

# Liquidity & Funding Strategies for the Current Environment



June 27, 2024

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# Presenters



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# Overview

- Interest-Rate Risk Strategies: NEV/EVE Mitigation with Flexibility
- Housing & Community Investment Programs Overview
- Liquidity Risk Strategies: Floating-Rate Funding with Flexibility
- Net Income Strategies: Investment Leverage
- Q&A

# Public Service Announcement

A couple ideas that won't be covered in today's webinar but are hot topics, nonetheless.

## Collateral Types & Pledging

- Reach out to your relationship manager

## Other Strategies Members are Using

- Marginal Cost of Funds, HLB-Option, Forward-Starting

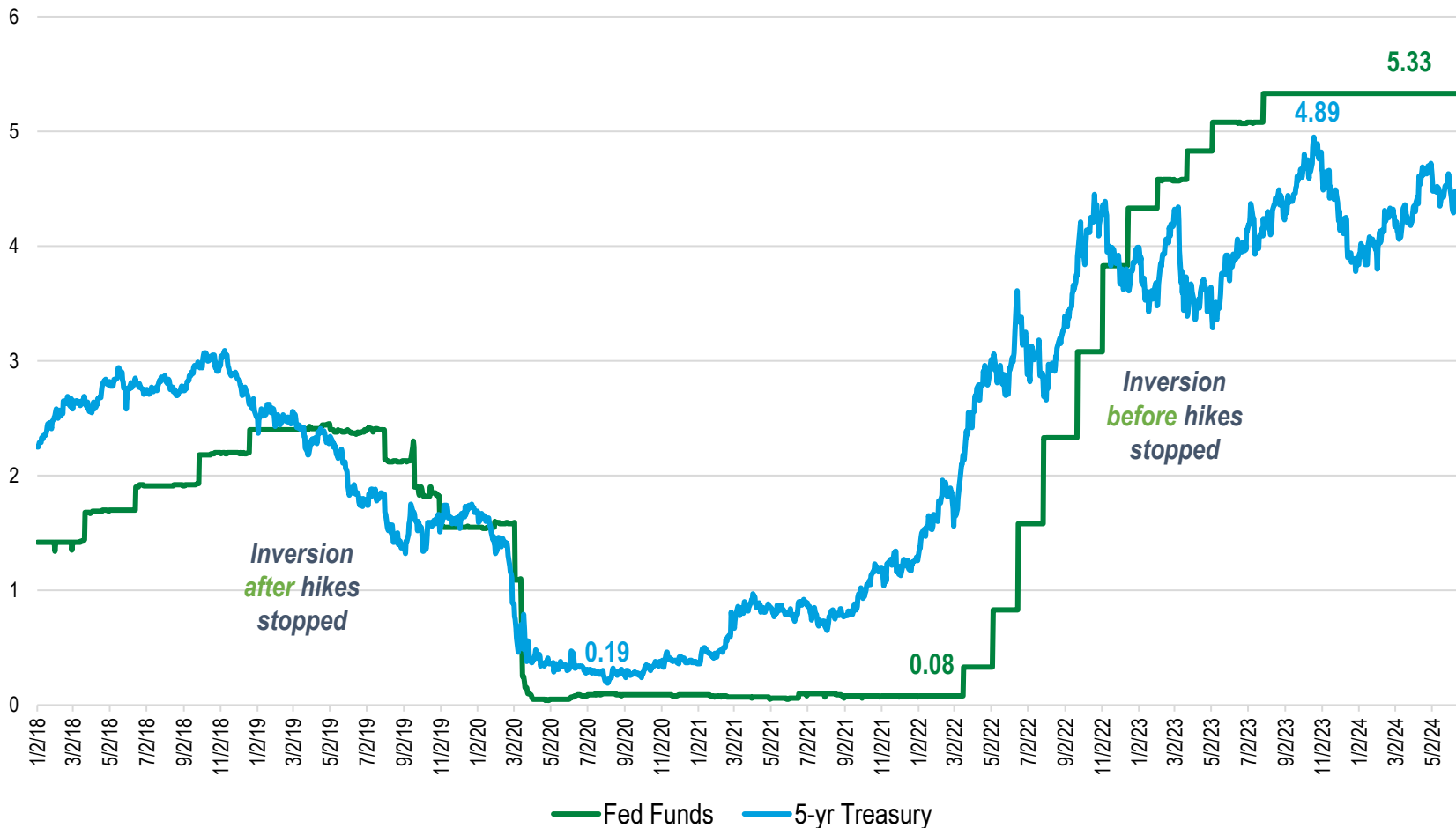
# Interest-Rate Risk Strategies: NEV/EVE Mitigation with Flexibility



# Shifting Interest Rates

Relative to the 2018-2020 cycle, the current rate environment shares some similarities but also has some key differences.

