Case Study:
Strategies to Deploy the SOFR Flipper Advance

April 2022

FHLBank Boston

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Overview

- **Funding Alternatives**
  - Fund short
  - Fund longer
  - Structured funding
- **Scenario Analysis**
  - Aggressive Fed hike cycle
  - Very aggressive Fed hike cycle
  - Some hikes then a dovish pivot
- **After the Lockout Period**
  - If the advance is put back
  - If the advance flips to a fixed rate

Funding Alternatives

As Fed rate hikes begin and volatility persists, how can we be strategic and tactical with our funding needs, and what are the pros and cons of each choice in different scenarios?

Fund Short

- ***Rolling short-term advances***
  - SOFR *plus* 0.18% floating rate

Fund Longer

- ***12-month Classic Advance***
  - 1.82% fixed rate

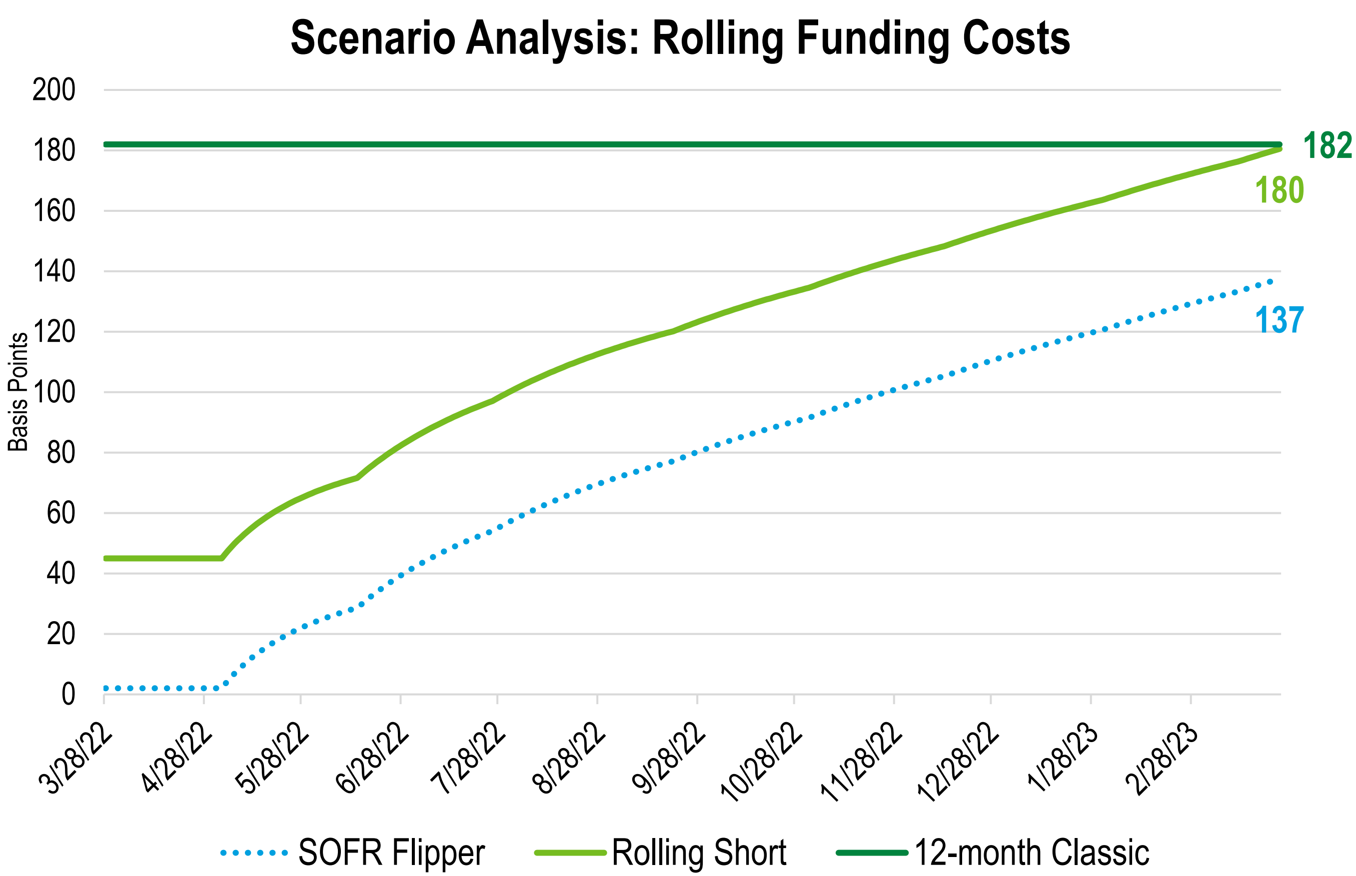
Structured Funding

- ***SOFR Flipper Advance***
  - 5-year maturity
  - 1-year lockout
  - Floats at SOFR *less* 0.25% during the lockout period
  - If not put at the one-year mark, flips to a 2.28% fixed rate
  - Puttable quarterly thereafter

Scenario 1: Aggressive Fed Hike Cycle

Assuming 2.50% of hikes over the next 12 months, the SOFR Flipper would be expected to outperform, and rolling short may closely match what the fixed-rate curve is telling us about the path of rates today.

Rate Hike Assumptions	Basis Points
May	50
June	50
July	25
September	25
November	25
December	25
February 2023	25
March 2023	25
Total	250

