

Interest Rate Outlook and FHLB Advance Strategies

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The logo for FHLB Boston, featuring the text "FHLB" in a bold, black, sans-serif font, followed by "Boston" in a larger, bold, black, sans-serif font. The background of the slide is a teal color with a faint image of a white building on the right side.

FHLBBoston

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This webinar is being recorded

Today's Topics

- Interest-Rate Environment
 - Fed Guidance
 - Market Expectations
- FHLB Advance Strategies
 - Implied Forward Advance Curve
 - Flipper Advance
 - Symmetrical Prepayment Advance
 - Upcoming Advance Specials



- No longer “patient”:

~~Based on its current assessment, the Committee judges that it can be patient in beginning to normalize the stance of monetary policy.~~ Consistent with its previous statement, the Committee judges that an increase in the target range for the federal funds rate remains unlikely at the April FOMC meeting. The Committee anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

- But economic data still weak:

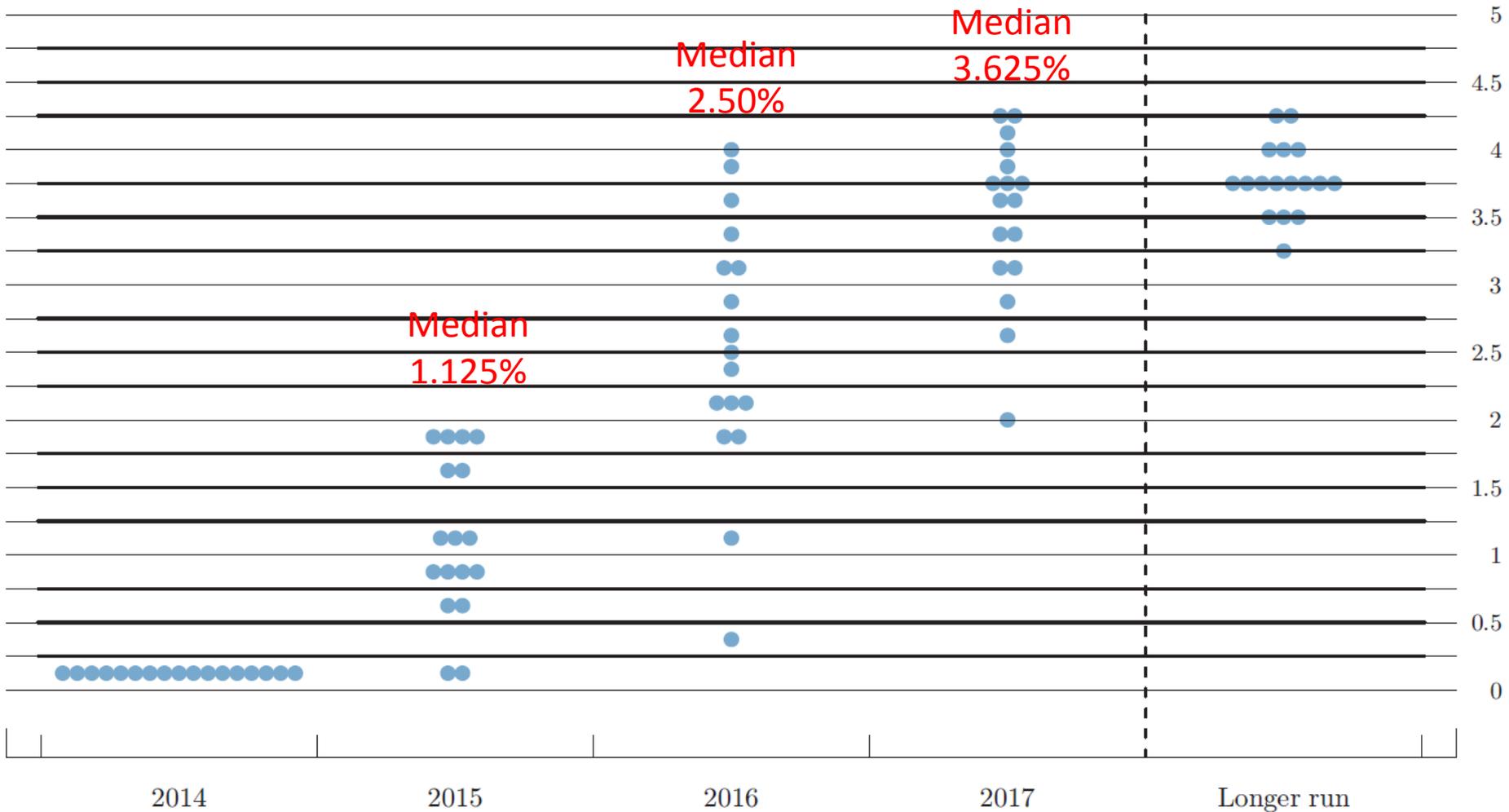
Information received since the Federal Open Market Committee met in January suggests that economic growth has moderated somewhat...

Inflation has declined further below the Committee's longer-run objective, largely reflecting declines in energy prices...

