

Federal Home Loan Bank of Boston

*Providing highly reliable wholesale funding and liquidity
to member insurance companies*

Last updated January 2018



Benefits of Membership



**Low cost
funding**



**Easy to use
funding**



**Funding available
in all business cycles**



**Improved
financial flexibility**



**Viewed favorably by Rating
Agencies and regulators**

FHLB Boston Eligibility

Key membership qualification criteria for insurance companies:



Duly organized and subject to inspection and regulation



Makes long term home mortgage loans
(e.g. holds mortgage backed securities)



Demonstrates character of management and sound financial condition.

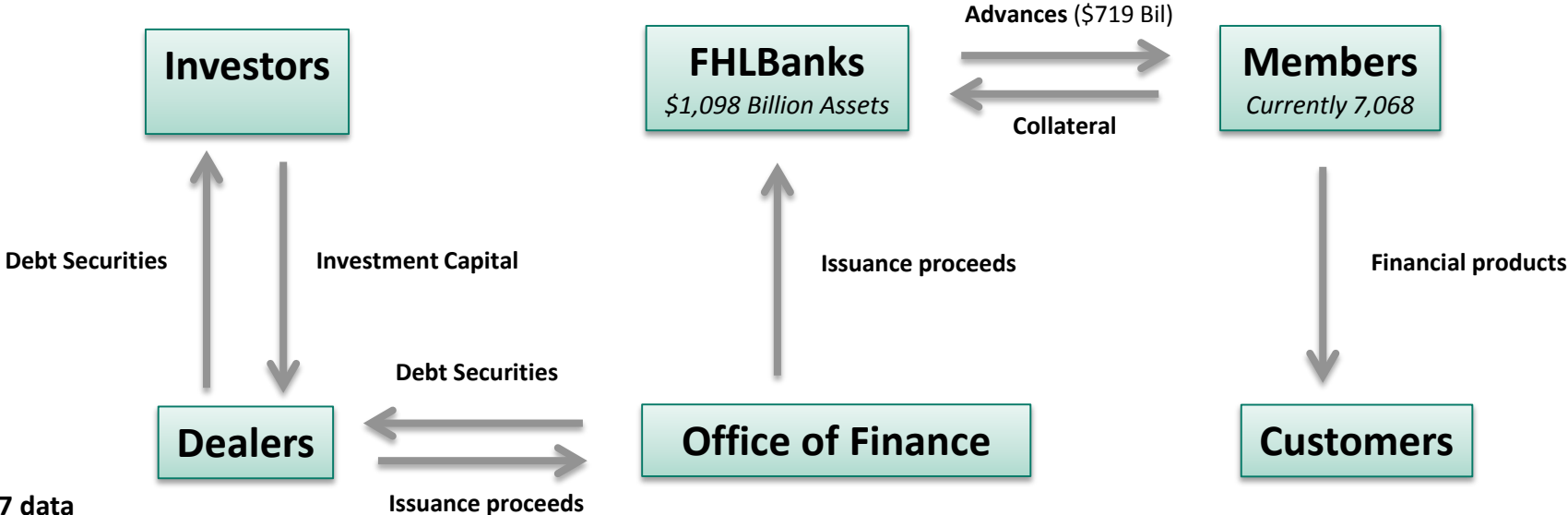


