FEDERAL HOME LOAN BANK OF CHICAGO
2017 COMMUNITY LENDING PLAN
Executive Summary

Pursuant to 12 C.F.R. Sections 1290.6 and 1292.4, the Federal Home Loan Bank of Chicago (the "Bank") presents its 2016Community Lending Plan (the "Plan") for the Bank's district, which is composed of the states of Illinois and Wisconsin (the "District").

The 2017 Plan consists of four parts: Part I - Mission; Part II - Market Research, Analysis, and District Needs; Part III - Initiatives and Goals for 2017; and Part IV - Community Support.

I. Mission

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

The Bank continues to build and expand a member-focused Bank by enhancing service to its members and increasing their utilization of its products and services. In response, and in support of the Bank's mission, the Community Investment Group collaborates with the Bank's Members & Markets Group and other areas of the Bank to increase outreach to members and community organizations. The Bank will continue to expand its outreach efforts in 2017, resulting in a deeper understanding of market conditions and District needs. By expanding its outreach, the Bank aims to (1) increase the visibility and understanding of Community Investment programs among its members and the District's communities as a whole, (2) broaden utilization of its programs, and (3) establish strategic partnerships with community organizations that help to further the Bank's housing and economic development missions. Through this outreach, the Bank seeks to:

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

II. Market Research, Analysis and District Needs

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

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

Market Conditions

National Economy

The Federal Reserve reported in its Beige Book that economic activity "continued to expand during the reporting period from late August to early October." Most Federal Reserve districts reported a "modest or moderate pace of expansion." In particular, the Chicago district cited "business spending and manufacturing production grew at a moderate rate, while consumer spending and construction and real estate activity increased slightly, and consumer spending was little changed." Furthermore, sales were constrained in several districts due to low home inventories. The Chicago district reported "construction and real estate activity increased slightly on balance over the reporting period." Sales for homes priced below $250,000 expanded, but activity was little changed for homes above $500,000.

Minutes from the Federal Open Market Committee's ("FOMC") September meeting show participants reported "labor market conditions strengthened in recent months and that GDP was increasing at a faster pace in the third quarter than in the first half of the year." Several FOMC participants said an interest rate increase would be appropriate "relatively soon if economic developments unfolded about as the Committee expected." Furthermore, Federal officials were worried a continued delay in raising rates would imply "a further divergence from the policy benchmarks based on the Committee's past behavior or risked eroding its credibility, especially given that recent economic data had largely corroborated the Committee's economic outlook."

According to the Bureau of Labor Statistics, the unemployment rate edged higher to 5.0% in September after holding steady at 4.9% for the previous two months. The ratio of unemployed job seekers to job openings increased to 1.442, according to August's Job Openings and Labor Turnover Survey. Despite the monthly uptick, the index is significantly lower compared to the end of the recession. During that time, there were 6.2 unemployed workers per job opening compared to the most recent reading of 1.442 in September. The little changed reading is a positive sign as the labor force expanded in September with the number of persons employed rising at a faster pace than those unemployed. Meanwhile, the broader unemployment rate, which includes underemployed and discouraged workers, was unchanged at 9.7%. The labor force participation rate rose to 62.9% in September from 62.8% in August. The participation index remains near its post-recession low as Baby Boomers retire and discouraged workers give up finding a job.

National Housing Trends

The U.S. housing market continued to improve in 2016, with recent data causing some economists to believe the slow improvement in the housing market may pick up further.

Housing starts remain near post-recession highs. Existing home sales continue to improve, with the National Association of Realtors reporting an annualized sales level of 5.47 million homes, which is below the pre-recession high of 7.25 million homes, but much better than the 2010 low of 3.45 million homes. In addition, 30-year mortgage rates have continued their downward trend; and consumer confidence remains near its post-recession high.

Purchases of new single-family homes, at 575,000 in the second quarter, were up 9 % from the previous quarter and 17 % from 2015. Multi-family housing starts increased 338,000 units in the second quarter, an increase of 11 % from the previous quarter, but down 11 % from 2015. In contrast, construction starts on single-family homes, at 756,000 units in the second quarter of 2016 were down 4 % from the previous quarter, but up 7 % from 2015 according to the second quarter 2016 HUD PD&R National Housing Market Summary.

The National Association of Home Builders Housing Market Index has risen substantially since 2010. The increase is due to builders remaining more optimistic about the housing market. The index jumped from 59 to 65 in the September preliminary reading. Present single-family sales and single-family sales in the next six months rose to 71 and, the traffic of prospective buyers increased to 48.

