



FHLBNY Advantage

FEDERAL HOME LOAN BANK OF NEW YORK

APRIL 2012

A Great Product Just Got Even Better. FHLBNY Reduces Pricing for Municipal Letters of Credit.

As a strategic liquidity partner, the FHLBNY recognizes that many of its members are facing flat or declining net interest margins, making each basis point count more than ever in today's rate environment. Recently, the FHLBNY proudly announced that, effective March 12, 2012, it has reduced the price for its Municipal Letter of Credit (MULOC) and Refundable MULOC product from 12.5 bps to 9 bps per annum.* This price reduction enhances an already efficient, low-cost, alternate method for collateralizing state, city, court, and local government (municipal) deposits, helping members continue to maintain sound profitability.

MULOCs and Refundable MULOCs Offer Greater Flexibility and Improved Savings.

An FHLBNY MULOC is a specific type of Letter of Credit that is a triple-A-rated credit instrument used to ensure payments to a third-party beneficiary in the event of a performance default. By using a MULOC in lieu of securities, members can reduce operational expenses by eliminating the need to match securities and monitor principal paydowns on securities.

In addition, members with a robust loan demand that also accept municipal deposits may find that the MULOC and its new reduced price could allow for even greater interest income by redistributing funds toward financing their loan pipeline instead of using those funds to purchase low-yielding securities to meet traditional pledging requirements. The resulting profitability could easily offset the cost of the MULOC, especially now at only 9 bps per annum.

As an example, assume a member fully collateralizes a \$5 million municipal deposit with a 5-year agency note yielding 1.30%. The resulting annual income from the agency note would be \$65,211. Alternately, if the member were to secure the same deposit with a \$5 million FHLBNY MULOC at a cost of \$4,500 per annum and lend \$5 million in 1-to-4-family mortgage loans yielding 4.00%, the resulting annual income (net of the newly lowered MULOC fee) would be \$199,208 — that's \$133,997 more in annual income by simply using a MULOC.

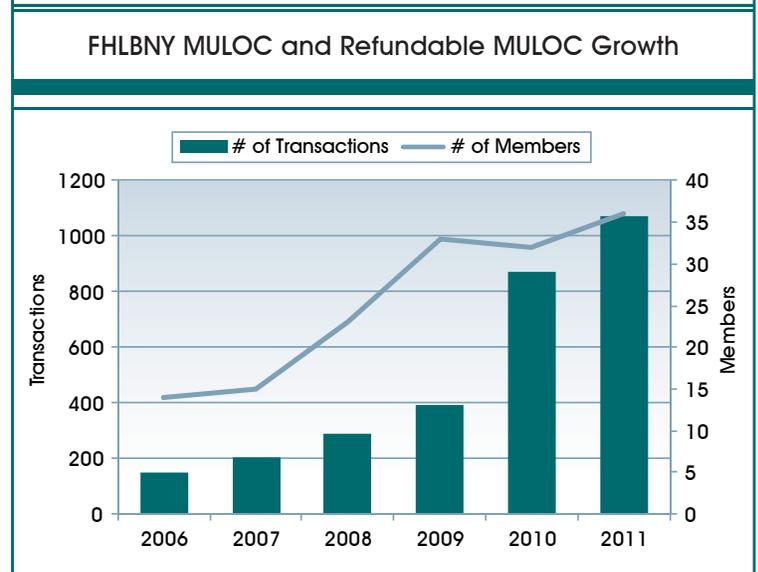
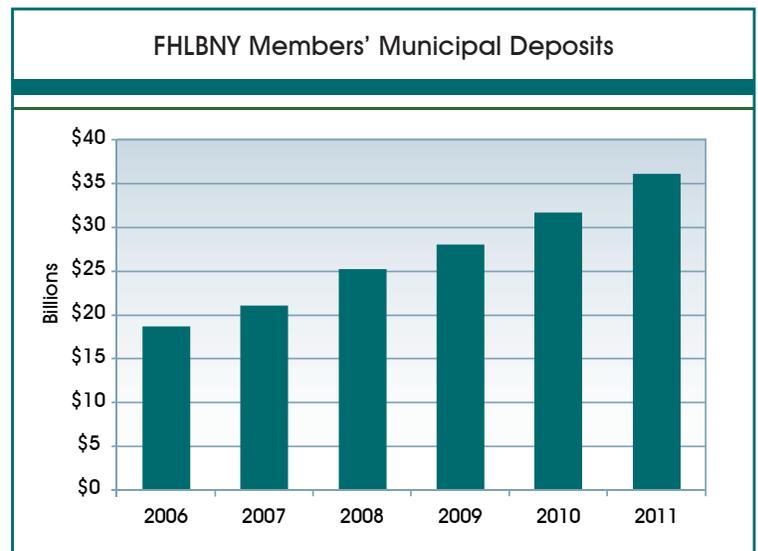
As an extension of the MULOC product, the FHLBNY created the Refundable MULOC to offer members an option to avoid estimating a coverage amount for a fluctuating deposit balance. Since municipalities require their deposits to be fully secured at all times, some members would over-collateralize their deposits by requesting a MULOC for the estimated maximum account balance, leaving the member exposed to overpayment if the actual balance never reached this high point.

