

INTEREST RATE RISK: A WINDING ROAD

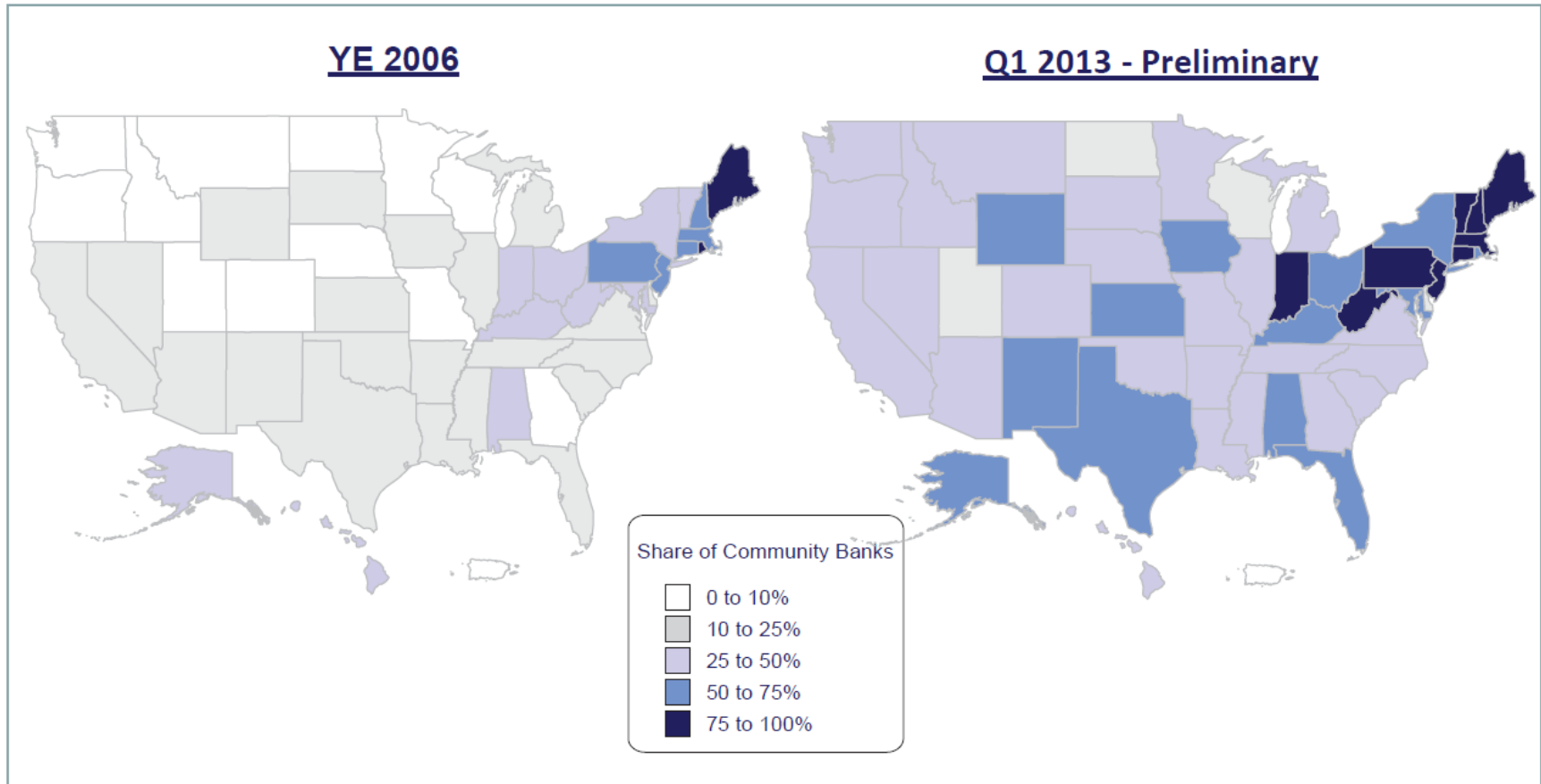
14th Annual Regional & Community Bankers Conference
November 10, 2015

Michael Ravid
Director of Regional and Community Supervision
Federal Reserve Bank of Boston

INTEREST RATE RISK: Decision Criteria

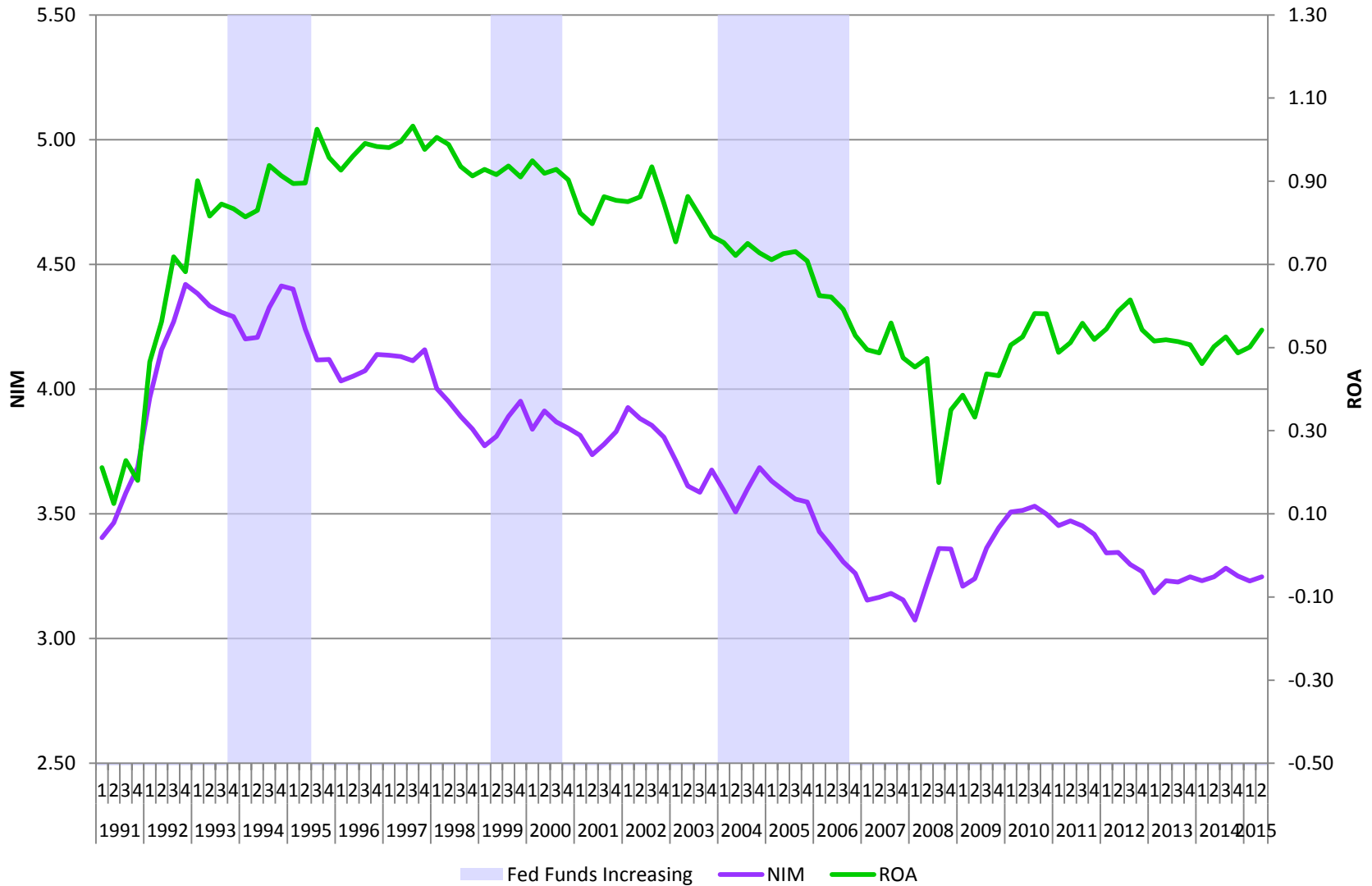
- 2011
- 2015
- Balance Sheet Trends
- The Road Ahead

Share of Banks with Long-term Assets Representing 30% or More of Earning Assets



Source: FDIC

All FD R&C Banks - NIM vs. ROA (not YTD)



2011 Decision Factors

- GDP: Modest but Increasing
- Inflation: Minimal
- Monetary Policy: Low Rates

2011 Monetary Policy

- “Four years of 3 percent inflation [2004-2007] may not have been the worst of all possible outcomes, but I do not consider it a success. I hope we do better this time. In particular, I believe we need to heed the lesson of the last recovery that inflation is capable of rising even if the level of economic activity has not returned to its pre-recession trend.”