Growth in residential construction activity was moderate across several districts with an increase in nominal prices that helped reduce the number of homes that were underwater on their mortgage from 12.1 million at the end of 2011 to 4.3 million in 2015. The residential mobility rates have been in a decline since the mid-1990s. This trend is the highest amongst adults under 25 (39%). A key factor contributing to this trend is renters moving less frequently and homeowners having limited access to credit and staying in their current homes due to the collapse of house prices (as noted in the 2016 State of the Nation Housing Report).

<u>Single-Family Activity</u>

The continuing gap between new home supply and demand has contributed to an increase in house prices, which rose at an annual pace of 5.6%. Lower mortgage rates and a tightening labor market (which is pushing wages up) are helping to offset the impact of higher prices as reported

by the second quarter 2016 HUD PD&R National Housing Market Summary. According to Freddie Mac, the 30-year fixed-rate mortgage is 3.47% as of the week ending October 27th, hovering near its historical low since mid-2013.
The tightened supply has led to an inventory shortage in many metro areas. The demand for both new and existing homes has increased while supply decreased for new homes and increased for existing homes. Homes in foreclosure are above the historical rate of 1.5%. The percentage of homes underwater decreased from 8.5% in 2015 to 8.0% in first quarter 2016.

Based on data released from the Census Bureau in October, single-family housing starts rose 5.4% in September on a year-over-year basis. Despite rising to its third highest level since the last recession, single-family housing starts are well below the 1,823,000 pace last seen in January 2006. By region, single-family housing starts are up year-over-year in all areas with the exception of the West, which saw an annual 2.2% decrease. On the other hand, single-family housing starts are up 20% in the Northeast, 6.3% in the Midwest, and 12.1% in the South.

In addition, the housing cost burden of homeowners, defined as those paying more than 30% of their income towards housing costs, fell 25% in 2014 to its lowest point in a decade, as reported by the 2016 State of the Nation Housing Report. This was, in part, due to low mortgage interest rates and cost burdened owners forced out of their homes due to foreclosures. Further, exacerbating the issue was the high percentage of homes that remain "underwater," decreasing the number of homes available on the market, as owners were unwilling to take the loss associated with selling their homes in an undervalued market.

According to data from the Census Bureau, the formation of households by type is evolving. In 2015, the percentage of married households to total households stood at 48.17%, lower than the 60.8% pace in 1980. Meanwhile, non-family households is trending upward to 34.41% in 2015 compared to 26.28% in 1980. With a significant change in household type and low mortgage rates homebuyers are coming back into the market. But barriers such as high student loan debt and credit worthiness are posing a problem for first time homebuyers.

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

In rental markets the percentage of households paying more than 35% of their income towards housing costs reached historic levels, increasing from 37.4% in 2005 to 43.2% in 2013 before falling slightly to 42.6% in 2014, steadily declining to 41% in 2015. The decline between 2014 and 2015 is partially due to a transition of higher income households from homeownership to rental housing and trading location for affordability as reported by the 2016 State of the Nation Housing Report. During this same period, the percentage of renters paying more than half of their income towards housing costs increased dramatically, particularly among low-income households, in part due to stagnating wages and rising rents.

The conversion of single-family homes into rental units combined with multi-family construction activity has been able to keep up with the demand for rental units, as reported in the 2016 State of the Nation's Housing Report. This resulted in rental vacancy rates dropping to 7.17% and pushed the rise in rents.

Housing funding programs have been in flux over the years with reductions in the Community Development Block Grant ("CDBG") and HOME programs impacting the supply of new affordable rental housing. In 2016, HOME funds were cut by approximately 55%. These cuts may be partially offset by the National Housing Trust Fund; however, final resource allocations and availability have yet to be determined.

According to the April 2016 Center on Budget and Policy Priorities, the 2013 sequestration cuts caused annual housing assistance funding to fall by $6.2 billion. As a result, policymakers reduced some of the sequestration cuts for 2014, 2015, and 2016, but housing assistance funding in 2016 remains $2.1 billion, below the 2010 level adjusted for inflation. The rising costs associated with providing rental subsidies have resulted in an ongoing overall decrease in the number of housing choice vouchers available and a reduction in the number of federally assisted low-income renter households.

Housing Legislation

The Low Income Housing Tax Credit Program is unable to support the development of affordable housing and is often combined with other subsidies such as HOME funds. However, funding for the HOME program was reduced by 55% between FY 2006 and FY 2016 resulting in cities to use a variety of financing methods such as taxes on real estate transactions, tax-increment financing, and linkage fees on commercial development. Recently, HUD allocated $174 million to states through the National Housing Trust Fund. These funds will provide a much needed increase to state and local programs. The growing gap between rents for new units and the amounts lowest income households can afford to for housing reinforces the difficulty of increasing the affordable supply through new construction alone, as noted in the 2016 State of the Nation Housing Report.

