

FEDERAL HOME LOAN BANK OF CHICAGO

2021 TARGETED COMMUNITY LENDING PLAN

Pursuant to 12 C.F.R. Sections 1290.6 and 1292.4, the Federal Home Loan Bank of Chicago (the “Bank”) presents its 2021 Targeted Community Lending Plan (the “Plan”) for the Bank’s district, which is composed of the states of Illinois and Wisconsin (the “District”). This report was developed through market research and consultation with the Bank’s Community Investment Advisory Council, members, housing associations, and both public and private economic development organizations in the District.

The 2021 Plan consists of three parts: Part I - Mission; Part II - Market Analysis; Part III – Needs Assessment; and Part IV - Strategy and Goals Initiatives and Goals for 2021.

I. Mission

The mission of the Bank 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 maintain a member-focused Bank. This involves all areas of the Bank coming together to deliver excellent products and services that meet our members’ needs and those of their customers and communities. As a cooperative, the Bank applies its resources to maximize the value proposition for members by building new relationships with members, expanding training, and using market research to inform development and expansion of programs.

Emphasis on a Diverse and Inclusive Culture

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 are 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 Bank 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

A core component of the Bank's mission and strategic goals is to support community investment activities. Through its Community Investment programs, the Bank provides financing and direct funding tools that support the affordable housing and local community lending initiatives of our members. By using our products individually or in combination, our members and their community partners can create economically competitive solutions that contribute to the quality of life and access to resources and opportunities in the communities they serve.

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.

Achieving these goals we expect to:

- 1) maximize each individual member's value through Community Investment product and services use,
- 2) increase sponsor capacity and utilization,
- 3) support housing and economic development with and through members,
- 4) provide high quality service, and
- 5) develop Bank staff to support Community Investment needs.

II. Market Analysis

The Bank continuously monitors the market conditions of its District and assesses unmet credit needs and opportunities for community lending and affordable housing.

Changes in the economic, regulatory, and funding environments also present existing and new challenges and opportunities for our members and for the sectors supporting affordable housing and community development. Ongoing assessment of these dynamics is essential to informing the Bank's Community Investment strategy. National and District economic conditions, including the housing and small business trends, are presented below. With existing, expanded, and new programs and initiatives, some of which are described below, the Bank continues to focus on achievement of its community investment mission and strategic goals.

Note: Data provided below regarding Market Conditions is as of June 30, 2019, unless otherwise stated.

A. Market Conditions

1. National Economy

The Federal Reserve reported in its Beige Book that economic activity from mid-May through early July “continued to expand at a modest pace overall with little changed from the prior reporting period.” Most Districts reported that labor markets remained tight, with contacts across the Districts reporting difficulty filling open positions. In particular, the Federal Reserve Bank of Chicago reported, “Economic activity in the Seventh District was little changed on balance in late May and June, though contacts expected it to grow at a modest pace over the next 12 months.” Moreover, construction and real estate activity was mostly unchanged from the previous Beige Book with contacts reporting a decline in residential construction. The Beige Book stated, “Home sales were flat overall, with increased sales of lower-end homes offset by decreased sales of higher-end homes.”

On July 10, 2019, the Federal Open Market Committee (FOMC) released minutes from its June meeting. It stated that “labor market conditions remained strong.” The minutes stated that the residential mortgage market also remained supported since the last meeting as home mortgage rates have trended lower since November 2018. Consequently, home-purchase mortgage originations pushed upward to levels last seen in 2017.

According to the Bureau of Labor Statistics, the unemployment rate stood at 3.7% in June 2019, a 0.3 percentage point decrease from June 2018. Previously, the unemployment rate was 3.6% in April and May, its lowest level since December 1969 when the U.S. unemployment rate was 3.5%. The ratio of unemployed job seekers to job openings decreased to 0.82, according to June’s Job Openings and Labor Turnover Survey, suggesting there are more job vacancies in the U.S. than available hires. Immediately following the last recession, there were 6.2 unemployed workers per job opening. Meanwhile, the broader unemployment rate, which includes underemployed and discouraged workers, decreased from 7.8% in June 2018 to 7.2% in June 2019, remaining below 8.0% for 15 of the last 16 months. The labor force participation rate was unchanged at 62.9% in June 2019 compared to one year prior.

2. National Housing Trends

The U.S. housing market cooled across the nation last year with weaker prices, sales, and construction volumes across the nation. Housing starts posted a modest annual increase in June

2019, and the number of existing homes for sale continues to be volatile due to low supply. The 30-year mortgage rate reversed the decline that took place in the first half of 2019, falling below 4% in May. Meanwhile, consumer confidence fell to its lowest level since September 2017 in June 2019, decreasing to 121.5 compared to expectations of 131.1. This key measure of the U.S. economy fell following three straight months of increases as Americans saw trade tensions with China as an increased risk. Relative to historical standards, however, consumer confidence remains strong and also points to more consumers being more confident of their future in order to purchase a home.

Based on data from the Joint Center for Housing Studies of Harvard University's *State of the Nation's Housing 2019* report, "with millions of millennials moving into their prime home buying years, demand for smaller, more affordable homes seems poised for a surge."

U.S. Census Bureau data show housing starts were at an annual rate of 1.253 million in June 2019, up 6.2% from one year ago. The increase was mostly driven by a 25.3% surge in multi-family starts from June 2018 despite a 0.8% decrease in single-family starts. 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, fell 1.9% year-over-year in June. Details of the report show existing home sales decreased in the South and West, but rose in the Northeast and Midwest. Multi-family starts may be increasing due to the increased demand from Millennials searching for smaller, more affordable homes.

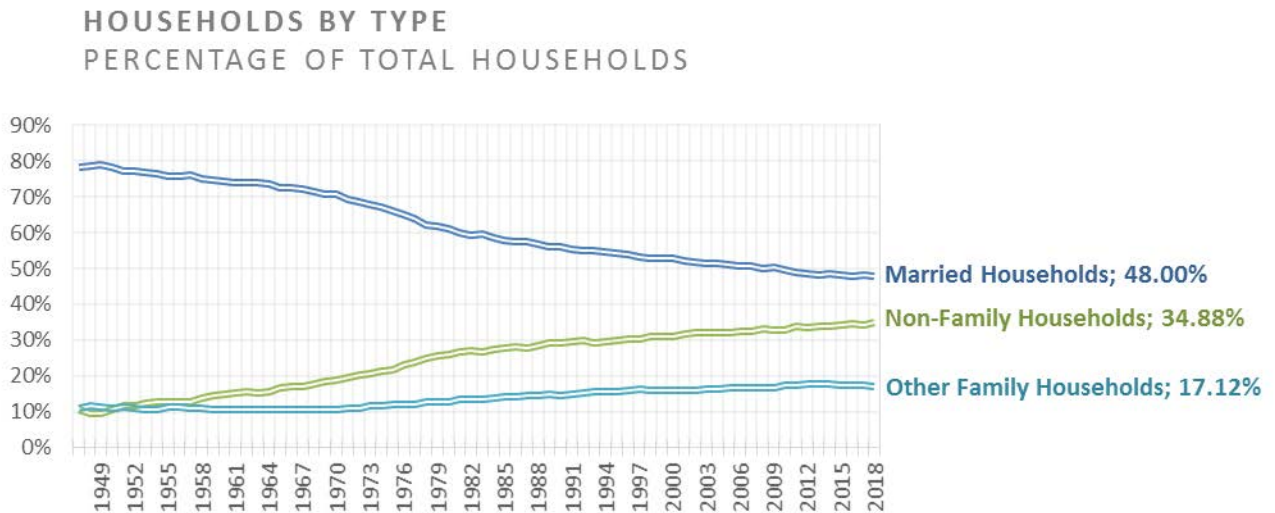
Single-Family Activity

The widening gap between new home supply and demand has contributed to an increase in home prices, which rose at an annual pace of 3.1% as of June, according to the S&P Case Shiller Home Price Index. The tightened supply has led to an inventory shortage in many metro areas throughout the U.S. According to Freddie Mac, the 30-year fixed-rate mortgage currently stands at 3.73% as of the week ending June 27th.

Based on data released from the U.S. Census Bureau in July, single-family housing starts rose 1.17% year-over-year to an annual rate of 864,000 in June. Single-family housing starts are well below the 1.823 million pace last seen in January 2006.

According to data from the U.S. Census Bureau, the formation of households by type is evolving. In 2018, the percentage of married households to total households stood at 48%, substantially lower than the 60.8% pace in 1980. Meanwhile, non-family households are trending upward to 34.88% in 2018, 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, credit worthiness, and scarcity of lower-cost homes are posing a problem for first-time homebuyers.



Source: Census Bureau

The number of homeowners burdened by housing costs – defined as households that spend more than 30% of their income on housing – fell for the seventh consecutive year in 2017, as reported by the 2019 State of the Nation Housing Report. This rate fell, in part, due to low mortgage interest rates throughout the latest economic recovery and cost-burdened owners forced out of their homes due to foreclosures. Cost-burdened renters now outnumber cost-burdened homeowners by more than 3.0 million. Furthermore, renters comprise 10.8 million of the 18.2 million severely burdened households that pay more than 50% of their incomes to support housing expenses.

The assistance of loan programs that offer low down payment requirements is making it easier to get approved for a mortgage. The Bank’s set-aside Downpayment Plus® (DPP®) programs provide member institutions with easily accessible down payment and closing cost assistance programs for low- and moderate-income homebuyers. The Freddie Mac Home Possible Advantage Program was designed to increase accessibility to mortgage funds by reducing down payment requirements to 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

After over ten years of climbing rental demand, the number of renter households slowed over the last several years, lifting the homeownership rate. Unlike single-family construction, multi-family construction boomed after the last recession as rental demand soared. However, the Census Bureau's second quarter *Quarterly Residential Vacancies and Homeownership Report* states that rental vacancy rates were unchanged year-over-year at 6.8%.

3. District Economy

Employment

The June 2019 non-farm payroll employment report from the Bureau of Labor Statistics showed that U.S. payrolls grew by 178K, beating consensus expectations of 160K growth. Payrolls in May 2019 were downwardly revised from 75K to 62K. Payrolls in April were also downwardly revised from 263K to 216K. As of June 2019, the three-month moving average of payroll growth was 152,000, while the six-month moving average stood at 163,000.

Most payroll sectors increased in June 2019. Education and healthcare rose the most, rising 61K from the prior month. Professional services and government increased by 51K and 33K, respectively, month-over-month. On the other hand, retail trade decreased the most at 6K while mining and logging fell by 1K.

Based on the Bureau of Labor Statistics Job Openings and Turnover Survey, 3.46 million people quit their jobs in June 2019, a 3.22% increase from one year ago. By region, the quits rate was little changed in all four regions. The annual increase in the quits rate indicates workers are confident that if they leave their job they can easily find another at higher pay.

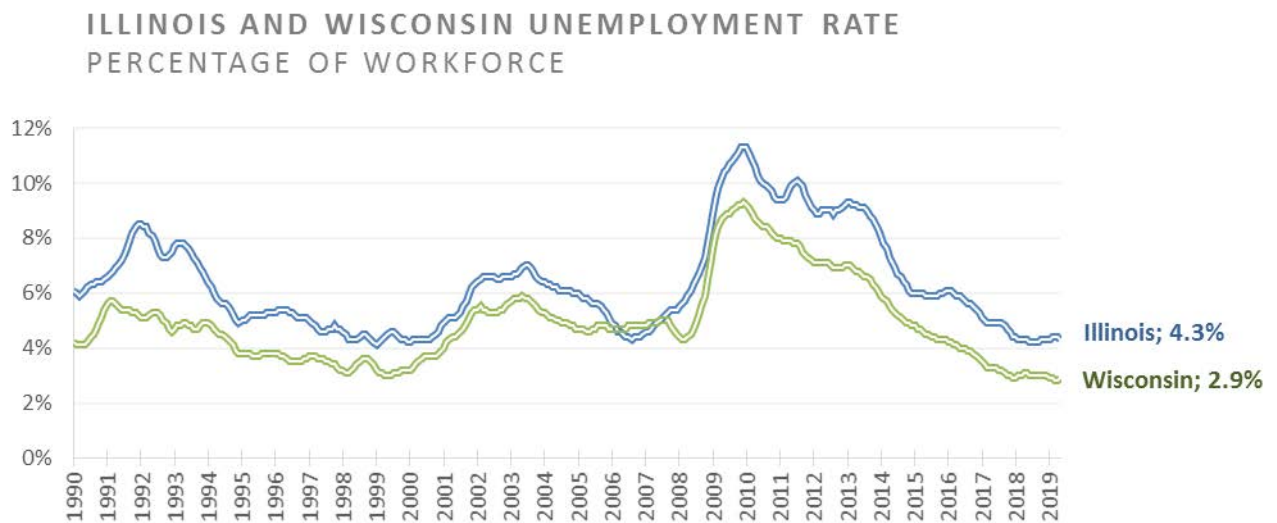
As the unemployment rate hovers near its post-recession low, Illinois and Wisconsin payrolls continue their upward trend. This suggests a large number of people are entering the labor force. This is a positive sign for the labor market and economic growth. While payroll growth has improved in both Illinois and Wisconsin over the last several years, both states still lag behind their neighbors. Indiana, Michigan, and Minnesota have all seen larger gains in payrolls since 2011.

