FEDERAL HOME LOAN BANK OF CHICAGO 2022 TARGETED COMMUNITY LENDING PLAN

Pursuant to 12 C.F.R. Parts 1290.6 and 1291.13, FHLBank Chicago presents its 2022 Targeted Community Lending Plan (TCLP). The TCLP documents market dynamics, as well as housing and economic development needs, within FHLBank Chicago's district of Illinois and Wisconsin (the "District"). Specifically, the TCLP:

- Reflects timely market research on trends in the District;
- Describes how FHLBank Chicago will address identified credit needs and market opportunities in the District with targeted community lending;
- Establishes targeted community lending performance goals;
- Identifies and assesses significant affordable housing and economic development needs in its District that will be addressed through its programming;
- Specifies, from among the identified needs, the particular affordable housing needs that FHLBank Chicago plans to address via any Targeted Funds under its Affordable Housing Program.

The TCLP is developed in consultation with FHLBank Chicago's Community Investment Advisory Council (CIAC), shareholders ("members"), housing associates, public and private economic development organizations, and other stakeholders and partners throughout the District. FHLBank Chicago's 2022 TCLP consists of four sections: Mission, Housing and Economic Development Trends, Needs Assessment, and Strategy and Goals.

I. MISSION

FHLBank Chicago is a member-focused cooperative committed to delivering products and services that meet our members' needs and those of their customers and communities. FHLBank Chicago maximizes its value proposition for members by offering competitively-priced funding, a reasonable return on investment, and Community Investment programs that support critical housing and economic development needs in their communities.

Each year FHLBank Chicago sets aside 10% of its net income to invest back into members' communities in support of affordable housing. This annual contribution supports two core programs:

- **Affordable Housing Program (AHP) General Fund** Competitive grants for the acquisition, rehabilitation and new construction of rental and owner-occupied housing
- **Downpayment Plus® (DPP)** Downpayment assistance grants for members' low- and moderate-income mortgage borrowers

In addition, each year the FHLBank Chicago voluntarily commits additional resources to support needs in members' communities. Current voluntary offerings include:

- **Community First® Fund**
- **Community First® Capacity-Building Grant Program**
- **Community First® Disaster Relief Program**
- **Community First® Awards**
- **Supplemental DPP to support year-round program availability**

In 2020 and 2021, FHLBank Chicago also offered several one-time voluntary programs in response to the COVID-19 pandemic. Relief programs included zero-rate advances to meet members' liquidity needs and grants to support populations hardest-hit by the pandemic, including diverse and underserved communities.

Through its Community Investment programs, FHLBank Chicago provides members with robust, responsive resources to support affordable housing, community lending, and local economic development initiatives. By using our products individually or in combination, our members and their partners positively impact the communities they serve.

COMMUNITY INVESTMENT VISION STATEMENT

We deliver value by reliably supporting members' housing, economic and business development activities with innovative, responsive products and efficient, secure processes. Together, we invest in and transform communities.

II. HOUSING AND ECONOMIC DEVELOPMENT TRENDS

FHLBank Chicago continuously monitors market conditions in the District to identify unmet credit needs and opportunities to support community lending and affordable housing. Ongoing assessment of these dynamics is essential to informing FHLBank Chicago's Community Investment strategy. National and District housing and economic development trends are presented below.[*]

NATIONAL HOUSING TRENDS

The COVID-19 pandemic has placed unique strain on the national economy as well as on individual households experiencing pandemic-related hardships, including housing instability. Federal, state, and local eviction and foreclosure moratoria have played a key role in stemming a looming housing crisis for millions of U.S. households, and in doing so have also staved off the job losses, educational disruptions, and psychological distress that often accompany the loss of a home. These moratoria, so beneficial for residents, have also created challenges for landlords and lenders that float the cost of owning and operating housing in the absence of payments. With housing at the center of the pandemic's harshest impacts, it is noteworthy that the housing sector has emerged as a critical driver of the nation's economic recovery.

The housing sector is one of the few sectors of the national economy that has seen rapid expansion as the COVID-19 pandemic continues. Record low interest rates, combined with both consumer demand for more living space during stay-at-home orders and monetary and fiscal stimulus, have provided a backdrop for a white-hot housing market. Housing starts posted a 7% increase for full year 2020, and existing home sales reached a 14-year high (22% higher than 2019), leading to constrained housing supply in many regions.

By year-end 2020, U.S. Census Bureau data showed housing starts increasing over consecutive months to a seasonally adjusted annual level of 1.67 million, up 5.2%

[*] *Data regarding Market Conditions is as of December 31, 2020, unless otherwise stated.*

from one year prior. The increase was mostly driven by a 28% surge in single-family starts and masks a 40% decrease in multi-family starts. In the face of heightened demand, the supply of new homes was near a record low of 1.9 months in December 2020, significantly lower than the healthy supply benchmark of 6.0 months.

According to the National Association of Realtors, existing home sales, which account for the vast majority of total home sales, rose 5.6% in 2020 compared to 2019, reaching the highest level since 2006. The pandemic has supported a rise in single-family home sales and decline in multi-family sales as buyers seek more social distance and larger spaces to accommodate work-from-home arrangements.

The sharp increase in demand for single-family homes has vastly outpaced supply, accelerating a trend seen over the past several years. This has contributed to an increase in home prices, which rose at an annual pace of 10.1% year over year as of December 2020, 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.

DISTRICT HOUSING TRENDS

Housing sector dynamics in Illinois and Wisconsin largely mirror national trends. This section highlights those dynamics that are unique to FHLBank Chicago's District.

STATE-LEVEL PROGRAMS AND POLICIES

In Illinois, funding for affordable housing continues to be constrained. 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 hampering affordable housing development nationwide. Additionally, federal funding to the HOME program has recently faced drastic cuts, reducing Illinois' annual funds by over 40%. The Illinois Housing Development Authority (IHDA) continues to receive requests for both the HOME and Affordable Housing Trust Fund (AHTF) programs in excess of available funds.

IHDA's 2021 Annual Comprehensive Housing Plan focuses on the state's most urgent affordable housing challenges and identifies several priority service 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. IHDA is particularly focused on racial and geographic equality in housing development, and prioritizing housing for difficult-to-house individuals. IHDA's 2020-2021 Qualified Allocation Plan (QAP) also incentivizes projects led by diverse development teams.

Wisconsin has seen recent expansion in affordable housing funding sources. In 2017, the state 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 $7.9 million in state tax credits to 11 affordable housing projects in 2020. These credits will help develop or rehabilitate over 1,000 housing units. These sources, in conjunction with federal LIHTC incentives and state historic tax credits, allow Wisconsin developers to continue expanding affordable housing state-wide, despite the cuts at the federal level.

WHEDA's 2021-2022 QAP prioritizes increasing the supply of affordable housing to very-low-income families, senior citizens, veterans, and those requiring supportive services; developing innovative financing strategies, including leveraging local, state, and federal funding and using tax credit programs efficiently; expanding affordable housing in high-opportunity areas that align with broader community development plans; and increasing economic opportunity and housing outcomes through homeownership initiatives, property management approaches, and high-quality service delivery. Similar to Illinois' approach, Wisconsin's 2021-2022 also provides competitive advantage to projects with diverse development teams.

LOW INCOME HOUSING TAX CREDIT (LIHTC) EQUITY PRICING

The federal 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, which in most cases sell the credits to investors to generate equity for 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 this can result in relatively less equity available for rural projects.

