Federal Home Loan Bank
NEW YORK

FHLBNY Collateral Practices During COVID-19 Crisis

May 28, 2020

Changes During COVID-19

- **Increased Pledge Activity:** Members seeking to pledge more collateral (both mortgage and securities).
- **SBA Paycheck Protection Program Loans:** PPP loans are now eligible collateral. Members have shown interest in pledging.
- **Supporting our Members** through acceptance of forbearance and non-traditional mortgage practices.
- **Lendable Value Changes:** Pricing vendors adjusted mortgage market values.
- **Operational Challenges:** Conducting "on-site reviews" and delivery of physical loan documents to the vault.

Collateral Overview

As of 3/31/2020

There is adequate collateral to support additional borrowing needs should they arise.

UPB of collateral pledged was $379.9 billion vs. $134.4 billion in advances.

- **Collateral Pledging:** Specific pledge through detailed listings provides a clearer understanding of what is pledged. Data available for slightly more than 682k mortgage loans. This enables more accurate collateral valuations and granular exposure monitoring capabilities.
- **Collateral Concentrations:** Pledging has increased by $33.9 billion since 1st quarter 2019:
  - **Residential:** 1-4 family mortgage collateral ($180.0B) remains the dominant form (47%) of total collateral pledged.
  - **Income Producing:** Members have been continuing to maximize liquidity through pledging more Multifamily and CRE collateral totaling $141.9B.
  - **Securities:** U.S. Agency and Treasuries ($50.4B) continue to account for a lion's share (87%) of securities collateral pledged.
- **On-going Monitoring & Valuations:** Eligibility re-evaluated at a minimum monthly for Mortgage (i.e. – Delinquency, LTV, etc.) and PLCMBS (i.e. – NRSRO Ratings and Secondary Screen). All collateral are priced based on their predetermined schedules. Additionally, relevant metrics (i.e. – HPI, Unemployment, Vacancy Rates, etc.) are monitored regularly.
- **Margins:** Base Margins (minimum haircuts by collateral type) are re-assessed quarterly against market factors. Additional member specific margins are applied. The Lendable Value Methodology components (Pricing/Margins) are externally/internally validated.
- **Escalation Policy:** As member health deteriorates, collateral requirements tighten and terms of advances are more restrictive. However, liquidity remains available with adequate collateral.

