



## Secure Municipal Deposits

The Federal Home Loan Bank of NY (FHLBNY) is a highly-rated\* government-chartered institution that issues widely-accepted Irrevocable Letters of Credit (L/Cs) on behalf of its members to secure municipal deposits. An FHLBNY L/C is an unconditional contractual obligation, made at the request of our members, to make payments to a third-party beneficiary in the event of non-performance.

### FHLBank System Overview

A Government Sponsored Enterprise (GSE) regulated by the Federal Housing Finance Agency.

- The FHLBank System is comprised of 11 independently owned and operated cooperatives, each within its own District, and all with separate governance structures, management teams and product arrays.
- The FHLBank System is 93 years old and its foundational mission is to provide members with reliable liquidity in support of housing and local community development.
- The FHLBanks issue debt on a System basis through the Office of Finance, which serves as the fiscal agent for the System.
- There is a “joint and several” obligation between all of the FHLBanks with respect to the System’s debt issuance. This means that should an FHLBank not be able to meet its debt obligation, the other FHLBanks would need to step in to cover that obligation so there is not a default.

## Municipal Letters of Credit (MULOCs) – A Widely Accepted & Secure Means to Collateralize Municipal Deposits

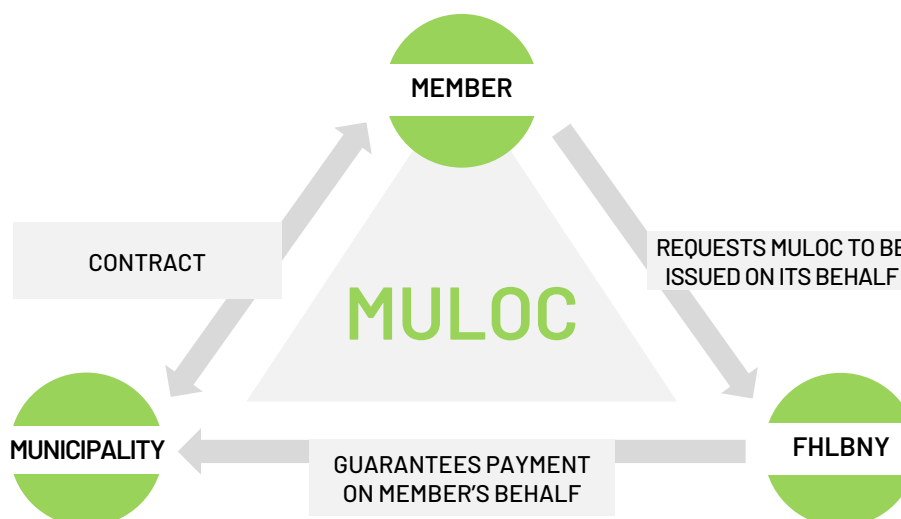
- MULOCs are irrevocable letters of credit that may be used to collateralize municipal deposits using the strength of the FHLBNY – a highly-rated\* financial institution.
- A MULOC is a tri-party agreement where the FHLBNY issues the letter of credit on behalf of the member depository institution and agrees to pay the beneficiary (the Public Entity) its notional value in the event of default.
- MULOCs are fully collateralized instruments where the FHLBNY encumbers members’ securities, whole loan mortgages or a combination of both in an amount in excess of a MULOC’s notional value.
- In the event of default, a beneficiary may simply present a draw certificate to the FHLBNY and they will be paid out on the notional value of the MULOC.
- Should a draw certificate be presented to the FHLBNY, the beneficiary will be immediately paid, and a fully collateralized advance (extension of credit) would simultaneously be booked to the member depository institution by the FHLBNY.

