Federal Home Loan Bank
NEW YORK

FHLBNY Letters of Credit in Action: Practical Uses and Market Insights



FHLBNY WEBINAR

November 5, 2026

Letters of Credit (LOCs)

A credit instrument issued by a financial institution promising/guaranteeing payment on behalf of its customer to a beneficiary, normally to a third party but sometimes to the bank's customer, for a stated period of time and when certain conditions are met, e.g. a promise to pay.



- An LOC substitutes the issuing bank's credit for the credit of another party
- The issuing bank's creditworthiness and credit rating is a critical factor for the third party in the transaction
- **Municipal LOC (MULOC):** Used to collateralized city, state, court, municipal, business development district and NYS community development program deposits
- **Refundable MULOC:** Similar to the MULOC, but it is more flexible and is used for fluctuating transactional deposit accounts (offers a potential refund of fees)

Current Letter of Credit Fees – MULOCs and Refundable MULOCs cost 9 basis points and other Standby Letters of Credit are either 50 basis points or 25 basis points depending on the project

FHLBanks - Sovereign Rated Credit Quality

Sovereign Rated

- Federal Home Loan Banks are rated at the U.S. sovereign level, reflecting their status as government-sponsored enterprises, their important role in the U.S. housing-finance system, and the strength of the FHLBank System's credit profile.
- This high credit quality supports the FHLBanks' ability to access the capital markets efficiently and provide members with reliable liquidity across market cycles.

Ratings on FHLBank Debt Securities

The FHLBank System maintains S&P and Moody's ratings consistent with the current U.S. sovereign ratings.

- **S&P Global Ratings: AA+** long-term **/ A-1+** short-term
- **Moody's Ratings: Aa1** long-term **/ P-1** short-term

Potential Uses for LOCs

The FHLBNY's LOC products support liquidity, asset/liability management, and housing and economic development activities.

Housing Finance

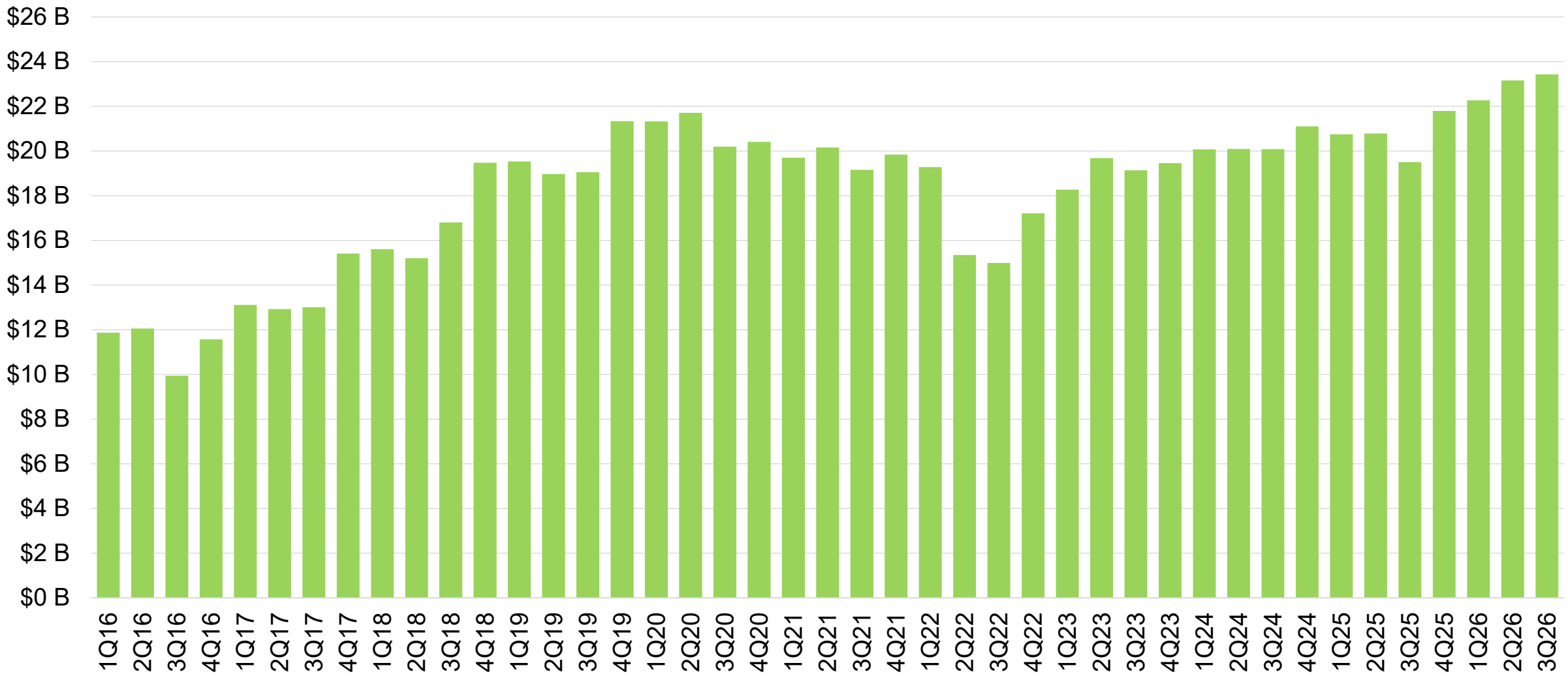
- Taxable Bond Issues
- Construction Funding
- Construction Bonds
- Low-Cost Housing
- Mortgage Revenue Bonds

