Case Study:
Utilizing the SOFR-Indexed Advance

August 2020

FHLBank Boston

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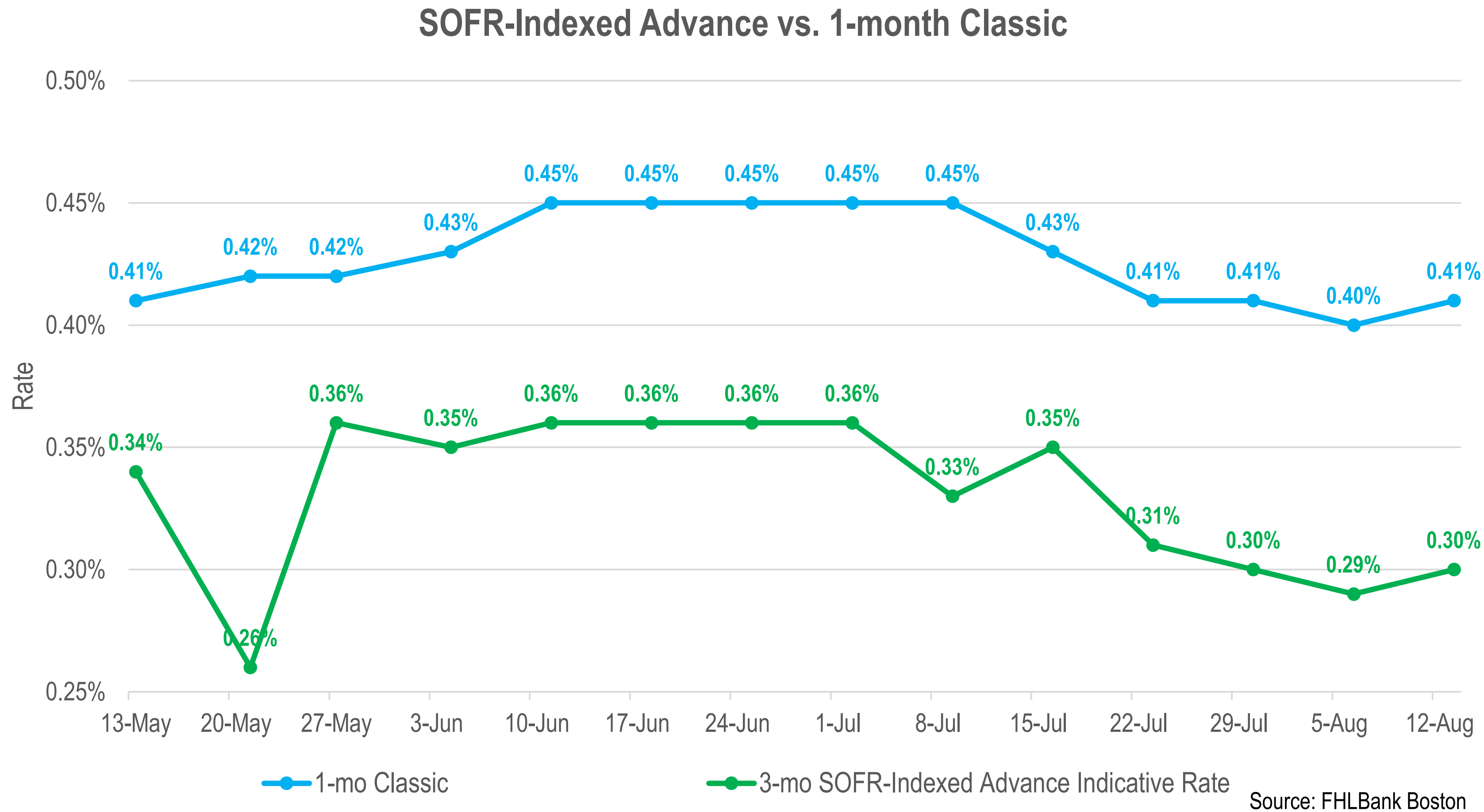
Opportunity: Reducing Interest Cost on Short-Term Advances