*\*The FHLBNY is currently rated “Aa1 and “AA+” by Moody’s and Standard & Poor’s, respectively. These ratings are equivalent to those assigned to the U.S. Government.*

*View the next page to learn more about the safety of FHLBNY MULOCs.*

# FHLBNY MUNICIPAL LETTERS OF CREDIT

## The FHLBNY MULOC Process



## Safety During Times of Market Stress

- In the event of a member failure:
  - A. All financial obligations to the FHLBNY (including advances and letters of credit) would carry forward whether the failed entity is placed in conservatorship by its respective regulator or is taken over by another financial institution.
  - B. The MULOCs will remain in force and in the event of member default, municipalities will retain their ability to submit draw certificates to the FHLBNY for payment.
  - C. If an uninsured municipal deposit transfers to a Bridge Bank and the FDIC announces that uninsured deposit withdrawals will be honored by the federal agency, no letter of credit draw requests on municipal deposits are necessary as the deposits are fully protected by the FDIC.
- Should municipal deposits be acquired by another financial institution upon or after a member failure, existing MULOCs will remain in force for their remaining terms or until cancelled (cancellation requires approval of all parties). However, upon a municipal deposit acquisition, it is the responsibility of the acquiring financial institution to immediately fully collateralize the municipal deposits from that point forward. In these cases, many FHLBNY letters of credit assumed by a Bridge Bank would then be cancelled since the uninsured deposits are transferred to the acquiring financial institution. Upon cancellation and return of the original letter of credit document to the FHLBNY, new letters of credits or other forms of collateralization will immediately be necessary to continuously protect the transferred uninsured municipal deposits.
- Municipalities should be confident that FHLBNY MULOCs remain a very secure and advantageous form of collateralization during normal operating environments and in times of severe market stress.

*View the next page to learn more about the benefits of FHLBNY MULOCs.*

# FHLBNY MUNICIPAL LETTERS OF CREDIT

Issued by a highly-rated\* financial institution, the FHLBNY's Municipal Letter of Credit (MULOC) is an irrevocable vehicle that can enable members to use whole-loan mortgages to collateralize deposits by state, city, court, and local governments.

## Creates Operational Efficiencies

- **Collateral Monitoring:**  
Eliminates the need to monitor market valuations of security collateral as the face value of MULOCs does not change during the term of the MULOC.
- **Assurance in the Event of Default:**  
In the event of default by the member depository institution, the municipality will simply submit the MULOC draw certificate to the FHLBNY for immediate payment; there will be no securities to liquidate and therefore no market risk to the municipality.
- **Refundable MULOC:**  
The Refundable MULOC is similar to a regular MULOC but is more flexible and is used for fluctuating transactional deposit accounts. In the event the respective municipal deposit account's daily average balance does not reach the notional value of the Refundable MULOC during its term, the member can then apply for a refund on the unused portion of the MULOC.

## Enhances Liquidity Management

- **Bolster On-Balance Sheet Liquidity:**  
MULOCs can be collateralized with relatively illiquid whole-loan mortgage collateral. This can enable members to keep their liquid securities unencumbered, allowing for optimization of on-balance sheet liquidity.
- **Reserve Liquidity for Making Loans:**  
Members can use their available funding for making loans and do not have to "tie up" their liquidity in securities collateral.

## Benefits Communities and the Bottom Line

- **Municipal Deposits Can be Lent Back Out into Communities:**  
When using whole-loan mortgage collateral to secure MULOCs, members can utilize the municipal deposit funding for lending back into their respective communities instead of using the liquidity to finance securities collateral.
- **Bottom-Line Impact:**  
Profitability can be enhanced by deploying liquidity into higher-yielding loans, instead of lower-yielding securities collateral, to help enhance earnings.

*\*The FHLBNY is currently rated "Aa1 and "AA+" by Moody's and Standard & Poor's, respectively. These ratings are equivalent to those assigned to the U.S. Government.*

### Notes:

- Letters of Credit require additional agreements. All credit product terms are subject to credit conditions. Please consult with the Member Services Desk.
- To maintain access to FHLBNY's products, programs, and services, members are required to complete and submit their Member Attestation Form by the requested deadline annually. In addition, throughout the year, members must promptly disclose to the FHLBNY any material adverse change events that may impact their financial condition.

## CONTACT US TO DISCUSS HOW THE MULOC MAY BENEFIT YOUR BOTTOM LINE:

Member Services Desk: (212) 441-6600 | Relationship Managers: (212) 441-6700

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UPDATED: May 2025