

Comparing Fixed and Floating Rate Advances

February 2022



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What is SOFR and What are Discount Notes?

Indices that are based off transactions in liquid and high-quality parts of the short-term fixed income market

Secured Overnight Financing Rate (SOFR)

- SOFR is based off transactions in the trillion dollar repurchase (repo) market.
- Administered by the New York Fed, SOFR reflects the cost of borrowing in overnight transactions that are collateralized by U.S. Treasury securities.
- SOFR has been endorsed by the Alternative Reference Rate Committee (ARRC) as the preferred replacement for LIBOR.

Discount Notes

- Discount Notes are short-term debt instruments issued by the FHLBank system (“FHLB T-Bills”).
- Auctions are held on Tuesdays and Thursdays, with maturities of four, eight, 13 and 26 weeks.
- Members can select either the four-week or 13-week maturities to be the variable rate index for FHLBank Boston DNA-Floater advances.

Floating-Rate Advance Solutions

Comparing the SOFR-Indexed and Discount Note Auction-Floater Advances:

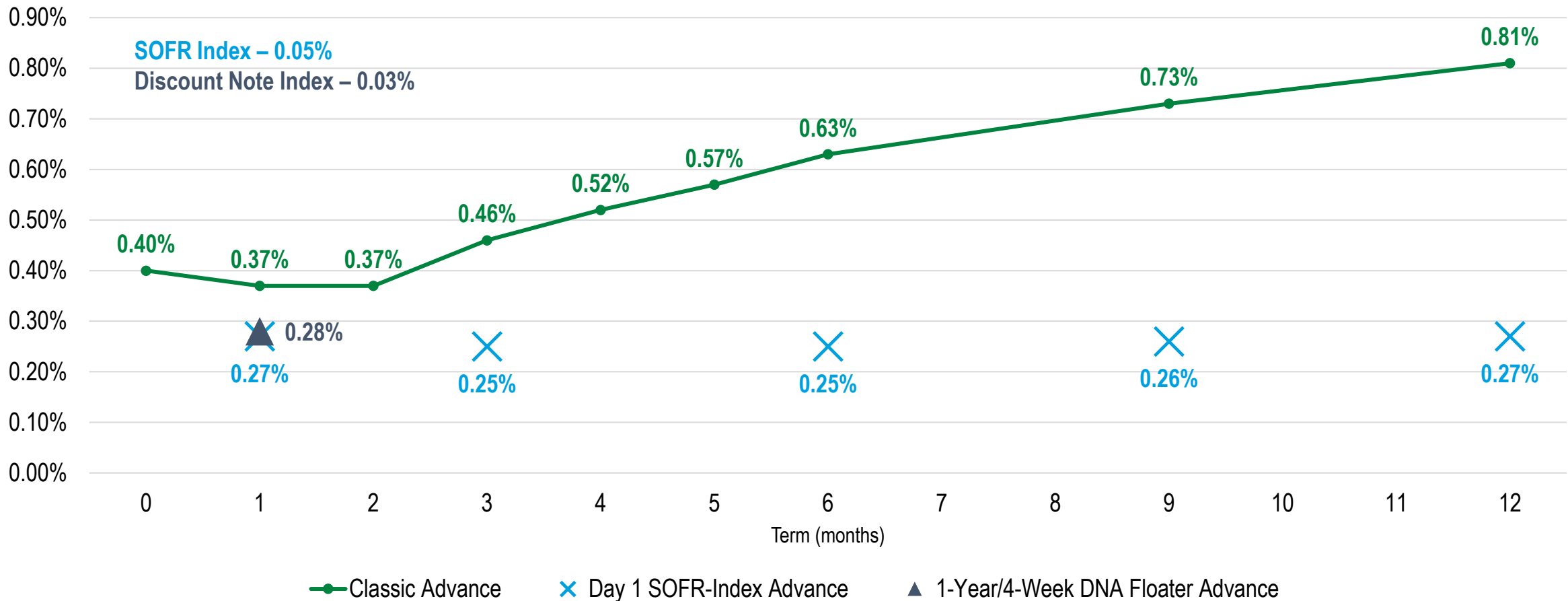
Detail	SOFR-Indexed Advance	Discount Note Auction-Floater Advance
Funding Type:	Floating Rate	Floating Rate
Floating Rate Index:	Secured Overnight Financing Rate	Four-week or 13-week Discount Notes
Prepayment Eligible:	Prepayable with a fee	Prepayable with no fee at each reset date
Term Limitations:	Maturities from one month to 20 years	Maturities from one to 20 years

Short-Term Rate Comparison

Narrower spreads on floaters offer cost savings versus the Classic Advance/Daily Cash Manager.

