



Balance Sheet

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

Turn to the FHLBC for Letters of Credit

In This Issue

3

Details About the New Symmetrical Prepay Advance

4

Welcome, New Members

5

Sharpen Your Skills at an MPF Xtra® Product Webinar

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.

As market conditions have changed dramatically in recent months, members have found it challenging to obtain letters of credit (LOCs) from traditional correspondent banks or bond insurers. In response to these market changes, the FHLBC, rated **Aaa/AA+**, is meeting members' needs by providing a variety of LOC products at competitive prices. Specifically, the FHLBC offers confirming/standby letters of credit that can be used to secure Public Unit Deposits, provide performance guarantees, and credit enhance bond financings. The FHLBC also issues direct pay letters of credit in connection with bond financings.

Public Unit Deposits (PUDs)

Your municipal customers provide a valuable deposit business, but the operational requirements for using marketable securities as collateral can be cumbersome. To retain securities for liquidity and other purposes and to attract public unit deposits that exceed the amount insured by FDIC, members can use a standby LOC to collateralize local agency or state deposits from many public entities, including:

- Municipalities;
- State of Illinois Treasurer;

- Regional transportation authorities;
- Housing authorities;
- Water reclamation districts; and
- Public school districts and community colleges.

Illinois and Wisconsin laws allow for FHLBC standby LOCs to collateralize public unit deposits.

Performance Guarantee

Does MasterCard, VISA, or American Express require an LOC to guarantee payments on your credit card processing account? Do you need an LOC from a rated bank to stand behind your guarantee of a customer's lease payments or performance under a construction contract? The FHLBC offers standby letters of credit that are issued directly on behalf of a member's account or to confirm a member's guarantee of its customer's performance.

An LOC from the FHLBC can also guarantee other types of payments, including:

- Insurance payments (FHLBC is NAIC registered);
- Workers' compensation; and
- Working capital guarantee for affordable housing projects.

(continued on page 2)

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.

Letters of Credit

(continued from page 1)

Credit Enhancement

If you have a customer seeking to finance a housing or community economic development project with proceeds from a bond issuance, an LOC is likely to be required from a rated bank. Members that are unrated or who have less than an Aaa or AA+ rating may retain their customer relationships by requesting an FHLBC standby or direct pay letter of credit, which will guarantee the principal and interest payments to bondholders and credit enhance the bonds with its Aaa/AA+ rating.

The key benefits of an LOC used for this purpose may include lowering transaction costs, improving pricing on the bonds, and providing better opportunities for members to maintain and expand customer relationships. Letters of credit issued by the FHLBC also accommodate many multi-member participation structures.

Proceeds from the bond issuance can help finance a range of projects, including housing developments, healthcare facilities, schools and universities, and manufacturing plants.

Discounted pricing is offered for projects eligible under our Community Investment Cash Advance (CICA) Program. All community lending (non-housing) projects

must be CICA-qualified in order to obtain an FHLBC letter of credit. Tax-exempt community lending projects must be new or refunded bonds in order to obtain the FHLBC guarantee.

Benefits to Members: FHLBC LOCs

- **Leverage the FHLBC's Aaa/AA+ rating**
- **Competitively priced**
- **No capital stock purchase required**
- **Improve bond-related transaction costs**
- **Help members manage asset/liability positions**
- **Provide liquidity by serving as an alternative form of collateral**

For More Information

LOCs are subject to the same credit underwriting and collateral requirements as FHLBC advances, but there is no additional stock requirement. For more detailed information about LOCs, including fees, contact your relationship banker or Suzanne Thackston in the Community Investment Group at 312-565-6922 or sthackston@fhlbc.com.

Flexibility for Your Balance Sheet: Symmetrical Prepayment Advance

The FHLBC now offers a fixed-rate, fixed-term advance that allows members to prepay an advance below par if the prepayment calculation indicates a discount at the time of the prepayment request. Called the Symmetrical Prepayment Advance (A125), it provides flexibility to your balance sheet and could allow you to recognize a gain on the prepayment if interest rates rise.

Other fixed-rate, fixed-term products may not be as flexible as the symmetrical prepayment advance, which allows you to potentially keep a portion of your funding liabilities available for restructuring, similar to what you might do with your asset portfolio.

Depending on interest rate movements, timing, and the costs of winding or offsetting related hedges or funding transactions, a member utilizing a symmetrical prepayment advance could recognize a gain.

How to Calculate the Prepayment Amount

How does it work? In general, the FHLBC will hedge the Symmetrical Prepayment Advance using an interest-rate swap. If rates rise, the value of both the advance and the swap will have risen.

Standard FHLBC prepayment guidelines apply. The prepay amount is equal to outstanding principal of the advance plus the present value of the difference between the:

a) scheduled interest payments to be paid on the advance through remaining maturity at the interest rate on the advance and

b) the scheduled interest payments that would be collected on the advance through remaining maturity if it bore interest at the discount rate plus

c) the FHLBC's cost of terminating or offsetting any related hedging or funding transactions as necessary to render the FHLBC financially indifferent to the member's decision to prepay.

