

Membership Application Guidelines

Federal Home Loan Bank of San Francisco

**Membership Guidelines:
Insurance Companies**

Revised August 11, 2009

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Lending Strength to Your Bottom Line

You can improve your company's competitive position by taking advantage of the innovative, low-cost financing available to members of the Federal Home Loan Bank of San Francisco (Bank). Our diverse array of credit products can help you:

- improve profitability
- facilitate asset/liability management
- reduce on-balance sheet liquidity
- lower funding costs
- broaden product lines
- control interest rate risk, basis risk, and prepayment risk

We are a leading provider of short-, medium-, and long-term funds to member financial institutions, offering credit products with maturities ranging from one day to 30 years. These products include fixed and adjustable rate loans, known as "advances"; interest rate swaps, caps, and floors; and standby letters of credit. Each credit product can be customized to meet your company's special funding needs using different interest calculations, cash flows, amortization schedules, embedded options, and other features.

The Bank is one of 12 banks in the Federal Home Loan Bank System (FHLBank System). We link our members to the worldwide capital markets and maintain a ready supply of liquidity to ensure that funds are immediately available when our customers need them. The Federal Home Loan Banks (FHLBanks) issue consolidated obligations (bonds and discount notes) through the FHLBank System's Office of Finance. Because the FHLBanks' consolidated obligations are rated Aaa by Moody's Investors Service and AAA by Standard & Poor's, the FHLBanks are able to raise funds at rates that are close to Treasury security yields. Our modest administrative costs—the Bank's ratio of operating expenses to average assets in 2008 was 3 basis points—allow us to pass on these low funding rates to our members.

Membership Requirements

To become a member of the Bank, your company must meet various requirements, including:

- statutory and regulatory eligibility requirements
- underwriting review standards
- stock purchase requirement

Before completing the member application, please review the requirements described here to determine whether your company meets each one. If you have any questions about these membership eligibility requirements, please contact one of the Bank's Relationship Managers:

- Steve Cibull, Vice President, Mortgage Finance, at 415-616-2535, cibulls@fhlsbf.com
- John McCormack, Vice President and Managing Director, Mortgage Finance, at 415-616-2755, mccormaj@fhlsbf.com
- Tom Wilson, Vice President, Mortgage Finance, at 415-616-2748, wilsont@fhlsbf.com
- James Zabel, Vice President, Mortgage Finance, at 415-616-2646, zabelj@fhlsbf.com
- Patricia Remch, Senior Vice President, Mortgage Finance Sales and Product Development, at 415-616-2642, remchp@fhlsbf.com

Statutory and Regulatory Eligibility Requirements

The statutory and regulatory eligibility requirements for joining the Bank are:

1. **Duly Organized:** The company is duly organized under federal or state laws.
2. **Subject to Inspection and Regulation:** The company is inspected and regulated under state or federal banking or similar laws.
3. **Makes Long-Term Home Mortgage Loans:** The company either originates or purchases long-term home mortgage loans (loans with an original term-to-maturity of five years or more) that are secured with a first lien on the underlying residential real property. A company may also qualify by purchasing and holding mortgage-backed securities (MBS) representing an undivided interest in long-term home mortgage loans.
4. **Financial Condition:** The company's financial condition is such that the Bank may safely make advances to it.
5. **Character of Management and Home Financing Policy:** The character of the company's management and its home financing policy are consistent with sound and economical home financing. Typically, a satisfactory CRA rating will meet the standards for the home financing policy.

Underwriting Review Standards

In general, the Bank will use the following underwriting review standards to evaluate each applicant.

1. **Regulatory Examinations:** The company has received a satisfactory regulatory report on its most recent examination.
2. **Home Financing Policy:** The company's home financing policy is consistent with the FHLBank System's housing finance mission. An insurance company applicant must submit as part of its membership application a written justification acceptable to the Bank of how and why the applicant's home financing policy is consistent with the FHLBank System's housing finance mission.

