

Peer Analysis and Balance Sheet Strategies Update



February 20, 2025

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Presenters



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Overview

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

Poll Question

Where will the Fed Funds range be at the end of December **2025**?

A: **Hard Landing**: Upper limit at 2.00% or lower

B: **Medium Landing**: Upper limit at 2.25-3.00%

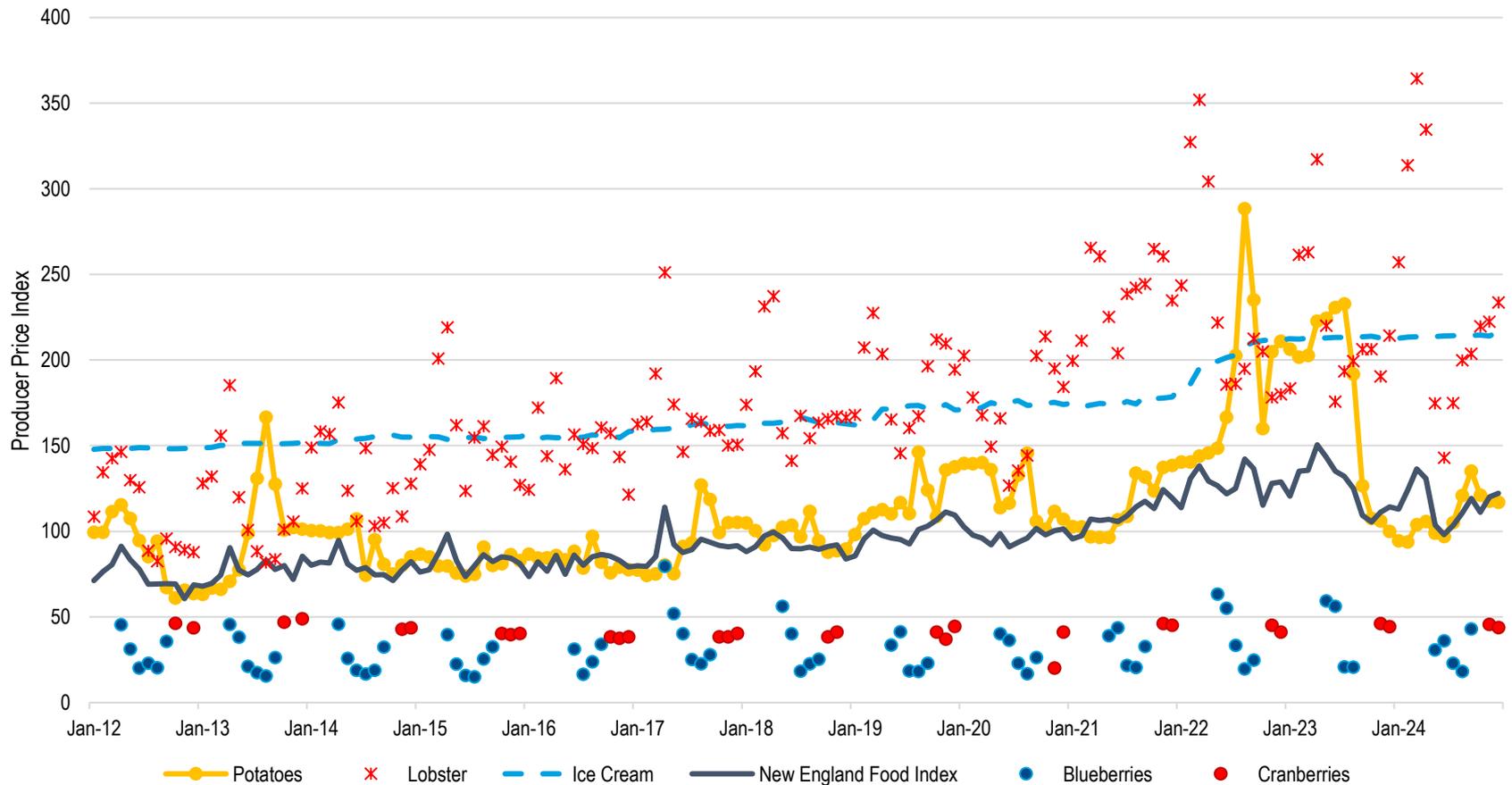
C: **Soft Landing**: Upper limit at 3.25-4.00%

D: **Higher for Longer**: Upper limit at 4.25% or higher (1 more cut)

Inflation Close to Home

Prices for berries have been boring, potato prices have plummeted, and ice cream has been immovable. But lobsters have leapt by 82.6% over the last 10 years, resulting in 6.21% annualized crustacean inflation.

New England Food Index



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

Markets & Economy Update



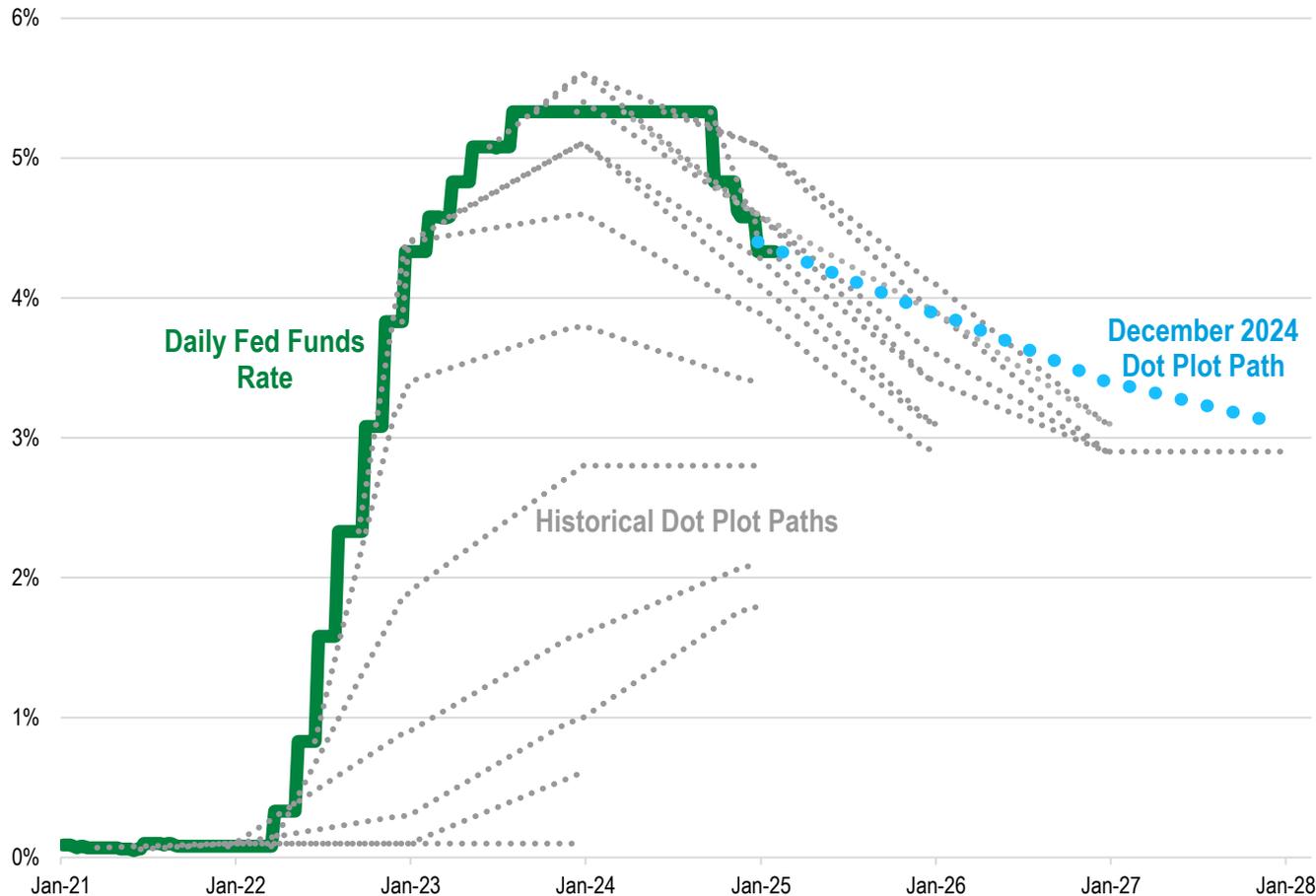
Markets & Economy Update

- The Fed
- The Yield Curve
- Labor Markets
- Inflationary Pressures

Dot Plot Path Projections

While the Fed's Dot Plot projections can serve as guidance in the moment, the realized paths vary widely over time.

Fed Funds Rate & Dot Plot Projections



Long-Run Projection

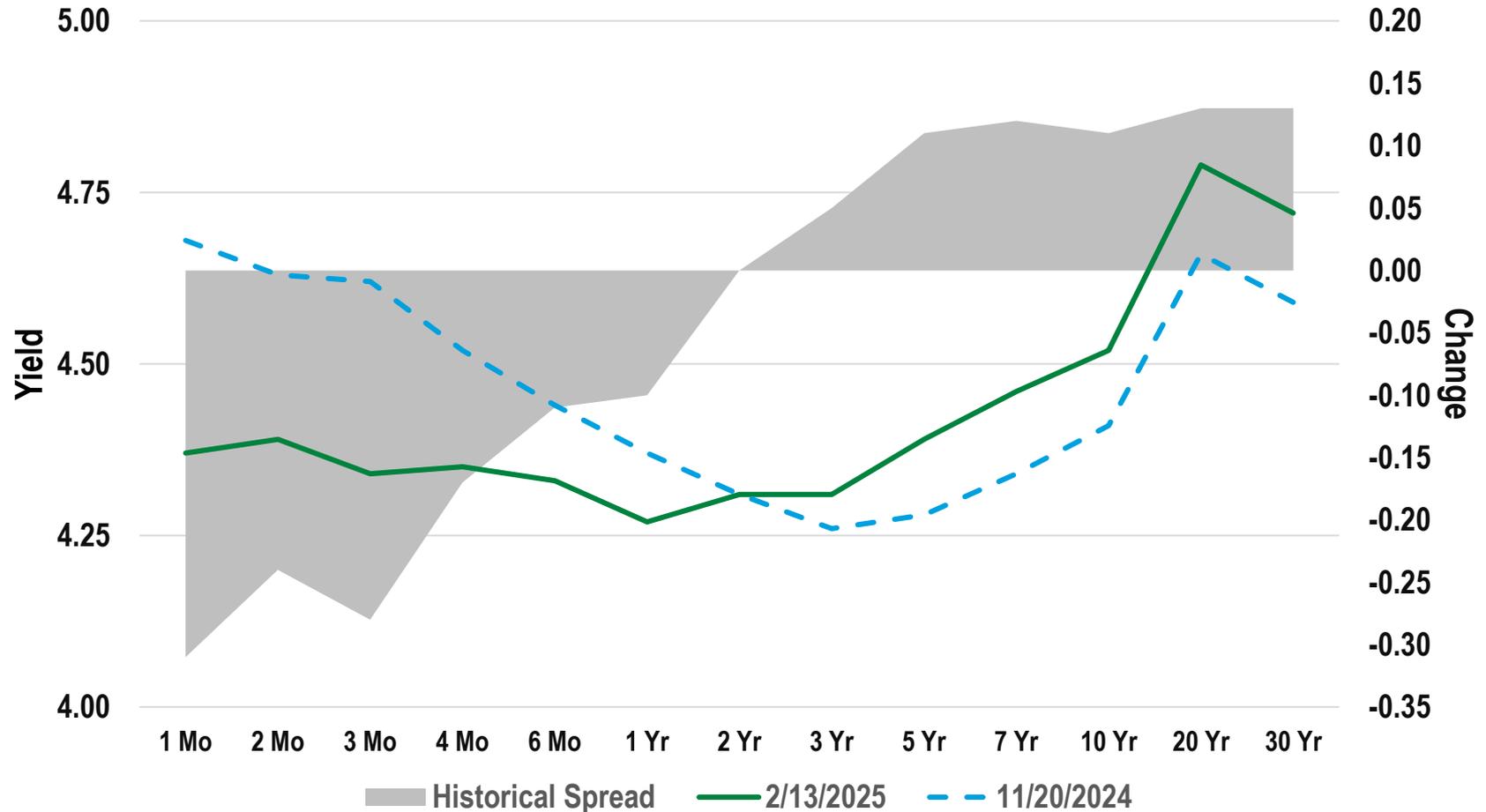
March 2022	2.40%
June 2022-December 2023	2.50%
March 2024	2.60%
June 2024	2.80%
September 2024	2.90%
December 2024	3.00%

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

Treasury Yield Curve

Over the past quarter, the short end of the curve has significantly declined due to Fed rate cuts.

