

Federal Home Loan Bank of Boston

# Results

VOLUME VII / ISSUE 2 / 2014

PLUS...

The Importance of Long-Term  
Customer Relationships

An Interview with Annual Meeting  
Keynote Speaker Bob Woodward

## Keeping the 'Community' in Banking

Member Adams Community Bank builds long-term relationships in a Massachusetts county where people still appreciate a banker who knows their name.

# Results

Federal Home Loan Bank of Boston

VOLUME VII / ISSUE 2 / 2014

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### KEEPING THE 'COMMUNITY' IN BANKING

Member Adams Community Bank builds long-term banking relationships in a Massachusetts county where job and population loss offer special challenges.



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## MEMBER MATTERS

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### AN INTERVIEW WITH AUTHOR AND JOURNALIST BOB WOODWARD

Two-time Pulitzer Prize winning author Bob Woodward shared his insights on Washington politics in an interview with *Results* at the Bank's annual shareholders meeting in April.



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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. We develop and deliver competitively priced financial products, services, and expertise that support housing finance and community economic growth, including programs targeted to lower-income households.

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Cover: FHLB Boston Relationship Manager Stephen McHugh (center) with Andre Charbonneau and Charles O'Brien of member Adams Community Bank.



## From the President Edward A. Hjerpe III, President and CEO

From a technical perspective, mergers of FHLBanks are different from mergers of commercial or community banks for several reasons....

**T**he Federal Home Loan Banks of Seattle and Des Moines recently announced that they have begun discussions on a potential merger. While no FHLBanks have voluntarily merged since the System was created by Congress in 1932, both Seattle and Des Moines believe this merger would benefit their members. Discussions are ongoing and the end result is undetermined. As some may recall, attempts to merge the Dallas and Chicago FHLBs in 2007 did not move forward.

It is important to remember that mergers among healthy FHLBanks are wholly voluntary and initiated by the respective boards. They require approval by the two boards, the two sets of shareholders, and our regulator, the Federal Housing Finance Authority.

The prospect of a merger of two FHLBanks has received some attention in the press. Recent articles speculate that a successful Seattle/Des Moines merger may lead to other FHLBank mergers. This may be overstating things.

Like most of our sister FHLBanks, Boston is experiencing growth, has substantially grown our retained earnings, and has a strong membership base. In fact, our membership in New England is one of the strongest, most diversified, and least concentrated in the System. In addition,

we enjoy the support of our elected officials and state trade associations.

Also noteworthy, the ability of the 12 FHLBanks to borrow money through the issuance of consolidated obligations has never been stronger, or less expensive relative to Treasuries. Clearly, the capital markets think the FHLBs are strong.

From a technical perspective, mergers of FHLBanks are different from mergers of commercial or community banks for several reasons, including:

1. It is not clear how the relative value of two combining FHLBanks would be recognized. FHLBank stock is not publicly traded. Our capital structure is built on a par value stock traded only between an FHLBank and its members at \$100 per share. Members have historically resisted anything that might impact the par value of their FHLBank stock investment.
2. The potential reduction of costs that might result from a merger of two FHLBanks is not itself compelling. FHLBanks operate as wholesale financial institutions, with operating expenses of about 1/10th of one percent, or 10 basis points, on assets. The merger of two typical FHLBanks would likely increase the return on assets of the combined FHLBank by approximately 2.5 basis points. All other things being equal, this level of increased return would not likely be considered

enough of a benefit to offset the loss of a local and unique board, management team, and product offerings, including those from the Affordable Housing Program. There would have to be another, more fundamental, strategic benefit to make a merger compelling.

3. FHLBanks do not have other attributes that often motivate bank mergers, such as market value gains for shareholders.
4. The regulatory approval process to merge two FHLBanks is arguably more complex than the merger of two commercial or community banks.

Since we are always focused on achieving the best benefit for you, our shareholders, and there are economic, legislative, and regulatory forces beyond our control, we can't say that a merger will never make sense for FHLB Boston. However, I believe that the recent public discourse overstates the imminent need, benefit, or compelling arguments for additional FHLBank mergers.

Our board of directors, leadership team, and staff are committed to building the strength and vitality of FHLB Boston, and the value we provide you every day.

As always, I thank you for your business and support. I will keep you informed of significant developments as the process unfolds. In the meantime, please don't hesitate to contact me if you have questions on this issue. ■

# MEMBER MATTERS

See a video interview with  
Adams Community Bank CFO  
Andre Charbonneau  
at [www.fhlbboston.com](http://www.fhlbboston.com).

Adams  
COMMUNITY  
BANK

2  
CENTER STREET



Adams Community Bank customer Bernard Pinsonnault (left) with Andre Charbonneau and Charles O'Brien of Adams Community Bank.

## ADAMS COMMUNITY BANK, ADAMS MASSACHUSETTS

# Keeping the 'Community' in Banking

by Robert O'Malley

**I**N MARCH 2014, WORD SPREAD quickly through Western Massachusetts communities that the North Adams Regional Hospital in North Adams was shutting its doors. News of the closing was announced on a Tuesday and the last paycheck for the bankrupt hospital's 550 employees would be issued on Friday.

It was an unwelcomed shock for a community that has seen its share of job losses over the last three decades. Sprague Electric and General Electric — two of the region's largest employers — closed their doors locally in recent decades, so the loss of 550 hospital jobs represented another serious blow to a region with a diminishing job base and population.

For member Adams Community Bank, the closing of the regional hospital became a test of its community banking credentials. "We really walk the walk and talk the talk of being a true community bank," says Charles O'Brien, president and chief executive officer of Adams Community Bank. "By Wednesday our

management team had met and developed a list of the existing customers of our bank that we believe worked — or at one time worked — at the hospital.

