

FEDERAL HOME LOAN BANK OF CHICAGO

2018 COMMUNITY LENDING PLAN

Executive Summary

Pursuant to 12 C.F.R. Sections 1290.6 and 1292.4, the Federal Home Loan Bank of Chicago (the “Bank”) presents its 2018 Community Lending Plan (the “Plan”) for the Bank’s district, which is composed of the states of Illinois and Wisconsin (the “District”).

The 2018 Plan consists of three parts: Part I - Mission; Part II - Market Research, Analysis, and District Needs; Part III - Initiatives and Goals for 2018.

I. Mission

The mission of the FHLB Chicago is to partner with its member shareholders in Illinois and Wisconsin to provide them with competitively priced funding, a reasonable return on their investment in the Bank, and support for community investment activities.

The Bank continues to build and expand a member-focused Bank by enhancing service to its members and increasing their utilization of its products and services. In response, and in support of the Bank’s mission, the Community Investment Group collaborates with the Bank’s Members & Markets Group and other areas of the Bank to increase outreach to members and community organizations. The Bank will continue to expand its outreach efforts in 2018, resulting in a deeper understanding of market conditions and District needs. By expanding its outreach, the Bank aims to (1) increase the visibility and understanding of Community Investment programs among its members and the District’s communities as a whole, (2) broaden utilization of its programs, (3) establish strategic partnerships with community organizations that help to further the Bank’s housing and economic development missions, and 4) design and implement voluntary community investment programs that support the housing and community development needs of the 7th District. Through this outreach, the Bank seeks to:

- Maximize each individual member’s value through CI product and services use,
- Increase sponsor capacity and utilization,
- Support housing and economic development with and through members,
- Provide high quality service, and
- Develop Bank staff to support Community Investment needs.

II. Market Research, Analysis and District Needs

The Bank will continue to monitor the current market conditions of its District and assess unmet credit needs and opportunities for community lending and affordable housing.

To remain relevant to the community development field and to ensure Community Investment programs are responsive to District needs, the Bank will consult with its Board of Directors, Community Investment Advisory Council, members, and public and private community

development organizations to identify District needs and to propose strategic actions and initiatives for its community lending and affordable housing programs. Community Investment staff will reference primary and secondary resources, and leverage the expertise of housing finance agencies and community development organizations, and will attend and participate in relevant workshops and conferences. Program users, both members and community organizations, will be solicited for feedback on their experience and satisfaction with the Bank's programs and services. On-going research and outreach with members, partners, and communities will enable the Bank to develop and offer programs that support District needs.

Market Conditions

National Economy

The Federal Reserve reported in its Beige Book that economic activity "expanded at a modest to moderate pace from early April through late May." Residential and non-residential construction activity was flat to expanding in most districts. Furthermore, most Federal Reserve districts reported low home inventory levels in certain market segments which were constraining home sales in many areas. In particular, the Federal Reserve Bank of Chicago reported, "Growth in economic activity in the Seventh District picked up to a moderate pace in late May and June and respondents' outlooks for growth over the next six to twelve months also improved some." Moreover, residential construction increased slightly across home types and locations. The Beige Book stated, "Demand varied by price range, with strong demand and tight inventories for homes under \$500,000 and modest demand and abundant inventories for houses over \$500,000."

Minutes from the Federal Open Market Committee's ("FOMC") June meeting reported that "the labor market has continued to strengthen and that economic activity has been rising moderately so far this year." In reference to shrinking the central bank's inflated balance sheet, the minutes reported FOMC participants should begin reducing it "relatively soon."

According to the Bureau of Labor Statistics, the unemployment rate edged higher to 4.4% in June, rising by one-tenth from its lowest level since May 2001. The ratio of unemployed job seekers to job openings decreased to 1.32, according to June's Job Openings and Labor Turnover Survey. This marks its lowest level since January 2001 when it stood at 1.12. Following the last recession, there were 6.2 unemployed workers per job opening. Meanwhile, the broader unemployment rate, which includes underemployed and discouraged workers, held steady from the prior month at 8.6% in June. The labor force participation rate rose to 62.8% in June from 62.7% in May. The participation index remains near its post-recession low as Baby Boomers retire and discouraged workers give up finding a job.

National Housing Trends

The U.S. housing market continued to improve in the first half of 2017; however, recent data suggests momentum has slightly slowed. Housing starts increased to their highest level since February in June, increasing to an annual rate of 1.215 million. The number of existing homes for sale continues to be volatile, while existing home sales hover near its post-recession high. The 30-year mortgage rate reversed the incline in the first three months of the year. Consumer confidence remains near its post-recession high in June despite modest declines in April and May.

Based on data from the Joint Center for Housing Studies of Harvard University's "State of the Nation's Housing 2017" report, growth in residential construction activity was moderate across several districts with an increase in nominal prices that helped reduce the number of homes that were underwater on their mortgage from 4.3 million in 2015 to 3.2 million in 2016.

U.S. Census Bureau data show housing starts unexpectedly increased by 93,000 to an annual rate of 1.215 million in June. The increase was mostly driven by a 15.4% surge in multi-family starts and a 6.3% increase in single-family starts. Multi-family starts increased after five months of declines. Construction had slowed during those months due to an influx of multi-family homes coming on the market. The supply of new homes is currently at 5.4 months in June, with six months considered a healthy supply.

According to the National Association of Realtors, existing home sales, which accounts for the vast majority of total home sales, rose to its third highest level in June since February 2007. The increase was driven by single-family sales advancing 1.0% and existing condo and co-op sales rising 1.6%.

The National Association of Home Builders Housing Market Index tracks growth in the single-family housing market. This index has trended upward since 2010. The increase is mostly driven by builders remaining more optimistic about the overall housing market. The index jumped from 60 in June 2016 to 66 in June 2017. By region, the Midwest rose at the fastest pace year-over-year, rising 23.64%. By comparison, the Northeast advanced 18%, the South is up 6.25%, and the West rose 2.90%.

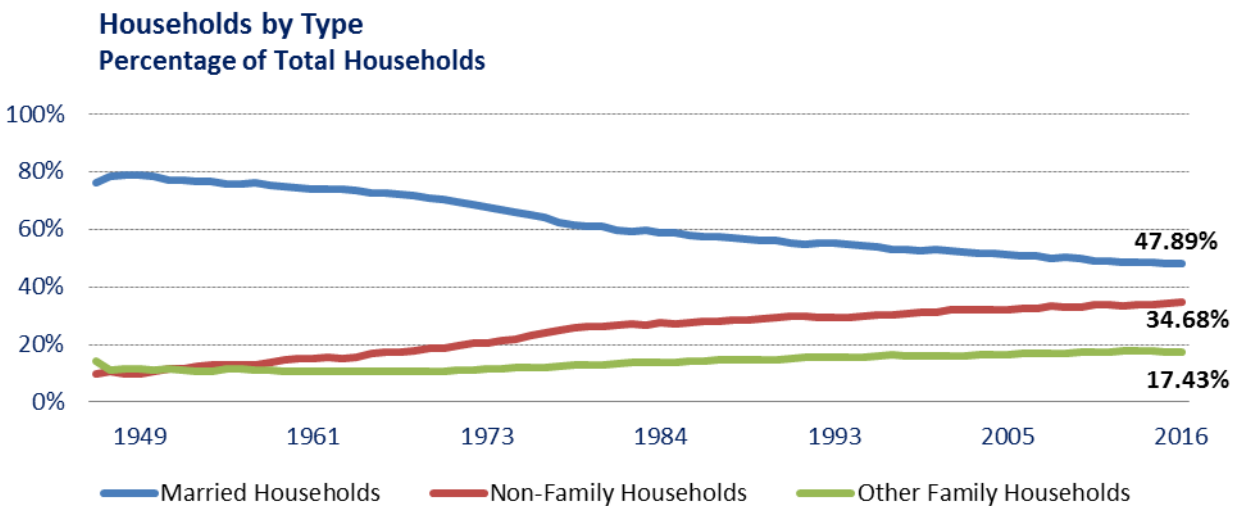
Single-Family Activity

The widening gap between new home supply and demand has contributed to an increase in house prices, which rose at an annual pace of 5.7% as of June, according to the S&P Case Shiller Home Price Index. According to Freddie Mac, the 30-year fixed-rate mortgage slipped to its lowest

level since November 2016, currently at 3.88% as of the week ending June 29th. The tightened supply has led to an inventory shortage in many metro areas throughout the U.S.