SMALL BUSINESS TRENDS

Small businesses have been acutely vulnerable to the economic impacts of the COVID-19 pandemic. Many have lacked access to adequate savings, insurance, and credit to weather the crisis, and they have struggled to manage business disruptions and keep their doors open. 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. As of March 2021, the NFIB Small Business Optimism Index was 98.2, on par with historical levels but down from the pre-COVID environment. *(Sources: Congressional Budget Office, Interim Projections for 2020 and 2021, May 2020; NFIB Small Business Economic Trends, August 2019, August 2020, and March 2021)*

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 Paycheck Protection Program (PPP) loan funding and 32% of loan recipients had already been forced to lay off employees or cut staffing;
- 36% of small business owners anticipated needing to lay off employees or cut wages; and
- 30% of all small business owners, and 43% of Black small business owners, anticipated exhausting their cash reserves by the end of 2020.

Nonetheless, small businesses are optimistic that 2021 will be a year of recovery. In March 2021, many small business owners reported increased investment in their businesses. A net 28% of small business owners surveyed reported that they had recently raised worker compensation, perhaps in response to current difficulties finding qualified employees (indicated by the 24% of small business owners who reported labor quality as a top concern). At that time, survey respondents also reported spending on new equipment (41%) and new vehicles (26%), versus 42% and 24% of respondents, respectively, spending on these items in August 2019. While this is encouraging, small business owners' planned investments continue to remain below average, given the uncertainty of the small business climate as the nation recovers from the COVID-19 pandemic. *(Sources: Disappointed and Frustrated, Small Business Owners Feel Left Behind by Congress, September 2020, GoldmanSachs.com; NFIB Small Business Economic Trends, August 2019 and March 2021; Small Business Credit Survey, 2017, Federal Reserve Bank of Chicago)*

With COVID-19 variants continuing to threaten economic recovery in 2021, slowdowns, shutdowns, and other potential economic roadblocks loom. Concerns around inflation have increased operating costs for businesses and resulted in increased prices for their customers. Workforce challenges continue, with small business owners having difficulty finding qualified candidates for open positions. Business owners attribute this to a limited labor supply, increased worker mobility, continued unemployment benefits, and higher labor costs. Capital access has significantly decreased as PPP loans have been exhausted, with low confidence that businesses can survive without additional government relief. There is strong support for government entities to increase procurement opportunities. *(Source: Small Businesses Hit Roadblocks on Road to Recovery, Goldman Sachs 10,000 Small Businesses Voices, June 9, 2021)*

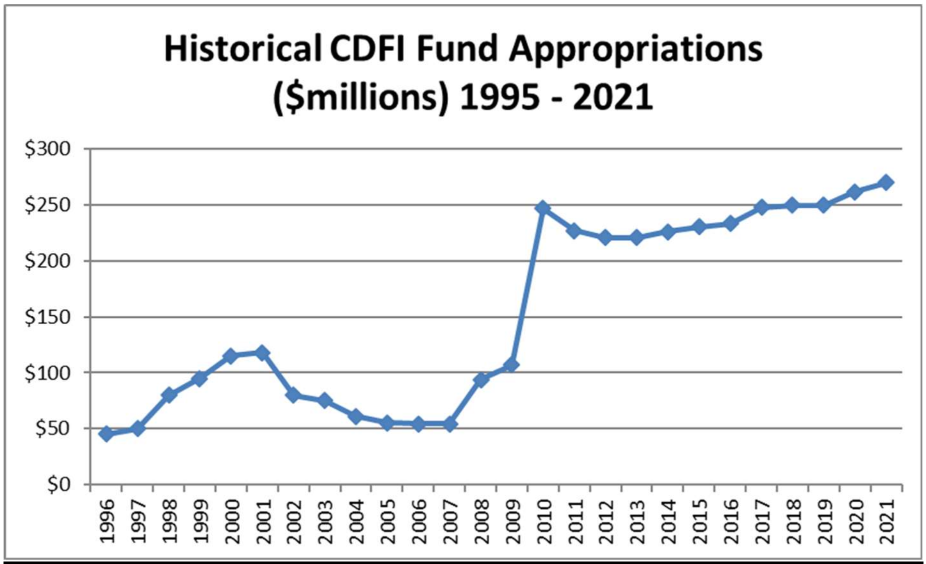
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTION (CDFI) ACTIVITY

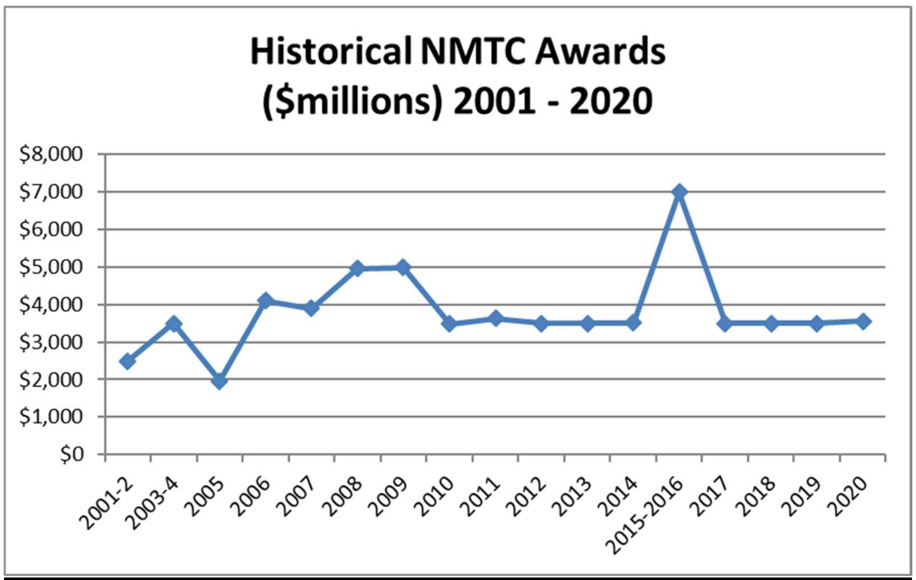
Community Development Financial Institutions (CDFIs) are private-sector, financial intermediaries with community development as their primary mission. The CDFI industry has grown and transformed over its more than 25-year history to be an important resource in providing access to affordable financial 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.

PRIMARY SOURCES OF FUNDING

CDFIs 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 critical source of support for CDFIs is the federal CDFI Fund, administered by the U.S. Department of the Treasury. The CDFI Fund provides CDFIs with 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 for distressed communities. *(Source: CDFI Coalition)*





Source: CDFI Fund (data points)

Membership in the FHLBank system also provides non-depository CDFIs with access to long-term funding and Community Investment programs, which can support CDFIs' housing and economic development mission in low- and moderate-income communities. As of March 2021, non-depository CDFI membership in the FHLBank system was at 65 members, and the total outstanding advance balance for CDFIs system-wide was approximately $385.15 million. At that time, FHLBank Chicago maintained six CDFI members with advances outstanding of $30 million. (*Source: FHFA FHLBank System Data as of March 31, 2021*).

To respond to the COVID-19 crisis, substantial amounts of new liquidity from both government and philanthropic sources have flowed to CDFIs. For example, by the end of Q2 2021, the U.S. Treasury, via the CDFI Fund, had awarded $1.25 billion to CDFIs to support economic relief in communities, and philanthropist Mackenzie

Scott had donated more than $4 billion in unrestricted funds to support the lending and operational needs of CDFIs and other nonprofits. FHLBank Chicago CDFI members and partners have benefited from these funding sources, which have equipped them to meet the heightened housing and economic development needs of underserved communities throughout the District.

