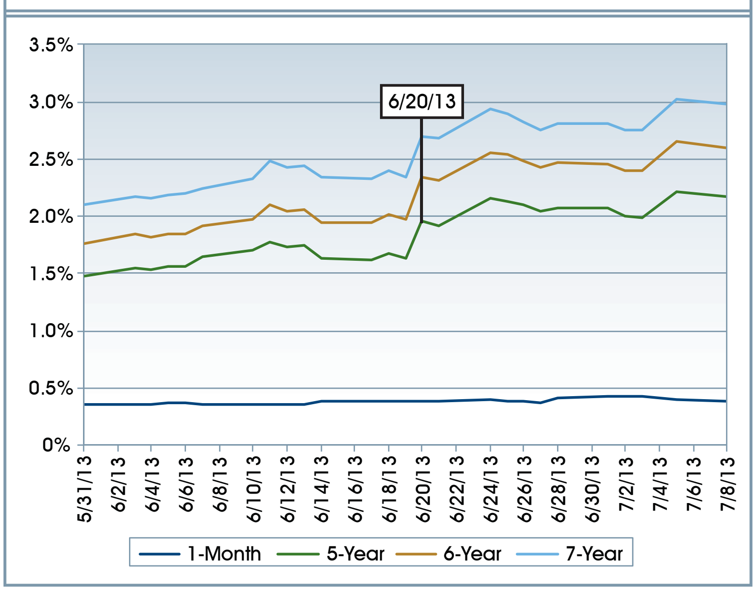
FHLBNY Advantage

FEDERAL HOME LOAN BANK OF NEW YORK JULY 2013

Watch the Curve Up Ahead — Strategies for Today's Rate Environment

In a little over a month, the 5-, 6- and 7-year Fixed-Rate Advance rates have risen sharply, increasing by between 69 and 88 bps, while short-term rates, as demonstrated by the 1-month advance, have remained virtually unchanged (see following chart). On June 20, immediately following commentary by the Federal Reserve suggesting a possible change in their accommodative stance on monetary policy, the longer end of the Treasury yield curve steepened substantially, and our long-term rates followed suit. Despite the recent spikes, opportunities still remain to lock in inexpensive long-term funding.

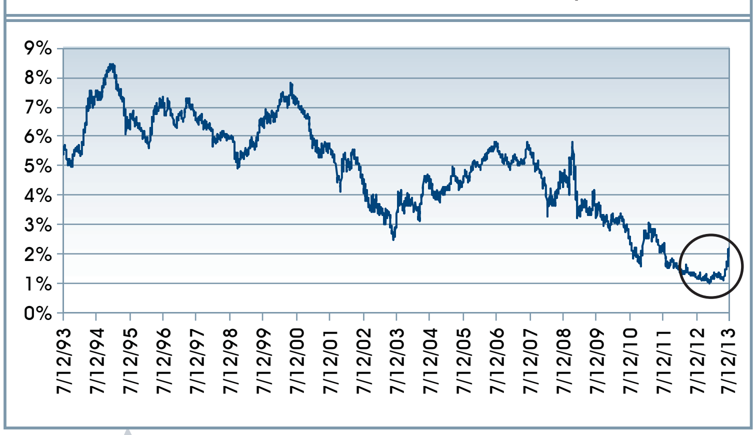
Fixed-Rate Advance Rates



Rates are Still at Historic Lows

While our members have anticipated an eventual rise in long-term interest rates, the rapid steepening in the longer end of the yield curve has caught many off guard. Although we have seemingly come off the bottom in our current cycle with regard to longer term borrowing rates, you can still preserve spreads and borrow longer term at historically low levels. The following chart illustrates the history of the benchmark 5-year Fixed-Rate Advance. Today's term borrowing levels remain attractive over a 20-year horizon.

5-Year Fixed-Rate Advance History



Advances to Mitigate Interest Rate Risk

The recent spike in rates has caused heightened interest in long-term funding among our membership for those looking to help prevent further net interest margin deterioration in a rising rate environment.

If your institution has retained some long-term, fixed-rate mortgage production, you may want to consider taking advantage of long-term advances to preserve spread in the latter years of the mortgage to help protect against extension risk. There is significant uncertainty regarding extension risk as mortgage rates remain at or near historic lows, so members will have to make a decision they're comfortable with — perhaps accepting some risk in the far-end of the mortgage pool as some homeowners may decide to pay off their mortgage over a longer period. Some members apply a "barbell" approach, using short-term advances to fund deposit shortfalls, while also using long-term advances to guard against mortgage pools extending beyond their expected average life.