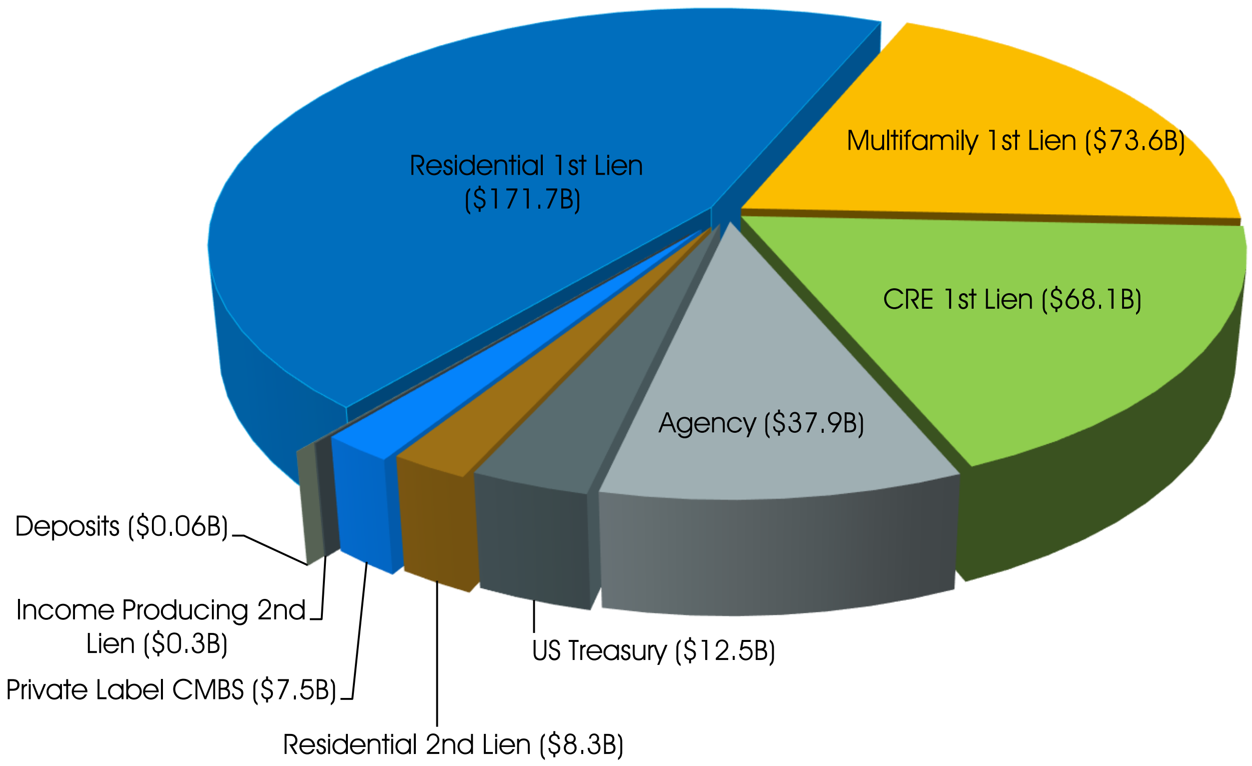
Collateral Types Refresher

- The FHLBNY accepts various U.S. Treasury, agency, private label CMBS, 1-4-family residential (both open and closed-end), multifamily, CRE loans and deposits
- Mortgages are required to pledge at a minimum monthly. This allows for members to pledge collateral more frequently. Performing loans (1st Liens $\leq$ 60 and 2nd liens $\leq$ 30 days past due) are accepted provided they meet all other eligibility/data requirements.
- Securities must be delivered as possession collateral. Private Label CMBS are subject to pass eligibility requirements (ratings and delinquency pipeline) at initial pledge and on-going monitoring is performed on a monthly basis.

Eligible Loan Types			
Residential 1st Lien Closed End	Residential 2nd Lien Closed End	HELOC 1st Lien	HELOC 2nd Lien
FHA/VA Delinquent Loans	CRE	Multifamily	Income Producing Mixed Use
Income Producing 2nd Mortgages	Paycheck Protection Program	Participation	Syndication
Eligible Security Types			
Agency for International Development	FDIC Temporary Liquidity Guarantee Program	GNMA Project Notes	US Treasury Bills
Agency Notes, Bonds and MBS	Federal Home Loan Bank Notes and Bonds	Private Label CMBS	US Treasury Bonds
Agency Strips - IO/PO	FFCB MBS, Notes and Bonds	Resolution Funding Corp. Notes & Bonds	US Treasury Feline
Agency Z Bonds	FICO Bonds	SBA Notes	US Treasury Notes
CRT Securities (Guaranteed Only)	FNMA and FHLMC Multifamily Pools	SBA Participations	US Treasury Strips
Farmer Mac MBS, Notes and Bonds	GNMA HMBS	SBA Bonds	TVA Notes and Bonds

Collateral Concentrations

Pledged as of 3/31/2020



Change YoY

CRE Loans
up $7.4B (12%)

Residential Loans
up $7.9B (5%)