However, with Refundable MULOCs, members are able to estimate the highest balance in the transaction account, and at maturity, receive a partial fee reimbursement on the balance that remained below the estimate during its entire term. For instance, assume that a member estimates that the transaction account high-balance will be \$5 million for the year. At the end of the year, the actual high-balance is \$4 million. In this case, the member would be refunded \$800 for the unused \$1 million of the Refundable MULOC (less a \$100 administration fee).

Refundable MULOCs give members more flexibility to bid on municipal deposits and offer a more manageable and cost-effective means to secure these deposits — now at an even lower cost to execute.

Growth in Municipal Deposits and MULOC Recognition.

As the following graphs illustrate, FHLBNY members' municipal deposits have steadily grown over the past six years. Usage of the MULOC and Refundable MULOC has mirrored this growth. MULOCs have gained increased recognition by municipalities and members alike as a very attractive and efficient way to collateralize municipal deposits.



Municipalities especially find FHLBNY MULOCs appealing because, unlike securities, the value of the MULOC remains constant and does not change with market fluctuations. In addition, if the member defaults on its commitment, the municipality can submit a draw request to the FHLBNY for prompt payment. Several members have commented that they find MULOCs to be a valuable tool that supports profitability

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A Great Product Just Got Even Better. FHLBNY Reduces Pricing for MULOCS. *(continued from front)*

as they require no capital stock purchase and can be collateralized with the same assets (loans and securities) that are used to collateralize FHLBNY advances.

The FHLBNY would be pleased to schedule a customized workshop for your institution and your municipal customers to discuss the Federal Home Loan Bank System, the potential advantages of the MULO C and Refundable MULO C, the importance of the product's triple-A-rating, and the mechanics of the issuance process. Contact a Calling Officer at (212) 441-6700 to discuss how you can take advantage of this product and its newly reduced pricing to help enhance your institution's bottom line.

*Certain term restrictions and pricing adjustments may be applied based on a member's FHLBNY credit score or CAMELS rating. Contact a Calling Officer at (212) 441-6700 if you have questions regarding your credit score.

Did you know ...

... that there is a section on our website dedicated to Letters of Credit (L/Cs)? It's a valuable resource containing a wide variety of information related to this credit product, including descriptions of the types of L/Cs offered by the FHLBNY (including MULO Cs and Refundable MULO Cs), related forms, laws, and even a section for municipalities.

Check out the L/C section at www.fhlbny.com/lc.

The Collateral Standing Instructions Agreement: A More Efficient Way to Manage Your Collateral.

In July 2011, the FHLBNY simplified the way members utilized their pledged securities collateral between Repo and Non-Repo accounts. The new process enables greater flexibility between these accounts, and it reduces the number of correspondences between the FHLBNY and members regarding collateral shortfalls. It also enables the FHLBNY to pledge unencumbered eligible securities collateral to a member's appropriate indebtedness account if the member elects the FHLBNY to do so on their behalf.

The Collateral Standing Instructions agreement (COL-150) is available on our website along with a completed Sample Collateral Standing Instructions agreement (COL-151) to serve as a guide.

For more information on how to process the Collateral Standing Instructions agreement, please contact Marlene Bennett at (201) 356-1062.

Here's what some members have said about their experience:

"Utilizing the new standing instructions process is so much easier than receiving a phone call, selecting a security and sending an e-mail to pledge additional collateral. We are very satisfied and would definitely recommend signing up to others."

Kathleen Tsiolas, Sr. Vice President & Controller
Boiling Springs Savings Bank

"We are happy with the Standing Instructions Agreement since it saves time for us."

MaryEllen Doster, EVP & Treasurer
Boiling Springs Savings Bank

"The Standing Instructions Agreement is a beautiful thing! As long as there are available securities in freeholding that can be utilized, the Agreement works great."

Laura Nicholas, Assistant Treasurer
New Millennium Bank

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CONTACT US | 101 Park Avenue, New York, NY 10178-0599 | T: (212) 441-6700 | F: (212) 949-0230 | www.fhlbny.com



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