

Balance Sheet

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

3 Ways to Manage Interest-Rate Risk

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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.

As economic conditions stabilize and the likelihood increases that interest rates will move higher, now is the time to manage your institution's interest-rate risk by terming out. Not convinced? Consider these other developments that could adversely impact your institution's net interest margins:

- The Federal Reserve recently hiked the discount rate and is phasing out its liquidity programs;
- Your regulators are emphasizing the importance of an effective interest-rate risk management program; and
- Customers may withdraw their low-yielding deposits as economic conditions improve, which could potentially increase your institution's need for funding.

Plus, FHLBC advance rates are still near all-time low levels:

Consider 3 Advance Structures

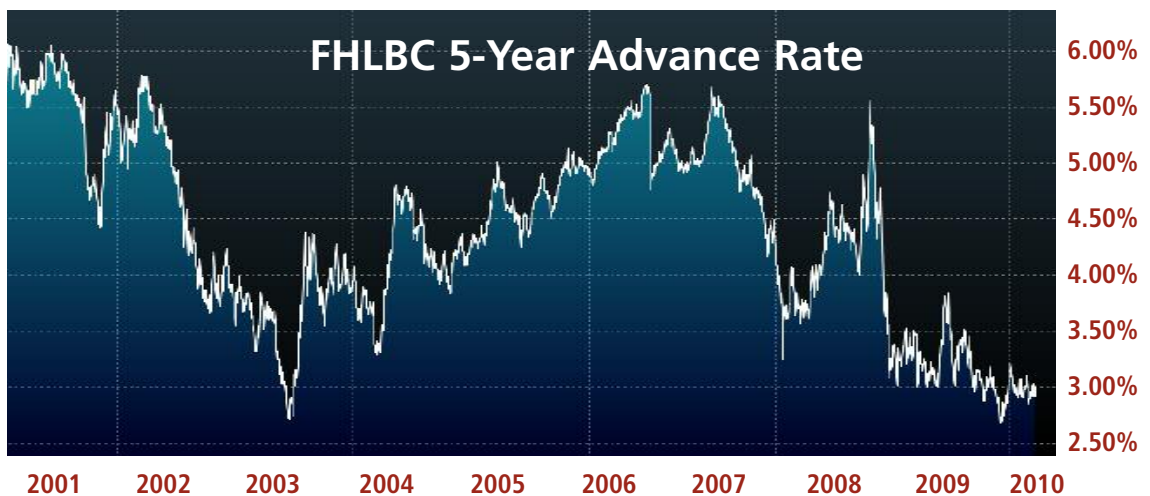
The FHLBC offers three advance structures that can help your institution effectively manage its interest-rate risk:

1. Fixed-rate, fixed-term advances. Lock in term funding at current low levels.

2. Floating-rate advances, such as a Libor floater with an interest rate cap protection. Term funding takes advantage of current short-term levels and protects your institution as rates rise.

3. Amortizing advances. Fixed-term funding can be structured to meet your institution's fixed-rate mortgage portfolios.

To take down an advance today, call the Member Transaction Desk at 877-236-1610 or email mtd@fhlbc.com.



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.

Congresswoman Discusses Wall Street Reform with FHLBC Members

U.S. Representative Judy Biggert (R-IL) does not have to go far to get the view of local bankers: her district office is located on the second floor of the Community Bank of Willowbrook, in Willowbrook, Illinois. She recently met with 13 Chicago-area bankers over coffee and donuts to discuss a variety of legislative and regulatory issues under consideration in Washington. The meeting was organized by the FHLBC, the Illinois Bankers Association, and the Illinois League of Financial Institutions as one in a series of events designed to bring members of Congress together with local bankers from their home districts.

Rep. Biggert, currently serving her sixth term in office, is very familiar with the bankers' concerns. She is a senior member of the House Financial Services Committee and the ranking Republican on the Oversight and Investigations subcommittee. Her seniority and position allow her to influence financial industry-related legislation, including the overhaul of the financial services industry currently underway in Washington. However, she noted that as a member of the minority party in Congress, she is limited in her ability to shape the bills in ways her constituents may want.

