



Nowhere to Go But Up

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After a protracted period of low interest rates, managing interest-rate risk has become a primary concern for financial institutions in 2010. In fact, the Federal Deposit Insurance Corporation issued an Interest Rate Risk Advisory in January emphasizing the importance of sound interest-rate risk management techniques, and has recently urged regulators to get a better handle on interest-rate risk at banks.

Members who have been borrowing at low short-term rates and investing in long-term assets may want to consider lengthening the duration of their advances to help mitigate interest-rate risk. Though long-term advance rates have increased from their lows in mid-December, the five-year advance rate is still 10 basis points below its 2009 average and presents an opportunity to lock in low-cost funding today.

In addition, FHLB Boston's Advance Restructuring Solution continues to attract members looking to lengthen their advances portfolio and lower the coupon. Members typically have been able to lower advance rates between 50 and 150 basis points while extending the maturity by more than 2.5 years.

Earnings pressures will likely continue in 2010 and members must look at every opportunity to grow revenues or reduce expenses. Some of the overdraft fee revenue that will be lost as a result of the amendment to Regulation E could be offset by advance restructurings that offer even modest reductions in the coupon.

Long-term market rates are likely to increase ahead of a change in the Fed's monetary policy, and members should consider booking some longer-term advances if their interest-rate risk profile justifies it. Taking action now could help avoid the scenario that unfolded in June 2004 as interest rates began to increase and many members chased CD money while the Fed tightened by 425 basis points over the next 24 months.

For more information on advances that may meet the criteria for restructuring, please call your relationship manager or Kevin Martin, vice president, Member Financial Strategies, at 617-292-9644.

For more information on long-term advances, please call the Money Desk at 800-357-3452 or check our web site for the most up-to-date pricing. The Money Desk offers aggressively priced long-term bullets each Wednesday from 10:00 a.m. to 11:00 a.m.