

Interest Rate Environment and FHLB Advance Strategies

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This webinar is being recorded

FHLBBoston

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Today's topics

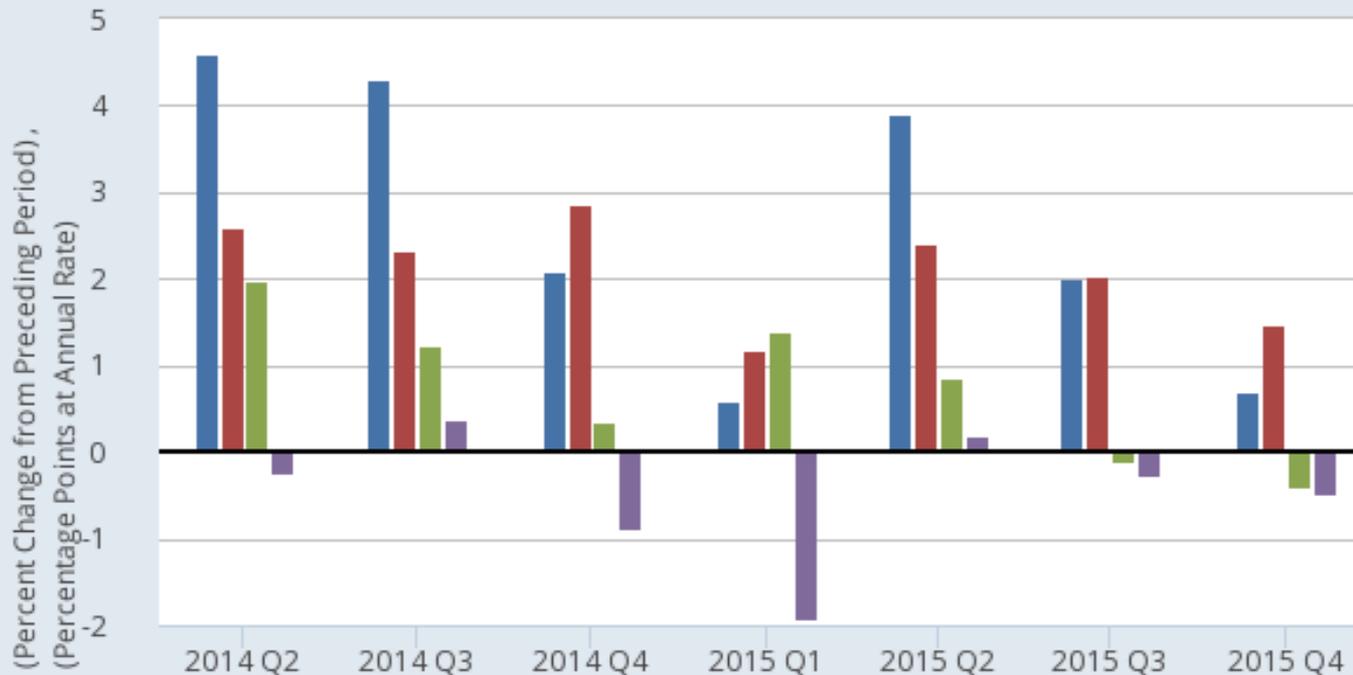
- GDP and Labor Market Update
- Market Expectations of Interest Rates
- Advance Rate Curve
- Advance Strategies: Flipper advance
- Advance Renewal Discount

Real Gross Domestic Product Growth

Weak 2015Q4 growth driven by declining investment and net exports



- Real Gross Domestic Product
- Contributions to percent change in real gross domestic product: Personal consumption expenditures
- Contributions to percent change in real gross domestic product: Gross private domestic investment
- Contributions to percent change in real gross domestic product: Net exports of goods and services