Wall Street Reform and Consumer Protection Act of 2009

The primary topic of conversation was the Wall Street Reform and Consumer Protection Act of 2009, which was approved by the House of Representatives in December. A Senate version was recently released and is expected to be considered soon. The bills propose to revamp the nation's financial regulatory system, including creating a Consumer Financial Protection Agency that would issue rules, conduct examinations, and impose enforcement actions currently carried out by bank regulatory agencies.

Many attendees expressed concern that such an agency would only add another layer of regulatory bureaucracy in the name of consumer protection and increase costs to banks and consumers without squarely addressing the unregulated, non-bank financial institutions that were the primary cause of the subprime mortgage crisis. They were also concerned about separating safety and soundness regulation from consumer protection oversight.

Some suggested a better approach would be to use the Federal Financial Institutions Examination Council (FFIEC) as a clearinghouse for consumer issues and rules that would, in turn, be implemented and examined by each financial institution's safety and soundness regulator. Rep. Biggert said that an amendment was considered in the House bill that would have used FFIEC in a similar manner, but it was narrowly defeated. But the role of a proposed consumer agency and where it may be located continues to be a contentious issue as the overall bill moves forward. The most recent Senate version would place it in the Federal Reserve, but with an independent director who would be appointed by the President and confirmed by the Senate.



U.S. Representative Judy Biggert (R-IL)

Protecting the Federal Thrift Charter

Another area of discussion focused on protecting the federal thrift charter and preserving mutuality. The bill passed by the House would merge the Office of Thrift Supervision into the Office of the Comptroller of the Currency. Primary supervision of state savings associations and savings and loan holding companies would be transferred to the Federal Reserve Board. More far-reaching proposals have called for the elimination of the federal thrift charter altogether.

The bankers voiced strong support for charter choice—allowing financial institutions to choose the charter that makes the most sense for them. They noted that traditional thrift institutions were not the cause of the financial crisis and eliminating their charter would do nothing to address the underlying problem, which originated outside of the regulated banking industry. Moreover, these traditional institutions are now in a

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APL Certification Reminder

If your institution hasn't already, please complete the Anti-Predatory Lending, Sub-Prime, and Non-Traditional Mortgage Certification and return it to the FHLBC. The certification form is the last few pages of the letter posted on eBanking under the "Collateral and Credit" tab. If you have any questions about collateral eligibility or the referenced policies, please contact your relationship banker:

Barbara Barnett	(312) 565-5813
Jon Ekman	(312) 565-5695
Peter Bulandr	(312) 565-5328
Jaronda Hall	(312) 565-5309
Pamela Cannon	(312) 552-1236
Chris Milne	(312) 552-1751
Michael Dattels	(312) 565-6936
Scott Stewart	(312) 565-5725

Congresswoman Discusses Wall Street Reform with FHLBC Members

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position to help homeowners who were abused by non-traditional lenders. Rep. Biggert agreed that the focus of Congressional efforts should remain on the true causes of the financial meltdown.

Talking to Bank Regulators

Congresswoman Biggert wrapped up the meeting by announcing that she plans to hold a hearing in Illinois of the Oversight and Investigations subcommittee, possibly in April, to focus on bank regulators. She often hears from bankers that, despite talk from policymakers in

Washington, D.C. about the need to increase lending to small businesses, their field examiners have become much more conservative and restrictive in their exams regarding their lending standards and loan valuations; this sends mixed signals to bankers. She intends to ask the regulators what they are doing to help bankers lend in their communities, particularly to small businesses. She also encouraged the bankers to contact her with any questions or comments for possible use at the hearing by calling her D.C. office at 202-225-3515 or emailing her through her website, <http://judybiggert.house.gov>.

2009 Annual Report Online

On March 18, the FHLBC filed its 2009 Form 10-K Annual Report with the Securities and Exchange Commission. You can access the report through www.fhlbc.com or through the SEC's reporting website, www.sec.gov/edgar. To save money, the FHLBC did not produce a separate annual report or print large quantities of the 10-K. Instead, President Matt Feldman emailed a letter to all members in February that summarized the Bank's preliminary 2009 annual results. The 10-K provides more detailed information.