Principal Place of Business is within New England

Federal Home Loan Bank

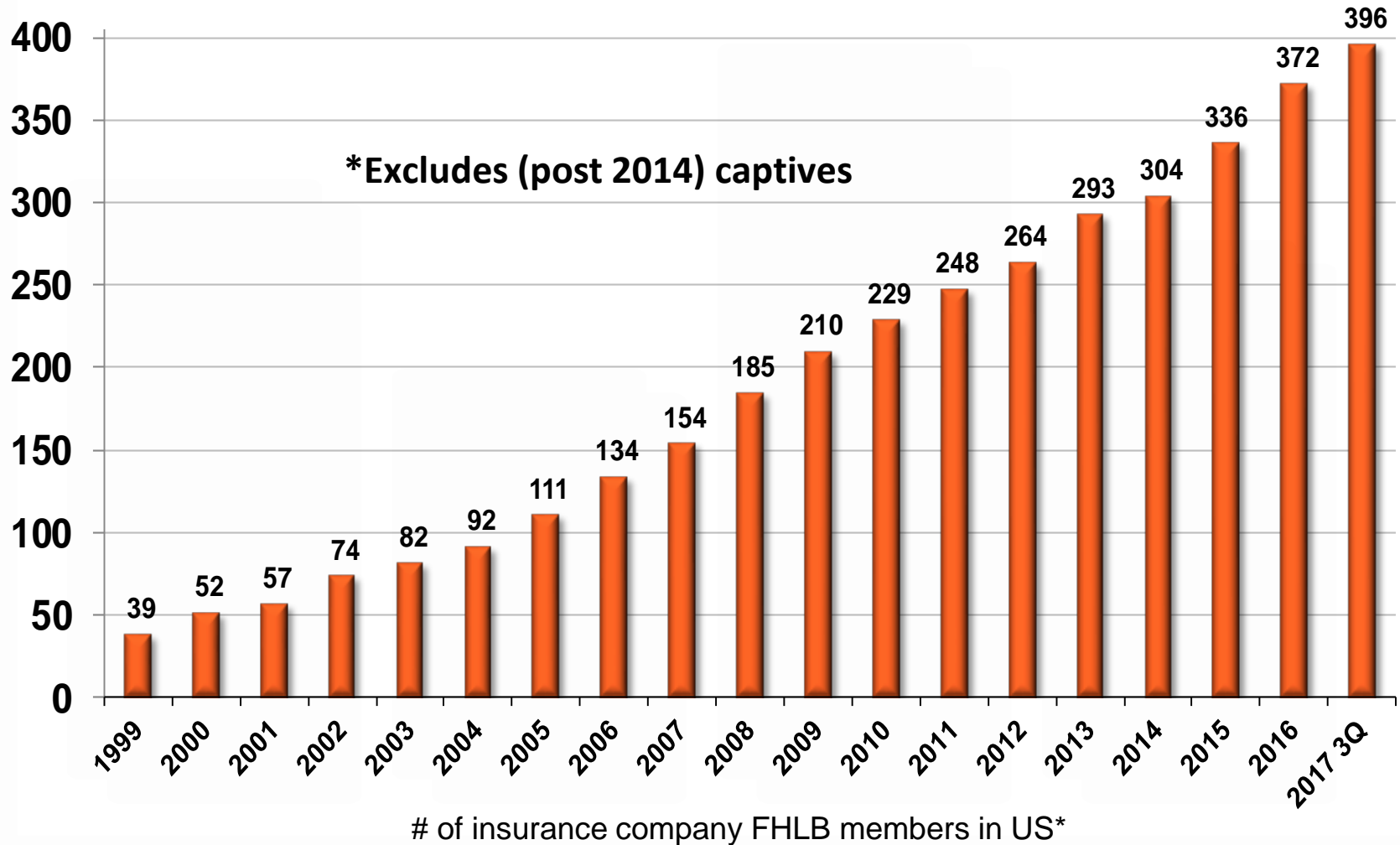
System Overview

- **Established by Congress** in 1932 to provide liquidity and funding to member institutions
- **Regulated** by Federal Housing Finance Agency and subject to the terms of FHLBank Act
- **Cooperative structure** – Bank is owned by its members
- **Offers low cost loans to members** – *Economies of scale, GSE Status, and Tax Exempt Status*
- Debt securities issued through Office of Finance are the joint obligations of all 11 banks



3Q 2017 data

Insurance Company Membership



Insurance members: \$100 Billion Advances (loans) | \$5.9 Trillion in Total Assets

