

Interest Rate Outlook and FHLB Member Activities

Jason Hwang

Director, Financial Strategies, Research, and Membership Applications

Kevin Martin

Manager, Member Financial Strategies

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FHLBBoston

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Today's Agenda

- Interest-Rate Outlook
 - Fed Forward Guidance and FOMC Projections
 - Forward Treasury Curve and CME Fed Watch
- Economic Outlook
 - Yellen's labor market "dashboard"
 - GDP Forecasts
- FHLB Boston Advance Curve
- Recent Funding Strategies
- Long-Term Advance Special, Wednesday, October 1

Fed Forward Guidance

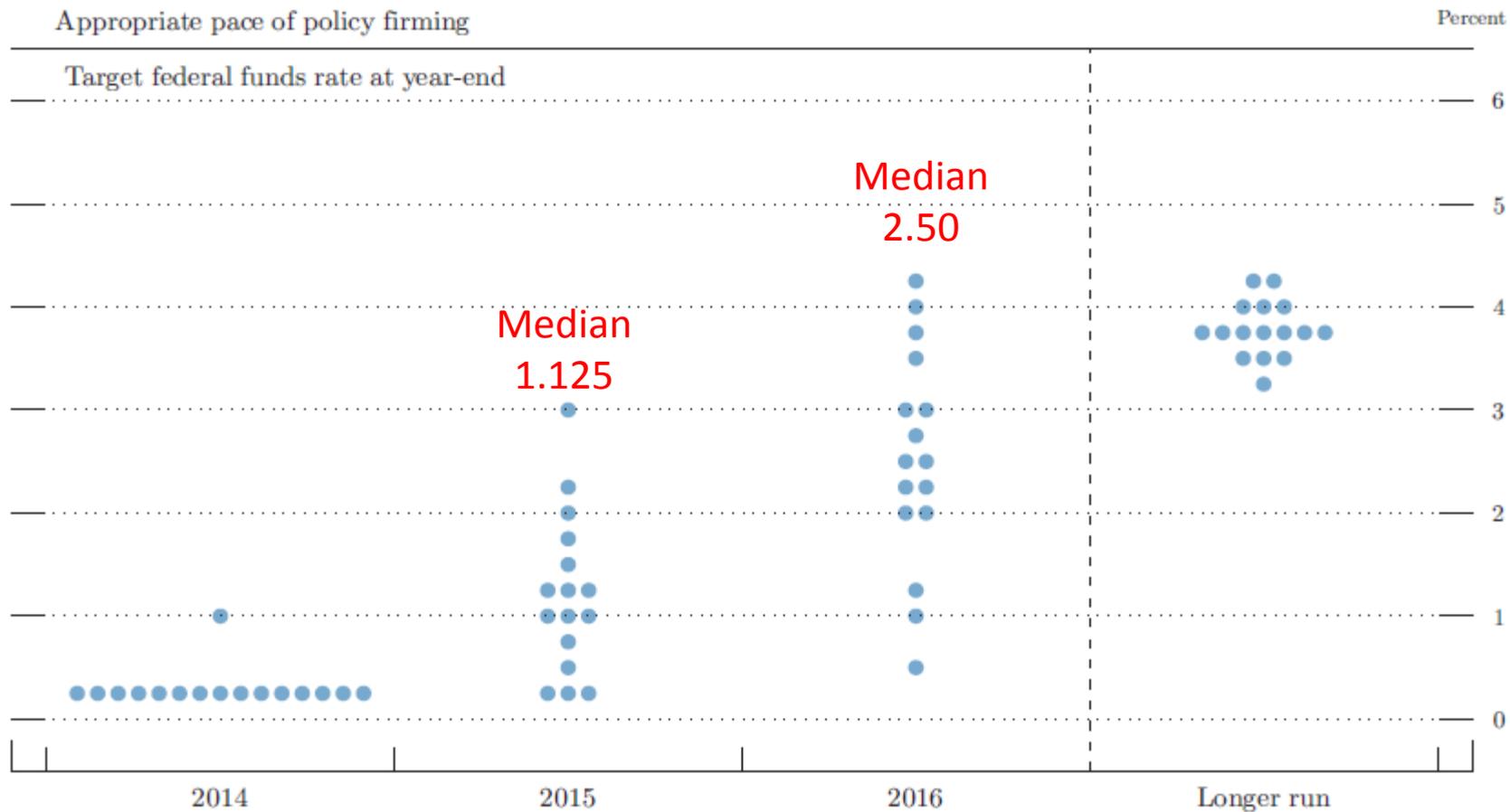
- September 17, 2014 FOMC Forward Guidance

It likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends

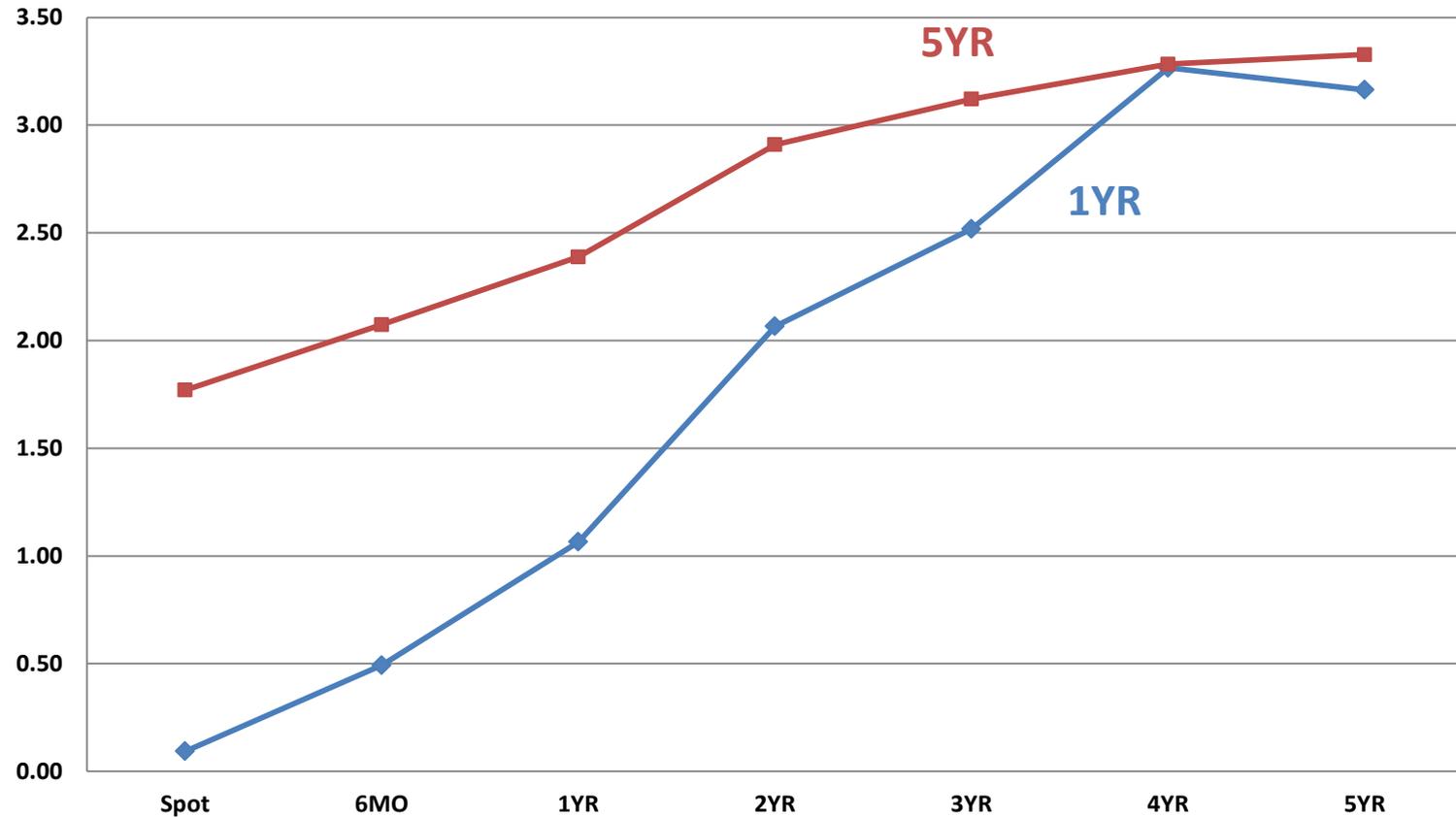
- Back to vague timing reference after calendar-based and threshold-based guidance proved premature and kept needing to be updated
- In determining timing of rate increases, FOMC will consider a variety of factors with a focus on labor market conditions

