



Don't Look Now

June 29, 2010

By Kevin G. Martin, Vice President/Member Financial Strategies

Last week's economic data, showing a U.S. economy growing at a slower rate than many economists anticipated, has caused the 5-year Classic advance rate to fall to 2.55 percent, or within two basis points of the low that it touched seven years ago. Here is a comparison of selected Classic advance rates from June 13, 2003, and June 28, 2010:

<i>Term</i>	<i>June 28, 2010</i>	<i>June 13, 2003</i>	<i>Change from 2003</i>
1 Year	0.70%	1.25%	-0.55%
2 Years	1.15%	1.46%	-0.31%
3 Years	1.59%	1.80%	-0.21%
4 Years	2.13%	2.21%	-0.08%
4.5 Years	2.34%	2.37%	-0.03%
5 Years	2.55%	2.53%	0.02%

This decline in rates gives members yet another opportunity to extend the maturity of their advances portfolio to mitigate interest-rate risk or to match-fund loans or securities. Are we at the bottom of this rate cycle? No one knows. But if your institution needs some long-term funding, it would probably be prudent to start extending at these levels. If rates go lower, continue to fill more of your requirement. Remember, when rates start their upward movement, they often move fast. From the levels in the chart above, by August 1 of 2003, the 4-, 4.5-, and 5-year advance rates were 3.66 percent, 3.88 percent, and 4.10 percent, respectively; or increases of 145, 151, and 157 basis points, respectively.

If you're flush with liquidity, look to the Bank's Advance Restructuring solution in conjunction with advances maturing over the next three to six months to effectively lock-in today's rates. A member recently restructured an advance with three months remaining to maturity and was able to restructure into a 4.5-year advance for a premium of only 24 basis points over the posted advance rate. The prepay fee on this advance was just less than 1 percent of the advance amount. You can estimate the premium you would pay to restructure an advance by taking the prepay fee on the advance as a percent of the advance amount and dividing it by the term of the new advance. This will approximate the premium over the posted rate. The estimated prepay report is available nightly on Direct + for all Classic and Amortizing advances eligible to be restructured.

For more information on advances that may meet the criteria for restructuring, please call your

relationship manager or Kevin Martin, vice president, Member Financial Strategies, at 617-292-9644.

For more information on long-term advances, please call the Money Desk at 800-357-3452 or check our web site for the most up-to-date pricing. The Money Desk offers aggressively priced long-term bullets each Wednesday from 10:00 a.m. to 11:00 a.m.