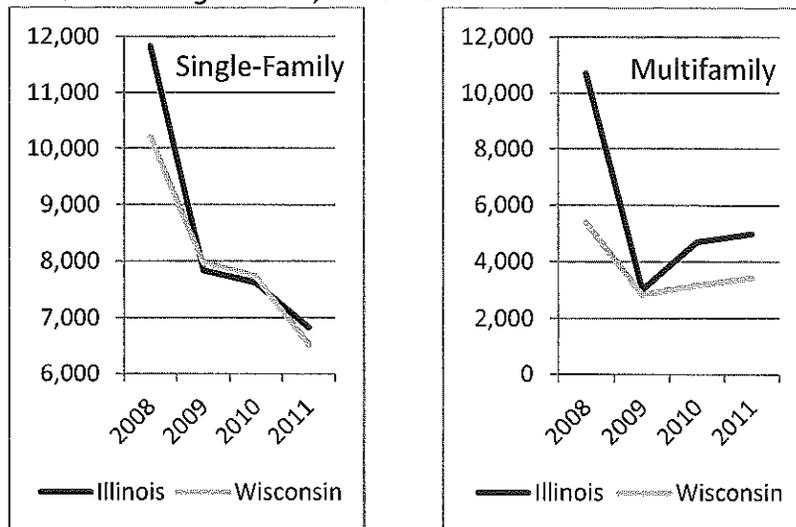
The unemployment rate nationwide and within the District has generally declined since peaking in 2010 (see graph to the right). In 2012, both states saw increases in

Quarterly Housing Price Index, 2000 – 2012



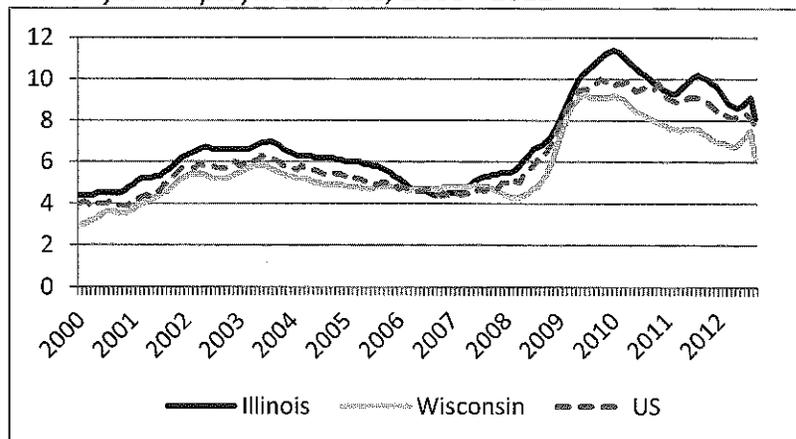
Source: Federal Housing Finance Agency

Annual Building Permits, 2000-2011



Source: HUD User

Monthly Unemployment Rate, 2000 - 2012



Source: Bureau of Labor Statistics
September 2012 data is preliminary

unemployment starting in June 2012, but a drop in September confirms the continuing trend. The decline may not have roots in high levels of job creation, however. It is also likely that a decrease in labor force participation contributed to the decrease, particularly in light of the observation of the Illinois CGFA in September that the labor market is still looking weak and the business sector has weakened in both manufacturing and services sectors. The Commission is forecasting a sluggish 1.8% growth in 2013. In Wisconsin, WDR has seen the economic recovery slow in recent months and is expecting employment to grow at 1.7% in 2013. The Federal Reserve Bank of Chicago also reported uncertainty about the global business climate and that labor conditions have been stagnant.

Job creation and retention was one of WHEDA's main priorities for 2012. The Illinois Department of Commerce and Economic Opportunity ("DCEO") has similarly made the creation and retention of jobs in Illinois its number one priority. Both WHEDA and IHDA are attempting to address the situation by prioritizing housing development near job centers.

Additional objectives put forth in the Qualified Action Plans ("QAPs") for both states point to further housing concerns. Affordable housing preservation continues to be a priority for both organizations, and IHDA awards points for extended terms of affordability in its Low-Income Housing Tax Credit round. Supportive housing is key for the two housing authorities, and both are putting a particular focus on housing for veterans. Finally, environmentally sustainable design and green building practices continue to be popular to increase energy efficiency and reduce costs for low-income renters and homebuyers.

The market trends in the Bank's district suggest that the region is making incremental gains in its recovery from the 2008 recession. Key trends include:

- Small initial gains in the single-family housing market;
- Foreclosures still dragging on prices, particularly for single-family homes;
- A strong multifamily market is making affordability a concern;
- Persistently high unemployment and a weak labor market may be slowing housing market growth; and
- Continued need for the preservation of affordable units, supportive housing units, and energy efficiency.

III. Initiatives and Goals for 2013

The Bank will continue to address market needs by providing funds for both economic development and single- and multi-family affordable housing development through its programs and initiatives. For example, applicants for the competitive Affordable Housing Program grant round are awarded points for developing foreclosed and vacant properties, preserving existing housing, and providing permanent supportive housing. Additionally, the Bank supports job creation by making it easier for member banks to invest in small businesses through its various community lending programs.