In determining how long to maintain the current 0 to 1/4 percent target range for the federal funds rate, the Committee [will] take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments.

Fed "Dot Chart" June 18, 2014



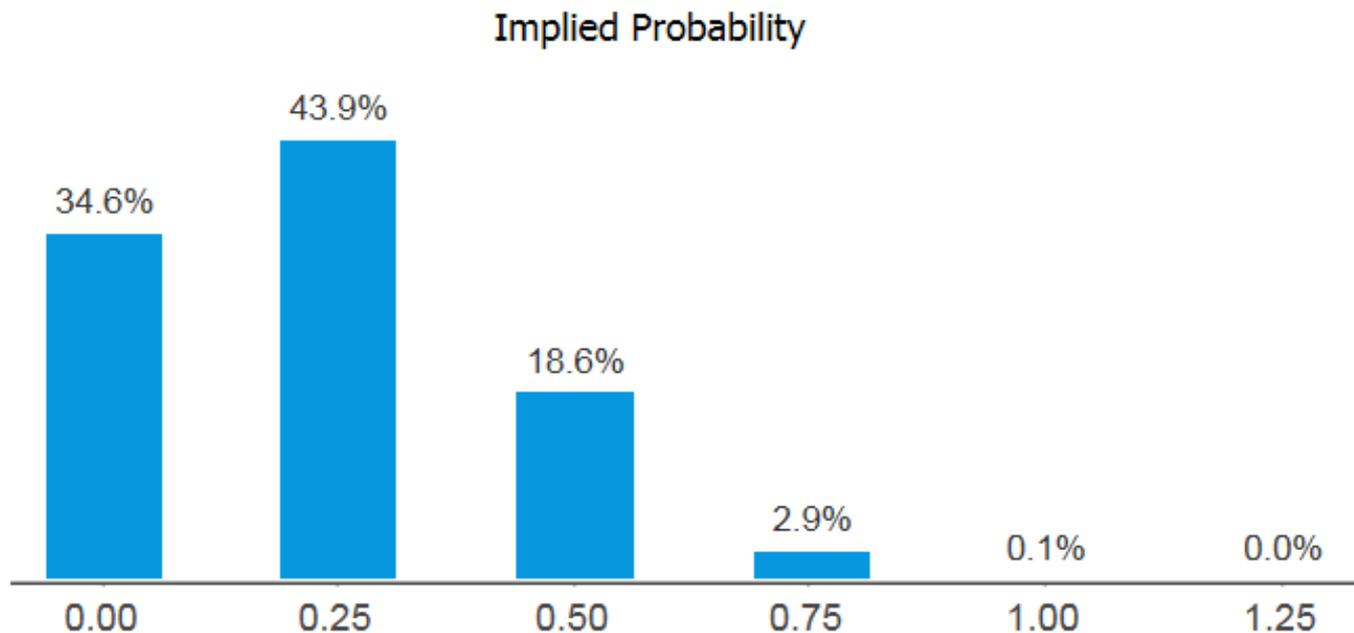
Treasury Forward Yield Curve September 29, 2014



Probably of Rate Hike at April 2015 FOMC Meeting Based on 9/29/14 Futures Prices



Meeting Date:	Wednesday, April 29, 2015		
Futures Expiry:	April 2015	Previous Day	
Futures Price:	99.8400	Volume:	2,040
Probability of Rate Hike:	22%	Open Interest:	47,346

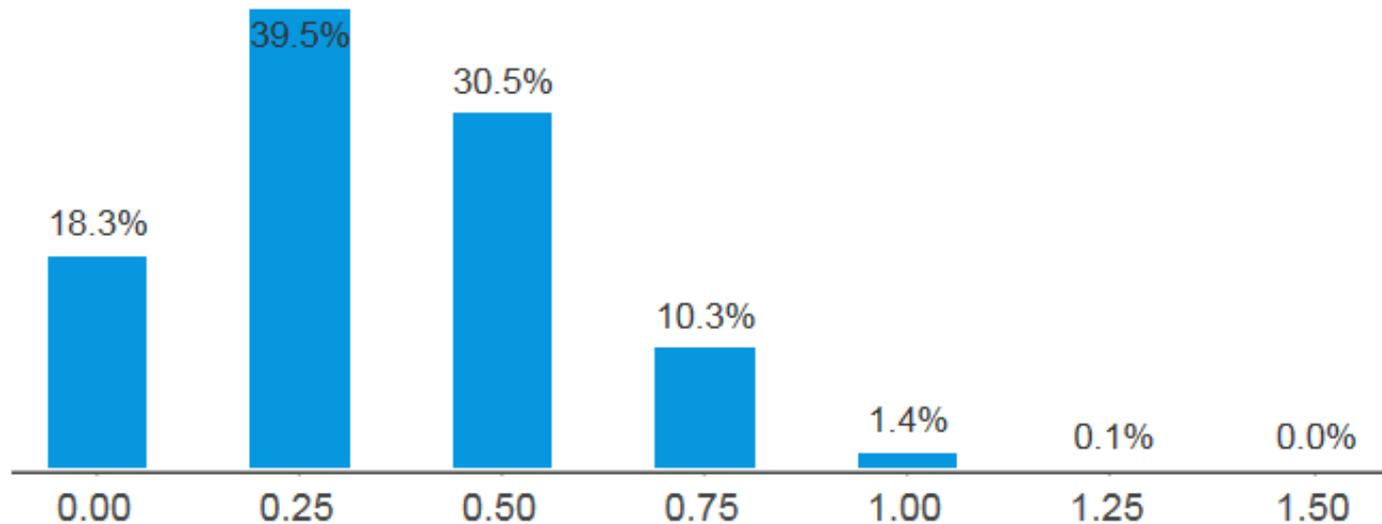


Probably of Rate Hike at June 2015 FOMC Meeting Based on 9/29/14 Futures Prices



Meeting Date:	Wednesday, June 17, 2015		
Futures Expiry:	June 2015	Previous Day	
Futures Price:	99.7450	Volume:	2,132
Probability of Rate Hike:	42%	Open Interest:	33,723

