

Seattle Bank
Advance Products

Glossary
of Frequently Used
Financial Terms

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Seattle Bank Advance Products

Whether it's to boost liquidity, manage interest-rate risk, or keep up with loan demand, the Federal Home Loan Bank of Seattle has financial solutions to meet your needs. Our advance products are available in terms from overnight to 30 years and in fixed or variable rates, allowing you to choose the amount, structure, and terms to fit your institution's needs. Our Standby Letters of Credit can be issued for up to 10 years for most commercial purposes—and up to 20 years for housing finance. Our funding is readily available, and you'll benefit from our excellent credit rating with lower transaction costs.

	Product	Description	Application	Advantages
Fixed-Rate Advance	Cash Management Advance (CMA)	Revolving, open-note program	Overnight funding	No commitment fee; funding from your cooperative, not your competition
	Short-Term, Fixed-Rate Advance	Terms ranging from one week to one year	Risk management; deposit funding supplement	Auction rates available
	Intermediate/Long-Term, Fixed-Rate Advance	Terms ranging from one year to 30 years	Funding for fixed-rate loans and investments; ALM	Frequently competitive; at the margin; against term CD market
	Amortizing Advance	Straight-line or customized amortization	Matched funding for principal reductions of funded assets, including mortgages and MBS	Customizable and useful for matched funding of loans
Adjustable-Rate Advance	Adjustable-Rate Advance	LIBOR, prime, or Fed funds-based; floating or prespecified term	Funding for variable-rate loans, ARMs, LOCs, and investments	Fund with a long-term liability, while obtaining repayment flexibility and maintaining rate sensitivity
Structured Advance	Putable Advance	Subject to termination by the Seattle Bank on predetermined dates	Funding for specific assets; macro-funding of balance sheet; ALM	Lower rate in exchange for selling option(s) to terminate
	Knockout Advance	Putable advance that is cancelled immediately if LIBOR exceeds the strike price on certain dates	Same as putable advance	Predetermined assignment of specific underlying index to the put option
	Floating-to-Fixed Convertible (FFC) Advance	Floating-rate advance that flips to a fixed rate, unless the Seattle Bank cancels; a marriage of the putable and adjustable-rate advances	Macro balance sheet management	Sub-LIBOR pricing in exchange for selling the right to convert to a fixed rate on a predetermined date
	Returnable Advance	Advance that is returnable, or callable, at the option of the borrower, on predetermined dates	Funding for assets that are not subject to prepayment penalty; loan and investment portfolio management; liquidity management	Protect portfolio from accelerating prepayments; hedge loans lacking prepayment penalties
	Symmetrical Prepayment Advance	Prepayable advance with the contractual ability to realize a potential gain on the advance's intrinsic value	"Hedging" of mortgage portfolios and other fixed-rate assets, including loans and investments; balance sheet repositioning—with minimal expense	Monetize gains in market value of funding
	Capped Floater Advance	Adjustable-rate advance that is capped at a predetermined strike rate	Management of interest-rate risk; matched funding for capped floating-rate loans; funding for loans held in portfolio	Address potential dual-rate sensitivity; benefit from lower borrowing costs if interest rates decline
	Floored Floater Advance	Adjustable-rate advance that has a long position in an interest-rate floor	Management of interest-rate risk; matched funding for loans with short interest-rate floors; ALM management	"2 for 1" rate reduction if floor is "in the money"; natural hedge for declining interest rates
CIP/EDF Advances	Community Investment Program/Economic Development Fund Advances	Reduced-rate, intermediate, and long-term advances	Funding of qualifying affordable housing or economic development assets	Term financing at levels significantly less than standard posted advance rates; streamlined application process
Funding Guarantee	Forward Commitment Letter	Commitment letter to fund, at a specified rate, an advance to be drawn at a future date	Funding for construction loans and other forward-settlement assets	Guarantee of predetermined rate before actual funding
	Standby Letter of Credit (LOC)	Guarantee of additional collateral or credit	ALM; residential and community lending; liquidity	Leverage off current Aaa/AA+ rating; attract public deposits greater than FDIC ceiling

Glossary

Adjustable-Rate Advance – A floating-rate, fixed-term advance with a spread that remains constant over the life of the advance.

