Case Study:
SOFR Swap Funding Strategies

March 2021

FHLBank Boston

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Using SOFR Swaps for Cash Flow Hedges

Save on Interest Expense

Lower all-in funding cost

Support Liquidity

Reduce spread risk and operational burden

Maintain Hedge Effectiveness

Same index on the floating leg of the swap and the funding

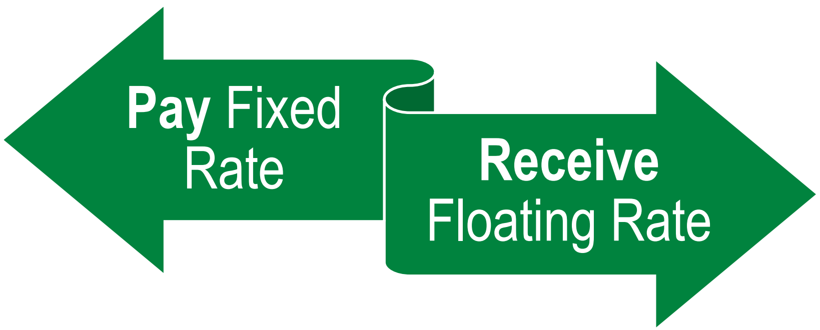
Transition Away from LIBOR

Shift towards non-LIBOR products

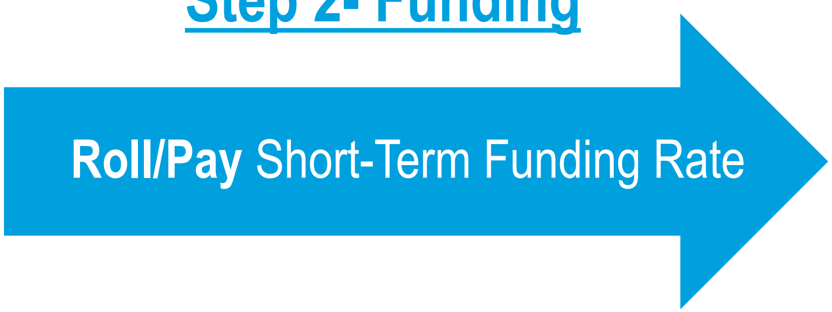
Cash Flow Hedge Swaps- LIBOR

Use of derivatives to create "synthetic" long-term funding; term rate protection without the term liquidity.

Step 1- Swap



Step 2- Funding



5-year Funding Example

	LIBOR Swap	Classic Advance
Pay Fixed Swap Rate	0.75%	N/A
Receive 1-month LIBOR	0.11%	N/A
Pay 1-month Classic Advance	0.35%	N/A
Initial All-in Rate	***0.99%***	***1.06%***
Term Rate Protection	***5 years***	***5 years***
Term Liquidity Protection	***1 month***	***5 years***

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

LIBOR/SOFR Transition

Recent key events in the multi-year process of transitioning global benchmark rates.

10/16/20

"Big Bang"- SOFR discounting on interest-rate swaps

Coordinated single-day shift in discounting mechanism for LIBOR swaps from Fed Funds to SOFR.

Contributed to improved liquidity and activity in SOFR derivatives markets.

11/30/20

Joint statement from banking regulators

Encourage banks to cease entering new contracts that use LIBOR as soon as practicable and in any event by December 31, 2021.

3/5/21

LIBOR regulator announcement

One-week and two-month LIBOR to cease immediately after 12/31/21.

Overnight and 12-month LIBOR to cease immediately after 6/30/23.

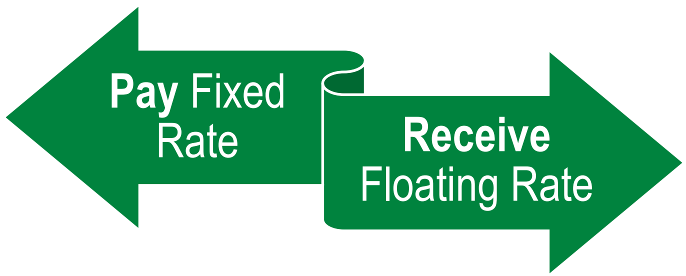
After 6/30/23, 1-month, 3-month and 6-month LIBOR to be non-representative with possible publication on a "synthetic" basis.

Source: Federal Reserve

Cash Flow Hedge Swaps- SOFR

Same concept as LIBOR swaps, but differences in the funding structure to account for overnight index.