Community Economic Development

- Municipal and State Deposits
- Community Development Bonds
- Credit Enhancements for Community Investment Programs
- Lease Agreements
- Import/Export Transactions

FHLBNY Quarterly Average LOC Balances

1Q 2016 - 3Q 2026



Renewable Term LOCs

Combines a long-term LOC with the flexibility of annual automatic renewal periods through a predetermined final maturity date. Designed to provide continuity, efficiency, and mission alignment.

Long-Term Commitment Structure

Provides a defined final maturity date that can align with long-term financings and project timelines.

Annual Automatic Renewal

Automatically renews each year unless notice of non-renewal is provided in accordance with LOC terms.

Mission-Focused Eligibility

Available exclusively for qualifying housing, community development, and economic development purposes.

Reduced Administrative Requirements

Minimizes the need for annual LOC replacement or reissuance.

Reliable Credit Enhancement

Supports financings that require stable, ongoing credit support over an extended period.

Prudent Risk Management

Subject to applicable Bank credit, collateral, liquidity, and risk management requirements.

Renewable Term LOCs (continued)

Well Suited for Mission-Driven, Longer-term Credit Enhancement Needs

Potential Uses

- ✓ Affordable housing transactions
- ✓ Housing Finance Agency programs
- ✓ Multifamily housing initiatives
- ✓ Community development projects
- ✓ Economic development financings
- ✓ Bond-related credit enhancement structures
- ✓ Long-term mission-driven public purpose financings

Core Advantages

Continuity of Credit Support

Structured to remain in place through annual renewal periods until the stated final maturity date.

Enhanced Transaction Efficiency

Reduces operational burden associated with periodic LOC replacements and amendments.

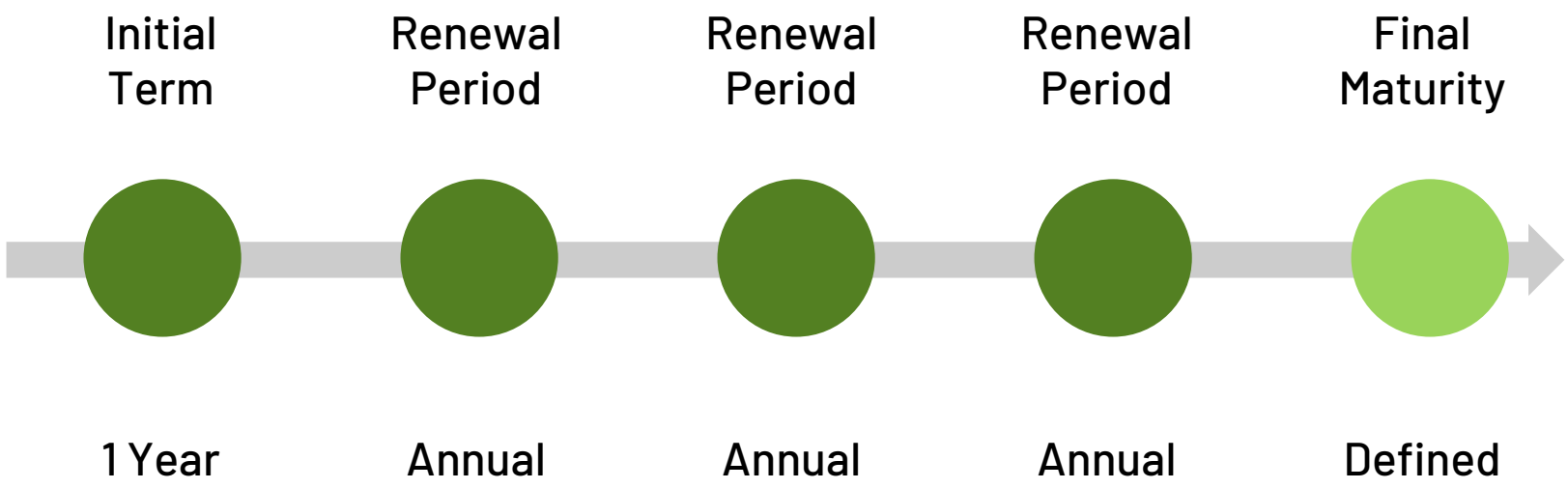
Alignment with Long-Term Projects

Supports financing timelines that extend beyond traditional LOC terms.

