

Federal Home Loan Bank of Boston

Results

VOLUME IX / ISSUE 2 / 2016

**Members tap
Jobs for New England
to support small-
business lending.**

Funding Small Businesses in New England

PLUS...

**AHP Funds Mutual Self-Help
Housing in Rural Rhode Island**



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For additional copies, or to be placed on the mailing list, please contact the Communications Department at 617-292-9600, or email info@fhlbboston.com.

The mission of the Federal Home Loan Bank of Boston is to provide highly reliable wholesale funding, liquidity, and a competitive return on investment to its member financial institutions in New England. We strive to consistently develop and deliver the best financial products, services, and expertise that support housing finance, community development, and economic growth, including programs targeted to lower-income households.

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Cover: Alex Jong makes bagels at his Boston Public Market bagel shop. Mr. Jong received a *Jobs for New England* loan to purchase equipment through member Cambridge Savings Bank.



From the President Edward A. Hjerpe III, President and CEO

THIS ISSUE'S COVER STORY LOOKS at how one of our members has taken advantage of *Jobs for New England* to create and preserve jobs in the communities it serves. Cambridge Savings Bank, along with members from across the six New England states, has recognized the benefits of one of our newest programs designed to stimulate local economies and the region as a whole.

Jobs for New England, along with *Helping to House New England*, were sparked by a challenge from our board. Late last year, on the heels of record earnings and our highest retained earnings level ever, the board asked us to think creatively about how we could use our financial strength to help the region. We know that small businesses need low-cost capital to support growth. We also recognize that our economy requires a supply of housing to attract and retain workers at all income levels. After meeting with community development organizations and housing finance authorities from the six New England states, we launched these two new programs in January.

Small-business owners often think that a business loan is unaffordable or out of reach. *Jobs for New England* supports qualified small businesses, including those owned by women, veterans, and minorities, by providing members up to \$5 million of subsidy a year for the next three years to write down the interest rate of eligible advances to zero percent. Members leverage these interest-rate subsidies to finance below-market-rate loans to create or preserve jobs or stimulate their local economy.

As of mid-October, we have disbursed more than \$40 million in advances, including nearly \$3 million in subsidy, to

members that have used *JNE* to help their customers create or preserve more than 1,600 jobs. Funds have been used to purchase new equipment, refinance debt, and expand facilities, and businesses range from restaurants and camping facilities to pharmaceutical companies and clothing stores.

The second program, *Helping to House New England*, assists housing finance agencies and their efforts to create much needed affordable housing in our region.

Small-business owners often have ideas for the next phase of their growth. We hope these below-market funding programs will help turn those ideas into reality and allow them to add more jobs, buy more local goods and services, and help working families buy homes.

As with *JNE*, we have committed up to \$5 million a year of subsidy for the next three years to fund the program, for a total of \$15 million of subsidy. The funding will be used to write down the interest rates of qualifying advances to zero percent, and we look forward to the positive impact it will have on our region. Thus far, Rhode Island Housing and New Hampshire Housing Finance Authority have collectively accessed \$9.2 million in advances, including nearly \$1 million in subsidies. New Hampshire is using the funding to support multifamily rental projects in conjunction with other affordable housing financing programs they administer, and Rhode Island is funding a soft second

mortgage program for first-time homebuyers in their state.

Small-business owners often have ideas for the next phase of their growth. We hope these below-market funding programs will help turn those ideas into reality and allow them to add more jobs, buy more local goods and services, and help working families buy homes. We know that this funding will help boost community economic development throughout the region.

Just as our board challenged us, I challenge you to take advantage of these limited programs. As the cover story attests, the application process is simple and easy to execute, and as always our team of professionals in the Housing and Community Investment departments stands ready to assist you every step of the way. For more information, please contact Fatima Razzaq, community investment manager (fatima.razzaq@fhbboston.com, 617-425-9564).

As always, thank you for your support. We look forward to helping you help your communities prosper. ■

Member Makes **Jobs for New England** a Key Component of Small Business Lending

by Robert O'Malley

FUNDING SMALL BUSINESS IS A centerpiece of Cambridge Savings Bank's lending strategy.

So when David Cedrone, the bank's senior vice president, learned about the Federal Home Loan Bank of Boston's new *Jobs for New England* program, he immediately saw it as a tool to help get more lower-cost funding into the hands of local entrepreneurs.

Launched earlier this year, FHLB Boston's *JNE* program is a three-year, \$15 million subsidy program designed to boost the regional economy by encouraging job and economic growth in New England communities. Funded by the Bank's earnings, the subsidy is used to write down interest rates to zero percent on Classic Advances that finance qualifying loans to small businesses.

