

FEDERAL HOME LOAN BANK OF BOSTON

FORM 8-K (Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) October 22, 2021

FEDERAL HOME LOAN BANK OF BOSTON

(Exact name of registrant as specified in its charter)

Federally chartered corporation of the United States

(State or other jurisdiction
of incorporation)

000-51402

(Commission File
Number)

04-6002575

(IRS Employer
Identification No.)

800 Boylston Street

Boston, MA 02199

(Address of principal executive offices, including zip code)

(617) 292-9600

(Registrant's telephone number, including area code)

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Item 2.02 Results of Operations and Financial Condition.

On October 22, 2021, the Federal Home Loan Bank of Boston (the “Bank”) issued a press release announcing its preliminary, unaudited results for the quarter ended September 30, 2021, and the declaration of a dividend. The Bank’s board of directors declared a cash dividend equal to an annual yield of 2.05 percent, the approximate daily average SOFR yield for the third quarter of 2021 plus 200 basis points. The dividend, based on average stock outstanding for the third quarter of 2021, will be paid on November 2, 2021. The press release, which should be reviewed for further details on each of these developments, is furnished herewith as Exhibit 99.1 to this report.

The information being furnished in this Item and contained in Exhibit 99.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

This report, including Exhibit 99.1, uses forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, which include statements with respect to the Bank’s plans, objectives, projections, estimates, or predictions. These statements are based on the Bank’s expectations as of the date hereof. The words “preliminary,” “expects,” “will,” “continue,” and similar statements and their plural and negative forms are used in this notification to identify some, but not all, of such forward-looking statements. For example, statements about future declarations of dividends and expectations for advances balances, mortgage-loan investments, and net income are forward-looking statements, among other forward-looking statements herein. The Bank cautions that, by their nature, forward-looking statements involve risks and uncertainties, including, but not limited to, the application of accounting standards relating to, among other things, the amortization and accretion of premiums and discounts on financial assets, financial liabilities, and certain fair value gains and losses; hedge accounting of derivatives and underlying financial instruments; the fair values of financial instruments, including investment securities and derivatives; the allowance for credit losses on investment securities and mortgage loans; instability in the credit and debt markets; economic conditions (including effects on, among other things, mortgage-backed securities); changes in demand for advances or consolidated obligations of the Bank or the Federal Home Loan Bank system; changes in interest rates; volatility of market prices, rates, and indices that could affect the value of financial instruments; the expected discontinuance of LIBOR and the adverse consequences it could have for market participants, including the Bank; the diffuse spread of COVID-19 and related negative effects on economic conditions and markets; effects of legislative and regulatory changes; the Bank’s ability to execute its business model and to pay future dividends; and prepayment speeds on mortgage assets. In addition, the Bank reserves the right to change its plans for any programs for any reason, including but not limited to, legislative or regulatory changes, changes in membership, or changes at the discretion of the board of directors. Accordingly, the Bank cautions that actual results could differ materially from those expressed or implied in these forward-looking statements or could impact the extent to which a particular plan, objective, projection, estimate or prediction is realized, and you are cautioned not to place undue reliance on such statements. The Bank does not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of the Bank.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit Number

99.1 [Press release issued by the Bank on October 22, 2021 \(this Exhibit 99.1 is furnished, not filed\)](#).

104 Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 22, 2021

Federal Home Loan Bank of Boston

By:/s/ Frank Nitkiewicz

Frank Nitkiewicz

Executive Vice President and Chief Financial Officer

FOR IMMEDIATE RELEASE

**FEDERAL HOME LOAN BANK OF BOSTON ANNOUNCES 2021
THIRD QUARTER RESULTS, DECLARES DIVIDEND**

BOSTON (October 22, 2021) - The Federal Home Loan Bank of Boston announced its preliminary, unaudited third quarter financial results for 2021, reporting net income of \$16.5 million for the quarter. The Bank expects to file its quarterly report on Form 10-Q for the quarter ended September 30, 2021, with the U.S. Securities and Exchange Commission next month.

The Bank's board of directors has declared a dividend equal to an annual yield of 2.05 percent, the daily average of the Secured Overnight Financing Rate for the third quarter of 2021 plus 200 basis points. The dividend, based on average stock outstanding for the third quarter of 2021, will be paid on November 2, 2021. As always, dividends remain at the discretion of the board.

