

Markets and Balance Sheet Strategies Update

May 25, 2021



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Presenters



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Financial Strategist

Overview

- Markets & Economy Update
- Call Report Trends
- Balance Sheet Strategies

Not on the Agenda Today

GameStop



Markets and Economy Update



Markets & Economy Update

- Short- and Long-Term Rates
- Mortgage Market Conditions
- Risk Monitors
- Economic Trends & Vaccination Progress

Change in Short-Term Yields

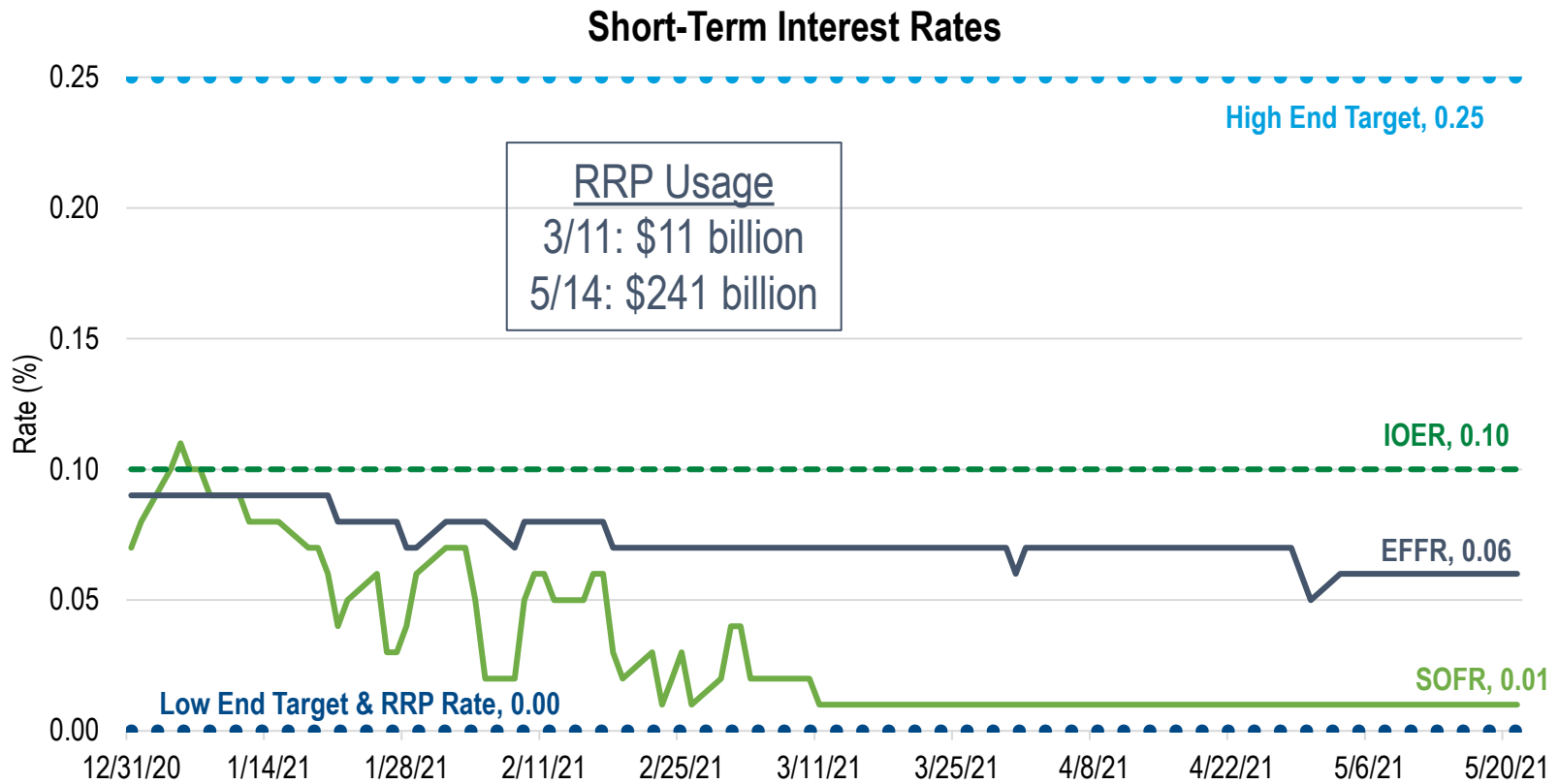
The trend continues; short rates are low, but they keep going lower

	1-Month Treasury	3-Month Treasury	6-Month Treasury	12-Month Treasury	SOFR	Fed Funds	1-Month LIBOR	3-Month LIBOR
12/31/20	0.08%	0.09%	0.09%	0.10%	0.07%	0.09%	0.14%	0.24%
1/31/21	0.07%	0.06%	0.07%	0.10%	0.06%	0.07%	0.12%	0.20%
2/28/21	0.04%	0.04%	0.06%	0.08%	0.01%	0.07%	0.12%	0.19%
3/31/21	0.01%	0.02%	0.04%	0.07%	0.01%	0.06%	0.11%	0.19%
4/30/21	0.01%	0.02%	0.03%	0.05%	0.01%	0.05%	0.11%	0.18%
5/18/21	0.01%	0.01%	0.03%	0.05%	0.01%	0.06%	0.10%	0.15%
December vs. May	-0.07%	-0.08%	-0.06%	-0.05%	-0.06%	-0.03%	-0.04%	-0.09%

Source: Federal Reserve Bank of St. Louis

Front-End Adjustments

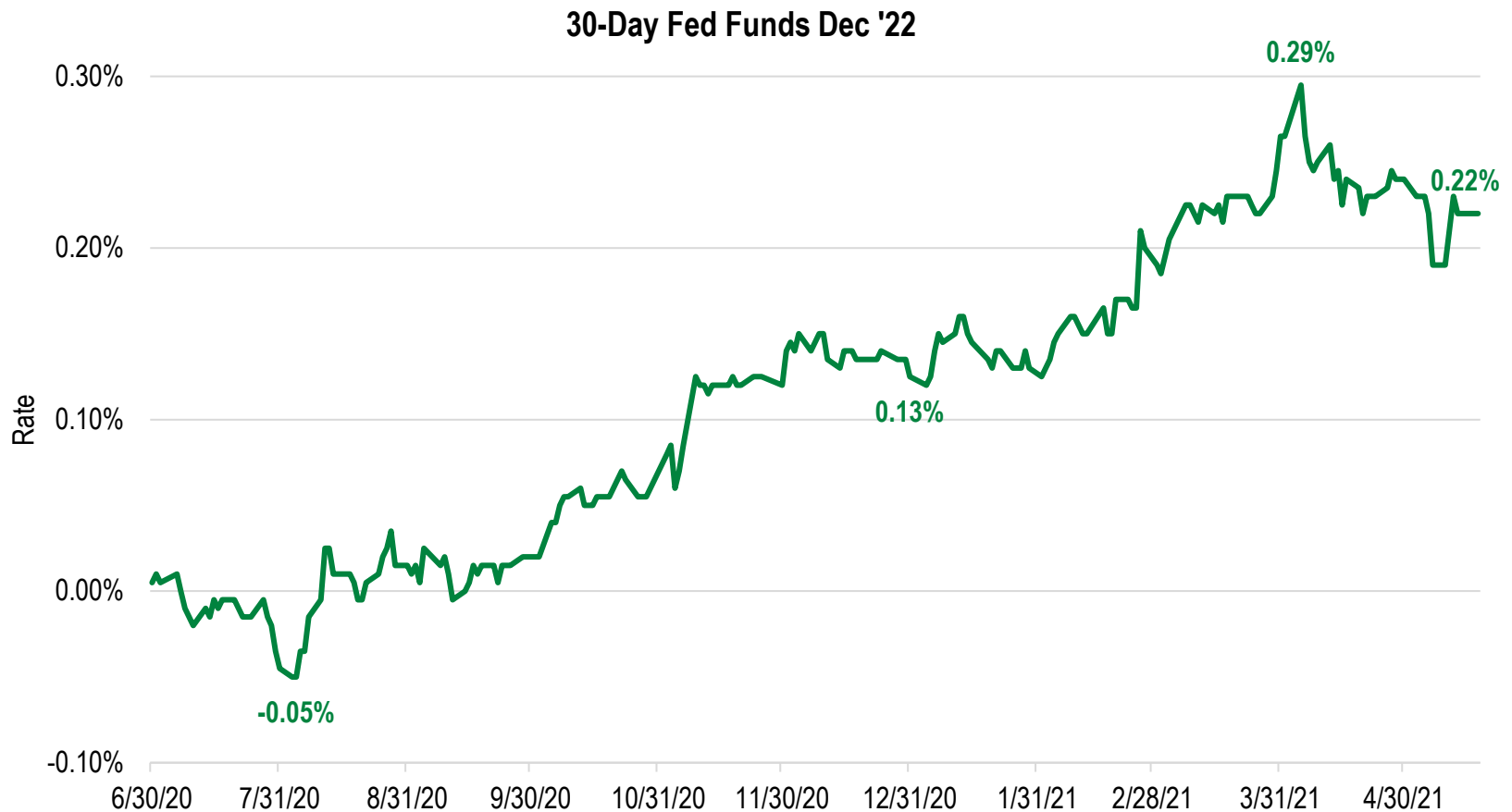
Proximity to the zero bound could prompt tweaks to Interest on Excess Reserves or Reverse Repo Program



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

When Will Short Rates Rise?

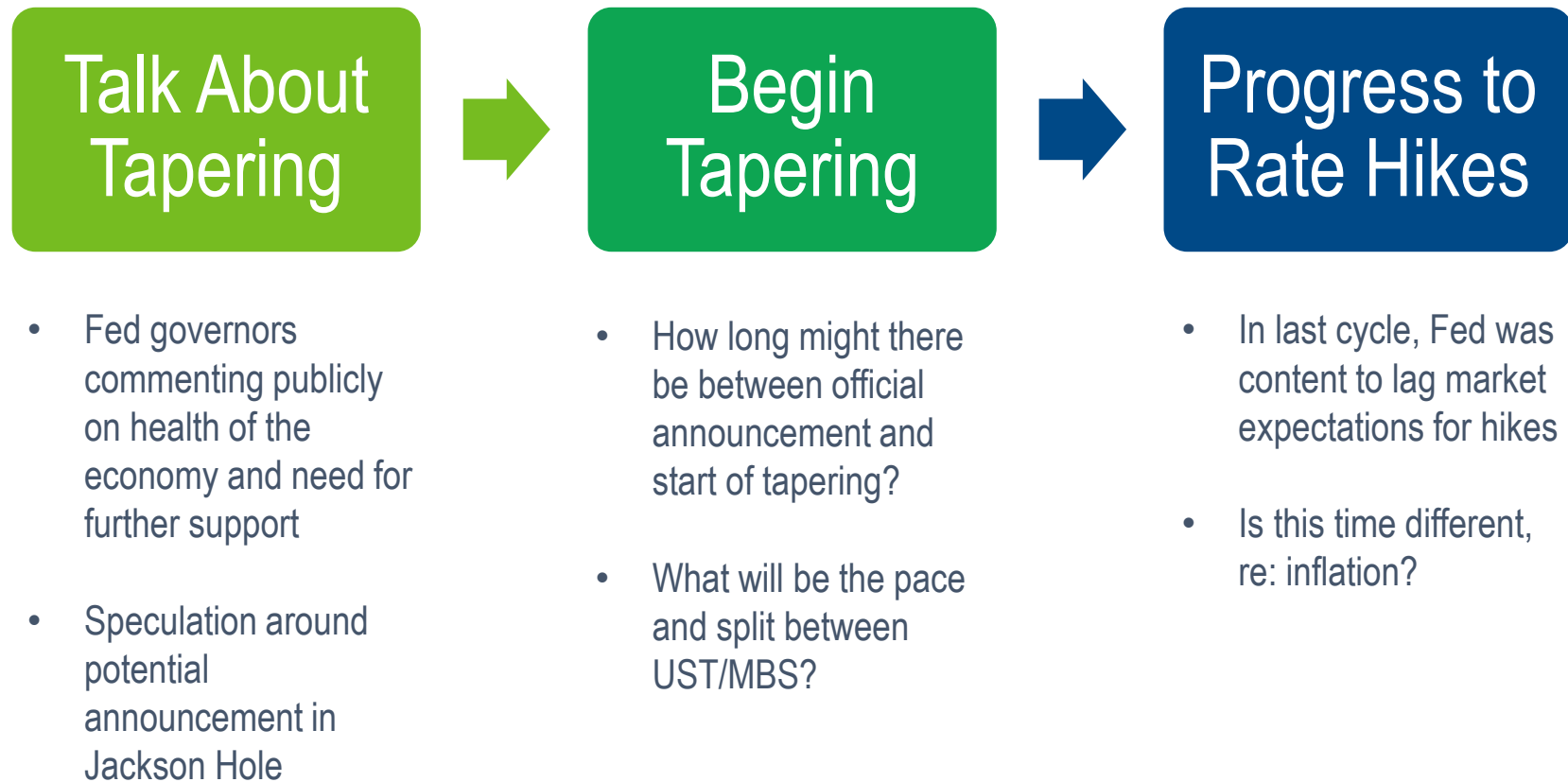
Hike expectations had been creeping into 2022; bond rally and weak jobs report tempered that



