

**Federal Home  
Loan Bank of  
Chicago**

111 East Wacker Drive

Chicago, Illinois 60601

(312) 565-5700

May 29, 2001

VIA FEDERAL EXPRESS

Secretary to the Board  
Federal Housing Finance Board  
1777 F Street, N.W.  
Washington, D.C.20006-5210

Re: Application by Charter One Bank, F.S.B. to Continue  
Membership of Liberty Federal Bank in the Federal Home  
Loan Bank of Chicago after the Merger of these Entities

Dear Madame:

Introduction

The Federal Home Loan Bank of Chicago ("Chicago Bank") is submitting, for Federal Housing Finance Board ("Finance Board") approval, an application by Charter One Bank, F.S.B. ("Charter One") to continue the membership in the Chicago Bank of Liberty Federal Bank ("Liberty Federal") after the merger of Liberty Federal into Charter One on July 6, 2001. Charter One is currently, and intends to remain, a member of the Federal Home Loan Bank of Cincinnati ("Cincinnati Bank"). Liberty Federal is currently a member of -the Chicago Bank. Charter One would like to continue this membership in the Chicago Bank. In support of this application, the Chicago Bank cites as precedent, and hereby incorporates by reference, the legal arguments for authority presented in the application submitted to the Finance Board by the Federal Home Loan Bank of Dallas ("Dallas Bank") in support of Washington Mutual Bank, FA's application to join the Dallas Bank.

On May 3, 2001, Charter One submitted its membership application to the Chicago Bank. On May 25, 2001, the Chicago Bank granted contingent approval to Charter One's application. The Chicago Bank found that Charter One met the legal standards for membership.\*The Chicago Bank's approval was contingent upon the approval by the Finance Board of Charter One's membership in the Chicago Bank. The Chicago Bank believes the Finance Board can approve this application on one of two legal grounds. The first argument is that the Finance Board finds that such membership is "demanded by convenience." As established by the materials

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\* Enclosed with this letter is Charter One's application with supporting documentation.

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contained herein, both the statutes and the implementing regulation authorize the Finance Board to approve membership of a qualifying institution, whose home office is located in an adjoining district, in another Federal Home Loan Bank where the "demanded by convenience" standard is met. The second argument is that the Finance Board may amend its regulations to incorporate the concept of allowing merging members of different Federal Home Loan Banks to retain the disappearing institution's membership in its Federal Home Loan Bank.

Information Required by 12 C.F.R. § 90'7.6

- (1) The name of the requester, and the name, title, address, telephone number and electronic mail address, if any, of the official filing the request on its behalf.**

Peter E. Gutzmer  
Senior Vice President, General Counsel  
& Corporate Secretary  
Federal Home Loan Bank of Chicago  
111 East Wacker Drive, Suite 800  
Chicago, Illinois 60601  
312-565-5805  
312-565-6912 fax  
pgutzmer@fhlbc.com

- (2) The name, address, telephone number and electronic mail address, if any, of a contact person from whom Finance Board staff may seek additional information if necessary.**

Peter E. Gutzmer  
(see above)

- (3) The section numbers of the particular provisions of the Federal Home Loan Bank Act or Finance Board rules, regulations, policies or orders to which this request relates.**

12 U.S.C. § 1426(b) of the Federal Home Loan Bank Act 12 C.F.R.  
925.18(a)(2) of the Finance Board Regulations.

- (4) Identification of the determination or relief requested, including any alternative relief requested if the primary relief is denied, and a clear statement of why such relief is needed.**

The relief requested is approval by the Finance Board of Charter One's application for membership to the Chicago Bank.

- (5) **A statement of the particular facts and circumstances giving rise to this request and identifying all relevant legal and factual issues.**

The facts and circumstances and the legal and factual issues of this application are set forth above in the Introduction and are further addressed in the supporting documentation.

- (6) **References to all relevant authorities, including the Act, Finance Board rules, regulations, policies, and orders, judicial decisions, administrative decisions, relevant statutory interpretations, and policy statements.**

12 U.S.C. § 1424(b)  
12 C.F.R. § 918 (a) (2)

- (7) **References to any Waivers, No-Action Letters, Approvals or Regulatory Interpretations issued to the requester in the past in response to circumstances similar to those surrounding this request.**

None.

- (8) **A reasoned opinion of counsel supporting the relief or interpretation sought and distinguishing any adverse authority;**

Enclosed with this letter.

- (9) **Any non-duplicative, relevant supporting documentation.**

Enclosed with this letter.

- (10) **A certification by a person with knowledge of the facts that the representations made in this request are accurate and complete.**

Pursuant to Section 907.6(c)(10) of the Finance Board regulations, I hereby certify that the statements contained in this submission are true and complete to the best of my knowledge.

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At the Bank's Board of Directors' ("Board") May meeting, the Board was notified of Charter One's application. At that time, the Board agreed that the Bank should approve the application subject to the Finance Board's approval. A formal resolution by the Bank's Board will be submitted to the Finance Board after the Board's June meeting.

If you have questions or need additional information concerning this request, please feel free to contact me.

Sincerely yours,

Peter E. Gutzmer  
Senior Vice President,  
General Counsel &  
Corporate Secretary

PEG:sk

cc: Mr. James L. Bothwell  
Managing Director

***Federal  
Home Loan Bank  
of Chicago***

# Memorandum

**To** Alex J. Pollock, President & Chief Executive Officer  
**From** Peter E. Gutzmer, Senior Vice President,  
General Counsel & Corporate Secretary  
**Date** May 29, 2001  
**Subject** Application by Charter One Bank, F.S.B. to Retain Membership of Liberty Federal Bank in the Federal Home Loan Bank of Chicago after the Merger of the Entities

CONFIDENTIAL - INTERNAL USE ONLY

I. Introduction

On May 3, 2001, Charter One Bank, F.S.B. ("Charter One") submitted an application to the Federal Home Loan Bank of Chicago ("Chicago Bank") to continue the membership of Liberty Federal Bank ("Liberty Federal") after the merger of Liberty Federal into Charter One on July 6, 2001.

Charter One is currently a member of the Federal Home Loan Bank of Cincinnati ("Cincinnati Bank") and intends to remain a member of the Cincinnati Bank. Liberty Federal is currently a member of the Chicago Bank. Charter One would like to continue this membership in the Chicago Bank. By its application, Charter One wishes to preserve the status quo in the Chicago Bank district.

The issue of whether a member which is merging into a member of another Federal Home Loan Bank district may retain the former FHLB membership can be answered affirmatively based on one of two legal arguments. The first argument is that under Section 4(b) of the Federal Home Loan Bank Act ("Bank Act"), the Federal Housing Finance Board ("Finance Board") is authorized to permit membership in more than one adjoining FHLB district, where the Finance Board finds that such membership is "demanded by convenience." The second argument is that the Finance Board may amend its regulations to incorporate the concept of allowing merging members of different FHLBs to retain the disappearing institution's membership in its FHLB. Each of these arguments is discussed in more detail below.

## II. Legal Authority

### A. "Demanded by Convenience"

Section 4(b) of the Bank Act, 12 U.S.C. § 1424(b), states that an "institution eligible to become a member under this section may become a member only of the FHLB of the district in which is located the institution's principal place of business, or of the bank of a district adjoining such district, if demanded by convenience and then only with the approval of the Finance Board."

An argument can be made that Section 4(b) is ambiguous. While the general rule stated in the first part is straightforward, an institution may "only" become a member of its home district FHLB, the inclusion of "or" may allow an eligible institution the opportunity to choose to become a member of an adjoining FHLB district as an alternative to, or in addition to, its home district FHLB. See, Memorandum from C.F. Muckenfuss, III and Robert C. Eager to William A. Longbrake, dated November 28, 2000 ("Muckenfuss Memorandum").

The Muckenfuss Memorandum\* argues that the use of the word "or" in Section 4(b) is conjunctive and that there is a textual basis for the reading that an eligible institution may be a member of both its home district FHLB and any adjoining FHLB district.

Section 925.18(a) (2) of the Finance Board Regulations largely tracks the statutory language, except that the regulation eliminates the word "or" and structures the provision so that the adjoining district possibility is an exception to the "only" home district FHLB language. By deleting the "or," the Finance Board eliminates the possibility of an "either . . . or" construction. Notwithstanding the deletion of "or," this regulation can still be read to allow the Finance Board's approval of an eligible institution becoming a member of an adjoining FHLB district.

Since the Finance Board has the authority to permit an eligible institution to become a member of an adjoining FHLB district, the question turns to the meaning of the "demanded by convenience" standard. This phrase is not defined; however, Charter One's application to continue the membership in the Chicago Bank could satisfy this requirement. Charter One seeks to maintain Liberty Faldederal's advances and equity ownership in the Chicago Bank thereby mitigating the impact on the Chicago

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\* "The Muckenfuss Memorandum was prepared in support of the application of Washington Mutual to retain Bank United's membership in the Federal Home Loan Bank of Dallas following Washington Mutual's acquisition of Bank United.



