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Lower Your Borrowing Costs: The Dividend Effect

Federal Home Loan Bank of Chicago



FHLBank
Chicago

Lower Your Borrowing Costs: The Dividend Effect

Did You Know?

- The FHLBank Chicago dividend reduces the “all-in” cost of borrowing an advance.
- The FHLBank Chicago dividend represents a return on a member’s stock investment in the cooperative.

Lower Your Borrowing Costs: The Dividend Effect

On October 24, 2023, the Board of Directors of the FHLBank Chicago declared a dividend of 8.25% (annualized) for Class B1 activity stock and 5.125% (annualized) for Class B2 membership stock. FHLBank Chicago pays a higher dividend per share on your activity stock compared to membership stock to recognize your support of the cooperative through the use of Bank products. The higher dividend received on Class B1 activity stock has the effect of lowering your borrowing costs.

See the example below, which demonstrates how the dividend lowers your borrowing costs by 12.94 basis points (bps). Contact your Sales Director to find additional opportunities to lower your borrowing costs.

“All-In” Advance Rate Example*

Advance Transaction Details

Borrow a \$10,000,000 advance for one year at 4.50% activity stock requirement

B1 Activity Stock Required

\$10,000,000 advance borrowed X 4.50% activity stock requirement

\$450,000

Class B1 Activity Stock Dividend Rate

Reflective of a projected dividend rate of 8.25% for Q3 2023 payable in Q4 2023.

8.25%

One Year Advance Rate

As of October 24, 2023

5.49%

Dividend Cost Reduction

How the FHLBank Chicago dividend lowers your borrowing costs

Interest Cost on Advance

\$10,000,000 advance X Advance Rate X Actual/360

\$556,625

B1 Activity Stock Dividend Paid

B1 Activity Stock Required X Class B1 Activity Stock Dividend Rate X Actual/Actual

\$37,125

Opportunity Cost of Funding Capital Purchase**

\$24,008

B1 Activity Stock Required X Opportunity Cost X Actual/360

Net Interest Cost

\$543,508

“All-In” Advance Rate

5.36%

Interest Cost Reduction

0.13%

Advance Rate less “All-In” Advance Rate

*Reflects Class B1 activity stock dividend as a reduction to the regular advance rate, based on a projected B1 dividend rate of 8.25% for Q3 2023 payable in Q4 2023, an opportunity cost of buying stock (estimated to be 5.262%, the average Effective Federal Funds Rate during Q3 2023), and 4.50% advance capitalization, for illustration purposes only.

** Assumes an opportunity cost of buying stock estimated to be 5.262%, the average Effective Federal Funds Rate during Q3 2023.

Contact your Sales Director for more information.

*** First Name**

First Name*

*** Last Name**

Last Name*

*** Email**

Email*

*** Member Institution**

Member Institution

*** Comments**

Comments*

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