

FEDERAL HOUSING FINANCE BOARD

In the Matter of:

Federal Home Loan Bank of Chicago

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Federal Housing Finance Board
Supervisory Action No. 2008-SUP-01

STIPULATION AND CONSENT TO THE AMENDMENT TO A CONSENT ORDER TO CEASE AND DESIST

WHEREAS, the Federal Housing Finance Board (“Finance Board”) is an independent agency within the executive branch of the United States that is charged with the supervision and oversight of the Federal Home Loan Banks pursuant to 12 U.S.C. §§ 1422a(a)(3) and 1422b(a); and

WHEREAS, the Federal Home Loan Bank of Chicago (“Bank”) has been established and operates pursuant to the Federal Home Loan Bank Act (“Bank Act”), 12 U.S.C. § 1421 *et seq.*, and as such is subject to the supervisory, regulatory, and enforcement authority conferred on the Finance Board by the Bank Act; and

WHEREAS, on October 5, 2007 the Bank, acting through its board of directors, executed a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST (Original Stipulation), which was executed by the Director of the Office of Supervision (OS Director) on October 9, 2007; and

WHEREAS, on October 10, 2007 the Finance Board issued a CONSENT ORDER TO CEASE AND DESIST (Consent Order) that required the Bank to cease and desist from certain unsafe and unsound practices, to undertake certain affirmative actions to remedy

those practices, and barred the Bank from redeeming or repurchasing any of its capital stock; and

WHEREAS, the Consent Order further provided that the Bank may submit a written request to the OS Director asking the Finance Board to modify or terminate, in whole or in part, any of the requirements of the Consent Order; and

WHEREAS, by letter dated June 30, 2008, the Bank has requested that the Finance Board amend Article II of the Consent Order so that any stock issued by the Bank to support new advances to its members could be redeemed by the Bank after the members have repaid in full such new advances, notwithstanding the existing prohibition of redemption and repurchase of the Bank's currently outstanding capital stock; and

WHEREAS, the Finance Board believes that amending the Consent Order in the manner proposed has the potential to aid the Bank in increasing its core mission activity of making advances to its members and could benefit the Bank and its members by incrementally increasing the earnings of the Bank and thereby contributing to the improvement of the financial condition of the Bank; and

WHEREAS, the Bank, desiring to obtain the agreement of the Finance Board to amend the Consent Order to provide the relief requested, hereby consents to the issuance of an order amending Article II of the Consent Order, substantially in the form of the accompanying AMENDMENT TO CONSENT ORDER TO CEASE AND DESIST (Amended Order).

THEREFORE, in consideration of the above the Finance Board, through its designated representative, and the Bank, through its Board of Directors, stipulate and agree to the following:

Article I

Jurisdiction

(a) The Bank is a Federal Home Loan Bank, as defined by 12 U.S.C. § 1422(2)(A), and as such is subject to the regulation and oversight of the Finance Board pursuant to 12 U.S.C. §§ 1422a(a)(3) and 1422b(a)(1).

(b) The Finance Board has the authority pursuant to 12 U.S.C. § 1422b(a)(5) to issue and serve a notice of charges on the Bank specifying the unsafe or unsound practices that the Finance Board believes have occurred or are about to occur, and to issue an order requiring the Bank to cease and desist from those practices and to take affirmative action to correct conditions resulting from those practices, and has the authority pursuant to Article VI.(g) of the Consent Order to modify in whole or in part any requirements of the Consent Order, upon a proper request from the Bank.

Article II

Agreements

(a) The Bank, without admitting or denying that grounds exist to initiate an administrative enforcement proceeding against the Bank, and in accordance with 12 C.F.R. § 908.4(b)(1), hereby consents and agrees to the issuance of the Amended Order by the Finance Board and acknowledges that all provisions of the original Consent Order, other than Article II, and all provisions of the Original Stipulation are to remain in full effect following the modification of Article II by the Amended Order.

(b) The Bank further agrees that the Amended Order shall constitute “an order issued upon consent,” as that phrase is used in Section 1371(f) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. § 4631(f), and in the applicable Finance Board regulations, 12 C.F.R. § 908.4(c), and shall be effective upon issuance by the Finance Board.