JNE provides up to \$5 million of subsidy per year on a first-come, first-served basis, with a maximum of \$250,000 in interest subsidy per year available to each member. Depending on maturity, the \$250,000 per-member subsidy is enough to support approximately \$1 million of zero-cost advances for 10 years, or \$30 million of zero-cost advances for one year. To be eligible for the funding, members must demonstrate that a *JNE* advance will contribute to economic development by preserving or creat-



From the left, Alex Jong and Chris Zatoonian at Levend Bagelry.

ing jobs, stimulating new business development, revitalizing a small business district or community, expanding small businesses owned and controlled by women, veterans, or minorities, or upgrading a facility to meet health, safety, and environmental requirements.

"*JNE* was immediately intriguing to us because Cambridge Savings Bank is always looking for new and creative ways to support small business growth in our communities," Mr. Cedrone says. "We understand the importance of small business growth and want to do our part to see new businesses open and existing business grow."

Mr. Cedrone says the bank's strategy is to fit the *Jobs for New England* program into

its existing small-business lending procedures, checking to see if a business owner applying for a loan would qualify for *JNE* and the lower interest rate. "Since we launched the program back in February, we have been able to provide six local businesses in our community with *JNE* lower-cost funding so they can continue to make financial progress towards their business goals," he says.

Cambridge Savings Bank has so far used *JNE* funding to support a child care provider, a business consulting firm, a clothing retailer, and a restaurant. One of those businesses, Levend Bagelry, received a \$50,000 *Jobs for New England* loan to finance the purchase of bakery equipment for its recently opened bagel shop in Boston Public Market.

"Levend used the funds to purchase equipment that allowed the new bagel business to open," Mr. Cedrone says. "They're now looking to hire bakers and sandwich makers to join their new team, so it's a great example of how *Jobs for New England* supported job growth."

Alex Jong, Levend's owner, says he had been renting space at a commissary kitchen and selling his bagels at farmers' markets and popups when he was approached by Boston Public Market about opening a shop there.



Top, from the left: Sarah Lamitie, Boston Private Bank & Trust; Joyce Stanley, Dudley Square Main Streets; Mario Cruz, Mario's Restaurant; Anna Bautista, Boston Private Bank and Trust; Kenneth Willis, Federal Home Loan Bank of Boston; and Aida Franquiz, Boston Private Bank & Trust at Mario's Restaurant in Dudley Square, Boston. **Bottom:** Nicholas McGurk, Cambridge Savings Bank, and Annette Duclos, owner of Looks clothing store in Harvard Square, which also received *Jobs for New England* funding.





Dudley Square, Boston.

JNE Funds a Growing Business in Dudley Square

MARIO CRUZ HAD BEEN OPERATING Mario's Restaurant in Boston's Dudley Square for about 10 years before he obtained his first bank loan. With his business expanding and Dudley Square in the midst of a revival after years of decline, Mr. Cruz turned to Boston Private Bank & Trust Company for a loan to purchase equipment and make other upgrades to his restaurant.

An employee of the restaurant before purchasing it from the previous owner, Mr. Cruz obtained a \$28,000 Federal Home Loan Bank of Boston *Jobs for New England* loan to purchase equipment and provide leasehold improvements and working capital.

Designed to support job growth and small businesses, the *Jobs for New England* program provides up to \$5 million in interest-rate subsidy per year and up to \$250,000 a year per member on a first-come, first-served basis.

"The Federal Home Loan Bank of Boston subsidy allowed us to offer our client a very favorable fixed rate of interest over five years," says Anna Bautista, senior vice president at Boston Private Bank and Trust. "We think it's a small loan with big impact."

"The loan was fast, 10 days, and without too many questions," says Mr. Cruz, who immigrated to the U.S. from Guatemala. "The people trust in me and my business and I am very happy for that. I needed the money for the growth of my business."

"Most of the jobs in this country are from small businesses," notes Joyce Stanley, executive director of Dudley Square Main Streets, who introduced Mr. Cruz to Boston Private. "We see small business as the economic engine for our neighborhood."

Ms. Stanley says that small businesses in Dudley Square "suffered through all of the renovations and no-parking and customers not being able to get here, so now we need to connect them with resources so they can survive and grow," she says.

"We've been involved in financing in Dudley Square for 15 to 20 years and have financed multiple kinds of projects here," says Sarah Lamitie, vice president/community investment officer at Boston Private.

"Boston Private Bank has done a great job of outreaching," notes Kenneth Willis, first vice president/director of housing and community investment at the Bank. "There are many other businesses in this area that could benefit from the *JNE* program."

Meanwhile, business is thriving for Mr. Cruz. "I have more customers, more food, everything is up, up," he says. "Every day working, seven days, the economy is not good in Guatemala, but here I have my home, everything. I have three daughters and they have finished college and I have paid for it working here." ■

See a video interview with Mario Cruz at www.fhlbboston.com.

Jobs for New England provides a below market rate for new and smaller businesses who may find it difficult to afford a traditional business loan...

"I really wanted to join this community of unique New England food sellers, and thanks to Chris Zatoonian at Cambridge Savings Bank, I was able to put together a loan to buy the equipment and launch this," he says.