"By Friday morning, just three days after the announcement, we sent a letter to each of those customers saying we're here to listen, we're here to help you," he adds. "If you have issues — whether you want to access your CDs with us early or need to talk about modifying your mortgage — come and see us."

The letters sent to customers were well received by the community, Mr. O'Brien says. "We took the lead of all the banks and most of the companies in the area in stepping up and trying to help."

The bank ended up modifying mortgages and making other adjustments to help its customers through the crisis. "We helped our customers and helped the community," Mr. O'Brien says.

Operating in an economically challenged area like Berkshire County requires dedication to the community banking ideal and

## 'We are focusing on the Berkshires when a lot of other banks are focusing beyond it... This is our home. We're not striving to expand outside the Berkshires.'

the recognition that the health of the bank is inextricably linked to the health of the community. "We truly step up to the plate and listen to the community's needs and help people through a crisis if there is a job loss," he says. "We definitely work with our customers."

Adams Community Bank was created two years ago through the merger of South Adams Savings Bank, a mutual bank founded in 1869, and Adams Cooperative Bank. "We had been friendly competitors for years and thought that combining two \$200 million hometown banks to create a \$400 million bank would deepen our ability to deal with ongoing changes in banking — whether they be compliance issues or just tightening margins," says Mr. O'Brien, who adds that they also renamed the bank "to make a statement about what our new bank stands for."

"We have a great culture that focuses on old time banking," Mr. O'Brien says. "We really do make time for people, listen to their needs, and try to match them up with the best products and services." The bank is also updating its technology — it now accepts online loan applications — to stay competitive with the larger banks.

Mr. O'Brien notes that the need for an effective community bank in the Berkshires is stronger than ever. Many of the larger banks have either pulled out of the region or consolidated. "A well-

known regional bank just closed three branches in Berkshire County and consolidated them," Mr. O'Brien says.

"We are focusing on the Berkshires when a lot of other banks are focusing beyond it," he says. "This is our home. We're not striving to expand outside the Berkshires."

The bank's community focus is also reflected in its lending strategy. While larger banks often pass on smaller loan requests, Adams is happy to be handling them. "We're trying to build relationships through those \$400,000 and \$500,000 loan requests — that's a real sweet spot for us," he says.

The bank currently has seven branches and is evaluating opening an eighth in Pittsfield. "Seven branches is a lot," notes Mr. O'Brien. "It drives some negative things in our efficiency ratio, but we are aware of that and are just hammering away at growing our deposits and assets in an area that has economic challenges."

The marketplace, meanwhile, appears to be responding to the bank's community focus. "We've had an increased volume of loans," says Andre Charbonneau, the bank's chief financial officer/treasurer. "If in the past we typically had \$3 million to \$4 million in our pipeline, we now have \$6 million."

Mr. O'Brien says the bank's strategy now is to build long-term banking relationships in an area where people still appreciate a banker who knows their name. "We know we're different, more

### A Customer's View

*BERNARD A. PINSONNAULT is president and treasurer of Smith Bros.-McAndrews Insurance, a lifelong resident of Berkshire County, and an Adams Community Bank board member.*



Before the merger, I always did business with the former Adams Cooperative Bank and South Adams Savings Bank. I worked at Adams Cooperative Bank for 16 years. I was an executive vice president at the bank when I left to buy this business.

I continue to finance my business needs through Adams Community Bank. I do all my checking and borrowing there. They also handle all my personal affairs — home mortgage and savings needs. About five years ago they started an investment service relationship with LPL Financial called Adams Community Investment Services, and I have signed on to use those services as well.

I do 100 percent of my business with Adams Community Bank. It's their responsiveness to my needs and their friendly, cordial manner that have always worked well for me. I believe Adams Community Bank is seen as one of the premier financial institutions in Berkshire County.

Adams Community Bank is very much centered on the needs of Berkshire County. It has been my pleasure to do business with them and I hope to do business with them for many years to come. ■



personalized,” Mr. O’Brien says, adding that many of the bank’s staff — like Mr. Charbonneau — have grown up in the area and have been working at the bank for many years.

“Many people in Berkshire County are loyal to the local institution,” Mr. Charbonneau says. “People like to see a familiar face when they come into the bank — maybe someone they have been dealing with for 30 years — and they’re happy and loyal to the bank for that.”

“One of our loan officers likes to tell a story about going into the grocery store and not being able to get through the aisle because she has so many customers asking her questions,” Mr. O’Brien says. “This is the framework we operate in.

“It has helped us create a buzz county-wide,” he adds. “We don’t always hit a lot of the home runs some banks might hit, but we hit an awful lot of singles and doubles, and those are going to grow into longer-term, deeper relationships. This is our goal.” ■

From the left, Stephen McHugh and Andre Charbonneau at Adams Community Bank.

### Adams Makes Effective Use of Bank Products

To support its expanded lending, Adams Community Bank — where 80 percent of loans are residential — has turned to Federal Home Loan Bank of Boston advances. The bank was approved for \$15 million in Community Development advances and by June had already taken down its first \$2 million to help residential customers purchase homes.

“We need the cash,” says Mr. Charbonneau. “Using FHLB Boston borrowings to fund the loan growth is much cheaper than offering CD specials or brokered deposits.” It also has the potential to help the bank “offer lower, more competitive rates to attract business,” he says.

The bank has also made successful use of the Bank’s Equity Builder Program — which provides closing-cost and down-payment assistance to income-eligible homebuyers — to help 10 new homeowners purchase homes. “This was basically for people who wouldn’t be able to afford a down payment to purchase a house,” says Mr. Charbonneau. “Programs like these allow us to help people achieve the goal of homeownership.”

Adams Community Bank was also recently approved for the Bank’s Mortgage Partnership Finance® (MPF®) program. “We sold our first loan yesterday through the MPF program,” Mr. Charbonneau says.

