Liquidity & Funding Strategies for the Current Environment

FHLBank Boston
Strategic partnerships. Reliable funding.

March 28, 2024

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Presenters

Andrew Paolillo
Vice President, Director of Member Strategies + Solutions

Matt Stewart
Vice President, Director of Sales

Overview

- Funding Considerations
- Optimizing Collateral
- Mortgage Strategies
- Q&A

Community Investment Forums

FHLBank Boston will be hitting the road in April and May, hosting sessions to explore ways to better help you and your community going forward.

Leveraging Partnerships & Capital: Unlocking Barriers to Affordable Housing and Economic Development

Date	Location
April 2	Providence, RI
April 9	Springfield, MA
April 11	Portsmouth, NH
April 16	Manchester, VT
April 25	Hartford, CT
April 30	Newton, MA
May 2	Portland, ME
May 9	Lebanon, NH

Funding Considerations

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Is There Any Relief on the Horizon?

Conditions changed very quickly in 2020-21, and then again in 2022-23. Where do we go from here?

Core Deposit Growth

- Not just volume, but is it cost-effective and ALM-friendly?

Cash Flow From Existing Assets

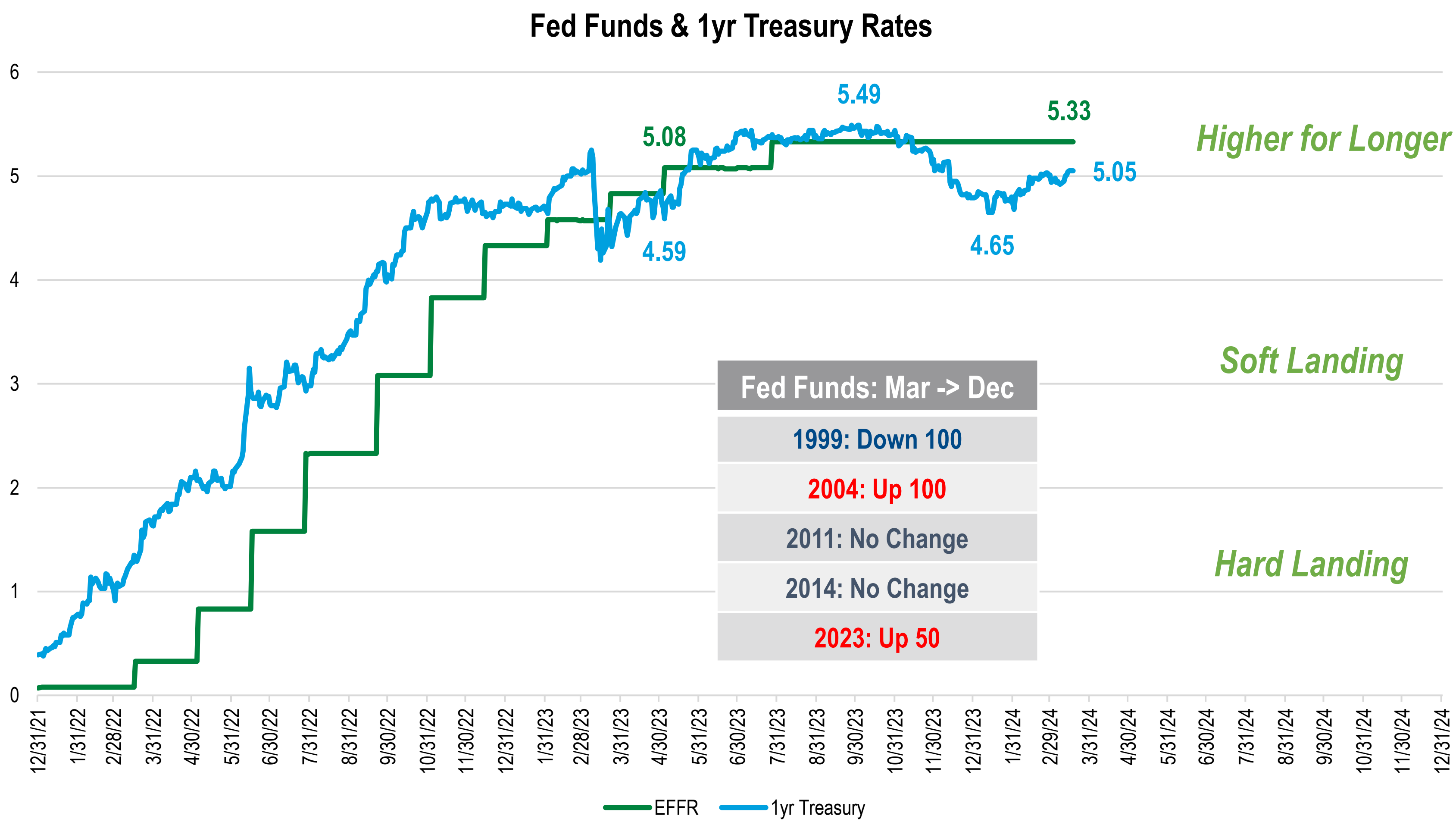
- Rate-path dependent and still a way to go to move the needle

New Asset Growth

- Slowing down- what combination of capital/liquidity/credit/spread/etc. challenges are the issue?

Timing, Direction & Magnitude

What do you think will happen? What is the balance sheet's pain point? What is the impact of different scenarios on earnings and the risk profile?

