

Balance Sheet

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

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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.

The Mortgage Partnership Finance® (MPF®) Program is pleased to introduce its new blue logo and tagline: Partnership Is Our Middle Name. The MPF Program was created in 1997 to help financial institutions that are members of the Federal Home Loan Bank System offer competitively priced fixed-rate mortgages in their communities and manage their balance sheets.

"We are more excited today about the MPF Program than we were 13 years ago when it launched, because now we fully understand how important the MPF Program is to our members. It's a shining example of quality mortgage origination on a local and national level," said Matt Feldman, President and CEO of the Federal Home Loan Bank of Chicago. "That's one of the reasons we updated the logo – to reaffirm to our members our commitment to develop and build the MPF Program."

"We also wanted to emphasize the benefit of partnering with your Federal Home Loan Bank," Matt continued. "We've added new products to the MPF Program to meet the competitive needs of our members and members of the other Home Loan Banks. Plus, you can continue to rely on the personal attention of your relationship banker and the excellent support of the MPF customer service center."

The volume and number of members that use the MPF Program (called Participating Financial Institutions or PFIs) supports Matt's view. FHLB Chicago PFIs have sold more than

\$4.5 billion in mortgages under the MPF Xtra® product – an increase of \$1.5 billion in the past nine months – from more than 175 FHLB Chicago members.



Partnership Is Our Middle Name.

Benefits

FHLB Chicago members benefit from the MPF Xtra product because it provides them with:

- First mortgage funding solutions;
- The opportunity to support mortgage lending in their communities;
- Competitive pricing;
- Free web-based training programs;
- Personalized, attentive customer service; and
- Electronic transaction processing via a secure website.

The MPF Xtra product is designed so that the FHLB Chicago is able to obtain the secondary market benefits of a mortgage aggregator and to pass that price advantage directly to PFIs. As a result, the MPF Program provides PFIs with competitive pricing that might not otherwise be available to them.

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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.

New Logo Reaffirms MPF Program's Commitment to Members

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How Does It Work?

A member can offer fixed-rate residential mortgage loans to its borrowers, control the underwriting process, and choose which loans to make and which loans to sell under the MPF Xtra product. The lender transfers the interest rate and prepayment risks as well as the credit risk of the associated loans to the investor. In addition, the lender can retain the servicing rights and servicing fee income, preserving the ability to cultivate relationships with customers.

To Learn More

If you have questions about the MPF Xtra product, please contact Cecille Duncan at 312-552-2779. Or, call the MPF Program's toll-free number at 877-463-6673. Additional information is online at www.fhlbc.com or www.fhlbmpf.com.

MPF Program: November Webinars

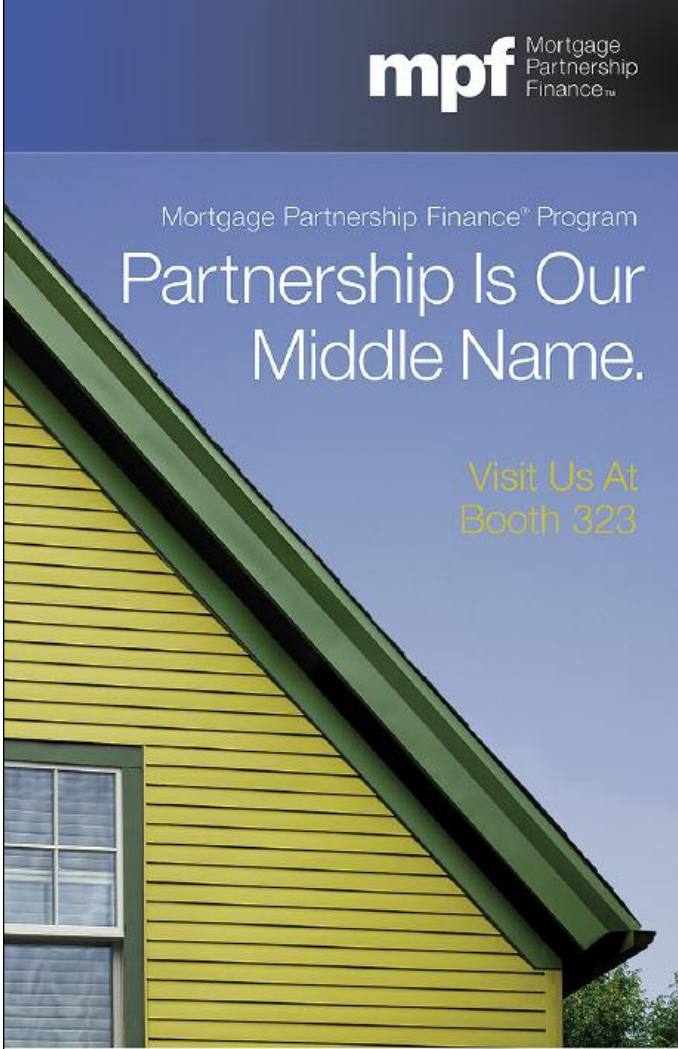
View descriptions of the free MPF Program webinars online. To register, send an email to MPFTraining@fhlbc.com with the date and name of webinar, participant's name and institution, email address, phone numbers, and street mailing address.

