

Maximizing Your FHLBank Membership



Empyrean Solutions User Conference
June 19, 2024

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Presenters



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Vice President, Director of Member Strategies + Solutions



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Vice President, Director of Sales

Overview

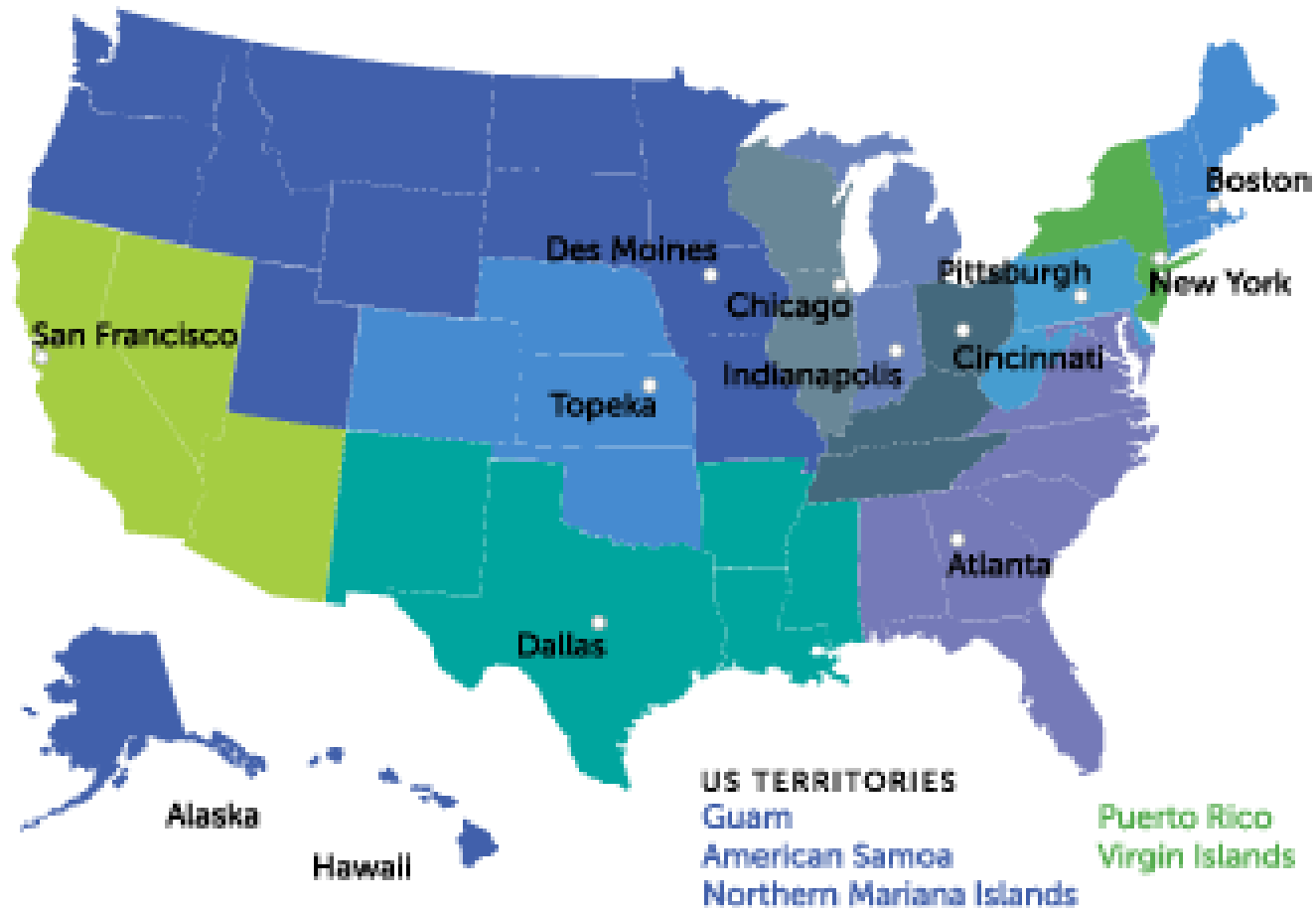
- FHLBank System Overview
- FHLBank System at 100 Report
- Collateral & Capital Stock
- Risk-Reducing & Return-Enhancing Case Studies

FHLBank System Overview



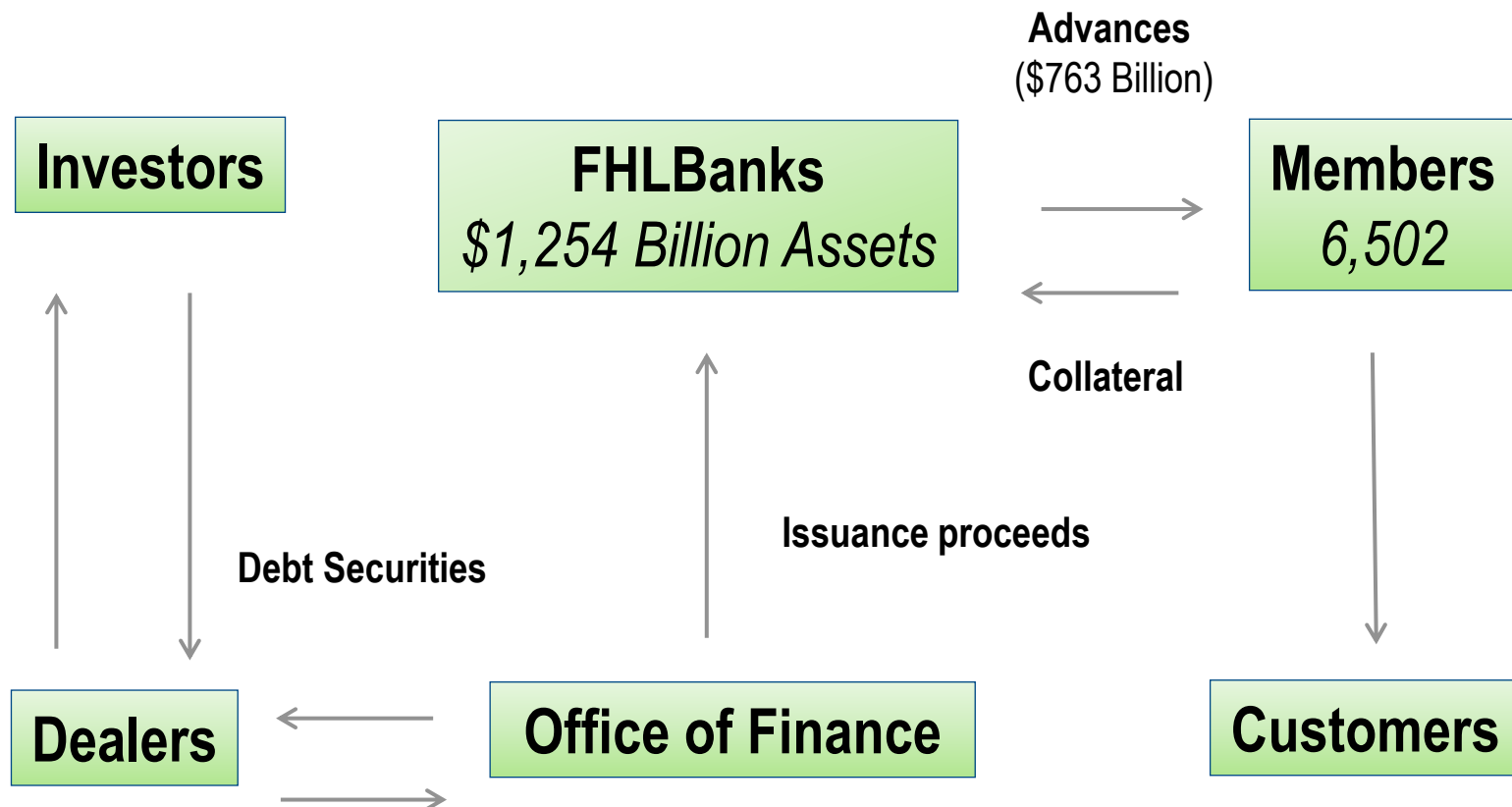
FHLBanks

There are 11 FHLBanks covering all 50 states and territories, serving bank, credit union, insurance company and CDFI members.



