

FHLBank Boston

Providing highly reliable wholesale funding and liquidity to member insurance companies

April 2021





Benefits of Membership

- Easy to use
- Low-cost funding
- Improves financial flexibility
- Funding available in all business cycles
- Viewed favorably by rating agencies and regulators



Key Membership Qualification Criteria

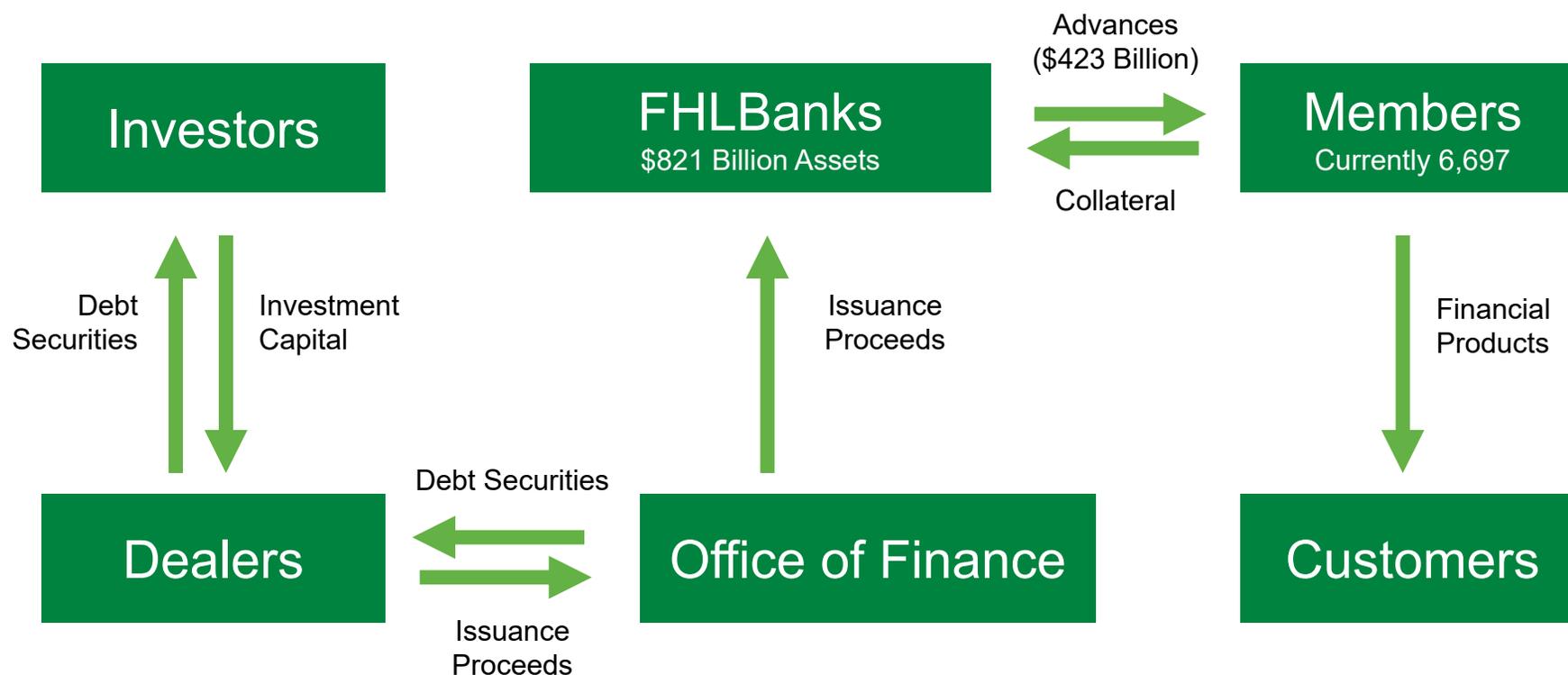
- Insurance company duly organized and subject to inspection and regulation
- Makes long term home mortgage loans (*e.g. holds mortgage backed securities*)
- Demonstrates character of management and sound financial condition
- Membership is at insurance entity level