Source: Yahoo Finance, FHLBank Boston

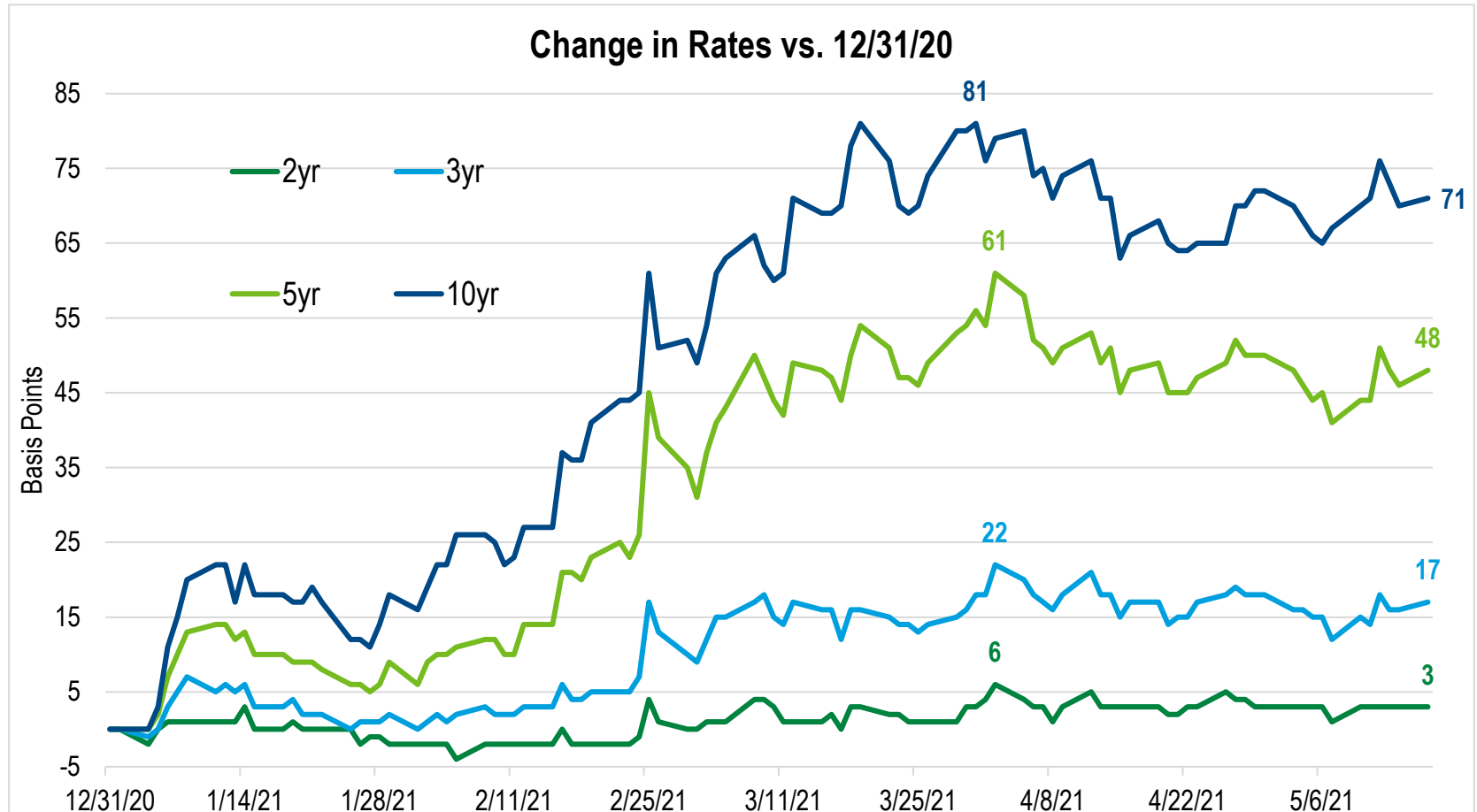
Taper Timeline

Some comments from Fed officials on impact of monetary support, no official signaling yet



Long-Term Rates

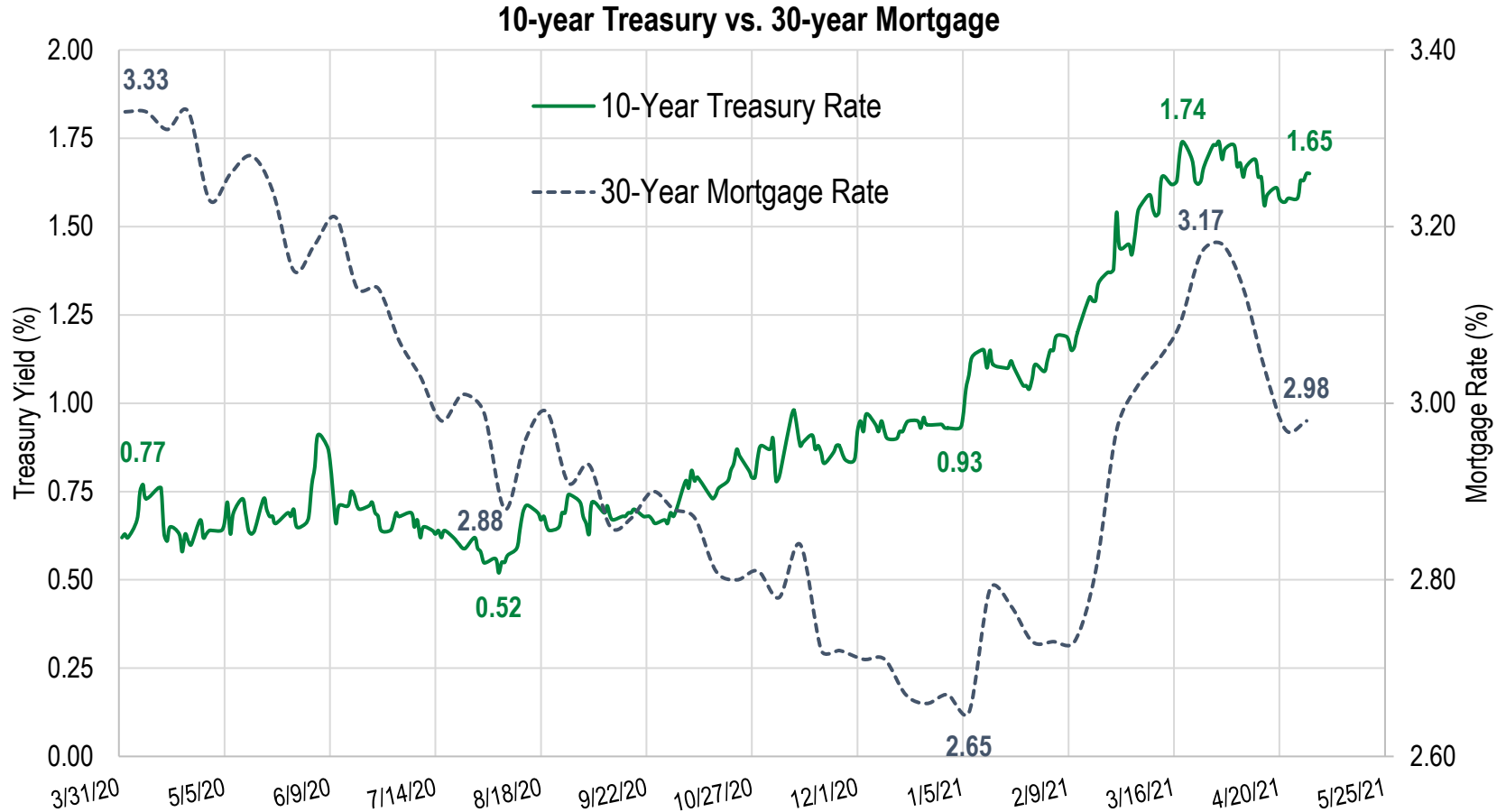
Considerable weakness in longer maturities has brought some steepness back into the curve



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

Mortgage Rates

After lagging the rate selloff, mortgage rates have rallied and outperformed

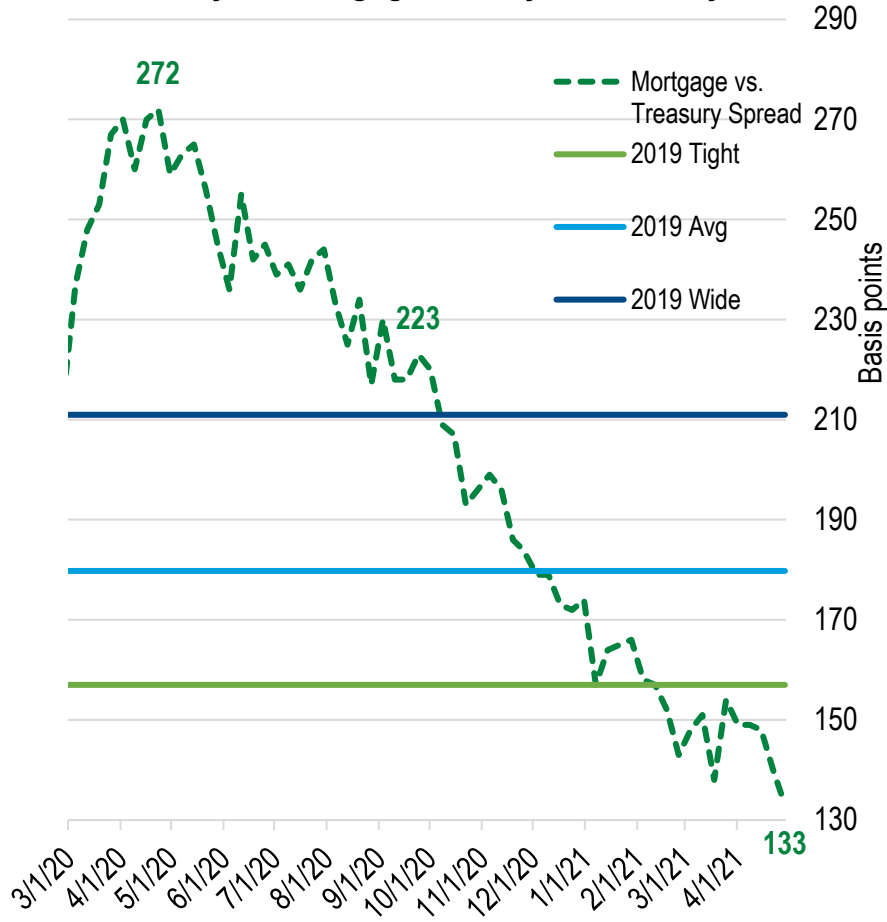


Source: Federal Reserve Bank of St. Louis, Freddie Mac, FHLBank Boston

Mortgage Spreads

Loan spreads tightening, MBS spreads stronger after widening as volatility increased

30-year Mortgage vs. 10-year Treasury



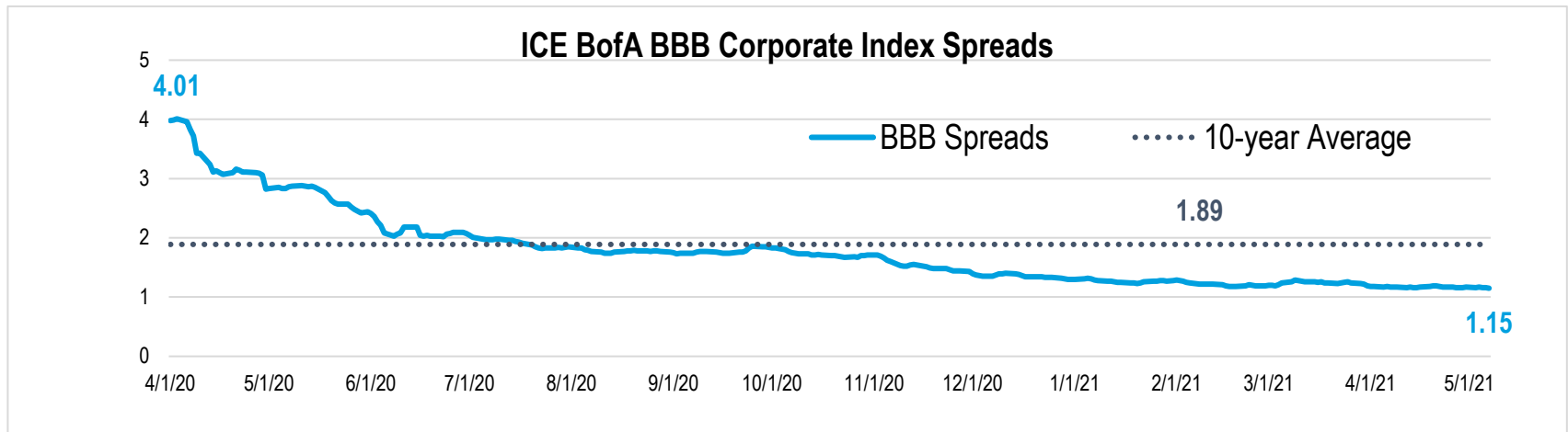
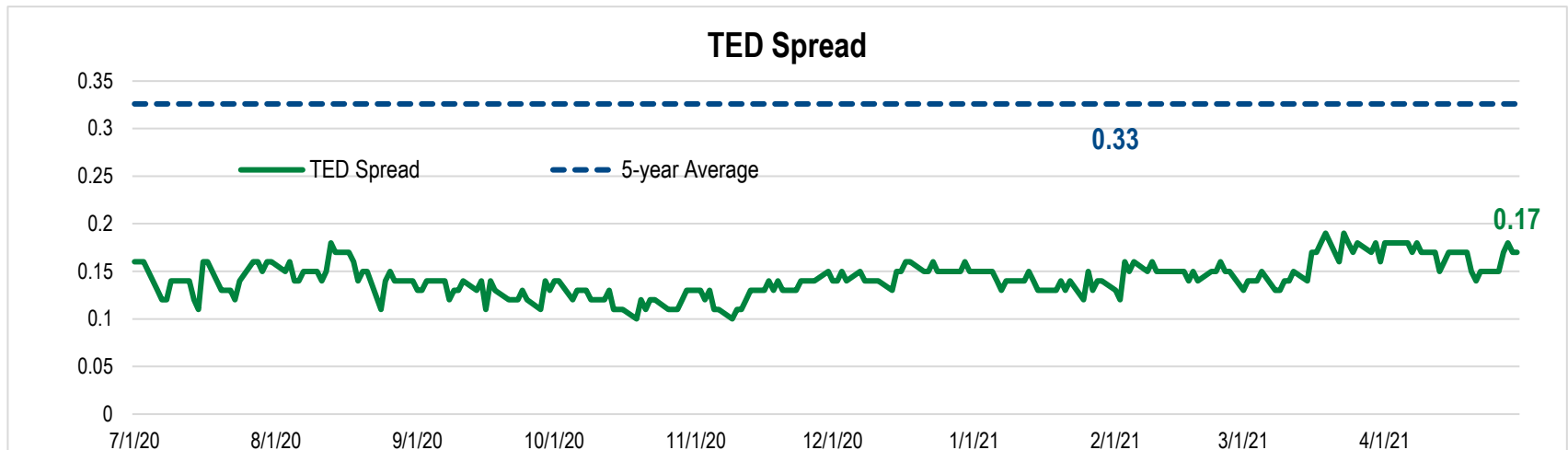
20-Year MBS Spread vs. 5-year Treasury



