3Q19

Federal Home Loan Bank℠
NEW YORK

MemberAdvantage

WELCOME NEW MEMBERS

Three new members were welcomed into our cooperative since the last edition:

- » Build America Mutual Assurance Company
- » Merchants Mutual Insurance Company
- » Ulster Federal Credit Union

DID YOU KNOW?

FHLBNY Member Credit Ratings

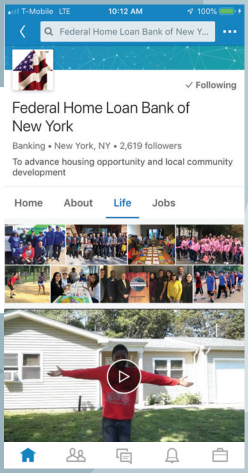
A strong and healthy membership is vital to the ongoing success and stability of our franchise, which is why we continually monitor our members' credit quality. Focusing on earnings, liquidity, capital adequacy and asset quality, we determine a credit rating for each member. This review and the underlying criteria used is available to each member, and will soon be provided on 1Link®, our online system.

If you would like to discuss your institution's credit rating and how it is calculated, contact your Relationship Manager at **(212) 441-6700** any time.

CONNECT WITH YOUR FHLBNY

LinkedIn®

Follow us to see how we connect with communities



MESSAGE FROM THE PRESIDENT

In the second quarter of 2019, we were proud to host our first-ever Member Symposium. The event – Strategies for Success: Are You Mission-Ready? – was held in New York on April 17, and drew members from across our District to network and receive presentations from experts on the economy, banking and technology. The highlight of the event, however, was the keynote address from Robert O'Neill, former SEAL Team Six Leader, Special Naval Warfare Development Group and New York Times best-selling author. His presentation, titled "Never Quit: the Story of a Life Built on Successful Missions", was both inspirational and instructional - focusing on his life of military service and the importance of preparedness in all things.

This concept was one of many valuable ideas discussed at the Member Symposium, topics that we will revisit and share in this edition. While the Member Symposium was the standout event in the first half of 2019, we are focused on continuing to support our members throughout the second half of 2019. For example, in July we will launch the Homebuyer Dream Program™, a new set-aside grant program to provide closing cost and/or down payment assistance to first-time homebuyers – a more modernized version of our First Home Club℠ that we believe will better meet the current and future homeownership needs of our District. We look forward to continuing to engage with our members to ensure that you are getting the full value of membership.

Sincerely,

José R. González
President and Chief Executive Officer

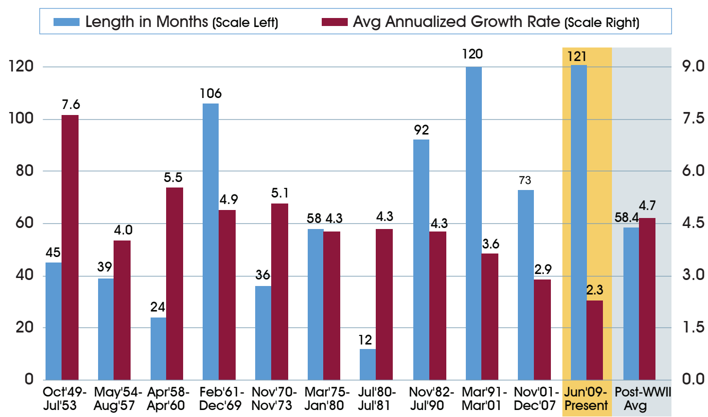
Federal Home Loan Bank of New York
101 Park Avenue
New York, NY 10178

ECONOMY

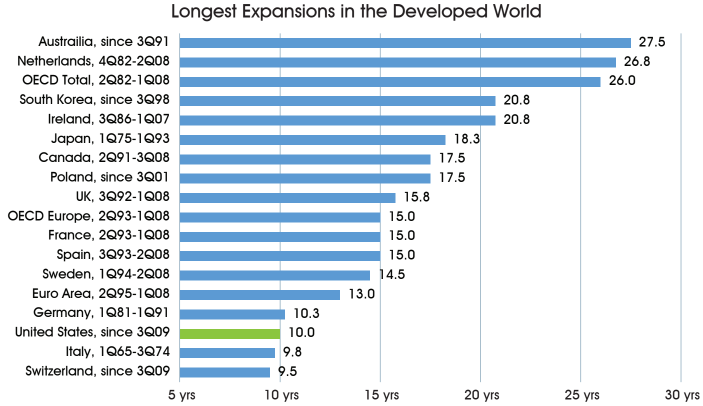
Reaching the decade mark last month, the current U.S. economic expansion has now eclipsed the previous record-long period of prosperity from March 1991 to March 2001. While clearly impressive in its own right, the U.S. cyclical upturn still has a considerable way to go to match the length of other record holders in the developed world. Federal and international monetary institutions and sell-side firms expect the expansion to continue for at least three more years, with real GDP growing by 2.3% in 2019 followed by increases of 1.8% and 1.7%, respectively, in 2020 and 2021. Post World War II, the length of expansionary cycles have averaged 58.4 months. The big questions remain: does the current cycle still have traction and for how long?

