

**Frequently Asked Questions:
Federal Home Loan Bank of Chicago
Capital Plan
In Effect as of May 3, 2021**

Activity Stock Requirements

1. What are the activity stock requirements under the capital plan?

Three Federal Home Loan Bank of Chicago (FHLBank Chicago or Bank) products are subject to an activity stock requirement: advances, letters of credit, and Mortgage Partnership Finance[®] (MPF[®]) Program Traditional products.

- The activity stock requirement for advances is 4.5% of the principal balance of advances outstanding.¹ Existing and new advances are subject to the activity stock requirement.
- The activity stock requirement for letters of credit is 0.10% of the notional amount of all new letters of credit issued on or after May 3, 2021. On or after May 3, 2021, capital stock will be required for existing letters of credit as of the time of auto-renewal (for evergreen letters of credit), term extension, or amendment for notional amount increase.
- The activity stock requirement for MPF Traditional products is 2% of unpaid principal balance of loans sold into master commitments executed on or after May 3, 2021. Only the MPF Program's Traditional products (which include MPF 125, MPF 35, MPF Original, and MPF Government) are subject to an activity stock requirement.

¹The Board of Directors of FHLBank Chicago may adjust this percentage to as low as 2% for certain advances and has currently authorized a pool of funds available for advances that can be capitalized at 2% under the Bank's Reduced Capitalization Advance Program (RCAP).

2. How is my total stock investment allocated between Class B1 activity stock and Class B2 membership/excess stock under the capital plan?

Under the capital plan, all required stock that supports advances, letters of credit, or MPF activity with the Bank is classified as Class B1 activity stock, which is currently expected to pay a higher dividend rate.

Any additional amount of stock necessary for the total amount of Class B stock held to equal your minimum investment requirement will be classified as Class B2 membership stock. Your institution purchases Class B2 membership stock to satisfy its membership stock requirement with the Bank.

Stock held in excess of your minimum investment requirement is classified as Class B2 excess stock.

Dividends

3. What is the difference in the dividend rate between Class B1 activity stock and Class B2 membership/excess stock? How are the rates set?

Under the current capital plan (as with the prior capital plan), any dividend declared on Class B1 activity stock must be greater than or equal to the dividend declared on Class B2 membership/excess stock for the same period. Dividends may be paid in the form of cash and/or

stock. All dividends paid since 2011 have been paid in cash rather than stock.

Since late 2013, the dividend declared per share of Class B1 activity stock has been higher than the dividend declared per share of Class B2 membership/excess stock to acknowledge that members, through their utilization of the Bank's products, provide support to the entire cooperative.

Although the Bank continues to work to maintain its financial strength to support a reasonable dividend, any future dividend determination by the Board of Directors will depend on future operating results, the Bank's Retained Earnings and Dividend Policy and any other factors the Board of Directors determines to be relevant.

4. How do I get more of the expected higher dividend Class B1 activity stock?

Under the capital plan, any member that has activity with the Bank which results in an activity stock requirement greater than zero will hold Class B1 activity stock in an amount equal to the member's activity stock requirement. Therefore, generally, the more you borrow, participate in the MPF Program, or utilize letters of credit, the more Class B1 activity stock you will own.

5. How are dividends calculated and how are they paid?

Dividend payments will be calculated on the basis of the daily weighted average number of shares of stock owned during the quarter, based on end-of-day accounts for each subclass of stock. This calculation takes into consideration both the number of shares of each class of stock owned during the quarter and the length of time such shares were owned during the quarter. Dividends will be paid quarterly by crediting a member's DID account.

Excess Stock Repurchases

6. What is excess stock, how is it classified, and what is the dividend rate?

Any stock not supporting your minimum investment requirement is classified as Class B2 excess stock at the end of each business day. Accordingly, it earns the Class B2 dividend rate.

7. Why does my institution have excess stock?

The most common reasons for your institution to have excess stock are that one or more advances have matured, the unpaid principal balance of your MPF Traditional portfolio has declined, or the outstanding notional amount of letters of credit has declined, thereby decreasing your institution's activity stock requirement. In addition, excess stock may result from a decrease in your institution's membership stock requirement during the Bank's annual membership stock recalculation process.

8. How often will automatic excess stock repurchase occur and how much stock can a member hold?

On March 15, 2021, our first monthly excess stock repurchase will take place. On that day, the Bank will repurchase excess stock held by each member that exceeds the greater of \$10 million or 25% of a member's minimum investment requirement not to exceed \$50 million. The amount of excess stock a member will be able to hold is subject to change each month; for example, if we determine excess stock levels are too high, we will adjust the maximum amounts a member can hold for that month.