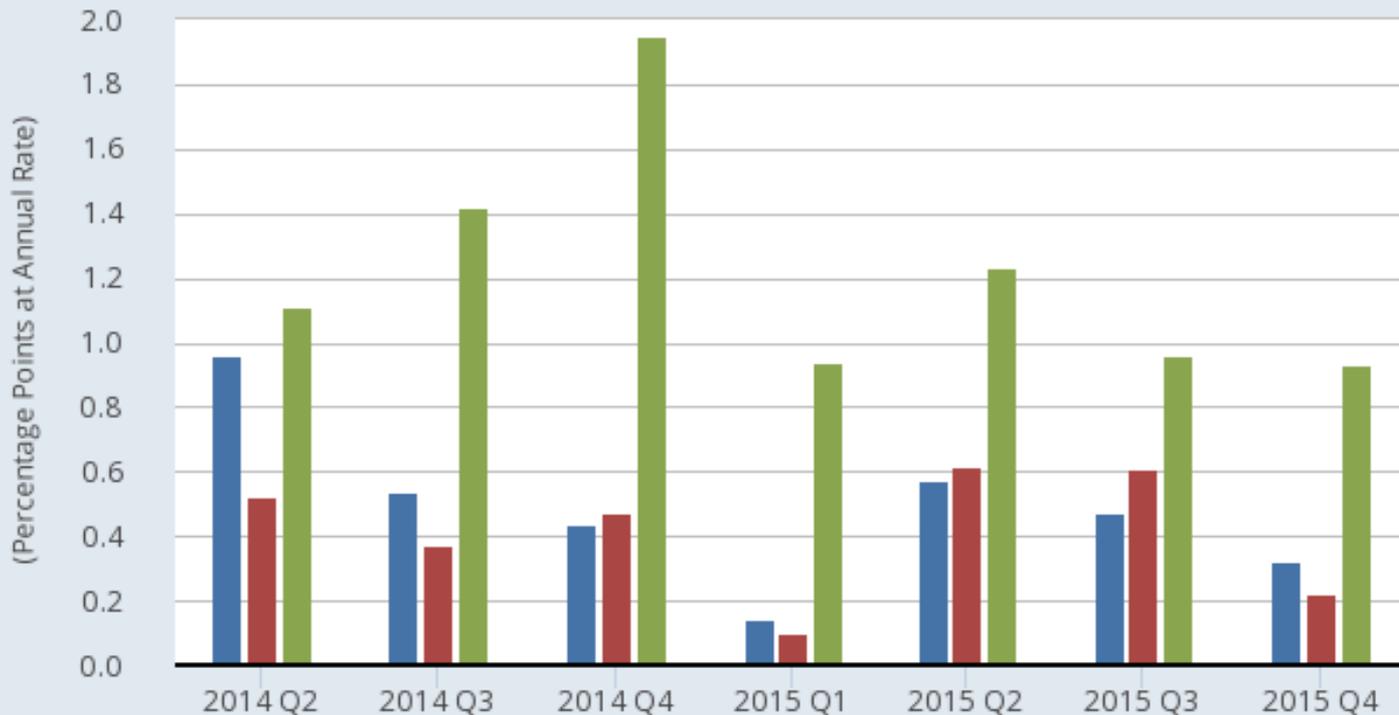
research.stlouisfed.org

Contributions of Consumption Components to Real GDP Growth

Slightly weaker goods consumption offset by stable services consumption

FRED 

- Contributions to percent change in real gross domestic product: Personal consumption expenditures: Durable goods
- Contributions to percent change in real gross domestic product: Personal consumption expenditures: Nondurable goods
- Contributions to percent change in real gross domestic product: Personal consumption expenditures: Services



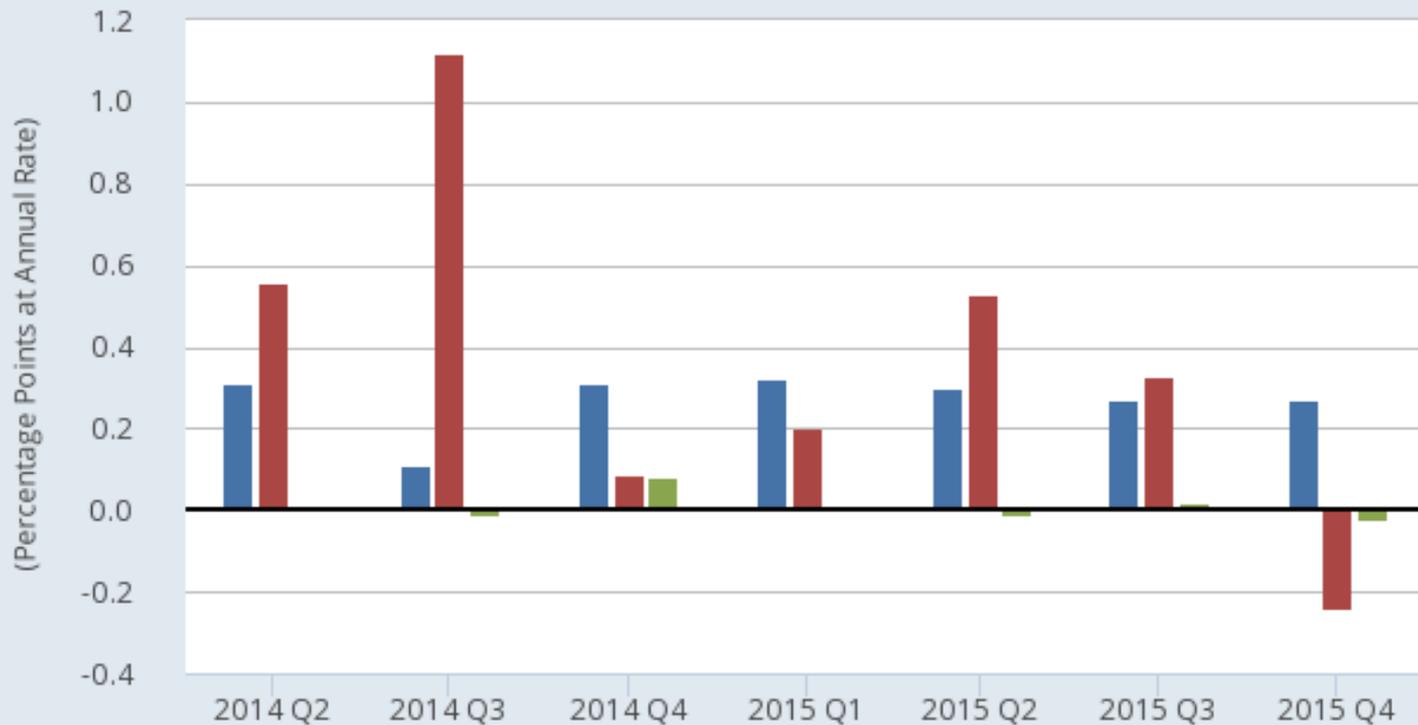
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Contributions of Investment Components to Real GDP Growth

Drop in nonresidential investment, driven in part by slashed capital spending in energy

