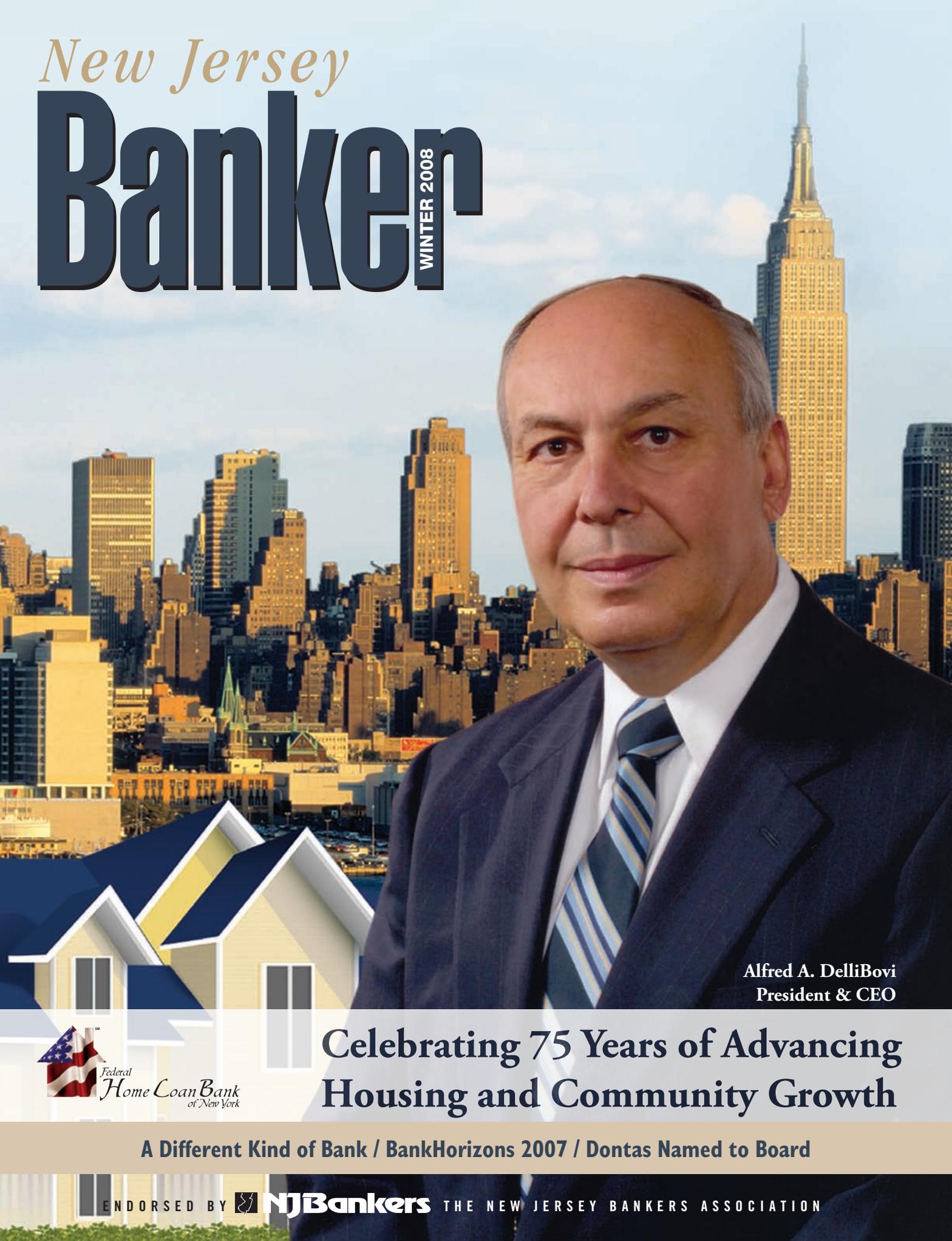


*New Jersey*

# Banker

WINTER 2008



Alfred A. DelliBovi  
President & CEO

## Celebrating 75 Years of Advancing Housing and Community Growth



A Different Kind of Bank / BankHorizons 2007 / Dontas Named to Board

ENDORSED BY  **NJ Bankers** THE NEW JERSEY BANKERS ASSOCIATION

# The Federal Home Loan Bank: 75 Years of Successfully Supporting Community Lenders

By Alfred A. DelliBovi



Federal  
*Home Loan Bank*  
of New York

The mission of the Federal Home Loan Bank of New York is to advance housing opportunity and local community development by maximizing the capacity of community-based member-lenders to serve their markets.



It was 1932 and The Great Depression was taking a heavy toll. More than a quarter of Americans were out of work. A quarter million homebuyers lost their mortgages. And thousands of lending institutions had collapsed. In response, President Herbert Hoover proposed legislative action to reduce home loan foreclosures and support the re-emergence of widespread homeownership. And when Congress passed The Federal Home Loan Bank Act of 1932 and chartered a network of regional federal home loan banks (FHLBs), new life was returned to the housing sector. This law and subsequent partnership helped set the stage for the eventual economic turnaround that led the country out of the depression.

The mission of the home loan banks, then and now, is to provide cost-effective funding to local lenders for use in housing, community and economic development; to provide regional housing programs that create housing opportunities for low- and moderate-income families; to support housing finance through advances (collateralized loans to members) and

mortgage programs; and to serve as a reliable funding source for their membership – all without taxpayer funds.

## SUPPORTING COMMUNITY BANKS

What the home loan banks do today is just as important as what we did in the 1930s. We provide the funding and services to small community banks that are not available anywhere else. We help members manage liquidity and interest-rate risk; offer advances that provide a source of low-cost funds to promote traditional portfolio lending; and help members give consumers a stable, low-cost and reliable source of funds.

The fact is that the partnership, created and shaped by several Congresses and presidential administrations over many decades, is a unique cooperative model. The banks are privately owned and capitalized by their membership and fulfill their mission in a unique cooperative structure. This cooperative ownership ensures that value is passed through to the customer. This successful cooperative model has