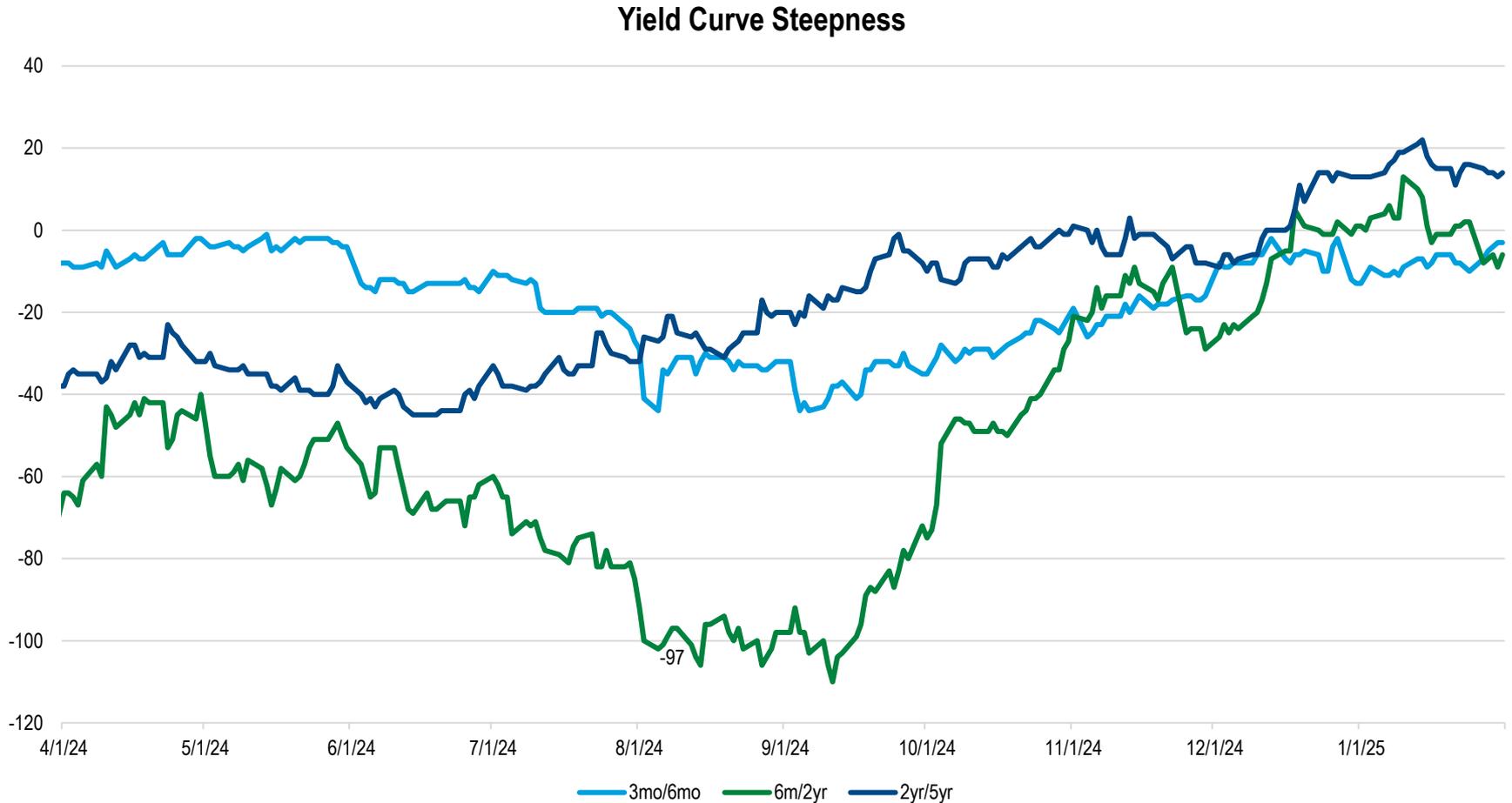
Treasury Yield Curve Movement



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

Treasury Yield Curve Steepness Changes

Due to both strength in front-end yields and weakness in longer tenors, yield curve shape has moved from inversion to flat.

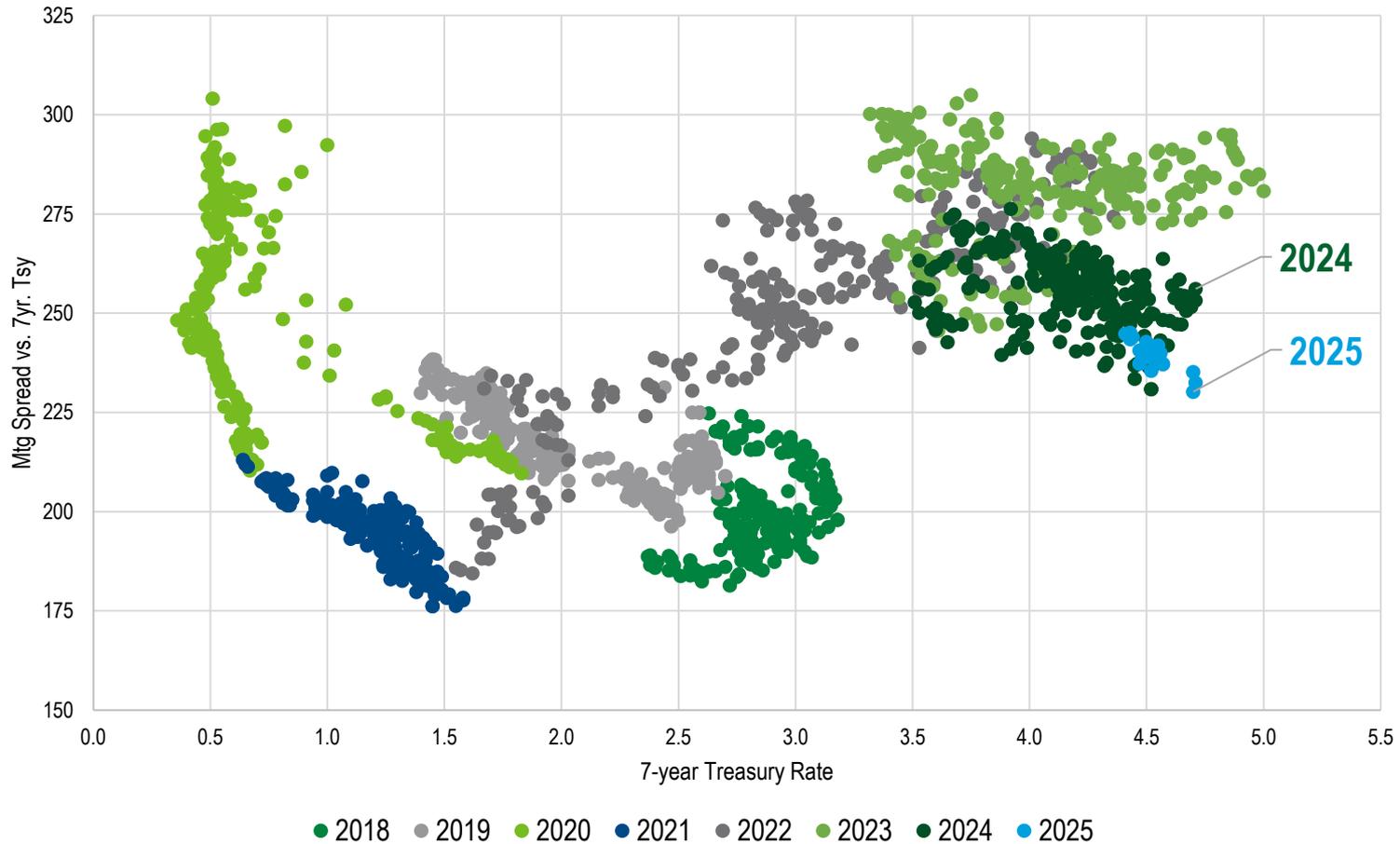


Source: Federal Reserve Bank of St. Louis, FHLBank Boston

Mortgage Rates & Spreads

Spreads have narrowed (but remain relatively wide) as Treasury yields have drifted higher.

30-Year Mortgage Spread to 7-Year Treasury Rate

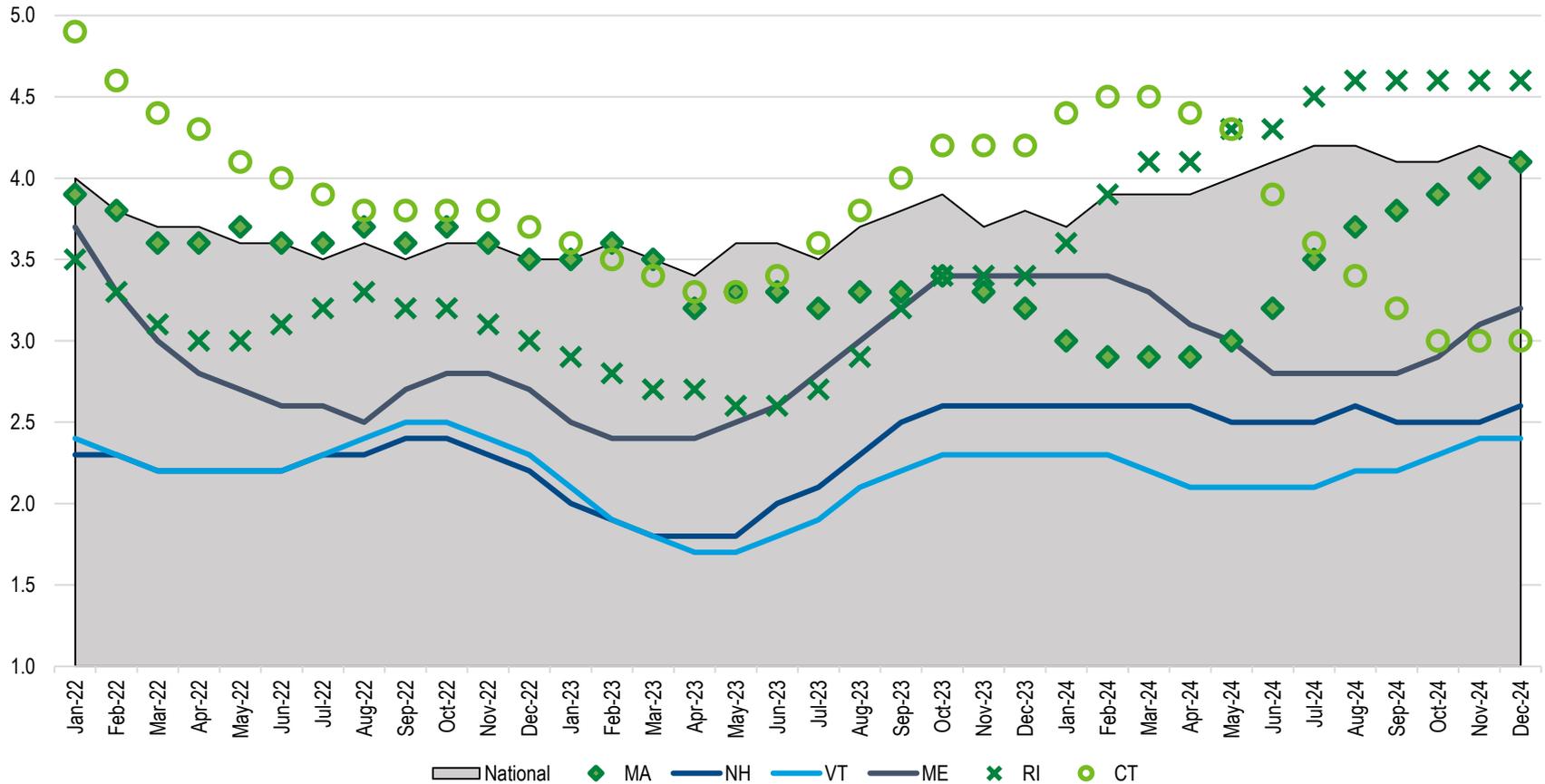


Source: Federal Reserve Bank of St. Louis, Optimal Blue, FHLBank Boston

Regional & National Unemployment Rate

State-by-state unemployment in New England is generally faring better than the national average.

