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Federal Home Loan Bank of New York

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Federal Home Loan Bank of New York

Credit Highlights

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

Key strengths	Key risks
Very important to the implementation of U.S. government housing policy	Concentrated exposure to the U.S. mortgage market
Funding source for the U.S. banking system	Geographically restricted to a limited region of the U.S.
Very strong risk-adjusted capitalization	Uncertainty regarding the impact of potential legislative changes
Solid loan asset quality, and super-lien position vis-à-vis depository institutions has historically prevented any losses on advances	Earnings could be volatile due to variable advance demand, though profit maximization is not a priority of the Federal Home Loan Banks (FHLBs)

Our issuer credit rating on the Federal Home Loan Bank of New York (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 2020, FHLB NY and the other FHLBs immediately provided liquidity to their members and to manage their own funding needs. We expect FHLB NY and the other FHLBs to maintain their strong financial profiles and controls, 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 factors.

Outlook

The stable outlook on FHLB NY indicates our expectation that the bank will maintain stable operating performance, provide liquidity, manage funding needs, build retained earnings, and support the U.S. housing sector over the next 24 months. The stable outlook also reflects our stable outlook on the U.S. sovereign rating (AA+/Stable/A-1+).

Downside scenario

If we change our rating or outlook on the U.S. sovereign, we would likely reflect that change in our ratings on the FHLB System's debt and our ratings on FHLB NY. Although less likely, we could also lower the rating in the next two years if, in the context of government-sponsored entity (GSE) reform, the role of the FHLB System in housing finance was diminished, thereby reducing its importance to the government.

Upside scenario

An upgrade would likely be contingent upon a higher rating on the U.S. sovereign.

Anchor: Adjusted To Reflect The FHLBs' Regulated Status, Low Competitive Risk, And Favorable Funding

Our anchor for our ratings on U.S. finance companies that we rate under our financial institutions criteria, including the FHLBs, is 'bb+'. Because of the FHLBs' public policy role and regulatory status, we apply a sector-specific anchor adjustment to raise the anchor for these entities by three notches to 'bbb+'. This is to account for the Federal Housing Finance Agency's (FHFA) regulatory oversight, the favorable funding FHLBs enjoy through their close relationship with the U.S. government, their strong competitive position alongside other housing-related GSEs (including Fannie Mae and Freddie Mac) in the U.S. housing finance market, and the statutory priority of liens in a bank wind-down situation.

Business Position: An Established Market Position With A Long-Standing Member Base

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.

The FHLBs are wholesale lenders that assist the financing of the U.S. housing industry. They provide secured loans, known as advances, to their members, which include commercial banks, savings and loans, credit unions, and insurance companies. The banks' advance volume and revenue are typically countercyclical since members rely more on them in times of stress as a reliable source of funding.

The COVID-19 pandemic illustrated the FHLB System's importance to the U.S. banking sector in times of uncertainty and economic dislocation. At the onset of the pandemic in 2020, advances rose to $807 billion, a 25.8% increase from year-end 2019, as member companies shored up liquidity to manage the stress. Advances declined in the subsequent quarters because of elevated levels of liquidity in markets resulting from actions taken by the Federal Reserve and the CARES Act and increased deposit balances at member institutions. As of March 31, 2022, advances increased to $377 billion from $349 billion at year-end 2021 but remained lower than pre-COVID-19 levels ($423 billion in 2020 and $642 billion in 2019). As liquidity normalizes from historical highs and the Fed continues to tighten the monetary policy to fight high inflation, we expect member demand for advances will remain high this year.

FHLB NY is the largest bank in the FHLB System (by assets) with total assets of $108.6 billion as of March 31, 2022. It serves member institutions in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands.

The bank's lack of business diversity hurts its overall business position, in our view. While FHLB NY has some diversity across its 332 members (as of year-end 2021), which include commercial banks (33%), thrifts (20%), credit unions (32%), insurance companies (13%), and community development institutions (2%), its member borrowing needs are all highly correlated to the housing market. Furthermore, its business as an FHLB is exclusively in a limited region of the U.S.

A small group of members holds a sizable portion of advances, exposing FHLB NY to concentration risk. The bank's five largest member borrowers represented about 64% of total advances as of March 31, 2022. The largest borrower is MetLife Inc., with 23% of advances.

In addition, the decline in advances across all FHLBs in 2020 and 2021 was mostly due to lower demand from depository institutions, leading to higher concentration of advances borrowed by insurance members. As of March 31, 2022, commercial banks contracted to 35% of total advances from 39.7% year over year, while insurance companies (excluding captive insurance companies) grew to 34% from 31% for the same period. FHLB NY also has a greater insurance concentration--48% of advances as of March 31, 2022. However, its fully collateralized lending mitigates much of that concentration risk, in our view, and it is not a key credit weakness. Additionally, rising advances from depository institutions over the next year should help the bank reduce its concentration risk in insurance borrowers.

