

Liquidity & Funding Strategies for the Current Environment



October 16, 2025

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Presenters



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Overview

- The Impact of the End of Quantitative Easing
- What's Next for Loan & Deposit Growth?
- Funding the Current & Future Balance Sheet

The Impact of the End of Quantitative Easing



Agenda

- Monetary policy and state of the yield curve
- Update on inflation and the labor market
- Overview of QT – history, present, impact on volatility
- Advance solutions to consider

FOMC Cut Rates 25 Bps in September to 4.00-4.25%

Governor Miran, who wanted a larger rate cut, dissented. In the press conference, Chair Powell highlighted growing risks to the labor market and discussed the impact of tariffs on inflation (the base case is one-time price shock, with upside risks).

Change in Median FOMC Projection, June to September 2025

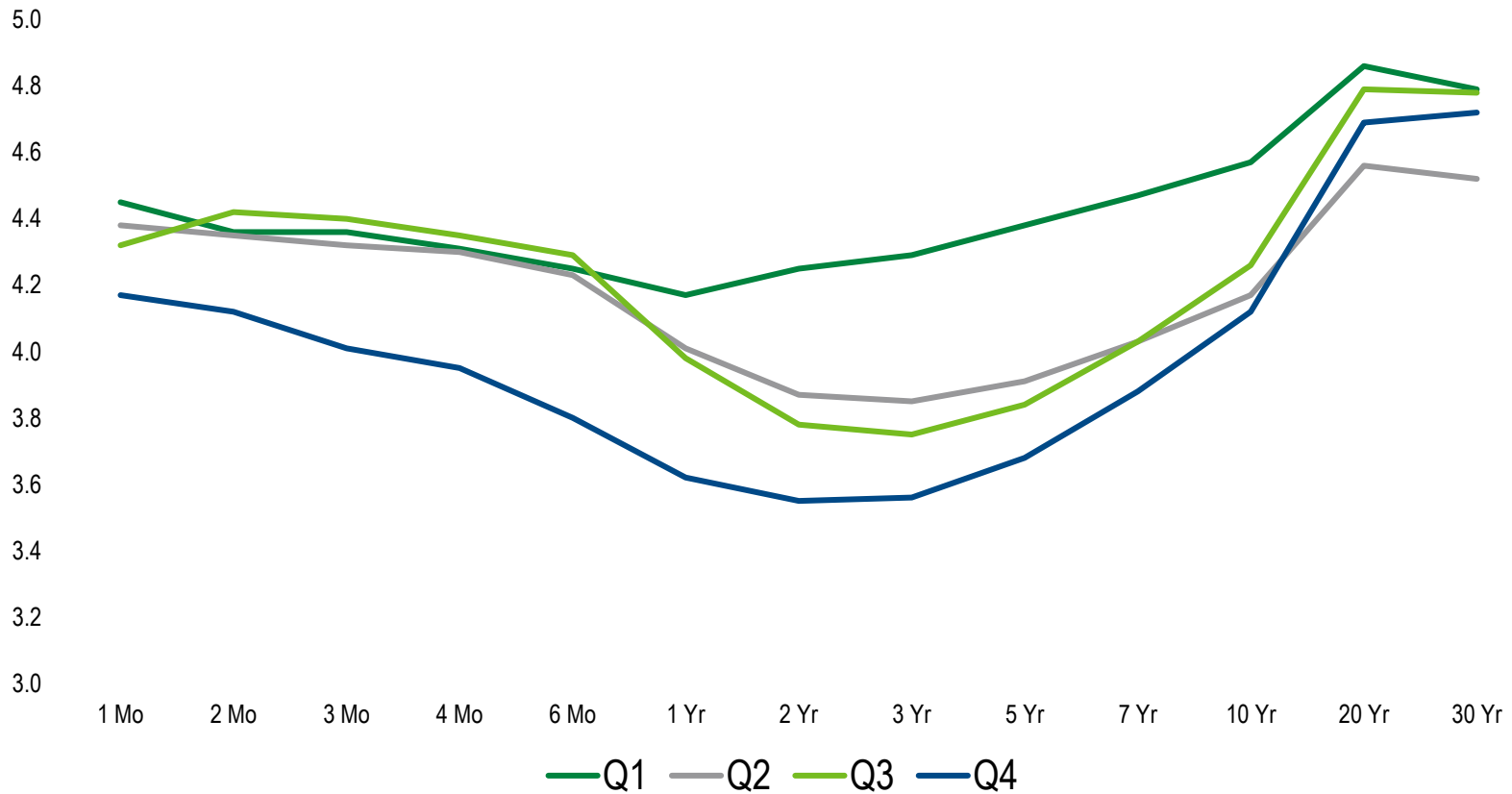
	Federal Funds Rate	Real GDP	Unemployment Rate	PCE
2025	-0.3	0.2	0.0	0.0
2026	-0.2	0.2	-0.1	0.2
2027	-0.3	0.1	-0.1	0.0

Source: FHLBank Boston, Federal Reserve Board of Governors

Treasury Curve

The yield curve continues to price an expectation of lower interest rates. The three year is the lowest-yielding part of the Treasury curve. Interest rates have generally come down over the course of the year.

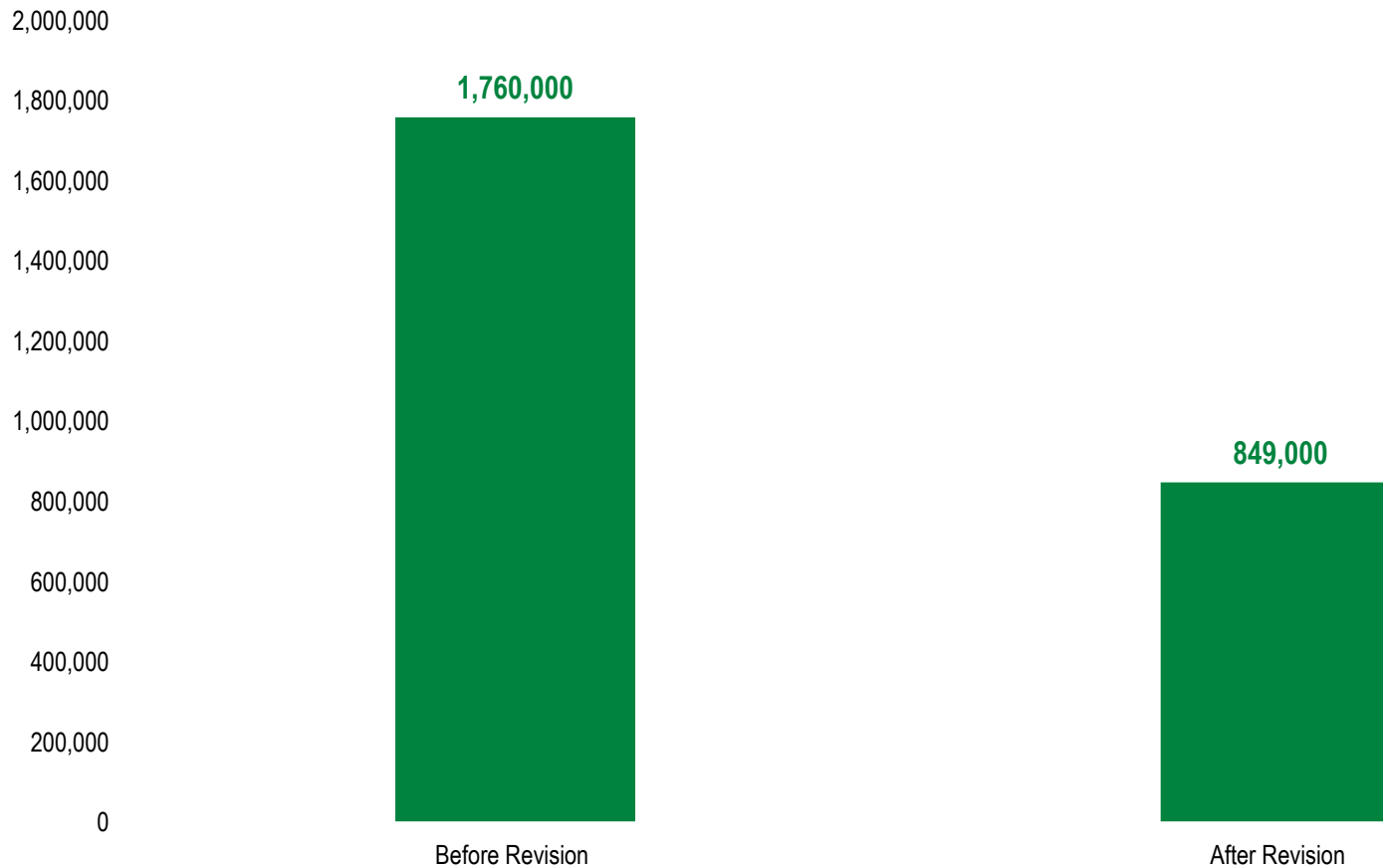
Treasury Yield Curve at Beginning of Each Quarter, 2025 (%)



Labor Market Continues to Deteriorate

The government shutdown means we have no data yet in October, but the September Employment Situation Report showed a gain of only 22K jobs in August, an uptick in the unemployment rate to 4.2%, and a decrease in AHE to 3.7%.

Impact of BLS Preliminary Revision on Jobs Added April 2024 to March 2025

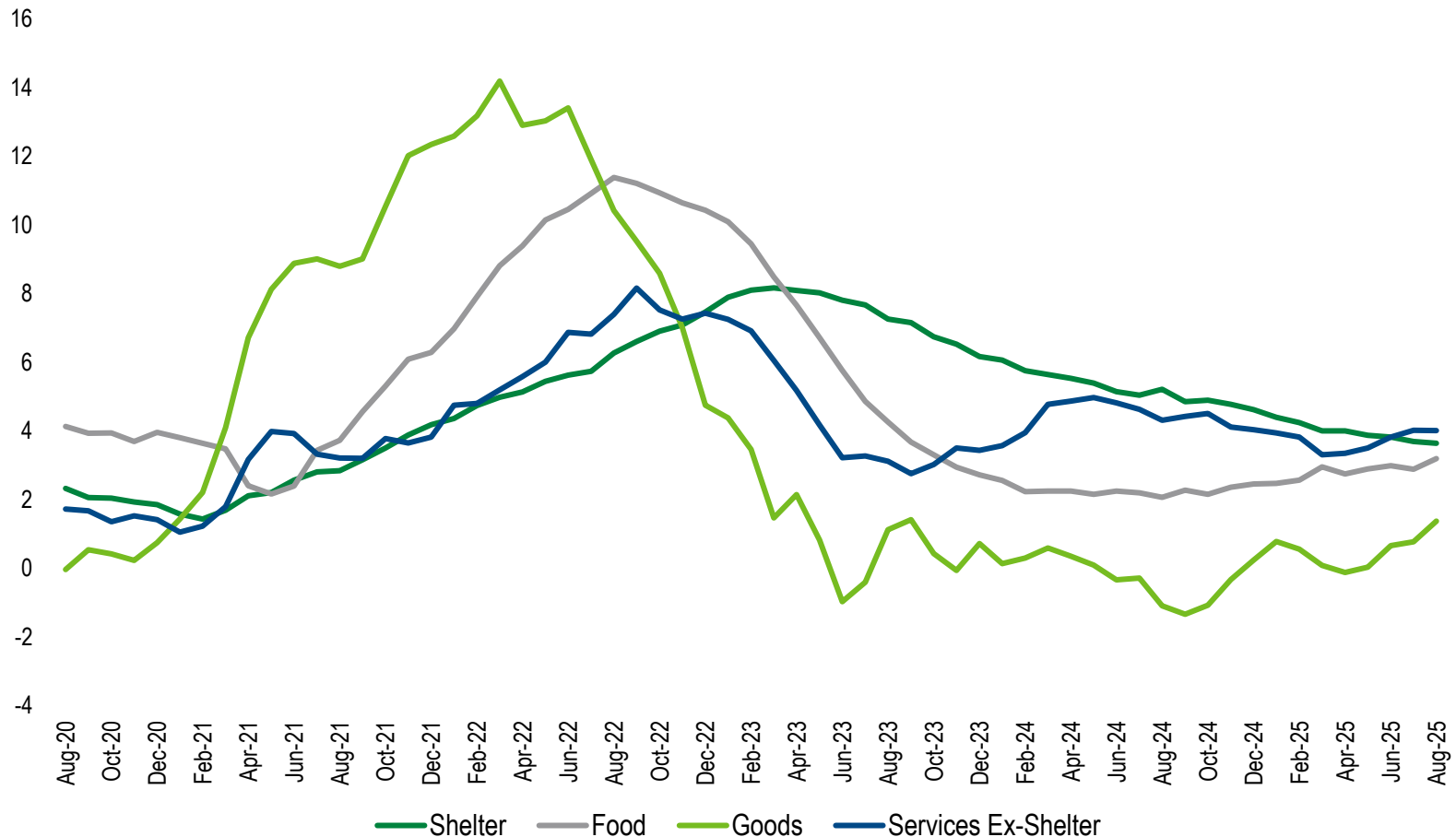


Source: FHLBank Boston, Bureau of Labor Statistics

CPI Remains Elevated by Several Metrics

Core and Headline CPI and Core and Headline PCE all remain above the Fed's 2% target. The composition of inflation has changed, as goods are no longer a source of disinflation and are expected to contribute to price increases.

