



Federal Home Loan Bank of Chicago

September 23, 2008

As you know, it has been a priority of the FHLB Chicago for some time to develop an MPF product that would provide our members with access to the secondary mortgage market without adding to the interest rate risk on the FHLB Chicago balance sheet. I am pleased to announce that we have executed an agreement with Fannie Mae, our first non-FHLB investor in MPF assets, and that the result – the MPF Xtra™ product – will be available to FHLB Chicago Participating Financial Institutions (PFIs) on October 1.

The introduction of the MPF Xtra product represents the continuing commitment of FHLB Chicago to help our members make mortgage financing available in their communities. Given the extraordinarily volatile markets and tough competition you face every day, we believe that this product will continue the partnership between members and the MPF Program begun 11 years ago.

The MPF Xtra product is similar to MPF products previously offered to FHLB Chicago members in several important respects. As in the past, eligible loans will be conventional, conforming loans. The MPF Provider group at the FHLB Chicago will continue to provide PFIs the same infrastructure of operational support and personalized customer service. The major difference with this product is that the loans sold to us will be concurrently sold to Fannie Mae; neither you nor the FHLB Chicago will hold the loans in portfolio. There is no credit-enhancement requirement and, therefore, there is no risk-based capital requirement. However, you will still maintain your important customer relationships as you retain the servicing for these loans.

Our partnership with Fannie Mae to provide the MPF Xtra product will make it easier for the majority of our members to access the secondary market. Although this product has been in development for several months, we believe that recent actions by the Treasury Department reinforce the importance of the role of Fannie Mae in local mortgage markets. We also believe that this partnership will help many of our members continue to offer competitively priced mortgage products in their communities. We continue to explore the possibility that, in the future, non-Home Loan Bank investors would be interested in purchasing mortgage loans with risk-sharing structures similar to those of familiar MPF products.

Whether or not you are currently a participating financial institution in the MPF Program, I encourage you to look into the advantages of the MPF Xtra product. Please call your relationship banker with questions, or plan to attend an introductory webinar.

We appreciate your patience through this transition time at the FHLB Chicago. While we are pleased to have fulfilled our commitment to continue the MPF Program in Chicago, our work is far from done. Our priority remains making competitively priced liquidity available to members as we make the changes necessary to return to profitability.

Regards,

A handwritten signature in black ink, appearing to be 'Matt Feldman', written in a cursive style.

Matt Feldman
President and CEO

The MPF Program does not provide accounting or legal advice with respect to the accounting treatment of MPF Program assets and liabilities. Please consult with your accountants and attorneys for advice on this matter. "MPF" is a registered trademark and "MPF Xtra" is a trademark of the Federal Home Loan Bank of Chicago.