Bank and its members. Liberty Federal has approximately \$496 million in outstanding advances and almost \$30 million in Chicago Bank stock. Liberty Federal has also been an active participant in the Chicago Bank's AHP and MPF<sup>o</sup> programs. Thus, continuing the membership in the Chicago Bank district would be "demanded by convenience."

B. Withdrawal by a Member from the FHLB System

Section 6(d) of the Bank Act, 12 U.S.C. §1426(d), outlines the termination of membership by an institution. This section allows for voluntary and involuntary withdrawal by a member from a FHLB. Voluntary withdrawal requires notice by the member to the FHLB. Involuntary withdrawal is triggered if the board of directors of a FHLB determines that a member (a) has failed to comply with a provision of the Bank Act or Finance Board regulation; or (b) is insolvent or is subject to the appointment of a conservator or receiver. Upon the determination that a member has met one of these requirements for involuntary withdrawal, the member must surrender its stock upon the expiration of the applicable notice period. The merger of two institutions does not trigger either the voluntary or involuntary withdrawal sections.

Section 925.18(a)(2), as discussed above, allows for eligible institutions to join a FHLB in an adjoining district, if demanded by convenience. This section appears to speak specifically to institutions that are eligible for membership, not institutions that are currently members.

However, § 925.24 of the Finance Board regulations addresses consolidations of members. Subsection (b) states that "upon the consolidation of two member institutions which are members of different FHLBs into one institution operating under the charter of one of the consolidating institutions, the disappearing institution's membership terminates upon the cancellation of its charter." Notwithstanding the foregoing, the Bank Act does not expressly prohibit an institution from maintaining membership in two FHLBs. This subsection was implemented by the Finance Board's using its rulemaking authority. Thus, the Finance Board has the power to amend this regulation based on a change in conditions or facts in the marketplace.

Generally, agencies are accorded broad discretion in exercising their rulemaking authority. In fact, the courts have routinely deferred to an agency's interpretation of its own statutes. Thus, the Finance Board could amend its regulation regarding multiple FHLB memberships reasoning that the current trend toward consolidation in the financial industry necessitates this change.



III. Conclusion

For the reasons stated above, Charter One's application to retain membership in the Chicago Bank should be approved, subject to Finance Board approval. The Finance Board can either approve the application based on the "demanded by convenience" standard or amend its membership regulation to permit dual membership when institutions are merged or acquired by members in other FHLB districts.

If you have any questions regarding the foregoing, please do not hesitate to call me.

May 25, 2001

**FEDERAL HOME LOAN BANK OF CHICAGO**

Approval of Membership - Charter One Bank, F.S.B., Cleveland, Ohio

1. On May 3, 2001, Charter One Bank, F.S.B., Cleveland, Ohio ("Charter One") submitted an application for membership in the Federal Home Loan Bank of Chicago ("Bank").
2. Charter One is authorized under the laws of the United States to become a member of, purchase stock in, do business with, and maintain deposits in, the Bank pursuant to Section 4(b) of the Federal Home Loan Bank Act, as amended, which provides that an institution may become a member of the bank of a district adjoining the district in which is located the institution's place of business, if demanded by convenience, with the approval of the Federal Housing Finance Board.
3. Charter One meets all of the membership eligibility criteria of the Federal Home Loan Bank Act ("Bank Act") and Part 925 of the Regulations of the Federal Housing Finance Board ("Regulations"). The statements contained in the digest are accurate to the best of the Bank's knowledge and are based on a diligent and comprehensive review of all available information identified in the digest.
4. The undersigned, pursuant to the authority under Section 925.3 of the Regulations and the Membership Approval Delegation Resolution, adopted on December 14, 1993, by the Board of Directors of the Bank, hereby conditionally approves the application for membership in the Bank submitted by Charter One to be effective upon consummation of the merger of Liberty Federal Bank into Charter One and contingent upon receipt of approval for membership of the Federal Housing Finance Board pursuant to Section 4(b) of the Bank Act, as amended.
5. The undersigned, in the alternative, conditionally approves the application submitted by Charter One, to retain the membership in the Bank which Charter One acquired by virtue of its acquisition of and merger with Liberty Federal Bank, Hinsdale, Illinois, contingent upon approval of such retention of membership by the Federal Housing Finance Board.

By the Federal Home Loan Bank of Chicago

Alex J. Pollock  
President & Chief Executive Officer

**CHARTER ONE"  
BANK**

May 3, 2001

VIA FEDERAL EXPRESS

Mr. Charles A. Huston  
Executive Vice President, Banking  
Federal Home Loan Bank of Chicago  
111 East Wacker Drive  
Suite 800  
Chicago, Illinois 60601

RE: Application by Charter One Bank, F.S.B. to Continue  
Membership of Liberty Federal Bank in the Federal Home  
Loan Bank of Chicago after the Merger of these Entities

Dear Mr. Huston:

Enclosed please find an application by Charter One Bank, F.S.B., a federal savings bank headquartered in Cleveland, Ohio ("Charter One"), to continue the membership in the Federal Home Loan Bank of Chicago ("Chicago Bank") of Liberty Federal Bank ("Liberty Federal") of Hinsdale, Illinois after the merger of the two institutions. Charter One is currently, and intends to remain, a member of the Federal Home Loan Bank of Cincinnati ("Cincinnati Bank"). Liberty Federal is currently, and would like to remain after its merger, a member of the Chicago Bank. Charter One seeks to continue this membership in the Chicago Bank for the reasons set forth below. In support of this application Charter One cites as precedent, and hereby incorporates by reference, the legal arguments for authority presented in the application submitted to the Federal Housing Finance Board ("Finance Board") by the Federal Home Loan Bank of Dallas ("Dallas Bank")<sup>1</sup> in support of Washington Mutual Bank, FA's ("WAMU") application to join the Dallas Bank' and the planned submission of an application by the Federal Home Loan Bank of New York ("New York Bank") in support of Fleet National Bank's application to join the New York Bank.

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<sup>1</sup> See Letter dated December 8, 2000 from Terry Smith, President, Federal Home Loan Bank of Dallas to Elaine Baker, Secretary to the Federal Housing Finance Board, and accompanying exhibits.

I. Background

Charter One Financial, Inc. ("Charter One Financial"), Charter One's parent holding company will acquire Alliance Bancorp ("Alliance"), the holding company of Liberty Federal, tentatively scheduled for July 6, 2001. At the time of that acquisition, Liberty Federal will be merged into Charter One. Liberty Federal currently has a membership with the Chicago Bank. By this application, Charter One seeks to preserve the status quo in the Chicago Bank district. If approved, Charter One intends to continue to participate in the programs and activities that Liberty Federal participated in through the Chicago Bank.

II. Legal Authority

A. Introduction

Charter One believes that its application to continue the membership of Liberty Federal in the Chicago Bank can be approved on one of two legal grounds. The first argument is that under Section 4 (b) of the Federal Home Loan Bank Act ("Bank Act"), the Finance Board is authorized to permit membership in more than one adjoining FHLBank district, where the Finance Board finds that such membership is "demanded by convenience." The second argument is that the Finance Board may amend its regulations to incorporate the concept of allowing merging members of different FHLBanks to retain the disappearing institution's membership in its FHLBank. Each of these arguments is discussed in more detail below.

B. Demanded by Convenience

Section 4(b) of the Bank Act, 12 U.S.C. § 1424(b), states that an institution eligible for membership in a Federal Home Loan Bank ("FHLBank") may with the approval of the Finance Board become a member of a FHLBank in a district adjoining its home district if "demanded by convenience."

Charter One is a depository institution eligible for membership in a FHLBank. Charter One maintains its principal place of business in the Cincinnati Bank district. Charter One will maintain its membership in the Cincinnati Bank and seeks to continue Liberty Federal's membership with the Chicago Bank under the authority of Section 4(b) of the Bank Act.

WAMU submitted a legal memorandum in support of its application for membership in the Dallas Bank. That memorandum establishes that Section 4(b) of the Bank Act grants the discretionary authority to the FHFB to determine that a bank may maintain a membership in both the district of its principal place of business and in the adjoining district. As the Chicago Bank is an adjoining district to the Cincinnati Bank district, Charter One seeks membership in the Chicago Bank under the authority cited in support of the WAMU application and hereby incorporates by reference the legal memorandum and supporting statements set forth therein.

Section 4(b) further provides that our application may be approved in the discretion of the Finance Board if it is "demanded by convenience." Approval of Charter One's application for continuation of the existing membership is supported by this standard. Again, the WAMU application includes substantial analysis of the policy reasons why continuing membership is demanded by convenience of the FHLBanks, the FHLBank member, the FHLBank System and the constituencies that they serve. That analysis is also incorporated by reference herein, to the extent that it is applicable. Additional support for this proposition is found in the following grounds relating to Charter One.

