

## Yield Curve Review

**May 6 , 2011**

The Fed has now been on hold for nearly 29 months since they lowered the fed funds target rate to a range between zero and 25 basis points. Is it time for institutions exposed to higher interest rates to lengthen some of their advances? In order to answer that question, it might be helpful to review where FHLB Boston Classic advance rates have been since December 2008.

The graph shows several FHLB Boston Classic advance yield curves over the past 29 months. Curves are numbered from one through five in chronological order. Curve 1 shows advance rates on December 16, 2008, prior to the Fed announcement. Over the next six months (curve 2) the curve declined out to the five-year point, where it remained unchanged. Rates continued to decline over the next year (curve 3) as the three- and five-year advance rates fell by 91 and 103 basis points, respectively. Over the next six months, rates continued to decline, as the three- and five-year advances fell by 49 and 70 basis points, respectively (curve 4; November 3, 2010). Since then rates have been on the rise. Since November 2010, rates on the two-, three-, and five-year advances have jumped by 31, 53, and 73 basis points, respectively (curve 5; May 6, 2011).

History shows that the yield curve will move before the Fed begins to tighten. Has this process begun? If the uptick in rates since November is any indication, it's possible that it has. We're hearing that many consultants are recommending that it is time for their liability sensitive clients to begin lengthening their funding, and members seem to be responding. During a recent special, members took down more than \$325 million of three- and five-year advances.

If your balance sheet is vulnerable to higher interest rates, rates are still at levels that present appealing funding opportunities. While you may have missed the "bottom" we are still below where we were when the Fed last changed the funds rate. There is still an opportunity to lock in funding at reasonable levels for interest-rate risk-management purposes or as part of a leverage strategy. The Bank will continue to offer aggressively priced long-term specials and welcomes your input regarding the maturities that would interest you. Please contact the Money Desk at 1-800-357-3452 or your relationship manager with feedback.

### FHLB Boston Classic Advance Yield Curve

