

Case Study: HLB-Option Advance

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Overview

Product Details

Detail	HLB-Option Advance	Classic Advance
Funding Type	Fixed	Fixed
Principal Due	At Maturity or Sooner If Called	At Maturity
Putable/Callable	Member Sells Option	No
Discount vs. Comparable Classic	Yes	No

Features that Impact Discount vs. Classic

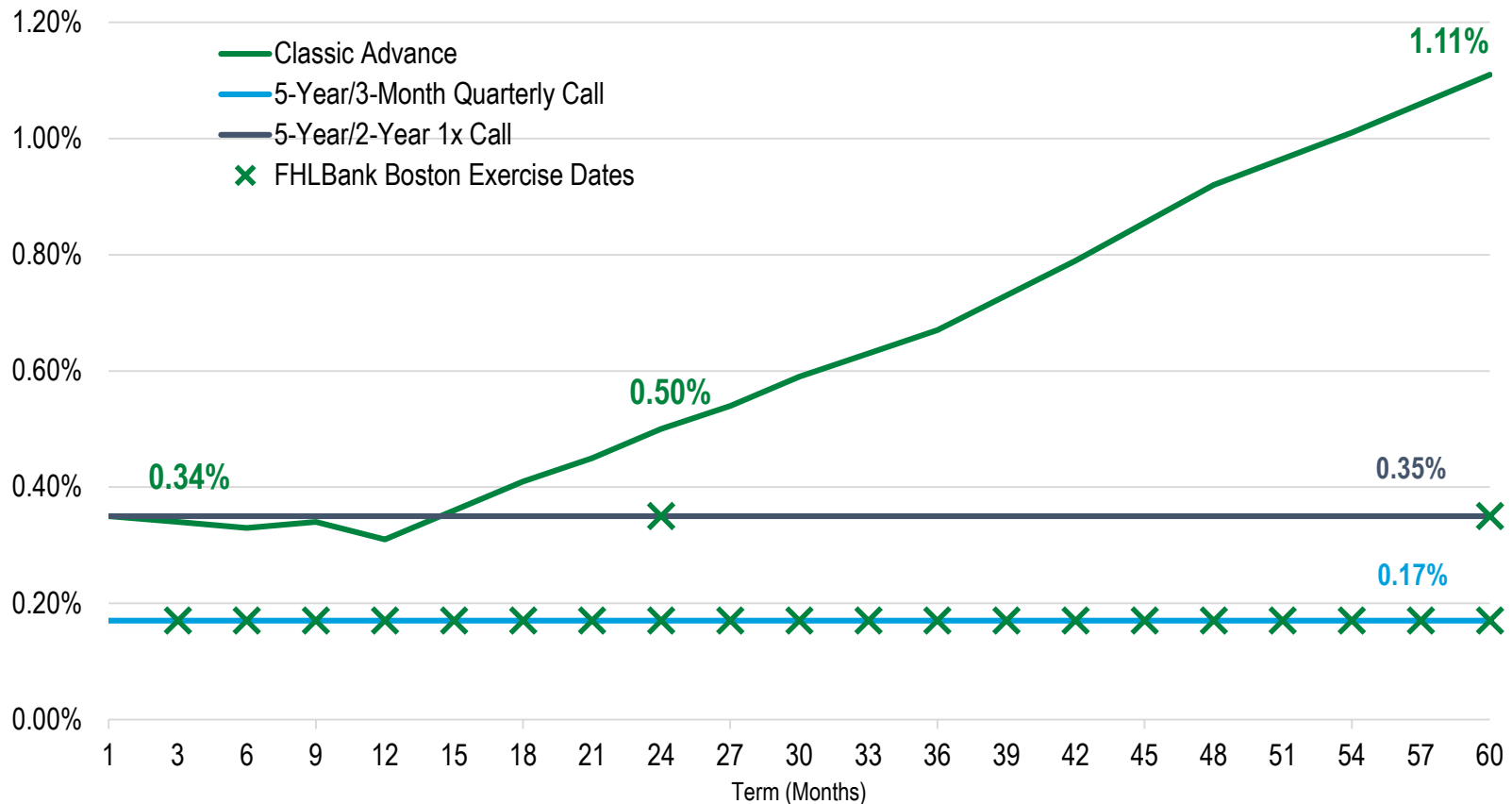
Feature	<u>Less</u> Discount vs. Classic Rate	<u>More</u> Discount vs. Classic Rate
Final Maturity	Shorter	Longer
Lockout Period	Longer Lockout	Shorter Lockout
Call Frequency	Less Often	More Often
Market Volatility	Lower	Higher

Source: FHLBank Boston

Pricing and Opportunity

Reduce cost of funds by taking advantage of increased market volatility.