1. Approval Preserves the Membership Held by Liberty Federal and Promotes the Convenience of the Chicago Bank, the Cincinnati Bank, Charter One and the Communities They Serve

The primary intent of our application is to preserve the status quo. Effective on or about July 6, 2001, Liberty Federal will merge into Charter One. Charter One seeks to maintain a membership in the Chicago Bank to continue the programs initiated by Liberty Federal through its Chicago Bank membership.

Liberty Federal (formerly known as Hinsdale Federal Savings & Loan Association) has been a member of the Chicago Bank since its inception in 1934 and has continuously used the services of the Chicago Bank. Liberty Federal is the Chicago Bank's tenth largest borrower with current advances as of April 16, 2001 of approximately \$496 million. Liberty Federal is the tenth largest stockholder in the Chicago Bank with almost \$30 million in capital stock. Charter One seeks to maintain these advances and equity ownership thereby mitigating the impact on the Chicago Bank and its members which would be caused by the loss of Liberty Federal's membership.

Additionally, Liberty Federal has participated in various other programs offered by the Chicago Bank. Liberty Federal is an active participant in the Chicago Bank's Mortgage Partnership Finance Program, funding over \$6 million in mortgage loans and committing to fund \$20 million in mortgage loans.

As a member, Liberty Federal has been an active participant in the Chicago Bank's Affordable Housing Program ("AHP"). The Chicago Bank has approved Liberty Federal's applications for 10 projects in an aggregate amount of \$1,301,598 to fund 451 units. In the 2000 Round A competition, the Chicago Bank approved Liberty Federal's application for \$200,000. The project will fund 25 units. However, if Charter One were prohibited from continuing a membership in the Chicago Bank, the project sponsor will be forced to find another institution willing to step into Liberty Federal's place and assume the responsibilities of the project. Liberty Federal has also participated in the Chicago Bank's Down payment Plus<sup>o</sup> Program, assisting 20 homebuyers with AHP grants totaling \$55,400 for down payment and closing cost assistance. By joining the Chicago Bank, Charter One would preserve the level of commitment and activity conducted by Liberty Federal in the Chicago Bank's region. This benefit accrues directly to the communities served by those programs.

Furthermore, Chicago Bank personnel reviews Liberty Federal's AHP applications and monitors its AHP projects. The Chicago Bank personnel are familiar with the needs of their district. Familiarity with the geographic area of an AHP project facilitates a thorough review of an AHP project application and enhances the prospects for a favorable response to the application. Additionally, the administration of an AHP project is easier for people who are geographically closer to the project and thus in a better position to monitor the project conveniently. Therefore, applications and ongoing AHP projects in the Chicago Bank district are better suited for review and monitoring by Chicago Bank personnel.

Additionally, on October 1, 1999, St. Paul Federal Bank for Savings ("St. Paul"), a Chicago Bank member, merged into Charter One. Charter One has maintained the St. Paul advances at the Chicago Bank. Those advances, as of April 16, 2001, total over \$631 million. To capitalize these advances, Charter One maintains over \$31 million in stock at the Chicago Bank. Combining St. Paul and Liberty Federal's stock would result in the consolidated institution having over \$60 million in Chicago Bank stock, moving the consolidated institution up to the fourth largest stockholder in the Chicago Bank. Their combined advances

would total \$1,127,285,000, placing the consolidated institution as the third largest borrower in the Chicago Bank.

Thus, continuing the membership in the Chicago Bank district is "demanded by convenience" because it serves the housing needs of the communities involved. Certainly these communities would not benefit from a decrease in member bank participation and in available funding for AHP initiatives in the Chicago district. Specifically, membership is "demanded by convenience" to the Chicago Bank because the Chicago Bank would preserve a longstanding and significant membership that contributes to capital, takes advances, and ultimately increases the level of AHP grant funding available in the district. Continued membership in the Chicago Bank is "demanded by convenience" to the Cincinnati Bank because Charter One intends to continue its investment in the Cincinnati Bank and to continue its participation in their advances program. Therefore, it is unlikely that the Cincinnati Bank will be disadvantaged by Charter One's continued membership in the Chicago Bank.

2. Maintaining a Separate Charter Presents Inefficiencies and Does Not Promote the Convenience

While Charter One Financial could maintain Liberty Federal as a separately chartered bank subsidiary in order to retain the Chicago Bank membership, that alternative is neither an effective nor efficient solution in the increasingly competitive banking environment. Moreover, maintaining Liberty Federal's charter would run directly against one of the significant motivations for the Alliance Bancorp acquisition, recognizing efficiencies.

Retaining Liberty Federal as a separate charter in order to preserve the Chicago Bank membership would mean maintaining two corporate entities with two boards of directors, two accounting and deposit systems of record, two regulatory reporting systems of record and duplication of other back office expenses related to maintaining the corporate separation of the bank.

Thus, maintaining a separate charter solely for the purpose of keeping an additional FHLBank membership is an expense that cannot easily be justified in today's competitive banking environment where efficiency is prized. As a result, continuing the existing membership for the merged companies is most convenient for the member bank itself.

### 3. Federal Home Loan Bank System Faces Membership Concentration Risk

The "demanded by convenience" standard must ultimately be considered in the context of the FHLBank System as a whole. The FHLBank System was conceived and established during the Depression era to foster and serve the home mortgage industry at a time when all banking and savings institutions were local. Obviously, much has changed since then, but the geography-based limitations of the System have not. Change is now necessary to reconcile the FHLBank System with the realities of home financing and industry competition in the 21st century.

Currently, Charter One participates in the Cincinnati Bank's advances program up to \$8.5 billion representing approximately 27.50 of the Cincinnati Bank's total advances and Charter One holds approximately \$540 million in stock of the Cincinnati Bank approximating 18.770 of the total equity of the Cincinnati Bank. If Charter One does not maintain the Chicago Bank membership following its merger with Liberty Federal, then the equity ownership interest previously held in the Chicago Bank will eventually shift to the Cincinnati Bank. Charter One's equity ownership of the Cincinnati Bank would eventually increase to an estimated 20.4% of their total equity. Therefore, not continuing membership in this case would lead to significant change in the Chicago district and cause an unnecessary concentration of equity ownership and funding activities to the Cincinnati Bank district.

In general, denial of continuing membership may have far reaching negative implications for the FHLBank System. The stability of the FHLBank System may be placed at risk because as membership in each of the FHLBank districts becomes less geographically diversified, each FHLBank will become increasingly economically dependent on fewer member institutions. Some FHLBank districts may thrive at the expense of others. But all will tend to become more concentrated and less diversified. The result may be a severely unbalanced system whose ability to advance its mission of fostering home financing is compromised.

Approval of Charter One's continuing Liberty Federal's membership in the Chicago Bank will avoid an increase in concentration of economic and administrative control over home financing funding in the Cincinnati Bank district. Such a concentration in the Cincinnati Bank district does not match Charter One's geographic reach.



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**Upon the completion of the merger with Liberty Federal**, Charter one will have the sixth largest retail banking operation in the Chicago metropolitan region with approximately \$5 billion in deposits and 77 branches throughout Cook and Du Page counties. Therefore, denial of continuing the membership would artificially limit more financing of Charter One's Chicago home lending activities to the Cincinnati Bank district, despite a major, and growing, presence in Illinois.

The consolidation of the banking and home financing industry and its increasing reliance on networks of interstate branches is a well-recognized trend. It need not trigger a dislocation of FHLBank housing program funding capacity among FHLBank districts simply because interstate banks and thrifts have only one "principal place of business." Such a result will ultimately impede the ability of the FHLBank System to advance its congressionally mandated goal of fostering home ownership growth throughout the country.

C. Withdrawal by a Member from the FHLBank System

Section 6(d) of the Bank Act, 12 U.S.C. § 1426(d), outlines the termination of membership by an institution. This section allows for voluntary or involuntary withdrawal by a member from a FHLBank. If a member institution chooses to voluntarily withdraw from a FHLBank, the member must provide the FHLBank written notice of its intent to do so. Involuntary withdrawal is triggered if the board of directors of a FHLBank determines that (i) a member has failed to comply with a provision of the Bank Act or the Finance Board's regulations; or (ii) the member is insolvent or is subject to the appointment of a conservator or receiver. Upon the determination that a member has met one of these two criteria for involuntary withdrawal, the member must surrender its stock upon the expiration of the applicable notice period. The merger of two institutions does not trigger either the voluntary or involuntary withdrawal sections. Thus, the Bank Act does not address the issue of termination of membership upon the occurrence of a merger.

Section 925.18 (a) of the Finance Board regulations discusses which district an institution eligible for FHLBank membership may apply to. Subsection (a)(2) reiterates the statutory provision that "an institution eligible to become a member of a [FHLBank] under the Bank Act . . . may become a member of the [FHLBank] of a district adjoining the district in which the institution's principal place of business is located, if demanded by

convenience and then only with the approval of the Finance Board." This section specifically speaks to institutions that are eligible for membership, not institutions that are **currently** members.

