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# REPORT FROM THE PRESIDENT

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August 29, 2003

TO: All Stockholders  
(individually addressed)

SUBJECT: Report for the Month

## **ONE RATING AGENCY CHANGES OUTLOOK ON THE BANK**

In my July report, I discussed the Supplement to the Capital Plan Information Statement regarding the downgrade of manufactured housing securities held in the Home Loan Bank's investment portfolio. Four issues currently totaling 44% or approximately \$705 million of manufactured housing securities held by the Bank have been downgraded in recent months. (The total amount of all the securities held in portfolio is \$12.5 billion.)

In addition to the distribution to members, the Home Loan Bank shared this Supplement with the rating agencies. Subsequently, Standard & Poor's issued a statement on August 8, 2003, changing its Rating Outlook on the Home Loan Bank to "negative" from "stable." According to the S&P website, a Rating Outlook assesses the potential direction of a long-term credit rating over the intermediate to longer term. In determining a Rating Outlook, consideration is given to any changes in economic and/or fundamental business conditions. An Outlook is not necessarily a precursor of a rating change or future CreditWatch action.

In the widely reported August 8 statement, S&P noted that, "The FHLB-NY has added investments to its portfolio that, although they had minimal credit risk at the time of the investment, have proven to contain larger portions of credit risk than the Bank and Standard & Poor's had expected." This sentence from S&P's statement indicates that the rapid deterioration of these securities -- each of which had been rated AAA by two rating agencies (one of which was S&P) at the time of purchase in 2000 and 2001 -- was unexpected.

Because of the surprisingly rapid downgrade of some of the manufactured housing securities, the Bank is assessing various strategies to maximize the value of the portfolio while minimizing the costs and risks of holding these securities. We are working through this process with the ultimate goal of reducing the credit risk profile of the investment portfolio. We are continuing to

analyze future implications and are considering various strategies in the context of a variety of financial scenarios that could occur.

At this time no determination has been made that the Home Loan Bank will not recover its investment in the manufactured housing securities. However, there can be no assurance that we will not be required to record an impairment charge in the future. Such a charge could result in a material reduction of earnings and a substantial reduction in the dividend or in retained earnings in the period in which the charge occurs. We do not expect that any such charge would have a material adverse effect on our ability to meet all of our financial obligations or on our ability to meet our regulatory capital requirements.

Some may ask why the Home Loan Bank purchased these AAA investments. As a Government Sponsored Enterprise, the Home Loan Bank was chartered by Congress to promote housing. Purchasing manufactured housing related securities did exactly that. Manufactured housing accounts for a significant portion of American homes. Approximately 8% of the U.S. population resides in manufactured homes, and manufactured homes account for 1/6 of the total growth in homeownership from 1993 to 1999. At the time of our investments, promoting homeownership was very high on the public policy agenda in Washington.

In addition to supporting the Home Loan Bank's public policy housing mission, these investments also generated income to augment the dividend and to help meet our REFCORP obligation and Affordable Housing Program commitment.

In seventy-one years of operation, the Home Loan Banks have managed many challenges. We operate in market conditions that can be bumpy. But our mission remains as vital as ever -- to advance housing opportunities and local community development by helping our members to serve their markets. We are a constant source of low-cost, reliable credit programs that are transformed each business day into mortgage products that families can afford. Your team at the Home Loan Bank is managing the risks of this latest challenge, and we will keep you informed of all material developments.

Should you have any questions regarding this investment issue or any other, please contact me at (212) 441-6801 or Jim Gilmore, Senior Vice President of Banking Services, at (212) 441-6812.

## **AT \$71.4 BILLION, ADVANCE DEMAND REMAINS STRONG**

Advances outstanding at month-end were \$71.4 billion, \$0.2 billion higher than at the end of June and \$0.9 million higher than the average for the month of July. However, average advances outstanding during July were down about \$2.0 billion from June, reflecting repayment of the surge in advances we experienced in late May and early June. Advances on July 31 were \$5.4 billion higher than at the end of 2002. Advance demand continues to be concentrated in short-term advance products.

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Annualized net income was \$192.2 million in July. This is a \$31.2 million decline from June's very strong return and similar to the annualized results for January, March, and May of this year. We look forward to providing sustained performance and value for your investment in the Home Loan Bank.

**BILL SWAN – MAY HE REST IN PEACE**

The Home Loan Bank was saddened by the sudden passing of William Swan, Chairman, President, and CEO of First Niagara Bank. Bill was a member of the Board of the Federal Home Loan Bank of New York. His contributions to the Board and the Home Loan Bank were many.

Bill is missed.

We extend our condolences to the Swan family and to the employees of First Niagara Bank.

Sincerely,

Alfred A. DelliBovi  
President