CPI Subcomponents Annual Change (%)

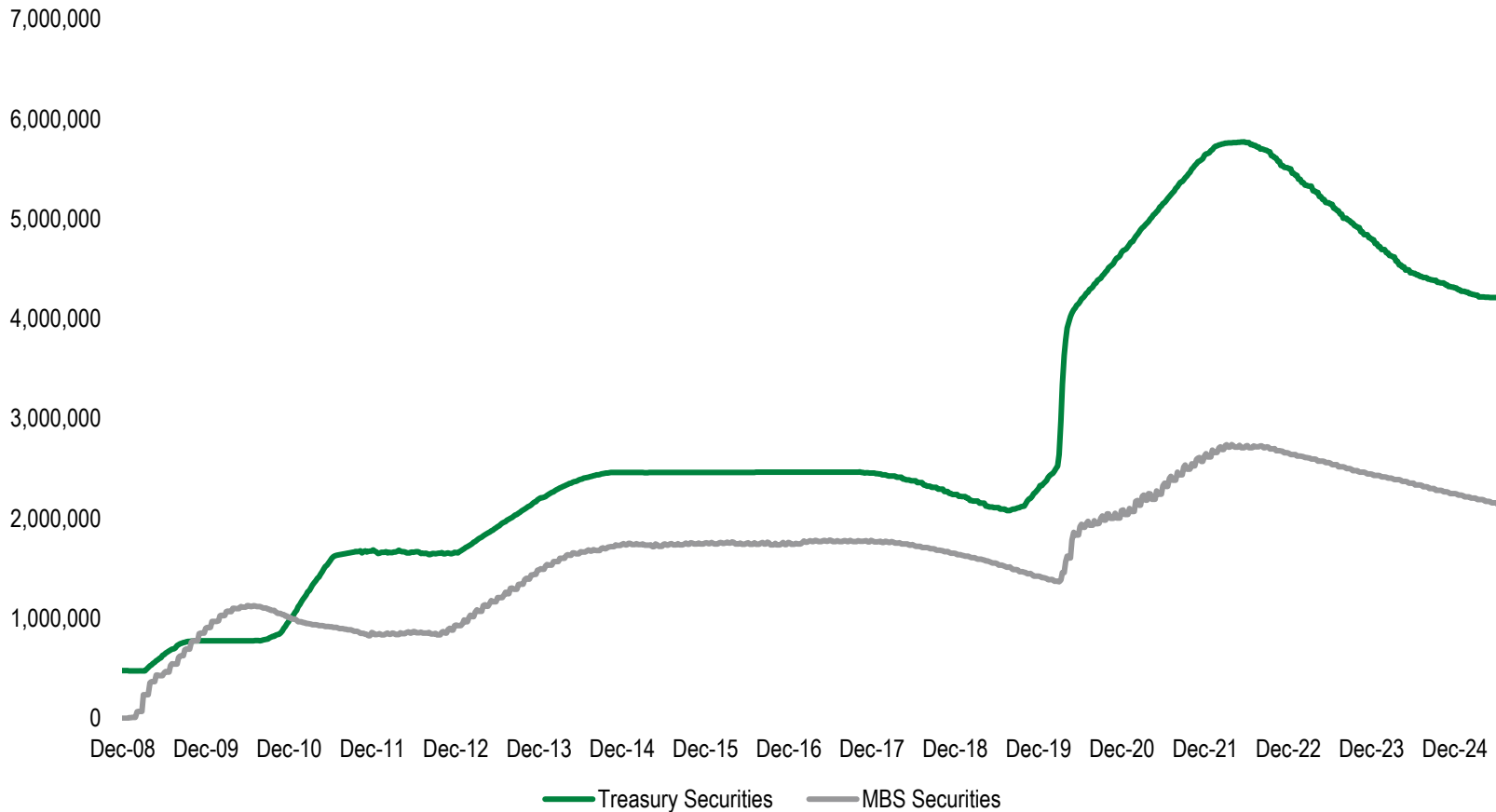


Source: FHLBank Boston, Bureau of Labor Statistics via FRED

Quantitative Tightening (QT) Overview

Assets on the Fed's balance sheet peaked at about \$8.9 trillion in 2022. The Fed has since been running off the balance sheet by reinvesting assets only up to the "caps" of \$60billion per month for Treasuries and \$35 billion per month for MBS.

Treasury and MBS Securities Held on Federal Reserve Balance Sheet (\$Millions)



Source: FHLBank Boston, Federal Reserve Board via FRED

QT is Expected to End Around or After Q1 2026

The monetary policy framework uses ON RRP and IOER to control the effective federal funds rate. To implement monetary policy effectively, banks need to have ample reserves to avoid volatility in the effective fed funds rate.

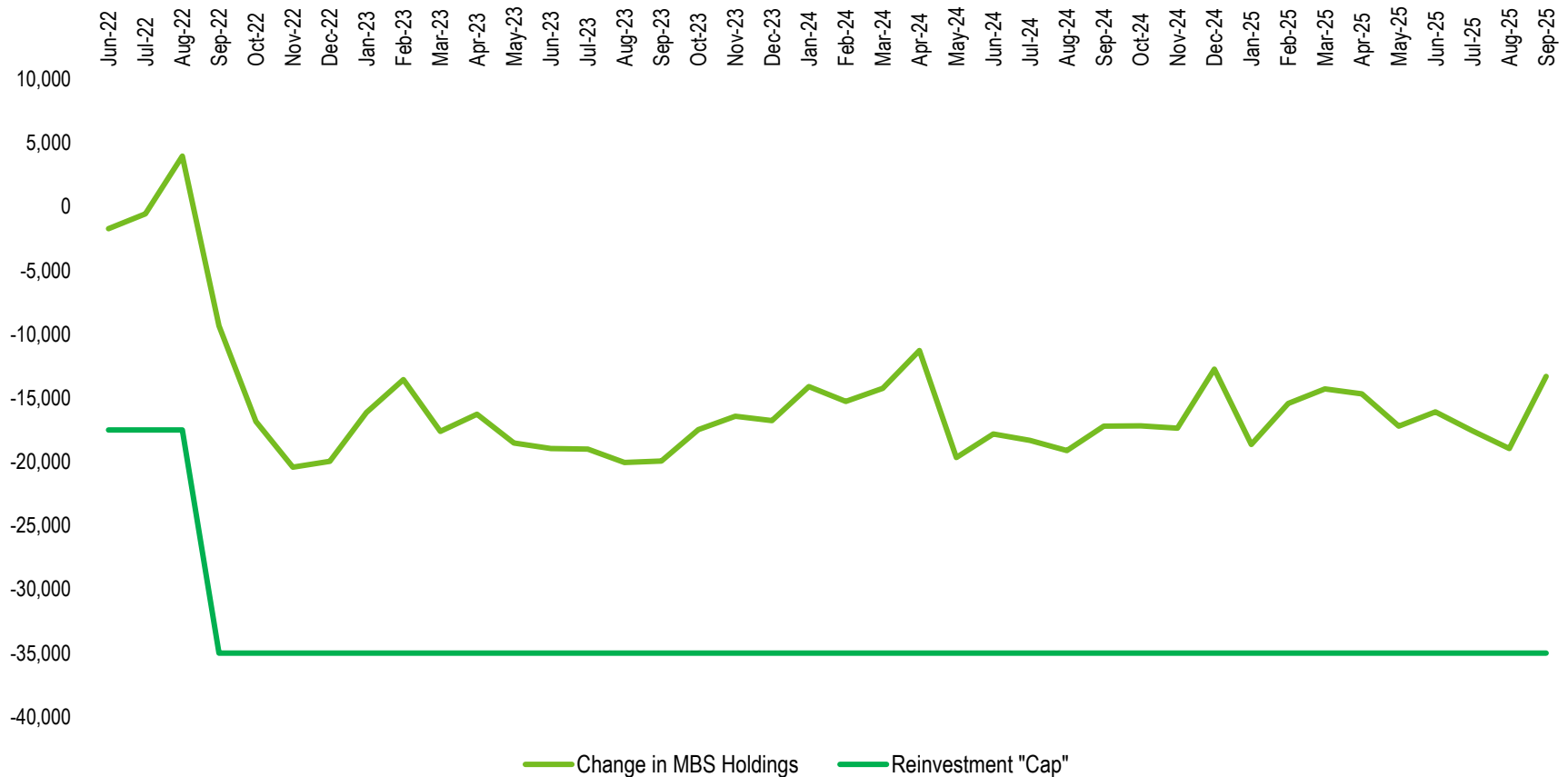
	Period in which SOMA Portfolio Ceases to Decline	Size of SOMA Portfolio When it Ceases to Decline (\$billions)
25th Percentile	January 2026	6,188
Median	January 2026	6,188
75th Percentile	April 2026	6,188
# Respondents	46	47

Source: FHLBank Boston, Federal Reserve September Survey of Market Expectations

QT May End Sooner for Treasuries than Mortgages

Because the Fed holds many lower-coupon mortgages, prepayments are low and reinvestments have been closer to \$20 billion per month than the \$35 billion monthly cap.