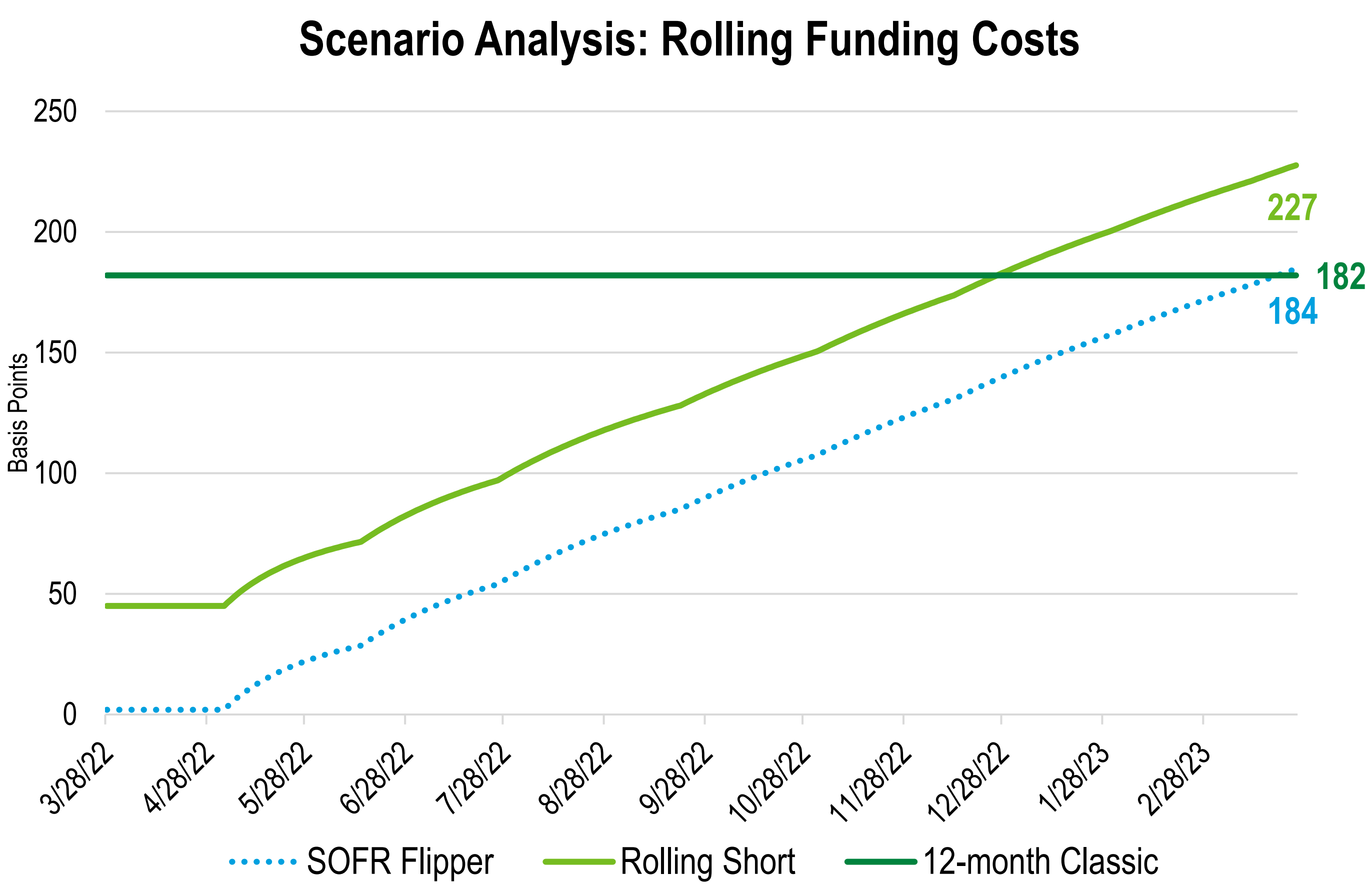


Source: FHLBank Boston

Scenario 2: VERY Aggressive Fed Hike Cycle

Assuming 3.50% of hikes over the next 12 months, rolling short would be expected to underperform and the Flipper may closely match locking in a fixed rate today.

Rate Hike Assumptions	Basis Points
May	50
June	50
July	50
September	50
November	50
December	50
February 2023	25
March 2023	25
Total	350