3. **Capital:** The company meets or exceeds all current minimum statutory and regulatory capital requirements.
4. **Earnings:** The company has been profitable in at least four of the last six quarters.
5. **Audit Opinion:** The company has received an unqualified opinion from its external auditor relating to the most recent audit of its financial statements.
6. **Performance Trends:** The company is required to meet the minimum performance standards outlined by an external rating agency such as Standard & Poor's, Moody's Investors Service, A.M. Best, Weiss Ratings, LACE Ratings, or National Association of Insurance Commissioner's I.R.I.S. performance standards.
7. **Character of Management:**
 - **Enforcement Actions:** Neither the company nor any of its directors or senior officers is subject to, or operating under, any enforcement action instituted by its regulators. (If an enforcement action exists, the company should call to discuss the status of the action and the progress made in complying with the terms of the action.)
 - **Criminal, Civil, and Administrative Proceedings:** Neither the company nor any of its directors or senior officers has been the subject of any relevant criminal, civil, or administrative proceedings reflecting on creditworthiness, business judgment, or moral turpitude since the last regulatory examination.
 - **Monetary Liabilities, Pending Lawsuits, and Unsatisfied Judgments:** There are no known potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the company or any of its directors or senior officers that are significant to the company's operations since the last regulatory examination.

Stock Purchase Requirement

Each member is required to hold capital stock in the Bank equal to the greater of:

- A membership stock requirement; or
- An activity-based stock requirement.

The membership stock requirement is 1.0% of a member's "membership asset value." Membership asset value is determined by multiplying the amount of the member's membership assets by the applicable membership asset factors. Membership assets are assets, other than Bank capital stock, that could qualify as collateral to secure a member's indebtedness to the Bank, whether or not the assets are pledged to the Bank or accepted by the Bank as eligible collateral. Membership asset factors are based on the typical borrowing capacity percentages that we generally assign to the same types of assets when pledged to the Bank. The membership stock requirement is capped at \$25 million.

The activity-based stock requirement is:

- 4.7% of the member's outstanding advances; plus
- 5.0% of the member's outstanding mortgage loans purchased and held by the Bank.

We may adjust these requirements from time to time within limits established in our Capital Plan. Please note that the Bank is not purchasing loans from members at this time.

To determine your company's initial stock purchase requirement, please use the Applicant's Bank Stock Calculation: Insurance Companies form (FC 2178). In connection with the purchase of stock, you should review our most recent annual and quarterly reports, which are available on the Bank's website.

Applicants should review the Capital Plan and the Summary of Capital Plan for a complete description of the member's capital requirements, both of which are incorporated in this document by reference, are included with the membership application materials, and are posted on our website.

Withdrawal from Membership

A member may withdraw from membership upon five years' written notice to the Bank. During the five-year period, the member must continue to meet its minimum stock requirement. During this period, we may limit a member's ability to enter into transactions with us, including advances that would extend past the date the company's membership terminates.

Once a company leaves the FHLBank System, it may not rejoin for five years. The company's Bank stock will be redeemed at par after termination of its membership, subject to the repayment of any outstanding credit and the payment of any prepayment fees, and any other requirements specified in the Capital Plan. Following the termination of membership, the former member will continue to be subject to the activity-based stock requirement for any continuing Bank activity (including advances that remain outstanding and the portion of any mortgage loan sold by the member to the Bank that is still owned by the Bank).

Accessing Bank Products and Services

The following factors determine the maximum amount and maximum term of a member's borrowings from the Bank:

- the company's financial condition
- the amount and type of collateral pledged
- the level of residential housing finance assets held by the company
- whether the company has met the statutory and regulatory community support requirement
- the amount of Bank stock outstanding

Financing Availability

We establish a "financing availability" for each member based on a thorough underwriting of the company's creditworthiness. This financing availability defines the maximum amount and maximum term for Bank credit without additional review and approval by the Bank. If a company wants to exceed its financing availability, its request will be reviewed by our Credit Committee.