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 has continued 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 rates 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' rate held steady at 4.3% in June 2019, matching its rate from June 2018. The unemployment rate in Wisconsin has consistently fallen since 2009. The rate stood at 2.9% as of June 2019, its fifth consecutive month below 3%.



Source: U.S. Census Bureau

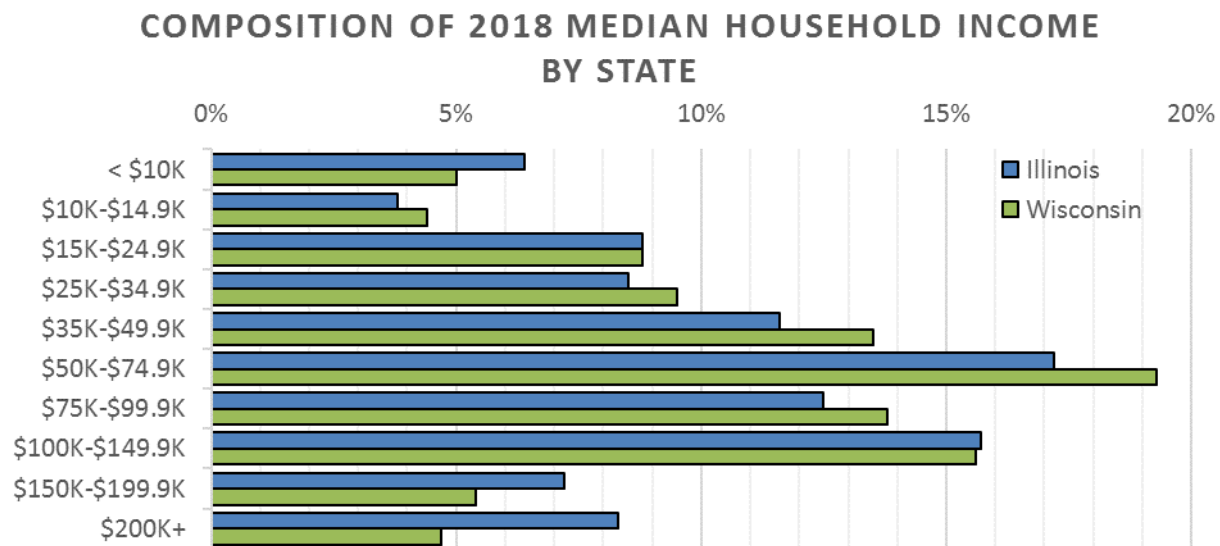
Unemployment rates have remained high in most metro areas of Illinois, and the Rockford metro area has one of the highest jobless rates in Illinois, according to the U.S. Bureau of Labor Statistics. Rockford's unemployment rate was 5.2% as of June 2019, but it is 0.3 percentage points lower than one year ago. Most metropolitan areas have seen improvement in the last year, with Danville's unemployment rate falling at the fastest year-over-year pace.

After Wisconsin's unemployment rates steadily fell since 2010, metro area unemployment rates were near historical lows. However, metro area rates have trended modestly higher in recent months. The La Crosse-Onalaska, Green Bay, Janesville-Beloit, and Eau Claire metro areas have shown year-over-year inclines but still remain at or below 4.2%. On the other hand, Oshkosh-Neenah's unemployment rate improved, falling from 3.4% to 3.3% in June 2019. Madison has the lowest Wisconsin metro area unemployment rate at 2.9%, while Racine has the highest at 4.1%.

Population and Demographics

According to the February 2019 State of Illinois Forecast Report, “The state has moved beyond full employment into late-cycle expansion, which is characterized by labor supply constraints and increasing wage and cost pressures.” The report notes that Illinois lags behind the rest of the country in various measurements of economic performance. Compared to other areas in the Midwest, employment in Illinois is growing at a slower pace. Additionally, progress in the housing market has deteriorated with weakening single-family home price appreciation.

In 2017, American Community Survey (ACS) One-Year Estimates for the District showed that median household income rose to its highest measurement since record keeping began for this statistic in 2005. Median household income in the U.S. increased 0.8% to \$61,937 in 2018 from 2017. This marks the second straight year that U.S. median income was greater compared to 2007 – one year before the last recession. By state, 14 states saw an uptick in income. Maryland had the highest median income at \$83,242, while West Virginia was near the lowest at \$44,097. Illinois’ median income was above the U.S. median at \$65,030; Wisconsin was below the median at \$60,773. As shown below, the majority of people in both Illinois and Wisconsin make between \$50,000 and \$74,999 annually.



Source: U.S. Census Bureau

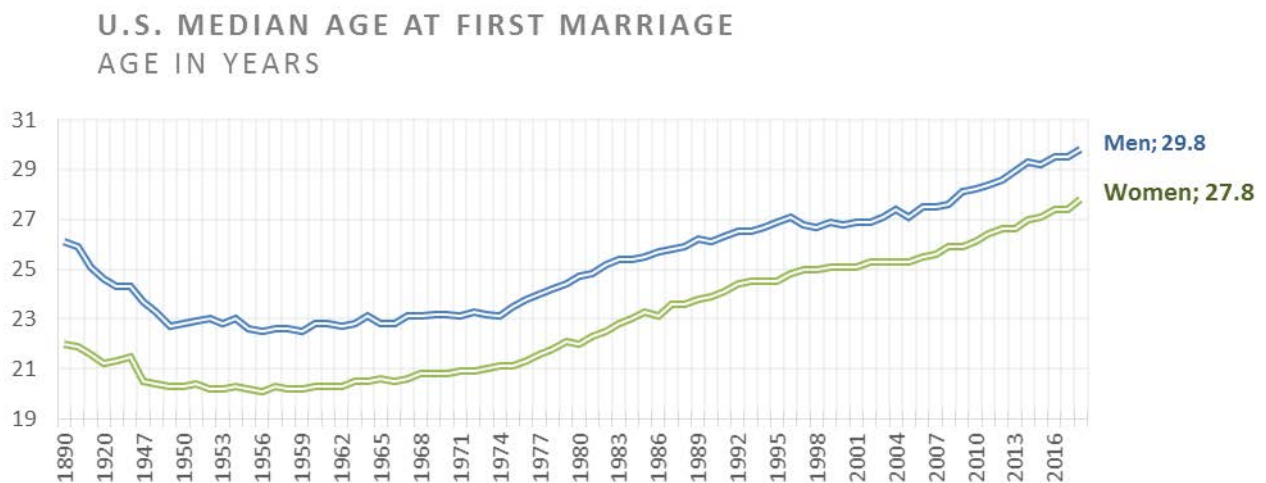
4. District Housing Trends

Housing Units

According to the U.S. Census Bureau, housing starts increased to an annualized, seasonally adjusted level of 1.233 million in June 2019, which is much better than the all-time low of 478

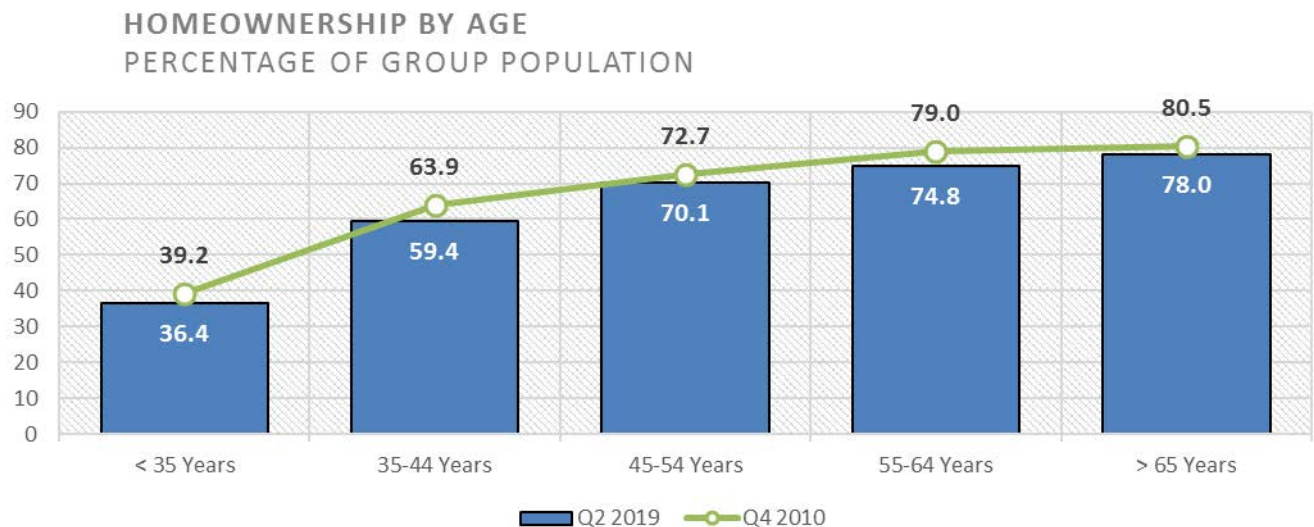
thousands units in 2009, but is still lagging the all-time high of 2.273 million units in 2006. Housing starts have been volatile since 2013 and are up 6.2% year-over-year. Historically, there has been a high correlation between an improving labor market and rising housing start levels. A lower level 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 to exhaust the current inventory is 4.4 months' of supply in June 2018. This is significantly less than the 11.9 months' 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 29.8 for men and 27.8 for women as of 2018, inching higher from the previous year.



Source: U.S. Census Bureau

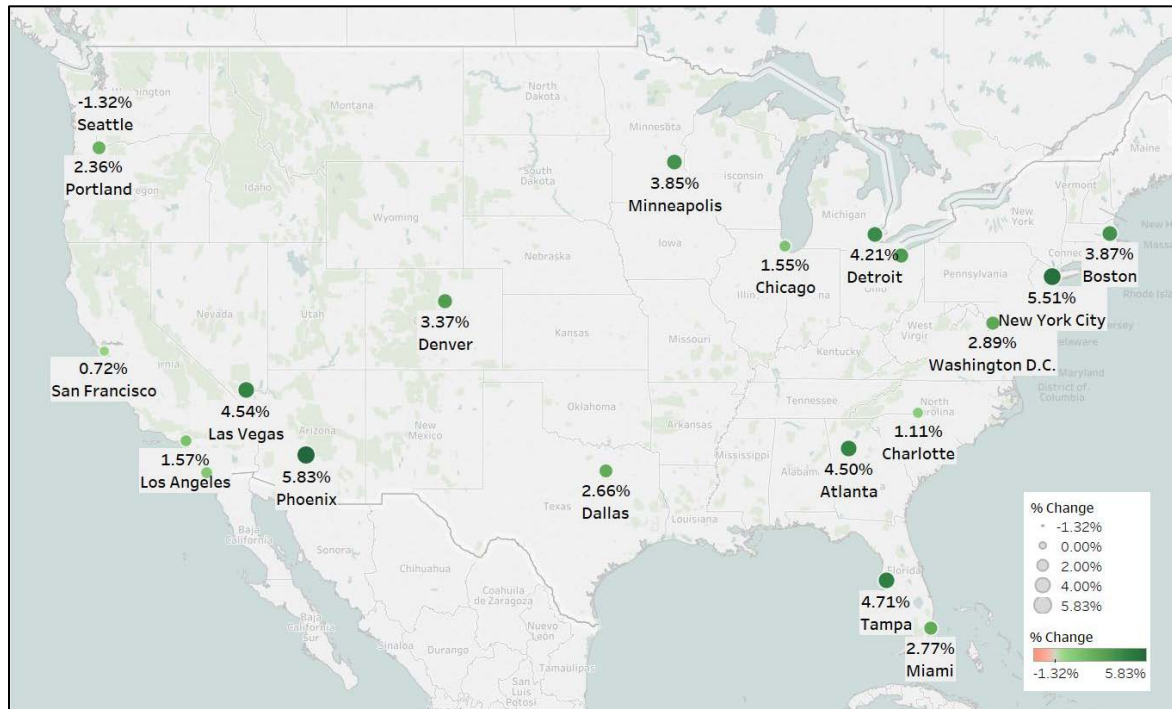
The homeownership rate continues to be highest among older home owners. However, the trend may start to move downward as Baby Boomers retire and opt to rent. Moreover, homeownership rates are likely to remain low for Millennials due to the high burden of student debt. By region, homeownership rates are mostly evenly distributed. However, both the Northeast (61.2%) and the West (59.3%) remain below the United States average (64.1%) in the second quarter of 2019 according data from the Census Bureau.



