FHLBNY Advantage

FEDERAL HOME LOAN BANK OF NEW YORK FEBRUARY 2014

FHLBNY Members Show Improving Risk Profiles

Since the financial crisis of 2008, we've certainly been operating in interesting times and our members have faced a variety of challenges, including asset quality issues, flat loan demand, heightened interest rate risk concerns, pressure on net interest margins, reduced fee income, heightened compliance expenses, and significant regulatory uncertainty.

Although formidable "headwinds" remain in our dynamic operating environment, we are encouraged by the improving financial metrics of many of our members. The following are snapshots of how our member segments are performing and how their risk profiles have improved.

Banks and Thrifts

As the U.S. economic recovery begins to gain traction, our bank and thrift members continue to improve their financial performance. Enhanced profitability levels were registered in the past three quarters, ending September 30, 2013, despite a very tepid 1.3% growth in these members' loan portfolios; asset sale gains and lower loan loss provisions played a significant part in contributing to better earnings.

Profitability	9M-2013	FY-2012
Return on Average Assets (%)	0.51%	0.46%
Return on Average Equity (%)	4.71%	4.04%

As overall credit demand was lackluster in our district, members have reduced their overall risk profiles by enhancing the quality of their balance sheets and being proactive in reducing the level of problem assets. At Q3 2013, total nonperforming loans (NPLs) represented 3.1% of the loan portfolio as compared with 3.6% at year-end 2012 and 2.8% for the national average as of September end. In addition, the incidence of loan losses declined during the period with net charge-offs to loans averaging 0.34% versus 0.48% for all of 2012 and 0.60% for the national average.

Our members' improved performance and cleaner balance sheets resulted in modestly improved internal credit rating model scores, with the average score for banks and thrifts at 5.45 as of September 30, 2013, versus 5.55 at year-end 2012 (see the following legend for credit score descriptions). As many members continue with balance sheet "cleanup" efforts, the average score is expected to improve in the quarters ahead.

Credit Unions

We were pleased to observe that our credit union members also continued to improve their credit risk profiles. Although their profitability ratios were lower in the first nine months of 2013 versus all of 2012 (0.51% versus 0.65% return on average assets) due to the absence of asset sale gains in their reported results,

FHLBNY Credit Score Legend	
0-1	Excellent
2-3	Very Good
4-5	Average
6	Special Mention
7-10	Watch List

asset quality has improved. At September 30, 2013, total NPLs for the group represented 1.6% of the loan portfolio, as compared with 1.8% at Q4 2012. In addition, the incidence of loan losses declined in the period with net charge-offs to loans, averaging 0.41% versus 0.47% for all of 2012. As a result of their improved financial metrics, credit unions' internal credit rating model score average declined to 4.48 in Q3 2013, versus 4.72 in Q4 2012.

Does the introduction of the Common Equity Tier-1 Capital ratio impact member banks' credit rating?

The FHLBNY's internal credit rating model assigns credit scores based on financial ratios that address the following key operating segments: asset quality, capital adequacy, liquidity, and earnings. These scores are calculated quarterly using the most recent regulatory financial data, as well as information drawn from regulatory safety and soundness examinations. The scores range between 1 (strongest) and 10 (weakest).

Bank regulators have introduced a new capital rule which implements revisions to the risk-based regulatory capital framework for national banks and federal savings associations (collectively, banks). Certain aspects of the new rule are generally relevant for smaller, non-complex banks that are not subject to the market risk rule or the advanced approaches capital rule. Community banking organizations will become subject to the new rule starting January 1, 2015.

The new rule revises Prompt Corrective Action (PCA) capital category thresholds to reflect the new capital ratio requirements and introduces Common Equity Tier-1 Capital (CET1) as a PCA capital category threshold. CET1 (according to the Office of the Comptroller of the Currency) is defined as the sum of common stock instruments and related surplus net of treasury stock, retained earnings, accumulated other comprehensive income (AOCI), and qualifying minority interests, less applicable regulatory and deductions that include AOCI (if irrevocable option to neutralize AOCI is exercised). Mortgage-servicing assets, deferred tax assets, and investments in financial institutions are limited to 15% of CET1 and 10% of CET1 individually.

Tier 1 Capital is defined as CET1 plus noncumulative perpetual preferred stock, Tier 1 minority interests, grandfathered TRuPS,

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FHLBNY Members Show Improving Risk Profiles *(continued)*

and Troubled Asset Relief Program instruments, less applicable regulatory adjustments and deductions.

Presented in the following table are the minimum capital ratios required by regulators for the various regulatory capital classifications.

As regulators focus more on pure equity capital, the importance of the CET1 ratio will pre-empt the Tier 1 RBC ratio in consideration of the overall capital adequacy. As such, the CET1 ratio will replace the Tier 1 risk-based capital ratio in our credit rating model commencing with 2014 financials. The impact of this change on a pro-forma basis for the group was negligible, with an average score of 5.48 at September end using the CET1 ratio versus 5.50 using the Tier 1 risk-based capital ratio. Impact on individual member scores may differ from above results even though much of our membership operates with strong capital ratios that qualify for the regulatory classification of "well capitalized."

PCA Capital Category	Threshold Ratios			
	Total RBC* Ratio	Tier 1 RBC* Ratio	CET1 RBC* Ratio	Tier 1 Leverage Ratio
Well capitalized	10%	8%	6.5%	5%
Adequately capitalized	8%	6%	4.5%	4%
Undercapitalized	<8%	<6%	<4.5%	<4%
Significantly undercapitalized	<6%	<4%	<3%	<3%
Critically undercapitalized	Tangible Equity/Total Assets ≤ 2%			

RBC = Risk-Based Capital

To further discuss your credit score and other credit risk factors, contact your Calling Officer at **(212) 441-6700**.

Take Advantage of the FHLBNY's Member-Director Education Program

We invite you to capitalize on our Member-Director Education Program, specifically created for directors and managers of member institutions.

The topics discussed are wide-ranging but generally are comprised of issues commonly faced by most community lenders. The following is a list of some past topics the FHLBNY has been asked to discuss. However, our executive team will work directly with yours to customize a program for your specific needs and concerns, and to ensure your team receives the maximum value for their time.

There's no cost to your institution — it's a benefit of your membership. Contact your Calling Officer at **(212) 441-6700** to schedule your program today.

Suggested Education Topics:

» FHLBank System overview, earnings, and financial highlights
- FHLBank Debt Issuances and System Capital Initiative

» FHLBNY Membership Benefits and Trends
- What is the FHLBNY and what makes our partnership "unique"?

» FHLBNY Products, Services, and Programs
- Advance Product Offerings/Trends
- Letters of Credit
- Community Lending and Housing Programs
- Mortgage Partnership Finance (MPF®) Program (secondary market outlet)
- Correspondent Services
- Credit Monitoring and Collateral Management
- Capital Stock Requirements and Dividends
- Collateral Opportunities

» Strategic Planning/Balance Sheet Considerations
- Liquidity Planning and Industry Trends
- Deposit Pricing Practices
- Branch Funding Strategies

Feedback Welcome Have a suggested topic for the *FHLBNY Advantage*? E-mail us at fhlbny@fhlbny.com.

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