

Classic Advance Primer

I. Product Information

Available Structures

Classic advances (also referred to as bullet advances) are the primary advance product of the Federal Home Loan Bank of Boston (the “Bank”) and are available in terms of two days to twenty years. These advances contain no embedded options and have a fixed term and rate throughout the term of the advance. They are non-amortizing. Principal repayment is due at maturity. Typically these advances can be requested for same day disbursement until noon, and are available until 3:00 p.m. for next day disbursement. These advances accrue interest on an actual/360-day basis, payable on the second business day of each month. Members also have the option to pay interest at maturity for advances with terms of one year or less. In most instances, the advance rate will be higher for the interest at maturity option. Classic advances with original maturities of six months or less are not prepayable. Classic advances with original maturities of greater than six months are prepayable, subject to a fee.

Additional Characteristics

As stated above, Classic advances typically disburse either on the same day or the next day. Members can choose to enter into forward rate commitments, where they can lock in a rate at the then prevailing advance rate for a specified term, with a disbursement date of up to two years after the commitment date. If a member chooses to enter into a forward starting Classic advance, they will be charged a forward rate commitment premium that is added to the overall rate. As an example, a two-year bullet with a normal disbursement might have an interest rate of 5.62 percent. If the member chooses to lock in this rate to disburse one-year forward, the Bank, as an example, might charge a forward rate commitment premium of 25 basis points. The advance rate would then be 5.87 percent for the term of the loan (5.62 percent plus 25 basis points). The member would then have the option to disburse this advance at any time during this one-year period. The member is contractually required to disburse the advance once it has been locked in, although they may disburse it and prepay.

Under the Percentage of Assets Incentive Discount program (P.A.I.D.), the Bank automatically provides discounts on Classic advance products with at least a one-year maturity based on the member's percentage of advances to assets. The discount will range from zero basis points up to a maximum of three basis points (See the table below). Discounts are subject to the Banks Product’s Policy as amended from time to time.

If Your Advances-to-Assets Ratio Is:	Your Automatic Discount Will Be:
10 percent or more	1 basis point
15 percent or more	2 basis points
20 percent or more	3 basis points

Typically, the Bank will offer specials on certain short-term Classic advances (one year and under) on Tuesdays and Thursdays prior to 11:00 a.m. On alternating Wednesdays, the Bank usually offers either Classic advance auctions or specials. These opportunities give members a chance to take down Classic advances at levels lower than posted rates.

A member can borrow Classic advances up to the maximum of its available collateral subject to credit approval by the Bank. Members may have to purchase additional activity-based capital stock in some cases. The activity-based stock-investment requirement on Classic advances with original maturities between two days and three months is four percent while the activity-based stock-investment requirement on Classic advances with terms greater than three months is 4.5 percent.

II. Uses of Classic Advances

Members use Classic advances for different reasons. Some members who are liability sensitive (exposed to rising interest rates) may choose to lock in long-term funding to hedge their long-term loans or investments. Other members who are asset sensitive (exposed to falling interest rates) may choose to borrow on a much shorter basis so that they can take advantage of declining interest rates. Other members use very short-term Classic advances to manage their short-term liquidity needs, which can be somewhat unpredictable and volatile. Other members may choose to use a mix of advances (both short-term and long-term) to simultaneously hedge against both rising and falling interest rates.

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@fhlbboston.com.

A member should review the Products Policy and advance applications prior to taking an advance so as to understand the terms of the contract and the prepayment provisions.

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