CDFI PERFORMANCE DURING THE COVID CRISIS.

CDFIs are successfully navigating the impact of the COVID-19 crisis on their borrowers and portfolios. Portfolios continue to perform without evidence of significant deterioration. As of June 2021, delinquencies were down but reserves were increased; assets were seeing significant growth due to grants and investments; portfolios were growing with new-found liquidity and the support of government-funded programs such as the PPP. (Source: When will CDFI portfolio deterioration come?, Aeris Insights. CDFI Trend Reports, Q1 2021).

CDFIs IN ILLINOIS AND WISCONSIN

As of May 2020, there were 1,262 certified CDFIs nationally. Illinois and Wisconsin had 33 and 23 CDFIs, respectively, chartered within each state. Since 1996, District CDFIs that have been awardees of the CDFI Fund have been able to deploy $2.6 billion in loan proceeds for 14,824 loans and $1.6 billion for 271 projects in New Markets Tax Credit investments in Illinois, and $2.8 billion in loan proceeds for 30,142 loans and $2.0 billion for 305 investments in New Markets Tax Credits in Wisconsin. *(Source: CDFI Fund Searchable Awards Database 1996 to 2020)*

CRITICAL ROLE OF CDFIs

CDFIs serve a critical purpose in community development lending. They 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. They focus 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, Opportunity Finance Network, a national industry association serving

CDFIs, has set forth several federal policy priorities, including: maintaining appropriations from the federal government to finance award programs; continuation of funding of the CDFI Bond Guarantee Program; permanently authorizing the New Markets Tax Credit program with expanded access to CDFIs; and increasing access to other federal programs.

III. NEEDS ASSESSMENT

Each year, FHLBank Chicago conducts a Needs Assessment to ensure its Community Investment programs align with affordable housing and community lending needs across the District. The annual Needs Assessment informs enhancements to existing programs as well as the development of new programs.

METHDOLOGY

The annual Needs Assessment relies on quantitative and qualitative analyses and reflects input from FHLBank Chicago members and partners throughout the District. The 2022 Needs Assessment reflects research conducted through June 2021.

Data sources for the 2022 TCLP Needs Assessment include:

- Scholarly research on national, regional, District, and local market trends
- Public and proprietary data capturing socioeconomic indicators
- FHLBank Chicago Community Investment program data
- Literature on other funders' programs (e.g., Qualified Allocation Plans)
- Discussions with members of the CIAC and Affordable Housing Committee of FHLBank Chicago's Board of Directors (both group and individual meetings)
- Stakeholder interviews (e.g., members, CDFIs, developers, economic development organizations, social service providers, financial services industry leaders, regulatory agencies, and other funders)
- Community meetings (e.g., conferences, investor briefings, etc.)
- Program user feedback ("Voice of the Customer" exercises)

In order to increase the reach and impact of Community Investment programs, FHLBank Chicago's Needs Assessment research methodology prioritizes the inclusion of diverse perspectives. Input from minority and women's business enterprises (MBEs/WBEs), organizations serving diverse communities, and organizations located in historically underrepresented geographic locations provided valuable data for the 2022 Needs Assessment.

AFFORDABLE HOUSING NEEDS

The COVID-19 pandemic brought the critical importance of home into sharp relief. With "stay at home" and "shelter in place" orders imposed across the country, the pandemic reinforced the critical importance of housing to basic health and wellbeing. The public health necessity of safe, decent, affordable, stable housing for all was suddenly in the spotlight, and so too were the housing challenges facing many low- and moderate-income households and individuals. This section documents several of the most urgent, current affordable housing needs within the District.

HOUSING FOR INDIVIDUALS WITH DISABILITIES AND/OR SUPPORTIVE SERVICE NEEDS

Housing for Individuals with Disabilities

Limited income and limited options leave many individuals with disabilities either unstably housed or paying too much in rent to afford other essentials. 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 $9,156, well below what is needed to afford a market-rate apartment. Additionally, many adults with disabilities live with aging caregivers, leaving them at risk of future institutionalization or homelessness, often without the supportive care that they need. Some individuals with disabilities also struggle to find accessible housing. Research on housing supply and demand for disabled individuals indicates a clear need for more affordable, accessible, and supportive housing options. *(Source: The Arc Housing Policy and Advocacy, 2020)*

Permanent Supportive Housing

Individuals with chronic health conditions, mental health challenges, and histories of homelessness or trauma often benefit greatly from service-rich, supportive housing. Both IHDA and WHEDA incentivize projects that provide supportive housing, as the resident populations of such projects may not be able to find suitable housing and maintain tenancy without this assistance. Permanent supportive housing has been shown to improve health outcomes, housing stability, and economic self-sufficiency, and reduce the number of days spent by this population in shelters, emergency medical facilities, jails, and prisons. FHLBank Chicago's affordable housing partners cite the ongoing need for permanent supportive housing for vulnerable populations, as well as an uptick in demand for such housing as a result of the COVID-19 pandemic. *(Source: Center on Budget and Policy Priorities, 2016)*

***District Snapshot*: Meeting the Need for Supportive Housing in Chicago's Uptown Neighborhood**

As the United States began deinstitutionalizing individuals with mental illnesses in the 1960s and 1970s, many historic hotels and apartment buildings in the Uptown neighborhood of Chicago were converted to single-room occupancy (SRO) buildings to provide housing to people exiting institutions. However, many of these buildings were poorly equipped to serve this population, and concentrated low-income individuals with chronic health concerns in low-quality housing lacking supportive services.

Decades later, individuals with disabilities living in Uptown continue to experience above-average rates of poverty. In some census tracts in Uptown, greater than 30% of individuals with a disability are living in poverty, versus 17.51% statewide. Through the AHP General Fund, FHLBank Chicago has supported the conversion of many of these former SRO buildings into permanent supportive housing communities.

HOUSING FOR HOMELESS HOUSEHOLDS

Even prior to the COVID-19 pandemic, homelessness in the U.S. was on the rise. The U.S. Department of Housing and Urban Development (HUD)'s *2020 Annual Homeless Assessment Report (AHAR)* found*,* via its point-in-time assessment in January 2020, that 2020 marked the fourth consecutive annual increase in the national count of homeless individuals. The pandemic has further intensified the homelessness crisis, as COVID-19 poses heightened and unique risks for people experiencing homelessness and has precipitated economic and health conditions that place more people at risk of entering homelessness. Residential displacement and supportive service center closures have also created barriers to accessing many critical supports, including essential services and economic impact payments (i.e., stimulus checks). *(Sources: 2020 AHAR, HUD; United Way of the National Capital Area, The Impact of the COVID-19 Pandemic on Homelessness in the United States, 2021; National Alliance to End Homelessness, 2021)*

According to the *2020 AHAR*, homelessness remains a critical challenge in both Illinois and Wisconsin. As of January 2020, 10,431 individuals in Illinois and 4,515 individuals in Wisconsin were experiencing homelessness. Of these, 19.72% and 10.72%, respectively, were considered chronically homeless. While the District has a network of emergency and transitional housing programs, demand for shelter beds and transitional apartments vastly exceeds supply, and there remains urgent need for expanded housing options to support homeless individuals.

The data from the *2020 AHAR* also indicate a need for expanded housing options for families experiencing homelessness. As of January 2020, there were 1,838 people in families experiencing homelessness for every 10,000 people in families in Wisconsin, and 3,436 people in families experiencing homelessness per every 10,000 people in families in Illinois. Notably, the Madison/Dane County, Wisconsin, Continuum of Care (CoC) had the fifth-largest number of people (278) experiencing family homelessness when compared with other largely urban CoCs across the nation.