Source: U.S. Census Bureau

Home Prices

As the economy grew, home prices rose rapidly across the nation. Over the last few years, the combination of a low unemployment rate and low mortgage rates mean homes were more affordable – increasing demand. The June S&P Case-Shiller Home Price Index showed that home prices are up 3.1% year over year. Home price gains are beginning to stabilize after rising throughout the U.S., particularly in the South and West, which were the areas hardest hit by the housing bubble. For the second consecutive month, Seattle reported year-over-year negative growth. Phoenix (5.83%), New York City (5.51%), and Tampa (4.71%) reported the highest annual gains among the 20 cities in June.



Source: S&P Case-Shiller Home Price Index

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. Racine, Sheboygan, Janesville-Beloit, and Eau Claire are leading the state in year-over-year home price gains, well above the state average of 5.08%, 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. Kankakee and Rockford area home prices have increased at the fastest pace, rising 4.86% and 3.77%, respectively, as of June 2019. Home prices in Chicago have risen 2.10% from one year ago.

Building Permits

Between 2017 and 2018, the U.S. Census Bureau reported that building permits for single-family and multi-family projects in the District increased from 44,537 to 40,623. Building permit levels in both Illinois and Wisconsin have not rebounded to pre-recession levels established in the mid-1990s.

According to the U.S. Census Bureau, building permits in 2018 totaled 1,328,827 nationally (seasonally adjusted annual rate), a 3.65% year-over-year increase. Building permit data from the Census Bureau shows that new, authorized privately owned housing units totaled 195,118 in the Midwest in 2018. Single-family building permits made up the majority of the total. By state,

building permits in Illinois total 21,510 in 2018, a decline from the 24,992 level in 2017 and 22,603 in 2016. The decrease was driven by both single- and multi-family building permits which fell 1.4% and 24.9% respectively. In Wisconsin, building permits totaled 19,113 in 2018, a 2.2% decrease from one year ago. Single-family permits increased 2.3%, offset by a 13.0% decrease in multi-family building permits. See Illinois and Wisconsin Historic Building Permits charts below:



Source: Bureau of Labor Statistics

B. District Access to Affordable Financial Products and Services

State-Level Programs and Policy

1. Illinois

Funding for affordable housing continues to be constrained in Illinois. Recent changes to corporate tax policy at the federal level have reduced financial institutions' incentives to finance

housing developments through the Low Income Housing Tax Credit (LIHTC) program, potentially limiting affordable housing development nationwide. Additionally, federal funding to the HOME program has recently faced drastic cuts, reducing Illinois' annual funds by over 40%. IHDA continues to receive requests for both the HOME and Affordable Housing Trust Fund (AHTF) programs in excess of available funds.

IHDA's 2019 Annual Comprehensive Housing Plan focuses on the state's most urgent affordable housing challenges, and identifies eight priority populations (including extremely low-income families; low-income seniors and persons with disabilities; low-income persons facing housing displacement, or those unable to afford housing near employment opportunities and reliable transportation; and persons experiencing or at risk of homelessness) for whom affordable housing strategies will be focused. The plan outlines key focus areas to better serve these populations. Focus areas include community revitalization efforts (including affordable housing development and preservation and foreclosure prevention); supportive housing; cost reduction techniques; and collaborative policy and planning strategies to build capacity and develop effective policies. IHDA's 2020-2021 Qualified Allocation Plan (QAP) further prioritizes these efforts by incentivizing projects serving priority populations and/or employing community revitalization strategies, such as locating housing near jobs, transportation, healthcare, and community amenities.

2. Wisconsin

Wisconsin has seen a recent expansion in affordable housing funding sources. In 2017, it began receiving funding awards through the National Housing Trust Fund (NHTF), and in 2018, Wisconsin passed legislation creating a Low Income State Housing Tax Credit program, which awarded \$6.2 million in state tax credits to 11 affordable housing projects in 2019. These credits will help develop or rehabilitate close to 800 housing units. These sources, in conjunction with federal LIHTC incentives and state historic tax credits, will allow Wisconsin developers to continue expanding affordable housing state-wide, despite the cuts at the federal level mentioned above.

WHEDA's 2021-2022 Qualified Allocation Plan (QAP) prioritizes goals similar to those pursued by IHDA, including increasing the supply of affordable housing to very-low-income families, senior citizens, veterans, and those requiring supportive services; reducing development costs and using tax credit programs efficiently; developing affordable housing in high-opportunity areas; and aligning efforts with housing plans created at the state and local level.

Low Income Housing Tax Credit (LIHTC) Equity Pricing

The federal Low Income Housing Tax Credit (LIHTC) program, the largest affordable housing development program in the U.S., funds the construction or renovation of approximately 100,000 affordable rental units annually. State housing finance agencies (HFAs) competitively award federal tax credits to private-sector developers, who in most cases sell the credits to investors to generate equity for their affordable housing projects. During syndication, tax credit equity investors offer developers a per-credit price, and this price determines how much financing will be available per project.

In Illinois and Wisconsin, per-credit equity pricing tends to be higher in larger urban markets than in smaller, predominantly rural markets, and is monitored by the Bank to ensure developers are receiving relatively consistent equity contributions across similar projects. Lower pricing is often driven by investor risk analysis, particularly in rural markets. Investors that provide LIHTC equity to rural projects may be more yield-driven than investors seeking Community Reinvestment Act (CRA) credit for their financial participation, resulting in somewhat lower equity pricing for rural projects.

C. Small Business Activity

1. National Trends

Small businesses continue to experience growth and to enjoy optimism about the future of American small business. As of December 2019, the NFIB Small Business Optimism Index remained high at 102.7, but reflected a decline from 108.8 in August 2018. In August 2019, 20% of small businesses surveyed reported having a plan to expand employment at their firm, and 19% reported plans to raise worker compensation. The positive growth seen in the small business community is, in part, due to tax and regulatory changes recently implemented at the federal level; however, an unprecedented 27% of small businesses reported the difficulty of attracting qualified employees to fill positions as their most pressing business problem (up from 25% in August 2018), alluding to larger deficits in employment readiness and labor training nationwide. This concern has likely been compounded by low unemployment rates, which have led to many businesses struggling to attract qualified employees in a tight labor market.

Survey respondents in August 2019 reported greater investment in their small businesses, with 42% spending on new equipment and 24% investing in new vehicles (versus 39% and 22% of respondents, respectively, in August 2018). 33% of respondents reported borrowing regularly and only 4% of small business owners surveyed reporting that their borrowing needs were unmet. The Bank continues to fund products that provide capital at lower rates, which may

incentivize small businesses to invest in spending or labor training. (Sources: *NFIB Small Business Economic Trends*, August 2018 and August 2019; *Small Business Credit Survey*, 2017, Federal Reserve Bank of Chicago)

2. District Trends

Both Illinois and Wisconsin are home to numerous small businesses that have a large impact on state economies. According to the 2016 Kauffman Index of Main Street Entrepreneurship, Wisconsin ranks second in the nation for large-population states with a strong small business presence. The index is calculated from the percentage of the state's adult population who own their own business; the 5-year survival rate of new businesses; and the established small business density (or the ratio of established small-employer businesses within total state-wide employer firms) in each state. Wisconsin has a strong established small business density, with 704.3 established small businesses per 1,000 firms. (Established small businesses are businesses that are at least five years old and employ between 1 and 50 employees.) Of all business startups in Wisconsin, 50.77% survive for at least five years. Wisconsin is also highly ranked for the number of woman-owned small businesses.

According to the Kauffman Indicators of Early-Stage Entrepreneurship For 2018, 0.25% of Wisconsin's population started a new business in 2018, up from 0.17% in 2014. Of these entrepreneurs, over 68% created their new business by choice, not by necessity. The average number of jobs created by Wisconsin startups in 2018 (normalized by population) was 3.88.

According to the 2016 Kauffman Index of Main Street Entrepreneurship, Illinois ranks tenth among large-population states for small business presence, with 5.49% of adults owning their own business. The established small business ratio is 672.7 per 1,000 firms, and business startups have a 50.14% rate of survival over five years. Additionally, small businesses employing fewer than 50 employees were responsible for 75% of net new job creation in Illinois in 2016. Between 2011 and 2016, small businesses employing up to 500 individuals were responsible for 79% of net new job creation state-wide (U.S. Bureau of Economic Analysis, cited in Berg 2017).

Per the *Kauffman Indicators of Early-Stage Entrepreneurship for 2018*, Illinois currently has a welcoming climate for entrepreneurs. In 2018, 0.25% of Illinois' population started a new business, a slight increase from 0.23% in 2014. Of these entrepreneurs, over 79% created their new business by choice, not by necessity. The average number of jobs created by Illinois startups in 2018 (normalized by population) was 4.48, indicating a strong local impact in Illinois communities.

	Wisconsin	Illinois
Rate of Business Ownership	6.46%	5.49%
Established Small Business Density (per 1,000 firms)	704.3	672.7
Five-Year Business Survival Rate	50.77%	50.14%

Source: *The 2016 Kauffman Index of Main Street Entrepreneurship: State Trends, November 2016*; *The Kauffman Indicators of Early-Stage Entrepreneurship for 2018*; Berg, Austin. *Small Businesses are Illinois' Lifeblood, but they're treated like dirt. Illinois Policy*, November 22, 2017.

3. COVID Impact Update

Small businesses are acutely vulnerable to the economic impacts of the COVID-19 pandemic. Many lack access to adequate savings, insurance, and credit to weather the crisis, and they have struggled to manage business disruptions and maintain their livelihoods.

According to a survey commissioned by Goldman Sachs and conducted by Babson College and David Binder Research, as of September 1, 2020:

- 88% of small business owners had exhausted their Payroll Protection Programs loan funding and 32% of loan recipients had already been forced to lay off employees or cut wages.
- 36% of small business owners anticipated needing to lay off employees or cut wages.
- 30% of all small business owners, and 43% of Black small business owners, anticipated exhausting their cash reserves by the end of 2020.

(Source: Survey: *Disappointed and Frustrated, Small Business Owners Feel Left Behind by Congress*, September 2020, [GoldmanSachs.com](https://www.goldmansachs.com))

However, experts are predicting steady economic recovery through 2021. The Congressional Budget Office (CBO) report, *Interim Economic Projections for 2020 and 2021*, predicts that while America's Gross Domestic Product (GDP) is expected to decline by 5.6 percent during 2020, it will grow by 4.2 percent in 2021. According to an August 2020 survey from the National Federation of Independent Businesses (NFIB), small businesses are still alive and fighting hard, but many have taken a big hit to their sales revenues and have not yet recovered from the economic downturn. (Sources: Congressional Budget Office, "Interim Projections for 2020 and 2021," May 2020; NFIB *Small Business Economic Trends*, August 2020)

D. Community Development Financial Institutions (CDFIs)

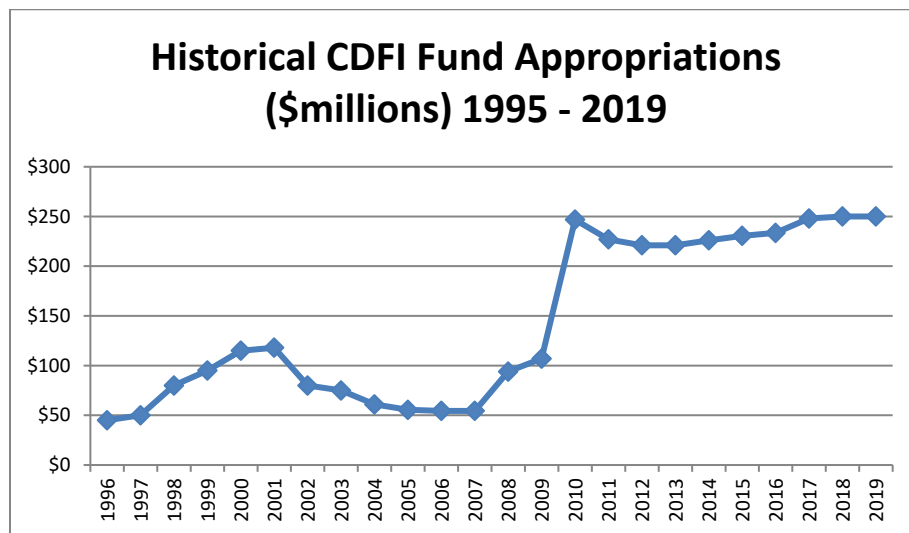
CDFIs are private-sector, financial intermediaries with community development as their primary mission. The CDFI industry has grown and transformed over its more than 20-year history to be an important resource in providing access to affordable financial products and services that meet the unique needs of economically underserved communities. There are six basic types of CDFIs:

community development banks, community development loan funds, community development credit unions, microenterprise development loan funds, community development corporations, and community development venture capital funds.

