

Federal Home Loan Bank of San Francisco

## **Membership Guidelines**

Revised August 24, 2011

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## Lending Strength to Your Bottom Line

You can improve your 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” and standby letters of credit. Each credit product can be customized to meet your 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 AA+ 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 2010 was 7 basis points—allow us to pass on these low funding rates to our members.

## Membership Requirements

Bank membership is available to the following types of financial institutions:

- federally insured commercial banks, credit unions, savings institutions, and industrial loan companies
- insurance companies
- privately insured, state-chartered credit unions that are certified by the Community Development Financial Institutions Fund (CDFI Fund) of the U.S. Department of the Treasury. CDFI credit unions are subject to the same eligibility requirements as federally insured credit unions.
- community development loan funds and venture capital funds that are certified by the CDFI Fund. For the purpose of this document, these organizations are referred to as CDFIs.

Holding companies for depository institutions are not eligible for membership as CDFIs.

To become a member of the Bank, applicants 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 institution 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 and Managing Director, Mortgage Finance, at 415-616-2535, [cibulls@fhlsbf.com](mailto:cibulls@fhlsbf.com)
- John McCormack, Vice President and Managing Director, Mortgage Finance, at 415-616-2755, [mccormaj@fhlsbf.com](mailto:mccormaj@fhlsbf.com)
- Tom Wilson, Vice President and Managing Director, Mortgage Finance, at 415-616-2748, [wilsont@fhlsbf.com](mailto:wilsont@fhlsbf.com)
- Patricia Remch, Senior Vice President, Sales and Marketing, at 415-616-2642, [remchp@fhlsbf.com](mailto:remchp@fhlsbf.com)

### Statutory and Regulatory Eligibility Requirements

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

1. **Duly Organized:** The applicant is duly organized under federal, state, or tribal laws.
2. **Subject to Inspection and Regulation:** The applicant must meet the following requirement:
  - **Commercial Banks, Credit Unions, Savings Institutions, Industrial Loan Companies, and Insurance Companies:** The applicant is inspected and regulated under state or federal banking or similar laws.
  - **CDFIs:** The applicant is certified by the CDFI Fund.
3. **Makes Long-Term Home Mortgage Loans:** The applicant 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. An applicant may also qualify by purchasing and holding mortgage-backed securities (MBS) representing an undivided interest in long-term home mortgage loans.

4. **10% Requirement:** The applicant must meet the following requirement:
- **Commercial Banks, Savings Institutions, and Industrial Loan Companies:** If the applicant is not a Community Financial Institution (CFI), it must have at least 10% of its total assets in residential mortgage loans, excluding securities sold under repurchase agreements. A CFI is an FDIC-insured depository institution with average total assets for the preceding three yearends of less than \$1,040 million (as of 1/1/11). CFIs are exempt from the 10% requirement.
  - **Credit Unions:** The applicant has at least 10% of its total assets in residential mortgage loans.
  - **Insurance Companies and CDFIs:** Not applicable.

For the purpose of the 10% requirement, residential mortgage loans generally include:

- loans secured by first or junior liens on one- to four-family property or multifamily property (including nursing homes, dormitories, and retirement homes)
  - home equity loans
  - MBS (Note: Assets used to secure mortgage debt securities are not to be included.)
  - manufactured housing loans
  - funded residential construction loans
  - loans to finance commercial and economic development activities, including non-residential mortgage loans and commercial loans that benefit targeted beneficiaries or targeted income levels that would satisfy the Community Investment Cash Advance (CICA) regulation of the FHLBank System
5. **Financial Condition:** The applicant's financial condition is such that the Bank may safely make advances to it.
6. **Character of Management and Home Financing Policy:** The applicant must meet the following requirement:
- **Commercial Banks, Credit Unions, Savings Institutions, and Industrial Loan Companies:** The character of the applicant'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.
  - **Insurance Companies and CDFIs:** A written narrative describing the manner in which the applicant supports housing finance is generally sufficient.

### Underwriting Review Standards

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

1. **Regulatory Examinations:** The applicant must meet the following requirement:
- **Commercial Banks, Credit Unions, Savings Institutions, and Industrial Loan Companies:** The applicant has a composite regulatory examination rating of 1, 2, or 3 on its most recent examination, and the examination occurred within the last two years.
  - **Insurance Companies:** The applicant has received a satisfactory regulatory report on its most recent examination.
  - **CDFIs:** Not applicable.

