Federal Home Loan Bank of Boston

Results

VOLUME I / ISSUE 1 / 2008

Funding Strategies

Growth and profitability in troubled times

PLUS...

Gimme Shelter
HLB-Option Plus Cap is designed for members seeking interest-rate protection.

How Flexible are CDAs?
Just ask Wesley Blair of Brookline Bank.

Interview with John Kerry
The Senator talks about GSE legislation, the credit crunch, and small business lending.

Two of Us
Arthur Connelly and Mark Macomber talk about their roles as members, directors, and national leaders.

Results

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MEMBER MATTERS

FUNDING STRATEGIES FOR TROUBLED TIMES

The pressure is on community banks to increase earnings, even in the face of market turmoil and the housing crisis. Kevin Martin takes a look at some funding approaches worth considering.

WASHINGTON NOTEBOOK

INTERVIEW WITH JOHN KERRY

RESULTS asked the junior senator from Massachusetts for his thoughts on the Housing and Economic Recovery Act of 2008, Washington partisanship, community banks, the Federal Home Loan Bank System, small business lending, green building, and even the Red Sox.

Results Magazine is published by the Federal Home Loan Bank of Boston
111 Huntington Avenue,
Boston, MA 02199
www.fhlbboston.com

For additional copies, or to be placed on the mailing list, please contact the Public Affairs Department at 617-292-9600, or e-mail info@fhlbboston.com.

The mission of the Federal Home Loan Bank of Boston is to provide highly reliable wholesale funding and liquidity to our member financial institutions in New England, which enables us to deliver competitively priced financial products, services, and expertise that support housing finance and community economic growth, including programs targeted to lower-income households.

FHLBBoston

FROM THE PRESIDENT

Michael A. Jessee, President and Chief Executive Officer

Welcome to the inaugural issue of RESULTS

We've designed this new publication to give our members and other stakeholders news about the Bank—its products, activities, and related issues of interest—as well as to offer concrete ways members can maximize the value of their membership.

We're launching this new venture in an extraordinary time, against the backdrop of a credit squeeze, an uncertain economy, and a housing downturn of historic proportions. The Housing and Economic Recovery Act of 2008 recently created a new regulator for Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks). Shortly thereafter, Treasury and the Federal Reserve placed Fannie and Freddie in a government-controlled conservatorship. Treasury also created a new liquidity tool, called by Secretary Paulson "the ultimate liquidity backstop" for Fannie, Freddie, and the FHLBanks if needed. At the same time, the FDIC is reexamining its policies in light of high-profile bank failures. And each day brings new headlines as the spotlight focuses on institutions that were prominent in the industry: Bear Stearns, Countrywide, Indymac, Lehman Brothers, Merrill Lynch, AIG, WaMu. In short, our current political and economic environments may well be the most challenging we have encountered in decades.

When President Bush signed into law the Housing and Economic Recovery Act of 2008, it ended nearly a decade of debate about the regulatory restructuring of the housing government-sponsored enterprises (GSEs). Spurred by accounting and financial performance issues at Fannie and Freddie, the new law established the Federal Housing Finance Agency (FHFA) as the safety, soundness, and mission regulator for the three housing GSEs. Headed by a single director, with three deputies overseeing safety and soundness for Fannie and Freddie, the FHLBanks, and mission, the new regulator has been given many of the same authorities held by our former regulator, the Federal Housing Finance Board.

What does this mean to our members, the Federal Home Loan Bank of Boston, and the FHLBank System as a whole?

The GSE regulatory restructuring should be mostly seamless for our members. You can still count on us for your funding needs, and we will continue to work toward our goal of building retained earnings due to the ongoing volatility in the capital and housing markets.

The one notable exception, however, deals with board governance. The new law mandates several significant changes regarding board structure for the FHLBanks, starting with size. Specifically, 13 members "or such other number as the Director determines appropriate" is prescribed for each FHLBank, compared with our current board of 18 directors. Further, independent directors must make up two-fifths of each board. Instead of being appointed by the regulator, these public interest directors will be elected by members from a slate of candidates nominated by an FHLBank's board after consultation with its Advisory Council. We will keep you informed as to how this will affect the composition of Boston's board as well as the plan and timetable to implement these changes.

It is certainly in the interests of the FHLBanks and our members to have a world-class regulator. While the transition to the FHFA will require considerable resources as we respond to requests for information and comment on new regulations, the new regulator's authority mirrors the regulatory framework that the FHLBanks have lived under for some time. In addition, before issuing any regulation or advisory document, the director of the FHFA is required to consider those factors that make the FHLBanks unique: our cooperative structure; mission to provide liquidity, affordable housing, and community development; capital structure; and joint and several liability.

Of course, the new law leaves our new regulator with much to do in a relatively short period of time. For example, in the next six months the director is expected to issue regulations establishing critical capital levels for the FHLBanks. The director will also conduct studies for Congress with respect to the collateral used for advances and the securitization of mortgage loans purchased from members under such programs as the Mortgage Purchase Finance® (MPF®) program. While it remains to be seen how these and other new regulations will affect our operations, we anticipate a period of intense activity for some time.

After all is said and done, the events of the past year have only underscored the value of the FHLBank System. Our regional cooperative structure, largely unchanged since we were created in 1932, is still efficient and effective. When the credit markets seized up, the FHLBanks were, as always, able to serve as a reliable source of liquidity for all members, regardless of size, and we did it without compromising our stringent safety and soundness standards.

The FHLBanks may never become a household name, but this most recent economic storm has further demonstrated the critical role we play. Members and Washington policymakers can rely on us to be a dependable supplier of liquidity in all business cycles, however extreme, whenever we're needed. ■

Jon Meacham, Geoff Colvin Keynote Annual Meeting

Top: Annual meeting speakers Geoff Colvin and Jon Meacham. Bottom: President and Chief Executive Officer Michael A. Jessee and Chair Robert F. Verdonck

FOUR HUNDRED ATTENDEES representing the Bank's membership, board of directors, management, and staff gathered at The Westin Copley Place in Boston for the 75th Annual Shareholders Meeting. The yearly spring meeting provides a popular forum for the Bank to discuss performance and issues of importance to shareholders, and features noted national speakers to address current economic and political trends.

Chair Robert F. Verdonck called the meeting to order, focusing on the Bank's role as a steady and reliable source of liquidity in all environments. The Bank, he said, successfully met members' needs while maintaining a conservative risk profile, even in the midst of the credit crisis, and takes pride in its close partnership with members throughout the district.

President and CEO Michael A. Jessee spoke at greater length about the credit market disruption, and how the Federal Home Loan Banks stepped up to the plate to provide members liquidity. Reviewing the Bank's 2007 financial results, with record-setting levels for assets, advances, and net income, he was happy to report that more than three-quarters of the Bank's members were active borrowers. President Jessee also spent time delving into the Bank's risk-management practices, stressing its low tolerance for credit and market risk.

"Our primary mission is to provide you liquidity, and to continue to be a reliable source of liquidity, it is critical that we maintain the conservative posture that has served us so well in the past," he said. "We stand ready to serve you in these very challenging times."

NEW PRODUCT HLB-Option Plus Cap

The Bank Introduces the HLB-Option Plus Cap Advance

New product offers added protection against rising rates

In April, the Federal Home Loan Bank of Boston (the Bank) introduced the HLB-Option Plus Cap advance, an HLB-Option advance with an embedded cap feature designed to help members address balance-sheet sensitivity to increasing short-term rates.

Like the standalone HLB-Option advance, the HLB-Option Plus Cap advance is a fixed-rate, non-amortizing advance with an embedded LIBOR-indexed interest-rate cap feature effective for the lockout period. If LIBOR exceeds a predetermined strike rate during the lockout period, the embedded cap feature reduces the advance rate below the initial rate. The notional amount of the embedded cap feature must be at least equal to the amount of the advance and no greater than three times the amount of the advance.

If the advance is not cancelled by the Bank at the end of the lockout period, the advance remains outstanding at the initial advance rate for the remaining term or until the advance is cancelled. This advance is offered in Bermudan structures, cancelable on a quarterly basis after the lockout period, and European structures, cancelable on a one-time basis after the lockout period.

Daniel B. Redmond, vice president, money desk manager, says the Bank developed the new advance in response to members seeking interest-rate protection. "We came together to create a product to accommodate their needs," he says. "Embedding the cap feature in the HLB-Option product allows members to bring down the cost of the associated interest-rate protection.

"The ideal environment for this product is one in which members are anticipating that short-term rates will be rising," he says. "That's where the product will provide its biggest payoff.

