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Federal Home Loan Bank of New York

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Major Rating Factors

Counterparty Credit Rating
AA+/Stable/A-1+

Strengths:	Weaknesses:
• A key cog in the implementation of U.S. government housing policy • Very strong risk-adjusted capitalization • Very strong asset quality and little risk from peripheral activities	• Monoline mortgage exposure and geographic concentration to a limited region of the U.S. • Uncertainty with regard to the impact of future potential legislative changes

Outlook

The stable outlook on The Federal Home Loan Bank of New York (FHLB-NY) reflects the company's strong and stable operating performance, as well as the rating on the U.S. If we changed our rating or outlook on the U.S., we would likely reflect that change in our ratings on the Federal Home Loan Bank System's (FHLB System) debt and its individual banks, including FHLB-NY, according to our government-related entity (GRE) criteria. Despite recent and possible future changes in the FHLB System, we expect FHLB-NY to maintain its strong financial profile, given its comprehensive and conservative governing policies and management's intention to maintain these policies. We could also lower the rating if, in the context of GSE reform, the role of the FHLB System in housing finance is diminished, thereby reducing its importance to the government.

Rationale

Standard & Poor's Ratings Services' counterparty credit rating on FHLB–NY reflects the wholesale bank's government-supported role in providing liquidity to member institutions, very strong asset quality and capitalization, low funding costs, and conservative risk management. It also reflects the bank's regulated status, overseen by the Federal Housing Finance Agency (FHFA). Based on our criteria for rating GREs, the rating on FHLB-NY includes a one-notch uplift from the bank's stand-alone credit profile (SACP) of 'aa'. This reflects our expectation that the likelihood of the bank receiving extraordinary government support, if needed, is very high, because of the FHLB System's importance to the U.S. housing market, among other factors. For a full analysis of the FHLB System, see "Federal Home Loan Banks," published Aug. 19, 2014, on RatingsDirect.

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Anchor: Adjusted for an FHLB to reflect regulated status, low competitive risk, and favorable funding

Our starting point--or anchor--for our ratings on U.S. finance companies (fincos) that we rate under our nonbank financial institutions (NBFI) criteria is 'bb+'. We initially set the anchor for fincos three notches below our anchor for banks in the same country to reflect their typical lack of central bank access, less-stringent regulatory oversight, and greater competitive risk. We base the bank anchor for a given country on our view of the economic and industry risks in that country as part of our Banking Industry Country Risk Assessment. Our anchor for a bank operating only in the U.S. is 'bbb+'.

Because of the FHLBs' public policy role and regulated status, we raise the anchor for FHLB-NY to 'bbb+', three notches above our anchor for other U.S. fincos. This is to account for the FHFA's regulatory oversight, the favorable funding an FHLB enjoys through its close relationship with the U.S. government, its strong competitive position alongside other housing-related GREs, including Fannie Mae and Freddie Mac in the U.S. housing finance market, and its statutory priority of liens in a bank wind-down situation.

Business position: A unique and strong market position with longstanding members

We view FHLB-NY's business position as "strong" (as our criteria define the term), reflecting the company's established market position, recurring business volumes, and public policy role, which we believe offset some of the risks associated with its lack of business diversity.

The Federal Home Loan Bank System was chartered by Congress in 1932 with a mission to act as a reliable source of liquidity for member financial institutions in support of housing finance. FHLB-NY does not lend directly to homeowners, but provides secured, low-cost funding to its members. It has no high-risk business lines because its lending is all backed by collateral, and the value of collateral backing loans typically exceeds loans by a significant margin.

FHLB-NY is among the largest banks in the FHLB System by advances and total assets, and it serves member institutions in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. But the company's overall business position is hurt by its lack of business diversity, in our view. Revenues at FHLB-NY are not particularly volatile, but they do vary with the economic cycle like those of other system banks. While FHLB-NY has diversity across its 332 members, which include commercial banks, thrifts, credit unions, insurance companies, and community development institutions, its member borrowing needs are all highly correlated to the housing market. Furthermore, its business is concentrated exclusively in a limited region of the U.S. The firm's advance volume and therefore revenue are typically countercyclical, as members rely more on the firm in times of stress as a reliable source of funding, which does mitigate the impact of that concentration, however. Furthermore, the fully collateralized nature of its lending mitigates much of that concentration risk, in our view, and it is not a key credit weakness.

Capital, leverage, and earnings: Collateralized lending to financial institutions limits risk

We believe FHLB-NY's capital is "very strong" based on its member-capitalized co-op structure and low-risk collateralized lending business. FHLB-NY is required to keep capital in excess of 4% of assets by the FHFA. Because the majority of its assets are advances, which attract a relatively low risk weight in our methodology because all of the exposure is to financial institutions, capital on a risk-adjusted basis is stronger than it might otherwise appear. We expect the company to maintain capital, as measured by Standard & Poor's risk-adjusted capital (RAC) ratio, in excess of 20%. We expect capital to remain relatively stable because members must scale their capital contribution to support their borrowings.