FRED 

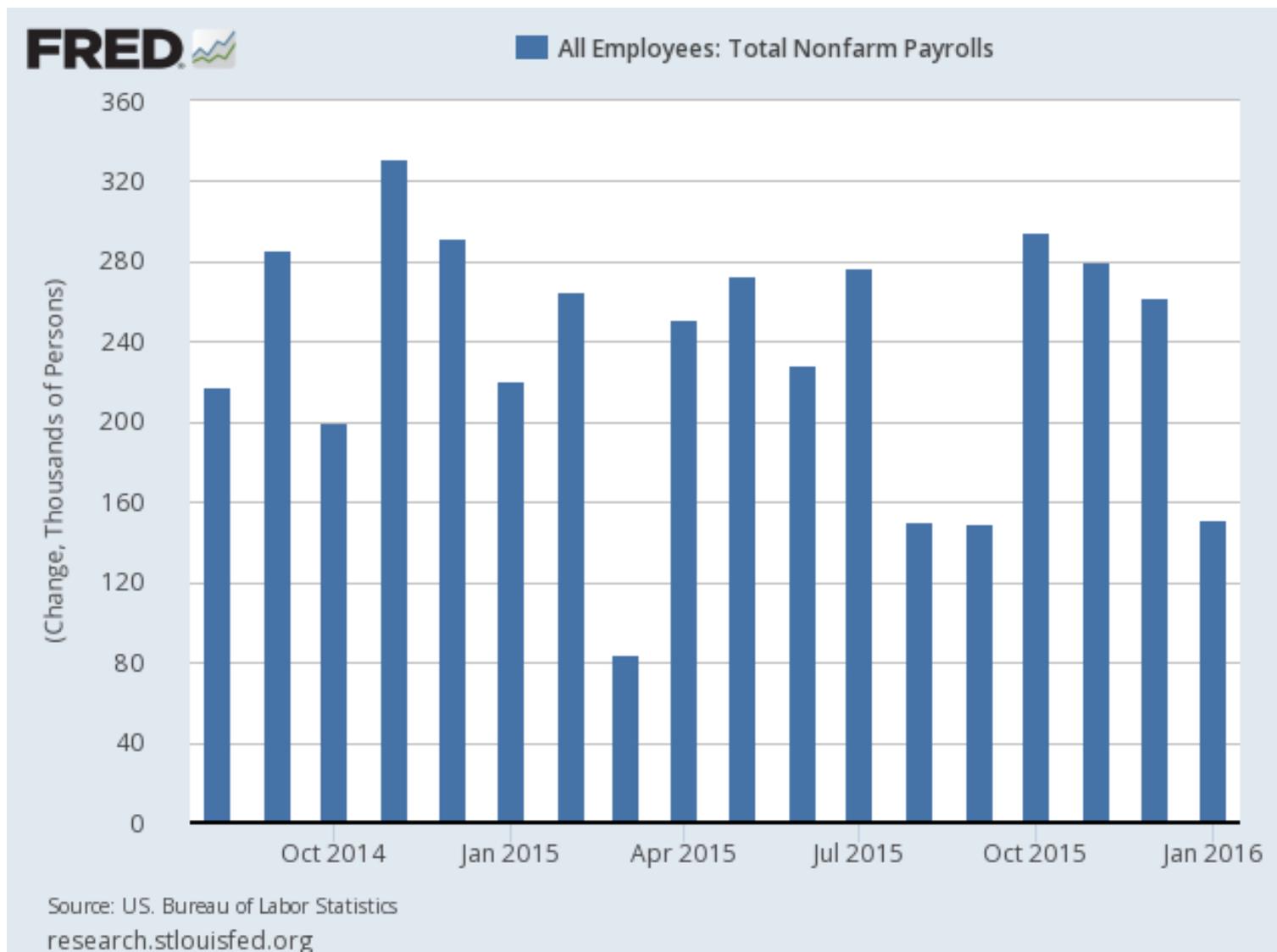
- Contributions to percent change in real gross domestic product: Gross private domestic investment: Fixed investment: Residential
- Contributions to percent change in real gross domestic product: Gross private domestic investment: Fixed investment: Nonresidential
- Contributions to percent change in gross domestic purchases: Gross private domestic investment: Change in private inventories



