



Federal Home Loan Bank
NEW YORK

Credit Policy and Review

June 18, 2020



Introduction

- » **Team Credit Policy and Review (CPR)**
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- » **Focus on assessing member risk profiles**
- » **Goal is to keep FHLBNY safe by managing the risk profiles of members**
- » **Opinions are communicated via internal ratings**



CPR Internal Ratings

CREDIT RATINGS

- » The FHLBNY uses an internal model as a tool to calculate member credit ratings based on financial ratios that address a member's asset quality, capital adequacy, liquidity, and profitability.
- » Credit ratings are calculated quarterly using recent regulatory financial data, as well as information drawn from regulatory safety and soundness examinations.
- » Final Credit Rating: derived from the initial credit rating, plus the impact of several other risk elements, including but not limited, to:
 - » the member's CAMELS rating,
 - » commercial real estate exposure,
 - » vehicle loans,
 - » unsecured loans, and
 - » the use of brokered deposits.

FHLBNY Credit Score Legend	
1	EXCELLENT
2-3	VERY GOOD
4-5	AVERAGE
6	SPECIAL MENTION
7-10	WATCH LIST

The Internal Credit Rating

The credit rating is used as a screening tool and could have various impacts on a member's business relationship with the FHLBNY, including:

- Collateral pledging category
- (Listing, Seg 1, Seg2, Possession).
- Collateral haircuts
- Terms or tenors of credit extensions
- Pricing of MULOCs and L/Cs
- Participation in the Mortgage Partnership Finance (MPF®) Program
- Participation in FHLBNY Affordable Housing Programs



CPR Internal Rating Inputs

CREDIT RATING MODEL

- » Internal Credit Rating models used as first filter to identify the weak or higher risk members.
- » Analyzes financial information of all members to monitor credit quality
- » Model incorporates 11 ratios that focus on earnings, liquidity, capital adequacy, and asset quality.
- » The rating classifies members as "watch list" (level 7.00 or worse), special mention (6.00 -6.99) and "pass" (below 6.0).
- » Detailed quantitative and qualitative analysis prepared for all Watch List members to determine if a collateral category and/or haircut change are warranted

PERFORMANCE/EARNINGS- 20%

- 1) Net Interest Margin
- 2) ROA
- 3) ROE
- 4) Efficiency

LIQUIDITY- 10%

- 5) Loans to Deposits
- 6) Liquid Assets / Total Liabilities

CAPITAL ADEQUACY- 35%

- 7) Texas Ratio
- 8) Leverage Ratio

ASSET QUALITY- 35%

- 9) Loans 30-89 days past due/ Total Loans
- 10) Non-Performing Loans/Total Loans
- 11) Charge-offs/Loans



Additional Rating Model Factors

» Core rating is adjusted for increased risks or credit mitigants. The factors used in the model are

a)	Commercial Real Estate+ Multifamily/ Tier 1 >300%-499%	+0.5	
	Commercial Real Estate + Multifamily/ Tier 1 >500%	+1.0	OR
	Construction & Land Loans/ Tier 1 >100%	+0.5	

b)	Brokered Deposits/Deposits > 20%	+0.5	
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c)	Composite CAMEL rating of '1' within last 18 months	-0.5	
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d)	Investment Grade Parent (Parental Support)	-0.5	
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e)	Credit Policy and Review Points	+/-1.0	
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Internal Rating Summary

Federal Home Loan Bank of New York - Internal Credit Rating Model - 2020Q1										
Name:		Identifier:								
Quantitative Factors							Qualitative Factors			
		Category	Member	Indicator	Weighted					
Overall		Weight	Ratio	Score	Score	Net Score	Factor			Modification
10%	Liquidity				9.40	0.94	CAMEL Score			0
	Loans to Deposits	40%	117.4%	10	4.00		CRE Concentration			1
	Liquid Assets / Liabilities	60%	13.4%	9	5.40		Brokered Deposits			0
35%	Asset Quality				1.70	0.60	Parent Support			-0.5
	Charge Offs / Loans	10%	0.0%	1	0.10		CP Adjustment			0
	NPLs / Total Loans	70%	0.4%	2	1.40		Raw Score			3.94
	30-89 PD / Total Loans	20%	0.0%	1	0.20		Final Score			4.44
35%	Capital Adequacy				4.00	1.40				Pass with Care
	Texas Ratio	50%	2.9%	2	1.00					
	Leverage Ratio	50%	9.9%	6	3.00					
20%	Earnings				5.00	1.00				
	NIM	30%	2.8%	6	1.80					
	ROA	30%	0.6%	6	1.80					
	ROE	30%	5.9%	4	1.20					
	Efficiency	10%	55.4%	2	0.20					
					Raw Rating:	3.94				