Monthly Reduction in SOMA MBS Holdings versus Reinvestment "Cap" (\$ Million)

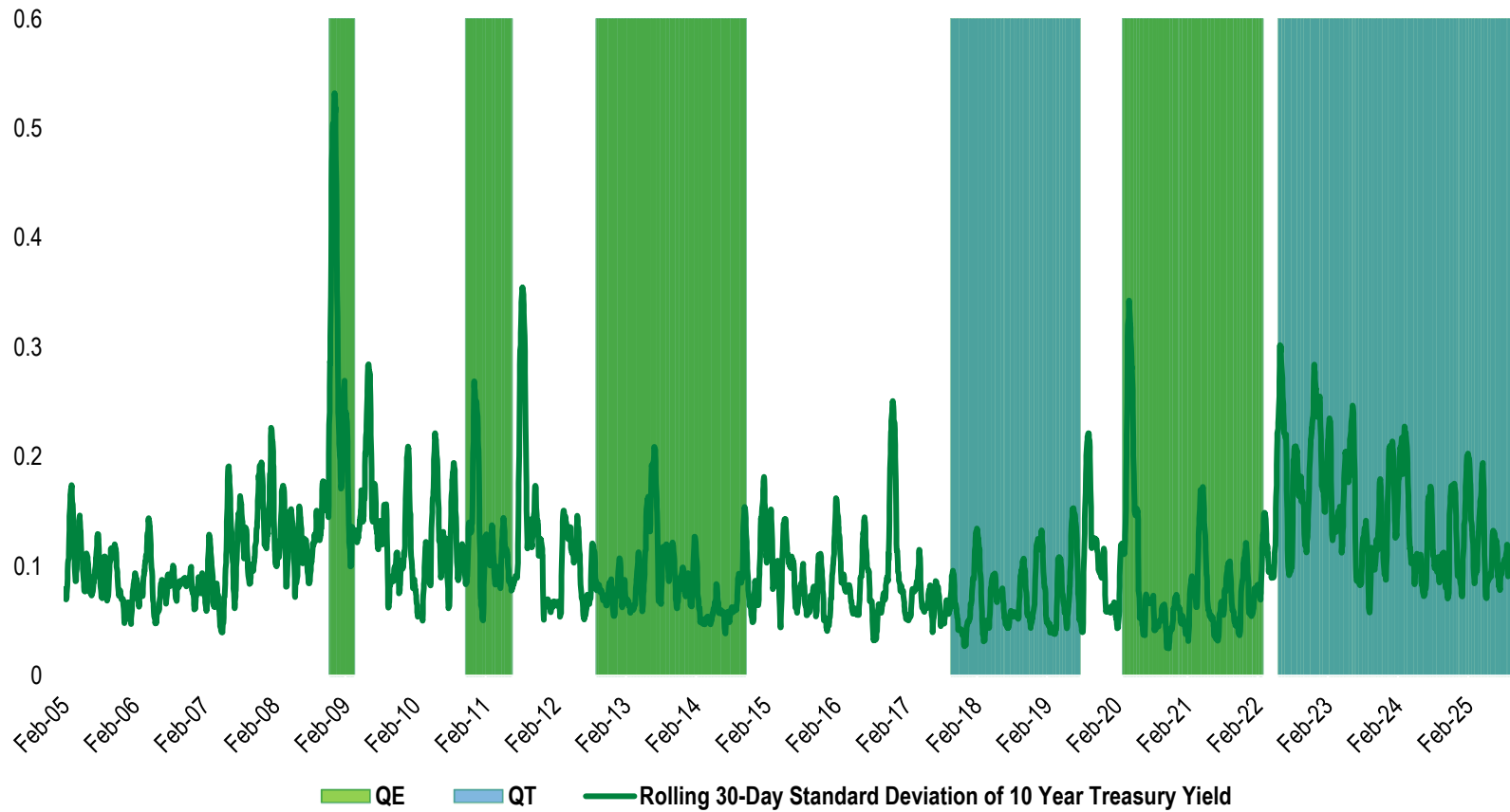


Source: FHLBank Boston, Federal Reserve Board via FRED

QE and QT Impact Theoretical and Realized Volatility

It's hard to draw causation, given the limited history of QE and QT, and the fact that they occur in unusual economic times. However, the rolling monthly standard deviation of 10-year Treasury yields is higher during QT than QE.

Rolling 30-Day Standard Deviation of 10-Year Treasury Yield in Periods of QT and QE



Source: FHLBank Boston, Federal Reserve Board via FRED

Advances for Member Consideration

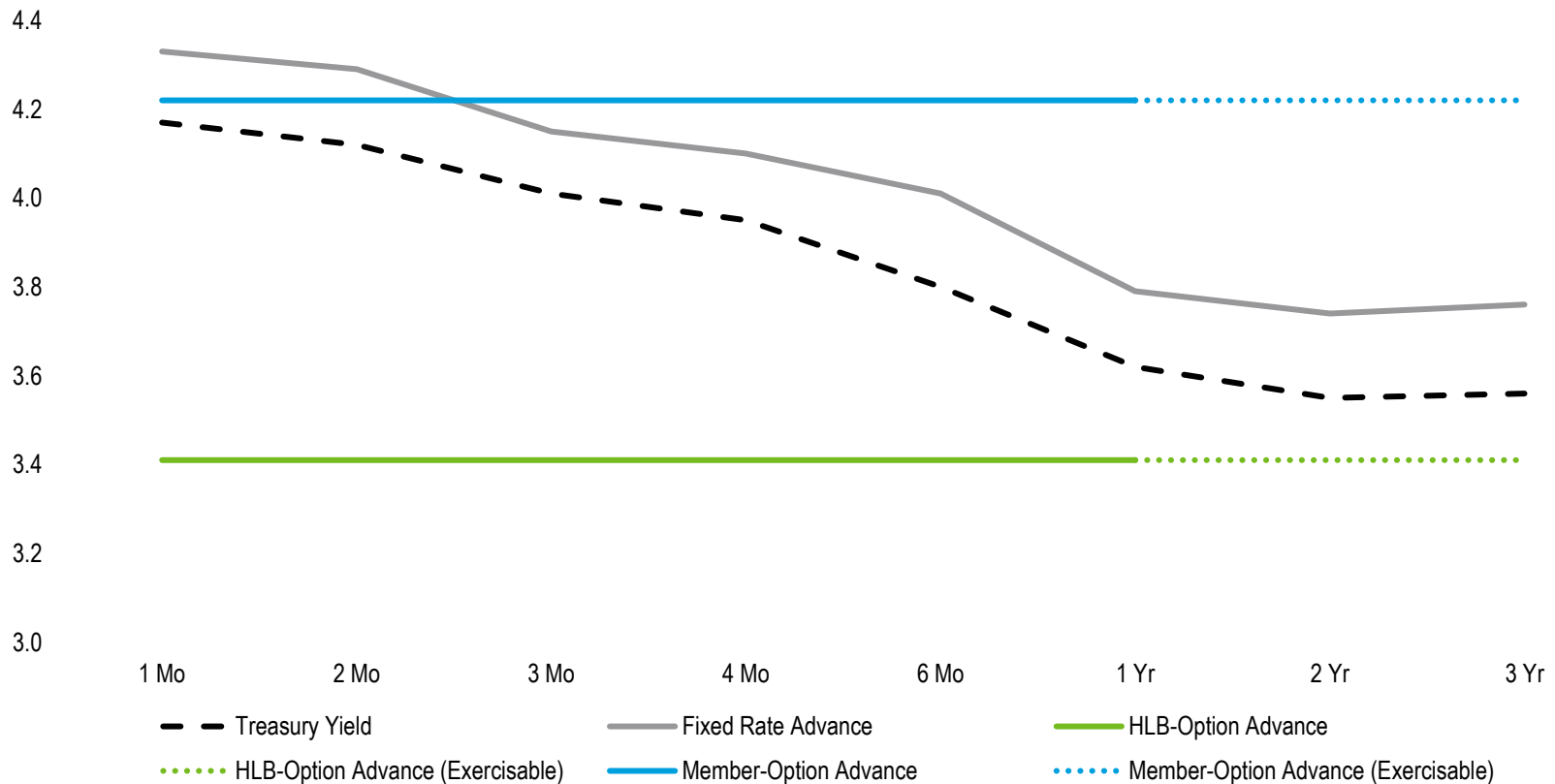
The appropriateness of an advance will depend on your own sensitivity to changes in interest rates, your desire or need to hedge the risks posed by volatility, and your willingness to adopt uncertainty of funding term.

	Most Depositories	Heavy Mortgage Exposure
Changes to QT will have no impact on volatility beyond what is in the price	Member-Option Advance	
End of QT will depress volatility	HLB-Option Advance	
MBS QT will continue longer than expected		
MBS QT will stop with Treasury QT		MPF

Option Products Pricing and Terms

HLB-Option advances cost less upfront but can be called. In adopting an HLB-Option advance, it's important that the member understands that funding is only assured at the agreed-upon rate for the lockout period.

Advances for 3-Year Funding as of 1 October 2025, Options Assume 1-Year Lockout Period (%)



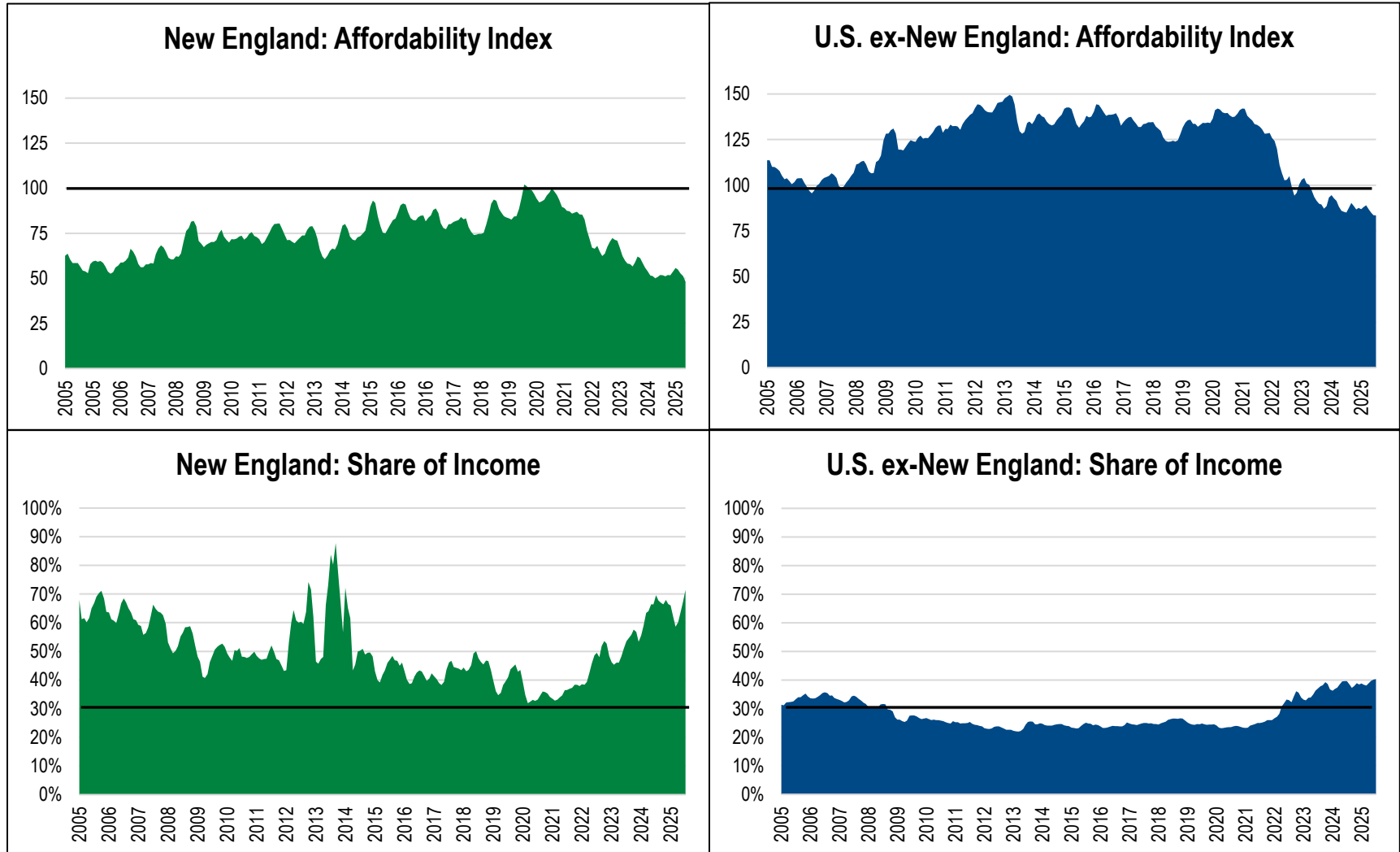
Source: FHLBank Boston, Treasury Department

What's Next for Loan & Deposit Growth?



