



FHLBank
Chicago

Frequently Asked Questions: Qualified Collateral Report (QCR) Pledging

April 7, 2023

The Federal Home Loan Bank of Chicago (FHLBank Chicago) allows many of our depository members to pledge loan collateral via Qualified Collateral Reporting (QCR) where members can pledge on a blanket lien without having to list out specific characteristics on each pledged loan.

Increased rate volatility has caused a reduction in the value of loans on our members' balance sheets, and FHLBank Chicago must consider market values when assessing Collateral Loan Value (CLV) to properly ensure the financial health of our member-owned cooperative. As a result, members pledging via QCR can expect to see higher haircuts (reduced CLV) on their loans pledged via QCR in Q2 2023.

Q: How much will margins change once implemented?

A: As of now, margins for Business & Agricultural Production loans will decrease by -2% and Home Equity Loan margins will decrease by 1%.

Q: When will these new margins be implemented?

A: Margin effective date of May 8, 2023.

Q: Am I better off listing my collateral vs pledging by QCR?

A: Most of the time, members will see an increase in total value when listing collateral. The reason for this is because the listing margins are higher than QCR margins. Before you consider listing your collateral, it is important to understand the implementation process and time commitment. When your institution lists its loans, FHLBank Chicago prices them either monthly or quarterly depending on Member risk rating. Increased pricing frequency will result in more frequent changes to the market value component of CLV (versus QCR prices, which are updated quarterly).

Q: What preparation is needed if I want to list my collateral?

A: There is usually an operational hurdle for members wanting to list their collateral that can take several weeks or longer to implement. Understanding eligibility under the Collateral Guidelines is an important way to ensure optimization of your collateral. Members who regularly "scrub" their QCR pledges for loan ineligibilities are generally more prepared to list their loan collateral. The Collateral Guidelines are available by [logging into eBanking](#),

and [the listing template is available for download](#). You should reach out to your sales director if you want to explore the possibility of listing your collateral.

Q: Are there any risks in listing my collateral?

A: When you list your collateral, it is possible we could find ineligible loans or eligible loans with lower market pricing based on the data elements provided, further negatively impacting your CLV. FHLBank Chicago will assess the materiality of any ineligible loans found in your preliminary listing data and determine if additional reduction in CLV is warranted based on the new information provided. Please [view the listing template](#) so you can review the data elements that are required to calculate CLV.

Q: What happens if, as a result of these changes, I am short collateral?

A: In this event, we will ask you to post additional eligible collateral to cover your outstanding credit obligations or require you to prepay outstanding advances. If you elect to prepay any advances and such advances are subject to a prepayment fee, you will be required to pay such prepayment fee.

Q: What are applicable collateral pledging agreements that I need to consider when optimizing my collateral?

A: The related agreements that optimize a member institution's collateral position generally include: the current version of the Advances, Collateral Pledge and Security Agreement, Release & Warranties, or Subordination Agreement updates with the relevant Federal Reserve Bank or Corporate Central (as may be applicable), Safekeeping Agreement or Securities Collateral Control Agreement. Contact your Sales Director if you need help determining if your agreements are up to date.