

November 6, 2006

Dear Member

I am pleased to announce that the Federal Home Loan Bank of Chicago (FHLBC) is expanding its eligible collateral options to include both open-end home equity lines of credit (HELOCs) and closed-end home equity loans (Seconds). These new options will give your institution flexibility to increase its borrowing capacity with the FHLBC and thereby help you to respond to changing liquidity and other financing needs.

We have completed a pilot program with several members to ensure that the processes supporting our home equity collateral initiative work smoothly. The option is now open to all members of the FHLBC.

Pledging home equity loans will work as follows:

- FHLBC must be able to perfect a security interest in all of a member's home equity loans (a blanket-lien).
- Home equity loans that are more than 30 days past due will be excluded from eligible collateral loan value.
- The book value of home equity loans pledged may not exceed the book value of first-lien 1-4 family mortgage loans pledged.
- The combined book value of the home equity loan and the first-lien loan may not exceed 100% of the underlying real estate value. For HELOCs, this calculation uses the maximum amount of the line.
- Collateral loan value will be a maximum of 50% of eligible home equity loan balances pledged. Collateral loan value may be reduced based on the FHLBC's assessment of the quality of a member's home equity loans or a member's creditworthiness.
- Eligible home equity loan balances must be reported to the FHLBC quarterly on an Available Collateral Report. Seconds and HELOCs must be reported separately.
- Verification of collateral eligibility will normally be completed in conjunction with the next field review.

Contact your Relationship Manager if you are interested in using home equity loans as collateral. To take advantage of this option, begin by submitting a copy of your home equity underwriting policy to the FHLBC's Credit Department for review. For more detailed information see the collateral guidelines for home equity loans on our eBanking website.

We're excited about increasing the value of your membership with the FHLBC by expanding your collateral options. We look forward to discussing with you how this new initiative can increase your borrowing capacity. Please call your Relationship Manager, the Credit Department or me with questions at any time.

Sincerely,



Charles A. Huston
Executive Vice President
Member Relationship Management