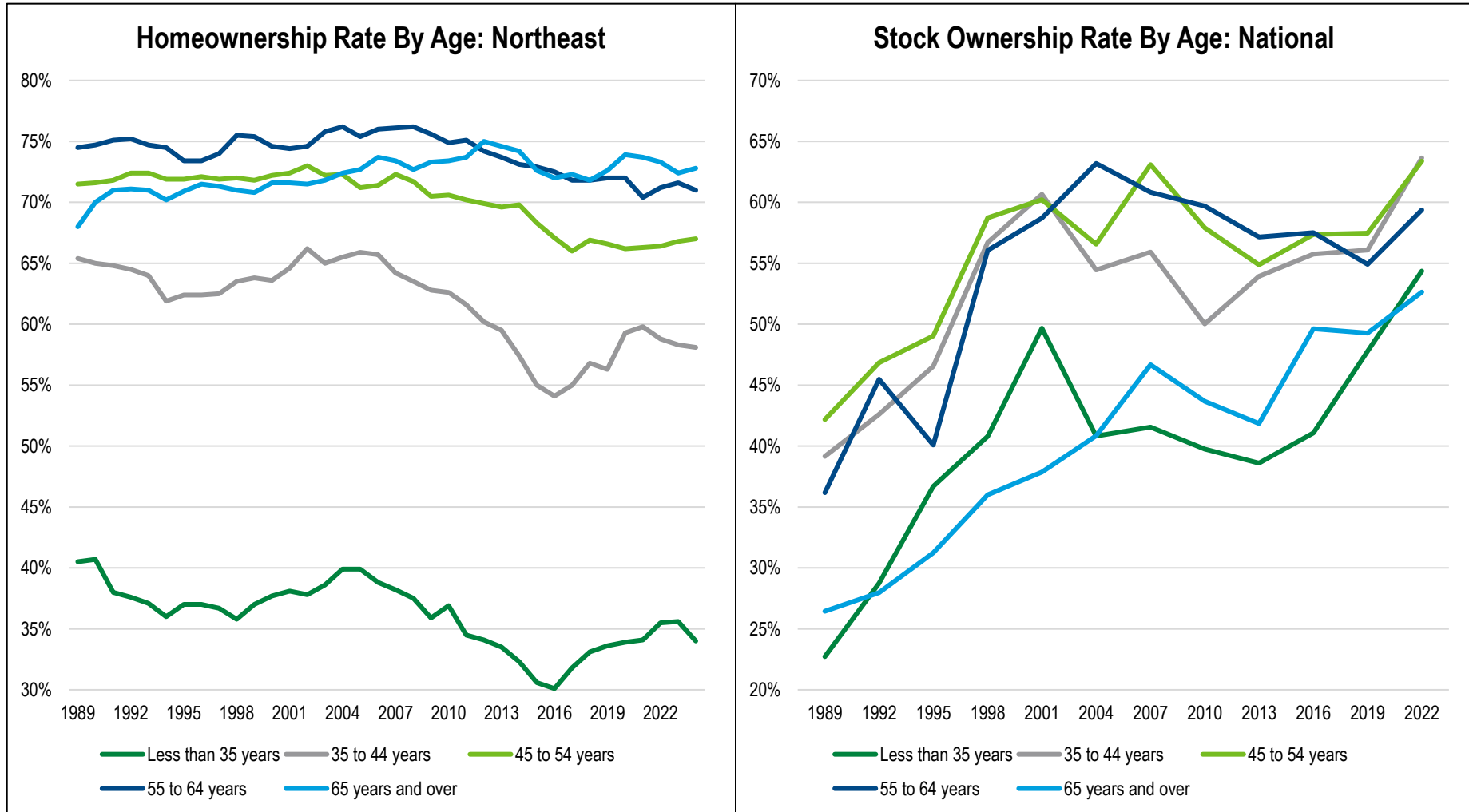
Benchmarking Affordability

By HUD's 30% of income and 100 affordability index benchmarks, New England's housing stock remains less affordable than the U.S. ex-New England.



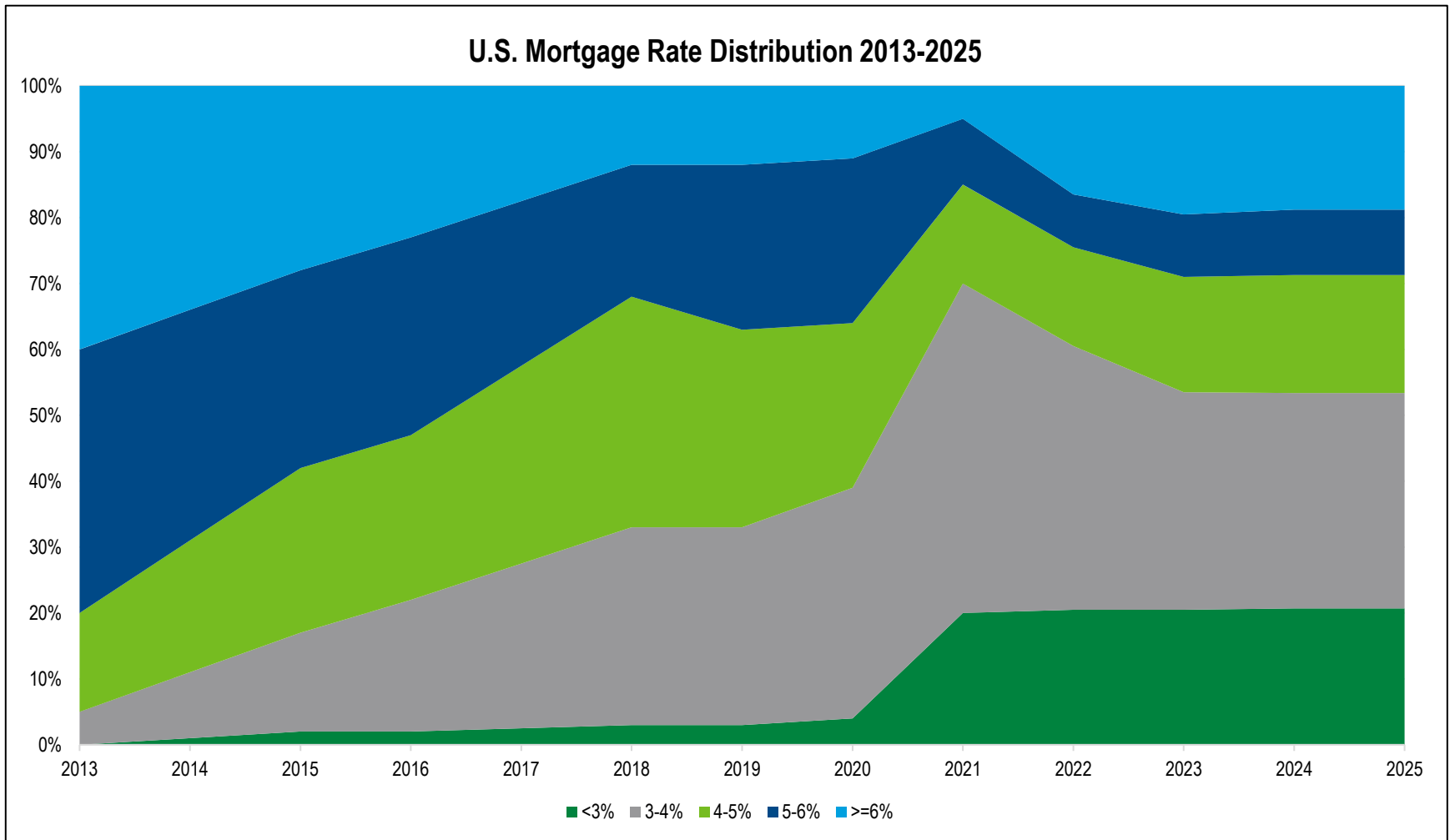
Home and Stock Ownership

While the share of homeownership by age group is dropping, especially among those under 55, the opposite is true of stock ownership trends.



Mortgage Rate Distribution

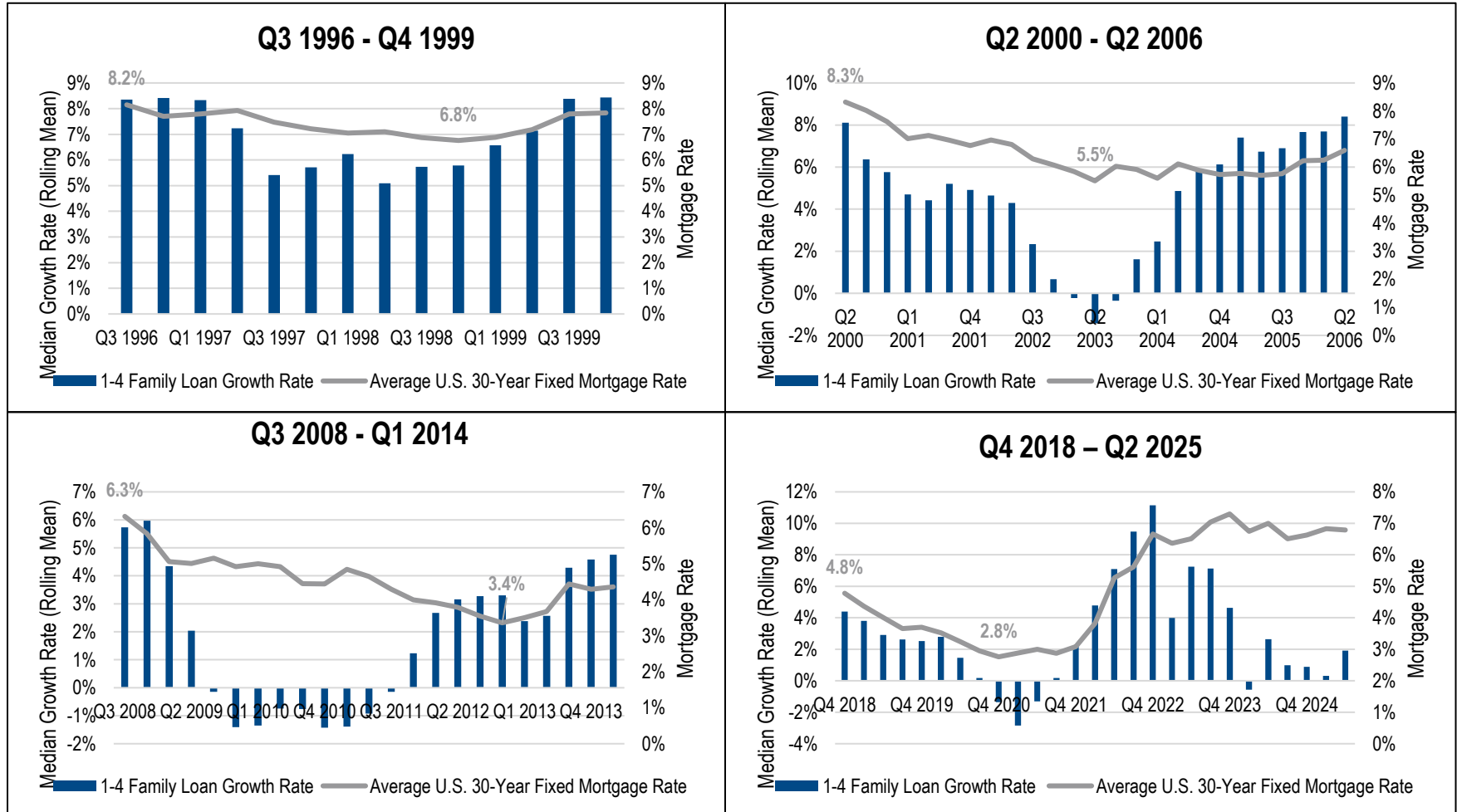
Despite the increased share of higher coupon notes added when rates were rising, the low-rate vintages of 2020–2021 continue to shape today’s housing finance landscape



Falling Rate Analogs: Bank 1-4 Family Loan Growth

The below vignettes show that member bank closed-end 1st Lien 1-4 loan growth tends to pick up after mortgage rates bottom-out and origination activity is generally weaker while mortgage rates are in decline.