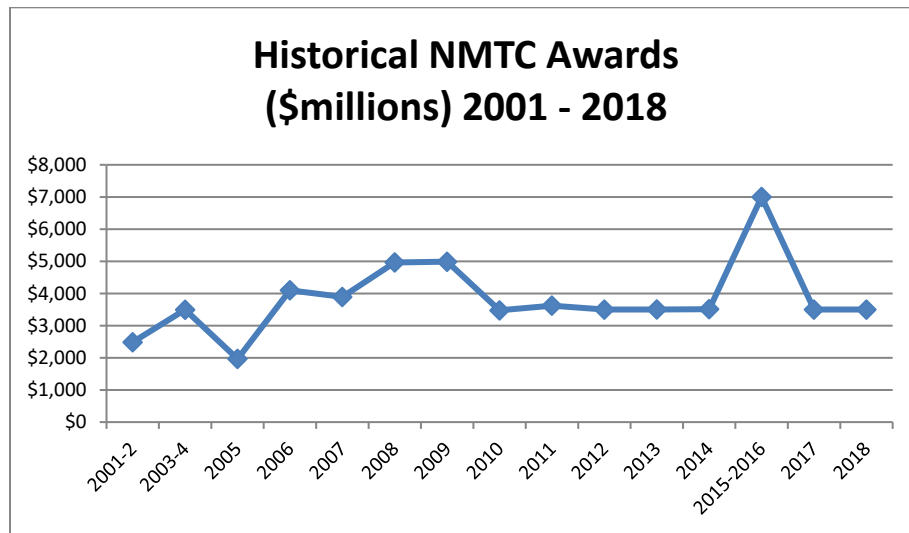
1. Primary Sources of Funding

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 their capital from customers and non-member depositors. CDFIs also work in partnership with conventional financial institutions to channel private investment into distressed communities, either through direct investment in the CDFI or through coordination of lending, investment, and other services.

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)

Membership in the Federal Home Loan Bank system also provides non-depository CDFIs with access to long-term funding and community investment programs, which can support their housing and economic development mission in low- and moderate-income communities. Based on Federal Housing Finance Agency data as of October 2019, non-depository CDFI membership in the system remained steady at 60 members in 2018 and 2019, up from 48 members in 2017. The total outstanding advance balance system-wide was approximately \$261.6 million in 2019, up from \$221.5 million in 2018. (Source: 2019 Low-Income Housing and Community Development Activities of the Federal Home Loan Banks)

2. District Impact

Based on CDFI Fund data as of December 16, 2019, there are 1,105 certified CDFIs nationally. Illinois has 33 CDFIs (12 non-depository and venture capital funds), and Wisconsin has 23 CDFIs (14 non-depository loan funds). District CDFIs that have been awardees of the CDFI Fund have been able to deploy \$2.02 billion in loan proceeds for 13,320 loans and \$1.44 billion for 233 projects in New Markets Tax Credit investments in Illinois and \$2.47 billion in loan proceeds for 26,909 loans and \$1.79 billion for 284 investments in New Markets Tax Credits in Wisconsin. (Source: CDFI Fund Searchable Awards Database 1996 to Present)

3. Critical Role of CDFIs

CDFIs serve a critical purpose in community development lending. According to the Opportunity Finance Network, CDFIs finance small businesses, community institutions, and real estate development in hard-to-serve markets often overlooked by traditional lenders, with the goal of providing affordable, consumer-friendly lending options to economically disadvantaged

communities. In addition to lending to small businesses and nonprofit organizations that may not qualify for traditional loans, many CDFIs also provide accompanying services, such as small business development assistance and entrepreneurship training, to ensure success for both the consumer and the CDFI providing the loan. CDFIs drive community development by financing projects that may not otherwise move forward with traditional lenders, focusing their efforts on the economic well-being of the individuals and communities they serve. This addresses a critical need in communities that have experienced historic disinvestment and continue to feel the effects of inequitable lending practices.

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. Needs Assessment

Each year, the Bank conducts a Needs Assessment to ensure Community Investment programs align with the affordable housing and community lending needs of Illinois and Wisconsin. This assessment includes a review of usage data for Community Investment programs, as well as research on District needs. The annual Needs Assessment informs the development of program parameters, assessment criteria, and scoring guidelines for the Bank's Community Investment programs and ensures Community Investment programs continue meet District needs and reflect District industry dynamics.

A. Methodology

The annual Needs Assessment relies on both quantitative and qualitative analyses and leverages the expertise of Bank members and partners throughout the District. By conducting a thorough annual review of District needs, the Bank ensures the relevance and responsiveness of its Community Investment programming. The Needs Assessment and the subsequent Strategy and Goals section reflect Community Investment program data, stakeholder feedback, and research conducted through November 30, 2020.

To maintain a clear view of the ever-changing industry landscape, Bank staff review quantitative data on market needs and dynamics, including independent research studies by public and private entities, analysis of public use datasets, and examination of primary and secondary survey data. Such quantitative analyses facilitate a systematic examination of the shifting dynamics, trends, and needs within the District's affordable housing and community development.

Throughout the year Community Investment staff also confer with a wide range of industry experts across the District to understand community needs and identify opportunities for the Bank to maximize the value it delivers. Qualitative data collection efforts include:

- Focused discussions with Community Investment Advisory Council members and members of the Affordable Housing Committee of the Bank's Board of Directors (group discussions as well as individual meetings);
- Targeted, individualized outreach to industry stakeholders District-wide, including meetings and calls with Bank members and associate members, nonprofit lenders including non-member CDFIs, public and private affordable housing developers, public and private community development organizations, social service providers, financial services industry leaders, regulatory agencies, and other funders of affordable housing and community development activities
- Frequent, ongoing dialogue with industry experts via active engagement in working groups, conferences, and workshops, including initiatives hosted by the Bank and by other organizations
- Solicitation of feedback from program users on their experience applying for and participating in Community Investment programs, including "Voice of the Customer" exercises.
- Participation in statewide and/or regional collaborations to expand affordable housing and community lending opportunities for underrepresented populations
- Review of the current Qualified Allocation Plans (QAPs) of the two Housing Finance Agencies in the Bank's District, as well as the plans of other agencies and/or municipalities.

To ensure that the Bank's Community Investment offerings promote diversity, equity and inclusion, staff performs direct outreach to potential program users to ensure programs are accessible to and meet the needs of underrepresented populations across the District. While Community Investment programs inherently address issues surrounding socioeconomic disadvantage, current outreach strategy focuses on ensuring equitable access to all programs for all communities. Outreach efforts targeting minority and women's business enterprise (MBE/WBE) development firms, organizations that serve communities of color including Native American communities, and development initiatives in historically underrepresented geographic locations aim to increase the reach and impact of Community Investment programs.

B. District Needs

The Bank's 2020 Needs Assessment identified housing and community development needs that impact communities across Illinois and Wisconsin. The most critical District needs are summarized below.

1. Need for Affordable Housing

Demand for affordable housing options continues to vastly outpace supply across the District. According to the National Low Income Housing Coalition's *Out of Reach 2020* annual report, there is a clear need for affordable housing across Illinois and Wisconsin. In Illinois, workers must make \$21.30 per hour, or, if earning minimum wage, work 85 hours per week, to afford a 2-bedroom rental home. In Wisconsin, the hourly wage to afford a 2-bedroom apartment is slightly lower at \$17.27; however, minimum-wage workers would have to work 95 hours per week to afford this, given Wisconsin's \$7.25/hour minimum wage versus Illinois' \$9.25/hour. (Source: National Low Income Housing Coalition.)

The 2019 median hourly wages in Illinois and Wisconsin were \$19.74 and \$18.25, respectively. In Illinois, this indicates that at least half of the state's workers do not earn enough to afford a 2-bedroom rental home at market rate in their community. In Wisconsin, the median hourly wage slightly surpasses what is needed to afford a 2-bedroom apartment, but likely leaves many workers struggling to pay rent, particularly those earning minimum wage. (Source: *US Bureau of Labor Statistics*).

This is further illustrated by the National Low Income Housing Coalition's 2020 publication, *The Gap: A Shortage of Affordable Rental Homes*, which highlights the dire need for affordable rental options for extremely low income individuals. In Wisconsin, per every 100 extremely low income renter households, only 33 rental properties are available and affordable. With 186,379 extremely low income renter households in the state in 2020, 71% of which are extremely cost burdened, it is clear that demand for affordable apartments continues to outpace supply. Similar trends are true in Illinois, where only 36 apartments are available and affordable for every 100 extremely low income renter households, and 71% of the state's 450,590 extremely low income renter households continue to be extremely cost burdened. (Source: National Low Income Housing Coalition.)

The Bank's affordable housing program partners, including the industry professionals serving on the Community Investment Advisory Council, emphasize the need for more affordable rental and owner-occupied homes. In Illinois, not-for-profit advocacy organizations like Housing Action Illinois and the Illinois Housing Council continue to push for legislative and policy changes that would expand access to affordable homes. Similarly, the Wisconsin Council for Affordable and Rural Housing, along with other agencies, drives statewide advocacy efforts. In both states, such agencies exist to combat the lack of affordable housing and press legislators and municipal leaders to increase development funding.

This year's Needs Assessment research identified several specific housing needs (below) as areas of particular urgency and priority:

a. Housing for homeless individuals

Homelessness remains a critical issue across Wisconsin and Illinois. Per the US Department of Housing and Urban Development (HUD)'s 2019 *Annual Homeless Assessment Report (AHAP)*, there were 4,538 individuals in Wisconsin and 10,119 individuals in Illinois experiencing homelessness at the time of the January 2019 Point In Time (PIT) assessment. This assessment indicates that 7.8 individuals out of every 10,000 in Wisconsin, and 8.0 out of every 10,000 in Illinois, were homeless at this point in time. While PIT assessments are inherently limited by their short duration, the data they provide illustrate the extent of the need across the Bank's District.

Of the total number of individuals experiencing homelessness in January 2019, 9.38% of Wisconsin individuals and 15.1% of Illinois individuals were considered chronically homeless (i.e., those with a disabling condition who have been homeless continuously for at least one year, or have been homeless for at least 12 months out of the last 4 years). Therefore, the vast majority of individuals surveyed in Wisconsin and Illinois (90.62% and 84.9%, respectively) experience homelessness for shorter durations, or less frequently, than this chronically homeless population. This indicates a need for expanded affordable, safe, and decent housing options across the Bank's District, to reduce the risk that individuals and families may become homeless, even temporarily.

In Wisconsin, 4,243 of the 4,538 individuals surveyed were sheltered (either in emergency shelters or transitional housing) at the time of the PIT assessment, and 295 were unsheltered (i.e., sleeping outdoors or in vehicles). In Illinois, 8,310 individuals were sheltered, and 1,889 were unsheltered. While these data indicate that the District has a network of emergency and transitional housing options, demand for shelter beds and transitional apartments clearly exceeds supply.

The AHAP also illustrates a need for housing options for homeless veterans and unaccompanied youth. During the PIT, Wisconsin and Illinois respectively saw 359 and 690 homeless veterans, as well as 200 and 609 unaccompanied homeless youth. While a small percentage of the total count in both states, these numbers indicate a clear need for housing options for these individuals.

