Resource Guide: Federal Home Loan Bank of Chicago Capital Plan In Effect as of May 3, 2021

Stock Assessments on Letters of Credit

1. What will be the Class B1 activity stock requirement for letters of credit?

Letters of credit will have a capital stock requirement of 0.10% of the current notional amount outstanding. The Federal Home Loan Bank of Chicago (FHLBank Chicago or Bank) will assess capital stock on all letters of credit issued on or after May 3, 2021.

For outstanding letters of credits, the Bank will assess capital stock on or after May 3, 2021 if any of the following occurs:

- A letter of credit is amended to increase the notional amount,
- A letter of credit is amended to extend the term, and/or
- A letter of credit is auto-renewed per evergreen provisions.

2. How will this affect my evergreen or auto-renewal letters of credit?

Evergreen or auto-renewal letters of credit are letters of credit that automatically extend the expiration date of the letter of credit into the following year. If the auto-renewal date of an existing letter of credit is April 30, 2021, no stock will be assessed until the next auto-renewal date arises in the future. If the auto-renewal date of an existing letter of credit occurs on or after May 3, 2021, capital stock will be assessed at 0.10% of the current notional amount.

3. How will the activity stock requirement be assessed on letters of credit?

Capital stock will be assessed on a per-transaction basis. At the time of capital stock assessment, if your institution has available Class B2 membership/excess stock, the Bank will automatically reclassify that stock to Class B1 activity stock to support the transaction. If there is not enough available Class B2 membership/excess stock to support the transaction, you will need to purchase additional Class B1 activity stock. Members should have sufficient funds in their DID account for the capital stock purchase. If your institution does not have enough funds in your DID account, your institution will need to wire in funds for the capital stock purchase or overdraft fees will apply as described in our Member Products Guide.

If your institution's notional on a letter of credit decreases, and thus results in less required capital stock, the appropriate amount of Class B1 activity stock will be automatically converted to Class B2 membership/excess stock at the end of the day.

4. Does this impact fluctuating balance public unit deposit letters of credit?
All new letters of credit including fluctuating balance public unit deposit letters of credit will have capital stock assessed at 0.10% of the notional or credit amount outstanding on the letter of credit.

5. Will the deposit amount I attest to on fluctuating balance public unit deposits affect my capital stock requirement?
No, members will be charged capital stock based on the notional amount provided in the letter of credit, not the balance of the deposits that are collateralized by the letter of credit.

6. How will requiring capital stock improve the value of letters of credit? Is there a dividend impact?
By assessing capital stock on letters of credit, the dividend payment on that stock reduces the all-in cost of letters of credit. For the fourth quarter of 2021, FHLBank Chicago paid a 5.00% (annualized) dividend on B1 activity stock. Assuming this rate of 5.00% (annualized), and an opportunity cost of current interest on excess reserves (IOER), a benefit of 0.0049% can be realized. For example:

Letter of Credit Capital		**Benefit**
A.	B1 Dividend[1]	5.00%
B.	Opportunity cost (current IOER)[2]	0.10%
C.	B1 Activity Stock Requirement	0.10%
(A-B)*C	**Net Annual Dividend Benefit**	**0.0049%**

[1] Assumes a B1 activity stock dividend rate of 5.00% (annualized). This analysis assumes the dividend remains constant through the life of the letter of credit. Any future dividend payments remain subject to determination and declaration by the Board of Directors.
[2] Opportunity cost of stock purchase assumed at the Interest on Excess Reserves rate of 0.10% as of April 20, 2021.

The net dividend benefit illustrated above effectively lowers the cost of letters of credit by the following amounts:

Letter of Credit Type	Annual Fee	All-in after Dividend*
Public Unit Deposits	6.5 bps	6 bps
Fluctuating Balance Public Unit Deposits	6.5 bps	6 bps
Security Deposit with Government for Insurance Obligations	6.5 bps	6 bps

Bond Enhancement / Performance Guarantee	Community All Terms		Non-Community < 5 Years		Non-Community ≥ 5 Years	
Notional	Annual Fee	All-in*	Annual Fee	All-in*	Annual Fee	All-in*
< $1 Million	15 bps	14.5 bps	25 bps	24.5 bps	30 bps	29.5 bps
≥ $1 Million and < $3 Million	12.5 bps	12 bps	20 bps	19.5 bps	25 bps	24.5 bps
≥ $3 Million and < $5 Million	10 bps	9.5 bps	17 bps	16.5 bps	22 bps	21.5 bps
≥ $5 Million	7.5 bps	7 bps	15 bps	14.5 bps	20 bps	19.5 bps

*Reflects Class B1 activity stock dividend as a reduction of the regular letter of credit rate, assuming a 5.00% (annualized) dividend rate, an opportunity cost of buying stock, and 0.10% capitalization for illustration purposes only. Any future dividend payments remain subject to determination and declaration by the Board of Directors.

