

FEDERAL HOME LOAN BANK OF CHICAGO ANTI-PREDATORY LENDING COLLATERAL POLICY

I. Purpose

The mission of the Federal Home Loan Bank of Chicago (“Bank”) is to support the growth and success of our members’ housing, community investment and other financing activities, in part by providing secured financing and purchasing mortgage loans. The Bank regularly takes collateral from its members and their affiliates in the form of residential mortgage loans and securities backed by residential mortgage loans (collectively, the “Collateral”).

The Bank supports the expansion of affordable and equitable homeownership, and recognizes that predatory lending practices are inconsistent with advancing homeownership. To discourage predatory lending practices, the Bank has established this Anti-Predatory Lending Collateral Policy (this “Policy”) with respect to Collateral pledged by members and their affiliates. Residential mortgage loans purchased by the Bank are addressed separately in the Bank’s Anti-Predatory Lending Mortgage Purchase Policy.

II. Policy

Residential mortgage loans, whether pledged directly or indirectly in the form of asset-backed securities, are ineligible as Collateral if they do not comply with all applicable federal, state and local anti-predatory lending laws and other laws designed to prevent unfair or abusive lending practices (collectively, “Anti-Predatory Lending Laws”) and with all provisions of this Policy.

The Bank will not give collateral value for any pledged residential mortgage loan or mortgage-backed security which involves any of the following practices or characteristics:

- Requiring the borrower to obtain prepaid, single-premium credit life, credit disability, credit unemployment, or other similar credit insurance as a condition of the loan;
- Including in loan documents a mandatory arbitration provision with respect to dispute resolution, unless such provision is acceptable under applicable law;
- Charging prepayment penalties for paying off a loan after the first five years of the loan term, or after any lesser period specified by applicable law;
- For categories of borrowers who are protected under Anti-Predatory Lending Laws, lending without regard to a borrower’s ability to repay the mortgage; or
- Loans which violate the Home Ownership and Equity Protection Act of 1994 and its implementing regulations or other Anti-Predatory Lending Laws.
- Loans which violate the prohibited acts or practices in connection with Higher-priced Mortgage Loans set forth in Regulation Z (12 CFR Part 226) implementing the Truth in Lending Act.

III. Monitoring

Most Bank members and their affiliates are subject to state or federal banking regulations that prohibit predatory lending practices, and are examined regularly for compliance with such

regulations. Because Bank members routinely comply with Anti-Predatory Lending Laws for loans they originate and purchase, the Bank anticipates that this Policy will require little change to members' operations.

In order to ensure effective communication to all interested parties, this Policy: (i) will be included in all publications of the Bank's Member Products Policy, and (ii) will be posted on the Bank's public website. In addition, the Policy will be distributed to all members, and each member and affiliated pledgor will be required to certify to the Bank that: (1) it has received a copy of this of this Policy, (2) any Collateral pledged to the Bank is and will continue to be in compliance with this Policy, (3) in the event the member becomes aware of assets pledged as Collateral that do not comply with this Policy, it will immediately substitute eligible Collateral; and (4) it will indemnify the Bank for any damage incurred by the Bank in connection with any ineligible Collateral.

With respect to residential mortgage loans or MBS purchased by members or their affiliated pledgors, the members or their affiliated pledgors are responsible for conducting due diligence that they deem sufficient to support their representations, warranties and indemnification to the Bank. After the initial distribution of the Policy, all new members will be given a copy of this Policy before signing an advance agreement and will be required to sign a certification as described in the prior paragraph.

The Bank will not knowingly accept Collateral that violates this Policy. The Bank will monitor members' compliance, and the affiliates pledging collateral on behalf of the members' compliance, with this Policy through its Anti-Predatory Lending Monitoring Procedures (the "APL Procedures"). APL Procedures include: (a) during the completion of collateral verifications, which are conducted to identify other types of ineligible characteristics, loan documents will be reviewed for compliance with this Policy; (b) reviewing, when available, member regulator examination reports for findings pertaining to predatory or unfair lending practices; and (c) monitoring regulator alerts for newly issued supervisory agreements, memoranda of understanding, or cease and desist orders pertaining to predatory or unfair lending practices.

If the Bank discovers that any Collateral does not comply with this Policy through its current collateral verification or quality control procedures, the Bank will, in addition to all available rights and remedies at law or in equity: (a) value such Collateral at zero for collateral purposes; and/or (b) require the member to substitute a comparable loan that does not violate this Policy. In addition, the Bank may require the member or its affiliated pledgor to undertake a review of its policies, practices, and procedures for compliance with Anti-Predatory Lending Laws and this Policy.

APPROVED BY THE BOARD OF
DIRECTORS THIS 26TH DAY OF
OCTOBER 2010

Its Corporate Secretary