Adjustable Rate Credit Advance with an Interest Rate Swap

In addition to providing a variety of funding products, FHLBank Atlanta offers shareholders access to stand alone derivatives, including interest rate swaps, caps, and floors at an attractive cost. Shareholders can use stand alone derivatives to manage interest rate risk. When used in conjunction with the Bank's advance products, derivatives can deliver longer duration and more flexibility in a shareholder's liability profile, while minimizing funding costs.

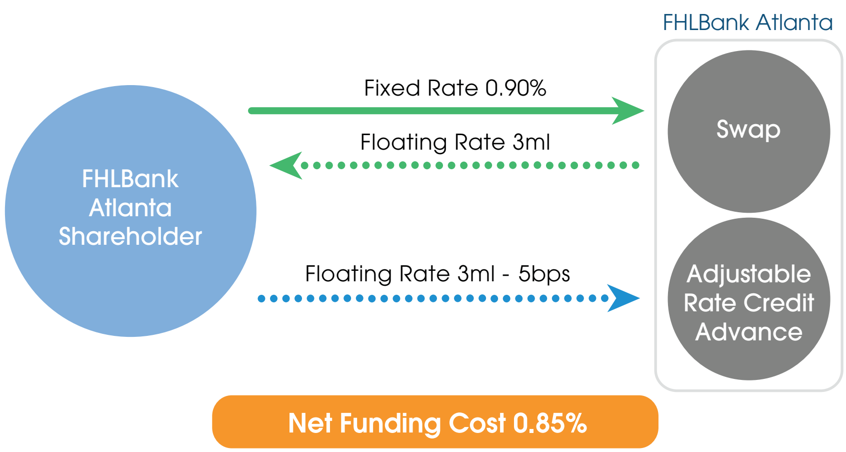
For example, a shareholder can pair a long-term pay fixed (receive floating) swap with a short-term variable-rate advance, such as the Adjustable Rate Credit (ARC) advance, to create lower cost long-term fixed-rate funding. The swap may act as a hedge to the advance. Additionally, any change in the market value of the swap may be permitted to flow through other comprehensive income on the balance sheet instead of earnings on the income statement. In a rising rate environment, the increasing market value on the swap may be used to offset negative mark-to-market changes in the available-for-sale securities portfolio.

Benefits of using a swap with a short-term ARC advance:

- Create a fixed-rate structure that can provide cost advantages compared to a standard fixed-rate advance
- Greater funding flexibility
- Potential ability to offset mark-to-market losses on an available-for-sale securities portfolio

The following example illustrates the mechanics of matching a 5-year pay fix swap with a 1-year ARC advance. The 1-year ARC is priced at 3-month LIBOR minus 5 basis points. In the swap transaction, the shareholder would pay FHLBank Atlanta a fixed rate of 0.90% and receive 3-month LIBOR. For the first year of the swap, the net payments would be equivalent to a fixed-rate advance at a rate of 0.85%. Following the first year of the advance, the indicative one-year spread to LIBOR is subject to change.

Adjustable Rate Credit with Interest Rate Swap



The cost of this structure compares favorably to a standard FHLBank Atlanta Fixed Rate Credit Hybrid advance. However, since a long-term swap is being paired with a shorter-term, variable-rate advance, the shareholder assumes a risk of where the 1-year ARC will be priced when the advance is rolled over. The average spread charged by FHLBank Atlanta on 12-month ARC advances over the last five years is minus 1 basis point. The average 5-year advance spread is 26 basis points.*

*The range of spreads on a 1-year ARC and 5-year ARC over the last five years was -47 basis points to 100 basis points and 4 basis points to 170 basis points, respectively. The high end of each range occurred in October 2008 during an extremely stressed period in the credit markets.

Adjustable Rate Credit Advance with an Interest Rate Swap

Maturity

- Minimum maturity of three to six months (depending on index); generally maturities of up to 10 years

Pricing

- For the ARC, the interest rate resets at specific intervals and is expressed as a spread to an index, typically LIBOR.
- Shareholder can choose one-month LIBOR (resets monthly) or three-month LIBOR (resets quarterly).
- The interest rate swap is priced at a spread to a specific index; pricing is negotiated on a case-by-case basis.

Funding

- Generally same day funding is available.

Interest

- For the ARC, interest is calculated on an actual/360 day basis, payable monthly or quarterly, depending on the index.
- For the swap, interest is calculated on an actual/360 day basis, payable or receivable as established in each individual contract.

Early Termination and Prepayment

- For the ARC, the prepayment fee is equal to the greater of 5 basis points per annum or the difference between the original spread to 3-month LIBOR on the advance and the current spread to 3-month LIBOR for a new ARC advance issued on the date of prepayment.
- The swap termination fee is based on the difference in market value between the terminated interest payment and the projected payment stream under the interest rate swap at the current yield until maturity.

Swap Collateral Requirements

- Remaining maturities less than one year: Market value of swap + 0 percent of outstanding notional principal of the swap.
- Remaining maturities between one and less than or equal to five year(s): Market value of swap + 0.5 percent of outstanding notional principal of the swap.
- Remaining maturities greater than five years: Market value of swap + 1.5 percent of outstanding notional principal of the swap.
- The notional component of any collateral requirement is not reduced by any market value in the borrower's favor.
- Application is subject to same credit underwriting standards as application for advances.

For rates and additional information, call the Funding Desk at 1.800.536.9650, extension 8011.