Industry experts from across the District cite an overwhelming need for both temporary and permanent housing options for individuals and families experiencing homelessness. They stressed the need for more supportive housing options with wraparound service provision, particularly for the chronically homeless and highly vulnerable populations.

HOUSING IN HIGH OPPORTUNITY AREAS

Housing practitioners have long understood the link between a neighborhood's rate of poverty and the economic and health outcomes for residents. In short, environment matters. In areas of concentrated poverty, residents may have more limited access to employment, healthcare, quality education, and civic services. It can be extremely difficult for families to advance their economic circumstances in neighborhoods deprived of such opportunities. Further, residents of high-poverty census tracts often experience higher rates of crime, physical and mental health concerns, and property devaluation. *(Source: HUD Office of Policy Development and Research, 2020)*

Socioeconomically diverse communities often offer expanded access to employment and educational opportunities, increased safety, and improved health outcomes. Research has shown that when high-poverty households move to low-poverty communities, they achieve better outcomes in health, work, and school. Qualitative data gathered from FHLBank Chicago's community partners support these findings. *(Source: The Urban Institute, Benefits of Living in High-Opportunity Neighborhoods, 2012)*

This translates not only to improving immediate needs of households, but has long term financial consequences on generational wealth. For example, a child born in a very-low income family in the Englewood neighborhood of Chicago makes an average annual income of $19,529 today as an adult. If that child were born seven miles away in Archer Park, *still in a very-low income family*, today they would be making an average annual income of $44,805. *(Source: Where Neighborhoods Provide Opportunity, PolicyMap, 2019)*

***District Snapshot*: Opportunity Disparities across low- and high-poverty areas in Kenosha, WI**

Low- and high-poverty census tracts in Kenosha, Wisconsin illustrate the impact that housing location has on residents' quality of life, particularly in regard to life expectancy and educational attainment. Comparing a low-poverty tract with a high-poverty tract reveals stark differences.

Low-poverty areas are defined as census tracts where the median income equals or exceeds the median income for the county or metropolitan area. Representative low- and high-poverty census tracts in Kenosha were selected for analysis. These analyses indicated that life expectancy in the low-poverty tract is over 10 years longer (77.5 years) than in the high-poverty tract (67 years), and the percent of residents with at least a bachelor's degree is over 6 times higher in the low-poverty tract compared to the high-poverty tract. (Source: ACS 5-Year Estimates, 2018)

In Kenosha, as in other communities across the District, this may be due to the fact that low-poverty areas often also offer higher-quality educational opportunities, better access to health and wellness resources, increased public safety, and mitigation of negative environmental factors that may be experienced in high-poverty areas. Locating affordable housing in low-poverty, amenity-rich areas may provide residents with more equitable access to myriad opportunities.

PROMOTION AND PRESERVATION OF HOMEOWNERSHIP

Homeownership is the single greatest tool for individual wealth-building. In 2019, the majority of Illinois and Wisconsin were on this path, with 66.1% of Illinois households and 67.0% of Wisconsin households owning their home. However, for many households, homeownership remains out of reach due to insufficient resources, including financial capacity and financial literacy.

Many low- and moderate-income families simply do not have the income or savings to purchase a home. High levels of rent burden hinder the households' ability to save for a downpayment, and expenses associated with transportation, utilities, healthcare, and childcare, particularly during the COVID-19 pandemic, limit many low- and moderate-income households' ability to afford homeownership. Downpayment assistance grant programs, such as those funded through FHLBank Chicago's AHP General Fund and DPP, are an important resource supporting homeownership within the District.

Affordable housing experts across the District also emphasize the importance of homeownership education and counseling to facilitating and preserving homeownership. Homeownership counseling increases buyers' financial literacy and understanding of risks and responsibilities, and seeks to ensure that buyers can successfully sustain long-term homeownership. Homebuyer education and counseling build stronger and more resilient communities, where homeowners have the knowledge and tools to safeguard their investments.

Disparities in homeownership rates across racial and ethnic groups point to the need to support initiatives that expand the pipeline of purchase-ready, minority homebuyers and support homeownership retention for these new owners. 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. Within FHLBank Chicago's District, these percentages are even more sobering. Only 25.47% of Black Wisconsinites own their homes, versus 71.1% of white residents. In Illinois, 38.8% of Black Illinoisans own their homes, versus 72.8% of white residents. Residents of color throughout the District experience bias in access to capital and consumer education, and expanding access to these resources is key to increasing minority homeownership and promoting equity in wealth-building. *(Sources: ACS 5-Year Estimates, 2018 and 2019; Federal Reserve Bank of St. Louis, 2020)*

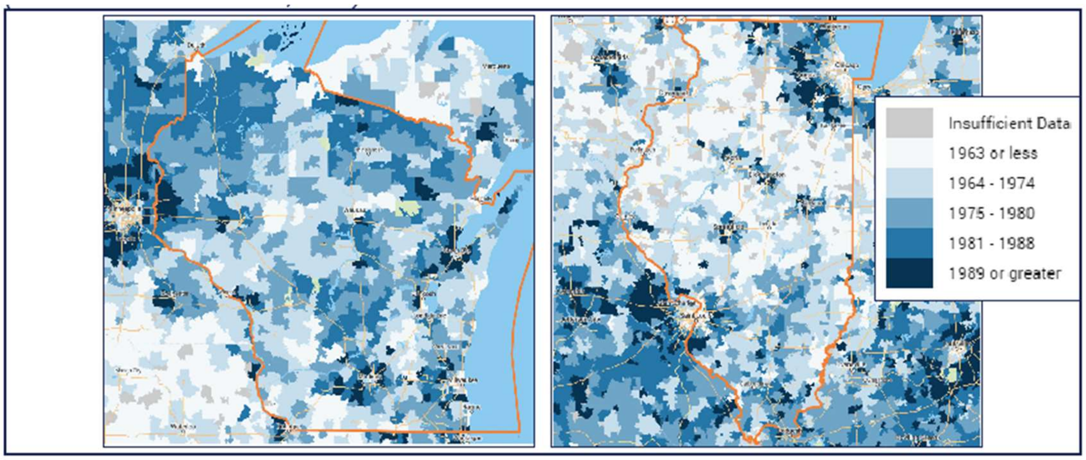
REINVESTMENT IN AGING HOUSING STOCK

Housing stock in the District is aging, with 75.4% and 70.3% of total housing stock in Illinois and Wisconsin, respectively, built 30 or more years ago, and 39.8% and 36.0%, respectively, built 50 or more years ago. Across the District, many low- and moderate-income homeowners and renters live in aging structures needing repairs.

In Illinois, housing development within the last 30 years has largely been concentrated in the outer-ring Chicago suburbs; the central Illinois small cities of Peoria, Bloomington, Urbana, Decatur, and Springfield; and downstate communities near St. Louis. Much of central Illinois has not seen significant new residential development in decades, with many homes dating to the 1950's and earlier. In Wisconsin, development within the last 30 years has largely been concentrated in greater Milwaukee and Madison; Green Bay and the Fox Valley communities of Oshkosh, Appleton, and Fond du Lac; central state communities near Black River Falls, Stevens Point, and Wausau; and bedroom communities near Minneapolis/St. Paul, MN. Older housing stock still predominates in rural portions of the state.

Housing Stock by Year Built, Wisconsin and Illinois

(Source: ACS 5-Year Estimates, 2019)



Reinvestment in aging single-family 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 FHLBank Chicago'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. *(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 note an ongoing 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. Reinvestment in such properties is critical to maintaining affordable housing options in rural and urban communities alike.

