

FEDERAL HOME LOAN BANK OF CHICAGO

2009 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 2009 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 2009 Plan considers the expanded credit needs of the District as a result of the housing and mortgage crisis, as well as the overall substantial decline in economic activity. Accordingly, the Plan includes several new initiatives which members may find useful in responding to the credit needs of the communities they serve.

This Plan consists of three parts. Part I presents a market analysis and needs assessment of the Bank’s District. Part II describes Bank Initiatives for 2009; Part III outlines Quantitative Performance Goals for 2009; and Part IV reviews how members are notified of opportunities that enable them to meet the Federal Housing Finance Agency (FHFA) Community Support requirements and engage in economic development lending.

I. Market Analysis and District Needs

In 2008, the Bank performed a market analysis and needs assessment 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 public and private economic development and affordable housing organizations.

According to recent data analysis of the Federal Reserve Bank published in its *October 2008 Beige Book*, the Seventh Federal Reserve District, which includes the Bank’s District states of Illinois and Wisconsin, is experiencing weakening economies. Reports concur that the most significant hindrance to growth is housing. The drag is due to an increase in inventory, decrease in sales and building starts, and tightening credit standards that have resulted in a decline in household lending. Foreclosures continue to rise and credit market conditions tighten as concerns over credit risk limit the availability of liquidity for banks. While home sales are declining, there was a slight increase in home purchases by first time homebuyers due to the tax credit included in the Housing and Economic Recovery Act passed in July earlier this year. Mortgage originations remain at a low level.¹ It is expected that these trends will continue into 2009 creating obstacles to affordable housing and community economic development.

Illinois

Historically, Illinois’ economic growth trends along the growth patterns of the national economy; however, Illinois has trailed the national pace of growth for the last ten years. While the Illinois

¹ *The Beige Book*. (October 2008). The Federal Reserve Board.

economy has seen moderate growth since 2007, it is estimated that the second half of 2008 will end in a decline in part resulting from the housing market problems as well as weak consumer and business spending.²

In 2009, it is expected that the Illinois economy will experience greater weakening than that expected for the U.S. economy as a whole. The state's unemployment rate has increased during 2008 exceeding the national unemployment rate, and is expected to continue trending upward during 2009. Employment declines are most prevalent in the manufacturing, construction and financial sectors of the state economy.³

Affordable housing is in short supply for both renters and homeowners in Illinois. This need is further exasperated by the state's weakening economy and rising number of foreclosures. At the end of the second 3rd quarter 2008, Illinois had the 9th highest number of properties in foreclosure. For the month of September, Illinois had the 12th highest foreclosure rate – 1 in every 510 housing units receive a foreclosure filing.⁴ The Illinois Housing Roundtable reported in early 2008 that 722,000 households in Illinois were paying more than 50% of their income for housing. Between 1999 and 2006, home values increased nearly 60% and rents increased approximately 25% while the state median income only increased 12%. Rising property taxes, energy bills and property maintenance costs make it difficult for sustainable homeownership.⁵ 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.

Wisconsin

According to the data analysis presented in *Wisconsin Economic Outlook* published by the Wisconsin Department of Revenue Division of Research & Policy in August 2008, Wisconsin did not experience the same level of exorbitant growth in its housing industry as other states experienced within the past few years; therefore, the impact of the current housing market crisis will not be as severe on the Wisconsin economy as it may be on other state economies. However, Wisconsin is experiencing an economic downturn that will continue throughout 2009. Its residential housing industry will continue declining throughout 2009. Although there is a decrease in home building permits that reduces the number of for-sale homes in the market, the housing inventory still remains high due to a decline in home sales and the rise in foreclosures. Homeowners in financial trouble needing to sell their homes to avoid foreclosure are finding it difficult to sell because of the growing number of homes already for sale. Similar to the national

² *FY 2009 Economic & Revenue Forecast and Updated FY 2008 Revenue Estimate*. (March 2008). Illinois Commission on Government Forecasting and Accountability.

³ *FY 2009 Economic & Revenue Forecast and Updated FY 2008 Revenue Estimate*. (March 2008). Illinois Commission on Government Forecasting and Accountability.

⁴ *Foreclosure Activity Decreases 12 Percent in September*. (October 23, 2008). RealtyTrac.com

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

economy, Wisconsin's credit markets are worsening and tighter lending standards make it more difficult for those in financial trouble to refinance mortgage loans.⁶

The state's employment growth is declining and there is only weak growth in personal income. The declining housing market is having a direct impact on the state's construction industry. Over the next few years both construction and manufacturing industries will experience job losses. The service industries however have been supporting job growth in the state and it is expected that they will continue to do so even during the economic downturn.⁷

Similar to Illinois, Wisconsin low-income households have greater difficulty finding adequate and affordable housing that accommodates their needs.⁸ The creation and preservation of affordable multifamily rental housing is even more critical now in the face of families losing their homes to foreclosure. Wisconsin affordable multifamily properties are at risk of conversion to market rent units, leaving households with less affordable options.

Regulatory Developments

Certain recent legislative and regulatory developments impact the Bank's community lending and affordable housing initiatives for 2009. The Housing and Economic Development Recovery Act of 2008 expanded each Federal Home Loan Bank's authority to issue standby letters of credit on behalf of members to include qualified tax-exempt economic development projects for new or refinanced bond issuances. The Bank's standby letter of credit is a financial tool that may be used to support housing finance and community lending. The expanded authority will most likely support smaller government, nonprofit and manufacturing projects. In tightening credit markets, the Bank's expanded authority provides credit support to needed community economic development projects in the District.