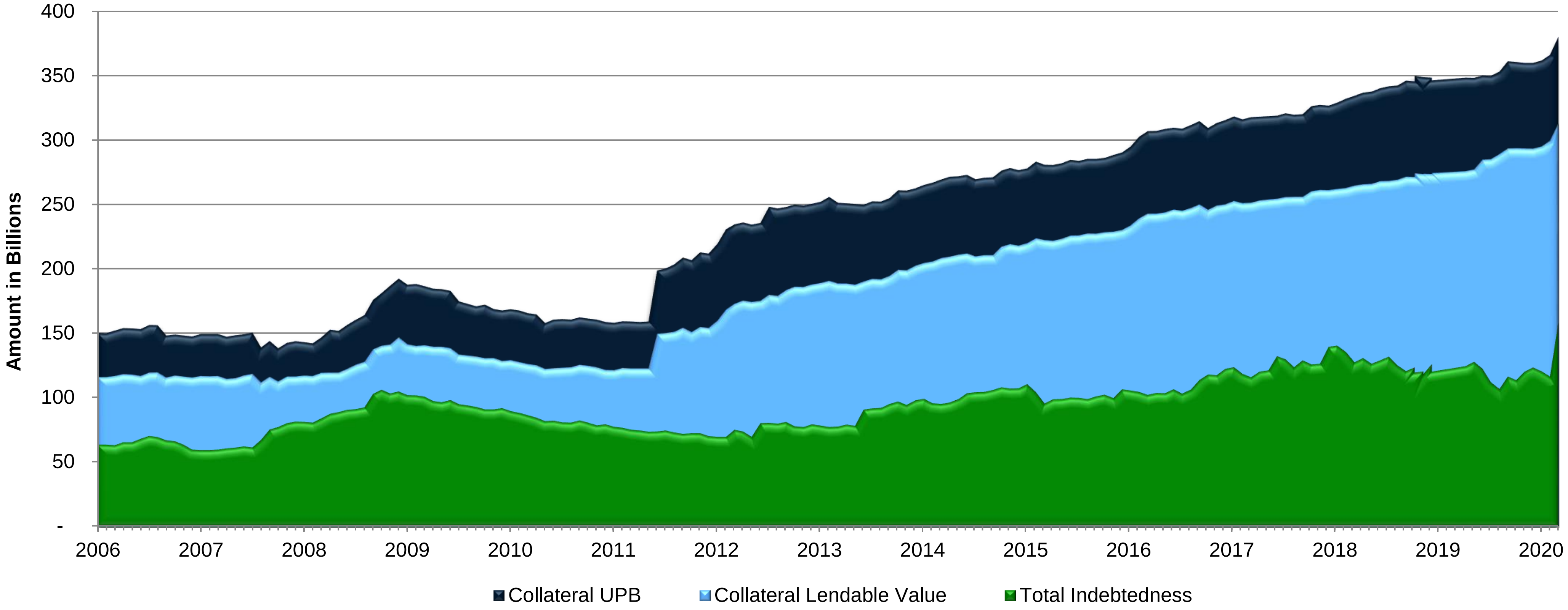
Multifamily Loans
up $5.1B (7%)

US Treasury & Agency Securities
up $8.7B (21%)

Collateral pledged totaled $379.9B up 10% YoY driven by continued member focus on maximizing liquidity across all collateral types.

Access to Liquidity is Stable

As of 3/31/2020



» Collateral is on hand to support additional borrowing needs should they arise. Despite increased advance demand, average collateral utilization rates remain relatively low at approximately 32% (down from 57% peak as of 2Q 2008).

PPP Loans as Collateral – Eligibility and Pledging

» **Following outlines requirements in order to be eligible for Paycheck Protection Program (PPP) loans pledging:**

- **Member Eligibility:** CAMELS ratings of "3" or better. Additional review may be required for certain members based on internal credit rating.
- **Pledge Limit:** 20% of the member's lendable value or $5 billion, whichever is lower. The table below provides formulas to easily calculate pledge limits:

	Amount ($)	Formula
Collateral Lendable Value (CLV) Prior to PPP Pledge	10,000,000	
Max PPP Lendable Value (20%) After PPP Pledge	2,500,000	(0.25*CLV)
Max PPP UPB After PPP Pledge	2,777,778	(0.27*CLV)

- **Member Changes:** Members subsequently downgraded are subject to additional requirements (i.e. – replace PPP loans or deliver loans with increased margins)

