

The Knockout Advance

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This webinar is being recorded

FHLBBoston

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Today's Topics

- Review of HLB-Option Advance
- Knockout Advance – Differences From HLB-Option Advance
- Knockout Advance – Characteristics
- Knockout Advance – Indications
- Advance Renewal Discount Program

Review of HLB-Option Advance

- Fixed-rate, nonamortizing advance, containing a puttable swap
- Member sells FHLB Boston the option to cancel the advance prior to final maturity
- Cancellation option can be either:
 - Bermudan (quarterly, semi-annual, or annual) or
 - European (1x at end of lockout)
- First opportunity to cancel advance is at the end of lockout period
- Generally:
 - rates  advance cancelled
 - rates  advance extended
- Member receives a lower advance rate than on bullet advances of same final maturity

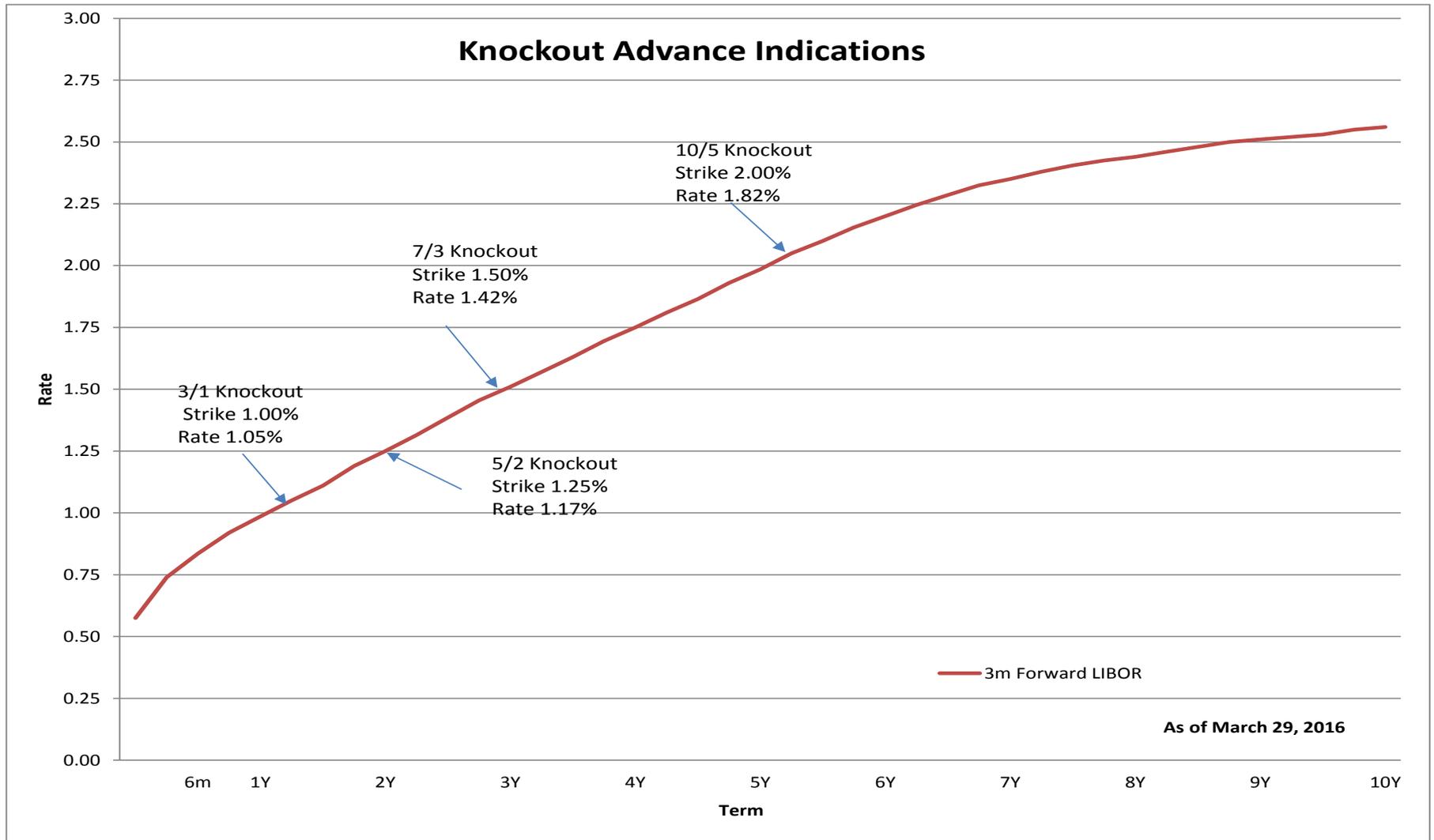
Knockout Advance – Difference From HLB–Option Advance

- Members wanted a clearer understanding of determining when/if their HLB-Option advances would be cancelled
- FHLB Boston created the Knockout advance to address this concern
- The cancellation option is pre-determined at the time of trade
 - Tied to the level of 3-month LIBOR, four business days prior to a cancellation date
 - No more uncertainty as to whether the advance is cancelled or not

Knockout Advance – Characteristics

- Introduced in 2000
- Established a “Strike Rate” on 1- or 3-month LIBOR
- The Bank must automatically cancel the advance if LIBOR equals or exceeds the strike rate chosen by member, four London business days prior to a scheduled cancellation date
- Nonamortizing, fixed-term and rate advance
- Maturities out to 20 years; initial lockout periods from three months to 10 years
- Activity-based stock requirement of 4.50 percent of advance amount
- Advance can be structured with as little as one cancellation date or as frequently as monthly after the lockout period
- Disburses two business days after trade date
- Interest payable monthly on second Boston banking day of the month
- For the same structure, the more optionality you sell – the **LOWER** the advance rate

Knockout Advance – Indications



Discounted Opportunities

- Markdown Offering
 - Each Tuesday and Thursday
- Long-Term Bullets
 - Terms from one- to ten-years
- Structured Specials
 - Flipper
 - HLB Option
 - Classic plus Cap
 - Knockout

Advance Renewal Discount Program

- Rolled out in September 2015
 - *34 members – 72 loans - \$548 million*
- Members can receive an automatic discount if they roll a maturing advance into a new advance if:
 - New advance is a classic advance of one year or longer in maturity
 - New advance is at least 50% of the maturing advance amount and a minimum of \$1 million
 - Member calls two days in advance of maturity to book the new advance
- Discounts
 - **3 basis points** for new advance with a maturity of one year to under two years
 - **8 basis points** for new advance with a maturity of two years or greater

Upcoming Knockout Advance Special

- Friday, April 1, 2016, from 10 until 11 am
- Aggregate of \$10 million

Call the *Money Desk*
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Questions?