

***FHLB101***  
***Making the Most of Your Membership***

**Structured Advance Products**

October 28, 2008

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This presentation does not purport to disclose all the risks of and other material considerations associated with structured advances. Members should not construe this information as business, legal, tax, or accounting advice from FHLB Boston. Members should consult with their own independent business, legal, tax, and accounting advisers with respect to structured advances and should refrain from entering into structured advances unless they have fully understood the terms and risks of structured advances. This information does not constitute an offer to engage in any transaction.

## Agenda

- What is a structured advance?
- Structured advance products offered by FHLB Boston
- Pricing indications
  - ◆ Given the current market dislocation, pricing indications can only be obtained by calling the Money Desk 800.357.FHLB (3452)
    - Two charts are included in this presentation that include pricing indications
      - They **are not** current indications and are included for illustrative purposes **ONLY**
- Questions

## What is a FHLB Boston Structured Advance?

- Fixed- or floating-rate advance containing an embedded option, including:
  - ◆ Caps
  - ◆ Floors
  - ◆ Puttable Swaps
    - Member sells FHLB Boston the option to cancel the advance prior to final maturity
      - “Bermudan” – monthly, quarterly, semi-annual, or annual cancellation dates
      - “European” – one cancellation date
- Maturities of one through ten years

## What is a FHLB Boston Structured Advance?

- Involves the *purchase* or *sale* of an option by the member
  - ♦ *Purchase* = higher advance rate
  - ♦ *Sale* = lower advance rate
- No FAS133 implications

## What is a FHLB Boston Structured Advance?

- Principal due at maturity; interest due monthly or, if floater, on rate-reset dates
- AAA counterparty
- \$10 million minimum
  - ◆ Smaller amounts aggregated through “specials”
- [FHLB Credit Products: Overview](#)

## **FHLB Boston Structured Advance Offerings**

- Capped Floater
- Slider
- HLB-Option
- HLB-Option Plus Cap
- Knockout
- Flipper

