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| **Number:** | **2006-22** |
| **Date:** | **October 27, 2006** |

# FEDERAL HOUSING FINANCE BOARD

## Resolution and Order Regarding the Issuance of Subordinated Notes By The Federal Home Loan Bank of Chicago

WHEREAS, section 18(b)(1) of the Federal Home Loan Bank Act (12 U.S.C. § 1438(b)(1)) provides that the Federal Housing Finance Board (Finance Board) may impose a semiannual assessment on the Federal Home Loan Banks (Banks) in an amount sufficient to provide for the payment of the Finance Board's estimated expenses for the period covered by the assessment;

WHEREAS, section 906.2 of the Finance Board regulations (12 C.F.R. § 906.2), which implements this semiannual assessment authority, provides that each Bank must pay a *pro rata* share of any semiannual assessment based on the ratio between the total paid-in value of that Bank's capital stock relative to the aggregate total paid-in value of the capital stock of every Bank;

WHEREAS, on April 18, 2006, the Finance Board adopted Resolution Number 2006-06, which approved the issuance of $1 billion of subordinated notes (Notes) by the Federal Home Loan Bank of Chicago (Chicago Bank) and addressed other related matters;

WHEREAS, the Finance Board included in Resolution Number 2006-06 certain provisions authorizing the Chicago Bank to include the outstanding principal amount of the Notes for purposes of calculating its compliance with the leverage requirement imposed by 12 C.F.R. § 966.3(a)(1) or (a)(2), the unsecured credit limits of 12 C.F.R. § 932.9, and the limits on investments in certain specified types of mortgage backed securities and other asset-backed securities (MBS) under the Finance Board's Financial Management Policy (FMP);

WHEREAS, Resolution Number 2006-06 also authorized and directed the Director of the Office of Supervision to amend the Written Agreement with the Chicago Bank to require the Bank to maintain a ratio of the sum of the paid-in value of its capital plus retained earnings plus the face value of the outstanding Notes to total assets of a least 4.5 percent, and to maintain an aggregate amount of outstanding capital stock plus the face value of the outstanding Notes of at least $3,500,000, provided that the amount of the Notes included in determining the Bank's compliance would be reduced after the fifth year as described in Resolution 2006-06;

WHEREAS, the Written Agreement was so amended on June 6, 2006;

WHEREAS, the Finance Board believes that it would be appropriate to include the outstanding principal amount of the Notes for purposes of calculating the Chicago Bank's *pro rata* share of any semiannual assessment; and

WHEREAS, the Board of Directors has determined that this action is consistent with its authority under the Bank Act, does not adversely affect any substantial existing rights, and aids in ensuring that the Banks operate in a financially safe and sound manner.

NOW, THEREFORE, IT IS RESOLVED that the Finance Board shall include the outstanding principal amount of the Notes in determining the value of the Chicago Bank's paid-in capital stock and the value of the aggregate total paid-in capital stock of every Bank for the purpose of calculating each Bank's *pro rata* share of any semiannual assessment;

IT IS FURTHER RESOLVED, that the amount of the Notes that the Finance Board may include in determining the value of the Chicago Bank's paid-in capital stock for the purpose of calculating each Bank's *pro rata* share of any semiannual assessment shall be 100 percent of the outstanding principal amount of the Notes for each of the first 5 years, commencing on the issuance of the Notes, which amount shall thereafter be reduced by 20 percentage points annually, such that during years 6 through 9 the Finance Board shall include 80 percent, 60 percent, 40 percent, or 20 percent of the Note principal, respectively, in those calculations and shall not include any amount of Note principal in such calculations during the tenth year;

IT IS FURTHER RESOLVED, that the Finance Board shall cease including the outstanding principal amount of the Notes in determining the value of the Chicago Bank's paid-in capital stock and the value of the aggregate total paid-in capital stock of every Bank for the purpose of calculating each Bank's *pro rata* share of any semiannual assessment after the Chicago Bank converts to the Gramm-Leach-Bliley Act capital structure.

By the Board of Directors
of the Federal Housing Finance Board

Ronald A. Rosenfeld
Chairman