New product offerings combined with use of FHLB Boston products have helped drive the bank’s loan growth, adds Mr. O’Brien. “Turning around and selling loans through the MPF program is helping us control our interest-rate risk, and we’ve been longtime, steady borrowers from the FHLB as well.”

Stephen McHugh, vice president/relationship manager at the Bank, says Adams Community Bank has a strong loan-to-asset ratio of more than 100 percent. “Adams is making loans, more than the competition in the area, and that shows up in a very strong net interest margin,” he says. “They use all the different pieces of the Federal Home Loan Bank, and use them quite well — Equity Builder Program, Community Development advance, and other Bank funding.” ■

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



Above: From the left, Donald Queenin, Northern Bank & Trust Company; Cliff Rucker, NFS Leasing; Craig Cooper, NFS Leasing; and Stephen McHugh, Federal Home Loan Bank of Boston. Opposite page: Donald Queenin and Cliff Rucker.





## NORTHERN BANK & TRUST COMPANY

# The Importance of Long-Term Customer Relationships

by Robert O'Malley

AS CLIFF RUCKER TELLS IT, he was “a 24-year-old kid that didn’t have two nickels to rub together” when he approached Donald Queenin, executive vice president at member Northern Bank & Trust Company, for a loan to help finance a used computer business he and a friend were launching

“When I walked into Northern Bank & Trust, Don was sitting behind the desk,” Mr. Rucker recalls. “I asked him if I could borrow \$15,000, and he said, ‘What are you going to use for collateral?’ I showed him a picture of a Mercedes Benz up on cinder-block trucks, and he summarily said, ‘No.’”

“But we hit it off,” adds Mr. Rucker, who ended up opening a checking account at Northern Bank and Trust and eventually made it his growing firm’s primary bank. Since the 1980s, Northern has provided Mr. Rucker’s firm with mortgages for buildings in Reading and Peabody as well as financing for equipment. The bank has also financed Mr. Rucker’s personal acquisitions, including homes and investment properties.

NEXL — the computer-resale firm Mr. Rucker and his partner started — recorded almost \$200 million in revenue at its peak and

eventually expanded to include a captive computer-leasing firm called NEXL Financial Services.

“Don was always there for us, both personally and professionally,” says Mr. Rucker, who believes the key to his long-term business relationship with Mr. Queenin and Northern Bank is the bank’s ability to make quick decisions.

“When you are a business and you need to borrow money, you generally don’t have three months to get an answer,” says Mr. Rucker. “And it doesn’t matter if the answer is no, or a structure that you are not comfortable with — at least it is an answer.

“I have been banking with Don for 25 years and he hasn’t always done everything I have asked him to do,” he adds, “but he sure as heck has given me a quick answer, and that’s how we run our business — how we treat our customers — and they absolutely appreciate it.”

“Cliff represents the core banking relationship that a bank like Northern tries to identify,” notes Mr. Queenin. “He’s a customer that deposits and borrows with us regularly and sees us as a bank of choice when he has a credit need we can meet.”

Mr. Queenin said the ability to remain nimble is essential to developing longstanding customer relationships. “We really have a philosophy of making the transaction happen and making it somewhat seamless for the borrower,” he adds. “It has been a very worthwhile relationship for both parties.

“Obviously we need the necessary documentation, but we don’t want to make it painful for the borrower.”

In 2005, Mr. Rucker sold NEXL to a public company but retained the leasing side of the business, rebranding it as NFS Leasing, a specialty financing firm. NFS finances the leasing of computer, medical, and other equipment to firms and hospitals that may not be able to get financing directly from an equipment vendor or financial institution.

“We finance small and medium sized businesses,” Mr. Rucker says. “We finance computers for inner city hospitals and schools that can’t get conventional computer financing. I really like the hospitals that serve indigent communities. Sometimes we get hurt — we did a big one they shut down — but sometimes it’s a good story.”

Although Northern was not the lead investor for an important NFS Leasing deal, the bank ended up playing a critical role as a secondary financier. “We were wracking our brains because the primary lender was tapped out and we needed to get another bank to participate in the deal,” says Mr. Rucker, the firm’s president. “I said, you know, I have a friend, let me call him.”

Mr. Rucker contacted Mr. Queenin at Northern Bank and the bank agreed to participate. “We were able to sell it to our board because of the relationship we had with Cliff,” says Mr. Queenin. “It was a new kind of transaction for us (funding a specialty financing company), but we educated ourselves about the other bank and felt very comfortable. Eventually, we took a second bite out of the apple and it continued to grow. It was great.”

“Once we had two banks involved in the deal, we didn’t have trouble attracting additional financing,” Mr. Rucker says. “But we had to get that second guy. So Don and Northern did us a big favor. It would have been difficult for us to grow if Don didn’t come in as the second lender in that facility.”

More recently, Mr. Rucker has been working with Northern Bank & Trust to finance commercial real estate transactions. In an effort to diversify, he has been “acquiring real estate throughout the country, and Don has been a lender on those deals.”

To support those transactions, Northern has been relying on “various borrowings we have with the Federal Home Loan Bank of Boston,” Mr. Queenin says.

“We are a commercial bank, and 50 percent of our loans are C&I or commercial real estate, so we need the funding capability of FHLB Boston,” he adds. “Our CFO is in constant communication with the Federal Home Loan Bank for funding. Cliff will call in the loan, and an hour later I am meeting with the CFO and liability management on how we can price it.”

“What Don says to me is we have this great customer and we want to offer him a competitive rate,” says Frank Kenney, chief

financial officer at Northern Bank & Trust Company. “How can we use FHLB funding to offer this customer a competitive rate and help him realize his business goal.

“The Federal Home Loan Bank is definitely a critical piece because the spot rate FHLB Boston is offering us is a true market rate,” Mr. Kenney adds. “We know what our spread is going to be and we know we can structure an FHLB advance to match up against a specific transaction to make sure it’s a win-win for Northern Bank as well as Cliff Rucker.”