A member's financing availability is subject to review and change at any time. When establishing or reviewing a member's financing availability, we rely on financial information provided by the member, quarterly financial reports filed by the member with its primary regulator, regulatory examination reports and known regulatory enforcement actions, and public information.

Collateral

Each member must pledge sufficient collateral to secure its Bank borrowings, letters of credit, and certain other member obligations to the Bank. We lend up to a specified percentage of the market value (or other value) of the collateral. This percentage, known as the "borrowing capacity," varies according to several factors, including the collateral type, the pledging method used for loan collateral, data reporting frequency, the member's financial condition, and the results of our field review of a member's pledged loan collateral. Our collateral requirements are subject to change from time to time, and the new collateral requirements will apply to all outstanding borrowings and other obligations.

Insurance company members are currently limited to pledging securities collateral and Bank term deposits.

The following table lists the maximum borrowing capacities for eligible securities collateral.

Eligible Securities	Borrowing Capacity as a % of Market Value
Treasury	
Treasury Bills	99.5%
Treasury Notes and Bonds	98
Agency	
Discount Notes	98
Debenture Notes & Bonds	98
Agency Subordinated Debt (FHLMC, FNMA)	95
Agency MBS Passthroughs	95
Agency CMOs (FHLMC, FNMA, GNMA)	95
Agency CMO Accrual Bonds (Z-tranches) ¹	55
Structured Notes	90
Index Amortization Notes (P.S.A. Linked Notes)	95
Small Business Administration Pools	93
Private Label Non-Agency MBS	
Publicly Registered	
AAA Senior Residential MBS	85
AA Senior Residential MBS	65
AAA Subordinated and Mezzanine Residential MBS ¹	65
AA Subordinated and Mezzanine Residential MBS ¹	50
AAA Senior Home Equity ABS ¹	75
AAA Subordinated and Mezzanine Home Equity ABS ¹	65
AA Subordinated and Mezzanine Home Equity ABS ¹	50
AAA Senior Commercial MBS ¹	80
AAA Subordinated and Mezzanine Commercial MBS ¹	70
Private Placement – Book Entry or Physical Delivery	
AAA Senior Residential MBS	80
AA Senior Residential MBS	60
AAA or AA Mortgage-Related Municipal Bonds¹	80
Mutual Fund Shares	75
Bank Term Deposits	100

¹ The aggregate borrowing capacity of these types of securities and mortgage loan collateral other than residential and multifamily first lien mortgage loans and BIA-guaranteed loans is limited to 20% of the borrower's total assets.

All members are required to deliver their securities collateral to the Bank's custodian. For more detailed information on the Bank's collateral requirements and procedures, please refer to the Bank's Collateral Guide.

UCC-1 Financing Statement

The Bank perfects its security interest in all pledged collateral by filing a UCC-1 financing statement for each member with the applicable Secretary of State or filing office or by requiring delivery of pledged collateral.

The financing statement covers only assets that a member actually pledges to the Bank and in which a security interest can be perfected by the filing of a financing statement. Although some members may not have any collateral pledged to the Bank that can be perfected by the filing of a financing statement, the Bank files a financing statement for each member to ensure that each member will be able to borrow against any loan collateral that it pledges in the future. The Bank's filing of a financing statement does not affect assets that are not pledged to the Bank.

With respect to a member's relationship to other secured creditors, the Bank relies, among other things, on the member's representations and warranties that while collateral is pledged to the Bank, it is not pledged to any other party or creditor.

Limits on Long-Term Advances

The total amount of long-term advances the Bank may extend to a member may not exceed the total amount of residential housing finance assets held by the member. For this purpose, long-term advances are defined as advances with an original term to maturity greater than five years. Residential housing finance assets are defined by FHLBank System regulation and generally include:

- Loans secured by residential real property
- Participations in loans secured by residential real property
- MBS
- Loans that may be financed by advances offered under the Bank's CICA credit programs—e.g. Advances for Community Enterprise (ACE) advances, Community Investment Program (CIP), and Homeownership Preservation Advance (HPA)
- Loans secured by manufactured housing

Community Support Requirement

To maintain access to advances with an original term to maturity greater than one year and to the Bank's AHP and CICA credit programs, Bank members are required to submit a "Community Support Statement" to the Federal Housing Finance Agency approximately once every two years. This statement usually consists of a copy of the public portion of the member's CRA performance evaluation, evidence of its assistance to first-time homebuyers, and any additional information about its community support efforts.

