

ALM, Liquidity & Funding Strategies for the Current Environment

March 27, 2025

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Presenters



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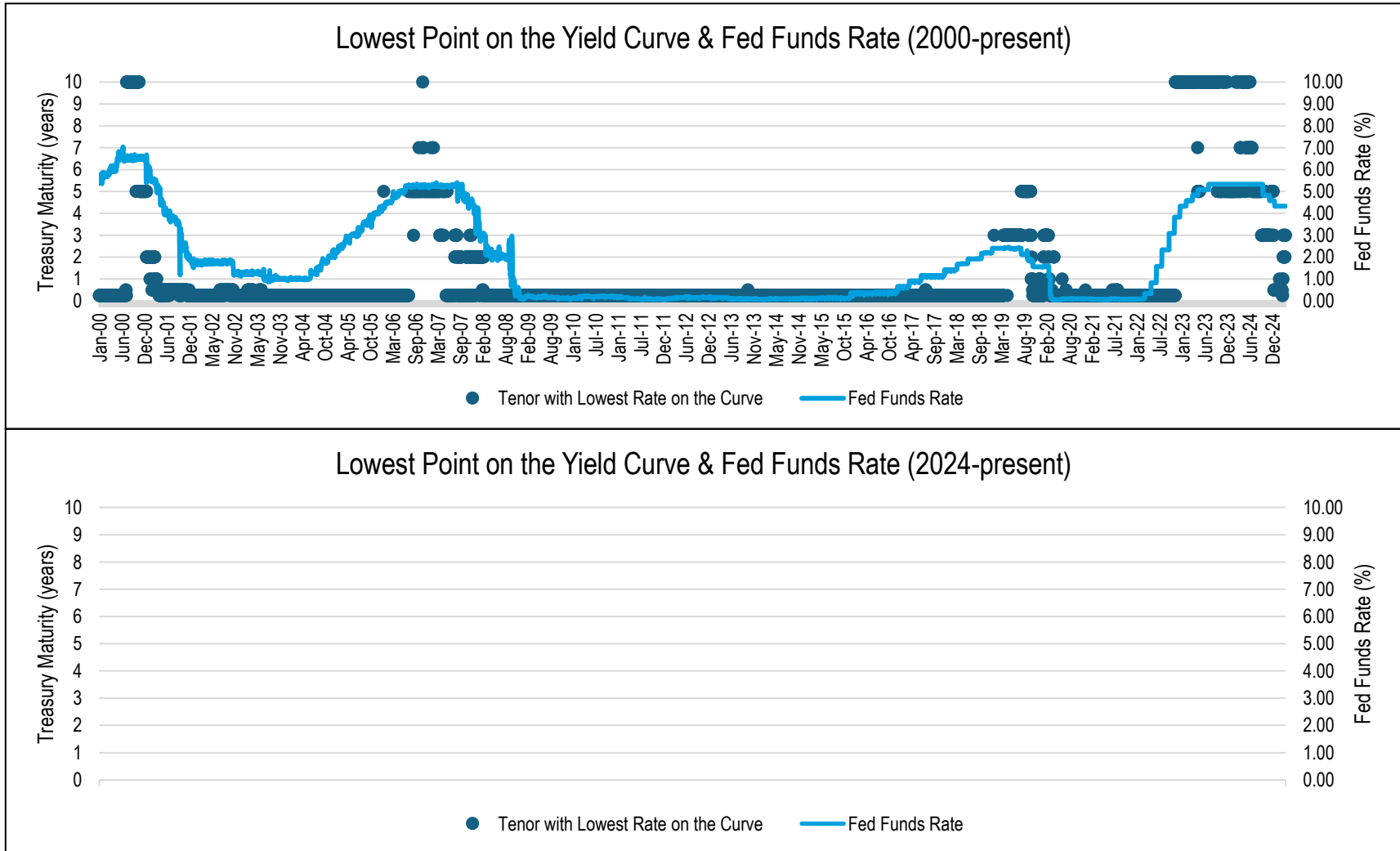
Overview

- What is the Yield Curve Telling Us?
- Housing & Community Investment Program Overview & Key Dates
- Interest-Rate Risk & Earnings Strategies
- Marginal Cost of Funds & Deposit Strategies
- Liquidity Risk Strategies

What is the Yield Curve Telling Us?

What is the Yield Curve Telling Us?

Yield curve inversion took a brief pause to start 2025 but has since returned.



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

Housing & Community Investment Program Overview & Key Dates

Housing & Community Investment

From residential to commercial, to construction and community development, we have programs that provide both grants and low-cost funding.



2024 Highlights

\$35 million to Affordable Housing Program (AHP), across **40 initiatives**, creating/preserving over **1,200 units**

\$24.9 million to programs supporting homebuyers, jobs and community development, including over **1,500 jobs** created/preserved through JNE

HCI Program Calendar & Ongoing Initiatives

Key dates, distinctions and details for the various housing programs.

Key 2025 Program Dates

**JNE Next Funding
Drop – May 7, 2025**

**CDFI Advance Funding Caps
Increase – May 12, 2025**

**Affordable Housing Program
App. Opens – June 2, 2025**

Ongoing Programs

- Permanent Rate Buydown Community Development Advance
- New England Fund

Upcoming Programs

- 2025: Lift-Up Homeownership
- Feb 2026: Housing Our Workforce & Equity Builder Program

CDFI Advance Program

Through this product, members can access 0% rate advances to help CDFIs with affordable housing development, small business growth, and more.