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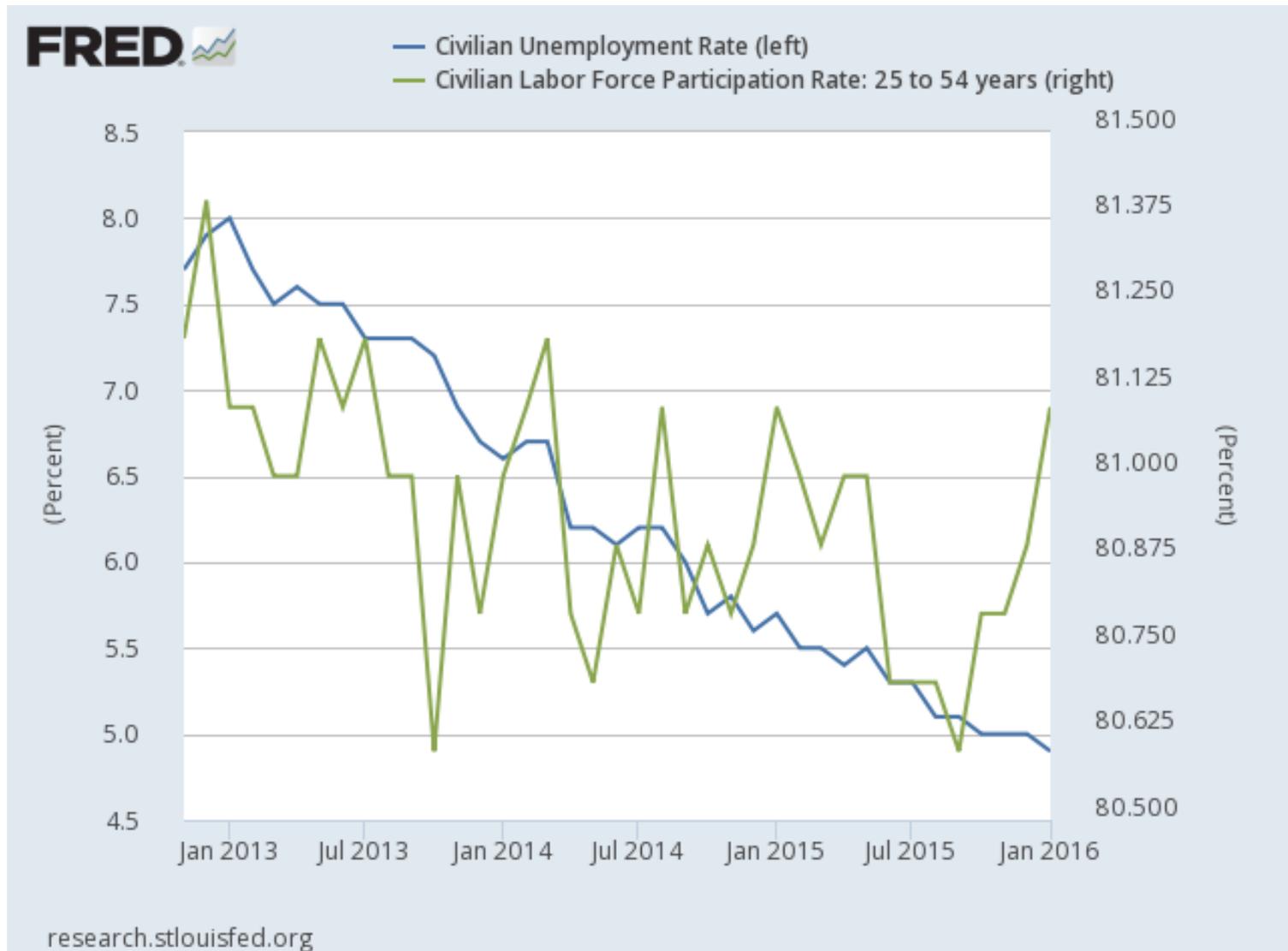
Payroll Growth

151K job growth in January, below expectations



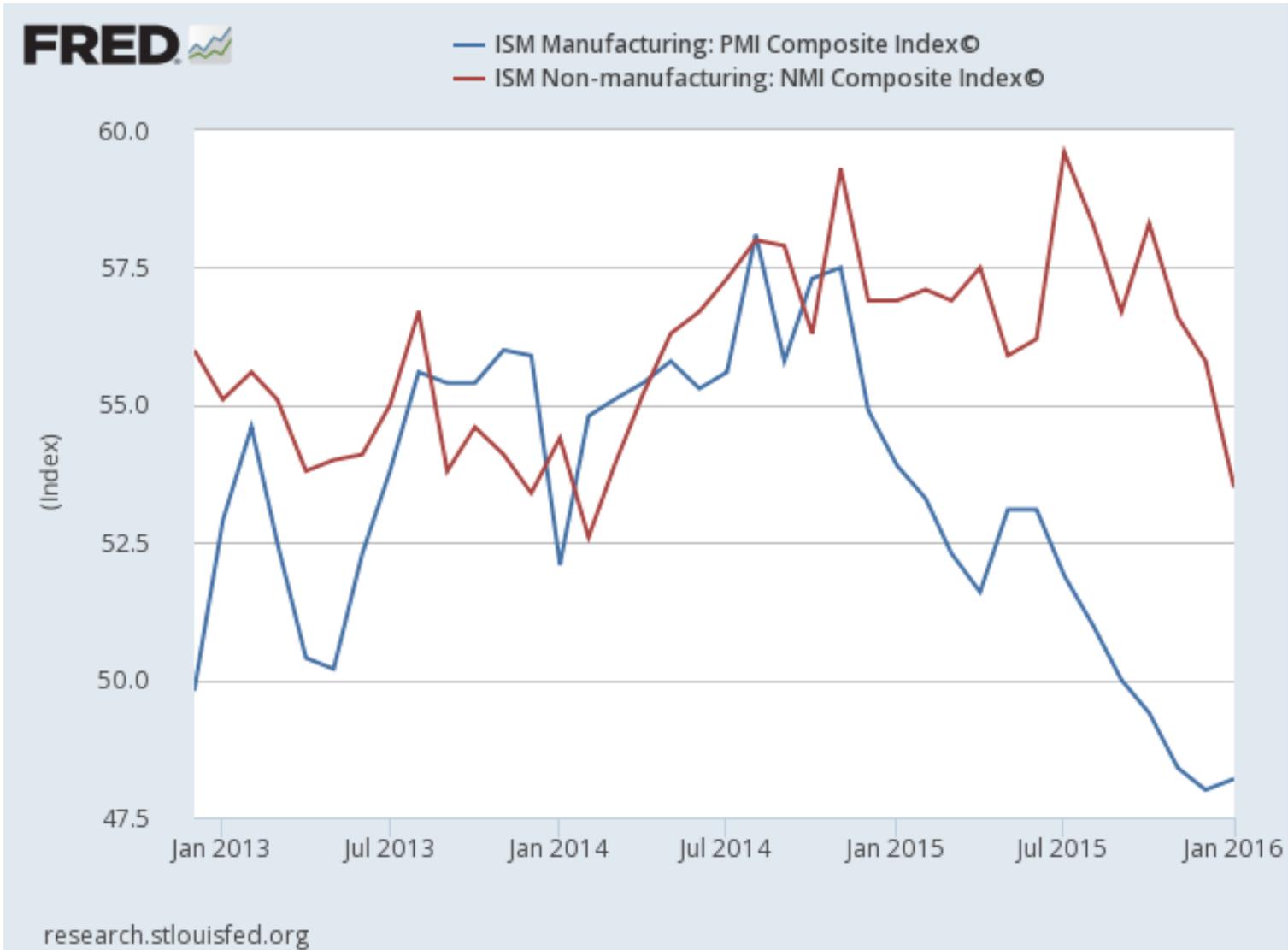
Unemployment and Labor Force Participation Rates