Stock Assessments on Mortgage Partnership Finance® (MPF®) Program Products

7. What will be the Class B1 activity stock requirement for MPF Program Products?

Only MPF Traditional products (which include MPF 125, MPF 35, MPF Original, and MPF Government) will require capital stock purchases. The Bank will require capital stock of 2% of the unpaid principal balance (UPB) of all loans funded into Master Commitments (MCs) executed on or after May 3, 2021. Required capital stock will be adjusted as the principal balance of these loans declines over time.

8. My institution has a MPF Traditional MC expiring on April 26, 2021, will we be required to purchase capital stock?

MPF Traditional MCs expiring prior to May 3, 2021 will not require capital stock. Only loans funded under new MPF Traditional MCs executed on or after May 3, 2021 will require capital stock.

9. My institution has a MPF Traditional MC expiring on June 23, 2021, will we be required to purchase capital stock?

The MPF Traditional MC expiring in June 2021 will not require capital stock, including for loans delivered under this MC after May 3, 2021. However, the Bank will not be extending these expired MPF Traditional MCs, and instead your institution must execute a new MPF Traditional MC. Loans funded under this new MPF Traditional MC will be assessed capital stock.

10. How are extensions on MCs going to work?
All existing MPF Traditional MCs expiring prior to May 3, 2021 will be extended for a maximum of eight months. All existing MPF Traditional MCs expiring on or after May 3, 2021 will not be extended and you must execute new MCs. Any new MPF Traditional MCs executed after May 3, 2021 will have a term of one year.

MCs for MPF Xtra® and MPF Government MBS will have terms of five years and will not require capital stock.

11. Can my institution get our MPF Traditional MC amended to increase the dollar amount?
Yes; MCs can be amended to increase dollar amounts up to annual PFI limits established by the Bank.

12. Will I need to purchase stock on MPF Xtra or MPF Government MBS loans sold?
No; capital stock will not be assessed on MPF Xtra or MPF Government MBS MCs.

13. Is the capital stock requirement based on UPB or original loan amount? Will it change over time?
Capital Stock will be assessed daily on the UPB of outstanding loans in each MPF Traditional MC. When the loan is sold to the Bank, stock will initially be calculated on the funded loan amount. Capital stock requirements for the MC thereafter will be recalculated daily based on the aggregate unpaid principal of the loans sold into the MC.

14. When will my institution be able to see changes to capital stock requirements on our MPF Traditional portfolio?
Capital stock will be recalculated at the end of the day to account for new loans acquired that day and any changes in balances of existing loans, although most changes to capital stock balances for existing loans will occur after our remittance day (presently the 18^{th} of the month, or business day prior).

If your institution needs to purchase more capital stock to support an increase in UPB in your MPF Traditional portfolio, available Class B2 membership/excess stock will automatically reclassify to Class B1 activity stock to support the transaction. If there is not enough available Class B2 membership/excess stock to support the transaction, you will need to purchase additional Class B1 activity stock. Members should have sufficient funds in their DID account for the capital stock purchase. If your institution does not have enough funds in your DID account, your institution will need to wire in funds for the capital stock purchase.

If your institution's UPB on MPF Traditional loans decreases, and thus results in less required capital stock, the appropriate amount of Class B1 activity stock will be automatically converted to Class B2 membership/excess stock at the end of the day.

15. How will the stock be assessed on new MPF Traditional delivery volume (i.e., transaction by transaction or monthly)?
Capital stock will be assessed for new delivery volume on a daily basis. At the end of

each day, FHLBank Chicago will total all MPF Traditional delivery transactions and calculate the required amount of stock. No matter how many loans are funded each day, there will be one true up on capital stock at the end of the day. What happens in the event your stock requirement changes is discussed in the previous question.

