



Balance Sheet

FEDERAL HOME LOAN BANK OF CHICAGO • MEMBER NEWSLETTER • MAY 2010

PUD Letters of Credit: A “Win-Win” for You and Your Municipal Customers

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With one product, Vice President Tom Marciniak of Peoples Bank in Elkhorn, Wisconsin, achieved a banking trifecta: the bank’s municipal customers, their customers’ auditors, and the Peoples Bank bankers are all pleased. Tom credits the public unit deposit (PUD) letters of credit from the Federal Home Loan Bank of Chicago. “It’s a great program,” Tom said.

Peoples Bank has deepened its relationships with several municipalities and school districts in the bank’s surrounding area since the fall of 2008 when market conditions changed dramatically and many providers of letters of credit closed their doors. Municipalities, flush with money during tax season, and school districts that receive most of their funds at the beginning of the school year, wanted to bank with a local institution that could collateralize their public unit deposits in excess of the FDIC’s \$250,000 limit.

With a standby letter of credit from the Federal Home Loan Bank of Chicago, Peoples Bank could meet their customers’ needs while freeing up the bank’s securities for other purposes. “It’s a win-win,” he said. Plus, “We’re able to bring comfort at a time when there’s a lot of discomfort” surrounding the banking system.

In addition, their customers’ auditors are pleased with the FHLBC’s letters of credit program. “It’s a third-party protection, not unlike the FDIC,” Tom said. And with more than \$10 million new deposits, the bankers are happy as well.

Benefits to the Municipality

While the public units in Elkhorn were familiar with a bank issuing a standby letter of credit to secure their deposits, those in Brookfield, Illinois, were not. When Phillip Richard, CFO of First National Bank of

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Benefits to Members

Your institution can benefit from a letter of credit to secure PUDs by:

- Attracting municipal deposits that exceed the amount insured by the FDIC;
- Taking advantage of the FHLBC’s competitive price of 17.5 bps per year;
- Retaining securities for liquidity and other purposes;
- Deepening your business relationships with municipalities and other public entities; and
- Leveraging the Federal Home Loan Bank of Chicago’s Aaa/AA+ rating.

This newsletter contains forward-looking statements which are based upon our current expectations and speak only as of the date hereof. These statements may use forward-looking terms, such as “anticipates,” “believes,” “expects,” “could,” “plans,” “estimates,” “may,” “should,” “will,” or their negatives or other variations on these terms. We caution that, by their nature, forward-looking statements involve risk or uncertainty, that actual results could differ materially from those expressed or implied in these forward-looking statements, and that actual events could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the risk factors set forth in our periodic filings with the Securities and Exchange Commission, which are available on our website at www.fhlbc.com. We assume no obligation to update any forward-looking statements made in this newsletter.

The mission of the Bank is to deliver value to our members, and promote and support their growth and success, by providing:

- Highly reliable liquidity;
- Secured advances, wholesale mortgage financing, and other products and services to meet members’ needs; and
- Direct financial support for members’ affordable housing and community investment programs.

PUD Letters of Credit: A “Win-Win” for You and Your Municipal Customers

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Brookfield, wanted a local library to bring its sizable deposits to the bank, he needed to educate the library’s board of directors about the PUD letter of credit—and he asked the FHLBC to help.

The FHLBC’s Law Department produced a short document that Phillip shared with the library’s legal counsel to help them understand how the letter of credit works. (The PUD letter of credit is acceptable collateral under both Illinois and Wisconsin law, although the depositors must make their own determination of eligibility.)

In addition, he outlined the benefits of a PUD letter of credit from the FHLBC to a public agency, which include:

- Immediate payout. In the unlikely event of a default, the FHLBC pays out under the letter of credit immediately; there is no delay with selling securities in the market to make payment.
- Convenient. The FHLBC can issue a letter of credit within 24 hours and, in many circumstances, the same day.
- Secure and irrevocable. The letter of credit carries the FHLBC’s Aaa/AA+ rating.

The education worked, and First National Bank of Brookfield won the business. “The standby LOC allowed us to expand our relationship with the library,” Phillip said.

The bank benefited in other ways, too. “For us, it’s

Eligible Public Entities

Members can use a standby letter of credit to secure deposits from many public entities, including:

- Local government: city, county, township;
- State government and state agencies;
- Transportation authorities;
- Housing authorities;
- Water reclamation districts; and
- Public school districts and community colleges.

fairly low cost and very flexible. It doesn’t encumber liquidity,” he said. “It’s a great alternative to pledging bonds or a portion of your investment portfolio.”

Learn More

If you have any questions about the FHLBC’s letters of credit, contact your relationship banker or Suzanne Thackston in the Community Investment Group at sthackston@fhlbc.com or 312-565-6922.

If you would like a copy of the document from the FHLBC’s Law Department called “Information Regarding FHLBC Letters of Credit to Back Public Unit Deposits” to share with your public agency customers, please contact your relationship banker.

Update: Regulatory Reform Bill

The regulatory reform bill recently passed by the U.S. Senate contains several provisions of concern for financial institutions, including the Federal Home Loan Banks. As currently drafted, the bill contains provisions that would impose limits on the amount an FHLB could loan to any one member institution, change the calculation of the FHLBs’ minimum capital requirements, and place FHLB debt at a disad-

vantage relative to Fannie Mae and Freddie Mac debt. The House-passed version also would limit the FHLBs’ debt-to-equity ratio, potentially restricting the amount of funding available to members.