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

Risk Monitors

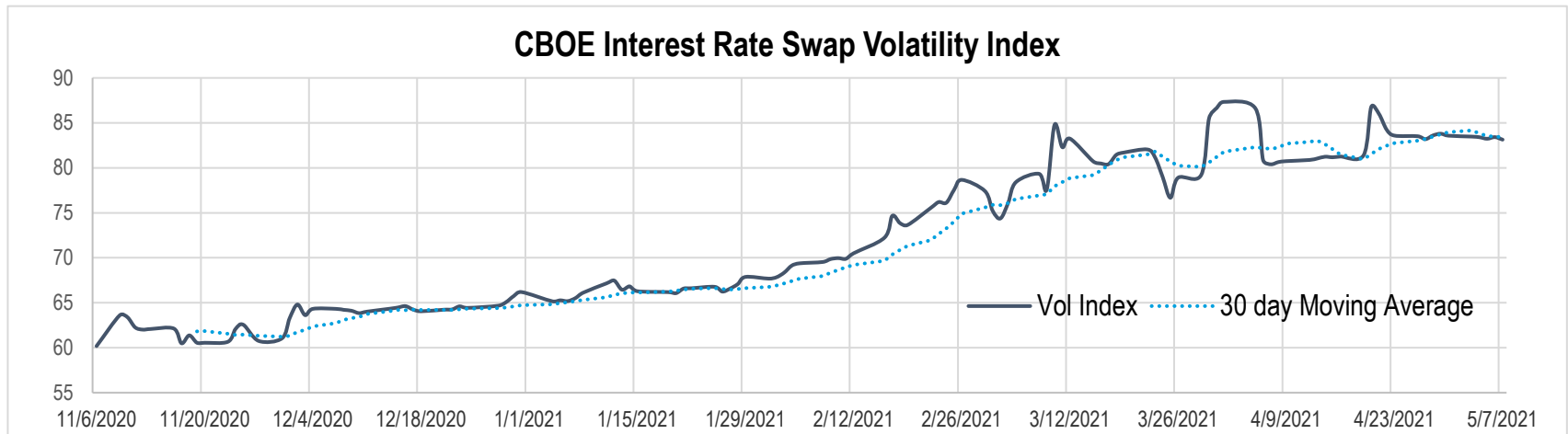
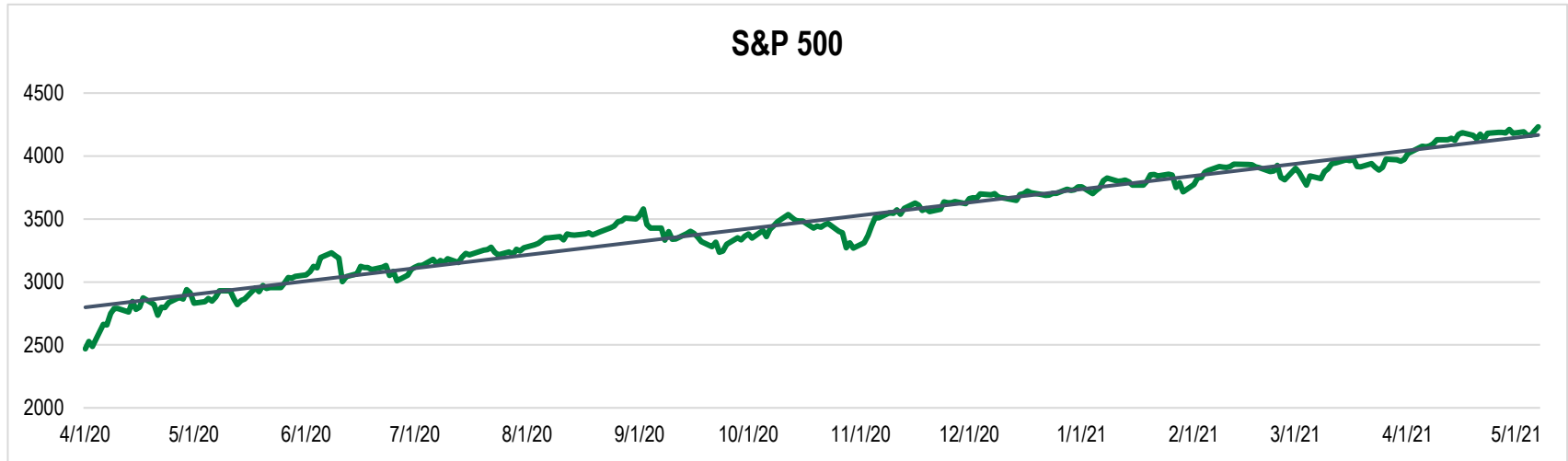
Minimal signs of stress in funding and credit markets



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

Risk Monitors

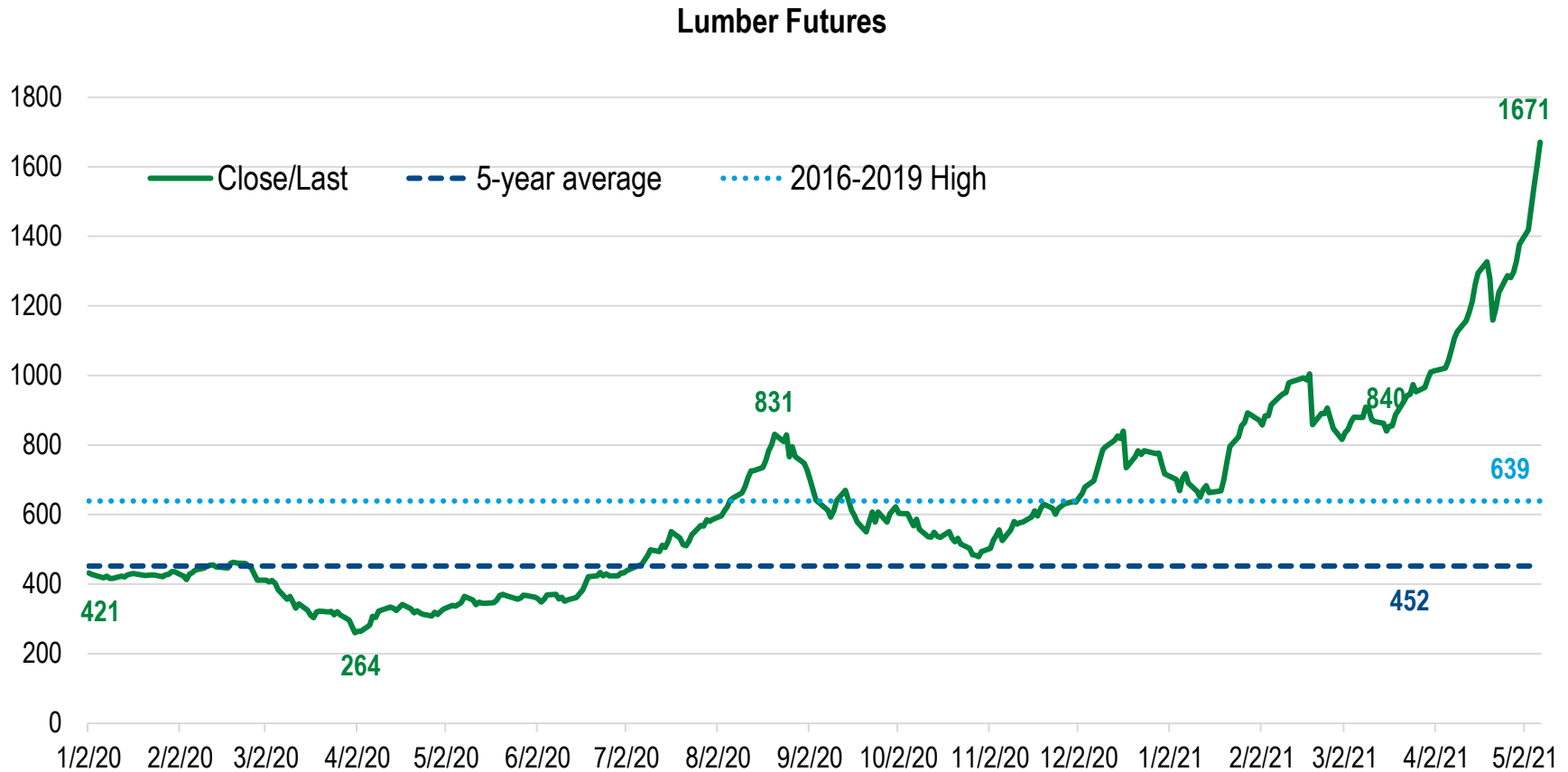
Equities continue their upward trajectory; some signs of higher volatility with interest rates



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

Economic Indicators

Signs of inflation creeping into commodities pricing

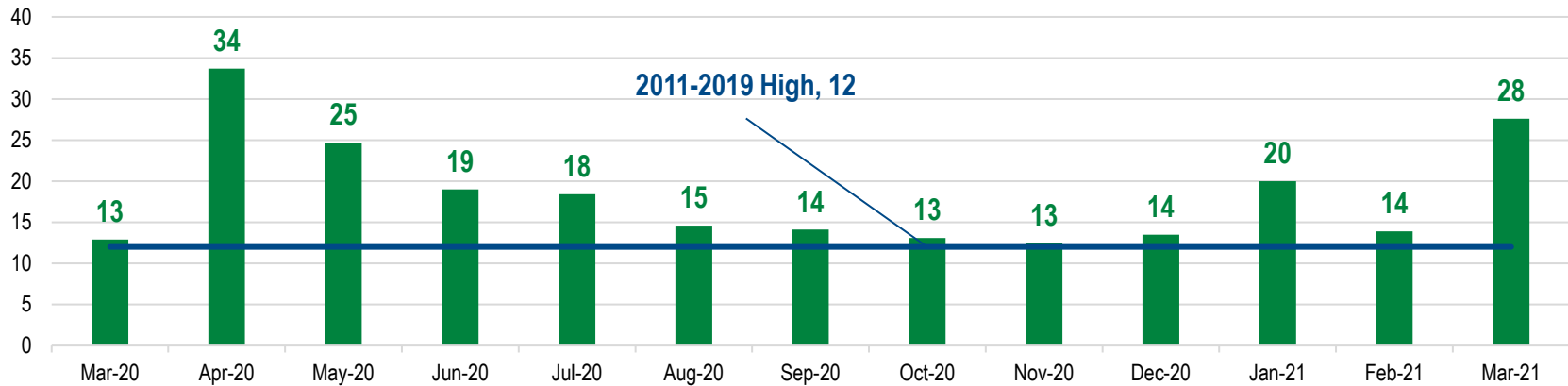


Source: Federal Reserve Bank of St. Louis, Nasdaq, FHLBank Boston

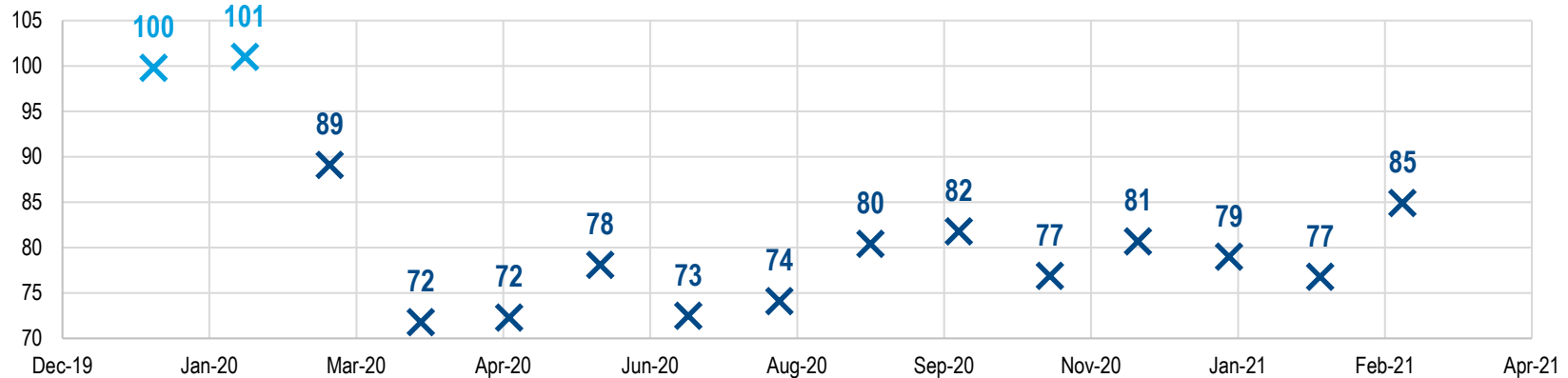
Economic Indicators

Some return towards normalcy, but caution from consumers is still lingering

Personal Savings Rate (%)