Office of Finance

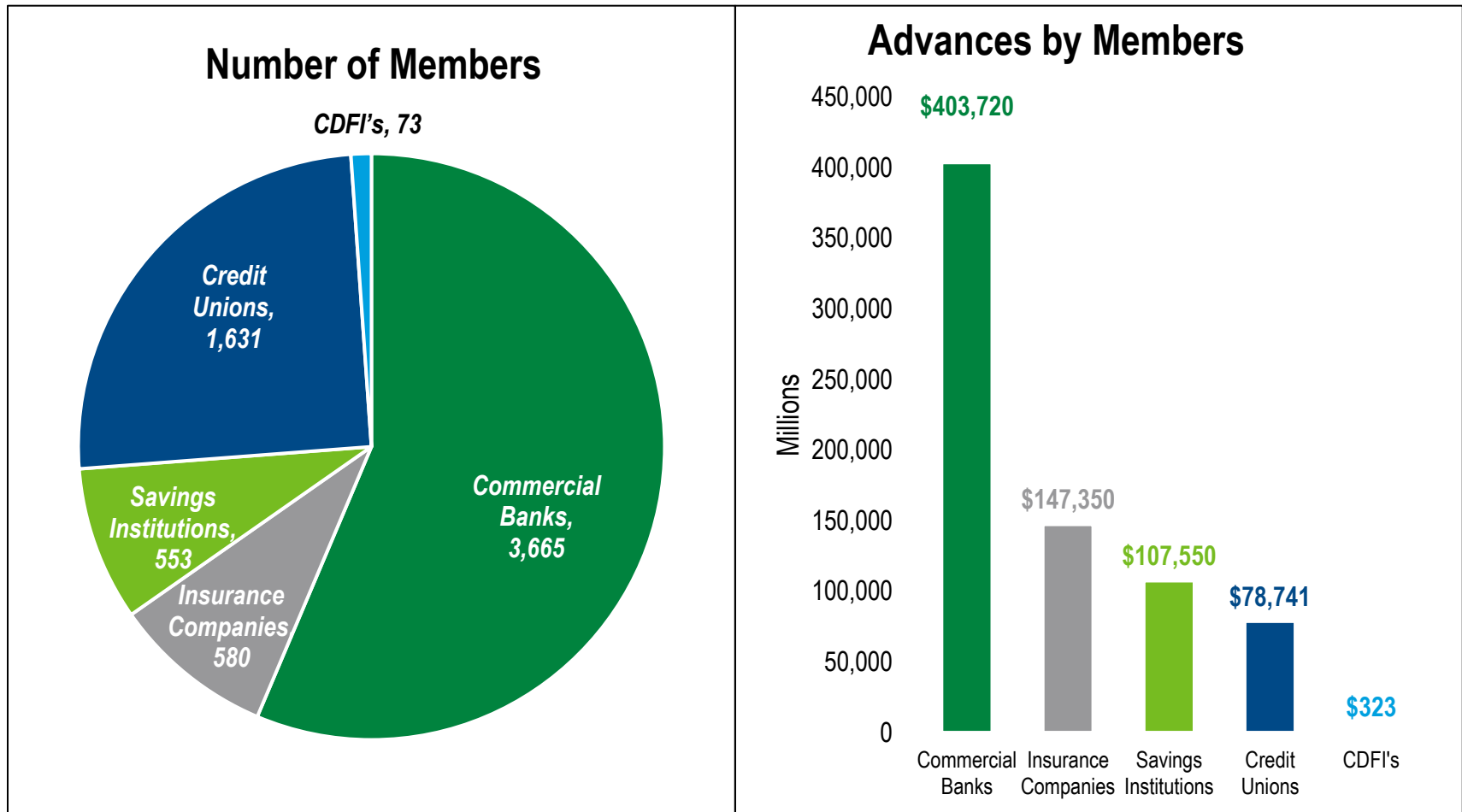
The Office of Finance centralizes and handles all debt issuance needs for the FHLBank System.



Source: Office of Finance Consolidated Financials

Member Types

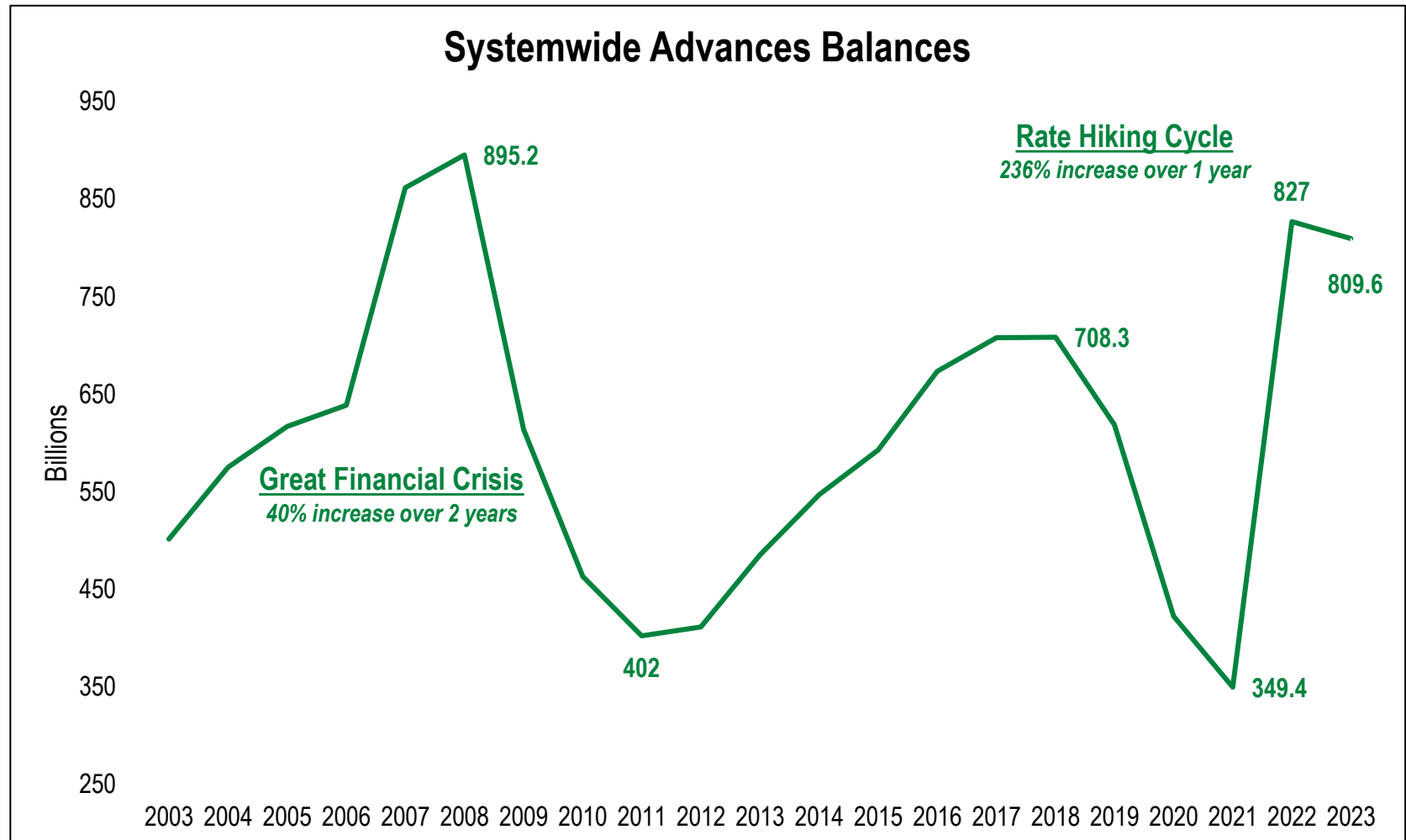
Commercial banks are the largest segment of members, by count and by outstanding borrowings.



Source: Office of Finance Consolidated Financials

Flexible Balance Sheet

The System's business model is designed to expand and contract as member needs warrant.



Source: Office of Finance Consolidated Financials

Meeting Members Liquidity Needs

The FHLBank System was quick to respond to the March 2023 bank liquidity turmoil

“FHLB borrowing has come back to earth more recently. **FHLB net debt issuance** on Monday **rose \$575 million a slowdown from roughly \$156 billion** on March 13 and \$7.3 billion on March 24.”

- ***“Banks Turn to Federal Home Loan Bank Funding as System Faces Review,” The Wall Street Journal, March 31***

“The Federal Home Loan Bank System **issued \$304 billion in debt** last week ... That’s almost double the \$165 billion that liquidity-hungry lenders tapped from the Federal Reserve.”

- ***“FHLB Issues \$304 Billion in One Week as Banks Bolster Liquidity,” Bloomberg, March 20***

“... the Federal Home Loan Bank system had its **biggest day of issuance** ever on Monday, **issuing \$112 billion worth of debt** to fund requests from banks looking to solidify their balance sheets.”

