

FHLBC Solutions



How the FHLBank Chicago Dividend Reduces Your Borrowing Costs

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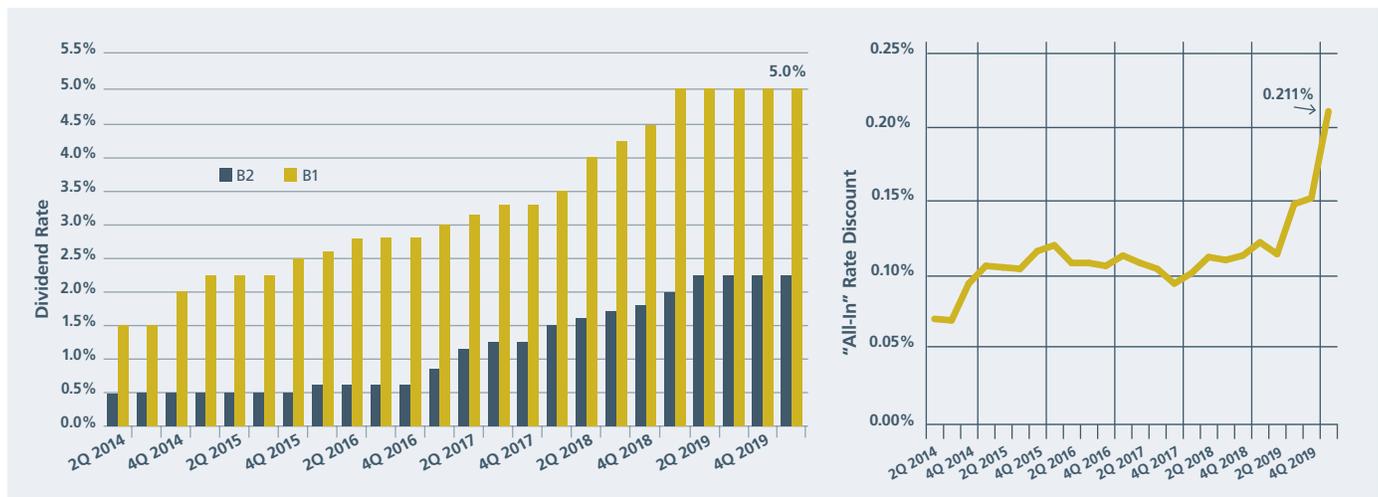
The Dividend Effect

On April 28, 2020, the Federal Home Loan Bank of Chicago (FHLBank Chicago) declared a dividend on B1 activity stock at an annualized rate of 5.00% and on B2 membership stock at an annualized rate of 2.25%. The Bank pays a higher dividend per share on activity stock to reward members for using the Bank's advances and, thereby, supporting the entire cooperative. The higher dividend received on Class B1 activity stock has the effect of lowering your borrowing costs.

Key takeaways:

- The FHLBank Chicago dividend reduces the "all-in" cost of borrowing an advance
- The FHLBank Chicago dividend represents a return on a member's investments

Figure 1: Left, recent history of our dividend rates and the corresponding "all-in" rate
Right, historical FHLBank Chicago dividend rates (by quarter paid)



How Your Institution Gets More Savings from Advance Activity at the FHLBank Chicago

There are two types of capital stock—membership stock and activity stock. Members purchase membership stock to join and maintain membership in the FHLBank Chicago and receive the B2 dividend rate (which was 2.25% annualized for period ending Q1 2020) on that membership stock. As a member borrows in the form of advances, all but \$10,000 of the B2 membership stock converts into B1 activity stock, which is required to support the advance borrowing. This B1 activity stock receives a higher dividend rate (which was 5.00% annualized for period ending Q1 2020). The dividend can be viewed as a discount on the advance rate—approximately 21 basis points (bps) based on dividends paid on May 14, 2020 by crediting your DID account. Based on current projections and assumptions about our financial condition and the economic outlook, we expect to maintain a 5.00% (annualized) level of dividend for Class B1 activity stock for the second quarter of 2020.

In Figure 2 below, the calculation behind the 21 bps savings is shown. As of April 28, 2020, the interest cost on a \$5 million one-year advance with a fixed-rate of 0.47% is \$23,826. The advance requires the purchase of activity stock equal to 4.5% of the advance, and the earnings on which are \$11,250 when you take into account the 5.00% B1 activity stock dividend. Assuming a Primary Credit Rate of 0.25% as an alternate investment purchase, the net benefit from the activity stock is reduced. Overall, this reduces the interest cost of the advance from \$23,826 to \$13,147. Consequently, the “all-in” interest rate on a \$5 million one-year, fixed- rate, fixed-term advance is reduced from 0.47% to 0.26%. This equates to the 21.1 basis point “discount” based on dividends payable in Q2 2020.

Figure 2: “All-In” Advance Rate Based on 100% B1 Activity Stock

Sample Advance Transaction Details

Borrow a \$5,000,000 advance for one year at 4.5% activity stock requirement

B1 Activity Stock Required \$5,000,000 advance borrowed x 4.5% activity stock requirement	\$225,000
Recent B1 Activity Stock Dividend Rate* Reflective of a projected dividend rate of 5.0% for Q2 2020 payable in Q3 2020.	5.00%
Advance Rate As of April 28, 2020	0.47%

Dividend Cost Reduction

How the FHLBank Chicago dividend lowers your borrowing costs

Interest Cost on Advance \$5,000,000 advance X Advance Rate X Actual/360	\$23,826
B1 Activity Stock Dividend Paid* *Assumes the advance is fully supported by B1 Activity Stock.	\$11,250
Cost of Funding Capital Purchase Assumes Primary Credit Rate of 0.25%	\$570
Net Interest Cost	\$13,147
“All-In” Advance Rate	0.26%
Interest Cost Reduction Advance Rate less “All-In” Advance Rate	0.211%

*Sample transaction based on advance rate and standard activity stock requirement as of April 28, 2020. Projected dividends reflected for illustration purposes; future dividends remain at the discretion of the FHLBank Chicago Board of Directors.

Summary

In summary, an FHLBank Chicago member receives savings on advance rates after taking the B1 dividend into consideration.

To Learn More

For further information, contact your Sales Director at membership@fhlbc.com to find out more about the FHLBank Chicago dividend rate and opportunities to lower your borrowing costs.

FHLBank Chicago Member Strategy and Solutions Team

This white paper on FHLBank Chicago dividends was prepared by members of the FHLBank Chicago Member Strategy and Solutions Team.



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Disclaimer

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