Mission-Focused Financing

Designed for housing, community development, and economic development activities.

Example Renewable Term LOC Structure



Structure may include annual automatic renewal, notice of non-renewal terms, a stated final maturity, and mission-related eligibility requirements. Availability remains subject to member eligibility, credit approval, collateral requirements, and applicable Bank policies.

Disclaimer: Product descriptions and terms are illustrative and subject to change, applicable legal documentation, Bank policies, credit approval, collateral requirements, and individual member credit parameters.

Learn More

For additional information regarding the Renewable Term LOCs, please contact your FHLBNY Relationship Manager, Tom Settino, FVP, Director of Member Relations, or a Member Services Desk Representative.

(212) 441-6838
1-800-546-5101, option 1

Renewable Term LOC

Long-Term Commitment. Annual Flexibility. Mission-Focused Support.

JASON GRUBBS

Frazer Lanier

Frazer Lanier

Incorporated in 1976, The Frazer Lanier Company is an investment banking firm that specializes in underwriting tax-exempt and taxable debt. The Firm serves all sectors of the corporate and US public finance markets.

In corporate finance, most of our debt issuances are structured as bonds or notes and secured by a bank letter of credit. These issues typically carry a floating interest rate, and the Firm handles both the initial underwriting and the remarketing, which involves setting the rate every 7 days. Essentially, the program gives private corporations access to the public market, much like commercial paper, because investors buy the debt based on the strength of the bank(s) providing the letter of credit. Beyond underwriting and selling the securities, we assist with credit negotiations and transaction structure. Our Corporate Finance activity extends nationwide, and recent underwritings have ranged from $5 million to more than $100 million.

LOC Bond Structures

Taxable

- Commercial Real Estate
  - Office
    - Single/multi tenant
    - Medical
  - Warehouse
  - Manufacturing
  - Retail
- Housing
  - Single Family
  - Multi-Family

Tax-Exempt

- IRS Program
  - Affordable Housing
    - 4% LIHTC Projects
      (FHLBNY confirmation limited to affordable housing.)

LOC Structured Bond Overview

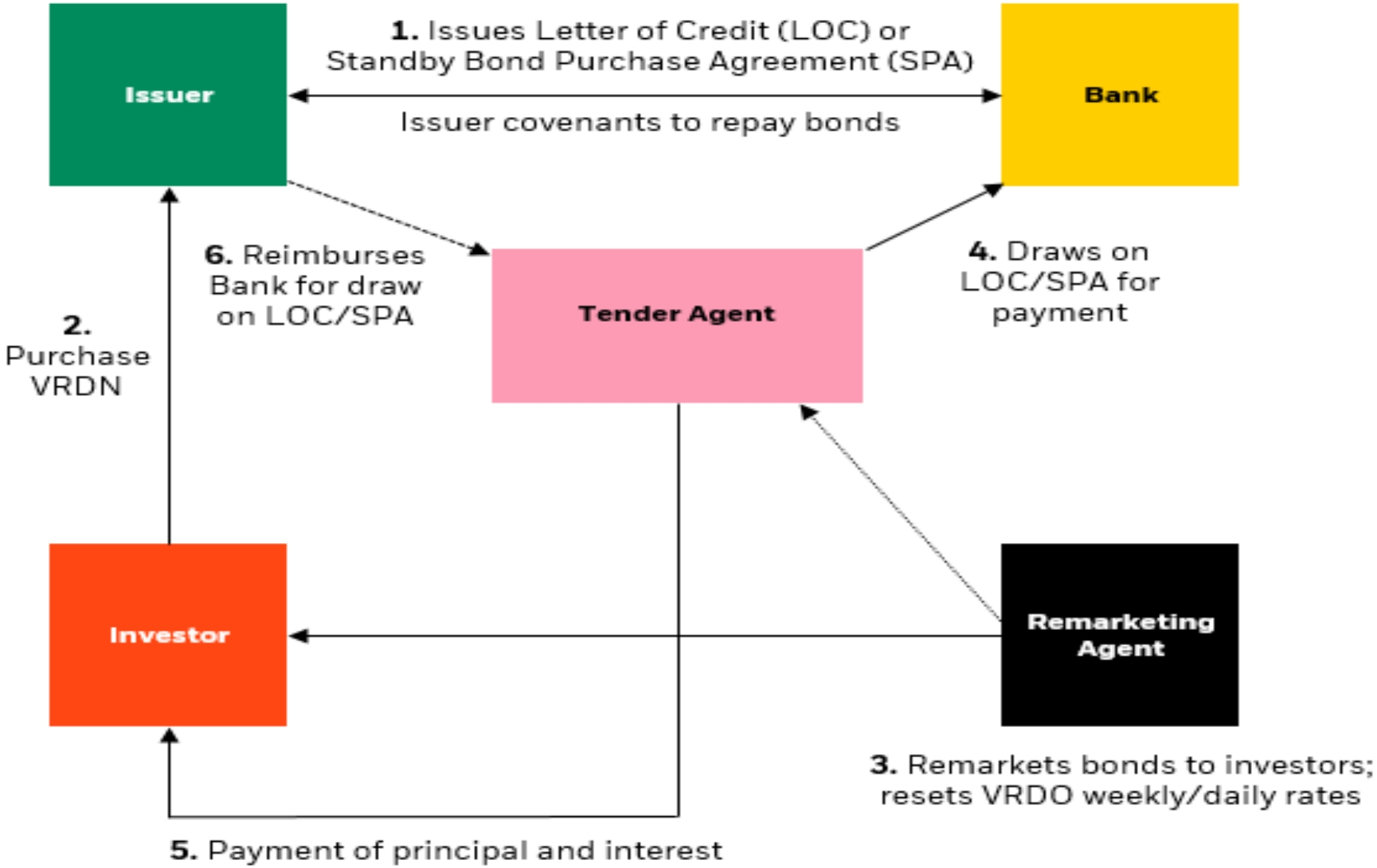
LOC supported bonds (the "Bonds") are long-term obligations, issued under a variable interest rate structure.