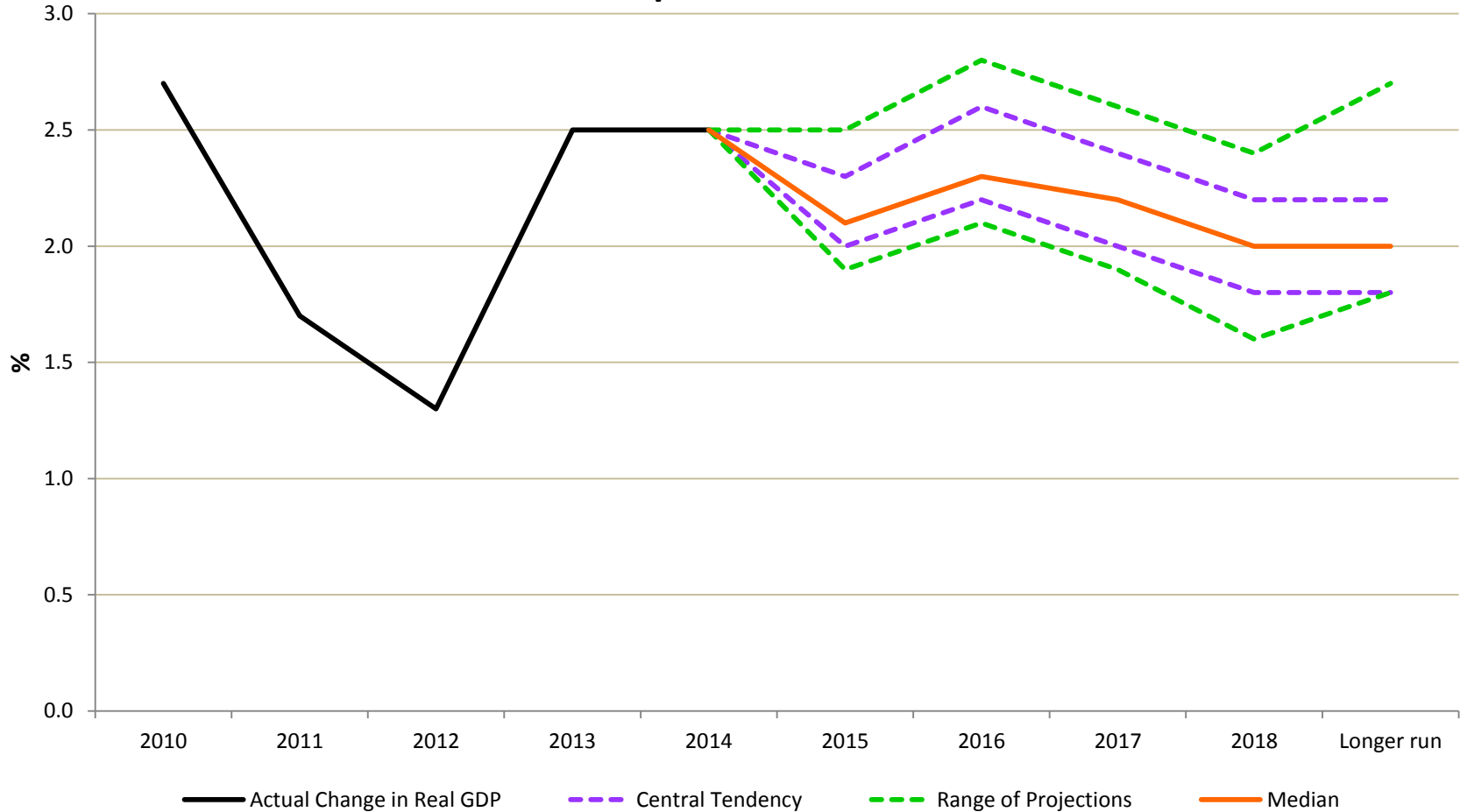
Jeffrey M. Lacker, President, FRB Richmond, April, 2011

- “First, barring a sustained period of economic growth so strong that the economy's substantial excess slack is quickly exhausted or a noteworthy rise in inflation expectations, the outlook implies that short-term interest rates are likely to remain unusually low for “an extended period.” The economy can be allowed to grow rapidly for quite some time before there is a real risk that shrinking slack will result in a rise in underlying inflation.”