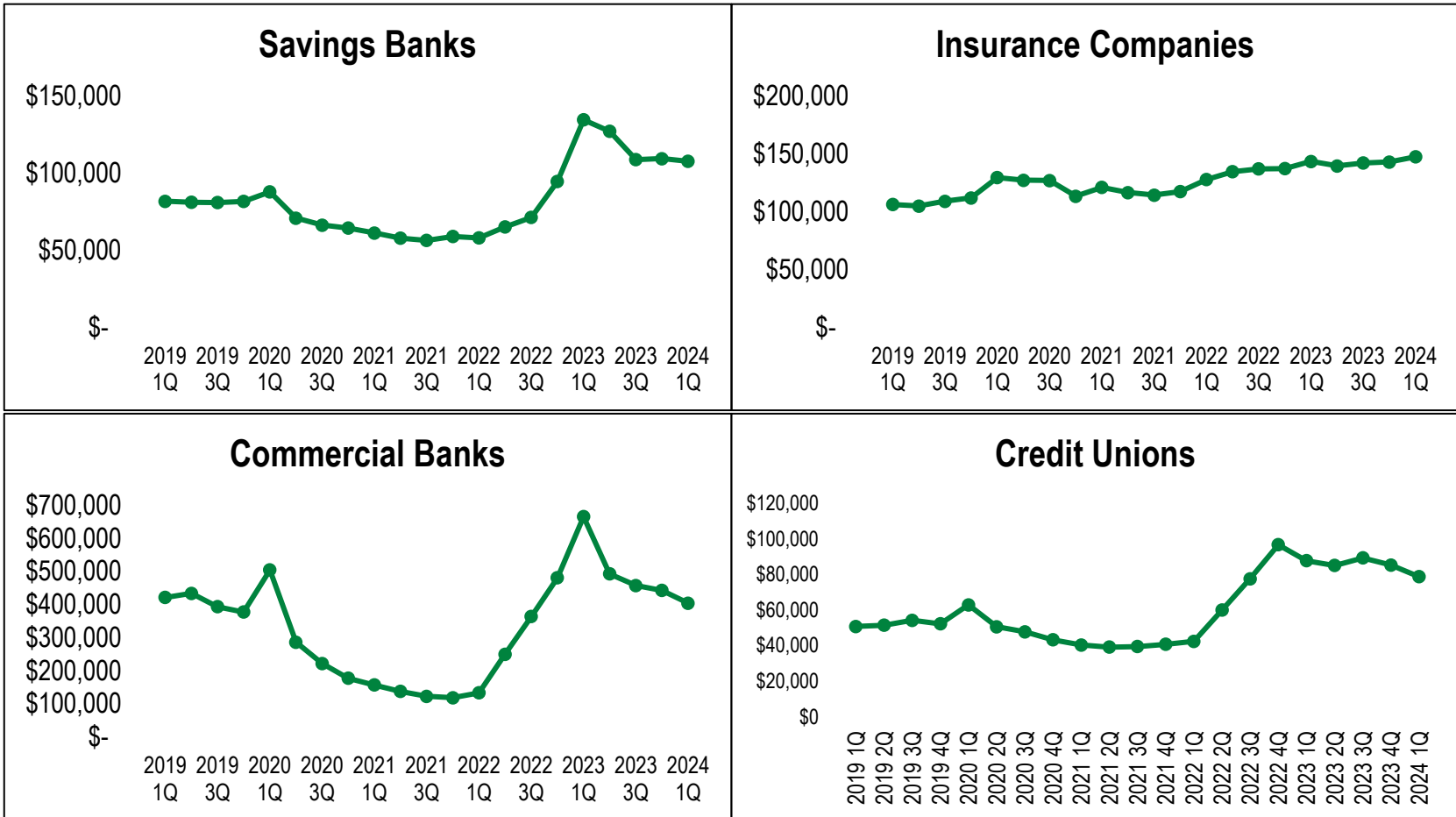
- ***“Discount Window, Federal Home Loan Bank Borrowing Spikes After SVB Failed,” The Wall Street Journal, March 16***

“**Demand for liquidity from the Federal Home Loan Bank System skyrocketed** ... prompting the system's Office of Finance to raise a record \$88.7 billion through the sale of short-term, floating rate notes — the system's largest debt issuance in a single day, reflecting the need for liquidity by community and regional bank members.”

- ***“Banks tap Federal Home Loan Bank System for \$90 Billion in Liquidity,” American Banker, March 13***

Borrowings by Sector Type

Scale, direction and timing of borrowing trends vary by the type of member institution.



Source: Office of Finance Consolidated Financials

Business Solutions

The System has a dual mission to provide liquidity to members and to support affordable housing across the country.

Credit – Advances and Letters of Credit

- Extensive product suite – Fixed rate, amortizing advances, structured advances
- Employ various strategies and tools to support member understanding and use of advances
- Letters of Credit used primarily to collateralize public unit deposits

Mortgage Partnership Finance®

- A secondary market outlet for conventional one-to-four family residential loans

Correspondent Services

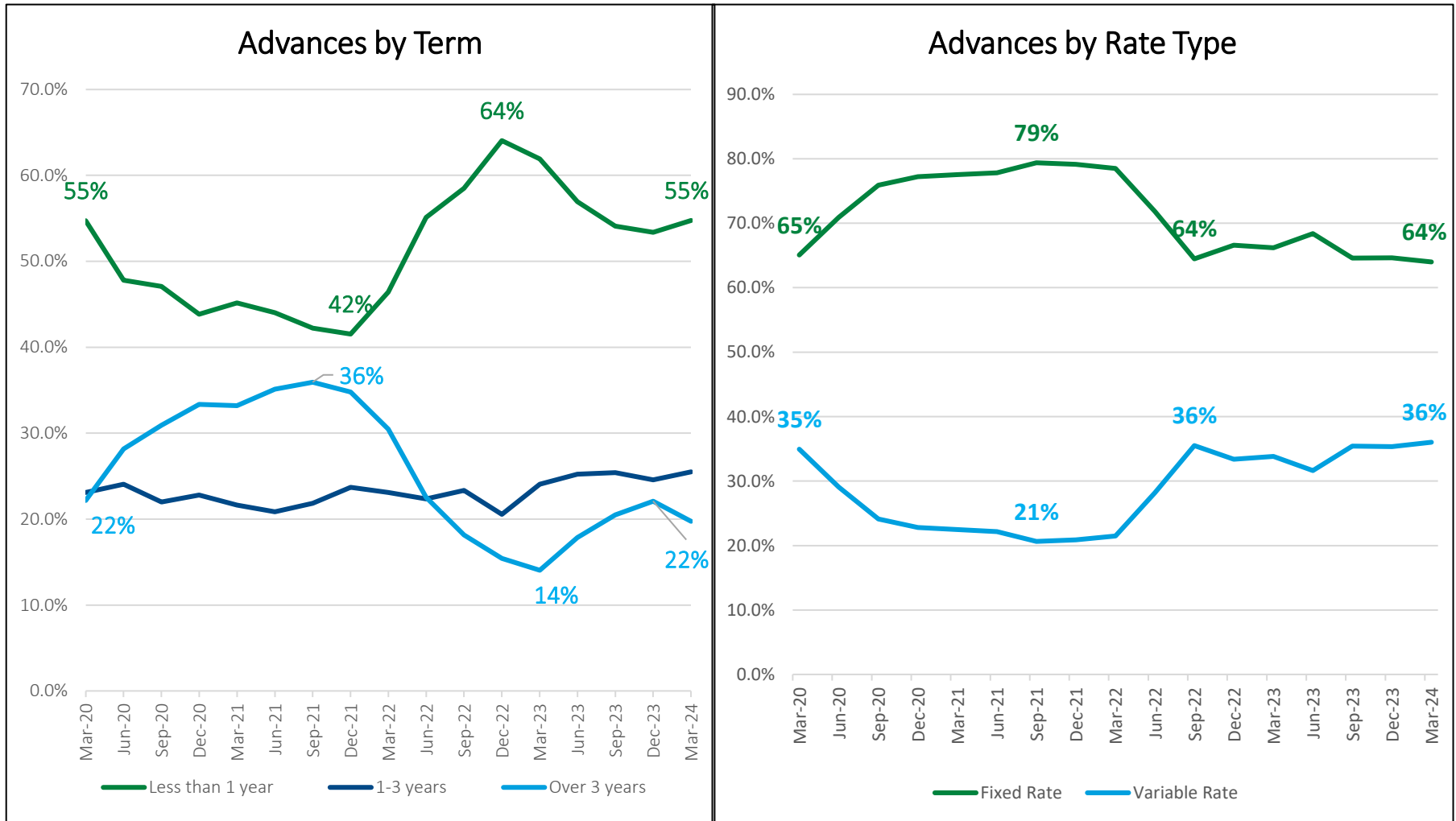
- Safekeeping
- Deposits
- Funds transfers
- Fed settlement
- Custodial mortgage accounts

Housing & Community Investment

- Affordable Housing Program
- Community Development Advance Program

“Mortgage Partnership Finance” and “MPF” are registered trademarks of the Federal Home Loan Bank of Chicago.