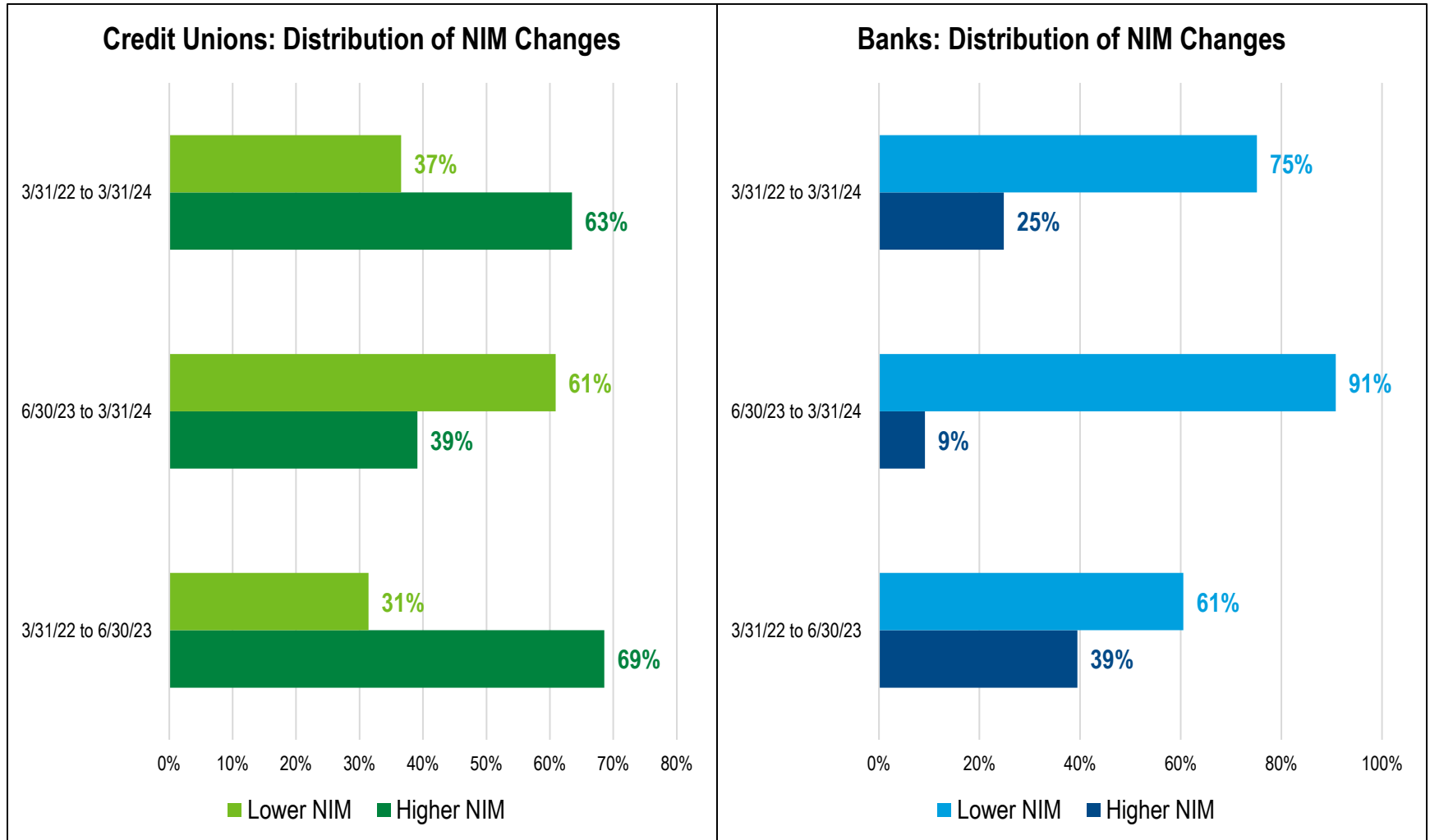
## Effective Fed Funds Rate & 5-Year Treasury Yield



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

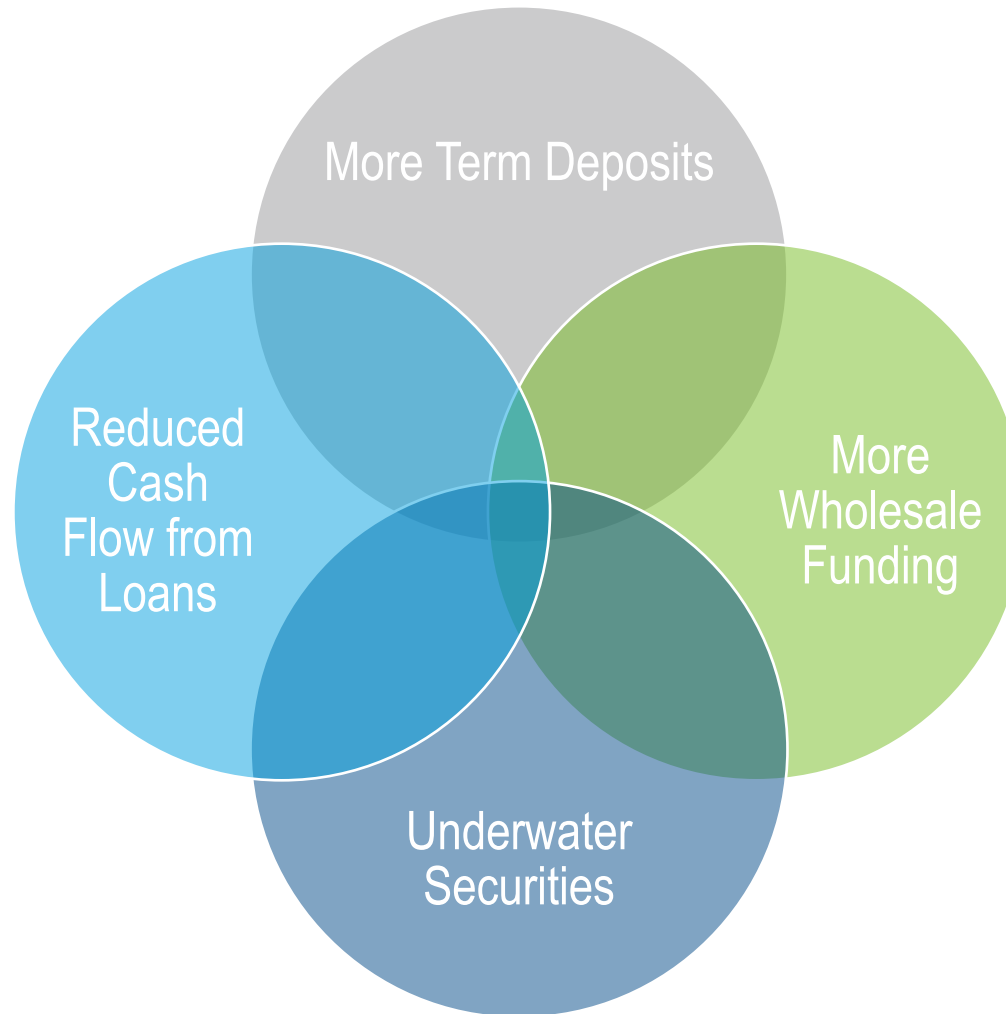
# Shifting Earnings Profiles

Many have not experienced the asset sensitivity that the ALM models suggested they had.



# Shifting Risk Exposures

The growing liability sensitivity has come from both asset extension and liabilities getting shorter.