- Save interest expense now
- Targeted short-term funding
- Avoid repricing volatility later

Classic vs. SOFR-Indexed Advance

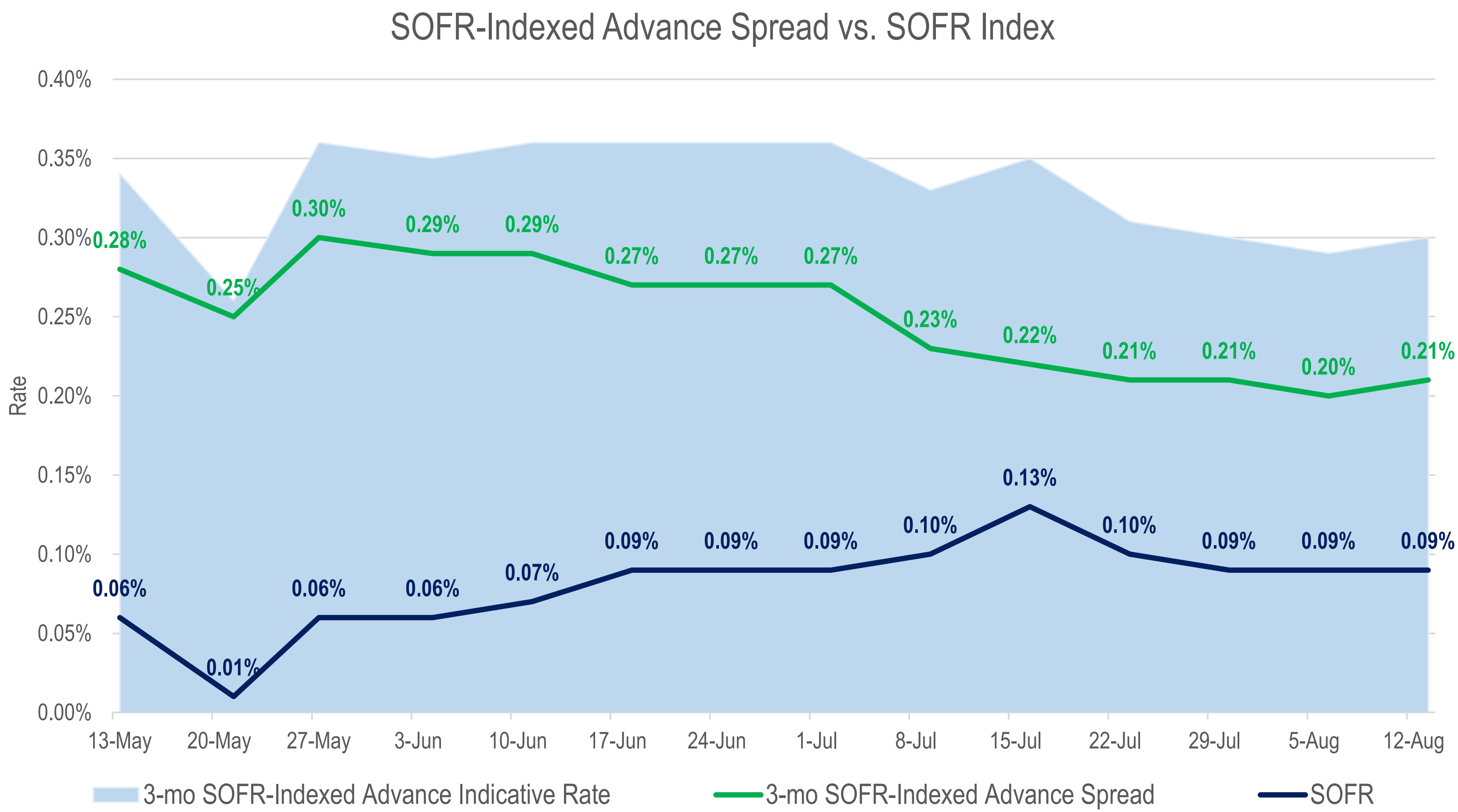
Since May, the initial rate on a three-month adjustable SOFR-Indexed Advance has been consistently lower than the rate on a one-month fixed rate Classic Advance.