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, service-rich housing to those who need it most.

RURAL HOUSING

Much of FHLBank Chicago's District is designated as rural by the U.S. Department of Agriculture (USDA). In fact, 46 of Wisconsin's 72 counties, and 62 of Illinois' 102 counties, are fully designated as rural counties. Despite these substantial rural areas in both states, housing development remains largely concentrated in urban and suburban population centers within the District.

Qualitative data suggests that developers may not pursue rural projects due to market risk, higher infrastructure costs, limited labor availability, limited municipal capacity to participate in financing, and declining populations perceived to hinder demand for new stock, among other reasons. Nonetheless, residents of rural areas in both Illinois and Wisconsin experience high housing cost burden due to the lack of affordable housing supply for low- and extremely- low income families. This points to the continued need for affordable housing development in rural communities, which otherwise may struggle to attract capital and development and to retain their populations. *(Sources: Wisconsin Housing and Economic Development Authority, 2020; Illinois Housing Development Authority, 2020; ACS 5-Year Estimates, 2019)*

While the development of multifamily rental housing may be limited in rural areas of the District due to population decline, lack of job opportunities, or interest of developers, there remains a need to ensure existing housing stock, primarily single family owner-occupied housing, is safe and free from material defects. Aged systems such as roofing, windows, and HVAC can increase housing costs for existing homeowners. Owner-occupied rehabilitation programs in rural areas of the District provide much needed capital to improve the housing stock and ensure residents are able to stay in their homes.

INVESTMENT IN LOW-INCOME MINORITY AREAS

FHLBank Chicago's District continues to experience high rates of residential segregation by race/ethnicity and income, particularly in its larger cities. In many Chicago and Milwaukee neighborhoods, for example, race and ethnicity are often closely correlated with income, with communities of color experiencing lower income levels than predominantly white communities.

While the need for affordable housing development in economically diverse communities is discussed above, there is also a critical need for investment in affordable housing opportunities in low-income communities, and in particular, low-income communities of color. Such investment yields many valuable benefits, including: 1) expansion of the stock of quality, affordable housing for current residents, many of whom are highly housing-cost burdened; 2) opportunities for wealth creation for homebuyers wishing to settle and invest in diverse, culturally-rich communities; and 3) economic revitalization for historically-disinvested, minority communities. In order to ensure that new investment enriches communities rather than depletes them of opportunities for current residents, it is important that it be aligned with objectives and strategies established in local community revitalization plans.

According to the Joint Center for Housing Studies (JCHS) at Harvard University, Black households in Illinois and Wisconsin are significantly more housing-cost burdened than the overall population in each state. Fifty-eight and sixty-four percent of Black households in Illinois and Wisconsin, respectively, experience moderate or severe levels of housing-cost burden, as compared to 48% and 42% of the state populations overall. This trend is also true, though less stark, for Hispanic households. There is clearly a need for expanded affordable housing in the communities where many cost-burdened households of color currently reside, so that relocation is not a prerequisite for access to opportunities. *(Source: JCHS Tabulations of US Census Bureau, 2016 American Community Survey)*

On the homeownership side, investment by homebuyers is a critical driver of a neighborhood's economic vitality, as well as of opportunities for all whom live there. In predominantly minority communities, such investment has been constrained by longstanding, systemic inequities and unfair lending practices. A study by *WBEZ Chicago* found that in Chicago, 68.1% of all dollars loaned for housing purchases (2012-2018) went to majority-white neighborhoods, while just 8.1% and 8.7% went to majority-Black and majority-Latino neighborhoods, respectively, despite the fact that there are similar numbers of white, Black and Latino neighborhoods overall in the city. Incentives and supports that facilitate homebuyers' investments in majority-minority areas support household wealth-building and broader neighborhood revitalization. (*Source: WBEZ Chicago, Where Banks Don't Lend, June 2020*)

HOUSING FOR LARGE FAMILIES

Qualitative data suggests that housing units for large families are 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
Studio	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+	4.4%	3.8%

Source: ACS 5-Year Estimates, 2019

The scarcity of affordable rental housing for large families within the District is attributed to their relatively higher development cost, particularly in urban areas. Additionally, zoning code in some municipalities may favor the development of smaller units and make permitting and approvals for large family developments more challenging or costly. FHLBank Chicago'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 large families and housing for multigenerational households.

SMALL PROJECTS

Across the District, affordable housing developers often struggle to build small (i.e., 1-24 unit) projects, despite the need for this type of housing in less populated 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 LIHTC projects, small projects are often unable to carry the cost burden, and therefore are financially infeasible without additional soft funds.

Small projects in rural areas are particularly affected by the relative lack of access to capital, as developers may have limited interest in investing in smaller markets. This is evident in the lack of LIHTC or USDA Rural Development projects developed in the District.

Additionally, small projects are often developed or managed by small, nonprofit entities, whose limited staff may not have the capacity to access competitive funding sources or commit to associated long-term compliance obligations. Funding for small-scale development is needed to ensure that the District's smaller communities can offer quality affordable housing options for residents.

DIVERSITY IN THE AFFORDABLE HOUSING DEVELOPMENT SPACE

The affordable housing development industry as we see it today is the result of past government actions that led to a lack of diversity within the developer pool. The introduction of the LIHTC program, the largest source for affordable housing in the United States, in 1986, was an effort to bring private investment into the affordable housing industry. However, only developers with adequate resources and networks of individuals with high wealth to invest were able to utilize the program. This left many minority developers unable to compete in the market, a trend that continues today.

Access to capital, competitive lending rates, and credit are all areas where minority developers, especially those attempting to break into the market, struggle to compete with well-capitalized established developers, who are primarily non-diverse. This has become an area of focus for several national banks and affordable housing investors seeking to bring racial equity to the industry.

Promoting diverse developers is beneficial for reasons beyond the creation of wealth where it has historically been denied. Diverse developers also bring different perspectives and backgrounds to the affordable housing industry, which can lead to innovative ideas and create more vibrant and inclusive properties. *(Source: Shelterforce, June 2021)*

DISTRICT COMMUNITY LENDING NEEDS

Community lending by our members is an important source of capital fueling vibrant local economies throughout the District. By understanding the community lending needs of the District, FHLBank Chicago can hone products and strategies to respond to those needs.

SMALL BUSINESS LENDING

Small business market analyses (discussed in the "Housing and Economic Development Trends" section) and FHLBank Chicago's community partners point to the critical need for small business lending. This need has no doubt been heightened by the COVID-19 pandemic. 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 FHLBank Chicago's CDFI members and partners, as of Q2 2021 many small businesses were still relying on the last of government assistance and are facing the challenges of reduced liquidity, inflation, and continued labor shortages. 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 FHLBank Chicago's community development partners and stakeholders reported less need to access FHLBank 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, even with significant liquidity provided through U.S. Treasury recovery programs and philanthropic sources.

SUPPORT FOR CDFIs AND NONPROFIT LENDERS

CDFIs and other nonprofit lenders play a critical role in financing small businesses, community facilities, 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. Demand for CDFI financing continues to grow, as they reach people and communities not served through traditional financial services. FHLBank Chicago'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.

While there are many funding sources providing CDFIs with 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, and to scale up to meet the rising demand for their products and services. According to the Urban Institute, "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, Urban Institute, 2017)*

The COVID-19 pandemic has created a need for CDFIs and other nonprofit lenders to grow their capacity in order to meet the heightened demand in the communities they serve. They report a strong need for 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.

