

**Frequently Asked Questions:  
Federal Home Loan Bank of Chicago  
Amended and Restated Capital Plan  
In Effect as of July 1, 2020**

**Certain Changes Reflected in the Amended Capital Plan**

**1. What is the goal of the amended capital plan?**

The goal of the amended capital plan is:

- to improve the readability of the plan to make it more member-friendly;
- to streamline certain operations to increase efficiency and improve the member experience; and
- to leverage the current strength of the Bank's balance sheet and to continue the Bank's commitment to providing members a reasonable return on their investment, while maintaining a focus on the Bank's financial strength, and regulatory requirements, and guidance.

**2. What are the key substantive changes that have been incorporated into the amended capital plan?**

The amended capital plan contains the following key substantive changes:

- Certain changes to select membership stock requirement ranges (see Question 3);
- Certain changes to select activity stock requirement ranges for advance and Mortgage Partnership Finance<sup>®</sup> (MPF<sup>®</sup>) activity, and the addition of a letter of credit percentage to the activity stock requirement which will initially be set at 0% (see Questions 3 and 4)
- Simplification of how your total stock investment in the Bank is allocated between Class B1 activity stock and Class B2 membership/excess stock (see Question 5)
- Changes relating to withdrawing members and various membership termination scenarios (see Question 6)

**3. How have the Bank's capital stock requirement ranges changed?**

*The Bank has not made any changes to the capital stock requirement settings, changes have only been made to the ranges. Accordingly, the implementation of the amended capital plan will not require members to take any action and will not impact the total amount of capital stock members hold.*

The Bank has made the following changes to select capital stock requirement ranges in the amended capital plan:

- The higher end of the range for the mortgage asset percentage (which relates to the membership stock requirement) has been decreased to 1% from 2%.
- The range for the minimum membership stock requirement has been removed and replaced with a flat \$10,000 minimum membership stock requirement.
- The membership stock requirement cap is now based solely on a dollar amount specified by the Board (within a range between \$1 million and \$25 million).
- The upper end of the range for the advances percentage and the MPF (or AMA) percentage has been decreased to 5% from 6%.

*For a comparison of selected requirements, authorized ranges, and current settings in the prior capital plan and the amended capital plan, [click here](#).*

**4. What is the new letter of credit percentage for the activity stock requirement?**

The amended capital plan now includes a new activity stock requirement relating to a percentage (between 0% and 2%) of the notional amount of a member's letters of credit outstanding. The letter of credit percentage will initially be set at 0%.

At such time as the Board decides to introduce, or at such time as our regulator, the Federal Housing Finance Agency (FHFA), imposes, an activity stock requirement above 0% for standby letters of credit, we intend to notify members sufficiently in advance of the change and apply that change only to future transactions.

**5. How is my total stock investment allocated between Class B1 activity stock and Class B2 membership/excess stock under the amended capital plan?**

Under the amended capital plan, all required stock that supports advances, MPF or letter of credit activity with the Bank is classified as Class B1 activity stock, which is currently expected to pay a higher dividend rate.

Any additional amount of stock necessary for the total amount of Class B stock held to equal your minimum investment amount will be classified as Class B2 membership stock. Your institution purchases Class B2 membership stock to satisfy its membership stock requirement with the Bank.

Stock held in excess of your minimum investment requirement is classified as Class B2 excess stock.

Previously, under the prior capital plan, to the extent that a member has advances, the Bank converted stock that would otherwise be classified as Class B2 membership stock to Class B1 activity stock (except for a "threshold" of \$10,000 that will not convert into Class B1 activity stock). The Bank has removed the threshold to simplify the capital plan.

**6. Does the amended capital plan include any changes relating to withdrawing members, or changes that could impact a member's or former member's capital stock in the event of membership termination?**