University of Michigan Consumer Sentiment Index

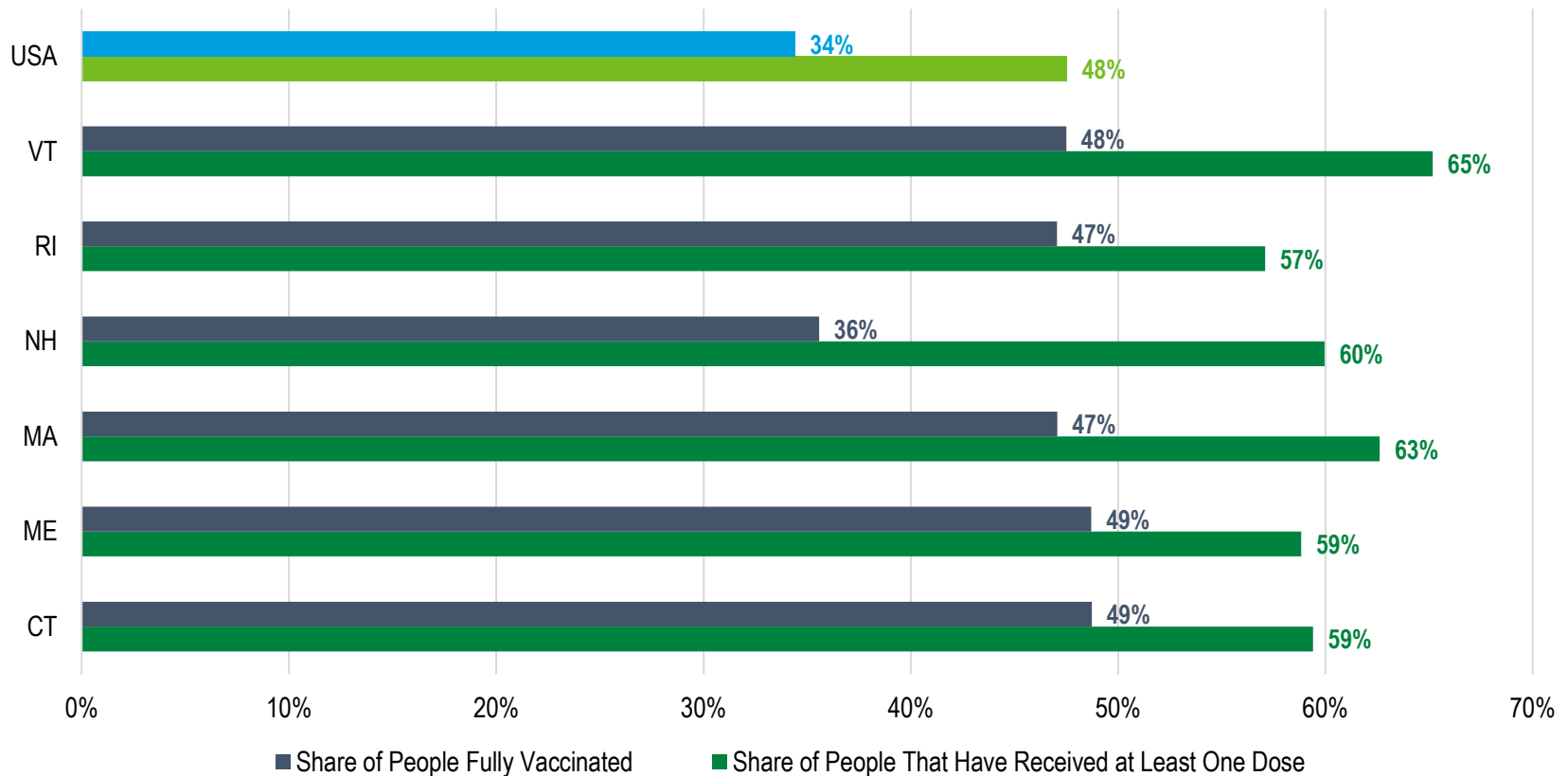


Source: Federal Reserve Bank of St. Louis, Nasdaq, FHLBank Boston

Vaccination Progress

New England well ahead of the rest of the country in vaccines administered

Vaccination Progress
(through 5/17/21)



Source: ourworldindata.org

Call Report Trends



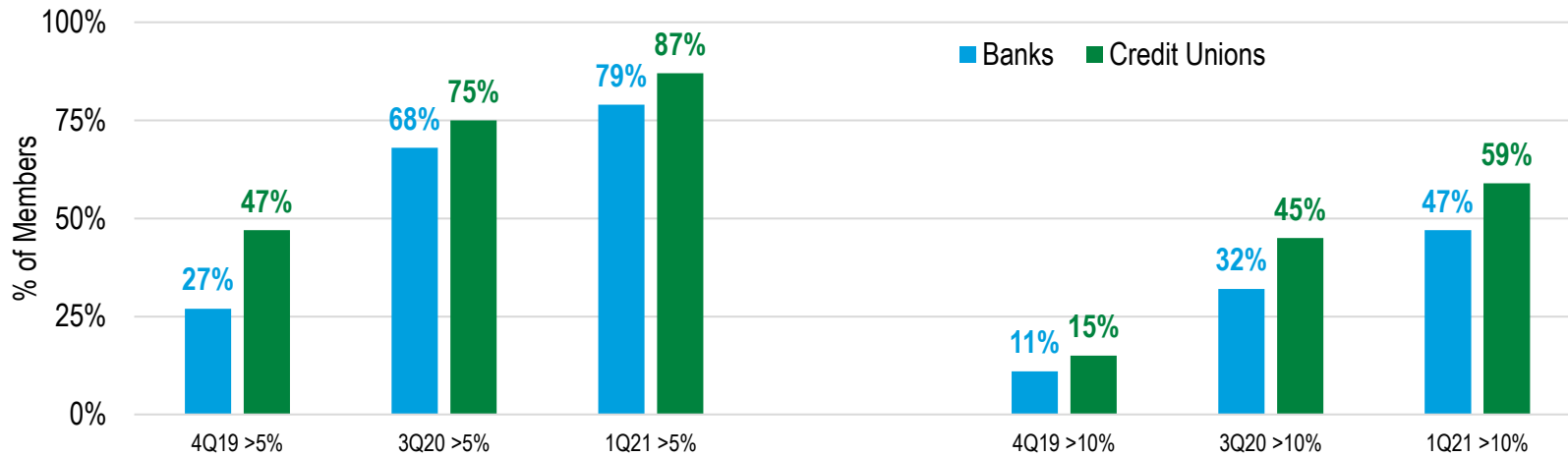
Call Report Trends

- Liquidity
- Deposits
- Loans
- Interest-Rate Risk
- Margins & Yields
- Investments
- Credit
- Valuation

Cash Build-Up Continues

Cash on hand keeps rising from already elevated levels

Members with Cash Above 5% and 10% of Assets



% of Members Who Grew Cash Quarter over Quarter

	1Q20	2Q20	3Q20	4Q20	1Q21
Banks	74%	83%	65%	64%	72%
Credit Unions	80%	80%	51%	80%	74%

Source: S&P Global, FHLBank Boston

Deposit Inflows

Huge growth in deposits, aided by stimulus — more for smaller credit unions vs. larger banks

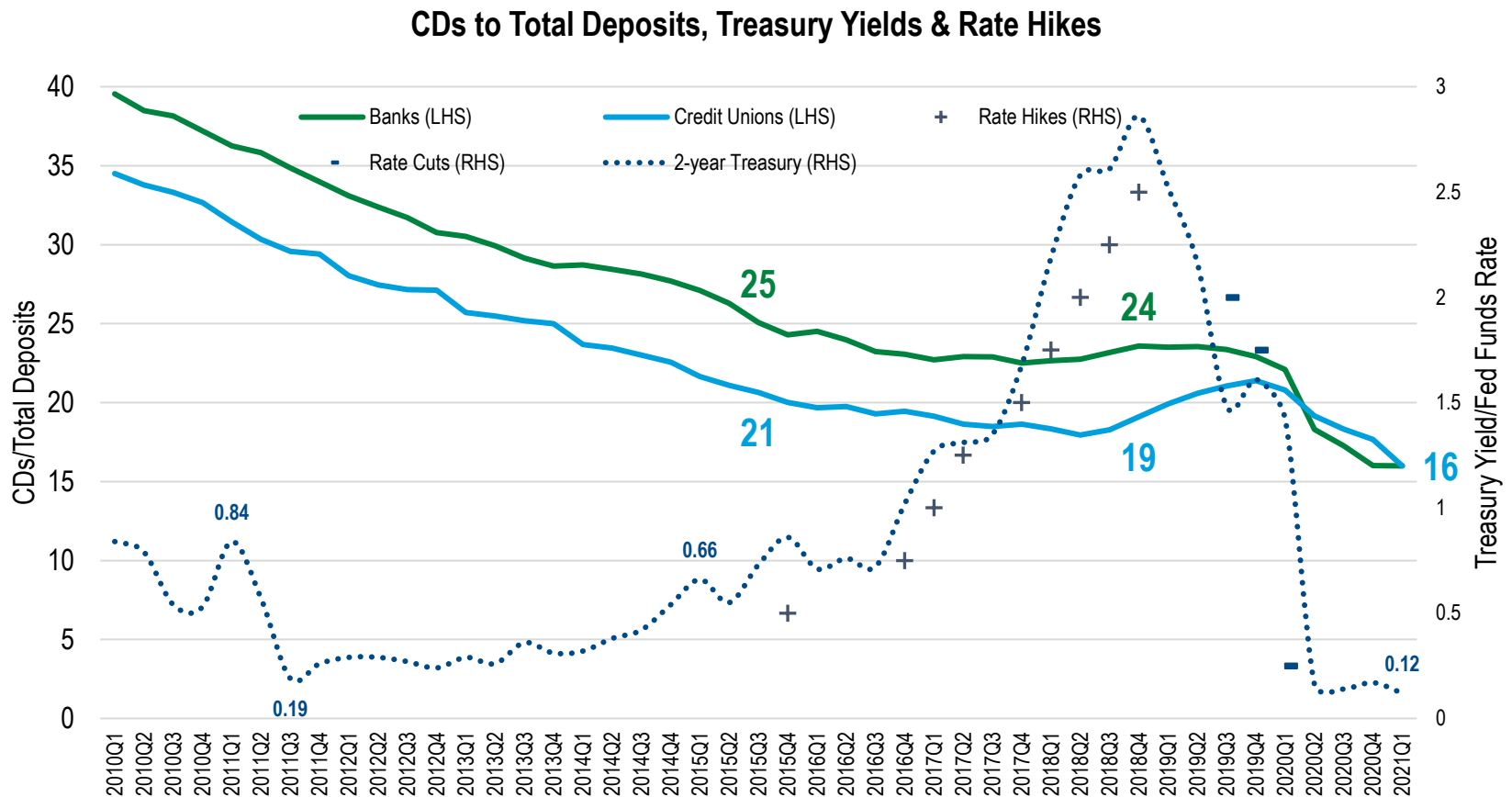
Growth in Non-Maturity Deposits Quarter over Quarter



Source: S&P Global, FHLBank Boston

Shrinking Term Deposits

The customer preference shift away from CDs was happening long before COVID



Source: S&P Global, Federal Reserve Bank of St. Louis, FHLBank Boston

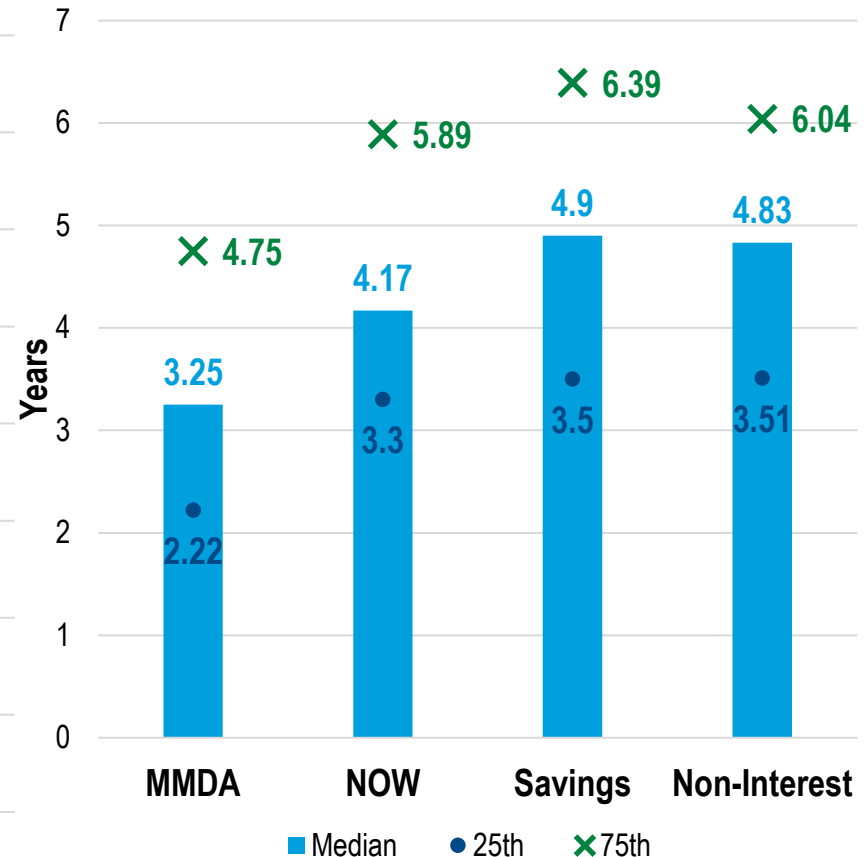
Interest-Rate Risk Profile

OCC Spring 2021 Interest-Rate Risk Statistics Report shows asset sensitivity with sticky deposits