In addition to addressing market needs, the Bank has identified the following strategic goals for 2013 to further enhance the impact of Bank initiatives:

- Increase the value proposition for members by building new relationships with members, expanding training, and using market research to inform development and expansion of programs;

- Efficiently deliver products and services to members and sponsors using new systems and processes, better articulating policies and program guidelines, and leveraging expertise;
- Reduce compliance and business risk throughout the department through the use of in-depth cost analysis, reengineering project monitoring, and full documentation of all policies and procedures; and,
- Conduct business operations in a more efficient and cost effective manner by building and implementing a strategic reporting framework and program systems.

These goals are described in more detail as they pertain to the following initiatives:

A. Community Lending Programs

1. **New Revolving Loan Fund (“Fund”)**

In January of 2012, the Bank began the planning phase for a new revolving loan fund, which has been charged with the mission of providing access to capital that supports meeting economic development and affordable housing needs in the communities within Illinois and Wisconsin. The Fund will assist communities experiencing the challenge of market conditions that have resulted in an unstable housing market and loss of jobs. It is intended to provide opportunities to support housing markets, business development, and expansion that will result in more vital, sustainable communities.

The initial strategy for the Fund is to provide capital financing to community development intermediary organizations (“Partners”) through longer term, risk-adjusted, unsecured loans. The Bank will use the Fund to provide flexible financing solutions to Partners that, in turn, finance or invest in affordable housing, commercial real estate, community facilities, or businesses. This strategy leverages the expertise and deep knowledge of Partners working in, and with, the diverse communities in the District. Partners may include Community Development Financial Institutions, Community Development Loan Funds, or state housing finance agencies. Community development intermediary organizations working at the regional and national levels, who have a footprint in the District, may also be eligible. Member involvement will be a critical objective, but not necessarily a determining factor. Geographic distribution will also be weighed, although the Bank will put greater emphasis on need and impact.

The Fund’s critical objectives are to maximize community impact, achieve a member nexus, support Partners and member opportunities in rural, urban, and suburban areas, and promote the program impact and achievements to its members and the communities they serve.

While awaiting formal approval from regulators, the Bank has set the following timeline. In the fall of 2012, the Bank began the evaluation and selection of Partners through a Request for Information, to be followed by a Request for Proposal. The Bank will identify Partners and make commitments starting in the second quarter of 2013, with the first disbursements expected in late 2013 into 2014.

Strategic Goals

- a) Further refine the Fund loan product
- b) Perform market research and work with members to identify potential partners that can utilize the Fund loan product
- c) Utilize and enhance existing policies, procedures, processes, and systems to create a Fund support model

2. Community Investment Cash Advances (“CICA”) and Letters of Credit Program

The CICA program offers discounted advances and standby letters of credit to fund affordable housing development for low- and moderate-income households, and to help develop and revitalize communities. As a result of the discount, the member and its customer may realize an interest rate savings that lowers the overall cost of the transaction.

Strategic Goals

- a) Coordinate marketing efforts with the Members & Markets Group to increase member awareness and utilization of CICA advance and letter of credit products
- b) Update and expand product information on the Bank’s website
- c) Host informational seminars and webinars for members, and conduct joint member calls with the Bank’s Institutional Sales Directors
- d) Explore opportunities to establish targeted CICA advance or grant programs

3. Financing to Small Business Investment Companies.

For the past twelve 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 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.

The Bank recently signed new agreements with the SBA to add Energy Saving Debentures and Early Stage Debentures to the LMI Debenture Program. The purchase of these securities by the Bank provides long-term funding to new types of small businesses operating in the energy field and providing start-up capital funding

at a very early stage in a new business's development. These securities are structured similarly to the LMI Debentures and are also guaranteed by the full faith and credit of the U.S. government.

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. 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 into which the Bank has entered 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.

6. Government-Insured or Government-Guaranteed Loans

The Bank's MPF Government product provides our members with an alternative to holding mortgages insured or guaranteed by government agencies in their portfolio or selling them to secondary market investors. Government mortgages eligible for delivery are fixed rate mortgages under the following programs: FHA, VA, HUD Section 184 and RHS Section 502. The risks associated with financing the mortgages are shared between the member institution and the Bank, and the member institution may choose to service the mortgages or sell the servicing. Investment in government-guaranteed and government-insured mortgages constitutes yet another way for the Bank to pursue its mission of assisting members with providing affordable housing financing in their communities.

B. Affordable Housing Programs (“AHP”)

1. **Competitive Affordable Housing**

Members can apply for funds on behalf of community projects, which the Bank awards through a competitive process. Member institutions are encouraged to work with not-for-profit organizations, for-profit entities, and public agencies in developing AHP applications for the purchase, construction, and/or rehabilitation of rental or owner-occupied housing.

