



CHANGING TIMES REQUIRE BOLD LEADERSHIP

# 2011 ANNUAL SHAREHOLDERS MEETING



HUDSON CITY  
BANCORP, INC.

# FORWARD-LOOKING STATEMENT

This presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, but are not limited to, statements about (i) Hudson City Bancorp, Inc.'s "Hudson City" or "HCBK") plans, objectives, expectations and intentions and other statements contained in this presentation that are not historical facts; and (ii) other statements identified by words such as "may", "believe", "expect", "anticipate", "should", "plan", "estimate", "predict", "continue", "potential", or words of similar meaning.

Factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in Hudson City's 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission and is available at the SEC's Internet site (<http://www.sec.gov>) or through our Internet site (<http://www.hcbk.com>). Any or all of the forward-looking statements in this presentation and in any other public statements made by Hudson City may turn out to be wrong. They can be affected by inaccurate assumptions Hudson City might make or by known or unknown risks and uncertainties. Consequently, no forward-looking statement can be guaranteed, Hudson City does not intend to update any of the forward-looking statements after the date of this presentation or to conform these statements to actual events.



HUDSON CITY  
BANCORP, INC.

**WHO WE ARE...**

**AND WHAT WE DO**



## BACKGROUND

- ◆ Market Cap over \$5.1 billion
- ◆ Ranked in the top twenty-five U.S. financial institutions by asset size
- ◆ One of the largest thrift institutions
- ◆ 135 branch offices in New York, New Jersey and Connecticut

## SIMPLE, CONSISTENT OPERATING MODEL

- ◆ We make single family mortgage loans
  - A jumbo originator and purchaser
  - Retain all loans
  - High credit quality
- ◆ Multiple mortgage loan distribution channels
  - Retail (our own agents and extensive branch network)
  - Retail (mortgage brokers and bankers)
  - Wholesale (geographic diversity)
- ◆ Funded our 2010 lending and investing activities with retail deposits
- ◆ Industry-leading operating efficiency ratio of 22.10% (4Q 2010)
- ◆ Effective customer service and attractive pricing

## MORTGAGE LOANS

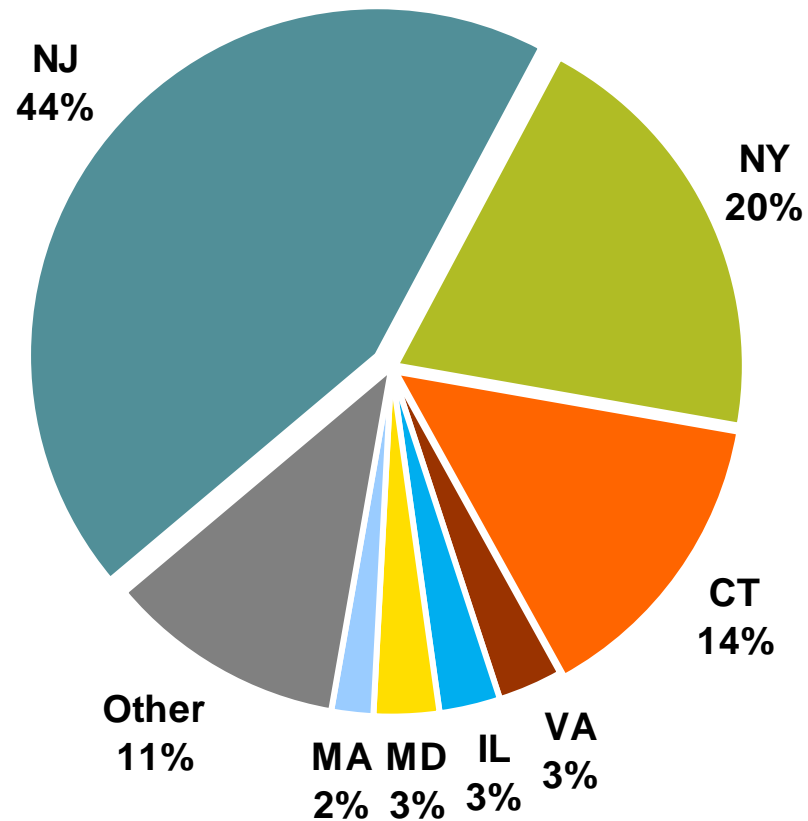
- ◆ Require a minimum of 20% down payment on all mortgages
- ◆ Historically the average down payment on the portfolio at time of origination was 40%



# LOAN GEOGRAPHIC EXPOSURE

AS OF DECEMBER 31, 2010

TOTAL NY METRO AREA EQUALS 78%



## DEPOSITS

- ◆ Funded asset growth exclusively since January 2009
- ◆ \$10.02 billion added since January 2008
- ◆ Internet deposits of \$262 million

