



Opportunities for Restructuring Option Advances

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Back in 2007, a number of members benefited from Federal Home Loan Bank of Boston (the Bank) specials on 5/1 and 5/2 HLB Option advances. At the time, the inverted yield curve provided better pricing for this product than for a bullet advance. Many members are now carrying these advances at rates between 4.5 and 5 percent. These advances won't mature until 2012 and, unless rates increase significantly, have little chance of being cancelled.

HLB Option advances cannot be modified through our Advance Restructuring program in which the prepayment fee is rolled into the new advance rate. But help is available and the accounting treatment is the same, regardless of how the restructuring is accomplished. EITF 96-19 (Debtor's Accounting for a Modification of Debt Instruments) typically allows for prepayment and unwind fees to be accreted over the life of a replacement advance if the present values of the old and the new debt differ by less than 10 percent. Such a transaction would involve cash settling the prepayment fee on the existing advance and replacing it with a new advance.

Here is an example:

Product	Effective Date	Maturity Date	Current Rate	Prepay Fee	Unwind Fee
\$2 million 5/1 HLB Option advance	3/2/2007	3/2/2012	4.49%	\$11,080	\$125,000

The advance can be modified into a 3.5-year Community Development Advance with a coupon rate of 1.80 percent and an effective rate of 3.81 percent or a 4.5-year Community Development Advance with a coupon rate of 2.26 percent and an effective rate of 3.86 percent.

Under these scenarios, the effective rate takes into account the accretion of prepayment and unwind fees over the life of the new advance. The member saves 68 basis points or 63 basis points, depending on the term chosen. In both cases, the member obtains a lower rate, eliminates the optionality from the old advance, and extends the advance term in preparation for an eventual increase in rates.

Consult with your independent accounting adviser or contact your relationship manager or financial strategist for an analysis and go from there. Significant savings can be obtained during a time when every basis point counts.