Strategic Goals

- a) Implement new systems, including streamlining the application and monitoring process
- b) Increase member utilization
- c) Provide up-front technical assistance to avoid potential monitoring and compliance issues
- d) Host online training and informational seminars for program delivery, monitoring and compliance
- e) Continue to connect member banks with project sponsors in search of a member
- f) Meet market needs by awarding points to projects that preserve existing affordable housing, develop foreclosed or vacant properties, offer permanent supportive housing units

2. **Set-aside**

Downpayment Plus[®] and Downpayment Plus Advantage[®] offer members easy-to-access down payment and closing cost assistance programs for low- and moderate-income home buyers.

Strategic Goals

- a) Increase member utilization through supporting internal and member marketing and promotional efforts
- b) Seek joint marketing opportunities with the Bank’s MPF Program, as well as external homeownership loan and grant programs
- c) Host training seminars
- d) Maximize number of homebuyers assisted by the program

C. Other Activities

1. **Public Relations and Outreach**

The Bank will increase its efforts to build relationships with housing and community development organizations. As a part of that effort the Bank has created a specific team within the Community Investment Group dedicated to community outreach, policy and development. The Community Investment Group will also play a more active role in connecting organizations and members when it sees opportunities for cooperation. Training on Bank programs will be expanded in scope and number. Sponsorship of affordable housing and community economic development

conferences will be increased. The Bank will also support and participate in financial education efforts in the District.

Strategic Goals

- a) Expand outreach to better link members and community organizations
- b) Create a knowledge center for members on community investment topics beyond the Bank's programs

2. Operational Efficiency

The Bank will evaluate, revise, and implement new policies and procedures for its Community Investment programs. The goal is two-fold: to achieve greater efficiency with respect to internal processes, and to enhance the value proposition for members. Internal efficiencies, such as improved turn-around times on disbursements and improved response times to requests for technical assistance, will enhance the member's and sponsor's experience and satisfaction with program utilization. The Bank will also be implementing a new system in 2013, which will have more extensive online capabilities to serve member and sponsor needs.

3. Community*First* Newsletter

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

In 2013, the newsletter will be published bi-monthly. It will continue to feature such member stories, provide guidance on how to maximize the use of Community Investment programs and services, and educate members and community organizations on the latest developments in the community development field.

4. Community*First* Partnership Awards

The Community*First* Partnership Awards 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. In 2012, a total of four organizations (two in each state) were recognized at regional meetings. Recognition of such partnerships will continue in 2013. The Bank will promote these awards to members and communities as a way to highlight innovative approaches to creating sustainable communities.

5. Technical Assistance and Training

The Bank will enhance the training it provides for its programs. Staff will be available at all times during the year to discuss program requirements and to provide technical assistance as needed. Various members of the Community Investment Department and other departments will actively participate in workshops, seminars, conferences, and other events when their expertise will contribute to the success of

the effort. The Bank will take a more active role in connecting technical needs in the district with organizations that can best meet those needs.

6. Staff Capacity Building

The Bank will focus training on key areas. One of the primary goals is to free up more time for staff to visit project sites and spend time with sponsors, members, and community organizations. Operationally, there will be a focus on internal training geared toward conducting day-to-day business in a more efficient manner. There will also be ongoing support of education and training to further develop the knowledge and skills of the Community Investment Group's staff.

Quantitative Goals

2013 Goals

- Select a minimum of 10 partners for the Fund in 2013
- Disburse a minimum of 1,500 DPP grants under the 2013 program
- At least 50 members trained and using the new online application for AHP program

IV. Community Support

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. When requested, staff are also available provide guidance on utilization of Bank products and other resources to improve first mortgage lending and otherwise support positive Community Reinvestment Act ("CRA") exam results. 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 dedicated Community Investment section of the Bank's website, www.fhlbc.com
- Informational seminars and webinars

Approved this 13th day of
December, 2012

BOARD OF DIRECTORS



Corporate Secretary

ⁱ Sources: Joint Center for Housing Studies of Harvard University, *State of the Nation's Housing 2012*; National Low Income Housing Coalition, *Out of Reach 2012*; The Federal Reserve Bank, *Beige Books 2012*.

ⁱⁱ Sources: Illinois Commission on Government Forecasting and Accountability, *Monthly Briefing for the Month Ended: September 2012*; Illinois Department of Commerce and Economic Opportunity, Office of Accountability Performance Measurement Unit:

<http://www.ildceo.net/dceo/Bureaus/Office+of+Accountability/About+Us/PerformanceMeasurementUnit.htm>; Illinois Housing Development Authority ("IHDA"), *Qualified Allocation Plan*; IHDA, *Rebuilding Communities: Illinois' 2012 Annual Comprehensive Housing Plan*; RealtyTrac.com; The Federal Reserve Bank, *Beige Books 2012*; Wisconsin Department of Revenue, *Wisconsin Economic Outlook: June 2012*; Wisconsin Housing and Economic Development Authority ("WHEDA"), *Qualified Allocation Plan 2013-14*; WHEDA, *2011 Annual Report*.