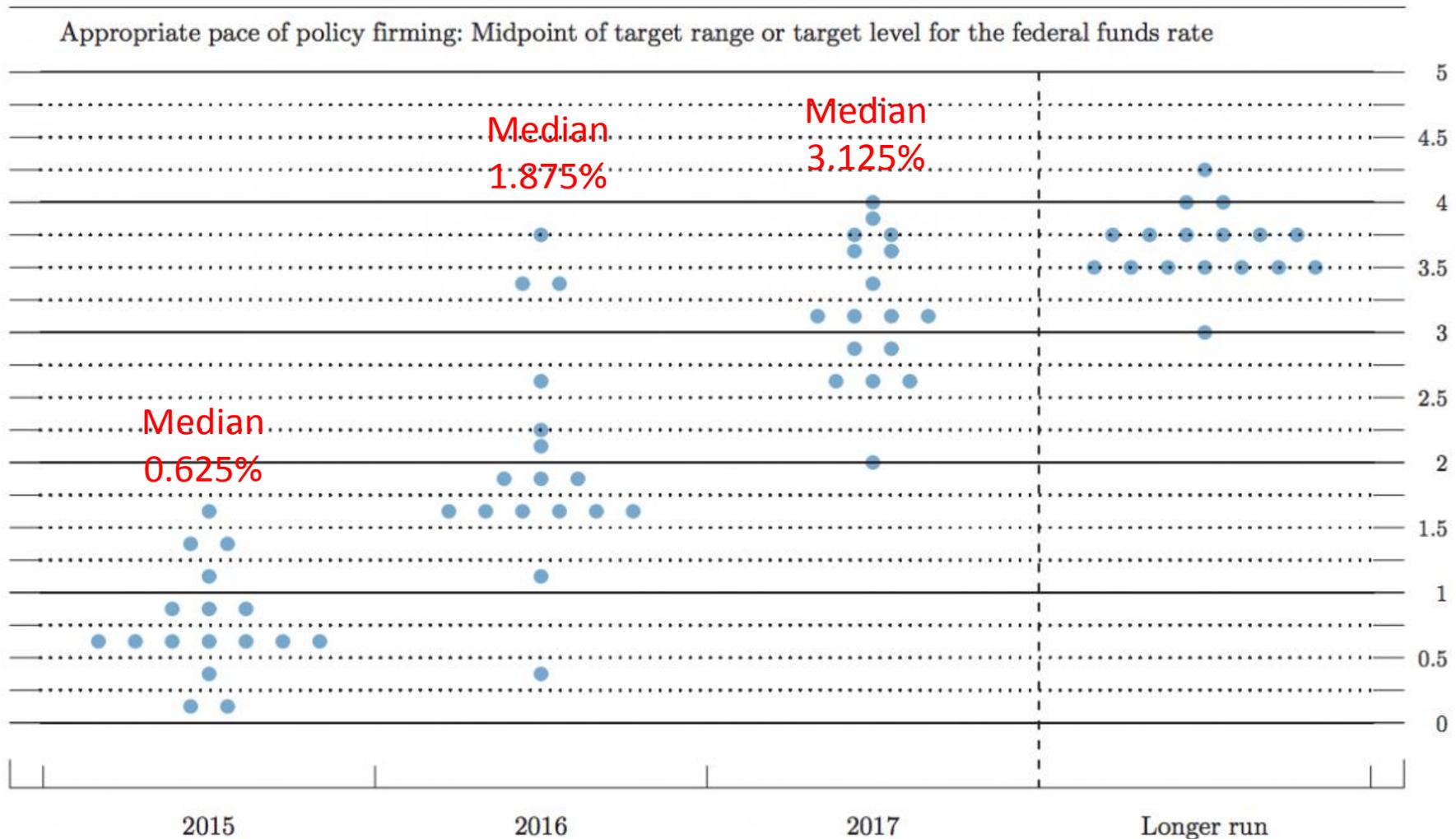
FOMC Fed Funds Rate Projections December 2014



Appropriate pace of policy firming: Midpoint of target range or target level for the federal funds rate



FOMC Fed Funds Rate Projections March 2015



What Changed?

1. GDP Projections

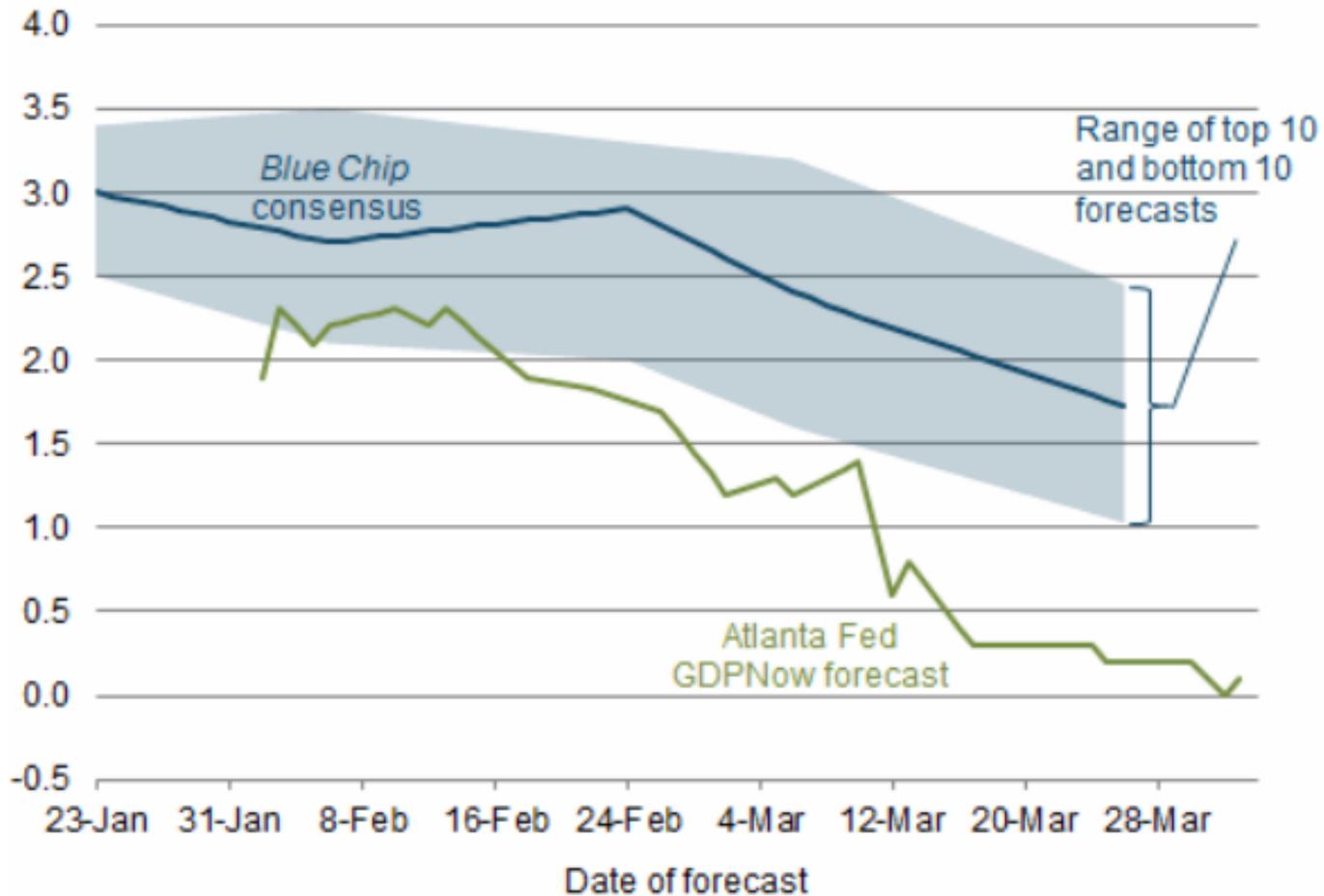
GDP projections of Federal Reserve Governors and Reserve Bank presidents			
Change in Real GDP¹	2015	2016	2017
Mar 2015 Meeting Projections	2.3 to 2.7	2.3 to 2.7	2.0 to 2.5
Dec 2014 Meeting Projections	2.6 to 3.0	2.5 to 3.0	2.3 to 2.5
Sept 2014 Meeting Projections	2.6 to 3.0	2.6 to 2.9	2.3 to 2.5

¹ Projections of change in real GDP and inflation are from the fourth quarter of the previous year to the fourth quarter of the year indicated.