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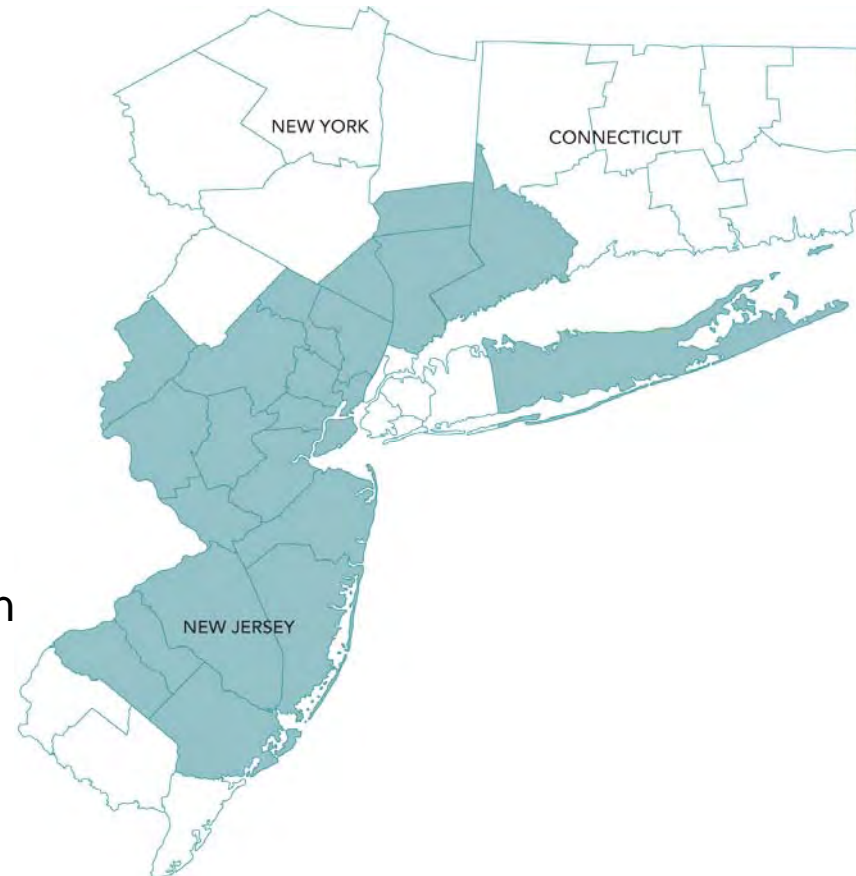


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## ATTRACTIVE BRANCH NETWORK

- ◆ Our branches have an average of \$186 million in deposits per branch
- ◆ We have approximately 720,000 customer deposit accounts, for an average of \$34,900 per account
- ◆ 135 total branches, 97 in New Jersey, 29 in New York and 9 in Connecticut
- ◆ We have branches located in 10 of the Top 50 Counties in the U.S. in terms of Median Household Income



## EXPENSE DISCIPLINE

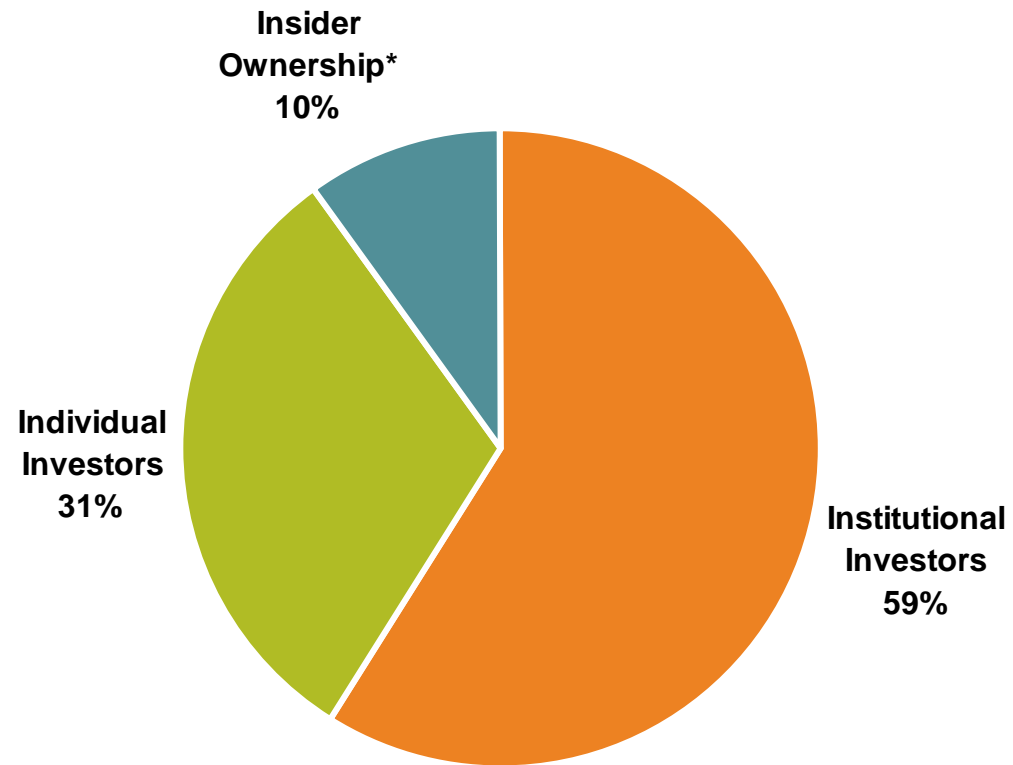
- ◆ Hudson City's efficiency ratio was 19.68% for 2010
- ◆ The annualized ratio of non-interest expense to average assets was 0.44% for 2010
- ◆ Hudson City is an industry leader for both of these ratios
- ◆ Efficient operations means we need to pay only \$0.20 in overhead to generate \$1.00 of earnings
- ◆ This type of efficiency allows us to offer competitive rates on both deposits and loans