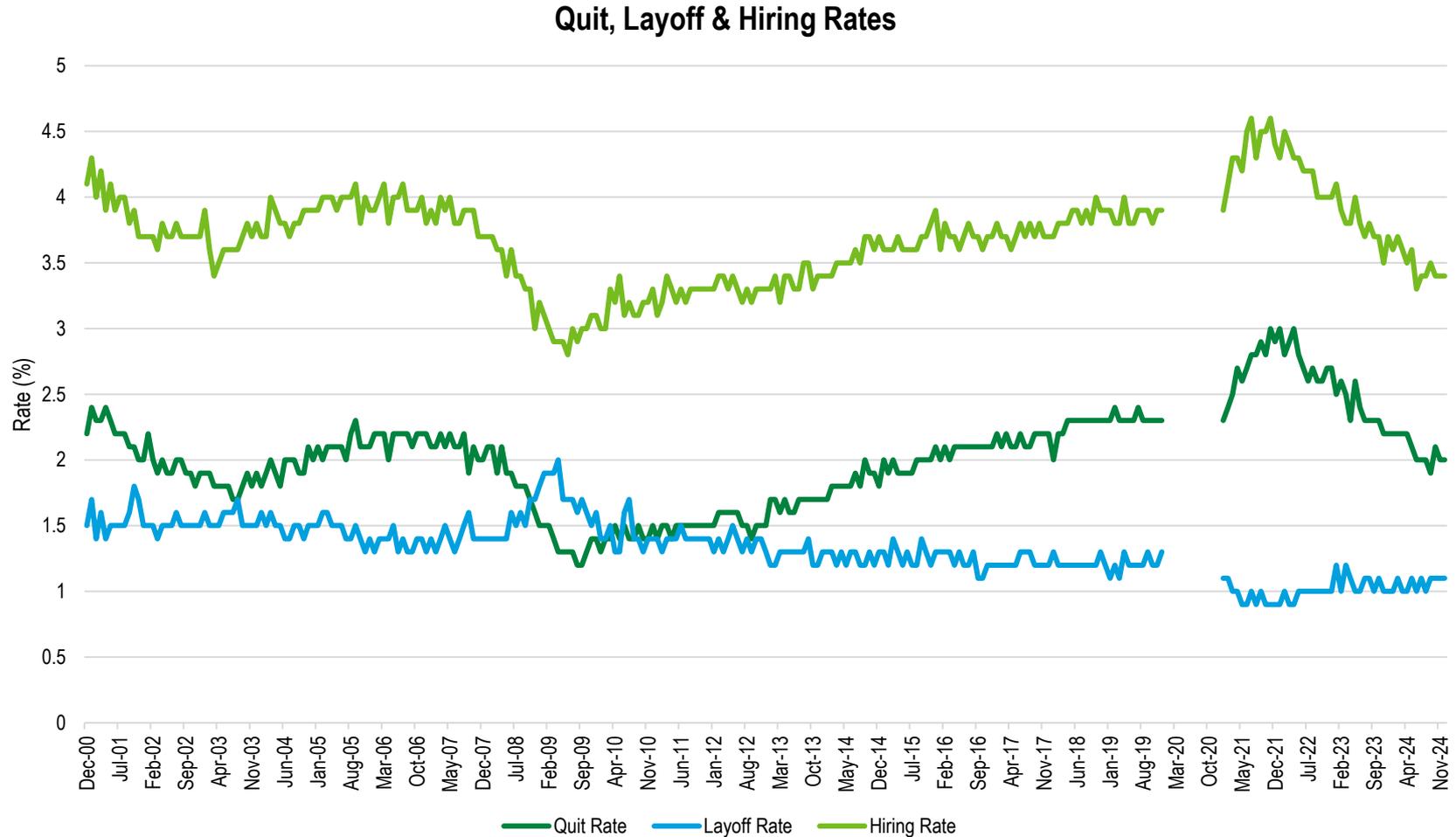
Unemployment Rate: National & New England States



Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, FHLBank Boston

Labor Market Health Check

Hiring and quit rates continue to drift lower, but there has been no meaningful rise in the layoff rate - yet?

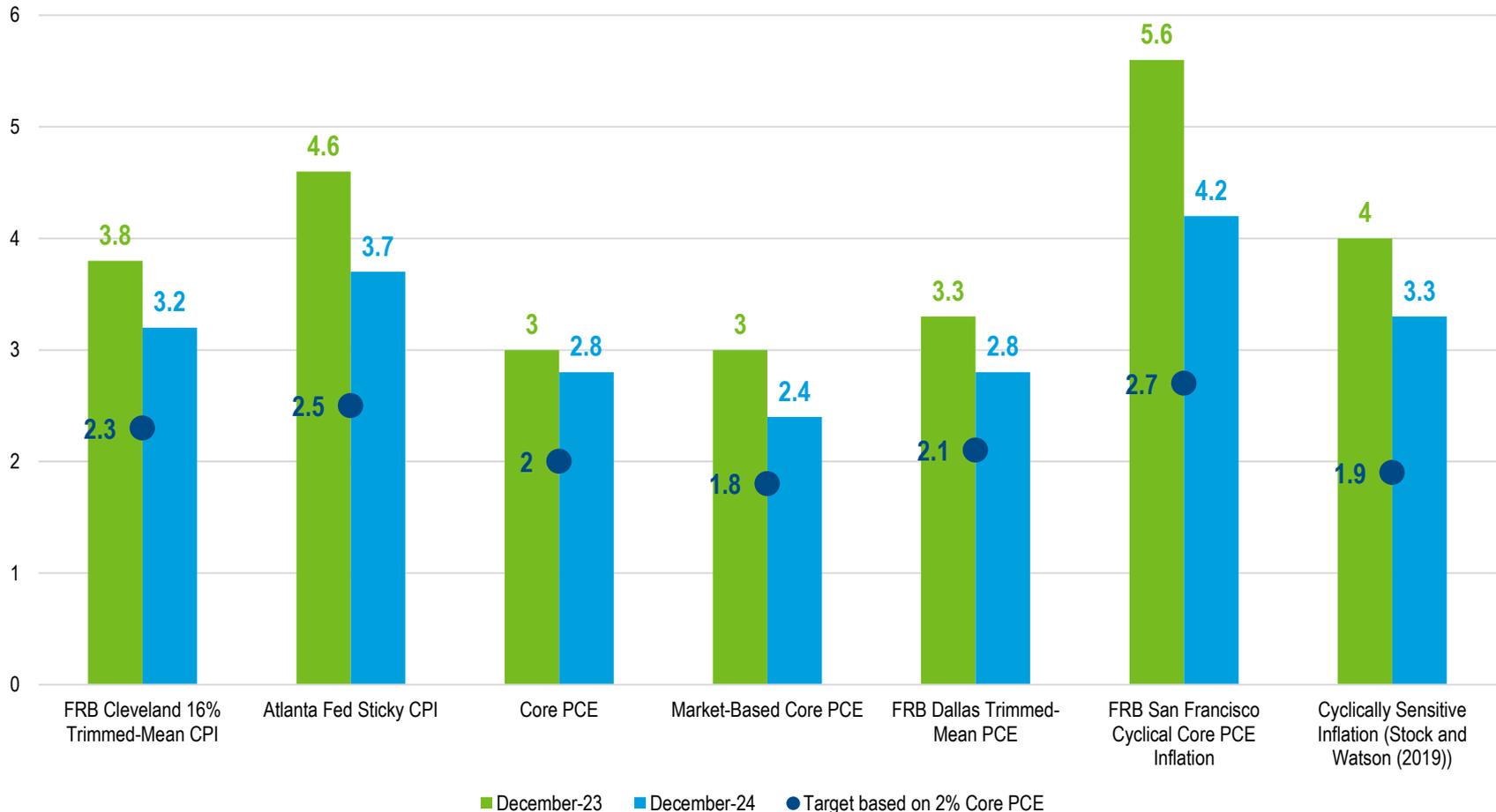


Source: Federal Reserve Bank of St. Louis, U.S. Bureau of Labor Statistics, FHLBank Boston

Persistently High Inflation

Is the key point that indicators are moving lower or that they remain above the target range?

FRB Atlanta Underlying Inflation Dashboard



Source: Federal Reserve Bank of Atlanta, FHLBank Boston

Peer Analysis & Call Report Trends

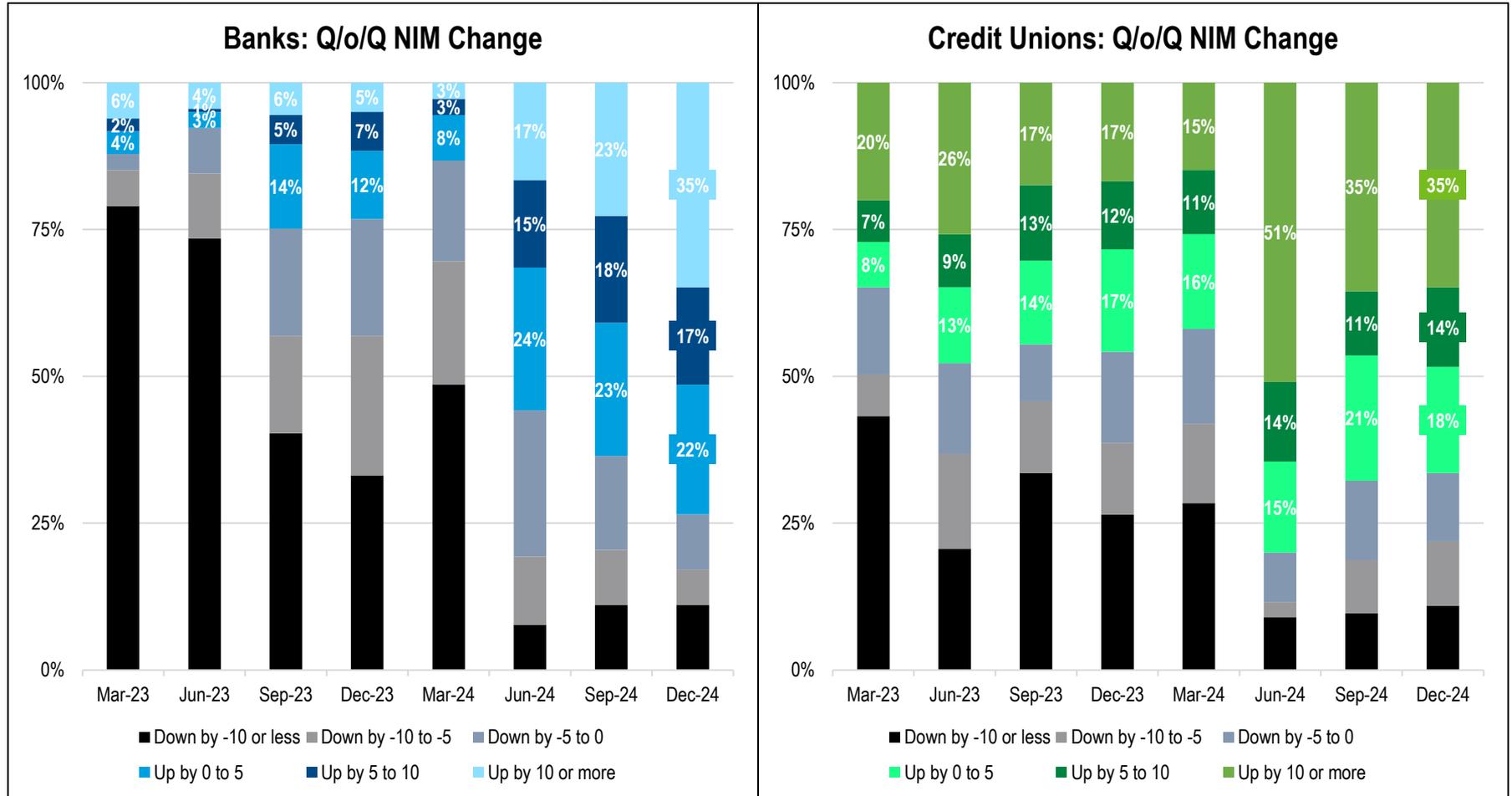


Peer Analysis & Call Report Trends

- Margin
- Deposit Composition
- Credit Trends
- Investments
- Growth

Net Interest Margin is on the Upswing

Directionally the trend is positive, as the challenges posed from the rate shock continue to abate.