William C. Dudley, President, FRBNY, February, 2011

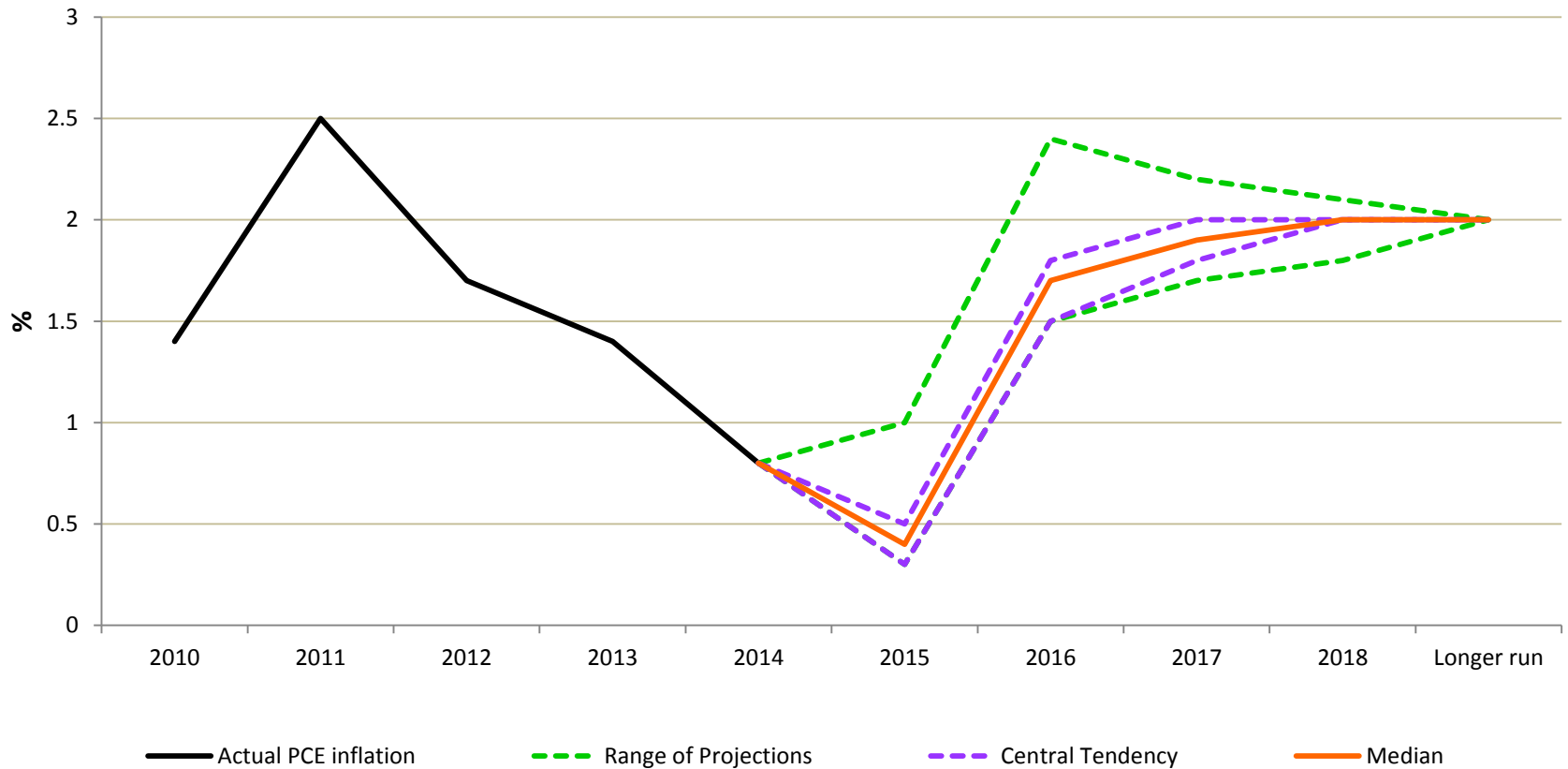
TODAY

FOMC Projections of Change in Real GDP September 2015



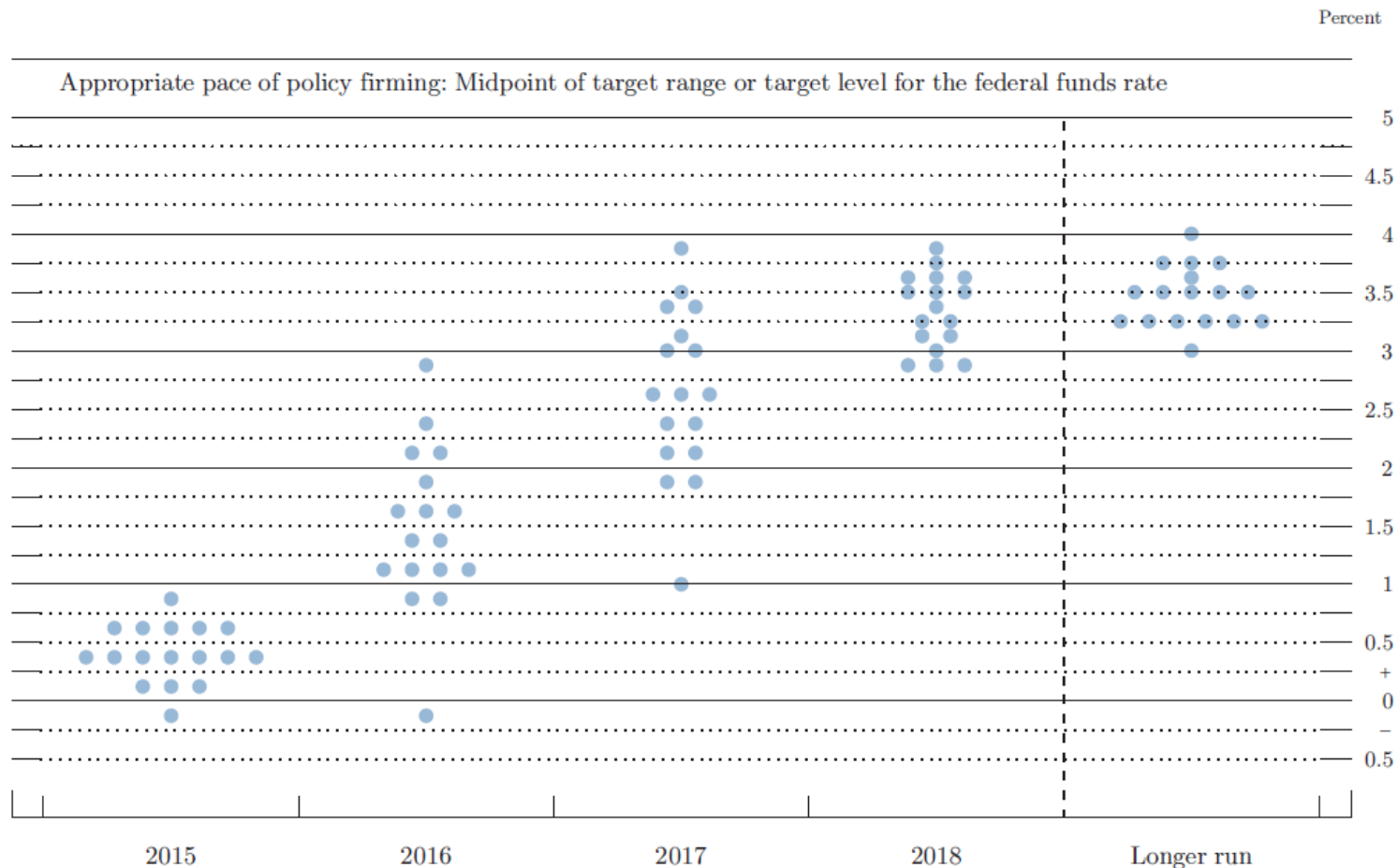
Source: FRED, FOMC September 17, 2015 Press Conference- Projections Materials

FOMC Projections of PCE Inflation September 2015



Source: FRED, FOMC September 17, 2015 Press Conference- Projections Materials

FOMC September, 2015 Fed Funds Target Levels



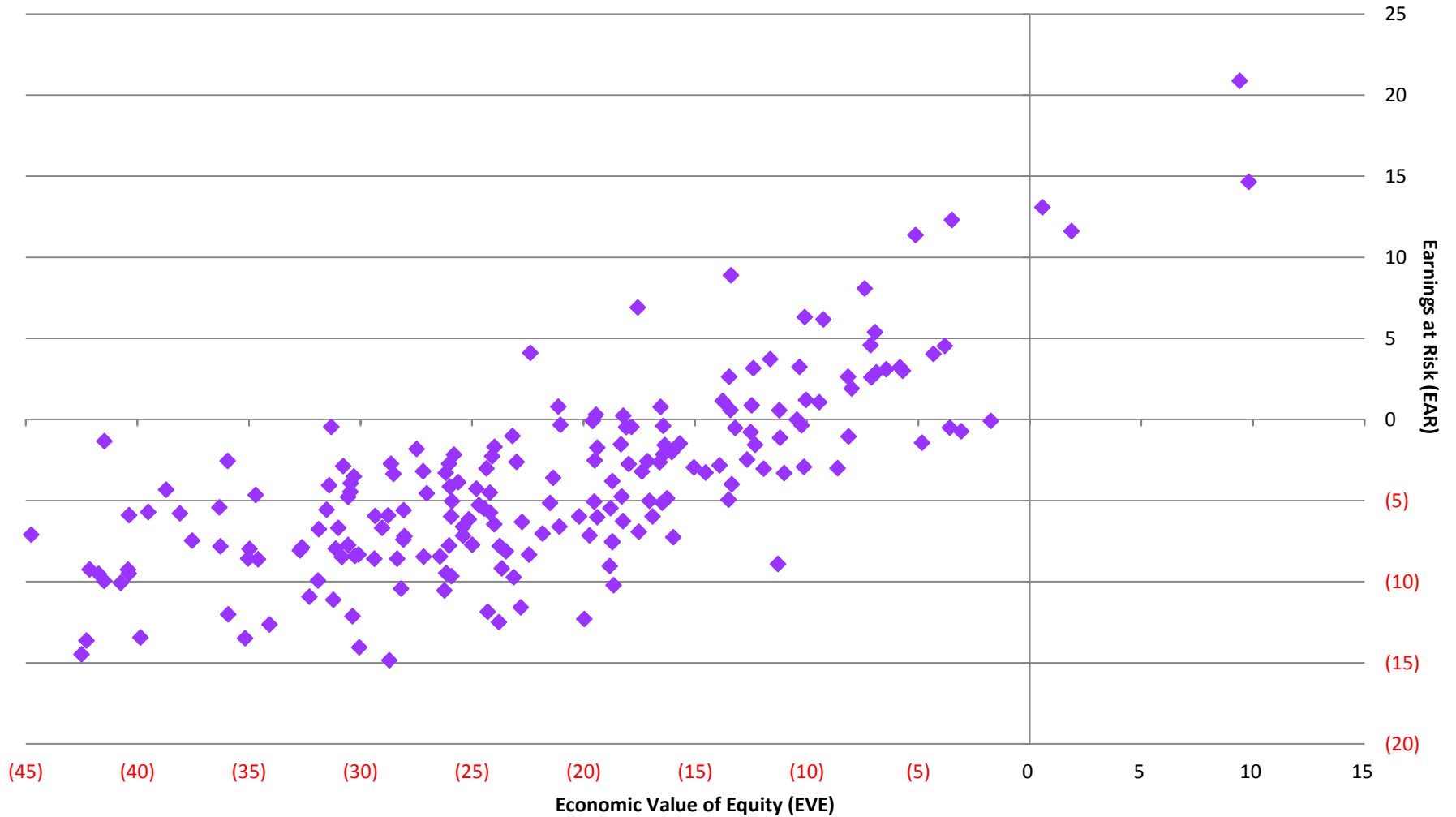
Source: Federal Reserve Open Market Committee September 17, 2015 press conference materials

What to do?

- Let's run through some of the things we looked at to assess whether some strategies might present higher risk.

FRB Tools

Q2 2015 First District - EVE vs. EAR Results (Up 200 b.p. Scenario)

