Federal Home Loan Bank of New York

HLB Advantage

MARCH 2004

Dear Member,

One of the advantages of membership in the HLB is access to a reliable source of liquidity to fund your loan and investment portfolio. You can capitalize on your membership and meet your customer demands in this low-rate environment by tapping this funding source. In any rate environment, an effective strategy that we discuss with our members is the "ladder strategy." This strategy is a beneficial way for your institution to utilize a series of HLB longer-term advances to decrease the interest rate risk associated with long-term fixed-rate mortgages while maximizing your spread. Read more below to learn about increasing your return and limiting risk in this environment.

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We value your membership in the Home Loan Bank and continually look forward to expanding upon our business relationship.

Sincerely,

Adam Goldstein
Vice President, Director of Sales & Marketing

Funding Your Portfolio

With increased regulatory requirements, moving markets, tough competition, pressure on margins, satisfying your customers, investments in technology, and retaining key employees on your mind, one less item you will need to worry about as a member of the HLB is liquidity.

Members often ask, "What is the best way to fund my loan and investment portfolio to maximize return and limit risk during these economic conditions and the current rate environment?" For the many members who still have large cash positions as well as the ability to borrow from the HLB, liquidity has not been a problem. However, consideration has to be given to a rising rate environment. The question is not if rates will rise, but when? Are you prepared for an outflow of deposits with steady improvement in the equity and mutual funds market, paying higher rates on deposits, and increased borrowing costs? What are your plans for funding loan growth?

Keeping all these factors in mind, now is the opportune time to consider borrowing long-term to take advantage of the current low interest rate environment. Consider the following funding strategy to maximize spread and minimize risk.

Members often have a bias as to either match fund or pool fund their portfolio. Those with a preference towards match funding utilize a blended approach - i.e., using both HLB advances and retail deposits. This strategy is simple to use, easy to explain, and can be very effective. Individual loans are tracked against individual advances. Customer prepayments can be posted immediately against outstanding advances and prepayment fees (if any) can be assessed. One thing to keep in mind when using this approach is that performance can be hard to track as your portfolio starts to grow.

A second popular method for funding loans is the "pool" approach. This method is most commonly associated with residential mortgage lending. This type of strategy is used when a group of loans with similar characteristics - such as type, collateral, and purpose - are pooled. You can analyze the pool to forecast the expected prepayment rates based on market statistics and your own experience. Your funding decision is then based on how you expect the pool to prepay and simultaneously minimize interest rate and basis risk. The disadvantage to this method is that prepayments do not always occur as expected and your pool could be mismatched.

Match Funding		Pool Funding	
Individual Loans vs. Individual Advances/Deposits		Group Loans vs. Group Advances/ Deposits	
Advantages	**Disadvantages**	**Advantages**	**Disadvantages**
Easy to understand; Easy to track Prepayments	Cumbersome as portfolio grows	Fund in bulk; Less tracking required	Prepayment assumptions are not always correct
Predominantly used for Commercial Loans		Predominantly used for Residential Loans	

Before determining what products to use in a funding strategy, it is important to have a good understanding of your institution's sensitivity to interest rates. The asset-liability structure of many financial institutions is inherently sensitive to rising interest rates because longer-term assets are generally funded with shorter-term liabilities. This sensitivity could hurt your net interest margin when rates start to rise.

Recently, many of our members have seen their net interest margins squeezed due to historically low interest rates, rate floors on non-maturing deposits, increased operating costs due to compliance with increased regulatory requirements (such as Sarbanes-Oxley) and competition from super-regional banks. Regulators are encouraging financial institutions to re-evaluate their balance sheets and consider opportunities such as extending maturities on liabilities to mitigate interest rate risk and guard against margin compression in a rising rate environment. Maximizing spread is a key area for opportunity as the gap between 30-year fixed-rate mortgages and five-year HLB advance rates continues to widen. *(continued on back)*

Now, let's consider a funding strategy using a series of HLB advances. Customers who prefer a pool funding philosophy commonly use a ladder strategy approach to manage interest rate risk in various interest rate environments.

The strategy calls for using longer-term advances to help generate positive spreads against long-term mortgages. As an example, suppose an institution holds in portfolio 30-year mortgage loans priced at 5.34% (national average per MBA). To hedge against a rise in rates, the institution funds 30% with retail deposits (assume a COF of Fed Funds = 1%) and 70% of the portfolio with advances (1-, 3-, and 5-year fixed-rate advances funded $2m, $2m, and $3m respectively). Due to the monthly P&I payment characteristics, a more asset-sensitive member might choose to use the amortizing product, resulting in a shorter weighted average life.

In this example, the strategy calls for the same 30% in retail deposits and amortizing advances (3-, 5-, and 7-year amortizing advances funded with $2m, $2.5m, and $2.5m respectively). Both of these strategies capitalize on your membership in the HLB, giving you the ability to offer the products that are in demand in your servicing area and reduce the inherent risks associated with these products, not to mention a resulting spread of over 330 basis points!