FHLBank Chicago's industry partners also emphasize CDFIs' ongoing need for 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, 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 with a more sustainable alternative to other short-term, restrictive funding options to meet the demands of their long-term community development objectives.

IV. STRATEGY AND GOALS

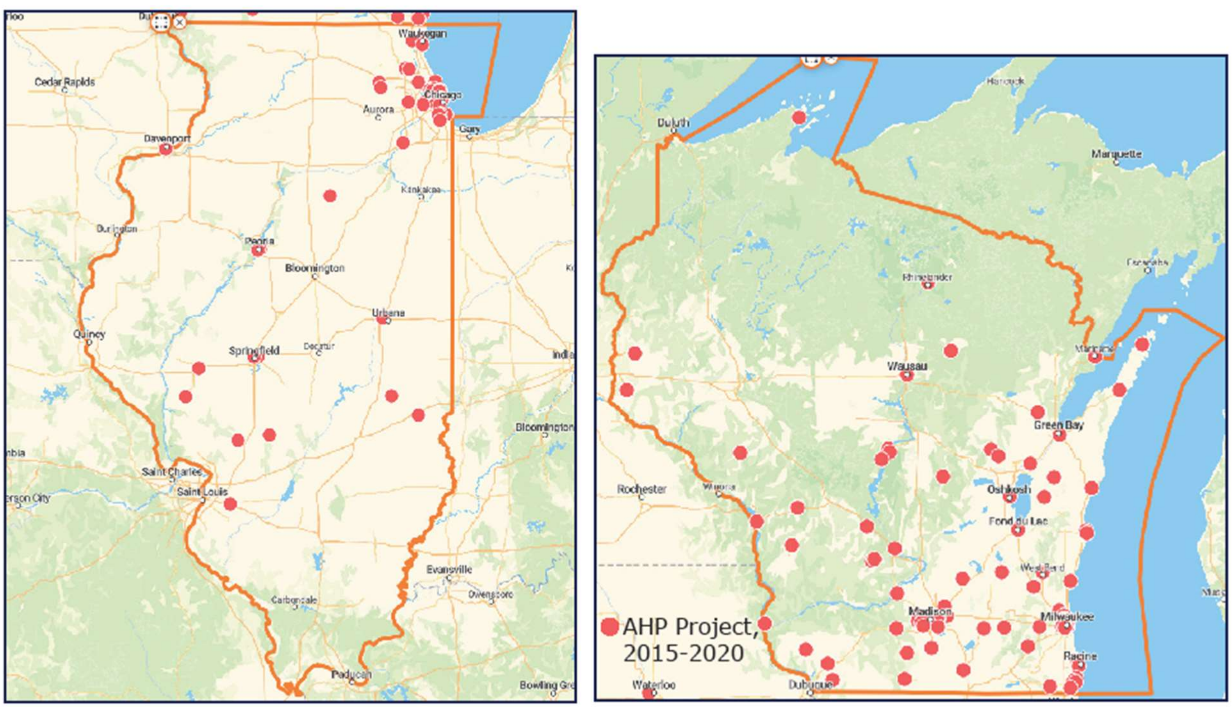
The section below provides an overview of the core Community Investment products, including a strategic analysis of how each program addresses the needs and dynamics identified through the annual Needs Assessment and Market Analysis.

AFFORDABLE HOUSING PROGRAM (AHP)

AHP GENERAL FUND

FHLBank Chicago addresses the need for affordable housing through its competitive Affordable Housing Program (AHP) General Fund. Members may apply for these AHP funds in partnership with Sponsor organizations involved in the acquisition, construction, and/or rehabilitation of rental or owner-occupied housing. FHLBank Chicago awards the funds each year via a competitive process based on objective scoring criteria that reflect District needs and FHLBank Chicago's strategic priorities.

Figure X. AHP Award Locations, 2015-2020, 7th District
(Source: FHLBank Chicago)



Needs/Strategy Alignment

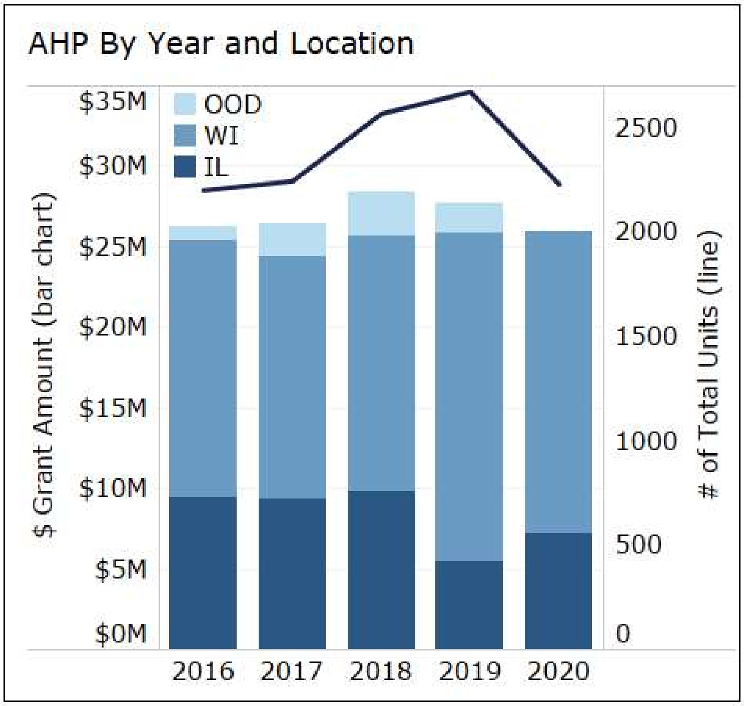
Each year FHLBank Chicago evaluates and adjusts AHP General Fund program parameters, feasibility guidelines, and scoring criteria in response to the market dynamics and needs identified in Sections II and III above. This year's analysis suggests several areas of opportunity to directly align AHP General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

The table below indicates how the needs and dynamics identified in this year's research inform FHLBank Chicago's 2022 program strategy.

District-Level Needs		**Program Strategy**
Housing for vulnerable populations, including those with supportive service and/or accommodation needs	→	Scoring categories prioritizing special needs and permanent supportive housing
Housing for homeless, including emergency shelters and transitional housing	→	Scoring category prioritizing housing for homeless households
Mitigation of segregation for LMI households; Housing in high opportunity areas	→	Scoring category prioritizing development of housing in mixed-income census tracts
Expanded access to and opportunities for homeownership	→	Scoring category prioritizing promotion and preservation of homeownership
Reinvestment in aging housing stock, both owner occupied and rental	→	Scoring category incentivizing rehabilitation of existing housing stock
Rural housing development/preservation	→	Scoring category prioritizing rural projects
Housing development/investment in low-income minority communities	→	Scoring category prioritizing projects located in low-income minority communities.
Housing for large families	→	Scoring category prioritizing creation of housing units for large families
Access to capital for small projects	→	Scoring category prioritizing the development of small projects (1-24 units)
Private capital for affordable housing	→	Scoring category incentivizing member financial participation in projects
Support for affordable housing within the District	→	Scoring category incentivizing in-District projects
Market Trends		**Program Parameter**
Per-credit LIHTC price fluctuations	→	LIHTC pricing guideline

Goal-Setting

In 2016-2020, FHLBank Chicago awarded $134.7 million to construct, rehabilitate, and/or acquire approximately 11,900 housing units. Of the total awarded, $41.2 million went to 68 projects in Illinois, while $86.2 million went to 157 projects in Wisconsin. The remaining $7.3 million was awarded to 10 projects outside of the Seventh District.