Insurance Members – FHLB Boston

New England based insurance companies

Life Companies

- Aetna
- Amical Life Insurance
- Commonwealth Annuity & Life
- Hartford Life Insurance Co
- Liberty Life Assurance Co
- Mass Mutual Life Insurance Co
- National Life Insurance
- PHL Variable Life Insurance
- Prudential Retirement Ins Annuity
- SBLI of Massachusetts
- Unum Life Insurance
- Vantis Life
- Voya Retirement Insurance & Annuity

Health Companies

- Blue Cross Blue Shield of MA
- Blue Cross Blue Shield of VT
- BCBS of MA HMO Blue
- Fallon Community Health
- Harvard Pilgrim Health Care

Depositors Insurance

- Depositors Insurance Fund
- Mass Credit Union Share Ins.

P&C Companies

- AIM Mutual
- American European
- Amica Mutual
- Arbella Mutual Insurance
- Barnstable County Mutual
- Beacon Mutual Insurance
- Citizens Insurance Co of America
- Commerce Insurance Co
- CT Attorneys Title
- Coverys (Medical Professional Mutual)
- Danbury Mutual
- Dorchester Mutual
- Fitchburg Mutual
- Hanover Insurance Co
- Hingham Mutual
- Housing Authority Property Insurance
- Ironshore Specialty Insurance Co
- Lexington Insurance
- Liberty Mutual Insurance Co
- Metropolitan P&C (MetLife)
- New London County Mutual
- Norfolk and Dedham
- Peerless Insurance Co
- Quincy Mutual Insurance
- Safety Insurance
- Vermont Mutual