Current Expansion Poised to Become Longest in U.S. History

Post WWII Business Cycle Expansions



Longest Expansions in the Developed World



Sources: Bureau of Economic Analysis, National Bureau of Economic Research, and Organization for Economic Co-operation and Development

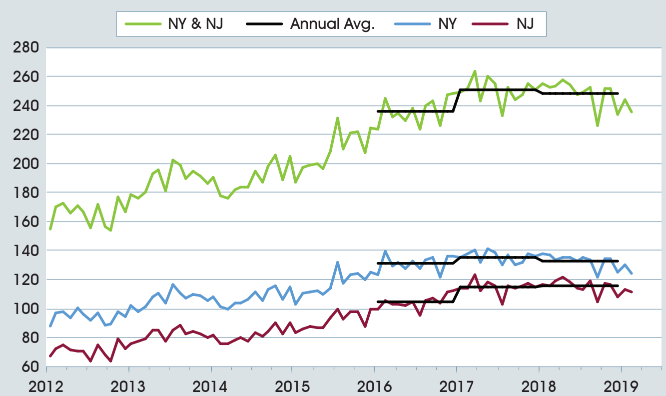
Brian Jones, FHLBNY Financial Economist, says, "economic expansions do not die of old age and the current one has considerable life left in it." Brian believes that growth will continue nationally and within the FHLBNY District over the foreseeable future. The Federal Reserve's extended pause with regard to interest-rate actions, coupled with solid labor market conditions and accelerated income growth, should support home sales across the country and our coverage area.

FHLBNY District Housing Metrics

Indeed, home sales across the Empire and Garden States climbed to an estimated five-month seasonally adjusted annual rate of 250,000 in April (see chart below, top). However, rising values in response to the limited stock of available dwellings on the market—particularly of low- to moderately-priced homes—likely will continue to limit housing affordability in the FHLBNY district (see chart below, bottom).

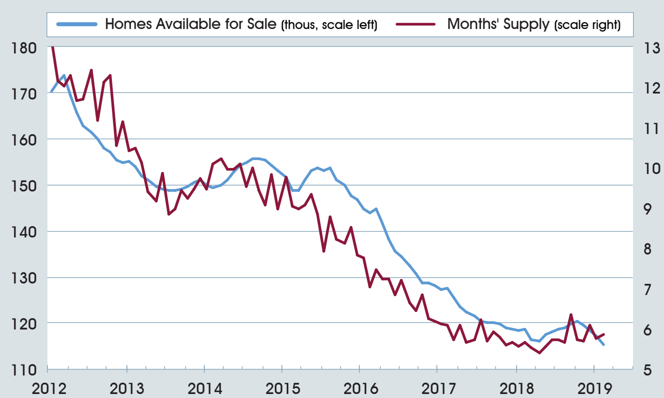
Existing Home Sales

(thousands, seasonally adjusted annual rate)



New York and New Jersey Housing Inventory

(seasonally adjusted)



Sources: National Association of Realtors, New York State Association of Realtors, NJ Realtors and FHLBNY estimates

Brian Jones can present his economic insights to member Boards and management teams. Schedule a session at your office or at our offices in New York City or Jersey City.

TECHNOLOGY

Economic fundamentals are currently strong across the banking industry, with solid earnings, sound asset quality metrics and strong capital levels. There has also been a slowdown in regulation while technological advancements promise to propel the industry into new territory with regard to deposit and loan gathering, marketing products and services, knowing your customer base and reducing expenses. So overall, there is an optimistic outlook for the global banking industry as a whole. However, there are uncertainties regarding both the potential of a forthcoming economic slowdown and the disruptive technological forces which may threaten the business models of community banking organizations.

Technology is undoubtedly driving change within the financial services industry. Consumer preferences have changed, the pace of technological adoption has skyrocketed, and new competitors have emerged—regulators are also undergoing an evolution to keep pace with the new risks that have arisen. To remain relevant, enabling strategies that leverage these technology disruptors is becoming increasingly more important considering the fast pace of technological change.

Financial institutions are transforming to incorporate digital technology into all areas of their businesses, which is leading to changing the way they operate and how they deliver value to their customers. Cultural change is often required to accomplish such dramatic transformation—and an innovative organization that challenges the status quo and embraces meaningful and relevant change will be better positioned to utilize technology to successfully adapt to changing business environments.

> ***"There is a famous maxim, 'The Future beckons—if you don't shape it—someone else will.' Clearly, if you stand on the sidelines and fail to harness these disruptive changes, they have the potential to disrupt your organization."***
>
> \- SUNIL KAPUR
> Managing Director, Deloitte & Touche LLP
> *2019 FHLBNY Member Symposium presenter*

BANKING

We are at a point in the interest rate cycle where financial institutions must get back to the basics. They must have a strong grasp of their balance sheet exposure and be ready to remedy issues with on- and off-balance sheet tactics as needed.