Source: FHLBank Boston

Index and Advance Spread Changes

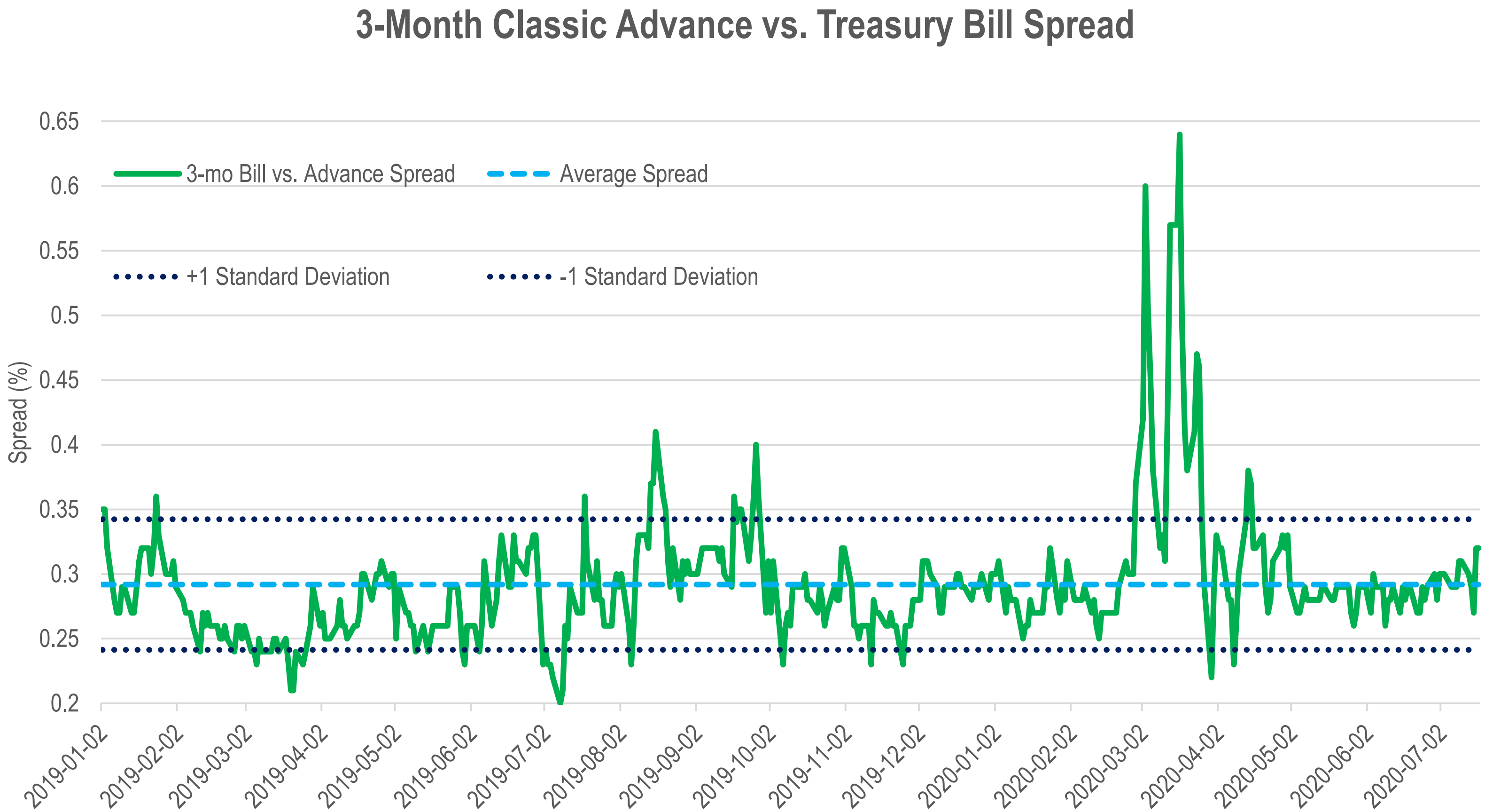
SOFR has ticked higher as systemic liquidity conditions have improved. The spread for the SOFR-Indexed Advance has tightened and mitigated the move in the index, leaving the initial rate largely unchanged.