However, § 925.24 of the Finance Board regulations addresses consolidations involving members. Subsection (b) states that "upon the consolidation of two member institutions which are members of different [FHLBanks] into one institution operating under the charter of one of the consolidating institutions, the disappearing institution's membership terminates upon the cancellation of its charter." Notwithstanding the foregoing, the Bank Act does not expressly prohibit an institution from maintaining membership in two FHLBanks. This subsection was implemented by the Finance Board using its broad rulemaking powers. Thus, the Finance Board has the power to amend this regulation based on a change in conditions or facts in the marketplace. The Finance Board could reasonably interpret the Bank Act to allow for merging member institutions of different FHLBanks to retain the disappearing institution's membership in its FHLBank.

Generally, agencies are accorded wide discretion in exercising their rulemaking authority. In fact, the courts routinely have deferred to an agency's interpretation of its own statutes. Thus the Finance Board could change its policies regarding multiple FHLBank memberships reasoning that the current trend toward consolidation in the financial industry necessitates this change.

### III. Conclusion

For the reasons stated above, Charter One respectfully requests continuation of the Liberty Federal membership in the Chicago Bank. Approval is authorized by the relevant law as set forth above and in the application by the Dallas Bank on behalf of WAMU.

This approval will allow Charter One to preserve the membership level in the Chicago Bank held by Liberty Federal without incurring the economic inefficiencies of maintaining a separate charter. It will strengthen the membership of the Chicago Bank and allow it to continue to control and fund the programs in which Liberty Federal currently participates in its district. It will directly benefit the communities and constituencies supported by the programs directed and funded by the Chicago Bank district. This membership will not result in

any diminution of Charter One's participation in the activities sponsored by the Cincinnati Bank nor will it diminish Charter One's capital support of the Cincinnati Bank. Finally, this membership will serve to modernize and strengthen the FHLBank System as a whole and advance the purpose for which it was created.

We would be pleased to provide you with any additional information that you may require. If you have any questions, please do not hesitate to contact the undersigned at (216) 5665348. Your assistance with this application submission is very much appreciated.

Sincerely ,

Robert J. Vana  
Senior Vice president, Chief  
Corporate Counsel and Secretary

FEDERAL HOME LOAN BANK OF CHICAGO  
MEMBERSHIP APPLICATION

Name of Applicant: Charter One Bank, F.S.B.  
Main Office Location: Cleveland, Ohio  
Mailing Address: 1215 Superior Avenue  
City, State Zip: Cleveland, Ohio 44114  
County: Cuyahoga  
Telephone: (216) 566-5348 Fax: (216) 566-1465  
Primary Contact: Robert J. Vana  
Primary's E-mail Address: [rvana@charteronebank.com](mailto:rvana@charteronebank.com)  
Web Address:  
Charter Type: Thrift - Savings Bank  
Federal Reserve Member: No Yes District  
Date of Incorporation: March 1934  
Primary Regulator: Office of Thrift Supervision (OTS)  
Date of most recent supervisory exam and by which regulator: [REDACTED] OTS  
Date of most recent CRA exam and by which regulator: April 6, 1998 OTS  
Holding Company Name and Address: Charter One Financial, Inc.  
Holding Company Consolidated Assets as of most recent quarter:  
Holding Company Affiliates: Charter-Michigan Bancorp., Inc.; Charter - nno Commercial; i n l  
Affiliates and subsidiaries of Applicant and their primary activities: Please see attachment

Is your institution operating under any supervisory action?  No  Yes  
(If yes please submit type of agreement, with which regulator, date of agreement, copy of status reports submitted.)

**Please submit the following information and documentation:**

1. Most recent Call Report.
2. Copy of most recent audited financial statements and management letter for the Applicant as prepared by a certified public accountant, or in absence thereof, the latest agreed upon procedures audit. Audited consolidated holding company statements are acceptable.
3. Holding Company financials for the most recent quarter.
4. Copy of the Applicant's CRA policy.
5. Copy of Applicant's CRA Public Disclosure Section.
6. Copy of Applicant's home financing policy (i.e., loan policy, underwriting guidelines).
7. Copy of Applicant's original charter and current bylaws.
8. Completed and signed application.

## Attachment 1

	Jurisdiction of <b>Incorporation</b>	<b>Percent of Ownership</b>
<b>Charter One Commercial</b> (State Chartered Commercial Bank)	New York	100%
<b>Charter One Reinsurance</b> (PMI Reinsurance Company)	Vermont	100%
<b>Charter Michigan Bancorp, Inc.</b> (Holding Company)	Michigan	100%
<b>Subsidiaries of Charter Michigan Bancorp, Inc.</b>		
Charter One Bank, F.S.B. (Federal Thrift)	United States	100%
FirstFed of Michigan International N.V. (Inactive)	Netherland Antilles	100%
St. Paul Financial Development Corp. (Real Estate Development)	Illinois	100%
<b>Subsidiaries of Charter One Bank, F.S.B.</b>		
CDC - Albany Corp. (Community Development Services)	New York	100%
Charter One Securities, Inc. (Broker Dealer)	Ohio	100%
First Financial Services and Development Corporation (Holding Company)	Ohio	100%
GCCC, Inc. dba CTS (Data Processing Services)	Ohio	100%
Investment Network, Inc. (Financial Advisor)	Illinois	100%
Servco, Inc. (Real Estate Development)	Ohio	100%
Shore Holdings, Inc. (Inactive)	New York	100%
SPF Insurance Agency, Inc. (Inactive)	Illinois	100%
Superior West, Inc. (Investment Management)	Nevada	100%
1215 Financial Center Associates Ltd. (Real Estate Management)	Ohio	99%
<b>Subsidiaries of Charter One Mortgage Corp.</b>		
AHF Securities Limited (Investment Management)	New York	100%
AHF Subordinated Securities Limited (Investment Management)	New York	100%
<b>Subsidiaries of First Financial Services and Development Corporation</b>		
Bay Life Insurance Company, Inc. (Reinsurance - Credit Line)	Arizona	100%
Charter One Auto Finance Corp. (Auto Lending)	New York	100%
Charter One Credit Corp. (Sub-prime Lender)	Ohio	100%
Charter One Insurance Agency, Inc. (Insurance Agency)	Ohio	100%
Charter One Mortgage Corp. (Mortgage Banking)	New York	100%
ICX Corporation (Commercial Leasing)	Ohio	100%
Real Estate Appraisal Services, Inc. (Appraisal Services)	Ohio	100%/0
1001 Insurance Agency, Inc. (Inactive)	Michigan	100%
<b>Subsidiary of Investment Network, Inc.</b>		
Investment Network Advisors, Inc. (Financial Advisors)	Illinois	100%
<b>Subsidiaries of Servco, Inc.</b>		
Thriftco, Inc. (Real Estate Development)	Ohio	100%
1001 Services, Inc. (Real Estate Development)	Michigan	100%
<b>Subsidiary of Superior West, Inc.</b>		
Warm Springs Investments, Inc. (Real Estate Investment Trust)	Nevada	100%

**Applicant Name:**

Charter One Bank, F . S . B .

<b>Senior Officers</b>	<b>Title</b>
<b>Charles John Koch</b>	<b>Chairman, President and CEO</b>
<b>Richard W. Neu</b>	Executive Vice <b>President and CFO</b>
<b>John D. Koch</b>	Executive Vice President
Mark D. Gross	Executive Vice President
Robert J. Vana	senior vice President, Chief <u>Corporate Counsel and Secretary</u>
	<b>Business Affiliation</b>
<b>Directors</b>	
Patrick J. Agnew	Director
Herbert G. Chorbajian	Vice Chairman
Phillip Wm. Fisher	Principal of The Fisher Group
Denise M. Fugo	President - City Lifer Inc.
Mark D. Grossi	Executive Vice President
Charles M. Heidel	Retire President & COO - Detroit  <u>Edison Company</u>
Karen R. Hitchcock, PhD	President-University of Albany
Charles John Koch	Chairman, President and CEO
John D. Koch	Executive Vice President
Michael P. Morley	EVP & CAO - Eastman Kodak Company
Richard W. Neu	Executive Vice President and CFO
Ronald F. Poe	President - Ronald F. Poe & Assoc.
Victor A. Ptak	VP - First Union Securities
Melvin J. Rachal	President & COO - Midwest Stamping
Jerome L. Schostak	Vice Chairman
Joseph C. Sculls	Director
Mark Shaevsky	Partner - Honigman Miller Schwartz  <u>and Cohn</u>
Leonard S. Simon	Vice Chairman
John P. Tierney	Retired Chairman & CEO - Chrysler  <u>Financial Corporation</u>
Eresteen R. Williams	Retired Medical Office Manager

Applicant Name: Charter One Bank, F. S. B.