Median: 12-Month Earnings at Risk



Non-Maturity Deposit Average Lives



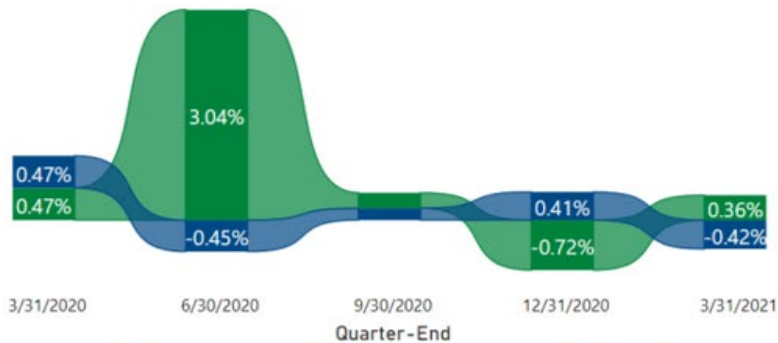
Source: Office of the Controller of the Currency, FHLBank Boston

Loan Growth

Overall growth still muted (negative ex-PPP); some pockets of optimism by geography and loan type

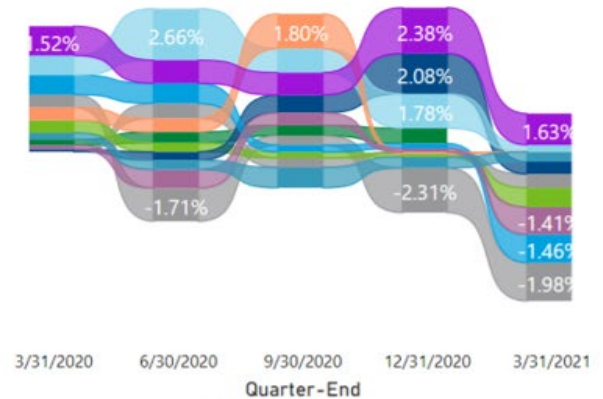
QOQ Loan Growth (All Depositories)

● QOQ Loan Growth ● QOQ Loan Growth (without PPP)



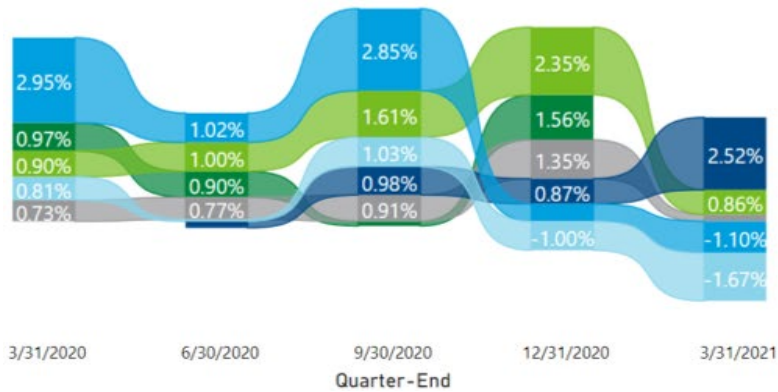
Closed-End 1st Lien 1-4 Family QOQ Growth (All Depositories)

● CT
 ● Greater Boston
 ● Greater Boston-North
 ● Inside 495-North
 ● ME
 ● MetroWest
 ● NH
 ● RI
 ● Southeastern MA
 ● VT
 ● Western MA (West of 495)



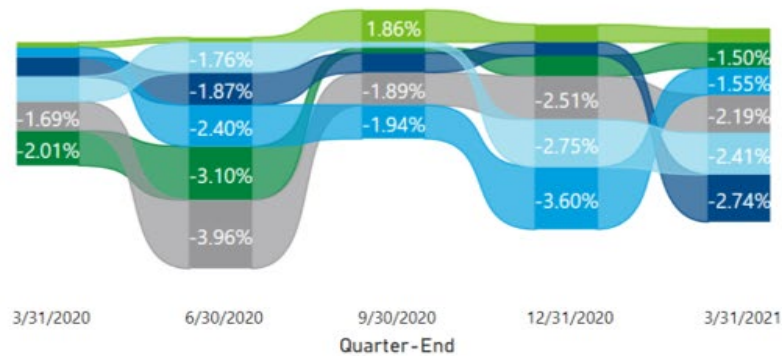
QOQ Commercial Real Estate Growth (Banks)

● CT ● MA ● ME ● NH ● RI ● VT



QOQ Auto Loan Growth (Credit Unions)

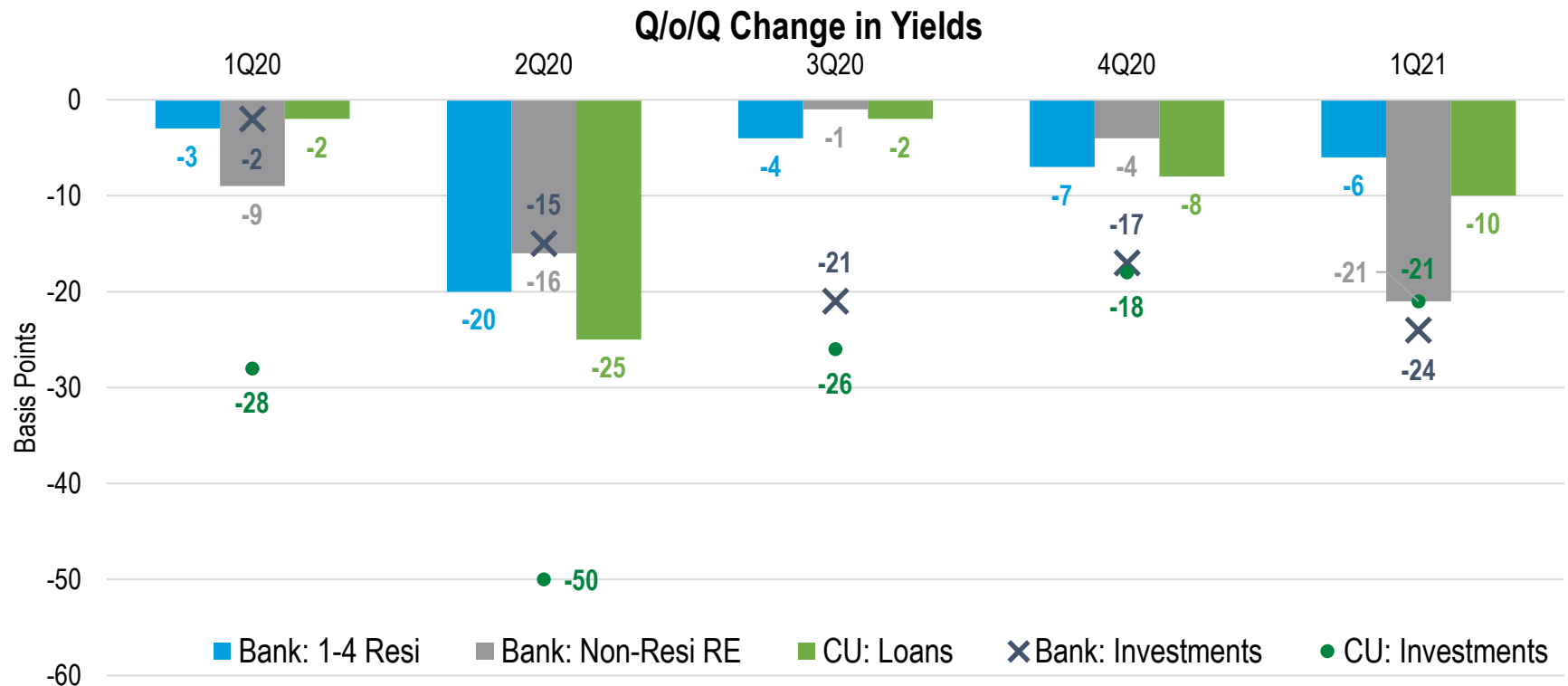
● CT ● MA ● ME ● NH ● RI ● VT



Source: S&P Global, FHLBank Boston

Pressure on Yields

Assets continue to reprice lower; residential yields holding, and marginal investment can be accretive



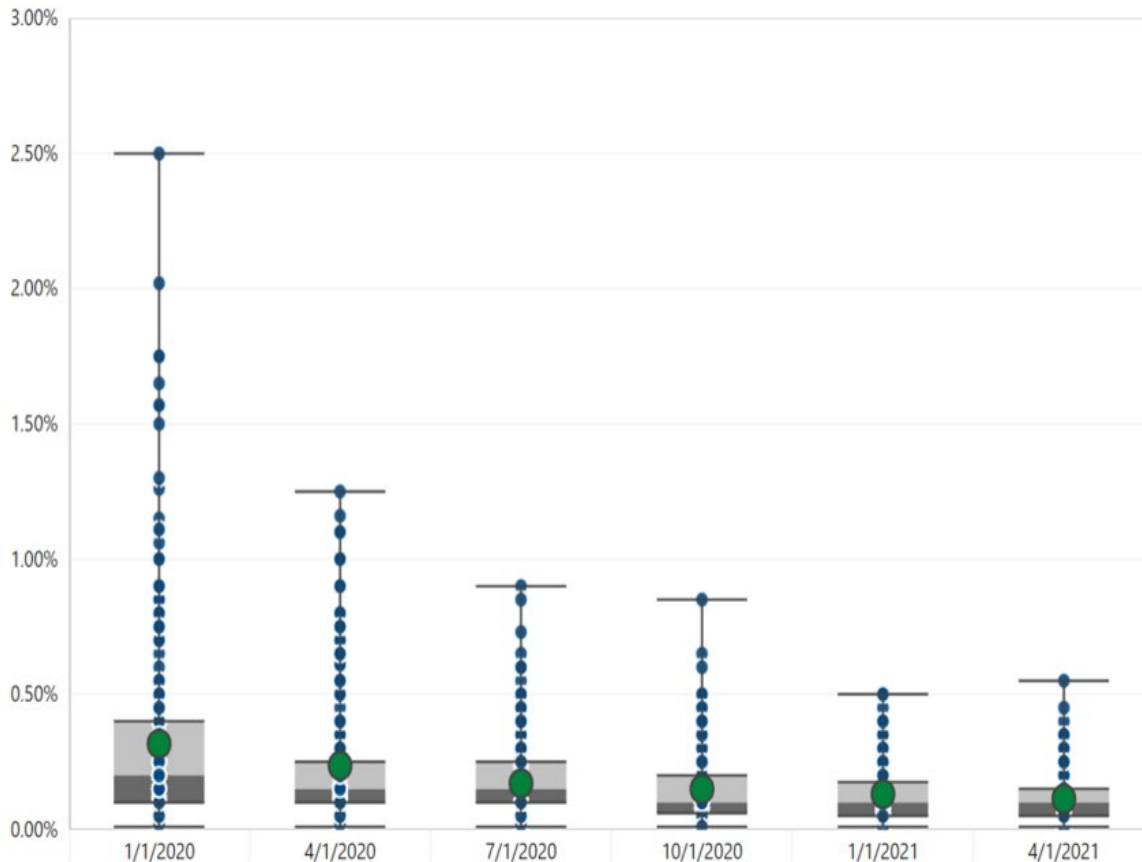
1Q21 Yields					1Q21 Yields				
1-4 Resi	3.69%	Non-Resi RE	4.37%	Investments	1.88%	Loans	4.18%	Investments	0.65%

Source: S&P Global, FHLBank Boston

Deposit Pricing

Most have brought Non-Maturity Deposit rates down almost to zero – some still in 0.25-0.50% range