Atlanta Fed GDPNow



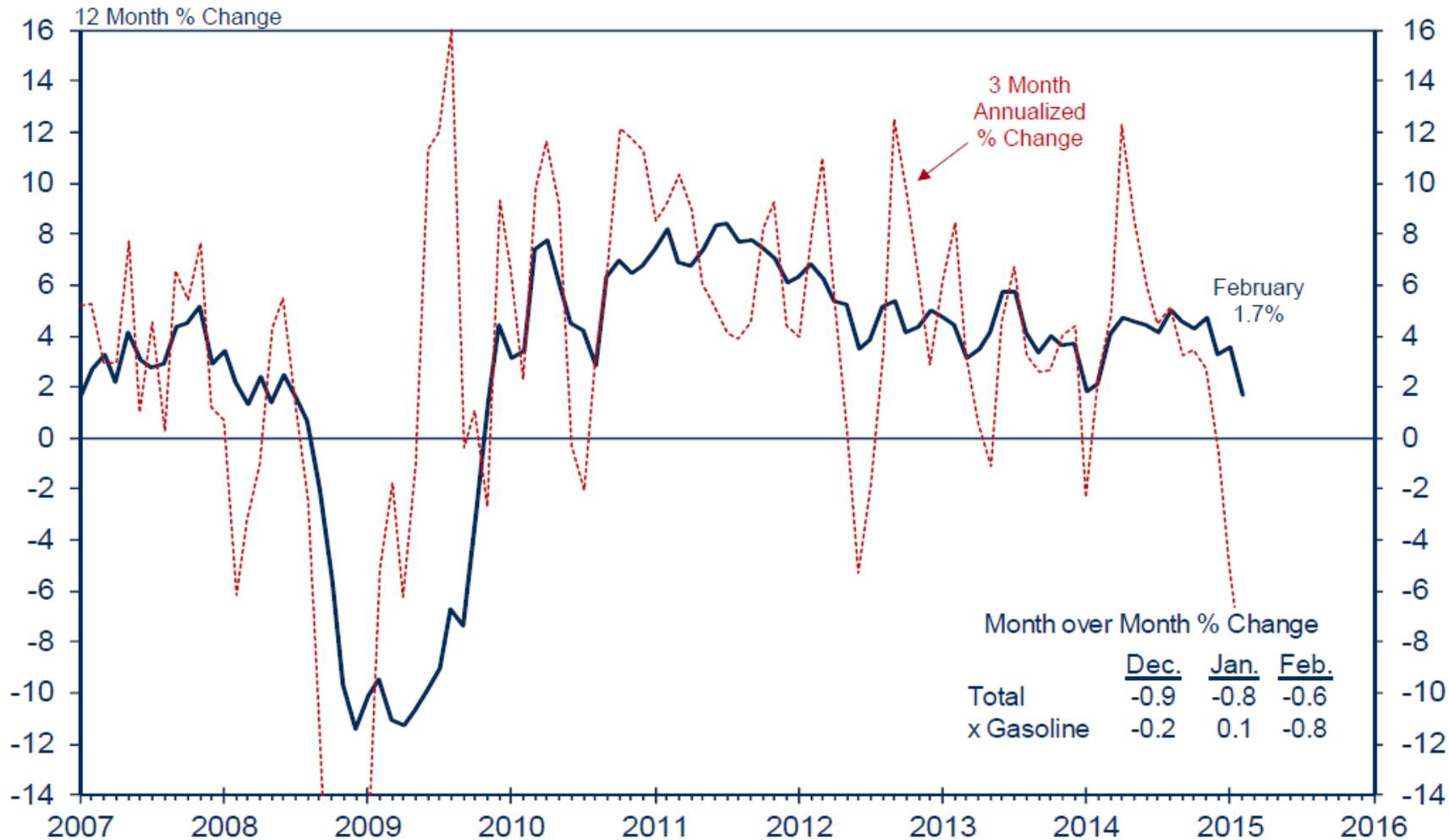
Evolution of Atlanta Fed GDPNow real GDP forecast for 2015: Q1
Quarterly percent change (SAAR)



