



Balance Sheet

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

FHLBC Announces Financial Highlights for the 2Q 2010

On July 29, the FHLB Chicago emailed a letter from President Matt Feldman announcing preliminary financial results from the second quarter 2010. These results were prepared from unaudited financial information. Financial highlights include:



We recorded net income of \$116 million for the second quarter of 2010, due in part to the positive impact of several non-recurring events, including a larger-than-usual level of prepayment fees on advances and a gain on hedging activities. Other-than-temporary impairment (OTTI) charges against our private-label mortgage-backed securities (MBS) portfolio were \$27 million.

- Retained earnings increased substantially from \$709 million at the end of the first quarter to \$825 million at the end of the second quarter.

- Advances at quarter-end were \$21.1 billion, down 1% from the previous quarter-end, and 22% from a year ago when members' increased borrowing needs reflected the credit crisis. Total assets were \$87.7 billion at June 30, 2010.

- Mortgage Partnership Finance® (MPF®) loans held in portfolio at quarter-end were \$21.6 billion, down \$1.1 billion (5 %) from the previous quarter-end as anticipated following 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 capital stock to a Gramm-Leach-Bliley Act capital structure.

- Seven of our members were resolved in the second quarter of 2010. Although some members' overall financial condition is improving, we anticipate that there will be more resolutions throughout the year. We have not experienced any credit losses in connection with these resolutions.

- We remain in compliance with all of our regulatory capital requirements.

In addition, Matt stated, "Many members have traditionally viewed the Bank as back-up lender rather than a regular, routine source of funding. We plan to earn your business as a core funding source."

To read the entire letter for a fuller explanation of our results, visit www.fhlbc.com, or click here. If you have questions, please contact your relationship banker. We expect to file our second quarter 2010 report (Form 10-Q) with the Securities and Exchange Commission (SEC) in August. You will be able to access it through our website or the SEC's reporting website, www.sec.gov/edgar.

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.

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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.

Highlights from the FHLB Chicago Summer Regional Meetings

The FHLB Chicago hosted seven summer regional meetings across Illinois and Wisconsin this year to provide members with an overview of the Bank's progress and Q1 financial performance. Senior managers also discussed credit and collateral developments and how members can use FHLB Chicago products as asset liability tools. More than 200 members attended.

Matt Feldman, President of the Bank, kicked off the meetings with his presentation "From Remediation to Transformation" during which he outlined the FHLB Chicago's remediation efforts. By "simplifying our balance sheet, improving net interest margin, and installing core operating systems over the past two years," Matt said the Bank has been positioning itself to meet the following goals:

- Provide our members with short-term liquidity and long-term funding as integral components of their business strategies;
- Generate consistent, profitable results, while providing the benefits of our funding advantage to our members;
- Stabilize our capital base through a capital stock conversion;
- Grow retained earnings;
- Simplify our business model and operations; and
- Restore an appropriate dividend and full liquidity to our stock.

Continuing to Focus on Members

Looking ahead, Matt continued, the Bank will be "a reflection of member

needs, market conditions, and economy." We will focus on:

- Maximizing utilization of FHLB Chicago by all members;
- Adding new members, including insurance companies and credit unions;
- Matching our scale to your utilization of the Bank; and
- Operating the MPF Program and expanding the suite of MPF Xtra® products for our members.

In addition, "We plan to convert our capital stock as expeditiously as possible after we receive approval from the Federal Housing Finance Agency," Matt said.

Housing Reform Legislation

Speaking about upcoming housing reform legislation, Matt said, "Any decision impacting the charter of the Home Loan Banks or the funding advantage and market acceptance available through the issuance of our debt could impact the availability and cost of liquidity and term financing to members." In the coming public policy discussions, Matt emphasized that support from our members and their trade associations will be critical. "The FHLBanks are working to develop discussion points for the coming debate," he said, and "we'll be in touch with you with specific suggestions as to how you can help."

Maximizing Collateral Availability

Chad Brandt, Executive Vice President, Banking and Advances Product Group, discussed the

"We've discovered that Community Financial Institution (CFI) collateral is underutilized by members as a collateral class."

Chad Brandt, Executive Vice President,
Banking and Advances Product Group

Bank's ongoing efforts to maximize collateral availability for members and to monitor collateral quality. These efforts are aimed at making it easier for members to use the Bank and also for the Bank to support members in the tough economy while protecting member capital.

The FHLB Chicago is expanding the type of collateral it accepts to include commercial real estate. In addition, "We've discovered that



Chad Brandt, Executive Vice President,
Banking and Advances Product Group

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Community Financial Institution (CFI) collateral is underutilized by members as a collateral class,” Chad said. (CFIs are defined as institutions with less than \$1.029 billion in average total assets for 2007–2009). For example:

- Less than \$1 billion of CFI collateral is currently being pledged. (CFI collateral includes small farm, business, and agribusiness loans.)
- More than \$20 billion CFI collateral resides on member balance sheets.

Chad added that the Bank is in the process of seeking approval to allow CFI collateral to be pledged on a blanket lien and to lift the current cap on the usage of CFI collateral.

Finally, he re-emphasized the liquidity mission of the Bank and its readiness to stand by members.

“When we have the difficult conversations with members facing challenges to their businesses, many times they ask if we intend to cut them off,” Chad said. “The answer is always no.” The Bank works with these members to ensure that appropriate collateral and controls are in place to protect total member capital.

