

The logo for FHLB Boston, featuring the text "FHLB Boston" in a bold, white, sans-serif font. The background of the logo is a dark blue gradient with a faint, repeating pattern of the number "100.00" in a lighter blue color.

FHLB Boston
Advance Restructuring Solution
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Federal Home Loan Bank of Boston

Members should not construe the information contained in this Webinar as accounting, business, legal, or tax advice from FHLB Boston. Members should consult with their own independent accounting, business, legal, and tax advisers with respect to restructured advances. Members should refrain from entering into restructured advances unless they have first consulted with their internal/external accountants and/or auditors regarding the appropriate accounting treatment for any transaction involving advance restructurings. This information does not constitute an offer to engage in any transaction.

Agenda

- Description of an advance restructuring
- Eligible advance products
- Benefits to your institution
- EITF 96-19
- What's working
- How to restructure an advance
- Questions

Description of Advance Restructuring

- Allows members to **blend** the prepayment fee of an existing advance into the rate on a new advance
- No cash settlement of the prepayment fee will be required
- Old advance is closed out and a new advance is initiated
 - ◆ Accrued interest on old advance is due when the new advance settles

Eligible Advance Products

- Old advance can be:
 - ◆ Long-term Classic advance
 - ◆ Amortizing advance
 - Housing & Community Investment equivalents of the above
- Can only restructure *into* Long-term Classic advance
 - ◆ Must be for same dollar amount as the old advance
 - ◆ Can not go into long-term specials and CDA
 - To take advantage of these programs, the prepayment fee must be cash settled
 - ◆ Percent of Assets Incentive Discount (PAID) program will apply

Benefits to Your Institution

- Allows liability sensitive members to extend duration of advances without increasing total advances outstanding
- May result in a lower cost on new advance compared to the old advance
- Improved NIM
- Members can grow capital faster than by holding old advances at higher rates
- If the restructure qualifies as a “modification” the ongoing accounting is cleaner
 - ◆ No discount is booked relating to the new advance
 - ◆ Ongoing interest expense is the coupon of the new advance
- Strip out optionality from HLB Option advances (cash settle)
- Lock-in today’s low rates

EITF 96-19 — Debtor's Accounting for a Modification of Debt Instruments

- You must determine how to account for the prepay fee if an advance is prepaid and a new advance is taken down
 - ◆ Applies whether you “Blend” (Advance Restructure) or “Cash Settle” prepay fee
- Is there a SUBSTANTIAL difference between the old and new debt
- Compare the PV of the old debt and the new debt
 - ◆ The coupon rate of the old advance is used as the discount rate to calculate the PVs

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EITF 96-19 — Debtor's Accounting for a Modification of Debt Instruments

- Accounting treatment of prepay fee differs between “extinguishment” or “modification”
 - ◆ ***Extinguishment – PVs differ by 10% or more - SUBSTANTIAL***
 - Prepay fee booked as one-time loss
 - New advance on books at current coupon
 - ◆ ***Modification - PVs differ by less than 10% - not substantial***
 - Prepay fee accreted over term to maturity of new advance
 - Expense on new advance is current coupon plus the accretion of the prepay fee

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EITF 96-19 — Considerations

- Review the transaction with your internal and external accountants and auditors
 - ◆ Be certain you will get the accounting treatment you want, i.e. modification or extinguishment

Restructure Advance Determine Accounting Treatment *Perform PV 10% Test*

Difference in PVs 10% or Greater Extinguishment		Difference in PVs Less than 10% Modification	
<i>Cash Settle</i>	<i>Blend</i>	<i>Cash Settle</i>	<i>Blend</i>
Book prepay fee as one-time loss.	Should be Cash settled.	Prepay fee must be accreted over term of new advance.	Prepay fee is not cash settled.
Carry new advance at new (posted) advance rate.		New advance carried at current (posted) rate.	Prepay fee incorporated into coupon on new advance which will be higher than posted rate.
		Total expense is accretion of prepay fee plus coupon of new advance.	Total expense is coupon of new advance. No prepay fee to accrete.

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EITF 96-19: 10% Test

- Use the coupon rate of the OLD advance to calculate the PV of the NEW advance
- Cash flows include monthly interest and principal payment
- If prepay fee on advance is cash settled – remember to include this as a period 0 cash flow

EITF 96-19: 10% Test – Blended Prepay Fee

Today's Date 2/2/2010
 Prepay Fee: **BLENDED**
 Advance Number 123456
 Maturity Date 2/28/2011
 Advance Rate 5.45
 Advance Amount 10,000,000.00
 Prepay Fee \$ 570,325.79

Months to Maturity 12.87
 Prepay Fee as % of Adv Bal 5.70

[Print](#)