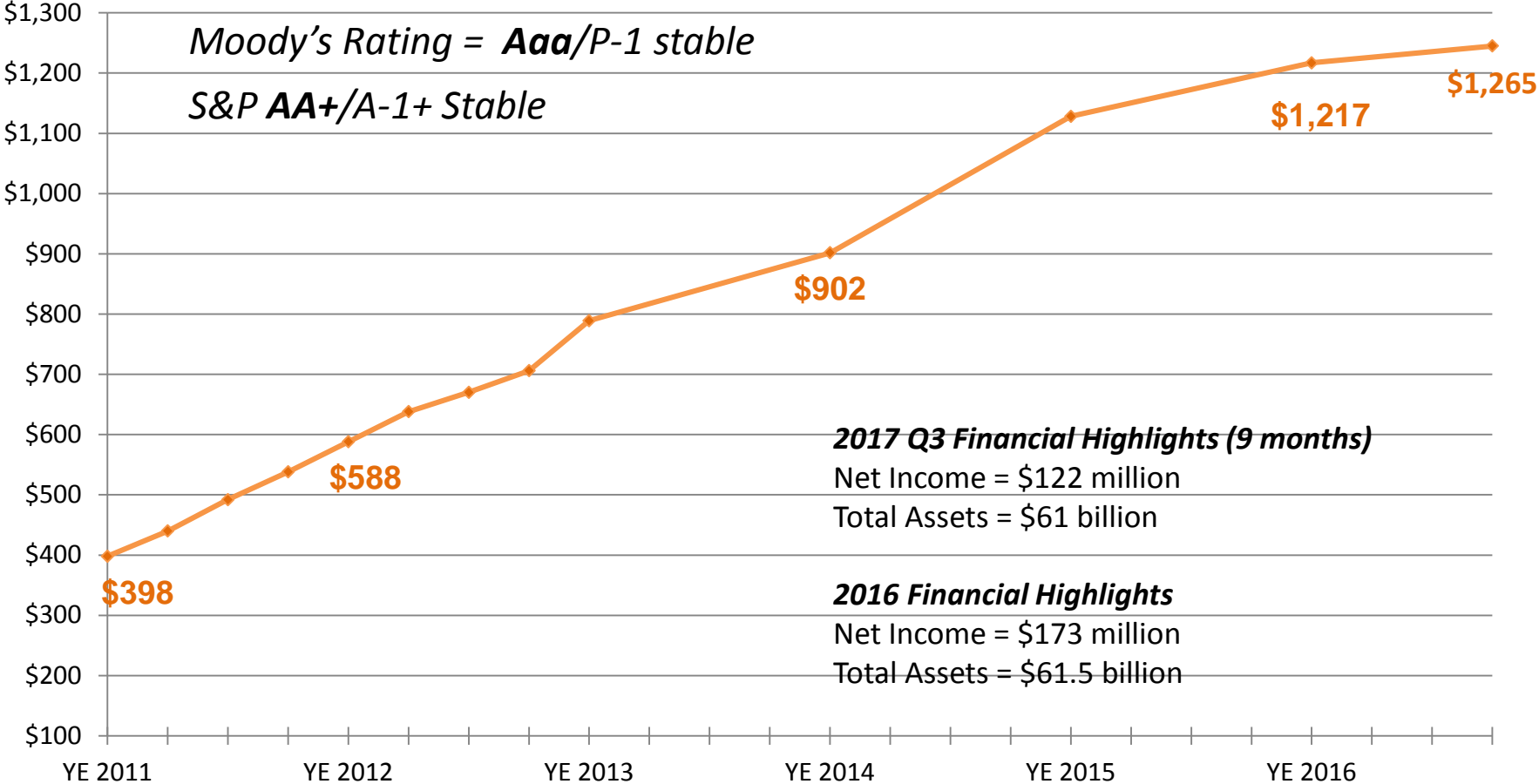
Captives & Risk Retention Groups

- American Excess, RRG
- Coverys, RRG
- CW Reinsurance Co
- Housing Authority, RRG
- ICI Mutual, RRG
- MHL Reinsurance LTD
- Pedcor Insurance



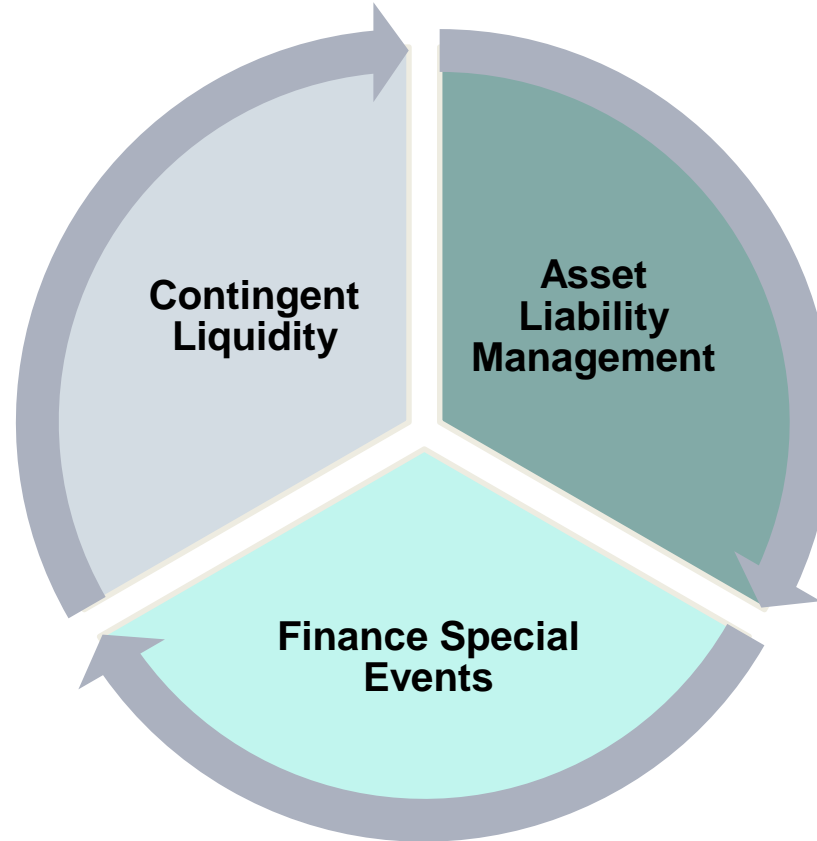
Strong Bank Financials Benefits Members

FHLB Boston Retained Earnings (in millions)



