S&P Global Ratings

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Federal Home Loan Bank of New York

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Federal Home Loan Bank of New York

Major Rating Factors

Counterparty 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	• Monoline mortgage exposure to and geographic concentration in a limited region of the U.S. • Uncertainty with regard to the impact of future potential legislative changes

Outlook

The stable outlook on The Federal Home Loan Bank of New York (FHLB NY) reflects the company's strong and stable operating performance, as well as our sovereign rating on the U.S., and our view that neither of these is likely to change within the coming two years. If we changed our rating or outlook on the U.S., we would likely reflect that change in our ratings on the Federal Home Loan Bank System's (FHLB System) debt and its individual banks, including FHLB NY, according to our government-related entity (GRE) criteria. Despite recent and possible future changes in the FHLB System, we expect FHLB NY to maintain its strong financial profile, given its comprehensive and conservative governing policies and management's intention to maintain these policies. We could also lower the rating if, in the context of government-sponsored entity (GSE) reform, the role of the FHLB System in housing finance is diminished, thereby reducing its importance to the government.

Rationale

S&P Global Ratings' issuer credit rating on FHLB NY reflects the wholesale bank's government-supported role in providing liquidity to member institutions, very strong asset quality and capitalization, low funding costs, and conservative risk management. It also reflects the bank's regulated status, overseen by the Federal Housing Finance Agency (FHFA). Based on our criteria for rating GREs, the rating on FHLB NY includes a one-notch uplift from 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, among other factors. For a full analysis of the FHLB System, see "Federal Home Loan Banks."

Anchor: Adjusted for an FHLB to reflect regulated status, low competitive risk, and favorable funding

Our starting point--or anchor--for our ratings on U.S. finance companies (fincos) that we rate under our nonbank financial institutions criteria is 'bb+'. We initially set the anchor for fincos three notches below our anchor for banks in the same country to reflect their typical lack of central bank access, less-stringent regulatory oversight, and greater competitive risk. We base the bank anchor for a given country on our view of the economic and industry risks in that country as part of our Banking Industry Country Risk Assessment. Our anchor for a bank operating only in the U.S. is 'bbb+'.

Because of the FHLBs' public policy role and regulated status, we raise the anchor for FHLB NY to 'bbb+', three notches above our anchor for other U.S. fincos and equal to that of U.S. banks. 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 GREs, including Fannie Mae and Freddie Mac in the U.S. housing finance market, and its statutory priority of liens in a bank wind-down situation.

Business position: A unique and strong market position with longstanding members

We view FHLB NY's business position as strong (as our criteria define the term), reflecting the company'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.

The Federal Home Loan Bank System was chartered by Congress in 1932 with a mission to act as a reliable source of liquidity for member financial institutions in support of housing finance. FHLB NY does not lend directly to homeowners, but provides secured, low-cost funding to its members. It has no high-risk business lines because its lending is all backed by collateral, and the value of collateral backing loans typically exceeds loans by a significant margin.

FHLB NY is the second-largest bank in the FHLB System with total assets of $155.5 billion, and it serves member institutions in New York, New Jersey, Puerto Rico, and the U.S. Virgin Islands. However, the company's overall business position is hurt by its lack of business diversity, 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 328 members, which include 137 commercial banks, 84 thrifts, 90 credit unions, 14 insurance companies, and three community development institutions, its member borrowing needs are all highly correlated to the housing market. Furthermore, its business is concentrated exclusively in a limited region of the U.S. The firm's advance volume and, therefore, revenue are typically countercyclical, as members rely more on the firm in times of stress as a reliable source of funding, which does mitigate the impact of that concentration, however. Furthermore, the fully collateralized nature of its lending mitigates much of that concentration risk, in our view, and it is not a key credit weakness.

Capital, leverage, and earnings: Collateralized lending to financial institutions limits risk

We believe FHLB NY's capital is very strong based on its member-capitalized co-op structure and low-risk collateralized lending business. The FHFA requires the firm to keep capital in excess of 4% of assets. The bank had a capital-to-assets ratio of 5.29% and a leverage ratio of 7.93% as of June 30, 2017. Given that the majority of its assets are advances, which attract a relatively low risk weight in our methodology because all of the exposure is to financial institutions, capital on a risk-adjusted basis is stronger than it might otherwise appear.