Term (Yrs)	Posted Rate	Spread	Blended Rate	Blended Rate Over (Under) Old Adv Rate	PV of New Advance	Extension in Months	Maturity Date of New Advance
2.00	1.27	2.89	4.16	(1.29)	97.56	11.1	2/2/2012
2.25	1.45	2.58	4.03	(1.42)	97.00	14.1	5/2/2012
2.50	1.62	2.33	3.95	(1.50)	96.50	17.1	8/2/2012
2.75	1.80	2.13	3.93	(1.52)	96.13	20.1	11/2/2012
3.00	1.98	1.96	3.94	(1.51)	95.83	23.1	2/2/2013
3.50	2.25	1.70	3.95	(1.50)	95.23	29.1	8/2/2013
4.00	2.52	1.51	4.03	(1.42)	94.91	35.1	2/2/2014
4.50	2.76	1.35	4.11	(1.34)	94.66	41.1	8/2/2014
5.00	3.01	1.24	4.25	(1.20)	94.76	47.1	2/2/2015
5.50	3.23	1.14	4.37	(1.08)	94.88	53.1	8/2/2015
6.00	3.46	1.06	4.52	(0.93)	95.25	59.1	2/2/2016
6.50	3.66	0.99	4.65	(0.80)	95.63	65.1	8/2/2016
7.00	3.85	0.94	4.79	(0.66)	96.17	71.1	2/2/2017

Example: Prepay fee BLENDED (from Slide 12)

Old Advance

Advance Rate	5.45
Advance Amount	10,000,000.00
Prepay Fee \$	570,325.79
Prepay Fee as % of Adv Bal	5.70

New 4-year posted rate 2.52

Spread

Use Excel PMT (payment) function or hp 12C

Rate (2.52 / 12)	0.0021
Nper (4 * 12)	48
Pv	-5.703
Fv	0
Result	0.12503
Multiply by 12	1.50036
Roundup	1.51
Add to posted rate	2.52
Blended rate on new advance	4.03

PV of new advance

Use Excel PV (present value) function or hp 12C

Rate (5.45 / 12)	0.0045
Nper (4 * 12)	48
Pmt (\$10M * 4.03 / 12)	-33,583.33
Fv	-10,000,000.00
Result	9,490,682.25
Divide by 10M	94.91

What's Working

Prepaid Advances				New Advances					
Balance	Adv Rate	Months to Maturity	Prepay Fee %	Yrs to Mat	Adv Rate	Blended Rate of New Advance	Price of new advance	Blended Rate vs. prepaid advance	Extension in Months
2,500,000.00	3.99%	15.2	4.33	2.75	1.86%	3.48%	98.68	(0.51)%	17.8
5,000,000.00	5.01%	15.9	5.80	3.50	2.31%	4.04%	96.90	(0.97)%	26.1
10,000,000.00	5.19%	30.7	9.52	4.00	2.57%	5.08%	99.60	(0.11)%	17.3
5,000,000.00	4.68%	20.0	6.39	3.50	2.31%	4.22%	98.52	(0.46)%	22.0
5,000,000.00	4.48%	22.1	6.50	3.50	2.31%	4.25%	99.26	(0.23)%	19.9
15,000,000.00	4.11%	16.8	4.82	2.75	1.86%	3.67%	98.86	(0.44)%	16.2
7,500,000.00	3.79%	16.6	4.34	2.50	1.68%	3.46%	99.22	(0.33)%	13.4
3,500,000.00	4.86%	9.4	3.58	5.00	3.07%	3.85%	95.54	(1.01)%	50.6
2,000,000.00	4.83%	2.1	0.83	5.00	3.07%	3.25%	93.02	(1.58)%	57.9
1,000,000.00	4.81%	7.3	2.80	5.00	3.07%	3.68%	95.00	(1.13)%	52.7
1,000,000.00	4.57%	13.5	4.59	5.00	3.07%	4.07%	97.78	(0.50)%	46.5
1,000,000.00	4.55%	8.2	2.95	5.00	3.07%	3.71%	96.26	(0.84)%	51.8
10,000,000.00	5.03%	11.8	4.58	5.00	3.07%	4.07%	95.78	(0.96)%	48.2
7,000,000.00	3.75%	4.7	1.39	4.00	2.62%	3.00%	97.23	(0.75)%	43.3
5,000,000.00	3.82%	18.5	4.77	3.00	2.04%	3.69%	99.63	(0.13)%	17.5
5,000,000.00	4.82%	12.3	4.83	4.50	2.83%	3.98%	96.83	(0.84)%	41.7
7,000,000.00	4.79%	13.0	5.00	4.50	2.83%	4.02%	97.10	(0.77)%	41.0
7,000,000.00	5.06%	13.0	5.28	4.50	2.83%	4.09%	96.36	(0.97)%	41.0
10,000,000.00	5.45%	13.0	5.70	4.50	2.83%	4.19%	95.31	(1.26)%	41.0
20,000,000.00	4.76%	13.8	5.17	4.50	2.83%	4.06%	97.40	(0.70)%	40.2
10,000,000.00	5.05%	15.4	6.07	4.50	2.83%	4.27%	97.18	(0.78)%	38.6

How to Restructure an Advance

- Management determines objective of restructure and whether they desire modification or extinguishment accounting treatment
- Most likely – Modification, extend maturity, and lower coupon
 - ◆ Contact your Relationship Manager or Kevin Martin
 - ◆ We will attempt to identify advances that meet your objectives
- Decide which advances you want to restructure
 - ◆ Call The Money Desk 1-800-357-3452
 - ◆ Give them the old advance # and the term of the new advance and they will give you the new “blended” rate
- Next-day settlement, if requested by 1:00 p.m.