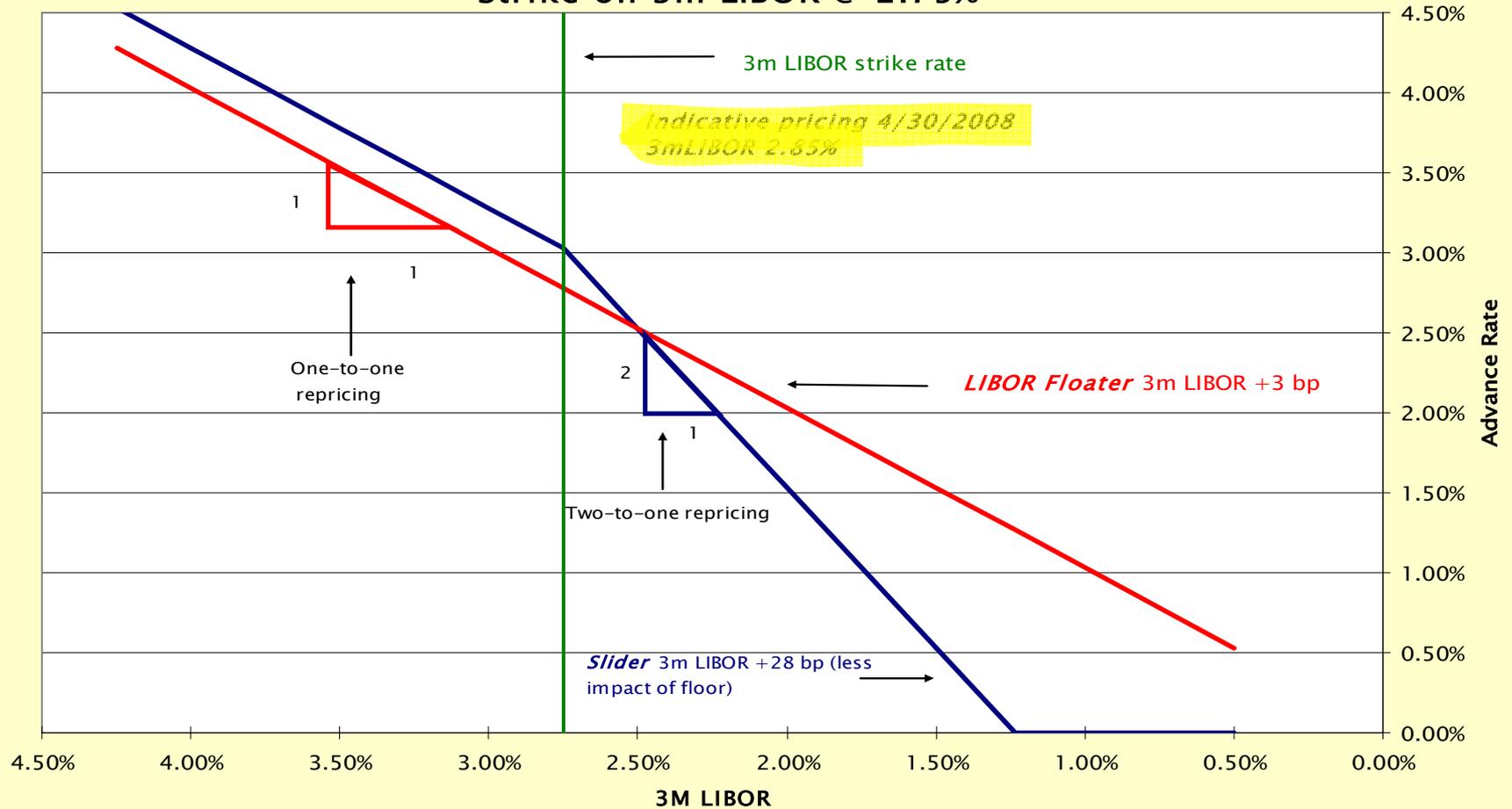
## Capped Floater Advance

- Floating-rate advance containing an embedded cap on 1- or 3-month LIBOR
- Advance rate quoted as “LIBOR plus spread”; includes cost of the floating-rate funding and the cap
- Member chooses term of advance and “strike” rate on cap
- Maximum advance rate equals “strike” rate of cap plus spread
- Rate resets on a monthly or quarterly basis
- Reduces exposure to rising interest rates...and advance rate will decline as LIBOR falls
- Fund LIBOR- based floating-rate assets (capped)

## Slider Advance

- Floating-rate advance containing an embedded floor on 1- or 3-month LIBOR
- Member chooses term of advance and “strike” rate on floor
- Advance rate quoted as “LIBOR plus spread”
- Rate resets monthly or quarterly, depending on index
- Used to reduce exposure to falling interest rates
  - ◆ Advance rate declines 2:1 when embedded floor is “in the money”
- Advance rate cannot fall below zero (FAS133 Paragraph 13a)