## WHAT WE HAVEN'T DONE...

- ◆ Subprime Mortgages
- ◆ Option ARM Loans
- ◆ Brokered Deposits
- ◆ Participate in TARP (Troubled Asset Relief Program)

# HCBK OWNERSHIP BREAKDOWN

AS OF DECEMBER 31, 2010



\*Includes Beneficial Ownership of Directors and Executive Officers plus the ESOP

Source: NASDAQ Online



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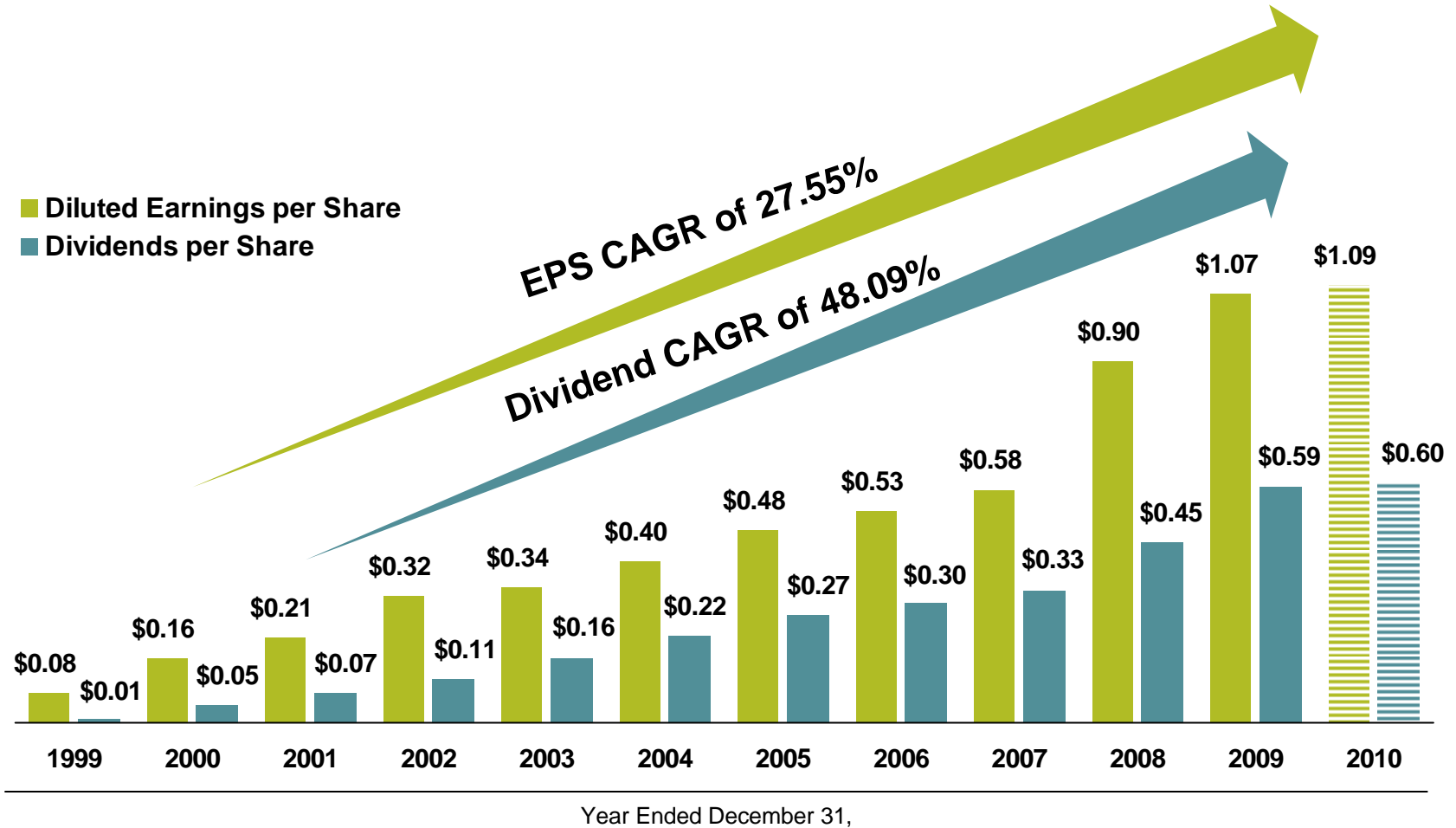
2010: GOOD RESULTS BUT  
INTEREST RATES MOVED  
EVEN LOWER

