



A Full Menu of Options for Funding Commercial Loans

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By Maria Nichols, Relationship Manager

In recent months, the government has been encouraging banks to increase their commercial lending efforts to both large and small businesses. Community banks have not stopped lending during this recession. In fact, a recent *American Banker* article noted that small business lending rose slightly at institutions with assets of less than \$1 billion between June 2008 and June 2009 and fell more than four percent at institutions with assets of more than \$100 billion during the same period. Finding creditworthy customers is getting harder in some areas, but there is still loan demand out there.

Union Bank in Morrisville, Vermont, uses CDA and regular amortizing advances to fund some of their commercial loans. David Silverman, senior vice president/senior loan officer at Union Bank, explains, "In a competitive situation, where the borrower has a desire for a longer-term fixed rate and the bank is reluctant to fund the loan long term with deposits because of interest-rate risk, we rely on Federal Home Loan Bank of Boston amortizing advances."

If the loan happens to prepay, they pass on the prepay penalty to the borrower, or, depending on the rate environment, they just keep the funding. The amortizers work for them because they can match fund the cash flows exactly, there is a pre-determined spread, and revenue is easier to manage from the Treasury side. The advances also help them offer lower rates to their borrowers while mitigating their interest-rate risk. Union ended 2009 with an ROA of 1.26 and a net interest margin of 4.38.

FHLB Boston offers a wide variety of options for funding both fixed and variable commercial loans.

FIXED-RATE LENDING

All rates as of March 2, 2010

Amortizing Advance

2.90% 5/20(*)

With this advance, a member can match the term of the loan with the term of the advance, locking in the spread until the loan balloons or matures.

Classic Advance

3.00% 5 Yr

Also referred to as a bullet advance, this popular product is a non-amortizing advance with principal repayment due at maturity. It's a good credit product for funding all commercial loans, but particularly valuable for funding construction loans or any other "interest-only" loan.

CDA Advance – Classic**2.74% 5 Yr****CDA Advance – Amortizing****2.64% 5/20(*)**

The Community Development advance (CDA) is a reduced-rate advance for funding eligible economic-development, affordable-housing, and mixed-use initiatives. If the initiative qualifies as a small business initiative based on what the Small Business Administration (SBA) considers a “small business concern,” it qualifies for CDA funding. CDA funding can help fund your small business program or a specific project. An application is required.

ESA Advance – Classic**2.79% 5 Yr****ESA Advance – Amortizing****2.69% 5/20(*)**

The Economic Stimulus Advance (ESA) was introduced last year to promote and support recovery and growth in the economy. Any commercial loan that supports an initiative that helps create growth, including the preservation and creation of jobs, qualifies for an ESA advance. An application is required.

Interest-Rate Swaps**Minimum notional size per derivative transaction \$2.5 million**

For commercial customers looking for a fixed rate loan, you may also consider using interest-rate swaps as an alternative. If you are interested in transacting swaps with FHLB Boston, please contact your relationship manager to complete the required Appropriateness Questionnaire and determine next steps required.

VARIABLE RATE LENDING**Daily Cash Manager****0.28% DCM****One Month Classic****0.26% 1 Mon****One Year Classic****0.55% 1 Yr**

If you are not funding Prime/LIBOR-based lines of credit and/or construction loans internally, you can fund them with the Daily Cash Manager or any other short-term advance.

LIBOR-Indexed Advance**2 Yr - 3 Months LIBOR + 0.30 Basis Points**

A fixed-term, non-amortizing advance with an interest rate that adjusts periodically according to changes in LIBOR plus a predetermined spread.

(*) The monthly payment amount on a 5/20 amortizing advance is based on a 20-year amortization schedule. The advance has a balloon payment in month 60.

For more details on the terms and conditions of the Knockout advance, please contact your Relationship Manager or call the Money Desk at moneydesk@fhlbboston.com or 1-800-357-3452.