While these data indicate an overall decline in the number of homeless individuals over the past decade (-28.3% and -29.1% in Wisconsin and Illinois, respectively), there remains a clear need for expanded permanent and temporary housing options for homeless individuals and families. With COVID-19 related job losses making housing more precarious for many low- to moderate-income workers, the number of Illinois and Wisconsin residents experiencing homelessness is likely to increase. (Source: U.S. Department of Housing and Urban Development, 2019 AHAP)

Therefore, it is critical that the Bank incentivize the development of affordable housing that serves this population. The Bank's partner agencies that work with individuals experiencing homelessness cite the overwhelming need for both temporary and permanent housing options. Conversations with industry partners have centered around the need for more supportive housing options with wraparound service provision, particularly for the chronically homeless. Partners also mention the need for more affordable development in general; a larger quantity of affordable units would reduce the housing cost burden that so often leads to late or missed rent payments, eviction, and temporary or long-term homelessness.

b. Housing for vulnerable populations, including those with disabilities or supportive service needs

Individuals with disabilities and those requiring supportive services remain one of the most vulnerable populations served by affordable housing developments. In 2019, 11.8% of Wisconsin residents and 11.5% of Illinois residents identified as having a disability. The year prior, 109,862 Wisconsin households and 26,856 Illinois households received Supplemental Security Income (each 4.7% of total households surveyed), indicating that at least one member of the household had a disability. (*Sources: American Community Survey 1-Year Estimates, 2019; American Community Survey 5-Year Estimates, 2018*)

According to The Arc, a national disability rights advocacy organization, the national average annual income of an individual with a disability who relies solely on Supplemental Security Income is only \$9,156, well below what is needed to rent a market-rate apartment. Additionally, many adults with disabilities live with aging parents and caregivers, leaving them at risk of future institutionalization or homelessness, often without the supportive care that they need. Even if affordable, decent housing is available, many individuals with physical disabilities struggle to find apartments that are accessible. These interrelated factors of limited income, precarious housing situations, and lack of accessible options leave many individuals with disabilities either unstably housed or paying too much in rent to afford other essentials. While not all individuals with disabilities require affordability or accessibility accommodations in housing, the number of households with disabilities across the Bank's District indicates a clear need for more affordable, accessible, and supportive housing options for this population. (*Source: The Arc Housing Policy and Advocacy, 2020*)

In addition to those with disabilities, individuals with chronic health conditions, mental health concerns, and histories of homelessness or trauma benefit greatly from supportive housing options. Both IHDA and WHEDA incentivize projects that provide supportive housing, with the understanding that the resident populations of these projects may not be able to find suitable housing and maintain tenancy without this assistance. Unstable housing, in turn, may exacerbate physical and mental health concerns within this resident population, or lead to a higher risk of

homelessness. In contrast, stable supportive housing has been shown to improve health outcomes, housing stability, and economic self-sufficiency, and reduce the number of days individuals in this population spend in shelters, emergency medical facilities, jails, and prisons. (Source: *Center on Budget and Policy Priorities*, 2016)

Given the number of chronically homeless individuals with disabilities in the Bank's District (i.e., 9.38% of Wisconsin residents and 15.1% of Illinois residents surveyed by the PIT assessment described above), it is clear that expanded supportive housing options are needed to ensure the health and well-being of these individuals. Bank partners working in supportive housing often mention the higher costs associated with serving this population, including costs associated with service provision, security, and property maintenance.

The Bank's affordable housing partners, including developers, property managers, and service providers, cite the persistent need for permanent supportive housing for vulnerable populations, as well as an uptick in demand for such housing as a result of the pandemic. They note that the population of individuals suffering from severe physical and mental health impacts as a result of the pandemic is increasingly rapidly, and the supply of affordable supportive housing is insufficient to meet their needs.

c. Rural housing

Much of the Bank's District is designated as rural by the US Department of Agriculture (USDA) and other federal agencies. In fact, 46 of Wisconsin's 72 counties, and 62 of Illinois' 102 counties, are fully designated as rural counties. Despite these significant rural areas in both states, development remains largely concentrated in urban and suburban areas within the District.

Of the 23 projects awarded for federal 9% Low Income Housing Tax Credits (LIHTC) by the Wisconsin Housing and Economic Development Authority (WHEDA) in 2020, only 4 were in rural counties. WHEDA incentivizes rural development through a scoring category in their LIHTC allocation, which awards points to projects in rural areas that have received a 9% LIHTC award within the 3 prior years; however, only 8% of applications to their 2020 LIHTC round were eligible for these points. Similarly, of the Illinois Housing Development Authority (IHDA)'s 2020 9% federal LIHTC awards, only 5 of the 21 awards were in designated Non-Metro Areas.

Qualitative information gathered from the Community Investment Advisory Council, AHP program users, and other industry stakeholders and partners suggests that developers may not pursue rural projects due to market risk, higher infrastructure costs, limited labor availability, and limited municipal capacity to participate in financing, among other reasons. This points to the continued need to incentivize affordable housing development in these communities, which

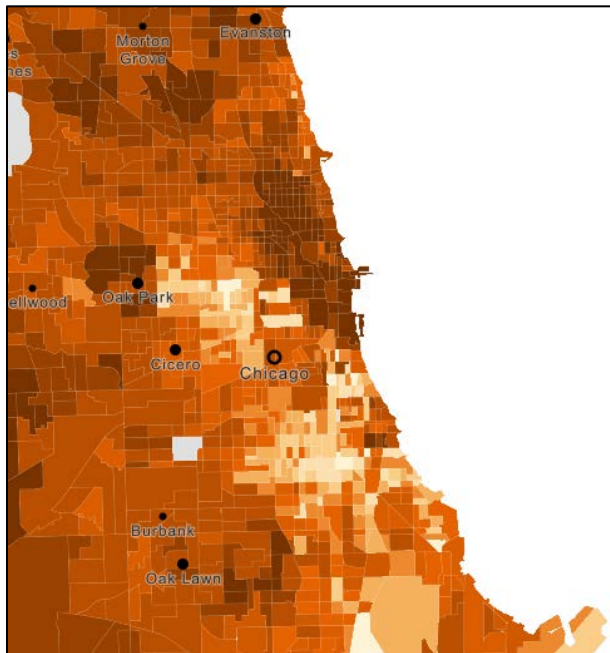
otherwise may struggle to attract capital and development. (Source: Wisconsin Housing and Economic Development Authority, 2020; Illinois Housing Development Authority, 2020).

d. Elimination of income segregation of low- to moderate-income households

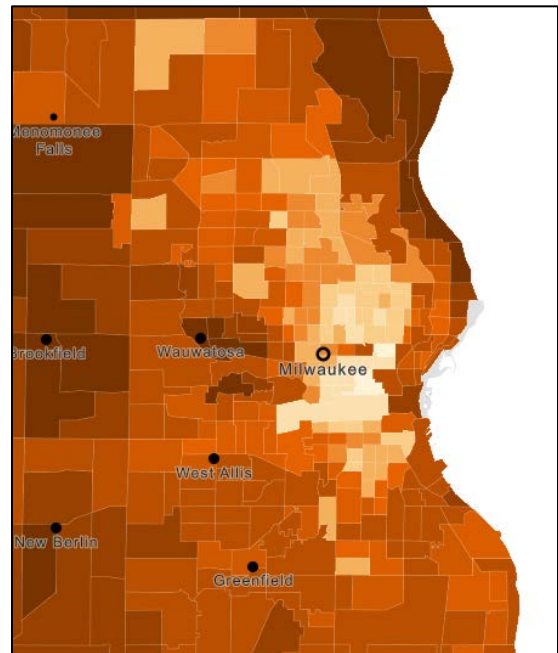
Like much of the Rust Belt, Illinois and Wisconsin contain urban centers that are heavily segregated by income. Maps of median household income in Chicago, IL and Milwaukee, WI reveal the extent of this segregation, even in regional job centers where many neighborhoods are prosperous. While the degree of income segregation may be starker in these large urban centers than in smaller communities, these maps illustrate the extent to which income is tied to census tract in urban centers across the District.

Median Household Income by Census Tract, 2018

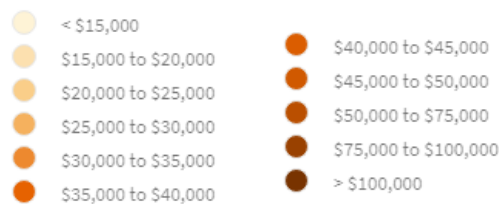
Chicago, IL



Milwaukee, WI



Source: American Community Survey 5-Year Estimates, 2018; maps created using Social Explorer



Housing practitioners have long understood the link between a neighborhood's degree of poverty and a family's economic and health outcomes. In areas of concentrated poverty, residents have more limited access to jobs, healthcare, quality education, and civic services. It is often extremely difficult for families to advance their economic circumstances, particularly as job centers have shifted to suburban communities and urban school districts have experienced funding cuts. Residents of high-poverty census tracts experience higher rates of crime, physical and mental health concerns, and property devaluation. (Source: HUD Office of Policy Development and Research, 2020)

In contrast, the Urban Institute's 2010 report, *Effects from Living in Mixed-Income Communities for Low-Income Families*, cites the numerous benefits that socioeconomically diverse communities have on lower-income residents. These include expanded access to employment and educational opportunities, increased safety, improved health outcomes, and a more cohesive social fabric. It is critical that the Bank work with affordable housing development partners to expand access to these benefits, particularly given the degree of income segregation in the District's large urban centers. This need is compounded by the fact that nationally, 34% of affordable rental units funded with LIHTC are located in high-poverty neighborhoods, and only 15% of LIHTC units nationally are located in low-poverty neighborhoods. In contrast, 28% of all rental units nationally are located in low-poverty areas. (Sources: *The Urban Institute*, 2010; *Center on Budget and Policy Priorities*, 2018).

Quantitative and qualitative data suggest that incentivizing affordable housing development in mixed-income neighborhoods is essential to providing low- to moderate-income families with the opportunities available in wealthier communities. Both IHDA and WHEDA have committed to this goal by building such incentives into their current QAPs. Similarly, the Bank's affordable housing development partners highlight this critical need, and continue to leverage financing from the Bank, IHDA, and WHEDA to expand affordable housing options in more economically diverse neighborhoods.

e. Reinvestment in aging housing stock, both owner-occupied and rental

Housing stock in the Bank's District is aging, with 75.4% and 70.3% of total housing stock in Illinois and Wisconsin built 30 or more years ago, and 39.8% and 36.0% built 50 or more years ago, respectively. AHP programmatic partners who fund owner-occupied rehabilitation work have emphasized that many homeowners in the District are individuals with disabilities or older individuals on fixed incomes, who may not be able to afford reinvestment on their own. Among rental properties, many multifamily buildings constructed in the 1970's and 1980's have building systems near the end of their useful life. Many of these buildings across the District were financed originally by the USDA Rural Development program, which continues to be a financing partner as the Bank grants AHP dollars to their renovation and redevelopment. (Source: *American Community Survey 5-Year Estimates*, 2018)

Reinvestment in aging housing stock will continue to grow in importance as the country's Baby Boomer generation ages. In a recent survey performed by HUD, 89% of adults over age 50 said they wanted to remain in their homes for as long as possible. Reinvestment in the form of needed repairs and accessibility modifications allows older residents to age in place, which has been found to improve health outcomes and reduce social isolation. This may be particularly important in rural areas of the Bank's District that may lack assisted living facilities, or to low-income seniors who may not be able to afford long-term care. Reinvestment will allow seniors to maintain their independence and their connections to their community, and in many cases save them considerable expense. (Source: *HUD Office of Policy Development and Research, 2013*)