We believe earnings at FHLB-NY are relatively stable. We don't believe the absolute level of earnings is an important ratings consideration because of both the strong capital level of the firm, as well as its co-op structure, which ensures that profit maximization is not a goal of the firm.

Risk position: Limited peripheral activity

We consider FHLB-NY's risk position to be "very strong," reflecting the fact that neither the company (nor its sister FHLBs) has ever suffered a loss on a collateralized advance to a member.

All advances to member institutions are collateralized by loans and securities with an estimated value significantly in excess of loans extended. FHLB-NY also monitors the financial condition of its members, and manages collateral guidelines, advance rates, and security agreements to further mitigate credit risk. Probably most importantly, any security interest that an insured depository institution grants to the bank generally has priority over the claims and rights of other parties, including depositors. For nondepositories, FHLB-NY, like peers, relies on more strict borrowing limits and collateral guidelines to mitigate associated credit risk, for which an FHLB is not guaranteed priority status in liquidation.

The bank takes little interest rate risk. It issues fixed-rate callable and noncallable bonds, and swaps predominantly all of its fixed-rate interest exposures to LIBOR-based floating exposures. We also see few risks on the rest of the balance sheet compared with other FHLB peers. The company has de minimis exposure to private-label mortgage-backed securities and has a high percentage of advances to total assets. Still, the firm does have a relatively homogenous lending portfolio, considering all advances are made to financial institutions backed by a majority of residential and commercial mortgages, though collateral does vary.

Funding and liquidity: Stable and cheap funding supports the business model

We view both FHLB-NY's funding and liquidity as "adequate," reflecting the FHLB System's diverse and global investor base and that it readily sells its debt at a small spread to U.S. Treasury obligations. We expect the company's stable funding ratio to remain at approximately 100%, and based on the availability of funding for the system in the 2008 liquidity crisis, access to funding is unlikely to be an issue in stress scenarios.

We consider FHLB-NY's liquidity as adequate compared with its potential cash flow requirements over the upcoming year. Regulatory liquidity requirements are relatively modest, and we believe the company has a good liquidity management system.

Comparable ratings adjustment: None

We don't include an adjustment in our rating on FHLB-NY based on comparison with peers.

External influence: An important cog in the U.S. housing finance policy framework

Our ratings on FHLB-NY reflect our opinion that there is a "very high" likelihood that the U.S. government would provide the company with timely and sufficient extraordinary support in the event of financial distress. Therefore, our issuer credit rating on the bank reflects a one-notch uplift from our SACP.

In accordance with our criteria for GREs, our view of government support is based on our assessment of FHLB-NY's:

- "Very important" role providing low-cost funding to support housing and community development in the U.S., which we believe are key economic and political objectives of the U.S. government; and
- "Very strong" link with the U.S. government, because a defaulted FHLB could significantly affect the government's reputation, and we believe the government has the administrative capacity and mechanisms (via the FHFA) for responding to an FHLB's financial distress in a timely manner. Moreover, we view the government as having a track record of providing very strong and timely credit support to the FHLBs, such as their inclusion in a U.S. Treasury GSE credit facility created in September 2008.

Ratings Score Snapshot

Federal Home Loan Bank of New York -- Ratings Score Snapshot	
Issuer credit rating	AA+/Stable/A-1+
Stand-alone credit profile	aa
Anchor	bb+
Entity-Specific Anchor Adjustment	+3
Business Position	Strong (+1)
Capital, Leverage, and Earnings	Very Strong (+2)
Risk Position	Very Strong (+2)
Funding and Liquidity	Adequate and Adequate (0)
Comparable Ratings Analysis	0
External Influence	1
Government Influence	1
Group Influence	0
Rating Above The Sovereign	0

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related Research

- Rating Factor Assessments For U.S. Financial Institutions Government-Related Entities, Dec. 12, 2014
- Ratings On Various U.S. GREs Affirmed Following Application Of Revised Nonbank Financial Institution Methodology, Dec. 10, 2014
- Federal Home Loan Banks, Aug. 19, 2014

Ratings Detail (As Of June 25, 2015)	
Federal Home Loan Bank of New York	
Counterparty Credit Rating	AA+/Stable/A-1+
Counterparty Credit Ratings History	
10-Jun-2013	AA+/Stable/A-1+
08-Aug-2011	AA+/Negative/A-1+
15-Jul-2011	AAA/Watch Neg/A-1+
20-Apr-2011	AAA/Negative/A-1+
Sovereign Rating	
United States of America	AA+/Stable/A-1+
Related Entities	
Federal Home Loan Banks	
Equipment Trust Certificates	AA+/Stable
Senior Unsecured	AA+
Senior Unsecured	AA+/A-1+
Senior Unsecured	AA+/Stable
Short-Term Debt	A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.