» **PPP Pledge Process:** Send completed loan listing form through the Banks File Transfer Service (GlobalScape) along with executed certification stating:

1. Only PPP loans guaranteed by the Small Business Administration are included
2. Loans are not pledged to any other entity
3. Pledge file excludes forgiven loans and delinquent loans and
4. Acknowledgement that files will be provided on a weekly basis

PPP Loans as Collateral – Eligibility and Pledging

PPP Data Requirements

Data elements required to appropriately establish pledge amounts and periodically screen for duplicate pledging with the FRB:

- Member Loan Number
- SBA Loan Number
- Legal Name of Entity
- Property Address
- Borrower Name
- As of Date
- Origination Date
- Paid Thru Date
- Maturity Date
- Original Balance
- Loan Amount (UPB)

Collateral Analysis (MediaPro@fhlbny.com) or

Anthony Kobel, Collateral Analysis Manager, at (201) 356-1069

are available to field inquires and process PPP pledging.

https://www.fhlbny.com/forms___agreements/US-sba-ppp/

Pledging Forbearance Loans

» On March 20, 2020, The Federal Housing Finance Agency issued a notice that allows the Federal Home Loan Banks to accept loans placed in forbearance as a result of COVID-19 as pledged collateral.

» **Forbearance Guidelines:** Loans in Forbearance status can be pledged to the Bank provided they meet Fannie and Freddie Guidelines such as:

- Effective date of forbearance falls within established timeframes
- Loans in forbearance are not more than one-month delinquent

» **Data Requirements:** The following are data requirements to report forbearance loans on monthly data listings:

1. Populate Modification or Restriction Code (position 330) with F
2. Update the next payment due date according to forbearance

Reach out to Collateral Analysis through MediaPro@fhlbny.com or
Anthony Kobel, Collateral Analysis Manager, at (201) 356-1069
regarding data accommodations if needed.

Collateral Lendable Value Methodology

Lendable Value represents the amount of borrowing capacity made available to members against pledged collateral.

Represents Total Margin

Unpaid Principal Balance → Market Value → Base Margin → On-site Review Margin → Other Member Margins = Lendable Value

Unpaid Principal Balance
(Loan/Cusip Level)

- Establishes the eligible UPB pledged
- Mortgages: Submit loan level Detail via secure FTP on a monthly basis
- Securities/ Deposits: Deliver to FHLBNY for pledging

Market Value
(Loan/Cusip Level)

- Periodic valuations to addresses market risk
- Residential: Monthly pricing by MIAC (capped at par)
- Multi/CRE: Quarterly pricing by DebtX (capped at par)
- Securities: Daily pricing by IDC

Base Margin
(Collateral/ Member Type)

- Base margin levels assessed quarterly for Mortgage and Securities
- Factors: Price Volatility Risk, Liquidation Costs (mortgage only) and Model Risk

On-site Review Margin
(Mortgages Only – Collateral/Member Level)