Recently, a bill was introduced to expand the Low Income Housing Tax Credit by 50 %. The bill would help create or preserve approximately 1.3 million affordable homes over a 10 year period resulting in an increase of 400,000 more units than what is possible under the current program. The bill also enacts a permanent 4% credit rate floor for acquisition and bond-financed projects. Similar to the minimum 9% credit rate that was made permanent at the end of last year; this change would streamline program administration, increase predictability, and empower states to allocate more credit equity to properties as needed for financial feasibility, according to second quarter 2016 Affordable Housing Finance.

District Trends

In 2016, building permits for both single and multi-family projects in the District continued to improve while home sales and median prices maintained previous gains. However, building permits levels in both Illinois and Wisconsin have not rebounded to pre-recession levels. Additionally, the District's unemployment rate continues to decline; however, the jobless rate in Illinois had inched higher year-over-year.

<u>Population and Demographics</u>

Since the 2010 census, Illinois has experienced a decline in population with growth of just around 0.1 %, according to the February 2016 State of Illinois Forecast Report. Household growth rate declined from 3.9% in 2010 to 0.2% in 2015. However, population growth is forecast to increase, although it may take longer for this to happen due to the state's financial situation and job growth being slower than average.

In 2015, the median household income in Illinois was $59,588 as compared to the median household income in the US of $55,775. While the 2015 median income exceeds the median for the nation overall by $3,813, the 2016 Census American Community Survey data for this period shows an increase of 3.61% in median household incomes over this period.

During this period, Illinois households earning less than 80% of AMI and 50% of AMI averaged 40.3% and 24.9% of total households, respectively. This compares to national averages of 40.3% and 24.8%, respectively, over the same period.

In Wisconsin, population and household growth in 2015 exceeded Illinois, with population and households growing at 1.55% % and 1.45%, respectively. Since the 2000 census, Wisconsin's population and households have grown at approximately twice or greater the rate of Illinois, with a 7.3% increase in population and a 10.7% increase in households to their current estimated levels.

The 2015 Wisconsin median household income was $52,738 or $3,037 below the national median. This is an increase from $51,598 in 2010; however, when adjusted for inflation represents a 6.1% decline in household income over this period. Wisconsin households earning less than 80% of AMI and 50% of AMI averaged 39.7% and 23.3% of total households, respectively, between 2010 and 2014.

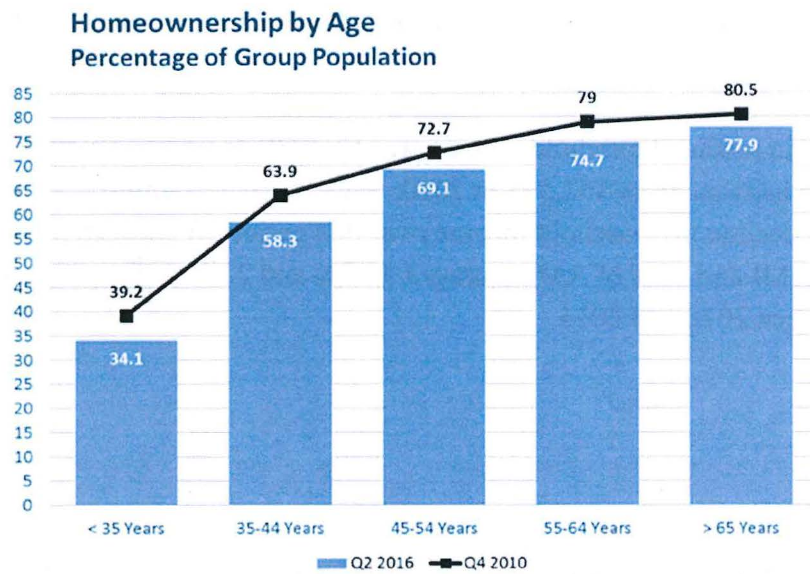
Housing

Housing Units

According to the U.S. Census Bureau, housing starts decreased to an annualized seasonally adjusted level of 1.047 million in September 2016, which is much better than the all-time low of 478,000 units in 2009, but still lagging the all-time high of 2.273 million units in 2006. Housing starts have been volatile since 2013 and are only up 0.88% year-over-year. Historically, there has been a high correlation between an improving labor market and rising housing starts levels. A lower level of housing starts relative to housing demand for the last few years has reduced the overall supply of homes. According to the National Association of Realtors, the supply of existing homes is slowly trending downward to 4.5 months' worth of supply in September 2016.This is significantly less than the 11.9 months' worth of supply during the last recession. Six months' worth of supply is considered a healthy inventory of homes to satisfy demand.

Data from the Census Bureau shows 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. However, some of those headwinds seem to be abating and household formation in the U.S. is now rising at the highest level in decades. This suggests positive developments for the U.S. housing market going forward.