Implied Probability

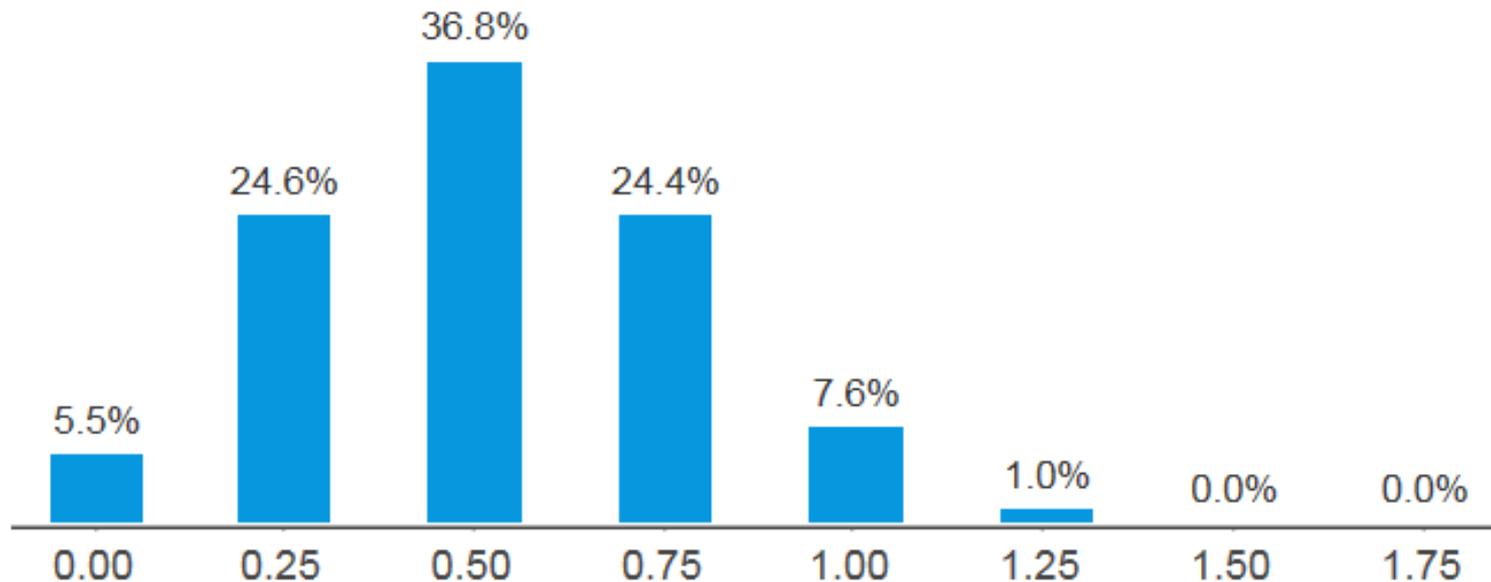


Probably of Rate Hike at July 2015 FOMC Meeting Based on 9/29/14 Futures Prices



Meeting Date:	Wednesday, July 29, 2015		
Futures Expiry:	July 2015	Previous Day	
Futures Price:	99.6500	Volume:	3,079
Probability of Rate Hike:	70%	Open Interest:	40,920