- **Voluntary withdrawal by a member.** If a member submits a written notice of voluntary withdrawal and then does not initiate any new advance, MPF Program, or letter of credit activity during the five-year period that the withdrawal is pending, that member will not be subject to any future increases in percentages used to calculate the membership or activity stock requirements, increases to the membership stock requirement cap or be required to purchase additional stock based upon any changes to its mortgage assets. See section 6.2 of the amended capital plan for details. A member may cancel a notice of withdrawal before membership termination, subject to a potential cancellation fee and other conditions.
- **Voluntary dissolution.** If a member has acted to voluntarily dissolve itself and the Bank's Board of Directors has terminated the member's membership, its membership stock requirement will immediately reduce to zero. Accordingly, any resulting excess stock will be subject to discretionary repurchase by the Bank. See section 6.3 of the amended capital plan for details.
- **Termination for failure to satisfy other membership eligibility requirement.** If a member fails to satisfy any statutory or regulatory eligibility requirement for membership and its membership is involuntarily terminated by the Bank's Board of Directors (for example, captive insurance company members whose membership the Bank is required to terminate in February 2021), or its membership is terminated by operation of law, its membership stock requirement

will reduce to zero on the date the Bank conducts its next annual membership stock requirement recalculation. At such time, any resulting excess stock will be subject to discretionary repurchase by the Bank. See section 6.3 of the amended capital plan for details.

- **Consolidation/merger into a non-member.** If a member consolidates or merges into a non-member, at any time after 30 days subsequent to membership termination, the Bank has the sole discretion to recalculate the membership stock requirement based only on mortgage assets and using zero as the amount of the mortgage assets held. If such recalculation occurs, any resulting excess stock will be subject to discretionary repurchase by the Bank. See section 6.4 of the amended capital plan for details.
- **Relocation of principal place of business outside of the Bank's district and joining another Federal Home Loan Bank.** A member that relocates its principal place of business outside of the Bank's district and joins another Federal Home Loan Bank will have its membership stock requirement reduced to zero on the date it becomes a member of that other Federal Home Loan Bank. At such time, any resulting excess stock will be subject to discretionary repurchase by the Bank. See section 6.5 of the amended capital plan for details.

**7. How will the amended capital plan treat merger or consolidation scenarios involving members in receiverships or conservatorship?**

The amended capital plan clarifies that where a member is in receivership or conservatorship, and there is an acquiring institution purchasing the Bank assets and liabilities of that member, such scenario will be treated under the amended capital plan's merger/consolidation provisions, and not under the amended capital plan's involuntary termination provisions. This reflects the Bank's current practice, although it was not explicit in the prior capital plan.

**Capital Plan Basics**

**Dividends**

**8. What is the difference in the dividend rate between Class B1 activity stock and Class B2 membership/excess stock? How are the rates set?**

Since late 2013, the dividend declared per share of Class B1 activity stock has been higher than the dividend declared per share of Class B2 membership/excess stock to acknowledge that members, through their utilization of Bank advances, provide support to the entire cooperative.

Under the amended capital plan (as with the prior capital plan), any dividend declared on Class B1 activity stock must be greater than or equal to the dividend declared on Class B2 membership/excess stock for the same period. Dividends may be paid in the form of cash and/or stock. All dividends we have paid since 2011 have been paid in cash rather than stock.

Although the Bank continues to work to maintain its financial strength to support a reasonable dividend, any future dividend determination by the Board will depend on future operating results, the Bank's Retained Earnings and Dividend Policy and any other factors the Board determines to be relevant.

**9. How do I get more of the expected higher dividend Class B1 activity stock?**

Under the amended capital plan, any member that has activity with the Bank which results in an activity stock requirement greater than zero will hold Class B1 activity stock in an amount equal to the member's activity stock requirement. Therefore, generally, the more you borrow, the more Class B1 activity stock you will own.

**10. How are dividends calculated and how are they paid?**

Dividend payments will be calculated on the basis of daily weighted average number of shares of stock owned during the quarter, based on end-of-day accounts for each subclass of stock. This calculation takes into consideration both the number of shares of each class of stock owned during the quarter and the length of time such shares were owned during the quarter. Dividends will be paid by crediting a member's DID account.

**Excess Stock Repurchases**

**11. What is excess stock, how is it classified, and what is the dividend rate?**

Any stock not supporting your investment requirement is classified as Class B2 excess stock at the end of each business day. Accordingly, it earns the Class B2 excess stock dividend rate.

**12. Why does my institution have excess stock?**

The most common reason for your institution to have excess stock is that one or more advances have matured, thereby decreasing your institution's activity stock requirement. In addition, excess stock may result from a decrease in your institution's membership stock requirement during the Bank's annual membership stock recalculation process.

**13. How does the excess stock repurchase process work?**

Any member with excess stock can submit a request for excess stock repurchase. To submit a repurchase request, complete the form found [here](#) and submit it to the Member Transaction Desk at [mtd@fhlbc.com](mailto:mtd@fhlbc.com) by 2:00 p.m. Central Time every business day. You may also access the form through eBanking, request the form by emailing [mtd@fhlbc.com](mailto:mtd@fhlbc.com), or by calling 855-345-2244, Option 1.

