

Capped Floater Advance Primer

I. Product Information

Characteristics

The Capped Floater Advance (“Capped Floater”) is a LIBOR (London Interbank Offered Rate) floating-rate advance with an embedded interest-rate cap feature. It is a fixed-term, non-amortizing advance with an interest rate that adjusts periodically according to changes in LIBOR plus a predetermined spread. The advance rate is capped at the strike rate plus a predetermined spread. The member can choose either one- or three-month LIBOR as the index; however, the strike rate of the embedded cap feature and the advance rate must each be based on the LIBOR with the same designated maturity. Members may choose any strike rate for the interest-rate cap feature. Capped Floaters are available in terms out to 20 years. Each interest rate period is equal to the term of the LIBOR and interest is calculated on an actual/360-day basis and is payable on each rate-reset date. Principal is due at maturity. Typically, Capped Floaters can be requested until 3:00 p.m. each business day and funds will be available two business days after the trade date. Capped Floaters have a \$2 million minimum but smaller requests may be available in special offerings conducted by the Bank from time to time.

Additional Characteristics

The starting rate of the advance is quoted as a spread to the LIBOR index and includes the cost of the embedded interest-rate cap feature. This spread is fixed for the term of the advance and includes both the cost of the term funding and the cost of the embedded interest -rate cap feature. For example, if the cost of the advance is three-month LIBOR plus 40 basis points, then the maximum lifetime advance rate would be the strike rate of the embedded interest-rate cap plus 40 basis points. Members should understand that if the index fails to reach the strike rate during the life of the advance, then none of the cap premium would be recovered.

The initial LIBOR setting is based off the specific index rate, two days prior to disbursement. As an example, if a member calls on Monday for a two-year Capped Floater adjusting to one-month LIBOR, it will disburse on Wednesday, and the LIBOR fixing for the first period will be set off Monday’s one-month LIBOR rate plus the fixed spread. The interest rate on a Capped Floater will adjust on the anniversary date of its disbursement (monthly or quarterly) if it is a Boston Banking Day. If the date is not a Boston Banking Day, the interest rate on the advance will adjust on the next Boston Banking Day. The LIBOR rate for each reset date will be based off a two-day look back period, i.e. the Federal Home Loan Bank of Boston (the “Bank”) will use the LIBOR rate two days prior to each reset date plus the fixed spread. If you would like to find out more about Capped Floaters or have additional

questions, please call the Money Desk at 800-357-3452.

Members can borrow a Capped Floater up to the maximum of their available collateral subject to credit approval by the Bank. Members may have to purchase additional activity capital stock in some cases. The activity based stock capitalization requirement on a Capped Floater is 4.5 percent.

The advance can be prepaid on any rate-reset date with two business days prior notice. However, in the event the advance is prepaid, the member must pay termination costs, if any, to render the Bank indifferent to the member's decision to prepay, including the cost to the Bank to terminate its underlying embedded interest-rate cap contract, if any. If the proceeds from the termination to the Bank exceed the remaining amount that the member owes the Bank for the purchase of the embedded cap, no payment will be made to the member.

II. Uses

Members use Capped Floaters for a variety of reasons. Liability sensitive (exposed to rising rates) members use Capped Floaters to manage the interest-rate risk associated with holding fixed-rate loans on the balance sheet as rates rise. Members who are asset sensitive (exposed to falling rates) may choose a Capped Floater so that they can take advantage of lower advance rates as interest rates fall while maintaining some aspect of fixed-rate funding if rates rise. Still other members use Capped Floaters to fund LIBOR-indexed loan portfolios or mortgage-backed securities. Some members use Capped Floaters to fund their floating-rate Home Equity Lines of Credit since the spread should be relatively stable and might widen if the advance rate hits its cap before the asset. In general, the Capped Floater is a good tool for members to manage balance-sheet interest-rate sensitivity in either a rising or falling rate environment.

The Bank has onsite financial strategists who can help members best decide what type of funding meets their specific needs. If you would like a strategist to put together an analysis, please call the strategists at 800-357-3452 or via email at strategies@fhbboston.com.

A member should review the [Products and Solutions Guide](#) prior to taking an advance to understand the terms of the contract and the prepayment provisions.

This statement does not purport to disclose all of the risks and other material considerations associated with Capped Floaters. Members should not construe this disclosure statement as business, legal, tax, or accounting advice from the Bank. Members should consult with their own business, legal, tax, and accounting advisers with respect to the Capped Floater and should refrain from using a Capped Floater unless they have fully understood the terms and risks of the Capped Floater.