Mr. Jong says he has always been drawn to baking and has spent long hours experimenting with different types of bagels before developing his own recipe. "I call them New York-inspired bagels, but they're made with a sourdough starter, which has a depth of flavor," he says. "It's my new take on an old recipe.

"I was able to raise a lot of money through family and friends, who, thankfully, believed in my mission," he says. "But commercial kitchen equipment can be very expensive and without the

loan from Cambridge Savings Bank I would have had to lease my equipment and not really had the chance to choose the exact equipment I wanted to make the best product possible."

Mr. Jong early on recognized the importance of working with a bank that understood his business goals. "I chose Cambridge Savings Bank because I really wanted a local bank that cares about putting money into the surrounding com-



Making bagels at Levend Bagelry.

munity, rather than a national corporation that couldn't care less about what we were doing here.

"Working with a bank is really important to a new business," he adds. "Chris helped me through all the stages. He was very responsive to my questions and helped me along. I felt I got to know him as a person and he got to know me and why I am doing this.

"A large national bank would view a restaurant business as extremely risky, whereas Chris had a chance to feel my passion and really buy into my business plan," he says. "He had faith in my business."

"What I saw in this business was a young entrepreneur who had a vision and knew what he wanted to do and how he wanted to do it," says Mr. Zatoonian, assistant vice president/branch

manager at Cambridge Savings Bank. "He just needed some funds to help him get started.

"*Jobs for New England* provides a below market rate for new and smaller businesses who may find it difficult to afford a traditional business loan," adds Mr. Zatoonian. "The program allows them to save a significant amount of money on interest, which may be the difference between being successful or unsuccessful."

Mr. Zatoonian says the program's guidelines make it easy for businesses to qualify for the loans. "I found the program very easy to use, as simple as Alex submitting a short statement about himself and his business and why he was qualified," Mr. Zatoonian says. "Then we received a very quick positive response that allowed us to do the loan.

"This is my first experience lending in Boston Public Market, but I would say there is a good opportunity to use *Jobs for New England* with other businesses operating there," Mr. Zatoonian says. "Financing small businesses is very important to Cambridge Savings Bank and to me as a lender. Community involvement and investment is a big part of what we do."

Meanwhile, business at the recently opened Levend Bagelry has been robust. "I currently have two full-time employees, but due to the number of people who have been coming into the store, I am looking to add probably two to three more full-time and a couple of part-time employees," Mr. Jong says.

"I am really grateful for the faith that Cambridge Savings Bank put in me in order to launch my dream," he says. "And hopefully the store will be at the top of the bagel world in Boston." ■



MELVIN L. WATT (LEFT), DIRECTOR of the Federal Housing Finance Agency, the regulator of the Federal Home Loan Banks, and Edward Hjerpe, president and CEO of FHLB Boston. Mr. Watt visited the Bank earlier this year and met with the Bank's Management Committee and staff.



Insurance Company Focused on Housing Authorities Joins the Bank

IN JULY 2016, HAI GROUP — a provider of insurance programs and other value-added products and services for the public and affordable housing industry — became a member of the Federal Home Loan Bank of Boston.

Courtney Rice, director of communications for HAI Group, says that membership in the Federal Home Loan Bank of Boston is a natural fit for the company. “HAI Group’s board of directors and leadership team believe that membership with the Federal Home Loan Bank of Boston is particularly appropriate for HAI Group considering the shared mission of both companies,” Ms. Rice says. “We also see membership as a huge benefit to our public housing authority members.”

“We plan to leverage our membership to provide a return on investment in the form of interest income, as well as leverage the access to favorable credit terms through advances for operational liquidity as a prudent investment,” she says. “Finally, we plan to explore opportunities to enhance cooperation between the Federal Home Loan Bank of Boston and our public housing



Hai Group headquarters in Cheshire, Connecticut.

authority members.”

“We are pleased to have HAI Group join the Bank,” adds Matt Stewart, vice president/relationship management at the Bank. “As a company focused on supporting the public and affordable housing sector, they are a perfect fit for membership.”

Domiciled in Cheshire, Connecticut, HAI Group was founded in 1987 in response to challenges facing public housing authorities in purchasing insurance from traditional companies. “Insurance was either too expensive or the housing authorities were simply rejected because of the nature of their business,” Ms. Rice says. “So a group of public housing authority executive directors got together and decided they were going to start their own risk-retention group.”

The company initially offered general liability insurance to public housing authorities nationwide before expanding its offerings to provide property insurance and a host of other services. Today, HAI Group consists of 13 companies with products that include software to help housing authorities manage their opera-

We're constantly evolving and growing based on our membership needs. To date we have more than 1,100 members across the country, including public housing authorities and affordable housing agencies.



tions, on-demand training, and risk-control services to mitigate property-related issues. “We’re constantly evolving and growing based on our membership needs,” Ms. Rice says. “To date we have more than 1,100 members across the country, including public housing authorities and affordable housing agencies.