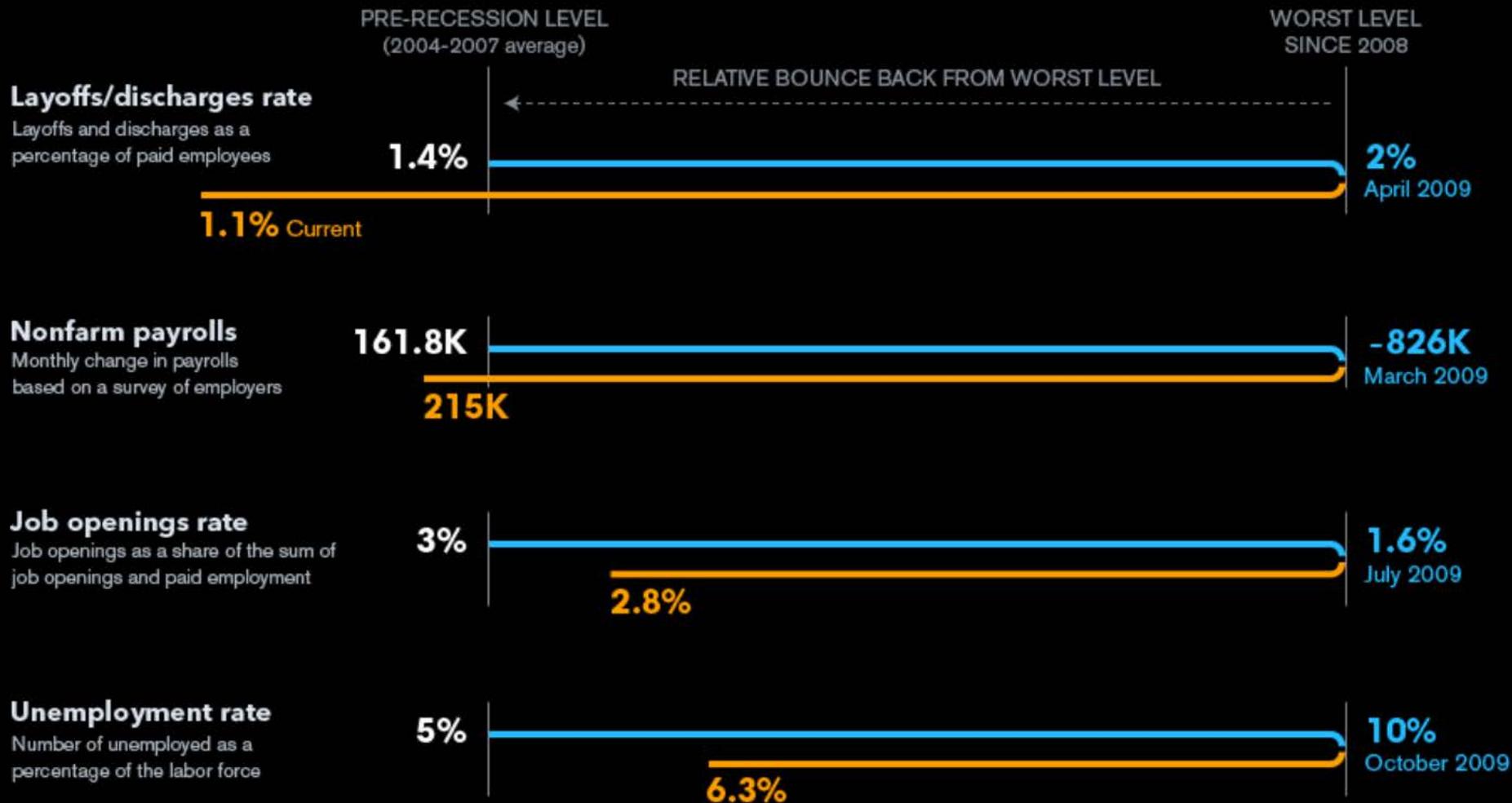
Implied Probability



Interest Rate Outlook – Summary

- Fed’s forward guidance is for the current fed funds rate target to be in place “for a considerable period”
- FOMC projections suggest a 125 bps increase in fed funds rate between now and year-end 2015
 - Consistent with Treasury forward curve
 - Futures market betting that rate hike will begin in mid-2015 at the June or July FOMC meeting
 - Suggest a rapid rise in short-term rates in second half of 2015
- Precise length of “considerable period” depends on strength of the economy, particular in the labor market

Mixed Signals from Yellen's "Labor Market Dashboard"



Mixed Signals from Yellen's "Labor Market Dashboard"



U-6 underemployment rate

Includes part-time workers who want a full-time job and those not in the labor force who would take a job if one were available

8.8%

12.2%

17.2%
April 2010

Quits rate

Workers who quit their job as a percentage of paid employees

2.1%

1.8%

1.3%
February 2010

Hires rate

Workers hired as a percentage of paid employees

3.8%

3.4%

2.8%
June 2009

Long-term unemployed share

Share of unemployed who have been out of work for 27 weeks or longer

19.1%

34.6%

45.3%
April 2010

Labor force participation rate

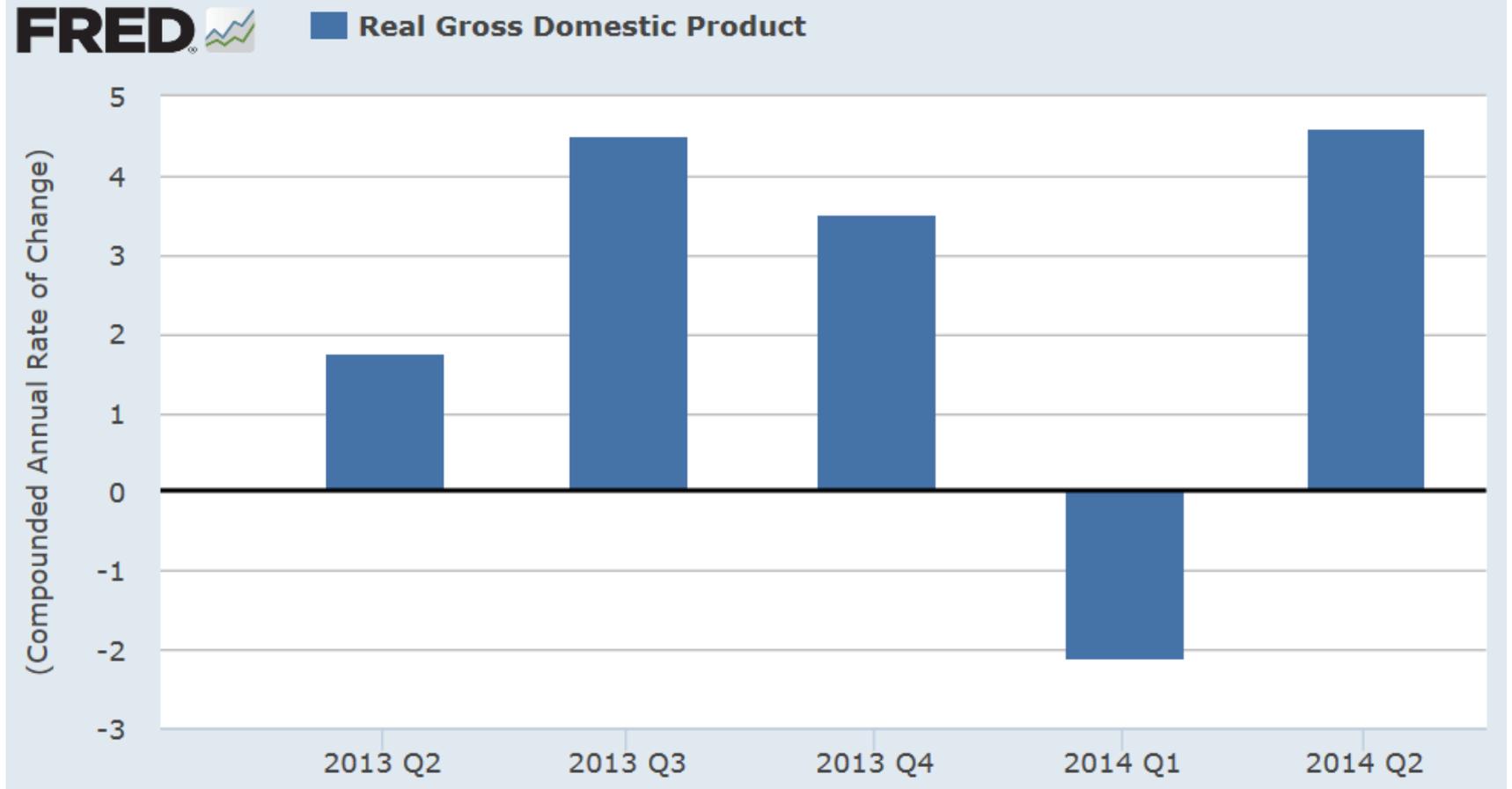
Labor force as a percentage of the working-age civilian, noninstitutional population

66.1%

62.8%

62.8%
December 2013

Real GDP Growth, 2013Q2 – 2014Q2



3Q GDP Forecast, Atlanta Fed

Evolution of Atlanta Fed GDPNow real GDP forecast for 2014:Q3
Quarterly percent change (SAAR)