Mr. Kenney says Northern Bank typically uses a Classic advance to structure loans to customers such as Mr. Rucker. The Bank also makes ample use of the Community Development advance. “Classic advances were the best option for us for the structure we put together for Cliff,” he says.

“We clearly look to the Home Loan Bank as a partner to help us provide creative financing to help our customers meet their goals and successfully grow their businesses,” Mr. Kenney says. “That is a premise that we build the bank on, and we hold true to it with every customer. I think that is what Northern Bank is all about.”

That attention to quality customer relationships is paying off for the 12-branch, family-owned bank in Massachusetts’ Middlesex County. “I have been here almost 40 years, and I have seen this institution grow from a \$7 million, single-storefront facility to a \$1.2 billion regional financial institution that can meet every residential and commercial credit need,” Mr. Queenin says. “That growth is a tribute to the foresight of the board and to CEO Jim Mawn and the leadership of the bank.” ■

**On [fhلبoston.com](http://fhلبoston.com)**



In this Solutions video on the Bank’s website, [www.fhلبoston.com](http://www.fhلبoston.com), Loughlin Cleary, vice president/relationship manager at the Federal Home Loan Bank of Boston, and Tim Smith, senior vice president/chief financial officer and treasurer at member Workers’ Credit Union, discuss how a specific term proposed by Mr. Smith led to a recent long-term advance special offered by the Bank. ■



# Advance Solutions for a Rising-Rate Environment

by Jason Hwang and Kevin Martin

AS WE APPROACH 2015 — commonly thought to be the year when short-term interest rates will finally rise — a recurring theme in recent conversations with members has been when to extend advances.

Apart from a member's balance sheet exposure and interest-rate outlook, an important factor to consider is the kind of benefits a member might realize from different advance products in a rising-rate environment. The clearest way to see how different advance products might work to members' advantage in a rising-rate scenario is to ask how specific advance products would be performing today had they been utilized prior to the sharp increase in long-term rates in May and June 2013.

One advance product that has drawn member interest is the Symmetrical Prepayment advance. This is a fixed-rate advance with a special feature that allows prepayment at its approximate market value. In rising-rate scenarios, the member may own the valuable option to prepay the advance and receive a payment from the Bank based on the increase in the market value of the advance.

To quantify a potential gain, consider a hypothetical member who took down a five-year Symmetrical Prepayment advance on May 1, 2013 at 1.21 percent. If the advance were prepaid one year later, the member

would have realized a gain of approximately \$22,000 for every \$1 million prepaid.

In addition to providing protection against an increase in interest rates, this advance provides valuable flexibility in liability management. For example, the ability to monetize the gain on an advance may be important for members looking to offset anticipated losses on their investment portfolio or experiencing slower than expected deposit run-off.

The Curve Steepener advance provides protection from a steepening of the yield curve. It is a fixed-term, floating-rate advance where the advance rate declines as the yield curve steepens. The rate adjusts quarterly based on the difference between two points on the constant maturity swap curve. A typical structure is based on the spread between the two- and 10-year rates.

On May 1, 2013, the spread (two-year minus 10-year) was negative 148 basis points. Since then the average spread has been negative 228 basis points, resulting in an average reduction of the advance rate over the past 14 months of approximately 80 basis points — an effective hedge for members with exposures to a steepening yield curve.

The fixed-rate Expander advance also provides funding flexibility in a rising-rate scenario. Members have a one-time opportu-

nity to increase the amount of the advance by 100 percent of the original for the remaining term of the advance. A typical structure would be a five-year final maturity with an "expansion" option two years after the origination date with three years remaining. Members are under no obligation to exercise the option to increase the amount of the advance. This product is an effective tool for members who are anticipating significant asset growth or concerned about "surge" deposit run-off.

FHLB Boston's most popular products — fixed-rate Classic and Amortizing advances — protect members' balance sheets against an increase in interest rates. The Bank also offers other products and solutions that provide both interest-rate protection and additional benefits.

A full discussion of all of the Bank's solutions can be found in the Products and Solutions Guide on the Bank's website. For additional information, contact Jason Hwang at 617-425-9436 or [jason.hwang@fhlbboston.com](mailto:jason.hwang@fhlbboston.com); or Kevin Martin at 617-292-9644 or [kevin.martin@fhlbboston.com](mailto:kevin.martin@fhlbboston.com).

*Jason Hwang is vice president/director of financial strategies, research, and membership applications; and Kevin Martin is vice president/member financial strategies manager at the Federal Home Loan Bank of Boston.*

THE 2014 ANNUAL MEETING

# Bank Reaches Post-Recession Financial Goals

Edward A. Hjerpe III, president and chief executive officer of the Federal Home Loan Bank of Boston, told members at the Bank's annual shareholders meeting in April that the Bank had achieved six of its post-recession financial goals.

In 2013, the Bank met and exceeded its goal to significantly increase retained earnings, which grew from under \$150 million during the 2008 financial crisis to more than \$800 million today.

In recent years, the Bank accomplished five additional goals it set in 2009, including restoring consistent profitability, more fully funding the Affordable Housing Program, resuming dividend payments, reestablishing the repurchase of excess stock, and increasing the market value of stock to exceed 100 percent par value.

Mr. Hjerpe noted that Bank earnings rose from a \$186.8 million loss in 2009 to record earnings of \$212.3 million in 2013. Meanwhile, AHP support increased steadily during the same period, rising to a \$24 million set aside in 2013 to support the 2014 program.

Other positive news for members included significant dividend increases in the last two quarters, the Bank's repurchase of \$1.05 billion in excess stock as of May 1, 2014\*, and an increase in the market value of the Bank's stock from 48 percent of par value in 2008 to 120 percent in the first quarter of 2014.

