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# REPORT FROM THE PRESIDENT

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January 31, 2003

TO: All Stockholders  
(individually addressed)

SUBJECT: Report for the Month

## **BOARD APPROVES DIVIDEND FROM FOURTH QUARTER EARNINGS AT 5.58%**

At the January 2003 meeting of our Board, the Directors declared a cash dividend at an annualized rate of 5.58 percent based on earnings for the final quarter of 2002. The approved dividend includes an annualized 20 basis points supplemental distribution of previously retained earnings voted by the Board to reduce the impact on stockholders of the Bank's new reduced advances pricing. (Lower advance pricing reduces income and the dividend.) The enhanced dividend was credited to your demand account on January 31, 2003. Including the return for the fourth quarter, the annualized dividend paid from 2002 earnings averaged 4.81 percent. Be assured we are committed to generating a return that you will find to be competitive in the current interest rate environment as well as providing you with low-cost wholesale funds, while maintaining the stand-alone "AAA" rating of the Home Loan Bank.

## **ADVANCES -- THE CORE PRODUCT -- CLIMB TO \$62.4 BILLION**

For the year 2002, average advances were \$62.4 billion, compared to \$54.3 billion for 2001, representing a growth rate of 15 percent. The year 2002 marked the sixth consecutive year of double-digit growth rate in advances. Since 1996, advances have increased by more than \$47 billion -- a clear indication of the value you, our member community lenders, find in the Home Loan Bank.

Despite the recent winter freeze, business at the Home Loan Bank has been on a hot streak. Average advances in December increased to \$65.9 billion. This is a \$268.5 million upswing from November. Demand was up for long-term fixed, adjustable rate credit, and line of credit advance products.

Balance sheet growth, wider net interest spreads, and non-recurring items including insurance claim proceeds produced revenues above Business Plan levels despite historically low interest rates in 2002. Operating expenses were below the budget. Together, these factors brought 2002 income to an estimated \$234.1 million versus \$220.7 million Plan for the year. Our Bank

produced the better-than-Plan performance by prudently managing our assets and capital to their fullest potential for our stockholders.

As I was finalizing this report to you, the Budget Document for Fiscal Year 2004 of the Bush Administration was released. This document raises questions about the Home Loan Banks' and our members' involvement in mortgage lending. The report seems to note that as a result of opening System membership to commercial banks and credit unions, many member institutions now have very limited involvement in mortgage lending. Now I am not sure who in Washington collected this misinformation, but I know our community lenders are quite involved -- directly or indirectly -- in mortgage lending. I look forward to working with you to ensure the policymakers at the White House know all the facts on the public policy accomplishments of the Home Loan Bank and the deep involvement of our members in community lending.

### **VICE CHAIRMAN ELECTED, TWO PUBLIC INTEREST DIRECTORS APPOINTED**

I am pleased to announce that the Board of Directors has elected George L. Engelke, Jr., Chairman, President and Chief Executive Officer of Astoria Federal Savings, Lake Success, New York, as Vice Chairman of the Board. He will also serve as Chairman of the Board's Executive Committee.

Mr. Engelke has served on the Board since 1999. Previously Mr. Engelke served on the Board from January 1, 1990 through December 31, 1993.

In another Board-related action, the Federal Housing Finance Board appointed Harold E. Doley, III, and DeForest "Buster" Soaries, Jr., to the Board as public interest Directors.

Mr. Doley is president of The Lugano Group Incorporated, a member of the National Association of Securities Dealers, Inc., an organization that focuses on economic development and investment opportunities in the Caribbean Basin. Through The Lugano Group, Mr. Doley has served as an adviser to the government of Belize and the Central Bank of Barbados. Previously, Mr. Doley was president of the family-owned investment-banking firm of Doley Securities, Inc., the oldest black-owned investment bank in the country. He also served in the Minority Business Development Agency at the U.S. Department of Commerce from 1989-1991.