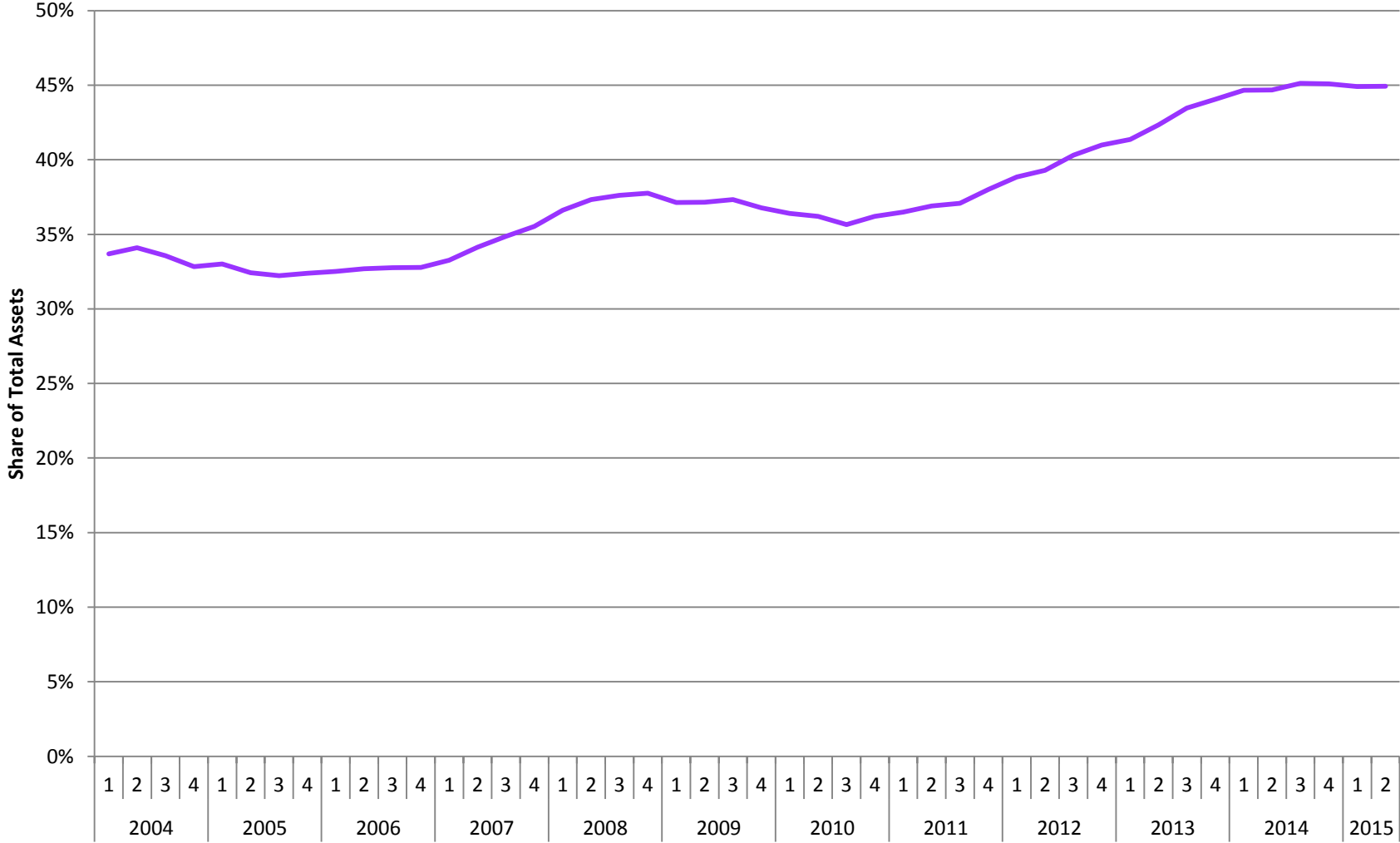


New England Balance Sheet

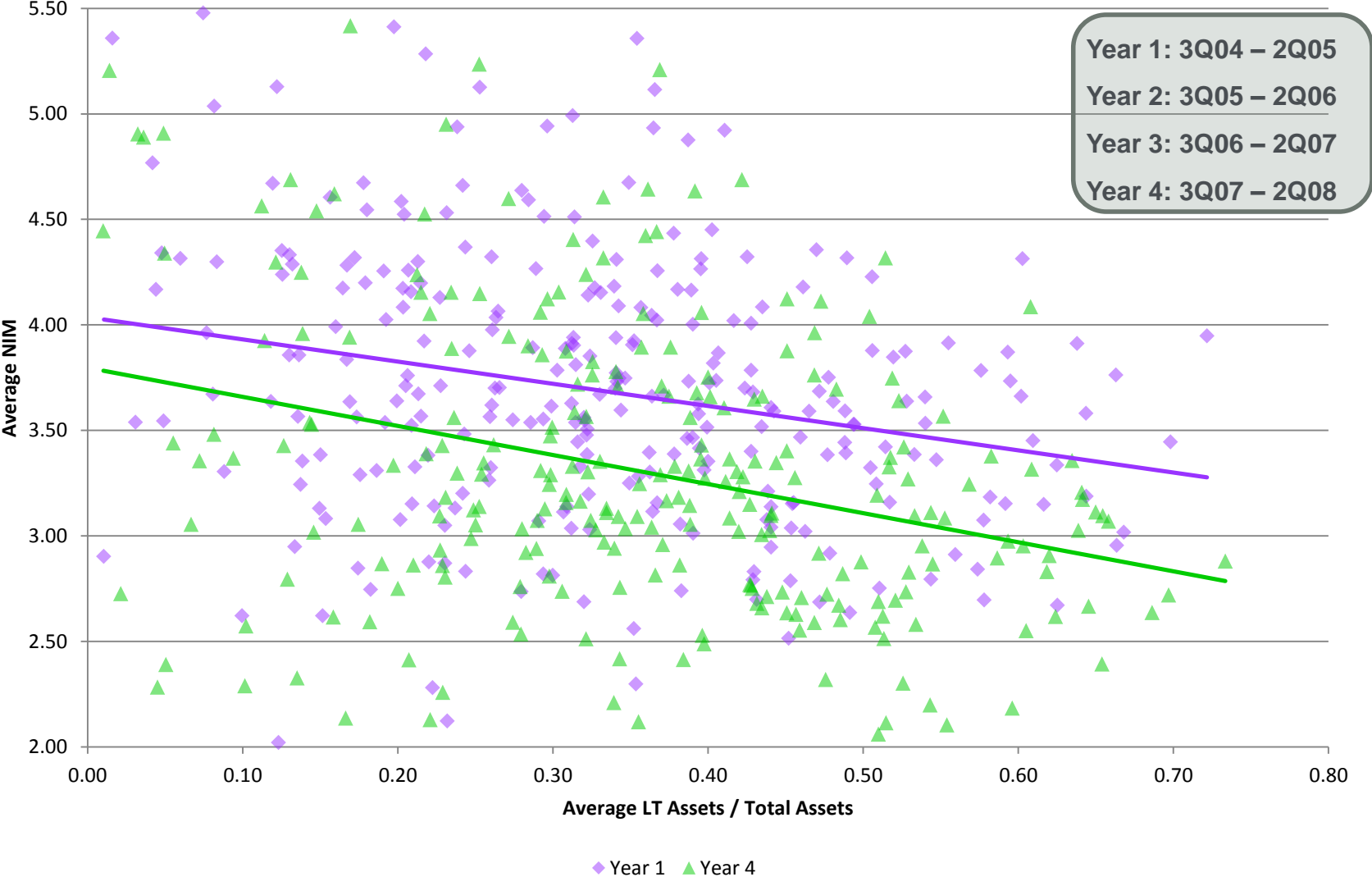
Structure and Trends

- Long-Term Assets
- Residential Loans
- Long-Term Investments
- Commercial Loans
- Nonmaturity Deposits/CD Funding
- FHLB Borrowings

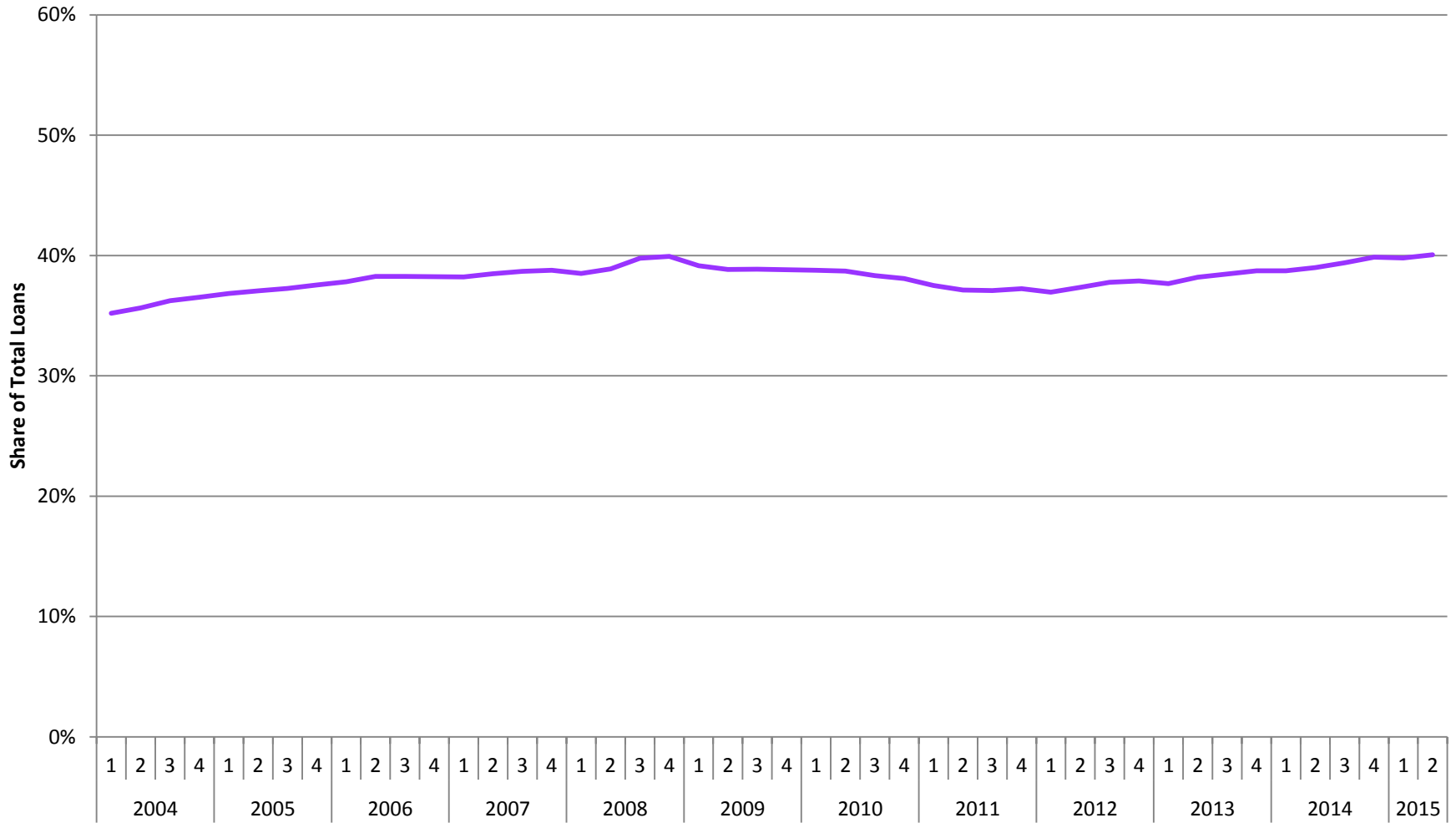
Long Term Assets / Total Assets FD Banks with Assets < \$10 bil