The 2020 AHP General Fund round awarded approximately $25.9 million to competitive projects. In 2020, 83 applications were submitted by 40 members and 48 sponsors. The applications requested $48 million in AHP subsidy to construct, rehabilitate, and/or acquire 4,450 housing units. FHLBank Chicago made 46 awards, funding the construction, rehabilitation, and/or acquisition of 2,228 housing units.

2022 AHP
Quantitative Goal
To be determined in early 2022.

DOWNPAYMENT PLUS®

Downpayment Plus® and Downpayment Plus Advantage® (collectively, "DPP," FHLBank Chicago's Set-Aside programs), offer members easy-to-access down payment and closing cost assistance programs for low- and moderate-income homebuyers.

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 FHLBank Chicago's District do not have the income or savings to purchase a home, and are often limited to rental housing options. Despite historically low mortgage interest rates, low- and moderate-income households have limited access to homeownership and the associated wealth-building opportunities.

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 FHLBank Chicago's member financial institutions with efficient, year-round access to capital to make homeownership possible for their low- and moderate-income borrowers. 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 FHLBank Chicago's DPP strategy include individualized outreach to prospective, new, and experienced members using the program, as well as targeted discussions with Community Investment Advisory Council members.

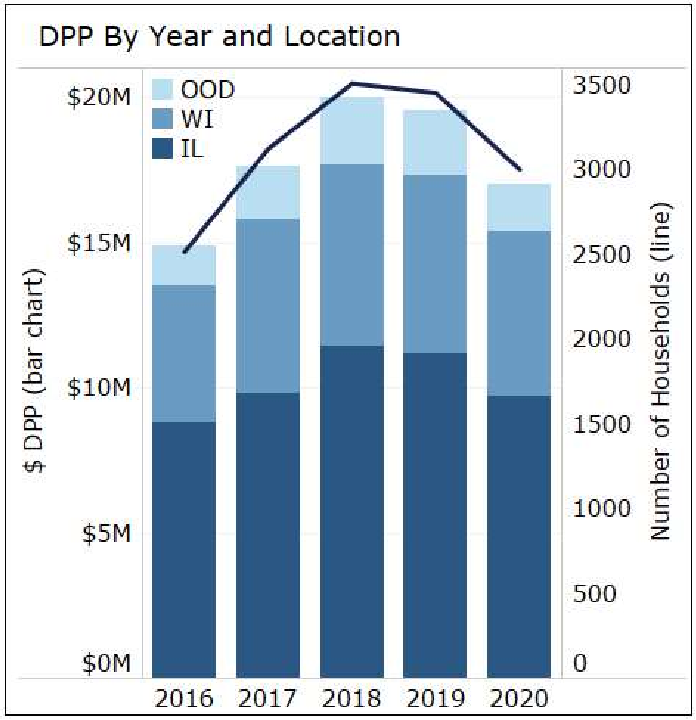
Stakeholder feedback affirms the relevance of several program features:

- *Year-round grant availability*: Members continue to appreciate the year-round availability of DPP, which is made possible with supplemental voluntary contributions to the program's budget by FHLBank Chicago.
- *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 nonprofits. Low- and moderate-income buyers who are able to access multiple downpayment assistance grants are able to leverage the sum of these funds to buy a home in markets that may not otherwise be affordable.
- *Homebuyer education and counseling*: The DPP requirement for homebuyer education and counseling is an important tool to ensure that buyers are

prepared for homeownership (both the initial purchase and long term homeownership retention).

Goal-Setting

From 2016 through 2020, the DPP program has assisted nearly 16,000 households with down payment grants totaling over $89 million. Over that period, homebuyers received $50.9 million to purchase a home in Illinois and $28.8 million to purchase a home in Wisconsin. The remaining $9.5 million assisted households purchasing a home outside of the District.



A total of 254 members enrolled in DPP in 2020, 179 of which made DPP disbursements. Demand for DPP was steady in 2020; utilization of all funds resulted in 2,999 households assisted.

2022 DPP
Quantitative Goal
To be determined in early 2022.

COMMUNITY ADVANCES AND LETTERS OF CREDIT

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, members and their customers may realize an interest rate savings that lowers the overall cost of the transaction. The Community Advances Program is a regulatory program offered by FHLBank Chicago.

In response to the growth in small businesses and higher rates on most business loans, the FHLBank Chicago enhanced the Community Advances program in 2018 by offering a new voluntary program, the Community Small Business Advance.

Members can access this advance with zero percent financing to support small business lending in low- to moderate-income communities within Illinois and Wisconsin. FHLBank Chicago 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, FHLBank Chicago will continue to seek opportunities to support members' activities in this area through as-needed program enhancements. In 2020 and continuing into 2021, FHLBank Chicago 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. FHLBank Chicago 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 2016 through 2020, Community Advances have totaled over $4.4 billion, which consists of over $900 million in economic development advances and $3.5 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 over 30,000 housing units, including 27,969 owner-occupied units and 2,641 renter-occupied units, with 24% supportive units at or below 50% AMI.

Community Advances By Type and Member State

Advance Type	Member State	OO Units	Rental Units	Total Units	Jobs	$ Advances
Economic Development	IL	0	0	0	31,853	$0.83B
	WI	0	0	0	3,959	$0.10B
	Total	0	0	0	35,812	$0.93B
Housing	IL	1,564	2,436	4,000	0	$0.19B
	WI	26,405	205	26,610	0	$3.27B
	Total	27,969	2,641	30,610	0	$3.47B
Grand Total		27,969	2,641	30,610	35,812	$4.40B

Included in the Economic Development data in the table above, 13 members submitted a total of 25 Community Small Business Advance applications in 2020, 19 of which were ultimately drawn representing $15 million in lending to members. The underlying small business loans supported multiple industries, including real estate, manufacturing, and agricultural. Through these advances, 225 jobs were created or retained.

2022 Community Advances
Quantitative Goal
To be determined in early 2022.

VOLUNTARY PROGRAMS

The FHLBank Chicago's strong financial position has provided opportunities to supplement its regulatory AHP contribution with additional funding for community development programs. These programs are intended to support our members' business objectives with high member engagement, direct and measurable community impact, and responsiveness to market needs.

COMMUNITY FIRST® FUND

In June of 2014, FHLBank Chicago launched a new revolving loan fund with the mission of providing access to capital that supports meeting economic development and affordable housing needs in communities throughout Illinois and Wisconsin. This fund, called the Community First® Fund ("Fund"), provides partner organizations – all of which are currently non-depository, nonprofit lenders and some of which are FHLBank CDFI members – with opportunities to support housing and economic development activities in underserved markets.

Needs/Strategy Alignment

The strategy for the Fund is to provide capital financing to community development intermediary organizations ("partners") through longer-term, unsecured loans. FHLBank Chicago 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 that may be underserved by traditional lenders. 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. Geographic distribution, need, and impact all factor into partner selection. As of June 2021, eight partners were participating in the program.

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 generate positive impact in the communities served by FHLBank Chicago's membership. Research on district needs affirms the need for this critical program to support CDFIs, and in turn, communities throughout the District.

Goal-Setting

Since the first partner received funding in 2014, FHLBank Chicago has continued to review submitted proposals and solicit new partner candidates that would meet the objectives of the Fund. As of June 30, 2021, FHLBank Chicago had committed $45.75 million to eight partners, with approximately $26.25 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.

Fund operations – including partner selection, underwriting, and funding – are governed by safety and soundness.