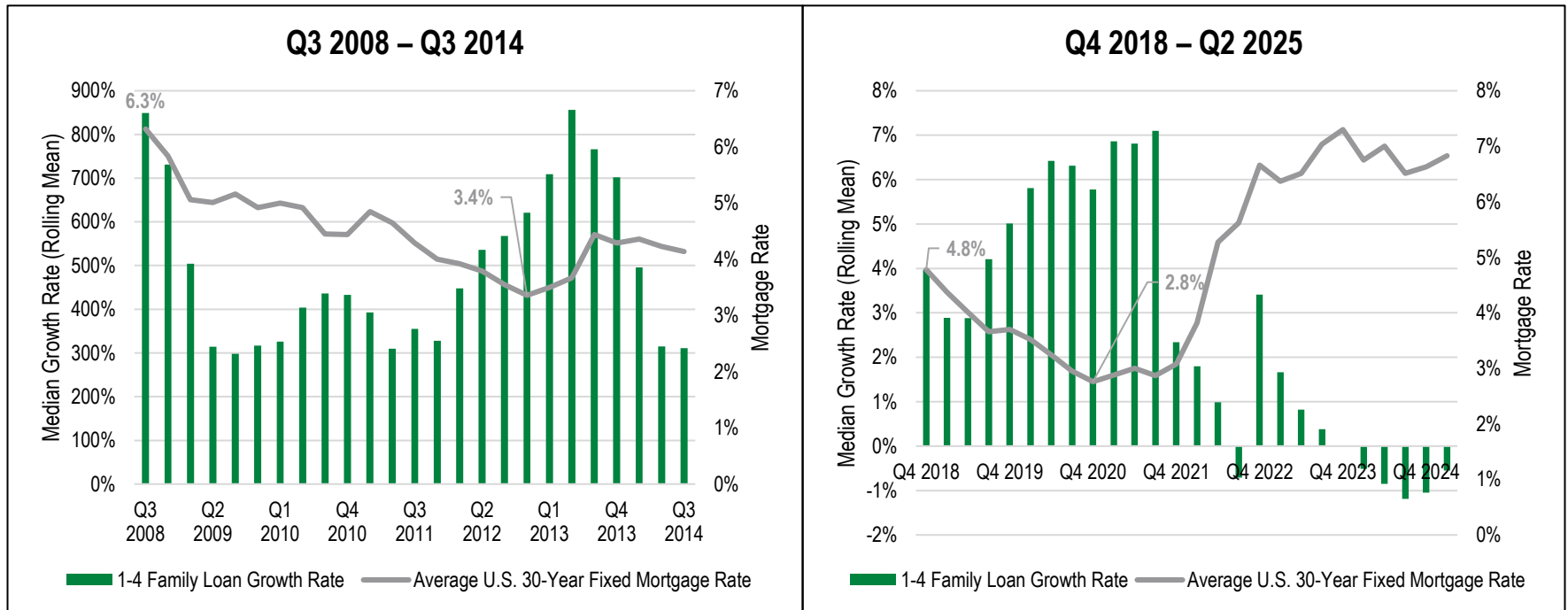
Banks: Closed-end 1st Lien 1-4 Family Growth and Mortgage Rates



Falling Rate Analogs: Credit Unions 1-4 Family Loan Growth

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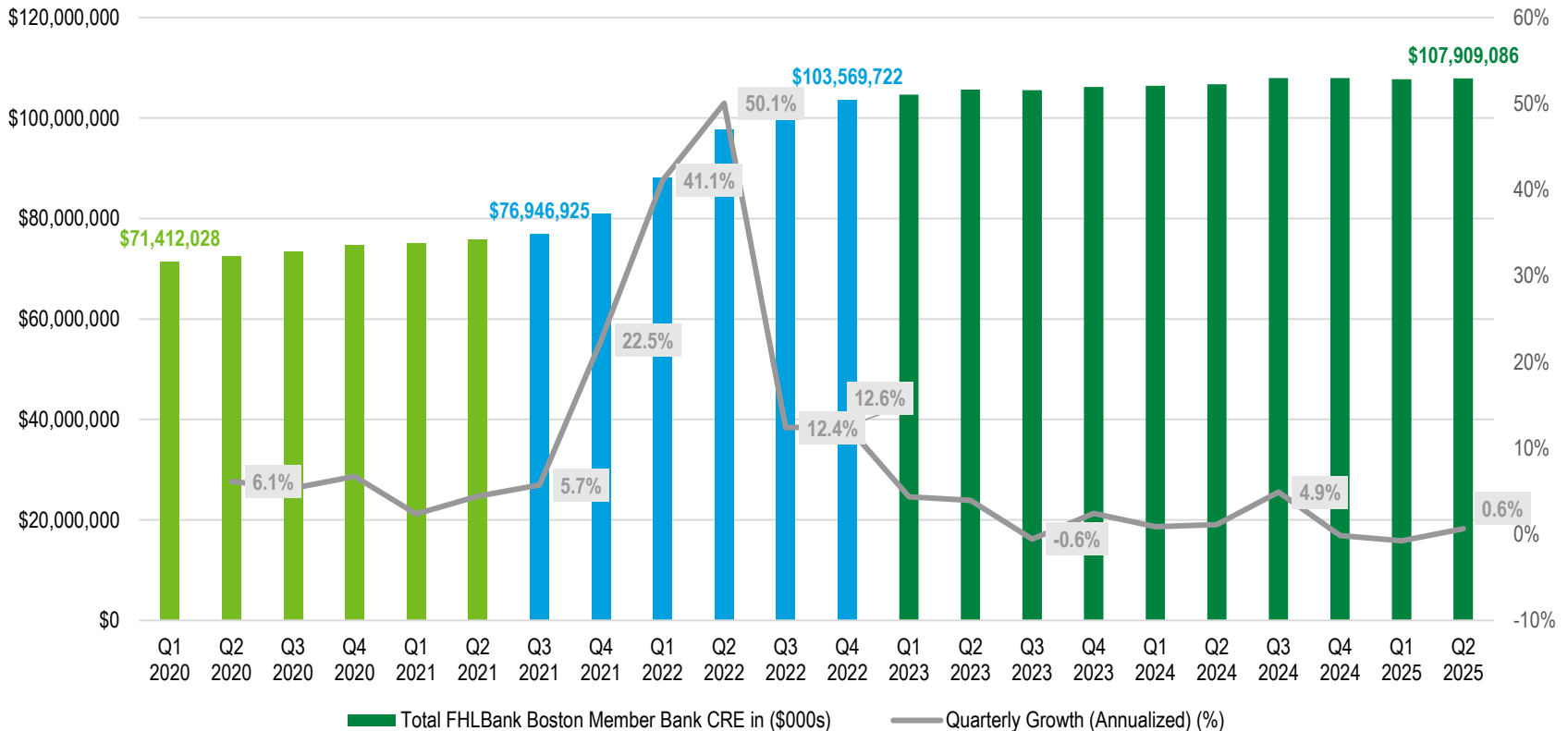
Credit Unions: Closed-end 1st Lien 1-4 Family Growth and Mortgage Rates



The 2022 Vintage CRE Wave

After a modest climb in 2020/2021, member bank CRE growth saw a parabolic surge during 2022, however balances are nearly flat since then.

CRE Growth Since 2020

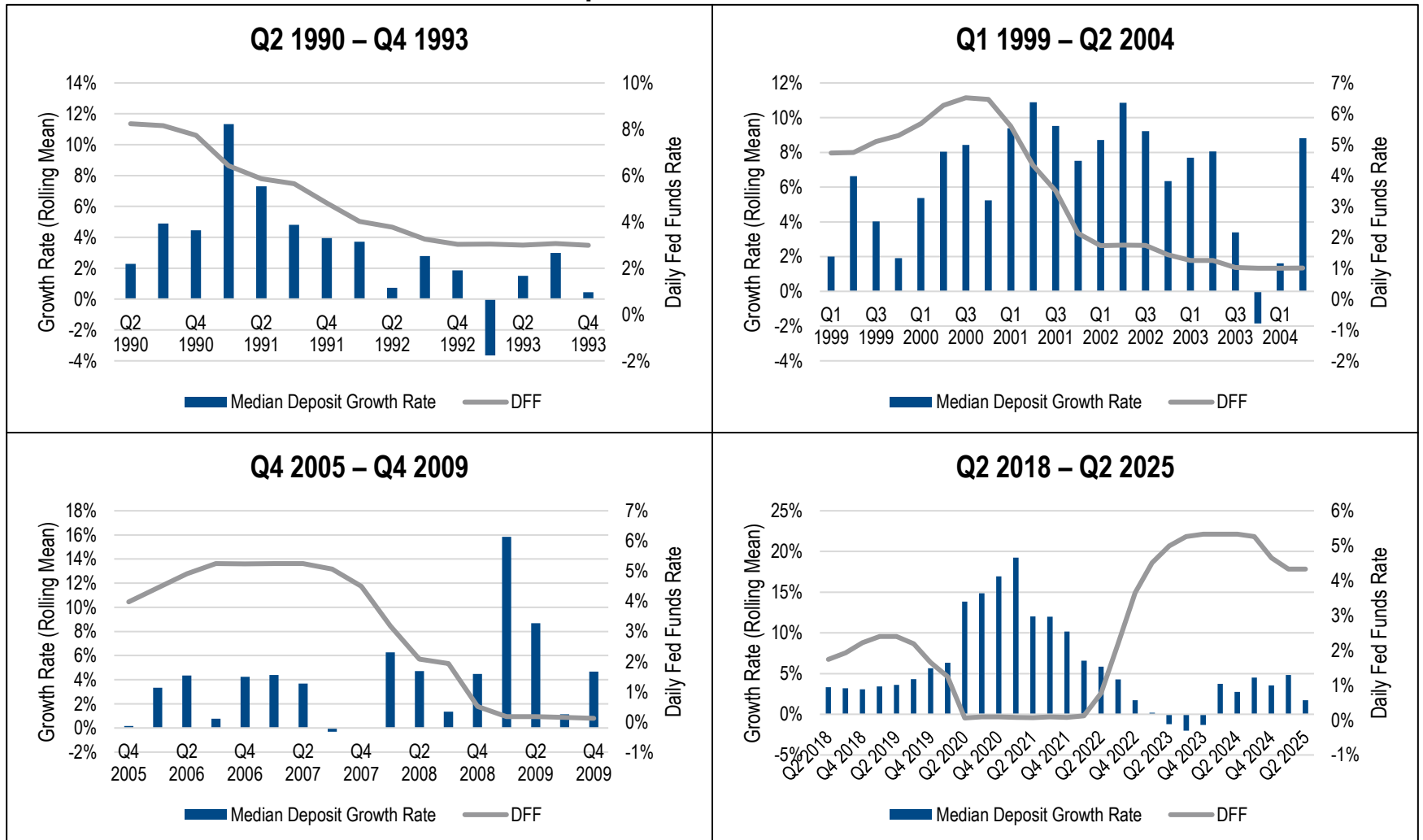


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Falling Rate Analogs: Bank Deposit Growth

Falling rates have historically corresponded with increased deposit growth.

