

The Flipper

HLB Convertible Option Advance

FHLB Boston Webinar

June 19, 2007

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Agenda

- Product Overview
- Review of Recent Offering
- Usage in the Current Environment
- Upcoming Special

Product Overview

- Floater-to-Fixed Rate Advance
- Advance is a Sub-LIBOR floater during the lock-out period, typically 50bp to as much as 200 bp below LIBOR
- FHLB Boston has 1x option to cancel advance
 - ◆ If the advance is not cancelled then...“Flips” to a fixed-rate advance until final maturity
- Minimum size of \$10 million, can aggregate smaller amounts during special offerings

Product Overview

- Pricing:
 - ◆ When considering a particular structure , e.g. 7/1 Flipper there are two variables
 - Offset to LIBOR for the floating rate during the lock-out period
 - The fixed rate in the event the advance “flips”
 - ◆ Given your requirements for one of the variables, either the offset to LIBOR or the fixed rate, we can solve for the other
 - ◆ We can also determine the structure that will meet your pricing bogey for both the floating and fixed portions of the advance

Recent Offering

- Recent Special – June 13, 2007
 - ◆ 7/1 3L –100 bp, 5.55% if “Flipped”
 - ◆ Initial floating rate: $5.36\% - 1.00\% = 4.36\%$
 - ◆ Pay 4.36% for first 3 months then reprices quarterly during first year

Recent Offering

- Recent Special – June 13, 2007
 - ◆ 7/1 3L –100 bp, 5.55% if “Flipped”
 - ◆ FHLB Boston has a one time option to cancel, one year from now
 - ◆ If FHLB Boston **Cancels** the advance, you can refinance into a new advance at market rates
 - ◆ If FHLB Boston **does not cancel** , the advance “Flips” to a 6-year, fixed-rate bullet at 5.55%

Recent Offering

- How does FHLB Boston decide to “Flip” or cancel?
 - ◆ Fixed rate of 5.55% if “Flipped”
 - ◆ If the 6-year swap rate is **above** 5.55% then advance will likely be cancelled
 - ◆ If the 6-year swap rate is **below** 5.55% then advance will likely be “Flipped” to a 6-year bullet at 5.55%
 - ◆ Current 6-year swap rate ~ 5.68%
 - ◆ Implied 6-year swap rate, one year forward ~ 5.74%



FORWARD CURVE ANALYSIS US Dollar

BASE CURVE DEFAULTS - BGN		TERM	YIELD	9/18/07	P	12/18/07	P	6/13/08	P
Curve Dated:	6/13/07	1 Wk	5.3200	5.3532	R	5.3639	R	5.3720	R
Settlement Date:	6/17/07	D 1 Mo	5.3200	5.3669	O	5.3758	O	5.3639	O
Coupon/Spot:	C	E R 2 Mo	5.3400	5.3598	J	5.3908	J	5.3725	J
Bid/Ask/Mid:	B	P A 3 Mo	5.3600	5.3850	E	5.4166	E	5.3836	E
FMC #	or SWDF # 23	O T 4 Mo	5.3800	5.4013	C	5.4310	C	5.3938	C
		S E 5 Mo	5.3900	5.4174	T	5.4397	T	5.4045	T
		I S 6 Mo	5.4091	5.4377	E	5.4528	E	5.4160	E
		T 9 Mo	5.4609	5.4799	D	5.4787	D	5.4478	D
		1 Yr	5.5059	5.5114		5.5085		5.4819	
		2 Yr	5.5020	5.5197		5.5372		5.5619	
		S R 3 Yr	5.5480	5.5688		5.5892		5.6216	
		W A 4 Yr	5.5950	5.6163		5.6373		5.6756	
		A T 5 Yr	5.6420	5.6607		5.6792		5.7093	
		P E 7 Yr	5.7110	5.7294		5.7476		5.7783	
		S 10Yr	5.7930	5.8091		5.8253		5.8528	
		15Yr	5.8780	5.8925		5.9071		5.9322	
		20Yr	5.9170	5.9286		5.9403		5.9609	
		30Yr	5.9390	n/a		n/a		n/a	

- 1 Graph
- 2 Update Curve
- 3 Forwards Analysis
- 4 FWCM <GO>

Usage in Current Environment

- Why Examine the “Flipper” Advance?
 - ◆ Net interest margin at small institutions was lowest in 16 years
 - Asset yields are falling while at the same time funding costs are rising

Usage in Current Environment

- Why Examine the “Flipper” Advance?
 - ◆ “Flippers” are popular with members looking to improve margins with sub-LIBOR funding
 - Macro balance-sheet funding tool
 - Sub-LIBOR funding during the lock-out period
 - Margins of asset sensitive members will improve as rates rise
 - Fixed rate is low by historical standards
 - If the advance “Flips” the consequence may not be as harsh as it was in 1999 to 2000

Usage in Current Environment

- Why Examine the “Flipper” Advance?
 - Initial floating rate was almost 100 bp below one to six month bullets
 - Fixed rate of 5.55% was 27 bp below the 6-year bullet
 - Fixed rate of 5.55% was 31 bp below the 7-year bullet
 - Initial floating rate was 64 bp below the 7/1 HLB Option (Euro) advance
 - Fixed rate was 55 bp above the 7/1 HLB Option (Euro) advance

Upcoming Special

- Thursday, June 21, 2007
 - ◆ 11:00 a.m. to 12:30 p.m.
- 5/1 3L – 100 bp
 - ◆ Fixed rate TBD

Questions? Comments?

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