"Despite continued tempered demand for advances and historically low interest rates, the Bank's strong balance sheet and steady financial performance in the third quarter supported an increased dividend to our members of SOFR plus 200 basis points," said President and Chief Executive Officer Edward A. Hjerpe III. "In addition, the Bank continues to fulfill its mission of providing liquidity and funding to our members, and supporting affordable housing and economic development throughout New England."

Third Quarter 2021 Operating Highlights

The Bank's overall results of operations are influenced by the economy, financial markets and, in particular, by members' demand for advances. During the first nine months of 2021, interest rates remained significantly below pre-pandemic levels and we experienced a continued reduction in demand for advances from our members. Depository member institutions continued to report significantly elevated deposit balances, which has reduced demand for advances and other forms of wholesale funding.

Net income for the quarter ended September 30, 2021, was \$16.5 million, compared with net income of \$53.6 million for the same period in 2020. The decrease in net income for the quarter was primarily due to the absence of gains on sale of investment securities versus \$32.9 million recorded in the third quarter of 2020, and a decrease of \$11.1 million in net interest income after provision for credit losses offset by a reduction in net unrealized losses on trading securities of \$8.5 million. These results led to a \$1.8 million statutory contribution to the Bank's Affordable Housing Program for the quarter. In addition, the Bank made a voluntary contribution of \$1.2 million to the Affordable Housing Program.

Net interest income after provision for credit losses for the three months ended September 30, 2021, was \$51.1 million, compared with \$62.3 million for the same period in 2020. The \$11.1 million decrease in net interest income after provision for credit losses is attributable to several factors. In the third quarter of 2020, the Bank sold a majority of its private-label mortgage-backed securities resulting in a reduction of the provision for credit losses of \$5.1 million, whereas in the third quarter of 2021 the provision for credit losses, which is now solely attributable to mortgage loans, decreased by \$80 thousand. Additionally, in the third quarter of 2021 compared to the third quarter of 2020, the Bank

experienced an \$8.9 billion decrease in the average balance of advances and an \$899.2 million decrease in the average balance of mortgage loans. The Bank also experienced a decline of \$419.8 million in the average balance of outstanding capital stock in the third quarter of 2021 compared to the third quarter of 2020. Net interest income was therefore negatively affected by lower income from investing the Bank's capital. These negative factors were partially offset by increases to net interest income resulting from an increase in net interest margin and net interest spread as further discussed in the paragraph below, and a \$1.5 billion increase in the average balance of U.S. Treasury obligations held as investment securities.

Net interest spread was 0.56 percent for the quarter ended September 30, 2021, a seven-basis-point increase from the same period in 2020, and net interest margin was 0.58 percent, a four-basis-point increase from the same period in 2020. The increase in both net interest spread and net interest margin mainly reflect an improvement in funding costs relative to the same period in 2020. In addition, net amortization of premium on mortgage-backed securities and mortgage loans decreased by \$6.0 million.

Net gains and losses on derivatives and hedging activities for the three months ended September 30, 2021, totaled a net loss of \$387 thousand, compared with a net gain of \$1.6 million for the same period in 2020. The \$387 thousand net loss for the current quarter consisted of an unrealized gain of \$3.3 million from changes in fair value on economic hedges offset by \$3.7 million of interest expense on economic hedges. Additionally, unrealized losses on trading securities totaled \$11.1 million for the three months ended September 30, 2021. Together, these realized and unrealized gains and losses provided an economic offset primarily to interest income from trading securities, which totaled \$11.5 million for the three months ended September 30, 2021.

September 30, 2021 Balance-Sheet Highlights

Total assets decreased \$4.0 billion, or 10.4 percent, to \$34.4 billion at September 30, 2021, down from \$38.5 billion at year-end 2020. During the nine months ended September 30, 2021, advances decreased \$4.8 billion, or 25.3 percent, to \$14.1 billion, compared with \$18.8 billion at year-end 2020.

Total investments were \$16.4 billion at September 30, 2021, up from \$13.3 billion at the prior year end, primarily attributable to a \$2.5 billion increase in U.S. Treasury obligations and a \$1.6 billion increase in mortgage-backed securities. Investments in mortgage loans totaled \$3.3 billion at September 30, 2021, a decrease of \$646.3 million from year-end 2020 driven by increased mortgage refinancing activity amid continued low mortgage rates. Cash and due from banks totaled \$205.3 million at September 30, 2021, a decrease of \$1.8 billion from the prior year end.