“We are growing in the area of software to help our members manage their operations more efficiently,” Ms. Rice says. “We are also helping members access the capital they need to rehab buildings, build new developments, or meet capital expenditure requirements that are not covered by funding from the U.S. Department of Housing and Urban Development.

“Housing Authority Insurance, our nonprofit association, provides our members with benefits such as access to our learning solutions, resident scholarship program, and risk control services,” she says. “Our Public and Affordable Housing Research Corporation studies trends within public and affordable housing.”

HAI Group also developed the “ReThink: Why Housing Matters” advocacy campaign — a program designed to change perceptions of public and affordable housing. “We saw that the public’s per-

ception of public housing was very stereotypical,” Ms. Rice says. “There was a lot of negative press and a lot of misperceptions about public housing, and we wanted to be able to share a more realistic perspective.

“Through this campaign we share real life stories through short videos of people who have successfully lived in public housing,” Ms. Rice says, adding that the campaign also produced a full-length documentary on three public housing families.

“We look forward to working with the Federal Home Loan Bank to support our mission,” Ms. Rice says. ■

From the left, Matt Stewart, FHLB Boston; from the Hai Group, Ed Malaspina, chief marketing officer and vice president of business development; Courtney Rice, director of communications and assistant corporate secretary; Brian Robinson, director of strategic capital solutions; John C. Thomson, president and chief executive officer; and Sarah Rodriguez, chief financial officer and assistant treasurer.

More Members Choose to List Collateral

by Robert O'Malley

WHEN ROLLSTONE BANK & TRUST INCREASED ITS BORROWINGS FROM THE FEDERAL HOME LOAN BANK OF BOSTON TO HELP GROW ITS BALANCE SHEET, THE VALUE OF ITS BANK COLLATERAL TOOK ON NEW IMPORTANCE.

“In a low-rate environment we tend to sell more of our mortgage production to the secondary market than hold it in house,” says Sandra Basler, first vice president and treasurer at Rollstone. “So between amortization of our existing portfolio and not adding new loans, our collateral value was dropping on a quarterly basis due to attrition.

“We want to be able to grow, but we need to make sure we have the liquidity to adequately fund the growth,” adds Ms. Basler. “For the past several years, our asset growth has exceeded our deposit growth. We’ve been utilizing wholesale borrowing more in the past 10 years than we ever have in the past.”

Meanwhile, Rollstone had been using the Bank’s Qualified Collateral Report or QCR — a summary collateral submission option — rather than the more detailed listing method to submit its residential one- to four-family collateral to the Bank. “We were taking fairly substantial haircuts because the Bank does a random sampling of 50 loans and bases our haircut on that,” she says.

The same loans are being pledged, but because we are listing them individually we get greater borrowing capacity. We increased our borrowing capacity by about \$15 million. I was very surprised at the difference it made.

Ms. Basler says that Sandy Crispin and Jessica Lee of the Bank's collateral staff kept urging her and the bank to start listing its residential one- to four-family collateral rather than continue using the QCR option. "But I was skeptical," Ms. Basler says.

Rollstone eventually decided to take the plunge and choose the listing option. "The Federal Home Loan Bank was very supportive and helpful, telling me what we could do to make it easier," she says.

"The same loans are being pledged, but because we are listing them individually we get greater borrowing capacity," she says. "We increased our borrowing capacity by about \$15 million. I was very surprised at the difference it made."

To help simplify the listing process, the Bank provides members with a template for listing residential one- to four-family collateral. "I was concerned about whether we would be able to get adequate information to complete the template necessary to send in a file listing," Ms. Basler says. "When I initially saw that it was 62 columns across, it was a little daunting. However, I soon realized that for fixed-rate loans only 21 of these columns are mandatory or key fields; and, for adjustable rate mortgages only 26 are key fields."

Rollstone, however, successfully managed the transition. "I'm going to give kudos to our staff here," Ms. Basler says, adding that the template automatically updates the fields each month and adds new loans when necessary. "Our staff did a fabulous job and got it done in just three weeks."

Category 1 members — those in generally satisfactory financial condition — have the option either to list or submit the summary QCR form to report their residential one- to four-family collateral to the Bank. Members in other categories are required to list that collateral. In 2011, the Bank changed its haircut policy for Category 1 members who list to make that option more attractive.

The Bank's collateral team notes that listing leads to higher valuations for most members. "If we get more information, we can value it and run it through our internal filters to get a better idea of the quality of the collateral," says David Trant, vice president/collateral relationship manager at the Bank.

Benefits associated with listing residential one- to four-family collateral include the potential for a lower haircut, a higher collateral valuation, and an automated, less time-consuming submission process, he says.