Unemployment rate continues to decline while participation rate remains flat



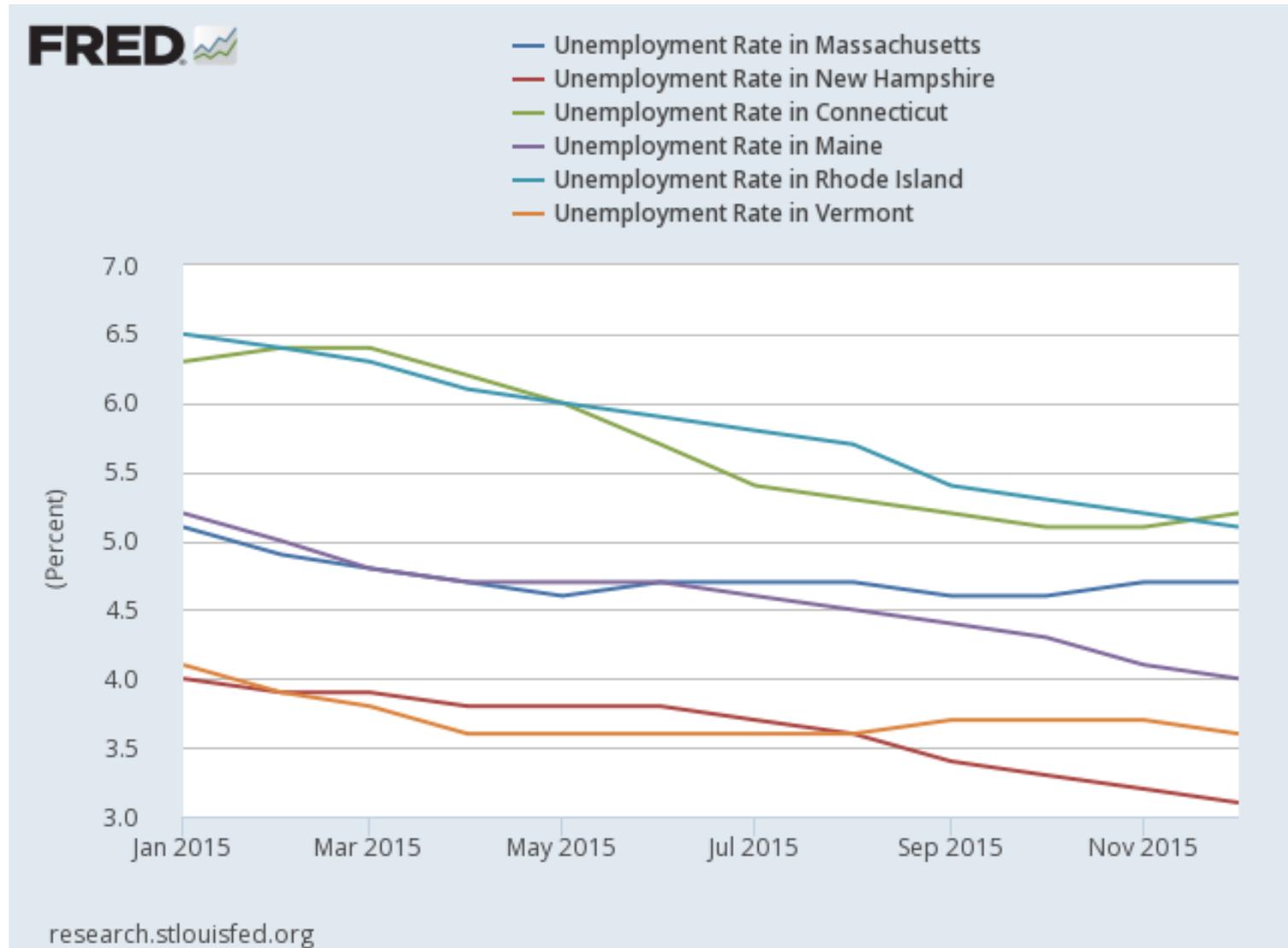
ISM Manufacturing and Nonmanufacturing Indices