Announcing the 2010 Affordable Housing Program Allocations

The Community Investment group emailed the notice of its quarterly *Community First* newsletter in early March. In it, President Matt Feldman and Community Investment Officer Eldridge Edgecombe announced the FHLBC's allocations for its 2010 Affordable Housing Programs. Click here to access the entire newsletter; below is an excerpt from Matt and Eldridge's letter:

Despite the financial challenges of 2009, our Board of Directors voted to commit at least \$5 million to the FHLBC's Affordable Housing Programs (AHP) in 2010. We fully understand the importance of both the competitive and the down payment assistance grant programs in helping you to revitalize and grow the communities where you live and work, and that's why these programs are an important component of the FHLBC's mission and of our member value proposition.

We encourage all members to take advantage of these important programs:

- \$2 million will be available for the non-competitive Downpayment Plus[®] (DPP[®]) Program. Of that, \$300,000 will be available for the DPP Advantage[®] program. Funds from these down-payment and closing-costs assistance grant programs will be available beginning March 15, 2010 on a first-come, first-served basis



Eldridge Edgecombe, FHLBC Community Investment Officer

until the \$2 million is fully committed to homebuyers.

- At least \$3 million will be available for the Competitive AHP. The deadline for applications is September 1, 2010.

If you would like to receive the quarterly e-mail notice of the *Community First* newsletter, please email Joann Rudie in the Community Investment Group at jrudie@fhlbc.com with your name and e-mail address and reference the *Community First* mailing list in your message.

Annual Stock Requirement Calculation: April 8

Every year regulations require that we review each member's required minimum capital stock holding in the FHLBC. In early March, we sent a letter and a calculation sheet to your institution. The calculation sheet reflected your institution's FHLBC capital stock requirement and capital stock balance updated as of February 25, 2010. We will initiate a purchase transac-

tion of the required amount, if any, on April 8, 2010. Please be sure to have sufficient funds in your DID account on that day.

For questions regarding your stock transaction, capital stock calculation, or voting state, please call Diane Houser, Vice President, Banking Administration, at (312) 565-5353.

Invite Your Board of Directors to the Thursday Conference Call

Don't miss the FHLBC's free weekly conference call for a high-level discussion of what's happening in the financial markets. If you're already a fan, we encourage you to invite your board of directors, members of your asset/liability management committee, and staff to join the call as well.

Patrick Quinn, FHLBC Advances Group Product Manager, hosts the 20-minute call every Thursday at 3 p.m. Tap into the FHLBC's insight on:

- Balance sheet management strategies;
- Funding strategies;
- Financial market trends;
- Federal Reserve policy;
- Analysis of economic data; and
- Other topics to help you achieve your business goals.

Dial 866-537-1632 and enter the passcode 9883778 to listen to the audio, and log on to www.conference-plus.com to view the slides.

MPF Website: On-Demand Training

If the date and time of the MPF Underwriting Workshop doesn't fit your schedule, you can now listen to the "4 C's of Underwriting" online when it's more convenient. Follow these simple steps:

1. Visit the MPF Program website, www.fhlbmpf.com.
2. From there, click on the new "MPF Education" tab on the left side of the homepage.
3. Click on "Training Center."

4. Click on the presentation you would like to access. Currently there is one presentation available on-demand: The 4 C's of Underwriting. We will be adding more soon. You may need to download a free Flash Player to view and hear the presentation.

The calendar of all MPF Program webinars is also available under the MPF Education tab, and, as always, on www.fhlbc.com.



Register Today for a Free Webinar

Free web-based training programs are one of the benefits of membership in the FHLBC. To register for an MPF® webinar described below, 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 the Bank's webinar calendar for the second quarter, visit www.fhlbc.com and click "Events Calendar."

April 6

**eMPF® Transaction Training for the MPF Xtra® Product
1:00-2:00 p.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.

April 14

**MPF Portfolio Products Temporary Loan Payment Modification Plan
10:00-10:45 a.m.**

Learn about the first mortgage temporary loan payment modification plan—including detailed information for borrowers who are in default or facing imminent default—for MPF portfolio products.

April 19

**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.

April 27

**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.

Federal Home Loan Bank of Chicago

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