FHLBank Boston Advance Rates

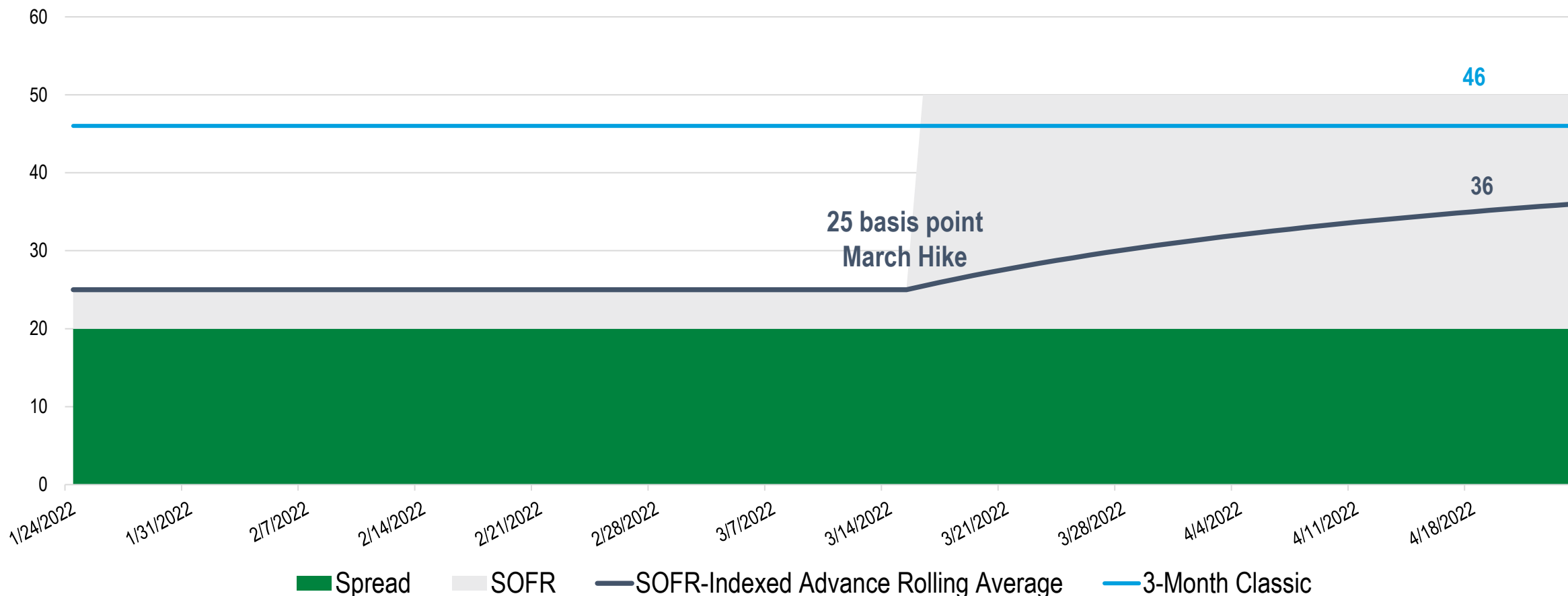
As of 1/24/2022



Scenario Analysis: What Happens When Rates Rise (1 Hike/3 Months)?

Because of tighter spreads, floaters may outperform Classic Advances if the Fed hikes at market-implied pace.