Real GDP Performance

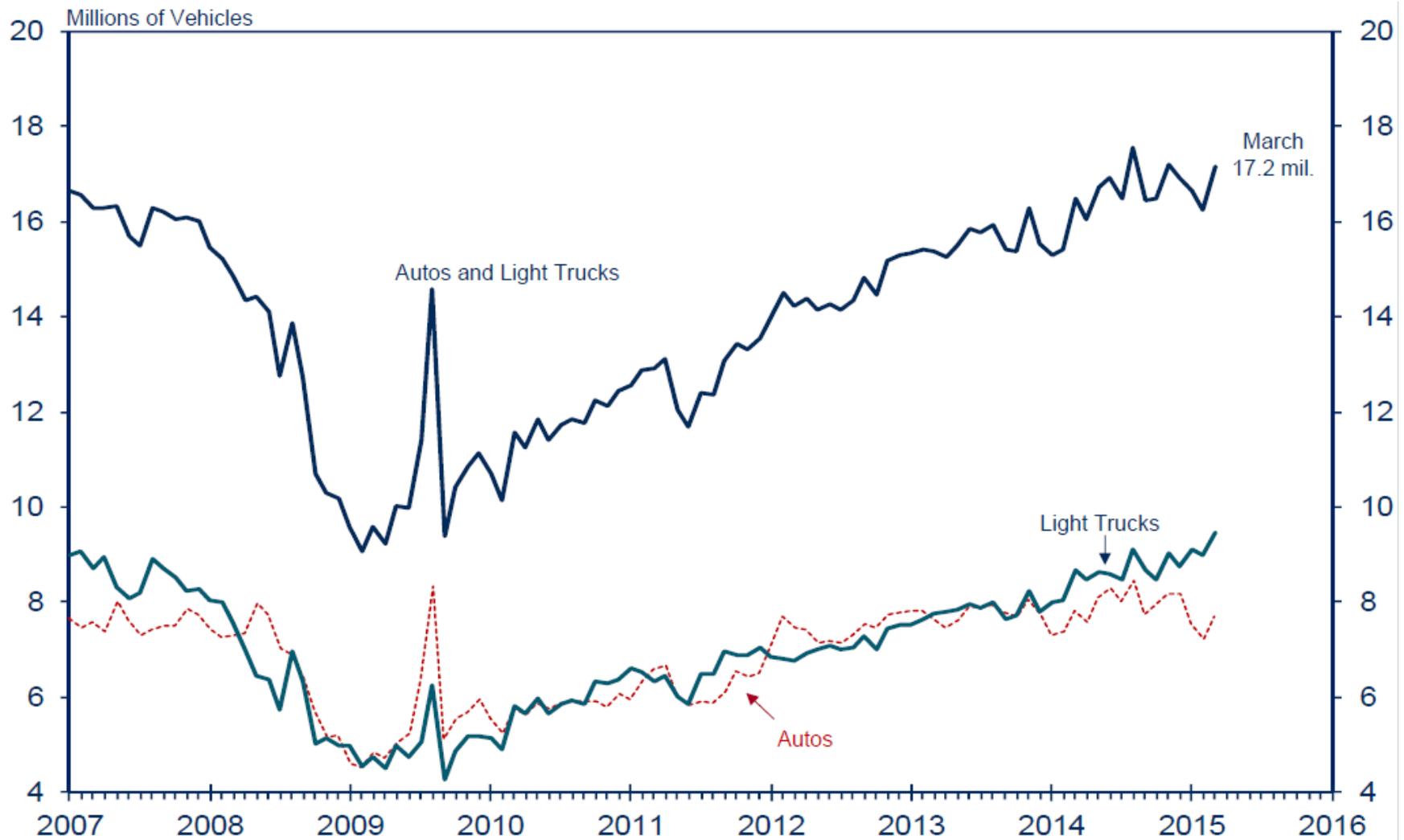
Change from previous quarter at compound annual rate, %	2013	2014			
	Q4	Q1	Q2	Q3	Q4
Gross Domestic Product	3.5	-2.1	4.6	5.0	2.2
Personal Consumption Expenditures	3.7	1.2	2.5	3.2	4.4
Nonresidential Fixed Investment	10.4	1.6	9.7	8.9	4.7
Structures	12.8	2.9	12.6	4.8	5.9
Equipment	14.1	-1.0	11.2	11.0	0.6
Intellectual Property Products	3.6	4.6	5.5	8.8	10.3
Residential Fixed Investment	-8.5	-5.3	8.8	3.2	3.8
Exports of Goods & Services	10.0	-9.2	11.1	4.5	4.5
Imports of Goods & Services	1.3	2.2	11.3	-0.9	10.4
Government Consumption Expenditures & Gross Investment	-3.8	-0.8	1.7	4.4	-1.9
Final Sales to Domestic Purchasers	2.7	0.7	3.4	4.1	3.3
Billions of chained (2009) dollars					
Change in Private Inventories	81.8	35.2	84.8	82.2	80.0
Net Exports of Goods & Services	-384.0	-447.2	-460.4	-431.4	-471.4

Retail Sales



Source: Federal Reserve Bank of Richmond

Sales of Automobiles and Light Trucks



Source: Federal Reserve Bank of Richmond

What Changed?

2. Inflation Projections

Inflation projections of Federal Reserve Governors and Reserve Bank presidents			
PCE Inflation¹	2015	2016	2017
Mar 2015 Meeting Projections	0.6 to 0.8	1.7 to 1.9	1.9 to 2.0
Dec 2014 Meeting Projections	1.0 to 1.6	1.7 to 2.0	1.8 to 2.0
Sept 2014 Meeting Projections	1.6 to 1.9	1.7 to 2.0	1.9 to 2.0

What Changed?

3. Unemployment Projections



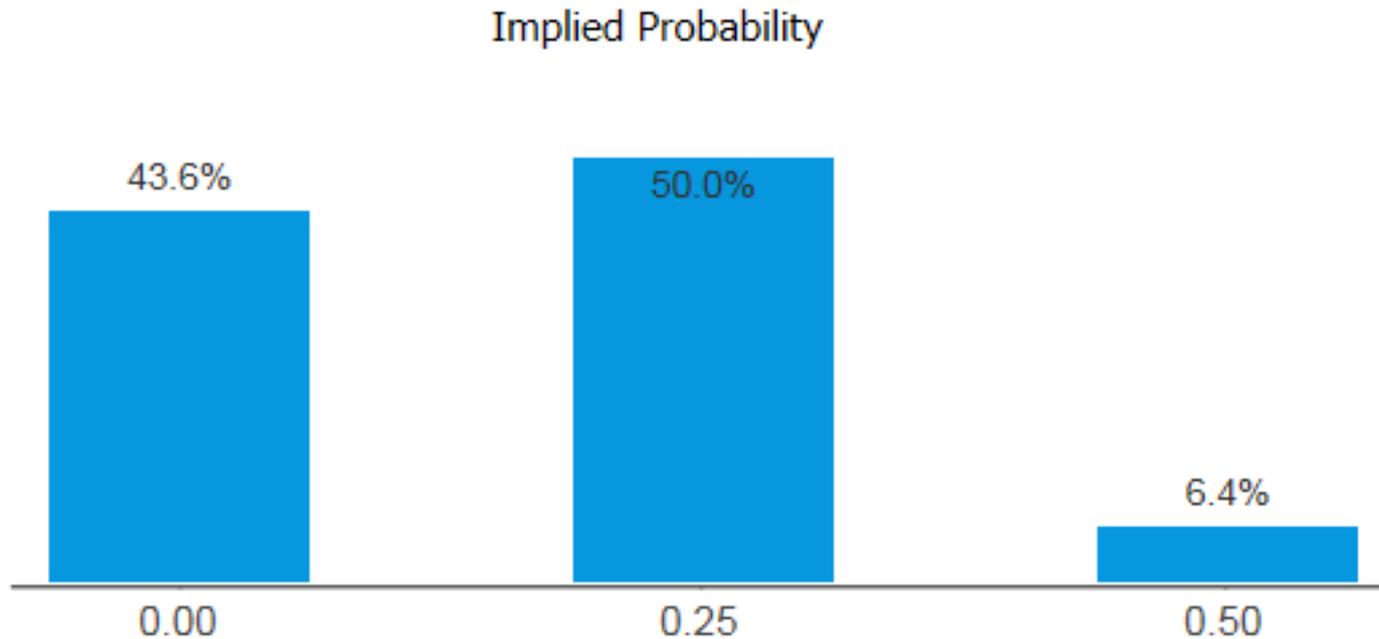
Unemployment projections of Federal Reserve Governors and Reserve Bank presidents			
Unemployment Rate²	2015	2016	2017
Mar 2015 Meeting Projections	5.0 to 5.2	4.9 to 5.1	4.8 to 5.1
Dec 2014 Meeting Projections	5.2 to 5.3	5.0 to 5.2	4.9 to 5.3
Sept 2014 Meeting Projections	5.4 to 5.6	5.1 to 5.4	4.9 to 5.3

² Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated.