Sources: *Blue Chip Economic Indicators* and *Blue Chip Financial Forecasts*

Economic Outlook Summary

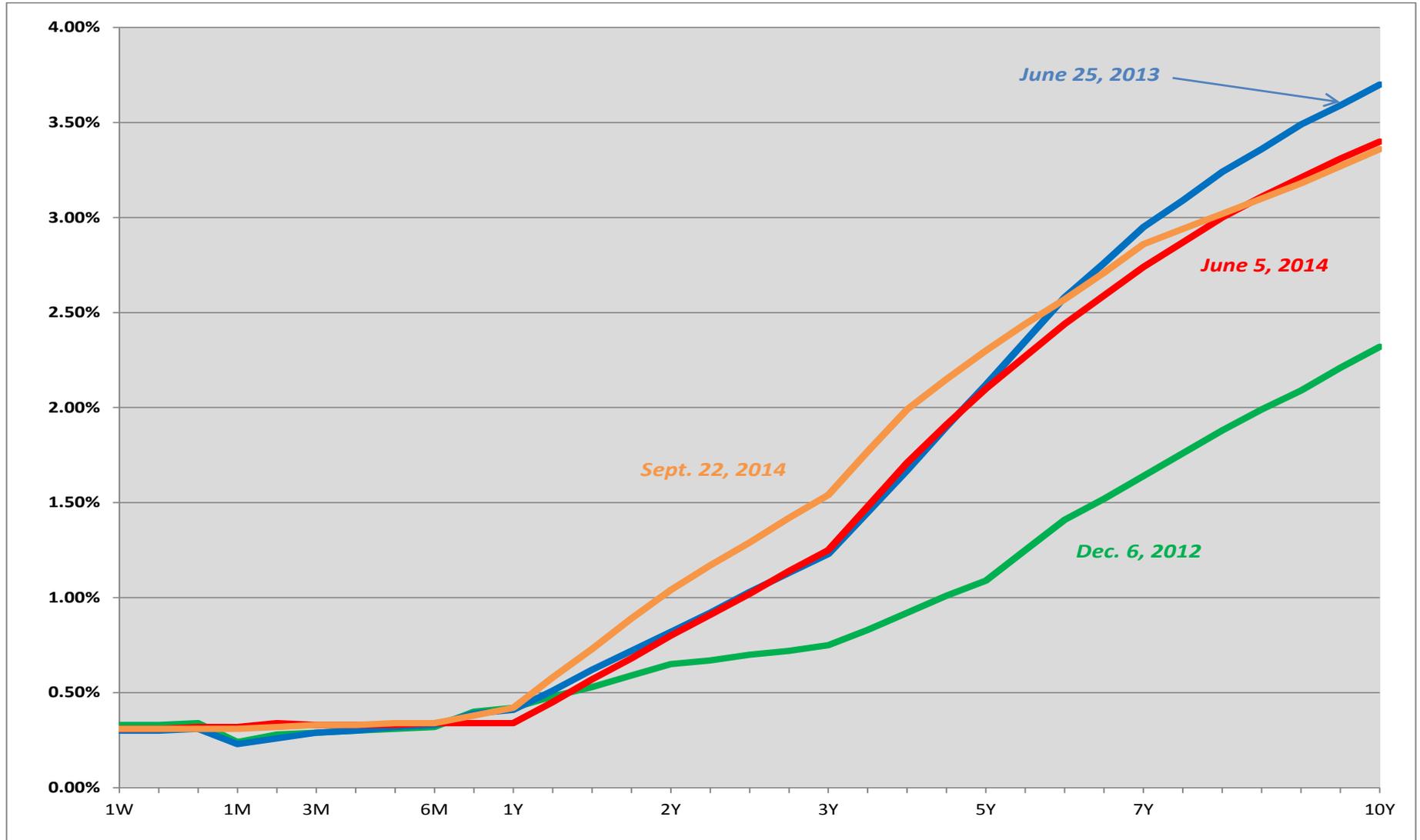


- Labor market signals are mixed
 - Positive: strong payroll growth in recent months; steady decline in unemployment
 - Negative: persistently high underemployment, no sign of improvement in labor force participation rate
- GDP signals are mixed
 - Disappointing Q1 followed by strong Q2 – more data needed to determine trend growth
 - Strong durable consumption and private investment Q2 encouraging for future growth
 - Current data project relatively strong Q3

2014 YTD Long-Term Advance Activity

- Regulators concerned with rising interest rates and EVE
- Year-to-date, 2014 members borrowed \$2.2B in long-term advances:
 - \$1.9B in long-term advances
 - \$0.3B in long-term advances under the Bank's Community Development advance programs

FHLB Boston Advance Rates



FHLB Boston – Implied Forward Advance Rates



One year ago September 23, 2013

		<i>Years to Maturity</i>									
		1	2	3	4	5	6	7	8	9	10
	9/23/13	0.36%	0.76%	1.19%	1.68%	2.09%	2.62%	3.01%	3.35%	3.63%	3.82%
Y E A R S F O R W A R D	1	1.16%	1.62%	2.15%	2.57%	3.17%	3.59%	3.97%	4.28%	4.47%	
	2	2.07%	2.65%	3.05%	3.68%	4.09%	4.44%	4.73%	4.89%		
	3	3.22%	3.54%	4.22%	4.60%	4.92%	5.18%	5.30%			
	4	3.86%	4.72%	5.06%	5.35%	5.57%	5.65%				
	5	5.59%	5.66%	5.85%	6.00%	6.02%					

9/23/14 0.42% 1.03% 1.52% 1.97% 2.28% 2.55% 2.84% 3.01% 3.17%

FHLB Boston – Implied Forward Advance Rates

		<i>Years to Maturity</i>									
		1	2	3	4	5	6	7	8	9	10
Y E A R S F O R W A R D	9/22/14	0.42%	1.03%	1.53%	1.98%	2.29%	2.55%	2.84%	3.01%	3.17%	3.35%
	1	1.65%	2.11%	2.54%	2.81%	3.04%	3.34%	3.49%	3.64%	3.83%	
	2	2.56%	2.99%	3.20%	3.40%	3.68%	3.80%	3.93%	4.11%		
	3	3.41%	3.52%	3.68%	3.96%	4.05%	4.16%	4.33%			
	4	3.63%	3.81%	4.15%	4.21%	4.31%	4.49%				
	5	3.99%	4.41%	4.41%	4.48%	4.66%					