Distribution by Term and Rate Type

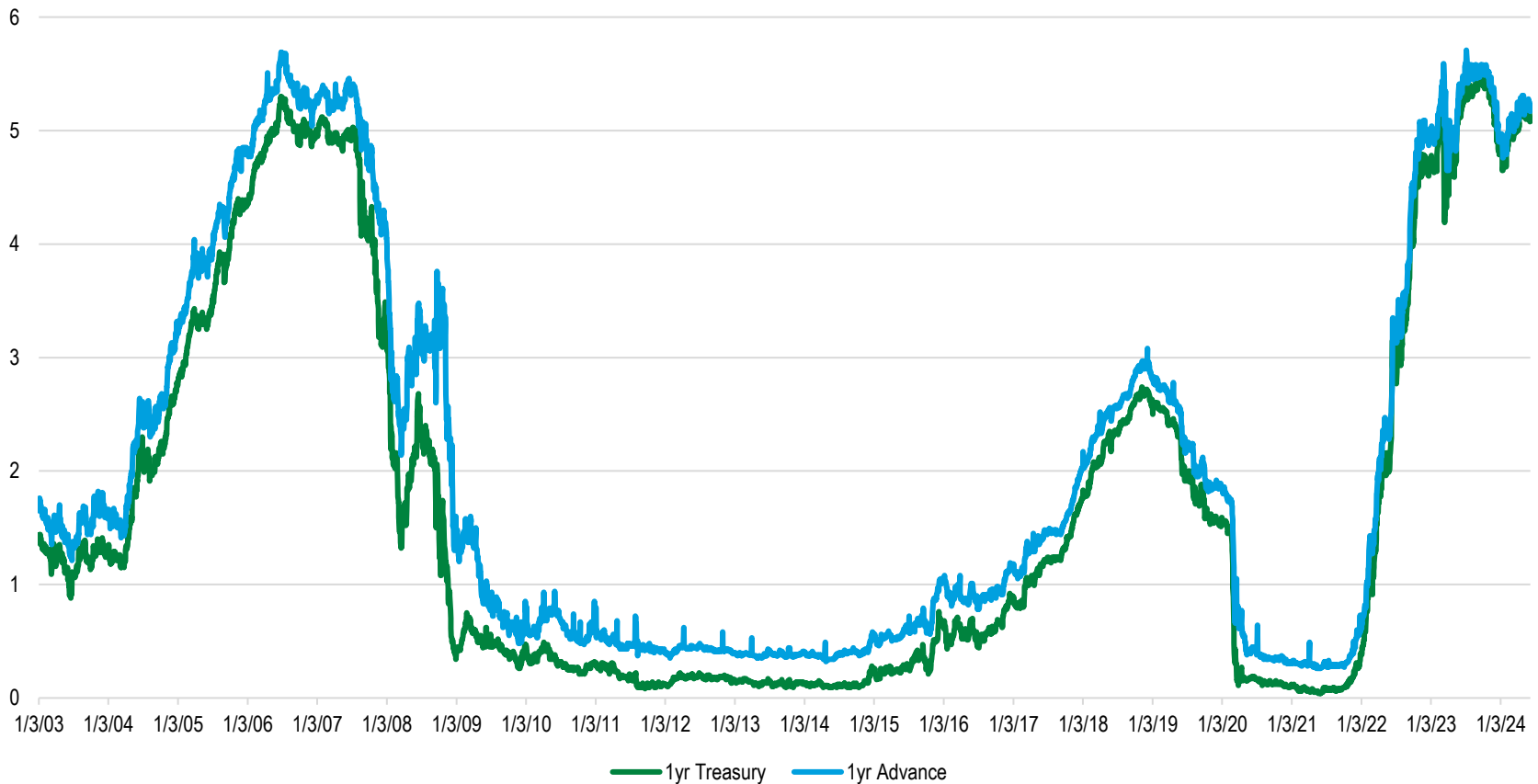


Source: Office of Finance Consolidated Financials

Stable Funding

As one of the largest and most consistent issuers of debt in the capital markets, FHLBank trades at narrow spreads to Treasuries.

FHLBank Boston 1-yr Classic Advance vs. 1-yr Treasury



Source: FHLBank Boston, Federal Reserve Bank of St. Louis

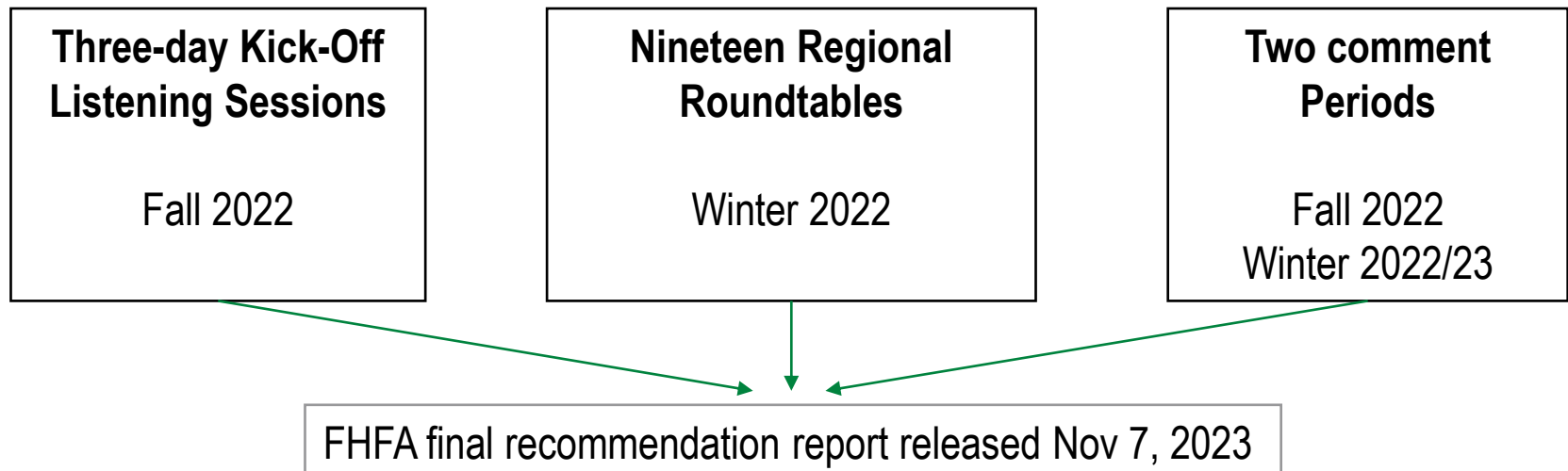
FHLBank System at 100 Report



FHFA 100-Year Review

FHFA sought feedback in six key areas:

1. The FHLBanks' general mission and purpose in a changing marketplace;
2. FHLBank organization, operational efficiency, and effectiveness;
3. FHLBanks' role in promoting affordable, sustainable, equitable, and resilient housing and community investment;
4. Addressing the unique needs of rural and financially vulnerable communities;
5. Member products, services, and collateral requirements; and
6. Membership eligibility and requirements.



Next Steps:

The report and feedback was the beginning of the process that will evaluate any proposed enhancements.

FHFA focus:

Mission of the
FHLBank
System

Stable and Reliable
Source of Liquidity
(Preserve the benefits of
FHLBank debt issuance
for all members)

Housing and
Community
Development

FHLBank System
Operational
Efficiency, Structure
and Governance

Changes will likely go through:

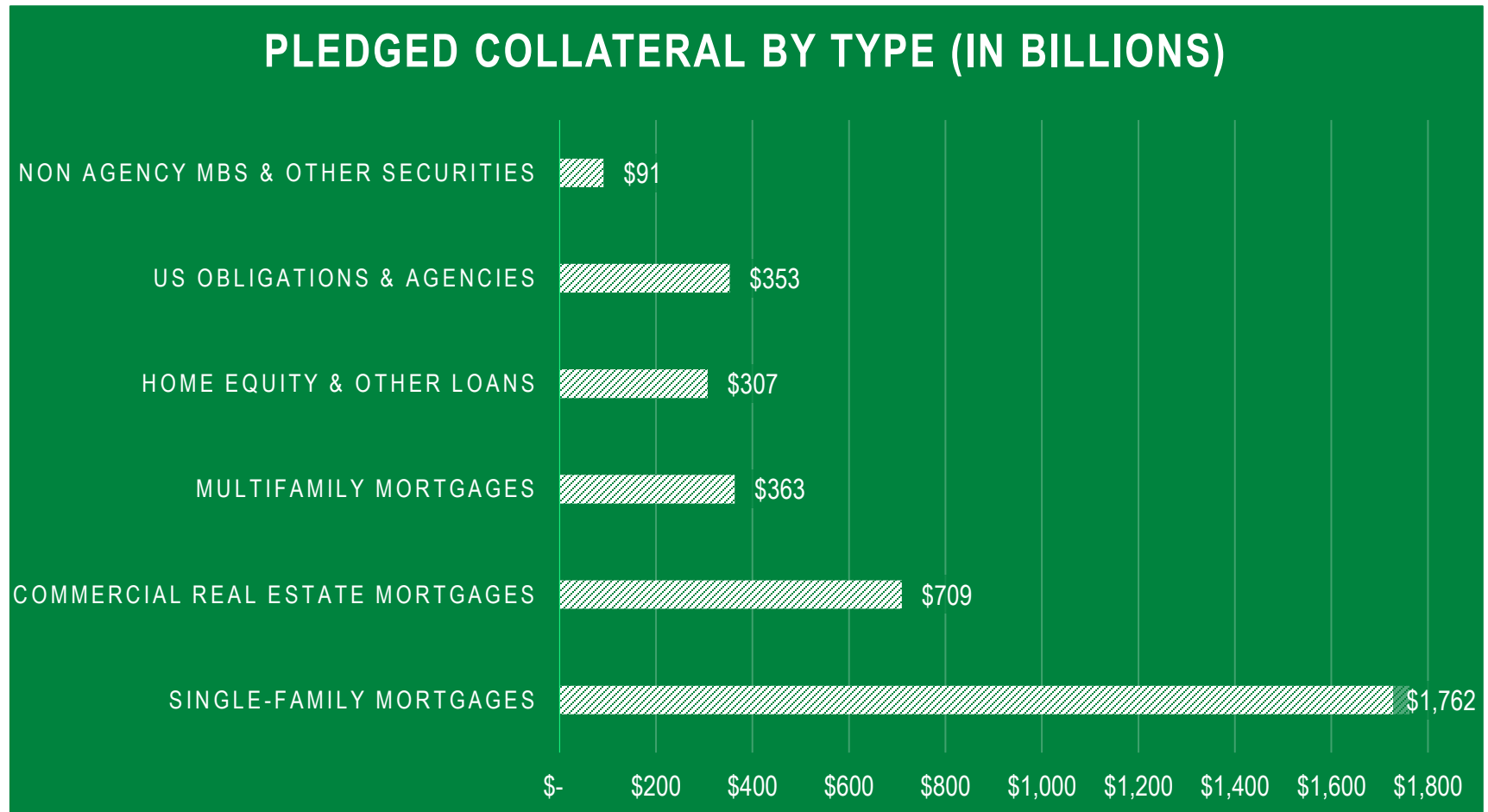
- 1.) Congressional action
- 2.) Rule making process
- 3.) FHFA Examination enforcement

Collateral & Capital Stock



Pledged Collateral

A variety of different loan and security types are eligible to be pledged and create borrowing capacity.