16. Will my institution need to wire in funds separately for capital stock on MPF Traditional delivery volume or will FHLBank Chicago take it from our FHLBank Chicago account automatically?
For MPF Traditional products, the amount of stock required will be calculated at the end of each day following loan delivery. For example, let's say your institution sold a $150,000 loan on February 1, 2021 at a premium of 3% with $100 of interim interest due. This transaction would normally show up in your DID account as three separate items (see sample DID transactions below):

Transaction Date	Transaction Name	Amount
February 1, 2021	MPF Loan 12345	$150,000
February 1, 2021	Premium of 3% on MPF Loan 123I45	$4,500
February 1, 2021	Interim Interest	($100)

After May 3, 2021, with the MPF Traditional stock requirement of 2%, $3,000 of capital stock will be required on your $150,000 loan. Your institution will still see the two credits for the loan amount and premium in your DID account, and your institution will also need to purchase capital stock. If your institution does not have any available Class B2 membership/excess stock which could be reclassified to Class B1 activity stock to support the MPF Traditional funding, a second debit, after interim interest, for $3,000 of capital stock will be shown (see sample DID transactions below):

Transaction Date	Transaction Name	Amount
June 1, 2021	MPF Loan 12345	$150,000
June 1, 2021	Premium of 3% on MPF Loan 12345	$4,500
June 1, 2021	Interim Interest	($100)
June 1, 2021	Capital Stock	($3,000)

17. What if I prefer to wire MPF Traditional funding credits out of my DID account same day before overnight processing credits my account?
This practice will no longer be allowed as it could create overdrafts in your institution's DID account. MPF Traditional capital stock assessment calculations will take place after the close of business and may require debiting your DID account. All MPF Traditional loan funding proceeds must be wired out the following day.

18. Are there benefits associated with holding capital stock to support MPF Traditional loans?
By requiring capital stock on MPF Traditional products, the dividend payment on that stock can create an extra benefit for participating in the MPF Traditional program. For the fourth quarter of 2020, FHLBank Chicago paid a 5.00% (annualized) dividend on Class B1 activity stock. Assuming this dividend rate of 5.00% (annualized) and an opportunity cost of 80 basis points creates a benefit of 0.08%. For example:

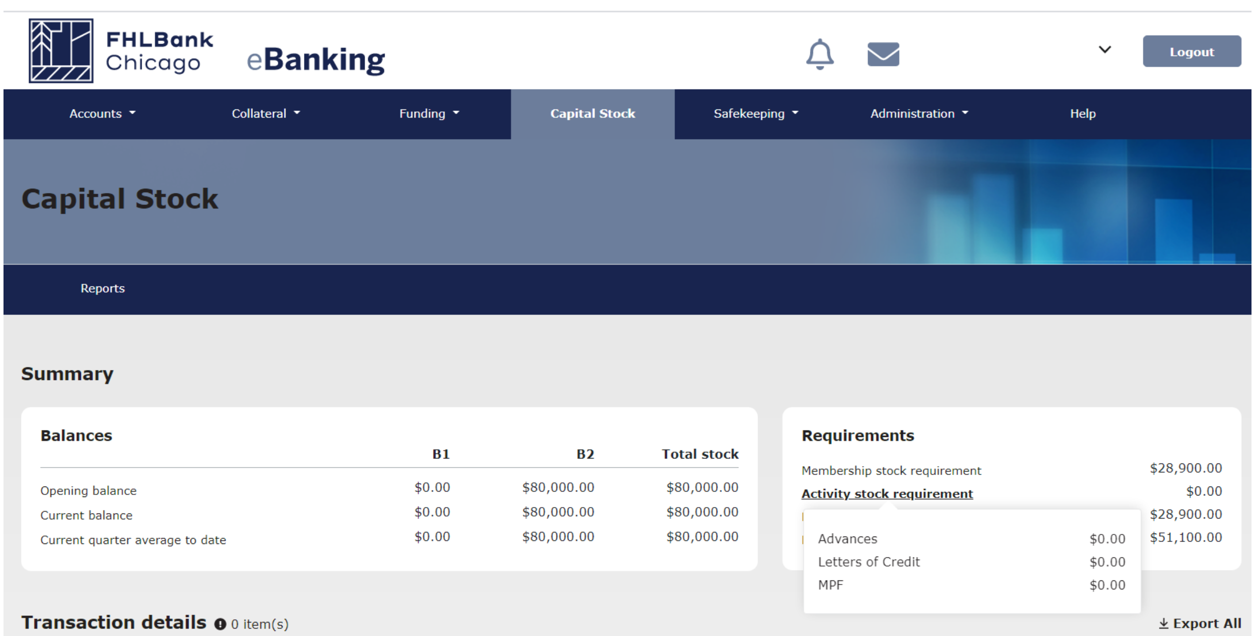
MPF Traditional Capital Requirement		Benefit
A	B1 Activity Stock Dividend[1]	5.00%
B	Opportunity Cost (5-Year Treasury[2])	0.80%
C	B1 Activity Stock Requirement	2.00%
(A-B)*C	**Incremental Benefit of Dividend**	**0.08%**

[1] Assumes a B1 activity stock dividend rate of 5.00% (annualized). This analysis assumes the dividend remains constant through the life of the loan. Any future dividend payments remain subject to determination and declaration by the Board of Directors.