The homeownership rate continues to be highest among older home owners. However, the trend may start to move downward as Baby Boomers retire and opt to rent. Moreover, homeownership rates are likely to remain low for Millennials due to the high burden of student debt. By region, homeownership rates are mostly evenly distributed. However, both the Northeast and the West remain below the United States average in the second quarter of 2016 according to Freddie Mac data. Further, Freddie Mac data reflects that mortgage rates are reversing the increase seen in the first quarter of the year, recently declining to 3.48% as of September 22 and nearing the lows seen in 2013.



Source: U.S. Census Bureau

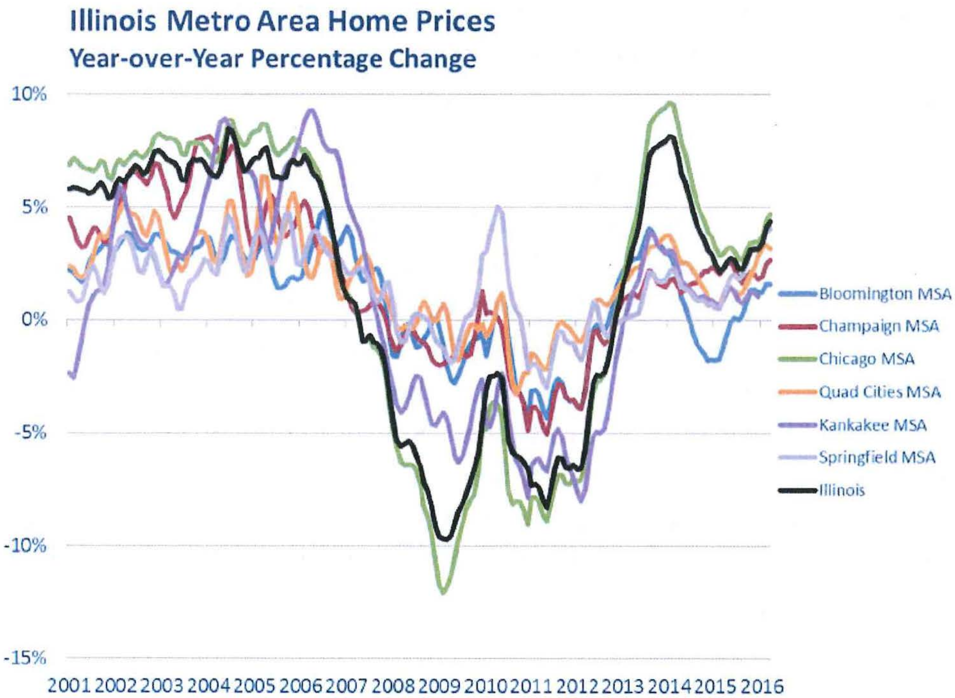
Home Sales and Median Home Prices

Existing home sales – accounting for the vast majority of total home sales – increased to 5.47 million in September. Likewise, the number of existing homes for sale increased month-over-month to a 2.04 million annual pace in September, which still reflects a 6.85% decrease year-over-year. While mortgage rates continued to move lower, existing home sales rose 3.12% in September. However, despite the monthly fluctuation, the trend remains higher compared to the all-time low of 3.45 million in 2010. Low mortgage rates should spur more home buying in upcoming months as consumer confidence remains high.

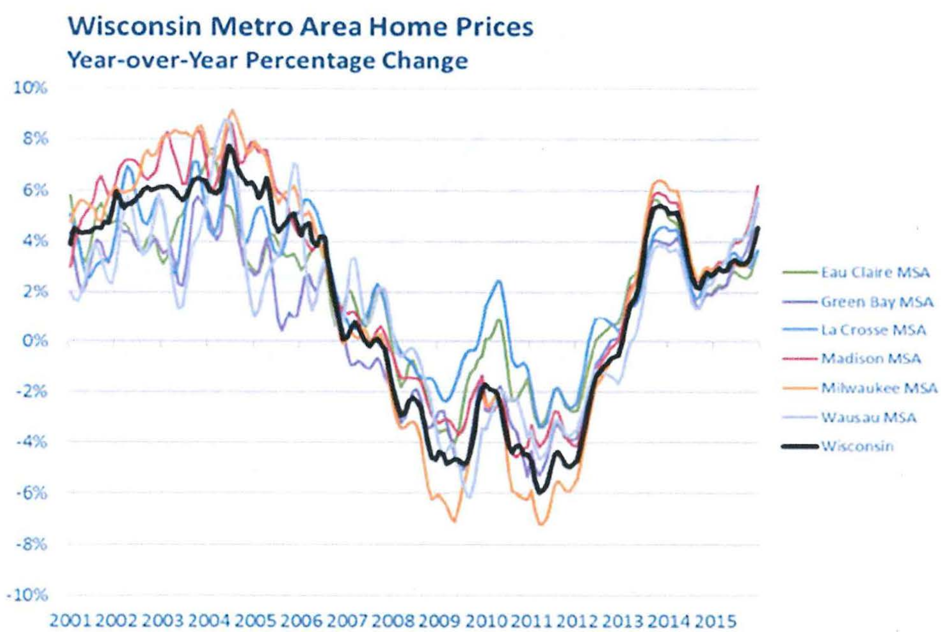
The S&P Case-Shiller Home Price Index showed that home prices were unchanged in July, previously declining 0.1% the last three months. However, the year-over-year growth rate edged lower to 5.1% in July compared to 5.6% in January. Prices rose in 12 cities, were unchanged in two, and fell in the remaining six. In particular, Chicago home prices decreased 0.5% in July following a 0.6% decrease in June. However, Portland rose at the fastest pace on a year-over-year basis, jumping 12.4%. Closely following, Seattle and Denver increased 11.2% and 9.4%, respectively.