CME Group *FedWatch*

Probability of June Rate Hike (4/2/15 Futures Prices)

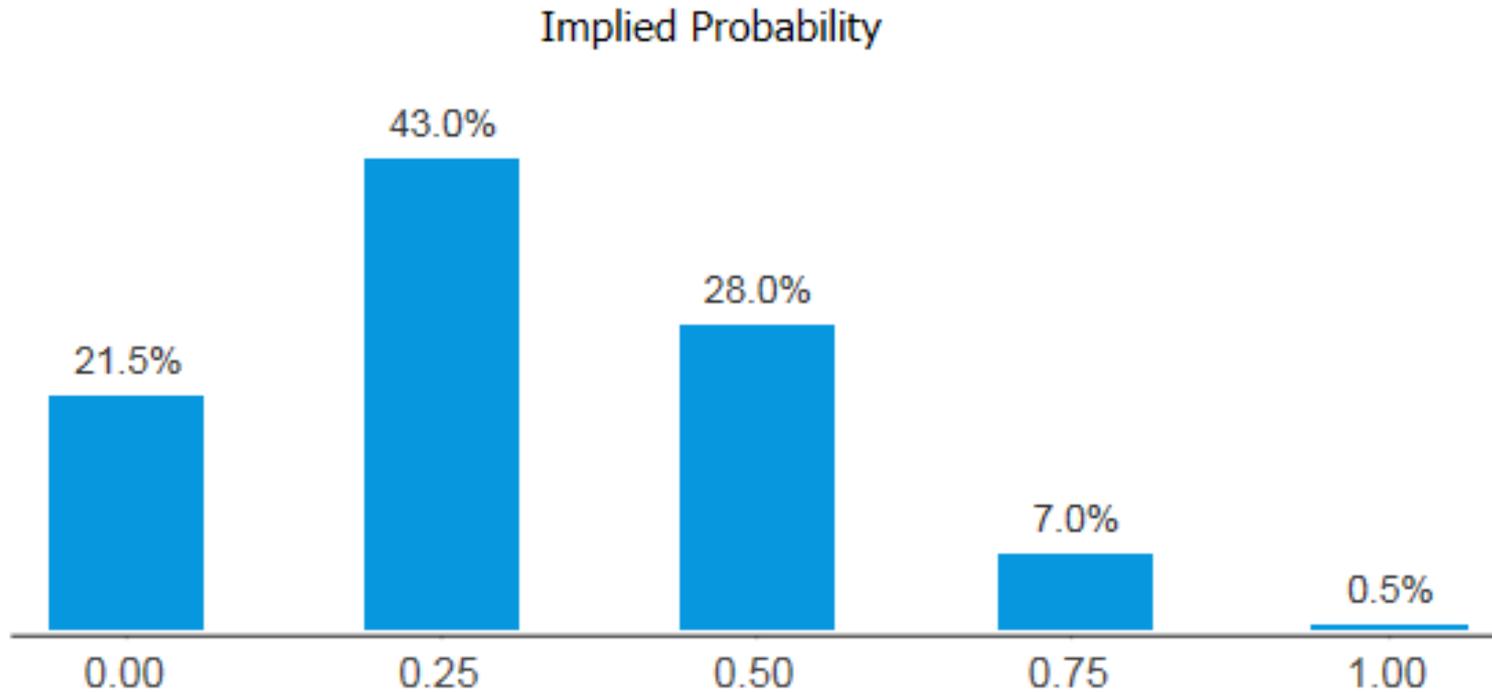
Meeting Date:	<u>Wednesday, June 17, 2015</u>		
Futures Expiry:	June 2015	Previous Day	
Futures Price:	99.8600	Volume:	3,076
Probability of Rate Hike:	6%	Open Interest:	66,219



CME Group *FedWatch*

Probability of September Rate Hike (4/2/15 Futures Prices)

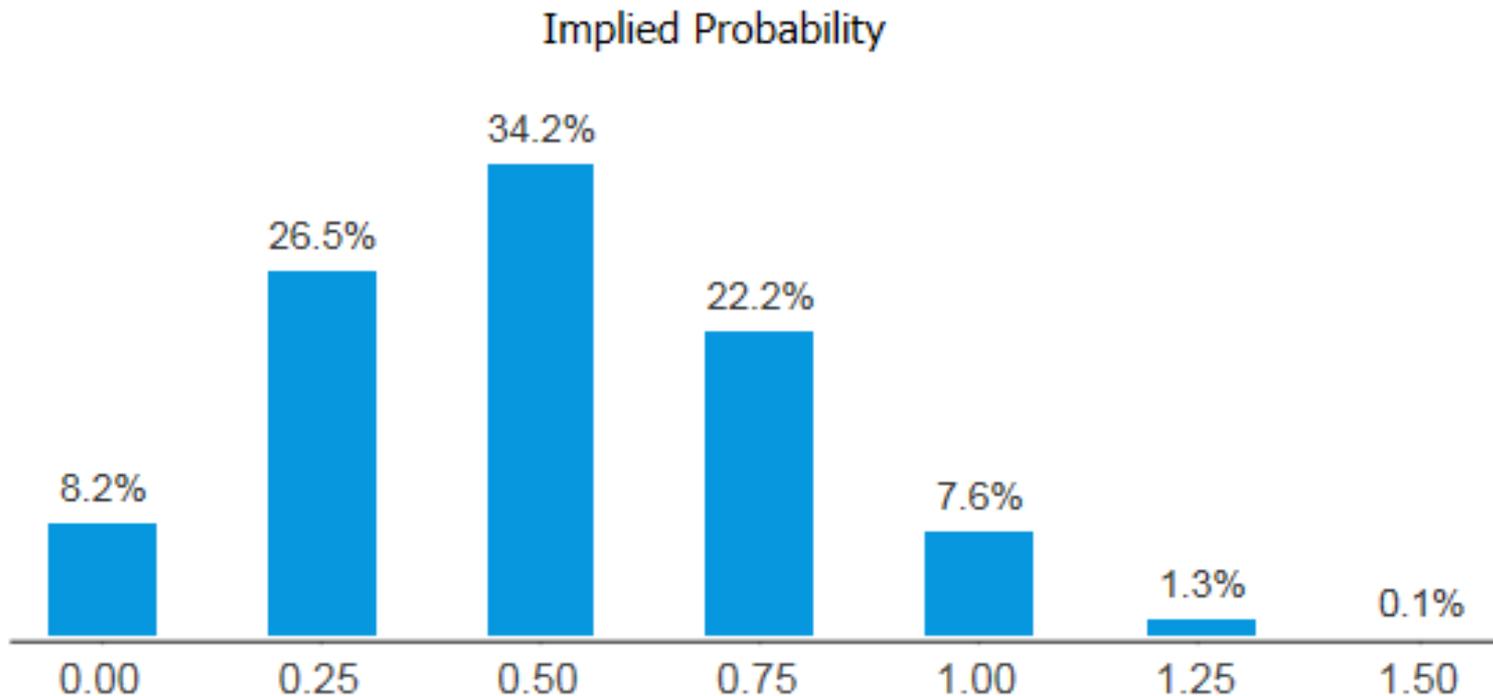
Meeting Date:	<u>Thursday, September 17, 2015</u>		
Futures Expiry:	September 2015	Previous Day	
Futures Price:	99.7600	Volume:	2,121
Probability of Rate Hike:	36%	Open Interest:	39,788