## The Slider Advance – 3-Yr. Term Strike on 3m LIBOR @ 2.75%



## HLB-Option Advance

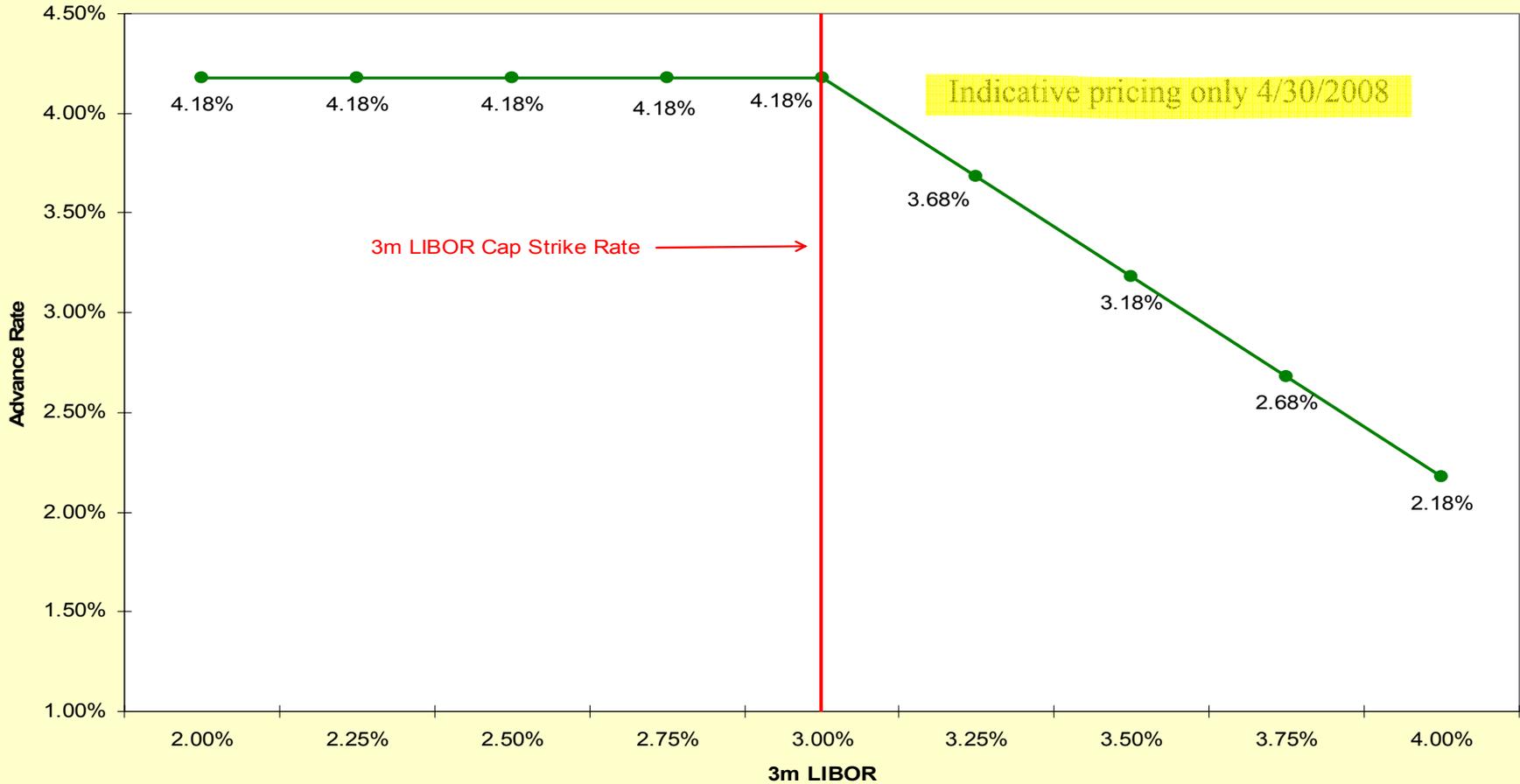
- Fixed-rate advance containing a puttable swap
- Member sells FHLB Boston the option to cancel the advance prior to final maturity
- First opportunity to cancel advance is at the end of lockout period
- Generally:
  - ♦ rates  advance **cancelled**
  - ♦ rates  advance **extends**
- Member receives a lower advance rate than on bullet advances of same final maturity

## HLB-Option Plus Cap Advance

- HLB-Option advance containing an embedded interest-rate cap
  - ◆ Cap in effect only during the lockout period
- Notional amount of cap can be between 1x and 3x dollar amount of advance
  - ◆ Hedge more IRR than collateral cushion permits
  - ◆ Hedge more IRR than cash requirements warrant
- Cost of cap included in the advance rate
- Cancelable by FHLB Boston at end of lockout period and possibly thereafter
- If not cancelled, rate reverts to initial rate until cancellation or maturity

## 10/3y HLB-Option Plus Cap Advance

2x Notional Cap - Strike on 3m LIBOR at 3.00%



## Knockout Advances

- Fixed-rate advance containing a putable swap
- Member sells FHLB Boston the option to cancel the advance prior to final maturity
- First opportunity to cancel advance is at the end of lockout period
- The cancellation of the advance is definitive
  - ◆ If LIBOR (the index) is  $\geq$  strike rate on a cancellation date then the advance is cancelled
- Member receives a lower advance rate than on bullet advances of same final maturity

## Flipper Advance

- Floating to fixed rate advance containing a puttable swap
- Member sells FHLB Boston the option to cancel the advance prior to final maturity
- First opportunity to cancel advance is at the end of lockout period
- Similar structures to HLB Option advances, e.g. 5/1 or 10/2

## Flipper Advance

- Advance is a floater during the lockout period
  - ♦ Initial floating rate is usually in the range of 3M LIBOR -50 bp to 3M LIBOR -200 bp, member specifies this
  - ♦ Rate resets every 3 months (or each month if index is 1M LIBOR)
- If FHLB Boston does not cancel the advance at the end of the lockout period then the advance “flips” to a fixed rate for the remaining term of the advance (if “Bermudan” then FHLB Boston has additional cancellation dates)
- Fixed rate is dependent on the amount of discount priced into the front end
- You can specify either the floating rate spread or the fixed rate – we price the other
- Generally:
  - ♦ rates  advance cancelled
  - ♦ rates  advance extends

# Questions?

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