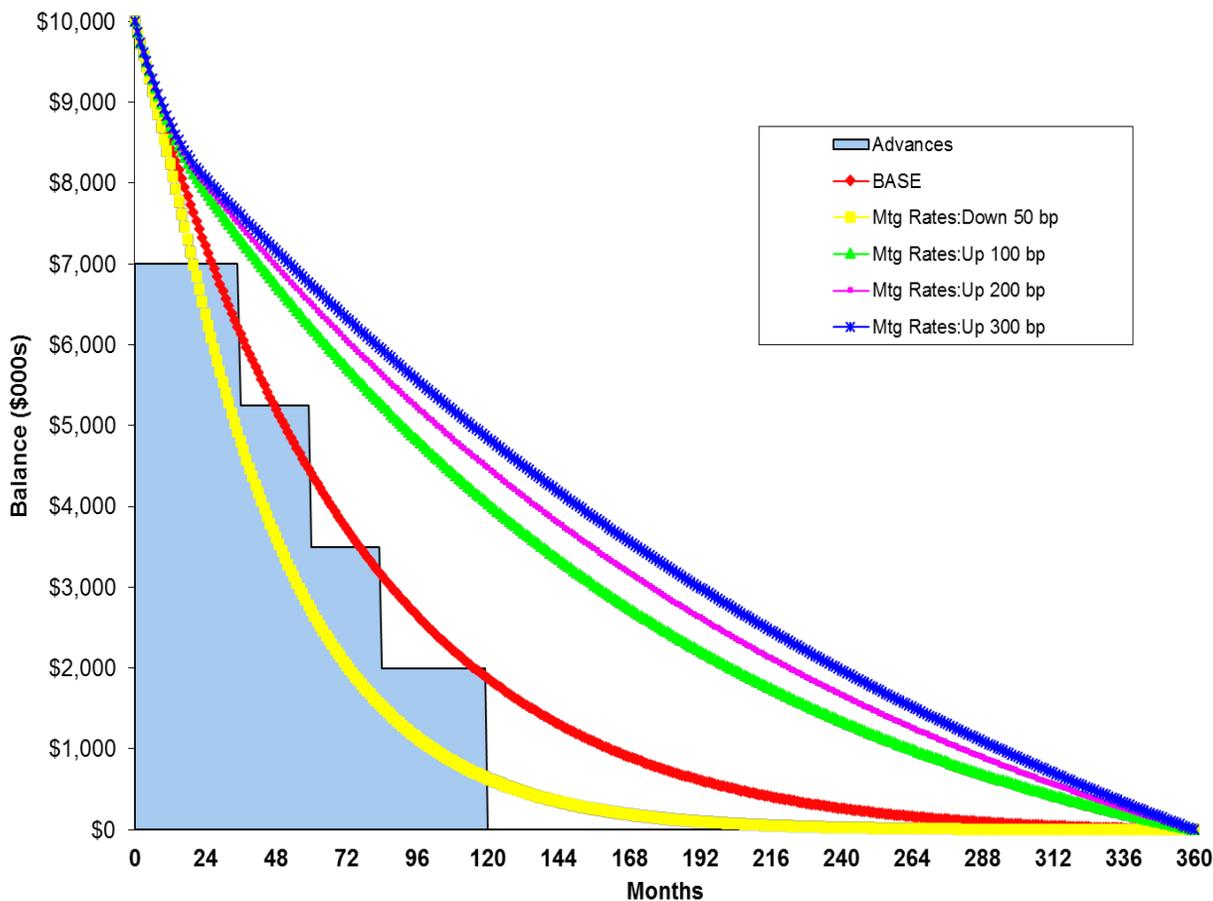


Non-Conforming 30-Year FRM

Many members employ the strategy of selling most, if not all, of their conforming, 30 year mortgages into the secondary market and retaining non-conforming mortgages. One such member recently inquired about using FHLB advances and a portion of their deposits to fund 30-year, non-conforming mortgages.

Of course, these loans were originated at a rate premium compared to their conforming product. This production had a weighted average coupon of 4.375 percent, about three-eighths of a point over their conforming loans. The member's balance sheet is exposed to rising interest rates and felt the prepayments of this group of loans would be slower than conventional loans. Given these considerations, we decided to incorporate some longer-term advances in the funding mix than we would have if we were match funding conventional mortgages. The funding was comprised of 30 percent of the member's core deposits, a total of 35 percent of 3- and 5-year Classic advances, and a total of 35 percent of 7- and 10-year advances. The weighted average initial cost of the advances is 2.38 percent and when combined with the member's core deposits at 30 basis points, the initial weighted cost of the funding is 1.76 percent, leaving an initial spread of 2.62 percent. The long-term FHLB advances combined with the low-beta (0.40) core deposits provide a stable cost of funding in a rising rate environment. The cost of funds increases only 8 basis points in the up 300 basis points scenario compared to the up 100 basis points environment in years 1 through 7. Given the stable cost of funds, net interest income is also stable over the same time frame as can be seen in the table below.

The Bank's financial strategists are available to work with members to craft a solution to fund any of your loans or investments. Please contact your Relationship Manager or contact the strategists directly at 1-617-292-9644. We can work together to develop a winning solution to your funding needs.



30Y FRM 4.375%

Results Years 1 through 7

Funding	
30.0% Member deposits (Beta 0.4)	0.30%
17.5% 3Y Classic	1.72%
17.5% 5Y Classic	2.19%
15.0% 7Y Classic	2.58%
20.0% 10Y Classic	<u>2.99%</u>
Total Funding	1.76%
 Initial Net Spread	 2.62%

	Spread	NII (\$000s)
Rates Unchanged	1.81%	856
Up 100 basis points	2.18%	1,161
Up 200 basis points	2.15%	1,177
Up 300 basis points	2.10%	1,174
Down 50 basis points	1.06%	499
Down 100 basis points	0.48%	237