Key Points

0% Rate Advances
– Terms: 1–10 years

Eligible Borrowers:
New England
certified non-
depository CDFIs

Minimum Advance:
\$100,000

Member Spread: Up
to 300 bps

**First-come, first-
served funding**

Advances must be
match funded to the
beneficiary CDFI

Program Dates

March 17 Funding release &
application opened

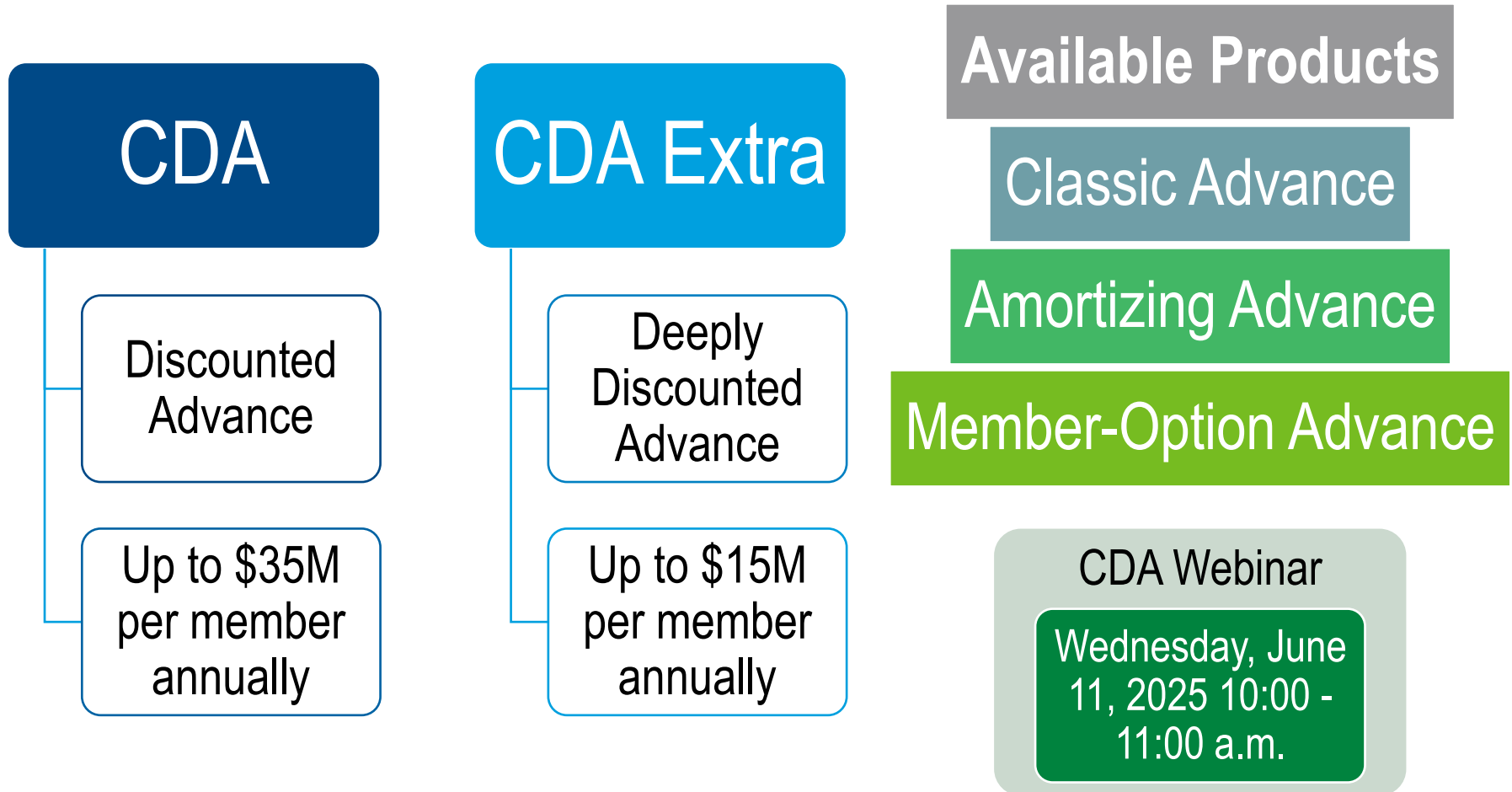
May 12 Caps increase, state
allocation ends

July 14 All caps eliminated

Dec. 15 – 3 PM Application
deadline

Community Development Advance (CDA) Program

The CDA program provides members with discounted advances for projects that support affordable housing, economic development & mixed-use initiatives.



Interest-Rate Risk & Earnings Strategies

Higher for Longer, Hard Pivot, Soft Landing?

What levers can be pulled to align balance sheet exposures and the path of interest rates and the economy?

Hedging Against
Higher for Longer
with Flexibility

- Address liability sensitivity now but stay nimble for lower rates and increased liquidity

Preparing for a
Downturn

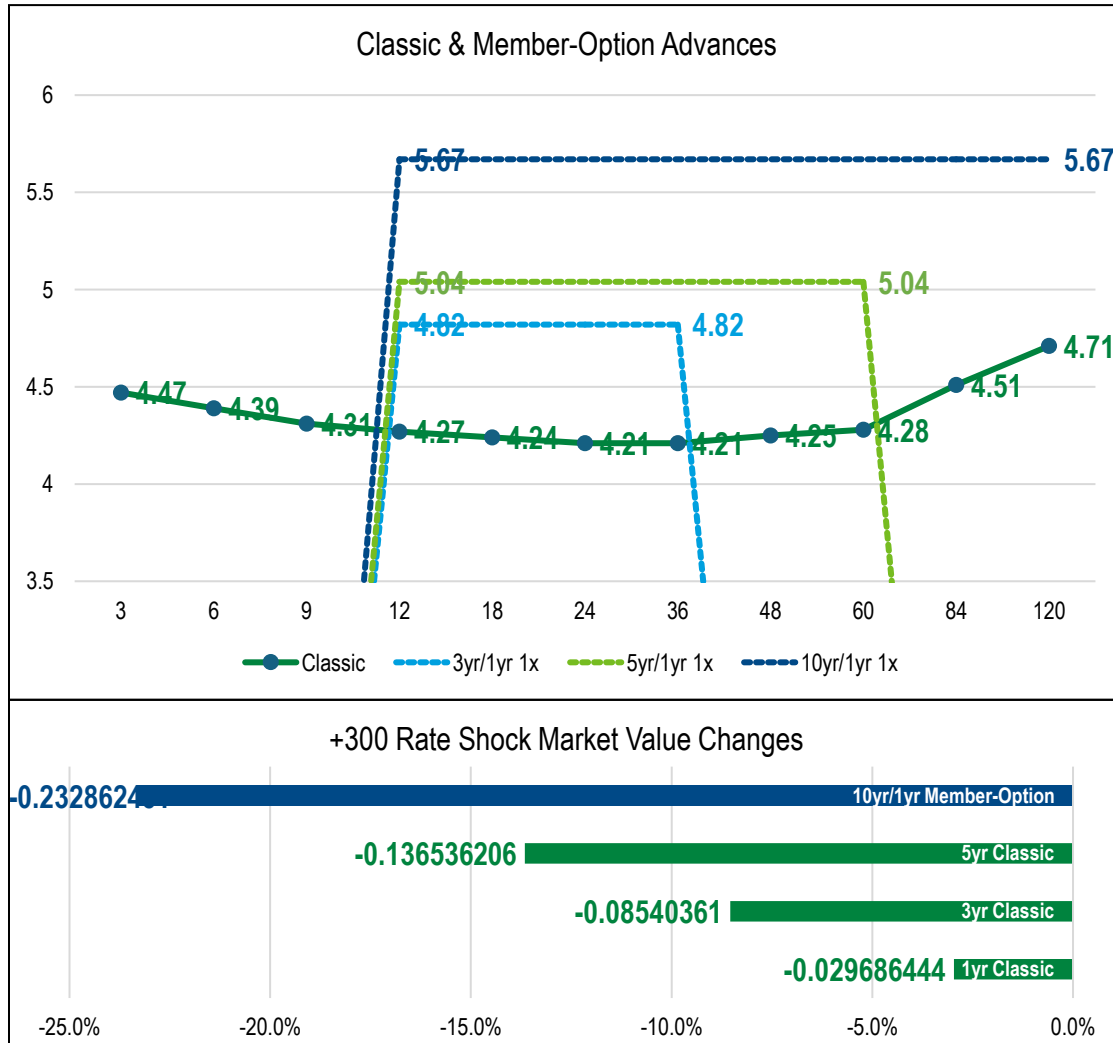
- Lessons learned from balance sheet positioning before prior downturns