Monthly excess stock repurchases will take place before the open of business on the 15th day of each month based on a member's excess stock holdings at the close-of-business on the immediately preceding business day. If the 15th day falls on a holiday or weekend, the excess stock repurchase will take place on the next business day. Proceeds from the transaction will be paid by crediting your DID account.

9. How does a member request an excess stock repurchase?

Any member with excess stock can submit a request for excess stock repurchase. To submit a

repurchase request, complete the form found [here](#) and submit it to the Member Transaction Desk at mtd@fhlbc.com by 2:00 p.m. Central Time every business day. You may also access the form through eBanking, request the form by emailing mtd@fhlbc.com, or by calling 855-345-2244, option 1.

At the time a member submits a request for excess stock repurchase, the Bank will confirm (1) that the amount of stock requested is, in fact, excess stock, and (2) that the Bank is able to repurchase the stock in accordance with regulatory capital requirements and current repurchase guidelines. The amount of stock requested for repurchase must be excess stock as of the close of business on the previous business day, or excess stock that was converted from activity stock to excess stock prior to requesting the excess stock repurchase.

10. Can a member request shares of stock be redeemed or repurchased by date of acquisition?

A member may include the date(s) of acquisition in its request for stock redemption or repurchase. However, a member choosing to include a date of acquisition must independently and internally track shares by date of acquisition for purposes of allocating proceeds from redemption or repurchase of capital stock. When allocating proceeds with respect to a redemption, members should note that shares under redemption are subject to a five-year waiting period.

11. Who can request excess stock repurchases on behalf of my institution?

An individual from your institution with Advance Transact authorization or Authorized Officers on either eBanking or through the Member Contact Authorization Form on file with the Bank may request excess stock repurchases.

12. How will I receive payment for my repurchase of excess stock, and when will the funds be available in my DID account?

Payments to members for repurchase of their excess stock will be made by crediting the member's DID account at the Bank. For repurchases requested by members before 2:00 p.m., funds will be available on the same day the request is fulfilled, and the account credit processed. For monthly repurchases initiated by the Bank, funds will also be available in member's DID account at the open of business on the 15th day of the month, or the business day immediately after if the 15th day falls on a weekend or holiday.

13. What is the difference between repurchase and redemption of stock?

Repurchase is the acquisition by the Bank, *at its sole discretion*, of excess stock without regard to any five-year redemption period. A member can request a repurchase of its excess capital stock (see Question 10) or the Bank can initiate a repurchase of member excess stock (for example, through automatic monthly excess stock repurchases explained in Question 8).

In contrast, redemption means the acquisition by the Bank of excess stock following the expiration of the five-year redemption period after membership termination or a redemption notice from a member. Redemptions are less common than repurchases.

Voting

14. For purposes of determining voting shares held by each member, how will the Bank calculate the average number of shares of Bank stock required to be held by all members located in the same state?

The average number of shares of Bank stock required to be held as of the preceding December 31 by all members located in the same state will be determined by the Bank using the following ratio:

- In the numerator, the total number of shares of stock required to be held by members in the state, and
- In the denominator, the total number of members in the state.

Membership Stock Requirement

15. How does the Bank determine a member’s “unpaid principal balance” of mortgage assets for the purposes of calculating a member’s membership stock requirement?

The Bank obtains this information from a variety of sources, depending on the type of member and availability. For example, this information may be obtained from call reports or year-end financials.

16. What is the definition of “mortgage assets” for purposes of calculating a member’s membership stock requirement?

Generally, mortgage assets include (but are not limited to) the unpaid principal balance of: 1-4 family first and junior liens, multifamily first and junior liens, and residential mortgage pass through securities. Please see the definition of “mortgage assets” in the capital plan for details.

These Frequently Asked Questions highlight certain terms of our capital plan. They are not intended to be a comprehensive overview of all the terms in the capital plan and should not be considered as a substitute for the capital plan. Members and former members should consult the full capital plan for an understanding of all terms applicable to the Federal Home Loan Bank of Chicago’s (FHLBank Chicago) capital stock. The information provided by FHLBank Chicago in this communication is for informational purposes only. The information should not be construed as an opinion, recommendation or solicitation regarding the use of any financial strategy and/or the purchase or sale of any financial instrument. Members and former members should consult their own financial and legal advisors. Certain information included here is only as of a particular date or dates presented, and may become out of date. Also, the information presented here as well as the capital plan remain subject to change.

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