CME Group *FedWatch*

Probability of December Rate Hike (4/2/15 Futures Prices)

Meeting Date:	<u>Wednesday, December 16, 2015</u>		
Futures Expiry:	December 2015	Previous Day	
Futures Price:	99.6150	Volume:	2,513
Probability of Rate Hike:	65%	Open Interest:	41,312



Fed Guidance vs Market Expectations

St. Louis Federal Reserve President James Bullard is concerned about the mismatch between the market's and the central bank's expectations for the first interest-rate increase, warning it could end with a "violent" reaction in the financial market.

MarketWatch, Economic Report, March 24, 2015

Forecasts of Long-Term Rates

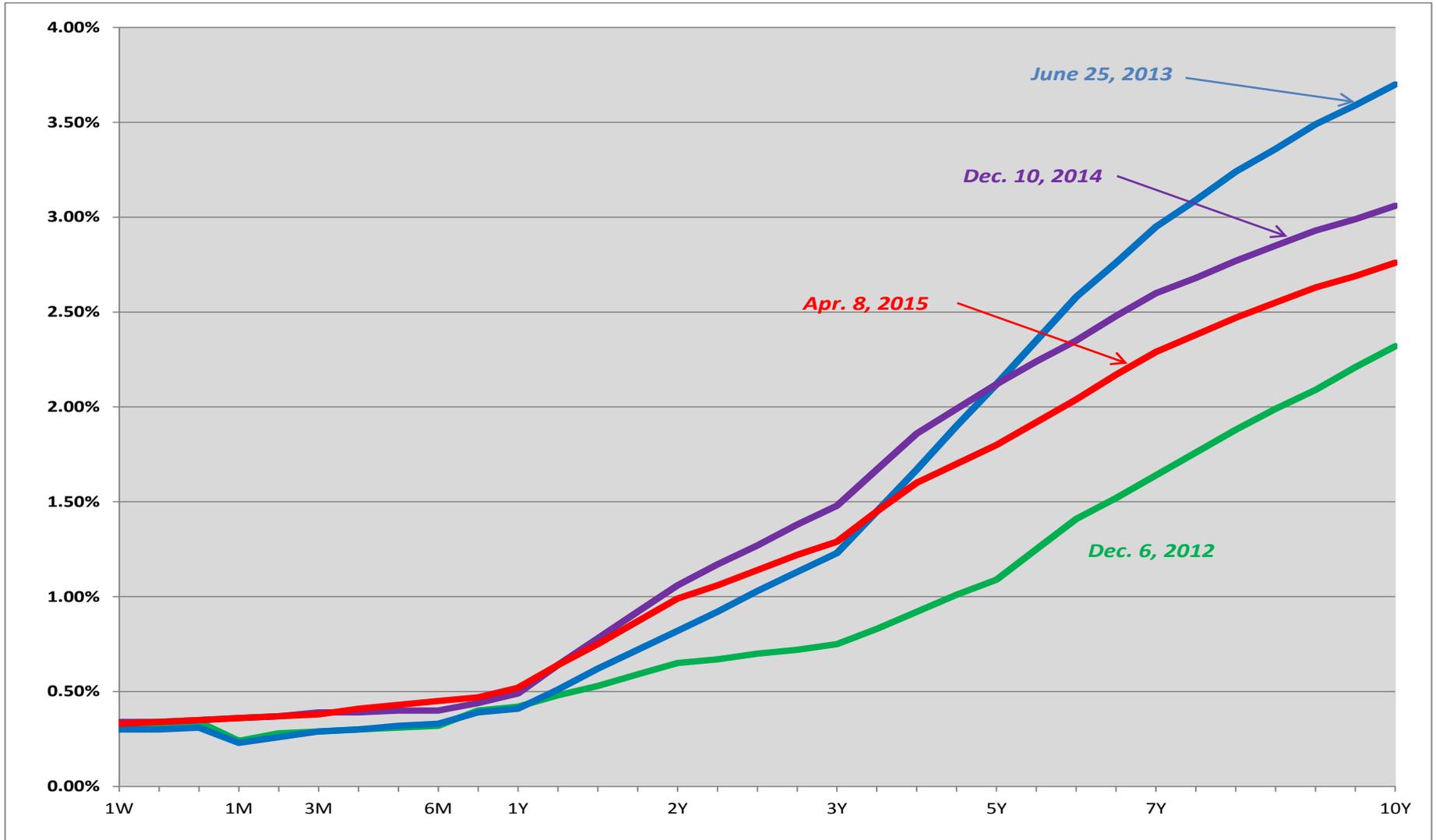
Projections for Interest Rate on 10-Year Treasury Note at Year-End 2015		
Forecast By	As Of	
Livingston Survey	12/12/2014	3.20%
Goldman Sachs	3/24/2015	2.50%
NABE	3/30/2015	2.62%
Moody's	4/1/2015	3.10%
Kiplinger	4/2/2015	2.50%
Implied Forward Rate	4/6/2015	2.10%