Value Proposition to Insurance Companies

- Emergency/back up liquidity
- Gain liquidity from illiquid assets
- Fill reinsurance payment gaps
- Cash management



- Strategies for matching maturity and liability portfolio
- Additional revenue from spread management
- Interest-rate-risk management
- Fund asset growth

- Other funding needs

Rating Agency & Industry Perspective on FHLB

Access to an alternative, low-cost funding source is credit positive. The FHLBs offer eligible insurers access to low-cost, collateralized borrowing capacity for both their ordinary operating needs and emergency liquidity.

Moody's

Although not immune to major market dislocations, the FHLB System has proven to be a stable source of funding through good times and bad.

A material dislocation in financial markets will not likely affect the FHLB in providing insurers this alternative access to funding.

S&P

Federal Home Loan Bank advances made to insurance companies, especially life insurers, have risen exponentially in recent years, as insurers seek stable funding sources.

SNL Financial

The borrowing capacity provided by the FHLB can be a powerful tool for managing risk and profitability.

NAMIC publication

FHLB programs provide financial flexibility for insurance company members and are an attractive source of capital because of the low rate offered on advances.

With respect to insurance operating company leverage, A.M. Best is most comfortable when operating leverage activities such as institutional investment products, FHLB, securities lending, etc. do not exceed 20% of reserves* at the operating company level.

For insurers utilizing FHLB borrowings for spread-enhancement activities (i.e., similar to securities lending in purpose), A.M. Best would view these activities as qualifying for operating leverage treatment provided the following features are present: Low duration mismatch between assets and debt, credit quality of assets purchased is high, assets purchased have low liquidity risk, or alternatively, the insurer maintains strong liquidity and/or has access to additional liquidity reserves, and there is positive spread generation.

AM Best's Perspective on Operating Leverage

Fitch Ratings believes that membership in the Federal Home Loan Bank (FHLB) system can enhance liquidity and financial flexibility for insurance companies, particularly those insurers with limited access to capital markets.

The FHLB is able to source funds at very low rates due to its position as a government sponsored entity (GSE).

Fitch Ratings

Capital Stock – as a co-op structure, members purchase stock

All membership and activity stock eligible to receive dividend – currently 3mL plus 300 basis points

FHLB Bank raises capital stock via:

Stock	Calculation	Frequency of calculation
Membership	.0035 x MSIR* <i>(Membership Stock Investment Requirement)</i>	Annual
Activity	.03 x overnight borrowings .04 x > overnight borrowings	When borrowing

Eligible Assets (as of most recent quarter)	Amount
Loans	
Closed-end Mortgages on 1-4 Family Dwelling Units	\$ _____
Permanent Mortgages on 5 or More Family Dwelling Units	\$ _____
Subtotal Loans	\$ _____
Securities	
U.S. Treasury and Agency Securities (excludes MBS)	\$ _____
Residential MBS Guaranteed by GNMA or Issued by Fannie Mae & Freddie Mac	\$ _____
Residential CMOs Guaranteed by GNMA or Issued by FNMA or FHLMC	\$ _____
All Other Residential CMOs, REMICs and Strips	\$ _____
All Other Residential Mortgage-Backed Securities	\$ _____
Subtotal Securities	\$ _____
1. Membership Stock Investment Base (loans + securities)	\$ _____
2. Membership Stock Factor (0.35% of Base)	\$ _____
3. Membership Base Requirement	\$ _____

- Capital calls not allowed
- Only risk is that Bank could hold onto excess stock or reduce/suspend dividend.

(Line 2 above rounded up to the next highest \$100 (if required) up to a max of \$25 million or a minimum requirement of \$10,000).

Expansive Product List

Advances (Loans)

- Easy one phone call access to funds
- Terms from overnight out to 20 years
- Fixed v. floating
- Bullet v. amortizing
- All types of derivatives can be embedded
- Same day settlement for term funding available until noon
- Overnight funding available until 5:00 p.m.