"I can't say enough about how significant the interest in the advance has been since it has been rolled out," he adds. "It's a new and more complex product, so educating our members on how it works is key."

Noting that members in general are attracted to option advances, Mr. Redmond says the Bank seeks to provide robust product offerings that accommodate ➢

Using the day's headlines from *The Wall Street Journal* and *The Boston Globe* as a starting point, Geoff Colvin, senior editor at large at *FORTUNE* magazine, addressed the turbulence of the credit markets. He talked about the "market going sane," as it began to wake up to risk, and the superabundance of financial capital that was never before available. He also cited the rise in unemployment coupled with the loss of equity in homes as the primary factors behind the decline in consumer confidence and spending that drives the economy.

As a professional observer of business cycles, he cited four things that the best companies do in tough times:

1. They don't stop building the things that are most important to them, like their brand and people.
2. They communicate intensively to their employees, their service providers, and their customers.
3. They evaluate their customer base to analyze how much money each makes for the company.
4. They resist the temptation to make cuts across the board, "as the world doesn't hand out trouble evenly."

Mr. Colvin concluded by saying, "This is a tough time. Nobody knows what's going to happen next, and people aren't sure how we're going to get out of it. I remain highly optimistic about the U.S. economy and its ability to recover. Being a pessimist has never been the right way to bet on the U.S. economy."

The final speaker, Jon Meacham, editor of *Newsweek* and best-selling author, spoke primarily about the presidential campaign. Noting that "voters are in a very bad mood," he spoke about how the upcoming presidential election will be different from the last few.

"In 2000 and 2004, we knew exactly where the elections would be decided—about six counties in Southern Ohio, and parts of Pennsylvania and Tennessee. Karl Rove and Bob Shrum could tell you the zip codes of the undecided voters."

He went on to say that, "Senator Obama scrambles the old math in a way that we have no idea. We just don't know what the general election math would look like."

"Despite the sour feelings on the part of the electorate," he concluded, "this has been a moment where politics has been somewhat ennobling. It's been a good story. This has been a year that we can look back and say certain things happened in the campaign that helped change the nature of American life—not just on cable TV, but throughout."

The 76th Annual Shareholders Meeting will be held on April 14, 2009, at The Westin Copley Place in Boston. David Gregory, NBC News Chief White House Correspondent and Host of MSNBC's Race for the White House, will be the keynote speaker. More information will be made available closer to the event. ■

A product like this helps move the Bank beyond the plain vanilla of term and amortizing advances. It adds another tool to your tool box to help manage your balance sheet.

member needs under a variety of scenarios. The HLB-Option advance allows members "to take down wholesale funds at a sub-market level," he says. "So price is a big part of the attraction."

Depending on the strike rate for the embedded cap feature, the HLB-Option Plus Cap advance may provide accelerated relief from sharp increases in short-term interest rates and may help members address balance sheet interest-rate sensitivity to increasing short-term rates during the lockout period.

At each rate-adjustment date, the effect of the cap feature is determined by comparing the current level of the index rate with the cap feature strike rate. If the index rate is above the strike rate, the effect of the cap feature is the difference between the two rates, which is applied as a reduction to the interest rate of the advance. If rates continue to rise, the advance rate will continue to decrease, but not below zero percent. Whenever the index rate is below the strike rate, the cap feature will have no impact on the advance rate.

"Generally, this advance would be most attractive to liability-sensitive members, but it can also benefit asset-sensitive members," says Kevin P. Martin, vice president, member financial strategies manager. "By embedding a cap in this structure, liability-sensitive members can realize greater interest-rate protection than their funding needs alone justify. Members that want to maximize their borrowing capacity can also obtain more interest-rate risk protection through the use of this advance."

Asset-sensitive members can also use this product as part of a leverage strategy, he notes. If a member is holding long assets, it would be possible to fund them with equal amounts of short-term advances and an HLB-Option Plus Cap advance. If rates decline, the rate on the short-term funding

Member Profile: Christopher J. Nelson, Vice President, Bangor Savings Bank by Robert O'Malley

Using the HLB-Option Plus Cap Advance

When the Federal Home Loan Bank of Boston (the Bank) introduced its new HLB-Option Plus Cap advance to members in April, member Bangor Savings Bank soon became one of the advance's largest users.

"A product like this helps move FHLB Boston beyond the plain vanilla of term advances and amortizing advances," says Christopher J. Nelson, vice president and chief investment officer at Bangor Savings Bank. "It adds another tool to your tool box to help you manage your balance sheet."

A member of the Bank's Member Advisory Panel since its inception last year, Mr. Nelson had been urging the Bank to move forward with developing an advance with a structure like that of the HLB-Option Plus Cap advance – a fixed-rate, non-amortizing advance with an embedded LIBOR-indexed interest-rate cap feature.

"I was excited to see the Bank bring this product to the street because similar products are already available through other channels," says Mr. Nelson. "We haven't yet seen the benefit of the cap, but we know it's going to go a long way toward helping us manage our interest-rate risk."

"One of the tools available to any bank with exposure to rising interest rates is employing advances with caps to limit rises in rates, especially if an institution has liability sensitivity," he adds. "If your bank is liability sensitive, you are more at risk from an interest-rate standpoint if rates are rising, so being able to hedge that risk by employing caps against your balance sheet can be beneficial.

"It really comes down to how you want to manage your balance sheet," says Mr. Nelson. "First and foremost you have to decide on what strategies and tactics to employ to manage your institution's risk exposure."

Mr. Nelson notes that small community banks often face obstacles accessing cap funding. "In most cases you're required to jump through the hoops of hedge accounting, and you need expertise on board to stay in compliance with FAS133," he says.

While it is possible to simply purchase caps as a trading activity and forgo the hedge accounting, "most financial institutions avoid this approach because of the volatility introduced into the income statement as a result of having to mark the caps to market on a regular basis." Mr. Nelson said.

Acquiring such funding through the Bank, on the other hand, means an institution is working with a familiar partner. "The folks on the Bank's Money Desk are great to work with," says Mr. Nelson, and the hedge accounting concerns that often come into play when working with alternative sources are no longer an issue.

Mr. Nelson says working with the Bank also offers more flexibility with collateral. "One of the reasons we like working with the Bank is that we can utilize not only our investment securities as collateral – which we can use with anyone on the street – but also our loan portfolio. There's obviously a major benefit to having the Bank in our corner."

Yet another reason for partnering with the Bank involves reliability. "Given some of the volatility and liquidity concerns in the market of late, I like to think

that the FHLB is going to be there through thick and thin," he says. "In a worse-case scenario there is always the potential for a street counterparty to tell you they are not in a position to help you. So this is another benefit of working with the Bank."

Mr. Nelson values the opportunity to provide input on new Bank products and services as a member of the Bank's Member Advisory Panel. "It allows me to be part of a dynamic process of shaping the direction of the Bank long term to benefit all of the members," he says. "The panel's discussions are very candid. If we have concerns, members of the panel aren't afraid to speak up and provide pushback if needed. This isn't a rubber-stamp committee. It's truly a dialogue between the Bank and its members." ■

The HLB-Option Plus Cap advance allows members to take down wholesale funds at a sub-market level, so price is a big part of the attraction.

would similarly decline. If the assets prepay in a falling rate environment, the amount of short-term funding could be reduced. If rates increase, the rate of the advance with the embedded cap feature could actually decline during the lockout period.

For example, a member seeking funding at below-Classic advance rates, as well as rate relief if rates increase, could take down $10 million of a five-year/three-year double notional cap advance with a strike rate of current three-month LIBOR, or 3.15 percent. The initial rate on the HLB-Option Plus Cap advance is 3.61 percent. This rate will decline if the index (three-month LIBOR) exceeds the strike rate on the HLB-Option Plus Cap (3.15 percent) on any rate-adjustment date. During the lockout period, the advance rate will be adjusted every three months. Assuming that three-month LIBOR is 4.15 percent at the first rate-adjustment date, the advance rate would decline to 1.61 percent for the next three months:

Initial advance rate = 3.61%
Effect of the cap feature
(if LIBOR is above 3.15%) =
($ amount cap / $ amount advance) *
(LIBOR - strike rate) = ($20M / $10M) *
(4.15% - 3.15%) = 2.00%
Net adjusted advance rate = initial
advance rate - effect of the cap feature =
3.61% - 2.00% = 1.61%

Standalone caps are usually quoted with an up-front premium. The cost of the cap feature on the HLB-Option Plus Cap advance is included in the rate. If the advance is prepaid, the member may be obligated to pay termination costs to render the Bank indifferent to the member's decision to prepay. If the proceeds from the termination of the cap feature exceed the amount the member owes, no payment will be made to the member.