The Bank is eager to work with you to help you fulfill this statutory requirement. The Bank's Community Investment Department provides technical assistance to all interested members. Our Affordable Housing Program (AHP), Homeownership Preservation Subsidy (HPS), Individual Development and Empowerment Account (IDEA), Workforce Initiative Subsidy for Homeownership (WISH), Access to Housing and Economic Assistance for Development (AHEAD), ACE, CIP, and HPA programs may also interest members that want to expand their involvement in affordable housing and community economic development activities.

Stock Purchases to Support Bank Borrowings

All of a member's borrowings from the Bank must be supported by capital stock holdings. As stated earlier, each member is required to hold capital stock in the Bank equal to the greater of:

- A membership stock requirement; or
- An activity-based stock requirement.

The membership stock requirement is 1.0% of a member's "membership asset value." Membership asset value is determined by multiplying the amount of the member's membership assets by the applicable membership asset factors. Membership assets are assets, other than Bank capital stock, that could qualify as collateral to secure a member's indebtedness to the Bank, whether or not the assets are pledged to the Bank or accepted by the Bank as eligible collateral. Membership asset factors are based on the typical borrowing capacity percentages generally assigned by the Bank to the same types of assets when pledged to the Bank. The membership stock requirement is capped at \$25 million.

The activity-based stock requirement is:

- 4.7% of the member's outstanding advances; plus
- 5.0% of the member's outstanding mortgage loans purchased and held by the Bank.

Please note that the Bank is not purchasing mortgage loans from members at this time.

Application Process

To apply for Bank membership, you must complete all of the required application forms and exhibits that are included in the Membership Application. At the time of application, you must also submit the amount of your company's initial stock purchase.

If you have any questions regarding the application process, please call one of the Bank's Relationship Managers listed on page 4.

Overview of the Application Process

- Your company submits the Membership Application required forms and exhibits to the Bank and remits by check or wire transfer the amount of your initial stock purchase requirement. (See remittance instructions below.)
- The Bank confirms in writing that funds for the initial stock purchase requirement have been received. While your application is being processed by the Bank, these funds accrue interest daily on an actual/360 basis with interest paid at maturity using the Federal Funds effective rate plus 2 basis points. (The current source for the Federal Funds effective rate is Telerate page 120.)
- The Bank requests a copy of your company's most recent regulatory examination report from your primary regulator. (Examination reports are provided directly to the Bank by the regulator and may not be submitted by the applicant.)
- Bank staff reviews the application for completeness and may request additional information from your company as needed.
- Once the regulatory examination report is received and the application is deemed complete, the Bank determines whether your company meets all statutory and regulatory eligibility requirements and underwriting review standards required for membership.
- The Bank notifies your company of approval or denial of your membership application within 60 days after the application is deemed complete.
- If your company is approved for membership, the Bank uses the funds held by the Bank for the initial stock purchase to purchase your required Bank stock and deposits any excess funds and accrued interest into your newly opened Settlement/Transaction Account.
- If your application is withdrawn or denied, the Bank will return the full amount of the initial stock purchase originally sent to the Bank plus all interest accrued on those funds.

Instructions for Remitting Initial Stock Purchase Requirement

To remit the amount of your initial stock purchase requirement to the Bank, you may enclose a check made payable to "Federal Home Loan Bank of San Francisco" with your application or you may wire the funds to:

Federal Reserve Bank ABA: 121000701
Federal Reserve Bank Telegraph Name: FHLB SF
Beneficiary: Stock purchase account 911113

Appendix A: Frequently Asked Questions

Structure of the Bank and the FHLBank System

Q. What is the Federal Home Loan Bank of San Francisco?

A. The Bank is a federally chartered corporation and one of 12 Federal Home Loan Banks (FHLBanks) in the Federal Home Loan Bank System (FHLBank System). The Bank's members—its shareholders and customers—are commercial banks, credit unions, savings institutions, thrift and loans, and insurance companies headquartered in Arizona, California, and Nevada, the three states that compose the FHLBank System's 11th District.