(LT Assets / Total Assets) vs. NIM

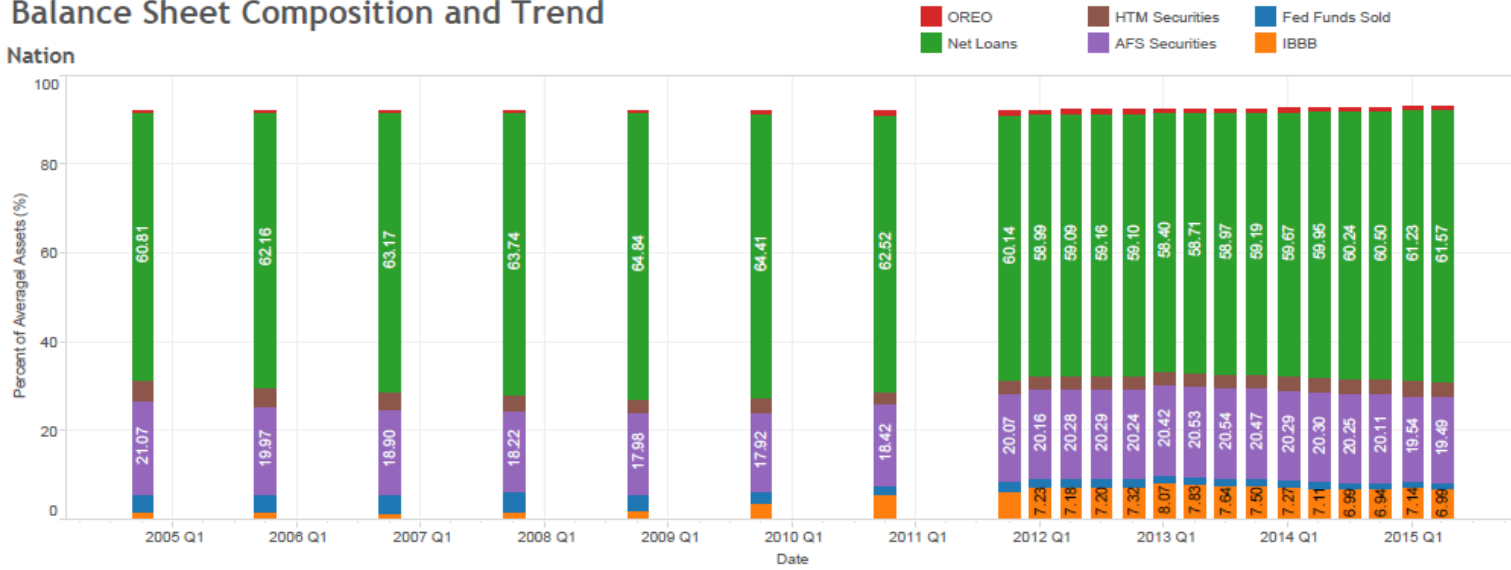


Residential Loans / Total Loans FD R&C Banks with Assets < \$10 bil

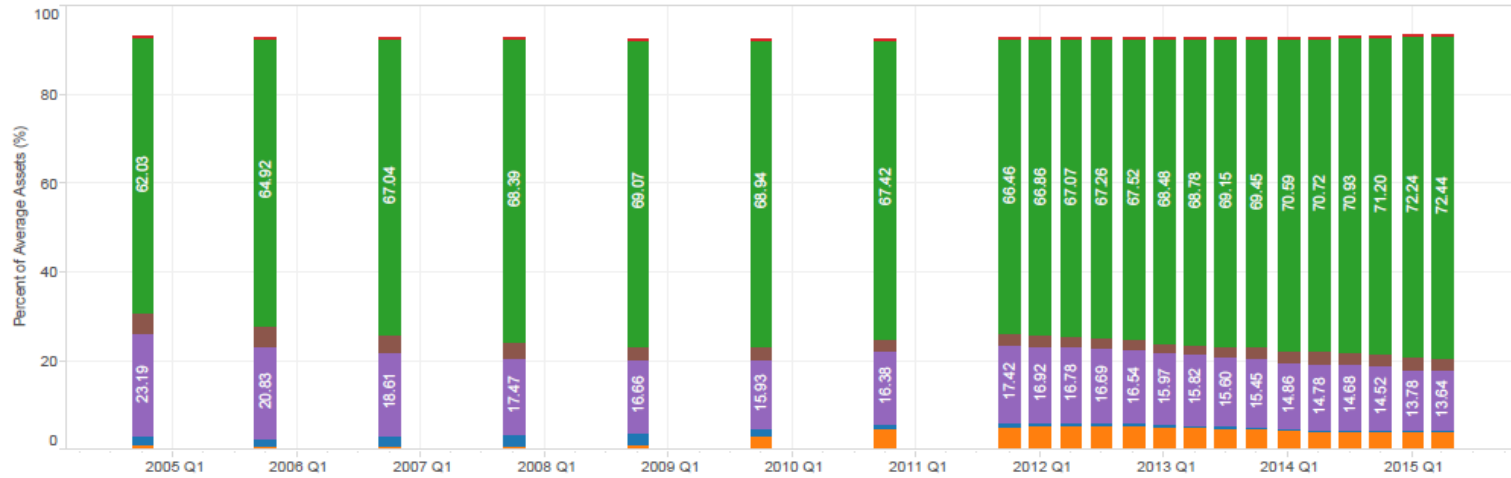


Balance Sheet Composition and Trend

