

Federal Home Loan Bank of New York

Primary Credit Analyst:

Nikola G Swann, CFA, FRM, Toronto (1) 416-507-2582; nikola.swann@spglobal.com

Secondary Contact:

Catherine C Mattson, New York (1) 212-438-7392; catherine.mattson@spglobal.com

Table Of Contents

Major Rating Factors

Outlook

Rationale

Ratings Score Snapshot

Related Criteria

Federal Home Loan Bank of New York

Major Rating Factors

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

| Strengths: | Weaknesses: |
|--|--|
| <ul style="list-style-type: none">• Very important role in the implementation of U.S. government housing policy• Very strong risk-adjusted capitalization• Very strong asset quality and little risk from peripheral activities• Important funding source for the U.S. banking system | <ul style="list-style-type: none">• Concentrated exposure to the U.S. mortgage market and geographic concentration in a limited region of the country• Uncertainty with regard to the impact of potential legislative changes |

Outlook

The stable outlook on The Federal Home Loan Bank of New York (FHLB NY) reflects the company's stable operating performance, as well as the stable outlook on our rating on the U.S.

We could lower the rating if, in the context of government-sponsored entities (GSE) reform, the role of the FHLB System in housing finance is diminished, thereby reducing its importance to the government. 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. Despite recent and possible future changes in the FHLB System, we expect FHLB NY to maintain its adequate financial profile and build retained earnings, given its comprehensive and adequate governing policies and management's intention to maintain them for at least the next two years.

Rationale

S&P Global Ratings' issuer credit rating on FHLB NY reflects the wholesale bank's government-supported role in providing liquidity to member institutions, strong asset quality and very strong 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 government-related entities (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 more information on the FHLB System, [click here](#).

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 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: An established market position with longstanding members

We view FHLB NY's business position as strong, 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.

FHLB NY is the largest bank in the FHLB System (by assets) with total assets of \$150.6 billion, and it serves member institutions in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. However, 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 some diversity across its 328 members, which include 129 commercial banks, 74 thrifts, 95 credit unions, 26 insurance companies, and 4 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: Capitalization to remain very strong

We believe FHLB NY's capital is very strong taking into account its member-capitalized co-op structure and low-risk collateralized lending business. The FHFA requires the firm to keep capital in excess of 4% of assets. The bank maintained a capital-to-assets ratio of 5.04% and a leverage ratio of 7.57% as of second-quarter 2019 (ended June 30). FHLB NY's capital, as measured by S&P Global Ratings' risk-adjusted capital ratio (RAC), was almost 21% at first-quarter 2019 (ended March 31). We expect our RAC for the company to hold more-or-less stable, or decline

slightly, in the coming two years, as capital payout largely offsets net income. In any case, we expect our RAC for the FHLB to remain well in excess of 15%--a level we consider very strong for a finco. 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. Net income for the first half of 2019 was \$243 million and declined by 14% compared with the same period in 2018, primarily due to higher cost of funds. Net interest margin was 44 bps in the second-quarter 2019, declining by 10 bps compared with the same quarter in the prior year as interest on liabilities outpaced the yield on interest-earning assets. However, we don't believe the absolute level of earnings is an important ratings consideration because of both the firm's very strong capital level and its co-op structure, which ensures that profit maximization is not a goal.

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 non-depositaries, FHLB NY, like peers, relies on stricter 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 non-callable 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 bank's investment portfolio stood at \$26 billion out of which \$16.8 billion are mortgage-backed securities (MBS). The company has de minimis exposure to private-label MBS and has a high percentage (approximately 68%) of advances to total assets. Still, it 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. Based on the availability of funding for the system in the 2008 credit crisis, access to funding is unlikely to be difficult in stress scenarios.

We consider FHLB NY's liquidity as adequate compared with its potential cash flow requirements over the upcoming year, and we believe the company has a good liquidity management system. New regulatory liquidity requirements mandate that the FHLB banks maintain liquidity in the range of 10 to 30 days. We believe FHLB NY is adequately prepared for these enhanced requirements, and will fully meet them at the time of implementation.

Comparable ratings adjustment: None

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

External influence: A very 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 this GRE with timely and sufficient extraordinary support in the event of financial distress.

Our opinion 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 | |
|------------------------------------|---------------------------|
| Issuer Credit Rating | AA+/Stable/A-1+ |
| SACP | 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 Adjustment | 0 |
| External Influence | 1 |
| Government Influence | 1 |
| Group Influence | 0 |
| Rating Above The Sovereign | 0 |

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014

- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of August 22, 2019)*

Federal Home Loan Bank of New York

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

Issuer 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+

Sovereign Rating

United States AA+/Stable/A-1+

Related Entities

Federal Home Loan Bank of Atlanta

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

Federal Home Loan Bank of Boston

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

Federal Home Loan Bank of Chicago

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

Federal Home Loan Bank of Cincinnati

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

Federal Home Loan Bank of Dallas

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

Federal Home Loan Bank of Des Moines

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

Federal Home Loan Bank of Indianapolis

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

Federal Home Loan Bank of Pittsburgh

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

Federal Home Loan Bank of San Francisco

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

Federal Home Loan Bank of Topeka

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

Federal Home Loan Banks

Senior Unsecured AA+
 Senior Unsecured AA+/A-1+
 Senior Unsecured AA+/Stable
 Short-Term Debt A-1+

Ratings Detail (As Of August 22, 2019)*(cont.)

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.