**OFFICER CERTIFICATION ON  
CORPORATE, DIRECTOR, AND SENIOR OFFICER CONDUCT**

This is to certify that, except as set forth below, neither the Applicant nor any of its directors or senior management has been the subject of any criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment, or moral turpitude since the most recent examination by the institution's primary regulator; and that there are no known potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the institution.

Comments: None --

Date: May 3, 2001

(Duly Authorized Representative)

Robert J. Vana Sr, Vice President, Chief counsel  
and Secretary

Applicant Name:  
Charter One Bank, F.S.B

**MAKES LONG-TERM HOME MORTGAGE LOANS  
ASSESSMENT WORKSHEET**

Place an (X) next to all of the long-term home mortgage loans made by the Applicant (include loans originated that will subsequently be sold within the secondary market and those originated through subsidiaries):

Original Maturity	Fixed Rate	Variable Rate	Amortization Period
5-year balloon:	_____	_____	_____ years
7-year balloon:	_____	_____	_____ years
10-year balloon:	_____	_____	_____ years
15-year:	<u>X</u> _____	_____	30 _____ years
30-year:	<u>X</u> _____	<u>X</u> _____	30 _____ years

Are the loans being originated or purchased: \_\_\_\_\_ originated

Amount of mortgage-backed securities held \$ 6.8 billion- as of 03/31/01

If Applicant does not originate or purchase mortgage loans with original terms of 5 years or longer, please describe home mortgage loan products offered.



Applicant Name:

Charter One Bank, F. S. B.

**COMMERCIAL BANKS**

Computation of FHLBank Stock Requirement  
As of March 31, 2001  
(most recent quarter)

SUM OF:	OTS LINE #		CALL REPORT LINE #	FULL DOLLAR AMOUNT
1-4 Family Mortgages - Revolving (RC-C, Line 1c(1))	SC 340	1797		\$ <u>15,975,790.00</u>
1-4 Family Mortgages - 1st Lien (RC-C, Line 1c(2)a)	SC 250	5367		\$ <u>122,788,420.00</u>
1-4 Family Mortgages - Jr. Lien (RC-C Line 1c(2)b)		5368		\$
Multifamily Loans (RC-C, Line 1d)	S C 256	1460		<u>\$9,607,220.00</u>
MBS Guaranteed by FNMA & FHLMC (RC-B, Line 4a(2)) Col. A + D		1703		\$ <u>49,462,580.00</u>
MBS Guaranteed by GNMA (RC-B, Line 4a(1)) Col. A + D	S C 210	1707		
Other Private Issue MBS		1698 + 1702		\$
(RC-B, Line 4a(3)) Col. A + D	SC215	1713		\$1,190,270.00
TOTAL MORTGAGE ASSETS				(1) <u>\$199,024,280.00</u>
1% of (1)				(2) <u>\$199,024,280.00</u>
\$500 minimum stock purchase				(3) <u>\$ 500</u>

REQUIRED STOCK PURCHASE:

Greater of (2) or (3)

Round (4) to next highest \$100

(4) \$199,024,280

Please enter total as reported on the most recent regulatory financial report.

\*Charter One Bank presently owns approximately \$540 million in Common Stock of the FHLB of Cincinnati, and approximately \$60 million (after the acquisition of Alliance Bancorp) in the FHLB of Chicago.

**FEDERAL HOME LOAN BANK OF CHICAGO**

Applicant Name: Charter One Bank, F . S . B .

**APPLICATION FOR MEMBERSHIP AND PURCHASE OF STOCK IN FEDERAL HOME LOAN BANK**

May 3 2001

*(Date of Application)*

The undersigned Applicant hereby applies for membership in the Federal Home Loan Bank of Chicago (FHLBank) and, if approved for membership, will purchase no additional shares of stock in the par value of \$100 each in the FHLBank, and agrees to make payment in the amount of \$ N/A as payment of said stock purchase within 60 calendar days of approval for FHLBank membership.

Applicant is of the opinion that it is eligible to become a member of the FHLBank and that it is authorized to purchase and hold capital stock in the FHLBank and to maintain deposits there. Applicant understands that this application must be considered, acted upon, and approved by the Federal Housing Finance Board (Finance Board) before becoming a member of the FHLBank.

In submitting this application, Applicant understands and agrees that:

- (1) It will be advised whether or not its application for membership is approved.
- (2) If admitted to membership, it will conform to all requirements of the Federal Home Loan Bank Act, as now or hereafter amended, and to the rules and regulations thereunder.
- (3) In applying for, and if Applicant is admitted to membership, the Finance Board and the FHLBank are authorized to receive any information, examination reports and other supervisory materials provided by the appropriate State or Federal regulatory authority or officer exercising supervisory authority over Applicant regarding Applicant and its affairs.
- (4) It will not represent itself to be a member of the FHLBank until it has received notice of approval of membership and has purchased its minimum stock requirement.

Applicant by its duly authorized representative represent that such person has read this application and that in the opinion of such person, he or she has made such examination and investigation as is necessary (or is relying in good faith upon information received from qualified persons) to enable him or her to express an informed opinion that this application complies, to the best of his or her knowledge and belief, with the applicable requirements of the Federal Home Loan Bank Act and the rules and regulations thereunder.

Charter One Bank, F.S.B.  
*(Exact Name of Applicant as Specified in Charter)*

121 Superior Avenue  
*(Street Address of Applicant)*

Cleveland, Ohio 44114  
*(City, State and Zip Code)*

By: Charles John Koch  
*(Duly Authorized Representative)*  
Chairman, CEO and President

ATTEST:

*(Secretary)*

Robert J. Vana

Applicant Name: Charter One Bank, F . S . B .

**CERTIFIED RESOLUTION BY APPLICANT'S SECRETARY**

I certify that I am the duly elected, qualified, and acting secretary of the above mentioned applicant and that at a regular meeting of its board of directors/trustees or at a special meeting thereof called for that purpose, a quorum being present, a resolution was adopted, and recorded in the minutes as follows:

"BE IT RESOLVED that this institution applies for membership in the Federal Home Loan Bank of Chicago, that if approved for membership it will subscribe and pay for stock therein as provided in the Federal Home Loan Bank Act, as amended, and that it be fully authorized to do business with, and exercise all of the privileges of membership in said Bank as provided in said Act;"

"BE IT FURTHER RESOLVED that the president and secretary be authorized and directed to execute an application as prescribed by the Federal Housing Finance Board and any other papers and documents required in connection therewith, to pay all expenses, and to do all other things necessary or proper in connection with applying for, obtaining and retaining such membership privileges thereof as the said Board may be regulations prescribe."

I further certify that, pursuant to said resolution, the foregoing application for membership was duly executed and that any information and documents required by the Federal Housing Finance Board are attached or accompany same, that said information is correct and said documents are true and correct copies of what the same purport bees=

*(Secretary)*

Robert` Vana

# APPLICATION DIGEST

Charter One Bank, F.S.B.

Cleveland, Ohio

PREPARED BY  
THE FEDERAL HOME LOAN BANK OF CHICAGO

## **APPLICATION DIGEST**

**Charter One Bank, F.S.B.**

**Cleveland, Ohio**

Total Assets: **\$33,767,273,000 as of March 31, 2001**

Prepared by the Federal Home Loan Bank of Chicago

In accordance with Section 4 of the Federal Home Loan Bank Act (12 U.S.C. § 1424), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), Charter One Bank, F.S.B. ("Applicant") is applying to the Federal Home Loan Bank of Chicago ("FHLB") for membership.

We have analyzed the application and supporting information of the Applicant. It is our opinion that this institution meets the statutory eligibility criteria and Review Standards established by the Federal Housing Finance Board ("Finance Board") for membership in the Federal Home Loan Bank System ("FHLBank System").

We have reviewed the following information:

- Applicant's completed and signed application;
- Board of Director's resolution authorizing the Applicant's application for FHLB membership;
- Calculation of the Applicant's holdings of home mortgage loans, home-purchase contracts and similar obligations, and the amount of FHLB capital stock to be purchased thereon;
- Most recent Thrift Financial Report for the quarter ending March 31, 2001 and financial information from the FIRE database for the previous five quarters, and the three most recent year-ends;
- Most recent Report of Supervisory Examination prepared by the Office of Thrift Supervision
- Most recent Community Reinvestment Act Performance Evaluation prepared by the OTS as of April 6, 1998;
- Applicant's holding company consolidated report of financial condition prepared by their outside auditors, Deloitte & Touche, LLP as of December 31, 2000;
- 
- Applicant's Bylaws and Charter;
- 
- Applicant's Loan Policy; and,
- 
- Applicant's Community Reinvestment Act Statement.