"If we get the data, we know much more about what is being

pledged, and the more data we have the better our analytics," says Patrick Green, vice president/member field collateral relationship manager. "For example, with a listing you would know that a member has 1,500 loans valued at \$400 million. You have all of the loan-level detail and can look at FICO scores and appraised values to do all sorts of analysis."

"It does require some upfront work on the member's part to pull the information down to our format," adds Mr. Trant, "but once that is done it is automated on a go-forward basis."

"In the last few years members have been moving to better systems and the listing process is becoming less of a challenge," Mr. Green says. "Members have commented that it took them a few months to get the template in place, but at the end of the day they took a two-day manual process and cut it down to 45 minutes. Once they automate the process they just push a button and it pulls the data."

The Bank's collateral staff says there has been a steady rise in the number of members listing residential one- to four-family collateral. Of the 350 Category 1 members, 84 were listing as of June 2016, compared with 68 last year.

Another benefit of listing is that members tend to have a better experience during the collateral review staff's on-site visits. "The loans accepted during the listing process are in a much better state for the Bank's collateral review staff during a visit," says Mr. Trant. "There's a greater chance for an exception with the summary data of the QCR because some of those loans are ineligible and shouldn't be included in the pledge. If a member has five errors and can knock that number down to two through listing, it will limit the impact on its entire portfolio."

"Listed data is right there in front of you," adds Matthew McDermod, assistant vice president/residential collateral field review manager at the Bank. "You get to know your portfolio a lot better when you have listed data, which is important."

"Over \$1.8 billion in additional borrowing capacity has been created because 25 percent of QCR members moved from the QCR to listing their one- to four-family collateral with the Bank," says Mr. Green. "This represents a significant benefit for members."

For more information about listing residential one- to four-family collateral, please contact David Trant at 617-292-9729, or Sandy Crispin at 617-292-9707. ■

Using the HLB-Option Advance

THE HLB-OPTION ADVANCE IS an intermediate- and long-term fixed-rate advance that offers members significant discounts during an initial lockout period.

Used in a flat yield curve environment to obtain a lower cost of funding than a Classic Advance, the HLB-Option allows members to choose a lockout period of three months to 10 years during which the Bank cannot cancel the advance. After the initial lockout, the Federal Home Loan Bank of Boston may cancel the advance on a scheduled cancellation date.

“We give our members the opportunity to choose this funding if it fits their needs and capacity,” says Stephen McHugh, vice president/relationship manager at the Bank. “The Bank offers a range of sophisticated choices along with people on staff to help them with these transactions.”

Earlier this year, Newburyport Five Cents Savings Bank made effective use of the HLB-Option Advance. “What inspired us to take advantage of it was the low interest rate,” says Timothy Felter, senior vice president/chief financial officer at the Newburyport, Massachusetts, bank. “We didn’t believe rates would be moving much in the next year, so we didn’t really want to pay much of a premium over today’s 50 basis points cost of funds for short-term money.

“This advance gave us the option of locking in the rate for one year even if the Fed raised the overnight rate, though not to such a high rate that we are exposed to significant downside interest-rate risk,” he says.

While negative rates elsewhere in the world show a rate decline in excess of 50 basis points is possible, Mr. Felter nevertheless felt the bank could live with the downside risk. “It is possible that rates could go negative, but we don’t anticipate they would be that far negative,” he says.

“When I took this advance down, the market consensus was that rates were going up at least once before the end of the calendar year,” he says. “So I saw this advance as an opportunity to hedge against that one-time rate increase, though at the time I didn’t think rates were likely to be going up or down.”

While Mr. Felter believed the HLB-Option would likely be called after a year if the Fed raised rates, he thought the chances of that happening were slim.

“I locked in my cost of funds at 49 basis points for a year, at a time when one-month money from the Home Loan Bank was in that 48 or 49 basis points range,” he says. “So I was really not giving up any meaningful basis points in order to lock the rate in

for a year, and it was well below the FHLB one-year advance rate.”

In recent years, Newburyport Five Cents Savings Bank has often turned to one-, two-, and three-month Bank advances for balance-sheet management. “In the long run, I like belonging to the Home Loan Bank because of the ability to take down longer-term money and lock the rates in very conveniently,” Mr. Felter says.

Six weeks after taking down his first HLB-Option Advance, Mr. Felter took down a second. “The rate once again got down to 49 basis points,” he says. “It had been up to almost 60 basis points for a similar structure over the course of those six weeks. I took down another piece when it dropped back down to 49 basis points.

“At this point we have about 30 percent of our short-term advances in this category,” he adds. “So we’re probably not likely to do more right now — not because we don’t like the structure, but because we have our maximum prudent exposure.”

Home Loan Bank advances are critical to ensure we have capacity to fund those loans and allow us the flexibility of having just-in-time funding for loans without paying exorbitant local retail deposit rates.

Mr. Felter says he primarily uses Bank advances to fund loan growth in excess of deposit growth. “We’ve done very well with loan growth in the last three or four years, but our deposit growth hasn’t been quite at the same pace,” he says. “Home Loan Bank advances are critical to ensure we have capacity to fund those loans and allow us the flexibility of having just-in-time funding for loans without paying exorbitant local retail deposit rates.”