Source: FHLBank Boston, Federal Reserve Bank of New York

Spread Fluctuations

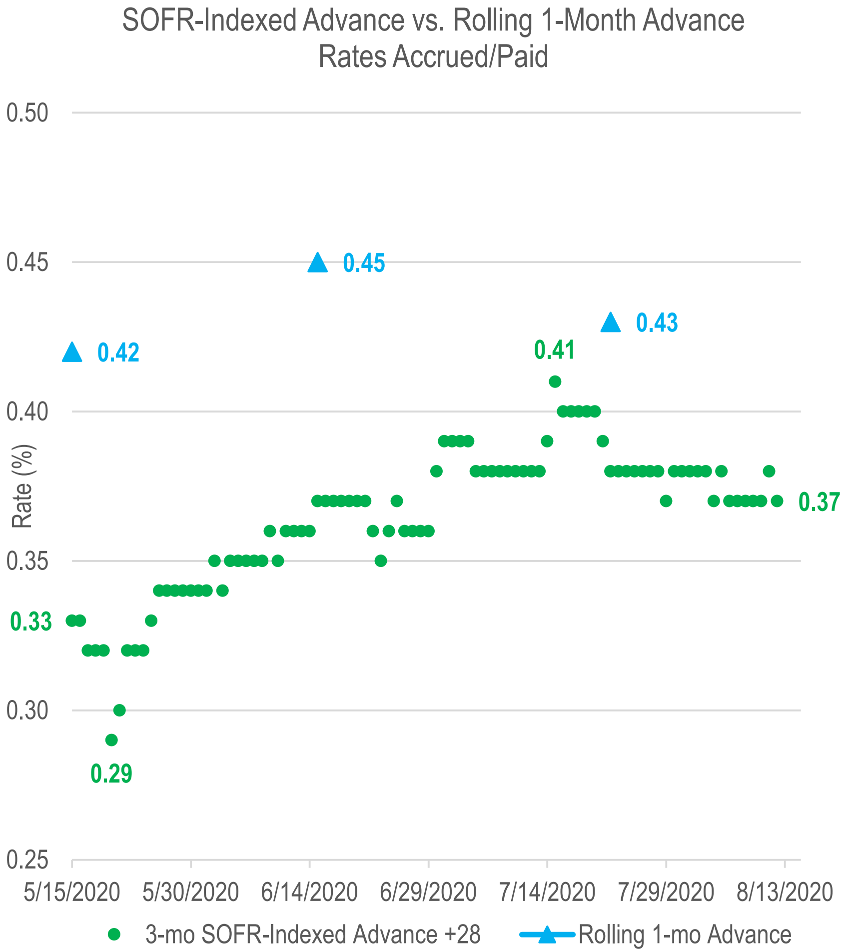
Short-term advance spreads vs. treasuries exhibit stability but do vary as conditions change in the credit and funding markets.