# Comparing Rate Risk Reduction Strategies

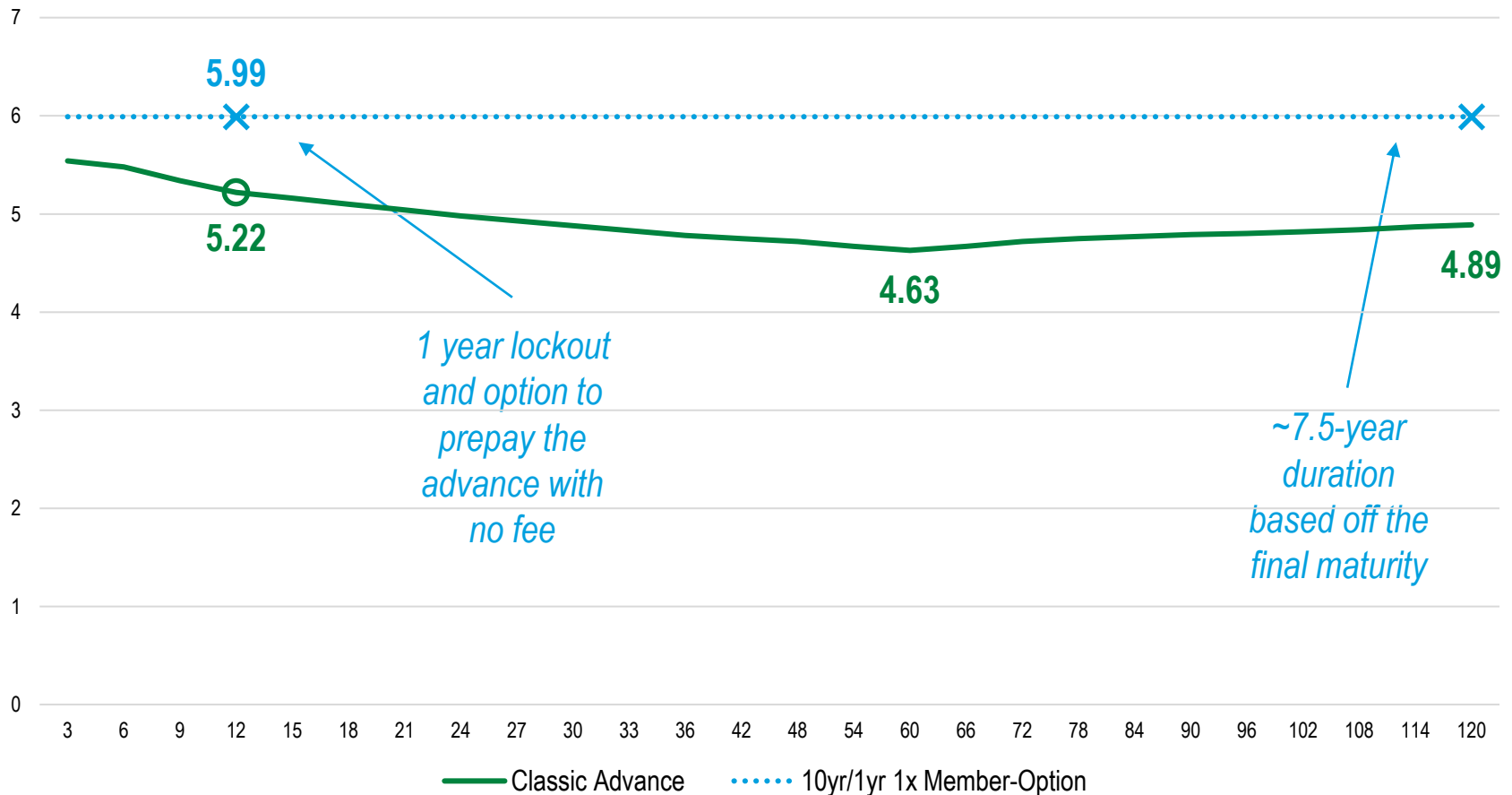
Reining in interest-rate risk can be accomplished in different ways, with pros and cons for each approach.

	Horizon	Sell underwater assets at a loss	Use derivatives to swap assets (liabilities) to floating (fixed)	Incrementally take less asset duration	Incrementally take more liability duration
Income Statement Impact	Today	Recognize the loss	Minimal	Minimal	Minimal
	Tomorrow	Improves	Shifts towards neutral	Shift towards neutral	Shift towards neutral
EVE/NEV Impact	Today	Improves	Improves	Minimal	Minimal to modest, depends on sizing
	Tomorrow	Lose upside of liability sensitivity in down rates	Lose upside of liability sensitivity in down rates	Gradually shift towards neutral	<b>Protect against rate shock up but keep flexibility for rates down</b>

# Rates Up Protection with Rates Down Flexibility

The Member-Option Advance provides the duration benefit of the longer final maturity but with the ability to pay the advance back (with no fee) at the end of the earlier lockout period.