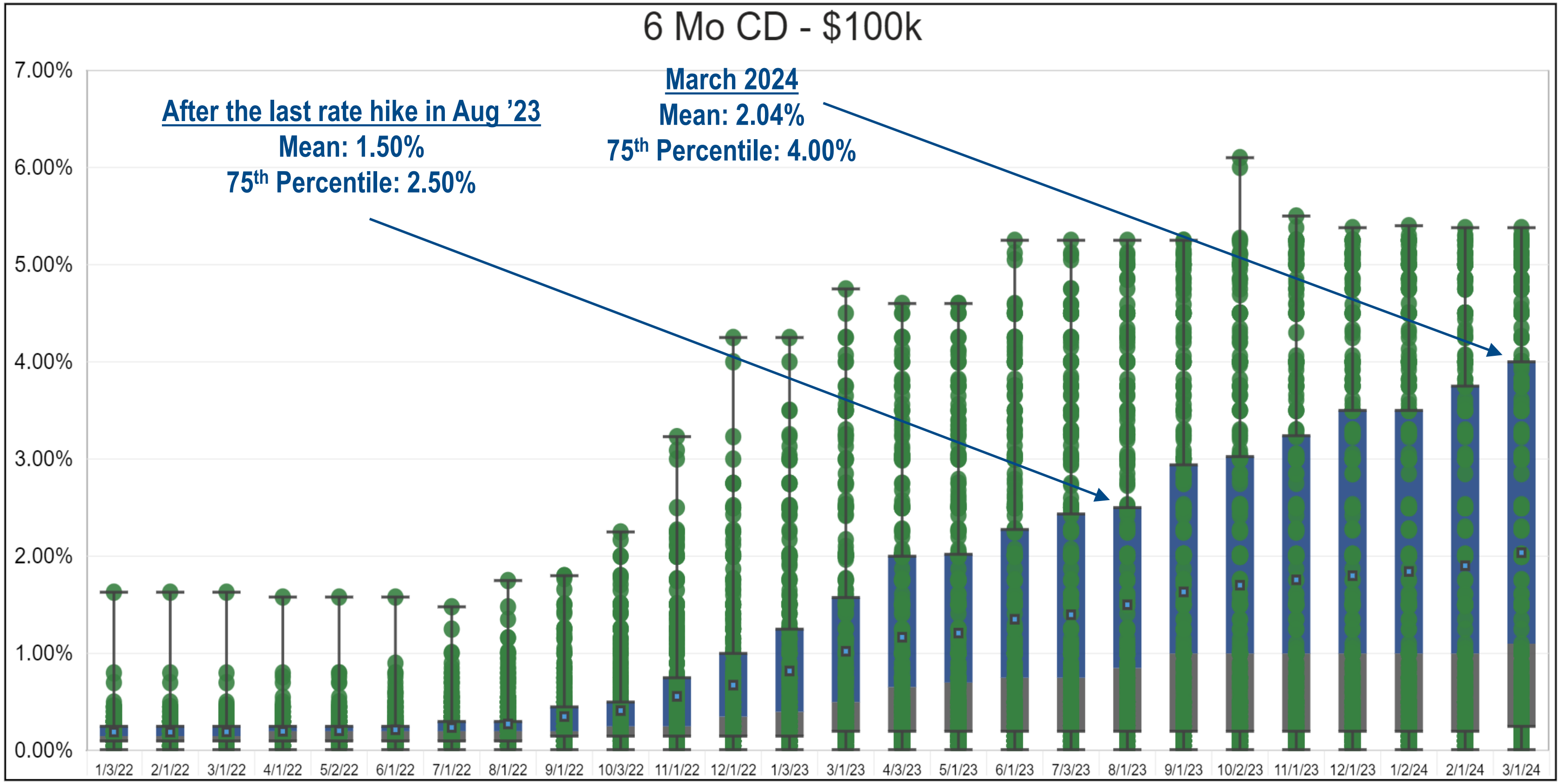


Fed Funds: Mar -> Dec
1999: Down 100
2004: Up 100
2011: No Change
2014: No Change
2023: Up 50

Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Pricing Pressure Persists

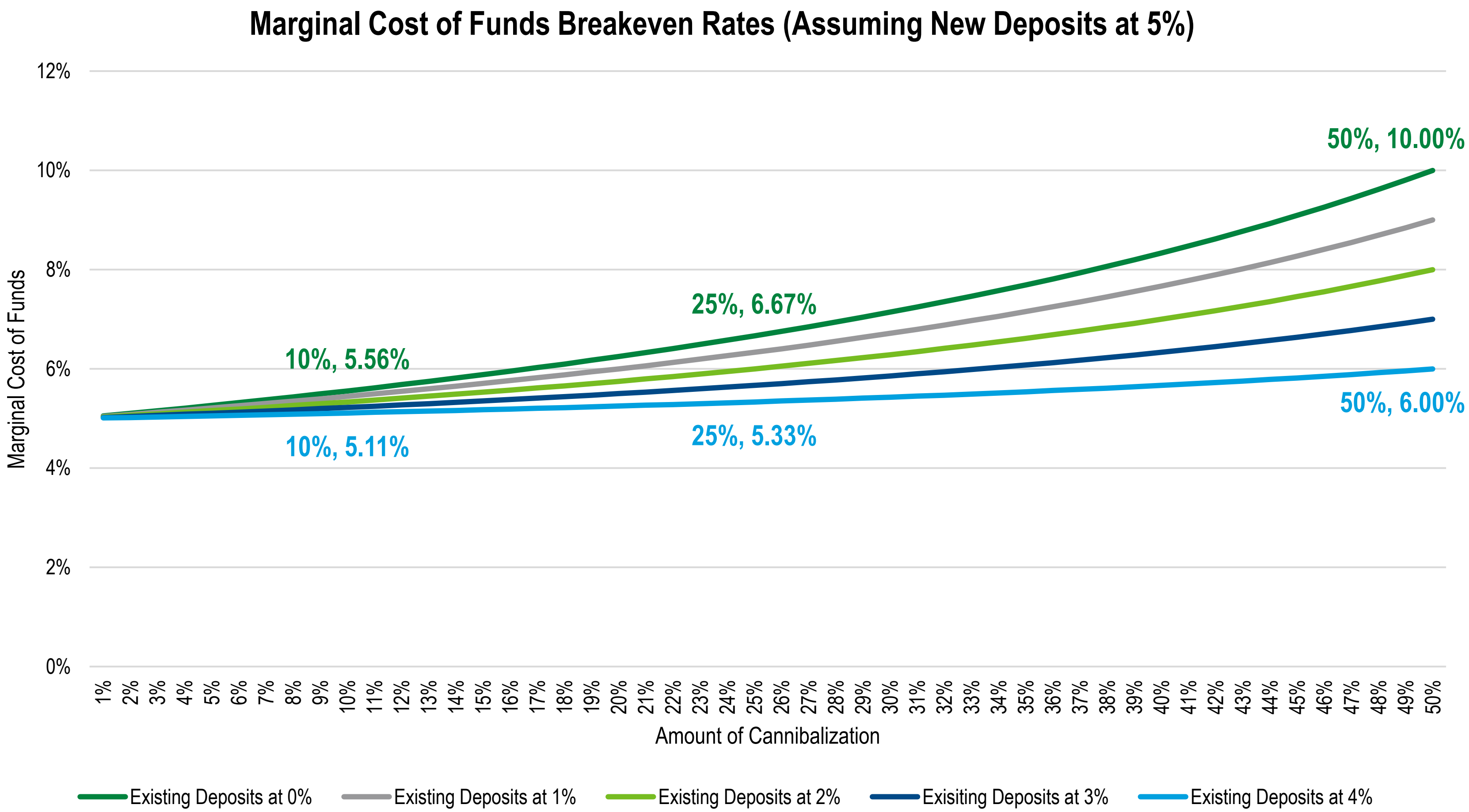
Posted offering rates continue to increase, and the level required to bring new deposits in the door is likely much higher.



Source: S&P Global, FHLBank Boston

Keeping Interest Expense in Check

Glass half full when cost of deposits is higher, it provides *some* additional wiggle room to withstand cannibalization and mix shift within deposits and have deposit specials remain economically favorable vs. turning to borrowings.



Source: FHLBank Boston

Deposit Strategies Pros and Cons

Challenges are all around when trying to retain, let alone grow, a cost-efficient, stable deposit base.

Shorter CD: ~5.50% for 5 months

- Expensive to wholesale, but potential for the maturity to align with an improved environment for liquidity and deposit gathering
- Because of short tenor and high cost, not much contribution to margin, IRR or liquidity metrics
- Is the target audience one product rate shoppers or multi-relationship customers? Is it motivated by trying to rein in certain metrics?