Step 1- Swap



Step 2- Funding

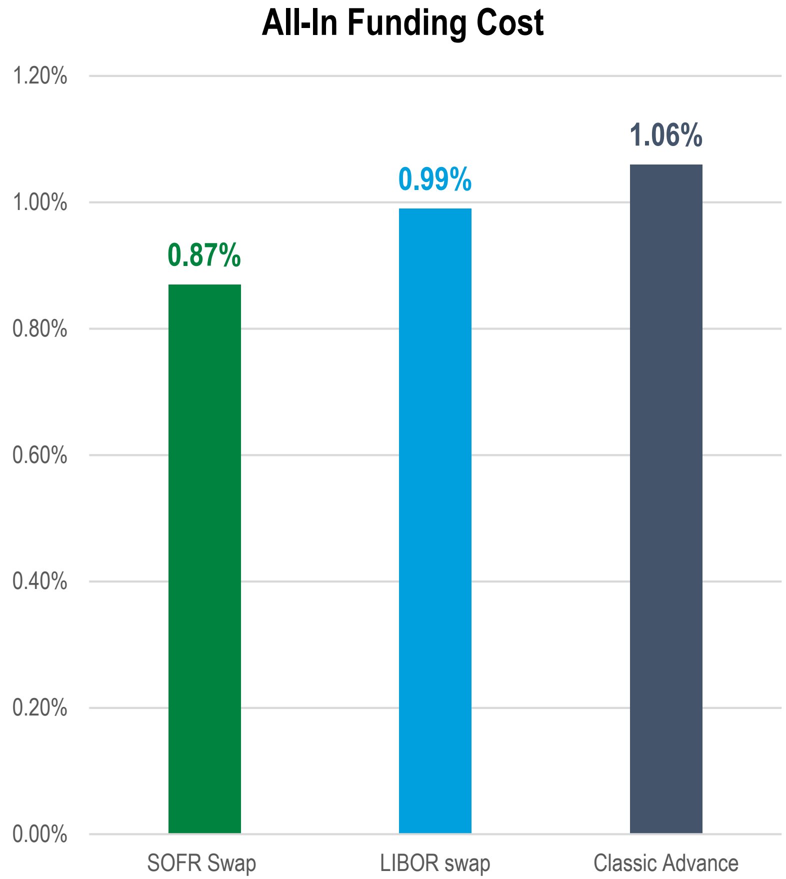
5-year Funding Example

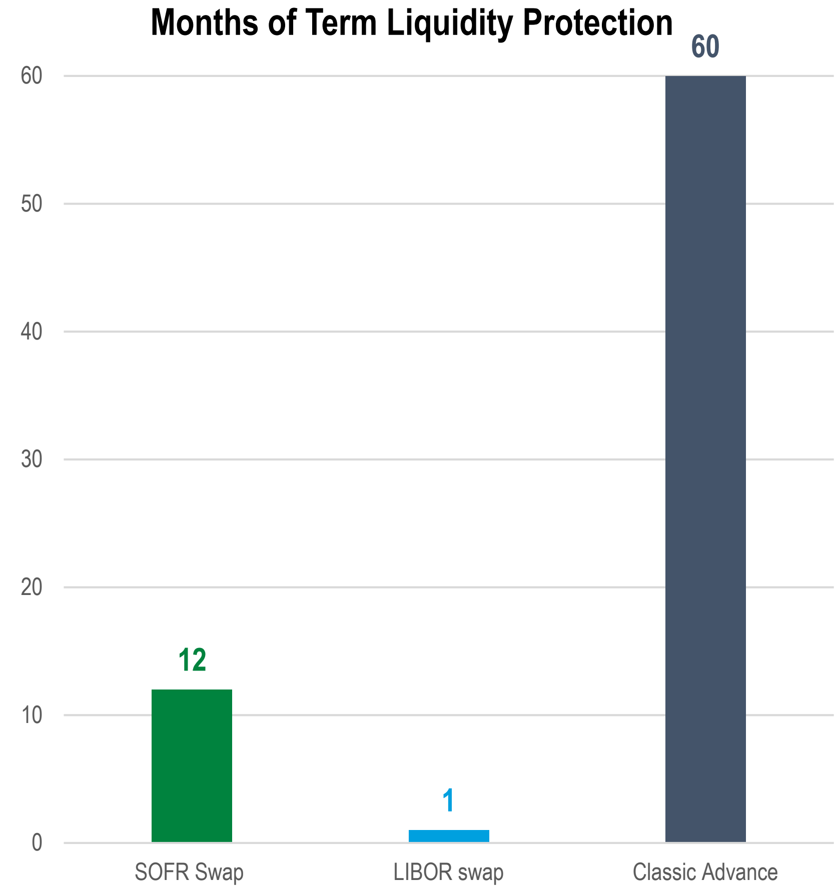
	SOFR Swap	LIBOR Swap	Classic Advance
Pay Fixed Swap Rate	0.64%	0.75%	N/A
Receive Floating Index	0.04%	0.11%	N/A
Pay Short-Term Funding	0.27%	0.35%	N/A
Short-Term Funding Type	12-month SOFR-Indexed Advance at +23	1-month Classic Advance	N/A
Initial All-in Rate	***0.87%***	***0.99%***	***1.06%***
Term Rate Protection	***5 years***	***5 years***	***5 years***
Term Liquidity Protection	***12 months***	***1 month***	***5 years***

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

Cost & Liquidity Comparison

Same term rate protection, but SOFR swap offers cost savings and better liquidity than LIBOR swap.





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

Items to Focus On

Additional information to consider as usage of non-LIBOR products continues to grow.

Customizable funding maturities

Tailor term to your needs – not just what the index says it must be (fund at 1-month, 6-months, etc.)

OIS/SOFR relationship

Extremely strong historical correlation; SOFR funding can fit with OIS Fed Funds swaps.

Talk to your advisors

Work with dealers, consultants and accountants on designing contracts with adequate flexibility for all funding solutions.

Thank You

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