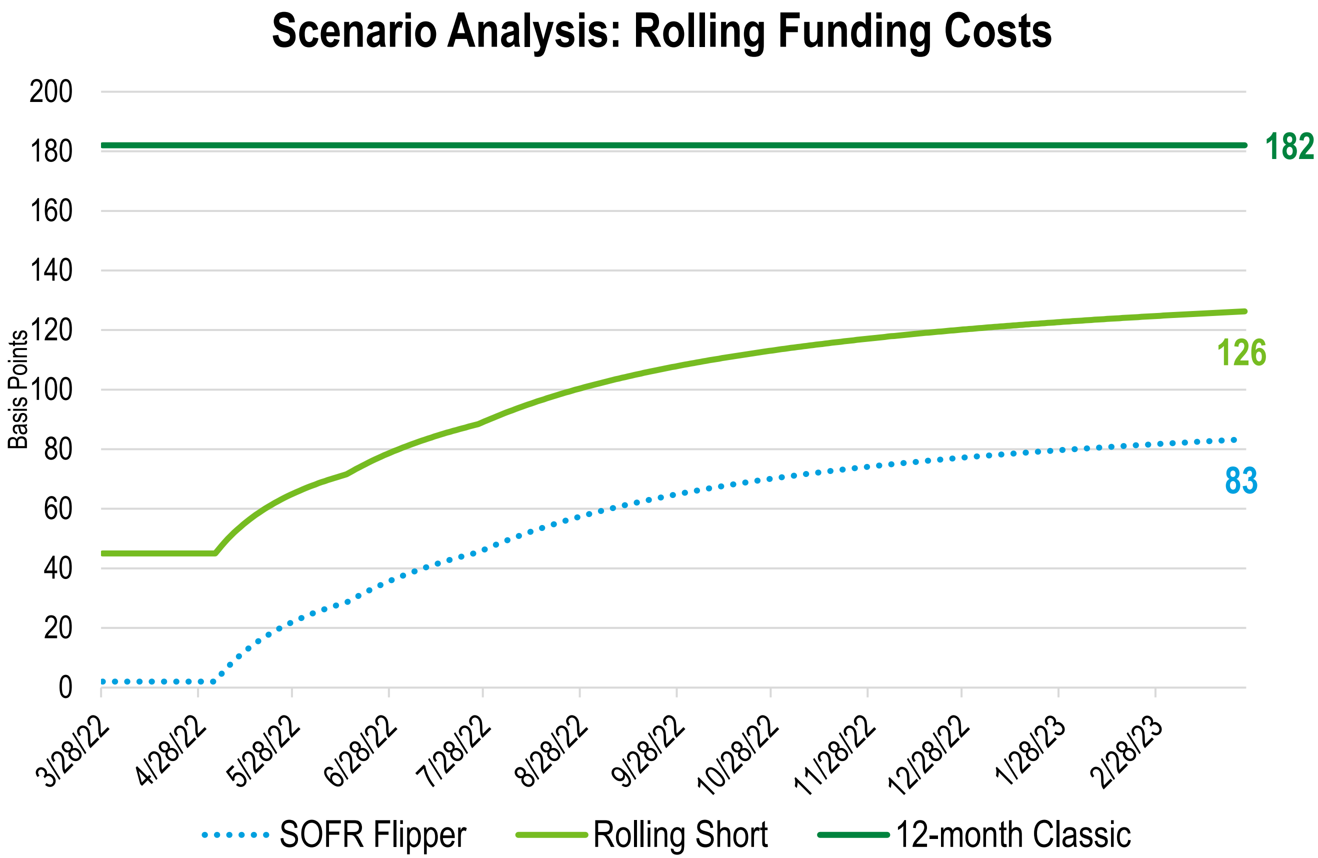


Source: FHLBank Boston

Scenario 3: Some Hikes Then a Dovish Pivot

If there are just 0.75% of hikes and then a pause, rolling short and the SOFR Flipper would be expected to significantly outperform as short rates don't reach the level that is currently implied.

