

## **Excess Stock Repurchase Program Overview**

### **Introduction**

The Federal Home Loan Bank of Boston (the Bank) has established the Excess Stock Repurchase Program (ESRP) under which management, in its discretion, is authorized to periodically repurchase a portion of members' excess capital stock.

### **Background**

To ensure that the Bank's regulatory minimum capital requirements are met, the Bank's Capital Plan requires each member to own stock in an amount equal to its membership stock investment requirement and the member's activity-based stock investment requirement. These minimum stock requirements must be maintained by each member at all times and are adjusted higher for any increase in the level of the member's outstanding activity with the Bank. The amount by which the member's balance of capital stock exceeds its total stock investment requirement (TSIR) is referred to as "excess stock."

It is the Bank's general view that when the Bank's investment alternatives cannot support its return objectives, excess stock should be returned to shareholders. For this reason, management has implemented a program that would provide a structure in which: 1) members may voluntarily request repurchase of excess stock from the Bank, subject to the Bank's discretion and to a short response time, and 2) to the extent that leverage needs cannot be met otherwise, the Bank may unilaterally effect stock repurchases from members.

Without regard to the ESRP, members who hold shares in excess of their TSIR may submit written requests for the Bank to repurchase excess stock at any time (see Appendix A.). The Bank, in its sole discretion, can approve these requests, in whole or in part, based on an assessment of the Bank's business interests and its current and projected capital position. Any request will be reviewed upon receipt and the decision will be communicated to the requesting member. The Bank intends to exercise its discretion with respect to any such repurchases fairly. Please note that voluntary repurchase requests are not the same as redemption requests, which require a five-year notice period.

### **Program Operation**

Bank-Generated Repurchases under the ESRP: On a monthly basis, management will determine available capital required to support incremental activity and determine the efficacy of a stock repurchase. This will enable the Bank to effectively serve the dual mandate of asset growth while ensuring appropriate returns. Although in some months management may decide not to exercise its discretion to initiate repurchases under the ESRP, in the event that management deems a Bank-generated repurchase necessary, the following steps will be undertaken:

On or about the fifth calendar day of the month (or preceding business day, if a weekend or holiday):

1. The Bank will have determined the amount of total capital consistent with the current strategic business objectives. Throughout this document, this targeted amount will be referred to as the targeted capital balance.
2. If, after considering the effect of pending stock repurchases, the Bank's total capital is greater than the targeted capital balance, the Bank will designate the difference as the targeted repurchase amount.
3. The Bank will then calculate the amount of excess stock that each member holds, as well as the ratio of each member's balance of capital stock to its TSIR, called its excess capital stock ratio. For example, a member with a balance of capital stock in the amount of \$1 million with a TSIR of \$800,000 would have an excess capital stock ratio of 1.25.
4. The Bank will then rank the membership in descending order of excess capital stock ratios. From this ranking, the Bank will determine a maximum excess capital stock ratio at which the targeted repurchase amount is satisfied.
5. The Bank will then provide written notification to all affected members of the estimated amount to be repurchased from each member for each to meet the targeted maximum excess capital stock ratio. The notification will explain that the amount to be repurchased is subject to reduction or elimination based on changes to the member's TSIR, repurchases or redemptions of shares held by other institutions, and potential regulatory restrictions applicable to the Bank. It will also allow the member, at its discretion, to waive the 15-day notification requirement. In no event would the amount to be repurchased from a given member increase above the maximum amount identified by the Bank at the time of written notification. The Bank will not repurchase any excess capital stock that would result in a member's capital stock balance being less than the member's TSIR plus \$200,000.00.
6. On the repurchase settlement date, which will generally be either the seventh or twentieth day of the month, or the next business day if a weekend or holiday, the Bank will recalculate the TSIR of the members who were given notice of the Bank's intent to repurchase excess shares. Changes in a member's capital stock balance and/or TSIR, repurchases or redemptions of shares held by other institutions, and potential regulatory restrictions may result in a reduction or elimination in what is actually swept from the member's account on the repurchase settlement date. The recalculation will never result in sweeping an amount greater than the maximum amount communicated.
7. The Bank will then provide written notification either through FHLB Direct or by written notice to all affected members of the final amount to be repurchased from each member in accordance with the ESRP. The amount of shares to be repurchased will be rounded down to the nearest whole share.

## Appendix A – Excess Stock Repurchase Request

[DATE]

Rachele McDonough  
Vice President of Bank Operations  
Federal Home Loan Bank of Boston  
111 Huntington Avenue, 24<sup>th</sup> Floor  
Boston, MA 02199-7614

Re: Request for the Federal Home Loan Bank of Boston (the Bank) to Repurchase  
Class B Shares Held in Excess of Total Stock Investment Requirement

Dear Rachele McDonough:

As a duly authorized officer acting on behalf of {name of member institution, docket number} (the Institution), I hereby request that the Bank repurchase at a price of par (\$100 per share) \$ \_\_\_\_\_ or an amount of shares of Class B Stock equal to \_\_\_\_ percent of the Institution's holdings of Class B Stock in excess of the Institution's total stock investment requirement rounded down to the next even \$100 increment.

I understand that the Bank may repurchase all, some, or none of the requested excess shares in its sole discretion and subject to the limitations of §III.A.3 of the Bank's Capital Plan. I hereby waive the 15-day notice requirement contained in § III.A.2(a) of the Capital Plan. I also understand that all requests will be reviewed and responded to promptly by the Bank.

Sincerely,

{ name and title of authorizing officer }