



Solutions for this Year's Interest-Rate Environment The Classic *Plus* Cap Advance

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FHLBBoston



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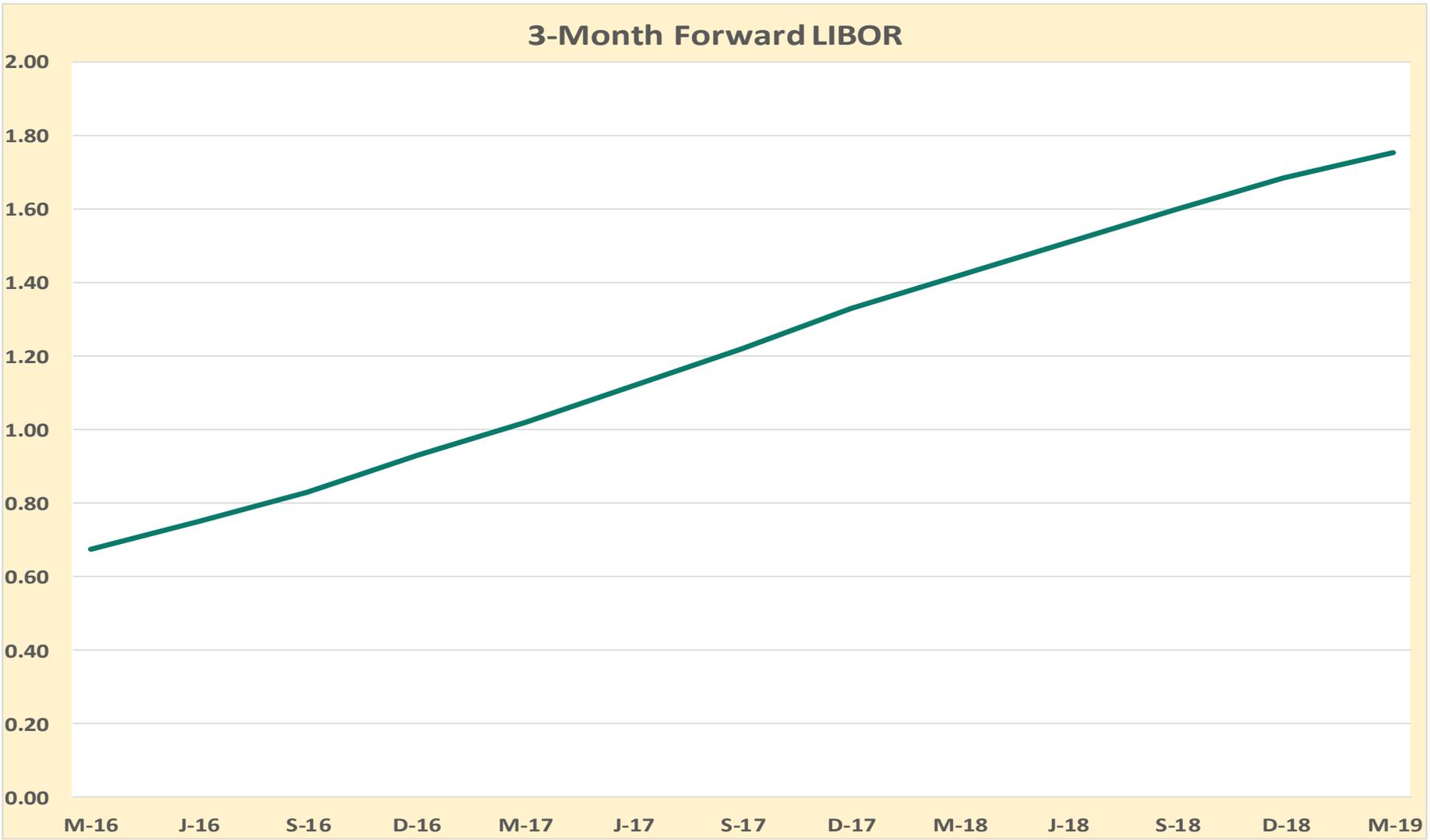
This information does not constitute an offer to engage in any transaction.

Environment

- Deposits at FDIC insured institutions have grown by a CAGR of 4.9% over the last eight years but has slowed to 4.27% over last two years
- Lower deposit rates have had little impact on volume
- Customers sought safety above rate
- In response to tighter margins, members reached out the yield curve for additional yield
- Then, late last year – after almost a decade on hold – the Federal Reserve raised its key interest rate by $\frac{1}{4}$ point
- Expect only gradual increases to be necessary for some time

Environment

- How will the “surge” deposits behave? Can you retain them? At what cost?
- Larger banks (nationwide) began to increase the concentration of CDs on their balance sheets; locking up long-term funding
- Many members are exposed to rising short-term interest rates
- Members need additional IRR protection on the long end
- The Classic *Plus* Cap advance can address both these exposures



Classic *Plus* Cap Advance - Characteristics

- Fixed-rate, Classic advance whose interest rate may periodically adjust below the initial rate if LIBOR exceeds the strike rate on the *embedded* interest-rate cap
 - Index generally 3-month LIBOR
- Premium of embedded cap is included in advance rate
- The advance rate will never exceed the initial rate
- If LIBOR exceeds the strike rate of the cap on a rate adjustment date then the advance rate will be reduced
- Advance rate can never be less than zero