GAAP capital at September 30, 2021, was \$2.6 billion, a decrease of \$185.2 million from \$2.8 billion at year-end 2020. During the first nine months of 2021, capital stock decreased by \$239.0 million, primarily attributable to the decrease in advances. Total retained earnings grew by \$29.3 million, or 2.0 percent, from December 31, 2020. Restricted retained earnings⁽³⁾ remained at \$368.4 million at September 30, 2021, as this amount exceeds our contribution requirement of 1 percent of the average daily balance of consolidated obligations. Accumulated other comprehensive income totaled \$40.6 million at September 30, 2021, an increase of \$24.5 million, or 151.6 percent, from December 31, 2020.

The Bank was in compliance with all regulatory capital ratios at September 30, 2021, and in the most recent information available was classified "adequately capitalized" by its regulator, the Federal Housing Finance Agency, based on the Bank's financial information at June 30, 2021.⁽¹⁾

About the Bank

The Federal Home Loan Bank of Boston is a cooperatively owned wholesale bank for housing finance in the six New England states. Its mission is to provide highly reliable wholesale funding and liquidity to its member financial institutions in New England. The Bank also develops and delivers competitively priced financial products, services, and expertise that support housing finance, community development, and economic growth, including programs targeted to lower-income households.

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Federal Home Loan Bank of Boston
Balance Sheet Highlights
(Dollars in thousands)
(Unaudited)

	9/30/2021	6/30/2021	12/31/2020
ASSETS			
Cash and due from banks	\$ 205,284	\$ 496,877	\$ 2,050,028
Advances	14,056,991	15,176,625	18,817,002
Investments ⁽²⁾	16,404,424	16,053,111	13,341,538
Mortgage loans held for portfolio, net	3,283,925	3,470,505	3,930,252
Other assets	498,293	486,484	322,215
Total assets	<u>\$ 34,448,917</u>	<u>\$ 35,683,602</u>	<u>\$ 38,461,035</u>
LIABILITIES			
Consolidated obligations, net	\$ 30,651,572	\$ 31,840,625	\$ 34,349,900
Deposits	970,732	970,282	1,088,987
Other liabilities	229,903	228,294	240,195
CAPITAL			
Class B capital stock	1,028,177	1,081,057	1,267,172
Retained earnings - unrestricted	1,159,509	1,147,279	1,130,222
Retained earnings - restricted ⁽³⁾	368,420	368,420	368,420
Total retained earnings	1,527,929	1,515,699	1,498,642
Accumulated other comprehensive income	40,604	47,645	16,139
Total capital	2,596,710	2,644,401	2,781,953
Total liabilities and capital	<u>\$ 34,448,917</u>	<u>\$ 35,683,602</u>	<u>\$ 38,461,035</u>
Total regulatory capital-to-assets ratio	7.5 %	7.3 %	7.2 %
Ratio of market value of equity (MVE) to par value of capital stock ⁽⁴⁾	240 %	234 %	210 %

Income Statement Highlights
(Dollars in thousands)
(Unaudited)

	For the Three Months Ended			For the Nine Months Ended	
	9/30/2021	6/30/2021	9/30/2020	9/30/2021	9/30/2020
Total interest income	\$ 100,912	\$ 97,743	\$ 148,898	\$ 322,969	\$ 615,695
Total interest expense	49,847	54,422	91,780	168,325	485,879
Net interest income	51,065	43,321	57,118	154,644	129,816
Net interest income after provision for credit losses	51,145	43,122	62,261	155,751	132,740
Net unrealized (losses) gains on trading securities	(11,094)	(14,599)	(19,603)	(40,536)	7,767
Net (losses) gains on derivative and hedging activities	(387)	447	1,624	(788)	(52,095)
Realized net gain from sale of available-for-sale securities	—	—	26,210	—	26,210
Realized net gain from sale of held-to-maturity securities	—	—	6,680	—	47,413
Other income, net	1,028	1,048	3,199	2,004	10,235
Operating expense	16,297	16,473	15,752	48,860	49,384
Other expense	6,033	6,704	5,106	19,160	13,961
AHP assessment	1,842	687	5,957	4,852	10,912
Net income	<u>\$ 16,520</u>	<u>\$ 6,154</u>	<u>\$ 53,556</u>	<u>\$ 43,559</u>	<u>\$ 98,013</u>
Performance Ratios: ⁽⁵⁾					
Return on average assets	0.18 %	0.07 %	0.50 %	0.16 %	0.25 %
Return on average equity ⁽⁶⁾	2.50 %	0.92 %	7.39 %	2.17 %	4.26 %
Net interest spread	0.56 %	0.44 %	0.49 %	0.54 %	0.26 %
Net interest margin	0.58 %	0.48 %	0.54 %	0.58 %	0.33 %