### STATUTORY ELIGIBILITY CRITERIA

1. **Organization.** The Applicant is a federally chartered savings bank incorporated in 1934 and governed under the laws of the United States. The Applicant is a wholly owned subsidiary of Charter One Financial, Inc., a multi-bank holding company located in Cleveland, Ohio. On July 6, 2001, the Applicant will be merged with Liberty Federal Bank, a Federal Home Loan Bank of Chicago member. The Applicant will be the surviving institution.
2. **Inspection and Regulation.** The Applicant is subject to the inspection and regulation of the OTS and the FDIC. The Applicant's deposit accounts are insured by the FDIC.
3. **Makes Long-Term Mortgages.** The Applicant originates long-term home mortgage loans with maturities of up to and including 30 years. In addition, the Applicant holds \$,065,285,000 in mortgage-backed securities which represent 15% of total assets.
4. **Insured Depository Institution with at Least 10 Percent of Total Assets in Residential Mortgage Loans for institutions not classified as Community Financial Institutions.** As of March 31, 2001, the Applicant had total assets of \$33,767,273,000 of which 58.94 percent were in residential mortgage assets ("RMA").
5. **Financial Condition Such That Advances May Be Safely Made.** We have reviewed the Applicant's financial condition and have determined the institution to be in satisfactory financial condition. The Applicant received a CAMELS rating of in its most recent supervisory examination dated as performed by the OTS.

A credit review of the Applicant's financial information indicated that the Applicant holds adequate levels of collateral to secure advances. We believe that advances may be safely made to this institution. Based on a review of the available financial information, the Applicant would qualify for blanket lien status.

6. **Character of Management and Home-Financing Policy.** The character of the Applicant's management and its home financing policies are consistent with sound and economical home financing. The Applicant evidences strong community involvement by its activity in area housing projects. The Applicant received a CRA rating of 'Satisfactory' on its most recent CRA Evaluation prepared by the OTS as of April 6, 1998.

The Applicant has certified that neither the Applicant, nor any of its directors, officers or senior management has been the subject of relevant criminal, civil, or administrative proceedings reflecting upon creditworthiness, business judgment, or moral turpitude since the last examination by its primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution.

3. **Capital Compliance.** The Applicant meets its minimum regulatory capital requirements set forth by FDICIA; its primary regulator, the OTS, has not required the Applicant to hold capital levels above this requirement. As of March 31, 2001, the Applicant's capital ratios and requirements are:

**FINANCE BOARD REVIEW STANDARDS**

1. **CAMELS Rating.** The Applicant received a CAMELS rating of on its most recent examination report as of [REDACTED] as performed by the OTS.
2. **CRA Rating.** The Applicant received a CRA rating of "Satisfactory" on its most recent CRA Evaluation as of April 6, 1998 as performed by the OTS.
  - a. Risked-based capital: Risk-based 10.29%; FDIC requirement 8.00%
  - b. Leverage ratio: 5.26%; FDIC requirement 4.00%
4. **Recent Earnings.** The Applicant reported earnings in each of the most recent six quarters of operation.
5. **Enforcement Actions.** No enforcement actions are known to be in effect at the time of this analysis, according to the documents reviewed and discussed with the Applicant.
6. **Auditor's Opinion.** The Applicant's holding company received an unqualified holding company audit opinion from its outside auditors, Deloitte & Touche, LLP, on its consolidated financial statements as of December 31, 1999 and 2000.
7. **Recent Trends.** Recent trends do not indicate any significant deterioration in financial condition since the most recent supervisory examination.
8. **Management.** The Applicant certified that neither the Applicant nor any of its directors, officers, or senior management has been the subject of criminal, civil or administrative proceedings reflecting on creditworthiness, business judgment, or moral turpitude since the most recent examination by the Applicant's primary regulator, and that there are no known potential monetary liabilities, material pending lawsuits or unsatisfied judgments against the institution.

Charter One Bank, F.S.B.

**RECOMMENDATION**

We hereby certify that the above information is accurate, and that it is based on a diligent and comprehensive review of all available information. We are aware of nothing of a material nature that would otherwise influence or bear upon the approval of this application other than the approval for membership by the Federal Housing Finance Board. We recommend approval of the application of Charter One Bank, F.S.B. for membership in the Federal Home Loan Bank of Chicago.

Prepared By:

**Signature:** \_\_\_\_\_  
**New Member/  
Special Projects Coordinator**

**Reviewed By:**

**Signature:**

**Executive Vice President**

**Date: 5/25/01**



# Memorandum

**To** Membership Application File  
**From** Peter E. Gutzmer, Senior Vice President,  
General Counsel & Corporate Secretary  
**Date** May 24, 2001  
Charter One Bank, F.S.B.  
**Subject** Cleveland, Ohio  
Application for Bank Membership  
Dated: May 3, 2001

CONFIDENTIAL - INTERNAL 7S , ONLY

I am counsel for the Federal Home Loan Bank of Chicago ("FHLBank") and have reviewed the application for membership from the above-referenced institution ("Applicant").

Based on my review, it is my opinion that the Applicant is authorized under the laws of the United States to buy stock in, do business with, maintain deposits in, and become a member of the FHLBank subject to the Federal Housing Finance Board's approval of Applicant's application for membership. To the best of my knowledge, there are no outstanding legal issues which should adversely affect the FHLBank's decision to approve membership. I render no legal opinion or business judgment as to the institution's financial condition.

Peter E. Gutzmer

**FEDERAL HOME LONA BANK OF CHICAGO**

Date of Approval: May 25, 2001

Institution Name & Location: Charter One Bank, F.S.B., Cleveland, Ohio

Charter Type: National

Insurer: FDIC

Parent Company: Charter One Financial, Inc.

Total Assets: \$33,767,273,000

Date: March 31, 2001

**REVIEW STANDARDS**

CAMELS Rating:  
Regulator: OTS

Date: [REDACTED]

CRA Rating: Satisfactory  
Regulator: OTS

Date: April 6, 1998

Risk-Based Capital: 10.29%  
Requirement: 8.00%

Date: December 31, 2000

Leverage Capital: 5.26%  
Requirement: 4.00%

Date: December 31, 2000

Adjusted Earnings  
(i.e., G/6, 5/6): 6/6  
Enforcement Actions:  
None

Audit Opinion: Unqualified Holding Company  
Audit Company: Deloitte & Touche, LLP

Date: December 31, 2000

Performance Trends: No deterioration

Character of Management

Certification: Certification reviewed and found no deficiencies

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

**MAKE LONG TERM MORTGAGE LOANS**

Does the Applicant originate or purchase home mortgage loans with a maturity of 5 years or greater?

Yes X

No

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**DOCKET NUMBER REQUEST FORM  
FEDERAL HOME LOAN BANK OF CHICAGO**

Name of Institution: Charter One Bank, F.S.B., Cleveland, Ohio

Date of Approval: May 25, 2001

Institution Assets: \$33,767,273,000

Location Address: 1215 Superior Avenue, Cleveland, Ohio 441 14

(City, State, Zip)

Mailing Address: 1215 Superior Avenue, Cleveland, Ohio 441 14

(City, State, Zip)

County: Cuyahoga

Charter Type: National

Institution Type: Federal Thrift

Date Incorporated: March 1934

Membership District: 7

Parent Company: Charter One Financial, Inc.

Merger (Yes/No): Yes; Merger with Liberty Federal Bank to be effective July 6, 2001.

Disappearing Institution(s) in

Merger (name, docket, date):

Other Recommended Data

Capital Ratios and Date

Risk based: 10.29% December 31, 2000

Tier I Leverage: 5.26% December 31, 2000

Statutory Reserves to

Risk Assets:

Capital and Surplus:

RMA ratio and Date: 58.94% March 31, 2001

CFI(Yes/No): No

Certificate/Charter Number: 02641

FIRE ID: 02641

- Most recent supervisory examination report dated from the OTS;

**Credit Review**  
**Charter One Bank, F.S.B.**  
**Cleveland, Ohio**

Prepared by the Federal Home Loan Bank of Chicago

I Recommendation

Based upon the review of information received from Charter One, F.S.B. ("Applicant") in support of an application for membership in the Federal Home Loan Bank of Chicago ("Bank"), we believe that advances could be safely made to this institution under a blanket collateral agreement.

II. Documentation

We have based our review on the following information:

- Board of Directors resolution authorizing the Applicant's application for Bank membership in a Federal Home Loan Bank;
- Latest Office of Thrift Supervision ("OTS") Thrift Financial Report ("TFR") dated March 31, 2001;
- Most recent supervisory examination report dated
  
- CRA compliance report dated April 6, 1998;
- Audited consolidated financial statements of the Applicant's parent holding company for the fiscal year ending December 31, 2000, prepared by Deloitte & Touche, Certified Public Accountants; and
- Calculation of Applicant's holdings of qualified residential assets as a percentage of total assets, and the amount of Federal Home Loan Bank capital stock to be based thereon.

**The Applicant:**

The Applicant is a federally chartered, FDIC insured, savings bank located in Cleveland, Ohio. The institution was incorporated in March 1934 under the banking laws of the United States of America. As of December 31, 2000, the Applicant had total assets of \$33.8 billion. The Applicant is a wholly owned subsidiary of Charter One Financial, Inc., a multi-bank holding company.