Newburyport Five Cents Savings Bank is a \$760 million community bank serving greater Newburyport and Portsmouth, New Hampshire. “We’ve had really good growth of our commercial real estate and commercial loan portfolios to complement our traditional exposure to residential real estate loans,” Mr. Felter says. “On the deposit side we primarily have retail customers.”

Key to the bank’s recent success is a robust local economy. “If there’s any place in the U.S. where you want to be in the banking business it is New England, and if there’s any place in New England it is Massachusetts, east of Rt. 495 and north of Boston,” he says. “We’re blessed with an area that has not done poorly economically in the last 10 years.” ■

MONEY WELL SPENT:

The Member-Option Advance

by Kevin Martin

FHLB BOSTON'S MEMBER-OPTION ADVANCE is a valuable interest-rate risk management tool for holders of long-term, fixed-rate assets, affording members the interest-rate risk protection associated with long-term, fixed-rate advances. For a slight premium over the Classic Advance, the member has the option to call the advance from FHLB Boston on a series of predetermined call dates.

Instead of using a seven-year Classic Advance, a member who took down \$30 million of seven-year funding in 2012, chose to pay an additional six basis points¹ to gain the right to call the advance after four years and semi-annually thereafter. After four years, the member called the debt and renewed the advance by taking down a three-year Classic Advance at 60 basis points below the cost of the original debt. The option cost the member slightly more than \$73,000 over the four years, but the total interest paid over the term to maturity will be almost \$420,000 (or 20 basis points) less than the cost of the seven-year Classic Advance without a call option. On a present value basis, the savings amounted to \$370,000, or almost 18 basis points.

Since 2012, advance rates have risen between 40 and 50 basis points from two months to five years, and by smaller amounts out to nine years. When the original advance was taken in 2012, the federal funds rate was expected to rise and the implied forward yield curve was for those higher rates.

¹ The cost of the option will always vary depending on the economic environment. The advance discussed here was part of a special offering and volatility was especially low at the time.

"Mortgage Partnership Finance," "MPF," "MPF 35," "MPF Government MBS," and "MPF Direct" are registered trademarks of the Federal Home Loan Bank of Chicago.

But those rates never materialized. While the three-year Classic Advance rate four years forward was projected to be 3.17 percent, the actual rate turned out to be 1.47 percent. In addition, the advance rolled down the curve, from seven years to three years, so the option was certainly money well spent.

The Member-Option Advance gives members the flexibility to manage their borrowings based on their individual requirements. While this example highlights a member exercising the option, there will be times when the option expires worthless. In most cases, members will use the Member-Option Advance as a hedge against accelerated prepayments. If this doesn't occur and members don't exercise the option to repay, prepaids likely haven't picked up and they won't have to reinvest at lower rates. And while they won't benefit from the option, they will have higher yielding mortgages.

FHLB Boston uses a significant portion of callable debt in its funding of the Mortgage Partnership Finance® portfolio. The Bank recently called almost 25 percent of the debt used to fund the MPF® portfolio at a significant cost savings. Since this portfolio hadn't experienced a significant increase in prepayments, the spread increased on the portfolio.

Pricing for Member-Option Advances is available on our Daily Email and website. In addition, you can get quotes on customized structures by calling the Money Desk at 800-357-FHLB (3452). ■

Kevin Martin is vice president/member financial strategies at FHLB Boston.



DEDICATION CEREMONY FOR THE AHP-funded 86 Dummer Street initiative in Brookline, Massachusetts: From the left: Joanne Sullivan, vice president and director of government and community relations, Federal Home Loan Bank of Boston; Congressman Joe Kennedy (D-MA); David Trietsch, chairman, Brookline Housing Authority Board of Commissioners; Michael Jacobs, vice chairman, Brookline Housing Authority Board of Commissioners; Chrystal Kornegay, undersecretary, Massachusetts Department of Housing and Community Development; Judy Katz, commissioner, Brookline Housing Authority; Barbara Duggan, commissioner, Brookline Housing Authority; and Patrick Dober, executive director, Brookline Housing Authority.

On a recent Saturday morning, the owners of seven new homes at various stages of completion stood on scaffolding to install siding or worked inside to cut and fasten sheetrock. ➤

AHP Funds Mutual Self-Help Housing in Rhode Island

The families are the owners of the first homes to be built by NeighborWorks Blackstone River Valley's Fernwood Mutual Self-Help Housing development in the Pascoag section of Burrillville, Rhode Island.

Joseph Garlick, NeighborWorks' executive director, says it took more than 10 years to get Fernwood off the ground. "We thought it would be an opportunity to create homeownership in a rural area in northern Rhode Island," says Mr. Garlick. "And we thought the United States Department of Agriculture Mutual Self-Help Housing program was an underutilized resource. We learned that if Rhode Island didn't use the available USDA funding, folks from states with a stronger demand would get it.