Source: Office of Finance Consolidated Financials

Capital Stock Requirements

Members purchase stock as part of membership and buy more as more activity is done. The stock pays a dividend, which helps lower the all-in cost of borrowing.

Membership Stock	Activity Stock
The membership stock requirement is set as a percent of the member assets as of December 31 of each year.	Activity-based capital stock requirement is based on a percentage of member outstanding advances and letters of credit.
0.05% of assets	3% on overnight advances
\$10,000 minimum/\$5 million maximum	4% on advances 2 days or longer
Annual recalculation of membership stock is performed	0.25% on letters of credit

Risk-Reducing & Return-Enhancing Case Studies



Overview

- Using FHLBank Solutions to Meet Balance Sheet Needs
 - Supporting Liquidity Metrics
 - Reigning in Rate Risk Exposures
 - Benefitting from High Volatility
 - Fading Rate Cut Expectations
 - Pre-Replacing Term Funding
 - Efficient Deposit Pricing
 - Leverage Strategies

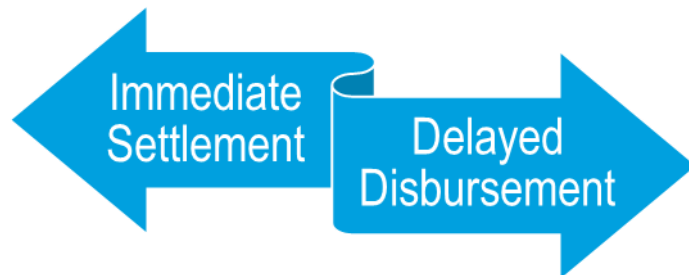
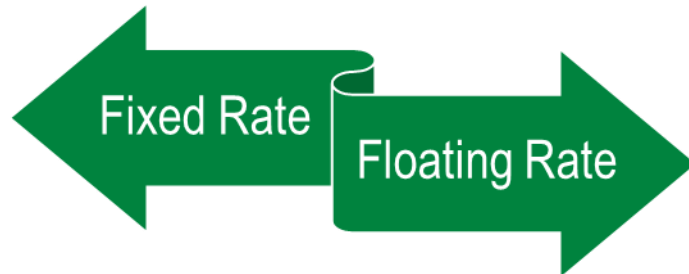
Balancing Risk and Return

In search of adequate return, what risks a) have value, b) you have capacity to take and c) are inclined to take?



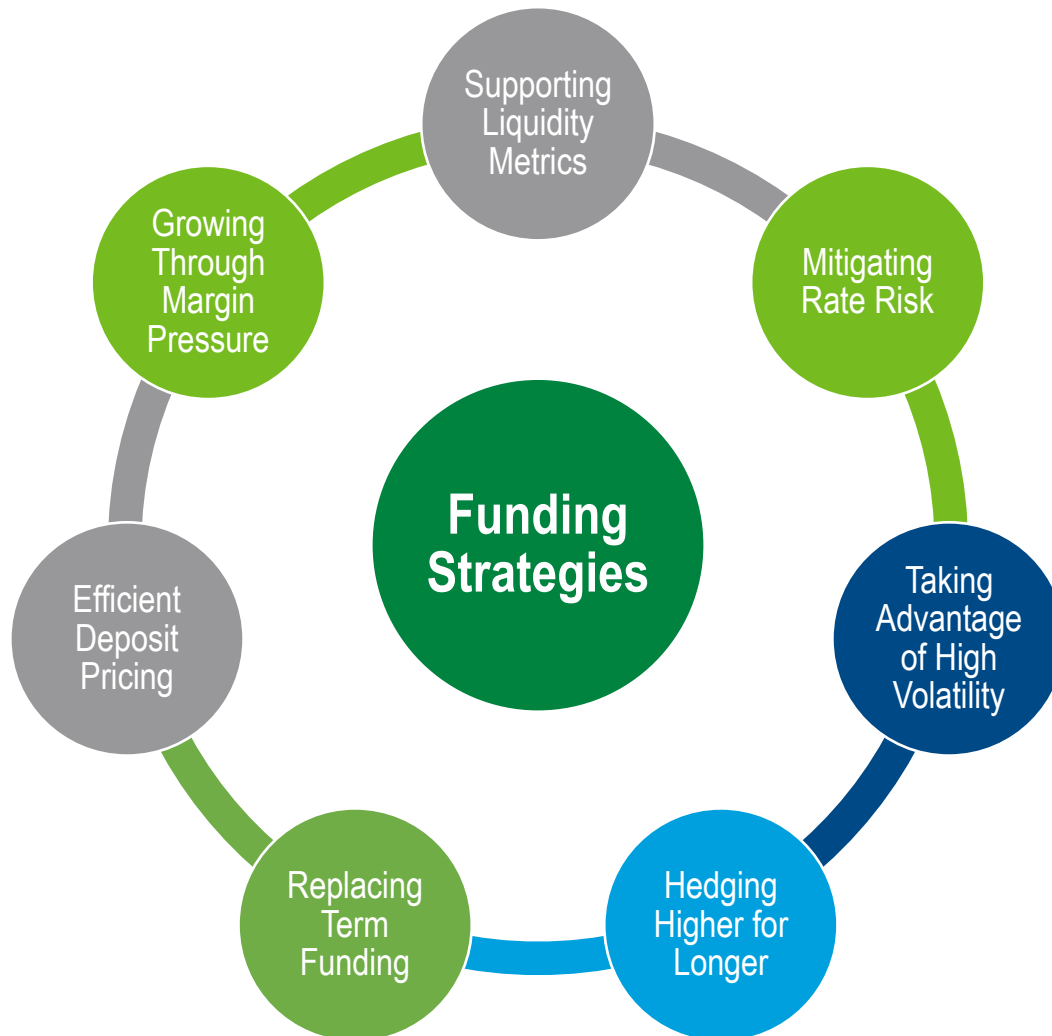
Solutions for Different ALM Challenges

There is tremendous flexibility to use wholesale funding to identify, target and complement the natural exposures in the loan and deposit portfolios.



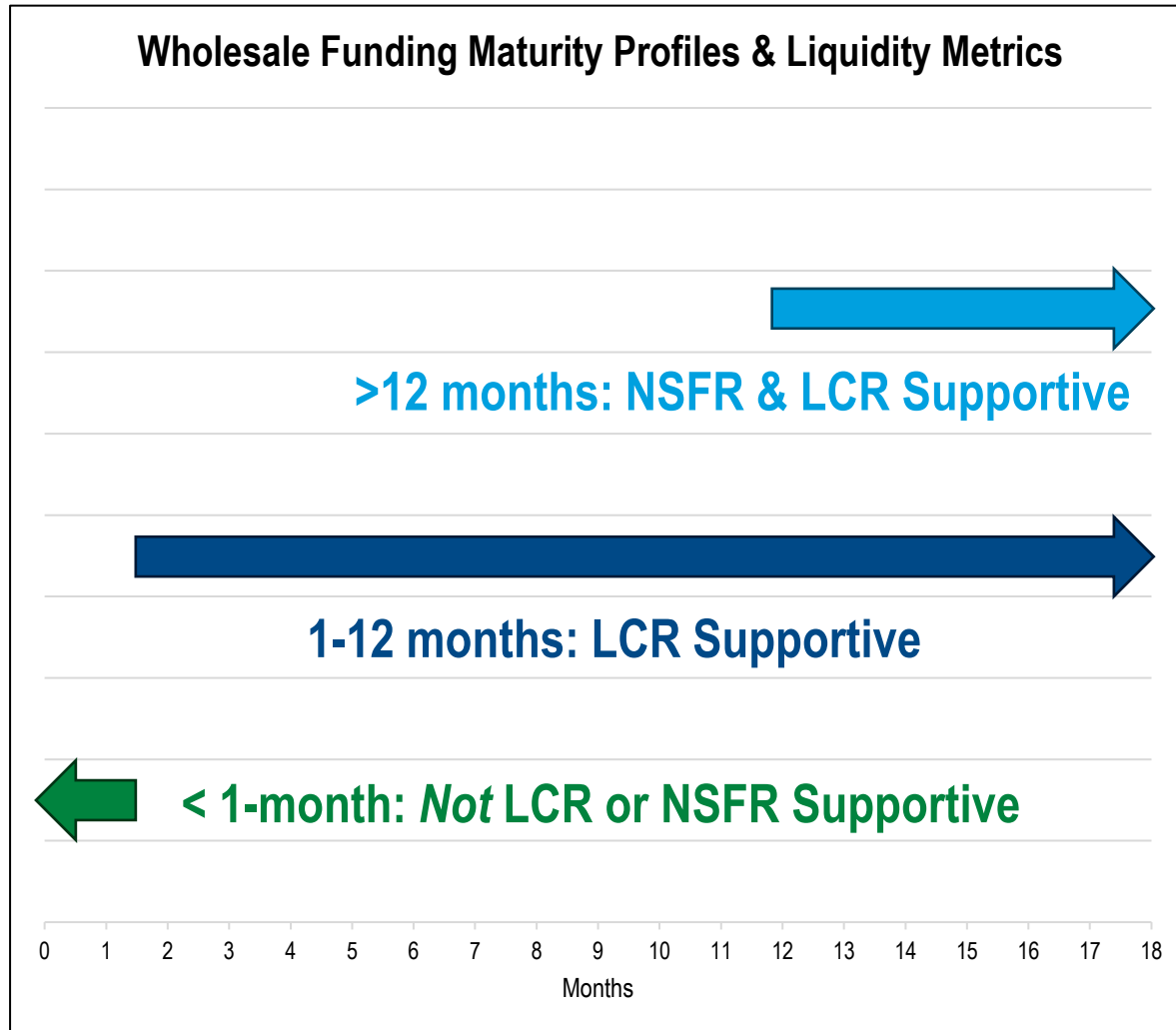
Meeting Balance Sheet Needs

There are no shortage of challenges facing depositories in the current environment.