Based on data released from the U.S. Census Bureau in July, single-family housing starts rose 10.3% to an annual rate of 849,000 in June on a year-over-year basis. However, single-family housing starts are well below the 1.823 million pace last seen in January 2006. By region, single-family housing starts are up year-over-year in all areas with the exception of the Northeast, which saw an annual 19.2% decrease. On the other hand, single-family housing starts are up 22.4% in the West, 17.5% in the Midwest, and 8.5% in the South.

According to data from the U.S. Census Bureau, the formation of households by type is evolving. In 2016, the percentage of married households to total households stood at 47.89%, substantially lower than the 60.8% pace in 1980. Meanwhile, non-family households are trending upward to 34.68% in 2016, compared to 26.28% in 1980. With a substantial change in household type and low mortgage rates, homebuyers are coming back into the market. But barriers such as high student loan debt and credit worthiness are posing a problem for first time homebuyers.



Source: Census Bureau

In addition, the number of homeowners burdened by housing costs fell from 39.8 million in 2014 to 38.9 million in 2015, as reported by the 2017 State of the Nation Housing Report. A homeowner is considered housing cost burdened when they are paying more than 30% of their income toward housing costs. This rate fell, in part, due to low mortgage interest rates and cost burdened owners forced out of their homes due to foreclosures.

The assistance of loan programs that offer low down payment requirements are making it easier to get approved for a mortgage. The Freddie Mac Home Possible Advantage Program was designed to increase accessibility to mortgage funds by reducing down payment requirements to EC 3566452

3% and making low down payment lending available to borrowers with lower credit scores. Additionally, the Fannie Mae HomePath Ready Buyer program provides qualifying first-time homebuyers with up to 3% of the purchase price of the Fannie Mae-owned property in closing-cost assistance toward the purchase of a property in REO status. Similarly, Freddie Mac's foreclosure program, called HomeSteps, provides homebuyers with the opportunity to purchase a home without competition from investors for a property's first 20 days on the market.

Multi-Family Activity

Rental demand increased for the 12th consecutive year in 2016. However, growth may slow momentum as the share of households opting to rent appears to be stabilizing near 37%. Moreover, rental markets are tight despite the strong growth in multi-family construction. Based on data from the Housing Vacancy Survey, the rental vacancy rate was 7.3% in the second quarter of 2017, its highest level since the third quarter of 2015.

Proposed eliminations of the Community Development Block Grant (CDBG) and HOME programs from the 2018 Fiscal Year Budget would severely impact the development of affordable rental housing. The proposed elimination of these programs follows a series of budgetary cuts. While HOME had modest cuts in 2017, CDBG had total resource cuts of 45% in 2017. While proposed funding for the National Housing Trust Fund will nearly triple, it must be noted that this program is approximately 2% of the size of CDBG and HOME programming, which fails to mitigate the potential impact of eliminating these programs. Final resource allocations and availability have yet to be determined for 2018.

District Trends

Between 2015 and 2016, the U.S. Census Bureau reported that building permits for single-family and multi-family projects in the District increased from 36,364 to 41,877. Despite this increase in permits, building permit levels in both Illinois and Wisconsin have not rebounded to pre-recession levels established in the mid-1990s. Alongside increases in residential building permits, U.S. Census Bureau American Community Survey (ACS) five-year estimates show median home values decreasing from \$175,700 to \$173,800 in Illinois and \$165,900 to \$165,800 in Wisconsin. These estimates may seem to contradict FHFA House Price Indexes, which show both Illinois and Wisconsin maintaining steady prices, but they are corroborated by ACS estimates of expanding markets below \$100,000 and above \$1,000,000. This means that while median prices could remain steady or even decline, average prices could increase based on gains at the top of the market, where luxury homes could drive sales averages. One should also consider the impact of methodological differences between home values surveyed through the ACS and sales data collected by FHFA.

Population and Demographics

According to the January 2017 State of Illinois Forecast Report, Illinois' population contracted for a fourth consecutive year in 2015, declining 0.5%. In particular, population in the Chicago metro area slipped 0.7% in 2015, its first decline since the mid-1980s. Based on U.S. Census Bureau data, approximately 33% of Illinois' population aged 25 and above has at least a Bachelor's degree and 13% has a graduate degree. Both of these figures are above the U.S. average. Furthermore, the State of Illinois Forecast report stated, "Household formation should pick up as the labor market improves, but if domestic out-migration does not slow as quickly as anticipated the pace is likely to fall short of expectations."

In 2016, ACS One-Year Estimates for the District showed that median household income matched inflation, but income growth was uneven. The 2016 median household income in the United States was \$57,617 in 2016 dollars, compared to inflation-adjusted 2015 median household income of \$56,478. In Illinois, 2016 median household income increased slightly to \$60,960 in 2016 dollars, compared to 2015 median household income of \$60,340 (adjusted to 2016 dollars); Wisconsin 2016 median household income increased slightly to \$56,811 in 2016 dollars, compared to 2015 median household income of \$56,339 (adjusted to 2016 dollars). While Illinois median household income growth matched the United States, Wisconsin median household income fell slightly compared to the national median.

In 2016, approximately 41.8% of Illinois households earned less than 80% of the statewide median income, and 24.9% of Illinois households earned less than 50% of the statewide median income. These figures remain stable from 2015, when 40.3% of households earned less than 80% of statewide median income and 24.9% of households earned less than 50% of statewide median income. Wisconsin households earning less than 80% of AMI and 50% of AMI averaged 39.7% and 23.3% of total households, respectively, between 2010 and 2014.

Housing

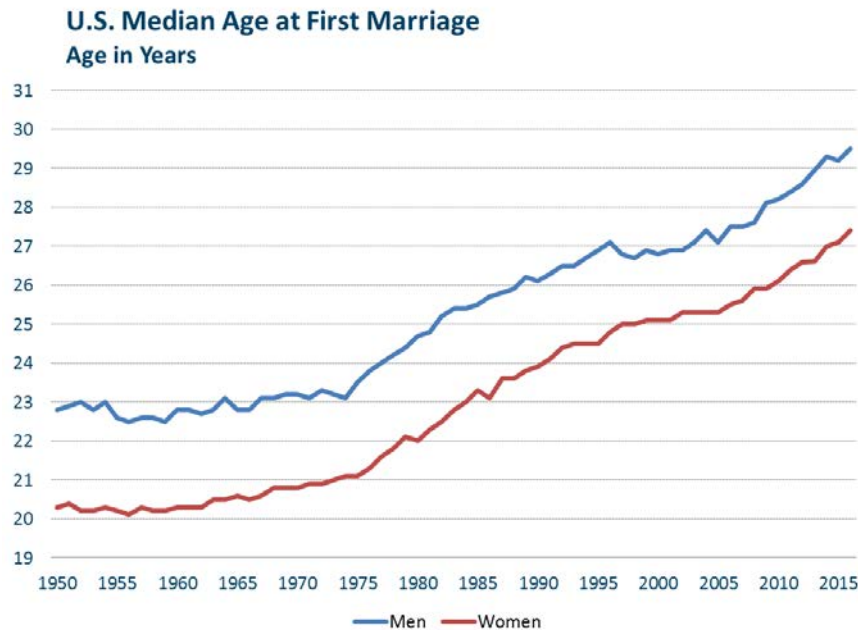
Housing Units

According to the U.S. Census Bureau, housing starts increased to an annualized seasonally adjusted level of 1.215 million in June 2017, which is much better than the all-time low of 478 thousands units in 2009, but still lagging the all-time high of 2.273 million units in 2006. Housing starts have been volatile since 2013 and are only up 2.1% year-over-year. Historically, there has been a high correlation between an improving labor market and rising housing starts levels. A lower level of housing starts relative to housing demand for the last few years has reduced the overall supply of homes. According to the National Association of Realtors, the supply of existing homes is slowly trending downward to 4.3 months' worth of supply in June