"The program's low-cost financing (USDA 502 mortgages with one- to three-percent interest rates and 33- to 38-year terms) combined with sweat equity allows participants to purchase a house substantially below the market price," Mr. Garlick says. "The homeowners don't need to provide a down payment because the sweat equity is the down payment."

Mr. Garlick says the Self-Help program originated on the West Coast in the 1960s when many farmworker families used the program to build homes. "But the idea harkens back to the barn-building and mutual-self-help tradition of the Amish community," he says.

The seven families in phase one of the NeighborWorks program worked in teams to build their homes. "Construction progresses at more or less the same pace on each house," Mr. Garlick says. "They work on framing one house and then move to the next one. They all get their certificates of occupancy at the same time and move in at the same time. The goal is to be done by the fall."

Mr. Garlick says NeighborWorks will eventually have a total of 30 families constructing homes on the Pascoag site. "Our first contract with USDA is for 15 homes, which is also the portion of the project that has received funding from the Federal Home Loan Bank of Boston's Affordable Housing Program.

Building a Stable Home for Children



Tammy and William Cole have been contributing sweat equity to help build their new home in the Fernwood development in Pascoag.

Tammy Cole: It's a big blessing for our family to be able to build our own home and have a safe place for our children to grow up in. We have 11 kids and five of them still live with us. Three were adopted and the fourth is pre-adopted. We also have one foster child. We have fostered over 57 children in the last seven years.

We decided to open our home to newborns who were exposed to drugs or alcohol. There are just so many kids who don't have good homes and a stable life. These kids are not looking for materialistic things. They just want to be loved and cared for. They want to know that they belong somewhere in the world.

It's exciting to know that we are building our own home. It's something to be proud of – all the work we have put into it. I've learned a lot doing this. I learned how to side a house and put in insulation and windows. I have learned so much, not only about building a house but about building strong friendships and working with other people.

It's a blessing to be working with our neighbors. We will have a bond when we move into our homes because we all know each other now. I think it's going to be a really good community, where everybody will have someone to lean on.

William Cole: I was willing to be a foster parent but I didn't want to adopt. But then we took in these children as infants. After a year they start to call you "daddy" and "mommy" and you come to love them like your own children. They are looking for permanency and we couldn't let them go.

The construction is going well. The families have been working as a team. Our crew supervisor is good at seeing the skills we have and setting up teams with members who complement each other. Today we're working on our neighbor's house, but a little later we'll go back to our house to sheetrock. ■



Opposite page: Homeowners working to install siding on a new home in the Fernwood Mutual Self-Help development in Pascoag, Rhode Island. **Above:** Homeowners Paul Lowe and William Cole work on Mr. Lowe's home in the Fernwood development. **Top, right:** Homeowners William and Tammy Cole in front of the home they are helping to build in the Fernwood development.



View of the Fernwood development. Visit fhbboston.com to tour Fernwood and meet its residents.

“We always try to develop new kinds of housing,” Mr. Garlick says. “Given the way the homeownership market has declined in Rhode Island, we thought the Mutual Self-Help program would be a good vehicle for families who wouldn’t otherwise be able to afford homes in these communities.”

Mr. Garlick says mortgage payments for the new homeowners will more or less mirror what they would otherwise be paying for rent. “The mortgages vary a little based on a homebuyer’s income, but I think the average mortgage has a 33- to 38-year term and is around \$170,000 or so, ranging from 1 to 3 percent,” he says.

Navigant Credit Union sponsored the AHP application and is also providing construction financing to build the site’s sewer and water infrastructure. The \$250,000 AHP grant, which will cover acquisition and soft costs such as appraisals and surveys, amounts to about \$16,000 for each homebuyer.

“Navigant is definitely one of our prime partners in that neck of the woods,” Mr. Garlick says. “They’re great to work with and have a great lending team. They are expanding their footprint around northern

...everyone was motivated to work in ways they hadn’t worked before, which is what you need to make this happen.

Rhode Island. I often joke with them that I want to do an affordable housing development wherever they build a new branch.

“Because this is our first Self-Help project, there are challenges associated with figuring out how all of the pieces fit together,” Mr. Garlick says. “There are the different funding sources involved in the project — the AHP, HOME, and USDA — and sorting through their sometimes competing requirements is always a challenge.

“But everyone was motivated to work in ways they hadn’t worked before, which is what you need to make this happen,” he adds.

Mr. Garlick says the USDA provided the project with a technical assistance grant to pay a program manager to work with the families and a construction-site supervisor

to help them build their homes. “Paul Brais has worked in construction for many years and has also taught in vocational school,” Mr. Garlick says of the site supervisor. “He is the perfect guy to have on the ground for a project like this. Most of the homeowners have no construction skills whatsoever, but they are very motivated to learn.”