This advance may be attractive to members concerned about interest-margin compression resulting from an increase in short-term interest rates. Liability-sensitive members can use this product to extend wholesale funding at rates below like-maturity bullet funding while providing additional margin relief in the form of a lower advance rate if LIBOR rises above the strike rate of the embedded interest-rate cap feature.

Before using the HLB-Option Plus Cap advance, members should carefully evaluate the unique features of the advance and how these characteristics will impact their balance sheet and income projections. We also encourage members to consult with their financial advisors and accountants to determine if an advance with an embedded cap feature is an appropriate strategy for them.

For more information, please contact your relationship manager (1-888-595-8733) or the Money Desk (1-800-357-3452, moneydesk@fhlbboston.com). ■

The Federal Home Loan Bank of Boston offers a variety of seminars, training, and other events for its members.

For more information on these and other programs, please visit www.fhlbboston.com/events.

October 1
Secondary Market Workshop
Marlborough, Massachusetts

October 8
Solutions Workshop
Westborough, Massachusetts

October 14 - December 3
FHLB 101 Webinar Series

CALENDAR

Funding Strategies for Troubled Times

by Kevin P. Martin, Vice President, Member Financial Strategies Manager

The credit squeeze. The collapse of the subprime market. A housing crisis of monumental proportions. The demise of Bear Stearns, Countrywide, and IndyMac.

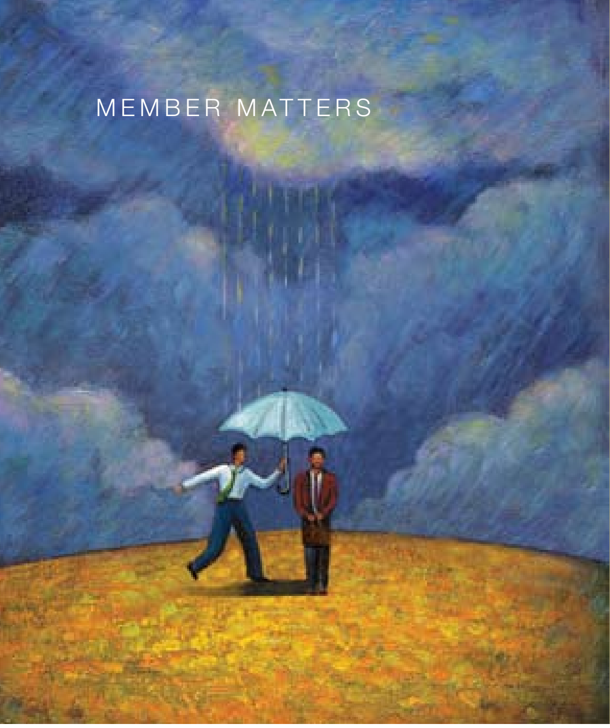
If nothing else, we live in interesting economic times.

Large financial institutions continue to cope with billions of dollars in losses incurred over the past year as a result of the nation's housing crisis, and have cut back on loans to businesses. Problems at Fannie Mae and Freddie Mac have caused residential mortgage rates to rise. The beat goes on.

That said, members that have both the capital to support a larger balance sheet and available borrowing capacity at FHLB Boston have the opportunity to profit from this challenging situation.

No rest for the weary

Many members are facing intense earnings pressure, as the 100-basis-point return-on-assets benchmark of a bygone era gives way to ROAs that averaged less than 40 basis points during the first quarter of 2008. Given the struggle to generate acceptable earnings, many members are taking advantage of the current environment and initiating growth strategies that produce net interest spreads of 150 basis points or more on mortgage-backed securities. ➢



Even modest amounts of leverage can generate earnings that will add to the bottom line.

Looking to fund loans or securities with advances?

Our funding-strategy models can help you develop strategies to hedge interest-rate risk and maximize profitability. Whether you're looking to fund fixed-rate portfolio products, hybrid ARMs, commercial loans, or mortgage-backed securities, a funding-strategy model can help you make informed funding decisions.

Our Financial Strategies team works with members to help them manage their balance sheets and address risk. Some of the strategies, prepared for actual members, are available on our web site (www.fhlbboston.com) along with a tutorial to help you interpret a funding-strategy model.

Contact your relationship manager (1-888-595-8733) or our Member Financial Strategies department to discuss your institution's overall sensitivity position, strategy objectives, and interest in customized funding strategies tailored to your institution's needs.

Please call Kevin Martin, vice president, member financial strategies manager, at 617-292-9644, or Marianne Cacciola, financial strategist, at 617-425-9452, about producing a funding model based on your offering rate and unique funding requirements. ■

For example, our financial strategists recently completed a funding strategy for a member looking to fund 30-year mortgages they had originated at 6.25 percent—almost 40 basis points below the national average. The member was interested in funding out to five years, and we proposed several alternatives.

Two proven approaches

The first strategy is an even mix of one-, two-, three-, four-, and five-year Classic advances. The initial net spread is 222 basis points, and the weighted average life of funding is 36 months. The average net interest spread over years one through seven is projected to be 207 basis points in an unchanged rate environment, and ranges from 46 basis points if rates fall 50 basis points, to 149 basis points should rates rise 300 basis points.

A second option is to fund the loans entirely with a five-year Amortizing advance. The initial net spread is 207 basis points and the weighted average life of the advance is 31 months. The average net interest spread over the first seven years is projected to be 238 basis points in an unchanged rate environment. The spread could range from 84 basis points if rates fall 50 basis points, to 145 basis points if rates increase 300 basis points.

What about jumbo loans?

The member also asked us to take a look at jumbo mortgages. Institutions that serve communities with a demand for jumbo loans can expect even greater spreads simply because the rate premium for jumbo loans above conforming mortgage rates has grown to 119 basis points, up from 23 basis points one year ago. The national average jumbo mortgage rate is 7.81 percent and members could generate initial net spreads in excess of 350 basis points by using either of the funding strategies described above.

More opportunities

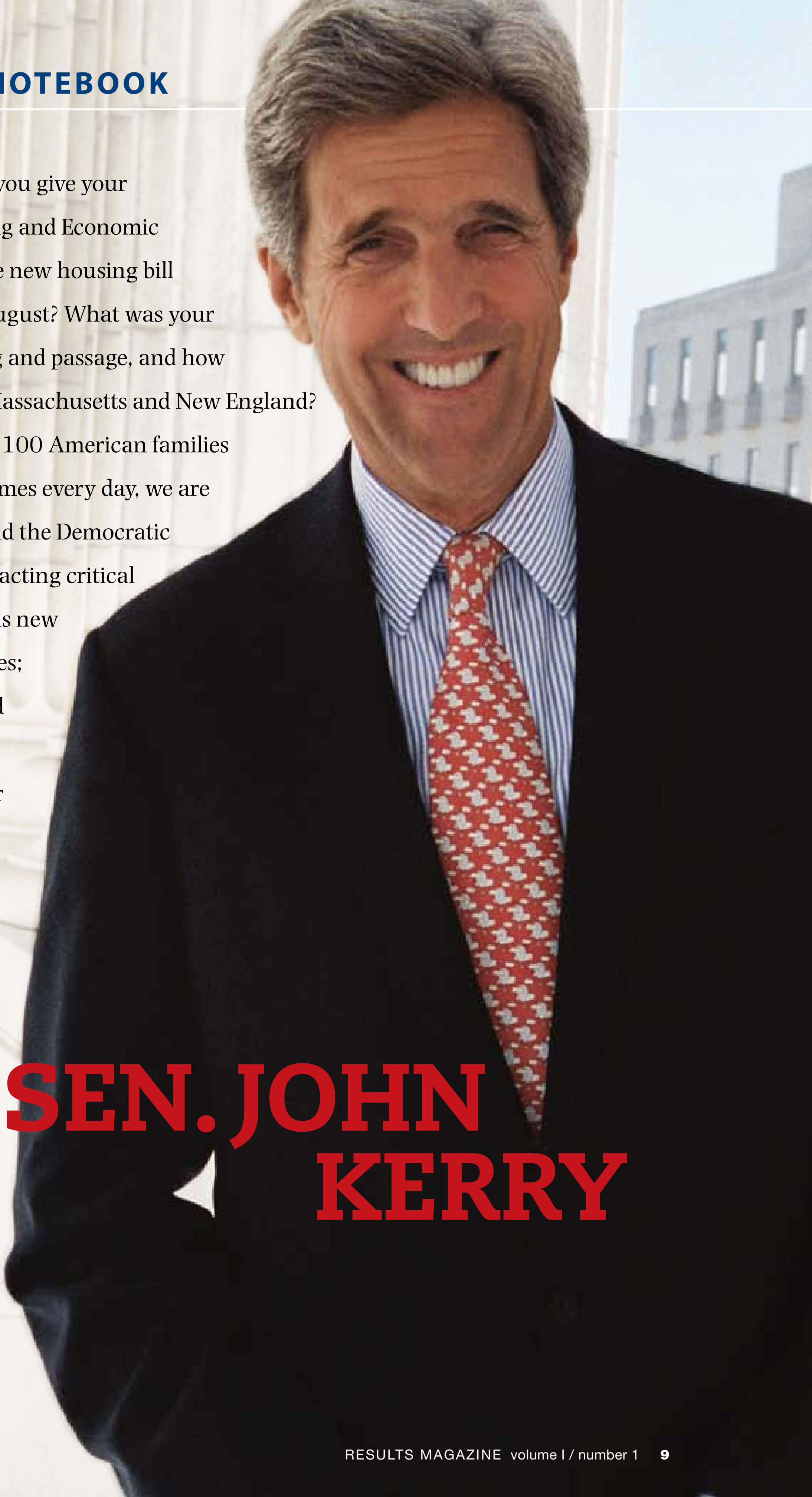
Funding for commercial real estate loans can also be structured to meet member requirements and generally provides more stable net interest spread given the more predictable cash flow of the loan.