EC 3566452

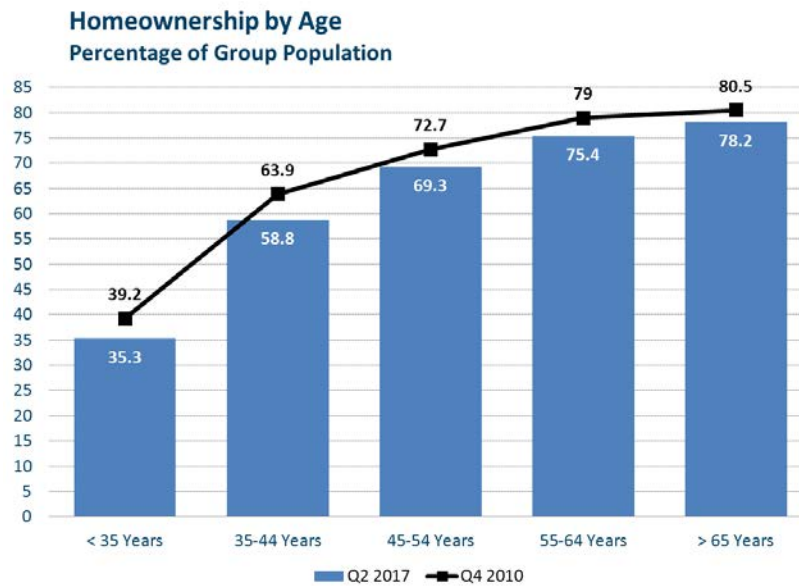
2017. This is significantly less than the 11.9 months' worth of supply during the last recession. Six months of supply is considered a healthy inventory of homes to satisfy demand.

Data from the U.S. Census Bureau show household formation has been slow in recent years due to the rising age of couples entering first marriages and weak consumer finances following the recession. The U.S. median age at first marriage is 29.5 for men and 27.4 for women as of 2016.



Source: U.S. Census Bureau

The homeownership rate continues to be highest among older home owners. However, the trend may start to move downward as Baby Boomers retire and opt to rent. Moreover, homeownership rates are likely to remain low for Millennials due to the high burden of student debt. By region, homeownership rates are mostly evenly distributed. However, both the Northeast and the West remain below the United States average in the second quarter of 2017 according to Freddie Mac data. Further, Freddie Mac data reflect mortgage rates that are reversing the increase seen in the first quarter of the year, recently declining to 3.88% as of June 29 and nearing the lows seen last year.



Source: U.S. Census Bureau

Home Sales and Median Home Prices

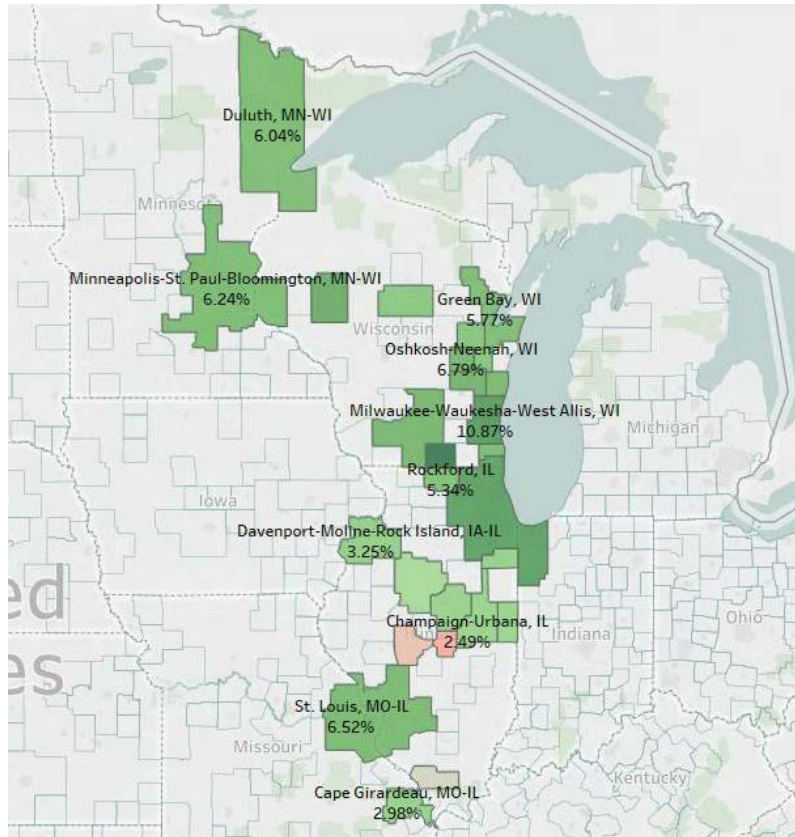
Existing home sales, which account for the vast majority of total home sales, increased to 5.52 million in June 2017. By contrast, the number of existing homes for sale totaled a 1.96 million annual pace in June 2017, a 7.11% annual decrease. While mortgage rates continued to move lower, existing home sales are only up 0.73% year-over-year. However, despite the monthly fluctuation, the trend remains higher compared to the all-time low of 3.45 million in 2010. Low mortgage rates should spur more home buying in upcoming months as consumer confidence remains high.

The June S&P Case-Shiller Home Price Index showed that home prices are up 5.7% year over year. However, most gains remained in the South and West, which were the areas hardest hit by the housing bubble. Seattle, Portland, Dallas, Denver, and Detroit reported the highest annual gains among the 20 cities in June. Seattle rose at the fastest pace, jumping 13.4% year over year. Closely following, Portland was up 8.2%, and Dallas rose 7.7%.

By metropolitan area in Wisconsin, Madison and Milwaukee saw a housing bubble similar to other Wisconsin metropolitan statistical areas (MSA), though the decline was less severe. Eau Claire and Janesville-Beloit are leading the state in year-over-year home price gains while Green Bay is approaching the state average of 6.0%, according to Freddie Mac data.

