

# Principal Reducing Credit

FHLBank Atlanta's **Principal Reducing Credit (PRC)** advance is an amortizing advance that provides fixed-rate funds to the final maturity. The PRC advance applies predetermined principal reductions on specific dates. These reductions allow you to match fund loans and investments that have periodic principal repayments and to fund mortgage originations and the purchase of mortgage-backed securities.

You can structure a PRC advance with a cancellation option and gain flexibility to prepay the advance with no fee to match prepayment behavior of the loan pool. You can also add an interest rate cap or floor to provide margin protection in a rising-rate environment.

## Common Uses

- Hedge risk of long-term fixed-rate mortgages and non-callable amortizing securities, such as mortgage-backed securities

## Shareholder Benefits

- An amortizing advance more closely matches an amortizing loan or pool of loans
- Enhance balance sheet flexibility or interest-rate risk management with a cancellation option or interest rate cap or floor
- Improve fixed-rate loan pricing with known hedging costs at the inception of the loan

The basic form of a PRC advance is a fixed-rate advance with the ability to incorporate a principal reduction schedule. The reduction schedule is predetermined by the borrower and can be set for monthly, quarterly, semi-annual, or annual basis. The amortization can be set at straight line, mortgage style, or a custom reduction schedule. Other available options for the PRC structure include interest only and balloons.

### 15-year fully amortizing

**Principal:** \$1,000,000

**Loan Rate:** 3.50%

**Advance Rate:** 2.08%

**Spread:** 1.42%



# Principal Reducing Credit

## CALLABLE PRC

You can also structure a PRC advance with a cancellation option. In the event that the match-funded mortgage or mortgage pool prepays earlier than anticipated, the call option gives you flexibility to payoff the advance early with no prepayment fee. To maintain net interest margins, pass the cost of the call option to the borrower.

### 15-year fully amortizing

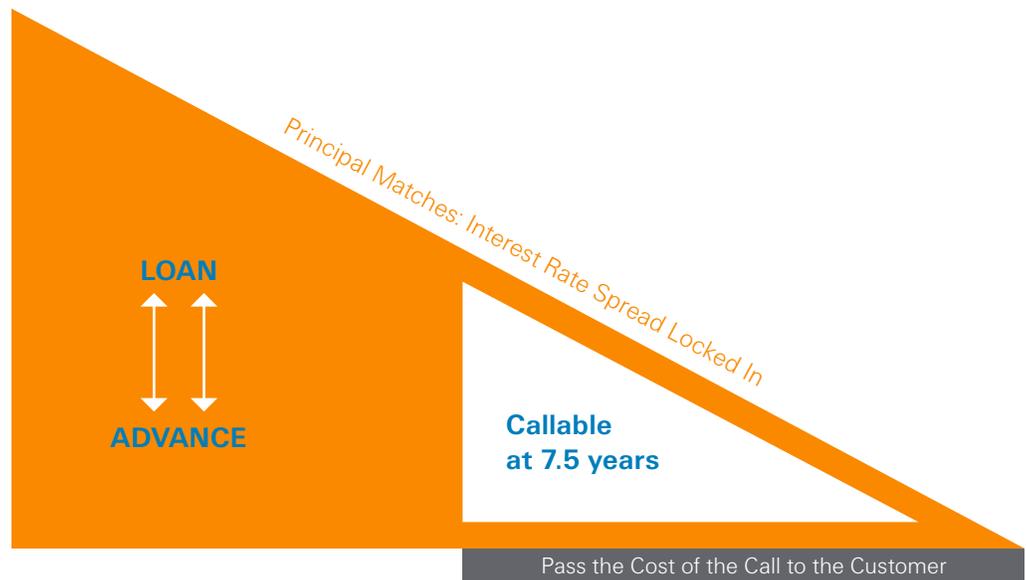
**Principal:** \$1,000,000

**Loan Rate:** 3.82%

**Advance Rate:** 2.40%

**Call Cost:** 0.32%

**Spread:** 1.42%



### Terms:

- **Maturity:** Generally maturities of up to 20 years, with amortization based on periods of up to 30 years. Longer maturities are subject to available funding.
- **Funding:** Funding is subject to availability and generally is available two Bank business days after the pricing date.
- **Reductions:** Generally available on a monthly, quarterly, semiannual, or annual basis and prorated over the remaining number of principal reductions from the initial reduction to final maturity, unless otherwise specified. Reductions are generally applied on the same day of the month as the funding date.
- **Prepayment Fee:** Generally prepayment is allowed provided the Bank receives notice by 3:00 p.m. ET on the previous Bank business day. Prepayment fee generally is equal to the Bank's cost of unwinding the transaction.
- **Interest:** Interest is payable on the reduction date. Interest is calculated on an actual/360 day basis.

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

The Federal Home Loan Bank of Atlanta is not a registered investment advisor. Nothing herein is an offer to sell or a solicitation of an offer to buy any securities or derivative products. You should consult your own legal, financial, and accounting advisors before entering into any transaction. All rates are for illustrative purposes only and indicative of the time this brochure was written.