Federal Home Loan Bank System Overview

- **Established by Congress** in 1932 to provide liquidity and funding to member institutions
- **Regulated by Federal Housing Finance Agency** and subject to the terms of FHLBank Act
- **Cooperative Structure** – Bank is owned by its members
- **Offers Low Cost Loans to Members** – Economies of scale, GSE Status, and Tax Exempt Status
- **Extremely Secure** – FHLB debt is the joint obligation of all 11 banks



How the FHLBank System Works



All debt securities issued through the Office of Finance are the joint and several obligations of the 11 FHLBanks. As of 4Q 2020 data.

Rating Agency & Industry Perspective



FHLB programs provide financial flexibility for insurance company members and are an attractive source of capital because of the low rate offered on advances.

– AM Best

Access to an alternative, low-cost funding source is credit positive. The FHLBs offer eligible insurers access to low-cost, collateralized borrowing capacity for both their ordinary operating needs and emergency liquidity.

– Moody's

From a source of emergency liquidity and working capital to aiding asset/liability matching strategies, the aggregate amount of insurance company borrowing from Federal Home Loan Banks has accelerated for the last several years and may be poised to do so again in 2019.

– SNL Financial

Fitch Ratings believes that membership in the Federal Home Loan Bank (FHLB) system can enhance liquidity and financial flexibility for insurance companies, particularly those insurers with limited access to capital markets.

The FHLB is able to source funds at very low rates due to its position as a government sponsored entity (GSE).

– Fitch Ratings

Although not immune to major market dislocations, the FHLB System has proven to be a stable source of funding through good times and bad.

A material dislocation in financial markets will not likely affect the FHLB in providing insurers this alternative access to funding.

– S&P

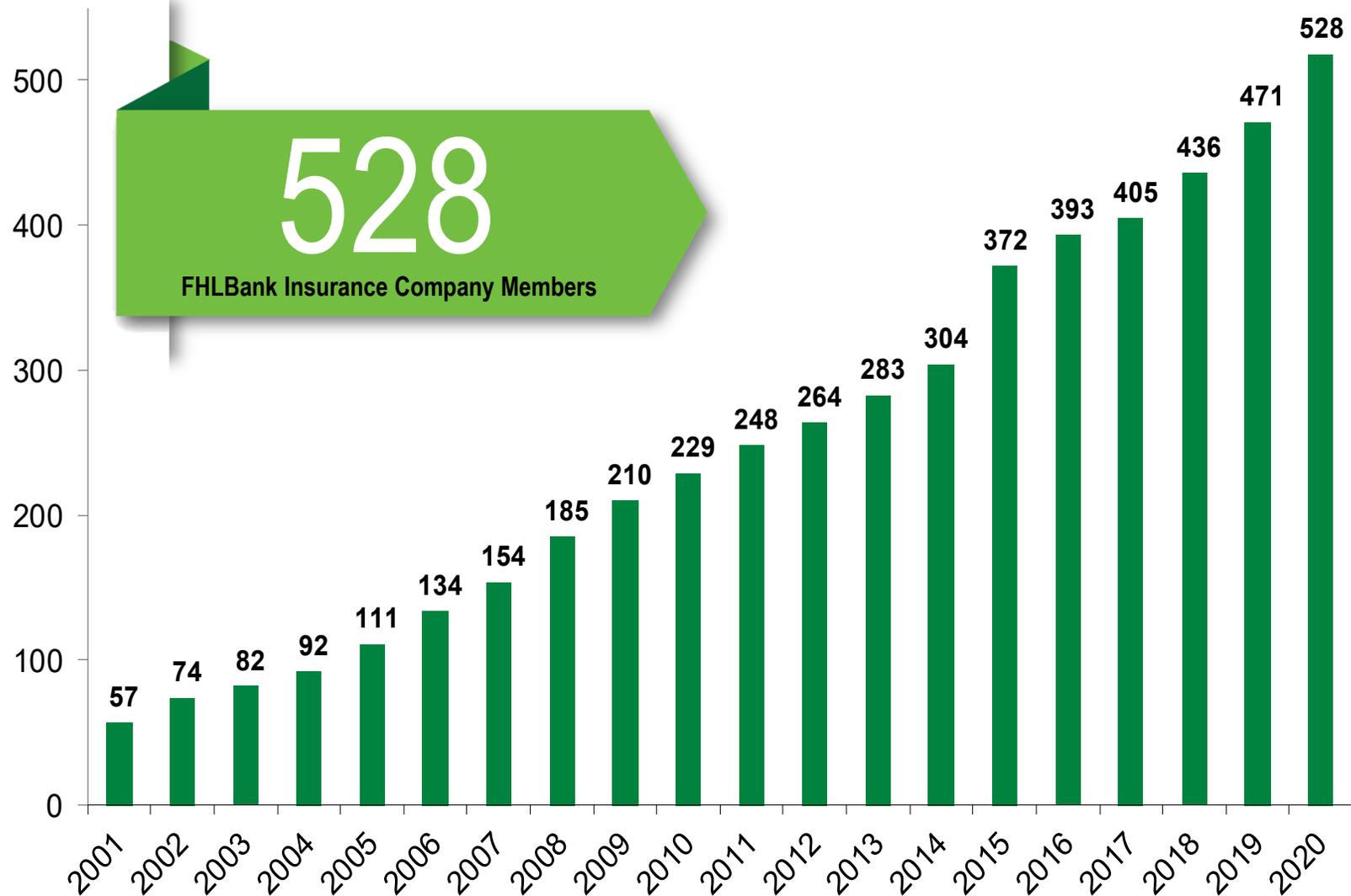
The borrowing capacity provided by the FHLB can be a powerful tool for managing risk and profitability.