In Illinois, the Chicago area saw a larger housing bubble compared to other Illinois MSAs, and the decline was more severe. Most major Illinois metropolitan areas have experienced increased home prices in recent months. Rockford area home prices have increased at the fastest pace, EC 3566452

rising 5.34% as of June 2017. Home prices in Chicago have risen 3.2% from one year ago. See Illinois and Wisconsin Metro Area Home Price charts below:



Source: Freddie Mac

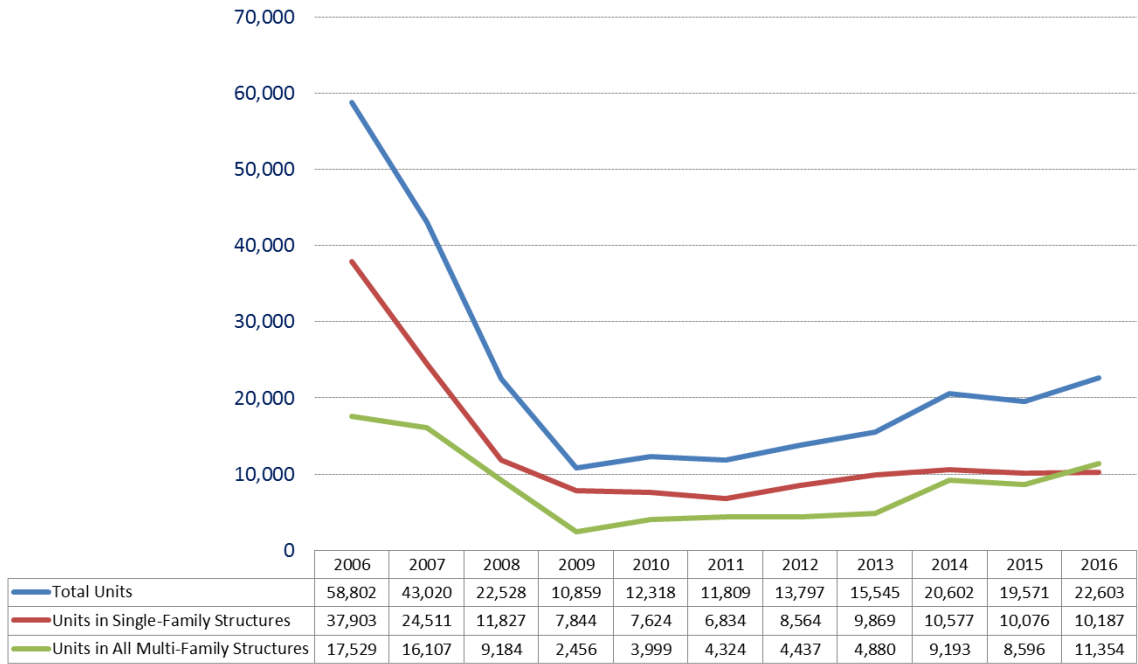
Building Permits

According to the U.S. Census Bureau, building permits jumped 5.1% year-over-year in June 2017 to an annual rate of 1.254 million. The increase was mostly driven by a 14.6% jump in multi-family units.

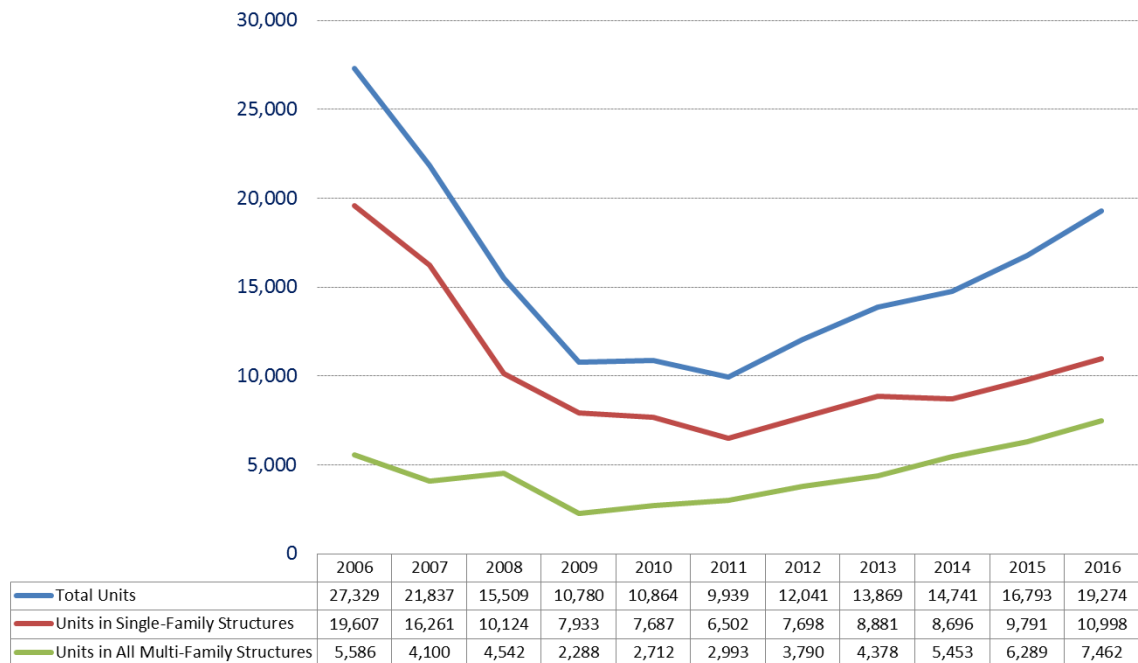
Building permit data from the Census Bureau shows that new, authorized privately owned housing units totaled 186.1 thousand in the Midwest in 2016. Within this region, Illinois had the highest number of permits at 22,603. Multi-family building permits made up the majority of the total. Despite the recent uptick in Illinois building permits, 2016 levels remain well-below pre-recession levels, when building permits totaled 47,709 in 2005, as well as pre-Housing Bubble permit totals of 47,467 in 1995. Meanwhile, Wisconsin totaled 19,274 building permits. Unlike Illinois, the majority of Wisconsin building permits are due to single-family units. Building permit activity in Wisconsin has not suffered as severely as in Illinois following the last recession. See Illinois and Wisconsin Historic Building Permits charts below:

EC 3566452

Historical Illinois Building Permits



Historical Wisconsin Building Permits



Source: Bureau of Labor Statistics

Employment

EC 3566452

The June non-farm payroll employment report from the Bureau of Labor Statistics showed that U.S. payrolls grew above expectations, rising 222,000 employees for the month compared to consensus expectations of a 178,000 gain. Revisions to non-farm payrolls in April and May resulted in a higher employee gain of 47,000, with April showing a gain of 207,000, compared to the initial 174,000, and May showing an increase of 152,000 versus 138,000.

As of June 2017, the three-month moving average of payroll growth jumped by 57,000 to 194,000, more than reversing the prior month's decrease. Likewise, the six-month moving average increased modestly to 180,000, from 169,000 in May.

Within the 222,000 increase, education and healthcare rose at the fastest pace, adding 45,000 jobs in June. Leisure and hospitality advanced 36,000 from the prior month, and professional services and government both added 35,000 jobs to payrolls.

Based on the Bureau of Labor Statistics Job Openings and Turnover Survey, 3.1 million people quit their jobs in June, a 2.25% decrease for the month, pushing the quits rate lower by one-tenth to 2.1%. By region, the quits rate was unchanged in the Northeast and West, but edged lower in the South and Midwest. Moreover, there were 1.7 million layoffs and discharges in June, its highest level since May 2016 when it was 1.741 million. The layoffs and discharges rate was 1.2%.

In particular, Illinois added 8,600 jobs month-over-month to payrolls in June 2017, up 0.9% from twelve months ago. Year-over-year employment rose at the slowest pace in Illinois compared to other U.S. states. On a year-over-year basis, professional and business services advanced 0.85%, and leisure and hospitality increased 1.55% from one year ago. On the other hand, employment in the construction industry slipped 0.78% year-over-year.

Likewise, Wisconsin payrolls grew 1.32% year-over-year as of June, according to the U.S. Bureau of Labor Statistics. By industry, employment expanded 1.70% in the manufacturing sector; 0.80% in the trade, transportation, and utilities sector; and 0.90% in the professional and business services sector.

As the unemployment rate hovers near its post-recession low, Illinois and Wisconsin payrolls continue their upward trend. This suggests a large number of people are entering the labor force. This is a positive sign for the labor market and economic growth.