FHLBank Boston Depository Member - Money Market \$10k Rates



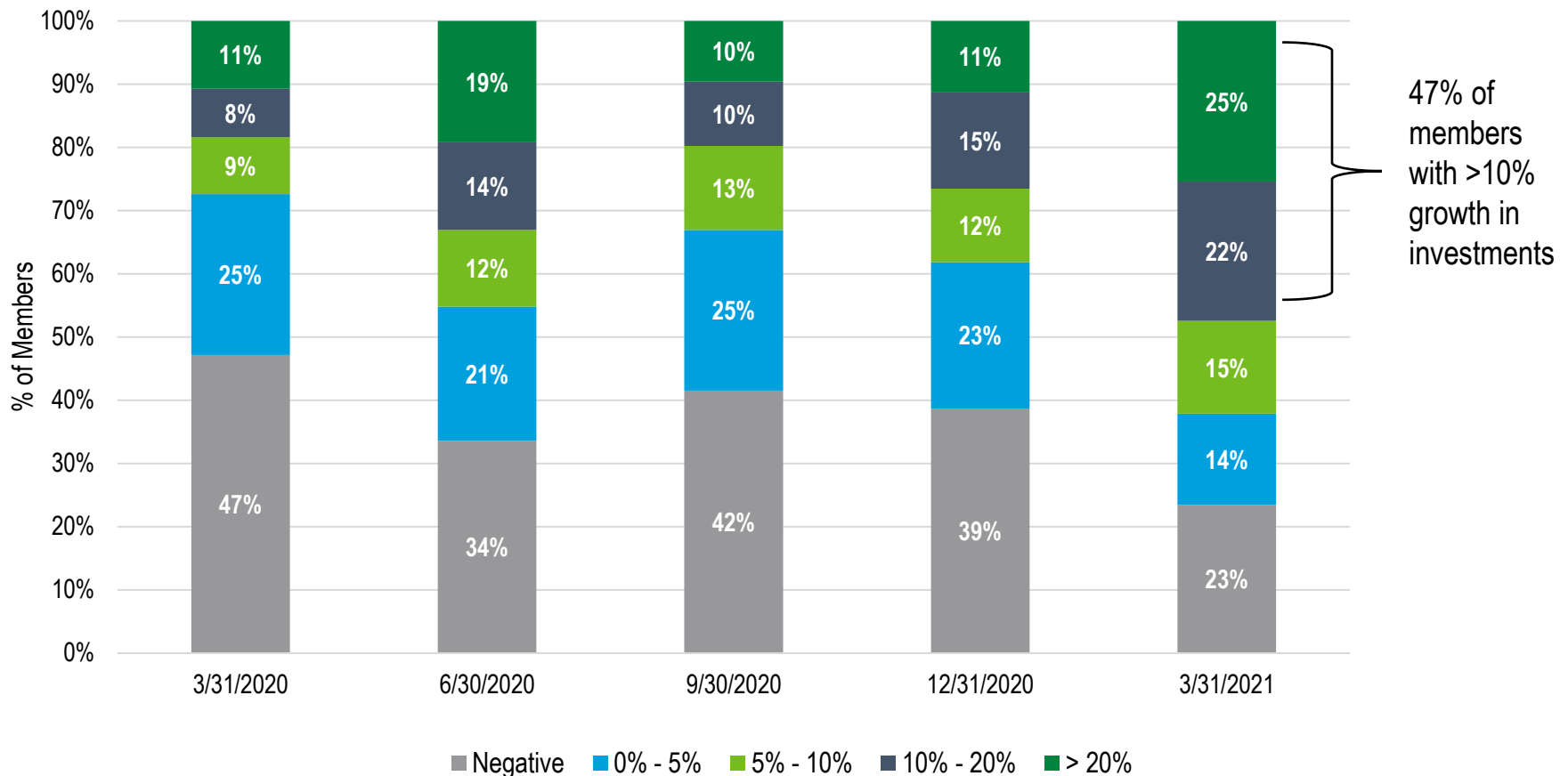
	25th percentile	Median	75th percentile
1/1/20	0.10%	0.20%	0.40%
4/1/20	0.10%	0.15%	0.25%
7/1/20	0.10%	0.15%	0.25%
10/1/20	0.05%	0.10%	0.20%
1/1/21	0.05%	0.10%	0.18%
4/1/21	0.05%	0.10%	0.15%

Source: S&P Global, FHLBank Boston

Investment Growth

Notable shift in strategy — more aggressive deployment of excess liquidity into securities

Quarter over Quarter Investment Portfolio Growth

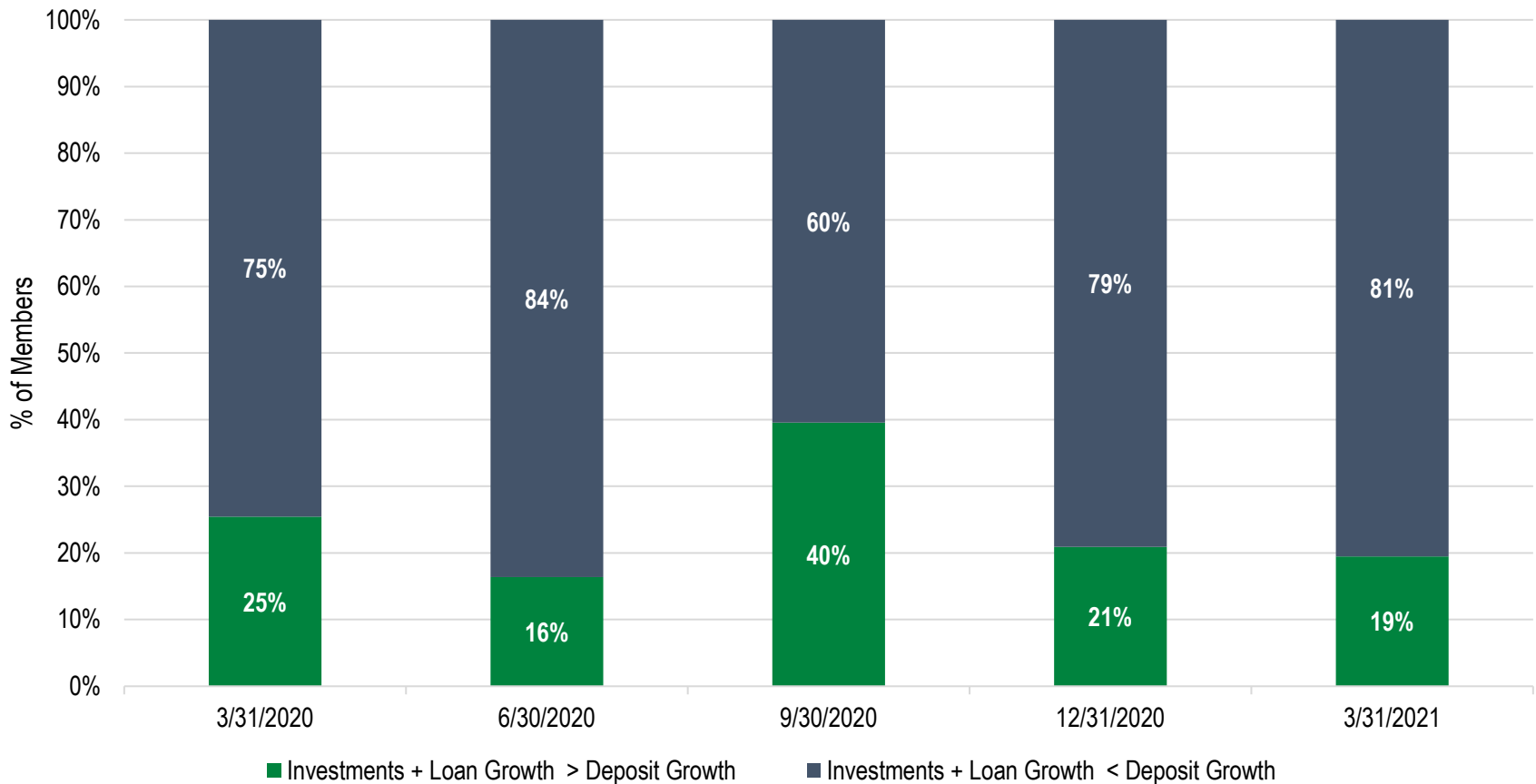


Source: S&P Global, FHLBank Boston

Replacing Inflows

Despite greater investment activity, most still not able to keep pace with deposit and liquidity build

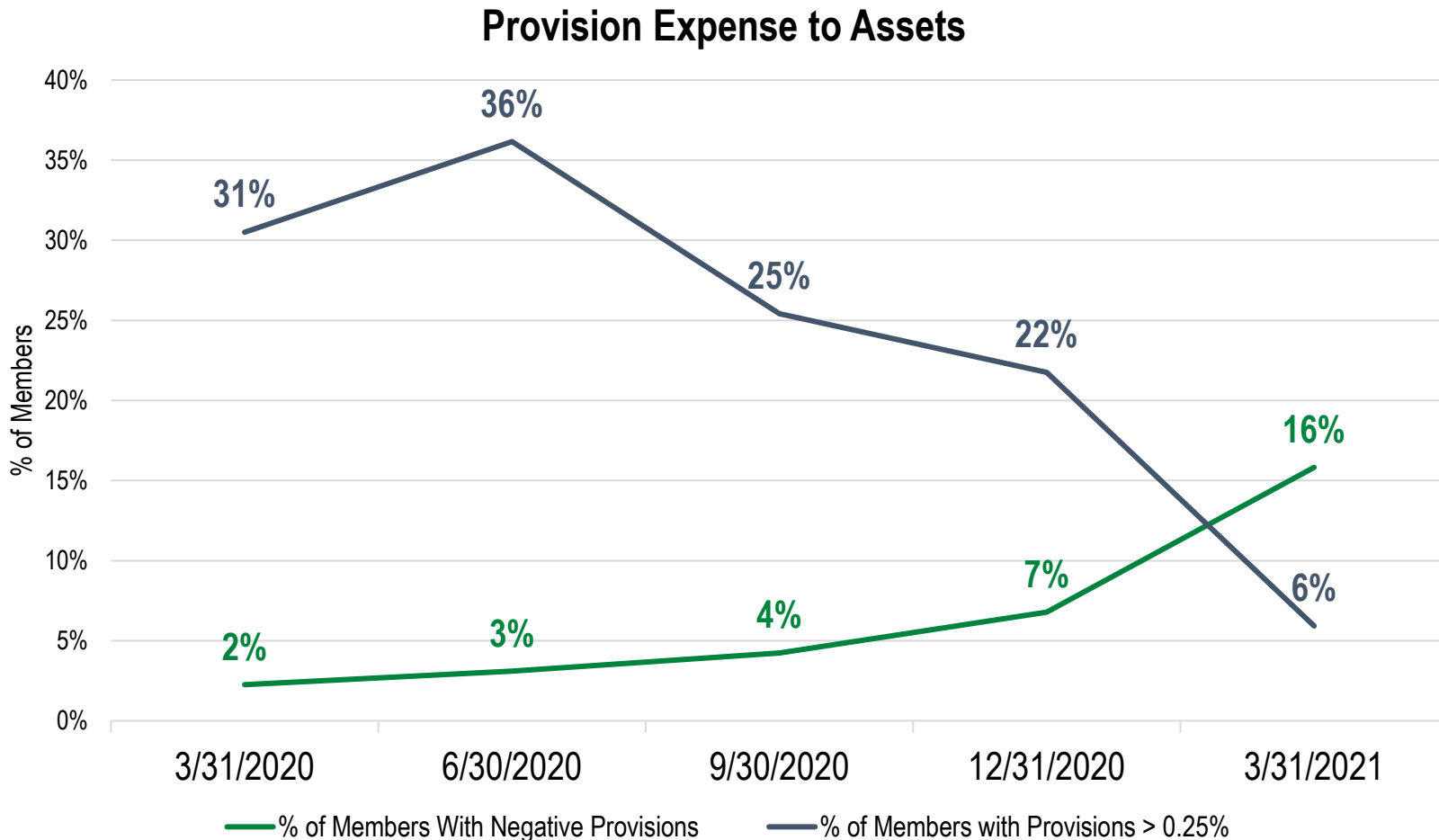
Investment + Loan Growth vs. Deposit Growth



Source: S&P Global, FHLBank Boston

Improving Credit Expectations

Fewer members taking larger provision expenses and more releasing previously built-up reserves

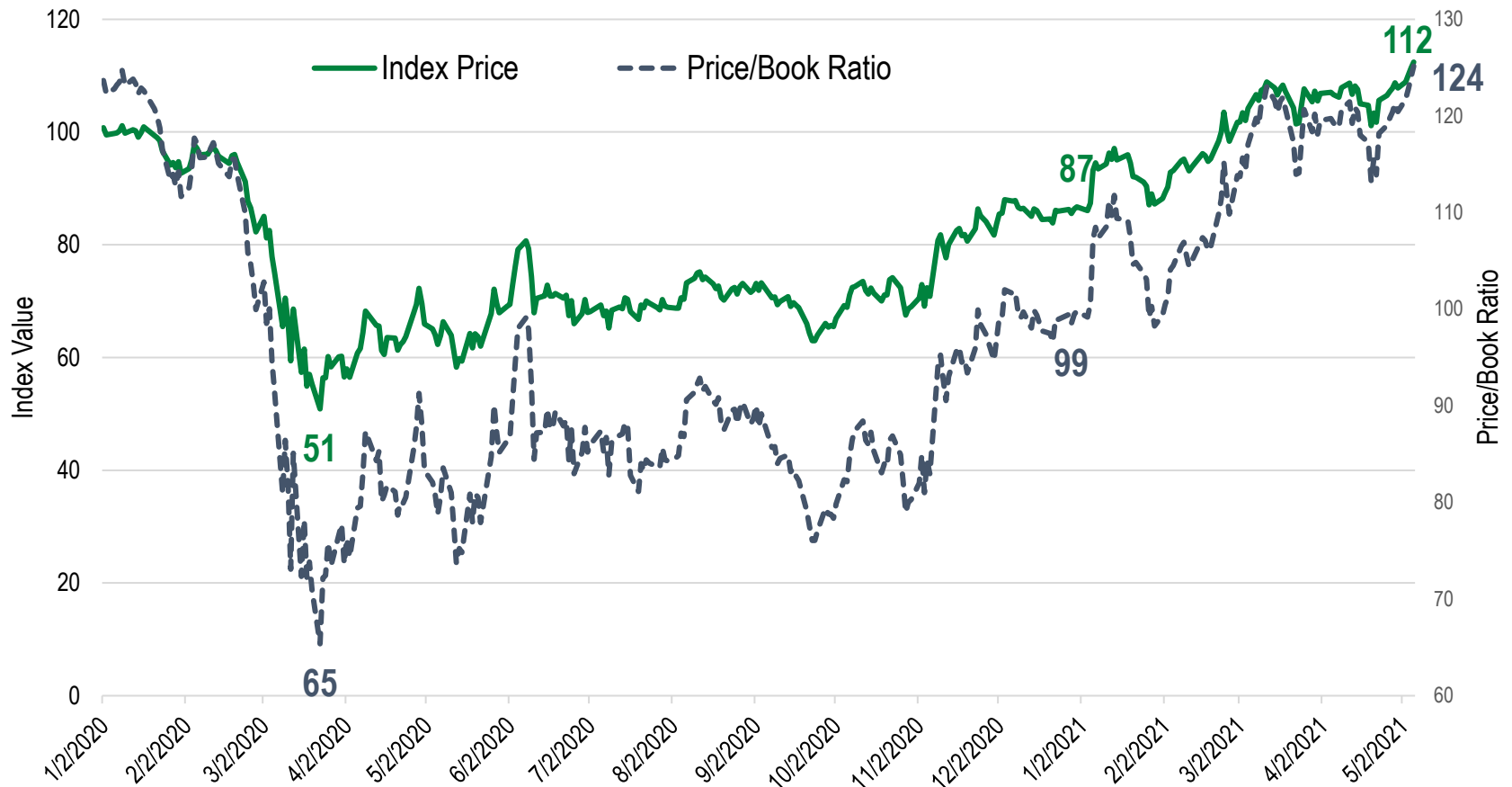


Source: S&P Global, FHLBank Boston

Public Bank Performance

Bank stocks continue to recover and thrive, benefitting from a steeper curve and improving economy

