



Members Prepare for Rising Interest Rates

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Members with liability-sensitive balance sheets can expect increased funding costs and lower margins when interest rates start to rise. While the Fed has been on hold since December 2008, recent advance activity suggests that members are beginning to lengthen their funding as they prepare for an increase in long-term interest rates and deposit outflows as customers seek better returns.

Since June 1, members have been extending their advances portfolios using a variety of FHLB Boston advance solutions. The most straightforward solution to hedge against rising rates is a long-term Classic advance, and over the past month and a half, members have borrowed over \$270 million of this product. Members have also taken down almost \$25 million in long-term Amortizing advances to match the cash flow of an assortment of loans and investments.

The Symmetrical Prepayment advance (\$38 million) is similar to the Classic advance and has been utilized by members who value the unique prepayment feature of this advance. The Symmetrical Prepayment advance can be prepaid in a rising-rate environment and the member can realize the gain. In a falling-rate environment, the Symmetrical Prepayment advance would have a lower prepay fee than a Classic advance.

Members have also made use of almost \$12 million of the Classic Plus Cap advance to protect against rising rates. This is a long-term Classic advance with an embedded interest-rate cap on one- or three-month LIBOR, where the notional amount of the cap can be up to three times the amount of the advance. In a rising-rate environment where LIBOR exceeds the cap strike rate, the advance rate could decline to as low as zero.

FHLB Boston offers other advance solutions that might help you protect your earnings from rising interest rates. The Capped Floater advance, Expander advance, Corridor advance, and the Collar advance are customizable by members to meet their specific requirements.

For more information on any of the advance products or current rate indications, please contact your relationship manager or the Money Desk at 1-800-357-3452.