Member Risk Profile Dictates Collateral Category

- » CPR's responsibility is to assess a member's risk profile and the correct level of overcollateralization via escalation policy
 - Listing
 - Listing Seg 1
 - Listing Seg 2
 - Possession



Lending Considerations

Borrowing Potential Credit Limits	Borrowing Limitations
<ul style="list-style-type: none">» Maximum overall exposure limit is 50% of member total assets» The ability to borrow advances above 30% of member assets will be subject to meeting certain eligibility criteria:<ul style="list-style-type: none">– Financial condition– Sufficient eligible collateral discounted by market value adjustments (haircuts) and collateral maintenance levels– Compliance with collateral reporting requirements	<ul style="list-style-type: none">» Members who fail to comply with reporting or documentation requirements» Members that exhaust their available eligible collateral» Members reaching credit policy model limits» Members that fall below adequately capitalized» The Credit Policy & Review department will take actions to limit the risk to the FHLBNY. Examples include limitations to:<ul style="list-style-type: none">– Restricted to Short-Term Advances Only– May be subjected to more stringent collateral requirements– May be required to submit a capital plan– May be required to receive approval of member's primary regulator to continue accessing advances



Strength of Membership

- » Profitability ratios were strong in 2019 and softened in 1Q-20
- » Asset quality indicators have not changed materially
- » Capital adequacy ratios remain strong.

Member Banks (187 banks)	1Q-20	4Q-19	3Q-19	2Q-19	1Q-19
ROAA	0.53%	0.77%	0.81%	0.83%	0.84%
ROAE	4.75%	6.85%	7.70%	7.60%	7.91%
Net Interest Margin	3.21%	3.27%	3.36%	3.40%	3.40%
Efficiency Ratio	70.38%	69.67%	67.19%	67.21%	67.07%
Leverage Ratio	10.32%	10.30%	10.39%	10.38%	10.37%
Tier 1 Ratio	13.58%	15.54%	15.60%	15.34%	15.39%
RBC Ratio	14.55%	16.63%	16.61%	16.49%	16.32%
Texas Ratio	5.81%	5.78%	5.91%	5.48%	5.52%
NPL Ratio	0.89%	0.86%	0.88%	0.85%	0.85%
Loan Losses	0.01%	0.03%	0.01%	0.01%	0.01%
Delinquent Ratio	0.54%	0.36%	0.31%	0.30%	0.38%

Member Credit Unions (102)	1Q-20	4Q-19	3Q-19	2Q-19	1Q-19
ROAA	0.46%	0.61%	0.77%	0.66%	0.66%
ROAE	4.70%	5.87%	7.23%	6.78%	6.22%
Net Interest Margin	3.69%	3.71%	3.88%	3.82%	3.80%
Efficiency Ratio	82.06%	79.15%	75.82%	76.57%	77.82%
Net Worth Ratio	9.87%	10.17%	10.07%	9.70%	9.74%
NPL Ratio	0.78%	0.86%	0.83%	0.82%	0.74%
Loan Losses	0.25%	0.35%	0.33%	0.31%	0.28%
Delinquent Ratio	1.04%	1.02%	0.68%	0.61%	0.98%
Texas Ratio	6.12%	6.58%	5.99%	5.93%	5.58%



Good Rating Profile

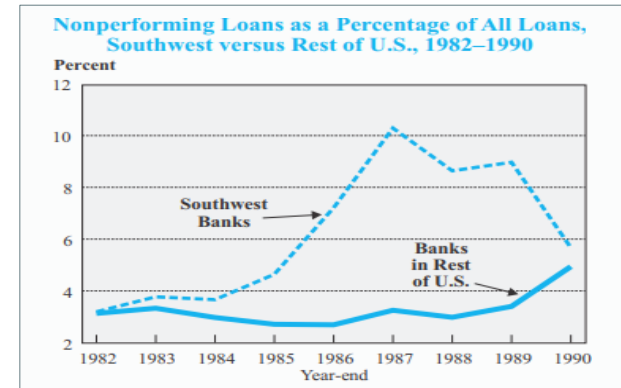
- » Total members on Watch List and Special Mention List amounted to 13.5% of all members.
- » The peak level of members on Watch List and Special Mention List was 31% in June 2011.

