S&P Global Ratings

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Federal Home Loan Bank of New York

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Major Rating Factors

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

Strengths:	Weaknesses:
• 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	• Exposure concentrated in the U.S. mortgage market and in a limited region of the country • Uncertainty about the impact of potential legislative changes

Outlook

The stable outlook on the Federal Home Loan Bank of New York (FHLB NY) reflects the bank's strong and stable operating performance and our credit rating on the U.S. (AA+/Stable/A-1+). We expect FHLB NY to maintain its strong financial and funding profile for at least the next two years, helped by its comprehensive and conservative governing policies and management's intention to maintain these policies. We also expect FHLB NY to continue to meet its mission of providing liquidity to the U.S. banking system, as it did in March and April--the early months of the COVID-19-induced economic downturn.

If we changed our ratings or outlook on the U.S., we would likely reflect that change in our ratings on the FHLB System's debt and our ratings on its individual banks, including FHLB NY. We could also lower the ratings if, in the context of government-sponsored enterprise (GSE) reform, the FHLB System's role in housing finance is diminished, thereby reducing its importance to the government. We see limited potential for an upgrade absent a higher rating on the U.S. government.

Rationale

Our issuer credit rating on FHLB NY is based on its government-supported role in providing liquidity to member institutions, strong asset quality and capitalization, low funding costs, and conservative risk management. During the severe liquidity and credit challenges COVID-19 posed to the U.S. banking system in March and April, FHLB NY and the other FHLB banks were fully able to immediately provide liquidity to their members and to manage their own funding needs. We expect FHLB NY and the other FHLB banks to maintain their strong financial profiles and controls, continue to provide for members' additional liquidity needs, support the U.S. housing sector, stay profitable, and build retained earnings.

The rating on FHLB NY is one notch higher than 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 and the U.S. banking system.

Anchor: Adjusted to reflect the FHLB's regulated status, low competitive risk, and favorable funding

Our starting point--or anchor--for our ratings on U.S. finance companies (fincos), which includes FHLBs that we rate under our nonbank financial institutions criteria, is 'bb+'. Because of FHLBs' public policy role and regulated status, we raise the anchor for FHLB NY and its sister banks to 'bbb+', three notches above our anchor for 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 GSEs, including Fannie Mae and Freddie Mac; and the statutory priority of liens in a bank wind-down situation.

Business position: An established market position with long-standing members

FHLB NY'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, support its business position.

FHLB NY is the largest bank in the FHLB System (by assets) with total assets of $158.9 billion on June 30, 2020. It serves member institutions in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. However, the company's lack of business diversity hurts its overall business position, 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 321 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 exclusively in a limited region of the U.S.

The bank's advance volume and, therefore, revenue are typically countercyclical, since members rely more on it in times of stress as a reliable source of funding--which, however, does mitigate the impact of that concentration. Furthermore, its fully collateralized 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 company to keep capital in excess of 4% of assets and a leverage ratio above 5%. The bank maintained a capital-to-assets ratio of 5.18% and a leverage ratio of 7.76% as of June 30, 2020.

FHLB NY's capital, as measured by S&P Global Ratings' risk-adjusted capital ratio (RAC), was almost 21% on March 31, 2020. We expect our RAC ratio for the company to hold more or less stable, or decline slightly, in the coming two years. Nevertheless, we expect our RAC ratio for FHLB NY to remain well in excess of 15%--a level we consider very strong. We expect capital to remain relatively stable because members must scale their capital contribution to support their borrowings.

We believe FHLB NY's earnings are relatively stable. Net income for the first half of 2020 was $242.6 million, in line with the $242.9 million in the same period in 2019. The net interest margin was 47 basis points (bps) in first-half 2020, compared with 48 bps the previous year. We believe that demand for advances could decrease in a low interest rate, high liquidity environment, which could affect FHLB NY's financial performance. However, we don't believe the absolute level of earnings is an important ratings consideration because of both the bank'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 very strong, reflecting that neither the company nor the other 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. 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-depositories, 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.

As of June 30, 2020, FHLB NY's $114 billion of advances were backed by $372 billion in collateral. Although we believe some of the collateral could be under strain as a result of current economic headwinds, we believe the amount of collateral in place offsets the potential for higher losses as a result.

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 floating exposures. We also see few risks on the rest of the balance sheet compared with other FHLBs. The bank's investment portfolio totaled $30 billion on June 30, 2020, of which $16 billion was mortgage-backed securities (MBS). The company has minimal exposure to private-label MBS.

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

The FHLB System has a diverse and global investor base that readily sells its debt at a small spread to U.S. Treasury obligations. The system continues to enjoy ready access to funding markets. For example, the demand for liquidity from borrowing members increased significantly in March 2020 in response to COVID-19-related market volatility. The FHLBs were able to manage the surge in advances (35% increase from December 2019) through their access to the capital markets. Positively, the bank was also able to scale back quickly once the spike in demand for funds subsided.

We consider FHLB NY's liquidity adequate compared with its potential cash flow requirements over the upcoming year, and we believe the company has a good liquidity management system. Regulatory liquidity requirements mandate that the FHLB banks maintain liquidity in the range of 10-30 days. We believe FHLB NY fully meets these requirements.

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 the GRE timely and sufficient extraordinary support in the event of financial distress.

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

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
- 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

Related Research

- Federal Home Loan Banks, Sept. 9, 2020

Ratings Detail (As Of September 9, 2020)*	
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+

Ratings Detail (As Of September 9, 2020)*(cont.)	
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+

*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.