#1: Term Floaters to Aid Liquidity Metrics

Long(er)-term funding with a short-term rate exposure can be a fit for an asset-sensitive institution tight on liquidity.



Floating-Rate Advance Solutions

SOFR-Indexed Advance

- Resets daily at SOFR plus fixed spread (ex. 6-month @ SOFR+18)

Callable SOFR Floater Advance

- Member owned option to call the advance with no prepayment fee
- ex. 6-month non-call 3-month SOFR @ +19

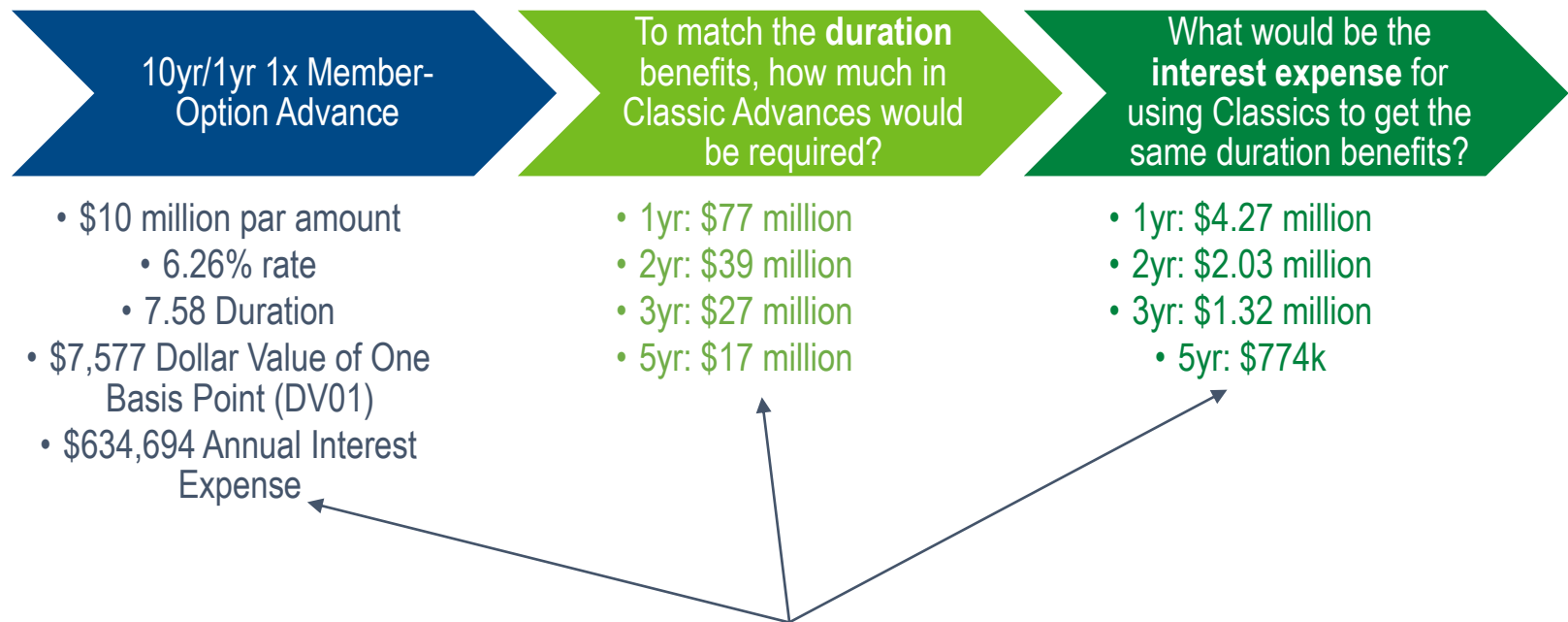
Discount Note Auction-Floater Advance

- Resets every 4 or 13 weeks at index plus fixed spread (ex. 1.5yr/4wk at +29)
- Index is FHLBank discount notes; issued every Tue/Thu at auction
- Member owned option to call the advance with no prepayment fee at every reset date

Source: FHLBank Boston

#2: Long-Term Callables to Address NEV/EVE Issues

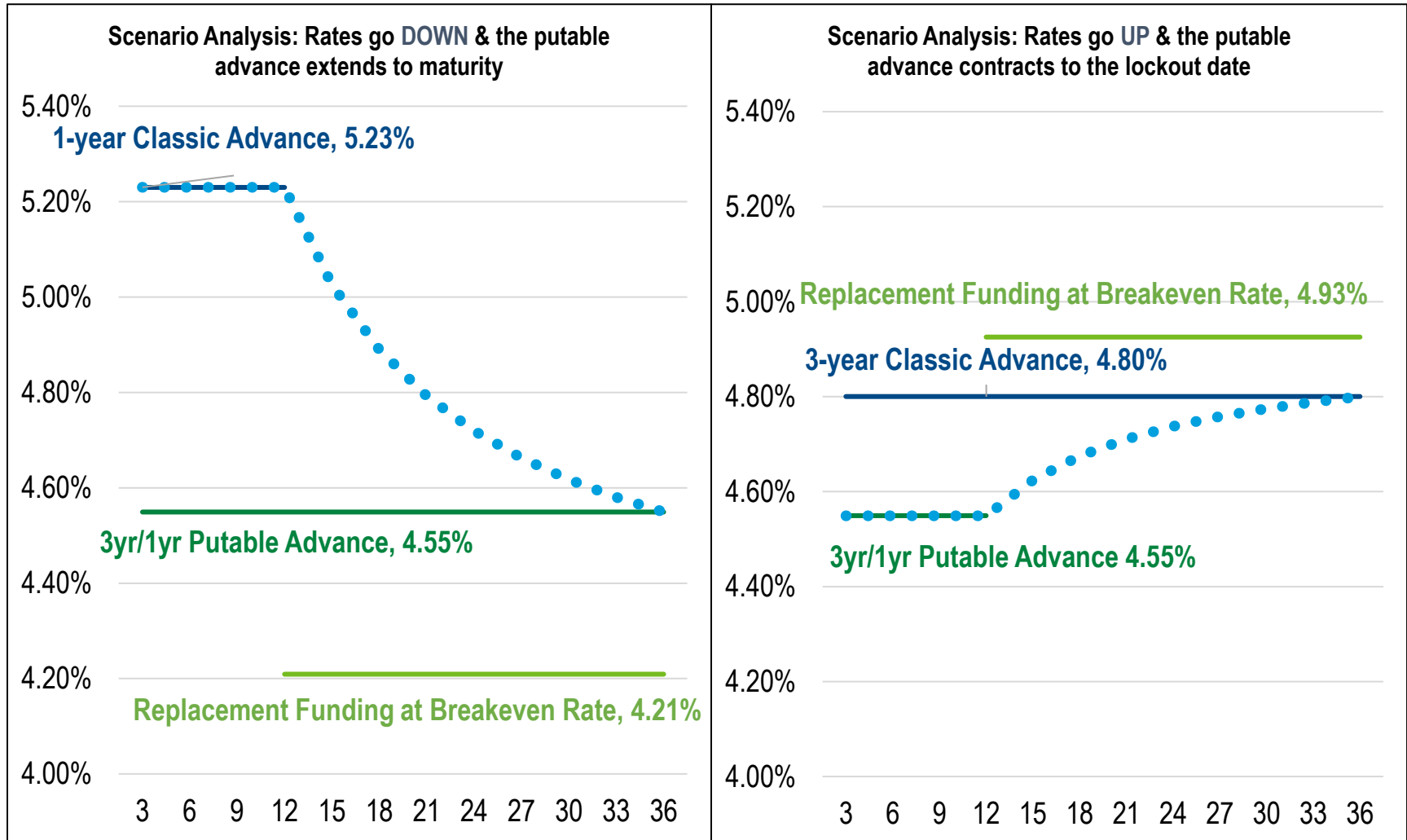
Dampen exposure to EVE/NEV, with less principal required compared to borrowing in the belly of the curve, while still retaining flexibility.