For More Information

To discuss the differences between the FHLBC's Symmetrical Prepayment Advance and our Fixed Rate, Fixed Term advance, or to take down an advance, call the Member Transaction Desk at 877-236-1610 or email mtd@fhlbc.com.

Symmetrical Prepayment Advance

- **Term: 1 year to 10 years**
- **Minimum Size: \$5mm**
- **Principal due at maturity**
- **Interest is charged monthly on the 5th business day**
- **Day count: Actual/360, following business convention**
- **Same-day funding is available up to 2 p.m.**

The data and valuations provided in this article are for information purposes only and are provided as an accommodation and without charge. The Federal Home Loan Bank of Chicago makes no representations or warranties about the accuracy or suitability of any information in this story. This document is not intended to constitute legal, investment, or financial advice or the rendering of legal, consulting, or other professional services of any kind.

Collateral Loan Verification Review Letters Emailed on January 15



All members should have received an email on January 15 from the FHLBC's Collateral Verification Manager indicating whether or not a collateral verification review of the loan portfolios pledged to the FHLBC will take place in 2010. Not all members will be scheduled for a field review this year, but federal regulations require that the FHLBC periodically verify the loans that members pledge as collateral conform to the FHLBC collateral eligibility requirements.

There is no fee for collateral verification reviews of non-commercial real estate collateral.

If your institution did not receive a letter via email, please contact Daren Jakeman at djakeman@fhlbc.com.

Welcome, New Members

The FHLBC welcomes the following financial institutions, including four insurance companies, that joined the FHLBC in 2009:

American Family Life Insurance Company	Madison, WI
American Family Mutual Insurance Company	Madison, WI
Bank of Montgomery	Montgomery, IL
Bank of Belleville	Belleville, IL
Prospect Mortgage Insurance LLC	Northbrook, IL
WPS Community Bank, FSB	Madison, WI
Spring Bank	Brookfield, WI
H.F. Gehant Banking Company	West Brooklyn, IL
Hiawatha National Bank	Glenwood City, WI
Illinois Mutual Life Insurance Company	Peoria, IL

For More Information
About FHLBC Products and Services

Website: www.fhlbc.com

eBanking: <https://securep.fhlbc.com>

Member Transaction Desk: 877-230-1610

MPF Customer Service: 877-345-2673

Sharpen Your Skills at an MPF Xtra® Product Webinar

Free web-based training programs are one of the benefits of membership in the FHLBC. To register for an MPF Xtra Product webinar described below, send an email to TFHLBC@fhlbc.com with the webinar date, participant's name and institution, email address, phone numbers, and street mailing address. To view the Bank's entire 2010 webinar calendar, visit www.fhlbc.com and click "Events Calendar."

February 2

eMPF® Training for the MPF Xtra Product 9:30-10:30 a.m.

Learn about the steps involved in daily transactions on the eMPF website, how to access monthly reports, and more. The training is intended for loan processors, loan officers, and data-entry personnel.

February 8

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

Underwriting staff and quality control auditors will focus on the review process of the Uniform Residential Appraisal Report (URAR) FNMA Form 1004/FHLMC Form 70.

February 23

MPF Xtra Product Investor Reporting 2:00-3:00 p.m.

In this webinar you'll review the remittance requirement, examine the custodial account reconciliation process, identify common exceptions shown on the Turnaround Report, and more.

February 21-24: ABA National Conference for Community Bankers

If you're attending the ABA conference in Hollywood, Florida, on February 21-24, be sure to visit the MPF booth (#409) to



pick up a pedometer and participate in the "Keep Up the Pace" contest. The three people with the top number of steps for the conference will win an American Express gift certificate for up to \$200.

Every Day and Thursdays: Financial Markets Insight

The FHLBC can save you time: we sift through the day's and week's important financial information and summarize it for you.

First, the FHLBC's new morning market update is being emailed every day as an attachment to the rate sheet. It provides a snapshot of:

- U.S. daily economic news
- Economic indicators
- Treasury announcements and auctions
- Monetary policy speeches on the docket

Second, you're invited to join the FHLBC's free 20-minute weekly financial markets conference call with Patrick Quinn, Member Group Product Manager, every Thursday at 3 p.m. The call provides more in-depth insight on:

- Balance sheet management and funding strategies
- Financial market trends
- Federal Reserve policy
- Analysis of economic data

Dial 866-537-1632 and enter the passcode 9883778. Or, log on to www.conferenceplus.com.

Federal Home Loan Bank of Chicago

200 East Randolph Drive
Chicago, IL 60601
www.fhlbc.com

Copyright © 2010, Federal Home Loan Bank of Chicago. "Mortgage Partnership Finance" logo, "Mortgage Partnership Finance," "MPF," "MPF Xtra," eMPF, are registered trademarks of the Federal Home Loan Bank of Chicago. House image © 2010 Getty Images.