We are working hard with your trade associations to change the legislation in the House-Senate conference committee prior to final passage of the bill.

New Securities Purchase Alternative: Delivery Versus Payment

The FHLBC is now offering a new process called Delivery versus Payment (DVP), which allows members that purchase investment securities in the open market to fund those purchases with FHLBC advances. This alternative is currently available to members that use the FHLBC (Citibank) as their safekeeping custodian. If you do not currently use the FHLBC, we can help you set up an account. The securities are pledged as collateral for the advances and the securities are delivered directly to the custodian for safekeeping.

This securities delivery alternative provides members with more flexibility to:

- take advantage of investment opportunities as they arise;
- pledge securities, rather than 1-4 family mortgages or other collateral; or
- access liquidity when needed if collateral-constrained.

If you want to use available funds from your FHLBC DID account to purchase investment securities, simply:

- Call the Member Transaction Desk to inform them of your security purchase and the CUSIP(s) involved.
- Provide your broker/dealer with the dollar amount and the DVP instructions to deliver the securities for safekeeping to the FHLBC.

Citibank will debit FHLBC's safekeeping account for the amount of the investment; in turn, FHLBC will debit the member's DID account.

Please call the Member Transaction Desk at 877-230-1610 with any questions or to set up an account. You're also invited to attend a webinar on this topic on June 2 at 3 p.m. To join the webinar, dial 1-866-537-1632; enter passcode 9883778#. Then log on to www.conferenceplus.com to review the slides.

FHLBC Files 1Q Results

The FHLBC filed its first quarter 2010 report with the Securities and Exchange Commission on May 13; you can access it through our website, www.fhlbc.com, or the SEC's reporting website, www.sec.gov/edgar. Financial highlights from president Matt Feldman's letter that was emailed to members on April 29, 2010, include:

- The FHLBC recorded net income of \$1 million for the first quarter of 2010.
- Advances at quarter-end were \$21.3 billion, down 12% from the previous quarter-end, and 32% down from a year ago when members' borrowing needs increased during the credit crisis. Total assets were \$86.1 billion at March 31, 2010, down from \$88.1 billion at year-end 2009.
- MPF loans held in portfolio at quarter-end were \$22.7 billion, down \$1.2 billion (5%) from the previous

quarter-end in accordance with our 2008 decision not to add MPF loans to our balance sheet.

- We continue discussions with our regulator, the Federal Housing Finance Agency (FHFA), about our submitted, but not yet approved, application to convert our stock to a Gramm-Leach-Bliley Act capital structure.
- We remain in compliance with all of our regulatory capital requirements.

For a fuller explanation of our financial results and other issues mentioned here, please review our Form 10-Q for the first quarter of 2010. Please call your relationship banker with any questions about our results or attend a summer regional meeting where Matt Feldman will discuss the FHLBC's progress and future plans. See page 4 for the summer regional meeting calendar.



Register Today for a Summer Regional Meeting

Join FHLBC senior managers, representatives from our Board of Directors, and other members at a breakfast and meeting this summer in your neck of the woods:

- June 4:** Madison, Wisconsin
- June 8:** Springfield, Illinois
- June 24:** Wausau, Wisconsin
- July 13:** Carbondale, Illinois
- July 14:** Fairview Heights, Illinois
- July 20:** La Crosse, Wisconsin



future. Roger Lundstrom, our CFO, will provide an update on the Bank's financial performance through Q1 2010. Chad Brandt and Patrick Quinn of the Banking and Advance Products group will discuss recent developments in the financial markets and how you can use the FHLBC products as Asset Liability Management tools.

Please register at least two weeks prior to the meeting you plan to attend. The registration form is on

Matt Feldman, President and CEO, will give an overview of the FHLBC's progress with an eye to the

eBanking, or contact Nicki Patrick at 312-565-5330 or npatrick@fhlbc.com.

Get Smart: Sign Up for a Free MPF[®] Webinar

Free training is a hallmark of the MPF Program – and you don't have to leave your desk to take advantage of it! Register today for one of the following June webinars, which are applicable to both MPF traditional and MPF Xtra[®] products unless otherwise noted:

June 8, 10:00-10:45 a.m.
Temporary Loan Payment Modification Plan

June 9, 10:00-11:00 a.m.
MPF Custody Process

June 21, 9:30-11:00 a.m.
Understanding and Reviewing Appraisals

June 22, 10:30-11:30 a.m.
Delinquency Management Workshop, Part I for Collection and Default staff

June 24, 10:30-11:30 a.m.
Delinquency Management Workshop, Part II for Foreclosure, Bankruptcy, and REO staff

June 29, 10:00-11:30 a.m.
MPF Xtra Product: Investor Reporting

To register for a free MPF or MPF Xtra Product webinar, send an email to MPFTraining@fhlbc.com with the webinar date, participant's name and institution, email address, phone numbers, and street mailing address. To view detailed descriptions and the Bank's webinar calendar for the second quarter, visit www.fhlbc.com and click "Events Calendar."

Federal Home Loan Bank of Chicago

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