FHLB Boston's short-term funding such as the Daily Cash Manager, Discount Note Auction-Floater, or short-term Classic advances can be used to fund variable rate C&I loans.

Today's environment continues to change. Members should consider these and other opportunities for incremental growth and profitability without compromising their existing underwriting standards. Even modest amounts of leverage can generate earnings that will add to the bottom line.

For more detailed information on the HLB-Option Plus Cap advance, please visit our web site at www.fhlbboston.com. ■

INTERVIEW WITH SEN. JOHN KERRY



RESULTS First off, could you give your impressions of the Housing and Economic Recovery Act of 2008, the new housing bill signed into law in early August? What was your involvement in its drafting and passage, and how will the new law benefit Massachusetts and New England?

JK With approximately 8,100 American families potentially losing their homes every day, we are facing a serious crisis—and the Democratic Congress responded by enacting critical legislation last month. This new law will reduce foreclosures; increase access to safe and fair mortgage credit for all homebuyers; and help our economy by creating critically-needed housing construction jobs. It focuses on providing assistance to well-intentioned homeowners who, with a little assistance, can continue to make their payments and avoid foreclosure and a downward spiral into bankruptcy. ➢

The small business lending market is experiencing the same negative effects that all lending markets are struggling with in this credit crisis.

This legislation includes several provisions I have proposed including:

- $11 billion this year for the Mortgage Revenue Bond program to provide additional safe and fair mortgage credit;
- Increasing protections from foreclosure for our veterans who served this country by extending the existing foreclosure grace period from 90 days to nine months and extending the freeze on mortgage interest rates for the first year a soldier returns home;
- Establishing a National Affordable Housing Trust Fund that will produce about 1.5 million units of affordable rental housing over the next decade for our poorest families, and;
- Providing $3.9 billion in immediate federal assistance to communities across the nation to help them respond to the foreclosure crisis.

Nobody wins with foreclosure: banks lose future mortgage payments, families watch helplessly as their homes are taken away from them. Neighborhoods are blighted and entire communities are ruined. This new law is an important first step in limiting the number of foreclosures in Massachusetts and across the nation. However, it will not solve the problem of foreclosures alone. I will continue to work to respond to the challenges facing our communities as they deal with the scourge of foreclosures.

RESULTS Does the 72-13 vote, taken during an unusual Saturday session, signal a softening of the partisanship that has characterized the general tenor in Washington?

JK Unfortunately, both the Bush Administration and Republicans in Congress repeatedly attempted to stop enactment of the recent Housing bill. Sadly, Republicans in the Senate have set a new record by attempting to filibuster more than 80 bills during the 110th Congress.

RESULTS As Chair of the Senate Committee on Small Business and Entrepreneurship, how do you perceive the state of small business lending in the current economy?

JK The small business lending market is experiencing the same negative effects that all lending markets are struggling with in this credit crisis. A Federal Reserve survey released Monday indicates that more than 65 percent of banks had tightened their small business lending standards over the last three months—up from about 50 percent since the last survey—and SBA lending is down as much as 26 percent. As Chair of the Small Business Committee, I've called upon the Small Business Administration to lower fees for government-backed small business loans—the largest source of long-term capital for small businesses. This would make credit more affordable for American small businesses and provide an incentive for lenders to give these small firms the financing they desperately need right now. I've also proposed that $100 million be set aside to support these fee reductions. While this measure won't solve every

The Meadows

Sponsors and funders of The Meadows, an 80-unit rental development for very low- and low-income seniors in Smithfield, Rhode Island, recently participated in a celebration to highlight the development as it neared completion. Developed by NeighborWorks Blackstone River Valley, the initiative received a $599,011 grant and advance subsidy and a $1.38 million advance from the Federal Home Loan Bank of Boston's Affordable Housing Program through member RBS Citizens, N.A. From the left, M. Susan Elliott, executive vice president, member services at the Federal Home Loan Bank of Boston; Barbara Fields, senior program director, Rhode Island LISC; Senator Jack Reed (D-RI); and Joseph MarcAurele, president, Citizens Bank Rhode Island.

The St. Aidan

This initiative involves construction and the adaptive reuse of the historic St. Aidan's Roman Catholic Church property in Brookline, Massachusetts. It will create 68 units of housing, including 20 affordable apartments for very low- and low-income residents. Developed by the Planning Office for Urban Affairs, The St. Aidan has received a $799,597 in grants and subsidies and a $1.15 million advance from the Federal Home Loan Bank of Boston's Affordable Housing Program through member Wainwright Bank & Trust Company. From the left, Jan A. Miller, president and CEO of Wainwright Bank & Trust Company and director of the Federal Home Loan Bank of Boston; Michael A. Jessee, president and CEO of the Federal Home Loan Bank of Boston; and Congressman Barney Frank (D-Newton).

With American families facing higher rental housing and energy costs, it is important that we focus on improving green building standards when building or preserving affordable rental housing.

problem, it will certainly provide important liquidity to the small businesses that are being squeezed by an ailing economy.

RESULTS As you know, the Federal Home Loan Bank of Boston is made up of more than 450 member financial institutions, many of which are small community banks. Given the credit crunch, do you see the role they play in the communities they serve evolving?

JK The Federal Home Loan Bank of Boston has been providing much-needed liquidity to small community financial institutions, many of which are providing safe, fair mortgages to local customers. With more than $1 trillion in assets, the Federal Home Loan Bank System has provided member institutions with more than $600 billion in advances to expand the availability of mortgage credit. By giving customers access to non-predatory mortgage credit, the Federal Home Loan Banks and their member institutions have played a critical role in expanding homeownership and reducing the number of foreclosures across Massachusetts and the nation.

RESULTS As the need for affordable housing grows, what are your thoughts on incorporating green building standards in the creation and preservation of housing stock? Wouldn't the increased up-front cost adversely affect the quantity built and affordability?

JK With American families facing higher rental housing and energy costs, it is important that we focus on improving green building standards when building or preserving affordable rental housing. This approach will save money and help our environment in the long run. Today, buildings contribute approximately 40 percent of our country's greenhouse gas emissions, and reducing energy use and emissions in residential and commercial buildings must be a significant priority. The federal government is taking the lead by committing to reduce building energy consumption by 30 percent by 2015 and setting standards for energy efficiency and fuel use in new federal buildings. I also believe the federal government should invest in the development of efficient building materials and energy systems, to speed their dissemination and adoption. Tax credits can also be an important tool for providing incentives for the adoption of energy efficient technologies and building materials.

RESULTS Finally, any predictions on the Red Sox?

JK Several key injuries and the Manny Ramirez trade have made this a tough year for Sox fans, but the team is finally gearing up for the stretch run. My prediction is they put all the pieces together, make the playoffs, and hopefully bring another World Series championship home to Boston. Then, Barack Obama wins the White House. ■

Left: Joanne M. Sullivan, vice president, director of government and community relations at the Bank, met with Senator Christopher Dodd (D-CT) at a recent New England Council event to discuss the GSE legislation recently passed (see From the President, page 1). Senator Dodd serves as chairman of the Senate Banking, Housing, and Urban Affairs Committee. Right: Joanne M. Sullivan, vice president, director of government and community relations at the Bank, recently met with New Hampshire's Congressional delegation. From the left, Congressman Paul Hodes (D-NH), Joanne M. Sullivan, vice president, director of government and community relations at the Bank, and Congresswoman Carol Shea-Porter (D-NH).