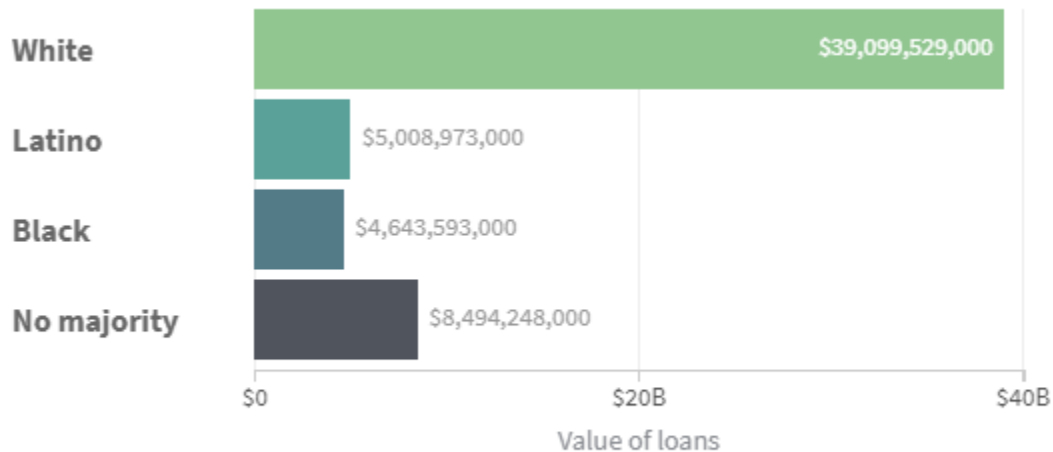
Reinvestment in multifamily rental properties is also a critical need. Partners within the affordable housing industry frequently mention the need for repairs and upgrades to aging rental assets. This need is particularly apparent in rural areas, where there may only be a handful of affordable rental properties across several communities. Preserving these properties through reinvestment is critical to maintaining affordable housing options in rural communities across the District. In cities like Chicago, industry partners highlight the need to preserve former Single-Room Occupancy (SRO) buildings, many of which offer permanent supportive housing to the city's most vulnerable residents. Access to capital allows developers to renovate these historic structures into modern multifamily properties, often reconfiguring units to give each a private kitchen and bath. This enables industry partners to provide higher-quality, more dignified housing and wraparound services to those who need it most.

f. Investment in owner-occupied housing and homeownership initiatives to address the homeownership gap and support wealth creation

In 2018, the majority of Illinois and Wisconsin households lived in owner-occupied homes. 3,189,035 of Illinois' 5,347,268 housing units (59.6%) were owner-occupied; in Wisconsin, 1,568,040 of the total 2,681,232 housing units (58.5%) were owner-occupied. Buying a home is often a crucial step for individuals to gain greater financial stability, and for families to build generational wealth. This is particularly true for African-American families, who have been systemically barred from the benefits of homeownership through generations of redlining, lending discrimination, and predatory lending practices. According to the Federal Reserve Bank of St. Louis, only 44.0% of Black families owned their home at the beginning of 2020, versus 73.7% of white, non-Hispanic families. With African-Americans comprising 14.2% and 6.4% of Illinois' and Wisconsin's total populations, respectively, many Black families continue to miss out on the benefits of homeownership and wealth-building. (Sources: *American Community Survey 5-Year Estimates, 2018*; *Federal Reserve Bank of St. Louis Economic Research, 2020*).

A study by WBEZ Chicago published June 3, 2020 found that in Chicago, 68.1% of dollars loaned for housing purchases went to majority-white neighborhoods, while just 8.1% went to majority-Black neighborhoods and 8.7% went to majority-Latino neighborhoods. In other words,

for every \$1 banks loaned in Chicago’s white neighborhoods, they invested just 12 cents in the city’s black neighborhoods and 13 cents in Latino areas. That is despite the fact that there are similar numbers of majority-white, Black and Latino neighborhoods in the city.



Source: WBEZ/City Bureau analysis of Home Mortgage Disclosure Act Data and United States Census Bureau data

Additionally, many low- to moderate-income families, regardless of race or ethnicity, do not have the income or savings to purchase a home. 2020’s historically low mortgage interest rates may be making homeownership more accessible for low- to moderate-income buyers, but many still struggle to save for an adequate downpayment. The Bank’s affordable housing industry partners attribute this to the District’s high cost of rental housing, which leaves many families cost-burdened. Expenses associated with transportation, utilities, healthcare, and childcare – particularly during the COVID-19 pandemic – may continue to restrict low-income families’ ability to buy a home.

Downpayment assistance grants, like those offered by the Bank, can provide critical leverage that allows low- to moderate-income buyers to purchase a home. However, affordable housing experts across the Bank’s District repeatedly emphasize the need for homeownership education and counseling as a component of downpayment assistance grant programs. According to the National Industry Standards for Homeownership Education and Counseling, homeownership counseling is a crucial element of stable homeownership. Consumers benefit from homeownership counseling by increasing their financial literacy skills, understanding foreclosure risk, and learning how to build wealth. Affordable housing practitioners cite the importance of this consumer education in building stronger and more resilient communities, where homebuyers have the knowledge to maintain homeownership over the long term. (Source: National Industry Standards for Homeownership Education and Counseling, 2020)

g. Elimination of blight

As in other Rust Belt cities, urban centers across the Bank's District continue to struggle with the impacts of blighted properties. Vacant and abandoned structures depress nearby property values, impact community well-being, and can attract crime. While living *in* substandard housing is known to cause health problems, living *near* vacant, abandoned, boarded-up, or foreclosed properties can also lead to adverse health effects.

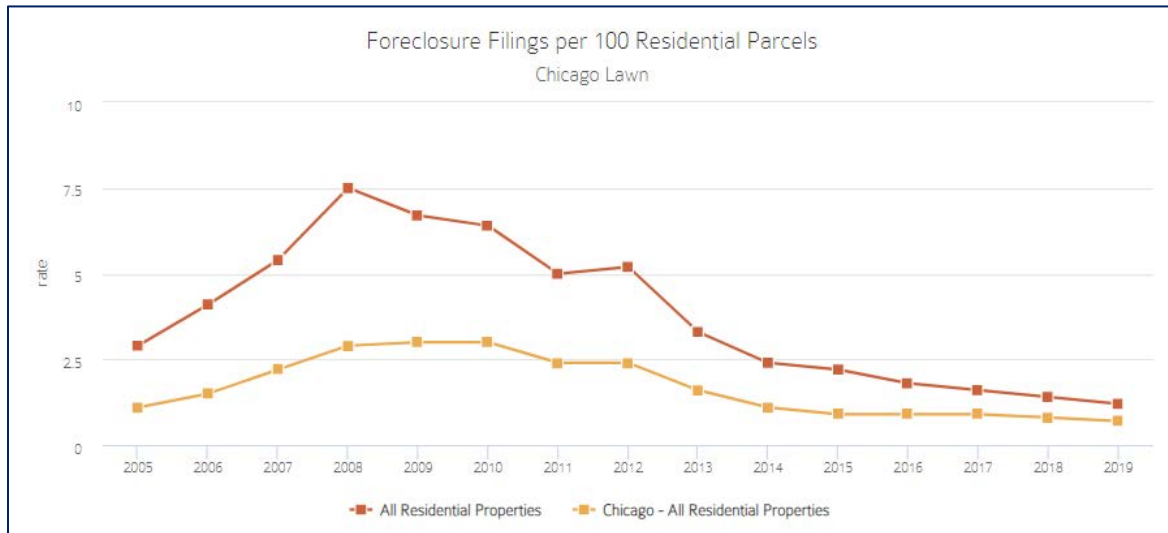
According to the Urban Institute's 2017 report, *Urban Blight and Public Health*, living near blighted properties can cause chronic illness in children and adults, stunted development in children, lower educational attainment for children, violence, and premature mortality. This is particularly true in neighborhoods where property vacancy and abandonment is disproportionately high. Unfortunately, these are often the same neighborhoods that have experienced decades of disinvestment, racial discrimination in lending, and loss of employment, compounding the negative effects of blight on residents. It is imperative that affordable housing developers are able to either retrofit abandoned properties into new housing options, or demolish blighted structures to make way for new development, to ensure the health and well-being of the communities they serve. (Source: *The Urban Institute and Columbia University, 2017*)

In addition to health impacts, blighted properties cause significant economic impacts. This is particularly true of foreclosed properties following the Great Recession of 2009. According to the Federal Reserve Bank of Cleveland, multiple studies have shown a sales price depression of approximately 1% for homes within one tenth of a mile of a foreclosed property. The studies found that this effect compounds with the number of foreclosures; for example, a home near three foreclosed properties could be expected to sell for approximately 3% less than anticipated. While this has the potential to negatively impact property sales in any community, this phenomenon can be particularly devastating for neighborhoods with extremely high foreclosure rates – which are often the same neighborhoods that were targeted for predatory and discriminatory lending practices. (Source: *Federal Reserve Bank of Cleveland, 2010*)

For example, the Chicago Lawn neighborhood of Chicago is a majority-Black community that experienced extremely high foreclosure activity during and after the Great Recession. From 2005-2017, 5,725 foreclosures occurred in the community, impacting a full 45.8% of the community's 12,511 housing units (unit count as of 2016). This vastly outpaced foreclosure activity across the City of Chicago. In addition to the devastating effects of foreclosure on the personal financial situations of borrowers, this wave of foreclosures may have impacted home sale prices across the neighborhood. As analyzed by the Institute for Housing Studies at DePaul University, extremely low-value sales of homes in Chicago Lawn spiked in 2012-2016 following high-foreclosure activity in 2007-2012. While Chicago Lawn is just one example of this trend (and may experience depressed property sales due to historic disinvestment, property condition,

buyer preferences, and other market factors), the data indicate a link between foreclosures and a depressed real estate market, even years after the fact. (Source: *Institute for Housing Studies at DePaul University, 2020; American Community Survey 5-Year Estimates, 2018*)

Foreclosure Filings per 100 Residential Parcels, Chicago Lawn and City of Chicago, 2005-2019



Source: *Institute for Housing Studies, DePaul University, 2020*

Share of Extremely Low-Value Home Sales, Chicago Lawn and City of Chicago, 2005-2019



Source: *Institute for Housing Studies, DePaul University, 2020*

The Bank's affordable housing industry partners have emphasized that incorporating blighted properties into new development has both economic and societal benefits. Cities in the Bank's

District with large numbers of city- or bank-owned properties, such as Milwaukee, are eager to partner with developers to return these properties to municipal tax rolls. They are often willing to convey these properties for a nominal fee in order for them to be redeveloped into useful community amenities. This reduces total development cost, while allowing developers to combat the negative economic outcomes and community health disparities that are driven by blight.

h. Small projects

Across the Bank's District, affordable housing development partners often struggle to build small (i.e., 1-24 unit) projects, despite the need for this type of housing in small, often rural, communities. Within the scoring parameters of many competitive financing programs, small projects are at a disadvantage. Given their low unit count, they cannot maximize both the amount of capital needed and the subsidy-per-unit scoring in many programs. Given the administrative costs associated with developing projects under the LIHTC program, small projects are often unable to carry the cost burden, and therefore are financially infeasible without additional soft funds. Affordable housing industry professionals note that small projects in rural areas are particularly affected by this, given developers' limited interest in investing in smaller markets.

Additionally, small projects are often developed or managed by small not-for-profit entities, whose limited staff may not have the capacity to access competitive funding sources or commit to associated long-term compliance obligations. It is therefore critical that the Bank incentivize small-scale development to ensure that the District's smaller communities can benefit from quality affordable housing options.

i. Large family housing

The Bank's affordable housing development partners report that housing units for large families are significantly underrepresented in the District's affordable housing stock. While units with three or more bedrooms accounted for 57.2% and 59.9% of all housing units (i.e., both market rate and affordable) available in 2019 in Illinois and Wisconsin, respectively, low- and moderate-income large families across the District may struggle to find adequately-sized affordable housing. Units with three or more bedrooms are also disproportionately concentrated in owner-occupied housing stock, further limiting low- to moderate-income rental households to an even smaller supply of adequately sized rental units.

Percentage of Rental and Owner-Occupied Housing Units by Number of Bedrooms, 2019

Number of Bedrooms	Illinois	Wisconsin
0	2.8%	2.0%
1	11.6%	9.8%
2	28.4%	28.4%
3	36.4%	40.5%
4	16.4%	15.6%
5 or More	4.4%	3.8%

Source: American Community Survey 5-Year Estimates, 2018

According to the Bank's affordable housing development partners, affordable rental housing for large families is exceedingly scarce within the District. They attribute this to development cost constraints, particularly in urban areas, that limit the construction of larger units. Additionally, zoning code in some municipalities may favor the development of smaller units, and make permitting and approval for large family developments more time-intensive, difficult, or costly. The Bank's partners suggest that incentives to develop large family rental units play a critical role in spurring such development. They particularly note the need for affordable supportive housing for families and housing for multigenerational households.