Longer CD: ~5% for 18 months

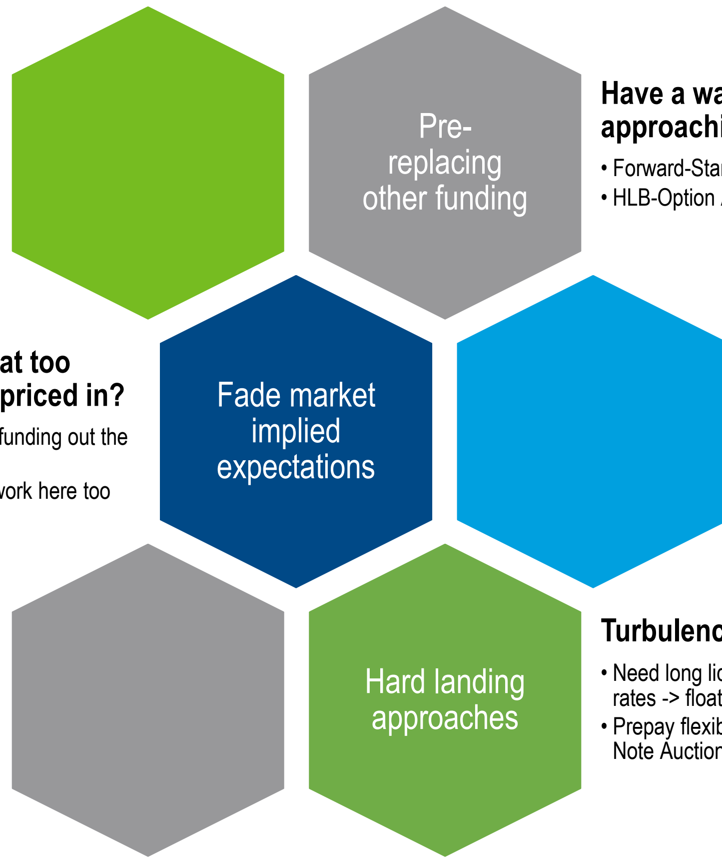
- Also rich to non-deposit funding, but longer tenor at least provides some benefit to liquidity and IRR
- Inverted yield curve provides some marketing challenges, as retail customers are most familiar with positively sloped curves
- Typically, not much natural demand for longer CD's, but highest nominal levels in a long time *could* entice some to extend out

Money Market: ~4.5% for 6 months

- What type of non-traditional features (teaser rates, no-cost withdrawals, minimums/limits) may appeal to your customer base?
- Execution and cannibalization/marginal cost is paramount here, given the use of a non-maturity deposit product type
- Easier said than done, but preserving value proposition other than rate is key

Advance Strategies for Different Rate Paths

The wide variety of solutions, as well as the ability to customize to your preferences, allows members to address the balance sheet characteristics you want to target.



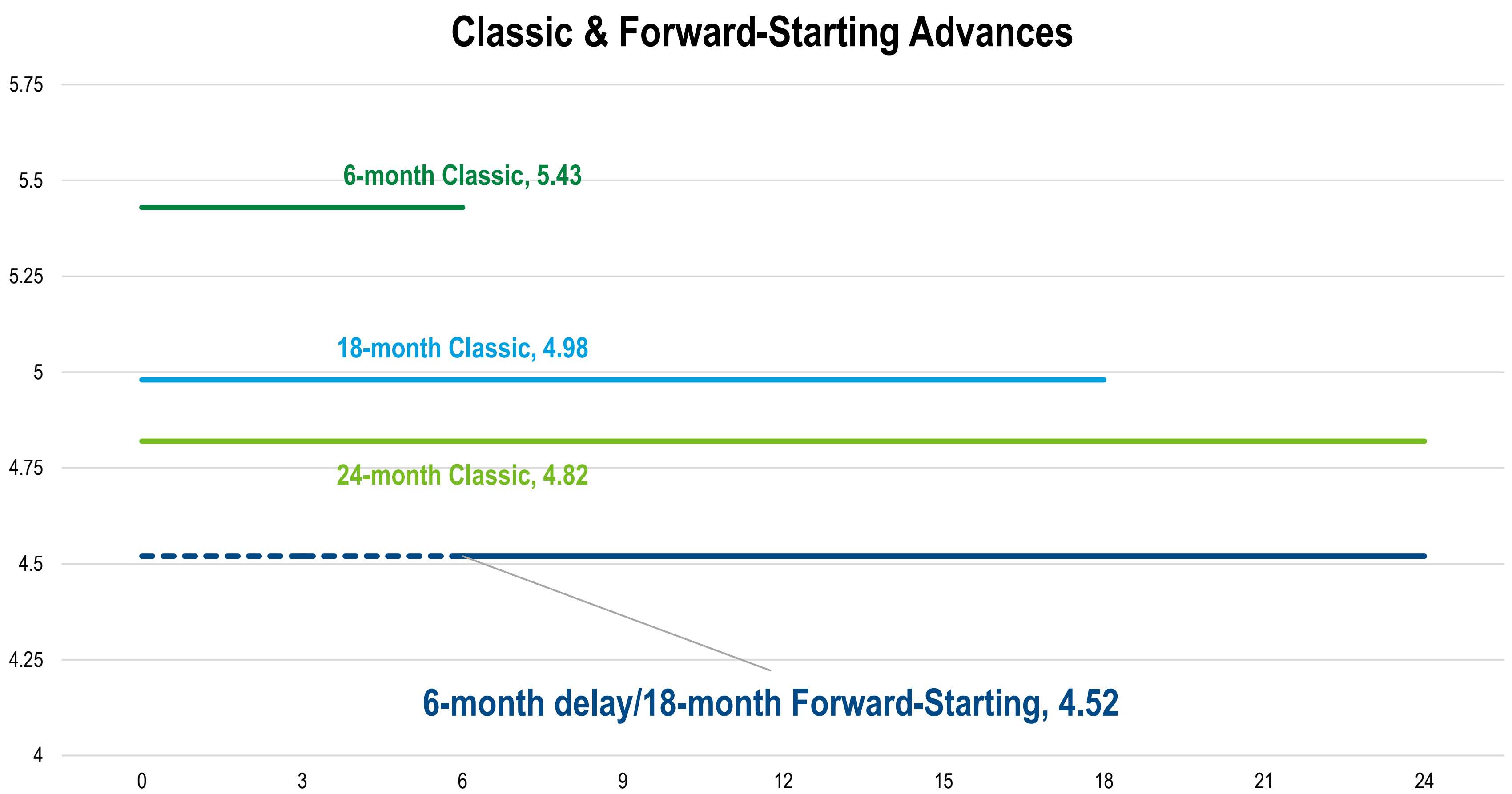
Have a wall of approaching maturities?
- Forward-Starting Advances
- HLB-Option Advances

Of the belief that too many cuts are priced in?
- Incrementally push funding out the curve
- HLB's & Forwards work here too

Turbulence ahead?
- Need long liquidity but want short rates -> floating-rate advances
- Prepay flexibility of the Discount Note Auction-Floater Advance