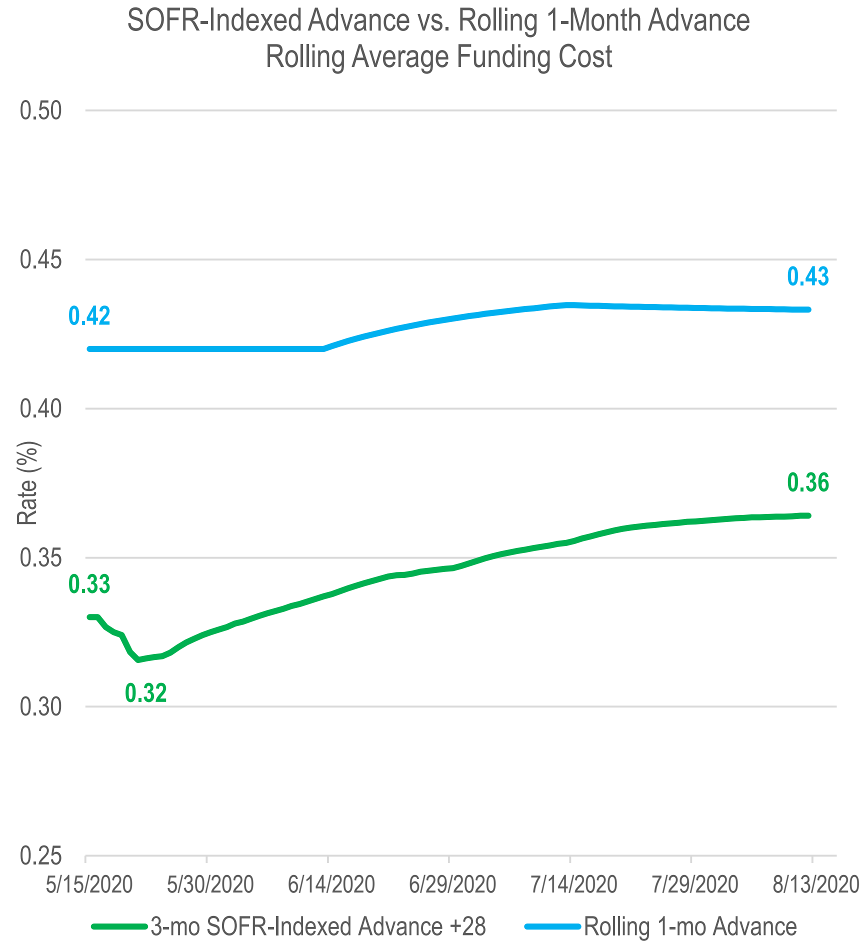


Source: FHLBank Boston, Federal Reserve Bank of St. Louis

Recent Example: Rolling One-Month Advances vs. the SOFR-Indexed Advance

From day one through maturity, a three-month SOFR-Indexed Advance taken in May outperformed rolling one-month advances for a period of three months.

