

FEDERAL HOME LOAN BANK OF CHICAGO

2004 COMMUNITY LENDING PLAN

Introduction

Pursuant to 12 C.F.R. Sections 952.4 and 936.6, the Federal Home Loan Bank of Chicago (Bank) has developed the Bank's annual Community Lending Plan. The Bank's 2004 Community Lending Plan (Plan) builds upon the first Community Lending Plan of 2000, as credit needs identified in that year's plan have not materially changed. This Plan consists of three parts. Part I describes Bank Activities in 2004; Part II outlines Quantitative Performance Goals for 2004; and Part III reviews how members are notified of opportunities that enable them to meet community support requirements and engage in economic development lending.

Recent data analyses by federal and state authorities, including the Federal Reserve Bank of Chicago, the Wisconsin Department of Revenue, and the Illinois Department of Commerce and Economic Opportunity, indicate overall improvements in the two states' economic performance during 2003 and predict this growth to continue in 2004.¹ While some sectors remain soft, progress in others suggests that the region is recovering, if slowly, from the economic difficulties beginning in 2001. However, some economists believe that U.S. homes sales, which fueled much of the recent economic growth, will slow in 2004 and stop driving growth.² This Plan considers these trends and establishes a community lending strategy that addresses anticipated economic needs for 2004.

I. Bank Activities in 2004

A. *Continue to encourage broad and increased usage of Community Investment Cash Advance (CICA) products.*

➤ *Increase awareness of CICA products among members and community economic development organizations.*

- Continue to build relationships with housing and community economic development partners.
- Pursue opportunities to educate members on the benefits and ease of using CICA products.
- Support and participate in conferences and workshops with community economic development organizations.
- Consider special offerings to increase program participation.

¹ *The Beige Book*. (September 2003) The Federal Reserve Board.

Wisconsin Economic Outlook. (June 2003) Wisconsin Department of Revenue, Division of Policy Research.

Illinois Economic Bulletin. (July 2003) Illinois Department of Commerce and Economic Opportunity.

² "Mortgage Applications Keep Falling: Economists See Slowdown Ahead for Housing Sales," [Crain's Chicago Business](#) (online at ChicagoBusiness.com), October 29, 2003.

- ***Coordinate marketing efforts with Member Relationship Managers to increase the use of CICA products.***
 - Co-host informal seminars and conduct joint customer calls throughout the district.
 - Explore using computer software (e.g., Placeware) to host online informational seminars for members.
 - Update marketing materials used by both Groups to explain CICA products to members.

- ***Enhance outreach, promotion and targeting of programs to increase customer usage.***
 - Improve informational materials celebrating successful CICA-related activities to encourage further participation by members and community organizations.
 - Better utilize the Bank's Internet website at www.fhlbc.com to provide information and promote its affordable housing and community lending products.

- ***Continue efforts to streamline and facilitate usage of the Affordable Housing Program.***
 - Increase up-front technical assistance to avoid potential monitoring and compliance issues.
 - Enhance the effectiveness of monitoring and compliance reports as management tools.
 - Make greater use of automation and the website for program delivery, monitoring and compliance.
 - Begin planning and construction of online application and automated monitoring process.

B. Promote economic development and affordable homeownership opportunities in small and rural communities.

- Work with Downpayment Plus[®] administrators to increase rural and small member participation in the program.
- Continue to direct CICA-related marketing efforts toward members that serve rural areas.
- Provide one-on-one member technical assistance as necessary.

C. Continue efforts to partner Community Investment Products with the Mortgage Partnership Finance (MPF) Program.

Participating Financial Institutions delivering mortgage loans in the Mortgage Partnership Finance[®] Program may include loans with AHP funds that are part of homeownership set-aside programs sponsored by a FHLB, in their delivery commitments. At the Chicago FHLB, MPF and Community Investment staff will collaborate to promote joint usage of both MPF and Community Investment products.

D. Commence operation of the MPF[®] Foundation.

The MPF[®] Foundation will commence operation during the first quarter of 2004, subject to Executive Management and Board approval of the business plan. The Foundation will pursue a range of activities, all of which will provide capital to stimulate investment in small businesses, commercial enterprises, mixed-use projects, and other community economic development and charitable initiatives benefiting low- and moderate-income areas and/or residents. Creation of the Foundation requires that the Bank undertake a number of planning and programmatic activities to ensure successful operation of the new entity.