Advance – A secured loan made to a Seattle Bank member. Advances are offered at fixed or floating rates, with specific maturities or with embedded options for early redemption.

American Option – A put or call option in an advance structure that can be exercised anytime between the purchase date and the expiration date of the advance.

Amortization – The reduction of debt by regular, but not necessarily equal, payments of interest and principal sufficient to pay off an advance by maturity.

At-the-Money – At the current price; for example, an option with a strike price that is the same as the prevailing market price of the underlying financial instrument.

Auction-Funded Advance – An advance that is funded through a sale of short-term consolidated obligations or discount notes that are often at a lower rate of interest than short-term, fixed-rate advances.

Bermudan Option – A put or call option in an advance structure that can be exercised on a quarterly basis, commencing at the end of a predefined lockout period.

Blanket Lien – An agreement between the Seattle Bank and a member, in which the member pledges all eligible collateral (other than that specifically pledged to a third party) to secure all outstanding advances.

Bullet Rate Advance – A nonamortizing advance with a fixed rate and fixed term; the borrower pays interest on a monthly basis and repays the principal at maturity.

Capped Floater – An adjustable-rate advance that is capped at a predetermined strike rate.

CIP/EDF Advances – Reduced-rate advances for funding of qualifying affordable housing or economic development assets.

Collateral – An asset that secures a loan or other obligation.

Embedded Option – An option embedded in a debt instrument that affects its redemption or rate of interest.

European Option – A put or call option in an advance structure that can be exercised only once at the end of a predefined lock-out period.

FFC Advance – An advance that starts with a floating rate of interest that converts to a fixed rate of interest, unless the Seattle Bank exercises its option to cancel the facility; a combination of an adjustable-rate advance and a puttable advance.

Forward Rate Agreement (FRA) – An agreement that fixes the interest rate of an advance for a specified period of time.

Haircut – The difference between the actual market value of an asset and the amount that a lender is willing to loan against the asset.

Interest-Rate Cap – A contract that protects the buyer from increases in interest rates by requiring a payment to the buyer when an underlying reference interest rate exceeds a specified strike rate.

Interest-Rate Floor – A contract that protects the buyer from declines in interest rates by requiring a payment to the buyer when an underlying reference interest rate falls below a specified strike rate.

In-the-Money – An option with a strike price that is lower than the current market value (in the case of a call) or higher than the current market value (in the case of a put).

Intrinsic Value – The difference between the exercise price or strike price of an option and the market value of the underlying asset.

Knockout Advance – A puttable advance that is cancelled if LIBOR exceeds a prespecified strike price on set future dates.

Letter of Credit (LOC) – A document guaranteeing the payment of an institutions's obligations up to a stated amount for a specified period.

Lock-Out – The period of time during which prepayment is prohibited.

London Interbank Offered Rate (LIBOR) – The rate that the most creditworthy international banks dealing in Eurodollars charge each other for large loans.

Mark-to-Market – To calculate the value of a financial instrument or portfolio based on the current market rates.

Option – A right to buy or sell an underlying asset that is granted in exchange for an agreed-upon sum.

Out-of-the-Money – An option with a strike price that is higher than the current market value (in the case of a call) or lower than the current market value (in the case of a put).

Puttable Advance – A fixed-rate advance that offers the buyer a lower rate in exchange for selling the option to terminate on a designated date and after a specified lockout period.

Returnable Advance – An advance containing an option that gives the borrower or issuer the right to cancel the advance on a specified future date.

Symmetrical Prepayment Advance – A fixed-rate, floating-rate, or structured advance that allows the borrower to repay and potentially monetize the advance in response to market conditions.

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CO·OP·ER·A·TIVE:

an enterprise or organization owned by and operated
for the benefit of those using its services
