



Federal Home Loan Bank of Chicago

October 15, 2010

Today the Federal Home Loan Bank of Chicago will file complaints against several defendants regarding some of the private-label mortgage-backed securities (MBS) they sold us between 2005 and 2007. We contend that the quality of the loans that comprise the pools of securities cited in today's complaints was inconsistent with the description in the pre-purchase documents prepared by the underwriters and issuers of the securities. Relying on the pre-purchase documents, we invested in these securities with the understanding that we were purchasing higher-quality instruments than turned out to be the case. After careful consideration, we have concluded that we have an obligation to you, our members, to do everything we can to recover the value lost from investing in these securities.

The lawsuits were filed in the Circuit Court of Cook County, Illinois; the Superior Court of California, County of Los Angeles; and the Superior Court of Washington, King County. The complaints allege the defendants made material misstatements and omitted important information in connection with the sale of these securities. The Federal Home Loan Bank of Indianapolis also filed similar complaints today. The Federal Home Loan Banks of Pittsburgh, Seattle, and San Francisco have previously filed similar lawsuits.

As we have discussed in prior member letters and SEC filings, and at the regional member meetings, the value of our private-label MBS portfolio has suffered dramatically. The securities listed in today's complaints totaled more than \$4.3 billion in face value and were all rated AAA when we purchased them. Since then, the same credit agencies that supplied the original ratings have downgraded substantially all of these securities to junk status. Proper accounting of our estimated credit losses on these securities has resulted in a total of \$455 million in write-downs that have negatively impacted our income, our retained earnings, and our ability to restore a dividend.

In summary, we are only taking these actions out of the belief that it would be irresponsible not to explore every available option to recover the value lost to our members.

Sincerely,
Matthew R. Feldman
President and CEO
Federal Home Loan Bank of Chicago