– NAMIC publication



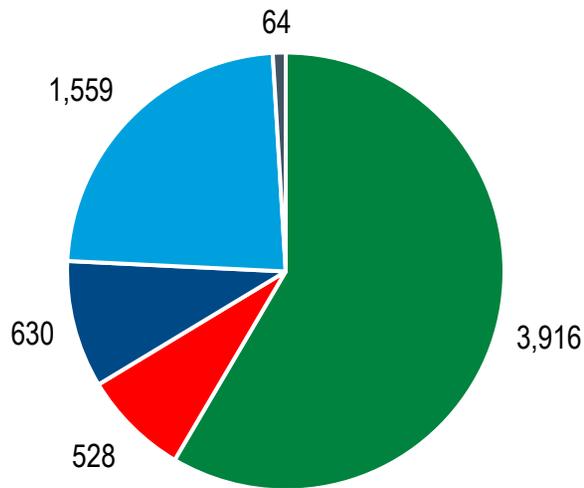
Insurance Company Membership in the US

Strong and steady increase in membership



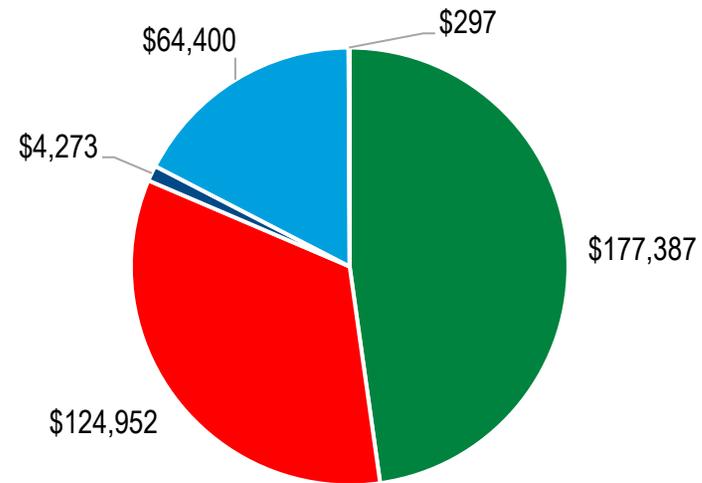
Member Types – FHLB System

Number of Members
6,697



- Commercial Banks
- Insurance companies
- Savings Institutions
- Credit Unions
- Community Development Financial Institutions