By metropolitan area in Wisconsin, Madison and Milwaukee saw a housing bubble similar to other Wisconsin metropolitan statistical areas ("MSA"s), though the decline was less severe. Green Bay and Madison are leading the state in year-over-year home price gains while Milwaukee is approaching the state average of 4.81% 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. Chicago area home prices have increased at the fastest pace, rising 4.7% as of June 2016. See Illinois and Wisconsin Metro Area Home Price charts below:



Source: HUD

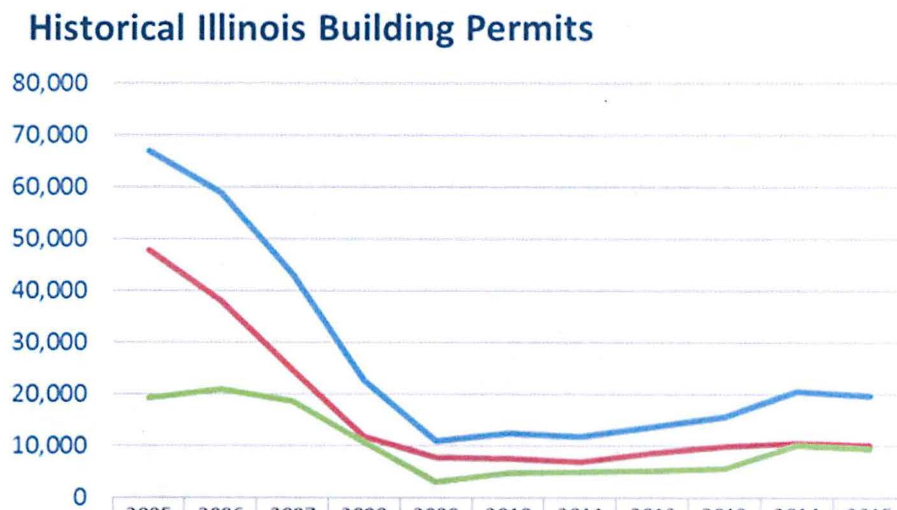


Source: HUD

Building Permits

According to the U.S. Census Bureau, building permits jumped 6.3% month-over-month in September to an annual rate of 1,225,000. This is an 8.5% advance on a year-over-year basis. The larger-than-expected increase was driven by multi-family units.

Building permit data from the Census Bureau shows that new, authorized privately owned housing units totaled 170,584 in the Midwest in 2015. Within this region, Illinois had the highest number of permits at 19,564. Single-family building permits made up the majority of the total. Despite the recent uptick in Illinois building permits, 2015 levels remained well-below pre-recession levels when building permits totaled 47,709 in 2005. Illinois made up 17.2% of five units or more. Meanwhile, Wisconsin totaled 16,769 building permits, while it made up 5.44% of all 5 units-or-more building permits in the Midwest. Similar to Illinois, the majority of Wisconsin building permits are due to single-family units. In contrast, all multi-family units totaled 7,002 in 2015. Building permit activity in Wisconsin has not suffered as severely as in Illinois following the last recession. Levels in 2015 were only down 25% since 2005. See Illinois and Wisconsin Historic Building Permits charts below:



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Units	66,946	58,806	43,020	22,531	10,859	12,318	11,809	13,797	15,555	20,581	19,564
Units in Single-Family Structures	47,709	37,907	24,511	11,830	7,844	7,624	6,834	8,564	9,879	10,556	10,069
Units in All Multi-Family Structures	19,237	20,899	18,509	10,701	3,015	4,694	4,975	5,233	5,676	10,025	9,495