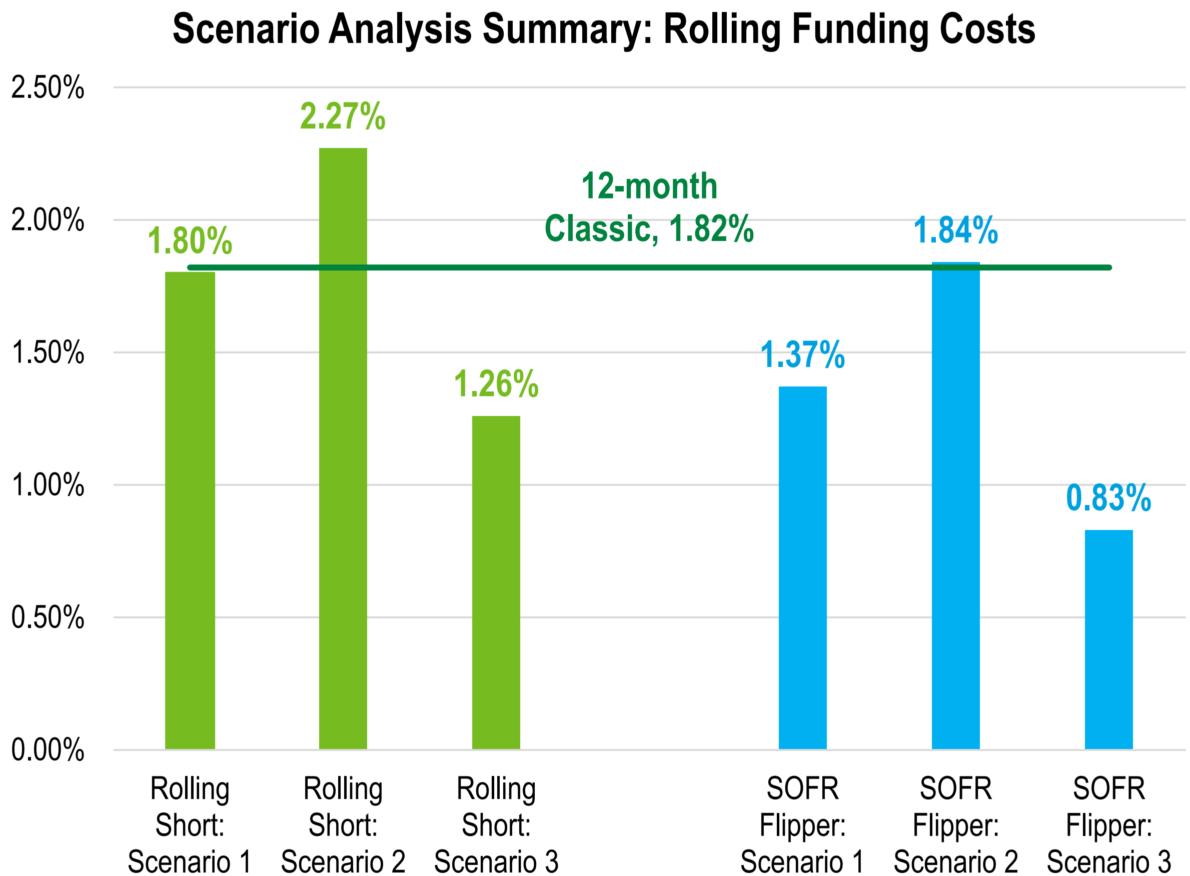
Rate Hike Assumptions	Basis Points
May	50
June	25
July	25
September	0
November	0
December	0
February 2023	0
March 2023	0
Total	100



Source: FHLBank Boston

What Happens at the Lockout Period?