While payroll growth has improved in both Illinois and Wisconsin over the last several years, both states lag behind their neighbors. Iowa, Indiana, Michigan, and Minnesota have all seen larger gains in payrolls since 2011. This slower payroll growth in both Illinois and Wisconsin suggests people are leaving the workforce or have given up looking for work.

EC 3566452

Unemployment

Throughout the recovery, Wisconsin has been showing improving employment figures, a lower unemployment rate, and an increase in non-farm payrolls. In contrast, Illinois continues to suffer from stagnant wage growth, and more volatility in year-over-year change in non-farm payrolls, in all metro areas. However, in recent months, the Wisconsin and Illinois tales have started to move in tandem.

The unemployment rate in Wisconsin has been below that of both Illinois and the nation during the recession and subsequent economic recovery. Illinois has seen a decrease in unemployment year-over-year from 5.9% in June 2016 to 4.7% in June 2017. In contrast, the unemployment rate in Wisconsin has consistently fallen month-over-month since 2009. The rate is down to its lowest level since October 1999, when it was also 3.1%.

Despite unemployment rates remaining high in most metro areas of Illinois, Danville is the only metro area to have an unemployment rate above 6% as of June 2017, according to the U.S. Bureau of Labor Statistics. All metropolitan areas have seen improvement in the last year with Chicago's unemployment rate falling at the fastest year-over-year pace. Elsewhere, jobless rates in Bloomington and the Quad Cities both decreased 0.9 percentage points to 4.4% and 4.5% respectively.

Wisconsin metro areas have seen steady improvement in unemployment in recent months, with most areas near or below the state average. The Racine, Milwaukee, and Janesville areas have shown the largest drop in unemployment in the past 12 months out of all MSAs in Wisconsin. As of June 2017, Madison has the lowest Wisconsin metro area unemployment rate at 2.7% while Racine has the highest at 4.2%.

Programs and Policy

Funding for affordable housing programs has been constrained in Illinois. An ongoing budget impasse has resulted in the temporary defunding of a number of critical housing programs for the homeless, according to Housing Action Illinois. The budget impasse has also raised questions about the current availability and ongoing viability of the Illinois Affordable Housing Trust Fund and the State Donation Tax Credit. The Illinois Housing Development Authority's (IHDA) 2016 Comprehensive Housing Plan reports that the demand for its Trust Fund regularly exceeds its availability in Illinois.

Wisconsin has fewer housing resources available at the state level for the development of affordable housing than Illinois, and does not offer State Donation Tax Credits or have a trust

EC 3566452

fund to finance affordable housing projects. Unlike Illinois, however, Wisconsin does provide a tax credit for qualified historic rehabilitation projects, which is an important funding source in many affordable housing projects.

In both Illinois and Wisconsin, limited soft funds make Low Income Housing Tax Credit (LIHTC) 4% bond deals targeting lower-income households challenging in the absence of project-based rental assistance.

IHDA's 2016 Annual Comprehensive Housing Plan and 2016-2017 Qualified Action Plan (QAP) identified several focus areas that outlined Illinois's priorities, including: revitalizing communities impacted by foreclosures; increasing homeownership; maintaining the preservation of affordable housing; and creating additional permanent supportive housing as state institutions are closed in favor of integrating special needs populations into community-based living facilities. IHDA also prioritized housing development projects located near job centers and transportation.

The Wisconsin Housing and Economic Development Authority's (WHEDA) 2015-2016 QAP reflects similar efforts, including: prioritizing the preservation of existing affordable rental housing; creating supportive housing; and developing housing near employment centers.

Additional objectives put forth in the QAPs point to concerns regarding housing development, with both housing authorities emphasizing historical preservation and green standard initiatives as important development practices.

Community Development Financial Institutions (CDFI) – Providing Access to Affordable Financial Products and Services

The CDFI industry has grown and transformed over its more than 20 year history to be an important resource in providing access to affordable financial products and services that meet the unique needs of economically underserved communities. CDFIs include community development banks and credit unions, and non-regulated institutions such as non-profit loan funds or venture capital funds.

Primary Sources of Funding

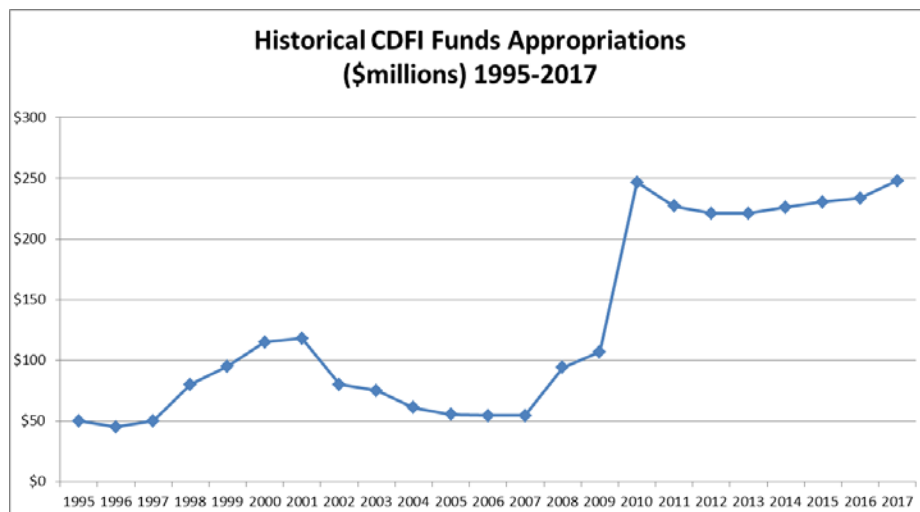
CDFIs are private sector-organizations that attract capital from both private and public sources. Private sector funds come from sources such as corporations, individuals, religious institutions, and private foundations. Depository CDFIs (like community development banks and community development credit unions) get capital from customers and non-member depositors. CDFIs also work in partnership with conventional financial institutions to channel private investment into

EC 3566452

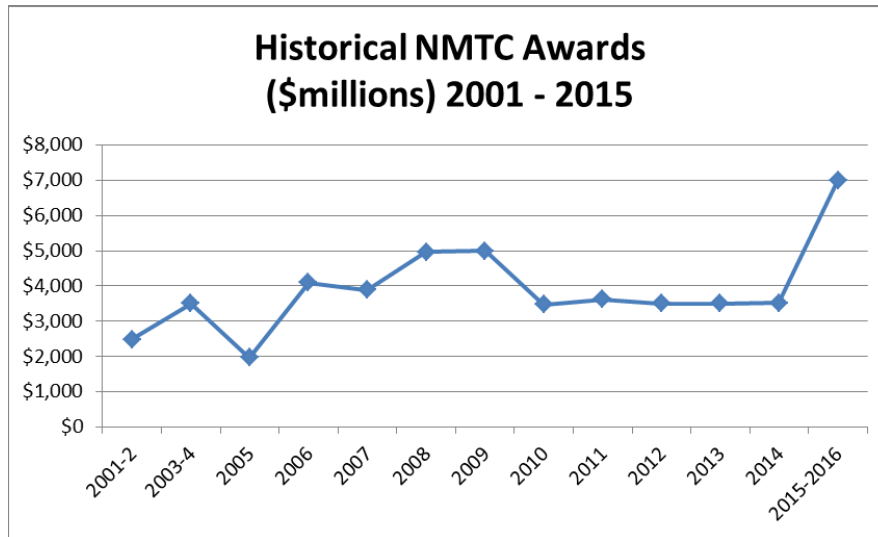
distressed communities, either through direct investment in the CDFI or through coordination of lending, investment, and other services.