Classic Advances vs. 10yr/1yr 1x Member-Option Advance

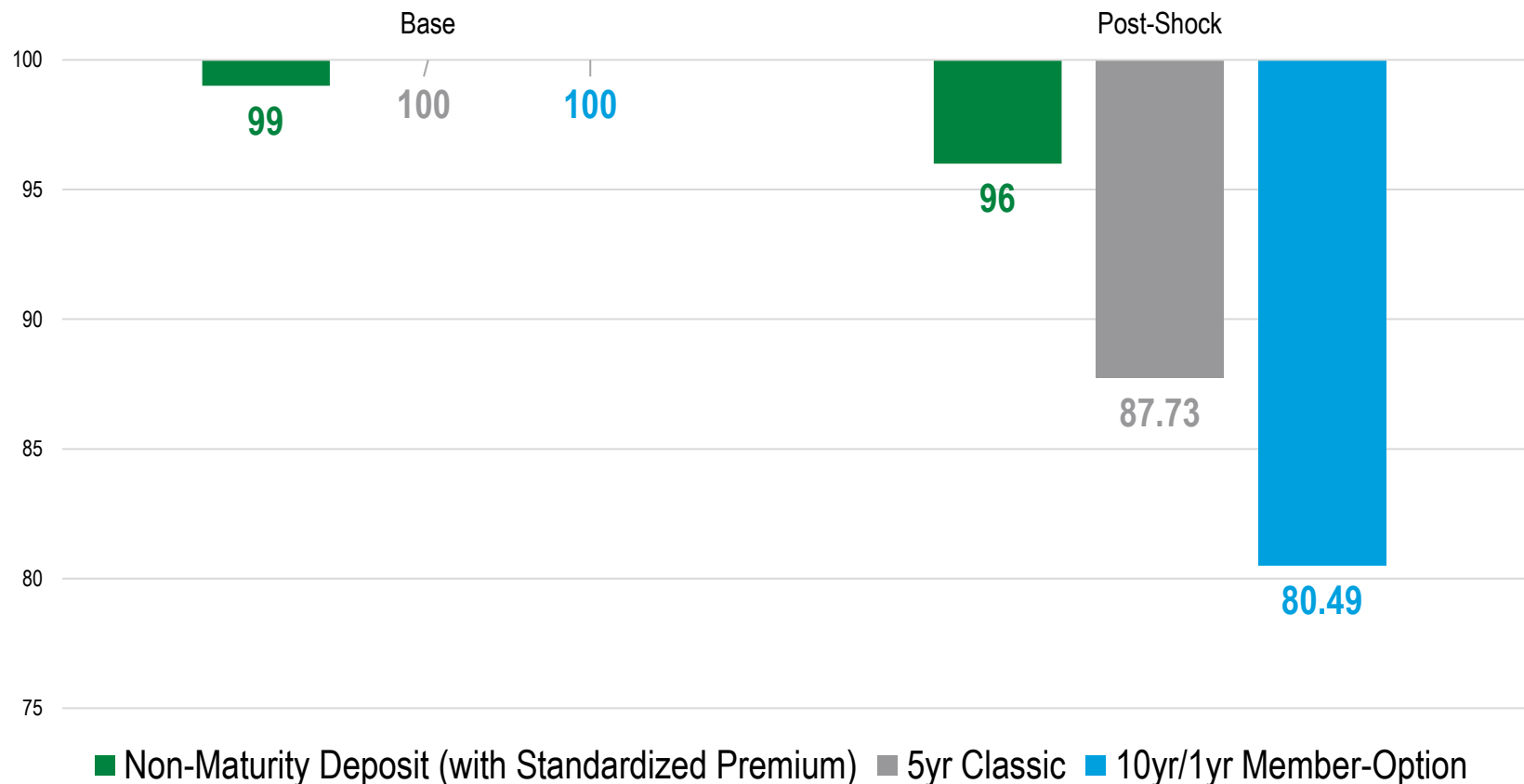


Source: FHLBank Boston

# Liability Duration for a Rate Shock

Longer-term advances can help NEV/EVE ratios when the balance sheet is shocked up 300 bps.

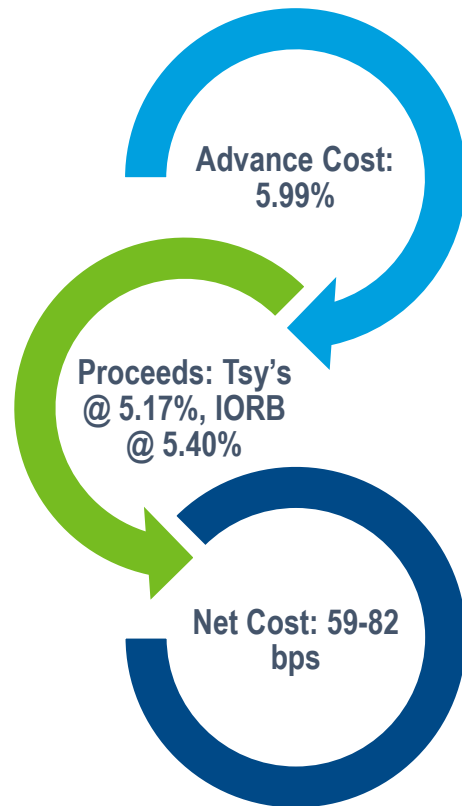
## +300 Rate Shock Scenario Analysis



Source: FHLBank Boston

# Sell Long Assets vs. Extend Funding?

To reduce interest-rate risk exposure, repositioning existing fixed-rate assets can be more costly than addressing the balance sheet's need through liability extension.



## Reducing Asset Duration vs. Adding Liability Duration

Strategy	Sell Bonds at a Loss	Take Member-Option Advance
Amount	5% of assets	5% of assets
Duration	~5 years	~7.5 years
NEV Benefit	~25 bps base, ~75 bps post shock	~100 bps post shock
Income Statement Impact	Assuming -15% realized loss -> 75 bps hit to ROA (annualized)	-3-4 bps impact to ROA

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

# Assessing Strategy at the Lockout Date

Paying a long-term advance with no fee can provide tremendous flexibility in various scenarios.

## Rates Stay Up

- Depending on level of rates, paying back the advance may still be economically favorable
- NEV/EVE results have benefited from longer liability duration on the books
- Passage of time will have incrementally brought asset durations down

## Rates Go Down

- Pay back the advance (with no fee)
- NEV/EVE likely to have improved, with a recovery in fixed-rate asset values
- Potentially a better environment for gathering cost-efficient deposits
- NIM expansion as funding is replaced at a lower rate

# Housing & Community Investment Programs Overview



# Overview

- Down Payment Assistance Grants
- Small Business Lending Program: Jobs for New England
- Community Development Advances
- Affordable Housing Program Grants
- Mortgage Partnership Finance<sup>®</sup> (MPF<sup>®</sup>): Permanent Rate Buydown

*“Mortgage Partnership Finance,” and “MPF” are registered trademarks of the Federal Home Loan Bank of Chicago.*

# Down Payment Assistance Programs

## Equity Builder Program

Down payment and closing cost assistance grants for homebuyers with incomes at or below 80% of area median income. Up to \$30,806 per homebuyer.

## Housing Our Workforce

Down payment and closing cost assistance grants to homebuyers with incomes above 80% and up to 120% of area median income. Up to \$25,000 per homebuyer.

## Lift Up Homeownership

Special Purpose Credit Program that provides people of color down payment and closing assistance with incomes at or below 120% of area median income. Up to \$50,000 per homebuyer.

# Jobs for New England (JNE) Program – The Basics

**0% COF + Member's Spread = Below Market Rate Borrower Loan**

- JNE advance eliminates the cost of funds index and creates a borrower loan based solely on the member's required spread
- Funding is allocated on a first come first serve basis
- Next funding release dates:
  1. July 10th
  2. September 11th