Spreads generated on strategies such as this should increase with a rise in interest rates. Generally, when rates go up, members will enjoy wider spreads between loans and deposits because those loan rates tend to rise faster than those on deposits.

Whether your strategy is stability, modest growth, or strong growth, maximizing earnings and minimizing margin compression is crucial. Many members count on our low-cost funds on a strategic basis to maximize earnings. While many of you want to see rates rise, we believe this is an opportunity to use HLB advances to increase earnings and minimize interest rate risk.

If you would like to see how this strategy would perform funded shorter, longer, or with any other combination of advances, please contact your HLB Calling Officer at 212-441-6700.

> *"The ability to tap into the HLB's credit facility enabled me to match up the maturities of my loans with longer-term advances to help reduce the interest rate risk in my loan portfolio. This ladder strategy and other Home Loan Bank funding solutions help my institution remain competitive in today's market and meet the needs of my customers as well."*
>
> Rich Halas, CFO, Lake Shore Savings & Loan Association

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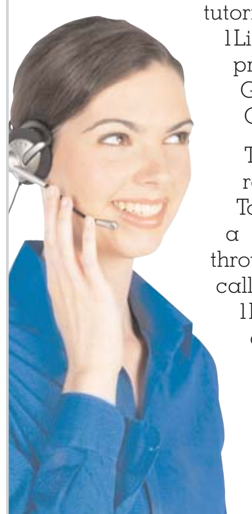
  * You can download these reports in a csv format using the File Services module and use them interactively with other applications!
- Use ACN (Automated Customer Notifications) via email or fax to schedule automatic delivery of Special Reports to yourself and others in your back office area. In addition, schedule an automated notification when a certain event occurs, e.g. Safekeeping trade, based on transaction status.

Need Help Getting Around 1Link? No Problem.

Many resources are available to guide you.

If you need immediate assistance or have questions or comments, call us toll-free at 1-800-546-5101. A friendly representative will answer all your questions.



You can also log on to 1Link to view our tutorial sessions by clicking on the 1Link Training button, or if you prefer to view the 1Link User Guide, click on the Manuals and Guides button.

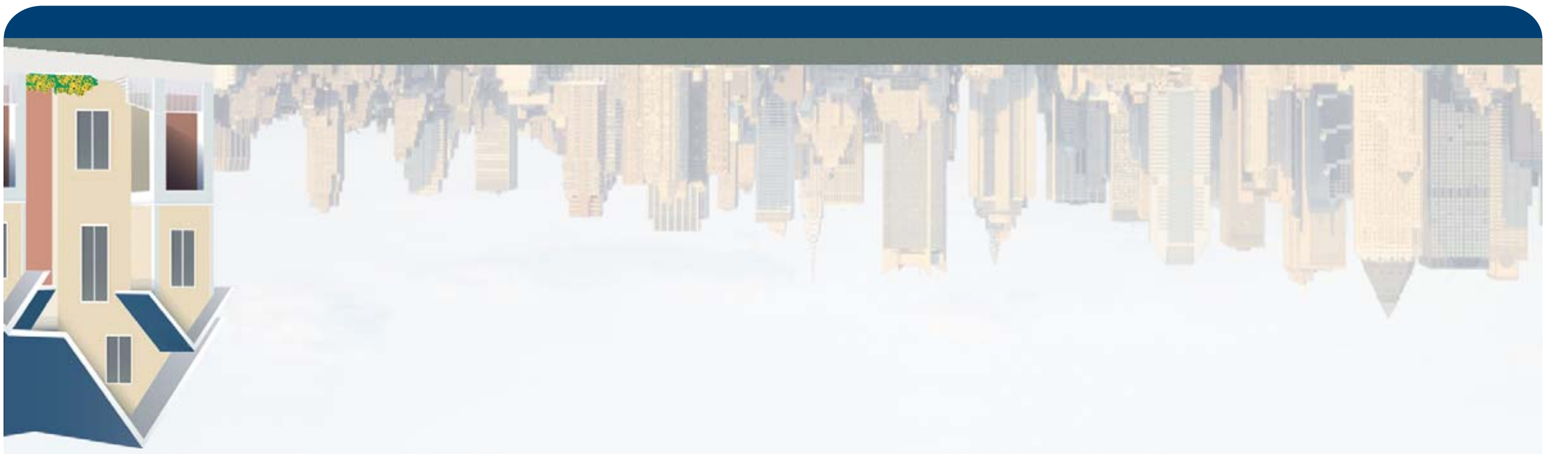
Training sessions with a 1Link representative are also available. To schedule a training session for a representative to walk you through a transaction over the phone, call 1-800-546-5101 or email us at 1linkhelpdesk@fhlbny.com. We'll contact you at the scheduled time.

If you're not taking advantage of all the benefits 1Link offers, log on to www.fhlbny.com or contact your Calling Officer to sign up.

Note: 1Link Helpdesk hours are Monday through Friday from 8:00 a.m. to 4:30 p.m.

1 New Channel = Greater Value

CONTACT US: 101 Park Avenue, New York, NY 10178-0599 T: 212.441.6700 F: 212.949.0230 www.fhlbny.com



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