Remixing &
Optimizing the
Balance Sheet

- Get back to targeted ratios for liquidity, loan mix and wholesale funding usage

Hedging Against Higher for Longer with Flexibility

Mitigate current interest-rate risk pressures now while staying nimble to pivot if conditions change.



Considerations

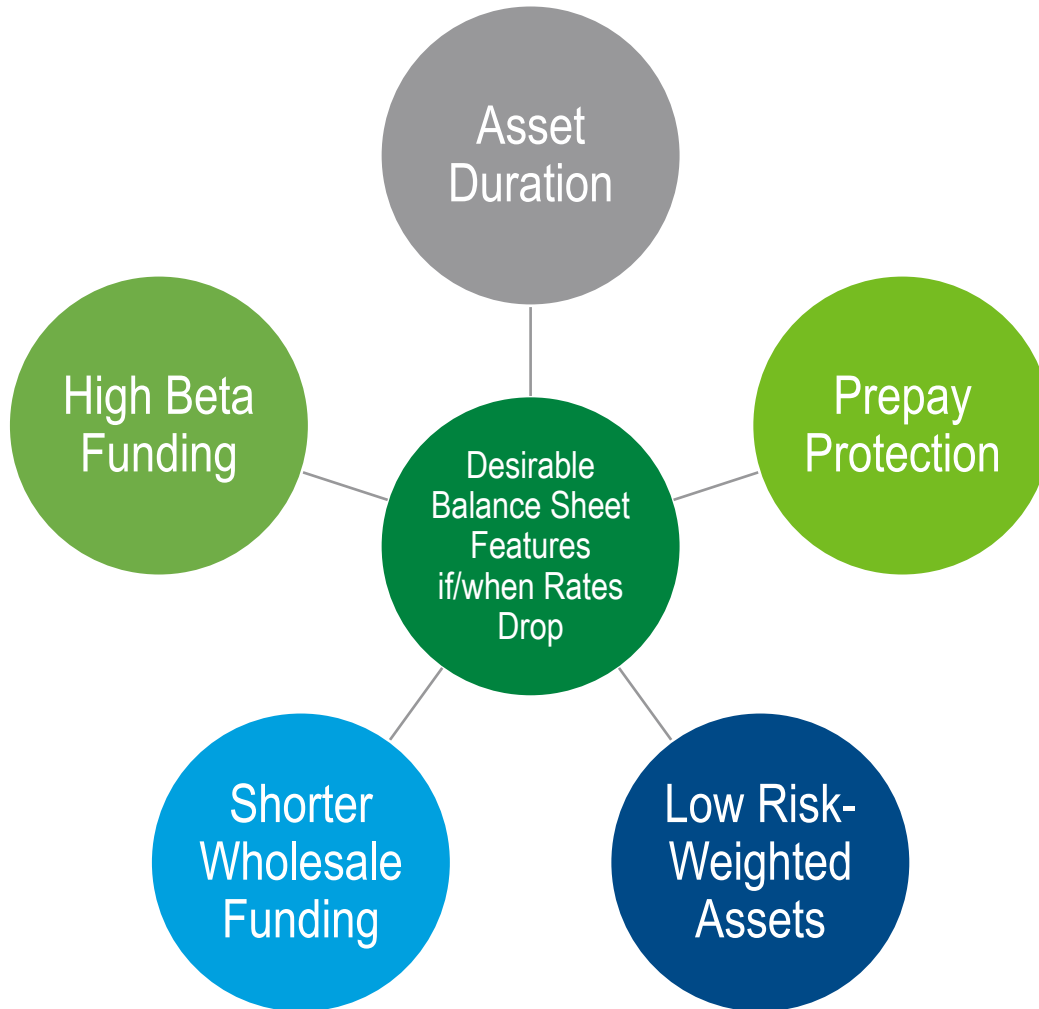
The Member-Option Advance gives you the EVE/NEV support of the maturity date (10 years) with the flexibility of the call date (1 year).

Compare the incremental spread to the 1-year (~1.40%) vs. loss trades that contribute the same duration benefits, but at 7-10x the cost (~10-15%).

Consider a barbell

Preparing for a Downturn

What has past cycles taught us about what worked (and what didn't) if/when rates move lower?



Considerations

If capital can support it, investment leverage funded with advances can have appeal

Investment options now at 5%+ can be appealing relative to:

- investments much lower later
- a slowdown in lending
- a surge in core deposits

3-5 year assets vs. 6-18 month funding:
Rate agnostic earnings now, liability sensitive

Remixing & Optimizing the Balance Sheet

The challenging market conditions of the last few years continue to weigh on performance and risk metrics.