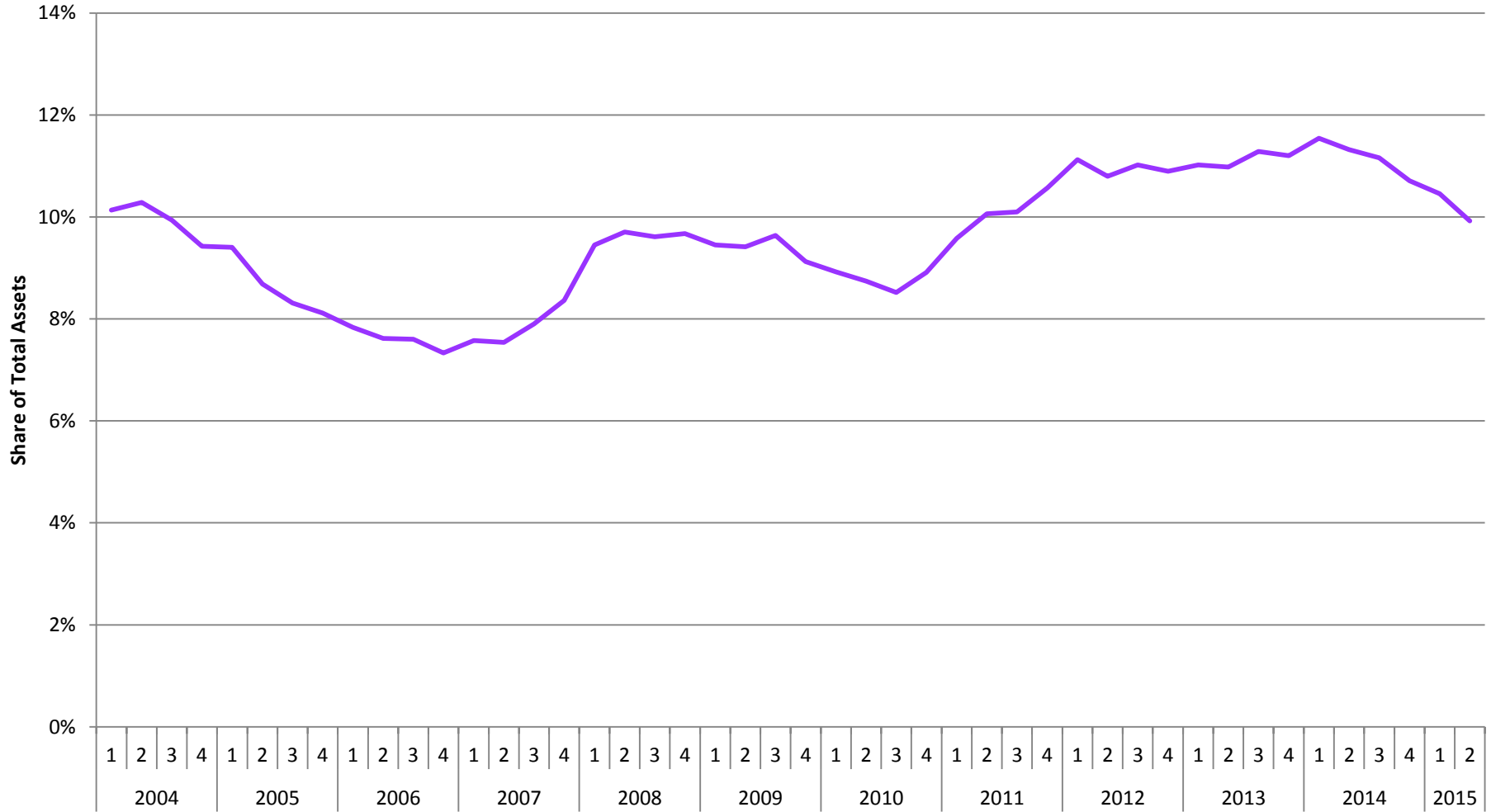
Nation



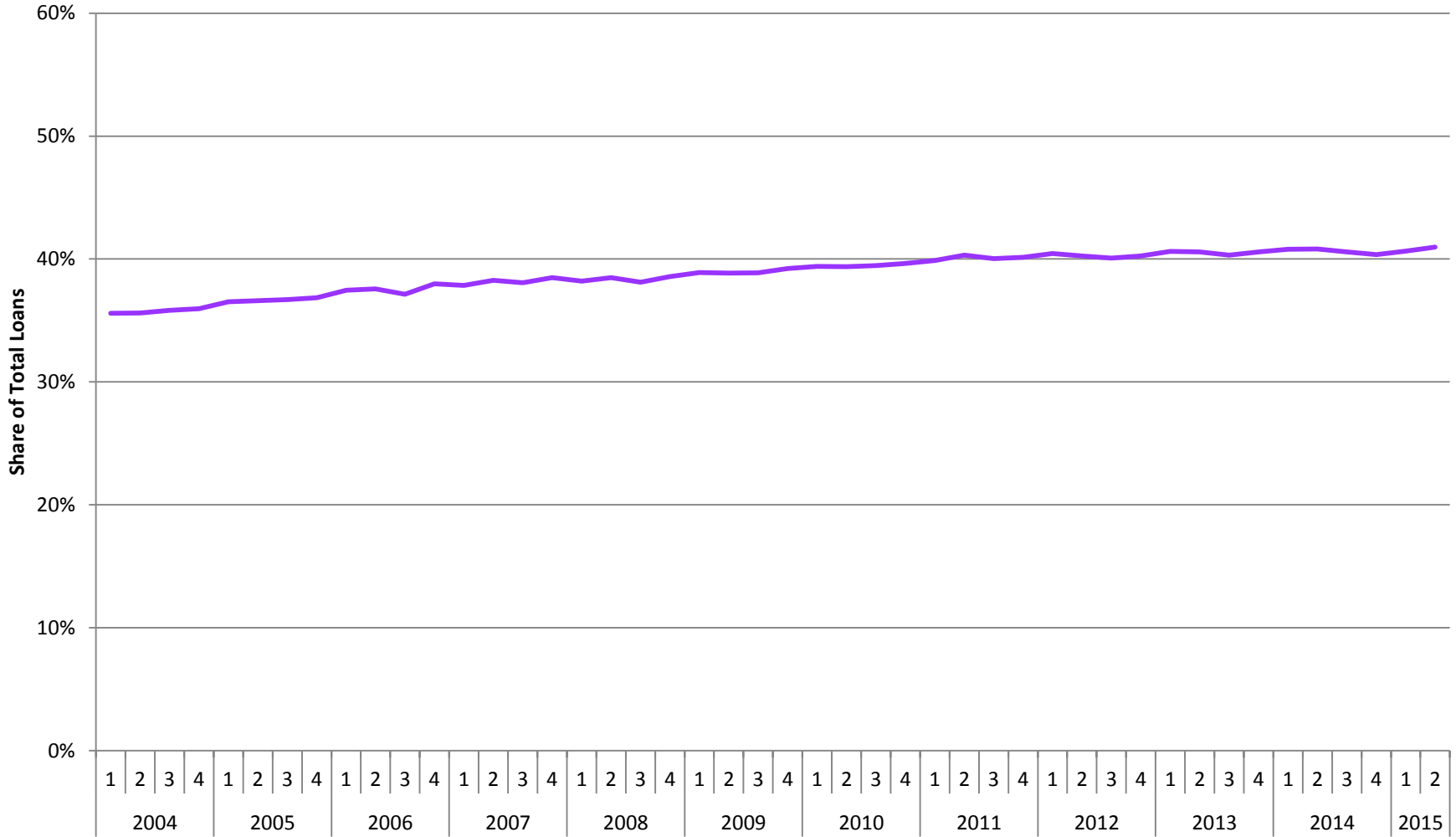
First District



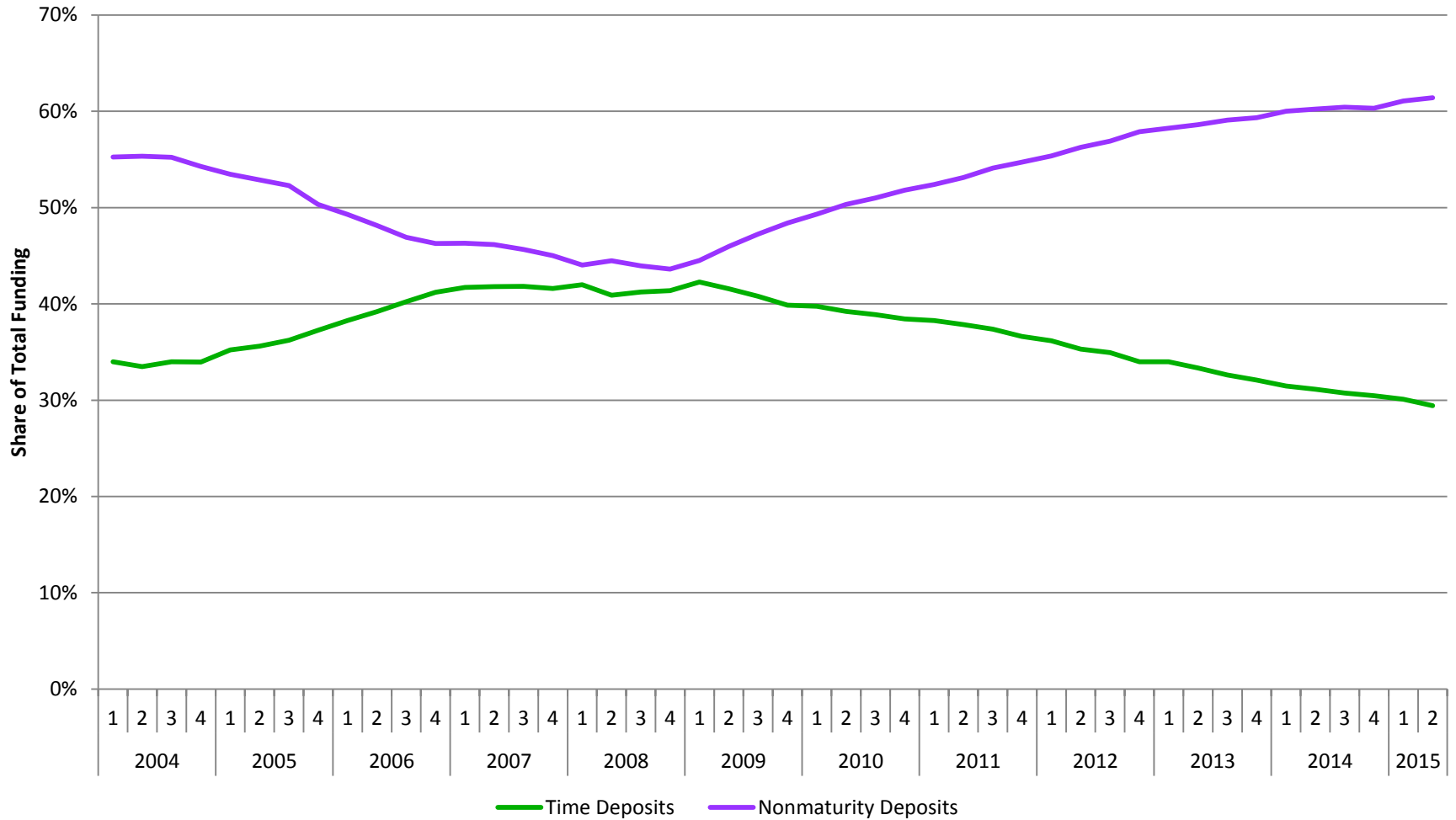
Long-Term Investments / Total Assets FD Banks with Assets < \$10 bil