Since 1990, Mr. Soaries has been senior pastor of the First Baptist Church of Lincoln Gardens in Somerset, New Jersey, leading a congregation of 5,500 members. He has pioneered faith-based reform initiatives, including the creation of the First Baptist Community Development Corp., The Renaissance Community Credit Union and the CDC Properties and Housing Company. In 1999 and 2000, he served as New Jersey Secretary of State, advising Governor Christine Todd Whitman on urban and youth issues, faith-based initiatives and service delivery to underserved communities. A lifelong supporter of community-based activities, the Reverend Soaries has served on the board of the Better Homes Fund and the New Brunswick Community Development Corporation.

Mr. Doley and the Reverend Soaries will be sworn in at the regular March Board meeting.

Mr. Doley and Mr. Soaries will become the second and third new directors to join the Board this year. Mr. David Lindstrom, President and CEO of Franklin Savings Bank, S.L.A. was sworn in at our January Board meeting as an elected director to serve on the Board for a three-year term ending December 31, 2005.

We welcome the new Directors to the Board. We also thank the outgoing Directors for their many contributions. Mr. Dennis A. James, President and CEO, Sturdy Savings Bank; Joseph F. Crangle, Esq., of Counsel, Colucci & Gallaher, PC; and Derek B. Park, Ph.D., Managing Director, Cohane Rafferty, LLC/Lehman Bros., Inc., each added their considerable expertise and commitment to the management and direction of the Home Loan Bank.

### **FHFB/SEC DISCLOSURE REGULATION UPDATE**

As noted in my December 31, 2002 report, the Federal Housing Finance Board (FHFB) has postponed the promulgation of a regulation dealing with additional Home Loan Bank financial disclosures in order to allow further discussions on registration of Federal Home Loan Bank capital stock and potential interlocking disclosures. I am delighted that the FHFB has provided this time to the Bank System, for there are a number of major issues that need to be analyzed and considered.

The importance of the issues involved became clear at a meeting among representatives of the Federal Home Loan Banks, the FHFB, and the SEC held on January 9, 2003. At that meeting, the SEC expressed a primary interest in the potential regulation of disclosures accompanying debt securities, and not the cooperative Bank System's stock, should the Federal Home Loan Banks voluntarily submit to SEC jurisdiction. That was a major change in direction of the disclosure issue. The Bank System has been working on the issue with FHFB staff from the perspective of voluntary stock registration under the Securities Exchange Act of 1934, as requested by officials at the U.S. Treasury. The SEC's interest in the registration of the Home Loan Banks' debt rather than its stock -- putting aside just for a second the Bank System's explicit exemption from the Securities Act of 1933 -- opens a whole new field of questions.

In order to minimize and hopefully eliminate any confusion as to the future direction on the disclosure issue, on behalf of the 12 Home Loan Banks, I sent a five-page communication to FHFB Chairman Korsmo laying out the developments of the January 9 meeting and explaining our response, which is currently underway. The Home Loan Banks are conducting an in-depth analysis of the relevant business, financial, and legal points related to disclosure matters in order to fulfill our obligations to make prudent and reasonable judgments consistent with the Federal Home Loan Bank Act, the interest of the Home Loan Banks, and most importantly of our stockholders. The 12 Home Loan Banks are particularly focusing on three threshold questions surrounding voluntary registration: the effect on our cost of funds, the effect on the structure of the Banks, and the impact on each of our members' stock.

It is paramount in this discussion not to lose sight of the interest and concerns of the owners of the Home Loan Bank System: the 8,000 community member-lenders. I will be working with all

Report from the President

January 31, 2003

Page 4

parties involved in an attempt to ensure full and thorough consultation with our stockholders before any change is proposed.

Let me also emphasize that the 12 Federal Home Loan Banks support full and complete disclosure and are working towards that end. But as reported in ICBA's Washington Weekly on January 17, 2002: "A convincing argument remains to be made as to why it is a good idea to shift jurisdiction for System financial disclosures from the FHFB to the SEC. FHLB stock is not publicly traded; when it is traded, it is at par. A policy directive... that all GSEs should be treated the same, if this indeed is what is happening, lacks sophistication and should be revisited."

I would like to thank each customer and stockholder for his or her business.

Sincerely,

Alfred A. DelliBovi  
President