Interest Rate Environment Summary

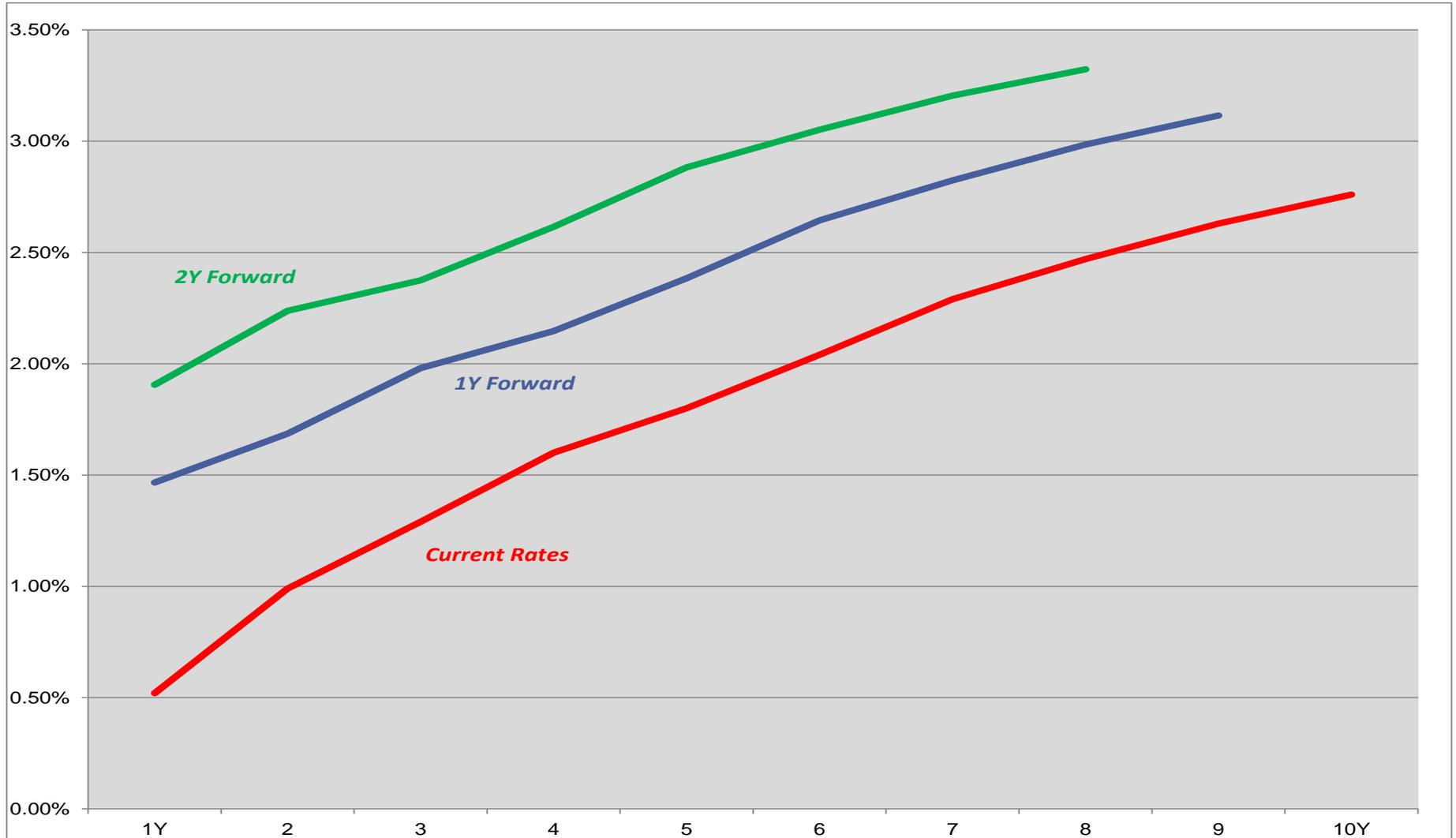


- Fed guidance
 - No rate hike in April
 - Fed funds rate of 50-75 bps by YE2015 and 175-200 bps by YE2016
 - Some officials trying to temper “second-guessing” by market participants
- Market expectations
 - Fed funds rate of 25-50 bps by YE2015
 - 10-year treasury rate of approximately 2.50%
 - Moderate curve steepening