Manufacturing consistent with contraction; nonmanufacturing may be declining



Unemployment Rate in New England States

Continuing decline in RI, ME, NH; flat in CT, MA, VT

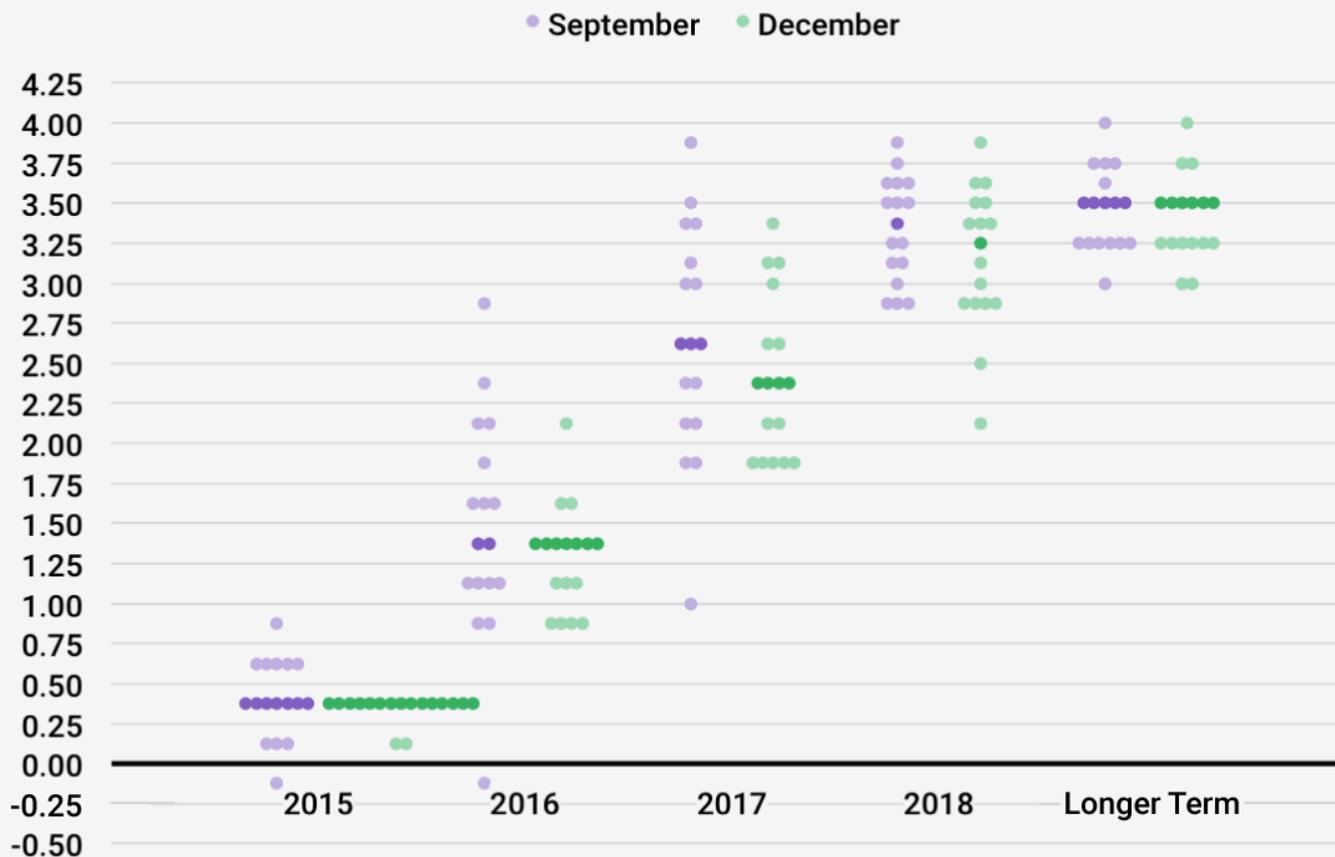


FOMC Dot Plot

100 bps increase in FFR in 2016 projected as of December 2015 FOMC meeting



SEPTEMBER VS DECEMBER DOT PLOT



SOURCE: Federal Open Market Committee

BUSINESS INSIDER

Market Expectations for Fed Funds Rate

- Implied probability of rate hike by the FOMC based on 2/5/2016 futures
 - March 2016 8%
 - June 2016 29%
 - September 2016 35%
 - December 2016 44%
- Large gap between market participants' expectations and Fed guidance
- December lift-off was preceded by alignment of market expectations with Fed guidance.

Commentary from Fed Officials in Early February

Bloomberg.com, 2/3/2016



“Recent developments reinforce the case for watchful waiting”