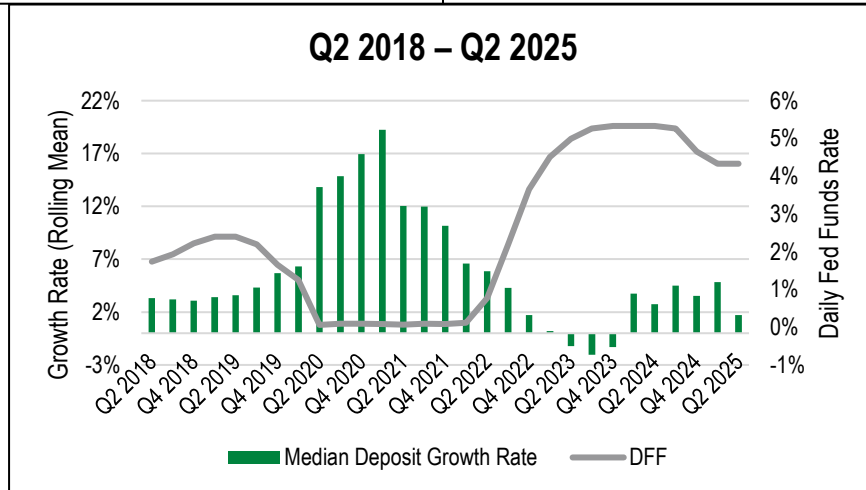
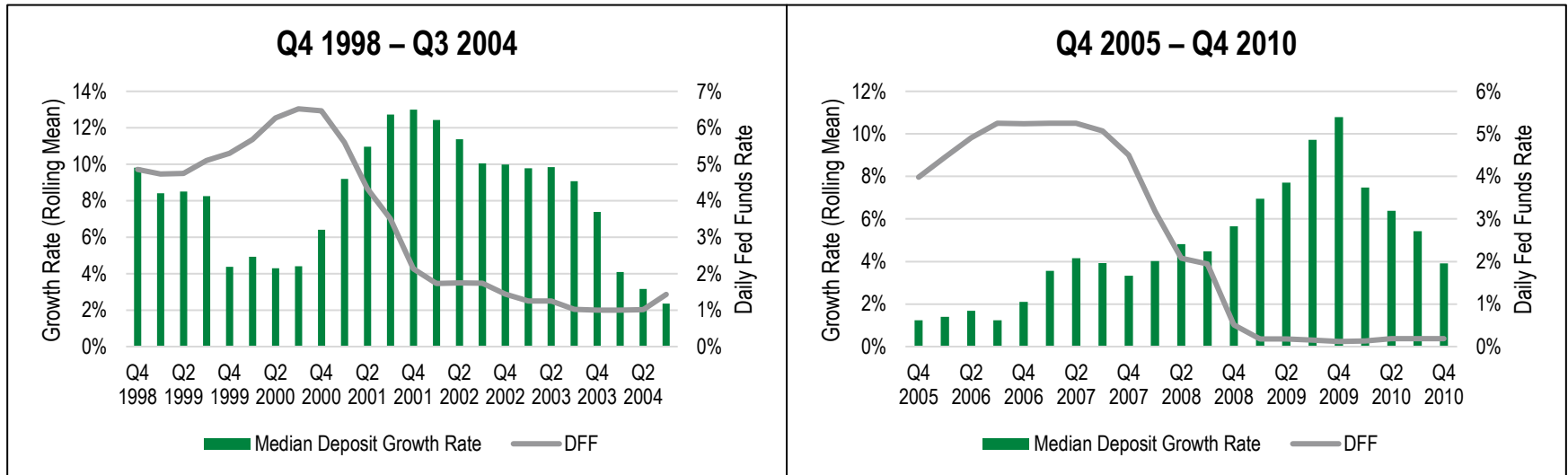
Banks: Deposit Growth And Fed Funds



Falling Rate Analogs: Credit Union Deposit Growth

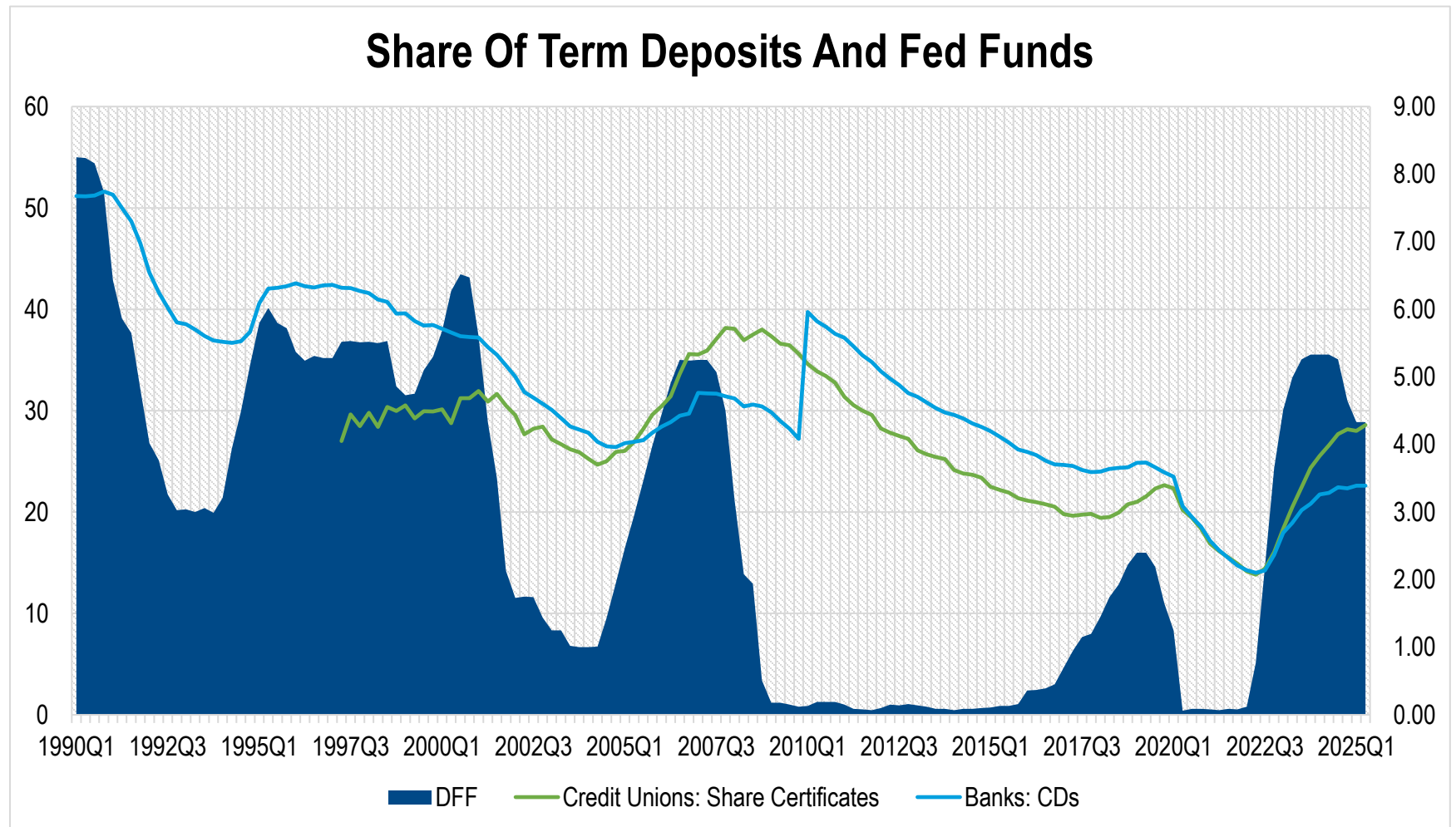
Falling rates have historically corresponded with increased deposit growth.

Credit Unions: Deposit Growth And Fed Funds



Term Deposits and Fed Funds

When Federal funds rate rises the share of term deposits at member depositories tends to increase



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Takeaways

Residential loan growth stays constrained near term; historically reaccelerates around/just after the rate trough (early upticks as cuts begin).

CRE growth tracks the refi/maturity wave—builds into mid-2026 and runs a couple of years after; NIM/asset quality hinge on the rate level at repricing.

Deposit growth turns positive as rates fall; balances begin to rebuild.

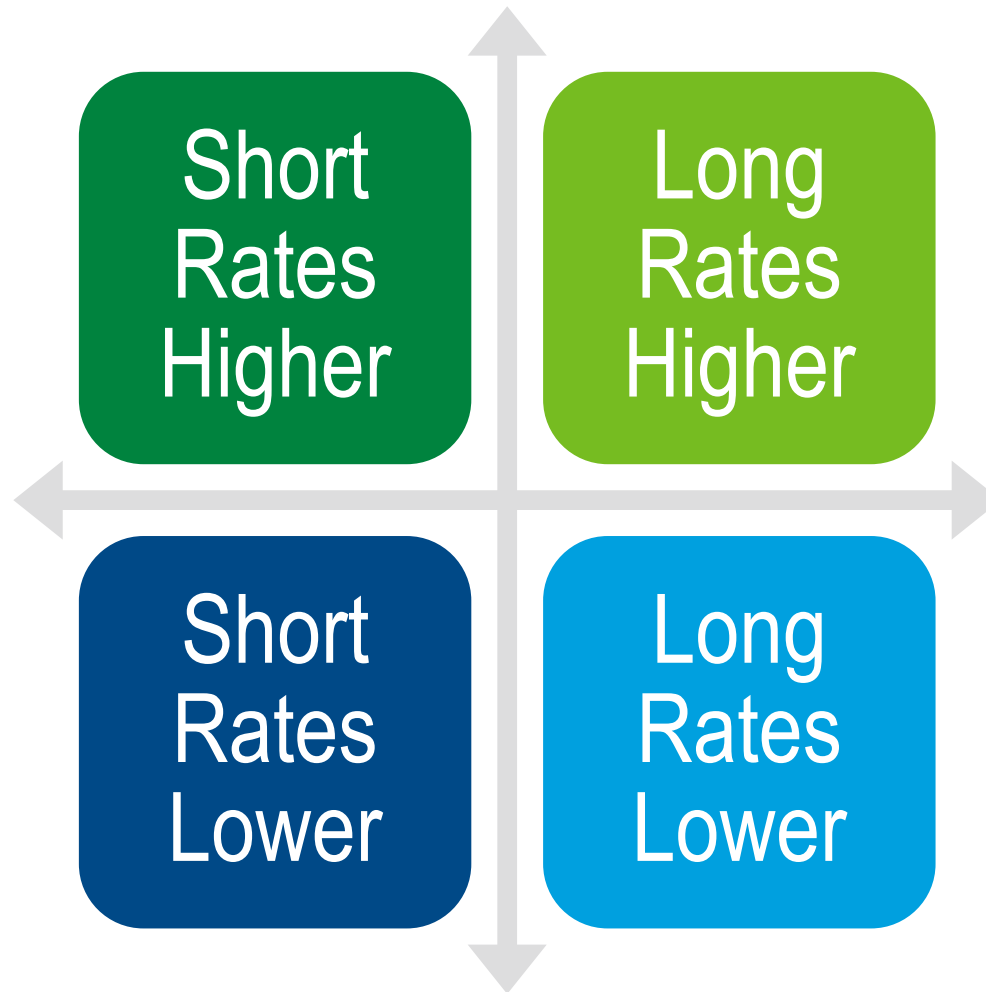
Ongoing cyclical + secular shift out of term deposits and back toward NIB/MMDA, lowering all-in funding costs.

Funding the Current & Future Balance Sheet



What Interest-Rate Risks are Front & Center?