The outlook for advances has also been brightening. After dropping to a low of \$20.8 billion in 2012, advances have seen a mild but consistent increase to \$29.7 billion by the first quarter of 2014.\*\*

Mr. Hjerpe commented on additional actions taken by the Bank to enhance the value of membership, including increasing the maximum values of several types of collateral to expand member borrowing capacity. The Bank also began to

\*The Bank repurchased an additional \$500 million of excess capital stock from shareholders on July 31, 2014.

\*\*During the six months ended June 30, 2014, advances increased \$4.8 billion, or 17.4 percent, to \$32.3 billion, compared with \$27.5 billion at year-end 2013.



Board Chair Andrew J. Calamare and Edward A. Hjerpe III at the Bank's annual shareholders meeting.

*'We think the Home Loan Banks are a terrific example of how GSEs can work well and do exactly what they are supposed to do, in good times and in bad.'*

offer new collateral options, including accepting non-agency commercial mortgage backed securities.

In addition, in response to member requests, the Bank now allows prepayment of short-term and floating-rate advances with a fee. Mr. Hjerpe emphasized that the Bank values member-generated ideas and often adjusts its policies in response to member requests.

He noted that GSE reform appears to have picked up momentum, but he said the outlook remains uncertain in a divided Congress. The Johnson-Crapo bill in the Senate proposes to phase out Fannie Mae and Freddie Mac and replace them with a reconfigured secondary market.

Mr. Hjerpe said that even if the Johnson-Crapo bill were approved by the Senate Banking Committee and the Senate, it appears unlikely the House would approve the bill, particularly with midterm elections approaching.

He noted that the FHLBanks are monitoring the GSE reform process and are primarily concerned that the reforms "do no harm" to them. "We think the Home Loan Banks are a terrific example of how GSEs can work well and do exactly what they are supposed to do, in good times and in bad," he said. "We want to preserve the role that we have today and continue to be able to support housing through the provision of low-cost funding for our member institu-

tions and provide liquidity and other services that help our members serve their communities.

"We think we need to continue to move slowly but surely into the role of mortgage aggregators," he said, adding that the Banks are currently participating in this through the Mortgage Partnership Finance program. "We want to preserve our ability to provide a secondary mortgage market to our members."

In addition, Mr. Hjerpe said the FHLBanks would be interested in receiving approval to securitize mortgages — an option under consideration in GSE reform discussions. "We think it would be a positive," he said. "We don't have any intention to go out to do that immediately, but we think it would be better to have the authority if we see a perceived need." ■

### Revised Emergency Contact Numbers

The Federal Home Loan Bank of Boston recently revised its emergency contact numbers, located on the Bank's website, [fhllbboston.com](http://fhllbboston.com). From the home page, under the About Us tab, select Contact Us and Emergency Numbers. You will also find mobile numbers and email addresses to reach key staff. If you have any questions regarding our emergency procedures, please contact your relationship manager.



by Robert O'Malley

## Bob Woodward Addresses Annual Meeting

TWO-TIME PULITZER PRIZE WINNING author Bob Woodward shared his insights on Washington politics in his keynote address at the Federal Home Loan Bank of Boston's 2014 Annual Shareholders Meeting.

In his remarks to members, Mr. Woodward — who along with Carl Bernstein did groundbreaking reporting on the Watergate scandal — provided highlights of his encounters with American presidents Barack Obama, George W. Bush, and Bill Clinton, as well as commented on high-visibility Washington insiders such as potential

2016 presidential candidate Hillary Clinton.

Mr. Woodward said the political leadership in Washington has been largely ineffective in recent years in solving many of the nation's most pressing problems. While he said both "Democrats and Republicans are responsible" for the current impasse, he argued that "in the end it is the CEO's responsibility" to lead — "and in this case the CEO is President Obama."

Mr. Woodward attributed the president's difficulty in moving his agenda forward in part to a reluctance to cultivate strong personal relationships with members of Congress. Such relationships, he said, are helped along by "sitting down to have a drink with more of them and inviting them to the White House to work out compromises. Washington is full of political figures and other leaders who have never had

a martini with Obama," he said.

But Mr. Woodward also noted that the President has many admirable qualities — "he is smart but humble" and "has the armor of a good heart."

He suggested that uncertainty surrounding critical taxing and spending issues as well as the government's role in the economy has been responsible in part for the economy's sluggish post-recession recovery. He said businesses have accumulated more than \$1.5 trillion in cash that would likely have been invested in growing the economy if there hadn't been so much fear surrounding government decision making and where things are going.

On a more positive note, Mr. Woodward said that President Richard Nixon's tendency to use "the power of the presidency for personal revenge" has been absent from American presidents from Gerald Ford to

Barack Obama. “That hate has been bled out of American politics,” he said.

In addition to his address, Mr. Woodward sat down with *Results* to answer questions about his experience reporting on Washington politics and his extensive interviews with U.S. presidents.

## An Interview with Author and Journalist Bob Woodward

**RESULTS:** You’ve spent your career documenting the inner workings of the U.S. government. What inspired you to pursue this career and what impact do you hope your work will have on the country and the Washington culture you’ve been documenting?

**BOB WOODWARD:** Well you never know what the impact will be — the impact is for others to decide. But I really got involved in journalism because the last year I was in the Navy I was working in the Pentagon and saw that the top-secret reports about what was going on in Vietnam were valid but that the officials — both civilian and military — in the Nixon Administration weren’t telling the public how bad it was — what the problems were. You could see the sharp contrast between the reality — the top-secret reports — and what was being said in public. It was, to be honest with you, kind of shocking that we would be engaged in such a war and that there would be such deception at the center and around the edges of what was going on.

**RESULTS:** You’ve been extremely successful as a journalist in part by persuading U.S. presidents and others to answer hard questions. Has it been difficult to balance the need to ask tough questions to get at the truth and moving cautiously to maintain access?

