

Expander Advance Primer

I. Product Information

Characteristics

The Expander advance is a fixed-term, fixed-rate, non-amortizing advance where the member has a one-time opportunity (“European expansion option”) to increase the principal amount of the advance by 100 percent (all or nothing) of the original amount, at the original interest rate, for the remaining term of the advance. On the agreed upon expansion date, the member has a one-time option to borrow from the Federal Home Loan Bank (the “Bank”), an additional amount, equal to the original advance amount, with the same provisions as specified for the original advance amount. If the member desires to exercise this expansion option, they must notify the Bank by noon, three Boston Business Days prior to the expansion date. Although the member has the right to exercise the expansion option on the expansion date, the member is not required to exercise the option. It is up to the discretion of the member to determine if it is in their best interest to exercise the option.

The Expander advance is available with final maturities up to 20 years. The expansion date can be between one and 10 years from the original disbursement date. It is up to the member to choose the final maturity and the expansion date. Principal repayment is due at maturity. Expander advances are charged interest on an actual/360-day basis, payable on the second Boston Business Day of each month. Typically, Expander advances can be requested until noon for spot disbursement (two New York business days). The Expander advance has a \$2 million minimum, but smaller amounts may be aggregated during special offerings conducted by the Bank from time to time.

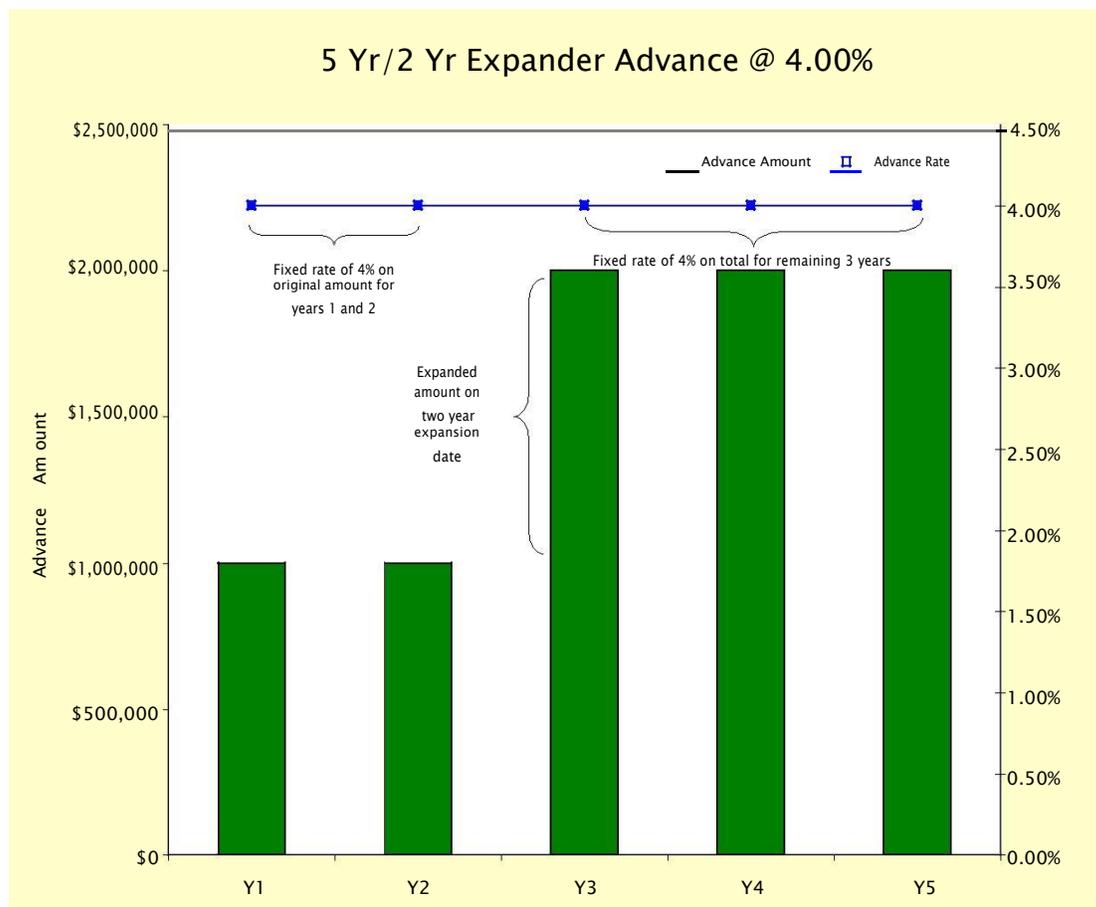
The Expander advance is prepayable in whole, but not in part, prior to the expansion date. On or after the expansion date, the advance may be prepaid in whole or in part. Any prepayment requires that the member provides the Bank with notice of prepayment by noon, two Boston Business Days prior to the date of prepayment. A prepayment fee will be assessed equal to the present value of lost cash flows for the remaining life of the advance. The discount rate is the “current yield of Federal Home Loan Bank securities” of the same maturity as that remaining on the advance. The prepayment fee will also include any termination costs that the Bank may incur. Partial prepayments post expansion may be in amounts as small as \$100,000 and in intervals of \$100,000 thereafter. Please see the Advance Confirmation for further details.