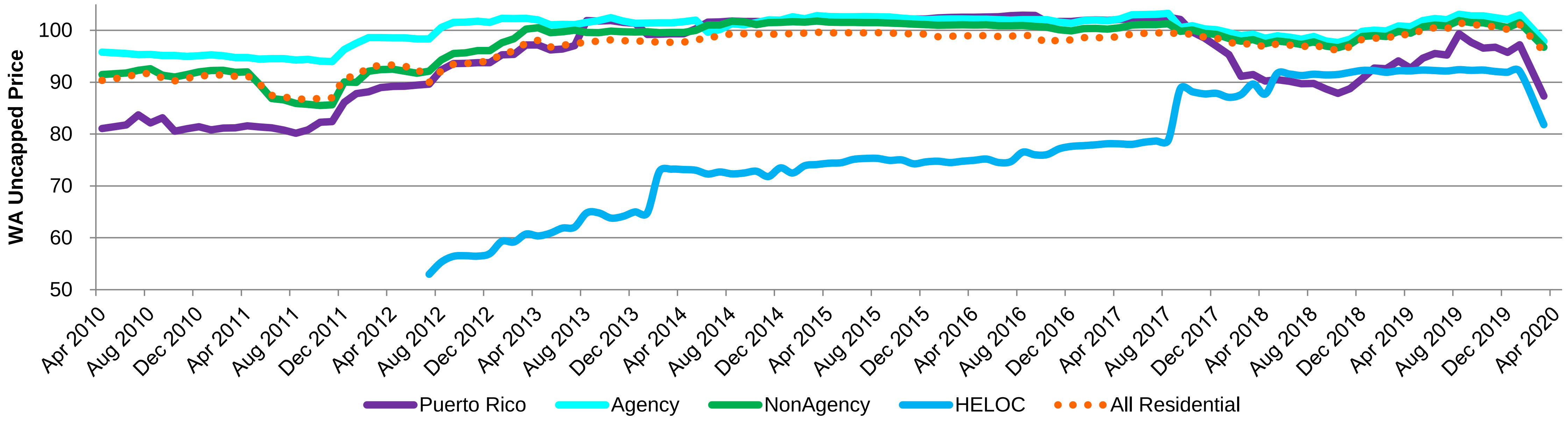
- Periodic on-site reviews performed: Residential (within 4 years) Multi/CRE (within 3 years)
- Accelerated (within 2 years) such as top 20 borrowers, possession
- Address member's operational profile, document deficiencies and unknown risk gleaned from on-site review

Other Member Margins
(Member Level)

- Assigns margins on a case-by-case basis. Examples include escalation policy margins due to credit deterioration, non-member margins, etc.

Residential- Pricing Valuation and Trend

(Lendable Value Component: Market Value – as of 3/31/2020)



» MIAC prices the residential portfolio (totaling $180B pledged by 178 members) on a monthly basis utilizing their proprietary cash flow model (Vision).

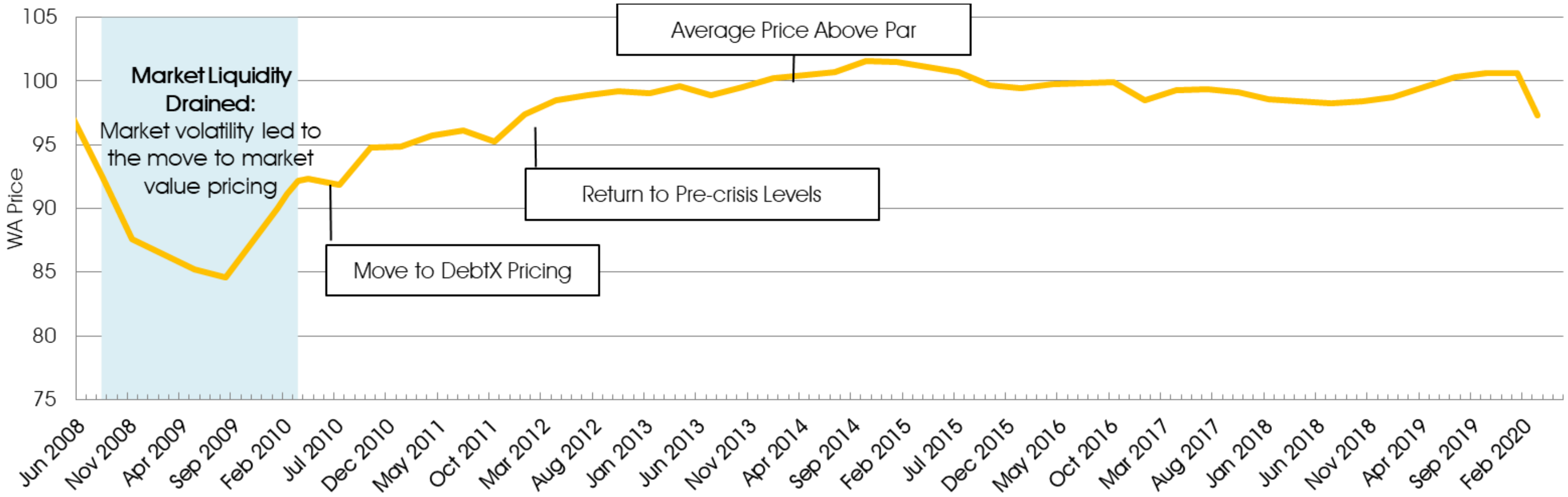
» The crisis related stress caused residential valuations to decrease. MIAC increased yield, default and loss severity pricing assumptions.