In the past few years, letters-of-credit balances within the FHLB system have increased notably, mainly reflecting the members' need to collateralize public-unit deposits. We are now accounting for these growing exposures in our S&P Global Ratings risk-adjusted capital by aligning our risk-weights on them with those we assign to FHLB member advances, while assigning a 50% credit conversion factor, reflecting the off-balance-sheet nature of these exposures. The resulting incremental growth in the banks' risk-weighted assets does not affect our assessment of FHLB NY's capitalization, and we expect our S&P Global Ratings' risk-adjusted capital ratio to remain in the 22%-25% range over the next two years, substantially above our 15% threshold for a "very strong" capital and earnings assessment. We expect capital to remain relatively stable because members must scale their capital contribution to support their borrowings.

We believe earnings at FHLB NY are relatively stable. Net income for the second quarter of 2017 was $130.9 million, an increase of $39.3 million, or 43%, from the second-quarter of 2016. Earnings increased primarily as a result of stronger net interest income, which reflected, in turn, higher loan balances, higher loan rates, and contained increases in funding costs. Net interest margin was 44 basis points (bps) in the second quarter of 2017, an increase from 37 bps in the same quarter the previous year. We believe gradual monetary policy tightening is contributing to the increase in the loan rates FHLB NY (and other lenders) can charge; we also believe the new Securities and Exchange Commission rules regarding money-market funds other than government money-market funds, implemented in October 2016, are contributing to investor demand for FHLB securities (containing increases in FHLB funding costs), as FHLB securities are included in the Investment Company Act of 1940's definition of "government security". In any case, we don't believe the absolute level of earnings is an important ratings consideration because of both the firm's very strong capital level and its co-op structure, which ensures that profit maximization is not a goal of the firm.

Risk position: Limited peripheral activity

We consider FHLB NY's risk position to be very strong, reflecting the fact that neither the company nor its sister 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. Probably most 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 nondepositories, 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 LIBOR-based floating exposures. We also see few risks on the rest of the balance sheet compared with other FHLB peers. The bank's investment portfolio stood at $17.7 billion out of which $16.5 billion is mortgage-backed securities. The company has de minimis exposure to private-label mortgage-backed securities and has a high percentage (approximately 76%) of advances to total assets. Still, it does have a relatively homogenous lending portfolio, considering all advances are made to financial institutions, backed largely by residential and commercial mortgages, though collateral does vary.

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

We view both FHLB NY's funding and liquidity as adequate, reflecting the FHLB System's diverse and global investor base and that it readily sells its debt at a small spread to U.S. Treasury obligations. Based on the availability of funding for the system in the 2008 liquidity crisis, access to funding is unlikely to be an issue in a stress scenario.

We consider FHLB NY's liquidity as adequate compared with its potential cash flow requirements over the upcoming year. Regulatory liquidity requirements are relatively modest, and we believe the company has a good liquidity management system.

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 company with timely and sufficient extraordinary support in the event of financial distress. Therefore, our issuer credit rating on the bank reflects a one-notch uplift from our SACP.

In accordance with our criteria for GREs, 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

Federal Home Loan Bank of New York -- Ratings Score Snapshot	
Issuer credit rating	AA+/Stable/A-1+
Stand-alone credit profile	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 Analysis	0
External Influence	1
Government Influence	1
Group Influence	0
Rating Above The Sovereign	0

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Criteria - Financial Institutions - General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria - Financial Institutions - General: Issue Credit Rating Methodology For Nonbank Financial Institutions And Nonbank Financial Services Companies, Dec. 9, 2014
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions, Dec. 6, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings Detail (As Of August 21, 2017)	
Federal Home Loan Bank of New York	
Counterparty Credit Rating	AA+/Stable/A-1+
Counterparty 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 of America	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 21, 2017) (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+

*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.