Mark-to-Market Update

“As always, our credit actions are designed to protect collective member capital,” Chad continued. And it is working. “No credit losses have been taken related to the member resolutions thus far,” he reported. As part of these efforts, the Bank plans on full implementation of mark-to-market (MTM) later this year or next year. Chad said:

- We are acting on portfolio valuations of some members submit-

“No credit losses have been taken related to the member resolutions so far.”

Chad Brandt, Executive Vice President,
Banking and Advances Product Group

ting data that are required to list;

- We are reducing collateral loan value in cases where the valuations do not support the standard haircuts; and
- We intend to continue operating collateral on a blanket lien basis for most members.

CFO Report

CFO Roger Lundstrom shared the Bank’s first quarter 2010 financial results with attendees. However, our most recent (although preliminary) results can be found on page 1 of this newsletter.

Using FHLB Chicago Products as Asset Liability Tools

Patrick Quinn, Member Group Product Manager, provided an update on the financial markets and encouraged members to evaluate their portfolios at the FHLB Chicago to take advantage of the current low-rate environment. With the help of the Member Transaction Desk, he said some members are prepaying higher-cost advances and refinancing into lower-cost, term advances, which can help increase net interest margins.

Call the Member Transaction Desk at 877-230-1610 to discuss your institution’s specific situation.

Six Takeaways from the Regional Meetings

- 1. We want to ensure members are maximizing their membership through credit and product usage.**
- 2. We are committed to providing members with the benefits of our funding advantage.**
- 3. The FHLB Chicago is focused on supporting its members, regardless of their credit condition.**
- 4. We are actively monitoring credit and collateral policies and practices to balance the needs of individual members against the risk to overall member capital.**
- 5. We are striving to improve collateral availability and processes.**
- 6. We are committed to the successful transition of the Bank and scaling it to fit the utilization of our members in Illinois and Wisconsin, to providing an appropriate dividend, and to restoring full liquidity to our stock.**

What's New with the MPF Xtra Product?

More than 150 member institutions have taken advantage of the fixed-rate residential mortgage funding opportunities through the FHLB Chicago's MPF Xtra product since it was launched almost two years ago. If your institution hasn't participated in the Mortgage Partnership Finance Program – or you haven't in awhile – we invite you to take a second look.

There are two great new benefits available to participating financial institutions (PFIs) that use the MPF Xtra product:

- Automated delivery commitments; and
- Access to Desktop Underwriter® (DU), which simplifies the loan underwriting process.

But the benefits remain the same:

- Obtain competitive pricing for your borrowers;
- Retain valuable servicing fee income;
- Preserve customer relationships;
- Attend free web-based training programs (see the calendar listing on this page for webinars in August);
- Access to a dedicated Customer Service unit; and
- Enjoy personal attention from your partners in the FHLB System.

With the MPF Xtra product, your institution can transfer the interest rate and prepayment risks as well as the credit risk of the associated loans to an investor.

For more information about the MPF Xtra product or how to apply to become a PFI, contact your relationship banker or Cecille Duncan at 312-552-2779.

Seven Free Webinars in August

To register for a free MPF portfolio or MPF Xtra product webinar, send an email to MPFTraining@fhlbc.com with the date, participant's name and institution, email address, phone numbers, and street mailing address. Click on the webinar title, below, for a description. Unless otherwise noted, webinars are for MPF Portfolio products.

August 9, 9:30-10:30 a.m.
Detecting and Avoiding Fraud in the Mortgage File

August 9, 9:30-10:00 a.m.
MPF Xtra Product: Delivery Commitment Automation

August 11, 2:00-3:00 p.m.
Construction-to-Perm Mortgages

August 16, 9:30-11:00 a.m.
Understanding and Reviewing Appraisals

August 18, 10:00-11:00 a.m.
MPF Xtra Product: eMPF® Transaction Training

August 19, 10:00-11:00 a.m.
Temporary Loan Payment Modification Plan for the Portfolio Products

August 25, 10:00-11:30 a.m.
MPF Xtra Product: Investor Reporting

President Obama Signs Landmark Legislation

On July 21, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law. It is the most wide-ranging reform of the financial services industry since the Gramm-Leach-Bliley Act was passed in 1999.



Among its many provisions, the Dodd-Frank Act grants authority to a newly established Consumer Financial Protection Bureau to write rules for banks and nonbank financial firms that offer consumer financial services or products to protect borrowers from unfair,

deceptive, or abusive acts or practices. It also grants the government authority to seize and wind down large, troubled financial firms and sets up a council of federal regulators to monitor threats to the financial system. In addition, the Act mandates oversight of the derivatives market, gives shareholders more say on how corporate executives are paid, permanently increases the deposit insurance limit to \$250,000, and abolishes the Office of Thrift Supervision.

The FHLBanks, working in partnership with our member trade associations and other supporters, were able to obtain exemptions from several provisions of concern:

- Concentration limit on credit exposure;
- Leverage limits;
- Bank risk-based capital rules; and
- “Volcker Rule” restrictions (pertaining to debt).

The 2,300+ page Act also contains many provisions that could potentially affect the FHLBanks. As the regulations implementing these provisions are developed in the coming months and years, we will keep you updated in future issues of the *Balance Sheet*.

Lower Your Borrowing Costs with CICA

When looking to lower funding costs, look to our Community Investment Cash Advance (CICA) program to borrow at discounted rates. Members can access CICA advances to finance eligible housing or community development projects. These advances, which are available throughout the year, are used to finance loans to individual households, public

entities, and both for-profit and non-profit organizations. Of special note: longer terms are available for loans to rental properties.

Please call your relationship banker to review CICA eligibility guidelines or click here to visit the Community Investment page at www.fhlbc.com.

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