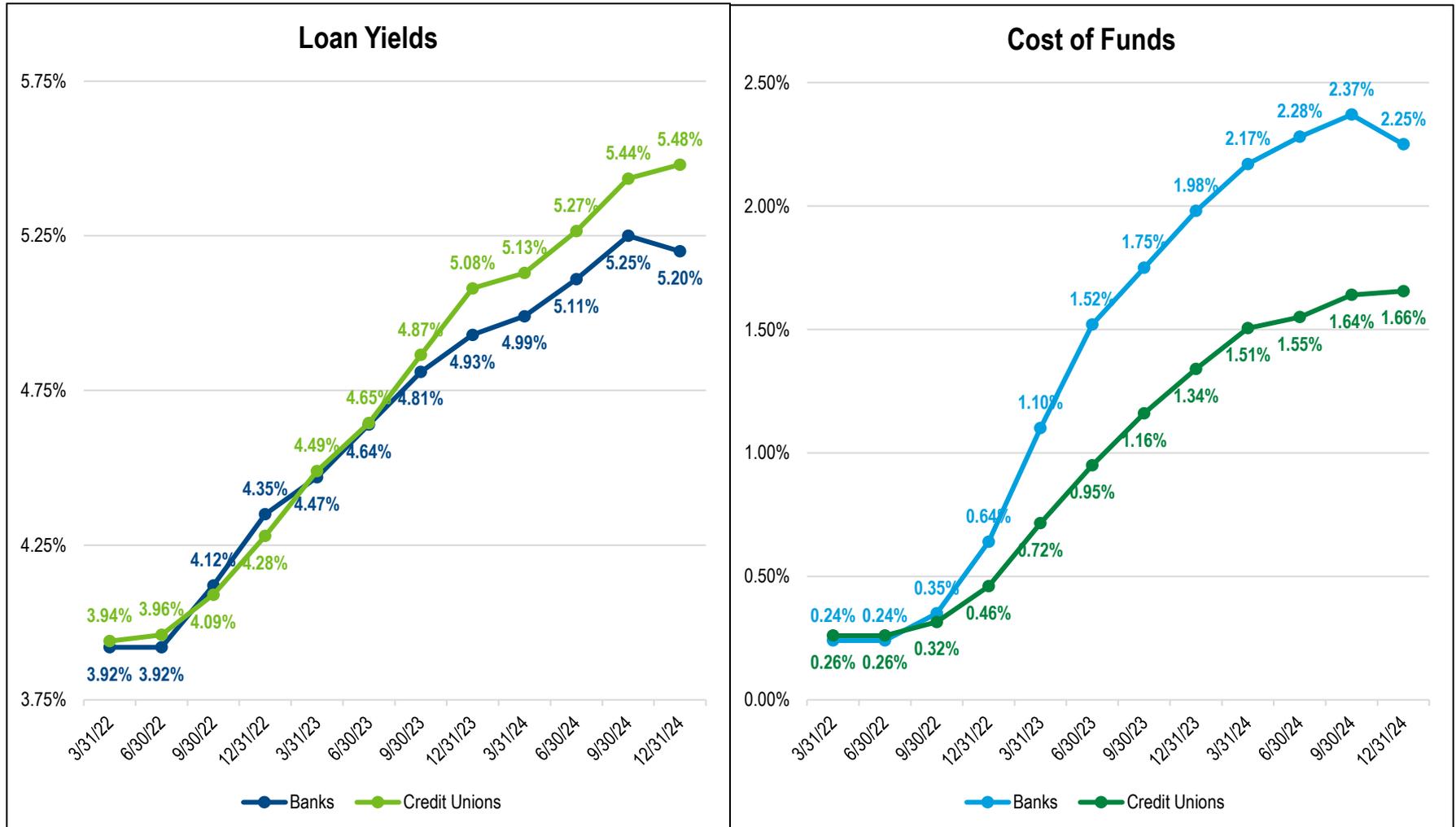


Median NIM: 2.64% (+7)

Median NIM: 3.43% (+7)

Asset Repricing or Funding Cost Relief?

For banks, cost of funds relief is the key driver, and for credit unions, it's higher loan yields.

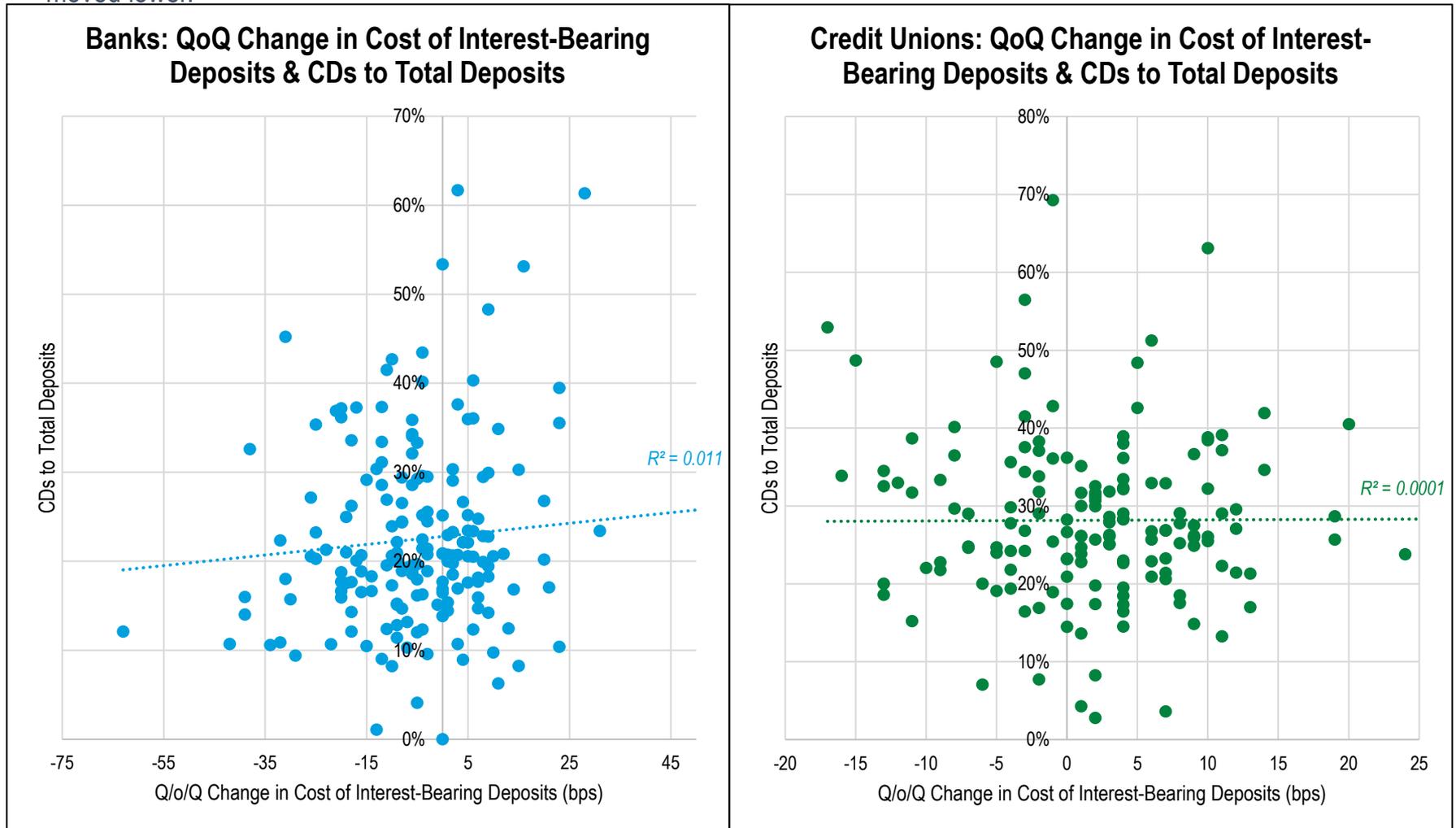


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Is Deposit Composition Impacting Funding Costs?

Surprisingly, reliance on term deposits has not had a big influence on the change in deposit costs, as short-term rates have moved lower.



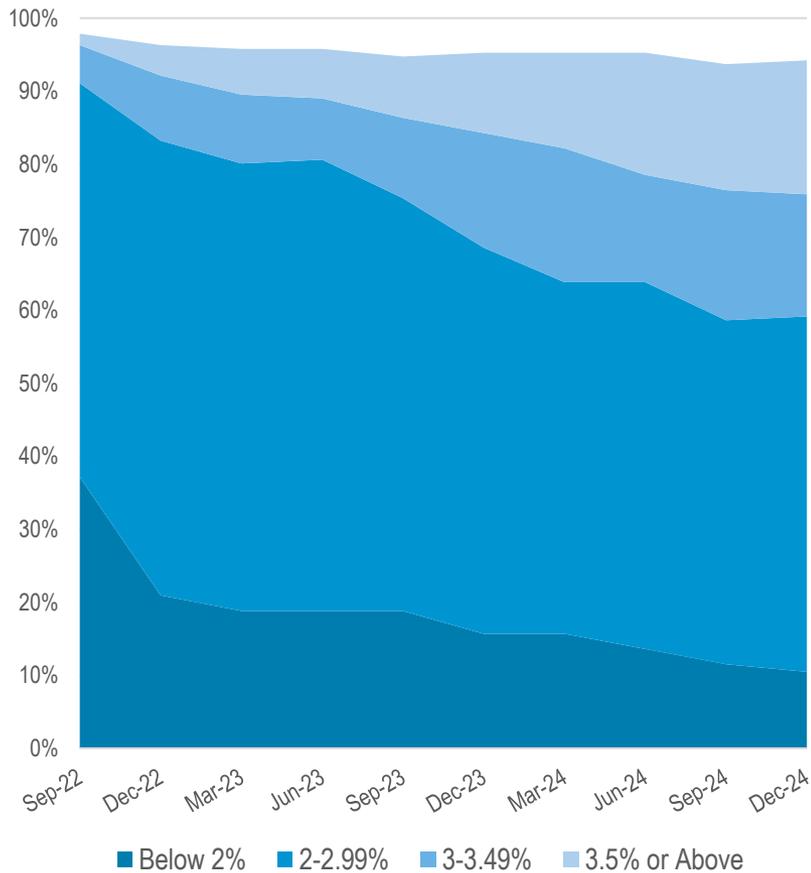
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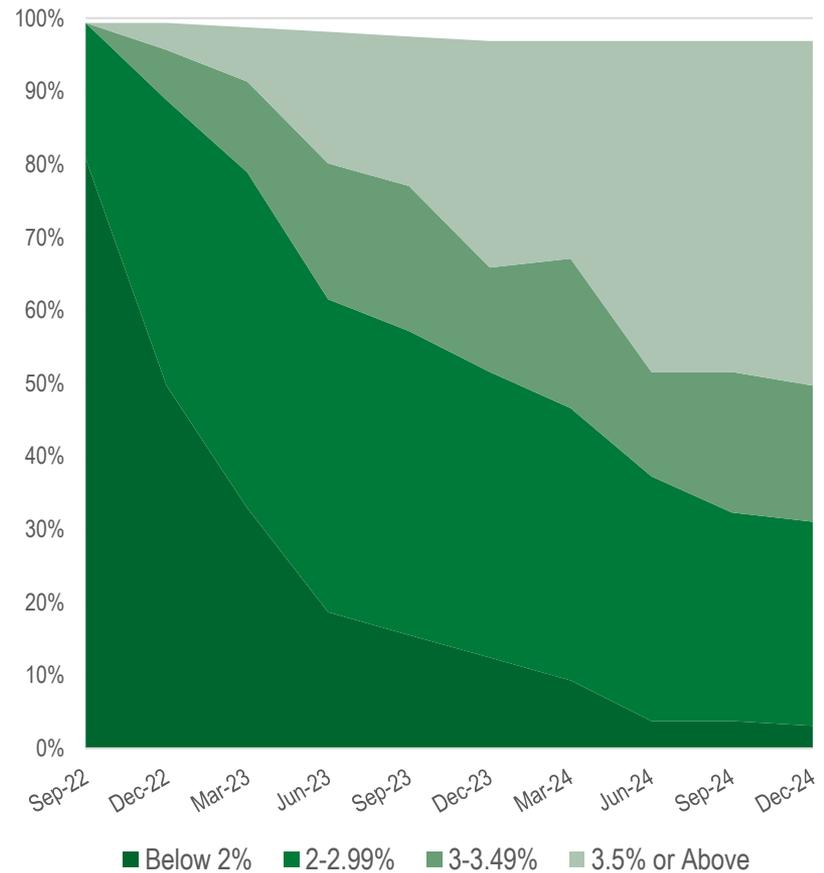
Investment Yields Continue to Drift Higher

The percentage of members with low-yielding investment portfolios continues to decline as rates become more favorable.