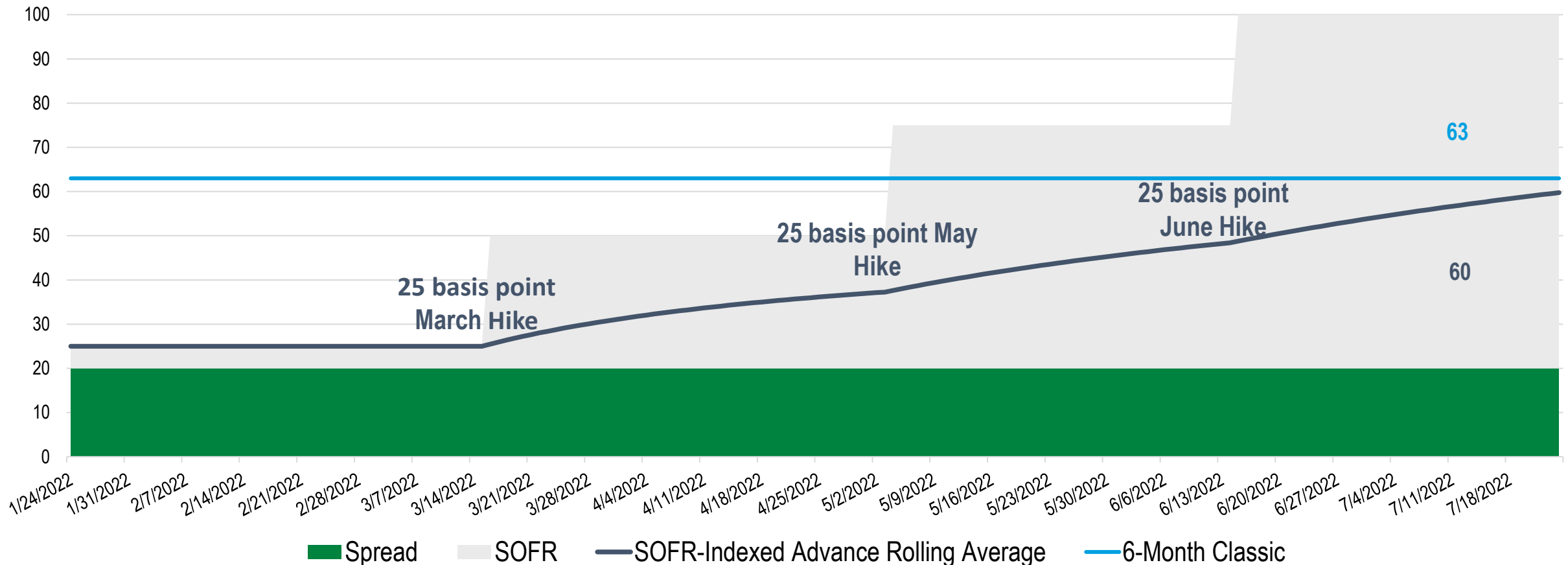
3-Month SOFR-Indexed Advance vs. 3-Month Classic Advance



Scenario Analysis: What Happens When Rates Rise (3 Hikes/6 Months)?

For six-month borrowings, SOFR-Indexed Advance is less costly than the Classic Advance if Fed hikes 25 basis points in March, May, and June.