Solutions by Interest Rate Outlook

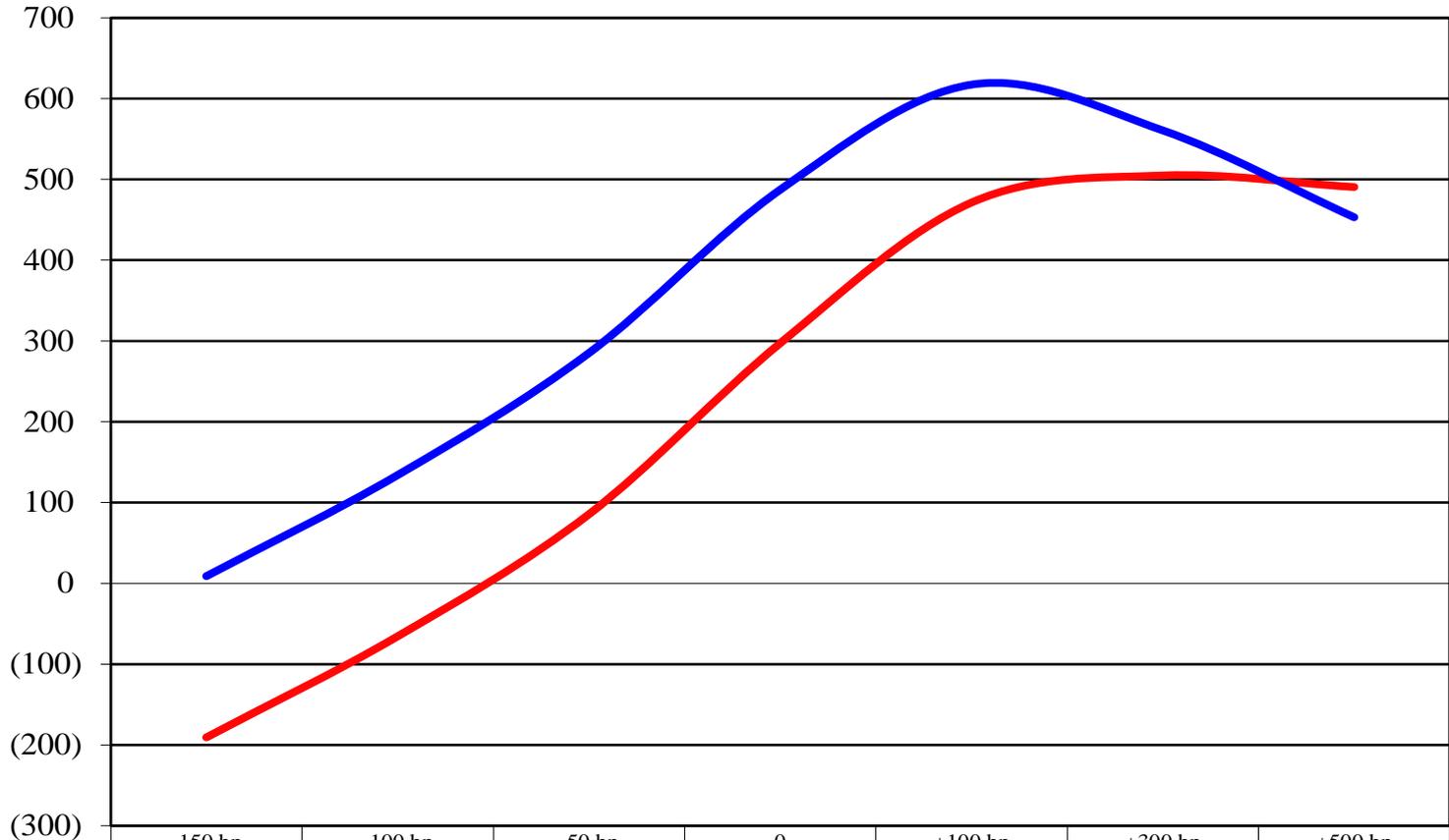


	Interest Rate Outlook			
	Falling Rates	Rates Unchanged	Rising Rates	Yield Curve Shape
Fixed Rate	S/T Classic S/T Amortizer Member Option	HLB Option	L/T Classic L/T Amortizer Symmetrical Prepay HLB Option Plus Cap Knockout Expander Classic Plus Cap	
Floating Rate	LIBOR Floater DN Auction Floater Slider	Flipper	Capped Floater Collar Corridor	Curve Flattener Curve Steepener