	March 31, 2020	% of Total Members	December 31, 2019	% of Total Members	December 31, 2018	% of Total Members
Total Watch List Members	19	6.0%	15	4.7%	18	5.6%
Banks	6	1.9%	5	1.6%	5	1.6%
CAMELSO "4" members	0	0.0%	0	0.0%	1	0.3%
Total Banks	6	1.9%	5	1.6%	6	1.9%
Credit Unions	10	3.1%	7	2.2%	10	3.1%
CAMELSO "4" members	2	0.6%	2	0.6%	1	0.3%
Total Credit Unions	12	3.8%	9	2.8%	11	3.4%
Insurance Cos	1	0.3%	1	0.3%	1	0.3%
Total Special Mention Members	24	7.5%	17	5.3%	24	7.5%
Total WL/SM Members	43	13.5%	32	10.0%	42	13.1%



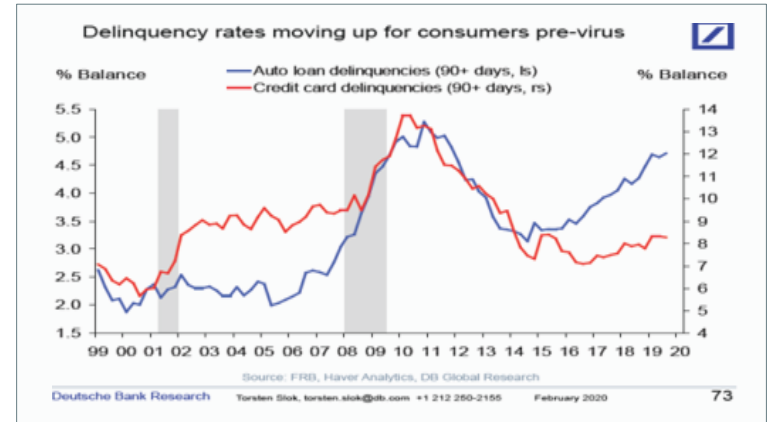
Bank-Asset Quality Stress Test

- » Stress test assumed loan losses of 6% of the banks' loan portfolio, which is a comparable experience to the problem loan levels of the 1980's and the financial crisis of 2008.
- » As shown below, problem loans in the Southwest peaked at over 10% of loans; however the rest of the United States peaked at 5%.
- » Capital levels of the member banks were reduced by the assumed loss and we re-calculated the resulting pro forma regulatory capital ratios.
- » Most of banks remain at least adequately capitalized after the stress test.