2. Need for Community Lending Support

Community lending by our members is an important source of capital fueling vibrant local economies throughout the District. The Bank not only offers regulatory programs that reward members with discounted advance rates to support community lending, but also provides added incentives through voluntary programs to support targeted areas of need within the District as well as lending capital to community partners to support longer-term objectives.

a. Small business lending

Both the Market Analysis (Section II above) and the Bank's qualitative research on District needs point to the critical need for small business support. This need has been further heightened by the COVID-19 pandemic's impact on local economies throughout Illinois and Wisconsin. During 2020, small businesses sought relief via grant programs and public and private relief programs, including loan forgiveness programs and programs offering access to capital to float operations. Many Bank members facilitated the Payroll Protection Program (PPP) to support the small businesses in their communities.

Based on ongoing discussion with the Bank's CDFI members and partners, many small businesses are still relying in Q4 on government assistance from earlier in the year, and Q1 and Q2 2021 may reveal a more complete picture of the extent to which small businesses have been

impacted by the economic crisis associated with the pandemic. Research suggests that Minority and Women's Business Enterprises (MBEs/WBEs) may be particularly hard-hit, and may require additional support to recover from the crisis.

While the Bank's community development partners and stakeholders reported less need for liquidity for new community lending during Q2-Q4 2020 due to the low rate environment and the economic slowdown, forecasting for recovery in 2021 suggests there will be renewed need for low-cost community lending capital in the year ahead.

b. Support for CDFIs and nonprofit lenders

Nonprofit lenders, especially CDFIs, are engaged in critical community development work from technical assistance programming to financing affordable housing developments, community facilities, and small businesses in rural, suburban, and urban communities. According to the Urban Institute, demand for CDFIs continues to grow as they are expected to reach more people and communities not served through traditional financial services. While there are many funding sources providing CDFIs lending capital, including the CDFI Fund, foundations, and financial institutions, there are fewer programs providing the flexible grant funding these organizations need to invest in their processes and people. "CDFIs need more than just money to lend and invest. They need funding to support operational capacity and innovation, to meet lender's and regulator's requirements, and for their programmatic work and impact measurement essential to serving their markets well." (Source: *Making Sure There Is a Future: Capitalizing Community Development Financial Institutions*, 2017)

Non-depository CDFIs and other nonprofit, non-depository lenders continue to play a critical role in financing small businesses, community institutions, and real estate development in markets that may be challenging for traditional lenders to serve. As a result, the work of these organizations complements, rather than competes with, that of traditional lenders to expand access to financing in disinvested and diverse communities. The Bank's community development partners suggest that collaboration between Bank members and non-member, non-depository CDFIs and nonprofit lenders positions all parties to better serve hard-to-serve markets.

As the work of CDFIs and other nonprofit lenders intensifies as a result of the COVID-19 pandemic, the need to expand their capacity to serve their communities has intensified. They report strong demand for resources for capacity-building, specifically investment in information technology/systems (including investment in remote work platforms and phone/video conferencing capabilities), program/product development, professional development, strategic planning, policy/procedure development, market research, and marketing. Building out organizational capacity in these areas will allow them to enhance and/or increase the services they provide to their communities.

The 2020 Needs Assessment also clearly points toward the ongoing need for CDFI lending capital, and in particular patient capital, to support communities across the District. With patient capital (i.e., long-term investment) investors are willing to forgo an immediate return in anticipation of more substantial returns in the future. For socially responsible investors, such as the Bank, this means a return focused on social impact (housing/jobs), greater risk tolerance than traditional capital investments, longer tenors for the return of capital, and providing a high level of management support to the borrowing entity as funds are utilized. Patient capital provides nonprofits a more sustainable alternative to short term restrictive funding options to meet the demands of their long term community development objectives.

IV. Strategy and Goals

Every year the Bank shapes its Community Investment strategy in response to the needs identified through its annual analysis of market dynamics and needs within the District. Each Community Investment program is tailored to align with the market factors and affordable housing trends identified, and is reviewed and modified annually to ensure it meets District needs.

The section below provides an overview of each primary Community Investment product, including a strategic analysis of how the program addresses the needs and dynamics identified through the annual Needs Assessment and Market Analysis.

A. Affordable Housing Programs (“AHP”)

1. AHP General Fund

Members may apply for AHP funds in partnership with Sponsor organizations involved in the acquisition, construction, and/or rehabilitation of rental or owner-occupied housing. The Bank awards the funds each year via a competitive process based on objective scoring criteria that reflect District needs and the Bank’s strategic priorities.

Needs/Strategy Alignment

Each year the Bank evaluates and adjusts AHP program parameters, feasibility guidelines, and scoring criteria in response to the market dynamics and needs identified in Sections II and III above. This year’s analysis suggests several areas of opportunity to directly align AHP program features to address market needs and dynamics.

The table below indicates how the needs and dynamics identified in this year’s research inform the Bank’s 2021 program strategy.

District-Level Needs		Program Strategy
Housing for homeless, including emergency shelters and transitional housing	→	Scoring category prioritizing housing for homeless households
Housing for vulnerable populations, including those with supportive service and/or accommodation needs	→	Scoring categories prioritizing special needs and permanent supportive housing
Safe, decent, affordable rural housing opportunities	→	Scoring category prioritizing rural projects
Mitigation of income segregation for LMI households	→	Scoring category prioritizing development of housing in mixed-income census tracts
Reinvestment in aging housing stock, both owner occupied and rental	→	Scoring category incentivizing rehabilitation of existing housing stock
Investment in homeownership initiatives	→	Scoring category prioritizing acquisition, rehabilitation and/or development of owner-occupied housing
Counteract the negative impact of blighted properties on communities and residents	→	Scoring category that priorities the elimination of blight
Affordable housing and economic development opportunities within District	→	Scoring category incentivizing in-district projects
Project investment opportunities for Bank members	→	Scoring category incentivizing member financial participation in projects
Access to capital for small projects	→	Scoring category prioritizing funding for small projects (1-24 units)
Housing for large families	→	Scoring category prioritizing creation of housing units for large families
Market Dynamics		Program Parameter
Per-credit LIHTC price fluctuations	→	LIHTC pricing guideline

Goal-Setting

In 2015-2019, the Bank awarded \$140.9 million to construct, rehabilitate, and/or acquire approximately 12,500 housing units. Of the total awarded, \$47.3 million went to 81 projects in Illinois, while \$83.4 million went to 159 projects in Wisconsin. The remaining \$10.2 million was awarded to 15 projects outside of the Seventh District.

The 2020 competitive round had an allocation of approximately \$24.8 million compared to \$23.8 million in 2019. In 2020, 83 applications were submitted by 40 members and 48 sponsors. The applications requested \$47.5 million in AHP subsidy to construct, rehabilitate, and/or acquire 4,437 housing units. The Bank made 44 awards, funding the construction, rehabilitation, and/or acquisition of 2,144 housing units.

2021 AHP
Quantitative Goal
40 members submitting a total of 75 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.

Needs/Strategy Alignment

DPP addresses a critical need by helping to close the homeownership gap for low- and moderate-income families. As described in the above Needs Assessment, many households across the Bank’s District do not have the income or savings to purchase a home, and are often trapped in cost-burdened rental housing as a result. This is particularly true for African-American families, who lag behind white families in homeownership rates due to generations of discriminatory lending practices. Despite historically low mortgage interest rates, low- to moderate-income individuals often cannot access homeownership as a pivotal driver of generational wealth, because of their inability to save up an adequate downpayment.

Downpayment assistance grant programs, coupled with homeownership education and counseling, provide needed leverage to help low- and moderate-income households attain homeownership. The DPP program is designed to provide the Bank’s member financial institutions with efficient, year-round access to capital to make homeownership possible for low- to moderate-income homebuyers. The program’s requirement that all borrowers complete

homeownership education and counseling ensures an educated consumer base that is well-equipped to maintain homeownership over the long term.

Research efforts to inform the Bank's DPP strategy included individualized outreach to prospective, new, and experienced members using the program, as well as targeted discussions with Community Investment Advisory Council members.

The feedback received affirmed the relevance of several program features:

- *Year-round grant availability:* Members appreciate that the program now opens in January and remains open through December due to supplemental voluntary funding.
- *Programmatic ease of use:* Members appreciate DPP Online functionality, training resources, and customer service/support.
- *Subsidy layering:* Members and borrowers appreciate that DPP can easily be layered with other downpayment assistance programs, such as those offered by IHDA, WHEDA, local government, and not-for-profits. Low- to moderate-income buyers who are able to access multiple downpayment assistance grants are able to leverage these funds to buy a home in markets that may not otherwise be affordable.

Ease of subsidy layering is a particularly important DPP program feature. An example is in the Bank's District is the Madison, WI (Dane County) area, which has faced mounting housing affordability pressure in recent years. According to Zillow, the average sales price of a single-family home in Dane County is \$308,911, versus only \$200,295 statewide. Eligible buyers are able to layer downpayment grants from DPP, WHEDA, and local government programs offered by Dane County. Buyers with disabilities may also leverage downpayment grants offered by local organizations. Programmatic partners have mentioned that some Madison area homebuyers have been able to layer downpayment assistance grants up to \$25,000. This significantly increases a buyer's ability to purchase in a market where they may otherwise struggle to do so, and highlights the important role of downpayment assistance programs, including DPP, in increasing housing affordability across the District.

Goal-Setting

From 2015 through 2019, the DPP program has assisted over 15,000 households with down payment grants totaling \$89.5 million. Over that period, homebuyers received \$51.7 million to purchase a home in Illinois and \$29.3 million to purchase a home in Wisconsin. The remaining \$8.5 million assisted households purchasing a home outside of the District.

A total of 317 members enrolled in 2019, an increase from 297 in 2018. 192 of these members made DPP reservations. Demand for DPP was steady in 2019; utilization of all funds resulted in 3,421 households assisted.

2021 DPP
Quantitative Goal
185 members providing grants to 3,100 households (30% of projected active, non-insurance members)

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. The Community Advances Program is a regulatory program offered by the Bank.

In response to the growth in small businesses and higher rates on most business loans, the Bank enhanced the Community Advances program by offering a new voluntary program, the Community Small Business Advance, in July 2018. Members can access this advance with zero percent financing to support small business lending in low- to moderate-income communities within Illinois and Wisconsin. The Bank requires that this cost-of-funds savings be passed down to the member's customer by limiting the rate that a member can charge on the underlying business loan.

Needs/Strategy Alignment

As noted in the Needs Assessment above, there continues to be strong demand for community lending, particularly as it relates to supporting small businesses. To this end, the Bank will continue to seek opportunities to support members' activities in this area through as-needed program enhancements and expansion of access when possible. In 2020, the Bank expanded access to the Community Advances Program with a temporary eligibility allowance for all PPP-eligible businesses, under authority provided by the FHFA in response to the COVID-19 crisis. The Bank will continue to leverage such opportunities as they arise going forward. In addition, with an anticipated upturn in the economy in 2021, the Community Small Business Advance product in particular will be well positioned to provide members with a no-cost funding option to support small business recovery.

Goal-Setting

From 2015 through 2019, Community Advances have totaled over \$3.3 billion, which consists of over \$660 million in economic development advances and \$2.7 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 nearly 26,000 housing units, including 22,266 owner-occupied units and 3,638 renter-occupied units with 28% supportive units at or below 50% AMI.

Illinois Community Advances activity from 2015 through 2019 totaled \$802 million, which consisted of over \$585 million for economic development and \$216 million for affordable housing advances. The largest categories of projects qualifying for economic development included commercial and agricultural. For housing, Community Advances have supported 5,026 housing units, including 1,775 owner-occupied units and 3,251 renter-occupied units with 61% supportive units at or below 50% AMI.

Wisconsin Community Advances activity from 2015 through 2019 totaled \$2.6 billion, which consisted of \$77 million for economic development and \$2.5 billion for affordable housing advances. The largest categories of projects qualifying for economic development included commercial and agricultural. For housing, Community Advances have supported 20,878 housing units, including 20,491 owner-occupied units and 387 renter-occupied units with 19% supportive units at or below 50% AMI.

In 2019, members reserved \$1.5 million in interest rate subsidy of the \$2 million available. Eleven members submitted a total of 26 Community Small Business Advance applications, 21 of which were ultimately drawn representing \$11,219,604 in lending to members. The underlying small business loans supported multiple industries, including real estate, manufacturing, and agricultural. Additionally, through these advances, 356 jobs were created or retained. As of September 30, 2020, six members have submitted a total of 20 Community Small Business Advance applications, all of which have been drawn. This represents \$6.9 million in lending to members and has created or retained 255 jobs.