Membership in the Federal Home Loan Bank system also provides non-depository CDFIs access to long-term funding which can support their housing and economic development mission in low- and moderate- income communities. Based on Federal Housing Finance Agency data as of 2016, non-depository CDFI membership in the system has increased slightly from 41 in 2015 to 45 in 2016. Total outstanding advance balances were approximately \$114.5 million in 2015, increasing to \$121.7 million in 2016. *(Source: 2016 Low-Income Housing and Community Development Activities of the Federal Home Loan Banks).*

A crucial source of support for CDFIs is the federal CDFI Fund, administered by the Department of the Treasury. The CDFI Fund makes capital grants, equity investments, and awards to fund technical assistance and organizational capacity-building. The New Markets Tax Credits Program, initiated in 2002 and administered by the CDFI Fund, encourages private sector investment by offering tax credits for qualified community development investments. CDFIs use the money awarded through CDFI Fund programs to leverage private-sector resources into distressed communities. *(Source: CDFI Coalition)*



Source: CDFI Coalition (data points)



Source: CDFI Fund (data points)

District Impact

Based on CDFI Fund data as of September 30, 2017, there are 1095 certified CDFIs. Illinois has 35 CDFIs (15 non-depository and venture capital funds), and Wisconsin has 22 CDFIs (15 non-depository loan funds). District CDFIs that have been awardees of the CDFI Fund have been able to deploy \$1.4 billion in loan proceeds and \$1.04 billion in New Markets Tax Credit investments in Illinois and \$1.5 billion in loan proceeds and \$1.4 billion in New Markets Tax Credits in Wisconsin.

Priorities

In order for CDFIs to continue to support economic opportunity in underserved markets, several federal policy priorities are being monitored. This includes maintaining appropriations from the Federal Government at current levels to finance award programs, continuing funding of the CDFI Bond Guarantee Program guarantee authority, authorizing the New Markets Tax Credit program permanently with expanded access to CDFIs, as well as increasing access to other federal programs.

III. Initiatives and Goals for 2018

The Bank continues to support the following strategic goals:

- Building a member-focused Bank, which involves all areas of the Bank coming together to deliver excellent products and services to its members;
 - Increasing the value proposition for members by building new relationships with members, expanding training, and using market research to inform development and expansion of programs;

EC 3566452

- Efficiently delivering products and services to members and sponsors using new systems and processes, better articulating policies and program guidelines, and leveraging expertise;
- Conducting business operations in a more efficient and cost effective manner by building and implementing a strategic reporting framework and program systems.
- Building the MPF business, which is rapidly becoming accepted by most of the other FHLBanks as the mortgage aggregation platform for the System.

Diversity and Inclusion

As part of its strategic goals, the Bank is engaging in activities to strengthen and solidify its position on diversity and inclusion (D&I). The Bank's focus is to create a culture where D&I is embedded in our employees' thought processes, in every aspect of our jobs. We strive to build D&I into the Bank's DNA.

By creating and sustaining a diverse workforce and inclusive environment, we can ensure that our members will continue to receive superior service, as studies show that D&I enhances employee creativity and provides improved business results. A diverse workforce also better represents all of the communities we serve.

Integrating D&I into every business practice, from hiring and promoting our staff to making supplier decisions, proves that the FHLBC believes D&I provides a competitive advantage. Embracing this philosophy and supporting an inclusive culture will increase the trust and respect of our employees, our members, and their customers. It will show us alternative viewpoints and perspectives, thus allowing us to design the best possible solutions.

Community Investment will contribute to the Bank's vision, focusing on the following three areas with corresponding metrics. Although not defined as quantitative goals, success is defined through increasing the Banks's

- Member utilization of the Bank's Community Investment products through reaching new markets and targeted outreach to Minority Deposit Institutions and non-depository community development financial institutions,
- Member participation in Community Investment training and related activities, and
- Active outreach (e.g., presenting, exhibiting, etc.) at programs hosted by organizations that serve diverse populations of where the majority of the attendees are from diverse populations.

These goals and metrics are described in more detail as they pertain to the following initiatives. All Bank related performance data is as of June 30, 2017 unless otherwise noted.

A. Affordable Housing Programs (“AHP”)

1. Competitive Affordable Housing Program

Members may apply for funds on behalf of community projects, which the Bank awards through a competitive process. Member institutions are encouraged to work with not-for-profit organizations, for-profit entities, and public agencies in developing AHP applications for the acquisition, construction, and/or rehabilitation of rental or owner-occupied housing.

The Bank prioritizes projects that address market needs by awarding points in the Competitive program that include the following activities:

- Elimination of blight through the development of foreclosed and vacant properties and infill sites;
- Support of homeownership;
- Preservation of existing rental and owner-occupied housing;
- Development and preservation of permanent supportive housing.

Over the past five years (i.e., 2012-2016), the Bank has awarded almost \$134 million to construct, rehabilitate, and/or acquire 15,007 housing units. Of the total awarded, \$55.7 million went to 120 projects in Illinois, while \$66.1 million went to 183 projects in Wisconsin. The remaining \$12.1 million was awarded to 26 projects outside of the Seventh District.

The 2017 competitive round has an allocation of approximately \$24.6 million compared to \$25.5 million in 2016. For 2017, 117 applications were submitted by 55 members and 84 sponsors. The applications requested almost \$61 million in AHP subsidy to construct, rehabilitate, and/or acquire 6,231 housing units. Reviews are ongoing as of the writing of this plan.

2018 AHP
Qualitative Goal
Complete internal review of AHP applications in a timely manner and announce awards in the fourth quarter.
Diversity and Inclusion Metric
Number of members with submitted applications.

2. Set-Aside

Downpayment Plus[®] and Downpayment Plus Advantage[®] (collectively, “DPP[®]”) offer members easy-to-access down payment and closing cost assistance programs for low- and moderate-income home buyers.

Since 2012, the DPP program has assisted 12,658 households with down payment grants totaling \$84.6 million. Over that period, Illinois received \$50.3 million while Wisconsin received \$30.9 million to provide down payment assistance to 7,533 and 4,565 households, respectively. The remaining \$3.4 million assisted 560 households to purchase homes outside of the Seventh District.

A total of 255 members have enrolled in 2017 (as of this writing), a slight increase from 253 in 2016. Demand for DPP was steady in 2017; utilization of all funds will result in approximately 2,900 households assisted.

2018 DPP
Quantitative Goal
195 members with submitted reservations.
Diversity and Inclusion Metric
Number of members with submitted reservations.

B. Community Advances and Letters of Credit Program

The Community Advances program offers discounted advances and standby letters of credit to fund affordable housing development for low- and moderate-income households, and to help develop and revitalize communities. As a result of the discount, the member and its customer may realize an interest rate savings that lowers the overall cost of the transaction.

Since 2012, Community Advances have totaled \$2.3 billion, which consists of over \$619 million in economic development advances, \$1 million for mixed use and \$1.7 billion for affordable housing. The majority of economic development projects submitted over the past five years have been commercial and agricultural. For housing, Community Advances have supported 18,196 housing units, including 14,464 owner-occupied units and 3,732 renter-occupied units with 55% supporting units at or below 50% AMI.

Illinois Community Advances activity since 2012 totaled \$680.1 million, which consisted of \$483 million for economic development and \$198 million for affordable housing advances. The largest categories of projects qualifying for economic development included commercial and agricultural. For housing, the Community Advances have supported 4,699 housing units, including 1,586 owner-occupied units and 3,083 renter-occupied units with 55% supporting units at or below 50% AMI.

