FEDERAL HOME LOAN BANK OF SAN FRANCISCO 2000 ANNUAL REPORT

Local financial institutions are vital to communities, providing the credit needed to build and buy homes, to start new businesses, to create and retain jobs. Many community bankers rely on the Federal Home Loan Bank of San Francisco as an essential funding source, one that gives them greater flexibility in managing their liquidity, controlling their costs, reducing their interest rate risk, developing loan products for their customers, and making credit more accessible and affordable to their communities. The Bank has a special relationship with its members, because these lenders are not only the Bank's customers, but its owners as well. It is only with and through its members that the Bank can fulfill its public policy purpose of enhancing the availability of residential mortgages and targeted community development credit.

FLEXIBILITY

"Our original motivation for becoming a member of the Bank was the Y2K line of credit," says James Miller, Chief Financial Officer at Provident Central Credit Union in Redwood City, California. "Since then, we've been extremely successful at growing our loans, but we ran into a challenge with our balance sheet as our loan-to-deposit ratio reached 100%. We didn't want to sell our loans or stop making loans to our members, so we opted for using the Bank instead. In 2000, we were able to increase our loan portfolio 27%. It has been a huge advantage to be able to borrow from the Bank, to know we can borrow when we need to. The Bank has become our insurance policy for liquidity management."

One key determinant of how much a member can borrow is the amount of eligible collateral it can pledge. In 2000, the Bank was able to lift the 30%-of-GAAP-capital limitation on commercial first mortgages, residential second mortgages, home equity lines of credit, and mortgage participations. This change was enacted as part of the overall modernization of the Federal Home Loan Bank System through legislation passed late in 1999.

"We are thrilled with the Bank's commercial pledge program," says Scott Cornelius, President and Chief Executive Officer at Johnson Bank Arizona in Phoenix. "The ability to pledge so much more of our collateral is a tremendous benefit." Johnson Bank uses advances when it experiences

In 2000, the Bank lifted the 30%-of-GAAP-capital limitation on certain types of mortgage collateral, increased the maximum amount many members can borrow against their collateral, and began accepting loans guaranteed by the Bureau of Indian Affairs and shares of certain mutual funds as collateral.

CUSTOMERS = OWNERS

RESPONSIVE

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JAMES MILLER
CFO

PROVIDENT CENTRAL
CREDIT UNION

a spurt in lending activity, to provide gap funding until deposit growth catches up to loan growth. “The Bank gives us instant access to liquidity, which has allowed us to redesign the way we do business,” says Mr. Cornelius. “We can take on larger loans because of the backstop the Bank provides.”

Palm Desert National Bank was the member that motivated the Bank to begin accepting loans guaranteed by the Bureau of Indian Affairs as collateral. “It took us a year to become approved as a BIA lender and learn the ins and outs of the program,” says Kevin McGuire, Chief Executive Officer at Palm Desert. When Mr. McGuire first inquired, the Bank wasn’t accepting BIA-guaranteed loans as collateral. “But my Relationship Manager took the initiative to get the rules changed,” he says. Palm Desert makes loans to Native American tribes and individuals, and these loans have become a large part of its portfolio. “We have become the largest BIA lender in the country, and the Bank is our only source of liquidity for these loans,” says Mr. McGuire. “We are very pleased with the Bank’s willingness to change to meet our needs. It is our ability to pledge BIA-guaranteed loans that is enabling us to make more of these loans.”

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SCOTT CORNELIUS
PRESIDENT & CEO

JOHNSON BANK ARIZONA

AFFORDABLE CREDIT

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KEVIN MCGUIRE
CEO

PALM DESERT
NATIONAL BANK

Darnel Conley, Vice President and Chief Financial Officer at La Jolla Bank, FSB, also appreciated the Bank's responsiveness in 2000. La Jolla had reached its limit on Community Investment Program advances in the fall of 2000, but wanted to borrow more. Prompted in part by La Jolla's request, the Bank significantly increased the CIP limits for all members in November 2000. "Over 50% of our loan portfolio is for multifamily lending, and we do a fair amount of affordable housing, so we were very pleased when the Bank increased the CIP limits," says Ms. Conley. "Bank staff acted so quickly. It's great to work with them."

Oak Valley Community Bank in Oakdale, California, was one of the first members to take advantage of the Bank's new credit program, Advances for Community Enterprise (ACE). Introduced in May 2000, ACE offers discounted advances to promote community economic development and job creation and retention. Oak Valley's ACE advances are being used to fund the construction and permanent financing of a multiplex movie theater that will create 47 jobs in the small, rural town of Sonora. "We make loans that other banks wouldn't make," says Victor Berbano, Vice President at Oak Valley. "Many of our borrowers, such as the smaller farmers, would have difficulty getting loans without us. Using the Bank means we don't have to say 'no' to our customers."

Members also responded enthusiastically to the Bank's new homeownership set-aside program, the Individual Development and Empowerment Account (IDEA), which

In 2000, the Bank launched the Individual Development and Empowerment Account and Advances for Community Enterprise programs and significantly increased the amount members can borrow under CIP and ACE.

CREATING JOBS

OPPORTUNITY

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VP & CFO

LA JOLLA BANK, FSB

uses Affordable Housing Program funds to provide matching grants to eligible homebuyers. The Bank awarded $2.4 million to 24 programs, including two submitted by Hawthorne Savings, FSB, of El Segundo, California. "We're a community bank, and we take our CRA responsibilities very seriously," says Dave Hardin, Executive Vice President, Hawthorne Savings. "The IDEA program is an innovative tool that has already allowed us to provide some very deserving people with the opportunity to buy a home. On the business side, we use the Bank for liquidity, and we appreciate the Bank's ability to accept a wide range of collateral, but it's important to recognize the human, personal side of each loan we make. The Bank may lend to us in $40 million chunks, but we lend it out $150,000 at a time, and each loan we make has a huge impact on a family, one that may extend for generations."

Hawthorne Savings won a $1.2 million Bank Enterprise Award from the U.S. Treasury Department in 2000 for its community lending efforts. At the awards ceremony, Hawthorne was one of four lenders recognized. "We credit the Home Loan Bank with that special attention, because we were recognized not just for what we did, but for the way we did it—by partnering with community organizations using the Bank's IDEA program," says Mr. Hardin. "Empowering organizations to act as true community banks—that's what the Federal Home Loan Bank of San Francisco does."

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VICTOR BERBANO
EVP

OAK VALLEY
COMMUNITY BANK

HEALTHY COMMUNITIES

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HAWTHORNE SAVINGS, FSB