2022 Community First® Fund
Quantitative Goal
To be determined in early 2022.

COMMUNITY FIRST® CAPACITY-BUILDING GRANT PROGRAM

FHLBank Chicago 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. FHLBank Chicago 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 FHLBank Chicago'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 flexible grant funding that nonprofit lenders need to engage in the foundational work necessary to maximize their impact. In 2020, Community Investment staff conducted extensive outreach to connect with eligible nonprofit lenders and member institutions. These conversations confirmed that such grant funding was a critical resource to support beneficiaries' transition to virtual operations as a result of the COVID-19 pandemic, staff development in order to meet expanding borrower needs, development of responsive programming, and strategic planning for sustainable growth given the shifting market dynamics.

FHLBank Chicago's targeted outreach efforts resulted 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. The increased demand for this program in 2020 affirmed FHLBank Chicago's programmatic strategy and direction; the program is addressing a clear need and fostering meaningful collaboration between FHLBank Chicago 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, FHLBank Chicago 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 FHLBank Chicago to award Capacity-Building grants to 21 organizations in partnership with 14 member institutions. Since the program's inception, FHLBank Chicago has awarded $1.7 million in Capacity-Building grants.

2022 Community First® Capacity-Building Grant Program
Quantitative Goal
To be determined in early 2022.

COMMUNITY FIRST® DISASTER RELIEF PROGRAM

The Community First® Disaster Relief Program is designed to offer direct disaster relief funding to FHLBank Chicago members and the communities they support. Disaster relief funding is provided by FHLBank Chicago 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 FHLBank Chicago. In the event of a FEMA-declared disaster, funding availability, as authorized by FHLBank Chicago's Board of Directors, will be announced on FHLBank Chicago's public website and through targeted communications to members.

In 2020, FHLBank Chicago leveraged this program to support relief programming in response to the COVID-19 crisis. In Q2 2020, this took the form of the COVID-19 Relief Grant program, which provided up to $20,000 in grant funding to all FHLBank Chicago members and associate members to support their small business and nonprofit customers and partners. In Q4 2020, the FHLBank Chicago 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 FHLBank Chicago to meet disaster-related needs as they arise. It receives an annual funding allocation for the types of natural disasters that FHLBank Chicago 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 uncertainty. Research efforts to inform program strategy included intensive discussions with FHLBank Chicago's

Board of Directors, Community Investment Advisory Council, Executive Team, members, and community partners.

Key takeaways from these discussions that most informed FHLBank Chicago'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 FHLBank Chicago'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 2020, FHLBank Chicago's COVID-19 relief programming resulted in a significant increase in Disaster Relief Program activity. In total, 95% of FHLBank Chicago's membership utilized $13.1 million in COVID-19 Relief Grant funds, providing grants to over 5,000 beneficiary organizations. In total, 76% of FHLBank Chicago's membership utilized over $8.3 million in Targeted Impact Fund grants, providing funding to nearly 1,400 beneficiary organizations. Together these 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, FHLBank Chicago will continue to pursue opportunities to leverage the Disaster Relief Program to respond to emergencies in the District. FHLBank Chicago does not set a performance goal for this program, as program activity reflects the unique needs that arise each year, and such disasters by definition cannot be predicted.

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. In 2021, FHLBank Chicago added three new award categories to recognize extraordinary community development efforts.

The 2021 Community First® awards were presented to awardees in April 2021. Awards were made in each of the following categories: Affordable Housing; Diversity, Equity and Inclusion; Economic Development; Emerging Leader. Nominations will be accepted again in 2022.

OTHER COMMUNITY PROGRAMS

FINANCING TO SMALL BUSINESS INVESTMENT COMPANIES

FHLBank Chicago 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, FHLBank Chicago 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 FHLBank Chicago are guaranteed by the SBA, which carries the full faith and credit of the U.S. Government.

FHLBank Chicago also worked with the SBA in the development of the Low- and Moderate-Income ("LMI") Debenture Program. Through this program, FHLBank Chicago 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 FHLBank Chicago, 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, FHLBank Chicago 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, FHLBank Chicago 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 FHLBank Chicago 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, FHLBank Chicago 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.

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.

STAND-BY BOND PURCHASE FACILITIES AND LONG-TERM BOND INVESTMENTS (IHDA AND WHEDA)

Illinois Housing Development Authority (IHDA) and Wisconsin Housing and Economic Development Authority (WHEDA), both housing associate members of FHLBank Chicago, 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 FHLBank Chicago has entered with IHDA and WHEDA, respectively, FHLBank Chicago 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. FHLBank Chicago holds such bonds while the remarketing agent continues its remarketing efforts. If such efforts are unsuccessful, FHLBank Chicago holds the bonds for a period of five years, receiving interest and semi-annual principal payments.

In late 2014, FHLBank Chicago was approved to purchase bonds issued by IHDA and WHEDA as long-term investments. This enables FHLBank Chicago 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 FHLBank Chicago with highly rated, core-mission-activity investments that are directly related to residential units located in the District.

GOVERNMENT-INSURED OR GOVERNMENT-GUARANTEED LOANS

FHLBank Chicago 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 FHLBank Chicago, and the member institution may choose to service the mortgages or sell to FHLBank Chicago servicing released. Offering secondary market solutions for government-guaranteed and government-insured mortgages constitutes yet another way FHLBank Chicago pursues its mission of assisting members with providing affordable housing financing in their communities.

On June 18, 2018, FHLBank Chicago 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 FHLBank Chicago's mission to assist member liquidity for various loan programs.

OTHER ACTIVITIES

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 FHLBank Chicago's Board of Directors to advise FHLBank Chicago on how best to 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 plan. CIAC members serve as ambassadors of FHLBank Chicago and its programs in their respective communities, often making connections for FHLBank Chicago to potential partners and other stakeholders.

In 2020, the CIAC launched a working group to promote racial equity across FHLBank Chicago's Community Investment voluntary and regulatory programs, and to increase awareness and dialogue regarding racial equity dynamics in the affordable housing/community development space in Illinois and Wisconsin. The group performed 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 programing.

ACTIVE 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 2020, Community Investment staff actively engaged in 36 industry-related events and/or meetings, including sponsoring and attending virtual conferences; conducting outreach and technical assistance calls; presenting webinars; and actively reaching out to potential program applicants. All outreach in 2020 was conducted virtually. Outreach going forward will be a combination of virtual and in-person convenings, given the shifting dynamics resulting from the COVID-19 pandemic.

2022 Outreach
Quantitative Goals
To be determined in early 2022.
Qualitative Goals
To be determined in early 2022.

TECHNICAL ASSISTANCE AND TRAINING

Staff is available at all times during the year to discuss program requirements and to provide technical assistance to applicants as needed. Staff within Community

Investment and other departments also actively participate in workshops, seminars, conferences, and other events sponsored by other organizations. In 2020, Community Investment staff delivered 16 live webinars regarding Community Investment programs; several pre-recorded training webinars were made available on FHLBC.com, as well.

Goal-Setting

2022 Technical Assistance and Training
Quantitative Goal
To be determined in early 2022.

CUSTOMER SERVICE AND PRODUCT DELIVERY

Goal-Setting

2022 Customer Service and Product Delivery
Quantitative Goal
To be determined in early 2022.

DIVERSITY, EQUITY AND INCLUSION

Goal-Setting

2022 Diversity, Equity and Inclusion Metrics
Quantitative Goals
To be determined in early 2022.

Approved by the Board of Directors
on the 28th day of September, 2021

DocuSigned by:
Laura M. Turnquest
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Its Corporate Secretary