Forward-Starting Advances

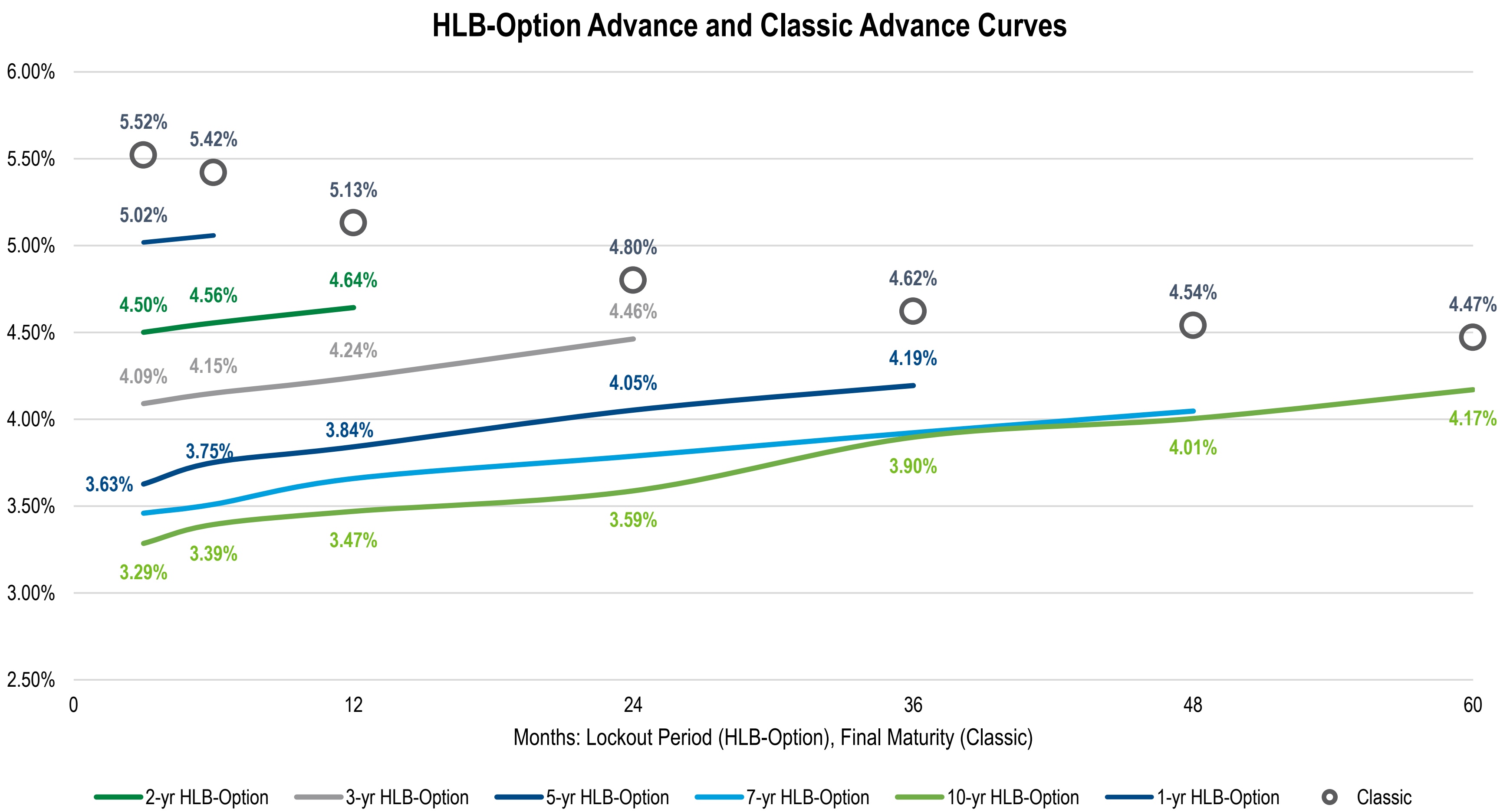
Price the advance based off today's yield curve conditions, benefiting with a lower rate thanks to the inversion, and delay the disbursement to align with the exact timeframe you want the funding to start and end.



Source: FHLBank Boston

HLB-Option Advances

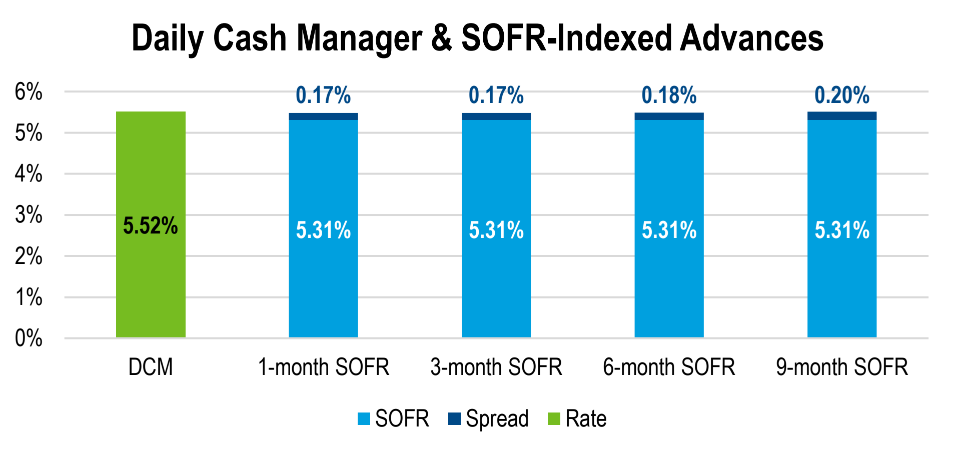
Interest-rate volatility remains high, and combined with yield curve inversion, opportunities (especially with shorter tenors) still exist to bring down funding costs.



Source: FHLBank Boston

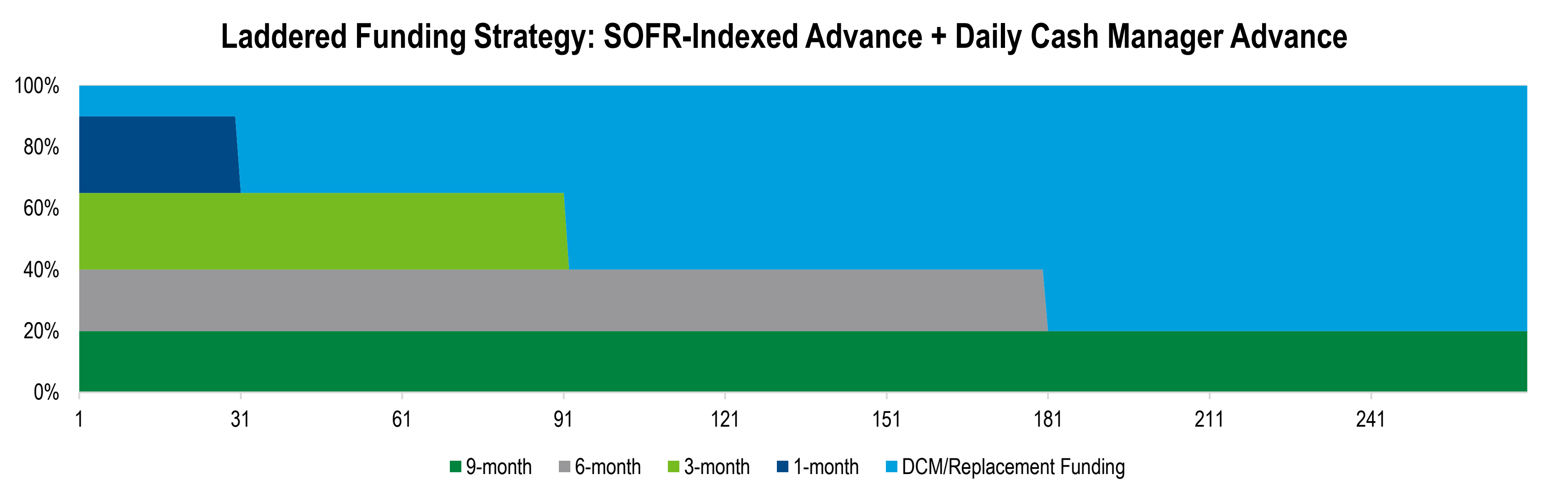
SOFR-Indexed Advances

Short-term rate exposure but with long-term liquidity protection.