OPTIMIZE EARNINGS & REDUCE LATE CYCLE RISK

Financial institutions are operating in an environment of extreme pressure on net interest margins (NIMs). As a result, financial institutions have been focusing on ROE to drive bottom line earnings and capital. Boards and management teams are now struggling with "Quantity versus Quality" (ROE vs. ROA) as they plan a trajectory for earnings and asset growth.

Credit premiums on loans today may not be reflective of being at a mature point in the interest-rate cycle. Financial institutions should rationalize loan pricing to adequately reflect risk and to obtain proper returns. Additionally, entities should justify lending versus investing in government-backed obligations. Fixed-rate agency obligations could potentially serve to anchor the balance sheet in a declining rate environment, offer greater liquidity, and perhaps, incur unrealized gains which can be monetized to offset losses associated with deterioration in asset quality.

CONSIDER USING DERIVATIVES TO ACHIEVE BALANCE SHEET OBJECTIVES

Effective January 2019, the Financial Accounting Standards Board materially simplified hedge accounting rules which relaxes standards to allow for financial institutions to more easily qualify for hedge accounting when executing risk management strategies. The new rules reduce complexity, ultimately leading to higher effectiveness determinations, which could allow for financial institutions to be able to lower their risk profiles while not inflating the balance sheet. With a more simplified pathway to hedge accounting, consider using derivatives to achieve your ALM objectives.

There are many funding opportunities members can utilize to reduce risk and to drive bottom-line earnings and capital growth. Consider ways to partner with your FHLBNY.

continued>

WAYS TO PARTNER WITH THE FHLBNY

MARGINAL COST OF FUNDS ANALYSIS

When managing cost of funds “at the margin,” members can embark on deposit pricing strategies designed to lower funding costs knowing they can rely on FHLBNY advances to “backfill” any resulting shortfalls that may arise. Depending on outflow rates that may arise, members can often achieve significant savings using this strategy.

KEEP YOUR EYE ON LIQUIDITY AMIDST DEPOSIT SCARCITY

Due to intense competition for deposits from the largest of institutions, in addition to disruption that has occurred from deposit gathering platforms used by both banks and non-banks, achieving robust deposit growth has proved to be very difficult. Maximize your borrowing potential at the FHLBNY to be prepared for growth opportunities or for contingent purposes (should deposits outflow in search for higher yields). Over the past several years, many members have aggressively pledged additional collateral so they are prepared for different operating circumstances. Adequate borrowing potential will enables you to keep your “foot on the gas” and be opportunistic should lending or investment opportunities present themselves.

CONSIDER STRUCTURED PRODUCTS TO ACHIEVE ASSET/LIABILITY MANAGEMENT GOALS

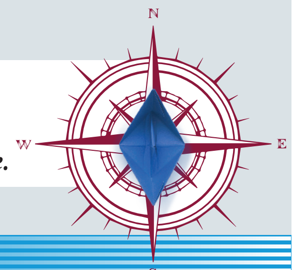
Structured FHLBNY Advances may be of particular interest in the current operating environment. With a flat yield curve and limited ROI options, it could be advantageous to have liabilities that can reprice down the curve, while also offering protection from upward rate movements.

Callable Advances enable a member to terminate an advance at no additional cost, in whole or in part, after a predetermined lockout period. Callable Advances offer significant flexibility—if interest rates decline or remain static, you can prepay and potentially rebook at lower rates. If you are funding mortgages and prepayment speeds are greater than anticipated, you can execute a partial extinguishment. If term funding is no longer required to manage your balance sheet, you may simply extinguish.

The **Adjustable Rate Advance with a LIBOR Cap** is a floating-rate advance that affords the potential to “ride down the curve” in a declining rate environment while limiting the maximum coupon of the advance should rates rise. The embedded cap also offers support with regulatory shock scenarios, assisting you with Economic Value of Equity at Risk and Net Interest Income at Risk measurements when conducting asset/liability management modeling.

The **Symmetrical Prepayment Advance feature** can be added (at the time of booking), for an additional 2 basis points, to defined maturity fixed-rate advances. Symmetry allows you to receive compensation for favorable changes in the fair value of the advance when prepaying (compensation is net of prepayment fees). Unrealized gains in a liability can serve as an offset to unrealized losses that may occur on fixed-rate assets during a rising rate environment. Additionally, should you no longer require term funding, you may be able to monetize an “in the money” advance—and this can contribute directly to the bottom line.

The FHLBNY is your partner to help facilitate business objectives—whether it be to help finance an infrastructure investment or to provide liquidity for balance sheet growth—we stand ready to fulfill our mission in all operating environments. Contact us to discuss the strategies mentioned in this article.



CONTACT US

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