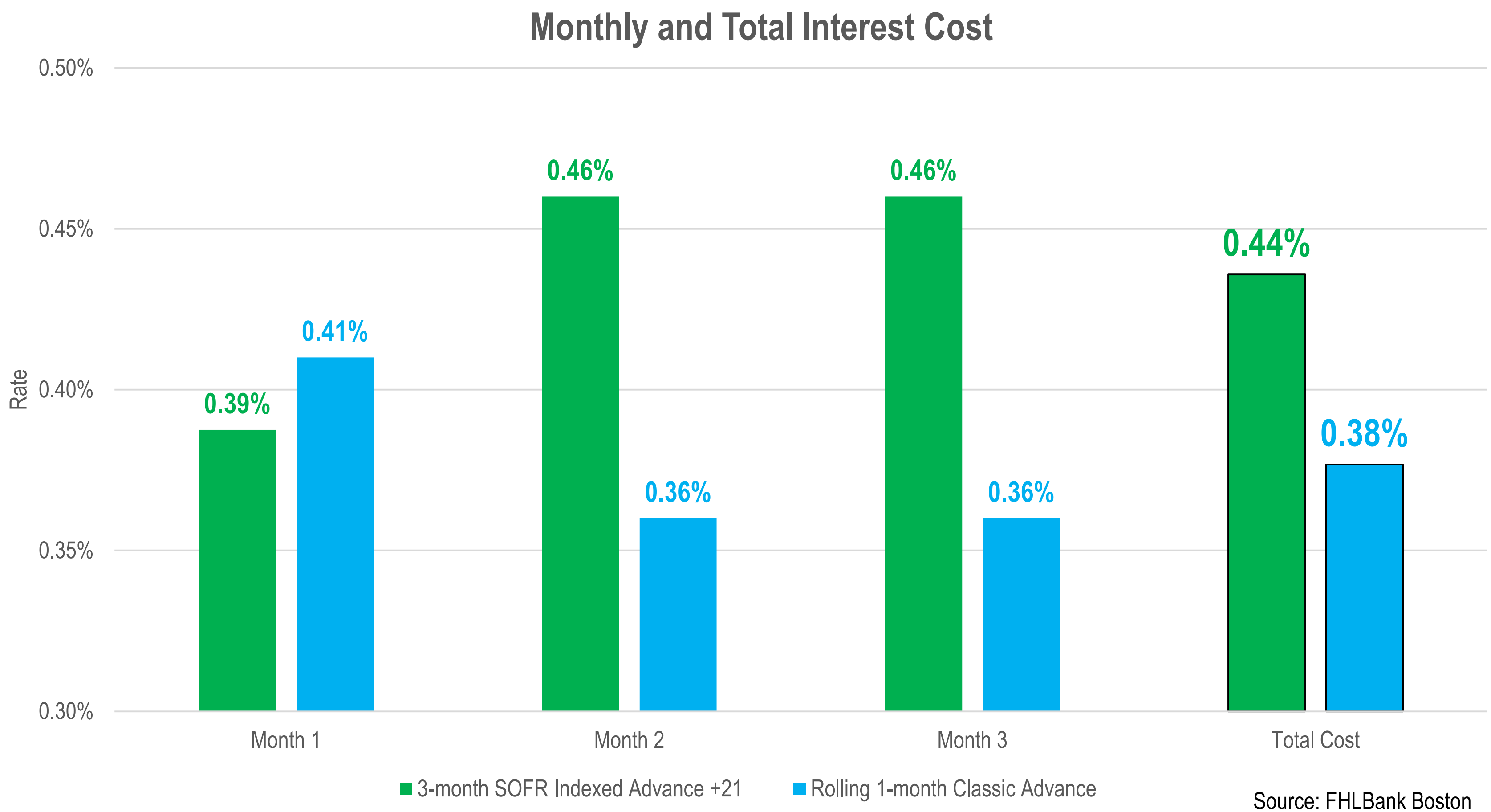




Source: FHLBank Boston

Stress Test #1: SOFR to Top of Fed Funds Range, Advance Spreads Tighten

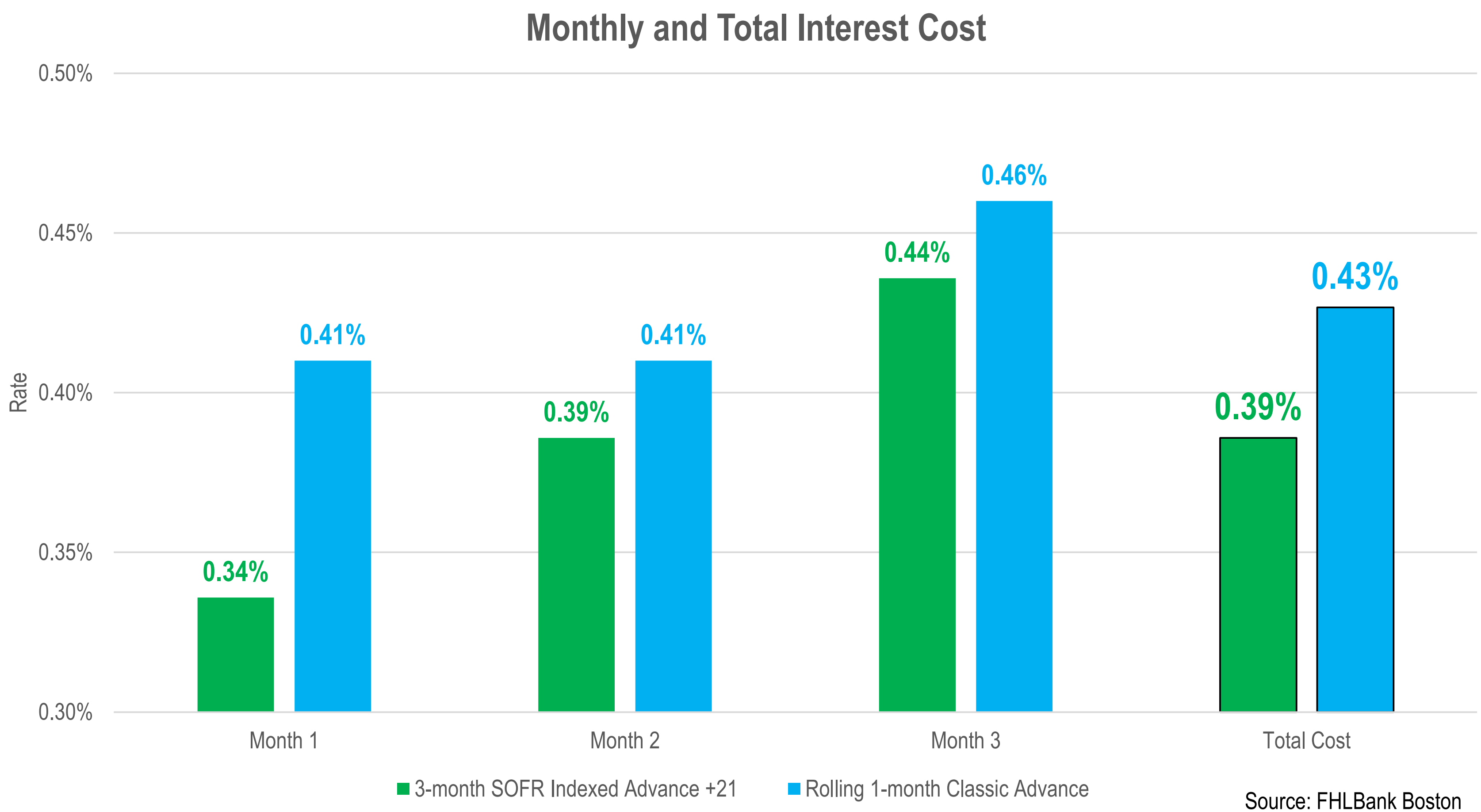
Ramping SOFR to 0.25% over the first month, T-bill rates unchanged and Classic Advance spreads tightening by 5 bps gives rolling one-month Classic Advances a slightly lower interest cost over the horizon.