Wisconsin Community Advances activity since 2012 totaled \$1.7 billion, which consisted of \$136 million for economic development and \$1.5 billion for affordable housing advances. The largest categories of projects qualifying for economic development included agriculture and commercial. For housing, Community Advances have supported 13,497 housing units, including 12,878 owner-occupied units and 619 renter-occupied units with 18% supporting units at or below 50% AMI.

Community Investment continues to be a resource for the Members and Markets Institutional Sales team. Community Investment staff in conjunction with Sales

Directors provide members an overview of Community Advances program advantages as well as guidance on specific transactions.

2018 Community Advances
Quantitative Goal
20 members with approved applications.
Diversity and Inclusion Metric
Number of members with approved applications.

C. **Voluntary Programs**

1. **Community First® Fund (“Fund”)**

In January of 2012, the Bank began the planning phase for a new revolving loan fund, which was charged with the mission of providing access to capital that supports meeting economic development and affordable housing needs in communities within Illinois and Wisconsin. In June of 2014, the Fund was formally implemented with the closing of its first loan. The Fund assists communities experiencing the challenge of market conditions and access to capital that have resulted in an unstable housing market and loss of jobs. It is intended to provide opportunities to support housing markets, business development, and expansion that will result in more vital, sustainable communities.

The strategy for the Fund is to provide capital financing to community development intermediary organizations (“partners”) through longer term, unsecured loans. The Bank uses the Fund to provide flexible financing solutions to partners that, in turn, finance or invest in affordable housing, commercial real estate, community facilities, or businesses. This strategy leverages the expertise and deep knowledge of partners working in, and with, the diverse communities in the District. Partners may include community development financial institutions, community development loan funds, or state housing finance agencies. Community development intermediary organizations working at the regional and national levels, which have a footprint in the District, may also be eligible. Member involvement is a critical objective, but not necessarily a determining factor. Geographic distribution is weighed, although the Bank has put greater emphasis on need and impact.

The Fund’s critical objectives are to maximize community impact, achieve a member nexus, support partner and member opportunities in rural, urban, and suburban areas,

and promote the Fund's impact and achievements to the Bank's members and the communities they serve.

The Bank began the evaluation and selection of partners through a request for information in the fall of 2012. This was followed by a request for proposal in the spring of 2013. Initial proposals were reviewed throughout 2013 and 2014. This included the underwriting and eventual funding of the first loan partner in June 2014. The Bank continues to review submitted proposals and solicit new candidates that meet the objectives of the Fund. As of June 30, 2017, the Bank had committed \$44 million to nine partners, with approximately \$24.25 million being deployed in Illinois and \$19.75 million in Wisconsin to support affordable housing projects, small business entrepreneurs, and community initiatives in local neighborhoods. Current partners include organizations working exclusively in Illinois or Wisconsin, as well as regional and national organizations utilizing Fund proceeds in the District.

The continued pace of Fund implementation, partner selection, underwriting, and funding will be governed by safety and soundness.

2018 Community First [®] Fund
Qualitative Goal
Continue to evaluate candidates governed by safety and soundness.
Diversity and Inclusion Metric
Number of members participating with CFF partners (member nexus).

2. Community First[®] Capacity-Building Grant Program

The Bank launched a new voluntary program in 2017 to support the growth of nonprofit, non-depository lending institutions supporting affordable housing and economic development in Illinois and Wisconsin. After research and discussions with community development lending institutions, it was determined that the Bank, through its members, can best support these efforts by providing community development intermediary organizations with grants to support their operational capacity.

Eligible uses of Community First Capacity-Building Grants include:

- Market research to expand existing programs
- Professional development of staff
- Creation or expansion of a strategic plan for the organization

- Improvement of lending policies and procedures
- Enhancements to management and information systems
- Improvements to lending portfolio and financial reporting
- Development of mission-related outcomes reporting

Only nonprofit lenders in the Bank's district of Illinois and Wisconsin were eligible for consideration. Evaluations were based on each organization's mission, strength, strategy to increase community development lending within Illinois and Wisconsin, and proposed uses for the grant funds.

Through its member financial institutions, the Bank provided grants to help qualifying nonprofit community development loan funds, community development financial institutions, and community development corporations with lending programs build their financial, operational, and human capital. In 2017, \$250,000 was granted through this program to six nonprofit lending institutions in Illinois and Wisconsin.

2018 Capacity-Building Grant Program
Qualitative Goal
Solicit, evaluate, and award non-profit community development financial institutions with financial support to enhance operational capacity.
Diversity and Inclusion Metric
Number of organizations submitting applications.

3. Community First® Disaster Relief Program

The Community First® Disaster Relief Program is designed to offer direct disaster relief funding to the Bank's members and the communities they support. Disaster relief funding is provided by the Bank and administered directly through member financial institutions to communities in designated disaster areas. Financial assistance is designed to address the specific needs of the District based on the impact of the declared disaster. This includes assistance to homes and/or businesses in the affected communities.

Although an event may be declared a disaster by FEMA, the determination to provide assistance, programs offered, eligibility requirements, where funds can be utilized, and program availability is governed by the Bank. In the event of a FEMA-declared disaster, funding availability, as authorized by the Bank's Board of Directors, will be

announced on the Bank's public website and through targeted communications to members.

The Bank has allocated \$1million to this program since its inception in early 2014. \$500,000 in grants was distributed to support families and businesses that suffered losses across more than a dozen central Illinois communities impacted by tornadoes and severe winds in November 2013. \$378,000 in grants was distributed to support families and businesses in communities in northern and western Wisconsin, including tribal lands, that suffered losses due to heavy rains and flooding in July and September 2016.

2018 Disaster Relief Program
Qualitative Goal
If a FEMA declared disaster occurs in the District, Community Investment will coordinate efforts with the Executive Team and Board of Directors to evaluate the needs and make a determination for assistance. If funding is made available, Community Investment will work with Communications and other areas of the Bank to develop awareness and utilization of the program by member institutions.

4. Community First® Awards

The Community First® Awards were established in 2009 to recognize outstanding achievement in affordable housing and/or community economic development by a member bank and a not-for-profit community organization working in partnership to revitalize communities in Illinois or Wisconsin.

The 2017 Community First® awards were presented in conjunction with the Bank's regional membership meetings. Four awards were made in the following categories: Partnership, Project or Program, Pioneer, and Emerging Leader. Nominations will be accepted in 2018 in these same four categories.

5. Community First® Newsletter

Community Investment published the first quarterly edition of the Community First® newsletter in October 2008. The newsletter continues to highlight member activities successfully utilizing the Bank's community lending and affordable housing products.

The Bank began publishing the newsletter bi-monthly in 2013 and will continue to do so through 2018. It will be electronically distributed to over 6,700 interested parties –

a 28.8% increase when compared to 2016. It will continue to feature program updates and guidance, information about the Community Investment Advisory Council, groundbreakings and ribbon-cuttings, and community development trends within the District.

D. Other Community Programs

1. Financing to Small Business Investment Companies

The Bank partners with the SBA in providing "Just-in-Time" funding to over 300 Small Business Investment Companies ("SBIC's). Through the "Just-in-Time" funding program, the Bank makes bridge financing available to SBICs in support of their small business initiatives, until longer-term financing can be arranged by the SBA. The SBIC securities purchased by the Bank are guaranteed by the SBA, which carries the full faith and credit of the U.S. Government.

The Bank also worked with the SBA in the development of the Low- and Moderate-Income ("LMI") Debenture Program. Through this program, the Bank provides long-term funding to SBICs that invest in, and provide management expertise to, small businesses that operate in low- and moderate-income areas, or that provide employment opportunities to low- and moderate-income individuals. LMI debentures are privately placed with the Bank, are guaranteed by the SBA, and have payment and prepayment features customized to assist the SBIC. These securities have a term to maturity of 5 or 10 years.