Advances by Members (millions)
\$410,289,000



- Commercial Banks
- Insurance companies
- Savings Institutions
- Credit Unions
- Community Development Financial Institutions

FHLBank Boston Insurance Members

Life Companies

1. Amical Life Insurance
2. Commonwealth Annuity & Life
3. Hartford Life and Accident
4. Lincoln Life Assurance Co
5. Mass Mutual Life Insurance Co
6. Merit Life Insurance
7. National Life Insurance
8. Nassau Life Insurance
9. Nassau Life and Annuity
10. PHL Variable Life Insurance
11. Prudential Retirement Ins Annuity
12. SBLI of Massachusetts
13. Starmount Life Insurance
14. Talcott Resolution Life Insurance
15. Talcott Life and Annuity Insurance
16. Unum Life Insurance
17. Vantis Life
18. Voya Retirement Insurance & Annuity

Health Companies

19. Aetna Life Insurance
20. Blue Cross Blue Shield of MA
21. Blue Cross Blue Shield of MA HMO Blue
22. Blue Cross Blue Shield of RI
23. Blue Cross Blue Shield of VT
24. Fallon Community Health
25. Harvard Pilgrim Health Care

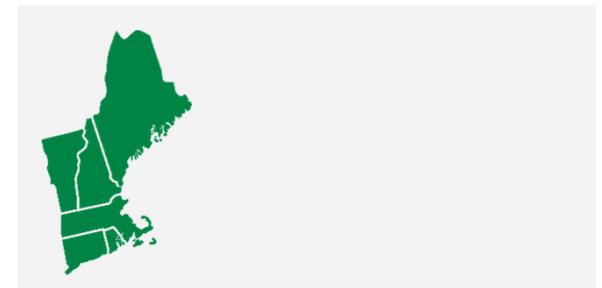
Depositors Insurance

26. Depositors Insurance Fund
27. Mass Credit Union Share Ins.

P&C Companies