Source: Bureau of Labor Statistics

Historical Wisconsin Building Permits

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total Units	35,513	27,472	21,916	15,590	10,824	10,914	9,968	12,068	14,003	14,697	16,769
Units in Single-Family Structures	26,145	19,750	16,340	10,205	7,977	7,737	6,531	7,725	9,015	8,657	9,767
Units in All Multi-Family Structures	9,368	7,722	5,576	5,385	2,847	3,177	3,437	4,343	4,988	6,040	7,002

Source: Bureau of Labor Statistics

Employment

The September non-farm payroll employment report from the Bureau of Labor Statistics showed that U.S. payrolls grew below expectations, rising 156,000 employed for the month compared to consensus expectations of a 172,000 gain. Revision to non-farm payrolls in July and August resulted in a lower net revision of 7,000 with August showing a gain of 167,000 compared to the initial 151,000 and July showing an increase of 252,000 versus 275,000. Currently, it takes 29 days to fill a vacant job, close to the pre-recession low of 23 days in 2006. September's increase marks the 72nd consecutive month payrolls increased.

As of September 2016, the three-month moving average of payroll growth slipped 38,000 to 192,000, slightly reversing the prior month's increase. Likewise, the six-month moving average decreased modestly to 169,000, previously 174,000 in August.

Within the 156,000 increase, professional services rose at the fastest pace, adding 67,000 jobs in September. With respect to the private service-providing jobs, a 29,000 gain in education and healthcare jobs boosted overall employment. The goods-producing sector rose 10,000, dragged down by manufacturing, mining, and logging.

Based on the Bureau of Labor Statistics Job Openings and Turnover Survey, 2.98 million people quit their jobs in August, a 0.13% increase for the month. The quits rate was unchanged at 2.1%.

By region, the quits rate was little changed. Moreover, there were 1.6 million layoffs and discharges in August, near the lowest level on record. The layoffs and discharges rate was 1.1%.

In particular, Illinois added 6,008.7 jobs to payrolls in August 2016, slightly less than the 6,016.9 jobs added in July. On a year-over-year basis, leisure and hospitality rose at the fastest pace, increasing 3.98%. Closely following, the professional and business services sector rose 1.85%, and education and health services increased 1.16%. On the other hand, slowdown in the manufacturing industry pushed Illinois manufacturing payrolls down 2.03%.

Likewise, Wisconsin payrolls growth slipped modestly by 0.10% in August according to the Bureau of Labor Statistics. However, Wisconsin payroll growth expanded 1.42% year-over-year, mostly due to a 5.86% jump in construction payrolls and 2.72% in financial activities. No sector fell year-over-year.

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 in the labor market and economic growth.

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

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 continued to suffer from stagnant wage growth and more volatility in year-over-year change in non-farm payrolls in all metro areas during the recovery relative to Wisconsin. However, in recent months, the Wisconsin and Illinois tales have started to move in tandem.

The unemployment rate in Wisconsin has been below that of both Illinois and the nation during the recession and subsequent economic recovery. Illinois has seen an increase in unemployment year-over-year from 5.8% in June 2015 to 6.2% in June 2016, previously. In contrast, the unemployment rate in Wisconsin has consistently fallen month-over-month since 2009. The rate is down 0.4 percentage points on the year in June.

Unemployment rates remain high in most metro areas of Illinois. Danville is the only metro area to have an unemployment rate above 7% as of June 2016, according to the Bureau of Labor Statistics. While most metro areas have seen improvement in the last year, the unemployment rate jumped in Bloomington, Quad Cities, and Illinois overall. Chicago area unemployment was unchanged from 2015 at 6.0%.

Wisconsin metro areas have seen steady improvement in unemployment in recent months, with most areas near or below the state average. The Janesville, Milwaukee, and Oshkosh areas have shown the largest drop in unemployment in the past 12 months out of all MSAs in Wisconsin.

Programs and Policy

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

Wisconsin has fewer housing resources than Illinois available at the state level for the development of affordable housing, and does not offer state tax credits or have a trust fund to finance affordable housing projects. Unlike Illinois, however, Wisconsin does provide a tax credit for qualified historic rehabilitation projects, which is an important funding source in many affordable housing projects.

In both Illinois and Wisconsin, limited soft funds make 4% bond deals targeting lower-income households challenging in the absence of project-based rental assistance.