Classic and HLB-Option Advance Rates

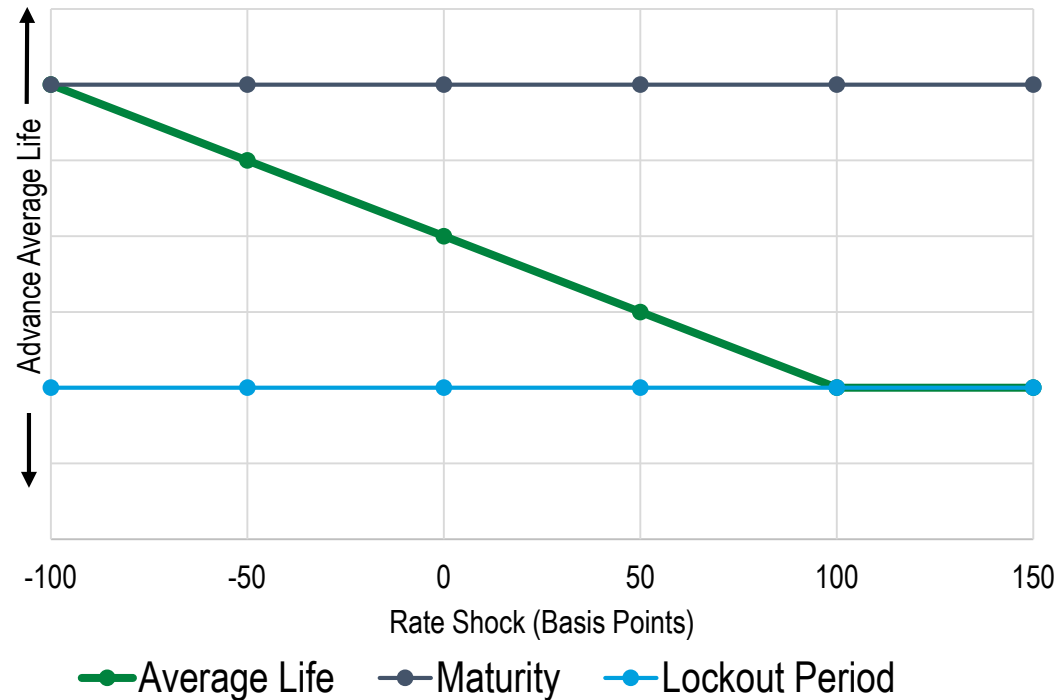


Source: FHLBank Boston

Rate Shock – Average Life Example

Changing rates impact the average expected life of the HLB-Option Advance.

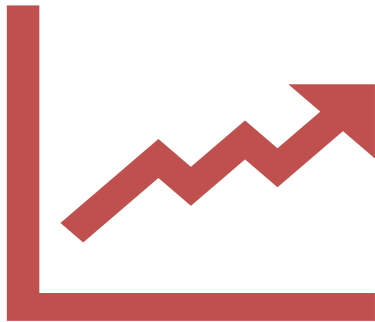
HLB-Option Advance Average Life Example



- As rates go down, average life extends towards the maturity date
- As rates go up, average life contracts toward the lockout period

Source: FHLBank Boston

Challenges and Opportunities



Depository Challenges

- Margin Pressure
- Tepid Loan Growth



Opportunities

- Reduce Deposit Rates and Replace run-off with HLB-Option Advance
- Fund Investment Activity Growth

Deposit & Investment Strategies

Ratchet down deposit rates and replace as needed with the HLB-Option Advance

Money Market Rate

Old Deposit Rate	0.35%
Proposed New Deposit Rate	0.15%
Savings	-0.20%

Replace Runoff as Needed

5yr/3m HLB-Option Advance	0.17%
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Take advantage of a steeper yield curve with higher volatility and purchase investments at wider spreads

Date MBS Yields 5-year/3-month HLB-Option Advance Rate

1/20/21	1.11%	0.29%
2/24/2021	1.47%	0.15%
Change	0.36%	-0.14%

Strategy 1/20/2021 2/24/2021 Change

MBS Funded by HLB-Option Advance	0.82%	1.32%	0.50%
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Source: Fannie Mae, FHLBank Boston

Performance with Changing Rates

Understand how the advance fares in changing rate environments.