Funding Alternatives – 30-Year Fixed-Rate Mortgages

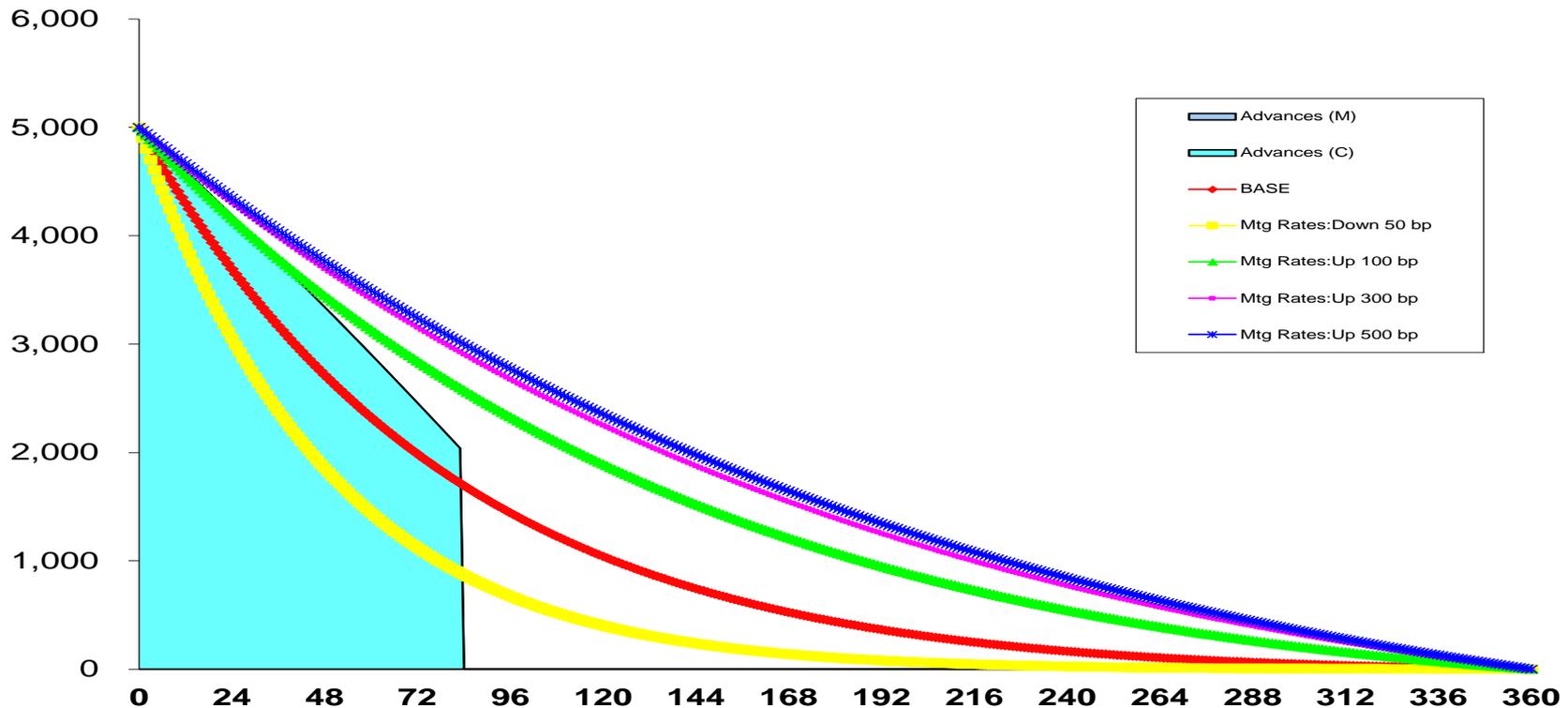


Total Net Interest Income Years 1-7



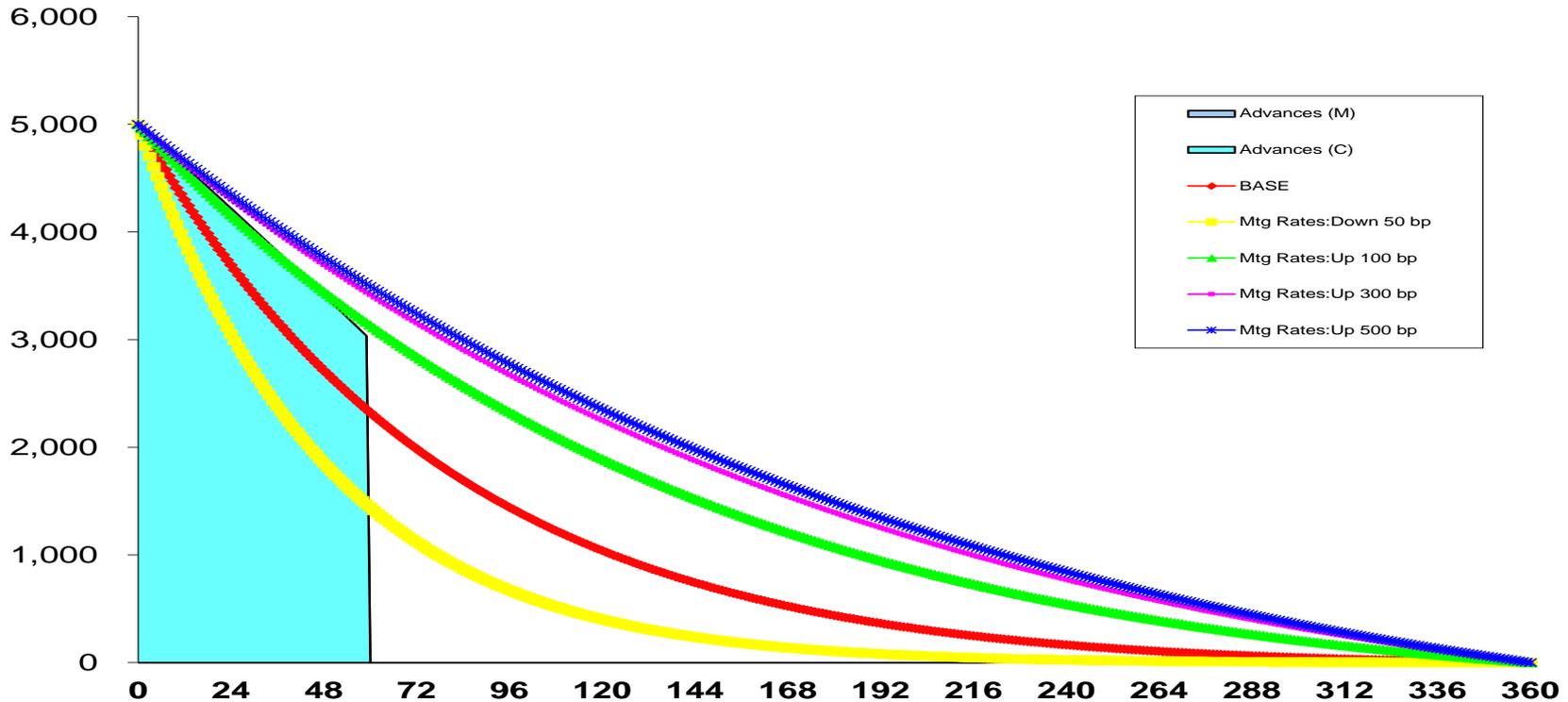
Strategy 1	(191)	(65)	86	297	471	505	491
Strategy 2	9	134	285	487	617	561	453

30-Year Fixed-Rate Mortgages – 7-Year Funding



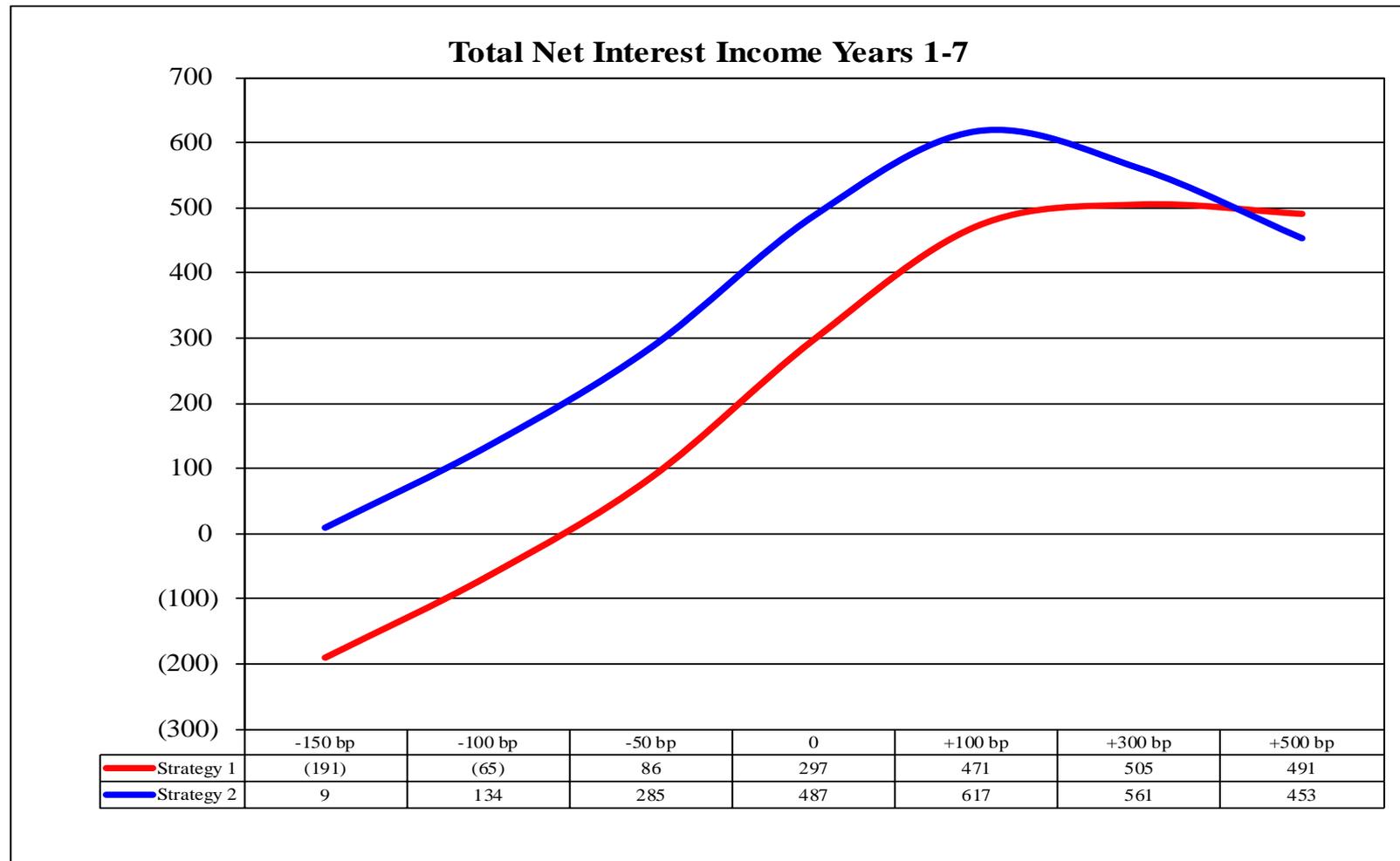
30Y FRM	4.25%	Results Years 1 through 7		NII (000s)
		Spread		
40% 7Y Classic	2.83%	-0.29%	Down 100 basis points	(65)
60% 7Y Amortizer	2.13%	0.26%	Down 50 basis points	86
Total Funding	2.41%	1.01%	Rates Unchanged	297
Initial Net Spread	1.84%	1.59%	Up 100 basis points	471
		1.67%	Up 300 basis points	505
		1.59%	Up 500 basis points	491