- (1) For additional information on the Bank's capital requirements, see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Capital in the Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 19, 2021 (the 2020 Annual Report).
- (2) Investments include available-for-sale securities, held-to-maturity securities, trading securities, interest-bearing deposits, securities purchased under agreements to resell, and federal funds sold.
- (3) The Bank's capital plan and a joint capital enhancement agreement among all Federal Home Loan Banks require the Bank to allocate a certain amount, generally not less than 20% of each of quarterly net income and adjustments to prior net income, to a restricted retained earnings account while restricted retained earnings is less than one percent of the average daily carrying value of consolidated obligations for the calendar quarter. Amounts in the restricted retained earnings account are unavailable to be paid as dividends, which may be paid from current net income and unrestricted retained earnings. For additional information, see Item 5 — Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in the 2020 Annual Report.
- (4) MVE equals the difference between the theoretical market value of assets and the theoretical market value of liabilities, and the ratio of MVE to par value of Bank capital stock can be an indicator of future net income to the extent that it demonstrates the impact of prior interest-rate movements on the capacity of the current balance sheet to generate net interest income. However, this ratio does not always provide an accurate indication of future net income. Accordingly, investors should not place undue reliance on this ratio and are encouraged to read the Bank's discussion of MVE, including discussion of the limitations of MVE as a metric, in Item 7A — Quantitative and Qualitative Disclosures About Market Risk — Measurement of Market and Interest Rate Risk in the 2020 Annual Report.
- (5) Yields for quarterly periods are annualized.
- (6) Return on average equity is net income divided by the total of the average daily balance of outstanding Class B capital stock, accumulated other comprehensive loss, and total retained earnings.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This release, including the unaudited balance sheet highlights and income statement highlights, uses forward-looking statements within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, which include statements with respect to the Bank's plans, objectives, projections, estimates, or predictions. These statements are based on the Bank's expectations as of the date hereof. The words "preliminary," "expects," "will," "continue," and similar statements and their plural and negative forms are used in this notification to identify some, but not all, of such forward-looking statements. For example, statements about future declarations of dividends and expectations for advances balances, mortgage-loan investments, and net income are forward-looking statements, among other forward-looking statements herein.

The Bank cautions that, by their nature, forward-looking statements involve risks and uncertainties, including, but not limited to, the application of accounting standards relating to, among other things, the amortization and accretion of premiums and discounts on financial assets, financial liabilities, and certain fair value gains and losses; hedge accounting of derivatives and underlying financial instruments; the fair values of financial instruments, including investment securities and derivatives; the allowance for credit losses on investment securities and mortgage loans; instability in the credit and debt markets; economic conditions (including effects on, among other things, mortgage-backed securities); changes in demand for advances or consolidated obligations of the Bank or the Federal Home Loan Bank system; changes in interest rates; volatility of market prices, rates, and indices that could affect the value of financial instruments; the expected discontinuance of LIBOR and the adverse consequences it could have for market participants, including the Bank; the diffuse spread of COVID-19 and related negative effects on economic conditions and markets; effects of legislative and regulatory changes; the Bank's ability to execute its business model and pay future dividends; and prepayment speeds on mortgage assets. In addition, the Bank reserves the right to change its plans for any programs for any reason, including but not limited to, legislative or regulatory changes, changes in membership, or changes at the discretion of the board of directors. Accordingly, the Bank cautions that actual results could differ materially from those expressed or implied in these forward-looking statements or could impact the extent to which a particular plan, objective, projection, estimate or prediction is realized, and you are cautioned not to place undue reliance on such statements. The Bank does not undertake to update any forward-looking statement herein or that may be made from time to time on behalf of the Bank.

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