**BW:** Well, I have the luxury of time, and with time I can find the note takers and

people who have documents and direct knowledge, the names of people in the Pentagon, the White House, and the CIA that you will never know. From this information I develop a narrative about what really occurred and then I send presidents — as I did George W. Bush and Obama — long memos saying, this is what I understand happened — why did it happen, what did you do, what was your reasoning? Presidents live in the bubble of the shouted question — why is Obamacare a failure, why is it a problem, why aren’t you tougher with Putin? So I come in and take the long view about major policy issues, asking them in a very serious way, why did you do this, what was the information you had, what were you trying to accomplish? And for anybody in political office this is an open door to let them give their view. Now I give other views and deal with what is in the documents as well, but they get their say.

**RESULTS:** Do they respond because they know you’re going to write about it? Would they respond to a beat reporter as well?

**BW:** They respond because they know I am doing it anyway and that I’ve got a lot of new, detailed information that is not in the newspapers or on television or on blogs. And one universal characteristic of all presidents and political figures is that they want to explain themselves, and this provides an opportunity for them to do that.

**RESULTS:** You’ve interviewed many U.S. presidents over the last half century. Which presidents were especially forthcoming in answering your questions?

**BW:** Of those I have interviewed extensively, I think Gerald Ford was one of those people who really opened up, after he left office, about why he pardoned Nixon, how he viewed the job after the catastrophe and trauma of Watergate, and how he wanted to heal the country. So I would put him in the top ranks. I interviewed George W. Bush for four books, probably for almost a dozen hours. He answered all the questions. I think there has been a lot of criti-

cism (including by me) of his decisions, but he gave his answers in detail.

**RESULTS:** Americans like to think that U.S. presidents have the best interests of the American people and the world in mind when making their decisions. Does any president stand out as being especially thoughtful and dedicated to this ideal regardless of the political consequences?

**BW:** That is an important question. I think after Nixon, all of the presidents — Ford through Obama — if you really look at them, made all kinds of mistakes and received criticism for it, but their intent was to do what was in the national interest, not just what was in their personal interest or their political party’s interest or in keeping with their political ideology. But governing is so much — and this is what I am going to talk about today — a matter of mastering the system and the personalities and finding out where the buttons on people’s personal and political counsels are so you can push them and get things done.

**RESULTS:** It’s generally believed that Washington in recent decades has become more politically polarized and less open to compromise. As a close observer of the U.S. government during this time, do you have any thoughts on the origin of this phenomenon and do you see it continuing?

**BW:** There certainly is more polarization. Part of it has to do with the concentration of power in the presidency. The president has incredible power to do things independently. Even though we have the War Powers Act and the Constitution says Congress should declare war, Presidents can decide to go to war, as Bush did in Iraq. He got resolutions from Congress — which do not have the force of law — to support what he did. But essentially it was his decision. And because of that concentration of power, Congress has risen up to a certain extent — often not effectively — to say, wait a minute, what are our powers, what do we do here? And a lot of it has to do with their personalities and experience as negotiators. Negotiation is an art. It’s not

## ‘Negotiation is an art. It’s not something you can learn in a week or even 10 years. There are lots of people embedded with their own political views.’

something you can learn in a week or even 10 years. There are lots of people embedded with their own political views. They come from congressional districts or states where it is safe to be to the left or right — so why compromise, why accommodate other views? There are other factors as well. I think one is that people in the Senate and House don’t spend the same amount of time in Washington. They go home. I think a lot of that has to do with the staffs which are implementing on behalf of their bosses. Ideology or certain political perspectives also tend to drive things.

**RESULTS:** Do you feel the American government is working as effectively now — in this age of budget impasses and government shutdowns — as it was when you started out as a reporter in the 1970s? Are the recent fiscal conflicts having an impact on the nation’s business and productivity?

**BW:** In 1973, after Carl Bernstein and I had done the Watergate stories, most people probably didn’t believe what we uncovered. But the Senate decided to launch an investigation headed by Senator Ervin of North Carolina, and a resolution to set up the Senate Watergate Committee passed the Senate 77 to zero. Dozens of Republicans voted to investigate their president because they thought, gee, we had better find out what happened. Is this true? Did it go off the rails as much as the Washington Post says? But now if there was an investigation of the Obama White House, you wouldn’t get a unanimous vote on anything, and you probably wouldn’t get many, if any, Democrats to go along with such an inquiry. So the polarization is obviously much greater. As I’ll try to outline this morning, I think the responsibility rests with both parties, but the president is the CEO, and it’s his job to corral the forces and the personalities and the ideas and the convictions and put them on a path that will produce results. This isn’t what we have now. I would argue that if we fixed some of these budget matters — some of these economic issues — and there was a path of certainty, the country would be on the verge of another American century. Basically the economy is sound. After 2008, businesses and banks have been much more careful — they have kind of cut back on lots of things — but the economy is still growing. If you talk to CEOs in any business, they say the future is dimmed by the lack of direction. For example, the fact there is no fix on what taxing policies and spending policies are going to be.

**RESULTS:** Who is responsible for this?

**BW:** Both parties. But ultimately it’s Obama — he’s the CEO.

**RESULTS:** Although you’ve been a successful author for many

years now, you maintain a relationship with the Washington Post. What keeps you dedicated to newspaper work?

**BW:** It’s the best job in the world. You get to make momentary entries into people’s lives when they are interesting and you get out when they cease to be interesting.

**RESULTS:** Do you think reporters have at times been too easy on Washington officials, particularly when it comes to issues such as the war in Iraq and the economy?

**BW:** Well, I fault myself mightily and have said so publicly many times for not getting behind the issue of weapons of mass destruction in Iraq. A lot of this had to do with the trauma of 9/11. People were worried there was going to be another attack. I know that in my own case my reporting on that issue was not aggressive enough.