How it Works¹

As an example, assume that a member executes a 5 year/2 year Expander advance for \$1 million at 4.00 percent. The advance, with a five year maturity and a two year expansion option date, includes an “embedded expansion option” that allows the member, in its sole discretion, to increase the balance of the advance on the second anniversary date by \$1 million (100 percent of the original amount or nothing) at 4.00 percent for the remaining three year term (see graph below). As stated above, the member is not required to exercise the expansion option. If the member does not exercise its option, the member is not entitled

¹ The following chart is for indicative purposes only and is not representative of current pricing for the Expander advance.

to receive the cash value, if any, for the unexercised option. If the member decides to exercise the expansion option, the expansion amount must be equal to 100 percent of the original advance amount. Since the expansion option is not automatic, the member must notify the Bank of its intention to exercise the expansion option by noon, three Boston Business Days prior to the expansion date. The Bank's obligation to fund the Expansion Amount on the Expansion Date is subject to compliance by the Member with the Bank's [Products and Solutions Guide](#) and the Bank's compliance with FHFA rules and regulations.



Uses

This advance may be attractive to members that hold fixed-rate residential mortgage loans and/or mortgage backed securities. Members generally portfolio mortgages with low credit risk and are attracted to the relatively high returns these assets have historically provided. However, funding these assets can be difficult because you don't know the cash flows of the portfolio. The portfolio will extend if rates rise and

homeowners are unable to “buy up” due to higher financing costs. Conversely, the life of the portfolio will shorten if rates fall and homeowners refinance. By using an Expander advance as part of your funding strategy, you could consider borrowing less than you normally would for a five year term. At the expansion date, you have the option to reevaluate your funding requirements. If rates have risen, and the portfolio is prepaying slower than projected, you may need additional funding and could exercise the option to expand the advance amount. On the other hand, if rates have fallen, you may have enough funding and could choose not to exercise the expansion option. By using an Expander advance, you can reduce the likelihood that you will be overfunded or underfunded. For additional flexibility, you could combine several different maturities with varied expansion dates in several different advances.

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 provide an analysis, please call Kevin Martin, Vice President, Member Financial Strategies, at 617-292-9644.

Please contact the Money Desk at 800- 357-3452 for the most up-to-date pricing on Expander advance structures that meet your funding objectives.

This statement does not purport to disclose all of the risks and other material considerations associated with Expander advances. Members should review the Products Policy prior to taking an Expander advance so as to understand the terms of the contract and the prepayment provisions. 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 Expander advances and should refrain from using an Expander unless they have fully understood the terms and risks of the advance.