helped our members provide competitively priced consumer mortgage loans, community development loans, and small business loans. Today, approximately 80 percent of all chartered U.S. commercial banks and thrifts are members of the Home Loan Bank System.

The FHLBs work with and listen to our member lenders to enhance the value equation. As a result, we offer a variety of fixed-rate, floating-rate, amortizing, convertible and forward-starting advances, with varying terms to maturity, to fund individual balance sheets and address local needs.

## READY SOURCE OF CAPITAL

Last summer, credit market dislocations dramatically highlighted the ability of the FHLBs to tap global capital markets and deliver funds efficiently and inexpensively to member lenders serving local communities. With a combined jump of \$163 billion in attractively priced advances from July 31 to Sept. 30, the regionally managed and owned FHLBs provided critical, low-cost capital to replace previously available sources.

In fact, the FHLBs injected into the market nearly as much capital during July and August as the Fed and European Central Banks combined. At the FHLBs, advances increased 27 percent to \$75.1 billion during the third quarter. These results point to a simple truth. Credit markets and consumers recognize the value of committed community lenders who are able to close loans in all market environments because of their responsible lending practices and access to reliable FHLB funding. Our management team meets every week to discuss product and process improvements that will better meet the needs of our member lenders.

We also offer high-quality correspondent and cash management services to help members maintain their cash positions and enhance profitability. Many of these services can be conveniently accessed through iLinksm, our secure Internet banking system, and some are offered at a discounted rate. Unlike many correspondent banks, the FHLB of New York (FHLB NY) does not require compensating or reserve balances. We provide members with "hard dollar" interest on all collected balances, not earnings credits.

The FHLB NY also has a variety of resources available to help members take full advantage of membership. Several fact sheets about particular FHLB NY products and processes are readily available to members including, but not exclusively, Advances Summary of Terms, Calculation of Overdraft Fees, First Home Clubsm Fact Sheet, Frequently Asked Questions About Collateral at the HLB and Overnight Repricing Advance Program Fact Sheet.