CDA-Funded Initiatives

by Robert O'Malley

Brookline Bank and the Community Development Advance

As CRA officer at member Brookline Bank, Senior Vice President Wesley K. Blair, III recognizes the key role that the Federal Home Loan Bank of Boston's (the Bank) Community Development advance (CDA) plays in providing funding for a wide range of nonprofit community development projects.

In recent years, Brookline Bank has used the Bank's discounted funding to provide long-term financing for diverse community development projects, including the Bedford Veterans Quarters, which provides single-room occupancy housing for homeless veterans and Douglas House, which provides special-needs housing for survivors of brain injury. (See video tours of both initiatives at www.fhlbboston.com.)

Caritas Communities, the developer of Bedford Veterans quarters, specializes in developing single-room-occupancy housing in the Boston area, while Supportive Housing, Inc., the developer of Douglas House, provides housing for survivors of brain injury. "They are, frankly, two of my favorite projects," says Mr. Blair, who has mulled the idea of bringing the two groups together because of their complementary concerns.

The Douglas House initiative renovated a historic Lexington, Massachusetts, property to create 15 units of supportive housing, while Bedford Veterans Quarters provides 60 units of permanent single-room-occupancy housing in a building on the grounds of the Edith Nourse Rogers VA Medical Center in Bedford, Massachusetts.

Brookline Savings Bank provided permanent financing for the Bedford Veterans Quarters initiative through a $540,000 CDA — a 10/10 amortizer to match the term of the initiative's U.S. Department of Housing and Urban Development (HUD) Section 8 funding.

Carrol Stephens, founder and chair of Supportive Living, Inc., and Peter Noonan, executive director, at Douglas House.

Brookline Bank used the CDA to fill a critical funding gap in a project that involved multiple public funding sources. "The advantage of the CDA is that it provides long-term, fixed-rate financing at a very competitive rate," says Mr. Blair. "We took a spread, but it was less than our normal spread."

Mr. Blair says the bank generally matches funds and uses a 20-year amortizer in its CDA funding. "We can still make a reasonable return and the nonprofit gets a long-term, fixed rate to help keep the project stable," he says. "We've done a lot of this type of financing for a variety of nonprofit developers."

"We always apply conservative underwriting standards to these projects, and the business has always been good for us," he adds. "I like to say we do well by 'doing good.' We also get CRA credit for participating in this type of lending, and we take our CRA obligations seriously."

"When we got involved with this project in 2004, there was very little permanent housing for veterans," notes Mark Winkeller, executive director of Caritas Communities, the developer of the Bedford initiative. "We thought this was an important opportunity to develop permanent housing for veterans."

Mr. Winkeller says the project was challenging to finance because the property is leased from the medical center rather than owned by the developer. "Brookline Bank stepped up," he says. "They said: 'We have a lot of confidence in you as an organization and in the project.' So they deserve a lot of credit for doing this."

"We talked to a number of potential funding sources, but they weren't prepared to take the collateral risk," he adds. "Without a loan at that interest rate the project would not have been possible."

Financing Douglas House

To finance the Douglas House initiative, Brookline Bank used a $600,000 CDA. "The CDA was crucial in making this work," says project consultant Robert DeSimone, who adds that the initiative's funding included Low Income Housing Tax Credits, HUD Section 11 funding, and federal Historic Tax Credits.

In addition to CDA funding, Douglas House was also the recipient of a $300,000 grant from the Bank's Affordable Housing Program through member Brookline Bank. Douglas House is the third site developed by Supportive Living, Inc. to provide housing for people with brain injuries, and each site has received AHP funding. In addition to Douglas House, Supportive Living operates Warren House in Woburn, which opened in 1997; and McLaughlin House in North Reading, which opened in 2001.

"The people living at Douglas House will be coming from restrictive settings such as nursing homes and other long-term-care facilities, or from the homes of aging parents who can no longer provide them with the assistance they need," says Robert DeSimone, a housing consultant who has worked with Supportive Living since its inception.

Both Mr. DeSimone and Mr. Blair note that the special-needs housing provided by Douglas House becomes even more critical as an increasing number of veterans from the Iraq War return with brain injuries.

Supportive Living was founded in 1991 by Carrol and Douglas Stephens after their son Scott — currently a resident of Warren House — sustained a traumatic brain injury in a car accident. At the time, says Mr. DeSimone, the Stephens family found that "no appropriate accessible housing with supportive services existed to help individuals with brain injuries live more independently."

CDA Provides Key Funding for Charter Schools

When most people think of community development initiatives, they generally don't think of funding for charter schools, says Sarah Lamitie, vice president at member Boston Private Bank & Trust Company.

"But schools are an integral part of our community development program," she says. "We really see the community development value of education, which has a major impact on the well being of a community."

In recent years, Boston Private Bank and other member banks have turned to the Federal Home Loan Bank of Boston's Community Development advance (CDA) to fund the renovation of new charter schools in the Boston area.

Boston Private Bank used a $10 mil- ➢

Member Profile: Brookline Bank's Wesley Blair

A key to the success of Brookline Bank's community funding has been the relationships Wesley Blair has nurtured within the nonprofit community. With more than 30 years of banking experience behind him, Mr. Blair has developed a stellar reputation for having extensive knowledge of the development process and skill at finding innovative ways to fund projects.

"When we shopped around for financing, member Brookline Bank had the most competitive rates because it could use the Community Development advance," says Dan Violi, project consultant for Camfield Estates, an 11-building, 102-unit development affordable to low-income residents in Roxbury, Massachusetts. "Brookline Bank has been very good at keeping their margins on the advances to a minimum. They've been great to work with. Wes is very familiar with what we use to finance these projects. He understands the context we are working with and is comfortable with it. He speaks our language and as a banker understands the environment we are in."

For the Camfield Estates initiative, Brookline Bank used a $2.4 million Federal Home Loan Bank of Boston Community Development advance (CDA) to finance work to correct design flaws in the development's window bays. "They came to us and said, 'This is our situation, can you help us out?'" says Mr. Blair. "We figured we could pass on a lower rate to them using a 20/20 CDA amortizer."

"The bank has to tap every funding tool at its disposal to keep the rate affordable to the nonprofit developers," he says. "While some projects can be funded without the CDA, others probably wouldn't be possible, including the Bedford Veterans Quarters and Douglas House."

"It's important to work with nonprofits that are good at finding sources of funds," says Mr. Blair. "Our challenge is to fill in the gaps that can't be covered by other funding." He notes that the nonprofit developers have become more sophisticated over time, in part because the high cost of housing in the Boston area has required it.

In addition to serving as CRA officer, Mr. Blair also manages a $130 million commercial real estate portfolio for the bank; oversees retail lending; and works with the bank's board to oversee charitable donations. Brookline Bank is a $2.5 billion publicly traded bank in business for over 100 years in Brookline and the surrounding area. In 2005, it bought Medford Co-Operative Bank.

With an undergraduate degree in theology from Allegheny College and a graduate degree from Princeton Theological Seminary, Mr. Blair came to Boston with his wife, who was pursuing a master's degree at Harvard University. Mr. Blair took what he thought would be a temporary job as a bank teller in Cambridge while continuing to apply for positions as a Presbyterian minister at Boston-area churches.

Along the way he found that he enjoyed banking and decided he could pursue his religious interests as an active member of his church while making a living as a banker. Now 30 years into his banking career, Mr. Blair believes that what he brought with him from his theological studies remains an important ingredient of his work as a banker.

"I feel very strongly about the continuing need for affordable housing in the Greater Boston area," he says. "It's something I realize the bank needs to address, and I help the bank do that."

"There are a lot of good folks out there working in the nonprofit arena, and we've built good relationships with many of them," he says. "I'm in the fortunate position, from the banker's side, to help fund what they do."

For more information on these initiatives, including video tours and presentations, please visit the Bank's online publication, OnSite, at www.fhlbboston.com/onsite. ■

lion CDA to fund the renovation and expansion of the City on the Hill Public Charter School in Roxbury, and provided a $3.2 million CDA to help finance acquisition of a new building for the Neighborhood House Charter School's kindergarten through eighth grade program in Dorchester. Both schools serve primarily students from low-income families.