# Jobs for New England Program – The Benefits



Uncomplicated eligibility requirements

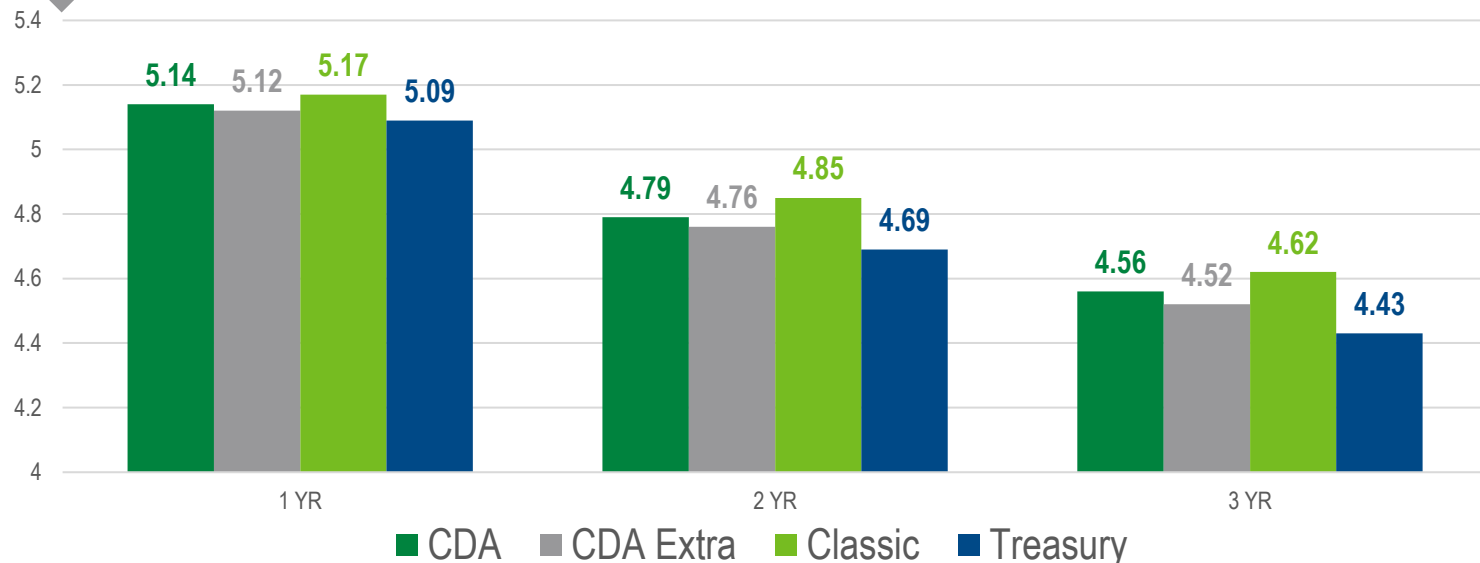
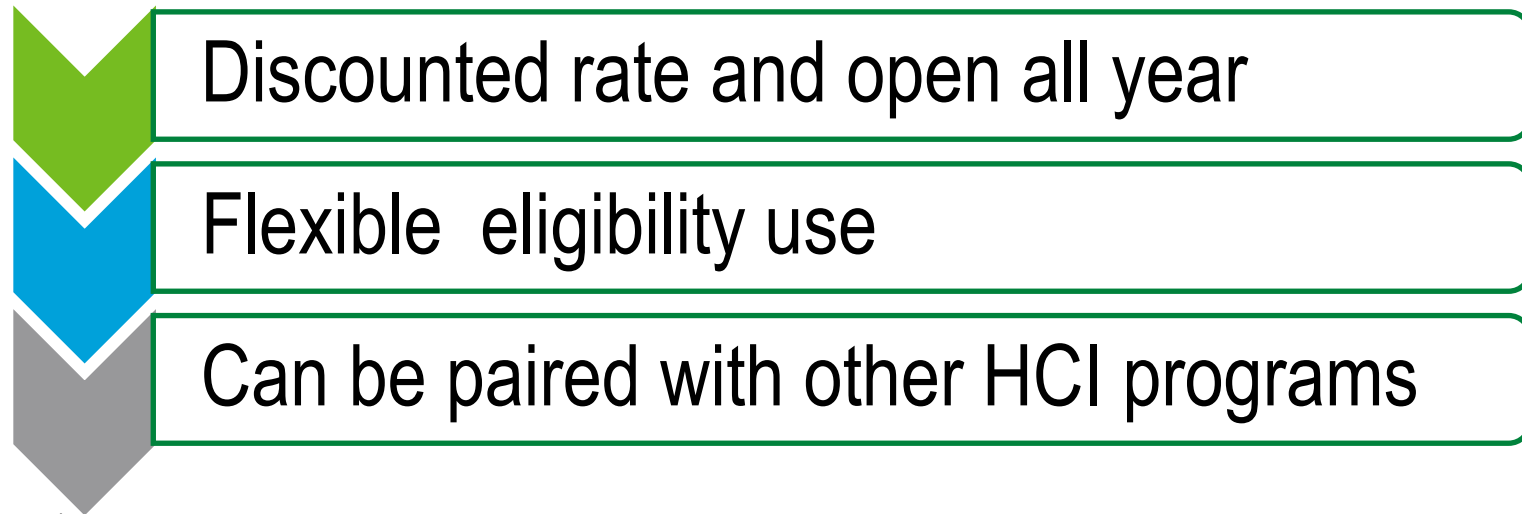
Job creation, retention,  
and preservation



Improve, diversify, and stabilize economy

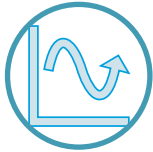


# Community Development Advances (CDA)



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

# Affordable Housing Program



Low to moderate income family rental housing



Filling in the "missing-middle" housing stock



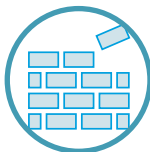
Long-term subsidized permanent debt for larger rental initiatives



Homeownership production



Homeless housing, supportive housing, or other deeply-targeted initiatives



Supports housing choice in "Higher" opportunity communities

## Available AHP Funding:

- \$24.3 Million allocated
  - **\$1.2 Million in total subsidy per application**
  - **\$850,000 maximum direct subsidy**
  - **Up to \$75,000 subsidy per homeownership unit**
- 25%-member approval limit

# MPF: Permanent Rate Buydown (PRB)

- PRB is a program that provides a lower interest rate and reduced P&I payment for a 30-year fixed-rate mortgage to borrowers whose income is up to 80% of the area median income.
- Participation is limited to members who are approved Participating Financial Institutions (PFI) in the program already. PFIs must have an active Master Commitment in the MPF Traditional Program. Additional documentation and processing time required for non-PFIs who are interested.
- PFIs will provide borrowers with an interest rate that is up to 2% below the market rate.
- PFIs will receive a price of 102.00 when they sell the loan to the MPF program.\*
- FHLBank Boston is subsidizing the difference between the 102 and the below-market price through a voluntary, Board-approved allocation to support lower-income borrowers.
- The product will be available on a first-come, first-served basis until the subsidy is exhausted.
- Training video and attestation is required to use this product.