RATES RISE

HLB-OPTION ADVANCE IS CALLED

Advantages	Enhance margin through increased asset yield and/or reduced funding cost
	Potential for benefits in higher rates/steeper yield curve which can complement balance sheets

Disadvantage	Low-cost funding needs to be replaced
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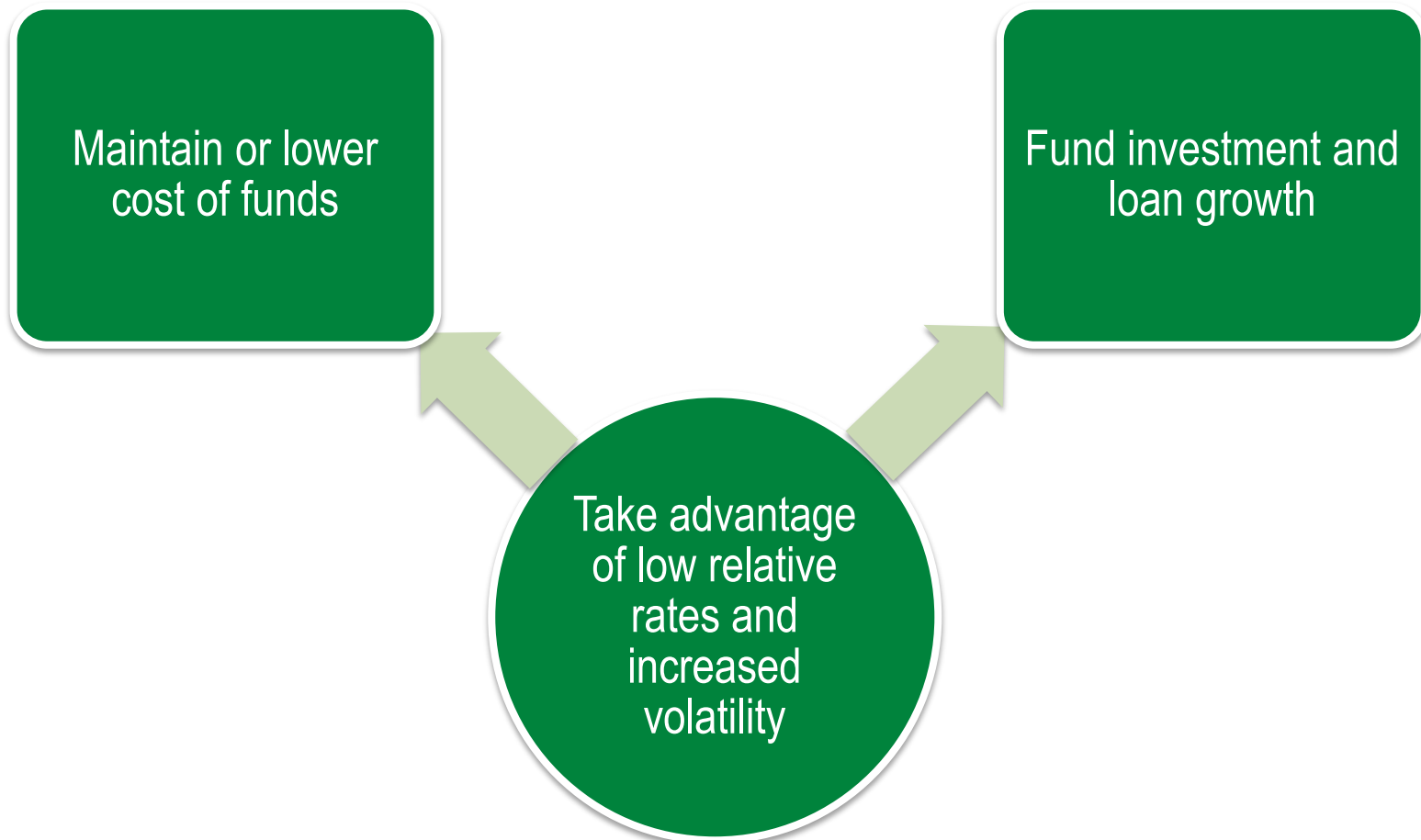
RATES FALL

HLB-OPTION ADVANCE EXTENDS

Advantages	Low-cost liability remains
	Maintain deposit pricing discipline
	Depending on assets being funded, enhanced spread can counteract margin pressure

Disadvantage	Typically, extension risk is a more unfavorable outcome, however, this is somewhat mitigated by current low absolute rates
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Summary



Thank You

John.Kornacki@fhlbboston.com

617-425-9452