Boston Private Bank also provided $2 million in CDA funding to support the renovation of the South Shore Charter School in Norwell, Massachusetts, and $1.8 million in CDA funding to finance the renovation and expansion of the Lawrence Family Development Charter School in Lawrence, Massachusetts.

There are currently 61 charter public schools in Massachusetts that serve almost 25,000 students, according to the Massachusetts Charter Public School Association. An additional 19,000 students are on waiting lists. A recent state Department of Education study showed that 90 percent of charter schools in Massachusetts, which are largely state funded, are scoring as well as or better than district schools on the state's MCAS exam.

"Our goal is to provide the very best deal we can for our borrowers," says Ms. Lamitie. "I can't say that not having the CDA would have been a deal breaker, but it would have been harder to make the deal work without it. If we can borrow at a lower rate, we can lend to our customers at a lower rate."

Ms. Lamitie notes that the CDA is a "flexible financing tool" that can be used to finance a broad range of community revitalization initiatives, including affordable rental and ownership housing, charter schools, small-business development, and other initiatives.

She notes that graduates of City on the Hill are attending college at impressive rates. "Every one of their seniors is accepted into college," she says. "That success will have a tremendous long-term impact on that community. So we're proud of our participation in this."

After initially operating out of rental space on Huntington Avenue, City on a

CDA Project Profile: City on a Hill Charter School

Erica Jamison is principal of City on a Hill charter high school in Roxbury, Massachusetts. The renovation and expansion of City on a Hill was funded with a Federal Home Loan Bank of Boston Community Development advance through member Boston Private Bank & Trust Company.

What sets City on a Hill charter school apart from district schools is that we hire our own teachers and set our own mission, curriculum, and length of school day. We have an autonomous decision-making power that we leverage to the benefit of kids.

What sets City on a Hill apart from other charter schools is the particular way we choose to serve young people. City on a Hill has a mission around citizenship. We have weekly town meetings in which students get together to debate topics of importance to them.

When young people come to City on a Hill, they come on average performing three or four years below grade level in reading and numeracy. We have a very short period before they sit for the MCAS. We have been successful in getting our students to high levels of proficiency on the statewide tests and in closing the achievement gap for African-American, Hispanic, and low-income students. We've also been very successful in getting our students into college: every City on a Hill student in the school's 11 graduating classes has been accepted into a two- or four-year college.

At City on a Hill, we reach out to students when they need care, but we also give them tough love when they are trying to make excuses for themselves. And teenagers, as most of us know who work or live with them, develop very good skills at getting out of cleaning their room or doing homework. But we don't accept this from them; we don't allow them to accept this from themselves. That is the tough love part.

So when young people walk into school 10 minutes late for an exam, we say, "Hurry up, get yourself into school. You won't be given extra time on this test. It matters. It's important and it matters, and you can do it." That's the message that we deliver to kids all the time. ■

Hill purchased a former Catholic school in Roxbury from the Archdiocese of Boston and is currently building a new wing. The school anticipates opening the space early next year.

Wainwright Bank & Trust Company

Other member banks have also turned to the CDA to finance the renovation and acquisition of charter schools. Pamela C. Feingold, senior vice president/community development lending at member Wainwright Bank & Trust Company, notes that Wainwright Bank used an $8.3 million CDA to provide construction financing to support the expansion of Boston Collegiate Charter Public School in Dorchester. Boston Collegiate is located in an income-eligible neighborhood and serves primarily low-income children in grades five through 12.

In addition to providing CDA funding to Boston Collegiate Charter Public School, Wainwright Bank has used the CDA to fund the Conservatory Lab Charter School ($350,000), the Roxbury Preparatory Charter School ($650,000), and the MATCH School ($4.2 million).

Ms. Feingold says Wainwright Bank welcomes participation in charter school funding because the loans come with limited risk and serve a valuable social purpose. "These loans are funded through the Massachusetts Department of Education, so it's a solid source of funding," she says.

She notes that the developers and administrators of charter schools are enthusiastic and dedicated educators and that charter schools generally offer extended educational programs and other services, such as breakfast in the morning and after-school programs. "We're working with boards that are incredibly committed," she says. "We have such a wonderful success rate. In terms of community support, these schools are great."

Ms. Feingold says the majority of the charter schools funded by Wainwright Bank are located in urban areas. The development of these schools not only enhances the education of children and gives more students the opportunity to attend college but also redevelops vacant buildings that often become eyesores in city neighborhoods.

In visits to these schools, Ms. Feingold has observed "a whole new sense of excitement in education, because the teachers, administrators, and the students are all committed to making these experiments work. Every student in Boston Collegiate's class of 2007 was accepted by a four-year college," she says, "and the school has had great success with the MCAS."

Ms. Feingold points out that charter schools tend to rent space when they first open but eventually raise funds to acquire their own buildings. Like City on a Hill, Boston Collegiate purchased several buildings from the Archdiocese of Boston and built a third to create space for about 400 students in grades five through 12.

"Using the CDA allows us to offer lower-rate funding that helps the schools with their operating budgets," says Ms. Feingold. "And for a loan that size even 20 basis points makes a huge difference."

Ken Willis, vice president and director of the Bank's housing programs, says what distinguishes the CDA from the Bank's other community investment funding programs is its flexibility and availability.

The CDA can be used to fund community development initiatives such as charter schools as well as affordable housing initiatives that may not win awards from the Bank's very competitive Affordable Housing Program (AHP).

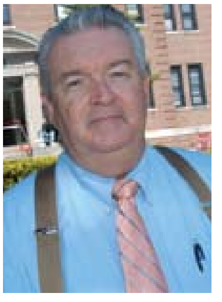
"The CDA rewards member banks for doing economic development and affordable housing," says Mr. Willis. "And that translates into a lower debt structure for the project and benefits for the community. The banks like the CDA because the interest rate is lower, and they can use it to match funds and mitigate interest-rate risk."

"In terms of volume, the CDA program is bigger than the AHP and the largest of the Bank's community development programs," adds Mr. Willis. "So far, 2008 has been a record year for approving CDA applications." ■

CDA Project Profile: Bedford Veterans Quarters

The CDA-funded Bedford Veterans Quarters provides 60 permanent SRO housing units for homeless veterans, many of whom are recovering from alcohol or drug addiction, says Caritas Communities' Tom Fiander.

Mr. Fiander, who had a career in the U.S. Marine Corps before becoming the live-in house manager at Bedford Veterans Quarters, says most of the residents arrive from transition houses or shelters.



"There's a domiciliary on the VA Medical Center campus, and we have a great relationship with those folks," says Mr. Fiander. "That program requires residents to have at least 120 days of sobriety before they can come here."

"Most of the residents here," he adds, "are formerly homeless vets from the Vietnam era who are working diligently on their sobriety."

Cleve, a veteran of the Vietnam War, arrived at Bedford Veterans Quarters after spending time at the domiciliary for drug addiction. "I came here to deal with my addiction," he says. "The people here really helped me a lot. I appreciate what they have done for me. They got me back on the right track again. I feel good to be sober and clean again."

George, who also served in the military during the Vietnam War era, says he arrived at Bedford Veterans Quarters after losing his apartment in a fire. "This gave me an opportunity to get a place for now," says George, who works part-time at the center and as a driver for the VA. A cook before he became homeless, he says he hopes to put a little money away and eventually get his own place again.

Jonathan, who served in the U.S. Air Force during the 1980s, arrived at Bedford Veterans Quarters after spending five months in the VA domiciliary. "[Living at the Veterans Quarters] has given me an opportunity to work on my health mentally and physically," he says. "It's a great social environment as well. It's been a very good experience for me." ■

Affordable Housing in Five States Gets Financial Boost

Bank awards more than $17.5 million for 445 rental and ownership units

Twenty-eight initiatives were awarded more than $17.5 million in the first round of the Federal Home Loan Bank of Boston's (the Bank) Affordable Housing Program (AHP). The grants, loans, and rate subsidies will fund the creation or preservation of 445 units of rental and ownership housing for very low-, low-, and moderate-income individuals and families in Connecticut, Maine, Massachusetts, Rhode Island, and Vermont. More than 50 percent of the funding was awarded as grants or subsidies.

Each year, the Bank commits 10 percent of its net profits to provide grants and subsidized, below market-rate loans through the AHP. Member financial institutions work with local developers to apply for AHP funding, awarded twice a year through a competitive scoring process.

"The credit crisis has made the need for affordable housing even greater," said Michael A. Jessee, the Bank's president and chief executive officer. "Now more than ever, working families, seniors, and special needs populations need decent housing, and I'm proud that our contribution will help make that a reality for more than 400 individuals and families."

