

FEDERAL HOUSING FINANCE BOARD

_____)	
In the Matter of:)	
)	
Federal Home Loan Bank of Chicago)	Federal Housing Finance Board
_____)	Supervisory Action No. 2007-SUP-01

**STIPULATION AND CONSENT TO THE
ISSUANCE OF AN 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, the Finance Board is of the opinion that grounds exist for it to initiate an administrative enforcement proceeding and to issue an order requiring the Bank to cease and desist from certain unsafe and unsound practices and to undertake certain affirmative actions to remedy those practices; and

WHEREAS, the 2007 examination of the Bank revealed that the Bank has engaged in unsafe and unsound practices with respect to its capital management and risk management; and

WHEREAS, the Finance Board's analysis further indicates that these unsafe and unsound practices, if continued, will cause serious and irreparable harm to the Bank and its members; and

WHEREAS, the Finance Board has determined that it is necessary to require the Bank to take certain actions to remedy the effects of the unsafe and unsound practices, and to address other matters identified in the 2007 examination of the Bank, thereby assuring the continued safe and sound operations of the Bank; and

WHEREAS, the Finance Board also has determined that requiring the Bank to take those actions will improve the condition and practices of the Bank, stabilize its capital, and provide it an opportunity to address the principal supervisory concerns identified by the Finance Board; and

WHEREAS, the Bank, desiring to cooperate with the Finance Board and (i) without any adjudication on the merits, (ii) without admitting or denying that grounds exist to initiate an administrative enforcement proceeding against the Bank, (iii) solely for the purpose of resolving this matter, (iv) in the interest of addressing immediately any matters that could adversely affect the interests of members of the Bank, and (v) in the interest of avoiding the costs and distraction of litigation, hereby consents to the issuance of a cease and desist order substantially in the form of the accompanying Consent Order to Cease and Desist ("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.

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 Order by the Finance Board.

(b) The Bank further agrees that the Order shall be “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 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 Issuance of an Order to Cease and Desist (“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 Order; and

(d) the right to seek judicial review of the 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 Order.

Article IV

Miscellaneous

(a) The Bank agrees that the provisions of this Stipulation and the 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 Order or in any future amendment thereto, the Bank's consent to issuance of the 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 Stipulation and of the Order.

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

(f) The written agreement entered into between the Finance Board and the Bank dated June 30, 2004, and each of the amendments thereto, are terminated upon issuance of the Order.

(g) This Stipulation may be executed in separate counterparts, and the exchange of signed copies of this 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

10/9/2007
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 October 2007.

P. David Kuhl, Chairman

James F. McKenna, Vice Chairman

William R. Dodds

Terry M. Grosenheider

Thomas L. Herlache

Alex J. LaBelle

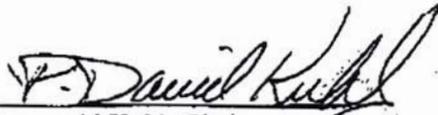
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IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting board of directors of the Bank, have hereunto set their hands on behalf of the Bank on this 5th day of [October] 2007.


P. David Kuhl, Chairman

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William R. Dodds

Terry M. Groschneider

Thomas L. Herlache

Alex J. LaBelle

Roger L. Lehmann

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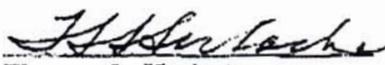
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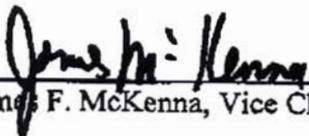
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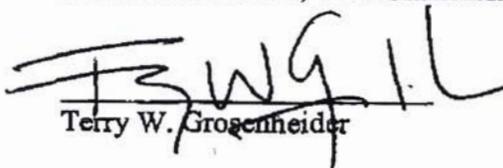
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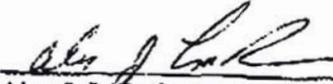
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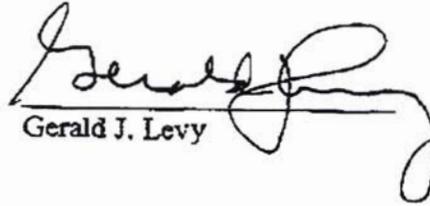
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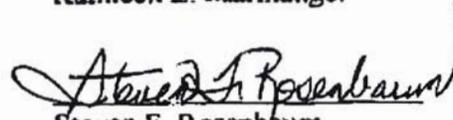
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