Source: FHLBank Boston

Stress Test #2: SOFR & T-Bills Higher, Advance Spreads Tighten

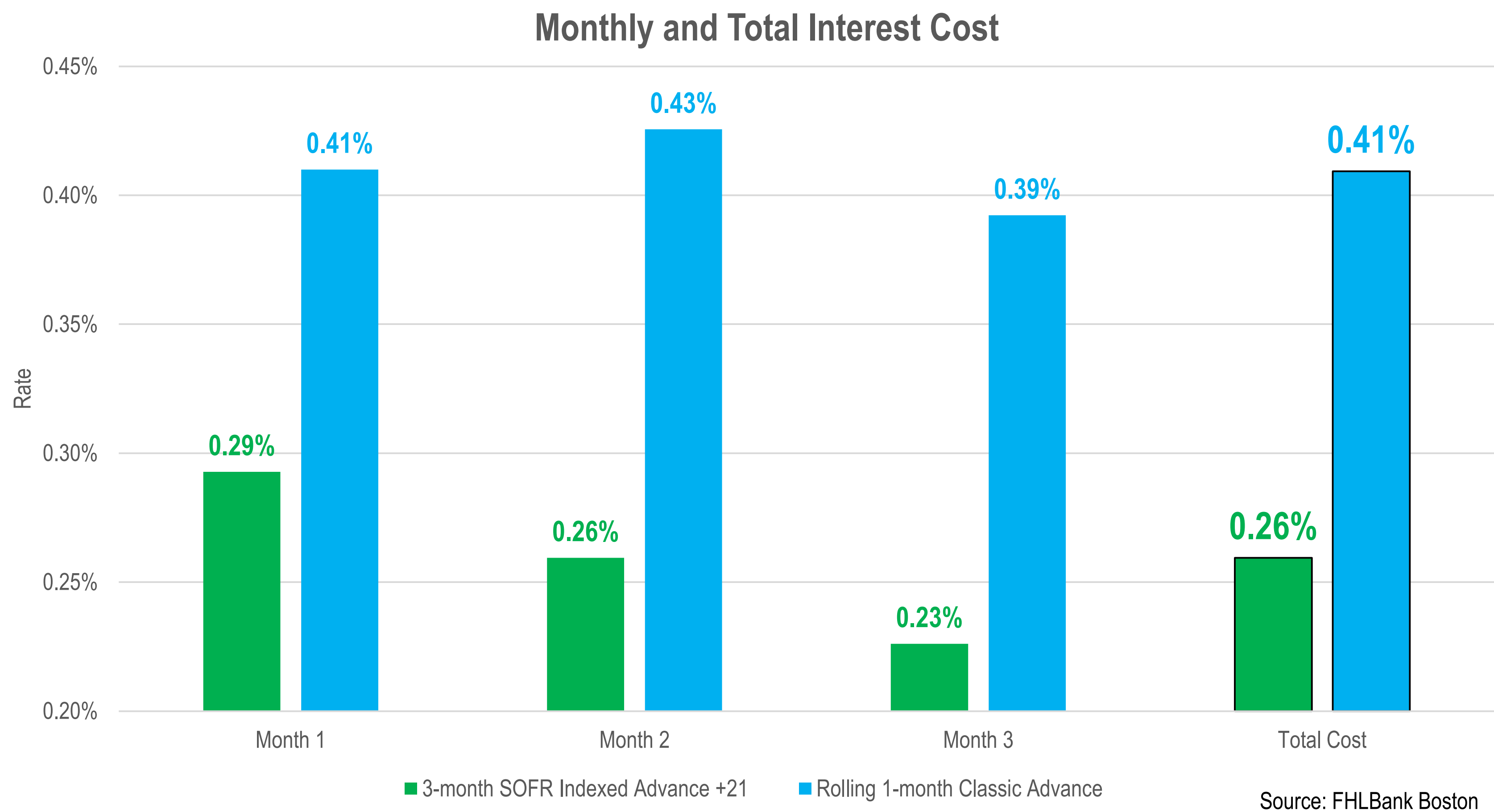
Ramping SOFR to 0.25% over the course of three months, T-bill rates moving in lockstep and Classic Advance spreads tightening by 5 bps produces a lower interest expense for the SOFR-Indexed Advance.



Source: FHLBank Boston

Stress Test #3: SOFR & T-Bills to 0%, Advance Spreads Widen

SOFR & T-Bills going to 0% over three months and Classic Advance spread widening of 5 bps produces a lower interest cost for the SOFR-Indexed Advance, due to the fixed spread as SOFR & T-Bill rates go lower.



Source: FHLBank Boston

Summary

- **Cost savings in a time of margin pressure**
  - Day one savings vs. rolling Classic Advances
  - Initial rate differential provides cushion to produce interest expense savings in both up and down rate and spread shock scenarios

- **Special offerings and regular availability**
  - Thursday offering of the three-month SOFR-Indexed Advance
  - All maturities available every day. Reach out to the Money Desk for a quote.

Thank You

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