Congresswoman Rosa L. DeLauro (CT-3) was one of several lawmakers who welcomed the news. "Working families in Connecticut are struggling with the housing crisis and a contracting credit market," she said. "This funding will help ensure families have a roof over their head — whether it is to increase access to homeownership in Middlefield or to renovate existing buildings to expand affordable housing in New Haven."

This round is notable for a number of innovative initiatives. Berkshire Veterans' Village in Pittsfield, Massachusetts, for example, will create 39 units of supportive housing for homeless veterans. The site hopes to be a national model for energy generation and consumption. Berkshire Veterans' Village will work to achieve LEED certification with green elements that include a biodiesel cogeneration facility for heat and electricity and photovoltaic panels.

In addition to providing safe, decent, and affordable housing for the underserved, many of these initiatives take advantage of smart-growth principles, with locations close to public transportation, jobs, educational institutions, and supportive services, and a number also provide an array supportive services and financial-literacy counseling for their residents.

For more information on the initiatives that were awarded funds in the first AHP round of 2008, please visit the Bank's online publication, OnSite, at www.fhlbboston.com/onsite. The application deadline for the second and final round of this year's AHP awards is September 12. ■

Equity Builder Program Wrap-Up

Each year, the Bank's Equity Builder Program (EBP) awards funds to members that can be applied toward down-payment, closing-cost, and rehabilitation assistance for qualified home-buying households earning at or below 80 percent of the area media income. Funds are awarded in increments of up to $15,000 on a first-come, first-serve, home-buyer by home-buyer basis, and the maximum aggregate amount that any participating member can access is $200,000. The EBP is funded by a percentage of the Bank's annual Affordable Housing Program set-aside.

The Bank reviews enrollment requests for EBP grants in the order in which they are received, and the funding round closes as soon as all available funds are approved for disbursement to participating members.

In 2008, $3.3 million was disbursed to 60 different member institutions. In all, 88 members were approved to participate in the EBP, 24 of which were first-time participants in the program. More than half of this year's participating members were savings banks and savings institutions, and the balance was comprised of credit unions, commercial institutions, and cooperative banks.

"EBP funds help home buyers offset some of the challenging initial costs of buying a home, and that is always appreciated by the home buyer," said Ken Willis, vice president and director of Housing and Community Investment. With demand for funds so high, Mr. Willis advises members to apply to participate in the EBP early in 2009 and, once approved, they should submit enrollment requests on behalf of income-eligible home buyers as soon as practicable. As EBP funds cannot be guaranteed in advance, it is important for participating members to be clear with home buyers regarding the status of their enrollment requests to avoid disappointment.

Training sessions are held throughout the year to educate members on how to leverage EBP funds for eligible home buyers in the communities they serve. Members interested in learning more about the EBP program and the 2009 funding round are encouraged to contact their relationship manager, community investment manager, Housing and Community Investment staff, or visit http://www.fhlbboston.com/communitydevelopment/fundingprograms. ■

Expertise, Experience, Education

VERSATILE BOARD MEMBERS HELP GUIDE THE BANK THROUGH CHALLENGING TIMES

by Robert O'Malley

MARK E. MACOMBER ➤
◄ ARTHUR R. CONNELLY

At a time when bankers across the country are keeping a wary eye on a continuing wave of mortgage foreclosures, pressures on liquidity, a government takeover of Fannie Mae and Freddie Mac, and the failure of several major investment banks, two members of the Federal Home Loan Bank of Boston's (the Bank) board of directors are harnessing their long experience in community banking and leadership in the American Bankers Association (ABA) to help the Bank navigate through exceptional times.

In November, Bank Director Arthur R. Connelly, chairman of member South Shore Savings Bank in South Weymouth, Massachusetts, is set to become the first banker from a mutual savings bank to serve as chairman of the ABA, while fellow Bank Director Mark E. Macomber, president and CEO of member Litchfield Bancorp in Litchfield, Connecticut, is completing a term as past chairman of the ABA and cochair of its nominating committee.

Elected to the Bank's board of directors in 1997, Mr. Connelly has been associated with South Shore Savings Bank and its predecessor for more than 40 years. After spending two years of clerical preparation at the Marist Seminary in Framingham, Mr. Connelly decided against a religious vocation and embarked instead on a career in banking, joining South Weymouth Savings Bank as its head teller in 1966. Following a series of promotions, Mr. Connelly was named president and CEO of the bank in 1984. He continued in the same position after South Weymouth Savings Bank and Weymouth Savings Bank merged to create South Shore Savings Bank in 1997.

Not long after his institution joined the Bank, Mr. Connelly recalls receiving a phone call from his good friend and mentor, the late Tim Cotter, president of member Fall River Five Cent Savings Bank and a Bank director. Mr. Cotter informed Mr. Connelly that he was going to nominate him to serve on the Bank's board. At first, Mr. Connelly resisted, saying he preferred to spend his available time volunteering in his South Shore community. "But once I got the passion for the Federal Home Loan Banks and what they do for communities all over New England and throughout the country, I began to think that, yes, this is something I should be focused on and another way I can give back to an industry that has been so good to me and my bank."

Membership in the Bank, adds Mr. Connelly, provided his bank with a critical tool to manage the balance sheet and access liquidity, investment alternatives, and affordable housing programs. "Some days there might be a better alternative in terms of pricing, but marketplace competition is good, and nine out of 10 times we end up looking towards the Bank product as opposed to the competitive instrument," he says.

Mr. Macomber began his banking career at The Savings Bank of Newport (now BankNewport) in Newport, Rhode Island, shortly after graduating from Brown University and a stint in the Navy. He then spent 12 years at the former Rhode Island Hospital Trust National Bank in Providence before taking a position at Litchfield Bancorp in 1993. He's been president and CEO there since March 1994. He's also president and CEO of Connecticut Mutual Holding Company, a two-bank mutual holding company that includes member Northwest Community Bank in Winsted, Connecticut.

"In a slow growth, no-growth market like ours, deposits are very hard to come by," says Mr. Macomber. "We have two banks with headquarters in a town of 8,500, so we fight pretty hard for any checking accounts. We're small, only ➢

I realized that education wasn't enough and that the future of our industry depended on the actions of Congress and the regulators, and that it behooved me as a banker to get some skin in the game.

about $200 million in size (the holding company is about $500 million in total), but we are relatively heavy borrowers based on our size. We have been able to grow the bank organically on the loan side, but on the deposit side it has been tougher, and the Federal Home Loan Bank of Boston has filled a real need for us, providing us with the liquidity to meet the borrowing needs of our customers. I think that's true for a lot of banks in Connecticut."

Mr. Macomber says he decided to run for a seat on the Bank's board because of the key role Bank funding plays at Litchfield Bancorp. "The Federal Home Loan Bank is really vital to our company," he says. "My thinking was that if I am going to be using Bank funding, I had better understand more about it. I also like to have a learning curve in my life, and getting more involved with the Federal Home Loan Bank of Boston was a way to satisfy that need."

Leadership at the ABA

Mr. Macomber says he was introduced to America's Community Bankers (ACB) largely through its educational programs. Over time, he became a member of the organization's education committee and eventually took on other positions at the organization, culminating in being named chairman in 2006.

"Being chairman of ACB was an unbelievable opportunity," says Mr. Macomber. "I felt honored. It gave me an opportunity to meet some wonderful bankers and learn more about the different perspectives of people in the industry. It gave me an opportunity to talk with and be part of the leadership of the industry and deal with the people at the highest levels of the regulatory bodies that oversee it."

During his year as chairman, Mr. Macomber lead the ACB team in the merging of ACB with ABA. While ABA membership had traditionally tilted toward publicly held banks, ACB membership leaned more toward the thrift and mutual savings bank industry. Interestingly, the median size of member banks of the two organizations was about the same – roughly $125 million. "The merger from our perspective was done from a position of strength," says Mr. Macomber. "As a result we were able to keep a number of things that were important to ACB members, including support for the OTS [Office of Thrift Supervision] charter and a strong commitment to mutuality.

"I think it has worked out very well," he says of the merger. "I think by and large we have become a much stronger voice for the industry with legislators, regulators, and the administration in Washington. That's never been more important than it is right now!"

Like Mr. Macomber, Mr. Connelly was initially drawn to the ACB's education programs. "I received my banking education through the industry schools," notes Mr. Connelly. "But then I realized that education wasn't enough and that the future of our industry depended on the actions of Congress and the regulators, and that it behooved me as a banker to get some skin in the game."