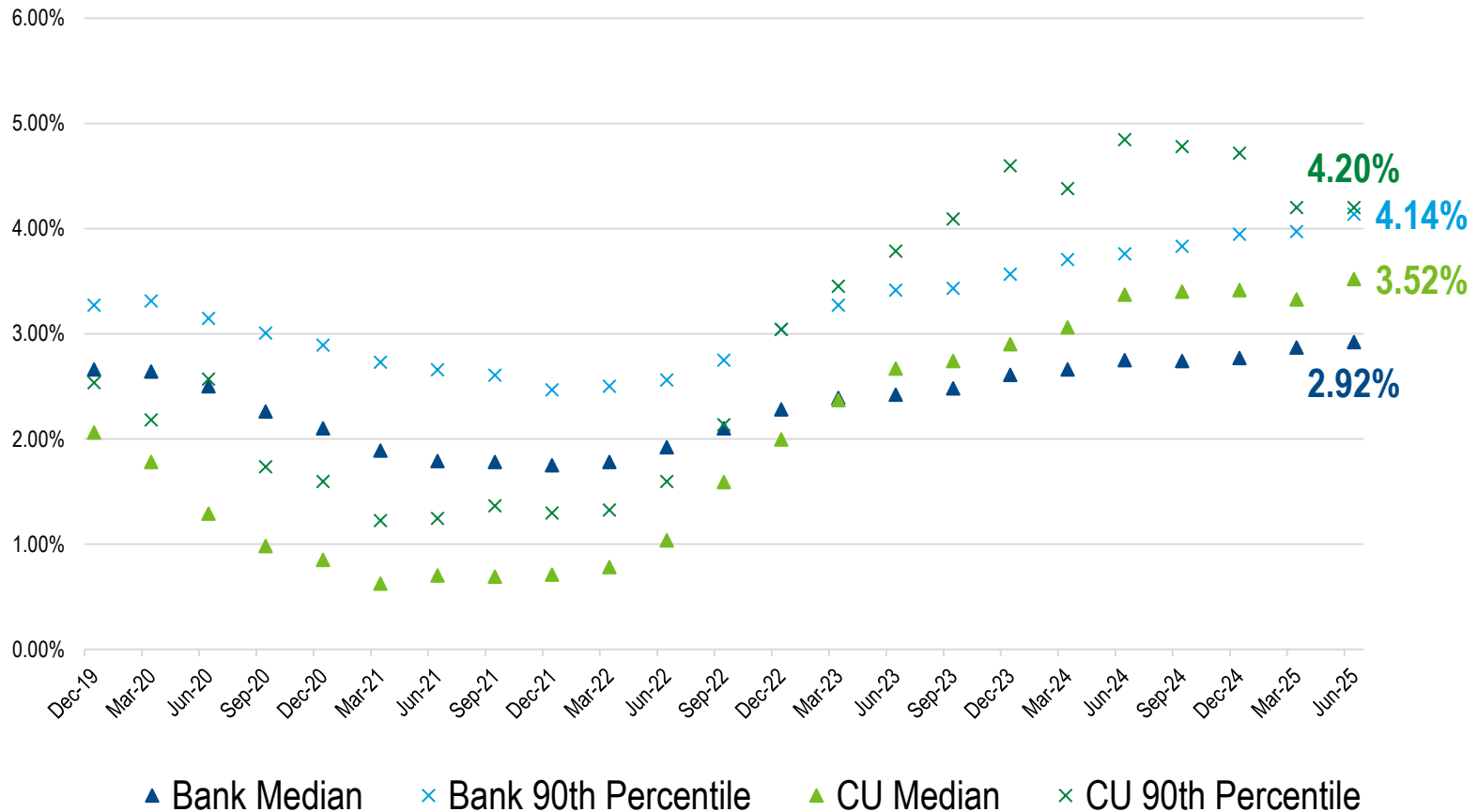
How are yields, funding costs and margin impacted, as well as liquidity and credit considerations?



Asset Yields Rolling Over

Slowly but surely, the fixed-rate assets added at the lows of 2020 and 2021 are being replaced at higher levels, despite tightened liquidity conditions.

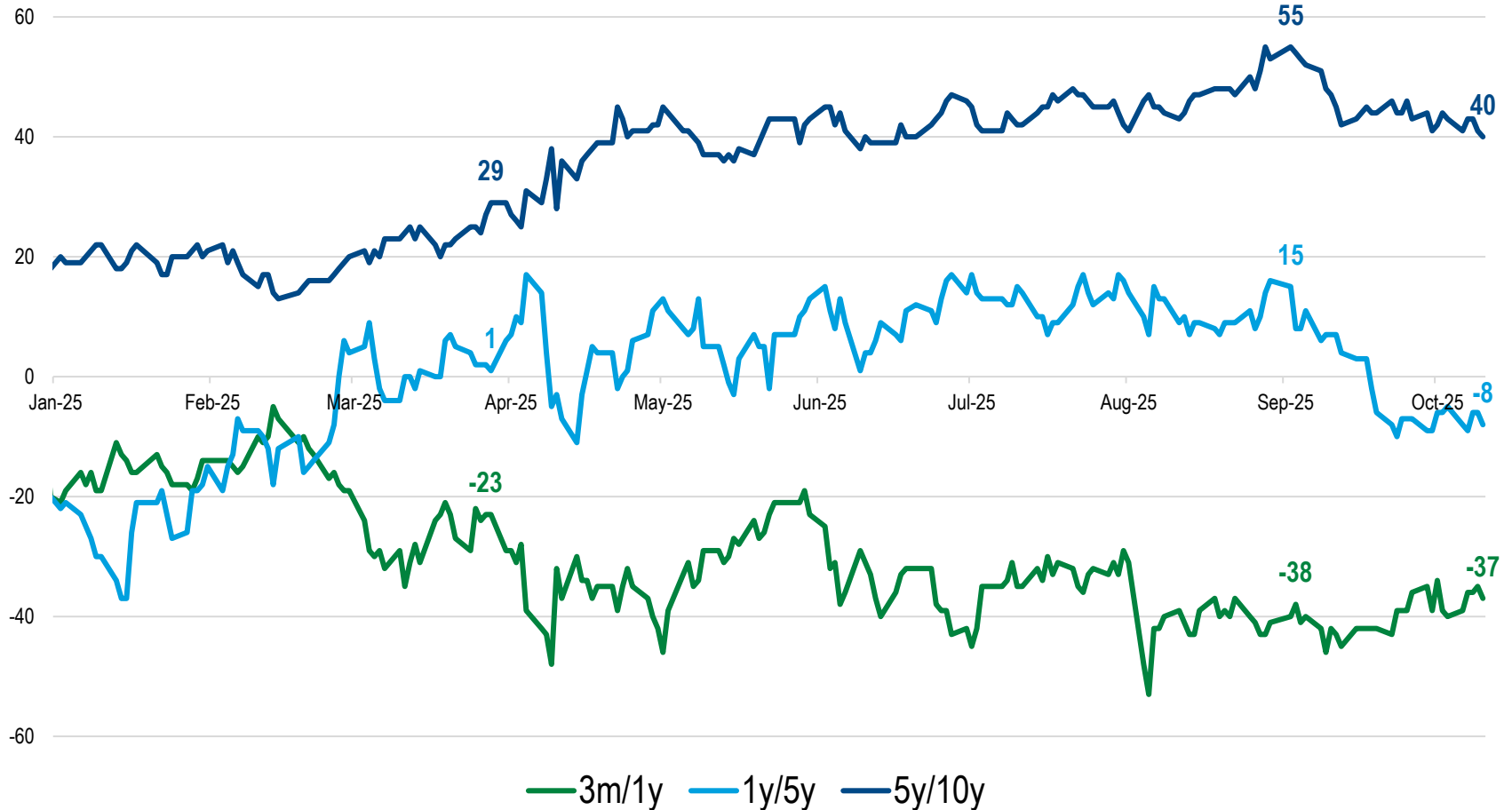
Investment Yields



Where is the Slope in the Yield Curve?

The front end of the curve has built in more rate cuts, while the long end continues to grapple with long-term inflation dynamics.

Yield Curve Steepness



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

Investment Funding Strategies

Balancing liquidity, interest-rate risk and earnings needs can present a variety of funding options.

Short Classic Advance Ladder

- Asset Sensitive now, and likely to see liquidity accelerate in down rate scenarios as well

Forward-Starting Advances

- OK liquidity-wise currently, and motivated to support earnings in soft landing scenarios while still mitigating long-term IRR

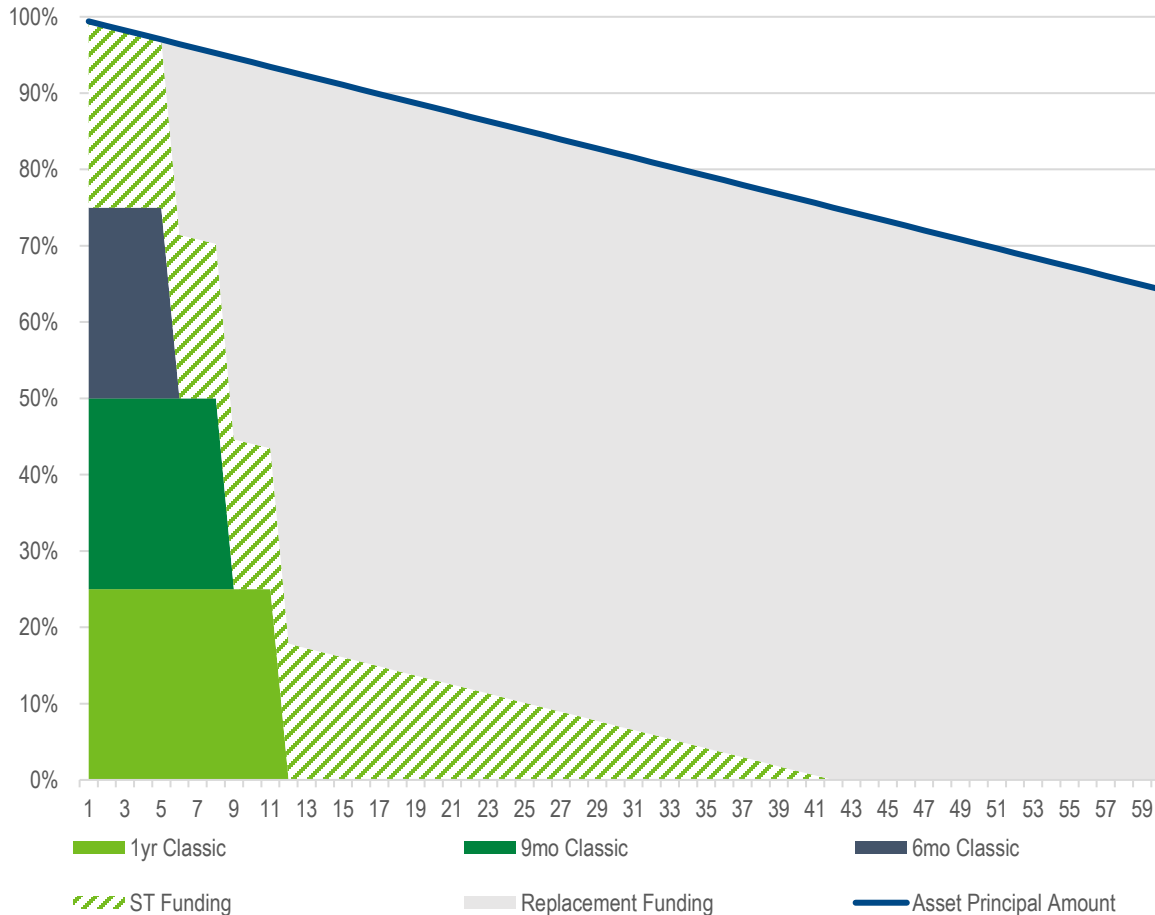
HLB-Option Advance

- Structural liability sensitivity

Short Classic Advance Ladder Strategies

Members can accelerate the favorable repricing of assets while still taking advantage of expected lower interest rates.