Capital And Earnings: Capitalization Expected To Remain Very Strong

FHLB NY's member-capitalized co-op structure and low-risk collateralized lending business support its capital. The FHFA requires the bank to keep capital in excess of 4% of assets and a leverage ratio above 5%. The bank maintained a capital-to-assets ratio of 5.92% and a leverage ratio of 8.88% as of March 31, 2022.

FHLB NY's capital, as measured by S&P Global Ratings' risk-adjusted capital ratio (RAC), was 22.4% as of March 31, 2022. We expect our RAC ratio for the bank to hold more or less stable in the coming two years, well in excess of 15%--a level we consider very strong. We expect capital to remain stable because members must scale their capital contribution to support their borrowings.

Net income for first-quarter 2022 was $57 million, down 20.8% from the prior year, though we expect earnings to rise this year as member demand for advances increases due to normalizing liquidity in the financial markets and declining deposit balances. However, we don't view the absolute level of earnings as an important ratings consideration because of the bank's very strong capital level and its co-op structure, which ensures that profit maximization is not a goal.

As a result, and since each district has somewhat unique needs, we do not anticipate any further consolidation in the system over the next 12-24 months. In 2015, FHLB Seattle merged with FHLB Des Moines--the only consolidation of the FHLB System in its 90-plus year history.

Risk Position: Collateralized Lending Limits Risk

We consider FHLB NY's risk position very strong, reflecting that neither the bank 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. As of March 31, 2022, FHLB NY's $93.6 billion of member indebtedness outstanding (primarily advances and letters of credit) was backed by $389.3 billion in collateral. Although 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. 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.

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 floating exposures. We also see few risks on the rest of the balance sheet compared with other FHLBs. The bank's investment portfolio totaled $34.4 billion as of March 31, 2022, of which $14.8 billion was mortgage-backed securities (MBS). The bank has minimal exposure to private-label MBS.

Funding And Liquidity: Stable And Low-Cost 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 managed the surge in advances (35% increase from December 2019) through their access to the capital markets. Positively, the banks were also able to scale back quickly once the spike in demand for funds subsided.

We believe the system's transition from LIBOR-based funding toward funding based on the secured overnight financing rate (SOFR) could be smoother than for other issuers, given the larger percentage of short-term debt. The FHLBs have recently been moving toward floating-rate notes to address investor preference amid a rising interest rate, with a majority of issuance linked to SOFR since 2020.

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

Support: 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. Therefore, our issuer credit rating on the bank includes a one-notch uplift from our SACP.

Our view of government support is based on our assessment of FHLB NY's:

- Very important role in providing low-cost funding to support housing and community development in the U.S., which we believe is a key economic and political objective of the U.S. government; and
- Very strong link with the U.S. government, because a financially distressed or defaulted FHLB could significantly affect the government's reputation, and we believe the government has the administrative capacity and mechanisms (via the FHFA) to respond 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.

We continue to monitor legislative proposals and judicial decisions that could affect the FHLBs, which are regulated by the FHFA. That said, we do not anticipate any meaningful reform over the next 12-24 months.

In May 2022, the U.S. Senate confirmed Sandra Thompson as director of the FHFA. We continue to monitor the outcome of Federal Home Loan Banks' Mission Implementation Act bill that was put forward by Senator Catherine Cortez Masto (D-Nev.) in May 2021. The proposed bill includes an increase in the annual percentage set aside for Affordable Housing Program obligations to 30% of net income, from 10% currently. As part of the subsequent Congressional budget reconciliation process, a legislative proposal is under consideration for the FHLBs to set aside 15% of net income for their affordable housing program. If passed, this could weigh on FHLBs' earnings because of the associated increase in expenses.

On March 21, 2022, the SEC issued a proposed rule on climate-related disclosures that would require registrants, including the FHLBs, to expand the breadth, specificity, and rigor of climate-related disclosures in their periodic reports. Compliance would be phased in, with the FHLBs becoming subject to certain disclosure requirements in their annual reports for fiscal year 2024 and additional disclosures in 2025. We expect the proposal, if finalized as proposed, could lead to increased operational costs.

Environmental, Social, And Governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	**S-1**	S-2	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5
N/A					- Social capital					N/A				

N/A--Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

Social factors are a positive consideration in our credit rating analysis of FHLB NY. As a GSE with a mandate to support housing and community development, FHLB NY's public policy role and regulated status are supportive of its credit quality. The bank's cooperative structure allows it to provide immediate and low-cost funding to its member institutions (particularly during periods of market stress), with less focus on short-term profitability.

Ratings Score Snapshot

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

SACP: aa

- Preliminary anchor: bb+
- Sector-specific anchor adjustment: +3
- Business position: Strong (+1)
- Capital and earnings: Very strong (+2)
- Risk position: Very strong (+2)
- Funding and liquidity: Adequate and adequate (0)
- Comparable rating analysis: 0

Support: +1

- GRE support: +1
- Group support: 0
- Sovereign support: 0

Additional factors: 0

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Federal Home Loan Banks, Aug. 1, 2022

Ratings Detail (As Of August 3, 2022)*	
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+

Ratings Detail (As Of August 3, 2022)*(cont.)	
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+
Short-Term Debt	AA+/Stable

*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.