## OVERVIEW OF 2010

- ◆ Annual earnings of \$537.2 million or \$1.09 diluted earnings per share
- ◆ Mortgage loan production of \$5.83 billion
- ◆ Mortgage repayments of \$7.26 billion
- ◆ Deposits increased 2.4% to \$25.17 billion
- ◆ Equity to assets ratio of 9.01%
- ◆ Low efficiency ratio of 19.68%. (Average of the top 50 banks and thrifts as ranked by assets is 59.82%\*)

\* Source: SNL Financial Data

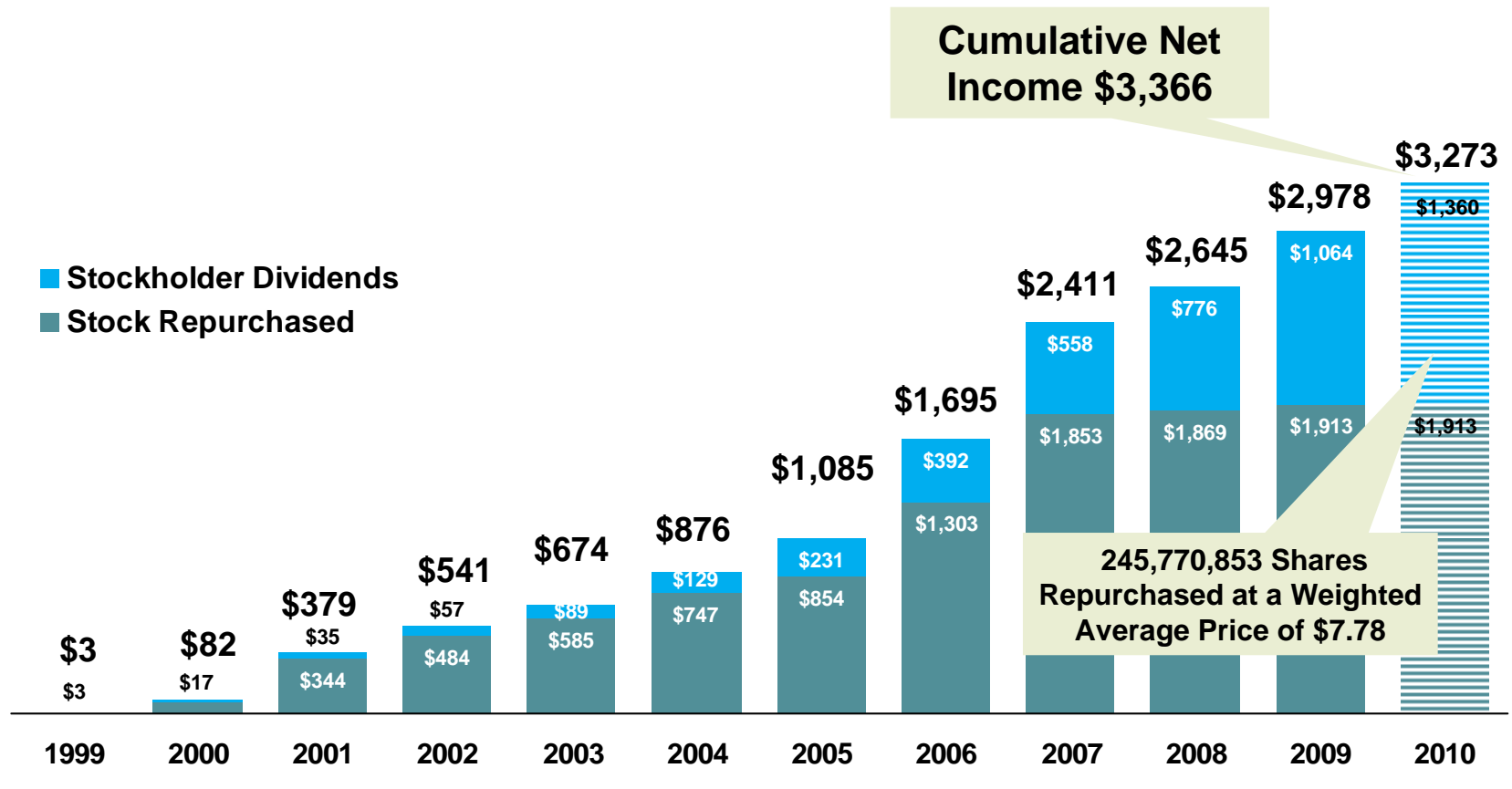
# EARNINGS AND DIVIDENDS GROWTH



Split adjusted (2:1 June 2002 and 3.206:1 June 2005)  
(CAGR) Compounded Annual Growth Rate

# CUMULATIVE CASH RETURNED TO SHAREHOLDERS

(IN MILLIONS)



at December 31

DECEMBER 31, 2010

+ Initial (7/99) split adjusted stock price \$1.56

– Total cumulative dividend paid \$3.15

= Net cost of shares purchased in IPO \$ -1.59



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# RADICALLY CHANGED ECONOMIC ENVIRONMENT