[2] Opportunity cost of stock purchase assumed at the published Treasury rate closest to the WAL of the loan; as of 4/20/2021.

General Questions

19. How can my institution see how much stock we hold and which products the stock supports?
eBanking shows the amount of capital stock your institution holds and whether such stock is classified as Class B1 activity stock or Class B2 membership/excess stock. On the Capital Stock page of eBanking, members can hover over the "Activity Stock Requirement" to see which parts of the requirement are coming from Advances, Letters of Credit and MPF. An example can be seen below:



20. My institution does not wish to purchase capital stock for MPF Traditional products and/or letters of credit, how can we avoid it?
If your institution does not wish to purchase capital stock for letters of credit, it should not request the Bank to issue new letters of credit on your institution's behalf on or after May 3, 2021.

On or after May 3, 2021, your institution should not request the Bank to amend existing letters of credit by increasing the notional amount or extending the term of the letters of credit. For existing letters of credit subject to an auto-renewal or evergreen clause, your institution should request the Bank to exercise its non-renewal option ahead of any applicable deadlines to ensure that such letters of credit do not automatically renew under their own terms.

For MPF Traditional products, if your institution does not wish to purchase capital stock, it should not enter into any new MCs for MPF Traditional products on or after May 3, 2021.

21. My institution would like to purchase more capital stock; can we buy it prior to May 3, 2021?
The only way to acquire more Class B1 activity stock prior to May 3, 2021 is to utilize advance borrowings as the capital stock requirement for letters of credit and MPF Traditional products is not effective until May 3, 2021 and members are not permitted to purchase capital stock to support these activities prior to that date. If your MPF Traditional MC expires later in 2021 and you wish to participate in the new stock requirement sooner, you can request to execute a new MC earlier by contacting your Sales Director.

22. Why is FHLBank Chicago requiring capital stock for letters of credit and MPF Traditional products?
Over the last several years, our MPF Traditional products have provided our members with a unique and efficient secondary market channel for qualifying mortgage loans. These products have been highly popular and in order to maintain capacity to offer these products, we are requiring capital stock on them. Much like the MPF Traditional products, demand for our letters of credit over the last several years has been significant and, to ensure we can continue to support member demand for this product, we will also require capital stock on letters of credit.

23. Will these new stock requirements impact my institution's ability to request excess stock repurchases?
No. Requiring capital stock on MPF Traditional products and letters of credit will have no impact on your ability to request repurchases of excess stock. If your institution would like to request repurchase of excess stock, please contact the Member Transaction Desk at MTD@fhlbc.com.

Excess Stock Repurchases

24. Why is FHLBank Chicago conducting monthly automatic excess stock repurchases?
In 2019, we ceased our weekly excess stock repurchase process to provide operational efficiencies for many of our members electing to utilize advances on a regular basis. Over time though, the level of excess stock that we are retaining has grown. We cannot utilize excess stock to support the cooperative in the same way as membership and activity stock, so we need to balance the amount of excess stock we hold while

continuing to provide ease of use for our members.

25. How frequently will the Bank repurchase excess stock?
The Bank plans to repurchase excess stock on a monthly basis unless we elect to waive the repurchase in a given month.

26. How much excess stock can my institution hold?
The amount of excess stock a member will be able to hold is subject to change each month. In April 2021, we repurchased excess stock held by each member that exceeded the greater of $5 million or 25% of a member's minimum investment requirement not to exceed $50 million.

Your institution's minimum investment requirement is the greater of its activity stock requirement (stock required to support advances, MPF Traditional products and/or letters of credit) or its membership requirement (recalculated each year based on your mortgage-related assets).

The following is an example. Assume a member has a minimum investment requirement of $8M and excess stock of $6M. Following the limit described above, the member would be able to hold the greater of 25% of its minimum investment requirement (25% * $8M = $2M), or $5M in excess stock. Since $2M is below $5M, the $5M would be the maximum amount of excess stock this member can hold. Since the member has $6M in excess stock outstanding, $1M would be subject to repurchase.