FRB Governor Lael Brainard

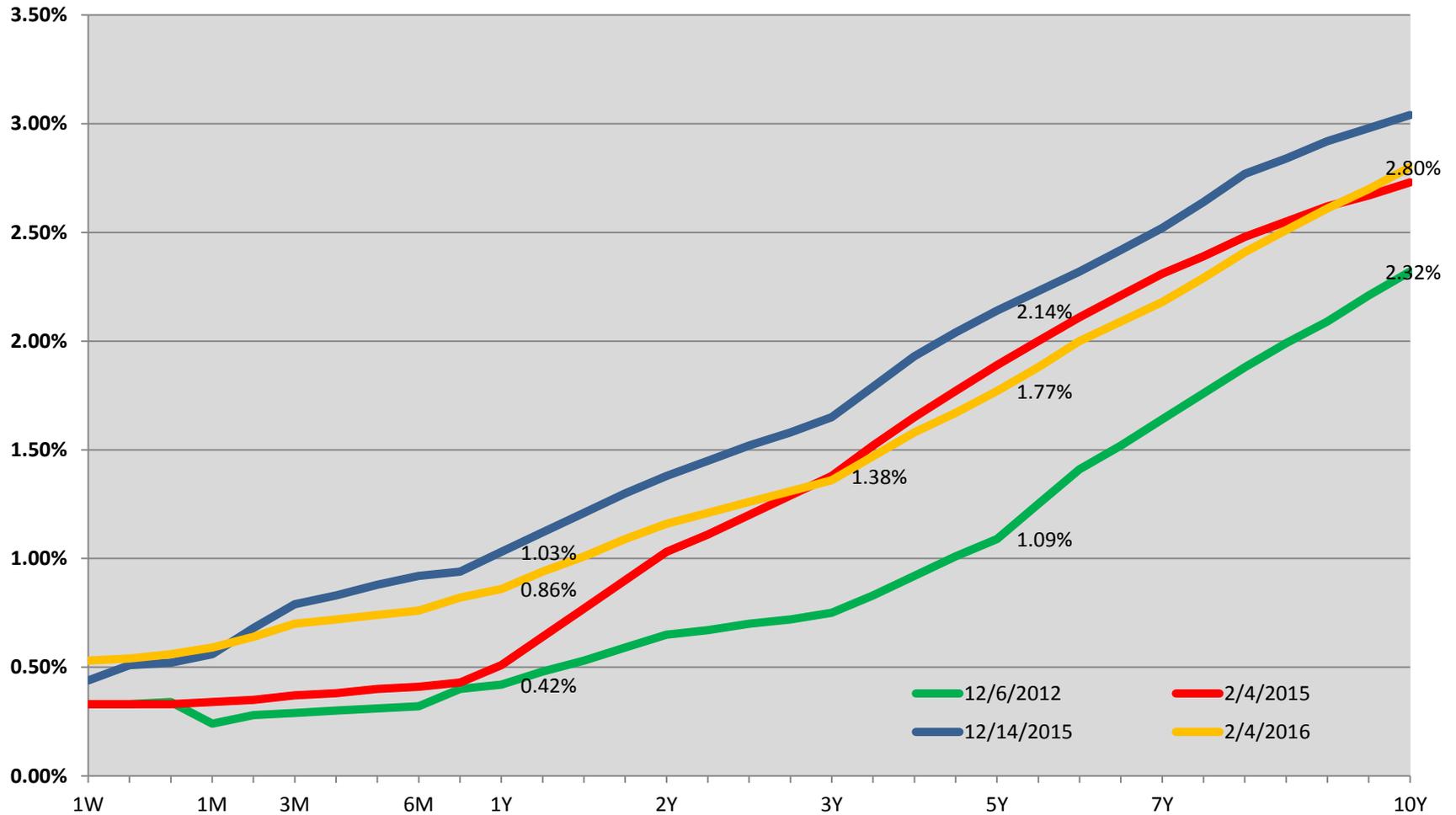
Financial conditions are “considerably tighter” than in December; “we would have to take that into consideration in terms of that monetary-policy decision.”

FRBNY President William Dudley

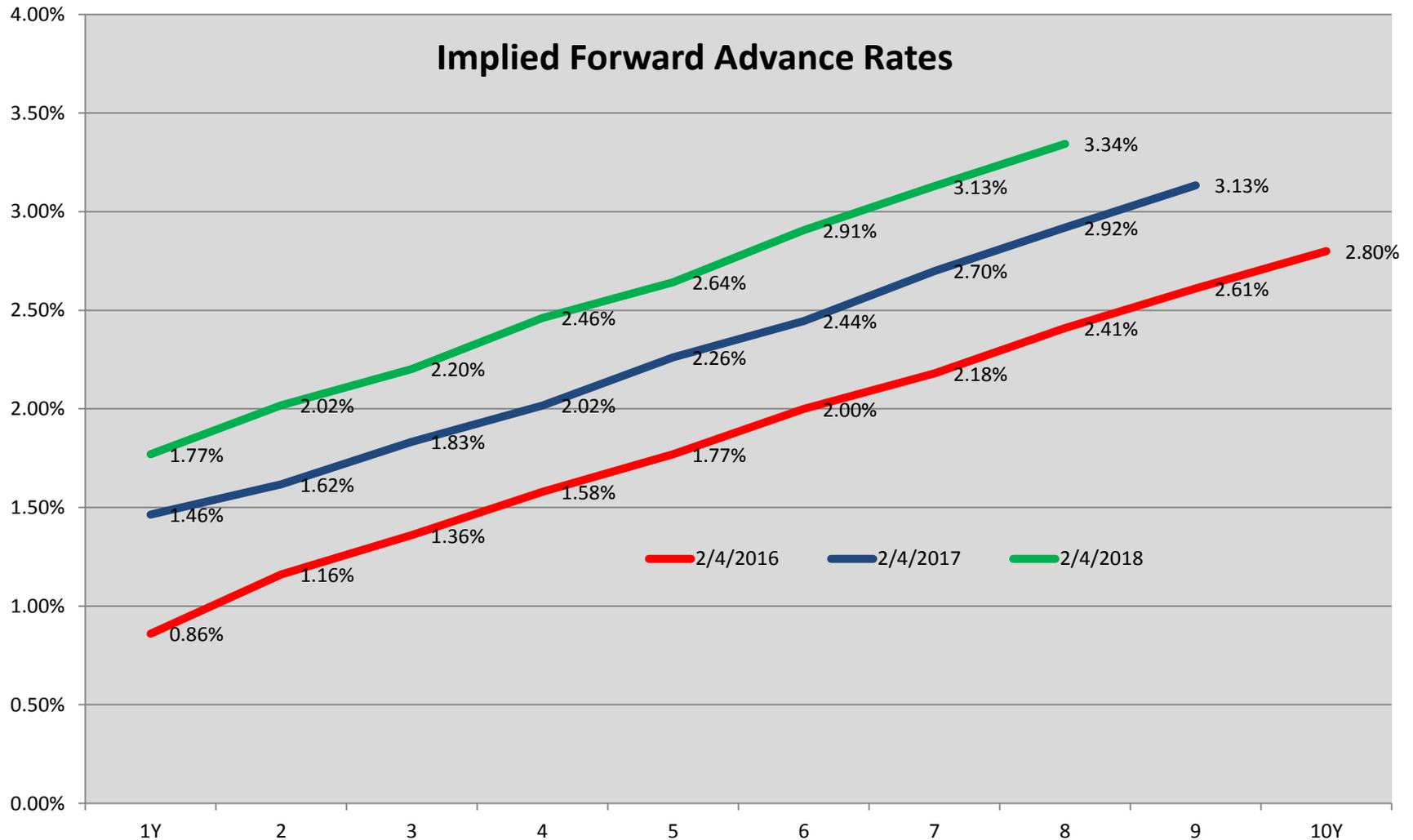
“If these developments lead to a persistent tightening of financial conditions, they could signal a slowing in the global economy that could affect growth and inflation in the United States. But we have seen similar periods of volatility in recent years that have left little permanent imprint on the economy.”