Potential interest cost savings with the SOFR Flipper over the 12-month horizon, and the likelihood of flipping to a fixed-rate will depend on the level of rates and volatility at that time.



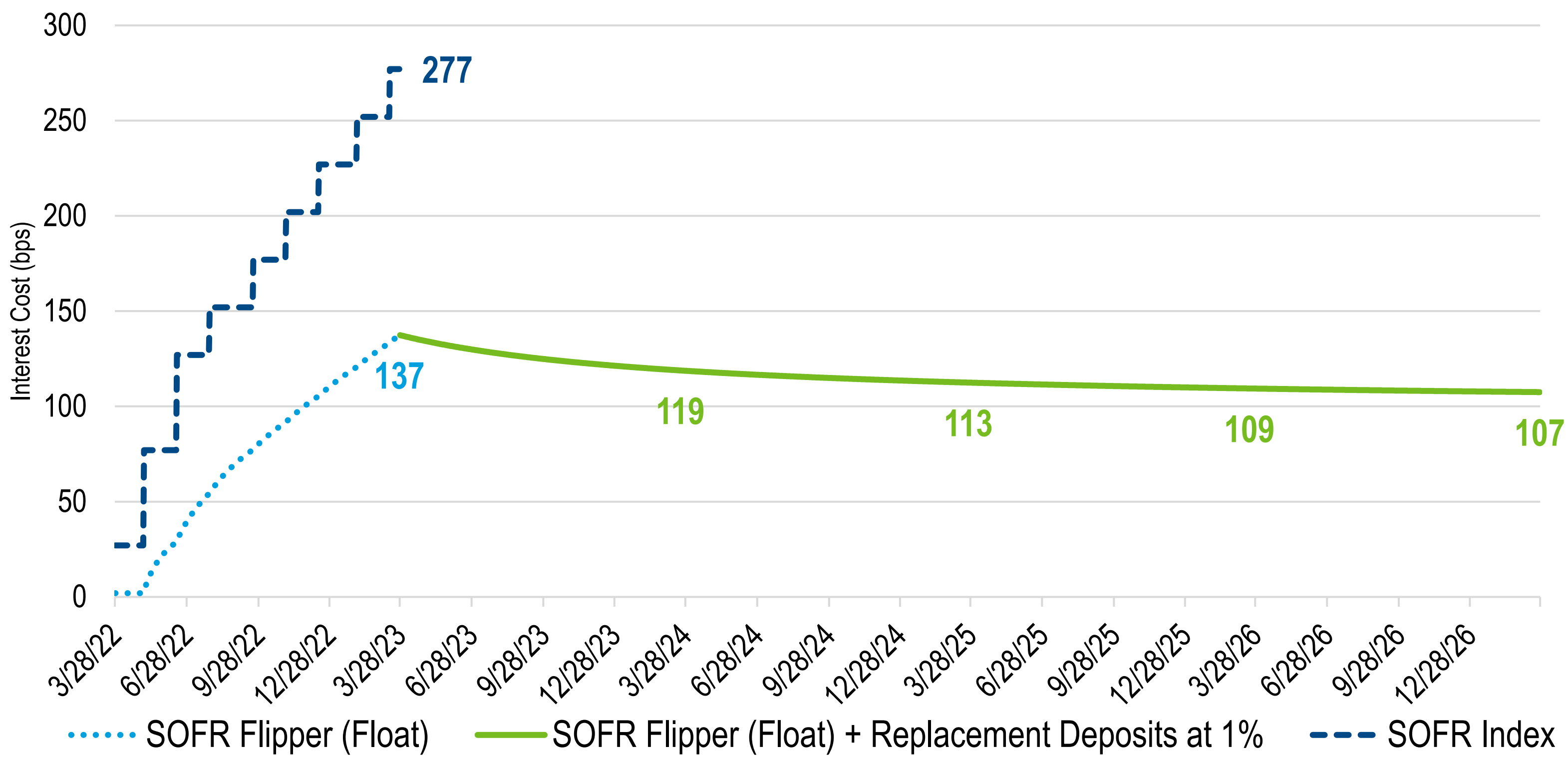
Hypothetical Example: Likelihood of flipping to a 2.28% fixed rate after the lockout period	
Scenario 1: SOFR assumed to be at 2.77%	Low
Scenario 2: SOFR assumed to be at 3.77%	Very low
Scenario 3: SOFR assumed to be at 1.27%	Possible