The Applicant has applied for membership in the Bank in order to continue membership for Liberty Federal, which is expected to merge with the Applicant on or about July 6, 2001. Charter purchased St. Paul Federal, a past member of the Bank on October 1, 1999.

The Applicant operates through more than 400 branch offices located in the states of Ohio, Michigan, New York, Illinois, Massachusetts, and Vermont. The Applicant owns a variety of subsidiaries engaged in a number of different activities including commercial leasing, mortgage banking, indirect auto lending, and the sale of nondeposit investment products.

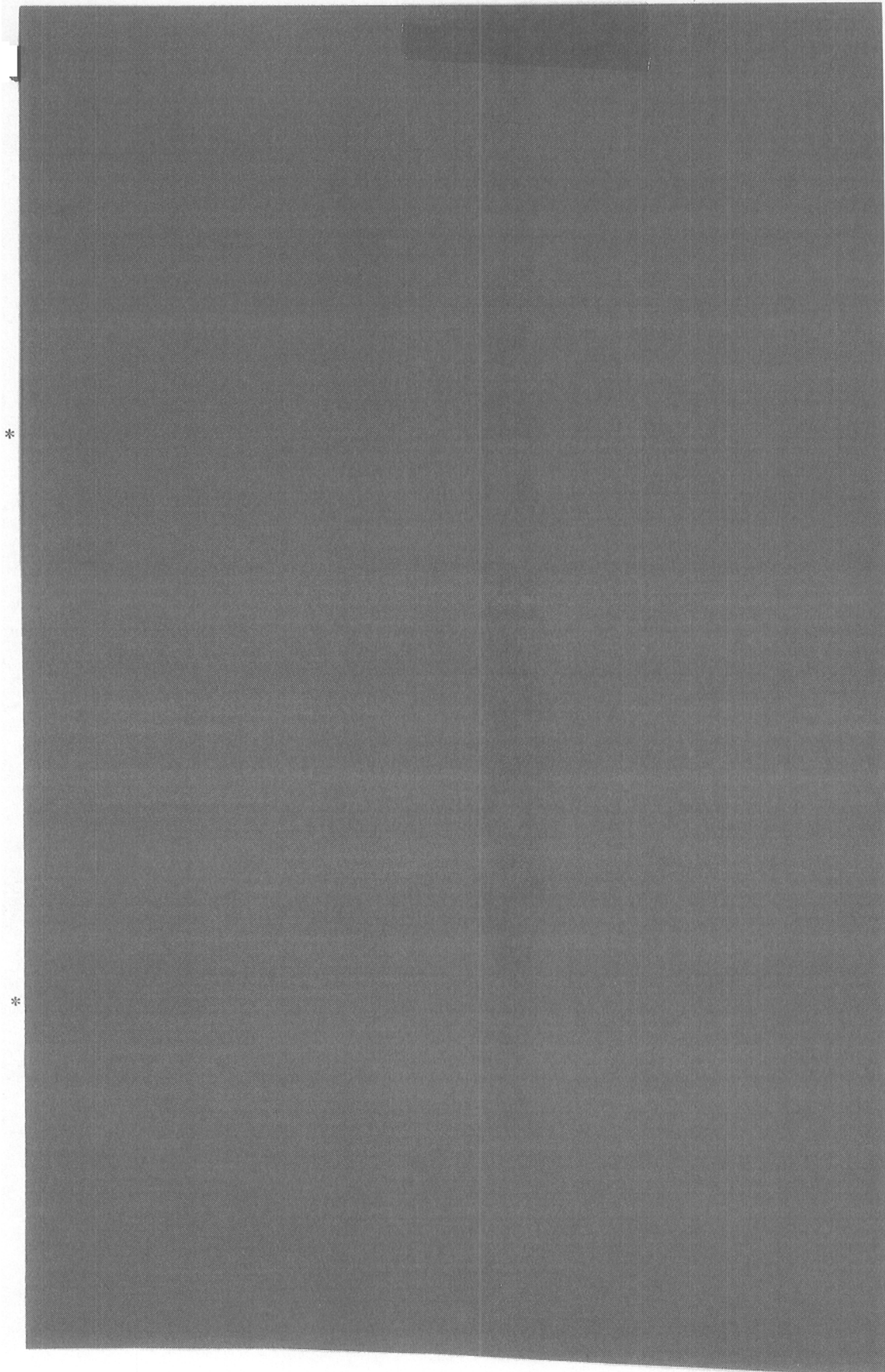
The Uniform Thrift Performance Report for the Applicant was not available at the time of this analysis. Therefore, the ratios in this report are mainly from the most recent examination.

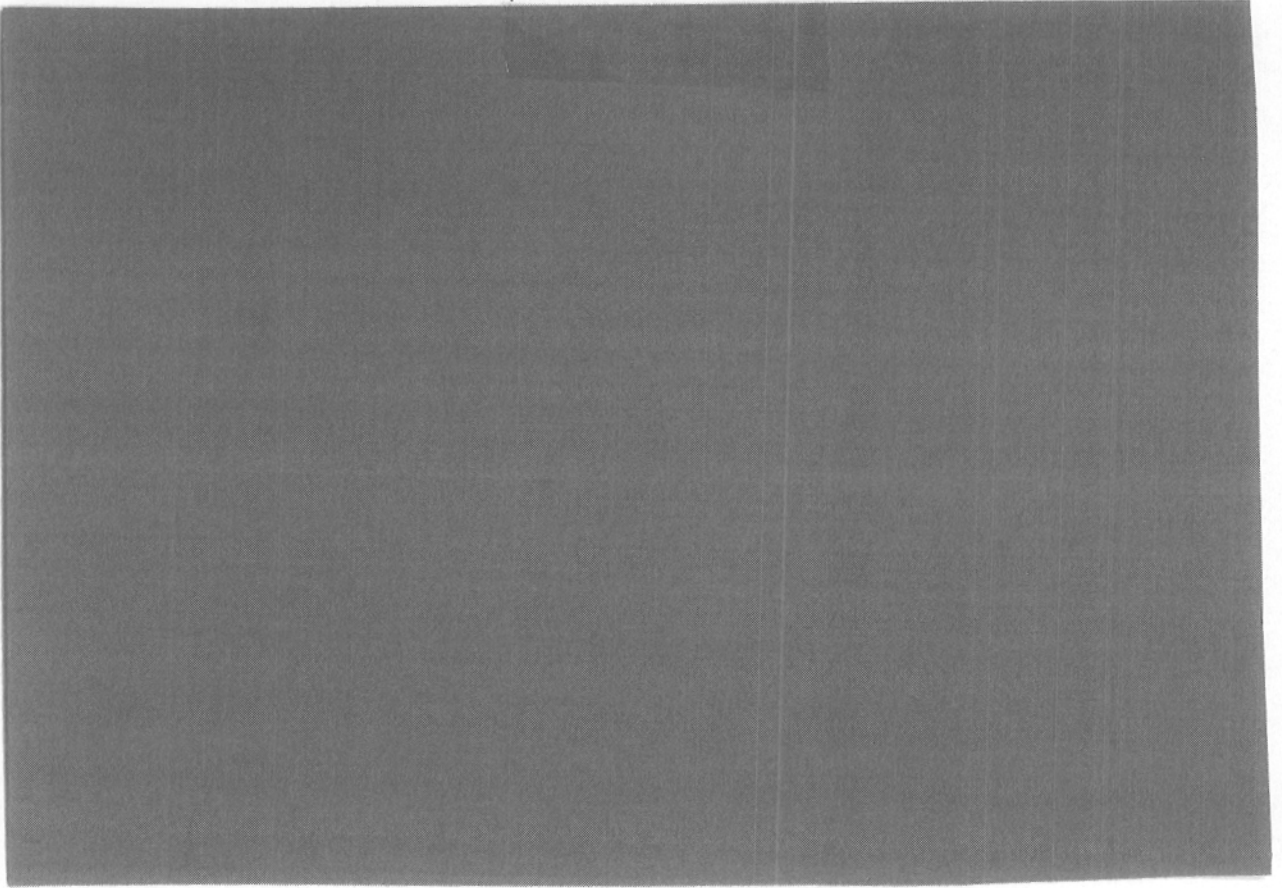
III. **Recent Examination Findings**

- The Applicant was rated a CAMELS in its most recent examination
- There are no supervisory agreements in effect at the time of this analysis.

• [REDACTED]

\* [REDACTED]





#### IV. Financial Analysis

##### A. Summary of Overall Strengths and Weaknesses

- A retail oriented institution concentrating on residential mortgage lending funded by local insured deposits.
- Earnings remain strong due mainly to low overhead expenses and strong noninterest income. The net interest margin remains weak and declined in the first quarter of 2001.
- Adequate asset quality as a result of low noncurrent loans, an adequate loan loss allowance and retail lending orientation.
- Liquidity is acceptable, however borrowings retrain a significant portion of funding.
- The leverage ratio is relatively stable and total risk based capital is acceptable.