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

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

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

III. Initiatives and Goals for 2017 CI

The Bank continues to support the following strategic goals:

- Building a member-focused Bank, which involves all areas of the Bank coming together to deliver excellent products and services to its members;
  - Increasing the value proposition for members by building new relationships with members, expanding training, and using market research to inform development and expansion of programs;
  - Efficiently delivering products and services to members and sponsors using new systems and processes, better articulating policies and program guidelines, and leveraging expertise;
  - Conducting business operations in a more efficient and cost effective manner by building and implementing a strategic reporting framework and program systems.
- Building the MPF business, which is rapidly becoming accepted by most of the other FHLBanks as the mortgage aggregation platform for the System; and
- Using Community Investment's programs and outreach to support the strategic goals and address market needs through:
  - Prioritizing projects that address market needs by awarding points in the Competitive Affordable Housing Program that include the following activities:
    - Elimination of blight through the development of foreclosed and vacant properties and infill sites;
    - Support of homeownership;
    - Preservation of existing rental and owner-occupied housing;
    - Development and preservation of permanent supportive housing.
  - Supporting job creation by facilitating investment in small businesses through its various community lending programs.

These goals are described in more detail as they pertain to the following initiatives.

A. <u>Community Lending Programs</u>

1. Community First® Fund ("Fund")

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

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

The Fund's critical objectives are to maximize community impact, achieve a member nexus, support partner and member opportunities in rural, urban, and suburban areas, and promote the Fund's impact and achievements to the Bank's members and the communities they serve.

The Bank began the evaluation and selection of partners through a request for information in the fall of 2012. This was followed by a request for proposal in the spring of 2013. Initial proposals were reviewed throughout 2013 and 2014. This included the underwriting and eventual funding of the first loan Partner in June 2014. The Bank continues to review submitted proposals and solicit new candidates that meet the objectives of the Fund. As of October 31, 2016, the Bank had committed $41 million to eight partners, with approximately $25 million being utilized in Illinois and $16 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.

2017 Fund Goals
Qualitative
Continue to evaluate candidates governed by safety and soundness.

2. Community Investment Cash Advances ("CICA") and Letters of Credit Program

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

Since 2010, CICA advances have totaled $1.7 billion dollars, which consists of over $642 million dollars in economic development advances and $1.1 billion for affordable housing. The majority of economic development projects submitted for CICA over the past six years have been commercial and agricultural. For housing, the CICA advances have supported 13,155 housing units, including 9,465 owner-occupied units and 3,690 renter-occupied units with 30% of the CICA assisted units at or below 50% AMI.

Illinois CICA activity since 2010 totaled $655 million, which consisted of $470 million for economic development and $184 million for affordable housing advances. The largest categories of projects qualifying for economic development included commercial and agricultural. For housing, the CICA advances have supported 4,277 housing units, including 1,727 owner-occupied units and 2,550 renter-occupied units with 48% of the CICA assisted units at or below 50% AMI.

Wisconsin CICA activity since 2010 totaled $963 million, which consisted of $133 million for economic development and $830 million for affordable housing advances. The largest categories of projects qualifying for economic development included agriculture and commercial. For housing, the CICA advances have supported 8,478 housing units, including 7,392 owner-occupied units and 1,086 renter-occupied units with 21% of the CICA assisted units at or below 50% AMI.

Members also had CICA activity outside of the district which totaled $91 million, which consisted of $39 million for economic development and $52 million for affordable housing advances. The largest category of projects qualifying for economic development was commercial and agriculture. For housing, the CICA advances have supported 400 housing units, including 346 owner-occupied units and 54 renter-occupied units with 28% of the CICA assisted units at or below 50% AMI.

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

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

2017 CICA Goals
Qualitative / Quantitative
• Increase member utilization of CICA program through expanded outreach, training and technical assistance. • Minimum of 18 members with approved applications.

3. **Community First® Disaster Relief Program**

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

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

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

2017 Disaster Relief Program Goals
Qualitative
If a FEMA declared disaster occurs in the District, Community Investment will coordinate efforts with the Executive Team and Board of Directors to evaluate the needs and make a determination for assistance. If funding is made available,

Community Investment will work with Communications and other areas of the Bank to develop awareness and utilization of the program by member institutions.

4. Financing to Small Business Investment Companies

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

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

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

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

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

5. Financing to SBA New Market Venture Capital Companies

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

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

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

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

In late 2014, the Bank was approved to purchase bonds issued by IHDA and WHEDA as long-term investments. This will enable the Bank to support their affordable housing missions by assisting in the stabilization of housing sectors and by providing consumers with access to affordable housing and housing finance. The bonds issued by IHDA and WHEDA will assist homebuyers in Illinois and Wisconsin in purchasing a first home, and also assist housing developers with building or rehabilitating multi-unit affordable housing developments. The bonds will provide the Bank with highly rated, core-mission-activity investments that are directly related to residential units located in the District.

7. Government-Insured or Government-Guaranteed Loans

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

B. Affordable Housing Programs ("AHP")

1. Competitive Affordable Housing Program

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

Over the past five years (i.e., 2011-2015), the Bank has awarded almost $132 million to construct, rehabilitate, and/or acquire 16,700 housing units. Of the total awarded, $59.1 million went to 140 projects in Illinois, while $57.5 million went to 186 projects in Wisconsin. The remaining $15.4 million was awarded to 36 projects outside of the Seventh District.