FHLBank Boston Public Bank Members Index: Stock Performance and Price/Book Ratio



Source: S&P Global, FHLBank Boston

Balance Sheet Strategies



Balance Sheet Strategies

- **Right-size liquidity levels**
 - Hold elevated cash for a pick-up in loan growth?
 - Keep or sell (or buy?) loans?
 - What to do with investments?
 - Are there any deposit levers left to pull?
- **Best funding ideas**
 - Inverted 1-year part of the curve
 - Discounted housing advances
 - Forward-starting advances

Hold Cash for Loan Growth?

Holding excess cash may not be needed to meet liquidity needs for a dynamic balance sheet

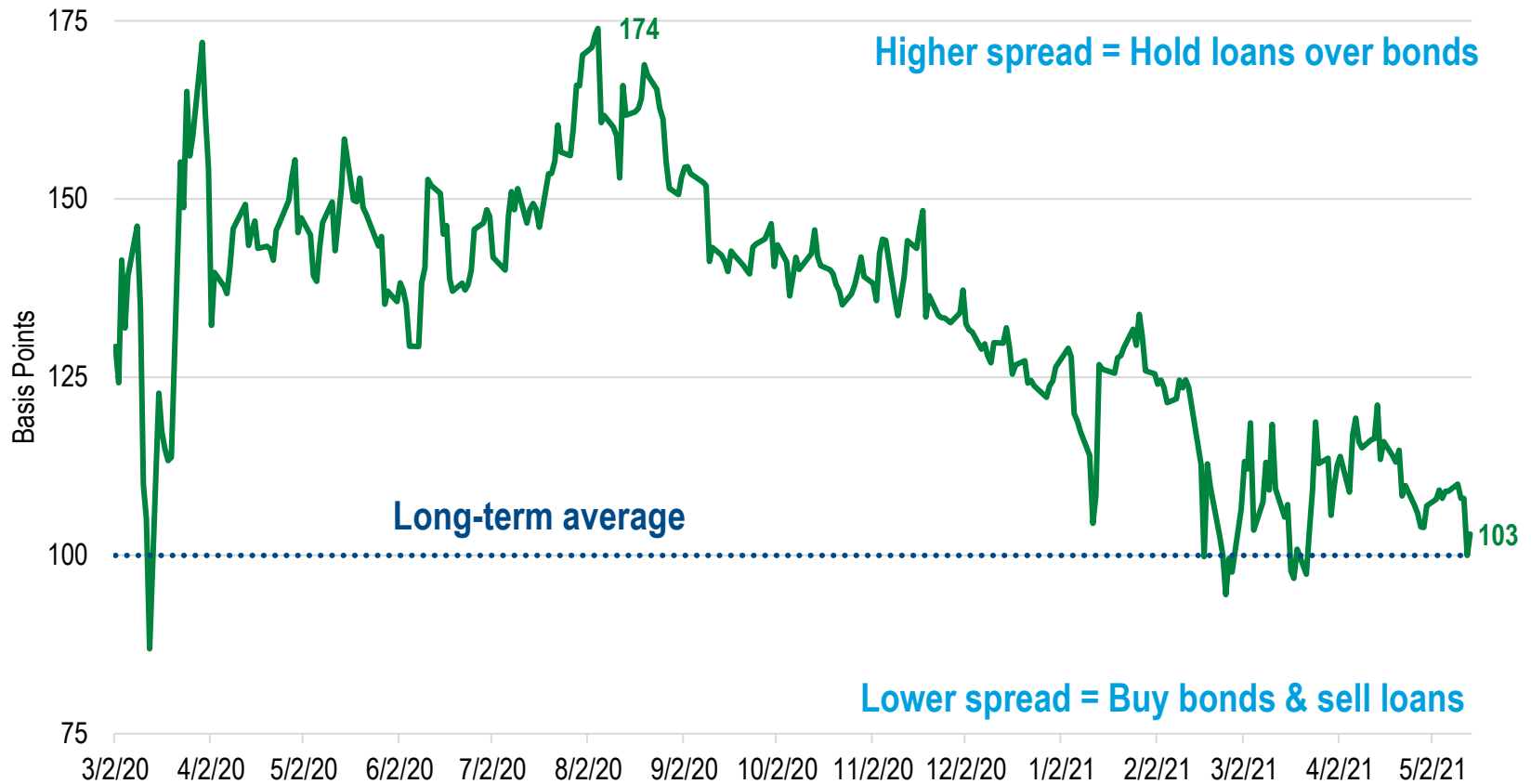


- Questions to ask & quantify:
 - Loan origination and investment purchase activity may be high, but is it just replacing cash flows?
 - Will loan growth make up for the slowdown of the last year, or will it just be “normal” going forward?
 - Will any of the deposit surge reverse? When? Slow decay or sharp reversal?
 - **Can you originate 25% of your asset size in loans just to grow loans by 10%?**
 - That’s what it will take for many to use up existing cash (before factoring in impact of multi-quarter drag on margins)

Keep/Sell Loans?

Loan spreads have tightened vs. MBS spreads; deploying cash into bonds now relatively more appealing

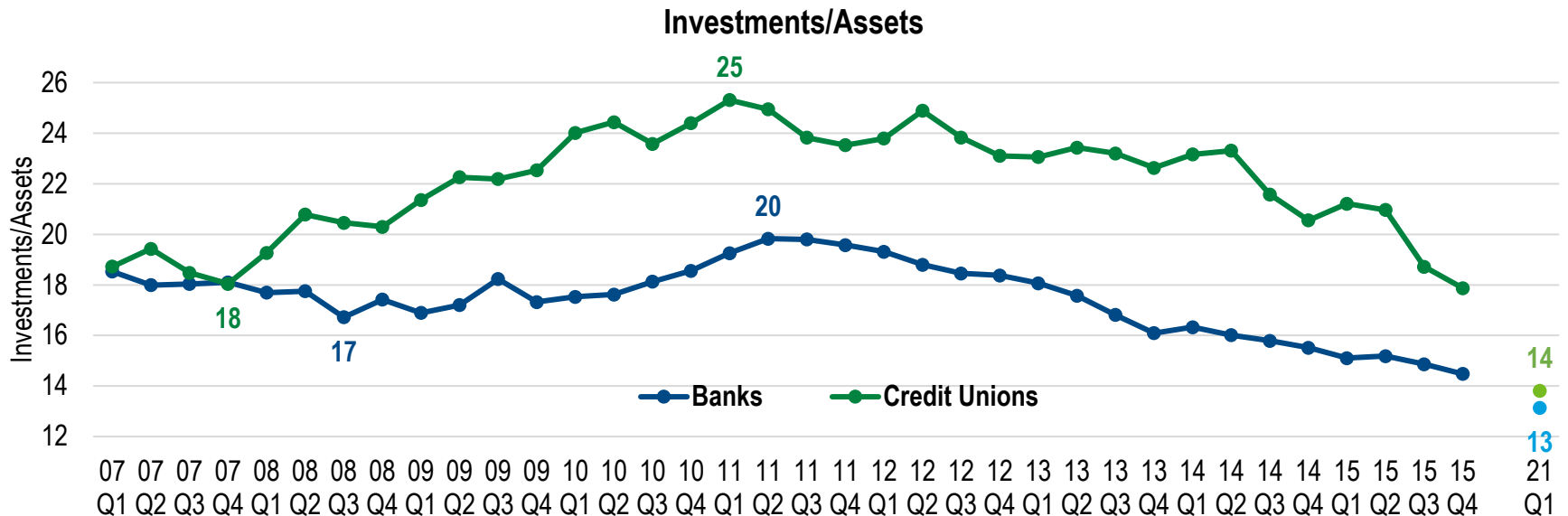
Primary/Secondary Spread (30y Mortgage Rate less 30y MBS Yield)



Source: Fannie Mae, Freddie Mac, FHLBank Boston

What to do with Investments?

Reliance on securities still below post-GFC levels; flexibility to manage interest-rate risk, liquidity, margin

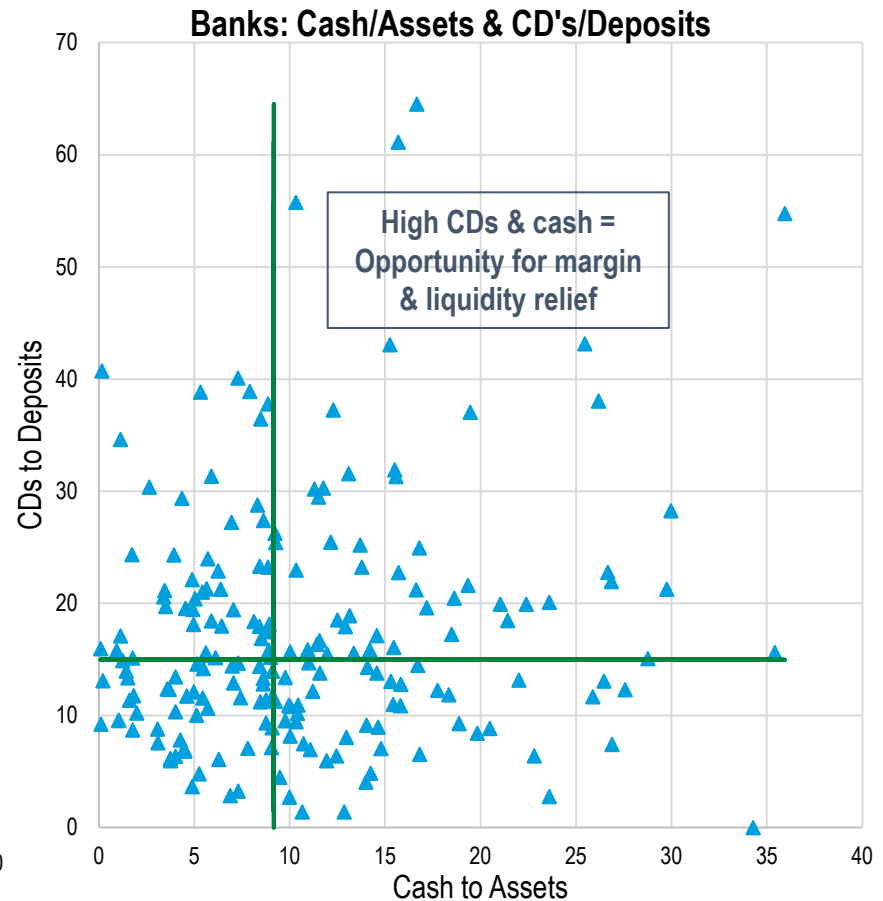
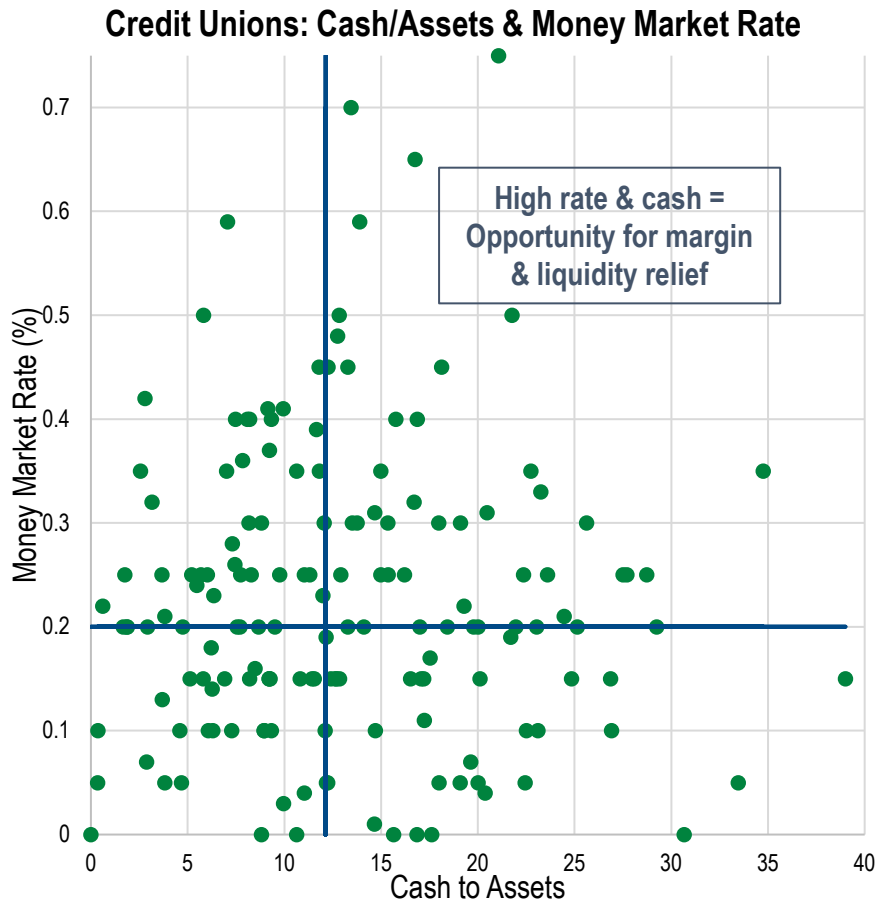


Source: S&P Global, FHLBank Boston

- **Portfolio works for the balance sheet, not in a vacuum**
- **Use your access to just-in-time liquidity from advances to your advantage**
- **Asset sensitive?**
 - Steeper curve offers more yield while mitigating balance sheet risk (rates flat/down)
- **Not keen on duration risk?**
 - Shorter, defensive structures offer more cash flows and incremental income over cash

Any Deposit Levers Left to Pull?