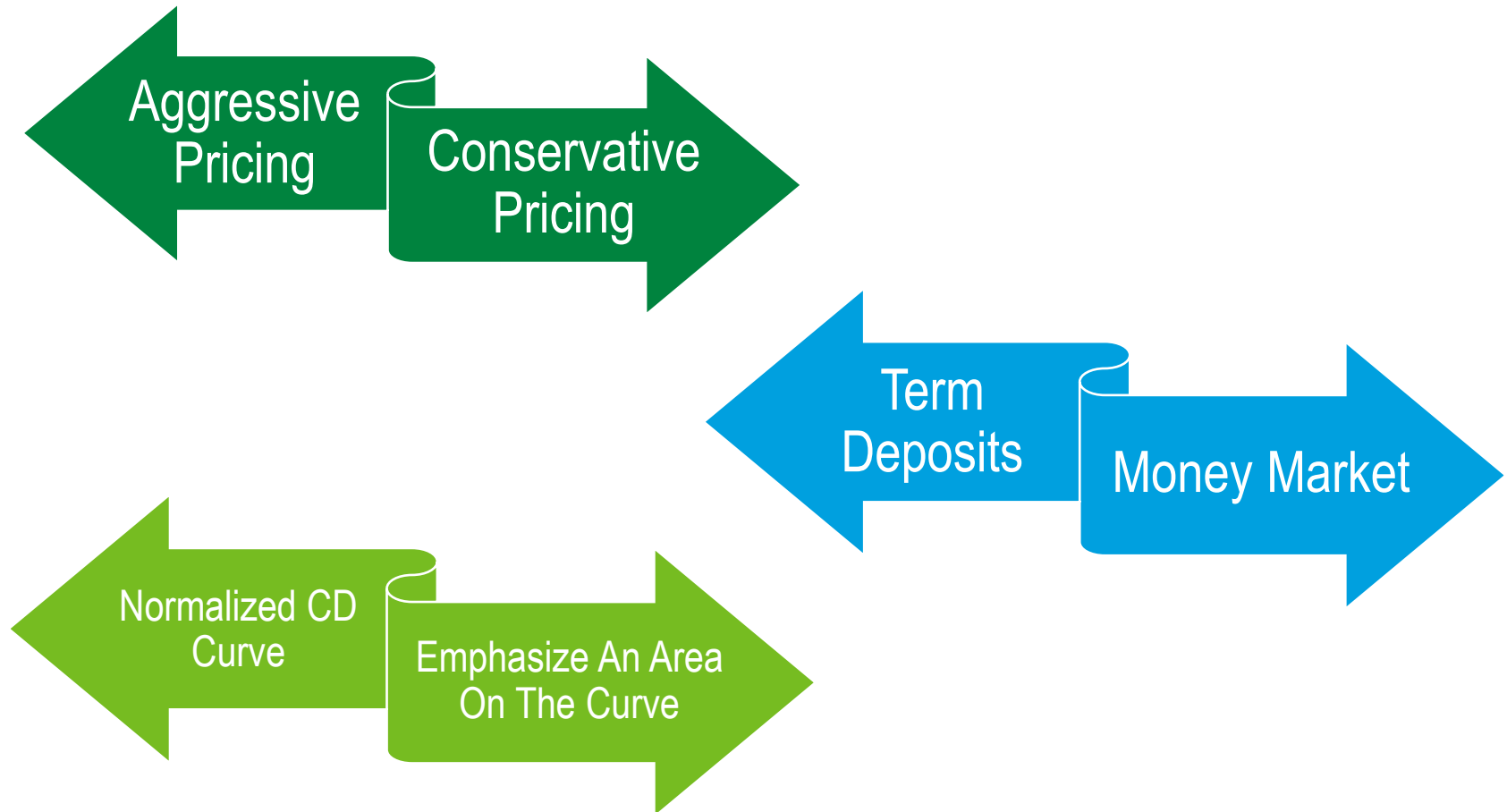
Considerations
There are no free lunches on earn-back math, changing the risk profile on redeployment of proceeds can drive the earn-back timeframe
Selling 2020/2021 vintage 3-4% coupon residential mortgages to fund CRE or auto loans can shorten asset duration and capture wider spreads
Where are you now relative to your targets