November 8, 9:30-10:30 a.m.
Advanced Appraisal Analysis (for both MPF Traditional and MPF Xtra products)

November 10, 9:30-11:30 a.m.
MPF Xtra Product Underwriting Workshop

November 16, 10:30-11:30 a.m.
Delinquency Management Workshop for the MPF Portfolio Products

November 17, 10:00-10:45 a.m.
Loan Payment Modifications for the MPF Portfolio Products



mpf Mortgage Partnership Finance™

Mortgage Partnership Finance® Program

Partnership Is Our Middle Name.

Visit Us At Booth 323

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New loan purchases available through:
Boston • Chicago • Des Moines • New York • Pittsburgh • Topeka
www.fhlbmpf.com

One of the new ads the MPF Program debuted at the ABA conference in Boston.

FHLB Chicago Files Lawsuits Regarding Private-Label Mortgage-Backed Securities

Matt Feldman, President and CEO of the Federal Home Loan Bank of Chicago, emailed the following letter to members on October 15:

Today the Federal Home Loan Bank of Chicago will file complaints against several defendants regarding some of the private-label mortgage-backed securities (MBS) they sold us between 2005 and 2007. We contend that the quality of the loans that comprise the pools of securities cited in today's complaints was inconsistent with the description in the pre-purchase documents prepared by the underwriters and issuers of the securities. Relying on the pre-purchase documents, we invested in these securities with the understanding that we were purchasing higher-quality instruments than turned out to be the case. After careful consideration, we have concluded that we have an obligation to you, our members, to do everything we can to recover the value lost from investing in these securities.

The lawsuits were filed in the Circuit Court of Cook County, Illinois; the Superior Court of California, County of Los Angeles; and the Superior Court of Washington, King County. The complaints allege the defendants made material misstatements and omitted important information in connection with the sale of these securities. The Federal Home Loan Bank of Indianapolis also filed similar complaints today. The Federal Home Loan Banks of Pittsburgh, Seattle, and San Francisco have previously filed similar lawsuits.

As we have discussed in prior member letters and SEC filings, and at the regional member meetings, the value of our private-label MBS portfolio has suffered dramatically. The securities listed in today's complaints totaled more than \$4.3 billion in face value and were all rated AAA when we purchased them. Since then, the same credit agencies that supplied the original ratings have downgraded substantially all of these securities to junk status.



Proper accounting of our estimated credit losses on these securities has resulted in a total of \$455 million in write-downs that have negatively impacted our income, our retained earnings, and our ability to restore a dividend.

In summary, we are only taking these actions out of the belief that it would be irresponsible not to explore every available option to recover the value lost to our members.

Bank Holidays

The FHLB Chicago will be closed on the following holidays:

November 11
Veteran's Day

November 25
Thanksgiving

Register Today for a Balance Sheet Management Conference

There's still time to register for the three remaining balance sheet management conferences sponsored by the FHLB Chicago:

November 2 Stevens Point, Wisconsin

November 3 Moline, Illinois

November 4 Oak Brook, Illinois

A continental breakfast will be served at 8:30 a.m. The meetings will last from 9 a.m. to noon, and we will discuss the following:

- Stress Testing your Balance Sheet's Liquidity
- Restructuring your Balance Sheet with FHLBC Advances
- Case Study: Fundamentals of Balance Sheet and

Interest Rate Risk Management

- Risk Profiles of Investment Securities (and Using FHLBC Advances to Buy Them)

Who Should Attend?

CEOs, CFOs, Treasurers, Investment Managers, Funding Managers, and others interested in the challenges of today's extraordinary market conditions.

To Register

Register online. Space is limited; please respond one week before your meeting date. If you have any questions, please contact your relationship banker at 312-565-5689.

Celebrating 20 Years of the Affordable Housing Program

The fall issue of the Federal Home Loan Bank of Chicago's Community Investment Group's newsletter, *Community First*, was emailed to members and community partners on October 12. The newsletter is available on the FHLBC website. Inside the issue:

- Celebrating Two Decades of the Affordable Housing Program;
- Borrowing at the CICA Rate;
- Nominate a Community Development Champion for the Advisory Council; and
- Community First Partnership Award Nominations Available in 2011.

Read the fall issue of *Community First* now. If you'd like to be added to the email subscription list, contact Joann Rudie at jrudie@fhlbc.com.



Cherry Court was awarded a Competitive AHP grant in 2005 through Johnson Bank and the Housing Authority of the City of Milwaukee to provide critical gap financing for the replacement of obsolete public housing units.

Federal Home Loan Bank of Chicago

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