Cost of funds has come down a lot, but still some room for further savings in deposit costs

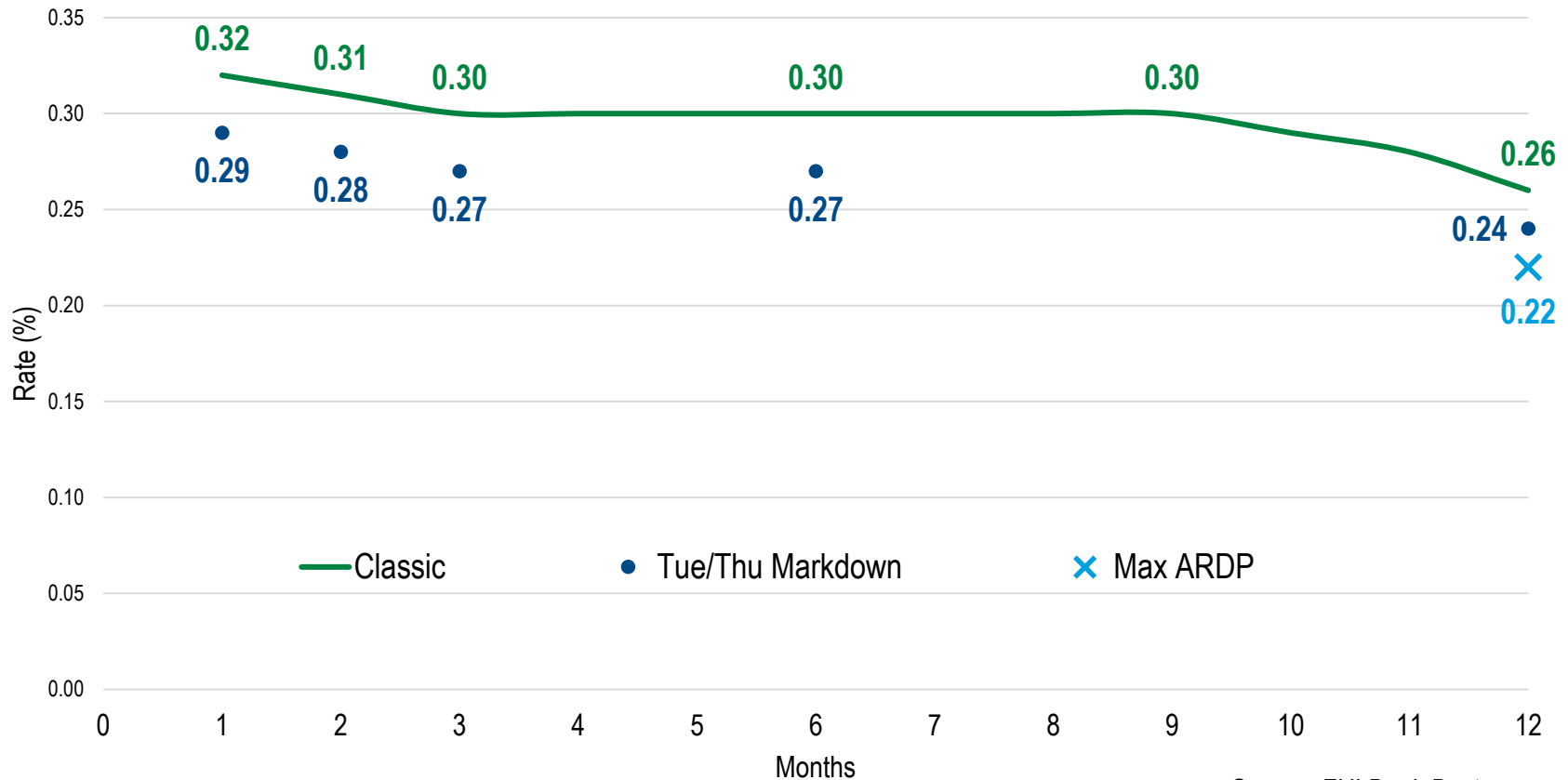


Source: S&P Global, FHLBank Boston

Inverted Short-End of the Curve

12-month tenor offering cheapest rate and narrowest spread to go with incremental duration

Classic Advance Curve

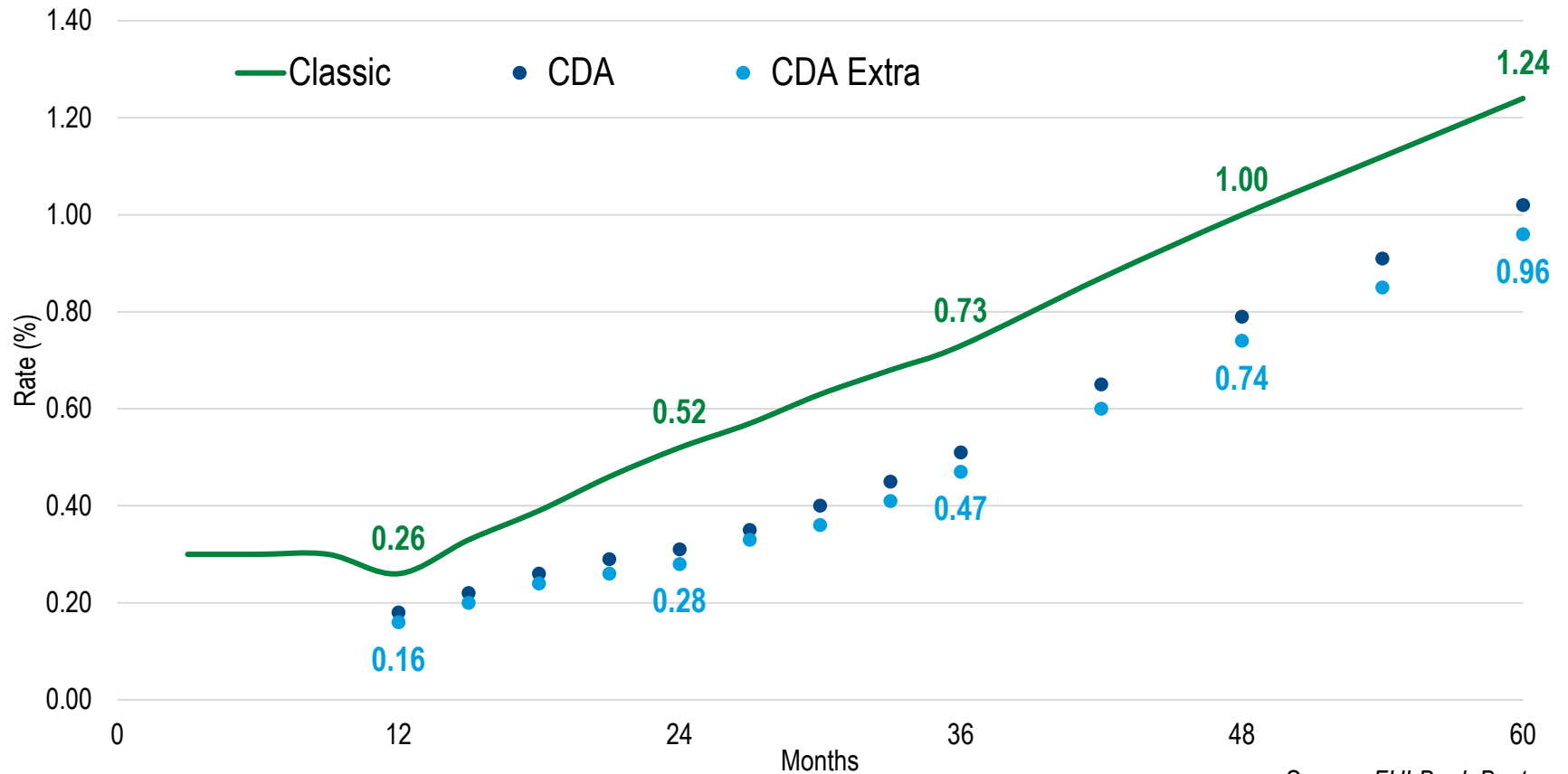


Source: FHLBank Boston

Discounted Housing Advances

CDA and CDA Extra offer cheaper funding for qualifying loans — contact your RM for application details

Classic Advance & CDA/CDA Extra Curve

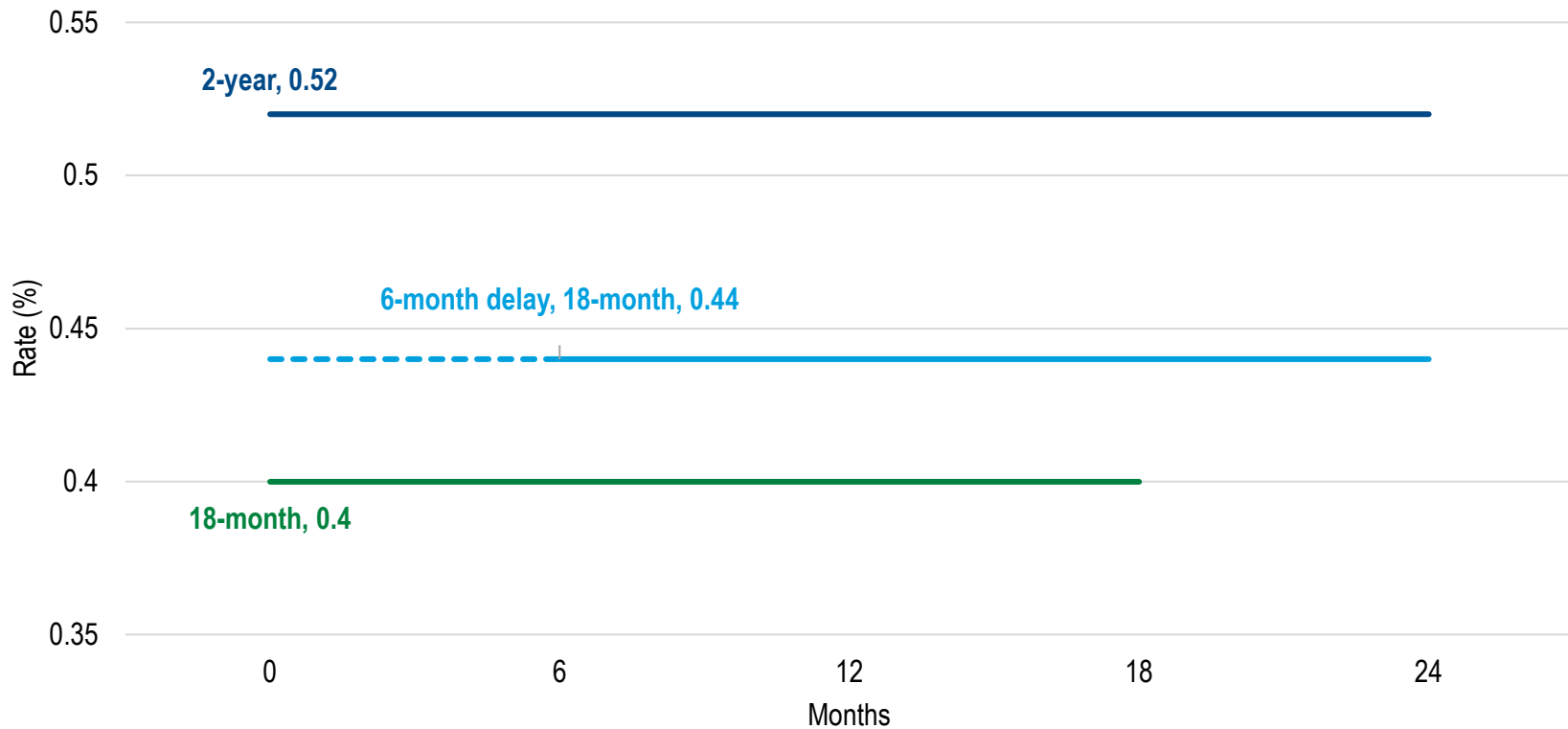


Source: FHLBank Boston

Forward-Starting Advances

Deposit outflows, loan growth, market volatility — hedge tomorrow’s funding priced off today’s low rates

Classic & Forward-Starting Advances



Source: FHLBank Boston

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