Same duration benefits, less borrowing required, and a lower total cost

#3: Putables to Benefit in a Soft Landing

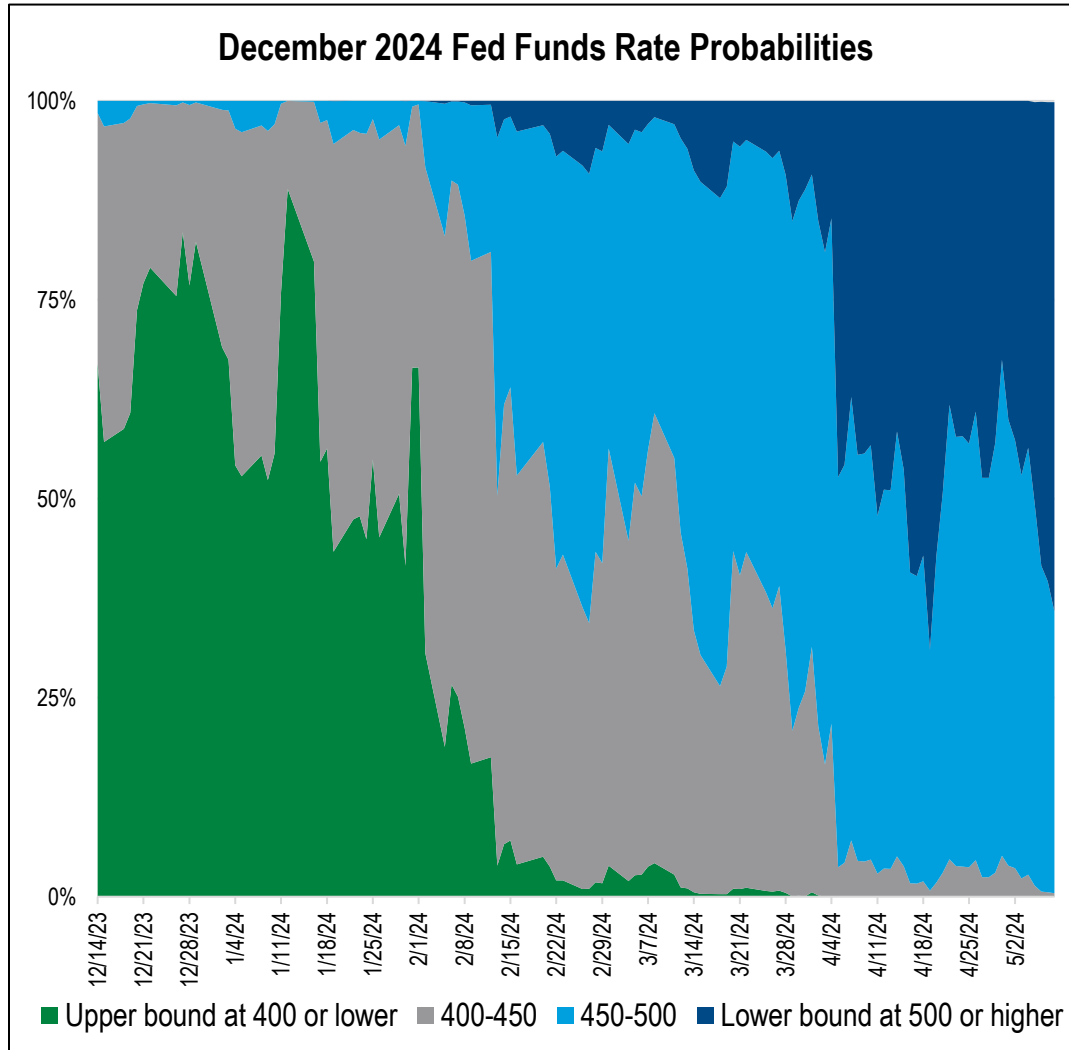
High uncertainty (volatility) presents opportunities to access funding below Treasuries by taking the optionality risk.



Source: FHLBank Boston

#4: Long-Term Fixed to Lean into Higher for Longer

“We used to be asset-sensitive but now we’re neutral to liability sensitive” has been a common refrain, as assets extended, and the liability mix shifted and shortened.



Go Long or Stay Short? 1/12/24

3-month Classic:
5.52%

Implied 3-month
Classic, 3-months
Forward: 5.10%

Implied 3-month
Classic, 6-months
Forward: 4.41%

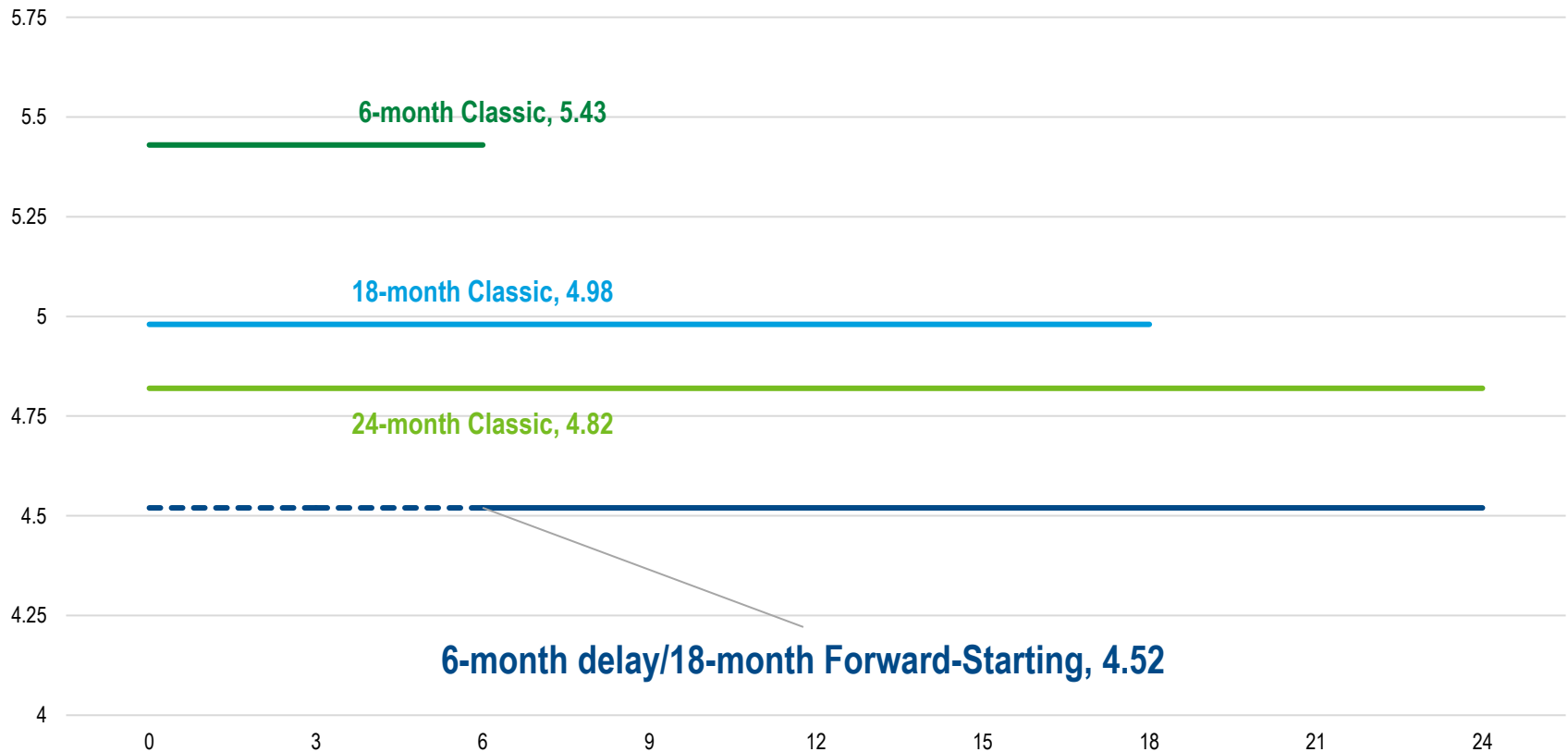
Implied 3-month
Classic, 9-months
Forward: 4.01%

1-year
Classic
Advance,
4.76%

#5: Forwards to Replace Maturing Term Funding

Forward-starting advances price off today's yield curve conditions but disburse at a date in the future, when funding may be needed- such as with maturities from the growing CD book.