**RESULTS:** Do you think newspapers will continue to play a critical role in American life — as the Post played in the Watergate scandal — or will they eventually be bypassed by other media?

**BW:** Well, they may not be in hardcopy form and they may be online and so forth, but news organizations are still vital and probably play as important a role in democracy as any other institution.

**RESULTS:** Are you optimistic that a workable business model for newspapers can be developed by new owners such as Amazon’s Jeff Bezos, who recently purchased the Washington Post?

**BW:** I think so. I think he is growing the Post, and I think he has an idea of what the business model is going to be. It’s not clear to a lot of people, including myself, what that will be.

**RESULTS:** Do you think he will be innovative in his handling of the Post?

**BW:** Yes, I think he is a very smart guy. I have met with him a number of times. He’s got a general outline, but I think the first step is to grow the newspaper and do more serious, original work so that the content really is in-depth reporting.

**RESULTS:** Is there a president from the past that you would have especially enjoyed interviewing if given the chance?

**BW:** Well, obviously, Lincoln would top the list because of the range of pressures. The Union was coming apart. The very existence of the United States was at stake. The only other president to face that, really, was George Washington. So I guess Washington would be number two. ■



# Bank Hosts First Member Roundtable

**‘I found the CEO/CFO roundtable to be an excellent forum for sharing ideas and information. I hope the FHLB Boston continues to provide this program going forward.’** —survey comment

NEARLY 60 MEMBERS ATTENDED THE first annual CEO/CFO Roundtable discussion and dinner the evening before the Federal Home Loan Bank of Boston’s annual shareholders meeting.

Members were assigned to geographically diverse discussion groups. A facilitator for each group helped drive the discussion topics.

“The idea for the roundtable came from feedback we received from our Member Advisory Panel,” said Ana Dyer, the Bank’s first vice president/director/sales and business development. “MAP members tell us they value the opportunity to interact with each other to discuss various topics, including opportunities and challenges they are facing.”

The roundtable discussions included revenue-generation opportunities, mobile banking apps, regulatory issues, NIM compression, competition, technology investment, and more.

In a post-meeting survey, all respondents reported that participation was valuable, with 65 percent saying it was “extremely valuable.”

Based on the positive feedback from the survey, the Bank plans to make the roundtable an annual event. ■



From the left, Glenn Welch, president and CEO of Hampden Bank; Sushil Tuli, president and CEO of Leader Bank; and Stephen Angell, president and CEO of Dexter Credit Union.



## Richard Moran Joins Bank as Financial Strategist

RICHARD MORAN HAS JOINED THE Federal Home Loan Bank of Boston’s Member Services team as financial strategist.

Mr. Moran will utilize funding models to develop strategies to help members use Bank products to fund their assets. He will also work with Member Services staff to support business-development initiatives.

“I’m excited to be at the Bank and look forward to working with members to deliver effective strategic services,” he says. “My goal is to strengthen our team’s relationships with members.”

Mr. Moran previously worked at Timber Creek Capital, where he served as a portfolio analyst, and at Deutsche Bank. He has a B.A. in management from Merrimack College and is an M.B.A. candidate at Northeastern University. ■

# Hidden POND

An Affluent New Hampshire Town  
Develops New Affordable Housing



Brenda Hall had been living in Manchester, when she learned about the new Hidden Pond development in Amherst, New Hampshire.

The mother of three children — two of them teenagers — Ms. Hall says she decided to move to Amherst to get away from the hustle and bustle of the city and to fulfill a lifelong dream of living in a rural setting.

“I just wanted more of a quiet, country setting,” she says. “The boys are happy here. I’ve never been happier in my life.”

It was residents like Ms. Hall that NeighborWorks Southern New Hampshire had in mind when it agreed to sponsor the Hidden Pond initiative, says Jennifer Vadney, NeighborWorks’ neighborhood development manager.

Built in a rural, upper-income town outside of Nashua, the Hidden Pond Apartments provides new affordable housing in a town that had none. ➤

Take a video tour of the Hidden Pond Apartments and visit with residents at [www.fhlbboston.com](http://www.fhlbboston.com).



18 Resident Brenda Hall at home with her son Christian.

The Hidden Pond initiative includes 28 affordable two-bedroom apartments on a five-building site. Built within the town's expanded historic district, the new development was designed to mimic the large historic homes typically found in the area.

"As soon as the local paper reported that a new housing project would be built in town, we started getting phone calls," Ms. Vadney says. "We had a waiting list literally the entire time the building was under construction.

"I think one of our first calls was from somebody who worked at Town Hall," she says. "We were also hearing stories about retirees who wanted to move back to town as well as young people who had grown up in town, left for college, and wanted to return if they could find affordable housing."

Ms. Vadney says the town had a clear need for affordable rental housing. "A senior development had been built in Amherst several years ago — which was well received — but there hadn't been construction of any new family rental housing."

In recent years, NeighborWorks has focused more attention on the affordable housing needs of small towns like Amherst. "For many years we worked in Manchester — and continue to work there," Ms. Vadney says. "But now we are working in communities outside of Manchester where we see a need for affordable housing.

"Many people want to live in towns and rural areas, but they often find they can't afford to live in them," she says. "New Hampshire is still a small town place. Many folks want to live in the towns where they grew up. We think people should be able to find affordable housing in those places too."

Ms. Vadney says the Hidden Pond initiative was generally well-received by the Town of Amherst. "I think our biggest challenge was getting approval from the town's Historic District Commission," she says. "Construction had to follow the town's historic guidelines, which added a layer of complexity to the project — but we got it done."

"These are townhouses, but from a distance they look like large historic homes," Ms. Vadney says.

"In our new construction projects outside of Manchester we have been focusing on townhouse-style developments," she says, adding that the development was also built to Energy Star standards. "Families really appreciate the opportunity to live in a townhouse. They like having their own front doors and apartments on two levels.

