

## **Classic Advance Primer**

### **I. Product Information**

#### **Available Structures**

Classic advances (also referred to as bullet advances) are the primary advance product of the Federal Home Loan Bank of Boston (the “Bank”) and are available in terms out to 20 years. These advances contain no embedded options and have a fixed term and rate throughout the term of the advance. They are non-amortizing. Principal repayment is due at maturity. Typically these advances can be requested for same day disbursement until noon, and are available until 3:00 p.m. for next day disbursement. These advances accrue interest on an actual/360-day basis, payable on the second business day of each month. Members also have the option to pay interest at maturity for advances with terms of one year or less. In most instances, the advance rate will be higher for the interest at maturity option. Classic advances are prepayable in full or in part at any time, subject to a fee. Partial prepayments may be in amounts as small as \$100,000 and in intervals of \$100,000 thereafter.

#### **Additional Characteristics**

As stated above, Classic advances typically disburse either on the same day or the next day. Members can choose to enter into forward rate commitments, where they can lock in a rate at the then prevailing advance rate for a specified term, with a disbursement date of up to 2 years after the commitment date. If a member chooses to enter into a forward starting Classic advance, they will be charged a forward rate commitment premium that is added to the overall rate. As an example, a two-year bullet with a normal disbursement might have an interest rate of 5.62 percent. If the member chooses to lock in this rate to disburse one-year forward, the Bank, as an example, might charge a forward rate commitment premium of 25 basis points. The advance rate would then be 5.87 percent for the term of the loan (5.62 percent plus 25 basis points). The member would then have the option to disburse this advance at any time during this one-year period. The member is contractually required to disburse the advance once it has been locked in, although they may disburse it and immediately prepay.

Typically, the Bank will offer specials on certain short-term Classic advances (six months and under) on Tuesdays and Thursdays prior to 11:00 a.m. These opportunities give members a chance to take down Classic advances at levels lower than posted rates.

A member can borrow Classic advances up to the maximum of its available collateral subject to credit approval by the Bank. Members may have to purchase additional activity-based capital stock in some cases. The activity-based stock-investment requirement on Classic advances with original maturities between 2 days and 3 months is 4 percent while the activity-based stock-investment requirement on Classic advances with terms greater than 3 months is 4.5 percent.

## II. Uses of Classic Advances

Members use Classic advances for different reasons. Some members who are liability sensitive (exposed to rising interest rates) may choose to lock in long-term funding to hedge their long-term loans or investments. Other members who are asset sensitive (exposed to falling interest rates) may choose to borrow on a much shorter basis so that they can take advantage of declining interest rates. Other members use very short-term Classic advances to manage their short-term liquidity needs, which can be somewhat unpredictable and volatile. Other members may choose to use a mix of advances (both short-term and long-term) to simultaneously hedge against both rising and falling interest rates.

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](mailto:strategies@fhbboston.com).

A member should review the [Products and Solutions Guide](#) prior to taking an advance so as 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 Classic advances. 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 Classic advances and should refrain from entering into Classic Advances unless they have fully understood the terms and risks of Classic Advances.