Letters of Credit

- FHLB Boston is an NAIC approved bank for Letters of Credit

Housing and Community Investment

- Affordable Housing Program
- Community Development Advance Program

Rates

Listed on FHLBoston.com (Except discounted rates)

The screenshot shows the FHLBoston website interface. At the top, there is a navigation bar with links for 'Log In', 'Become a Member', and 'Careers'. Below this is a main menu with categories: 'PRODUCTS & SERVICES', 'RATES', 'HOUSING & ECONOMIC GROWTH', 'EVENTS', 'MEMBER RESOURCE CENTER', and 'ABOUT US'. The main content area features a large banner image of a city skyline. Below the banner, there are tabs for 'Long-Term', 'Short-Term', 'Amortizing', and 'Advance Specials'. The 'Long-Term' tab is active, displaying a table of 'Long-Term Classic Advance Rates' effective as of 03:23 PM on January 11, 2018. The table lists rates for various terms (1yr to 20yr) across five categories: Reg, CDA, CDA Extra, and NET. To the right of the table is a banner for the 'Affordable Housing Program' with a value of '\$37.5 million for 1,201 housing units'.

Term	Reg.	CDA	CDA Extra	NET
1yr	2.04	1.55	1.52	2.02
2yr	2.34	2.13	2.09	2.32
3yr	2.47	2.26	2.21	2.45
5yr	2.70	2.48	2.41	2.68
7yr	2.96	2.73	2.64	2.94
10yr	3.26	3.02	2.91	3.24
15yr	3.57	3.39	3.22	3.55
20yr	3.67	3.53	3.32	3.65

1) Short term rates discounted every Tuesday and Thursday

Example:

December 28, 2017:

One-month = 1.50

Two-months = 1.55

Three-months = 1.62

Six-months = 1.78

2) Longer term rates regularly discounted based on member feedback

The Borrowing Process

1) Submit collateral *(have in place before cash settlement)*

After the haircuts, the value of pledged assets \geq the total loans outstanding.

Eligible Types of Assets and Valuations:

- Treasuries & US Securities (97% \leq 3 years or 95% $>$ 3 years remaining term)
- FNMA & FHLMC MBS, & Agency CMOs (93%)
- CMBS AAA (85% or 80%) CMBS AA (75% or 65%), CMBS A (65% or 50%)
- Residential loans (80 or 75%)
- Multi family loans (76%)
- Commercial real estate loans (65%)
- Municipal securities expected to be available in first half of 2017

Insurance
Company

Custodian Options

1. CitiBank
2. Bank of America/US Trust
3. State Street
4. BNY Mellon
5. Northern Trust
6. JP Morgan
7. Wells Fargo
8. Fifth Third

2) Receive low cost funding

Borrowing capacity is 50% of admitted assets but could be limited due to amount of eligible collateral

3) Purchase activity stock

May be redeemed after borrowing matures

- Overnight term = 3% of borrowing
- $>$ Overnight term = 4% of borrowing



Example: Borrowing \$15,000,000 one month loan

1) Submit collateral – November 14

Move ~\$15,500,000 in eligible securities to tri-party custodian account



Custodian

2) Receive low cost funding – November 15

Call FHLB Money Desk and request \$15,000,000 advance for one month

Purchase \$600,000 in activity stock

FHLB transfers \$15,000,000 to member's DDA account shortly after the call



3) Advance matures 30 days later – December 15

Member wires \$15,000,000 into FHLB account for principal

Member pays interest for advance (paid monthly on pro-rated basis)

Member can request the \$600,000 capital stock be repurchased or leave it in place and continue to receive dividend

Member receives \$1,825 dividend on the \$600,000 activity stock for the one month (this will be higher if stock left in place)