In 2009, the Bank added an investment program for SBA 10-year Rural Business Investment Company ("RBIC") debentures. The Rural Business Investment Program ("RBIP") is a joint initiative between USDA and the SBA. The RBIP was created to promote economic development and job creation in rural areas. The 10-year RBIC debentures have a similar structure to the 10-year LMI debentures.

In 2012, the Bank signed new agreements with the SBA to add Energy Saving Debentures and Early Stage Debentures to the LMI Debenture Program. The purchase of these securities by the Bank provides long-term funding to new types of small businesses operating in the energy field and providing start-up capital funding at a very early stage in a new business's development. These securities are structured similarly to the LMI Debentures and are also guaranteed by the full faith and credit of the U.S. Government.

In 2013, the Bank added the Early Stage SBIC program to the current product mix. The Early Stage program was initiated to address seed/early stage investment gaps. There are two types of Early Stage debentures: Discount (first five years are discount, and par after) and Standard (no discount period) with no lockout period. Payments are quarterly.

2. Financing to SBA New Market Venture Capital Companies

The SBA's New Market Venture Capital ("NMVC") Program is designed to offer long-term funding assistance to NMVC companies and specialized SBICs that provide equity capital investment and operational assistance to small business enterprises located in low-income rural and urban areas of the country. At the SBA's request, this program incorporates a funding structure that replicates that employed in the LMI Debenture Program, with the exception that all NMVC debentures have a 10-year term to maturity. At this time, the NMVC program is no longer active for new funding.

3. IHDA and WHEDA Stand-By Bond Purchase Facilities, Long-term Bond Investments

IHDA and WHEDA, both housing associate members of the Bank, issue variable-rate bonds in the capital markets to raise funds to make mortgage loans to low- and moderate-income households. In the event that a bondholder does not wish to continue to hold the bond during the variable-rate period, it has the right to tender the bond to a remarketing agent, which attempts to sell the bond to another investor. The market for these bonds is such that, if the remarketing agent is unable to remarket the bond, either temporarily or permanently, then another investor must step in to purchase the bond.

Under the standby bond purchase facilities into which the Bank has entered with IHDA and WHEDA, respectively, the Bank agrees to purchase bonds that have not been remarketed within the allotted time. The Bank holds such bonds while the remarketing agent continues its remarketing efforts. If such efforts are unsuccessful, the Bank holds the bonds for a period of five years, receiving interest and semi-annual principal payments.

In late 2014, the Bank was approved to purchase bonds issued by IHDA and WHEDA as long-term investments. This will enable the Bank to support their affordable housing missions by assisting in the stabilization of housing sectors and by providing consumers with access to affordable housing and housing finance. The

bonds issued by IHDA and WHEDA will assist homebuyers in Illinois and Wisconsin in purchasing a first home, and also assist housing developers with building or rehabilitating multi-unit affordable housing developments. The bonds will provide the Bank with highly rated, core-mission-activity investments that are directly related to residential units located in the District.

4. Government-Insured or Government-Guaranteed Loans

The Bank's MPF[®] Government and MPF[®] Government MBS products provide its members with an alternative to holding mortgages insured or guaranteed by government agencies in their portfolios or selling them to other secondary market investors. Government mortgages eligible for delivery include fixed-rate mortgages under the following programs: FHA, VA, and Rural Development Section 502. HUD Section 184 loans are also eligible under the MPF Government product. Interest rate and prepayment risks for loans sold under these products are transferred to the Bank, and the member institution may choose to service the mortgages or sell the servicing. Offering secondary market solutions for government-guaranteed and government-insured mortgages constitutes yet another way the Bank pursues its mission of assisting members with providing affordable housing financing in their communities.

E. Other Activities

1. Community Support

Each year the Bank informs members and housing and community economic development organizations about the CICA financing program, affordable housing grant programs, and other Bank activities that enable members to engage in community lending and meet the FHFA Community Support requirements. When requested, staff is also available to provide guidance on the utilization of Bank products and other resources to improve first mortgage lending and otherwise support positive Community Reinvestment Act ("CRA") exam results. Notification is provided using the following methods:

- Press releases
- Special mailings
- FHLBC Annual Report
- Bank publications, including the Community First[®] bi-monthly newsletter
- The dedicated Community Investment section of the Bank's website, www.fhlbc.com
- Informational seminars and webinars

2. Community Investment Advisory Council

The Community Investment Advisory Council (“CIAC”) consists of up to 15 representatives from community and not-for-profit organizations actively involved in providing or promoting affordable housing, economic development, and/or community lending in Illinois or Wisconsin.

The CIAC meets quarterly with Community Investment staff and representatives from the Bank’s Board of Directors to advise the Bank on ways in which it can better carry out its housing finance and community investment missions; staff also engages CIAC members throughout the year to leverage their expertise on specific topics. One of the CIAC’s quarterly meetings in 2017 was held with the Bank’s full Board of Directors; this was the second such meeting of its kind. Lastly, CIAC members serve as ambassadors of the Bank and its programs in their respective communities, often making connections to potential partners and other stakeholders.

One-third of council members’ three-year terms, on a rolling basis, expire annually. Staff solicits nominations from a diverse pool of professionals in an effort to have a CIAC that is well-versed in community development trends and local needs.

3. Outreach

Community Investment builds and maintains relationships with both members and housing and community development organizations. This is achieved through sponsorship of, participation in, and/or attendance at, conferences and other events; sponsor and member visits; and technical assistance and training.

Community Investment sponsored seven events and presented and/or exhibited at three of them. Community Investment staff made multiple member visits during 2017, during which opportunities available through AHP, DPP, and Community Advances were promoted. Lastly, staff has attended more than 40 events and activities that include project groundbreakings and ribbon cuttings, and convenings hosted by members, sponsors, and other industry-related partners.

2018 Outreach
Qualitative Goal
Community Investment staff will support the ongoing efforts of sales directors, new staff, and other colleagues as well as proactively engage members, potential project

2018 Outreach
sponsors, and other industry stakeholders to increase understanding and utilization of community investment products and resources.
Quantitative Goal
- To the extent relevant opportunities present themselves, Community Investment staff will attend (but not sponsor or otherwise participate in) at least 15 industry-related events. - To the extent relevant opportunities present themselves, Community Investment will sponsor, exhibit at, and/or present at a minimum of 15 industry-related events in the District. - To the extent relevant opportunities present themselves, Community Investment staff will attend 6 sponsor or member project-related events (e.g., groundbreakings, grand openings, press events, etc.).
Diversity and Inclusion Metric
Number of active outreach activities at events hosted by organizations that serve diverse populations or where the majority of attendees are diverse populations

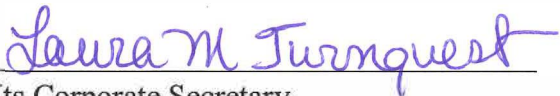
4. Technical Assistance and Training

Staff is available at all times during the year to discuss program requirements and to provide technical assistance as needed. Staff within Community Investment and other departments actively participate in workshops, seminars, conferences, and other events where their expertise will contribute to the success of the effort.

In 2017, six land-based training sessions and eight webinars were held to promote awareness of, and familiarity with, the Community Investment programs among members and their community partners. Staff also presented at nine events and attended many more throughout the year. Lastly, staff conducted technical assistance site visits to first time sponsors of awarded homeownership projects.

2018 Technical Assistance and Training
Quantitative Goal
Community Investment staff will host at least 6 land-based training sessions and 7 webinars designed to increase understanding and utilization of the Bank's community

Approved by the Board of Directors
on the 14th day of December, 2017
and amended on the 26th day of February, 2018
by the Affordable Housing Committee of the Board of Directors


Its Corporate Secretary