

# FHLBC Solutions



## How the FHLBank Chicago Dividend Reduces Your Borrowing Costs

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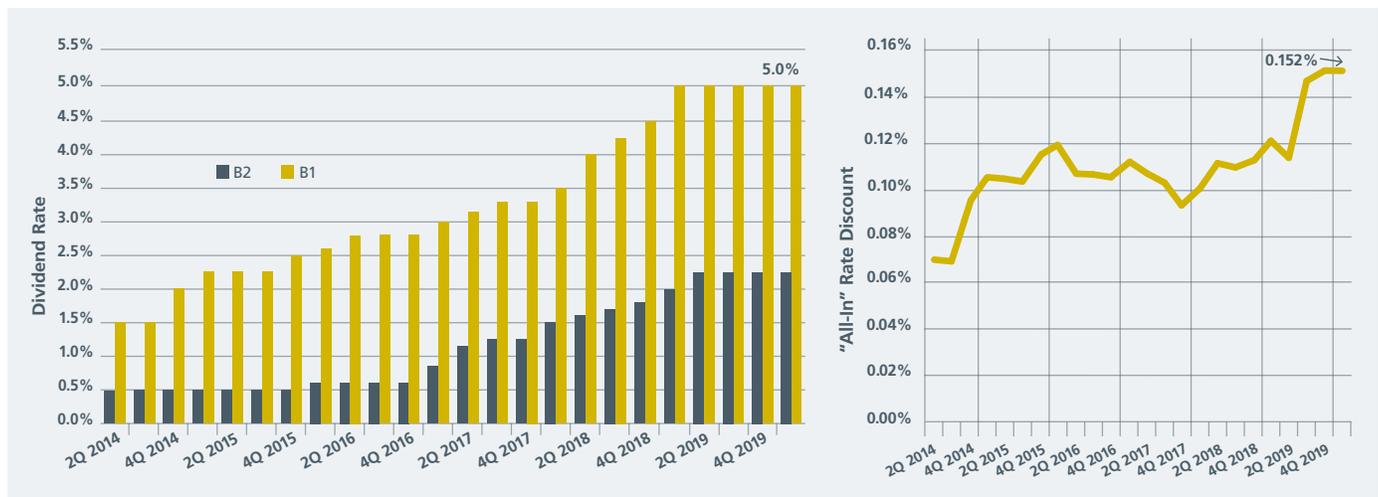
### The Dividend Effect

On January 23, 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 Q4 2019) 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 Q4 2019). The dividend can be viewed as a discount on the advance rate—approximately 15.2 basis points (bps) based on dividends paid on February 13, 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 next two quarters.

In Figure 2 below, the calculation behind the 15.2 bps savings is shown. As of January 23, 2020, the interest cost on a \$5 million one-year advance with a fixed-rate of 1.77% is \$89,729. 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 U.S. Federal Funds Effective Rate of 1.55% as an alternate investment purchase, the net benefit from the activity stock is reduced from \$11,250 to \$3,536. Overall, this reduces the interest cost of the advance from \$89,729 to \$82,015. Consequently, the “all-in” interest rate on a \$5 million one-year, fixed- rate, fixed-term advance is reduced from 1.77% to 1.62%. This equates to the 15.2 basis point “discount” based on dividends payable in Q1 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

<b>B1 Activity Stock Required</b> \$5,000,000 advance borrowed x 4.5% activity stock requirement	<b>\$225,000</b>
<b>Recent B1 Activity Stock Dividend Rate*</b> Reflective of a projected dividend rate of 5.0% for Q1 2020 payable in Q2 2020.	<b>5.00%</b>
<b>Advance Rate</b> As of January 23, 2020	<b>1.77%</b>

### Dividend Cost Reduction

How the FHLBank Chicago dividend lowers your borrowing costs

<b>Interest Cost on Advance</b> \$5,000,000 advance X Advance Rate X Actual/360	<b>\$89,729</b>
<b>B1 Activity Stock Dividend Paid*</b> *Assumes the advance is fully supported by B1 Activity Stock.	<b>\$11,250</b>
<b>Cost of Funding Capital Purchase</b> Assumes U.S. Federal Funds Effective Rate of 1.55%	<b>\$3,536</b>
<b>Net Interest Cost</b>	<b>\$82,015</b>
<b>“All-In” Advance Rate</b>	<b>1.62%</b>
<b>Interest Cost Reduction</b> Advance Rate less “All-In” Advance Rate	<b>0.152%</b>

\*Sample transaction based on advance rate and standard activity stock requirement as of January 23, 2020. Projected dividends reflected for illustration purposes; future dividends remain subject to declaration by the FHLBank Chicago Board of Directors and may be impacted by changes in financial conditions and other risk factors set forth in the Bank’s most recent form 10-K.

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## Other Considerations

Members who can earn significant alternate investment yields should consider our Reduced Capitalization Advance Program (RCAP), which requires a 2% activity stock investment instead of 4.5%, based on terms and conditions.

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## Summary

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

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## To Learn More

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

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## 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

The scenarios in this paper were prepared without any consideration of your institution's balance sheet composition, hedging strategies, or financial assumptions and plans, any of which may affect the relevance of these scenarios to your own analysis. The Federal Home Loan Bank of Chicago makes no representations or warranties about the accuracy or suitability of any information in this paper. This paper is not intended to constitute legal, accounting, investment, or financial advice or the rendering of legal, accounting, consulting, or other professional services of any kind. You should consult with your accountants, counsel, financial representatives, consultants, and/or other advisors regarding the extent these scenarios may be useful to you and with respect to any legal, tax, business, and/or financial matters or questions. Historical dividend rates provided for informational purposes only; future dividends at the Board's discretion and subject to change.