% of Banks: Investment Yield Ranges



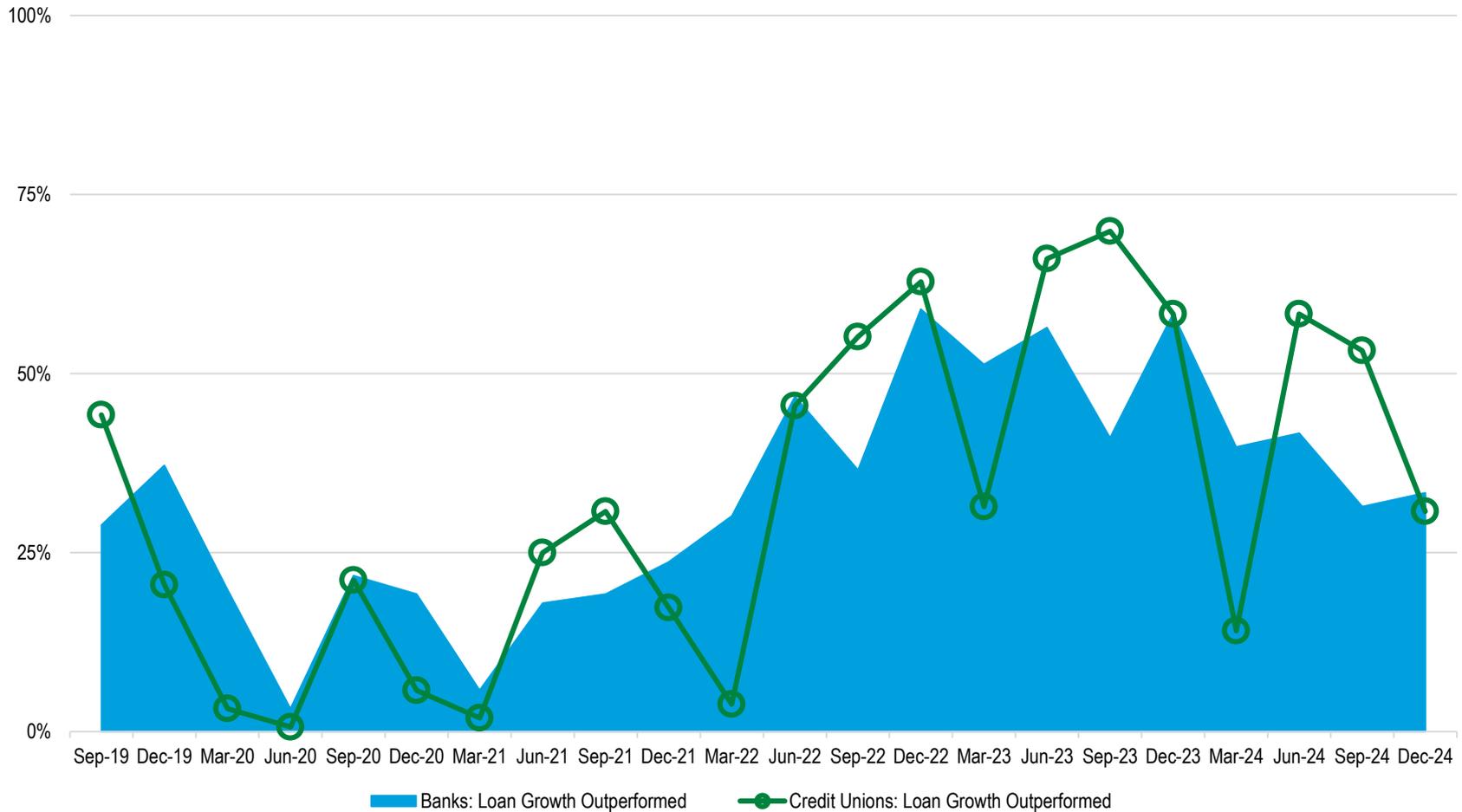
% of Credit Unions: Investment Yield Ranges



Growth Trends: Loans vs. Deposits

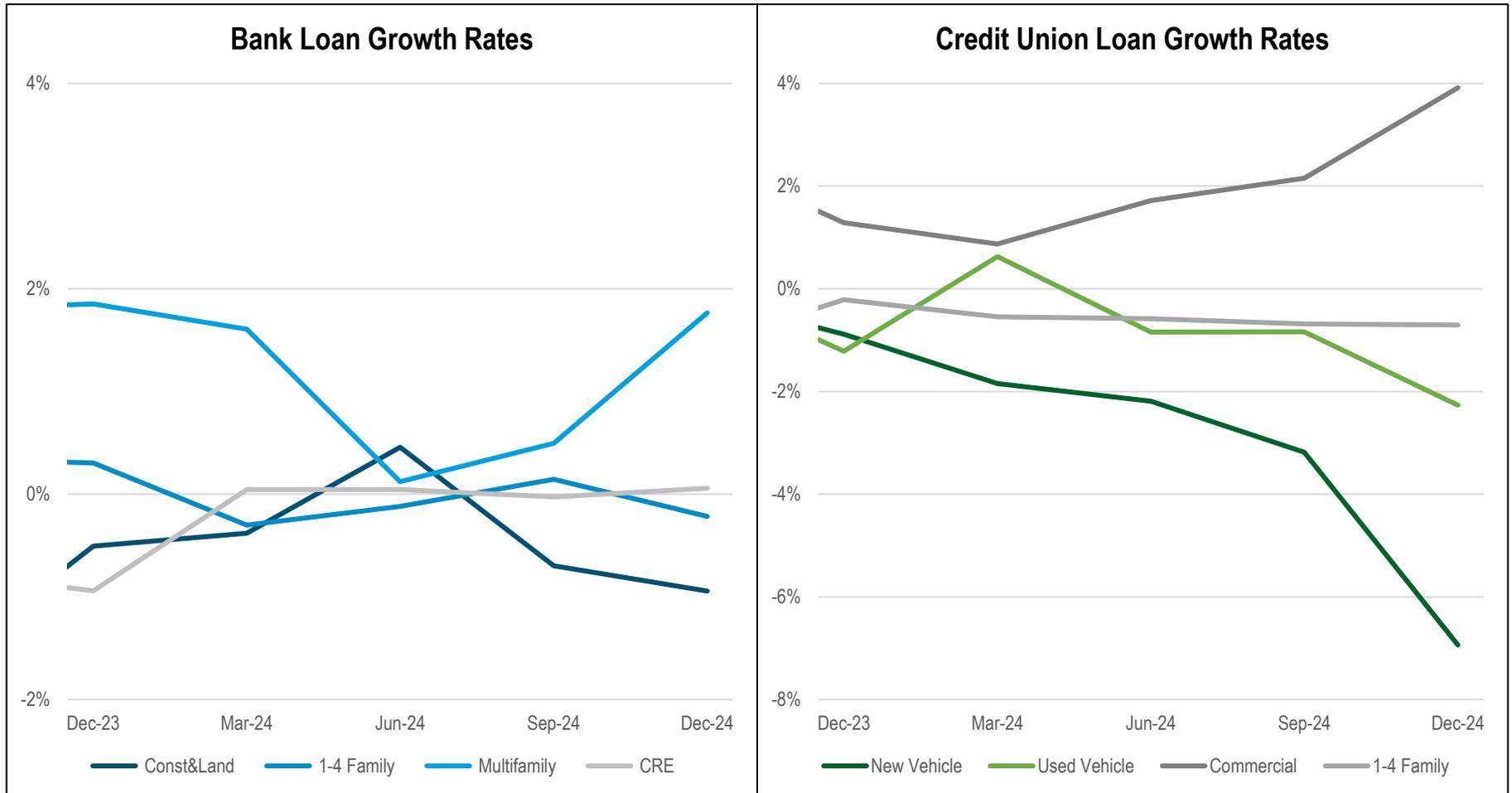
Continuing the pattern from 2024, approximately 2/3 of members brought in more deposits than loans that were added.

Percentage of Members Who Had Loan Growth > Deposit Growth



Loan Product Mix

Credit Unions' loan portfolios continue to remix lessening the concentration in auto loans.