Source Federal Reserve Ba

Marginal Cost of Funds & Deposit Strategies

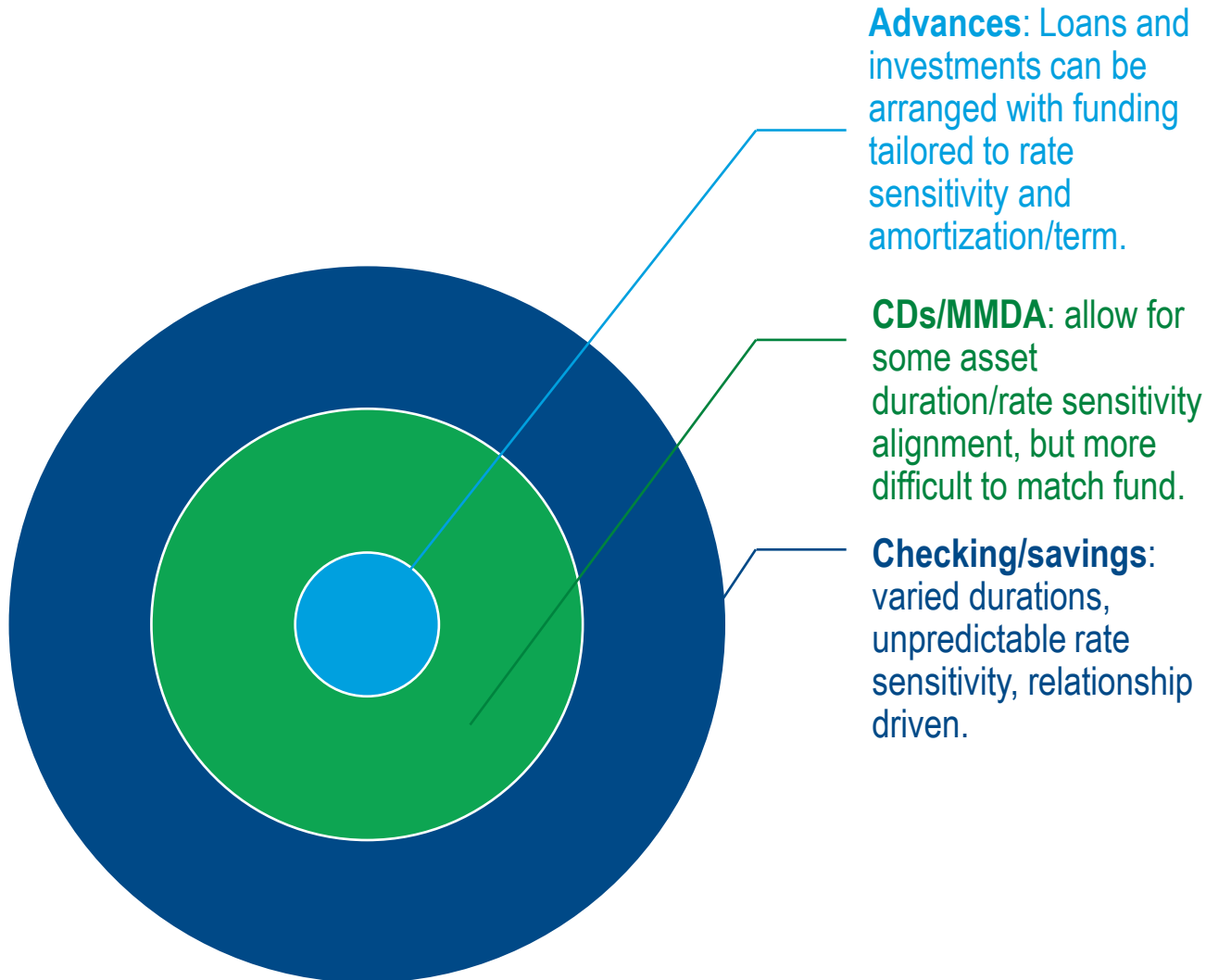
Considerations for Raising Deposits

Expectations for loan growth, the duration and rate-sensitivity of your asset book, and where you see opportunity along the curve can help inform the structure and pricing of your deposit offerings.



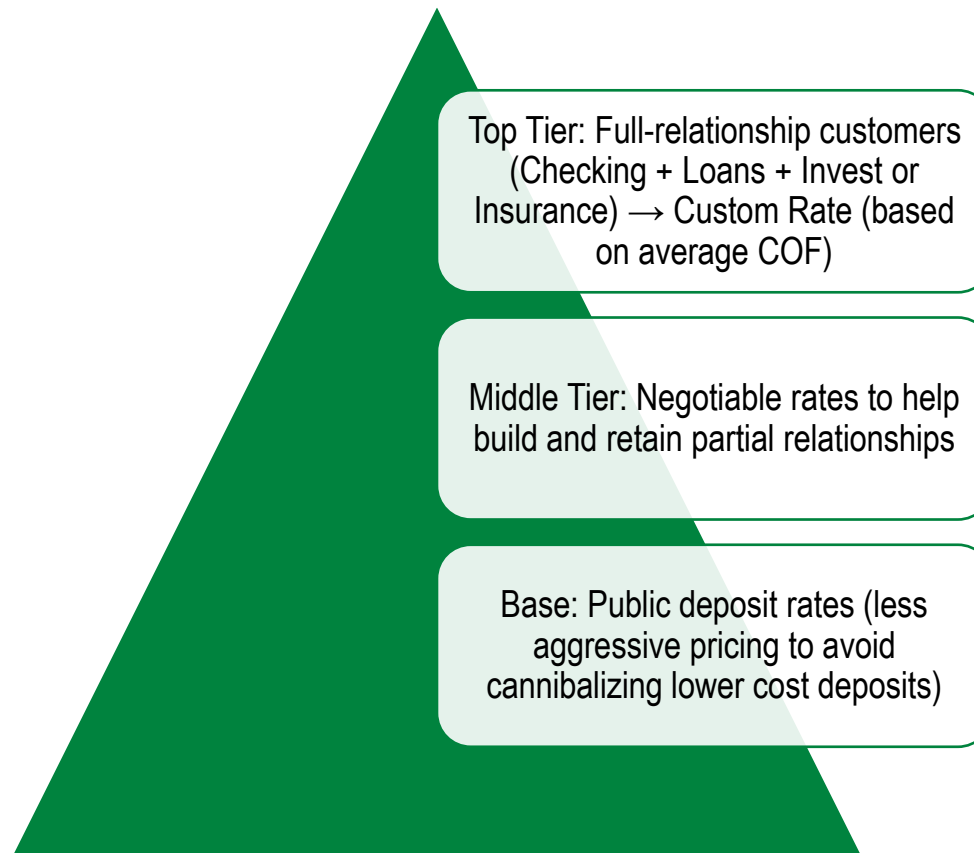
Aligning Funding with Assets

Strategically positioning funding sources to the loan and investment book's profile.



Different Pricing Approaches

Tiering deposit rates based on relationship quality and using the price as a tool can help retain and attract high quality customers and improve deposit base quality through filtering.



Managing Cost of Funds Holistically

Rewarding full relationship customers can help lower your blended COF, enabling competitive offers without eroding margins.