The 2016 competitive round has an allocation of approximately $25.5 million compared to $29.4 million in 2015. For 2016, 126 applications were submitted by 65 members and 82 sponsors. The applications requested more than $68 million in AHP subsidy to construct, rehabilitate, and/or acquire 6,224 housing units. Reviews are ongoing as of the writing of this plan.

2017 AHP Goals
Qualitative
Complete internal review of AHP applications in a timely manner and announce awards in the fourth quarter.

2. Set-Aside

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

Since 2011, the DPP program has assisted 10,182 households with down payment grants totaling $73.1 million. Over that period, Illinois received $43.6 million while Wisconsin received $27.4 million to provide down payment assistance to 6,149 and 3,811 households, respectively. The remaining $2.1 million assisted 222 households to purchase homes outside of the Seventh District.

A total of 253 members have enrolled in 2016 (as of this writing), down from 290 in 2015. Demand for DPP was steady in 2016; utilization of all funds will result in approximately 2,900 households assisted.

2017 DPP Goals
Quantitative
• Increase member utilization of DPP through expanded outreach, training and technical assistance. • Minimum of 202 members with submitted reservations.

C. Other Activities

1. Community First® Newsletter

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

The Bank began publishing the newsletter bi-monthly in 2013 and will continue to do so through 2017. It will be electronically distributed to over 5,200 interested parties – a 21% increase when compared to 2015. It will continue to feature program updates and guidance, information about the Community Investment Advisory Council, groundbreakings and ribbon-cuttings, and community development trends within the District.

2. Community First® Awards

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

The 2016 Community First® awards were presented in conjunction with the Bank's regional membership meetings. Four awards were made in the following categories: Project or Program (2), Pioneer, and Emerging Leader. Nominations will be accepted in 2017 in these same four categories.

3. Community Investment Advisory Council

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

The CIAC meets quarterly with Community Investment staff and representatives from the Bank's Board of Directors to advise the Bank on ways in which it can better carry out its housing finance and community investment missions; staff also engages CIAC members throughout the year to leverage their expertise in specific topics. One of the CIAC's quarterly meetings in 2016 was held with the Bank's full Board of Directors; this was the first such meeting of its kind. Lastly, CIAC members serve as ambassadors of the Bank and its programs in their respective communities, often making connections to potential partners and other stakeholders.

One-third of council members' three-year terms, on a rolling basis, end 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.

4. 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.

In 2016, Community Investment sponsored 14 events and presented and/or exhibited at three of them. Community Investment staff made multiple member visits during

2016, during which opportunities available through AHP, DPP, and CICA were promoted. Lastly, staff has attended more than 70 events and activities that include project groundbreakings and ribbon cuttings, and convenings hosted by members, sponsors, and other industry-related partners.

2017 Outreach Goals
Qualitative / Quantitative
• Community Investment staff will support the ongoing efforts of sales directors, new staff, and other colleagues as well as proactively engage members, potential project sponsors, and other industry stakeholders to increase understanding and utilization of community investment products and resources. • To the extent relevant opportunities present themselves, Community Investment staff will attend (but not sponsor or otherwise participate in) at least ten industry-related events in the District. • To the extent relevant opportunities present themselves, Community Investment will sponsor, exhibit at, and/or present at a minimum of 12 industry-related events in the District. • To the extent relevant opportunities present themselves, Community Investment staff will attend eight sponsor or member project-related events (e.g., groundbreakings, grand openings, press events, etc.).

5. Technical Assistance and Training

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

In 2016, five land-based training sessions and three webinars were held to promote awareness of, and familiarity with, the Community Investment programs among members and their community partners. Staff also presented at 18 events and attended many more throughout the year.

2017 Technical Assistance and Training Goals
Quantitative
Community Investment staff will host at least five land-based training sessions and three webinars designed to increase understanding and utilization of the Bank's community investment products.

6. Operations

The Bank is committed to increasing operational efficiency within Community Investment. AHP Online, an online system for members and sponsors participating in the competitive program, continues to be enhanced to streamline the user experience. A companion system, DPP Online, was launched in 2016 for members participating in the set-aside program.

7. Staff Capacity Building

There is a focus on education and training to further develop the knowledge and skills of Community Investment staff, particularly training geared toward conducting day-to-day business in a more efficient manner.

IV. 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

Approved by the Board of Directors
on the 15th day of December, 2016
and amended on the 27th day of February, 2017
by the Affordable Housing Committee of the Board of Directors

Laura M. Turnquest

Its Corporate Secretary