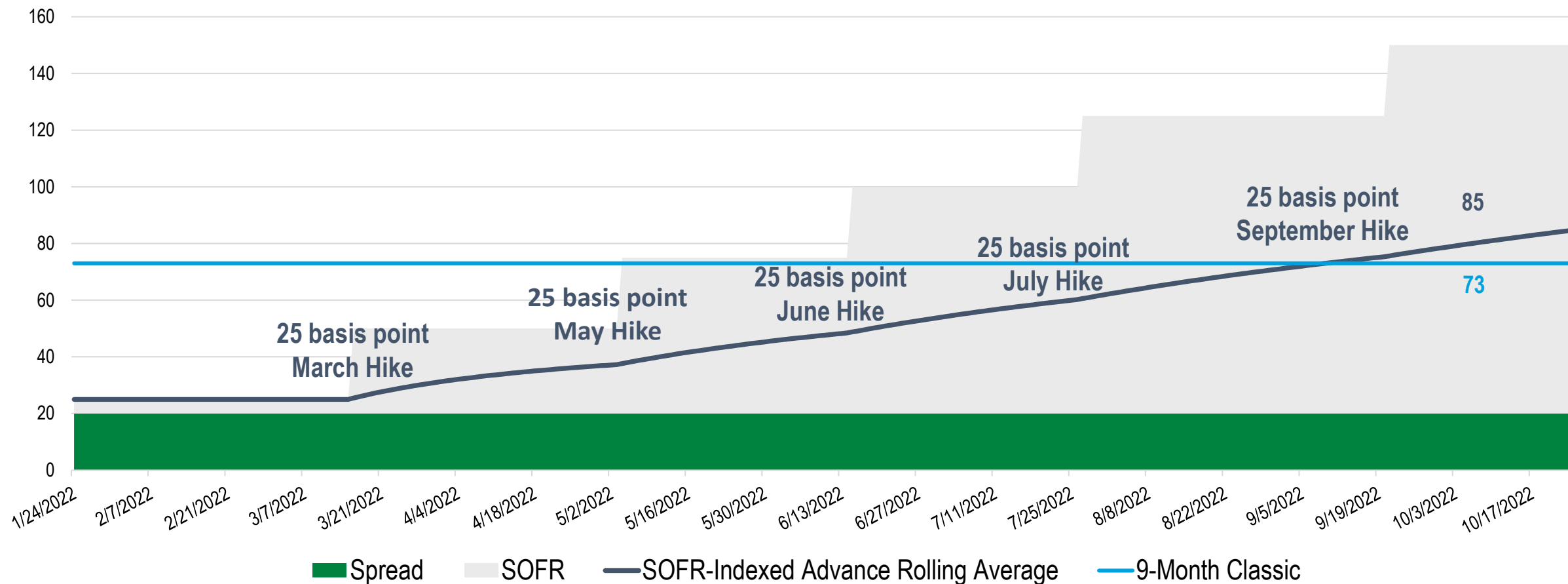
6-Month SOFR-Indexed Advance vs. 6-Month Classic Advance



Scenario Analysis: Fed Moves Faster than Expectations

Expectations for 2022 hikes went from 0-1 to 3-4 quickly. If the Fed moves faster, floaters will underperform modestly.

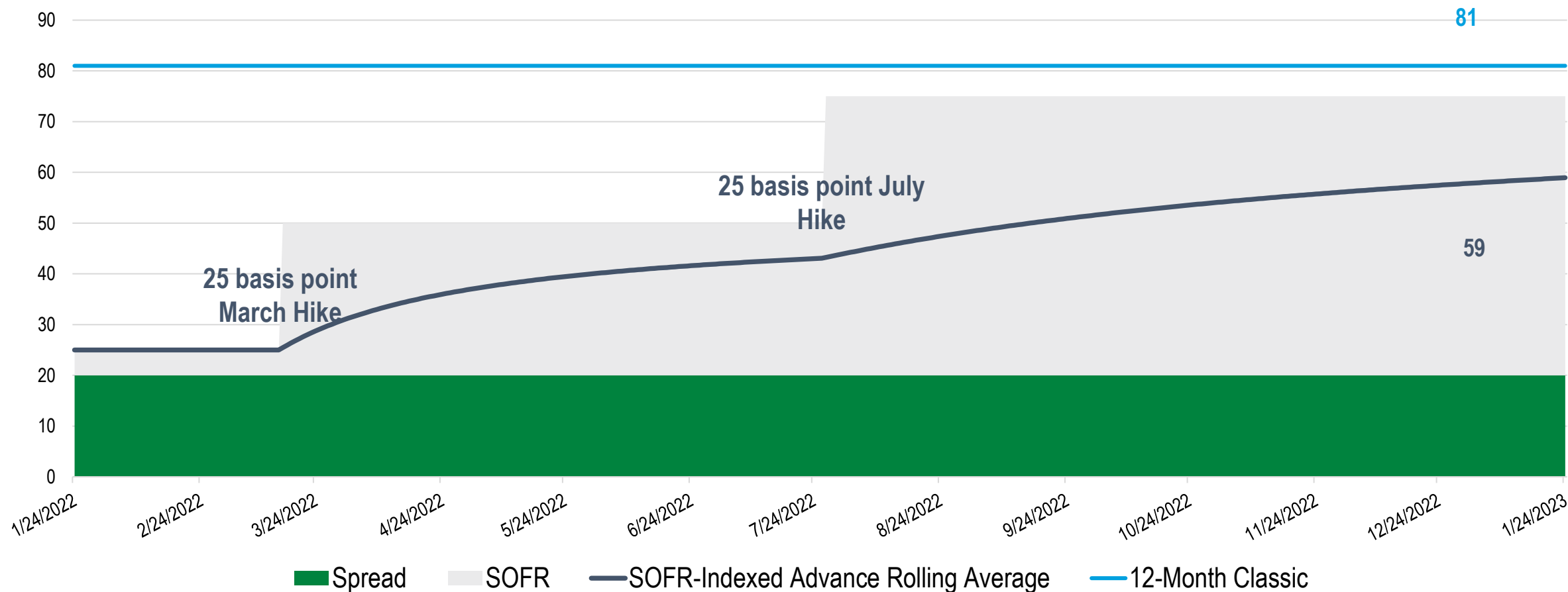
9-Month SOFR-Indexed Advance vs. 9-Month Classic Advance