(c) The Bank further agrees that upon issuance the Amended Order shall be fully enforceable by the Finance Board in accordance with the authority and procedures set forth in Section 2B(a)(5) and (a)(7) of the Bank Act, 12 U.S.C. § 1422b(a)(5) and (a)(7), the applicable provisions of Subtitle C of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, 12 U.S.C. §§ 4631 – 4641, and 12 CFR § 908.11, and with any other supervisory powers afforded the Finance Board under the Bank Act, as now or hereafter in effect.

Article III

Waivers

In entering into this STIPULATION AND CONSENT TO THE AMENDMENT TO A CONSENT ORDER TO CEASE AND DESIST (“Amended Stipulation”), the Bank expressly waives each of the following:

(a) the right to the issuance and service of a Notice of Charges pursuant to Section 2B(a)(5) of the Bank Act, 12 U.S.C. § 1422b(a)(5), and 12 C.F.R. § 908.4(a);

(b) all rights to a hearing on the record or a final agency decision pursuant to Section 2B(a)(5) of the Bank Act, 12 U.S.C. § 1422b(a)(5), and 12 C.F.R. §§ 908.4(b)(1) and 908.9;

(c) any and all procedural rights available in connection with the issuance of the Amended Order; and

(d) the right to seek judicial review of the Amended Order pursuant to 12 U.S.C. § 1422b(a)(5) and 12 C.F.R. § 908.10, or otherwise to challenge the validity of the Amended Order.

Article IV

Miscellaneous

(a) The Bank agrees that the provisions of this Amended Stipulation and the Amended Order shall not inhibit, estop, bar, or otherwise prevent the Finance Board from taking any other action affecting the Bank if, at any time, the Finance Board deems it appropriate to do so in order to fulfill the supervisory responsibilities placed upon it by the Bank Act.

(b) The Bank agrees that, except as may be specifically set forth in the Consent Order, the Amended Order or in any future amendment thereto, the Bank's consent to issuance of the Consent Order and Amended Order does not release it from any obligations that may have been, or may be, imposed on it by any rule, regulation, or order issued by the Finance Board, or by any condition imposed in writing for any approval granted by the Finance Board.

(c) The Bank further agrees that, notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Finance Board may enforce any of the commitments or obligations herein under its supervisory and enforcement powers conferred by 12 U.S.C. § 1422b(a)(5) and 12 C.F.R. § 908.11, and not as a matter of contract law.

(d) The laws of the United States of America shall govern the construction and validity of this Amended Stipulation and of the Amended Order.

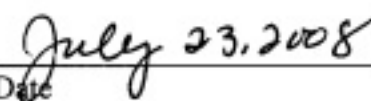
(e) All references to the Finance Board in this Amended Stipulation and in the Consent Order and Amended Order shall also include any of the Finance Board's successors and assigns.

(f) This Amended Stipulation may be executed in separate counterparts, and the exchange of signed copies of this Amended Stipulation by facsimile transmission shall be of the same force and effect as delivery of physically signed originals.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Board of Directors of the Finance Board as its representative, has hereunto set his hand on behalf of the Finance Board.



Stephen M. Cross, Director
Office of Supervision



Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting board of directors of the Bank, have hereunto set their hands on behalf of the Bank on this ____ day of July 2008.

P. David Kuhl, Chairman

James F. McKenna, Vice Chairman

William R. Dodds

Thomas L. Herlache

Roger L. Lehmann

Kathleen E. Marinangel

Richard K. McCord

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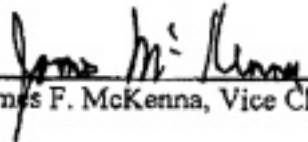
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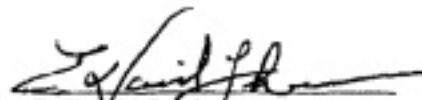
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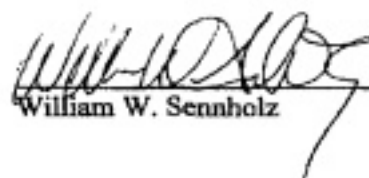
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