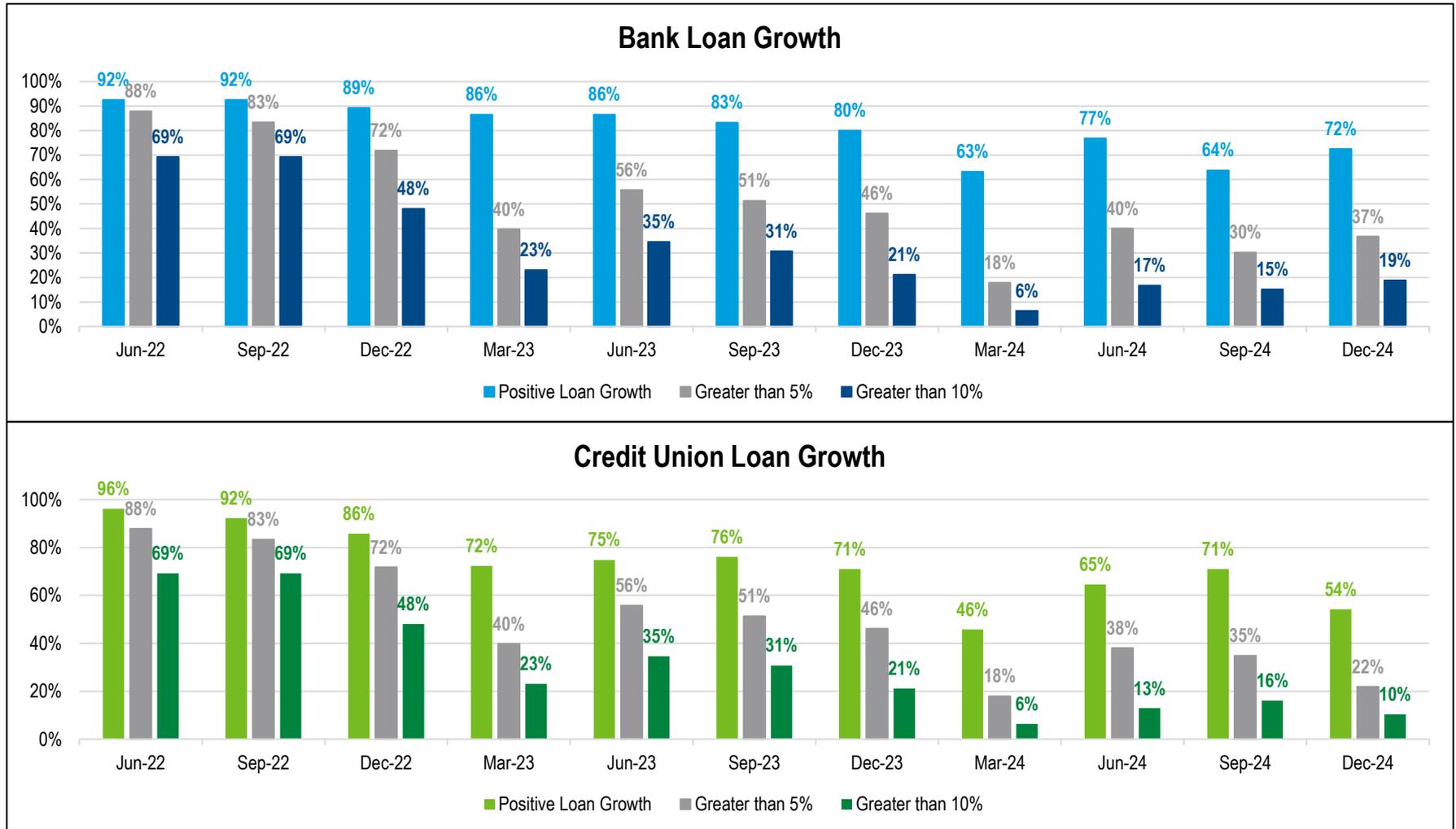


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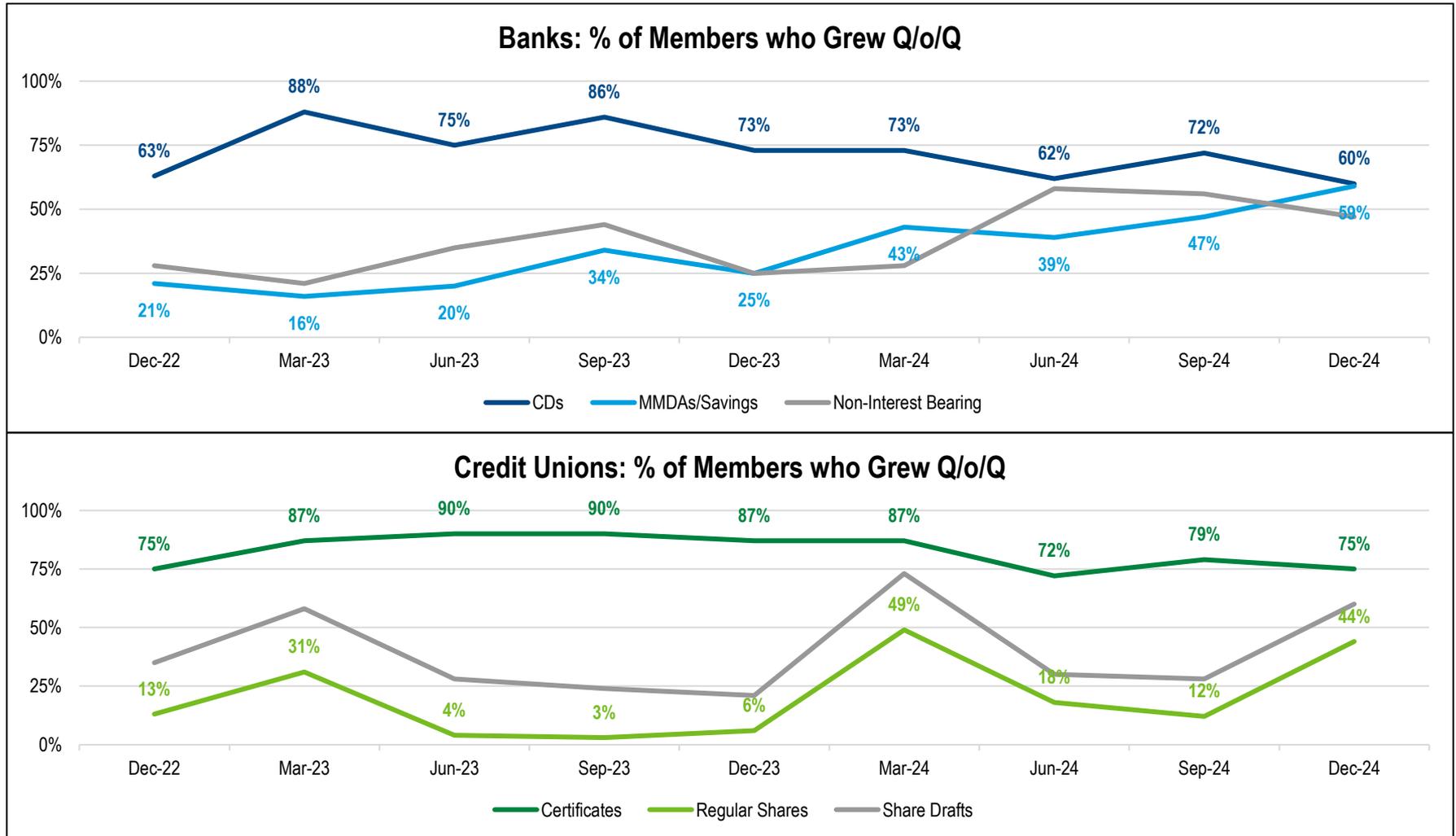
Loan Growth Hanging On

Bank loan activity continues to be robust, while credit union loan growth shows more signs of slowing.



Deposit Mix Trending Positively

The cost to retain and gather is a different issue, but some rotation out of term deposits is slowly occurring.



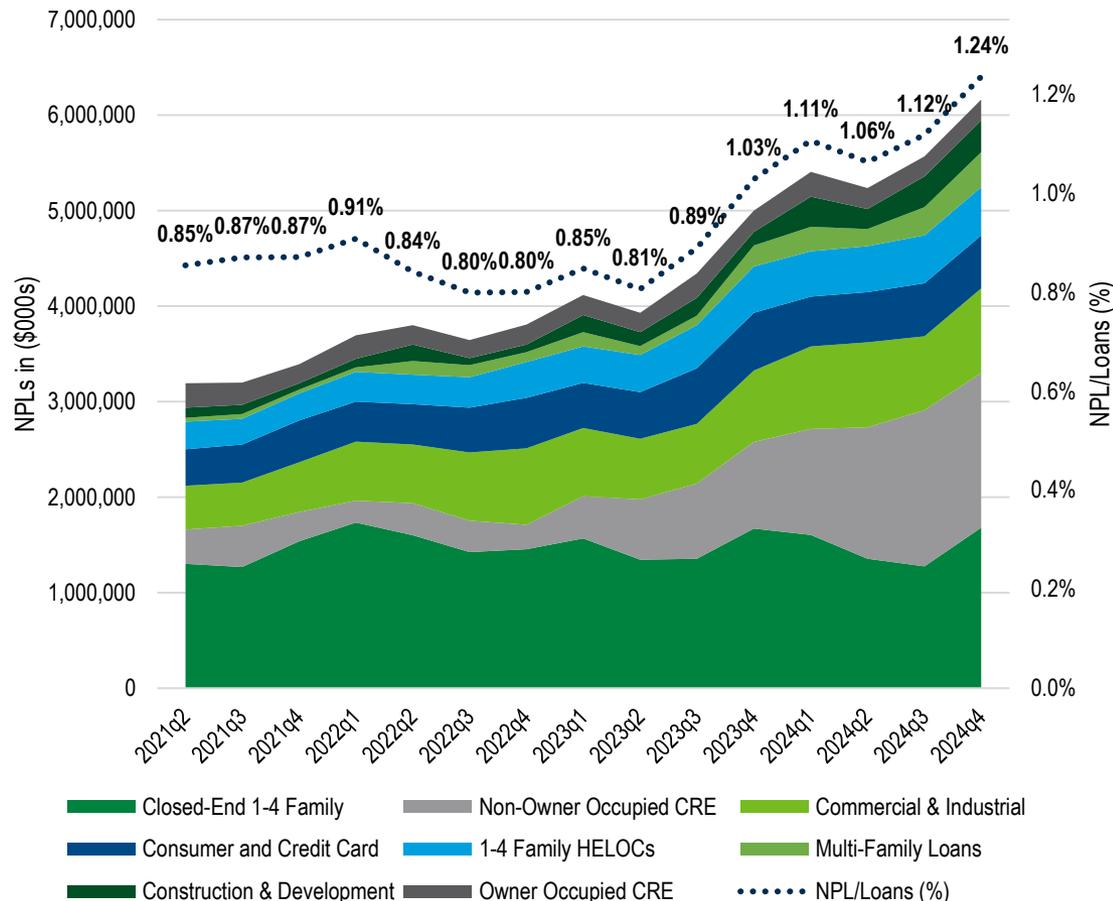
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Source: S&P Global, FHLBank Boston

Banks: Credit Trends

Residential loans and C&I loans saw NPLs jump from last quarter, as overall asset quality continues to deteriorate.

Member Bank Asset Quality Breakdown



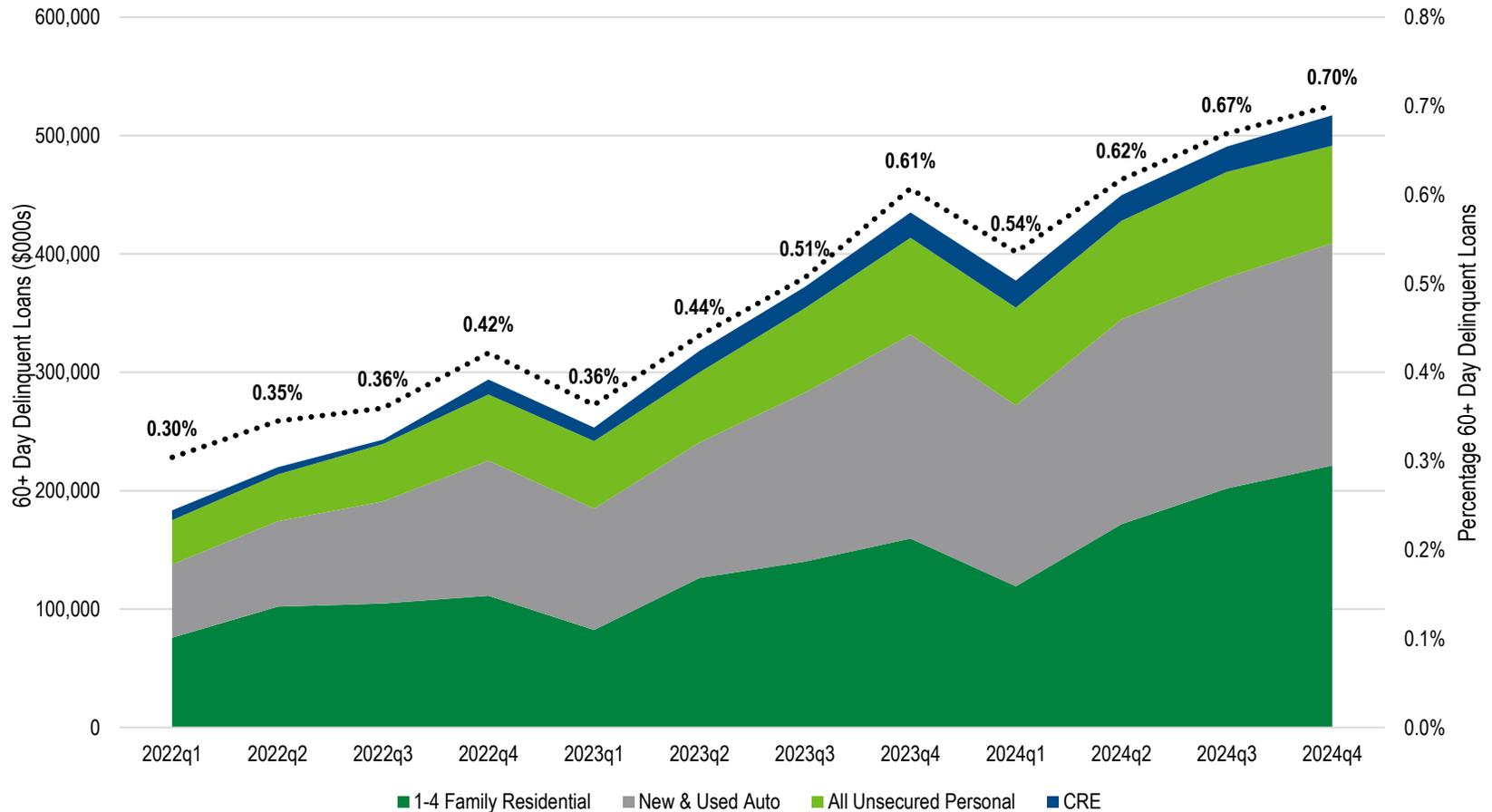
Change From Last Quarter

Loan Category	Q3 '24	Q4 '24
1-4 Family HELOCs	1.86%	1.82%
Non-Owner Occupied CRE	2.09%	2.07%
Owner Occupied CRE	0.70%	0.72%
Consumer and Credit Card	1.96%	2.03%
Construction & Development	1.30%	1.37%
Multi-Family Loans	0.73%	0.89%
Closed-End 1-4 Family	0.94%	1.22%
Commercial & Industrial	0.98%	1.32%
Total NPLs	1.12%	1.24%

Credit Unions: Credit Trends

A steady uptick in residential and auto loan delinquencies has driven asset quality deterioration for member credit unions.