Fernwood will be built on land acquired by Rhode Island Housing and sold to NeighborWorks at a reduced cost. “If Rhode Island Housing hadn’t held it in their land bank, I’m sure the site would have been a lot more expensive,” Mr. Garlick says.

In addition to Fernwood, NeighborWorks will soon be starting construction on the 96-unit Greenridge rental development on an adjacent site. The initiative was awarded a \$500,000 AHP grant and a \$1.7 million subsidized advance. When the two developments are completed, the Town of Burrillville will exceed the 10 percent affordable housing goal set by the state for each Rhode Island community. “Burrillville would be one of the first communities in northern Rhode Island to do that,” Mr. Garlick says. ■



GOVERNMENT RELATIONS **UPDATE**

ELECTIONS

by Joanne Sullivan

In addition to the Presidential election, there are three closely-contested federal races in New England.

IN NEW HAMPSHIRE, DEMOCRATIC GOVERNOR Maggie Hassan is challenging the incumbent, Republican Kelly Ayotte, for the U.S. Senate. The contest is shaping up to be the most expensive in New Hampshire history and could be a factor in whether the Republicans maintain control of the U.S. Senate. Democrats need to win five additional seats to regain the majority.

On the House side, former representative Carol Shea-Porter will battle incumbent Republican Frank Guinta for New Hampshire's First Congressional District for the fourth time. And in Maine, Democrat Emily Cain is challenging incumbent Republican Bruce Poliquin for the Second Congressional District.

Capitol Hill

Congress returned to Washington on Tuesday, September 6, for a short pre-election session. Prospects for GSE reform remain uncertain, but there could be some activity in committees of most interest to Federal Home Loan Banks and their member institutions.

So far, the House Financial Services Committee has approved H.R. 5983, the "Financial CHOICE Act," which was introduced by Committee Chairman Jeb Hensarling (R-TX) in June. The CHOICE Act would essentially replace the Dodd-Frank Act with a regulatory regime that provides an "off-ramp" for financial institutions that choose to maintain certain capital levels. The Act would restructure the Consumer Financial Protection Bureau, repeal the Volcker rule, and eliminate "too big to fail" provisions. Also included are two FHFA-related provisions: one, to replace the FHFA director with a five-member bipartisan commission, and two, to subject the FHFA to the Congressional appropriations process. The Choice Act also offers a number of regulatory relief provisions supported by the financial services industry.

As for post-election activity, it is notoriously difficult to predict. Everything depends on the outcome of the Presidential election and whether the majority changes in either the Senate, the House, or both. Stay tuned, and don't forget to vote! ■



THE BANK EARLIER THIS YEAR hosted a meeting of the New England Banking Trade Executives: **Left, from the left:** Rob Nichols, president and CEO, American Bankers Association; Dan Forte, president and CEO, Massachusetts Bankers Association; Steve Chase, managing vice president, American Bankers Association; Chris Pinkham, president and CEO, Maine Bankers Association; Jon Skarin, senior vice president, Massachusetts Bankers Association; and Lindsey Pinkham, Connecticut Bankers Association. **Above:** From the left, Patricia Ocateau, executive director, Rhode Island Bankers Association; Lindsey Pinkham; Rob Nichols; Paul Katz, executive vice president, American Bankers Association; and Dan Forte.

THE LAST WORD

FHLB Boston Around the Region



TEMPLE PLACE, CAMBRIDGE, MASSACHUSETTS

THE CAMBRIDGE HOUSING AUTHORITY EARLIER this year held a ribbon-cutting ceremony to celebrate the opening of Temple Place, a seven-story, 42-unit apartment building in Cambridge, Massachusetts. Constructed on land donated via a 99-year ground lease from the Cambridge YWCA, the property has 19 one-, 21 two-, and two three-bedroom apartments affordable to very low-income families. The initiative was awarded a \$400,000 Affordable Housing Program grant through member East Cambridge Savings Bank. Other financing included Low Income Housing Tax Credits, Massachusetts Transit Oriented Bond financing, and grants from the city and state.

Clockwise from top left: Attending the Temple Place ribbon-cutting were Cambridge Housing Authority Executive Director Gregory Russ (with scissors), Cambridge Mayor Denise Simmons (to his right), Congressman Michael Capuano (far right), and FHLB Boston President and CEO Edward Hjerpe (center top). View of Temple Place. Joanne Sullivan, FHLB Boston's director of government and community relations, visits the apartment of a Temple Place resident. Chrystal Kornegay, undersecretary, Massachusetts Department of Housing and Community Development, and Kenneth Willis, director of Housing and Community Investment at FHLB Boston. Gregory Russ, Congressman Michael Capuano, and Edward Hjerpe.



SAVE THE DATE!

Annual Shareholders Meeting



Featuring P. J. O'Rourke and Carl Bernstein

April 19, 2017

Boston Marriott Newton



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Results

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