FRB Vice Chairman Stanley Fisher

FHLB Boston Classic Advance Curves



FHLB Boston – Implied Forward Advance Rates



Flipper Advance

- Floating-to-fixed-rate advance where member chooses:
 - Final maturity - out to 20 years, and
 - Lock-out period – 3 months to 10 years
- Starts as a sub-LIBOR floater during lock-out period
- Two versions of the advance
 - FHLB Boston has option to cancel after floating-rate period
 - “Guaranteed” to flip to fixed rate after floating-rate period
 - Hybrid floating rate to fixed rate advance

Flipper Advance

- FHLB Boston has option to cancel advance
 - “Euro” – One cancellation date at end of lock-out period
 - “Berm” - One cancellation date at end of lock-out period and every three months thereafter
- If the advance is not cancelled then...
 - “Euro” - “Flips” to a fixed-rate advance until final maturity
 - “Berm” – “Flips” to a fixed-rate advance until next cancellation date

How does FHLB Boston decide to “Flip” or cancel?

- 3Y/1Y Flipper (Berm), 3mL less 60 basis points
 - Start rate of 0.02020%
- Fixed rate of 1.72% if “Flipped”
- If the 2-year advance rate is *above* 1.72% then advance will likely be cancelled
- If the 2-year advance rate is *below* 1.72% then advance will likely be “Flipped” to a 2-year fixed-rate advance at 1.72%; FHLB Boston has option to cancel the advance on subsequent cancellation dates

Current 2-year advance rate 1.16%

Implied 2-year advance rate, one year forward 1.62%

Flipper Advance

- Flipper advance pricing is impacted by:
 - Maturity and lock-out period
 - Offset to 3mL during the lock-out period
- Members indicate the spread below LIBOR for the lock-out period and FHLB Boston determines the fixed rate
- Generally, the greater the spread below LIBOR for the lock-out period – the higher the fixed rate
- Minimum size of \$10 million, can aggregate smaller amounts during special offerings

Recent Indications



Structure	Spread to 3mL	Starting Floating Rate	Fixed Rate
2/1 Berm	-0.60000%	0.02020%	2.22%
3/1 Berm	-0.60000%	0.02020%	1.72%
3/2 Berm	-0.60000%	0.02020%	3.66%
4/1 Berm	-0.60000%	0.02020%	1.49%
4/2 Berm	-0.60000%	0.02020%	2.76%

As of Feb 4

3m LIBOR	0.62020%
1Y Classic	0.86%
2Y Classic	1.16%
3Y Classic	1.36%
4Y Classic	1.58%

Advance Renewal Discount

- Rolled out back in September 2015
- Originally offered for limited time – **Back by popular demand**
 - *30 members – 58 loans - \$440 million*
 - 43% renewed long-term maturities
 - 57% renewed short-term into long-term
- Members can receive an automatic discount if they roll a maturing advance into a new advance if:
 - New advance is a classic advance of one year or longer in maturity
 - New advance is at least 50% of the maturing advance amount and a minimum of \$1 million
 - Member calls two days in advance of maturity to book the new advance
- Discounts
 - **3 basis points** for new advance with a maturity of one year to under two years
 - **8 basis points** for new advance with a maturity of two years or greater

Recent Borrowing Activity

- Long-Term Borrowing Activity
 - 2015 - \$3.78 Billion
 - 2016 Year-To-Date - \$680 Million
- Long-Term Specials 2016
 - Classic Advance
 - Dutch Auction
 - HLB Option
 - Flipper
 - Classic Plus Cap
- Upcoming

Upcoming Flipper Special

- Friday, February 12, 2016, from 10 am until 11 am
- Aggregate of \$10 million

Call the *Money Desk*
1-800-357-3452
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Questions?