Source: FHLBank Boston

If the SOFR Flipper is Put Back to the Member

If the advance is put because rates have gone higher (i.e., SOFR @ 2.77%), then there may be opportunity to replace the funding with core deposits at advantageous rates.

Scenario 1: 2.50% of Hikes, Advance is Put, Replace with 1% Deposits



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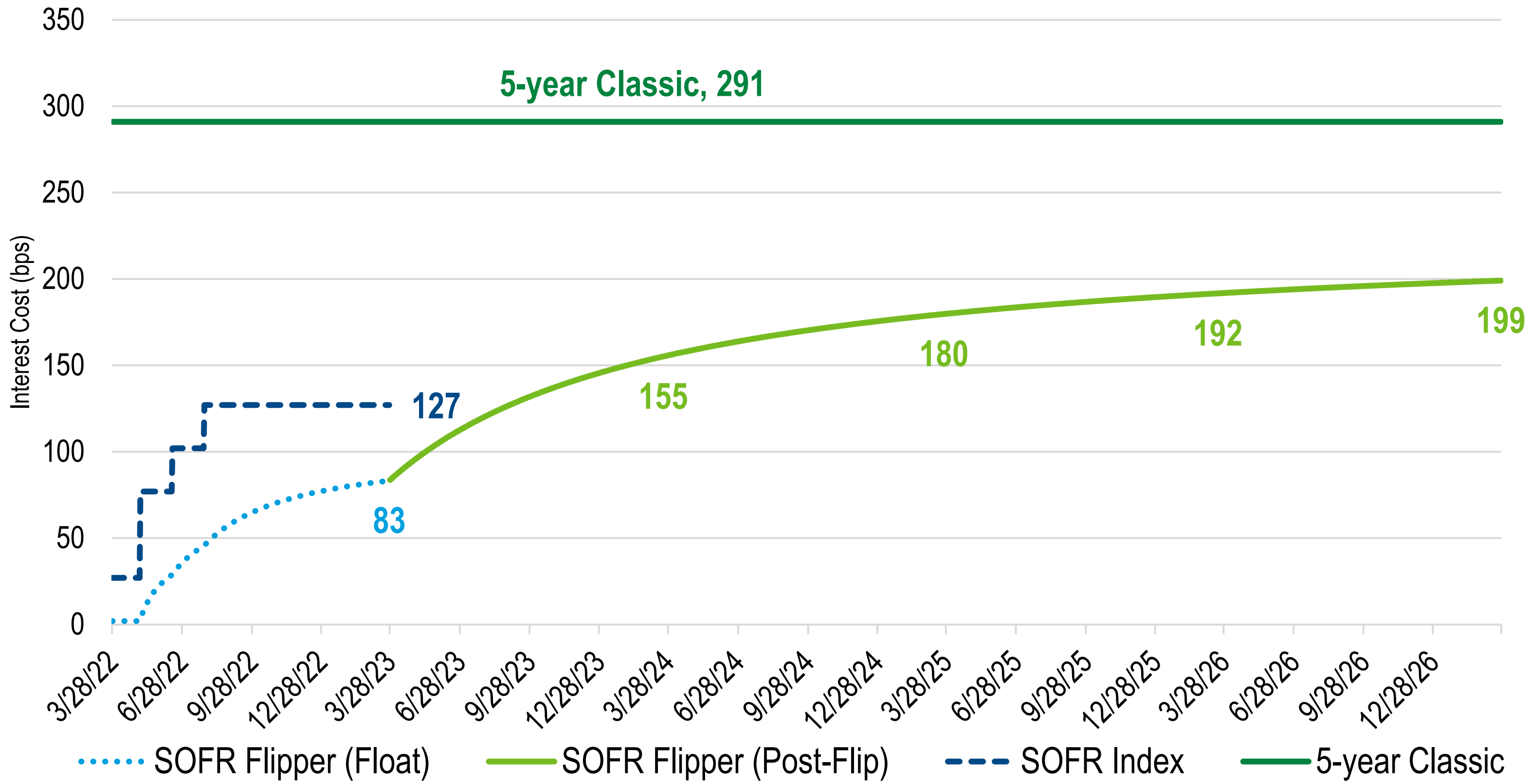
If the SOFR Flipper "Flips" to the Fixed Rate

