

# Discount Note Auction-Indexed Advance Primer

## I. Product Information

### History

The Federal Home Loan Bank of Boston (the “Bank”) developed the Discount Note Auction-Indexed Advance (“DNA Floater”) to position its term floating-rate advances as its premier low-cost funding solution for members. The product was introduced in February 2006.

### Characteristics

The DNA Floater is a fixed-term, adjustable-rate advance similar to the Bank's LIBOR (London Interbank Offered Rate) Floating-Rate advance, using discount notes as the index, instead of LIBOR. Discount notes are short-term debt securities issued through the Federal Home Loan Banks' Office of Finance and are a principal funding source of the Bank. In effect, members are borrowing at the Bank's cost of funds plus a small spread. On Tuesdays and Thursdays the Office of Finance holds four- and 13-week Discount Note auctions and these results establish the index for the DNA Floater advance. A predetermined spread, locked in for the term of the DNA Floater, is added to the index to determine the advance rate. Members choose either four- or 13-week Discount Notes as the index for the DNA Floater advance, and the advance rate will adjust every four or 13 weeks based on the auction results on the rate-reset dates plus the predetermined spread. The DNA Floater is available with maturities out to 20 years, and is prepayable without fee on rate-reset dates, or with fee on non rate-reset dates, with two business-days prior notice. Partial prepayments may be in amounts as small as \$100,000 and in intervals of \$100,000 thereafter. Interest on the DNA Floater is calculated on an actual/360-day basis and is payable on rate-reset dates. Principal is due at maturity. The DNA Floater has a \$2 million minimum but smaller requests will be accommodated if possible.

### Representative Transaction

For example, a member might decide to borrow a four-week DNA Floater for a term of two years. On Tuesday or Thursday, the member would call the Money Desk at 800-357-3452 by 10:45 a.m. and place their order. The Money Desk is able to provide preliminary auction indications prior to 10:45 a.m., although the rate is not locked in at this point. The Office of Finance typically releases the auction results by 12:30 p.m. If the four-week discount notes price at 5.10 percent and the spread on the two-year DNA Floater were 10 basis points, the member's initial advance rate would be 5.20 percent (5.10 percent plus a 10 basis point spread) for the first 28 days. The 10 basis points spread over the discount note results is locked in for the term of the advance. The advance would disburse the next

business day, and 28 days after the auction the rate would reset based on the new auction results plus the spread. The rate adjustment would be effective one business day later. If you would like to find out more about the DNA Floater or have additional questions, please call the Money Desk.

A member can borrow DNA Floaters 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 DNA Floater is 4.5 percent.

Forward-rate commitments are not available for this product.

## II. Uses

Members use the DNA Floater for different reasons. Members who are asset sensitive (exposed to falling rates) may choose to borrow under the DNA Floater so that they can take advantage of falling interest rates. Asset sensitive members also use the product because it gives them the ability to prepay the advance without fee on rate-reset dates, should prepayments occur in their loan or investment portfolios. Other members who are uncertain of their liquidity needs use the DNA Floater because they can lock in a long-term funding commitment at short-term rates and still have the ability to prepay the advance without penalty on rate-reset dates if their liquidity needs change. Still other members use the DNA Floater to fund loan portfolios and LIBOR-indexed mortgage-backed securities since there historically has been a strong correlation between discount notes and LIBOR. Other members use the DNA Floater to fund their HELOC portfolios. In general, the DNA Floater is a good source of low-cost funding, allows members to lock in spreads for a long term, and is very competitive with other funding alternatives.

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@fhlbboston.com](mailto:strategies@fhlbboston.com).

A member should review the [Products and Solutions Guide](#) prior to taking a DNA Floater 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 DNA Floater 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 DNA Floater advances and should refrain from using the DNA Floater advance unless they have fully understood the terms and risks of the advance.

To view charts showing the historical relationship between discount notes and LIBOR, click the following link to bring you to the FHLB Boston website:

## [Historical Charts DN Auction vs LIBOR](#)

The charts are for illustrative purposes only and are not intended to be an indication of future interest rate trends associated with discount notes or LIBOR or the future spread relationship between them.