Within FHLBank System guidelines, each FHLBank's policies are based on its Board of Directors' and management's determination of the needs of the individual FHLBank. As a result, the policies of the Bank may differ from those of other FHLBanks.

The Bank's mission is to enable families and individuals of all income levels to obtain quality housing and become homeowners by providing wholesale products and services that help member financial institutions expand the availability of mortgage credit, compete more effectively in their markets, and foster strong and vibrant communities through community and economic development.

Q. What is the FHLBank System?

A. The FHLBank System was created by Congress in 1932 to promote housing finance nationwide and is made up of the 12 FHLBanks, the Office of Finance, and the financial institutions that are members of the FHLBanks. The FHLBanks are regulated by the Federal Housing Finance Agency.

Q. Where are the 12 FHLBanks located and what geographic areas do they serve?

A.	District	Bank	States Served
	First	Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
	Second	New York	New Jersey, New York, Puerto Rico, Virgin Islands
	Third	Pittsburgh	Delaware, Pennsylvania, West Virginia
	Fourth	Atlanta	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia
	Fifth	Cincinnati	Kentucky, Ohio, Tennessee
	Sixth	Indianapolis	Indiana, Michigan
	Seventh	Chicago	Illinois, Wisconsin
	Eighth	Des Moines	Iowa, Minnesota, Missouri, North Dakota, South Dakota
	Ninth	Dallas	Arkansas, Louisiana, Mississippi, New Mexico, Texas
	Tenth	Topeka	Colorado, Kansas, Nebraska, Oklahoma
	Eleventh	San Francisco	Arizona, California, Nevada
	Twelfth	Seattle	Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington, Wyoming, Guam, Pacific Islands

Q. Who manages the individual FHLBanks?

A. Each FHLBank has a board of directors made up of member and independent directors who are all elected by the members of the Bank.

Q. What is the Federal Housing Finance Agency (Finance Agency)?

A. The Finance Agency, an independent federal agency in the executive branch of the U.S. government, regulates and supervises the 12 FHLBanks, the Office of Finance, the Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (Freddie Mac). The Finance Agency was created on July 30, 2008, when the President signed into law the Housing and Economic Recovery Act of 2008. Previously, the FHLBanks were regulated by the Federal Housing Finance Board. With respect to the FHLBanks, the Finance Agency's role is to ensure that the FHLBanks carry out their housing finance mission, remain adequately capitalized, are able to raise funds in the capital markets, and operate in a safe and sound manner.

Q. What is the Office of Finance?

A. The FHLBanks have delegated to the Office of Finance, a joint office of the FHLBanks, responsibility for facilitating and executing the issuance of the consolidated obligations of the FHLBanks. The Office of Finance coordinates the issuance of consolidated obligations in the capital markets, services all outstanding

debt, and serves as a source of information for the FHLBanks on capital market developments.

Membership

- Q. What types of institutions can become members of the FHLBank System?
- A. Regulated financial depository institutions and insurance companies may become members of the FHLBank System. Regulated depository institutions include commercial banks, credit unions, savings institutions, and thrift and loan companies. For a complete list of the Bank's members, please visit our website.