## In the Past 30 Months We Have Experienced...

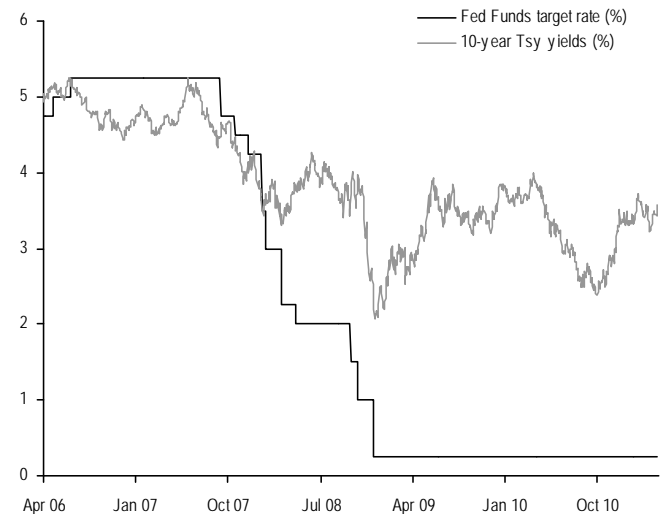
- ◆ The most significant recession since Great Depression
- ◆ Historically low mortgage rates (low point August 2010)
- ◆ US Government takeover of Fannie Mae & Freddie Mac and placing them into Conservatorship (Q42008)
- ◆ US Government purchase of mortgage-backed securities (MBS) driving down long-term rates (mortgages)



# FEDERAL RESERVE RESPONSE TO ECONOMIC CONDITIONS

## TRADITIONAL POLICIES – Short Term Rates

- ◆ Sept. 2007 to June 2008: FOMC (Federal Open Market Committee) lowered Fed Funds rate target from 5.25% to 2%
- ◆ Oct. 2008: (after Lehman Bro. collapse) Fed lowered rates from 2% to 1%
- ◆ Dec. 2008: Fed dropped the target to between 0 and 0.25%, where it still is today



Fed Funds Rate: The interest rate at which private banks lend their balances at the Federal Reserve to other banks, usually overnight.

# FEDERAL RESERVE RESPONSE TO ECONOMIC CONDITIONS

## NONTRADITIONAL POLICIES – Long Term & Mortgage Rates

Fed then turned to a nontraditional policy called Quantitative Easing\* to revitalize mortgage lending and support housing market. Basically consisting of large scale asset purchases.

- ◆ Mar.'09 – Mar.'10: (now know as **QE1**) when the Fed purchased...
  - \$1.25 trillion in Mortgage Backed Securities (MBS)**
  - \$200 billion in Fed Agency Debt** (issued by Government Sponsored Enterprises (GSEs) to fund purchase of mortgage loans)
  - \$300 billion in long-term Treasury Securities** (specifically to lower rates)
- ◆ The increase in demand **raised prices causing rates to fall**

\* Quantitative Easing: The Federal Reserve Bank buys US Govt. Bonds with new money that the Federal Reserve Banks create electronically driving bond prices higher and yields lower.

# FEDERAL RESERVE RESPONSE TO ECONOMIC CONDITIONS

## NONTRADITIONAL POLICIES – Long Term & Mortgage Rates

November 2010: Fed again turned to Quantitative Easing (referred to as **QE2**) to fight deflation by revitalizing mortgage lending and to support housing market.

- ◆ Fed announced it would purchase...
  - Another **\$600 billion in long-term Treasury securities.**
- ◆ QE1 and QE2 **totaled \$2.35 trillion** (of MBS, Fed Agency Debt and Long term Treasury Securities) asset purchases.



# FANNIE MAE AND FREDDIE MAC



- ◆ Sept. '08 – Dec. '09: Congress granted Treasury authority<sup>(1)</sup> to purchase securities guaranteed by Fannie Mae and Freddie Mac to provide stability to financial markets.
  - The Treasury **purchased \$220 billion of MBS**
- ◆ Government sponsored enterprises have made up 90% of recent mortgage production