Scenario	Product	Balance (\$)	Rate (%)	COF (\$)
Customer 1	Checking	50,000	0%	0
	Money Market	50,000	2%	1,000
	1-YR CD (5.00%)	100,000	5%	5,000
	Total COF	200,000	—	6,000
	Weighted COF		—	3.00%
Customer 2	1-YR CD (4.2%)	100,000	4.2%	4,200
	Weighted COF		—	4.20%

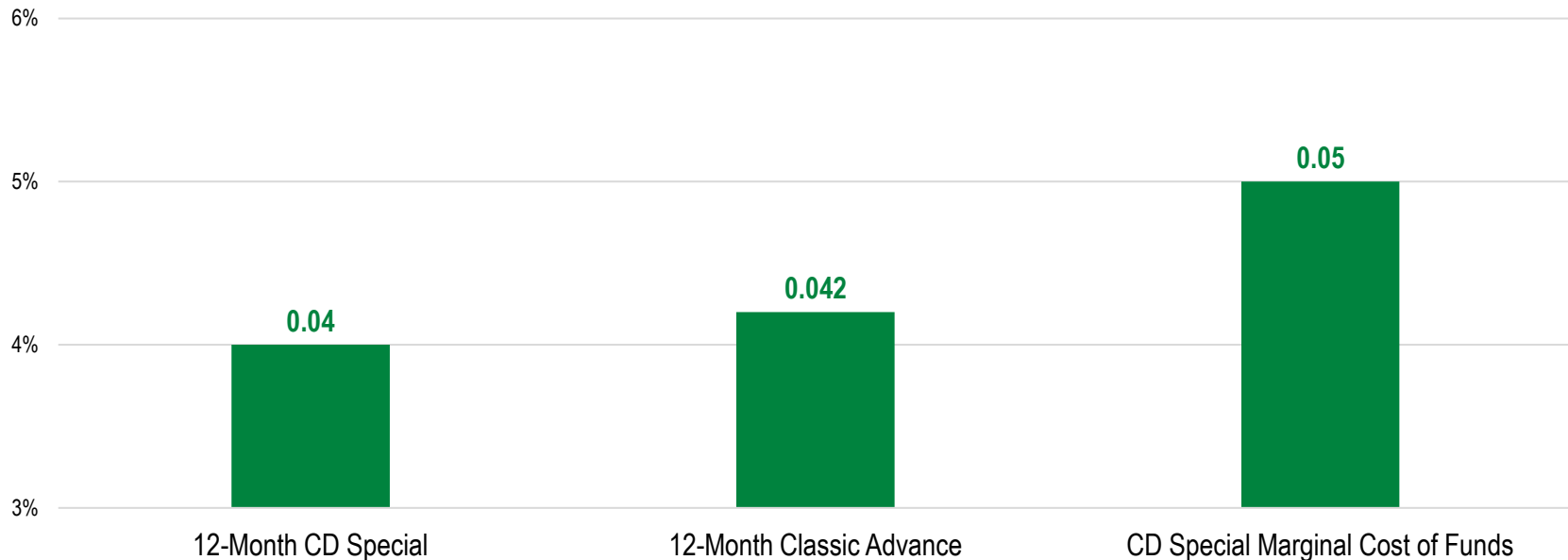
Scenario: Two customers are both asking for a rate exception on a \$100k CD, one has an existing DDA and MMDA relationship, the other is a CD-only relationship.

- Discount Rate (1-year Classic Advance at 4.20%) → COF threshold
- Customer 1: Offer up to 7.2% CD Rate, and COF still = 4.2%

Deposit Cannibalization and Marginal Cost

The true cost of a CD special can often be higher than the sticker price due to deposit cannibalization.

Marginal Cost of Funds Example



Source of Funds	Amount	Current Rate	Rate Increase	Marginal Cost
Cannibalized Deposits	\$2,500,000	2.00%	2.00%	\$50,000
New Deposits	\$5,000,000	-	4.00%	\$200,000
Total	\$7,500,000			5.00%

- At a cannibalization rate of 33%, the marginal cost of adding \$5,000,000 in new deposits via a 4% twelve-month CD special is 5%.
- If the 33% cannibalized deposits came from non-interest-bearing products, the marginal cost of the CD special is 6%.

Source: FHLBank Boston

Flexible Funding Strategies

Fill in funding gaps with flexible funding solutions, which can be tailored to fit to your needs and can be turned on and off as your funding needs wax and wane.

Advance Funding Strategies

Feature	Classic Advance	SOFR-Indexed Advance	Member-Option Advance	Callable SOFR-Indexed Floater Advance
Term Liquidity Protection	Yes	Yes	Yes	Yes
Term Rate Protection	Yes	No	Yes	No
Benefit From Rate Cuts	No	Yes	No	Yes
Flexibility to Prepay	No	No	Yes	Yes
Causes Deposit Cannibalization	No	No	No	No

Liquidity Strategies

Enhancing Liquidity On- and Off-Balance Sheet

What can be done to support different types of liquidity metrics in this uncertain market environment?

Optimizing Borrowing Capacity

- Access to just-in-time funding by liquefying your asset base

Term Liquidity with the Flexibility to Shorten

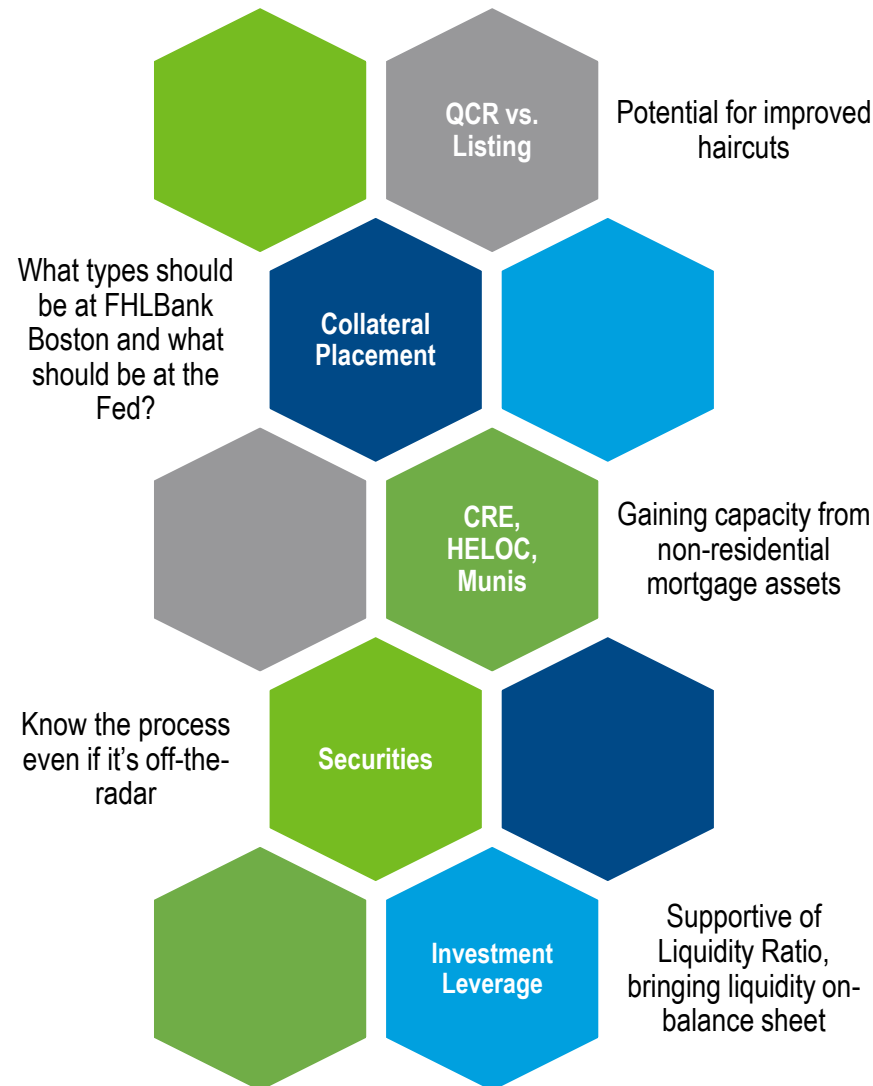
- Metric-friendly maturities, but keeping rate exposure short and control the ability to pay off if needed