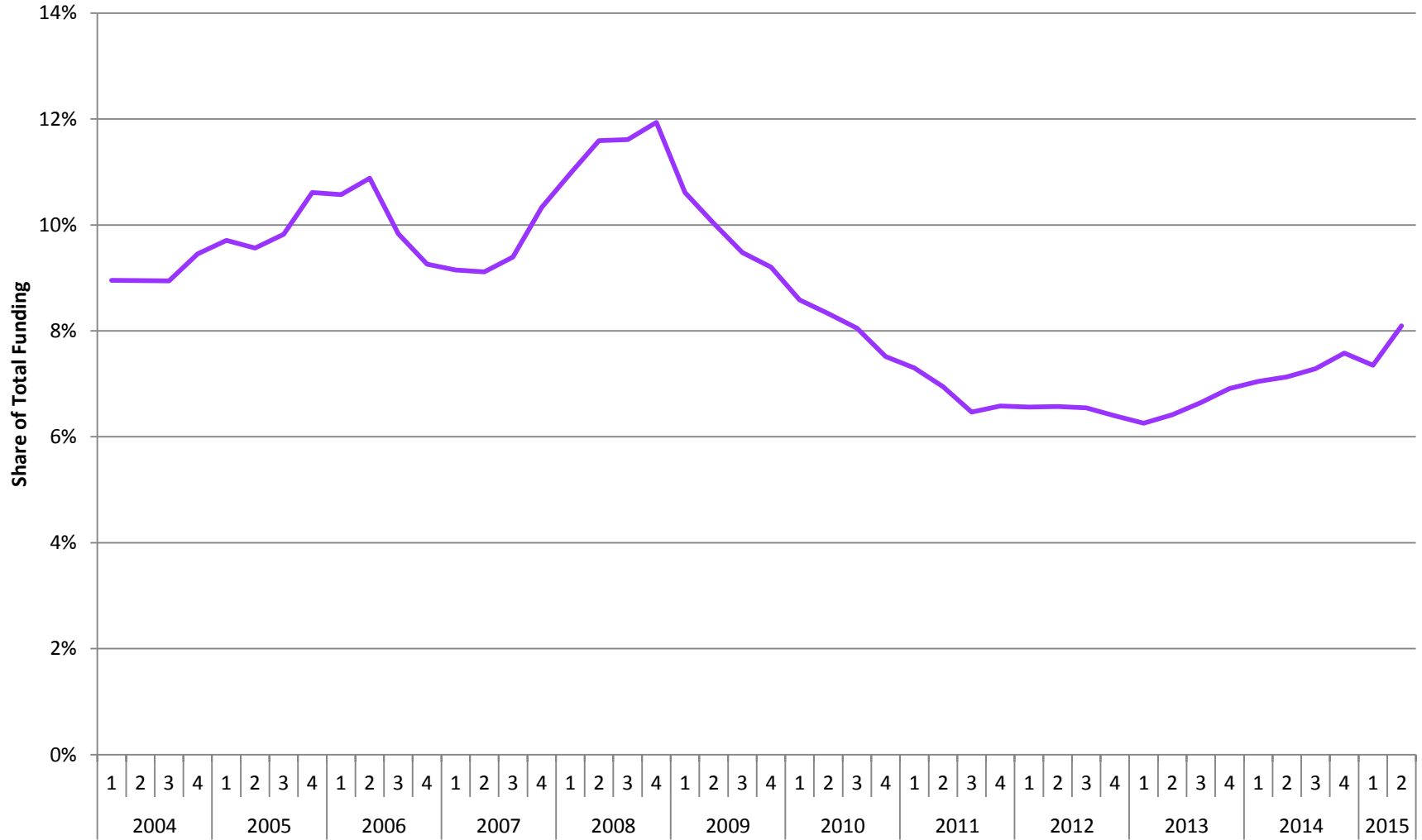
Commercial Loans / Total Loans FD Banks with Assets < \$10 bil



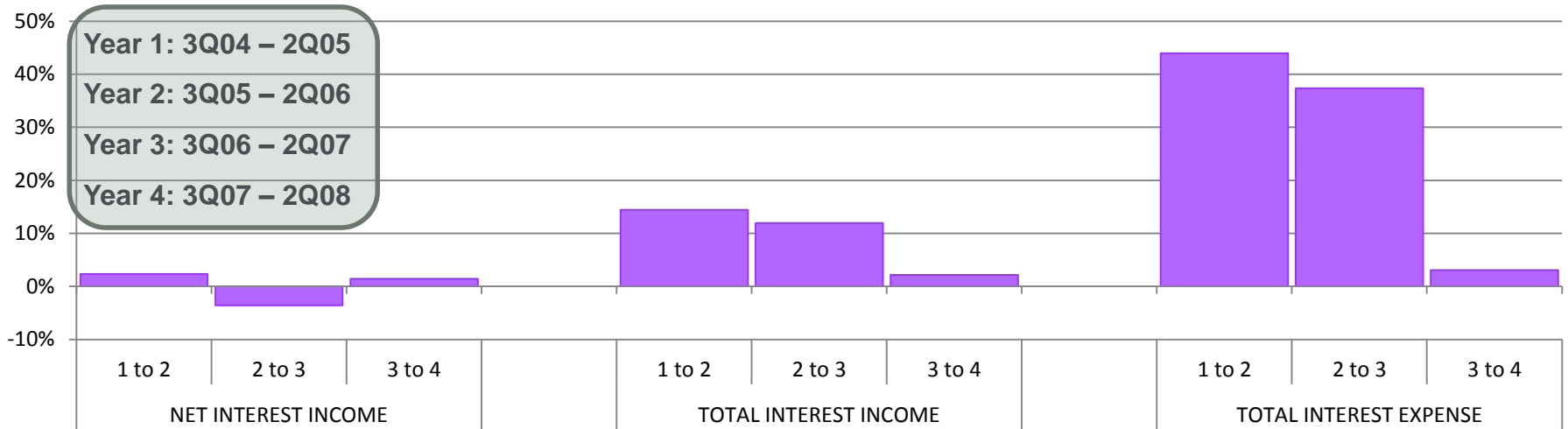
Deposit Funding / Total Funding FD Banks with Assets < \$10 bil



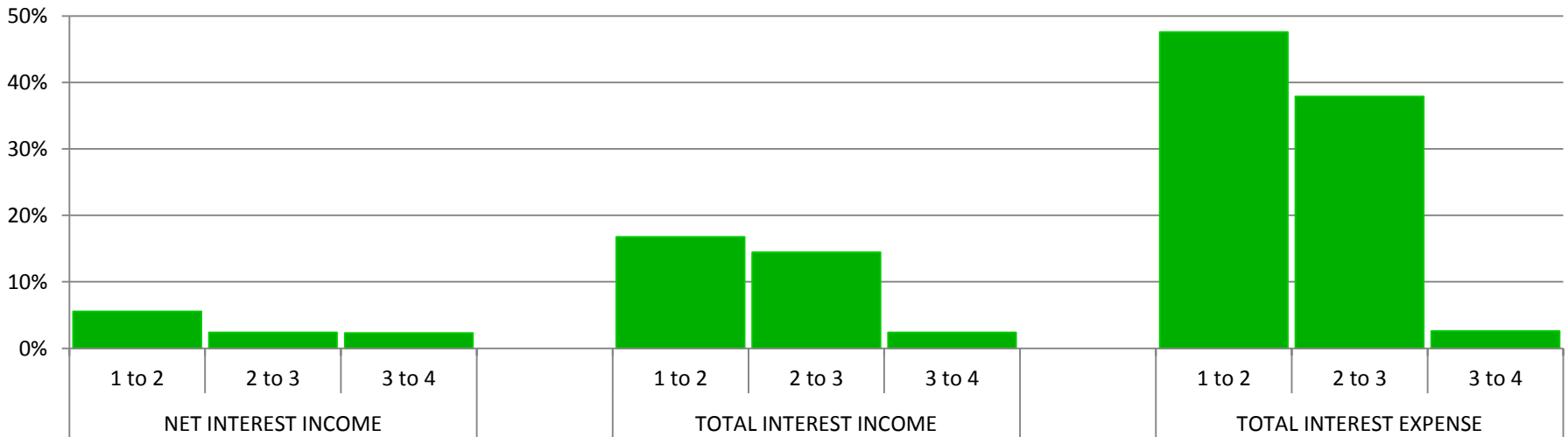
FHLB / Total Funding FD Banks with Assets < \$10 bil



