

Rating Action:

MOODY'S AFFIRMS DEPOSIT RATINGS OF FEDERAL HOME LOAN BANK OF CHICAGO; OUTLOOK IS STABLE

New York, July 19, 2004 -- Moody's Investors Service has affirmed its deposit ratings of the Federal Home Loan Bank (FHLB) of Chicago (long-term deposit ratings at Aaa and short-term deposit ratings at Prime-1) following the recent announcement that the Federal Home Loan Bank of Chicago has entered into a written agreement with its regulator, the Federal Housing Finance Board. The Aaa senior debt ratings of the consolidated obligations of the Federal Home Loan Banks are unaffected. The rating outlook remains stable.

Moody's said that the written agreement with the Federal Home Loan Bank of Chicago and the Federal Housing Finance Board requires the Bank to improve practices around the Bank's risk management process, internal audit, capital management and accounting practices, and to enhance corporate governance at the Bank. Moody's expects the FHLBank of Chicago to fully comply with the requirements spelled out in the agreement, but added that these requirements will take time to fulfill. As a part of the agreement, the FHLBank of Chicago must hire consultants to conduct independent reviews of these functional areas and submit a three year business and capital management plan that includes the development of capital stock, retained earnings and dividend policies appropriate for the Bank's business strategies. As such, compliance with the agreement will likely result in increased costs for the Bank over the near-term as the Bank implements its action plan to address the requirements in the agreement.

Moody's views the agreement between the Chicago Bank and its regulator as essentially a precautionary measure to ensure that risk policies, procedures and practices are adequate given the increased risk sensitivities around the Bank's Mortgage Partnership Finance (MPF®) program and other business activities. Under the MPF® program, the FHLBank of Chicago purchases mortgages from its member banks, thrifts and other institutions using the same conforming standards established by Fannie Mae and Freddie Mac (such as requiring mortgage insurance for loans with loan-to-values greater than 80%). Compared to the Chicago Bank's traditional loan advance business, the MPF® program is more susceptible to credit losses, and in particular carries heightened interest rate risk and operational complexity.

The growth of this MPF® program has been particularly robust over the past two years, however, Moody's believes that the Bank's internal operational and risk management infrastructure has not kept pace with the emerging market, interest rate, credit and operational risks. Moody's believes that the Chicago Bank is committed to, and focused on, strengthening its risk management organization as evidenced by the establishment of a new risk management and compliance group. The areas identified in the supervisory agreement reinforce the heightened emphasis on operational risk management in financial institutions broadly.

While there is uncertainty surrounding the potential outcomes of the independent consultant reviews, Moody's does not believe that the deficiencies identified in the supervisory agreement impair protections for depositors to a degree that is inconsistent with the Bank's Aaa/Prime-1 deposit ratings. Deposit ratings, like the Bank's Aaa debt rating, are supported by the Bank's US Government charter and status as a US Government-sponsored Enterprise (GSE). Specifically, Moody's believes that the profoundly negative affect on the US housing market, of a default by any one of the Federal Home Loan Banks, makes it extremely unlikely that the government would fail to provide support to an FHLBank suffering financial stress. In addition to this very strong implicit support, the Chicago FHLBank enjoys strong earnings performance and healthy capital levels, given the Bank's current business risk profile. Moody's does not see these characteristics changing. However, Moody's said that the gap between the Chicago Bank's Aaa ratings and its underlying financial strength appears to have widened somewhat due to the additional risks associated with the MPF® program.

The Federal Home Loan Bank of Chicago is a government-sponsored enterprise (GSE) that was created by Congress to provide affordable credit to the US housing market. The Chicago Bank had total assets of approximately \$92 billion and total capital of approximately \$4.8 billion at March 31, 2004.

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**Chicago
Federal Home Loan Bank**

Press Release

FOR IMMEDIATE RELEASE
July 19, 2004

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Chicago, Ill. – Charles A. Huston, Acting President of the Chicago Federal Home Loan Bank, released the following statement regarding the announcement by Moody’s Investors Service reaffirming the Chicago Bank’s Aaa long-term deposit rating and its Prime-1 short-term deposit rating, the highest ratings available in both categories:

“We are pleased that Moody’s recognized the excellent financial condition of the Chicago FHLB by citing our strong earnings performance and healthy capital levels to support their decision. The Bank’s second quarter financial results will be released soon. They will provide further evidence of our outstanding asset quality and earnings performance, and show we have the highest capital ratio and the most retained earnings among the FHLBs.

“We also share Moody’s view of our regulatory agreement as a precautionary measure that will enhance our management processes. We are committed to maintaining the best practices for our industry in these areas.

“The MPF[®] business has been a key factor of our financial success. We plan to continue its growth and development as a core business line and an essential strategic alternative for our member institutions.”

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The Chicago Federal Home Loan Bank is a government sponsored enterprise providing housing finance to over 880 member commercial banks, savings institutions, credit unions and insurance companies in Illinois and Wisconsin. With over \$90 billion in assets, the Bank offers floating and fixed-rate loans, the Mortgage Partnership Finance[®] Program and related products to finance home mortgage portfolios. The Bank also offers funding for affordable housing and community development activities.

"Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago.