

To Our Members

At the heart of every healthy, prosperous community you will find local financial institutions that are willing and able to finance the many credit needs of that community, including the construction and purchase of homes, apartment buildings, and commercial space; the expansion of existing businesses and the start-up of new ones; and loans for education and other special purposes. The members of the Federal Home Loan Bank of San Francisco are at the heart of their communities, meeting a wide range of credit needs every day throughout Arizona, California, Nevada, and the other states where they do business. In 2000, the Bank played an important role in supporting the lending and community investment activities of its members, which led to new records for the Bank in total advances, assets, membership, and AHP grants. To expand its ability to serve its members, the Bank also introduced two new community investment programs and enhanced its collateral policies. At the same time, the Bank tackled the many challenges and opportunities presented by the Federal Home Loan Bank System Modernization Act of 1999, Title VI of the Gramm-Leach-Bliley Act.

Once again, the Bank's primary credit business played an essential part in fostering the economic vitality of the communities served by its members. Advances to members grew \$19.5 billion during the year, an increase of 22% relative to 1999. As in prior years, the Bank's largest members accounted for most of the growth in member credit in 2000. In all, 218 of the Bank's 292 members had advances outstanding during 2000, and 103 increased their Bank borrowings between yearend 1999 and yearend 2000.

Total assets grew to an all-time high of \$140.2 billion as of December 31, 2000, increasing \$24.3 billion, or 21%, relative to yearend 1999. This increase reflected the growth in advances and an increase of \$5.1 billion in held-to-maturity securities, as the Bank took advantage of favorable MBS investment opportunities to improve earnings and support its overall growth.

Attracted by the flexible credit options the Bank offers, 47 financial institutions joined the Bank during the year, increasing total membership to a record 292 institutions. The new members included 35 commercial banks, 9 credit unions, 2 savings institutions, and 1 thrift and loan company.

Through its members, the Bank awarded \$32.2 million in Affordable Housing Program subsidies to 117 projects in 2000. These housing initiatives will provide affordable rental and homeownership opportunities to over 5,700 families and individuals in Arizona, California, Nevada, and three other states served by Bank members. Since 1990, the Bank has awarded \$198 million in AHP subsidies, helping nearly 42,000 families and individuals find an affordable place to live.

At the outset of the year, the Bank held the inaugural round of its new homeownership set-aside program, the Individual Development and Empowerment Account (IDEA), which uses AHP funds to provide matching grants of up to \$10,000 to low-income households saving to buy a home. Members responded enthusiastically, and the demand for IDEA funds far exceeded the \$500,000 originally set aside for the program. As a result, the Bank increased the amount available and awarded a total of \$2.4 million to 24 programs.

To provide members with another funding resource for their community economic development lending, in the spring of 2000 the Bank launched a new credit program targeted to projects that support the creation and

retention of jobs or provide services or other benefits to low- and moderate-income people and communities. The Advances for Community Enterprise program provides discounted pricing on advances that members use to finance commercial, industrial, and manufacturing activities; social service, community, and public facility projects; and public or private infrastructure projects.

The Bank made several changes to its collateral policies in 2000 to give members greater access to Bank credit. As authorized by the Modernization Act, the Bank lifted the 30%-of-GAAP-capital limitation on commercial first mortgages, residential second mortgages, home equity lines of credit, and participation mortgages. The Bank also increased the maximum amount many members can borrow against their residential and multifamily first mortgages after conducting a comprehensive review of its collateral margins. In addition, the Bank began accepting two new collateral types in response to member interest—loans guaranteed by the Bureau of Indian Affairs and shares of certain mutual funds. In 2001, the Bank plans to begin accepting small business and agricultural loans as collateral from many of its members, as authorized by the Modernization Act.

The Modernization Act also established a framework for the implementation of a new capital structure for the Federal Home Loan Banks. To ensure the preservation of the Bank's unique relationship with its members as shareholders and customers, the Bank devoted considerable resources in 2000 to developing and communicating its views on the most critical attributes of an effective capital structure. Throughout the year, the Bank analyzed the key issues, communicated those issues to its members, and worked with the Federal Housing Finance Board and the other Federal Home Loan Banks to reach consensus. We are very pleased that the final capital rule, published in January 2001, incorporates the concepts we believe are essential for a workable capital plan. The Bank's goal this year is to work with its Board of Directors and members to finalize its capital plan and submit it to the Finance Board for approval by October 29, 2001, the deadline established in the rule.

The Bank paid an annual dividend of 7.17% for 2000, compared to 5.36% for 1999. The 2000 dividend was boosted, in part, by the payout of a portion of the Bank's retained earnings in the first two quarters of the year. If the Bank had not paid out these retained earnings, the

Bank's dividend for 2000 would have been 6.54%, 118 basis points higher than the 1999 dividend.

The Bank's accomplishments in 2000 would not have been possible without the leadership of the Board of Directors, the insights of the Affordable Housing Advisory Council, and the commitment of Bank staff. We thank all of them for their tremendous contributions to the Bank's success. In particular, we would like to acknowledge Dirk S. Adams, who left the board during the year, and to welcome Herbert M. Sandler back to the board. We would also like to extend our thanks to Sylvia Martinez, Anthony Scott, and Susan Wong for their service on the Affordable Housing Advisory Council, and welcome three new members to the Council: David Ferguson, Linda Mandolini, and Susan Reynolds.

In closing, we would like to thank you, our members, for using our products and services to help you meet the credit needs of your communities. Through your lending efforts, you give families and individuals the opportunity to achieve their dreams, and you create safer, more prosperous, stronger communities.



Mary Lee Widener

MARY LEE WIDENER
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J. LANCE ERICKSON
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Dean Schultz

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