Strategy Details

Strategy Details
Take a rolling DCM position and ladder out with the SOFR-Indexed Advance, retain a portion in DCM
Floating-rate exposure allows for benefits if rates decline faster than expected
Reduce spread risk that DCM rate may widen out in periods of market stress
Laddered maturities allow for flexibility to replace with deposits or term out as needed



Source: Federal Reserve Bank of New York, FHLBank Boston

Optimizing Collateral

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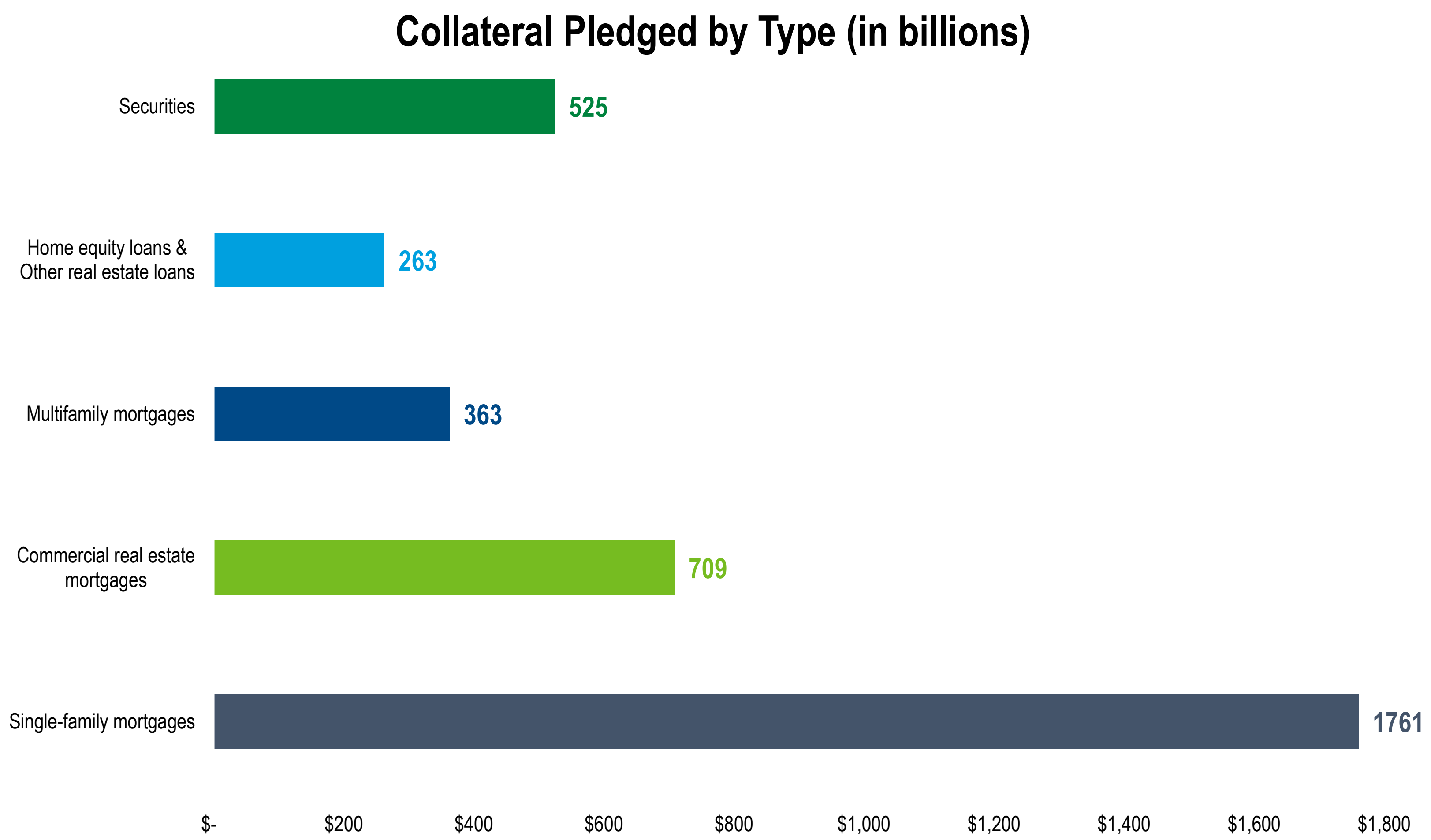
Collateral Overview

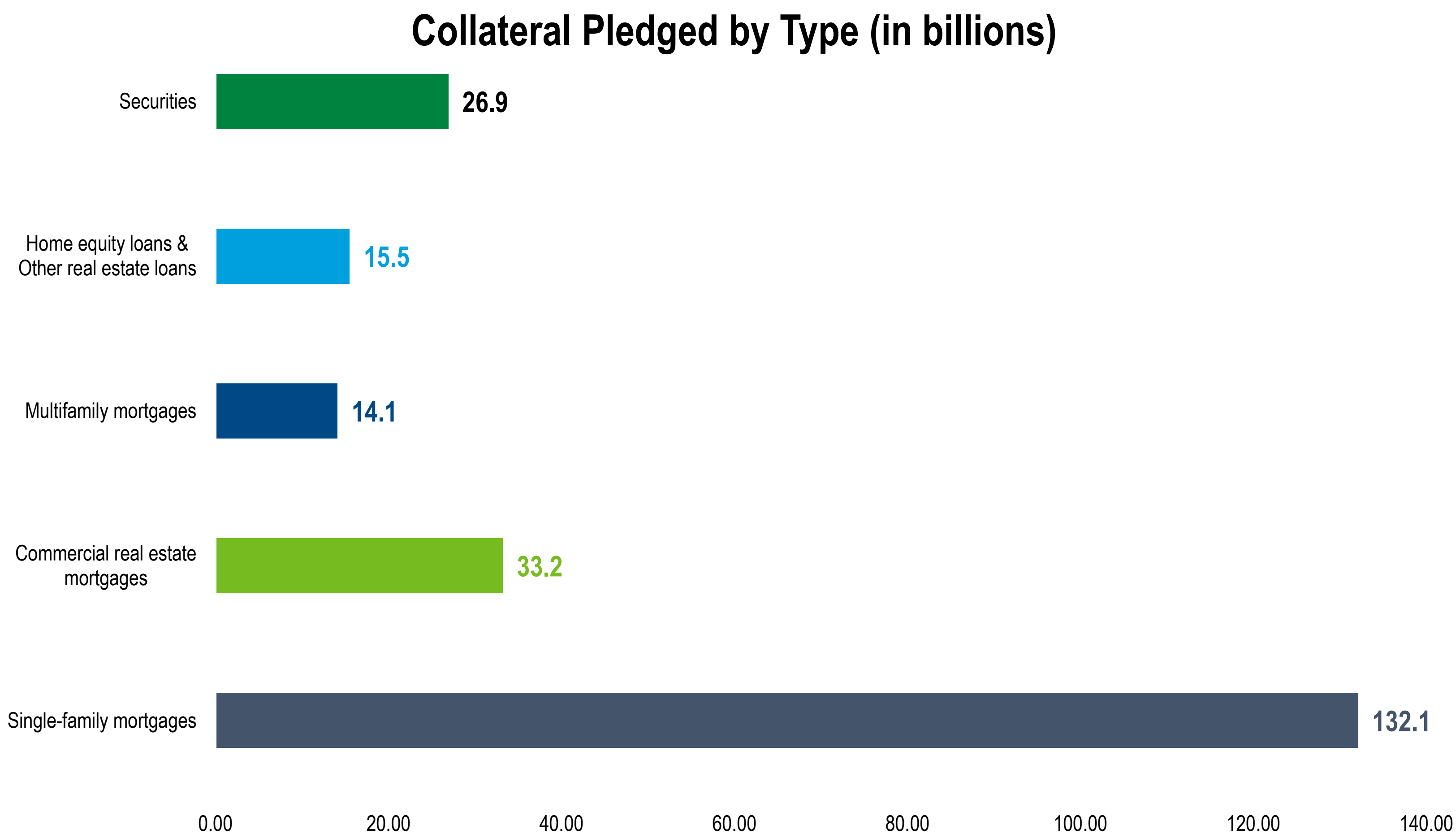
1-4 Family Residential	CRE + Multifamily	Securities	HELs
• Can use QCR (Qualified Collateral Report) • Typical haircut = **20%**	• Offices, stores, hotels, apartment buildings • Typical haircut = **25%-30%**	• Treasurys and Agencies • RMBS + CMBS, subject to eligibility • Munis, subject to eligibility • Haircuts range from **3% - 50%** depending on type, rating and maturity	• Lines drawn against home equity • Haircut = **50%**

Collateral Pledged to the FHLBank System



Source: Office of Finance, FHLBank Boston

Collateral Pledged to FHLBank Boston



Source: Office of Finance, FHLBank Boston

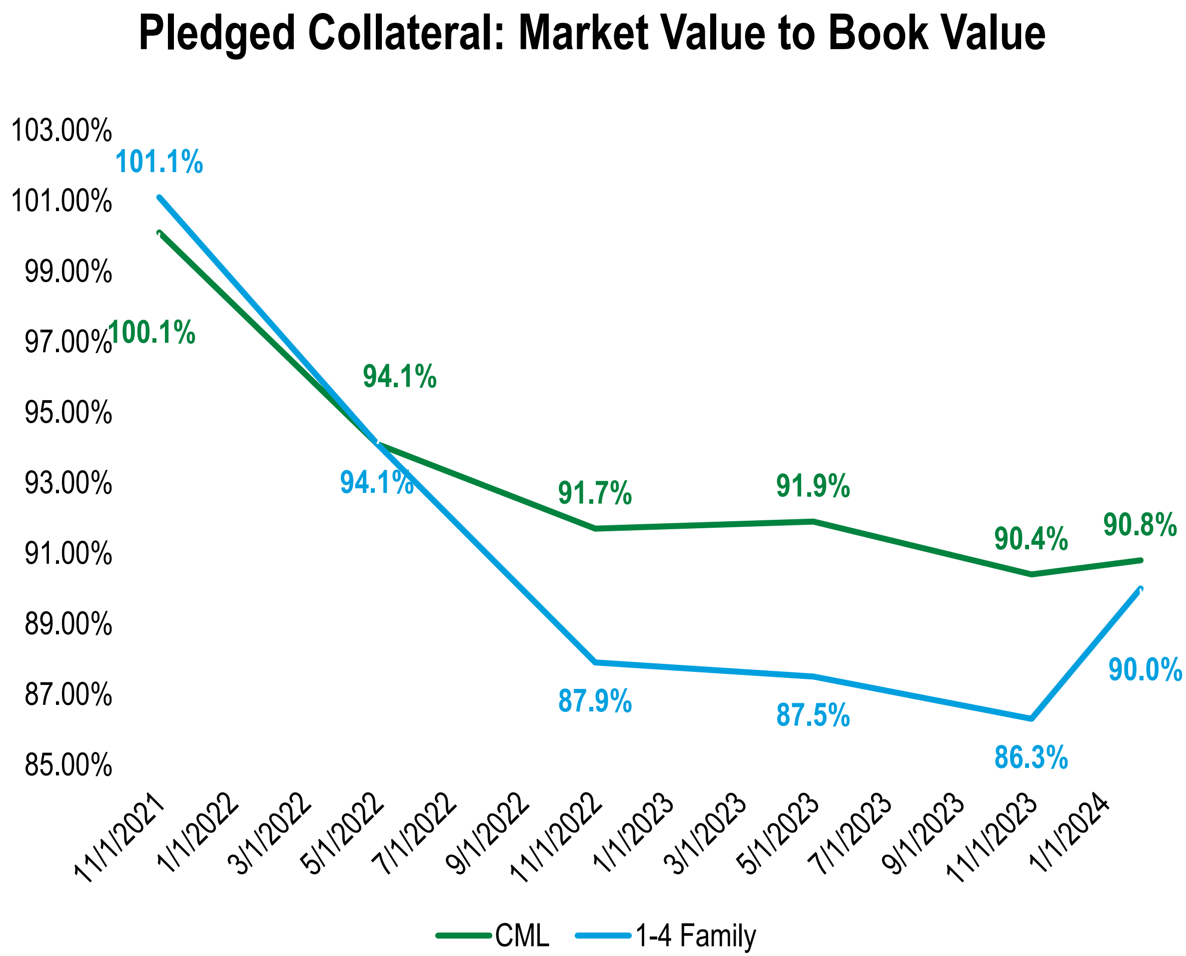
Collateral Types at the Fed & FHLBank Boston

Note the differences between accepted types of collateral at both institutions, particularly important now with liquidity such a focus, and the end of the Bank Term Funding Program in early March.

	Types of Assets	Process
FHLBank Boston	• 1-4 family • Multi-family mortgages • Commercial mortgages • HELOC • UST, Agencies, CMBS, Municipals	Funds all day Term – out to 30 years
Federal Reserve	See above plus: • Student loans • Consumer loans • Foreign gov't bonds • Corporate bonds • Asset backed bonds • All munis (not just real estate nexus) • Commercial paper	Late day funds Term – short

Fluctuating Collateral Valuations

As rates have risen over the last three years, market values have generally moved lower. Stabilization in intermediate rates have helped in recent quarters, offset some by widening spreads.



Key Factors

- Increase in Treasury rates across the entire term structure
- CRE: Widening in office and multi-family credit spreads
- Residential: Widening in credit spreads
- Change in portfolio composition

Expanding Your Pledge

Loans	Securities
Loans now valued on a **quarterly** basis, through DebtX and an internal model	Municipal securities with a real estate nexus, Bank Qualified bonds can have an issue size as small as $5 million
Category 1 members can provide loan-level listing to potentially increase values	Non-agency CMBS must be rated AAA or AA
CRE participation loans: -issuer must be a member or affiliate of any of the 11 FHLBanks -addendum to the advances agreement and the participation agreement	3rd party custodians- Bank of New York, JP Morgan, State Street, Northern Trust, Bank of America, Wells Fargo, Fifth Third, Citibank