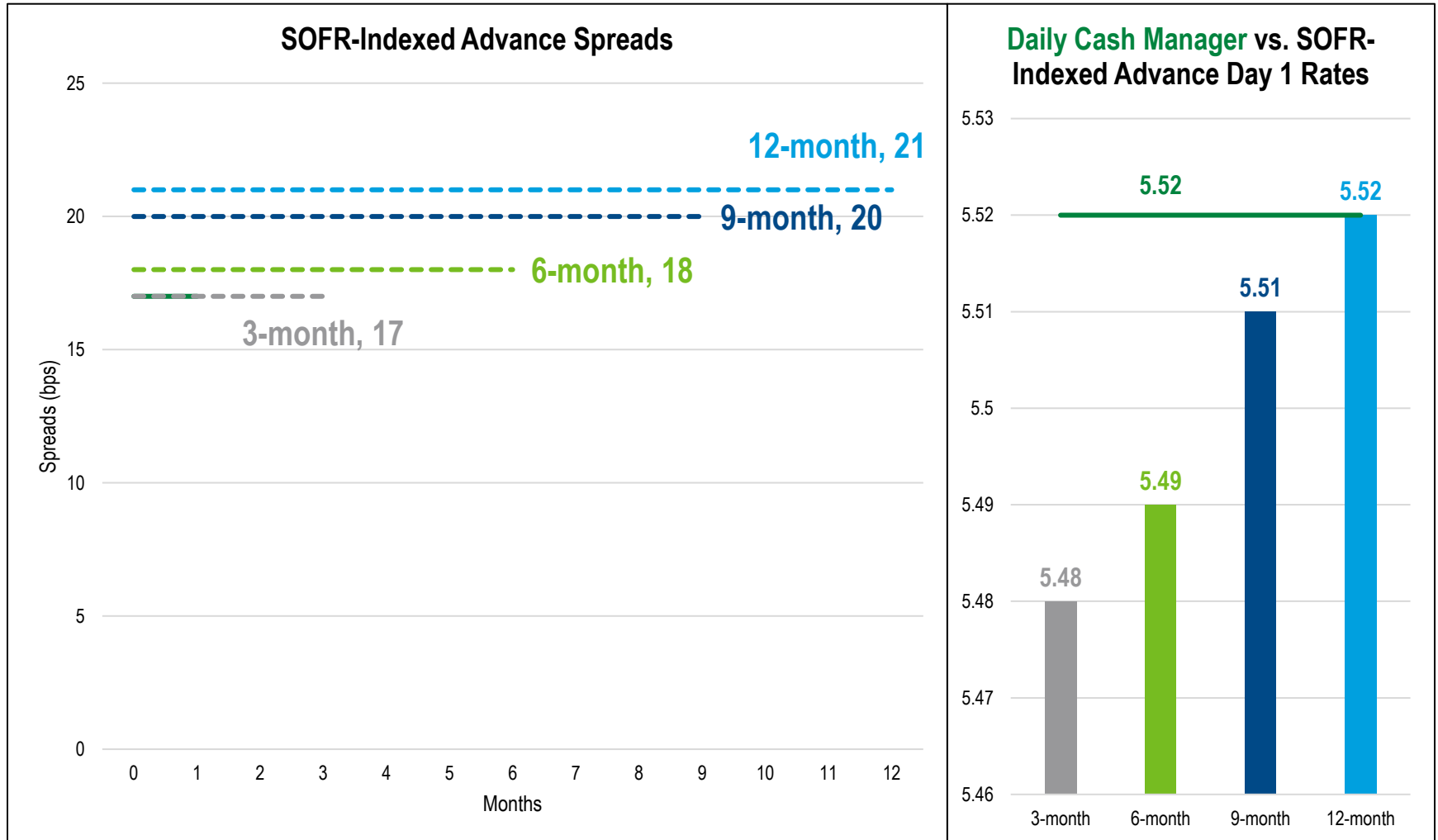
\*Subject to change based on market movement

# Liquidity Risk Strategies: Floating-Rate Funding with Flexibility



# SOFR-Indexed Advance

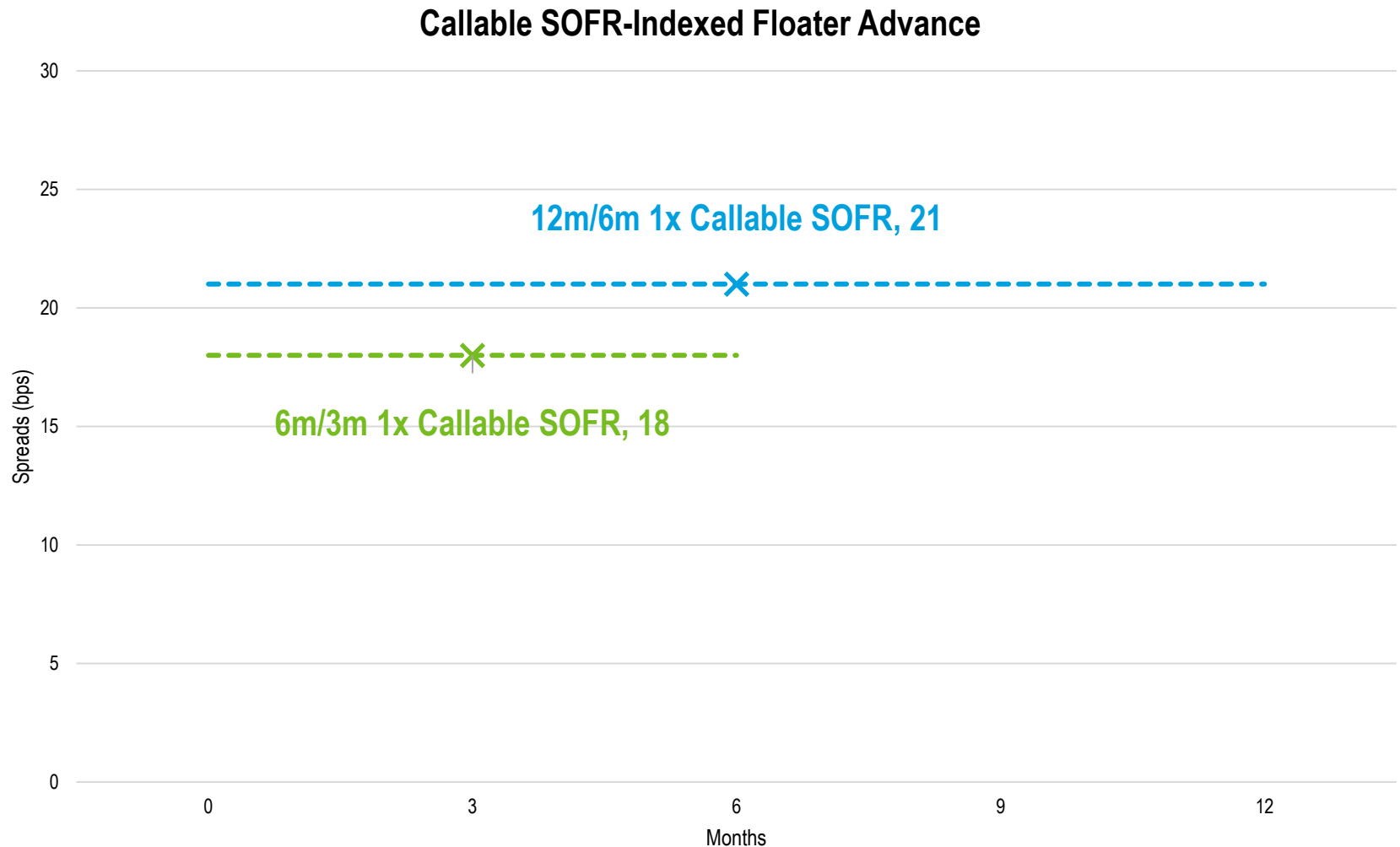
The SOFR-Indexed Advance offers a similar repricing profile to rolling Daily Cash Manager advances, but with the benefit of a longer stated maturity as well as a narrow, fixed spread.