2021 Community Advances
Quantitative Goals
25 members (5% of borrowing members) drawing 60 advances
Community Advances account for at least 1% of outstanding advance volume

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 challenges 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 Fund is a critical tool to connect not-for-profit lenders, such as CDFIs, to Bank products and services.

The Bank hosted a system wide event, the CDFI Forum, in January 2020 which celebrated over 10 years of CDFI membership in the Federal Home Loan Bank System. Attendees included representatives from all the system banks as well as their CDFI members, and representatives from the Federal Housing Finance Agency. The objective of the Forum was to increase collaboration between system banks and CDFI membership through focused education, and product and program working sessions. The Forum also included broader presentations covering the FHLBanks’ mission and CDFI partnership, CDFI business models and capitalization strategies, use of Bank products and programs as well as a forward looking discussion to build on success.

Needs/Strategy Alignment

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.

Research on district needs affirms the need for this critical program to support CDFIs, and in turn, communities throughout the District.

Goal-Setting

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 September 30, 2020, the Bank had committed \$45.75 million to eight partners, with approximately \$25.5 million being deployed in Illinois and \$19.5 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.

2021 Community First® Fund
Quantitative Goal
Deploy remaining \$4.25 million to existing partners with capacity or new candidates with safety and soundness

2. Community First® Capacity-Building Grant Program

The Bank launched a new voluntary program in 2017 to provide nonprofit, non-depository lending institutions (e.g., CDFIs, community development loan funds, community development corporations, etc.) grant funding to strengthen their financial position, operational efficiency, and human capital in support of affordable housing and economic development lending in Illinois and Wisconsin. Bank members apply for Capacity-Building Grant Program funds to support organizations working at the grassroots level that are in the best position to identify and respond directly to community needs. The Bank provides flexible grant funding to these nonprofit, non-depository lenders through member institutions.

Eligible uses of Capacity-Building Grants include:

- New program or product development
- Market research to expand existing programs
- Marketing and branding

- Professional development of staff and/or board(s)
- Creation or expansion of a strategic plan
- Creation or improvement of lending policies and procedures
- Enhancements to information technology and systems
- Improvements to lending, financial, and/or mission-related reporting

Only nonprofit lenders with a footprint in the Bank's district are eligible for consideration. Many factors are considered when evaluating applicants, including the organization's mission, proposed use(s) of grant funds, proposed outcomes, and strategy to increase community development lending within Illinois and Wisconsin.

Needs/Strategy Alignment

The Capacity-Building Grant Program provides the flexible grant funding that CDFIs need to engage in the foundational work necessary to maximize their impact. In anticipation of the 2020 Capacity-Building Grant Program, Community Investment staff conducted extensive outreach to connect with eligible nonprofit lenders and member institutions. These conversations confirmed that such grant funding was indeed key to an organization's ability to transition to virtual operations as a result of the COVID-19 pandemic, to develop staff in order to meet expanding borrower needs, to develop new and innovating programming, and to conduct strategic planning for sustainable growth given the shifting market dynamics.

The Bank's targeted outreach efforts culminated in unprecedented application volume for the 2020 application round. In 2020, 35 organizations submitted program applications in partnership with 23 members, requesting a total of \$1.5 million, as compared to eight organizations submitting Capacity-Building applications in partnership with five member institutions in 2019 with total requests of \$317,000. The increased demand for this program in 2020 affirmed the Bank's programmatic strategy and direction; the program is addressing a clear need and fostering meaningful collaboration between Bank members and the CDFIs and nonprofit lenders in their communities.

Goal-setting

Between 2017 and 2019, \$760,964 was awarded to 20 nonprofit lending organizations supporting affordable housing and economic development in Illinois and Wisconsin. In 2020, the Bank increased the funding available for this program, from an initial \$250,000 to over \$900,000 in response to the strong demand for capacity-building resources as a result of the COVID-19 crisis. This increase allowed the Bank to award Capacity-Building grants to 21 organizations in partnership with 14 member institutions. Since the program's inception, the Bank has awarded \$1.7 million in Capacity-Building grants.

2021 Community First® Capacity-Building Grant Program
Quantitative Goal
5 members submitting a total of 12 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 homeowners and/or businesses in the affected communities.

Although an event may be declared a disaster by FEMA, the determination to provide assistance, the nature of the program(s) 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.

In 2020, the Bank leveraged this program to support relief programming in response to the COVID-19 crisis. In Q2, this took the form of the COVID-19 Relief Grant program, which provided up to \$20,000 in grant funding to all Bank members and associate members to support their small business and nonprofit customers and partners. In Q4, the Bank once again leveraged the Disaster Relief Program to offer the Targeted Impact Fund. This program provided up to \$20,000 in grant funding to all members and associate members for targeted relief for populations most impacted by the COVID-19 crisis, and to promote equity and opportunity for communities of color.

Needs/Strategy Alignment

The Disaster Relief Program provides an important vehicle for the Bank to meet disaster-related needs as they arise. It receives an annual funding allocation for the types of natural disasters that the Bank can anticipate may occur in the District in a given year, but it allows flexibility to respond to unique needs that arise as well. The COVID-19 Relief Grant program was designed and authorized within weeks of the start of the pandemic crisis to support nonprofit organizations and small businesses during a time of great economic and social uncertainty. Research efforts to inform program strategy included intensive discussions with the Bank’s Board of Directors, Community Investment Advisory Council, Executive Team, members, and community partners.

Key takeaways from these discussions that most informed the Bank's COVID-19 relief strategy included:

- Nonprofit organizations and small businesses were particularly vulnerable to the impacts of the COVID-19 pandemic. Many nonprofit organizations, such as social service agencies, were responding to greater social needs as unemployment increased. In addition, many small businesses were experiencing lost revenue due to stay-at-home orders and other responses implemented to contain the virus spread.
- In an uncertain economic environment, grants were more beneficial for organizations than loans. Grants provided much needed capital without expectation of repayment.
- Member institutions were in the best position to select program beneficiaries, as they knew best what their communities most needed.

The Disaster Relief Program represents an important tool at the Bank's disposal to respond in real time to disasters in the District.

Goal-setting

Since its inception in early 2014 through 2019, \$1.6 million in Disaster Relief grants were distributed to 327 families and businesses that suffered losses across Illinois and Wisconsin due to FEMA-declared disasters. In 2019, \$254,000 was granted to 53 recipients due to severe storms, tornadoes, and flooding in Illinois and Wisconsin.

In 2020, the Bank's COVID-19 relief programming was responsible for a significant increase in Disaster Relief Program activity. In total, 95% of the Bank's membership utilized \$13.1 million in COVID-19 Relief Grant funds, providing grants to over 2,400 beneficiary organizations. In total, 76% of the Bank's membership utilized over \$7.8 million in Targeted Impact Fund grants, providing funding to nearly 1,400 beneficiary organizations. Together these disaster relief programs provided members with a flexible, timely resource to address a wide range of COVID-19-related needs among their customers and in their communities.

Going forward, the Bank will continue to pursue opportunities to leverage the Disaster Relief Program to respond to emergencies in the District. The Bank does not set a numeric performance goal for this program, as program activity reflects the unique needs that arise in a given year, and these disasters by definition cannot be predicted.

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 partner as they work together to revitalize communities in Illinois or Wisconsin.

The 2020 Community First® awards were presented to awardees in March/April 2020. Awards were made in each of the following categories: Partnership, Project or Program, Pioneer, and Emerging Leader. Nominations will be accepted again in 2021.

5. Community First® Newsletter

Community Investment published the first quarterly edition of the Community First® newsletter in October 2008. In 2013, the Bank began publishing the newsletter bi-monthly and continues to do so. It is electronically distributed to over 7,200 interested parties and features program updates and guidance; information about the Community Investment Advisory Council; industry events; and community development trends within the District. The Bank continues to seek opportunities to leverage the bi-monthly newsletter to promote Community Investment programs and activities to members, current and potential program users, and diverse partners throughout 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 ("SBICs"). 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 the 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 or lockout period). Payments are quarterly.

2. Financing to SBA New Market Venture Capital Companies

The Small Business Administration's (SBA) 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

Illinois Housing Development Authority (IHDA) and Wisconsin Housing and Economic Development Authority (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 so long as certain criteria are met, such as maintaining a minimum rating. 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 enables 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 in their portfolios that are insured or guaranteed by government agencies 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 to the Bank servicing released. 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.

On June 18, 2018 the Bank became the first FHLBank to offer Low Loan Balance Loans as a new pricing option under its MPF Traditional product suite. Under this new option, PFIs can create delivery commitments comprised of loans within the following five delivery options: ≤85k, ≤110k, ≤125k, ≤150k, ≤175k. In addition, a sixth new grid is available at ≤200k for fixed-rate, thirty-year term mortgages only. These new pricing grids allow members to receive an improved price or "pay-up," making this an attractive new secondary market solution that is consistent with the Bank's mission to assist member liquidity for various loan programs.

5. COVID-19 Relief Advance

In April 2020, the Bank's Board of Directors approved interest rate subsidy to support up to \$4M in zero-rate advances for all members and associate members to help address liquidity needs arising from the COVID-19 crisis. The COVID-19 Relief Advance Program was offered to members for four weeks in April and May 2020, with a high utilization rate. This limited volume advance program provided members with a flexible, timely resource for balance sheet

management or to address a wide range of COVID-19-related needs among their customers and 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 and/or community lending activities 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, including the drafting of this report. One of the CIAC’s quarterly meetings is held with the Bank’s full Board of Directors. 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.

In 2020, the Community Investment Advisory Council launched its first working group, with a focus on racial equity. The Racial Equity Working Group seeks to promote racial equity across the Bank’s Community Investment (CI) voluntary and regulatory programs and increase awareness and open dialogue regarding racial equity dynamics in the affordable housing/community development space in Illinois and Wisconsin. The group has undertaken a review of existing Community Investment programs using a Racial Equity Impact Assessment (REIA) tool in order to identify opportunities for program enhancements as well as gaps that may be addressed through new programming. Recommendations for any such enhancements would be for the 2022 program year and beyond.

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.

Goal-Setting

During 2019, Community Investment staff sponsored, exhibited at, and/or presented at 17 industry-related events. Community Investment staff made multiple member visits during 2019, during which opportunities available through AHP, DPP, and the Community Advances Program were promoted. Lastly, staff attended 24 events and activities that included project groundbreakings and ribbon cuttings, and convenings hosted by members, sponsors, and other industry-related partners.

Given the shifting dynamics for engagement as a result of COVID-19, the Bank’s outreach activities will likely occur, at least in part, in a “virtual” setting in 2020 and 2021.

2021 Outreach
Quantitative Goals
Community Investment staff will conduct active engagement (sponsor, exhibit, and/or present) at a minimum of 36 industry-related events and/or meetings, including virtual engagements, such as sponsoring and attending conferences; attending project-related events; conducting technical assistance calls; presenting webinars; and actively reaching out to potential program applicants.

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. Staffs 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 2019, 12 land-based training sessions and 10 webinars were held to promote awareness of, and familiarity among members and their community partners with, the Community Investment programs. Lastly, staff conducted technical assistance site visits to first-time sponsors of awarded homeownership projects.

Goal-Setting

2021 Technical Assistance and Training
Quantitative Goal
Community Investment staff will host at least 20 in-person or virtual training sessions (either live or static) designed to increase understanding and utilization of the Bank's community investment products.

5. Customer Service and Product Delivery

Goal-Setting

2021 Customer Service and Product Delivery
Quantitative Goal
All CI staff, including CI managers, will obtain a Lean Six Sigma White, Yellow, or Green Belt, or Operational Excellence Leadership credential.
At least 52 meetings of Community Investment's Operational Excellence (OE) team members, in order to maintain momentum of OE activities.

6. **Diversity and Inclusion**

Goal-Setting

2021 Diversity and Inclusion Metrics
Quantitative Goals
A minimum of 37% of members will utilize the Bank's Community Investment products
Members using Community Investment products will use an average of 1.2 products
A minimum of 27% of members will participate in Community Investment training
Community Investment staff will conduct active engagement (sponsor, exhibit at, and/or present) at a minimum of 36 industry-related events and/or meetings with organizations that serve diverse populations or are working in diverse communities.

Approved by the Board of Directors
on the 9th day of June, 2020, and
Amended on the 11th day of December, 2020,
And the 23rd day of March, 2021

Its Corporate Secretary