CLP Advances — the Lowest Priced Source of FHLBNY Funding

Our Community Lending Programs (CLP) offer members an additional opportunity to mitigate the impact of the rise in long-term rates. If a member can demonstrate qualified lending activity, they can borrow at levels approximately 25 bps lower than both the FHLBNY's Fixed-Rate and Amortizing Advances, depending on maturity.

CLP Advances may be used for the acquisition, construction, rehabilitation, and financing of housing that benefits lower income individuals or other commercial development projects located in lower income areas. Originations of individual mortgage loans for families with incomes at or below 115% of the area median income may qualify for Community Investment Program (CIP) financing. Rural Development Advances (RDA) and Urban Development Advances (UDA) are designed to finance the economic development needs of members' communities, including commercial, small business, social service, and public facility projects and activities. While the type of activity will vary based upon the needs of the community, the individuals benefitting must have median incomes of no more than 115% (RDA) or 100% (UDA) of the area median income, or be located in neighborhoods sharing these respective income targets.

Have You Considered the Economic Impact of Your Dividend?

It is important for members to factor in the economic benefit of the FHLBNY's dividend rate, which, depending on the advance term, can substantially lower the "all-in" borrowing cost of the advance. The FHLBNY has an activity-based stock requirement equal to 4.5% of its outstanding advances. The performance of our capital stock has been historically strong, and has benefitted members by offsetting or lowering the "all-in" cost of the advance. As an example, if a member borrows $1 million for one-week at 38 bps with a capital stock requirement of $45,000 (with a dividend yield assumption of 4.0%), the net income from

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the activity-based stock purchase would effectively reduce the interest expense of this trade by $31.24, or effectively lowering the "all-in" rate to 22 bps, 16 bps less than the coupon rate.

As illustrated in the example provided, the economic impact of our activity-based stock can be determined by comparing an alternative investment yield to that of our dividend – assuming that a member can receive an alternative short-term investment yield equivalent to the cost of the advance (38 bps in this case), the positive spread created by the yield of our stock dividend effectively lowers the overall cost of the transaction, and quite substantially in the shorter tenures. For longer-term advances the dividend would impact the borrowing cost to a lesser degree; however, a benefit would remain and the "all-in" borrowing rate would be lower than the regular posted rate. Although FHLBNY capital stock has been high-performing and has had a very competitive dividend rate for a long period of time, the dividend rate is not guaranteed and as such may fluctuate throughout the life of the advance. The economic impact of the stock dividend will vary based on your assumption of the dividend rate.

While a further rise in rates seems inevitable at this stage in the recovery cycle, the timing and pace of any rate increase remains uncertain. Despite the recent spike in the longer tenures, interest rates remain low from a historical perspective, and it may be worthwhile to consider long-term funding options to help protect against rising rates. The FHLBNY has a number of advance products and other offerings in its product suite that can assist members in better positioning their balance sheets in this current environment.

For a detailed analysis of your wholesale borrowing options, contact your Calling Officer at **(212) 441-6700**.

Note: There is no guarantee that the level of future dividends will match or be comparable to the level of previous dividend payouts.

Example: the "All-In" Borrowing Rate

Principal	FHLBNY Advance Rate	Interest Cost on Advance (1)
$1,000,000.00	0.38%	$73.89
Required Stock (4.5% of Advance)	Most Recent Dividend Rate	Interest Earned on FHLBNY Stock (2)
$45,000.00	4.00%	$34.52
Comparable Investment Rate	Interest on Comp. Investment (3)	Net Benefit from FHLBNY Stock Purchase (4 = 2-3)
0.38%	$3.28	$31.24
Terms used in example: » Days to Maturity: 7 » Advance Day Count: 360 » Investment Day Count: 365		Total Interest Cost (1-4)
		$42.65
Total All In Rate: 0.22%		

Changes to Collateral Lendable Values Help Increase Members' Borrowing Capacity

The FHLBNY remains committed to meeting our members' liquidity needs and understands the importance of maximizing their borrowing potential.

Supporting this commitment, and reflecting the continued strength in commercial real estate fundamentals, the FHLBNY has amended the collateral Lendable Values (LV) for pledged income-producing mortgages. Specifically, the base margins applied to both multifamily and commercial loans will be reduced to 20% and 25%, from 25% and 30% respectively. **The effect of these changes will be increased borrowing capacity against members' income-producing mortgages. These changes went into effect on Monday, June 24.**

If you have any questions about the changes, contact a Calling Officer at **(212) 441-6700** or contact Bryan Gallagher, Director of Collateral Valuations & Analysis at **(201) 356-1148.**

Feedback Welcome

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

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