Scenario Analysis: Fed Moves Slower than Expectations

Expectations for 2022 hikes went from 0-1 to 3-4 quickly; if Fed moves slower, floaters will outperform sharply.

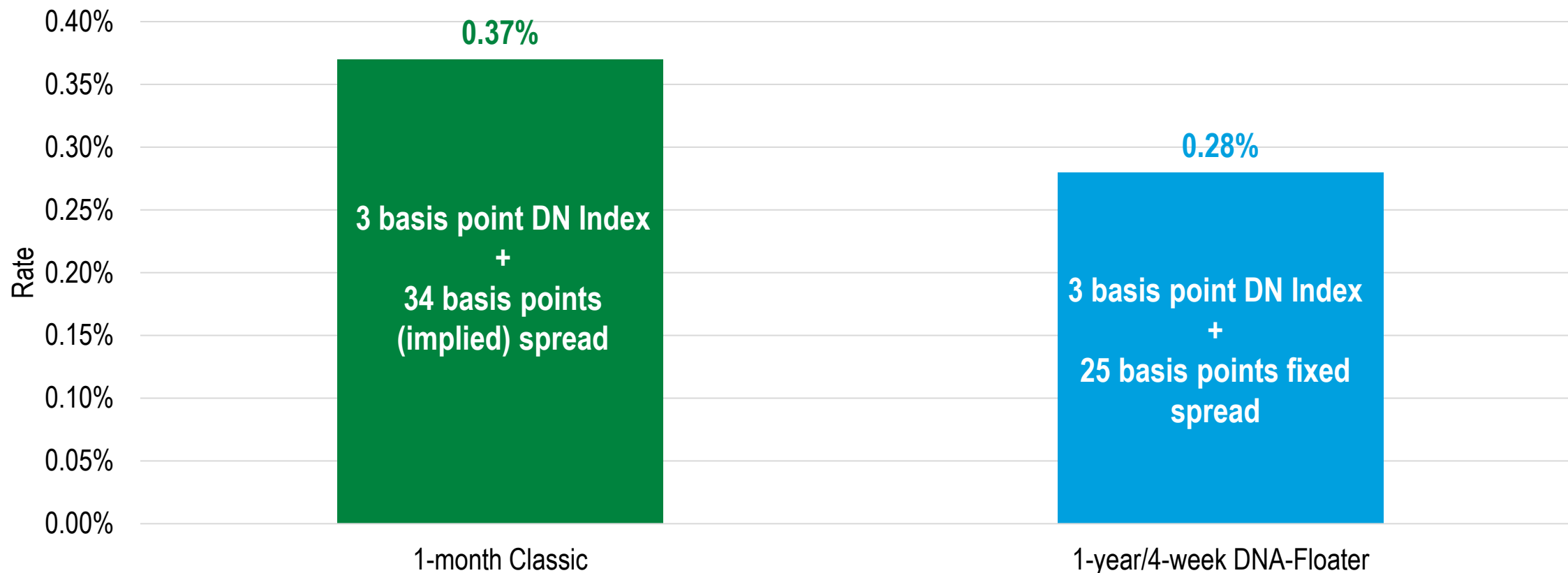
12-Month SOFR-Indexed Advance vs. 12-Month Classic Advance



DNA-Floater Advance

“Heads you win, tails you flip again.” A member owns the optionality (ability to pay down or roll, with spread risk removed), but gets paid for it (lower rate) instead of paying for it.

Classic Advance vs. DNA-Floater Advance



Thank You

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