» House price appreciations are expected to slow down later in the year, however, the house price growth continued to accelerate through February 2020, posting a 5.7% increase year-over-year.

Source: MIAC (as of 3/31/2020) and FHFA.

Income Producing (IP) Mortgage Pricing Trend

(Lendable Value Component: Market Value – as of 3/31/2020)



» DebtX prices the CRE/multifamily portfolio (totaling $141.9B pledged by 117 members) on a quarterly basis utilizing a proprietary yield and price model (DxMark).

» Prices were on an upward trend in 2019, due to decreasing treasury yields, however they declined after DebtX's spread adjustments to reflect uncertainty from COVID-19.

» Members continue to maintain conservative underwriting standards (low-LTV product) in an environment of stable CRE fundamentals.

» A majority of pledged multifamily loans are from local lenders who support multifamily lending predominantly in New York and New Jersey (accounts for 83% or $60B of multifamily collateral pledged).

Source: DebtX (as of 3/31/2020).

Base Margins For Mortgage and Securities Collateral

Base Margins are established based on member type & collateral type. They are applied to the market value (par cap for Mortgages). Base Margins are intended to account for the following factors such as:

Price Volatility Risk	Risk of potential drop in value during a holding period in a liquidation scenario
Admin Costs	Reasonable costs associated with securing, holding, and liquidation of collateral (n/a Securities)
Additional Unknowns	Includes model error risks associated with assumptions made in model and those made for missing data.

"On-site" Review Process and Margins

The On-site review process allows us to obtain additional information on collateral that is not discerned through the data submission.

- Since COVID-19 disruption, Collateral Review shifted from using scanned documentation to conduct On-site Reviews where possible.
- Member on-site reviews are performed on a periodic basis: residential (48 months), income producing (36 months) and accelerated (24 months).
- Accelerated reviews are based on, but not limited to, factors such as top 20 borrowers, members on the watch-list, members in possession and special requests from Credit Risk and/or Senior Management.
- On-site review margins are added to the base margin.

On-site Review's 5 Key Areas of Focus

1. Credit & Underwriting
2. Payment History
3. Legal Documentation
4. Operational Profile
5. Collateral Eligibility

Emerging Risk – LIBOR Sunset

» Publication of LIBOR rates is not guaranteed beyond 2021.

» In February 2020, FHFA announced transition timelines for Fannie Mae and Freddie Mac. According to the FHFA directive, in order to be eligible for acquisition:

- New language will be required for single-family ARMs that close on or after June 1, 2020.
- All LIBOR based single family and Multifamily ARMs must have loan application dates on or before September 30, 2020.
- Acquisitions of single-family and multifamily LIBOR ARMs will cease on or before December 31, 2020.

» Robust fallback language will be required in new transactions which should include Benchmark Transition Triggers, Benchmark Replacement Rate and Spread Adjustment.

» Although there are some roadblocks, such as modification of legacy loan documents, Regulators around the world are determined to complete transition by the end of 2021.

» LIBOR transition and potential adjustments to LIBOR based collateral valuations will be one of the top priorities for the Bank in the second half 2020 and 2021.

Collateral Reference and Contacts

Member Products Guide: Details collateral standards. The guide can be accessed by signing on to 1Link® or 1Link IPR, our internet banking systems, and clicking on the 'Manuals and Guides' tab. The Guide is updated as needed throughout the year.

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