30-Year Fixed-Rate Mortgages – 5-Year Funding



30Y FRM		4.25%	Results Years 1 through 7	
			Spread	NII (000s)
60%	5Y Classic	2.28%	Down 100 basis points	134
40%	5Y Amortizer	1.65%	Down 50 basis points	285
Total Funding		2.03%	Rates Unchanged	487
Initial Net Spread		2.22%	Up 100 basis points	617
			Up 300 basis points	561
			Up 500 basis points	453

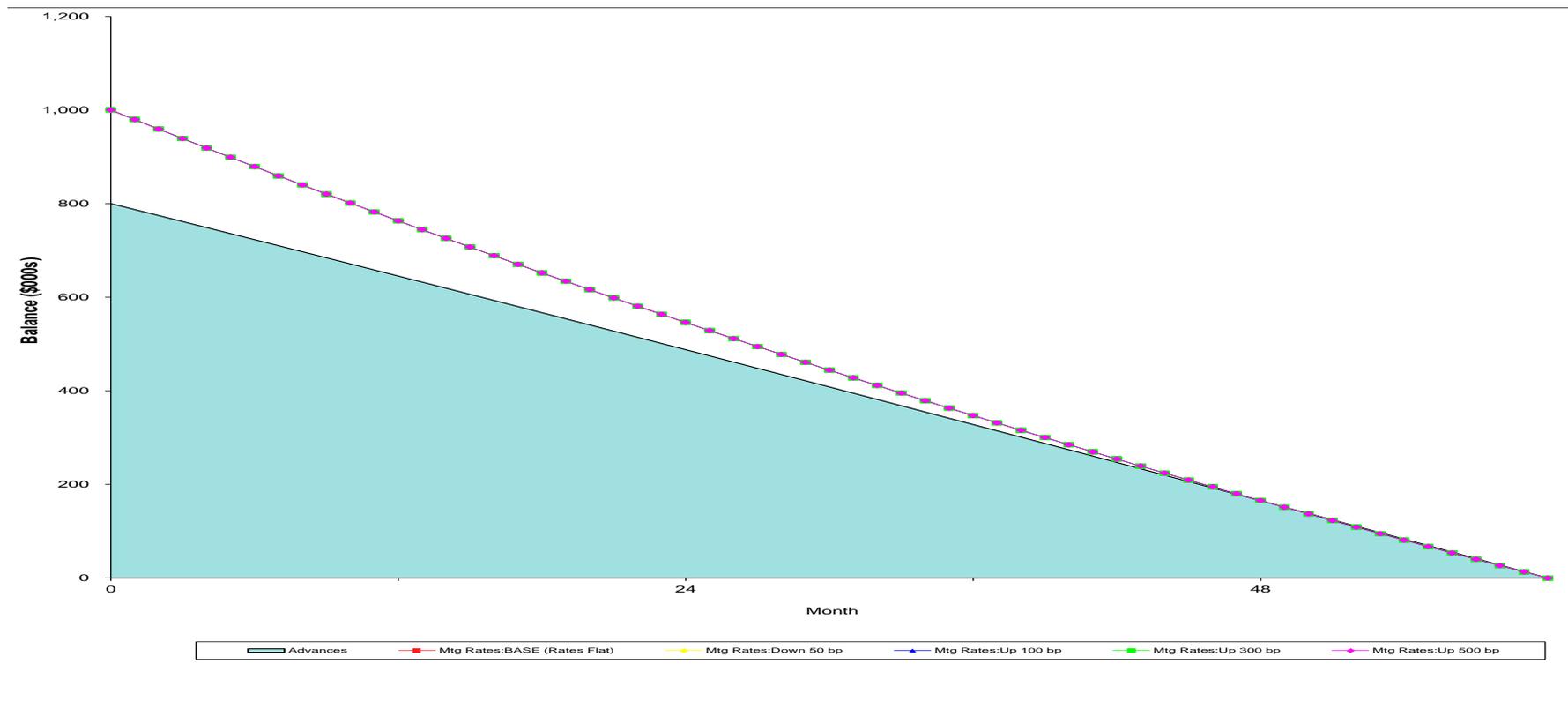
Analysis of Funding Alternatives for 30 Yr FRM



Strategy 1 184 bps - \$2.00 MM 7 Yr Bullet and \$3.00 MM 7 Year amort.

Strategy 2 222 bps - \$3.00 MM 5 Yr Bullet and \$2.00 MM 5 Year amort.

5-Year Auto Loans



5Y Auto	2.99%	Results Years 1 through 5	
		Spread	NII (000s)
20% 1M Classic	0.32%	Down 100 basis points	\$ 36
80% 5Y Amortizer	1.65%	Down 50 basis points	36
Total Funding	1.38%	Rates Unchanged	35
Initial Net Spread	1.61%	Up 100 basis points	35
		Up 300 basis points	33
		Up 500 basis points	31

Upcoming Dutch Auction Special

- Classic Advances
- Wednesday, October 1
 - 10 a.m. to 11 a.m.
 - Two Year
 - Three Year
 - Five Year
 - 10 Year
- Please contact the Money Desk 800-357-3452