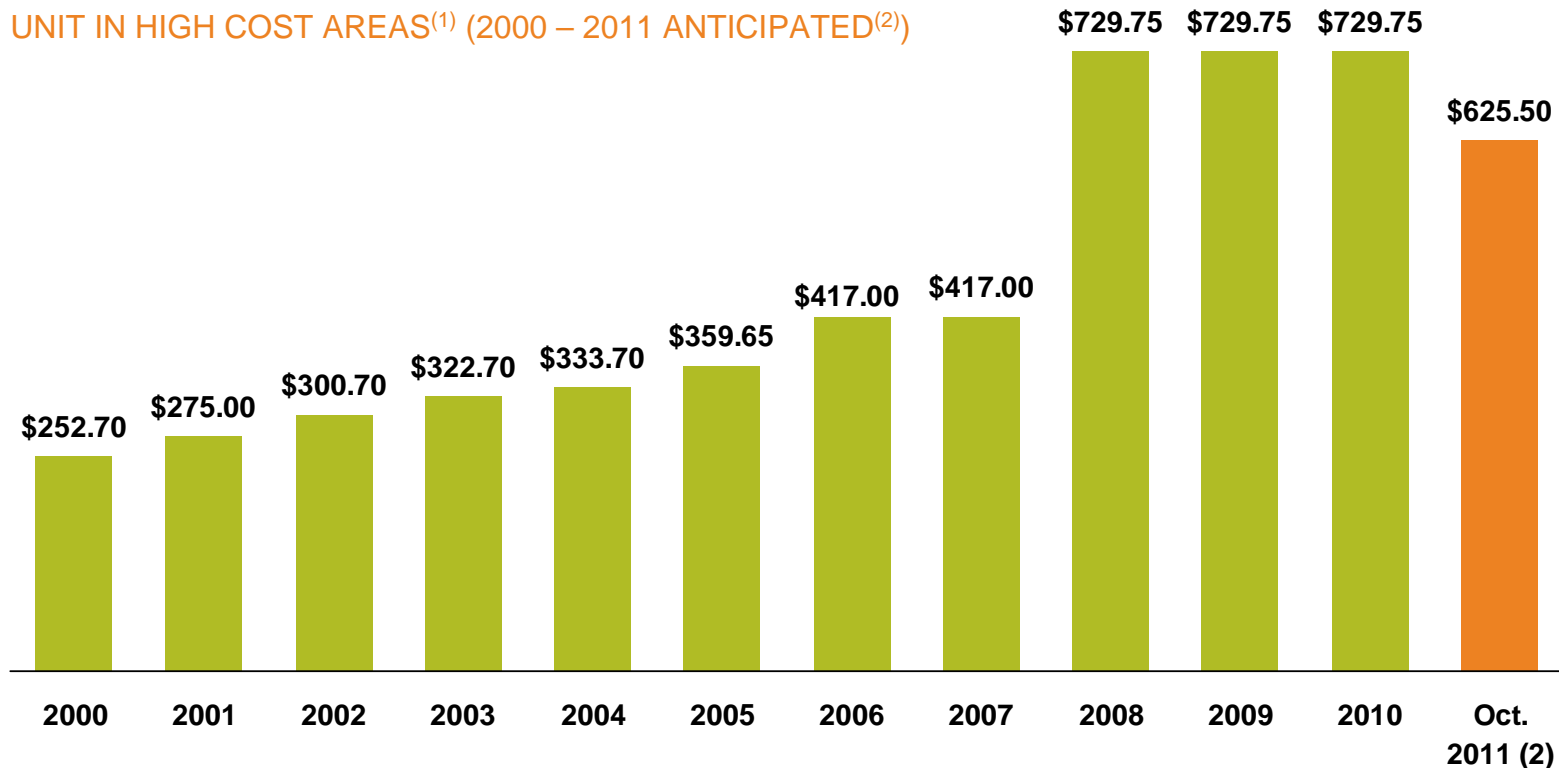
(1) *In the Housing and Economic Recovery Act of 2008*

# CONFORMING LOAN LIMITS

(IN THOUSANDS)

## HISTORICAL CONVENTIONAL LOAN LIMITS

FOR 1 UNIT IN HIGH COST AREAS<sup>(1)</sup> (2000 – 2011 ANTICIPATED<sup>(2)</sup>)



(1) The Metropolitan area (New-York-Northern New Jersey-Long Island, NY-NJ-PA ) is a “High-cost” area as defined by Federal Housing Finance Agency.

(2) FannieMae announced loans originated in 2010 have been extended to apply to loans originated through 9/30/2011. Loans originated on or after 10/1/2011, will use the “permanent” high-cost area loans limits shown above for 1 Unit.



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# IMPACT ON HUDSON CITY



## IMPACT ON HUDSON CITY

### Press Release Dated January 19, 2011...

- ◆ Eleventh straight record year for earnings
- ◆ “Conditions in the mortgage market continued to produce substantial headwinds...”
- ◆ “Going forward we expect these conditions will significantly hinder our ability to continue earnings at recent historical levels...”
- ◆ “We expect that this will result in a further restructuring in our funding mix”

# IMPACT ON RATES

## And how it affects us...

	4Q 2008	4Q 2010	Net Change
Yield on Mortgage Loans	5.79%	5.12%	(0.67)%
Yield on MBS	5.21%	3.64%	(1.57)%
Yield on Investment Securities	4.94%	3.36%	(1.58)%
Net Interest Margin	2.02%	1.73%	(0.29)%