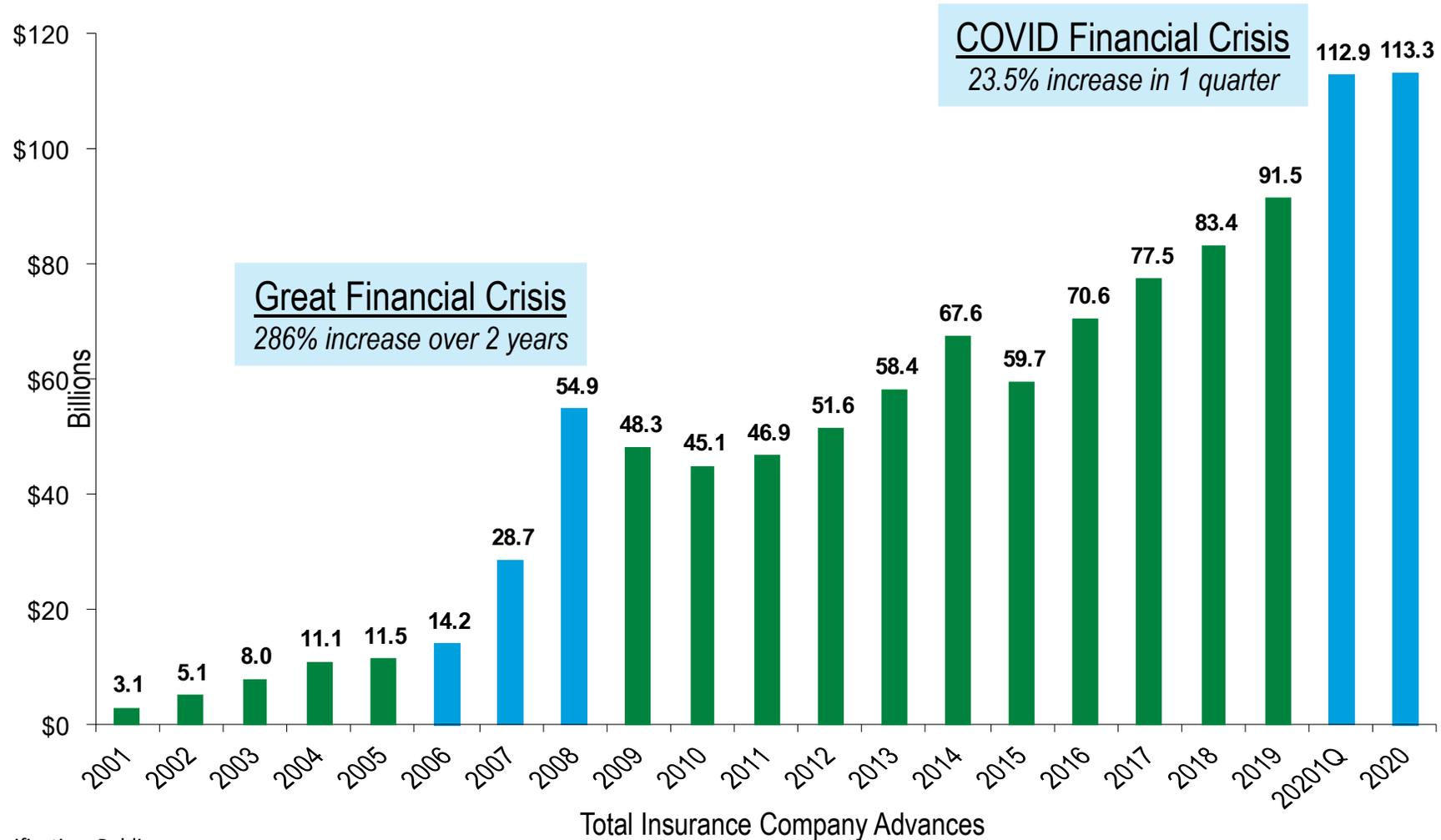
28. AIM Mutual
29. Alliance of Non Profits, RRG
30. American European
31. American Excess, RRG
32. Amica Mutual
33. Arbella Mutual Insurance
34. Aspen American Insurance
35. Aspen Specialty Insurance
36. Barnstable County Mutual
37. Beacon Mutual Insurance
38. Citizens Insurance Co of America
39. Commerce Insurance Co
40. Connecticut Attorneys Title
41. Coverys, RRG
42. CW Reinsurance Co
43. Danbury Mutual
44. Dorchester Mutual
45. Fitchburg Mutual
46. Hanover Insurance Co
47. Hartford Fire Insurance
48. Hingham Mutual
49. Hospitality Mutual
50. Housing Authority Property Insurance

51. Housing Authority, RRG
52. ICI Mutual, RRG
53. Ironshore Specialty Insurance Co
54. Lexington Insurance (AIG)
55. Liberty Mutual Insurance Co
56. Maine Employers Medical Mutual
57. Medical Professional Mutual
58. MEMIC Casualty
59. MEMIC Indemnity
60. Metropolitan P&C (MetLife)
61. MMG Insurance
62. Narragansett Bay Insurance
63. New London County Mutual
64. Norfolk and Dedham
65. Peerless Insurance Co
66. Quincy Mutual Insurance
67. Safety Insurance
68. Vermont Mutual
69. United Educators, RRG
70. Yosemite Insurance