Classic *Plus* Cap Advance - Characteristics

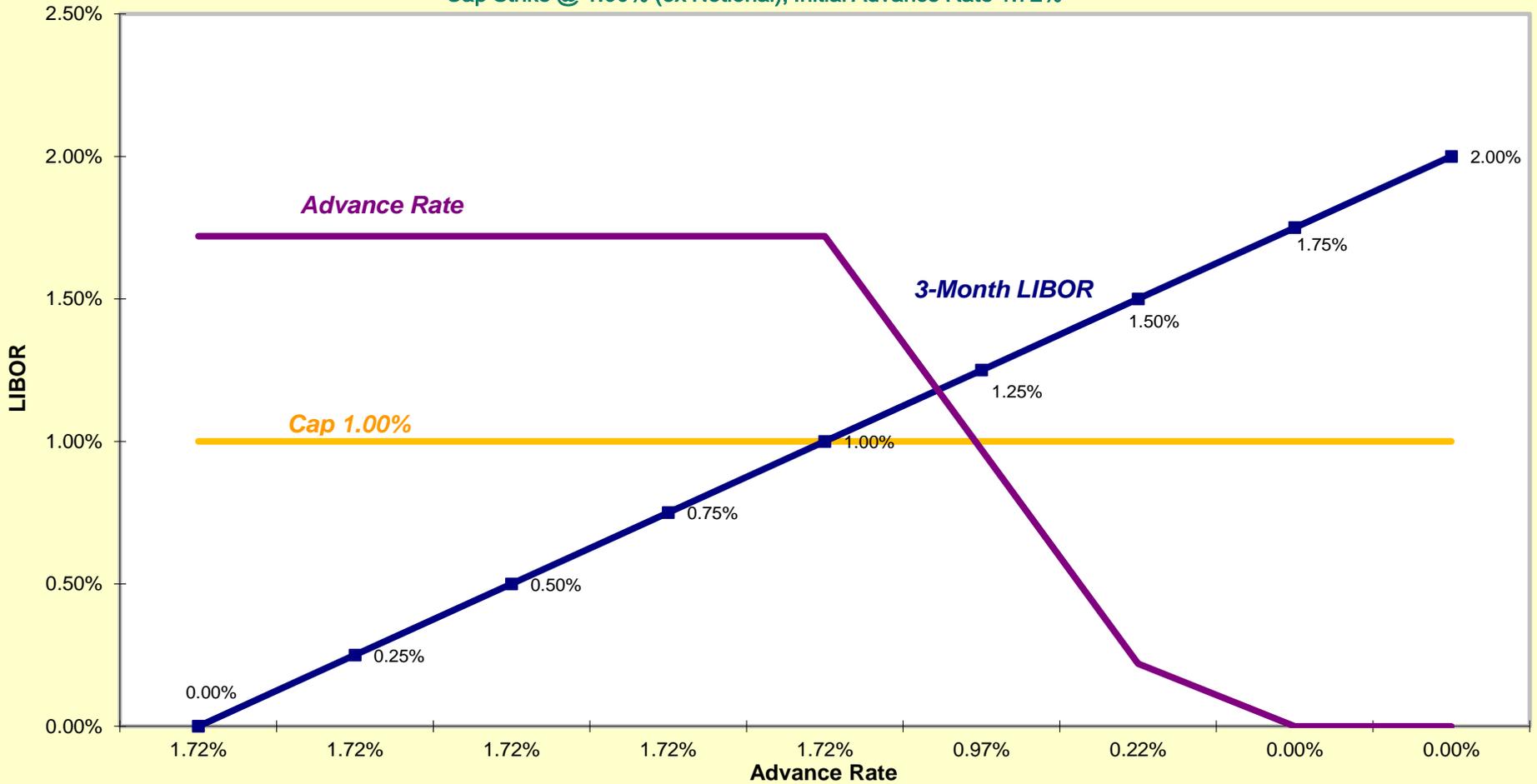
- Final maturities out to 20 years
- \$10 million minimum
- Customizable - members choose
 - Maturity
 - Strike rate and notional amount of embedded interest-rate cap
- Principal due at maturity
- Interest due on rate reset dates

Classic *Plus* Cap Advance – Rate Adjustment

- Cap is evaluated on rate adjustment dates
- If LIBOR exceeds the cap strike rate then advance rate is reduced
- Initial advance rate – [notional x (LIBOR – strike)]
 - 1.72% – [3 x (1.25% - 1.00%)
 - 1.72% – [3 x (0.25%)
 - 1.72% – [0.75%]
- Advance rate = 0.97% (in effect until next rate adjustment date)
- Advance rate can return to initial rate if cap goes from “in the money” to “out of the money”



Classic Plus Cap Advance 2-Years
Cap Strike @ 1.00% (3x Notional); Initial Advance Rate 1.72%



Embedded in the advance is a purchased, or "long" interest-rate cap. Indication is for illustration only. Indications can be obtained by calling the Money Desk at 800-357-3452.

Classic *Plus* Cap Advance – Strategies

- Classic advance component is hedge against rising interest rates
- Embedded cap hedges exposure to rising short-term interest rates
- Can be used to lever the amount of rising rate protection
- Spread on leverage transaction can widen if rates rise above cap

Classic *Plus* Cap Advance - Indications

Term	Notional Amt of Cap	Strike on 3mL	Advance Rate	Strike on 3mL	Advance Rate
2Y	1x	1.00%	1.47%	1.50%	1.35%
2Y	2x	1.00%	1.61%	1.50%	1.40%
2Y	3x	1.00%	1.72%	1.50%	1.43%
3Y	1x	1.00%	1.88%	1.50%	1.72%
3Y	2x	1.00%	2.13%	1.50%	1.83%
3Y	3x	1.00%	2.33%	1.50%	1.91%

As of Jan 28

3m LIBOR 0.61560%

2Y Classic 1.27%

3Y Classic 1.51%

Upcoming Special

- Friday, February 5, 2016 from 10 am until 11 am
- Aggregate of \$10 million

Call the *Money Desk*
1-800-357-3452
moneydesk@fhlbboston.com

Questions?

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