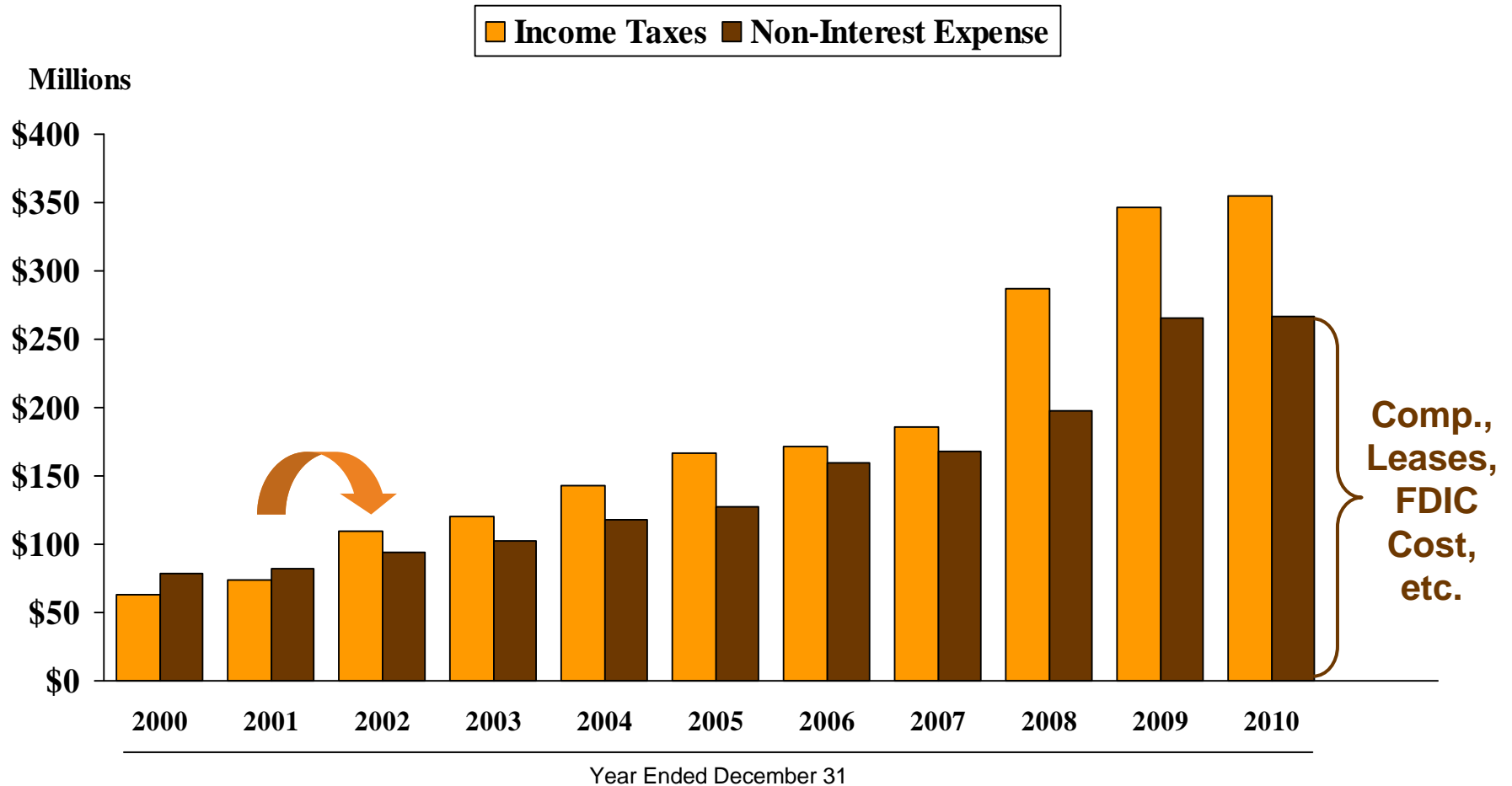
# IMPACT ON RATES

And how it affects you...