FHLB Boston Advance Rates



FHLB Boston – Implied Forward Advance Rates



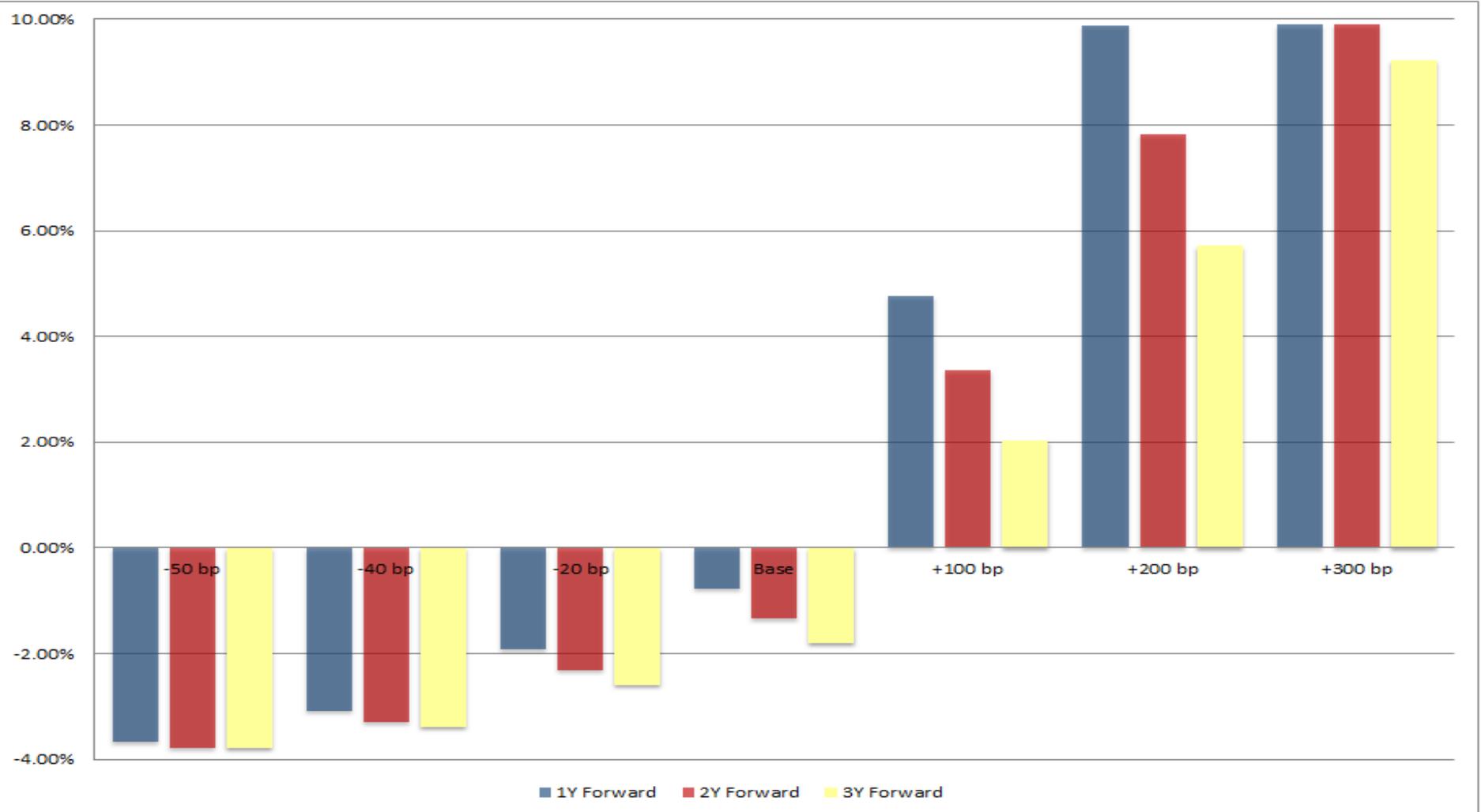
Symmetrical Prepayment Advance

- Fixed-term, fixed-rate, non-amortizing advance
- Usually priced 2 basis points over the Classic advance
- Special prepayment feature that allows the member to prepay the advance at its approximate market value
 - Potential to monetize a gain in a rising rate scenario 
 - Lower prepayment fee than corresponding Classic advance in all rate scenarios

Symmetrical Prepayment Advance – Estimated Prepay Fees



7 Year Symmetrical Prepayment advance@ 2.27%



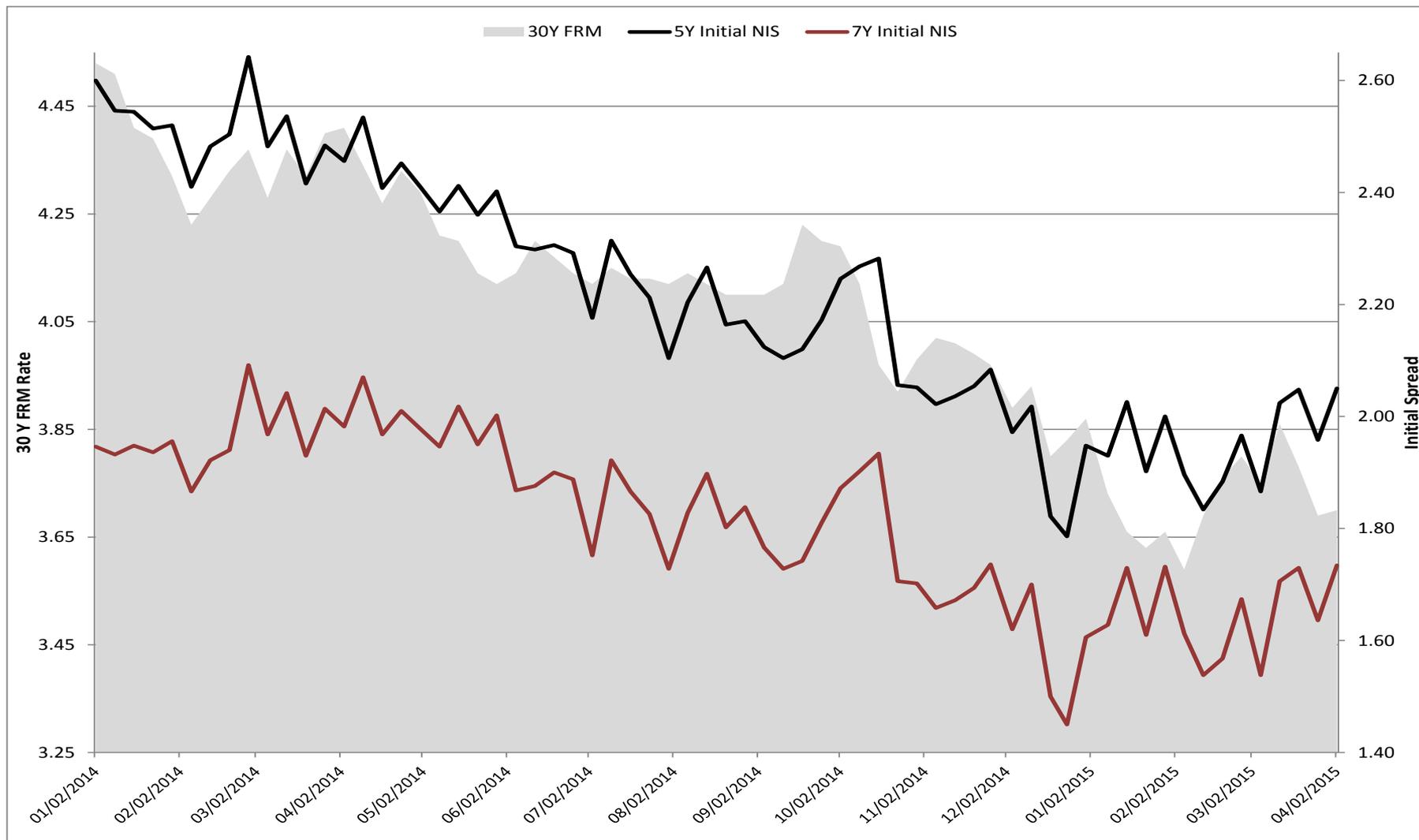
- Starts as a sub-LIBOR floating rate advance during lockout period
 - Member chooses negative spread to 3mL
- After lockout period, FHLB Boston has option to cancel advance
- If the advance is not cancelled then...
 - “Flips” to a fixed-rate advance until final maturity
 - Rate at which the advance would “flip” is predetermined at disbursement

How it Works - Flipper Advance 4Y/1Y “Euro”

- Initial rate 0.00120%, 3mL less 27 basis points; 1.56% if “flipped”
- Advance reprices quarterly at 3mL less 27 bp during the lockout period (1 year)
 - Advance rate can reset at a rate less than zero
- FHLB Boston has a one time option to cancel the advance, one year from now
- If FHLB Boston *does not cancel*, the advance “flips” to a 3-year, fixed-rate advance at 1.56%
- If FHLB Boston *cancels* the advance, you can refinance into a new advance at market rates

Note: 4-year Classic advance rate 1.60%
3-year Classic advance rate 1.29%

30 Year Mortgage Strategy Spreads



Upcoming Specials

- Wednesday, April 15, 2015 from 10 am until 10:45 am
- Classic advance special
 - One-Year
 - Three-Year
 - Five-Year
 - Seven-Year
- Thursday, April 16, 2015 from 10 am until 10:45 am
 - Classic Plus Cap
 - Symmetrical Prepayment
- Please contact the Money Desk 800-357-3452