FHLBNY Advantage
FEDERAL HOME LOAN BANK OF NEW YORK
JANUARY 2014

Continued Focus on Maximizing Your Membership

Although the New Year is in full swing, several questions remain on members' minds. Will the Federal Reserve's decision to start tapering gain momentum? Will the economy continue to improve or will it stall? Will net interest margins finally revert? Will concerns about BASEL translate into further reform?

A significant inflection point developed in mid-2013 as a number of events put medium- to long-term rates on a roller coaster ride, setting in motion an increased focus on interest rate risk management. In June of 2013, discussion regarding a "possible" Fed tapering caused interest rate volatility to escalate on the longer-end of the yield curve. This could signal the beginning of a new interest rate environment with upward pressure on the shorter end of the curve. If this proves to be the case, then the "borrowed time" this low interest rate environment had provided could rapidly end.

As we march along in the prolonged low-rate environment, operational difficulties persist, such as increased regulatory burdens, intense competition for loans, lackluster economic growth, and pressure on net interest margins. Throughout all of the challenges you face, the FHLBNY was and will continue to be there to support you and your needs. Please take a moment to reflect on the recent developments put in place to help ensure that you, our member shareholders, get the most out of your membership.

Recent Highlights

Helping Our Members' Communities in the Post-Hurricane Sandy Environment

Around this time last year, many of our members in New York and New Jersey were reeling from the effects of Hurricane Sandy. Communities were ravaged by the storm, and members were eager to help local residents rebuild their homes and to assist small businesses in becoming fully operational again. The FHLBNY is proud to have assisted with the recovery process with our Disaster Relief Funding (DRF) program. DRF provided $1 billion in commitments to this relief effort, which directly impacted the local communities struggling to recover from Sandy's wake.

Developing New Products to Assist Members in a Rising Rate Environment

» **Fixed-Rate Advance with a LIBOR Cap (Fixed-Rate with Cap)**

Several members have locked in term funding with Fixed-Rate Advances or Amortizing Advances. Another option members took advantage of is the Fixed-Rate with Cap, our newest product offering. This advance can be an excellent tool to manage interest rate risk. The advance adjusts to upward changes in 3-month LIBOR. As 3-month LIBOR rises above a pre-determined strike threshold you select, the advance rate will decline, either 1 basis point for every basis point 3-month LIBOR is above the strike (1× multiplier), or by 1 basis point for every 2 basis points the rate is above the strike (0.5× multiplier), adjusted on a quarterly basis with a floor of zero.

» **Callable Advance**

The Callable Advance is a fixed-rate advance with a "callable" feature that gives you the option to extinguish the advance (in whole or in part) at no cost after a predetermined period of time. If prepayment speeds are quicker than anticipated, you may extinguish part of the advance, or the entire advance, with no prepayment fee. If the rate environment changes, causing the advance to become "out of the money" and above market, you may extinguish the advance with no prepayment fee and rebook a new advance at a lower rate if you choose. If rates increase, you have the protection of long-term funding to "extend" liabilities and preserve spread. There is a cost to the option embedded in the Callable Advance; however, consider the savings you could potentially achieve in a declining rate environment, as you can choose to extinguish an "out of the money" advance at no cost and rebook at lower levels.

» **Stand-Alone Derivatives**

During the past year we also enhanced our Stand-Alone Derivative Program so that it was Dodd-Frank compliant. For members wishing to engage in stand-alone derivatives with us, the FHLBNY would report the transaction to the Swap Data Repository (SDR), initially and on an ongoing basis, reducing the reporting burden of our members.

Enhancing Members' Borrowing Capacity

The FHLBNY amended the collateral Lendable Values (LV) for pledged income-producing mortgages. Specifically, the base margins applied to both multifamily and commercial loans were reduced to 20% and 25% from 25% and 30%, respectively. This helped to increase borrowing capacity for a significant slice of our membership base. We would like to remind you that our Calling Officers and Collateral Services team are always ready to answer any questions you may have regarding your borrowing capacity.

Providing a Secondary Mortgage Outlet Amid GSE Reform

Over the past year there has been a significant increase in "chatter" regarding the potential transformation of Fannie Mae and Freddie Mac, and what this might mean for our members. A changing landscape and less liquidity in the secondary mortgage market could lead members to portfolio more of their production. This situation could stress certain members' capital and add to interest rate risk. The consumer could face rising costs due to an additional risk premium, which would

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Continued Focus on Maximizing Your Membership *(continued)*

be priced into longer-duration mortgages, in addition to the costs associated with hedging interest rate risk. Consumers could also be shut out of certain products if institutions are unwilling to offer 30-year mortgages.

In November, we surveyed our members to see what their thoughts were regarding the potential unwinding of the agencies. Most members believe that a government-sponsored secondary mortgage outlet will prevail, albeit in an altered format. These are interesting times and many of our members' business models are dependent on the outcome of the secondary market reform.

In this regard, we would like to remind members that the Mortgage Partnership Finance® Program is available to them, designed to promote access to the secondary market for small and mid-sized financial institutions. Visit www.fhlbny.com/mpf for more information.

Expanding our Educational Outreach to Members

» Credit Union Webinars and Programs

During the past year, we hosted two webinars in conjunction with Darling Consulting Group. The first one presented in January was entitled "Credit Union Survival in a Challenging Environment." As a follow up, we hosted a second webinar in October called "Watch the Curve Ahead – Credit Union Strategies in a Rising Rate Environment." These webinars were well received as approximately 50% of our credit union membership base viewed this series. In June of this past year, we also conducted a panel discussion at the Credit Union Association of New York's annual convention that addressed the challenges facing credit unions in this difficult operating environment.

» Workshops

We continually look for creative ways to add value to membership through outreach and education efforts. This past year we provided our tenth Strategic Financial Planning workshop with Parliment Consulting Services, Inc. for members' executive teams. The workshop provided personalized growth strategies, tactics and plans of action to help customers achieve improvement to net interest income and be more competitive, in addition to providing suggestions on how to take full advantage of FHLBNY membership. These workshops have proved to be valuable to those who have participated.

» Website Enhancements

We continued to enhance the Member Resource Center on our website at www.fhlbny.com/members/resource-center. This recently created area centralizes the information and resources most requested by our members, and also includes strategies and tools to help address members' funding needs.

» Member Director Education Program

We invite you to take advantage of our Member Director Education Program. Our program is specifically created for directors and managers of member institutions and is customized to address your specific needs and concerns. There is no cost to you to utilize the program — it is part of the benefit of being a member of the FHLBNY.

The topics discussed are wide-ranging but generally are comprised of issues commonly faced by most community lenders. For example, some of the topics we can address include (but are not limited to) the following: Capitalizing on FHLBNY membership, Balance Sheet Considerations, Liquidity Planning and Industry Trends, Deposit Pricing Practices, and Branch Funding Strategies.

Looking for More?

Contact your Calling Officer at **(212) 441-6700** for additional information on any of the products and programs discussed in this article. No matter what the new year may bring, and no matter what challenges or opportunities you may face, you face them with the FHLBNY as your partner. We look forward to continuing to provide your organization with funding and liquidity options so you can provide your customers with the service they expect.

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