	4Q 2008	4Q 2010	Net Change
Cost of Deposits	3.39%	1.41%	(1.98)%

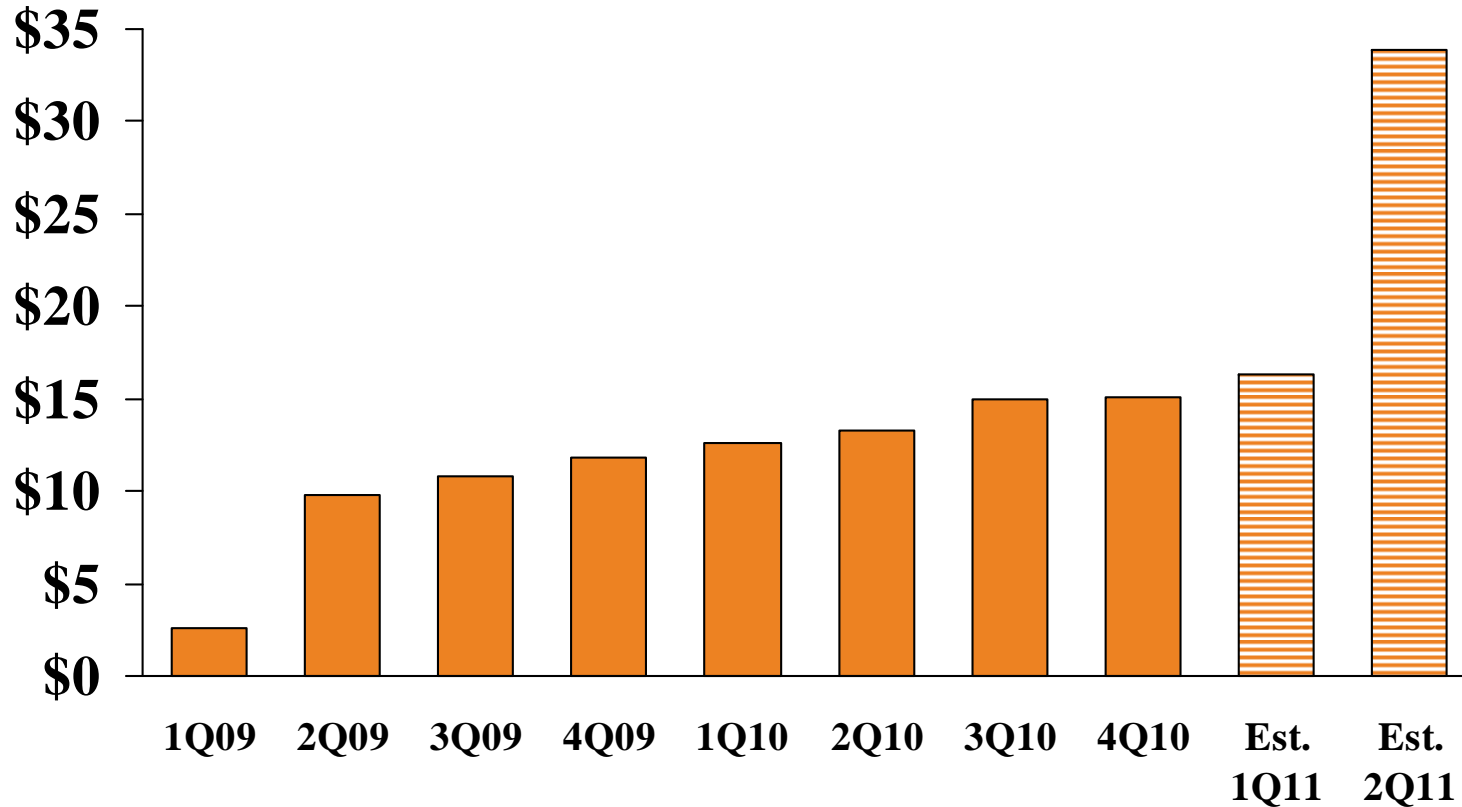
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# OPERATING EXPENSES vs. INCOME TAXES



# FDIC COST

(IN MILLIONS)



# PREPAYMENTS AND RECASTS (modifications)

(IN MILLIONS)

	2008	2009	2010
Mortgages:			
Prepayments	\$2,820	\$6,768	\$7,261
Recasts	89	2,250	2,750
MBS	2,305	4,733	8,366
Investments	\$2,808	\$4,022	\$7,074
<b>Total</b>	<b>\$8,022</b>	<b>\$17,773</b>	<b>\$25,451</b>

## IMPACT ON HUDSON CITY

### In 2010...

- ◆ Repayment of mortgage-backed securities amounted to \$8.4 billion re-invested at much lower rates
- ◆ Repayment of mortgage loans of \$7.3 billion and recasts of \$2.8 billion re-invested at much lower rates
- ◆ Repayment of investments securities of \$7.1 billion re-invested at much lower rates
- ◆ Borrowing costs declined slightly
- ◆ Low yielding assets with higher cost funding results in decrease in net interest margin

## IMPACT ON HUDSON CITY

### **SIMPLY STATED...**

- ◆ Due to the Federal Reserve's actions in acquiring MBS and Investment securities directly, the rate on these instruments were driven down.
- ◆ The yield on our MBS and Investments Security portfolios which are needed to balance our primary product line of long term mortgages, has been driven down from a combined 5.16% to 3.5%.
- ◆ The result was a mismatch between an asset category – our securities portfolio at 3.5% and a source of funding, our borrowed funds at 4.0%.
- ◆ This meant that if action weren't taken our net interest margin would continue to decline affecting profits.



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# THE WAY FORWARD



# THE WAY FORWARD

- ◆ Balance sheet restructure (March 2011)
- ◆ Positioned the company for better net interest margin going forward



# BALANCE SHEET RESTRUCTURE

## Summary of Transaction

Total of a series of transactions executed in March 2011:

Extinguishment of Structured Quarterly Putable Borrowings	\$12.50 billion
<hr/>	
Funded by:	
Sale of Securities	\$8.66 billion
Shorter-term Fixed Maturity Borrowings	\$5.00 billion
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*Approximate After-tax Charge	\$649.3 million
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\* Net income (core earnings) for the year will reduce this after-tax charge.

# BALANCE SHEET RESTRUCTURE

## Effect of Restructuring

- ◆ Increase in net interest margin of up to 40 basis points
- ◆ Reduction of interest rate risk
- ◆ Reduction of liquidity risk
- ◆ Reduction of low-yielding investments
- ◆ Realignment of the overall funding mix
- ◆ Allowing for future growth potential





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