## MUNICIPAL LETTERS OF CREDIT

State, local and U.S. government deposits have steadily increased over the past several years, creating an increased demand for collateral. Often, members' valuable securities are tied up securing municipal deposits. While municipal deposits can be very lucrative for depository institutions, they require heavy collateral backing. As a key partner in financing, the FHLB NY provides Municipal Letters of Credit (MULOCs) to members as an efficient, low-cost alternate method for collateralizing municipal deposits. The MULOC is an AAA-rated credit instrument used to ensure payments to a third-party beneficiary in the event of a default of performance. They are widely accepted (approved under the New Jersey Administrative Code).

The New Jersey Administrative Code states: *"In addition to obligations otherwise authorized in N.J.S.A. 17:9-41, eligible collateral shall also include irrevocable stand-by letters of credit issued by the Federal Home Loan Bank of New York. The commissioner shall review and approve the form of all*

*such letters of credit proposed by a public depository as eligible collateral under this section. Further, the original letter of credit shall be held by the commissioner."* -N.J.A.C. 3:1-4.13, Eligible Collateral

Unlike securities, the value of a MULOC does not change; therefore, it reduces operational expense by eliminating the need to match securities and monitor principal paydowns and called bonds. The cost of the MULOC is one-eighth of 1 percent per annum. Our MULOC product is recognized by municipalities and members alike as a very attractive way to collateralize municipal deposits.

## COMMUNITY DEVELOPMENT

In addition to our advance products, the home loan banks offer community investment programs to assist community banks in growing their communities and help meet the requirements of the Community Reinvestment Act. These include two grant programs, the Affordable Housing Program (AHP) and First Home Club®; community lending programs, including the Community Investment Program (CIP); and the economic development programs, Rural Development Advance (RDA) and Urban Development Advance (UDA).

Through the AHP, the FHLB NY works in partnership with member lenders and affordable housing advocates to increase housing for income-qualified families. AHP funds are supplied as grants and are awarded through a competitive process to qualified projects submitted by members. FHLB NY members can submit applications on behalf of non-profit sponsor organizations and other housing developers. New Jersey member lenders have won 321 AHP grants, providing \$78 million in housing funds and most importantly creating 12,000 new and affordable homes.

The First Home Club is a non-competitive set-aside of AHP, administered through approved FHLB NY members. The First Home Club is designed to help promote financial literacy, saving and budgeting discipline, and credit worthiness. At the end of the process, a \$3 to \$1 match of household savings is awarded to qualified first-time homebuyers as a grant of up to \$5,000 for down payment and closing costs for the mortgage originated by participating member lender. Four hundred and four New Jersey families have purchased homes with the assistance of almost \$2 million in First Home Club funds.

The community lending programs provide members access to a continuous source of the lowest-priced FHLB NY funding. These programs are designed to be a catalyst for housing and economic development by supporting projects that create and preserve jobs and help build infrastructure to support growth. CIP provides financing for homeownership and rental housing development that benefits families at or below 115 percent of the Area Median Income (AMI).

CIP also provides financing for economic development activities in neighborhoods with incomes at or below 80 percent of the AMI. RDA and UDA programs provide financing for commercial and economic development activities located in either a rural area benefiting individuals/families at or below 115 percent of AMI, or in an urban area benefiting individuals/families at or below 100 percent of the AMI. The community lending program has committed \$316 million in New Jersey and has provided drawdowns of \$200 million.

The FHLB/community member lender partnership works extraordinarily well. For 75 years we have played a key role in keeping our communities strong, our businesses growing and our families prospering. 

---

*Alfred A. DelliBovi is president and CEO of the Federal Home Loan Bank of New York. He may be contacted via e-mail at [al.dellibovi@fhlbny.com](mailto:al.dellibovi@fhlbny.com).*