******Total pledged CRE, HELOC, Munis and CMBS can not exceed 2x your capital******

Mortgage Strategies

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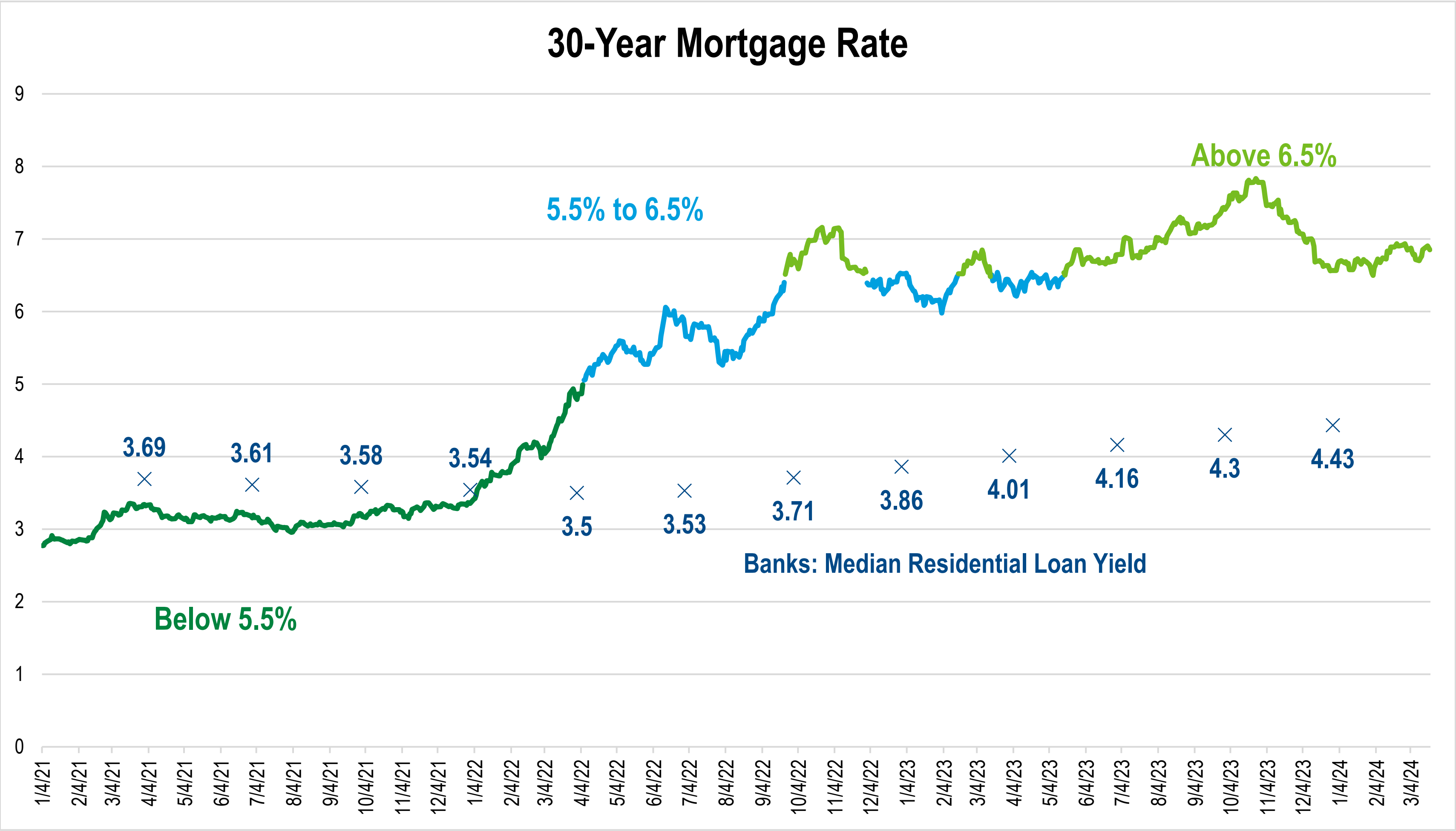
The Path of Mortgage Rates

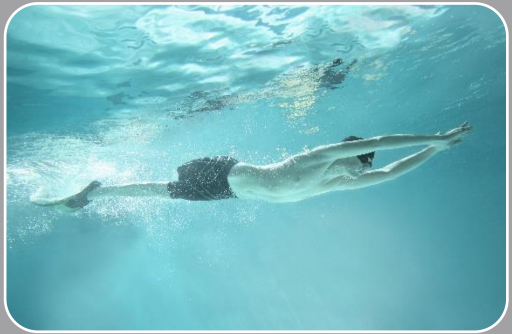
The ~500 basis point range over the last four years for mortgage rates has created a challenging dynamic, and predictably yields on the residential loan portfolios have been very slow to rollover and reprice.



Source: Federal Reserve Bank of St. Louis, Optimal Blue, FHLBank Boston

Three Distinct Coupon Buckets

The path of rates has created a wide variety of exposures in the held residential loan portfolio.



Low Coupons

- Put on at the height of liquidity and low of rates
- Valuations are underwater, and selling would involve taking a hit to earnings

Mid-Range Coupons

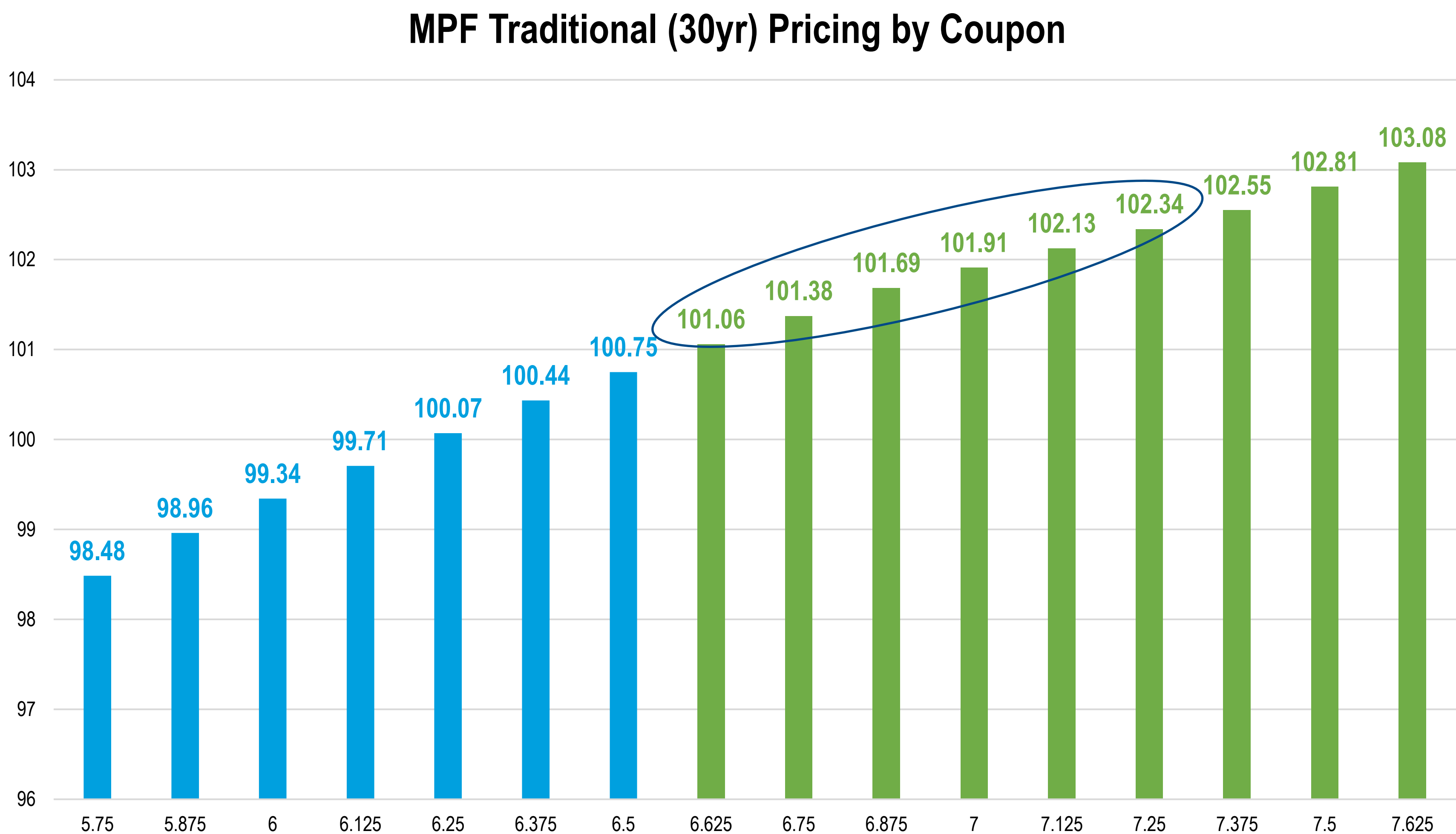
- Put on as rates jumped higher (and then kept going up)
- Prices walking the fine line close to par

Highest Coupons

- Put on at the most favorable nominal levels
- Highly negative convex, so the clock is ticking on prepayments

Pricing Across the Stack

There may be opportunities for seasoned loan sales, outside of the normal sales of current coupons at modest premiums.