At the urging of Mr. Macomber, Mr. Connelly decided to take on a leadership role at ACB, serving as vice-chairman during Mr. Macomber's tenure as chairman. His decision to become more involved with the trade organization coincided with a decision to reduce his role in the daily operation of South Shore Savings Bank. "I thought the timing was good for me," he says. "I was at an age when I was thinking about another life. We had had a management succession plan at our bank for over 20 years, but we hadn't put a time frame on it. I decided that now was a good time to do it."

Mr. Connelly says the merger discussions between the two trade organizations went smoothly because the membership and concerns of each organization had blurred over the years. The two organizations realized how closely their interests had grown when they worked together to oppose a proposal by the Federal Housing Finance Board, the former regulator of the Federal Home Loan Banks, to change the system's retained earnings policy. "The retained earnings proposal was an issue that just didn't make sense to us," says Mr. Connelly, a member of ACB's Federal Home Loan Bank Committee. "It was going to impair our dividend and really didn't get to the heart of the issue."

He says ACB invited representatives from trade organizations and other interested parties to a summit in Washington, where they spent an entire day discussing the issue and formulating a strategy to influence the Finance Board. "ABA looked at ACB and said, 'You know, this is really a big issue. You guys (ACB) are the recognized experts on this issue and we have the same stake in the outcome as you. Why don't you take the lead on this?'" Mr. Connelly recalls. "All of a sudden we were on the same book and page; all of a sudden our issues were their issues."

Both Mr. Macomber and Mr. Connelly say their roles as Bank directors and ABA

We haven't had a high profile, and I think intentionally so. But sometimes, particularly in a situation in the financial markets like we find today, it's critical that legislators and regulators truly understand the value of what we do.

leaders are complementary. "The knowledge I have gained as a member of the Bank's board of directors has improved my ability to influence issues important to the system at the ABA board and executive committee level," says Mr. Macomber. "Of all the trade organizations, ACB was historically the most tuned into what was going on in the Home Loan Bank System because ACB members own more than half the stock in it. All of that ACB expertise has come over to the ABA along with the people, the background, and the history."

Mr. Connelly notes that the ABA is attentive to issues of concern to members of the Federal Home Loan Banks. The organization, for example, has appointed a special committee to study the REFCorp debt-repayment issue, and Mr. Macomber will be a member of the committee. Mr. Connelly says the dividend of Bank members has been reduced to repay debt incurred by banks during the savings and loans debacle of the 1980s. The debt will soon be repaid and members are concerned about what happens next. "REFCorp is a critical issue for members of the Bank," says Mr. Connelly. "I feel our system would be much stronger if that money can be channeled to retained earnings and dividends rather than some other use once we have paid off the original obligation."

Into the Future

As Mr. Connelly prepares to assume the chairmanship of ABA in November, he notes that the turmoil in the financial services industry is going to make the coming year a challenging one for the industry. "Our number one issue will be the safety and soundness of the banking system," he says. "Ninety-eight percent of the banks in this country are rated by the regulators as well capitalized. Historically our banking system has been very safe, and the ABA has taken a very large role talking about that every day with the media."

And while the financial world continues to reel from the government takeover of Fannie Mae and Freddie Mac, mortgage foreclosures in a weakened housing market, and the recent failures of major financial services organizations, the Federal Home Loan Bank System has remained stable. "The Federal Home Loan Bank System has provided hundreds of billions of dollars in liquidity to the banking system during this crisis," says Mr. Macomber. "It has provided funding at rates that are acceptable and reasonable for member banks, which in turn use those funds to finance the needs of their customers. So it has been invaluable to the industry. I think appreciation of that in Washington is perhaps not enough.

"We're behind the scenes," adds Mr. Macomber. "We haven't had a high profile, and I think intentionally so. But sometimes, particularly in a situation in the financial markets like we find today, it's critical that legislators and regulators truly understand the value of what we do. It's important to the local economies, important to Litchfield, Connecticut, important to Boston, Massachusetts, important to Peoria, Illinois. It's easier to do something damaging to an organization when you don't know anything about it."

The recent passage of the Housing and Economic Recovery Act of 2008, among other things, created a new regulator — the Federal Housing Finance Agency (FHFA) — for the Federal Home Loan Banks as well as Fannie Mae and Freddie Mac. "The biggest impact of the bill on the Federal Home Loan Banks is the new regulator," says Mr. Macomber, who adds that it's still not clear who will serve as the new regulator's deputy director for the Federal Home Loan Bank System. "The director of the FHFA, Jim Lockhart, whom I have met and talked to a number of times, is a very bright guy who is very considered in his approach to things."

Both Mr. Macomber and Mr. Connelly say that New England community banks have remained stable and continue to make loans to eligible borrowers during the current financial crisis. "By and large Federal Home Loan Bank members and community banks didn't engage in subprime lending," says Mr. Connelly. "My bank and most community banks in America generally lend to people that have a high likelihood of repaying the debt. My bank's residential portfolio is virtually unblemished. Our delinquency ratios are negligible because we stuck to core ratios and underwriting principles. Community banks in general have weathered this crisis."

"My bank and so many other community banks spend their time opening doors," adds Mr. Connelly. "I like to joke that it's like having the keys to the kingdom in terms of supporting affordable housing, helping people to finance their first home, and serving as the board chairman of a local hospital. Someone encounters a problem and you get the call. Bankers spend their career trying to improve the quality of life for people. In a way I like to think it's not much different from the work I thought I would do when I started out in the seminary." ■

Taking Stock of Boston's Affordable Neighborhoods

Marcie Laden, Project Place director of development, briefs Bank staff and directors about Gatehouse, the past recipient of a $250,000 AHP grant. From the top left, Marcie Laden; Kenneth A. Willis, the Bank's vice president, housing and community investment; Michael A. Jessee, the Bank's president and CEO; Sarah E. Carpenter, of the Bank's Advisory Council; and board members A. James Lavoie, Patrick E. Clancy, Chair Robert F. Verdonck, and Jan A. Miller. The tour's itinerary included, from the bottom left, Eggleston Crossing, Erie Ellington Homes, Harvard Commons, and Hendry Street.

On June 26, members of the Federal Home Loan Bank of Boston's board of directors and Advisory Council took a bus tour of housing initiatives in Boston neighborhoods that were funded by the Bank's Affordable Housing Program (AHP).

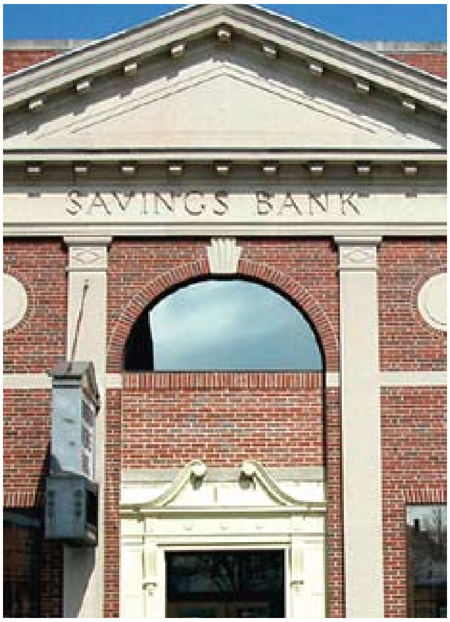
Kenneth Willis, vice president/director of housing and community development at the Bank, said the tour gave board members the opportunity to experience firsthand the impact that initiatives funded by the AHP are having on Boston neighborhoods. "It was a chance to really expose the board of directors to the kind of projects they may discuss in meetings but never get the chance to see," he says. "I think it also gave them an understanding of how people with limited means are living in the city."

Mr. Willis added that board members were impressed by the high quality of the designs of the AHP-funded housing.

The bus tour began in the South End and continued through Roxbury and Dorchester. Sites visited included Gatehouse, 14 units of rental housing for formerly homeless households in the South End; Eggleston Crossing, a mixed-use development in Roxbury; and Harvard Commons, 45 units of rental housing on the site of the former Boston State Hospital in Dorchester. The tour also visited Hendry Street in Dorchester where a row of houses stood vacant as a result of the current foreclosure crisis.

"I thought the tour was extremely useful," said board member Cornelius Hurley. "It's always useful to see the tangible results of what we do in the board room and the significant impact Bank financing has on the community."

Mr. Hurley noted that the visit to the foreclosed homes on Hendry Street allowed board members to see first hand the devastation the foreclosure crisis is having on some city neighborhoods and the potential of the Bank's housing programs "to help some of those communities come back." ■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