Asset & Funding Paydown Profile



Short Ladder Funding Strategy Considerations

25% each at 6m/9m/12m and overnight. **Day 1 Blended Cost of ~4.00%**

Utilizing CDA or CDA Extra lowers the cost by an additional 8-10 bps

The yield curve is more aggressively pricing in expected cuts now vs. earlier in the year

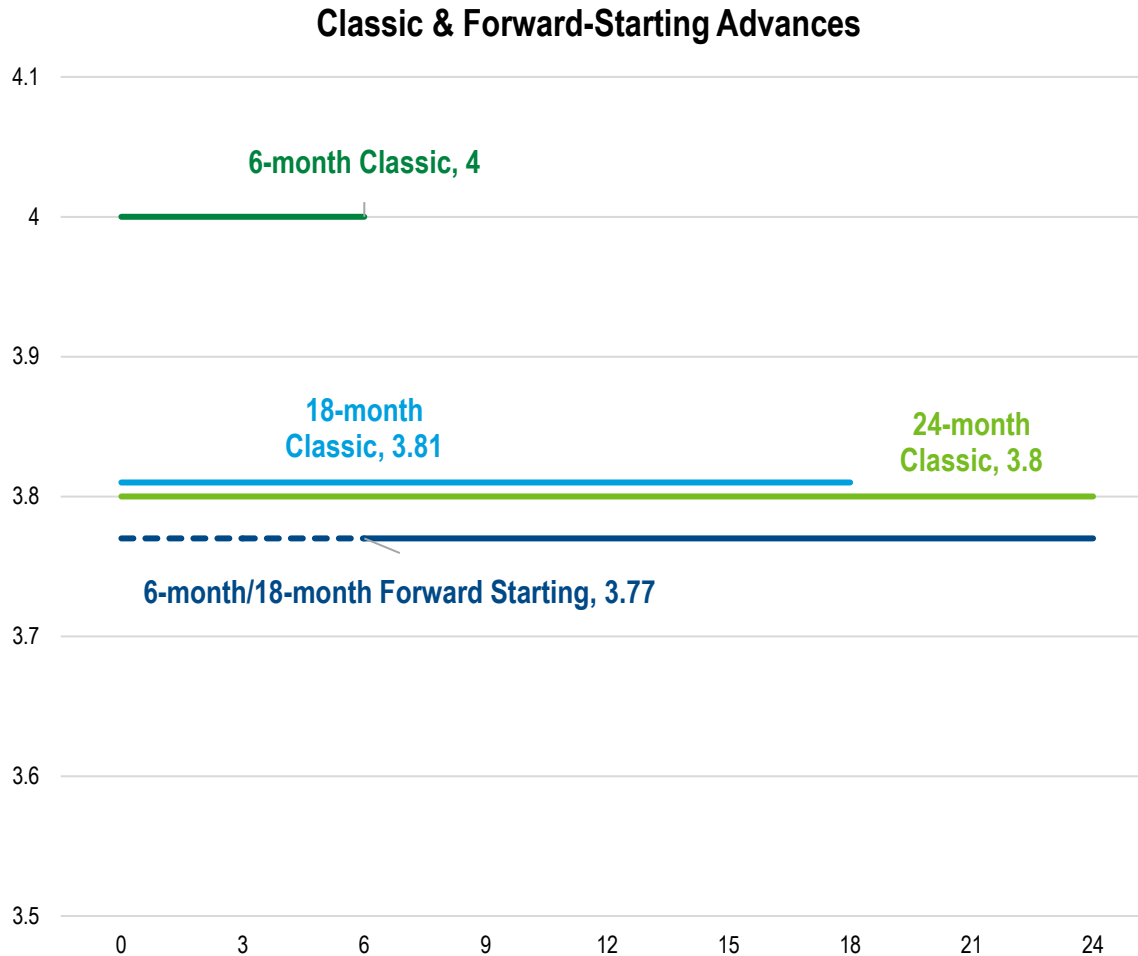
Maturities can be aligned with maturities or paydowns of existing investments

Heavy reliance on replacement funding can be advantageous if deposit inflows accelerate or the loan pipeline slows

Source: FHLBank Boston

Forward Starting Advance Strategies

Take action based off the pricing of today's yield curve, to provide liquidity later.



Forward Starting Advance Considerations

An inverted yield curve makes the forward rate lower than the immediately disbursed rate

Utilizing CDA or CDA Extra lowers the cost by an additional 8-10 bps

Can be used opportunistically as market expectations become more dovish and price in more cuts.

Independent of investment funding/hedging- consider using FSA's to "pre-replace" other term funding

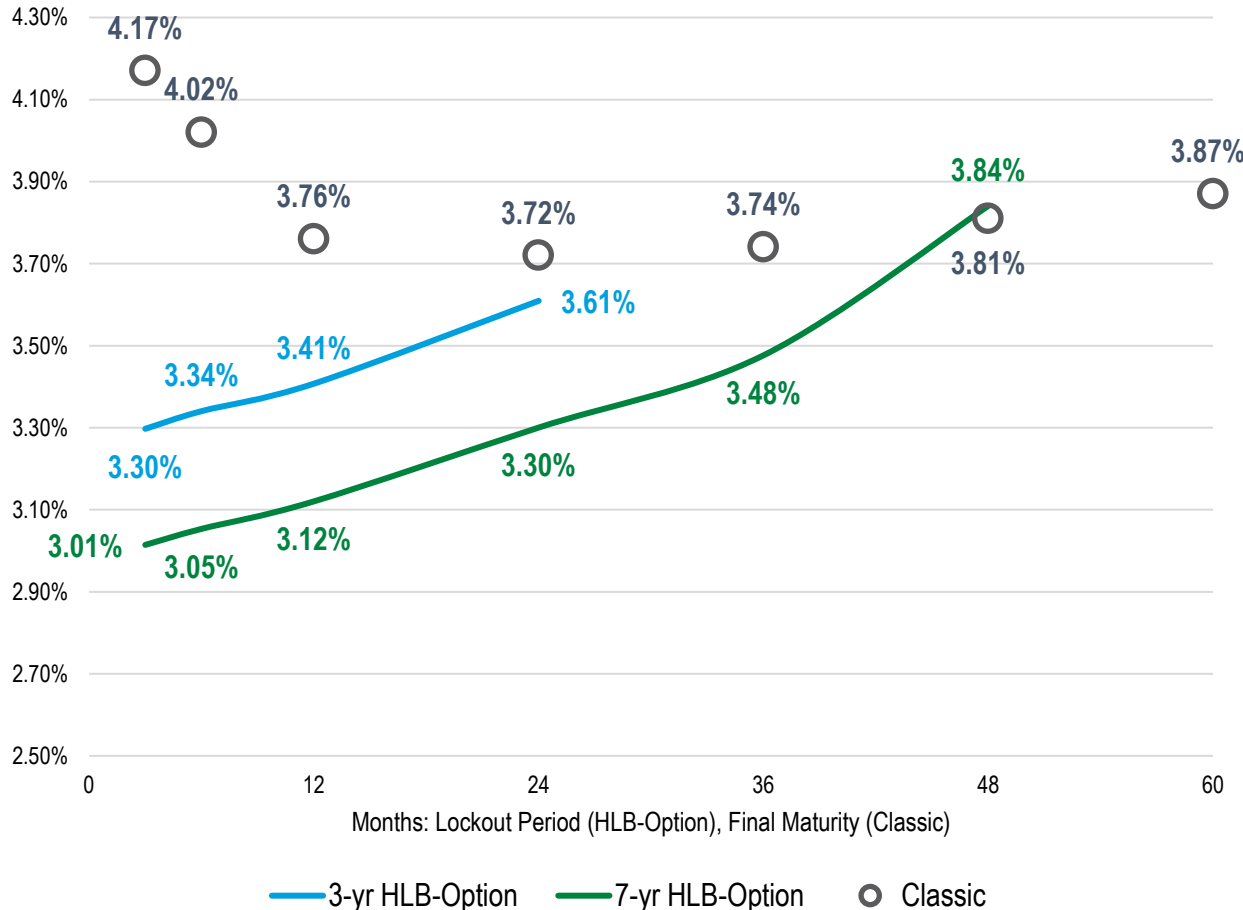
Useful tool if the loan pipeline projects to be robust and/or expectations are for a soft landing

Source: FHLBank Boston

HLB-Option Advance Strategies

As part of an investment leverage transaction or as a marginal cost of funds tool, putable advances can provide value.

HLB-Option Advance and Classic Advance Curves



HLB-Option Advance Considerations

Inverted/flat curve + expected rate volatility creates funding rates below Classic alternatives

Longer structures have more extension risk- but in the low 3's, there is significant cushion for rates to drop during a soft landing and rolling funding costs to outperform

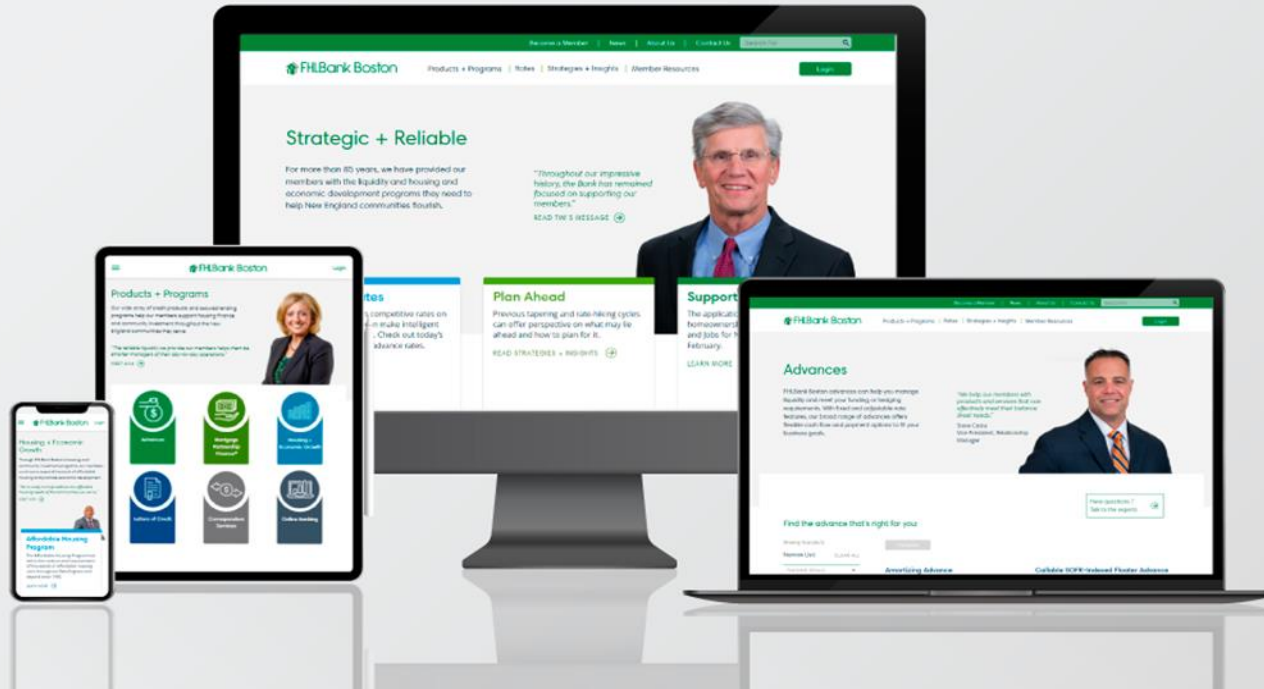
In a more aggressive cutting cycle, the extension would be offset by the locked-in yield/spread and market value of the longer investments

Independent of investment funding/hedging- consider using shorter HLB's to support pricing discipline on rate sensitive deposits

Source: FHLBank Boston

Questions?





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Thank You



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