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

# Callable SOFR-Indexed Floater Advance

All the features of the SOFR-Indexed Advance, with one key difference- the member can prepay the advance with no fee at a predetermined call date in the future.



Source: FHLBank Boston

# Applications & Benefits

Longer-term liquidity with short-term rate exposure, but with the flexibility to efficiently pay down wholesale funding if balance sheet conditions in the future call for it.



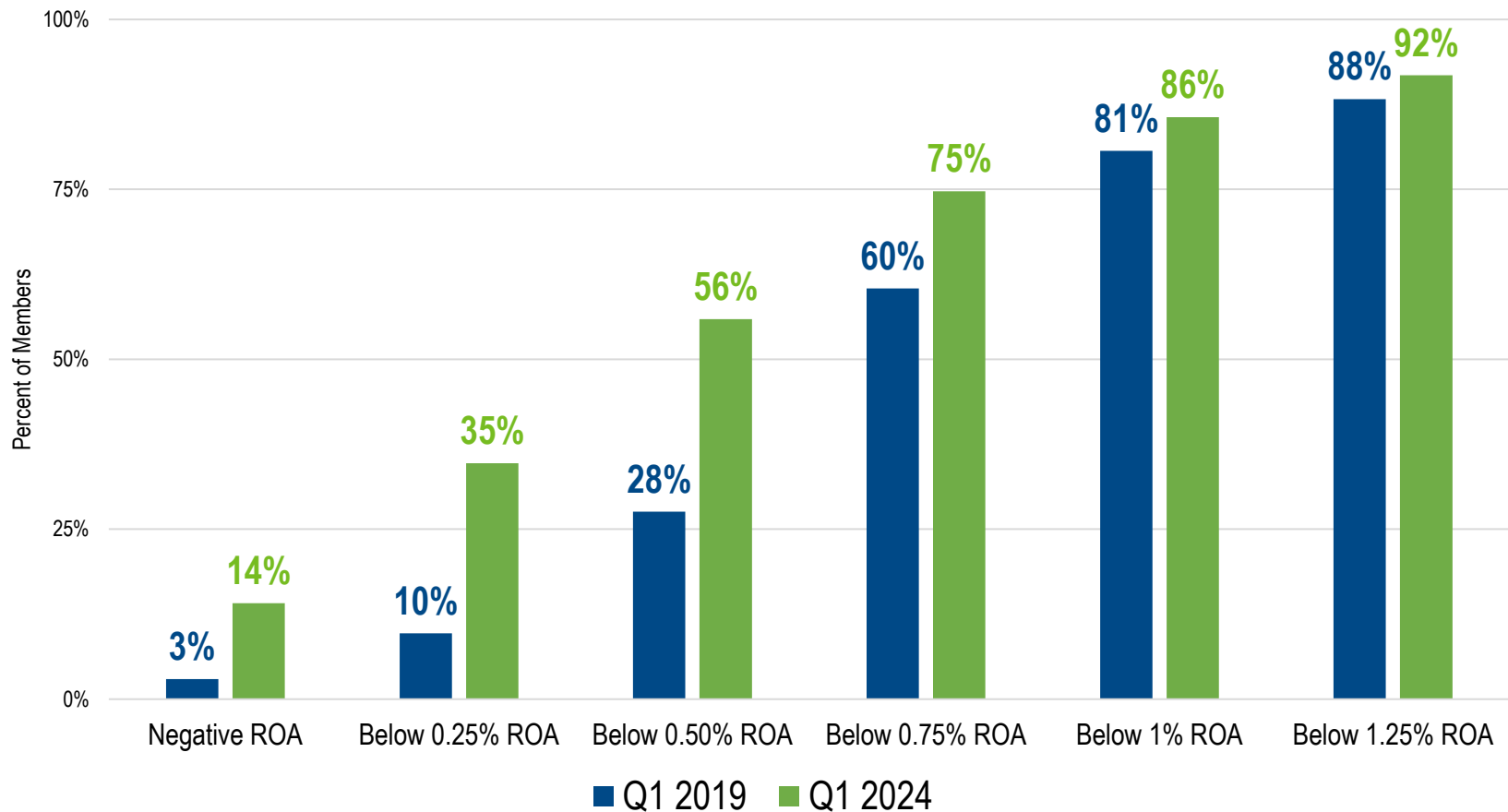
# Net Income Strategies: Investment Leverage



# Pressure on Earnings

The movements in the yield curve have made for a challenging backdrop- especially relative towards the end of the last interest-rate cycle.

**Distribution of Return on Assets: 1st Quarter 2019 vs. 1st Quarter 2024**



# Leverage Strategy Considerations

It's key to strike a balance between challenging current balance sheet conditions and favorable market dynamics, with what the future state balance sheet may look like.