If the advance flips to the fixed-rate of 2.28% because rates have stayed low, total cost should still pale in comparison to borrowing fixed rate today.

Scenario 3: 1% of Hikes, Advance Flips to 2.28%



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Summary

- Expectations for an aggressive Fed hiking cycle have steepened the front-end of the yield curve
- Fed uncertainty and geopolitical risk have led to an increase in interest-rate volatility
- The SOFR Flipper Advance can have relative value when interest-rate volatility is high, as more benefit is realized (through a lower rate) from granting FHLBank Boston the ability to put back the advance
- It can have appeal if short-term rates move higher or if short-term rates stay low
  - *If rates move higher*- the advance may have a greater likelihood of being put back and replacing the funding (if even needed) with deposits at rates below SOFR/Treasury rates can be beneficial.
  - *If rates stay/move lower*- the advance may flip to a fixed-rate, but because of the benefit derived from higher volatility lowering the rate, the all-in cost may be comfortably below that of Classic Advances.

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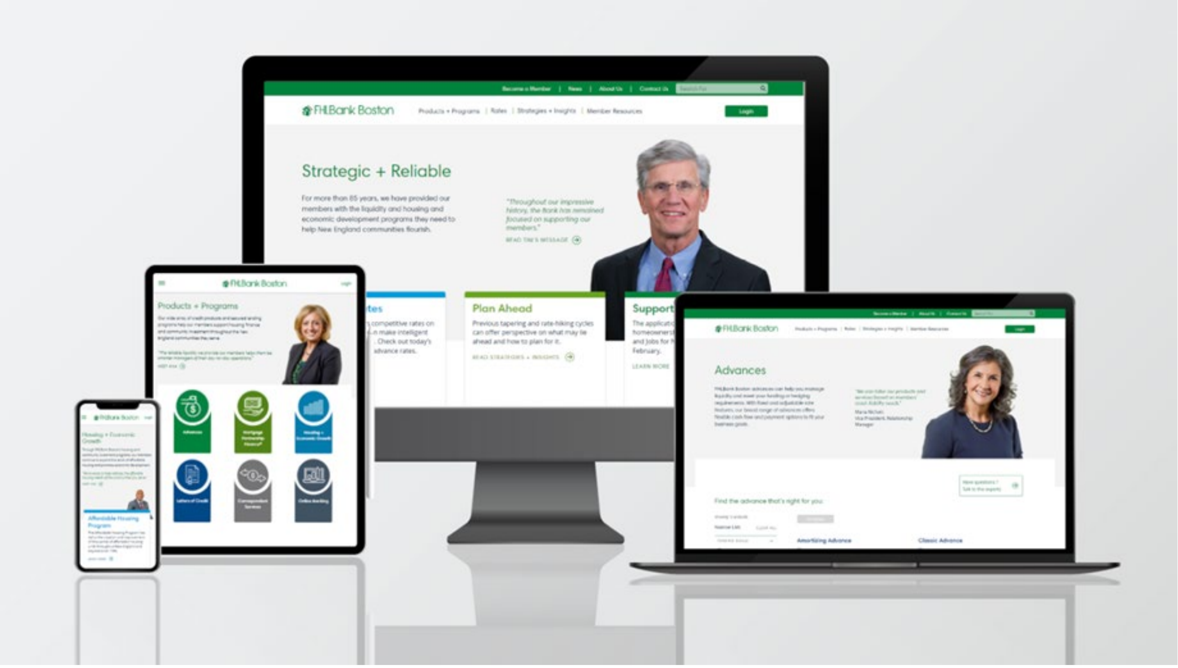

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