Example	
Minimum Investment Requirement	$8M
Excess Stock	$6M
Limit – Greater of:	
25% of minimum investment requirement (capped at $50M)	(.25 x $8M) = $2M
Or $5M	**$5M**
Excess Stock Subject to Repurchase:	$6M-$5M = $1M

The following is another example, wherein the member has a minimum investment requirement of $300M and excess stock of $45M. Following the above described limits, this member would be able to hold the greater of 25% of its minimum investment requirement (25% * $300M = $75M) or $5M in excess stock. Note that the 25% of minimum investment requirement is subject to a cap of $50M. Since 25% of this member's minimum investment requirement is over $50M, they would only be able to hold $50M in excess stock. In this example the member had $45M in excess stock, resulting in no excess stock subject to repurchase.

Example	
Minimum Investment Requirement	$300M
Excess Stock	$45M
Parameter – Greater of:	
25% of minimum investment requirement (capped at $50M)	(.25 x $300M) = $75M, cap of **$50M**
Or $5M	$5M
Excess Stock Subject to Repurchase:	$45M<$50M = $0

27. My institution would prefer to keep our excess stock; can we opt out of the monthly repurchase?
Unfortunately members will not be able to opt out of the monthly repurchase process.

28. Can the Bank waive a monthly excess stock repurchase, and how will the Bank determine whether to waive a monthly excess stock repurchase?
Yes, the Bank may decide to waive a monthly excess stock repurchase. Up until one business day prior to the monthly repurchase date (the 15th of the month or next business day if the 15th falls on a holiday or weekend), an eBanking message center alert will be posted should the Bank choose to waive the excess stock repurchase for that month. The Bank will examine capital stock levels each month, taking into consideration a variety of factors, including regulatory requirements and guidance, when making its decision.

29. When will the monthly repurchase take place?
Unless waived, 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.

30. When will my institution know how much excess stock will be repurchased as part of the monthly repurchase?
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. Members will not receive a notification of the amount to be repurchased, but will be able to see the transaction in their DID account and on the capital stock pages and reports of eBanking at the open of business on the repurchase date.

31. Can I request excess stock repurchases in addition to the monthly excess stock repurchase?
Yes; 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 on any 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.

This document highlights 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 document 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.

Forward-Looking Information: This document contain forward-looking statements which are based upon FHLBank Chicago's current expectations and speak only as of the date hereof. All statements other than statements of historical fact are "forward-looking statements," including any projections or guidance of dividends or other financial items; any statements of the plans, strategies, and objectives for future operations; any statements of belief; and any statements of assumptions underlying any of the foregoing. 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. FHLBank Chicago cautions that, by their nature, forward-looking statements involve risks or uncertainties, 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 impact of the COVID-19 pandemic on the global and national economies and on FHLBank Chicago's, its members' and other third parties' businesses, maintaining compliance with regulatory and statutory requirements (including relating to FHLBank Chicago's dividend payments and retained earnings), any decrease in FHLBank Chicago's levels of business which may negatively impact its results of operations or financial condition, the reliability of FHLBank Chicago's projections, assumptions, and models on future financial performance and condition, instability in the credit and debt markets, economic conditions (including effects on, among other things, mortgage-backed securities), changes in mortgage interest rates and prepayment speeds on mortgage assets, FHLBank Chicago's ability to execute our business model and to pay future dividends (including enhanced dividends on activity stock), FHLBank Chicago's ability to meet required conditions to repurchase or redeem excess capital stock from members, including maintaining compliance with its minimum regulatory capital requirements and determining its financial condition is sound enough to support such repurchases and redemptions, FHLBank Chicago's ability to continue to offer the Reduced Capitalization Advance Program, FHLBank Chicago's ability to implement product enhancements and new products, the impacts of changes to Federal Home Loan Bank membership requirements, capital requirements and guidance, and liquidity requirements and guidance by the Federal Housing Finance Agency, the loss of members through mergers and consolidations, FHLBank Chicago's ability to protect the security of its information systems and manage any failures, interruptions, or breaches, uncertainties relating to the phase-out of the London Interbank Offered Rate (LIBOR), and the risk factors set forth in FHLBank Chicago's periodic filings with the Securities and Exchange Commission, which are available on FHLBank Chicago's website at fhlbc.com. FHLBank Chicago assumes no obligation to update any forward-looking statements made in this document.