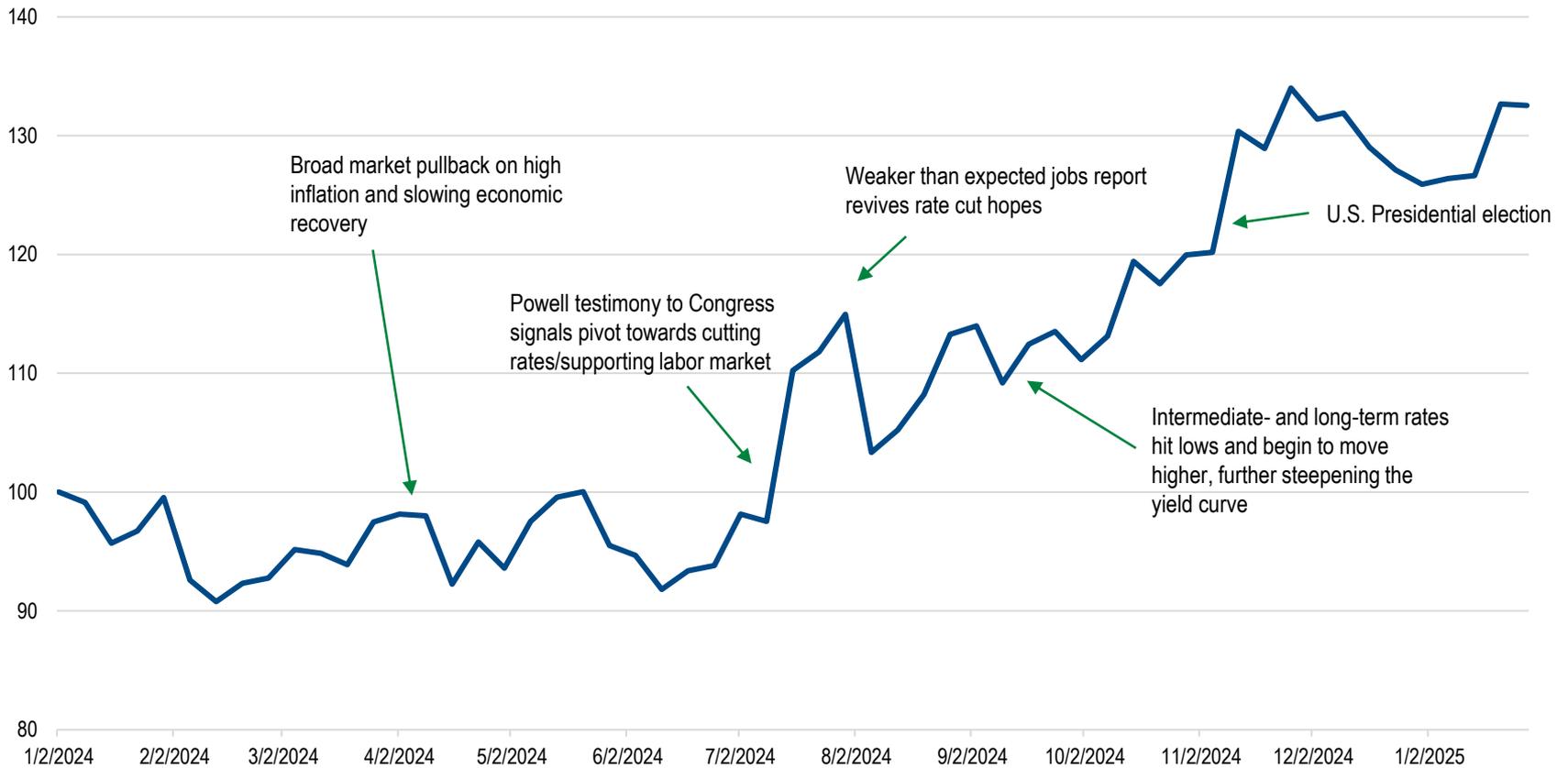
Member Credit Union Asset Quality Breakdown



Member Stock Price Performance

The past year saw several key events that influenced the performance of bank stocks.

Publicly Traded Member Bank Stock Performance (Indexed to 100 at 1/1/24)



Balance Sheet Strategies

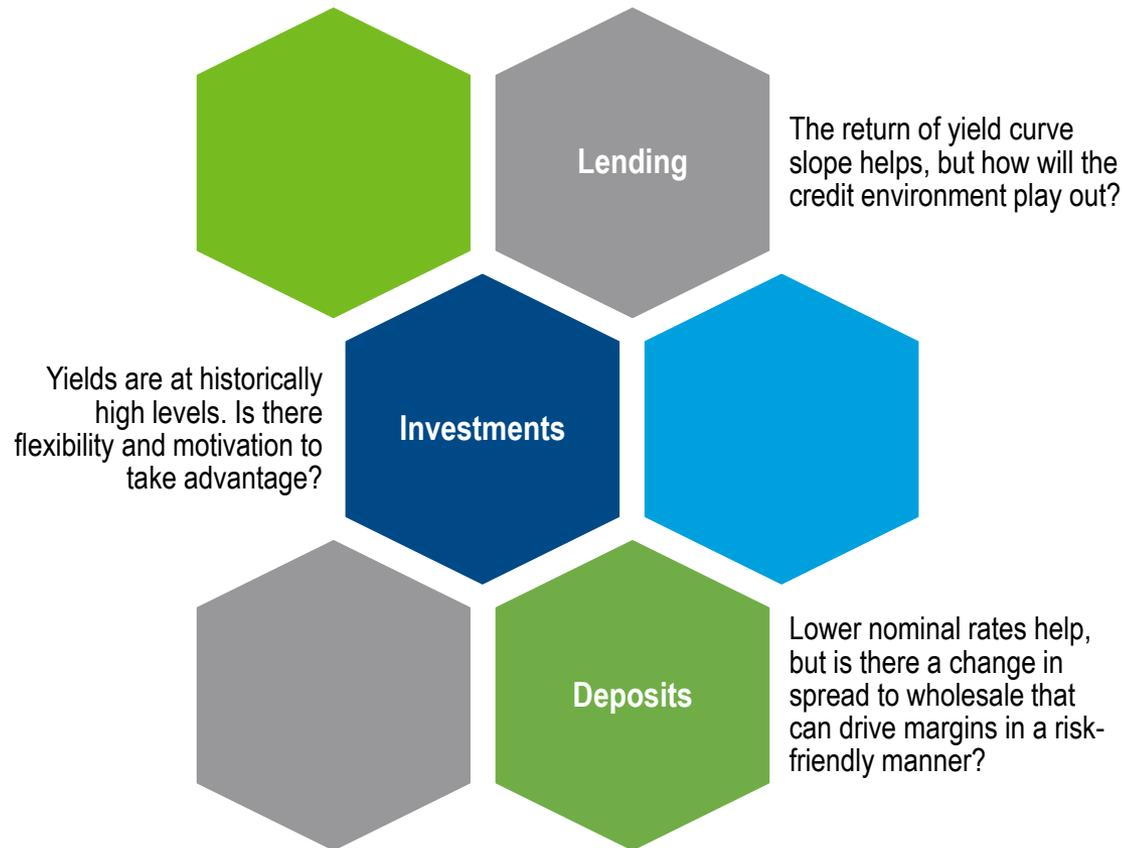


Balance Sheet Strategies

- Short-Term Cash Management
- Stay Short But Support Liquidity Metrics
- Rate Mitigation with Flexibility
- Efficient Deposit Pricing
- Investment Leverage Opportunities

Three Key Questions

What opportunities and challenges are front and center?



Wholesale Funding Strategies

Market conditions continue to evolve; so too should the strategies and tactics under consideration.

Short-Term
Cash
Management

Stay Short while
Supporting
Liquidity Metrics

Rate Mitigation
with Flexibility

Efficient Deposit
Pricing

Strengthening
the Future
Balance Sheet

Short-Term Cash Management

In this environment where every basis point matters, there's opportunity to cut interest expense with minimal changes in the approach to wholesale funding.

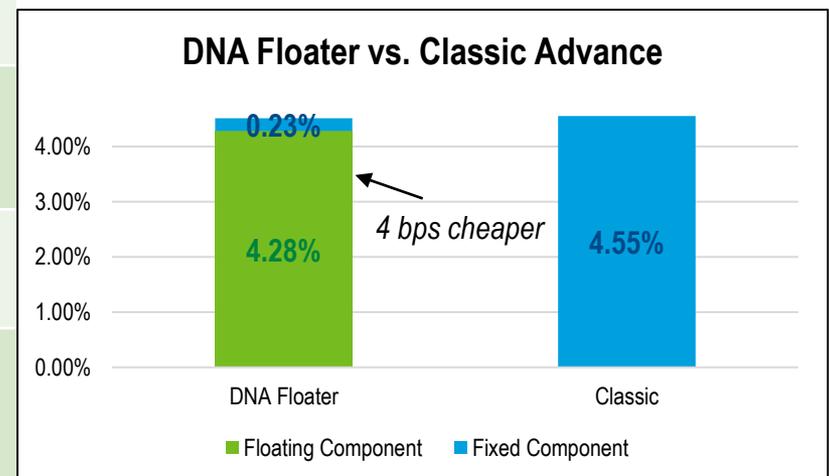
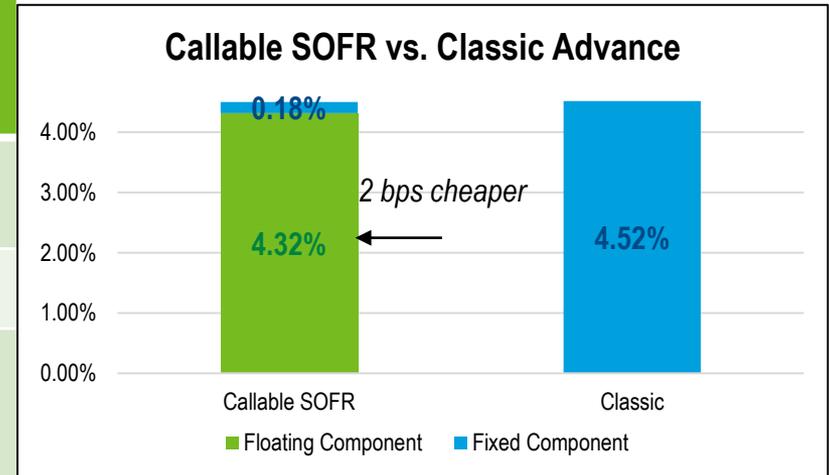
	Strategy #1: Roll Daily Cash Manager Advance for a week	Strategy #2: 1-week Classic Advance
Posted Rate	4.56%	4.54%
Required Stock Purchase	3%	4%
Estimated Dividend Impact (assuming 7.32%)*	15.6 bps	22.9 bps
Effective All-in Rate	4.40%	4.31%

**Dividend rate and methodology is subject to change and at the discretion of the board*

Stay Short But Support Liquidity Metrics

Floating-rate funding, with the ability to pay down the advance before maturity.

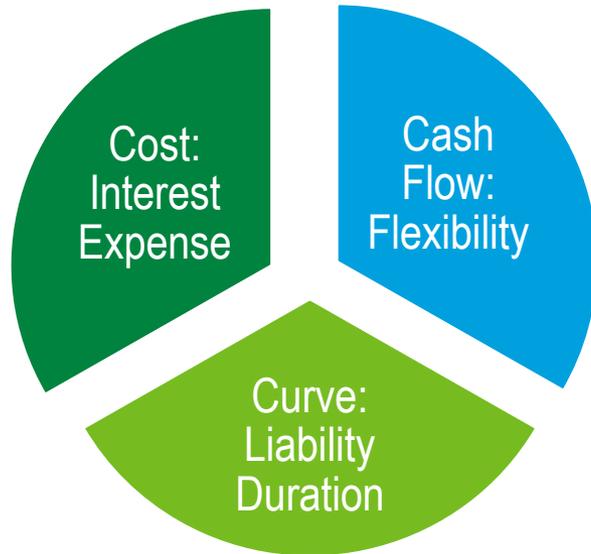
	Callable SOFR-Indexed Floater Advance	Discount Note Auction-Floater Advance
Index	Overnight SOFR	4-week or 13-week Discount Notes
Option Frequency	One-time	At each reset
Example Structure	6-month maturity, 3-month lockout, one-time call	1-year maturity, 4-week reset
Example Spread Pricing	+18 vs. SOFR	+23 vs. 4-week Discount Notes
Example All-in Pricing	Day 1: 4.50% SOFR @ 4.32% + 0.18% spread	Day 1: 4.51% DN Index @ 4.28% + 0.23% spread
Comparable Classic Advance	6-month Classic @ 4.52%	1-month Classic @ 4.55%
Benefit vs. Classic	Ability to reprice with future rate cuts + prepay option at 3-month mark	11 more months of liquidity + same flexibility to pay down



Source: FHLBank Boston

Rate Mitigation with Flexibility

With the Member-Option Advance, you can hedge rate risk today, protect earnings and capital, and stay nimble for if/when rates move lower.