At the time a member submits a request for excess stock repurchase, the Bank will confirm (1) that the amount of stock requested is, in fact, excess stock and (2) that the Bank is able to repurchase the stock in accordance with regulatory capital requirements and current repurchase guidelines. The amount of stock requested for repurchase must be excess stock as of the close of business on the previous business day, or excess stock that was converted from activity stock to excess stock due to a maturing advance, prior to requesting the excess stock repurchase.

**14. Can a member request shares of stock to be redeemed or repurchased by date of acquisition?**

A member may include the date(s) of acquisition in its request for stock redemption or repurchase. However, a member choosing to include a date of acquisition must independently and internally track shares by date of acquisition for purposes of allocating proceeds from redemption or repurchase of capital stock. When allocating proceeds with respect to a redemption, members should note that shares under redemption are subject to a five-year waiting period.

**15. Who can request excess stock repurchases on behalf of my institution?**

An individual from your institution with Advance Transact authorization on either eBanking or through the Member Contact Authorization Form on file with the Bank may request excess stock repurchases.

**16. How often will the Bank repurchase excess stock?**

Currently, the Bank does not automatically repurchase excess stock. However, any member with excess stock can submit a request for repurchase at any time. These repurchases will continue until otherwise announced, but remain subject to the Bank's repurchase guidelines.

**17. How will I receive payment for my repurchase of excess stock, and when will the funds be available in my DID account?**

Payments to members requesting a repurchase of their excess stock will be made by crediting the member's DID account at the Bank. Funds will be available on the same day the request is fulfilled and the account credit processed.

**18. What is the difference between repurchase and redemption of stock?**

Repurchase is the acquisition by the Bank, *at its sole discretion*, of excess stock without regard to any five-year redemption period. A member can request a repurchase of its excess capital stock (see Question 13) or the Bank can initiate a repurchase of member capital stock (for example, through automatic weekly excess stock repurchases which were discontinued in 2019).

In contrast, redemption means the acquisition by the Bank of excess stock following the expiration of the five-year redemption period after membership termination or a redemption notice from a member. Redemptions are less common than repurchases.

**Your Borrowing Capacity**

**19. How can I increase my borrowing capacity?**

Your borrowing capacity is primarily determined by the value of eligible collateral you have pledged with the Bank. You can borrow up to your pledged collateral value at any time by using your excess stock, or by buying additional stock at the same time you take out a new advance. You can view your Potential Credit Availability report from the Funding page on eBanking.

**Voting**

**20. For purposes of determining voting shares held by each member, how will the Bank calculate the average number of shares of Bank stock required to be held by all members located in the same state?**

The average number of shares of Bank stock required to be held as of the preceding December 31 by all members located in the same state will be determined by the Bank using the following ratio:

- In the numerator, the total number of shares of stock required to be held by members in the state, and
- In the denominator, the total number of members in the state.

**Membership Stock Requirement**

**21. How does the Bank determine a member's "unpaid principal balance" of mortgage assets for the purposes of calculating a member's membership stock requirement?**

The Bank obtains this information from a variety of sources, depending on the type of member and availability. For example, this information may be obtained from call reports or year-end financials. This has not changed under the amended capital plan.

**22. What is the definition of "mortgage assets" for purposes of calculating a member's membership stock requirement?**

Generally, mortgage assets include (but are not limited to) the unpaid principal balance of: 1-4 family first and junior liens, multifamily first and junior liens, and residential mortgage pass through securities. Please see the definition of "Mortgage Assets" in the amended capital plan for details.

These Frequently Asked Questions highlight certain terms of our capital plan. They are not intended to be a comprehensive overview of all the terms in the capital plan and should not be considered as a substitute for the capital plan. Members and former members should consult the full capital plan for an understanding of all terms applicable to the Federal Home Loan Bank of Chicago's (FHLBank Chicago) capital stock. The information provided by the FHLBank Chicago in this communication is for informational purposes only. The information should not be construed as an opinion, recommendation or solicitation regarding the use of any financial strategy and/or the purchase or sale of any financial instrument. Members and former members should consult their own financial and legal advisors. Also, the information presented here as well as the capital plan remain subject to change.

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