Building up Cash Efficiently

- Minimize the earnings drag of bringing liquidity on-balance sheet

Optimizing Borrowing Capacity

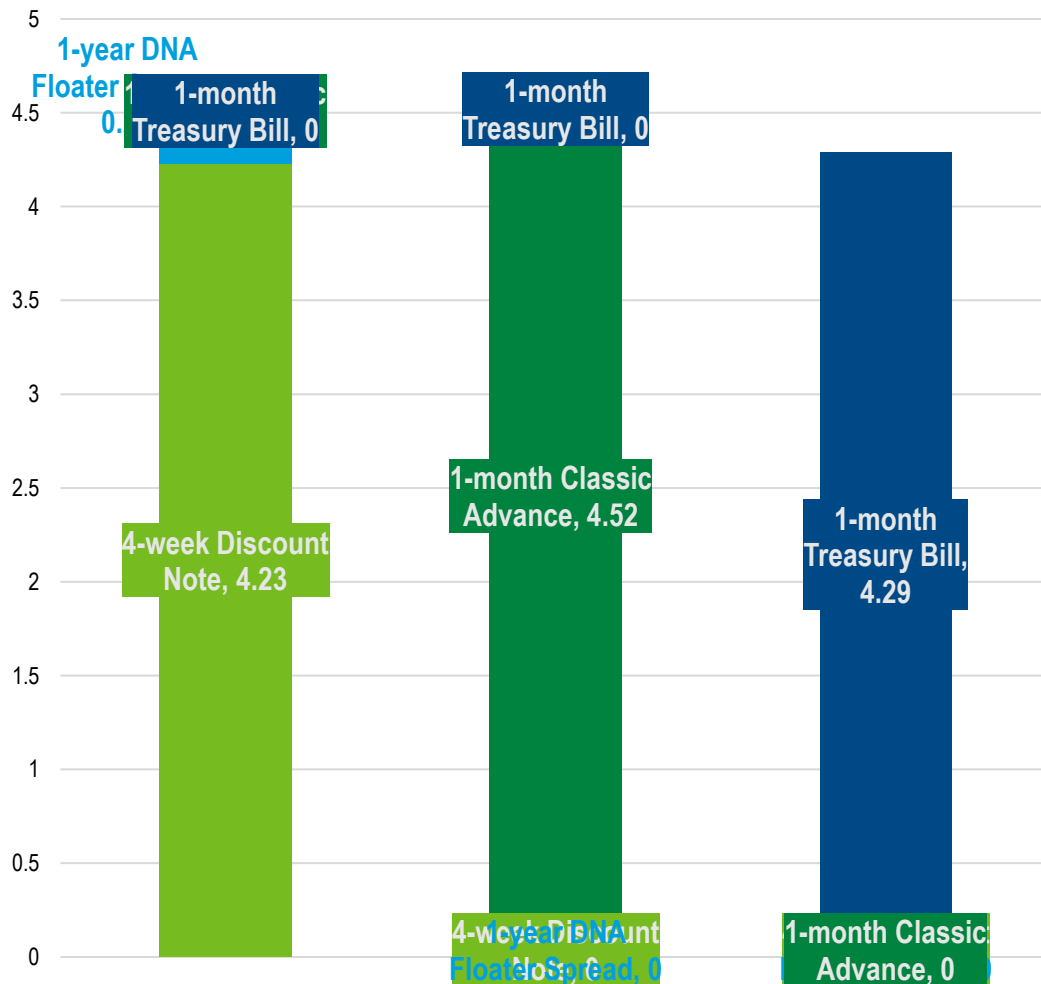
Reach out to your relationship manager for assistance for ways to maximize and simplify your liquidity access.



Term Liquidity with the Flexibility to Shorten

Long-term liquidity, short-term rates, and control to quickly and efficiently pay down borrowings if needed.

Discount Note Auction-Floater Advance



Considerations

Liquidity metrics benefit from the longer maturity (1-year).