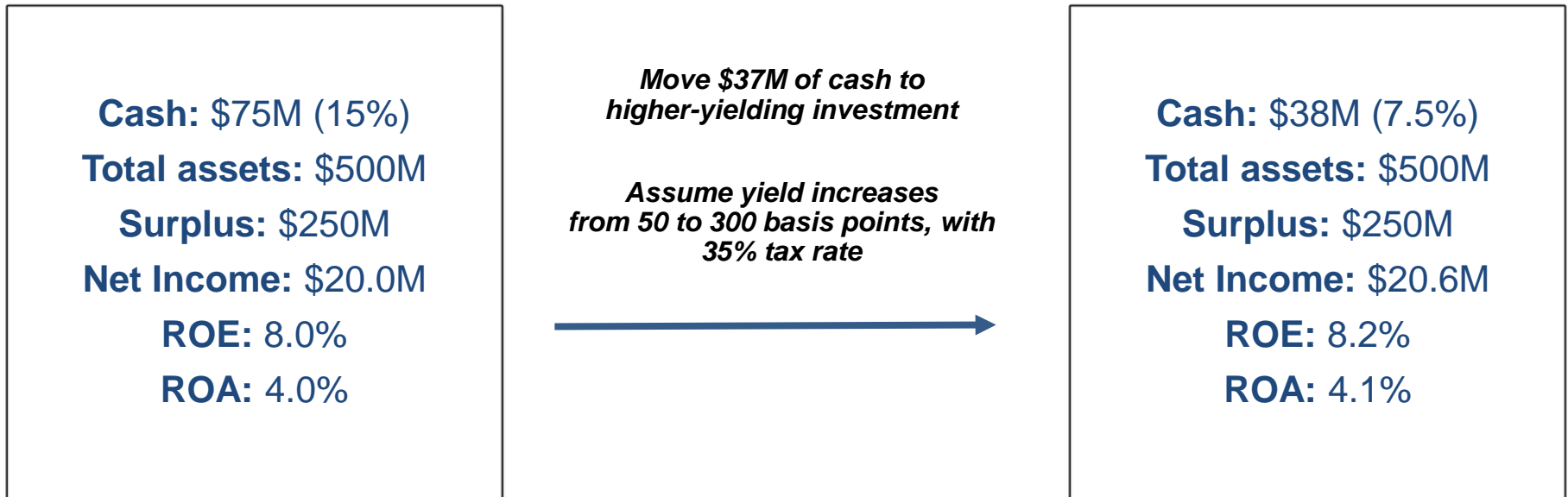
Member may transfer the \$15,500,000 collateral back to its original custodian account or leave it in place for future borrowings



Cash Management Illusion


- **Insurers investment strategy** tends to focus on **liquidity**
- **Reallocating** a portion of cash and short-term bonds to **higher yielding investments** and relying on FHLB for **cash management** can meaningfully **improve income**

Benefit to a hypothetical insurer:



Summary Level Steps to Membership

Visit fhlbboston.com and Insurance Membership Application for more details

- 
- Have a member of your Board of Directors pass corp. resolution (application p. 10)
 - Have insurance regulator acknowledge membership (see sample on application p.15)
 - **Submit Application**

Include:

- Statement that company supports housing finance mission by investing in related assets (MBS, etc.) (See application page 13)
 - Last quarterly and year-end statement filed with state commissioner, most recent regulatory examination report
 - Brief bio of Senior Management, Most recent annual report, By-laws and Articles of Incorporation
 - Statement that you meet NAIC capital requirements (Risk Based Capital > minimum)
 - List of established lines of credit
 - Correspondent Services Agreement (see application p. 20)
-
- **Upon approval of membership or earlier:**
 - Submit legal counsel opinion (see application p. 17) #1 – 6 can be house counsel, #7 – 9 outside counsel
 - Submit bank operational documents
 - FHLB will establish custodian account with CitiBank, BOA, State Street, Fifth Third, JP Morgan, BNY Mellon, Wells Fargo or Northern Trust)
 - Purchase membership stock with 60 days of membership **approval**

Active FHLB Boston Membership

For Further Information

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or visit

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