

LIBOR-Indexed Advance Primer

I. Product Information

Characteristics

The LIBOR-Indexed advance (LIBOR Floater) is a LIBOR (London Interbank Offered Rate) floating-rate advance. 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 member can choose either one- or three-month LIBOR as the index. LIBOR 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, LIBOR Floaters can be requested until 1:00 p.m. each business day and funds will be available two business days after the trade date. LIBOR 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. This spread remains fixed for the term of the advance. Included in this spread is the cost of the term funding. As an example, if a member requests a two-year LIBOR floater adjusting to three-month LIBOR, the pricing might break out as follows: three month LIBOR plus 10 basis points; the 10 basis points representing the cost for the term funding.

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 LIBOR 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 or minus the fixed spread. The interest rate on a LIBOR 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 or minus the fixed spread. If you would like to find out more about LIBOR Floaters or have additional questions, please call the Money Desk at 800-357-3452.

Members can borrow a LIBOR Floater up to the maximum of their 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 capital stock requirement on a LIBOR Floater is 4.5 percent.

Prepayable in full or in part on reset date without fee, or at any other time, subject to a fee. Partial prepayments may be in amounts as small as \$100,000 and in intervals of \$100,000 thereafter.

In some cases, members can lock in forward-rate commitments on this product for periods of up to two years. Members will pay a premium for this forward-rate commitment.

II. Uses

Members use LIBOR Floaters for a variety of reasons. Members who are asset sensitive (exposed to falling rates) may choose a LIBOR Floater so that they can take advantage of lower advance rates as interest rates fall. Other members who are unsure of their liquidity needs use LIBOR Floaters because they can lock in long-term funding 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 LIBOR Floaters to fund LIBOR-indexed loan portfolios or mortgage-backed securities. Some members use LIBOR Floaters to fund their floating-rate Home Equity Lines of Credit since the spread might be relatively stable. In general, the LIBOR Floater is a good tool for members to manage balance-sheet interest rate sensitivity.

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](#) and the LIBOR Floater advance confirmation prior to taking a LIBOR Floater 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 LIBOR 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 LIBOR Floaters and should refrain from using a LIBOR Floater unless they have fully understood the terms and risks of the LIBOR Floater.