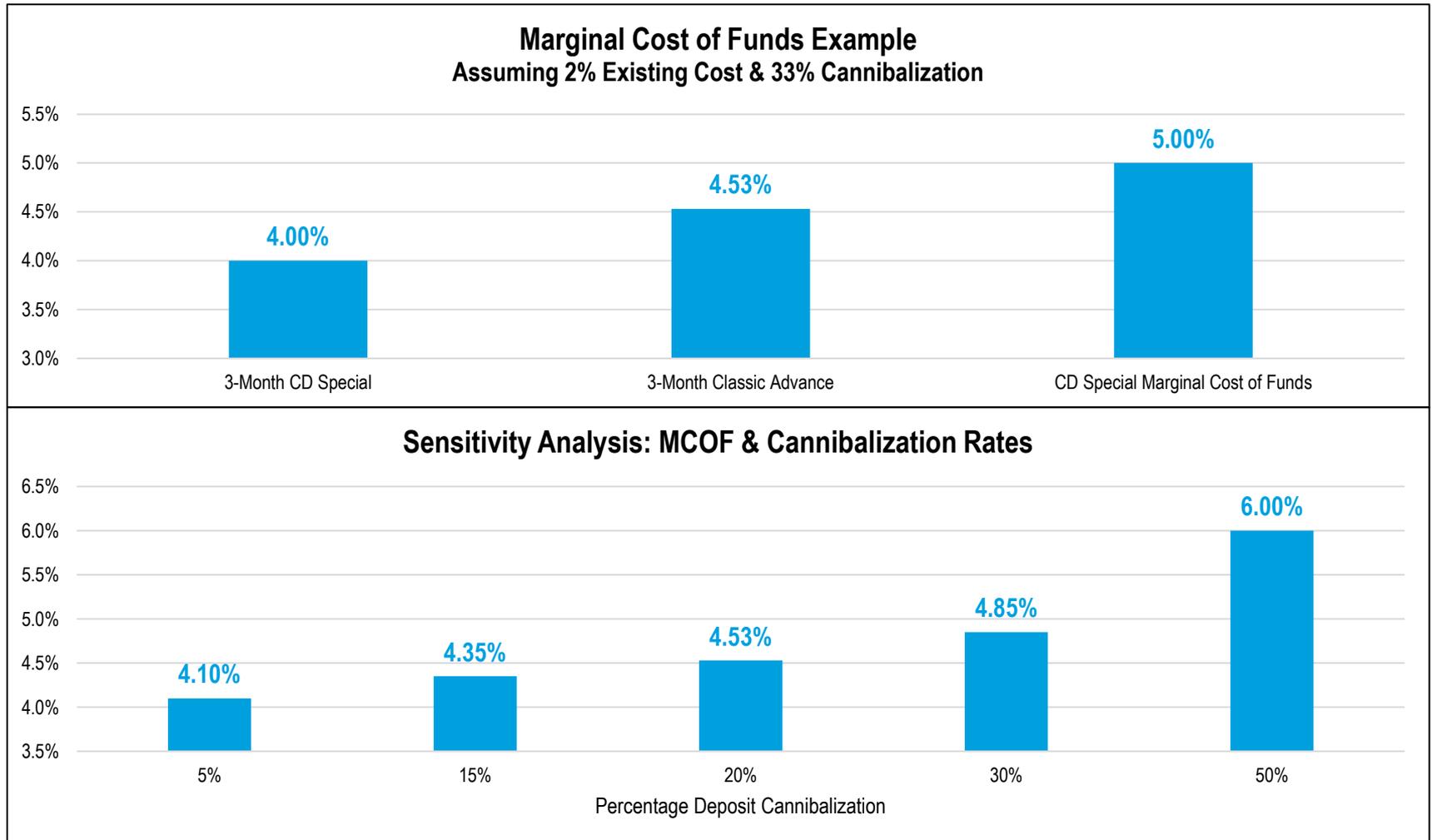


- **Extend funding**, improving IRR metrics (NEV/EVE) today
- **Retain flexibility**, to prepay advances if rates move lower or funding is no longer needed
- **Protect current earnings and capital**, avoiding asset restructures that involve one-time hits and give up upside if rates rally

Advance Type	Curve	Cost	Cash Flow	10yr Structure & Rate
Long-Term Classic	X			Bullet: 4.94%
HLB-Option	X	X		1yr lockout Qtrly: 3.53%
Member-Option	X		X	1yr lockout 1x: 5.97%

Efficient Deposit Pricing

Lower front-end rates help, but deposit gathering is still a challenge, given tight liquidity conditions and attractive asset yields and spreads.

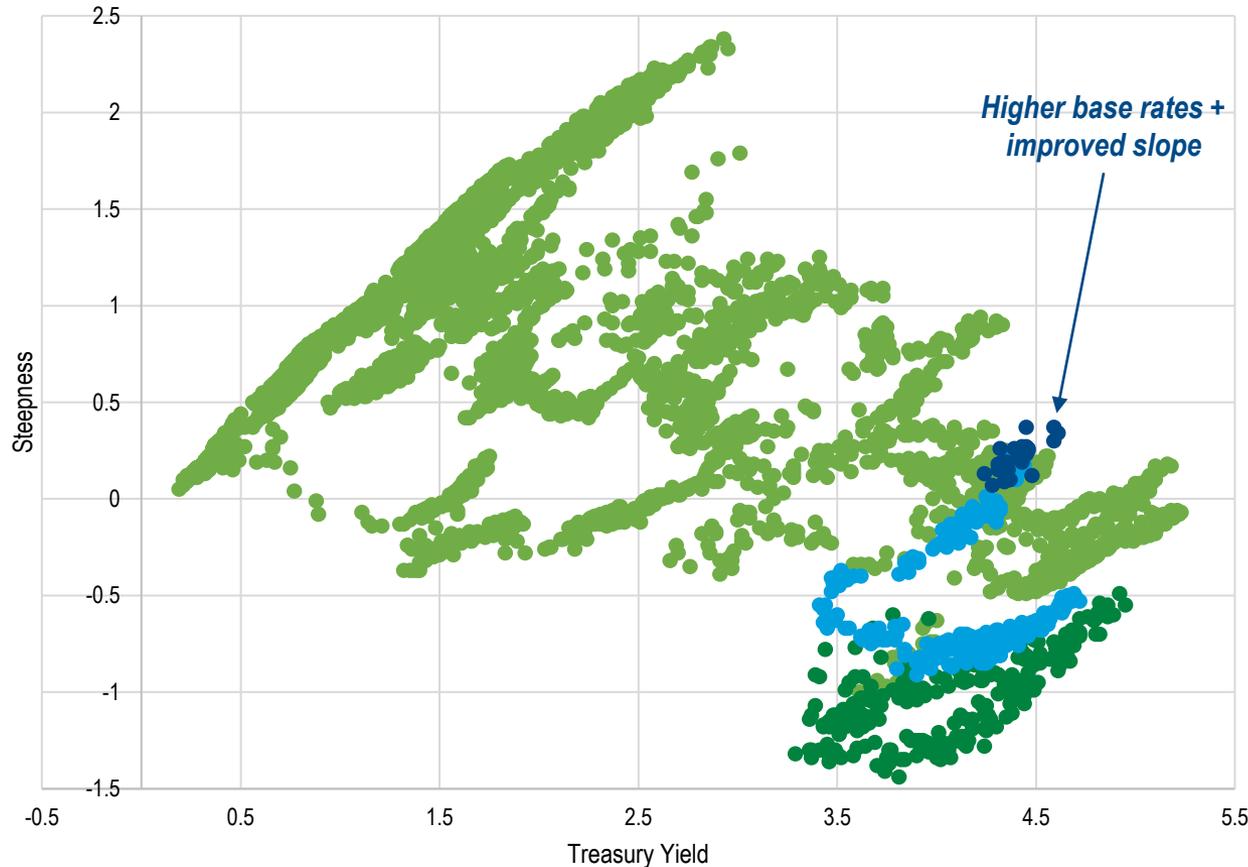


Source: FHLBank Boston

Strengthening the Future Balance Sheet

Conditions are favorable to add assets at yields and spreads not seen often in recent years.

5-Year Treasury Yield & 1-Year/5-Year Steepness



● 2005 to 2022 ● 2023 ● 2024 ● 2025

Investment Leverage Considerations

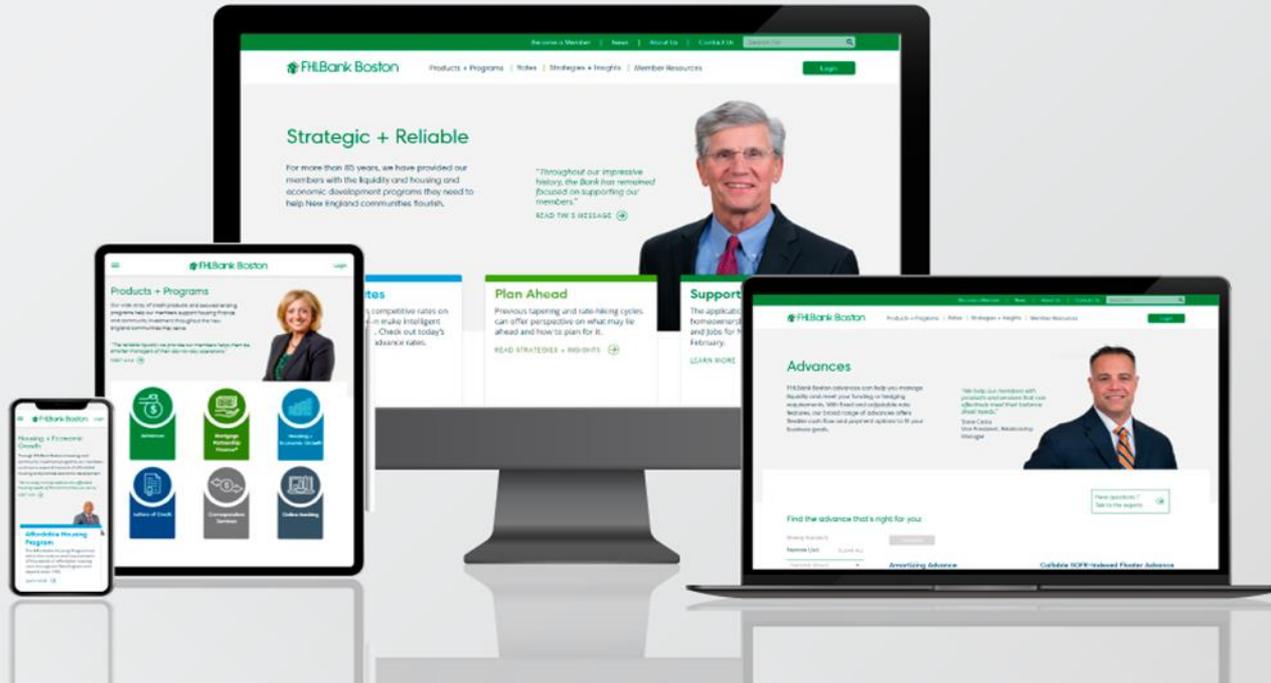
Intermediate rates are ~100 bps higher since 2024 4th Quarter

Rate cut expectations have been significantly diminished

A yield curve that is no longer aggressively inverted makes it easier to clear return targets

Create the potential for unrealized gains that could offset credit disruption in a turn of the economic cycle

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



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Thank You



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