

FEDERAL HOME LOAN BANK OF CHICAGO

FORM 8-K (Current report filing)

Filed 10/30/07 for the Period Ending 10/30/07

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **October 30, 2007**

FEDERAL HOME LOAN BANK OF CHICAGO

(Exact name of registrant as specified in its charter)

Federally chartered corporation
(State or other jurisdiction of incorporation or
organization)

000-51401
(Commission File
Number)

36-6001019
(IRS Employer Identification No.)

111 East Wacker Drive
Chicago, Illinois
(Address of principal executive offices)

60601
(Zip Code)

Registrant's telephone number, including area code:

(312) 565-5700

Former name or former address, if changed since last report:

Not Applicable

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On October 30, 2007, the Board of Directors ("Board") of the Federal Home Loan Bank of Chicago ("Bank") decided that it would not declare a dividend for the third quarter of 2007. In making its determination, the Board considered preliminary third quarter operating results, fourth quarter income projections and the requirements imposed under our consensual cease and desist order ("C&D Order") that we entered into on October 10, 2007 with our regulator, the Federal Housing Finance Board ("Finance Board").

Our preliminary operating results for the third quarter show positive earnings, however our net income is lower than that of the second quarter of 2007. We expect that certain factors will significantly lower our future net income and we may experience losses in the fourth quarter of 2007 and 2008. These factors include:

- Maturing consolidated obligations that we expect to be replaced by new debt issued at significantly higher market interest rates;
- Amortization into current earnings of prior period hedging costs; and
- Amortization into current earnings of capitalized software costs.

We will announce our income results for the third quarter in our 10-Q filing which is due to be filed with the Securities and Exchange Commission by November 14, 2007.

Under the terms of the C&D Order dividend declarations are subject to the prior written approval of the Director of the Office of Supervision ("OS Director") of the Finance Board. (For a description of the C&D Order see our 8-K filing dated October 10, 2007.) The OS Director has provided us with informal guidance regarding the authorization process. As a result, we expect to monitor and evaluate actions we have taken to remediate the capital management and risk management issues identified in the Finance Board's 2007 examination of the Bank. We will include an assessment of the effectiveness of such actions in any dividend approval request, which we expect the OS Director will consider in his evaluation of the request. There can be no assurance as to whether and to what extent the OS Director may approve our future dividend requests.

Item 7.01 Regulation FD Disclosure

The Bank continues to work on strategic alternatives and cost reduction initiatives. Although we have not yet, and may not, reach an agreement to merge with the Federal Home Loan Bank of Dallas, our primary objective in this and any other strategic initiatives is to achieve an outcome for our members that provides the greatest possible value of membership in the Bank.

The Bank is sending to its members a letter informing them of today's Board decision regarding dividends and its outlook on strategic initiatives. The text of the letter is included as Exhibit 99.1 to this report.

The information being furnished pursuant to Items 2.02 and 7.01 on this Current Report on Form 8-K and the information contained in Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

This Current Report contains forward-looking statements which are based upon our current expectations and speak only as of the date hereof. These statements may use forward-looking terminology, such as "preliminary," "anticipates," "believes," "expects," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The Bank cautions that, by their nature, forward-looking statements involve risk or uncertainty, that actual results could differ materially from those expressed or implied in these forward-looking statements and that actual events could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the risk factors set forth in the Bank's periodic filings with the Securities and Exchange Commission, which are available on the Bank's Web site at www.fhlbc.com. The Bank assumes no obligation to update any forward-looking statements made in this filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

Exhibit No. Description

99.1 Letter to Members, dated October 30, 2007, from President and CEO of the Bank

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Federal Home Loan Bank of Chicago

Date: October 30, 2007

By: /s/ Peter E. Gutzmer

Peter E. Gutzmer
Executive Vice President, General Counsel and
Corporate Secretary

October 30, 2007

To all FHLBC members:

The Federal Home Loan Bank of Chicago's Board of Directors met today to review preliminary third quarter operating results and future earnings projections. As a result of the Bank's current and projected earnings and regulatory requirements, the Board has decided not to declare a third quarter dividend.

Earlier this month, I wrote to you about the consensual cease and desist order affecting the redemption and repurchase of capital stock. You may recall that while the order is in place, the Finance Board is required to approve FHLBC's dividend payments. However, the decision not to declare a dividend this quarter was made by the Bank's Board and not our regulator.

While preliminary operating results for the third quarter show positive earnings, the Board decided to forego a dividend payment for the quarter in recognition of projected earnings pressure in the fourth quarter and in 2008. This action will result in a further increase in the Bank's already significant level of retained earnings of \$617 million as of June 30, 2007. Please refer to the attached 8-K filing for more information on the FHLBC Board's decision.

As always, dividend decisions in subsequent quarters will be based on actual financial results for the Bank and expectations regarding future results. The Director of the Office of Supervision of the Finance Board (OS Director) has provided further informal guidance with regard to evaluation of the requirements of the consensual cease and desist order as it would affect consideration of dividend approvals. We expect that the OS Director's approval of any dividends will depend, in part, on our remediation of the capital management and risk management issues identified in the Finance Board's 2007 examination of the Bank. We are fully committed to meeting these requirements.

Products and Services Commitment

The decision not to declare a dividend for the quarter was a difficult one, as we well understand that an adequate return on your investment in the Bank is one element of the value of membership in the Bank.

As members - both shareholders and customers - you derive the value of your membership with the Federal Home Loan Bank of Chicago from access to competitively priced solutions to your liquidity and funding needs through advances and the purchase of mortgages through the MPF[®] Program, as well as income on your stock ownership. Many of you currently have stock positions and collateral in place that would allow you to take down additional advances with maturities to match your balance sheet needs. You can depend on the fact that we will continue to price advances competitively. By fully accessing the borrowing capacity already available to you, you will realize the maximum possible value of your membership during this period. Your relationship banker can provide you with details regarding the additional borrowing capacity your current stock holdings and collateral positions support.

The Bank will also continue to support affordable housing and community economic development activities through our Community Investment programs. We expect to announce the results of our latest competitive Affordable Housing Program round in early December.

Access to Capital Markets Unchanged

None of these recent changes have impacted our ability to access funding or provide liquidity to you. As a Federal Home Loan Bank, the FHLBC continues to participate in "AAA"-rated borrowings issued on a consolidated basis by the FHLB's Office of Finance. As the System recognizes its 75th year of operation, the recent issues of illiquidity in the mortgage market stand in sharp contrast to the ability of the Federal Home Loan Banks to access the capital markets and to utilize that funding capability on behalf of our members. In addition, FHLBC's split rating of Aaa/AA+ is beneficial for members that use FHLBC's letter of credit to support public unit deposits.

Strategic Alternatives

We are committed to taking the steps necessary to satisfy our regulatory requirements and provide a reasonable return on your long-term investment in the Bank. We continue our work on strategic alternatives and cost reduction initiatives. Although we have not yet, and may not, reach an agreement to merge with the Federal Home Loan Bank of Dallas, our primary objective in this and any other strategic initiatives is to achieve an outcome for our members that provides the greatest possible value of membership in the Bank.

We will continue to provide you with updates on our progress.

Sincerely,

Mike Thomas

President and CEO