Upon Finance Board approval of the Foundation, Bank staff will:

- Coordinate establishment of the Foundation as a legal entity.
- Develop detailed program guidelines for the Foundation's anticipated offerings.
- Develop relevant forms and documents for program administration.
- Create database for tracking and monitoring Foundation investment activities.

E. Invest in HUD-Guaranteed Section 184 Loans to promote mortgage lending in Native American areas.

The Indian Home Loan Guarantee Program was created under Section 184 of the Housing and Community Development Act of 1992 to address the lack of mortgage lending in Indian and Alaska Native areas. This program guarantees 100 percent of principal and interest, plus certain costs and expenses, on loans made for the acquisition, construction, and/or rehabilitation of one-to-four family housing located on Indian land. Because much Indian land is held in trust by the U.S. government, it has been historically difficult for lenders to place liens on it, thus hindering Native Americans' access to mortgage loans.

To address this issue, the Bank launched the Section 184 Mortgage Purchase Program in 2003 and will continue to operate the program in 2004. Investment in HUD-guaranteed Section 184 loans constitutes yet another way for the Bank to pursue its mission of assisting members in providing affordable housing in their communities.

F. Provide Financing to Small Business Investment Companies.

The U.S. Small Business Administration and the Bank have partnered to provide interim short-term financing to Small Business Investment Companies (SBICs.) The primary purpose of this relationship is to make funding available to SBICs in between the semi-annual issuance of debentures by the SBA. Upon notification and authorization of a funding need by the SBA Trustee, the Bank makes available funding within 24-hours. The program is named "Just-In-Time" Funding.

A related program is titled the Low or Moderate Income (LMI) Debenture program. The LMI Debenture program is available for use by SBICs that issue debt qualifying as "LMI Investments" under section 170.50 of the SBA regulations. The Bank has agreed to purchase all LMI debentures and hold them to maturity. SBICs choose between either a 5-year or 10-year maturity period. This program is primarily designed to assist small businesses that are either owned by low-and moderate-

income individuals or are located in low-and moderate-income communities.
All Bank SBIC transactions are guaranteed by the Small Business Administration.

G. Collaborate with the SBA to Promote the New Market Venture Capital Program.

New Market Venture Capital (NMVC) Companies will be newly formed for-profit investment funds with private management. Their objective will be to promote economic development and the creation of wealth and job opportunities in low-income geographic areas and among individuals living in such areas. NMVC Companies will pursue their objectives by making equity-type investments in small enterprises located in low-income geographic areas.

The SBA will designate and enter into participation agreements with NMVC Companies that detail the specific low-income area(s) to be served, how the area(s) will be served, what results are to be achieved, and how the success of the NMVC Company will be measured.

All Bank NMVC Company transactions will be guaranteed by the Small Business Administration.

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

The Bank will further encourage the use of CICA programs by working with new and existing members, assisting them in identifying needs in their lending areas, designing programs to address those needs, and determining the most appropriate FHLB product(s) to address those needs. In addition, in 2004 the Bank will:

- Enhance the Community Investment Department's capacity to develop and deliver new initiatives.

I. 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 preparation of applications for community investment programs. Technical assistance activities include presentations and co-sponsorship of community lending workshops and seminars, consultations with members and community development organizations, and continuous availability through phone contact.

J. Consult with Advisory Council and Others.

The Bank will consult with its 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.

II. Quantitative Performance Goals for 2004

Community Lending Transactions:

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| ➤ Dollars in CICA Advance Originations (CIP & EDA) | \$365 million |
| ➤ Number of members originating CICA credit products | 55 |
| ➤ Percentage of members participating in CICA programs | 26% |

Affordable Housing Program:

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| ➤ Number of competitive AHP applications | 180 |
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MPF Foundation:

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|-------------------------------------|-------------|
| ➤ Dollars in Foundation investments | \$1 million |
| ➤ Number of Foundation investments | 4 |

Public Relations and Community Involvement:

- | | |
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| ➤ Number of conferences, workshops, and community events in which the Bank will participate or support | 25 |
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III. Annual Notification to Member Institutions

Each year the Bank informs members and others of CICA programs and other Bank activities that enable members to meet community support requirements and engage in community lending. Notification is provided using the following methods:

- Press Releases
- Special mailings
- Community Investment Advisory Council Annual Report
- Bank publications
- The Bank's website, www.fhlbc.com

Approved this ____ day of

_____, 2003.

BOARD OF DIRECTORS

Corporate Secretary