## Headwinds

Reduced off-balance sheet liquidity

Challenging deposit retention

Bond portfolio recency bias

IRR metric recency bias

Possibly stretched policy limits

Capital management

## Tailwinds

Wider MBS spreads

Higher benchmark rates

Current NIM pressure

Near-term liability sensitive, asset sensitive further out

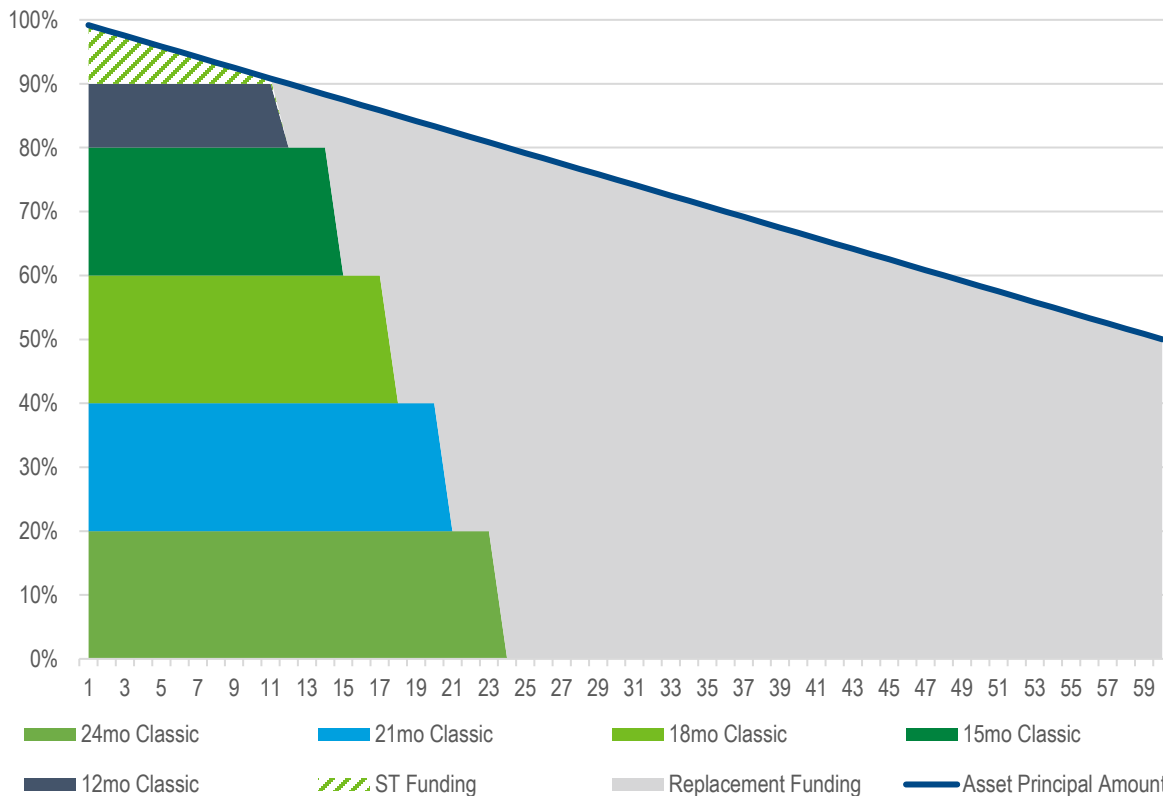
Narrow advance spreads

Thinner on-balance sheet liquidity ratios

# Mismatched Laddered Funding Approach

The strategy can provide interest-rate risk neutral income in the near-term, with flexibility to replace funding, not necessarily with advances, but with deposits or asset paydowns, down the road.

**Example: Asset & Funding Paydown Profile**  
~5-year asset funded by 1-2 year laddered funding



## Laddered Funding Profile

10% rolling short-term (1-month),  
10% 12-month, 20% at 15-, 18-, 21-  
and 24-months

Weighted average rate: 5.06%

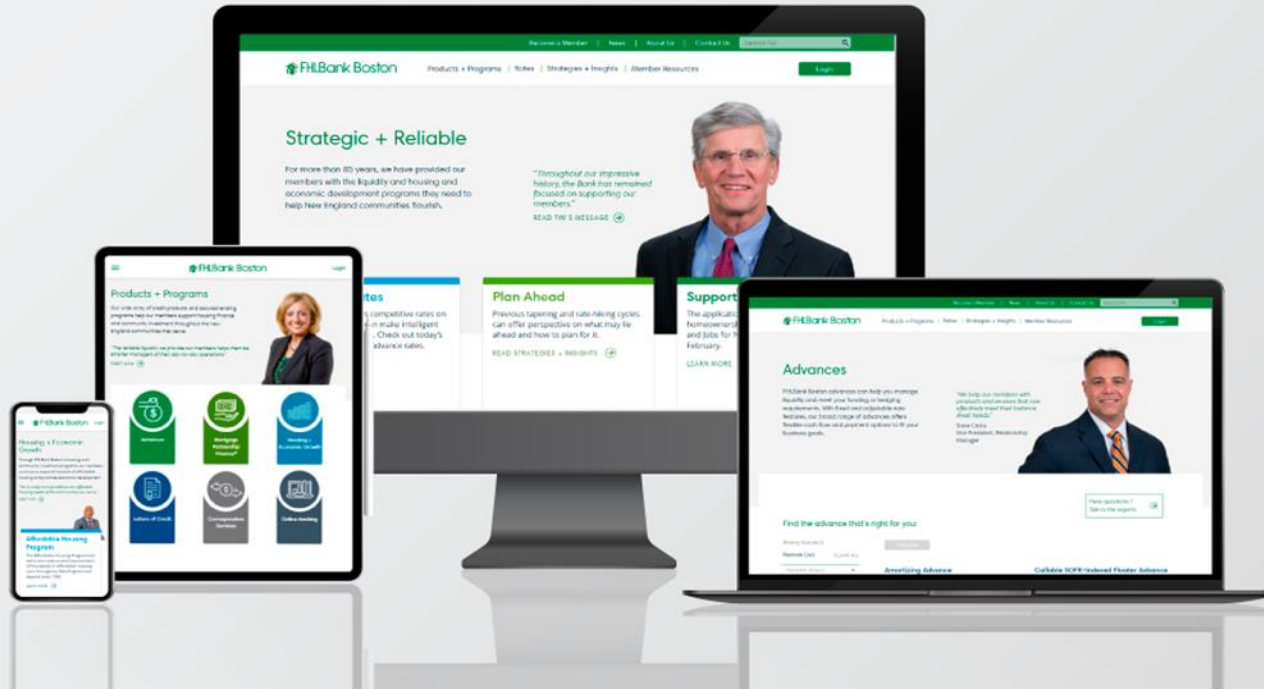
Weighted average life: 16.9 months

Funding rolloff accelerates in  
potentially more favorable  
environment for deposit gathering  
and/or asset paydown

Source: FHLBank Boston

# Questions?





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# Thank You



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