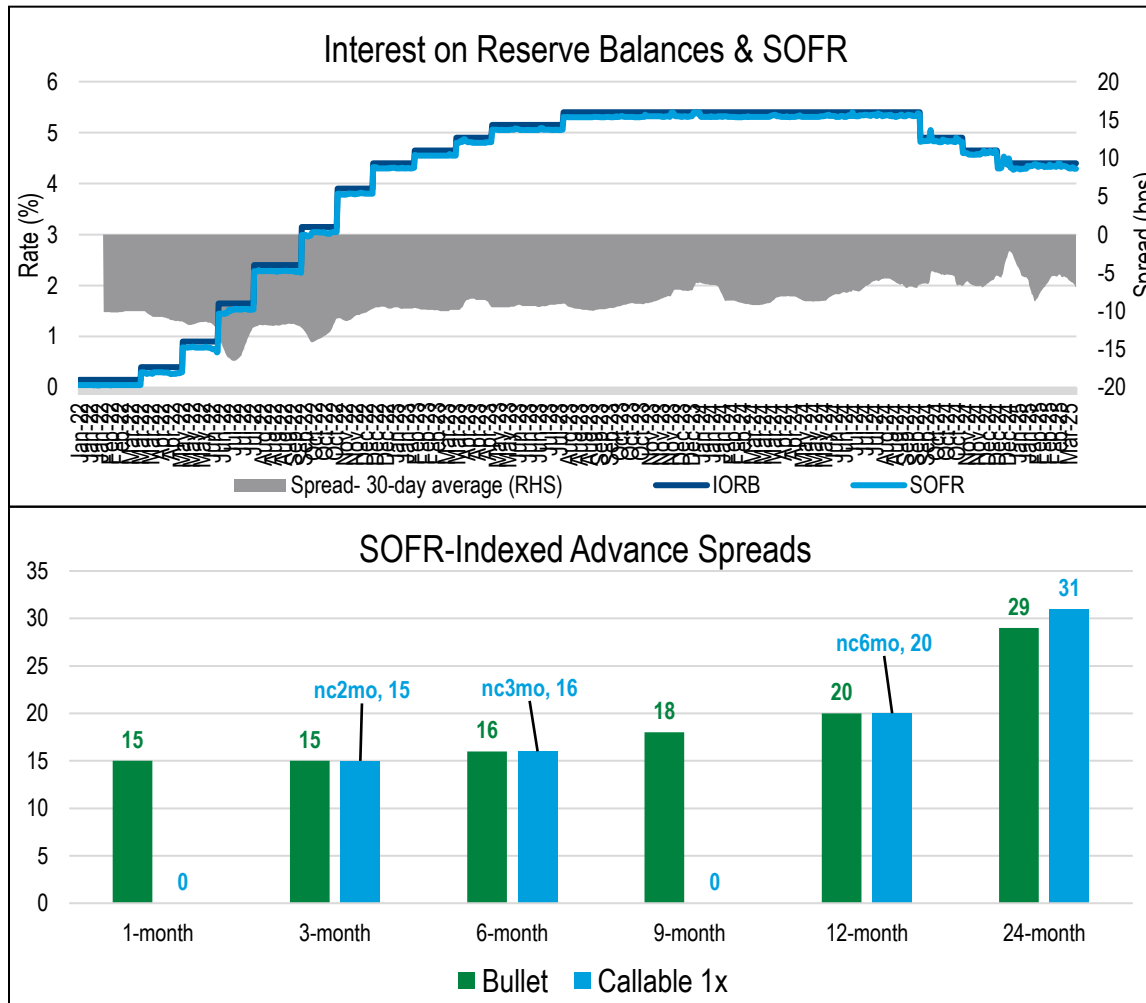
Short-term interest-rate exposure allows for repricing of the advance every 4 weeks.

At each 4-week reset, the member can prepay the advance with no prepayment penalty.

Source: U.S. Treasury, Office of Finance, FHLBank Boston

Building up Cash Efficiently

How can we enhance on-balance sheet liquidity while minimizing the cost of carrying more cash, now and in the future?



Considerations

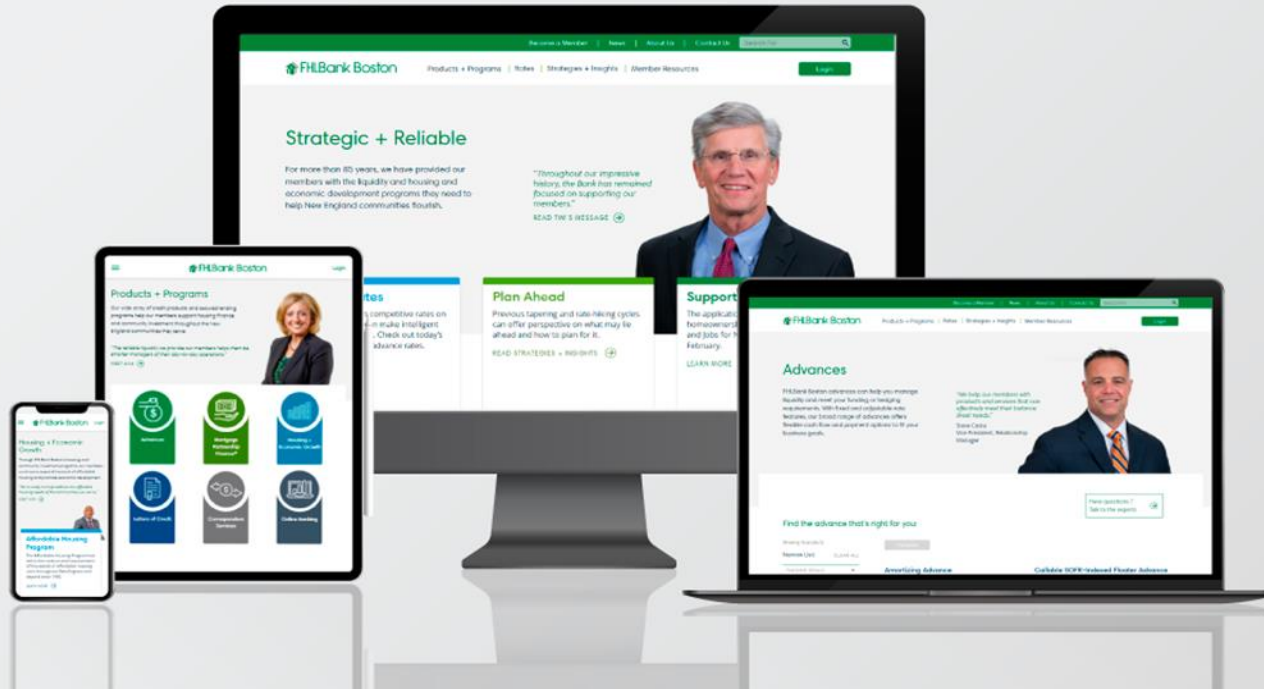
Don't forget the dividend- at current rate and spread assumptions, it can reduce the all-in cost by ~22 bps

Rolling overnight?
Consider using short Classics (i.e., 1-week), to benefit from the 4% (instead of 3% for DCM) activity stock purchase, and reduce operational burden

The return of inversion

Source: Feder

Questions?



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Thank You



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