##### B. Profitability

- Profitability is considered to be acceptable due mainly to the low overhead expenses and strong noninterest income.
- The Applicant was profitable for each of the most recent six quarters and last three years ending December 31, 2000.
- Net income for the quarter ended March 31, 2001 was \$105.8 million. Net income for the year ending December 31, 2000 was \$405.1 million or 1.26 percent of average assets.
- The return on assets ("RON") was 1.10 percent in 1999, compared to 1.23 percent for 1998 and 0.82 percent for 1997. The return on equity was 21.13 percent, 17.70 percent, and 14.43 percent for the years ending 2000, 1999, and 1998, respectively. Both profitability ratios continue to be adequate.
- The net interest margin ("NIM") was 2.73 percent for the year ended December 31, 2000, compared 3.27 percent in 1999, 3.03 percent in 1998, and 2.82 percent in 1997.
- Profitability remains good despite the significant decline in the NIM in 2000.
- Fee income has contributed approximately 36 percent to total revenues (the sum of fee income and net interest income) for the quarter ended March 31, 2001 and is considered to be an important source of revenues. Service fees and charges are the dominant components of fee income.
- Overhead expenses were 1.88 percent of average assets as of December 31, 2000, compared to 2.08 percent in 1999 and 2.05 percent in 1998.
- Overhead expense consumed 46 percent of total revenues for the quarter ended March 31, 2001. The low overhead is a major reason for the good profitability.
- The loan loss provision has been relatively stable as a percentage of total assets increasing slightly in 2000 and the first three months of 2001. Noncurrent loans remained stable over the last year.
- Security gains have been negligible.
- The tax provision appears normal.



C. Asset Quality

- Asset quality is considered acceptable based on the low risk characteristics of the loan portfolio, the low volume of noncurrent assets, and the adequate ALLL.
- As of March 31, 2001, past due loans, including loans delinquent 30 or more days and nonaccrual loans totaled \$358 million or 1.48 percent of total loans.
- Noncurrent loans, including nonaccruing loans and loans at least 90 days past due totaled \$156 million or 0.64 percent of total loans as of March 31, 2001 and 0.66 percent at the end of 2000.
- As of March 31, 2001, classified assets totaled \$21.9 million doubtful, \$245.4 million substandard, and \$134.1 million special mention.
- As of March 31, 2001, I-4 family residential mortgage loans delinquent 30 to 89 days totaled \$60.2 million and nonaccrual loans totaled \$55.0 million.
- Nonperforming assets, including nonaccruing loans, loans at least 90 days past due, and repossessed assets totaled \$190 million or 0.56 percent of total assets at March 31, 2001.
- As of March 31, 2001, troubled debt restructured totaled \$662 thousand or 0.003 percent of net loans.
- There were no charge-offs to the general valuation reserve in the first quarter of 2001.
- The general valuation allowance totaled \$175.5 million or 0.73 percent of total loans and 113 percent of noncurrent loans as of March 31, 2001. Using these quantitative measures, the ALLL would be considered adequate, as the loss allowance exceeds noncurrent loans.
- Net loans were 71.21 percent of total assets as of March 31, 2001. The loan mix is as follows: 51.06 percent 1-4 family residential mortgages; 28.02 percent consumer loans; 2.34 percent construction loans; 3.98 percent other real estate loans; 4.00 percent multi-family loans; and 11.13 percent commercial and loans. The loan portfolio is considered low risk because of the emphasis on in-market, single-family mortgages and consumer lending.

- Assets grew by 3.92 percent on an annualized basis as of March 31, 2001 and 3.13 percent for 2000. Total loans grew by 1.28 percent on an annualized basis for the quarter ended March 31, 2001 and 6.91 percent in 2000. The growth appears to be moderate and manageable.

D. Capital

- Capital is considered adequate, and the ratios exceed regulatory requirements. The modest growth and good profitability combined with an adequate loss allowance suggest that the ratios will not deteriorate.
- The leverage ratio was 5.26 percent as of December 31, 2000, compared to 5.10 percent at the end of 1999.
- Total capital was 10.29 percent of risk-weighted assets as of December 31, 2000, compared to 10.02 percent at the end of 1999.
- There was no dividend payment in the first three months of 2001 compared to a payout ratio of 74 percent in 2000.
- Total equity grew by 37 percent on an annualized basis through March 31, 2001, compared to 4.77 percent in 2000.
- The capital ratios should continue to exceed regulatory requirements by a comfortable margin.

E. Liquid

- Liquidity is adequate, however noncore deposits and borrowings are heavily relied upon as a funding source.
- Core deposits funded 48 percent of assets as of March 31, 2001. That percentage has remained stable over the last year. It appears that the normal funding requirements of the institution are being met with core, noncore, and brokered deposits, as well as borrowed funds.
- Deposits greater than \$100,000 increased from \$198.4 million at year end 2000 to \$3.8 billion as of March 31, 2001.

- The liability structure as of March 31, 2001 is as follows: core deposits 51.27 percent; noncore deposits 11.86 percent; brokered deposits 0.44 percent; fed funds purchased and securities sold under repurchase agreements 1.33 percent; advances from FHLB 30.39 percent; subordinated debentures 1.67 percent and other liabilities 2.34 percent.
- The asset composition as of March 31, 2001 is: cash, deposits and investment securities 6.98 percent; mortgage pool securities 15.09 percent; net loans 71.21 percent; repossessed assets 0.10 percent; and 6.62 percent are other assets.

F. Holding Company

- Charter One Financial, Inc. (COFI), owns the Applicant through another subsidiary, Charter Michigan Bancorp, which is a unitary nondiversified savings and loan holding company, that owns 100 percent of the outstanding stock of the Applicant.
- As of December 31, 2000, COFI had total consolidated assets of \$33.0 billion and total equity of \$2.5 billion. Net income for 2000 was \$434 million compared to \$334 million in 1999.
- As of December 31, 2000, COFI had debt totaling \$285 million.
- For the three months ended March 31, 2001, COFI reported net earnings of \$114.8 million or 1.38 percent of average assets. The return on equity was 18.29 percent. Total assets as of March 31, 2001 were \$33.8 billion and total equity was \$2.5 billion.
- As of March 31, 2001, the ratio of nonperforming assets to total assets was 0.57 percent, nonperforming loans to total loans 0.66 percent, and ALLL to nonperforming loans 121.42 percent.
- COFI is a financial holding company headquartered in Cleveland, Ohio. COFI owns all of the outstanding stock of Charter Michigan Bancorp, Inc. and Charter One Commercial.

G. Collateral Status

- We estimate that the Applicant has approximately \$12.2 billion in first liens on 1-4 family residential properties that would qualify as eligible and available collateral.

- The loan portfolio is 71.21 % of total assets and its components are:

<u>Loan Category</u>	<u>Dollar Amount</u> (in Millions)	<u>Percent of Total Lns</u>
1-4 Family Mortgages	\$12,279	51.06%<
Consumer	6,738	28.02
Construction	563	2.34
Other Real Estate Loans	957	3.98
Mufti-family	961	4.00
Commercial	2,677	11.13

- Blanket collateral coverage is recommended.

Prepared By:

Kathryn Richards

Date: 22 May 2001

Concur:

CHARTER ONE BANK, F.S.B.

March 31, 2001

(Dollars in millions)

Balance Sheet Highlights

Cash, Dep, Inv Sec	\$ 2,357	Core Deposits	\$ 16,257
Mortgage Pool Sec	5,096	Noncore Deposits	3,761
Total Mortgage Loans	14,760	Brokered Deposits	139
Non-Mortgage Loans	9,461	<b>Total Deposits</b>	20,157
Less: ALLL	176	Total Borrowings	10,805
Reposessed Assets	34	Other Liabilities	743
Other Assets	2,235	Total Equity Capital	21062
<b>Total Assets</b>	33,767	<b>Total Liabilities</b>	33,767

Income Statement Highlights

Total Interest Income	\$ 578
Total Interest Expense	367
<b>Net Interest Income</b>	211
Noninterest Income	117
Overhead Expense	150
Provision	18
Income Taxes	54
Net Income	106

Selected Ratios

	03/31/01	12/31/00	12/31_/99	12/31/98
Net Loans/Assets	71.21 %	73.26%	70.14%	73.06%
Noncurrent Loans	1.10%	0.88%	0.72%	5.32%
Total Equity				
Adj Core Capital	NA	5.33%	7.89%	7.76%
Adj Risk Based	NA	9.67%	14.94%	14.09%
Capital				
Growth Rates:				
Net Loans	(0.41%)	(7.16%)	26.95%	38.38%
Expenses	(0.85%)	12.93%	28.52%	44.62%