Classic & Forward-Starting Advances

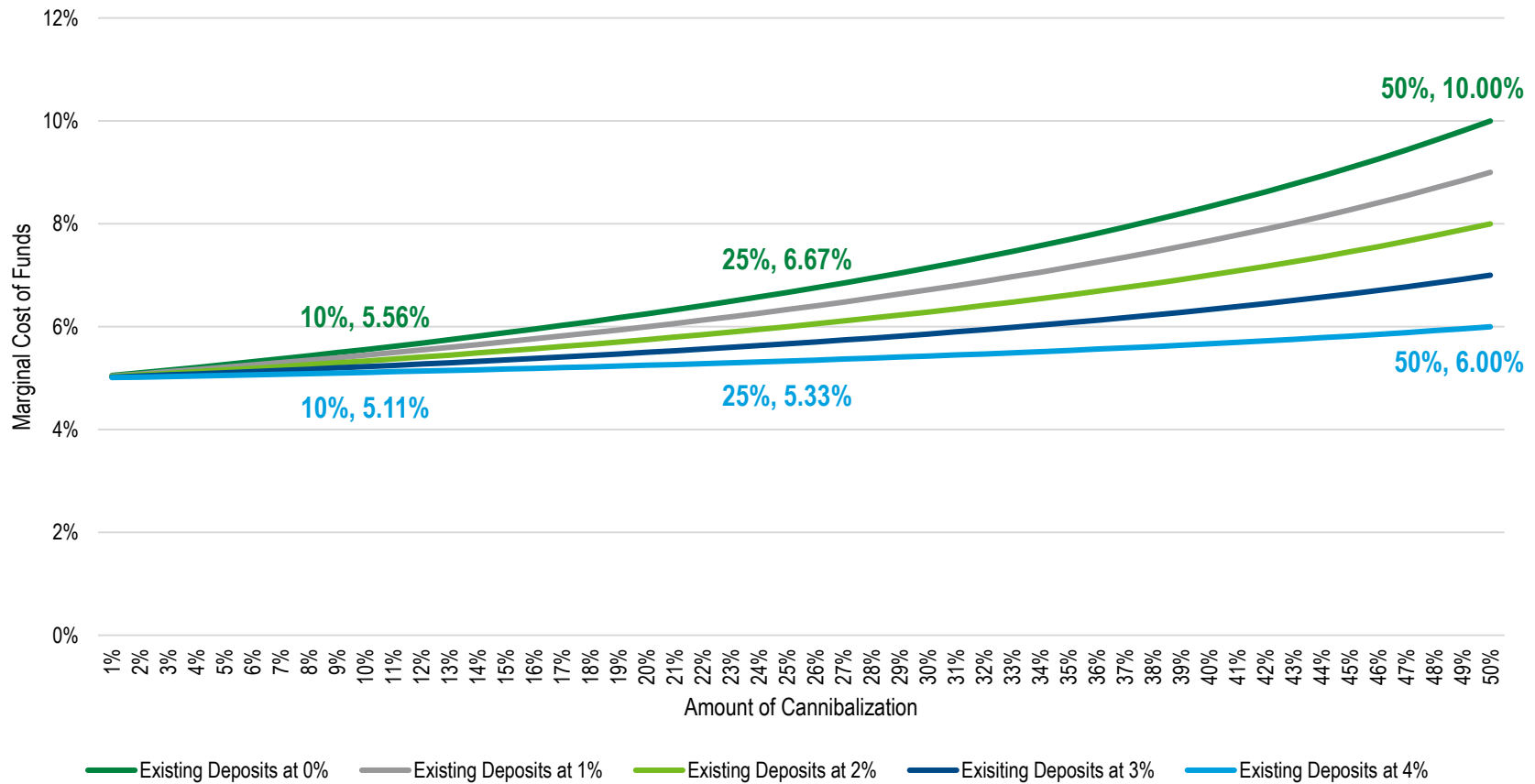


Source: FHLBank Boston

#6: Marginal Cost of Funds for Efficient Deposit Pricing

The “just-in-time” access to funding and liquidity provided by advances can be the starting point for economically favorable deposit pricing- especially as growth and retention are challenging, and cannibalization is a real issue.

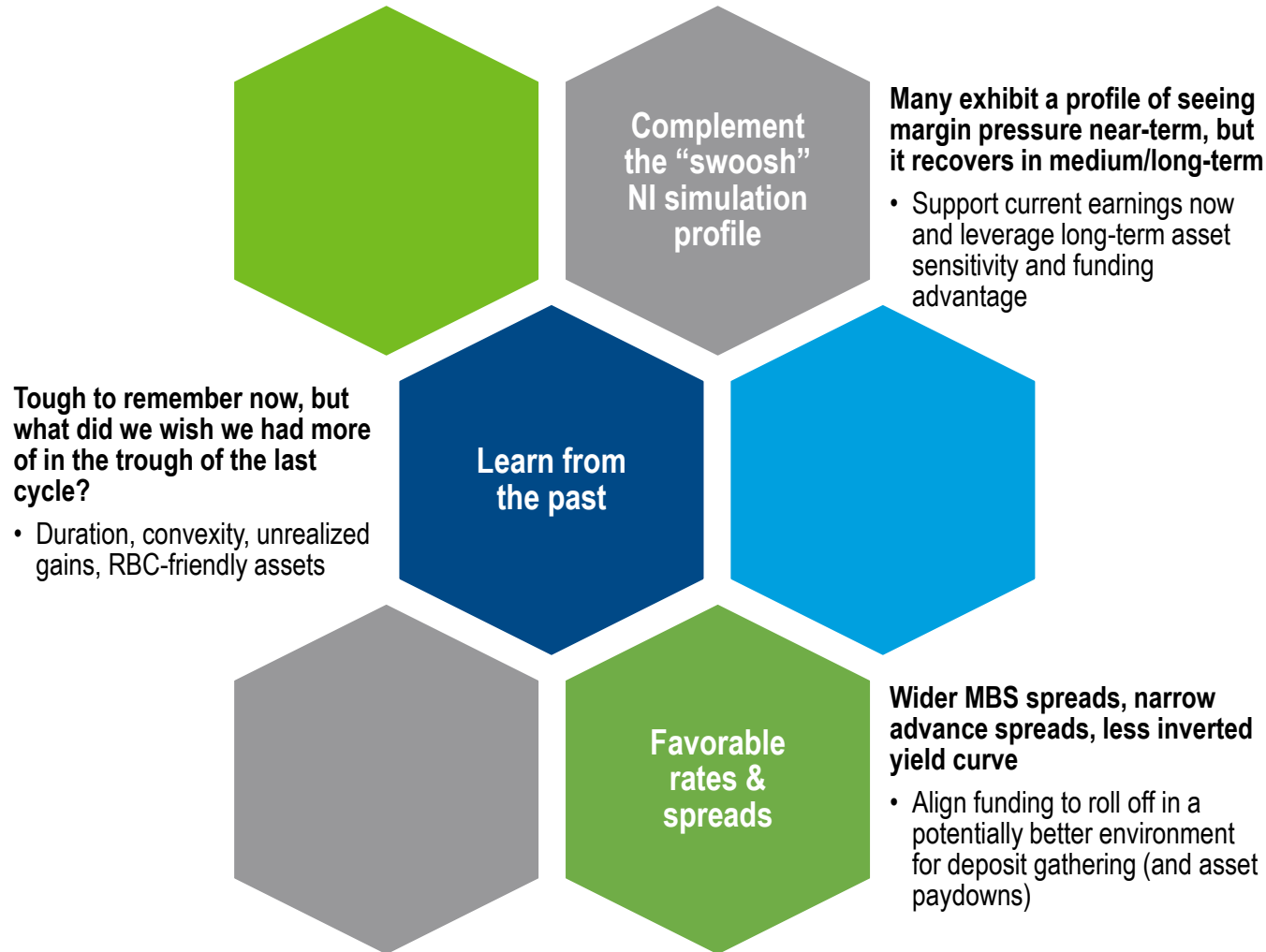
Marginal Cost of Funds Breakeven Rates (Assuming New Deposits at 5%)



Source: FHLBank Boston

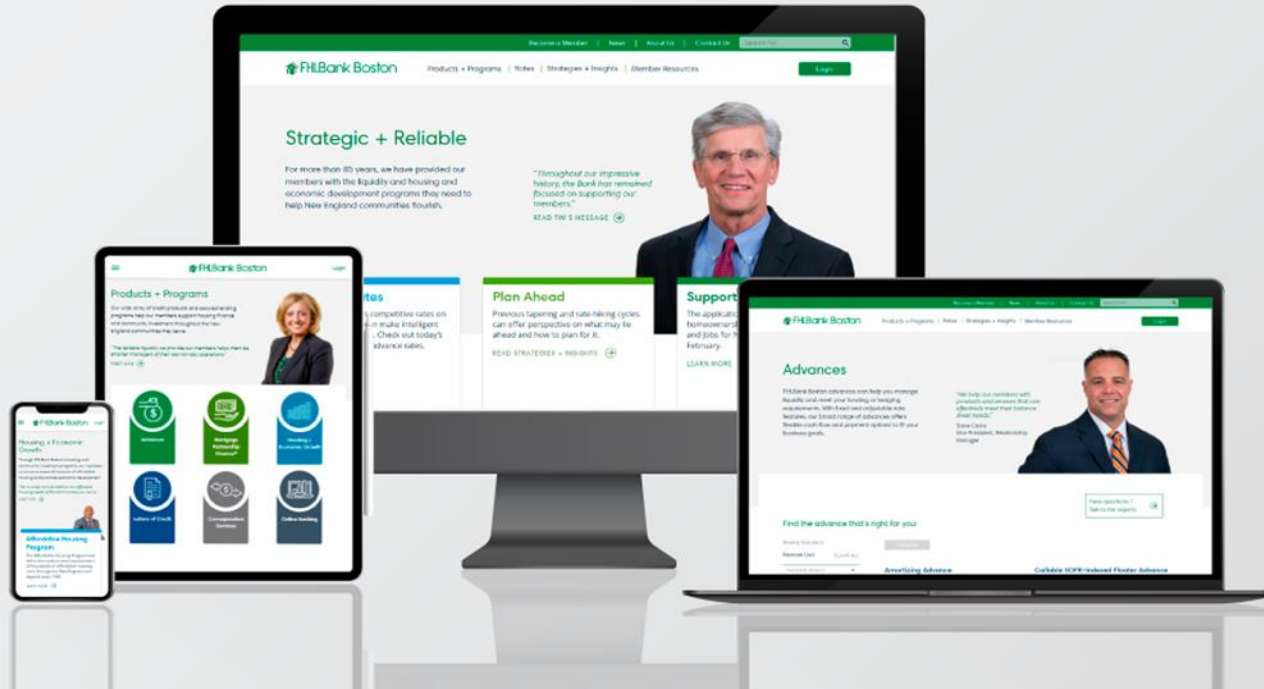
#7: Investment Leverage for a Sharp Pivot

Adding wholesale leverage, such as ~5 year investments vs. ~1-2 year funding, can help the balance sheet navigate the current challenging environment, as well as be favorably positioned if the economy (and the yield curve) roll over.



Questions?





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Thank You



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