

Member-Option Advance Primer

I. Product Information

Available Structures

Final maturities of current offerings generally range out to 20 years with the advance being prepayable by the member after a lockout period of one to five years. The Federal Home Loan Bank of Boston (the Bank) typically offers “Bermudan” structures, prepayable by the member after the lockout period and then semi-annually thereafter. “European” structures, which are prepayable by the member without fee on a one-time basis after the lockout period are also available. Cancellation dates, whether Bermudan or European, are mutually agreed upon between the Bank and the member at the commencement of the Member-Option advance. A Member-Option advance with a 10-year maturity and a lockout period of one year is referred to as a 10-year non-put one-year advance (10/1). As the number of cancellation options embedded in the advance for a Bermudan structure increases, the advance rate will increase. A 10/1 advance would be priced higher than a 10/5 advance because the member is buying more cancellation options to put the advance back to the Bank without fee.

Uses

Members use the Member-Option advance for different reasons. Asset sensitive members use the product because it gives them the ability to prepay the advance without fee on certain predetermined cancellation dates. Partial prepayments may be in amounts as small as \$100,000 and in intervals of \$100,000 thereafter. The Member-Option advance may also help asset sensitive members mitigate prepayments in their loan or investment portfolios. Other members who are unsure of their liquidity needs use the Member-Option advance to lock in long-term funding and still have the ability to prepay the advance without penalty if their liquidity needs change in the future.

II. Risks Associated with the Member-Option Advance and other Considerations

The Member-Option advance involves the purchase of cancellation options from the Bank. When buying options, it is important to understand the inherent risks and evaluate them as part of the member’s entire balance sheet. When a member borrows a Member-Option advance they are buying insurance against either falling rates or excess liquidity on their balance sheet. Members pay for the price of this insurance in the cost of the overall advance rate. The advance rate of a Member-Option advance with a final maturity of five years will be greater than the advance rate of a five-year bullet because the member has purchased options to cancel the advance at certain times without fee. If rates decline, a member would not want to retain an advance with a rate higher than comparable market rates, because they could prepay the advance

without fee and take out a new advance at current (lower) market rates. If members have excess liquidity, they have the ability to prepay the advance without penalty on the agreed upon cancellation dates. Members should realize that the cancellation option may expire worthless, if rates rise and stay high throughout the life of the advance. The cancellation options are virtually worthless (in a higher rate environment) because the member would typically retain this below-market-rate Member-Option advance.

Members may have to purchase additional activity-based capital stock in some cases when they take a Member-Option advance. The activity-based capital stock requirement on a Member-Option advance is 4.5 percent.

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.

Member-Option advances require active management as interest rates change. Contact your Asset/Liability or financial advisor for strategies you could employ in different interest rate environments.

This statement does not purport to disclose all of the risks and other material considerations associated with the Member-Option advance. 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 Member-Option advance and should refrain from entering into the Member-Option advance unless they have fully understood the terms and risks of the Member-Option advance.