

# Solutions for the Current Rate Environment Federal Home Loan Bank of Boston Webinar

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This webinar is being recorded

**FHLBBoston**

This presentation does not purport to disclose all the risks of and other material considerations associated with structured advance products. Members should not construe this information as business, legal, tax, or accounting advice from the Bank. Members should consult with their own independent business, legal, tax, and accounting advisers with respect to the structured advance products and should refrain from entering into the advances unless they have fully understood the terms and risks of the advance products. This information does not constitute an offer to engage in any transaction.

# Agenda

- HLB-Option advance
- Knockout advance
- Upcoming special offerings
- Impact of dividend on borrowing costs

# HLB-Option Advance

- Fixed rate, nonamortizing advance
  - \$10 million minimum applies, but smaller amounts aggregated through special offerings
- Offered until 2:00 p.m. daily, disburses two Boston business days after the trade date
- Contains a puttable swap
  - Member sells FHLB Boston the option to cancel the advance prior to final maturity
  - Member receives a lower advance rate than on Classic advances of same final maturity

# HLB-Option Advance

- Members customize structure of advance
  - Final maturity – out to 20 years
  - Lockout period – three months to 10 years
  - Number and frequency of cancellation dates
    - Bermudan (quarterly, semi-annual, or annual)
    - European (1x at end of lockout)
- First opportunity to cancel advance is at the end of lockout period
- Generally:
  - rates  advance **cancelled**
  - rates  advance **extends**

# Knockout Advance

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# Knockout Advance

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  - Number and frequency of cancellation dates
    - Bermudan (quarterly, semi-annual, or annual)
    - European (1x at end of lockout)
- Ambiguity of the cancellation option is eliminated
  - Member chooses a “strike” rate on 3-month LIBOR
  - The advance will automatically be cancelled if LIBOR equals or exceeds the strike rate on a cancellation date
- First opportunity to cancel advance is at the end of lockout period

# HLB Option / Knockout Disclosure

A Federal Home Loan Bank of Boston  
**Special Offering**

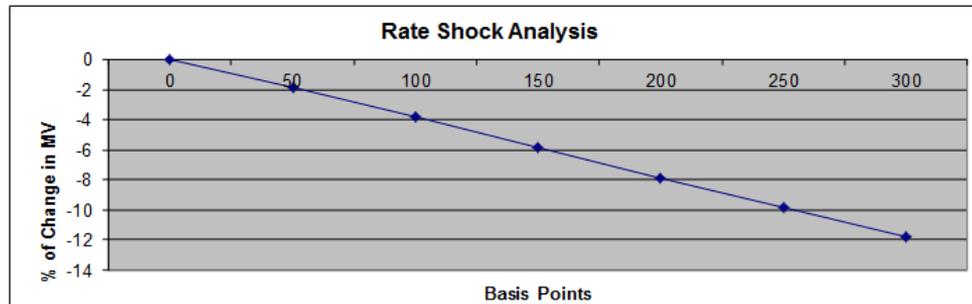
Friday, August 21, 2015

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## 5 Year / 2 Year HLB Option Advance Special

<b>Settle Date:</b>	August 25, 2015	<b>Call Date:</b>	August 25, 2017
<b>Call Frequency:</b>	Quarterly	<b>Maturity Date:</b>	August 25, 2020
<b>Rate:</b>	0.95%		
<b>Put Notification:</b>	4 Boston Business Days ( <i>in writing</i> )		

Because the HLB Option Advance is puttable (i.e. the Bank can shorten the maturity), there are interest rate and liquidity risks associated with it that are not associated with regular advances. Additionally, interest rate movements may cause a greater change in market value than would result from the same rate movements applied to non-puttable advances of similar maturity. The following rate shock analysis is provided solely to alert you to the market value risk attendant to the terms now being offered. This analysis forecasts probable changes in the market value of the advance based on immediate parallel shifts of +/- 300 bps in interest rates. This analysis is predicated on certain assumptions, and it is not intended to predict actual results. Moreover, the analysis is based on information the Bank obtained from external sources. The Bank cannot guarantee the accuracy or completeness of that information. The Bank is not a financial and investment advisor and you should independently review the merits, risks, and suitability for the HLB Option Advance for your institution's use. Prior to taking an HLB Option Advance, your financial institution should have established risk management and capital policies adequate to address independently the market value, accelerated maturity and liquidity risks of HLB Option Advances.



(1) Values less than par imply the advance is likely to be called.

(2) Since the advance is held by the member as a liability, positive price changes in the chart correspond to the advance having a negative impact on the member's estimated market value of portfolio equity (and vice versa).

Call the Money Desk  
1-800-357-3452

**FHLBoston**

# Pricing Indications

## ■ HLB-Option advance

- 10-Year / Five-Year: **2.02%**
- Seven-Year / Three-Year: **1.51%**
- Five-Year / Two-Year: **1.12%**

## ■ Knockout advance (*2.00% strike on 3mL*)

- 10-Year / Five-Year: **2.09%**
- Seven-Year / Three-Year: **1.58%**
- Five-Year / Two-Year: **1.30%**

*\*Indicative pricing as of 9/3/15*

*\*All structures priced as **quarterly** puttable*

# Upcoming Special

- Thursday, September 10, 2015 from 10:00 a.m. until 11:00 a.m.
- HLB-Option advance and Knockout advance
- Please contact the Money Desk 800-357-3452 with product/structure interest

# Increased Dividend and Impact on Borrowing Cost

- The Bank's board recently increased the dividend payout ratio from 150 to 300 basis points over average three-month LIBOR for the quarter
  - Most recent dividend was equal to an annual yield of 3.28 percent
- This reduces the overall cost of advances

	Financing Source for Stock Purchase			
ABSR	DCM <sup>1</sup>	1-Mo <sup>1</sup>	3-Mo <sup>1</sup>	5-Yr <sup>1</sup>
	0.33%	0.37%	0.49%	2.09%
3.00%	9 bp	9 bp	8 bp	3 bp
4.00%	12 bp	11 bp	11 bp	5 bp
4.50%	13 bp	13 bp	12 bp	5 bp

<sup>1</sup>All rates as of September 2, 2015



Questions?

Comments?