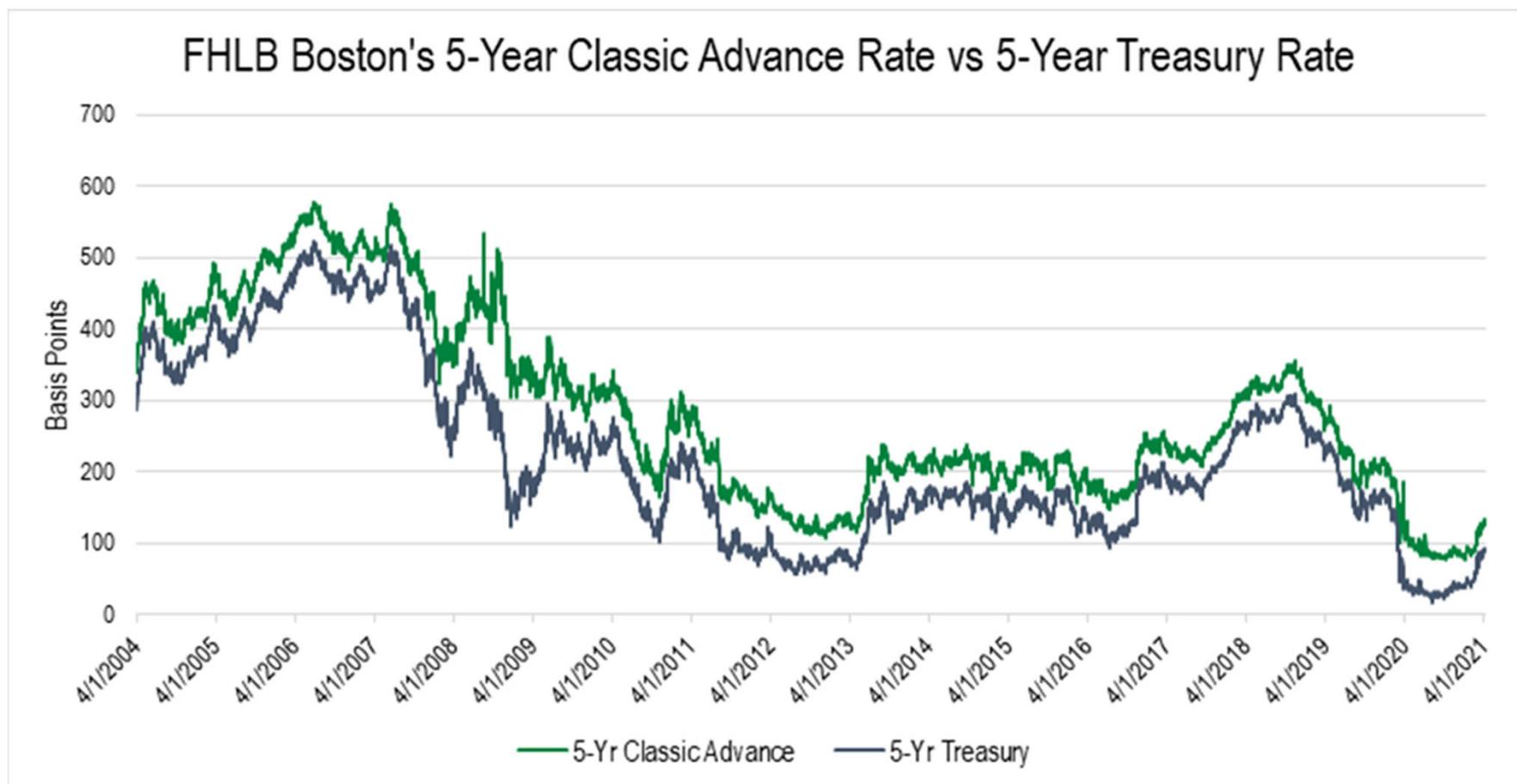


FHLBank Reliability During Market Dislocations

The FHLBs expand and contract based on member liquidity needs.



FHLB advance rate compared to treasuries has been tightly correlated demonstrating its high quality



Correlation coefficient = .978

FHLBank Funding

Advances (Loans)

- Easy one phone call access to funds
- Terms from overnight out to 30+ years
- Fixed v. floating and bullet v. amortizing
- All types of derivatives can be embedded
- Same day settlement for term funding available until noon
- Overnight funding available until 5:00 p.m.