In early October 2008, the FHFA announced an interim final rule amending its Affordable Housing regulation for the Federal Home Loan Bank System to incorporate an affordable housing preservation strategy. The rule allows the Affordable Housing Program set-aside funds to be used by member institutions to refinance mortgage loans when done in conjunction with the Federal Housing Administration (FHA) HOPE for Homeowners Program. The set-aside funds may be used to (1) reduce the outstanding principal balance of the refinanced loan in order to make payments more affordable to the homeowner and (2) pay FHA-approved loan closing costs.

Both of these developments were incorporated into the Bank's initiatives and performance goals for 2009.

⁶ *Wisconsin Economic Outlook*. (August 2008). Wisconsin Department of Revenue Division of Research & Policy.

⁷ *Wisconsin Economic Outlook*. (August 2008). Wisconsin Department of Revenue Division of Research & Policy.

⁸ *2005-2009 Consolidated Plan – Program Year 4 Action Plan*. (Amended August 2008). State of Wisconsin.

II. Initiatives for 2009

The Plan establishes a community lending strategy that addresses anticipated member and community-based economic development needs for 2009. The following initiatives are in response to District needs and economic trends described above.

A. Community Lending Programs

1. Continue to promote Community Investment Cash Advances (CICA) and Letters of Credit financing tools

- Coordinate marketing efforts with Relationship Bankers by co-hosting seminars and/or webinars and conducting joint customer calls
- Host informational seminars and webinars for members and community organizations
- Publish quarterly newsletter celebrating successful CICA financing-related activities and educating members and community organizations on CICA products
- Support and participate in conferences and workshops with housing and community economic development organizations
- Consider expanding the types of Letters of Credit offered to members
- Update and enhance marketing materials

2. Continue operation of the 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 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.

- Consider potential recipients for MPF Endowment Commitment using funds repaid to the endowment by current investment partners. Potential recipients may include current or new investment partners. The MPF Endowment remains a pilot program with participants strategically selected based upon geographic location and a prior history of success in economic development and small business programming.
- Enhance tools to monitor and track the implementation and efficacy of the program.

3. Provide Financing to Small Business Investment Companies.

For the past ten 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. Over the ten year history of the program, the Bank has provided over \$12 billion in "Just-in-Time" funding to SBICs nationwide.

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. Provide 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. Provide Financing to SBA Rural Business Investment Companies

The SBA Rural Business Investment Program (RBIP) is a joint initiative between the U.S. Department of Agriculture (USDA) and the SBA to promote economic development and job creation in rural areas. The Bank will provide long-term funding to Rural Business Investment Companies (RBIC) that invest in, and provide hands-on technical assistance to enterprises that operate in targeted rural areas. This program incorporates a funding structure that replicates that employed in the LMI Debenture Program.

6. Invest in 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.

7. 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.

8. Invest in 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

1. Implement 2009 Affordable Housing Implementation Plan

As a response to current economic conditions, the AHP Implementation Plan will be amended to address the foreclosure crisis. Changes include:

- Scoring for the competitive AHP has been revised to award points to projects involving foreclosed properties
- Eligible uses of the homeownership set-aside program has been expanded to provide FHA-approved members with the option of using set-aside funds for refinancing homeowners into the FHA Hope for Homeowners Program.

2. Continue efforts to facilitate usage 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.

C. Other Activities

1. Establish Annual Community Investment Partnership Awards

The Bank will establish annual Community Investment Partnership Awards, which will allow members to nominate organizations in their communities as winners of the Community Investment Partnership Award. The Bank will select as many as 4-6 winners equally from the 2-state district. Award recipients will receive a financial gift for their work in the areas of affordable housing and/or community economic development using one or more Bank Community Investment programs.

2. Conduct ongoing market research to assess unmet credit needs and market opportunities for community lending.

The Bank will further encourage the use of CICA financing programs by working with new and existing members to assist them in identifying the needs in their lending areas, and determining the most appropriate FHLB financing product(s) to address those needs.

3. Provide Technical Assistance to Members and Community Groups.

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.

4. Consult with Affordable Housing Committee, Advisory Council and Others.

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 develop and implement its Community Lending Plan.

The Bank will conduct a formal survey of its Affordable Housing Committee, Advisory Council and housing and economic development partners to further collect information regarding the District's community economic development and affordable housing needs.

5. 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.

6. 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.
- Publish quarterly newsletter that celebrates projects utilizing Community Investment programs, and that educates members and community organizations of such programs.

III. Quantitative Performance Goals for 2009

<i>Community Lending Transactions:</i>	2009
➤ Dollars in CICA Advance Originations (CIP & EDA)	\$ 500 Million
➤ Number of members originating CICA credit products	60
➤ Percentage of members participating in CICA programs	33%
 <i>Affordable Housing Program:</i>	
➤ Number of competitive AHP applications	90
 <i>MPF Endowment:</i>	
➤ Dollars in Endowment investments	\$ 600,000
➤ Number of Endowment investments	5
 <i>Public Relations and Community Involvement:</i>	
➤ 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 *CommunityFirst* quarterly newsletter
- The Bank's website, www.fhlbc.com
- Informational Seminars and Webinars

Approved this 19th day of

December, 2008

BOARD OF DIRECTORS


Corporate Secretary