- The Bonds require credit support in the form of an irrevocable direct pay LOC provided by a financial institution with a short-term rating (A1/P1/F1) and a minimum long-term rating of "A".
- Bondholder security is the LOC. Borrower disclosure in bond offering is limited to a general corporate description.
- No financial information on the Borrower is shared outside the LOC Bank credit agreement. Only LOC and Confirming LOC banks financials are disclosed in bond documentation.
- The Bond interest rate is set each week. The remarketing agent negotiates a rate with the Bondholder(s) that represents par based on current market conditions. Rates may or may not change weekly
- Bond interest rates follow the US short-term market.
  - Taxable
    - SOFR
  - Tax-Exempt
    - SIFMA
- All Bondholders receive the same rate and price (par). The entire issue resets at the same rate.
- Interest is paid monthly or quarterly and principal is paid per agreement with LOC Bank.
- Bond maturity up to 30 years.

LOC Structured Bond Overview (continued)

- US money market funds primary investors. Funds are governed by the United States Securities and Exchange Commission under the Investment Company Act of 1940
- $7.9t market
- Prepayment, in whole or in part, by the Borrower is allowed, at anytime, without premium. Bonds are redeemed at par.
- LOC is a “direct pay” credit facility and drawn upon to satisfy interest and principal payments to investor(s). Borrower provides immediate reimbursement to the LOC Bank for each draw.
- Bondholders have the option to put the bonds to the Remarketing Agent with a 7-day notice. the Remarketing Agent, remarkets the bonds to other investor(s).
- The LOC provider supplies the credit rating for the Bonds and supplies the liquidity.
- Liquidity includes payment of interest and principal.
- LOC may be secured or unsecured. Annual letter of credit fee is negotiated between the LOC Provider and Borrower for the duration of the credit facility.
- Liquidity drawings under the LOC not immediately reimbursed (borrower or market disruption) are funded with a backup note.

LOC Financing Flow of Funds



Source: BlackRock.

Annual Interest Rate Components

EXEMPT	TAXABLE	TAX-EXEMPT
Bond Coupon*	4.00%	2.45%
LOC Fee	TBD%	TBD%
Annual Remarketing and Trustee	0.15%	0.15%
Total	%	%

** As of October 30, 2026.*

Sample Closing Timeline

- **Week 1-**
  - Employment of Underwriter
  - Determine financing structure
- **Week2-**
  - First draft of documents; security instruments and Preliminary Official Statement
- **Week 3-**
  - Documents conference call to review and amend documents
  - Final drafts of all bond and any related credit documents
  - Submit documents to rating agency
- **Week 4-**
  - Rating Agency presentation
- **Week 5-**
  - Rating letter released and sale of securities
- **Week 6-**
  - Closing and funding

QUESTIONS?

Federal Home Loan Bank
NEW YORK

Advancing Housing and Community Growth

Thomas Settino

First Vice President, Member Relations
FHLBNY
(212) 441-6838
thomas.settino@fhlbny.com

Jason Grubbs

Executive Vice President
The Frazer Lanier
(205) 484-0888
Jason@fralan.com

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