Letters of Credit

- FHLB Boston is an NAIC approved bank for Letters of Credit

Housing + Community Investment

- Affordable Housing Program
- Community Development Advance Program

Funding Usage

- Cash management
- Emergency/back up liquidity
- Fill reinsurance payment gaps
- Gain liquidity from illiquid assets
- Strategies for matching maturity & liability portfolio
- Additional revenue from spread management
- Interest-rate-risk management
- Fund asset growth



- Other funding needs, e.g. M&A, fund retirement plan, purchase/renovate a building

As a co-op structure, members purchase capital stock

The member purchases the following capital stock:

Stock	Membership	Activity
Frequency of calculation	Annual – stock level can go up or down	When borrowing
Calculation	.0020 x MSIR* (Membership Stock Investment Requirement)	.03 x overnight \$ borrowings .04 x >overnight \$ borrowings
How long held	Held as long as entity is a member. Redeemed 5 years after termination.	Eligible to be redeemed when borrowing matures

All membership & activity stock eligible to receive dividend.

Eligible Assets (as of most recent quarter)	Amount
Loans	
Closed-end Mortgages on 1-4 Family Dwelling Units	\$ _____
Permanent Mortgages on 5 or More Family Dwelling Units	\$ _____
Subtotal Loans	\$ _____
Securities	
U.S. Treasury and Agency Securities (excludes MBS)	\$ _____
Residential MBS Guaranteed by GNMA or Issued by Fannie Mae & Freddie Mac	\$ _____
Residential CMOs Guaranteed by GNMA or Issued by FNMA or FHLMC	\$ _____
All Other Residential CMOs, REMICs and Strips	\$ _____
All Other Residential Mortgage-Backed Securities	\$ _____
Subtotal Securities	\$ _____
Membership Stock Investment Base (loans + securities)	\$ _____

*MSIR

- Stock is always redeemed at \$100 par value (never loses value)
- Capital calls not allowed
- Only risk is that Bank could hold onto excess stock or reduce/suspend dividend

The Borrowing Process

1) Submit collateral

After the haircuts, the value of pledged assets \geq the total loans outstanding.

Insurance Company

Eligible Types of Assets for Collateral:

- Treasuries & other US Securities
- Agencies (e.g. FNMA & FHLMC)
- CMBS AAA , AA, A
- Municipal securities with real estate nexus
- Residential loans and Multi-family loans
- Commercial real estate loans

Custodian Options

1. Deliver to FHLBank Boston
2. Bank of America/US Trust
3. BNY Mellon
4. CitiBank
5. Fifth Third
6. JP Morgan
7. Northern Trust
8. State Street
9. Wells Fargo

2) Receive low cost funding

Borrowing capacity is 50 percent of admitted assets but could be limited due to amount of eligible collateral or financial condition

3) Purchase activity stock

May be redeemed after borrowing matures.

- Overnight term = 3 percent of borrowing
- > Overnight term = 4 percent of borrowing



Summary Level Steps to Membership

STEP 1 **See FHLBank Boston website for membership application**

STEP 2 **Have the insurance entity's Board of Directors pass a corporate resolution** (see application)

STEP 3 **Have insurance regulator acknowledge membership**

STEP 4 **Submit Application with following**

- Statement that company supports housing finance mission by investing in related assets (MBS, etc.)
- Last quarterly and year-end statement filed with state commissioner, most recent regulatory examination report
- Brief bio of Senior Management, Most recent annual report, By-laws and Articles of Incorporation
- Statement that you meet NAIC capital requirements (Risk Based Capital > minimum)
- List of established lines of credit
- Correspondent Services Agreement (in the application package)

STEP 5 **Upon approval of membership or earlier:**

- Submit legal counsel opinion (see application) #1 – 6 can be house counsel, #7 – 9 outside counsel
- Establish authorities with the Bank
- A custodian account will be established
- Purchase membership stock within 60 days of approval



Active FHLBank Boston Membership