"Townhouses feel like a home of your own and give families room to spread out," she says. "People appreciate the privacy that comes with a townhouse. I think they look for this when they move out of the city."

**'Many folks want to live in the towns where they grew up. We think people should be able to find affordable housing in those places too.'**

Residents of Hidden Pond include a mix of families and seniors. Residents work in Amherst, in nearby Massachusetts, and in cities such as Nashua and Milford. "We had a handful of folks move in who were living temporarily with family members and didn't have a home of their own," Ms. Vadney says.

Primary funding for the Hidden Pond Apartments was Low Income Housing Tax Credits through New Hampshire Housing.

"We were also fortunate to receive a \$365,000 Federal Home Loan Bank of Boston Affordable Housing Program grant through member Merrimack County Savings Bank," she says. "This was our first project with Merrimack and they were super."

"Partnering with NeighborWorks Southern New Hampshire on this workforce housing initiative in Amherst was a pleasure," says Lori Piper, senior vice president at Merrimack County Savings Bank. "It has created much needed affordable rental housing in an affluent community and provided new opportunities for people who work in the community to live there as well." ■

# GSE REFORM *Update*

By Joanne Sullivan

While a divided Congress makes GSE reform unlikely this year, now may be a good time to take a look at the landscape thus far.

The Senate Banking Committee passed the Johnson-Crapo bill in May by a vote of 13 to nine, but the bill will not likely advance to the Senate floor this session. There are several reasons for this, all having to do with timing.

First, Democrats and Republicans alike readily acknowledge that Chairman Johnson (D-SD) and Ranking Member Crapo (R-ID) made every effort to reach out to committee members over the past few months. There have been many conversations to try to garner additional support for the proposal. However, Republican senators opposed to the bill are generally against the provision that would preserve government involvement in the form of a public guarantee. In turn, certain Democratic senators seek additional support for affordable and multifamily housing programs, such as the Housing Trust Fund, and equal access for small and community banks in a new secondary market structure, before they would support the bill.

Second, an election year always means two things: a shortened legislative session, with more limited time for debate, and a renewed focus on campaigning. In addition, several essential votes must be taken before Congress adjourns, including the reauthorization of both the Highway Trust Fund and the Export-Import Bank charter.

Third, this fall's elections will determine whether the Senate will remain in Democratic hands or move to Republican control. If it is the former, senators are expected to continue working with the current housing finance proposal. If it is the latter, look for a brand new proposal on housing finance reform. And since Chairman Johnson is retiring this year, a new committee chairman will set the agenda.

On the House side, the Protecting American Taxpayers and Homeowners Act, proposed by House Financial Services Committee Chairman Jeb Hensarling (R-TX), passed the House Financial Services Committee last year with close to full Republican support. Two additional proposals, the Home Forward Act, introduced by ranking member Rep. Maxine Waters (D-CA), and the Partnership to Strengthen Homeownership Act, introduced by Reps. John Carney (D-DE), John K. Delaney (D-MD), and Jim Himes (D-CT), have yet to be scheduled for a hearing.

As with the Senate, elections are having an impact on legislation this year in the House. The primary defeat of second-ranking House Republican Eric Cantor (R-VA) in June will affect prospects for movement this year, as Republicans had to choose a new majority leader – Congressman Kevin McCarthy (R-CA) – to replace Cantor and a new majority whip, Congressman Steven Scalise (R-LA), for the third-ranking position. Consequently, Speaker John Boehner (R-OH) is not likely to take up housing finance reform this session.

Taking the long view, a proposal passing each of the relevant committees is indeed progress, but the two approaches are so different it would be difficult to combine them into a single piece of legislation. ■

*Joanne Sullivan is vice president/director of government and community relations at the Federal Home Loan Bank of Boston.*

# THE LAST WORD

## FHLB Boston Around the Region

### **AHP GROUNDBREAKING: 86 DUMMER STREET, BROOKLINE, MASSACHUSETTS**

In June, the Brookline Housing Authority hosted a groundbreaking for its 86 Dummer Street initiative, which received a \$350,000 grant and an \$800,000 subsidized advance with a subsidy of \$272,997 from the Federal Home Loan Bank of Boston's Affordable Housing Program. The development involves the construction of 32 units of rental housing on the site of existing Housing Authority family housing in Brookline. The three-story building will consist of one-, two-, and three-bedroom units and target low- and very low-income families. In addition to the AHP funding, financing includes Low Income Housing Tax Credits and grants from the Town of Brookline and the state's Department of Housing and Community Development.



Attending the groundbreaking were (top photo, from the left) Joanne Sullivan, vice president/director of government and community relations at the Federal Home Loan Bank of Boston, and Aaron Gornstein, undersecretary for housing and community development for the Commonwealth of Massachusetts; Kenneth Willis, first vice president/director of housing and community investment at the Bank; Christine Rogers, senior community investment manager at the Bank, and Sarah Lamitie, vice president and CRA associate at member Boston Private Bank & Trust Company. Bottom photo, from the left, Aaron Gornstein, undersecretary, Massachusetts Department of Housing and Community Development; Bob Gallery, president, Bank of America Massachusetts; Kenneth Willis Willis, Federal Home Loan Bank of Boston; Michael Rosenberg, senior vice president, Bank of America Massachusetts; Judy Jacobson, deputy director and general counsel, Massachusetts Housing Partnership; Ken Goldstein, chairman, Brookline Board of Selectmen; Richard Benka, Brookline Board of Selectmen; George Schwartz, chief operating officer and executive vice president, Boston Private Bank & Trust Company; Bernard Husser, executive vice president, The Richman Group; Aaron Wolfe, associate/acquisitions, The Richman Group; and David Trietsch, chairman, Brookline Housing Authority.



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