Annual Percentage Growth - FD R&C Banks

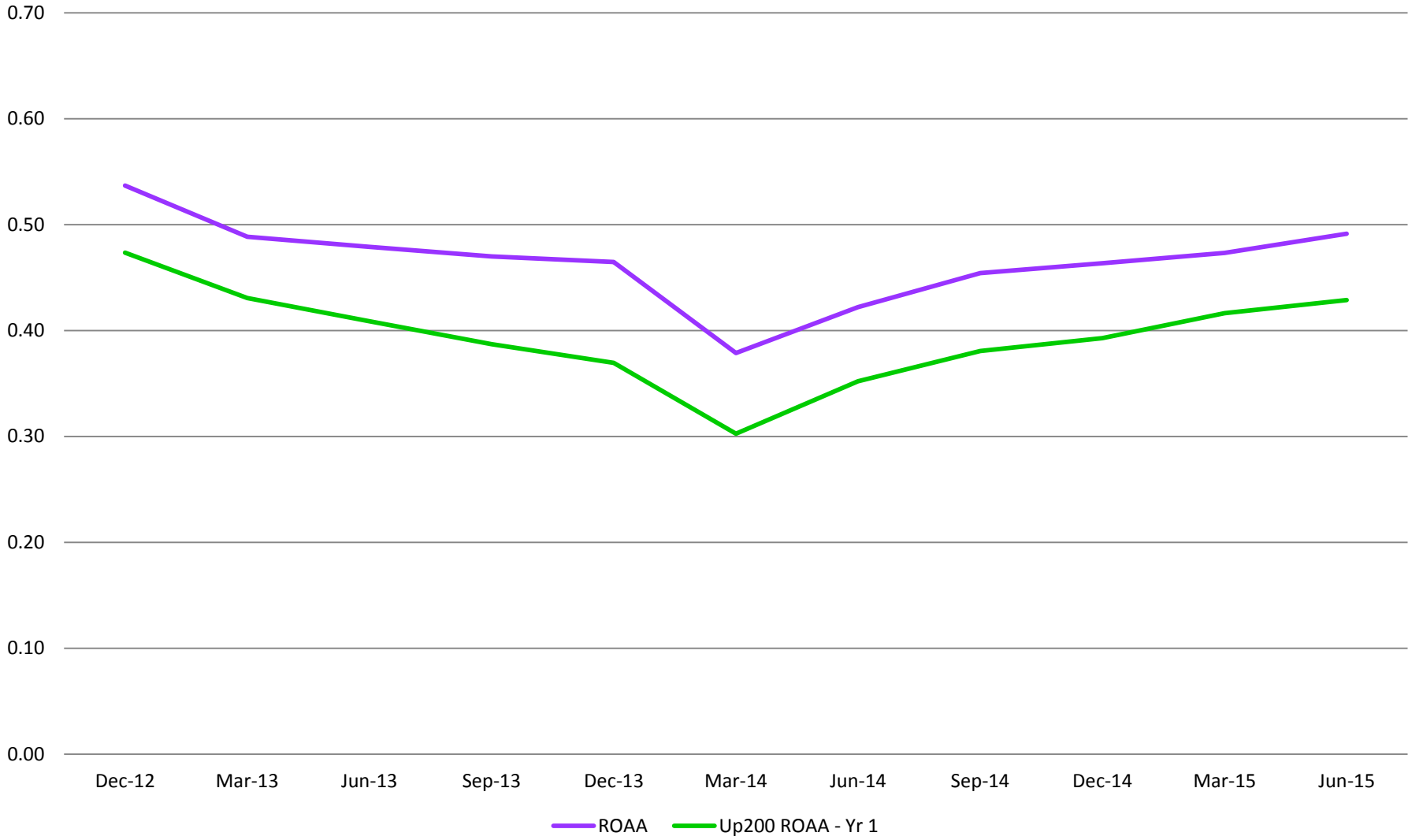


Annual Percentage Growth - US R&C Banks

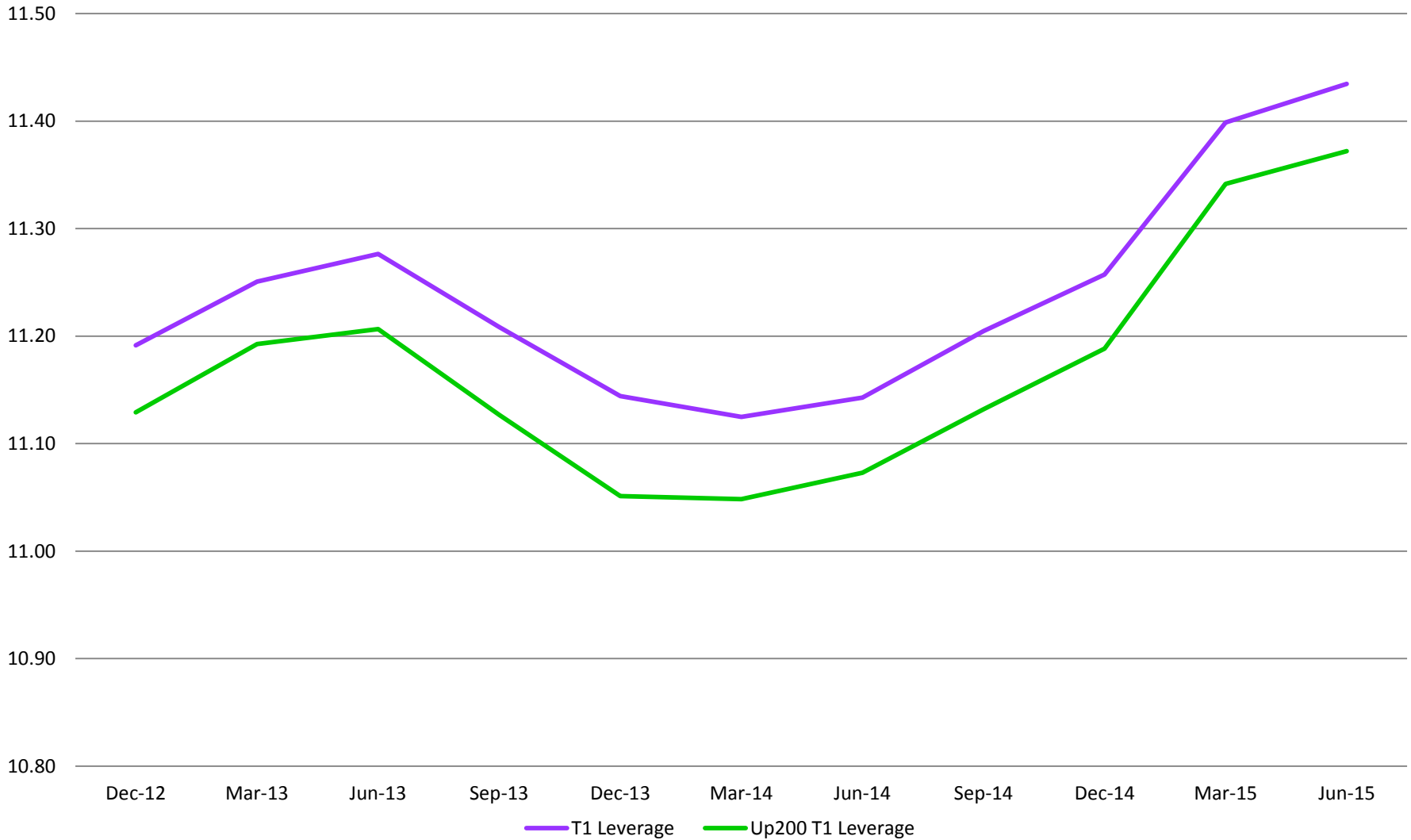


Earnings and Capital

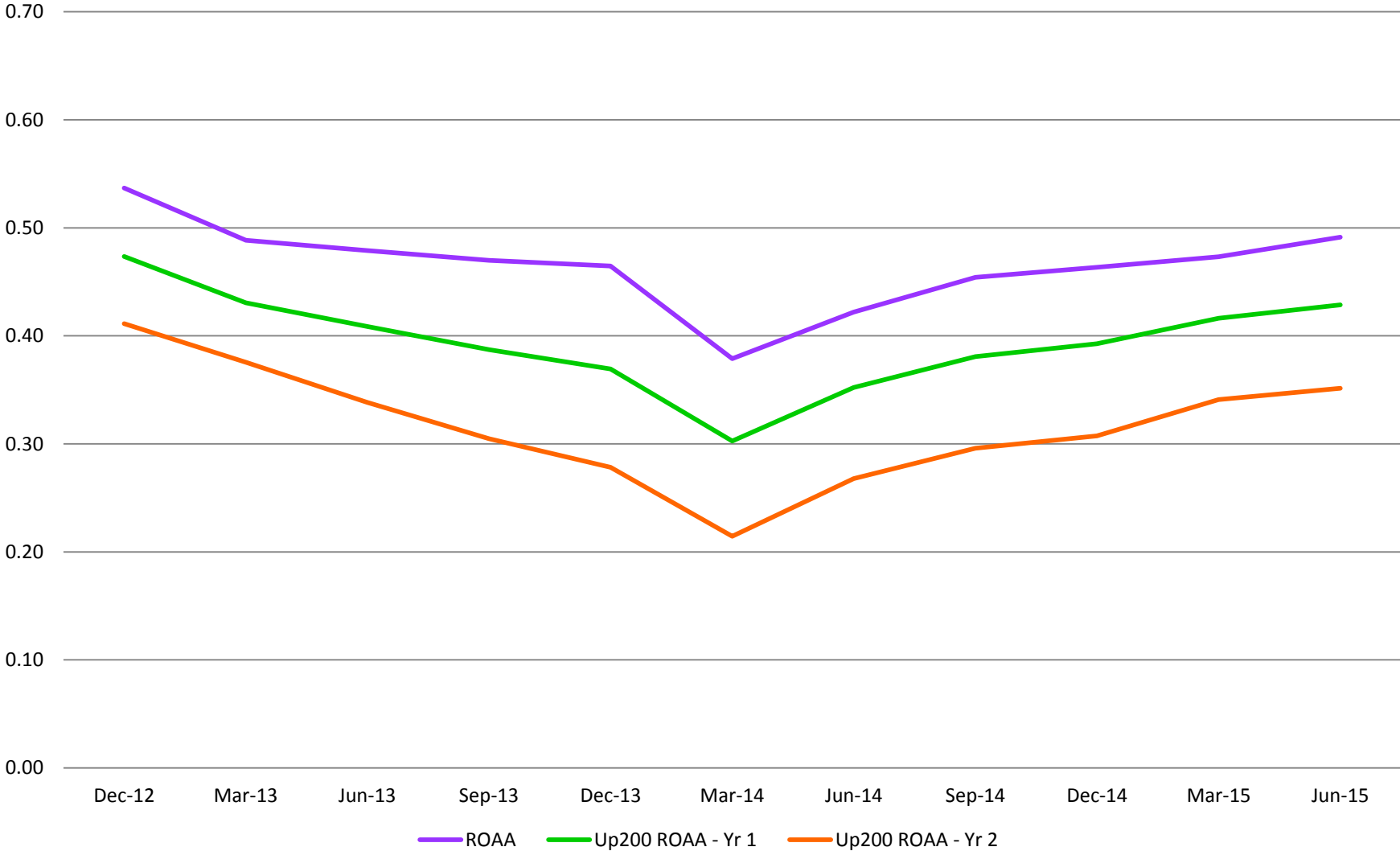
Up200 Impact to ROAA



Up200 Impact to Tier 1 Leverage Ratio



Up200 Impact to ROAA



The Road Ahead

What is next?