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Source: MPF, FHLBank Boston

Low Coupon Strategies

Capacity and fit will vary by institution, but there could be benefits to seasoned loan sales that reposition the balance sheet.

Strategy Considerations

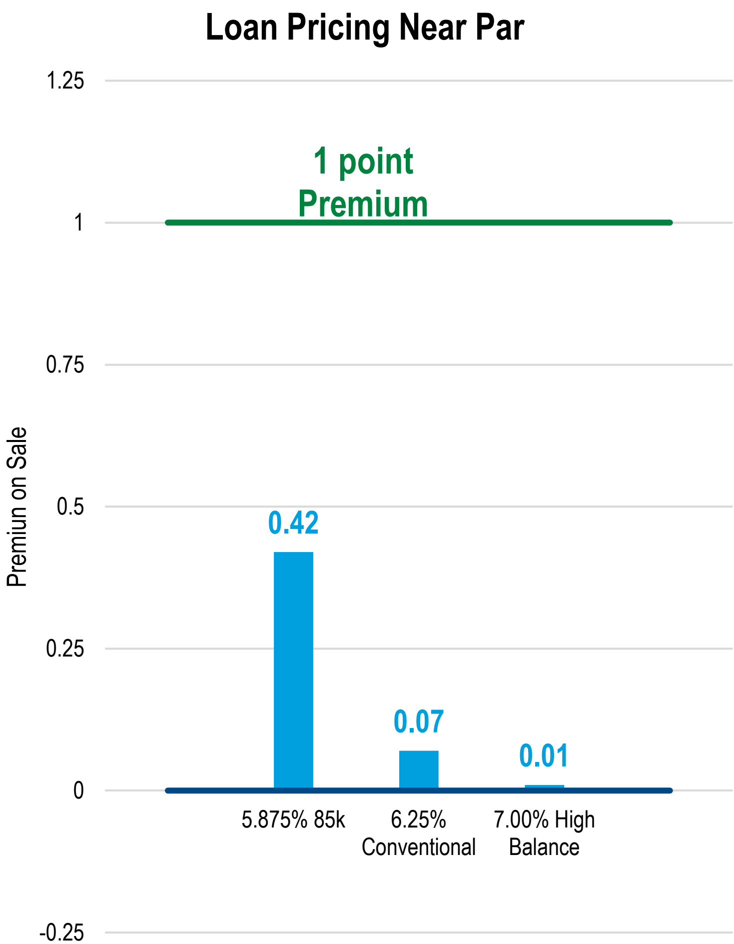
Higher sale price potential on mortgages with lower loan balances and/or to borrowers with incomes below 80% of Area Median Income

Current coupon mortgage/MBS spreads have narrowed, and spreads vs. the Treasury curve for deep out of the money coupons are even tighter to reflect the significantly reduced prepay potential

Opportunity to redeploy into assets more consistent with the ALM profile you prefer:
-spread
-duration
-cash flow
-risk-based capital

Mid-Range Coupon Strategies

Capacity and fit will vary by institution, but there could be benefits to seasoned loan sales that reposition the balance sheet.



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Strategy Considerations

Like the low coupon strategy, there are pricing enhancements for low AMI loans- but an even higher pay-up due to the coupons being closer to in the money

With no loss to recoup, restructuring to achieve earnings and/or risk enhancements may be more straightforward

Potential to efficiently de-lever the balance sheet, by selling mortgages and allowing funding to mature/leave

Source: MPF, FHLBank Boston

Highest Coupon Strategies

Modest volumes in the highest coupons, but potential still exists to capture premium market values.

	Original Loan $400k	
$1,910	Monthly Payment	$2,797
4.00%	Rate	7.00%
	100 bps drop in rates	
3.00%	New Rate	6.00%
$1,686	New Payment	$2,528
$223	Monthly Savings	$268

Strategy Considerations

Higher rates create more nominal savings for the borrower (and thus more refi incentive) with a comparable drop in rates vs. when in lower rate environments.

What's the breakeven holding period of retaining the mortgage vs. selling it now?

The liquidity conundrum- accelerated principal cash flows from assets would be welcome now, but not necessarily from loans already at high rates and wide spreads

Source: FHLBank Boston

Questions?

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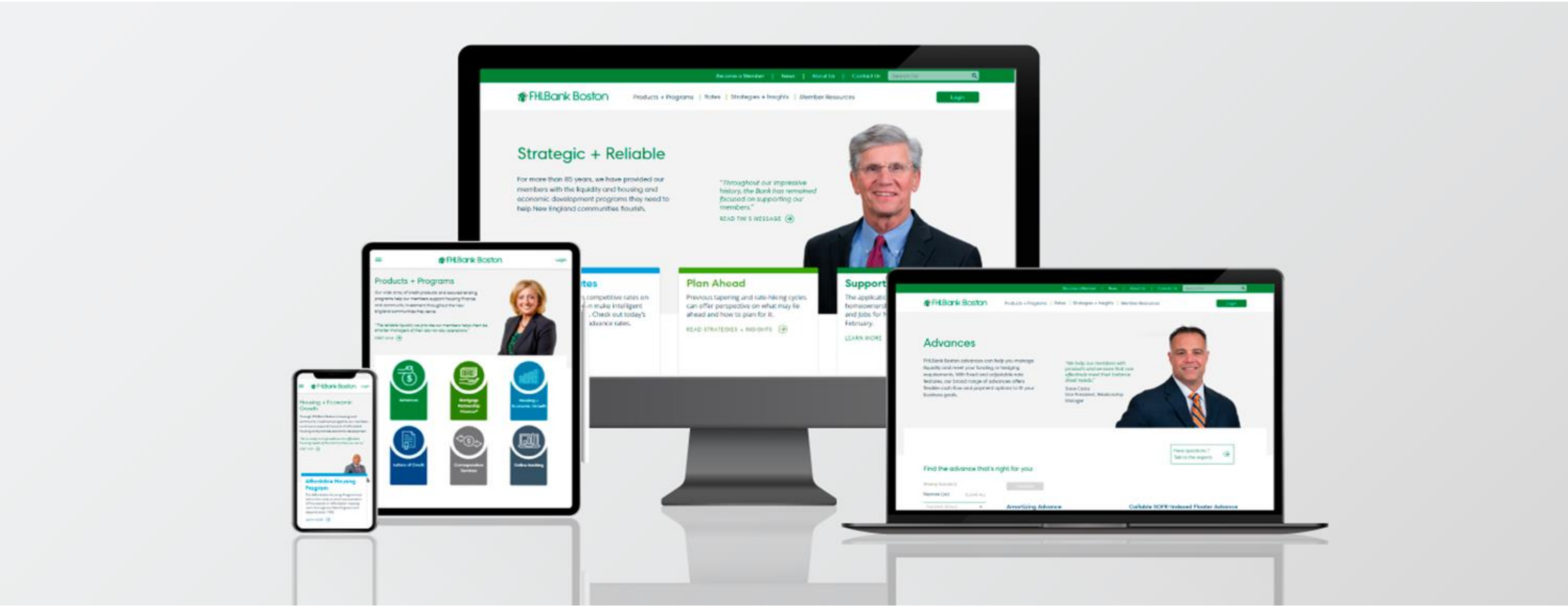

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Thank You

Andrew Paolillo

Andrew.Paolillo@fhlbboston.com

617-292-9644

Matt Stewart

Matt.Stewart@fhlbboston.com

617-425-9528

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