Taxes and Assessments

- Q. Is the Bank subject to taxation?
- A. The Bank is exempt from all federal, state, and local taxation except for real property taxes. However, the Bank pays the following assessments, which affect the Bank's net income and the amount the Bank pays in dividends to members:
- 20% of net earnings assessment, after Affordable Housing Program (AHP) assessments and operating expenses, for debt coverage on bonds issued to fund the Resolution Funding Corporation (REFCORP). To the extent that the FHLBanks' annual REFCORP payments are higher or lower than \$300 million, the term of the REFCORP obligation will be shortened or lengthened relative to its original term, which is scheduled to end in 2030.
 - A share of the FHLBanks' annual assessment for the AHP. The assessment for the FHLBank System is equal to the greater of \$100 million or 10% of net income. The Bank's assessment is used to fund its own AHP, a competitive grant program that supports the affordable housing activities of its members.
 - A share of the FHLBanks' annual assessment to cover the administrative costs of the Finance Agency and the Office of Finance.

Stock and Dividends

- Q. Does the value of Bank stock change?
- A. All of the Bank's capital stock is purchased and redeemed at \$100 par value. There is no public market for the Bank's stock.
- Q. Does the Bank pay dividends on stock?
- A. The Bank normally pays a quarterly dividend, prorated for the period of time during the quarter that the stock was owned. The Bank has typically paid quarterly dividends in the form of stock, but paid a cash dividend for the second quarter of 2009.

- Q. What dividend rates has the Bank paid recently?
- A. Dividends tend to fluctuate with interest rates because the Bank manages equity to minimize interest rate risk. The annualized dividend rates for the last five years are:

2004	4.07%
2005	4.44
2006	5.41
2007	5.20
2008	3.93
First quarter 2009	N/A
Second quarter 2009	0.84

As announced in Bulletin No. 1314, dated January 8, 2009, and Bulletin No. 1321, dated April 10, 2009, both found in the Bulletins section of the Membership binder and also available on the [SEC website](#), the Bank did not pay a dividend for the fourth quarter of 2008 and the first quarter of 2009.

It should be noted that historical dividends paid by the Bank do not indicate whether the Bank will pay dividends in the future, nor are the historical dividend rates an indication of what dividend rates the Bank will pay in the future, if any.

Borrowing from the Bank

- Q. Where does the Bank obtain funds?
- A. The Bank raises most of its funds in the public debt markets. The FHLBanks' consolidated bonds and discount notes are sold through the Office of Finance. These obligations are the joint and several obligations of the 12 FHLBanks. These consolidated obligations are rated Aaa by Moody's Investors Service and AAA by Standard & Poor's. As a result, the Bank is able to raise funds at rates that are close to rates on U.S. Treasury securities. The Bank's modest administrative costs, among the lowest of any financial institution, allow us to pass these low rates on to our customers.

The Bank also accepts deposits from members. Moody's Investors Service has given an Aaa rating to the long-term deposit obligations of the Bank.

An additional source of funds is the proceeds of the capital stock purchased by members.

- Q. What does an institution have to do to borrow from the Bank?

- A. To access Bank credit, a member must first:
- Execute the required resolutions and agreements
 - Complete the necessary purchase of Bank capital stock
 - Pledge sufficient collateral

Once the member has completed these steps and the Bank has established a financing availability for the member, the member may borrow from the Bank by calling the Bank's Mortgage Finance Desk at (800) 444-3452 or by using eTransact, the Bank's secure Internet transaction service from 7 a.m. until 2 p.m. California time on any business day. (A business day is a day on which the Bank is open to conduct credit transactions with its members unless otherwise noted.)

Q. How can a member obtain pricing information on advances?

A. Daily price indications for many of the Bank's standard credit products and the Securities-Backed Credit Program are provided via email and on the password-protected section of the Bank's website (fhbsf.com). The email is sent to all members at approximately 7 a.m. each business day. Prices are subject to change during the day depending on market conditions, the Bank's cost of funds, and other factors. Members can get a current quote on a specific advance transaction by calling the Bank's Mortgage Finance Desk at (800) 444-3452 or by using eTransact between 7 a.m. and 2 p.m. California time on any business day.

Same-day pricing and/or funding for advances with maturities up to 10 years are available according to your institution's financing availability, subject to market conditions. For advances with maturities greater than 10 years, same-day pricing and/or funding are subject to market execution. For more information, please see the sample price indications found in the Price Indications section of the Membership binder.

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