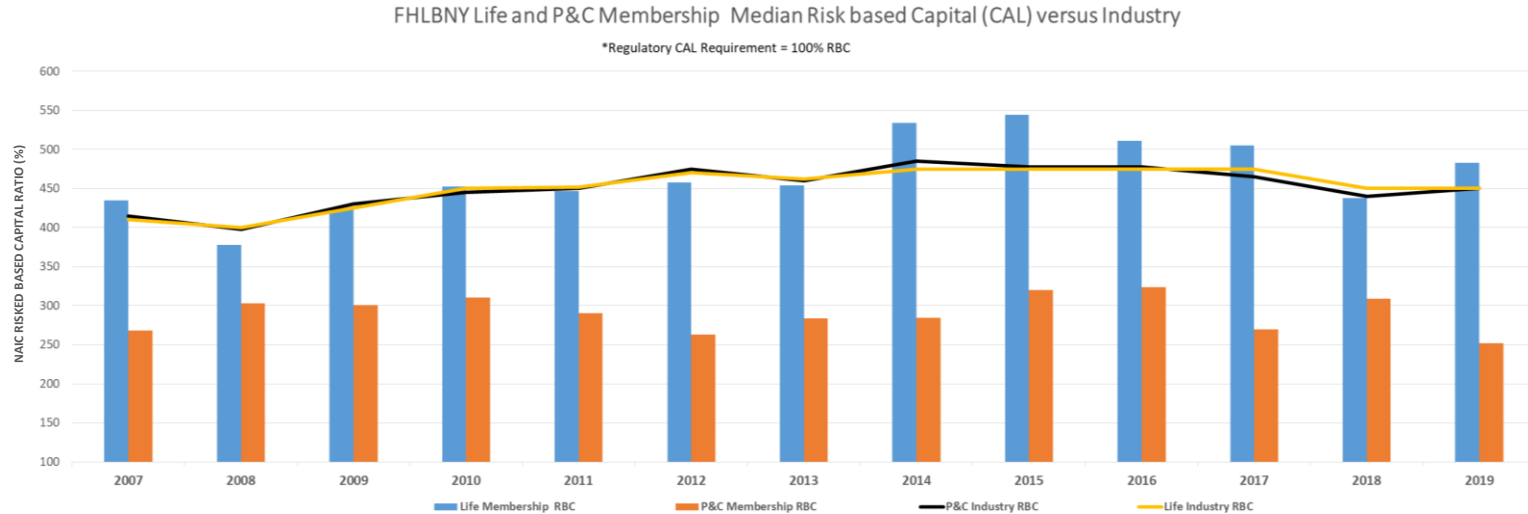


Credit Union-Asset Quality Stress Test

- » Stress tests assumed loan losses of 10% of the vehicle loan portfolio because of the current almost 5% delinquency level
- » Stress test assumed 3% of the total loan portfolio because of the concerns with credit unions' exposure in commercial loans and mortgages and the ~1% loss experience from the last financial crisis
- » Most of banks remain at least adequately capitalized after the stress test.



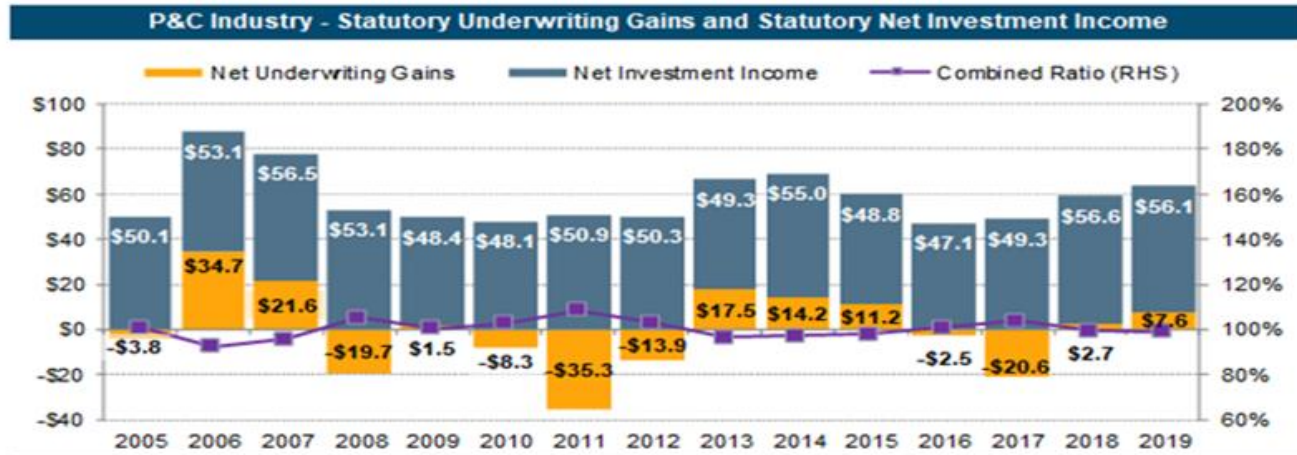
Insurance Company Members



- » Membership includes life insurers, property & casualty firms and health insurance companies.
- » A key analytical focus is on capital, where the trends have been favorable and above the regulatory minimum



Insurance Company Members



- » The financial performance has been favorable for insurers with some weakness at P&C firms due to 2017 hurricanes and possibly the coronavirus.
- » Outlook is weakening but capital is a strong risk mitigant.





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