2. **Community Reinvestment Act Performance Evaluations or Home Financing Policy (based on charter type):** The applicant must meet the following requirement:
  - **Commercial Banks, Savings Institutions, and Industrial Loan Companies:** The applicant has a CRA rating of Outstanding or Satisfactory on its most recent examination. (Does not apply to de novo applicants.)
  - **Credit Unions, Insurance Companies, and CDFIs:** The applicant's home financing policy is consistent with the FHLBank System's housing finance mission. Insurance companies and CDFIs must submit as part of their membership application a written justification acceptable to the Bank of how and why their home financing policy is consistent with the FHLBank System's housing finance mission.
3. **Capital:** The applicant meets or exceeds all current minimum statutory and regulatory capital requirements.
4. **Earnings:** The applicant must meet the following requirement:
  - **Commercial Banks, Credit Unions, Savings Institutions, Industrial Loan Companies, and Insurance Companies:** In general, the applicant has been profitable in at least four of the last six quarters.
  - **CDFIs:** In general, the applicant has positive net income on a rolling three-year average basis.
5. **Net Asset Ratio (CDFIs only):** The applicant has a ratio of net assets to total assets of at least 20%, with net and total assets including restricted assets, where net assets is calculated as the residual value of assets over liabilities and is based on the information derived from the applicant's most recent financial statement.
6. **Loan Loss Reserves (CDFIs only):** The applicant has a ratio of loan loss reserves to loans and leases 90 days or more delinquent (including loans sold with full recourse) of at least 30%, where loan loss reserves are a specified balance sheet account that reflects the amount reserved for loans expected to be uncollectible and are based on the applicant's most recent financial statement.
7. **Liquidity (CDFIs only):** The applicant has an operating liquidity ratio of at least 1.0 for the four most recent quarters, and for one or both of the two preceding years, where the numerator of the ratio includes unrestricted cash and cash equivalents and the denominator of the ratio is the average quarterly operating expense for the four most recent quarters.
8. **Audit Opinion:** The applicant has received an unqualified opinion from its external auditor relating to the most recent audit of its financial statements.
9. **Performance Trends:**
  - **Commercial Banks, Credit Unions, Savings Institutions, Industrial Loan Companies, and CDFIs:** The applicant is required to meet the minimum performance standards defined in the FHLBank System's membership regulation (12 CFR §1263.6), which is included in the Membership Application.
  - **Insurance Companies:** The applicant is required to meet the minimum performance standards defined 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.

#### 10. Character of Management:

- **Commercial Banks, Credit Unions, Saving Institutions, and Industrial Loan Companies:** The applicant must meet the following requirements:
  - **Enforcement Actions:** Neither the applicant 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 applicant 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 applicant 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 applicant or any of its directors or senior officers that are significant to the applicant's operations since the last regulatory examination.
- **CDFIs:** The applicant must meet the following requirements:
  - **Criminal, Civil, and Administrative Proceedings:** Neither the applicant 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 in the last three years.
  - **Monetary Liabilities, Pending Lawsuits, and Unsatisfied Judgments:** There are no known potential monetary liabilities, material pending lawsuits, or unsatisfied judgments against the applicant or any of its directors or senior officers that are significant to the applicant's operations in the last three years.

#### ***De Novo Institutions***

The following applies to commercial banks, savings institutions, and industrial loan companies.

Because de novo institutions do not have a proven record of operating history, they are subject to modified membership requirements and credit facilities. In addition to submitting the documentation that is required for standard applicants, de novo institutions must submit a copy of their regulator-approved business plan. We use the business plan for guidance on how the applicant meets the statutory and regulatory membership requirements.

De novo institutions are subject to more modest financing availabilities than those typically offered to other members. Until the institution is no longer designated de novo by the Bank, the member is required to pledge loan collateral under a blanket lien with detailed reporting and to deliver loan collateral to the Bank. If your institution is a de novo, please contact one of our Relationship Managers to discuss these criteria.

#### **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. The membership stock requirement is capped at \$25 million.

To determine your initial stock purchase requirement, please use the applicant's bank stock calculation form that corresponds to your charter type.

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 at this time.)

We may adjust our capital stock requirements from time to time within limits established in our Capital Plan.

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.

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.

#### **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 termination of membership.

Once a member leaves the FHLBank System, it may not rejoin for five years. The former member'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 member's financial condition
- the amount and type of collateral pledged
- the level of residential housing finance assets held by the member
- whether the member has met the statutory and regulatory community support requirement
- the amount of Bank capital stock outstanding

### Financing Availability

We establish a "financing availability" for each member based on a thorough underwriting of the applicant's creditworthiness. This financing availability defines the maximum amount and maximum term for Bank credit without additional review and approval by the Bank. If an applicant 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 the following:

- financial information provided by the member
- quarterly financial reports filed by the member with its primary regulator, if applicable
- regulatory examination reports and known regulatory enforcement actions, if applicable
- public information
- information requested directly from the member, if needed

The Bank may obtain credit and other information regarding a member from federal and state agencies with regulatory authority over the member. The Bank may also share credit and other information regarding a member with the member's regulators pursuant to information sharing agreements between the Bank and regulators.

### 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 unpaid principal balance 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 eligible securities collateral and Bank term deposits.

For commercial banks, credit unions, savings institutions, industrial loan companies, and CDFIs, eligible collateral includes:

- residential first lien mortgage loans (single-family or multifamily)
- securities representing a whole interest in residential first lien mortgage loans (single-family or multifamily)
- securities issued, insured, or guaranteed by the federal government or a federal agency, or mutual fund shares comprised of eligible securities
- Bank term deposits

The following collateral types are also eligible to secure Bank advances, credit, and other obligations, typically in an aggregate amount up to 20% of the member's total assets (within the limits of the member's applicable financing availability):

- residential second lien mortgage loans on single-family properties
- home equity lines of credit (HELOCs)
- commercial first lien mortgage loans
- first lien mortgage loan participations (single-family, multifamily, or commercial)
- AAA- and AA-rated subordinated and mezzanine residential MBS
- AAA- and AA-rated senior, subordinated, and mezzanine home equity loan asset-backed securities
- AAA- and AA-rated mortgage-related municipal bonds
- AAA-rated senior, subordinated, and mezzanine commercial MBS
- small business, small farm, and small agribusiness loans (CFIs only)

All securities collateral must be delivered to the Bank's custodian. The Bank allows most members to maintain physical possession of loan collateral pledged to the Bank. However, the Bank may require delivery of loan collateral from a member at any time (for example, if the member's financial condition has deteriorated, the Bank's priority in the collateral is in question, or the Bank deems itself insecure). De novo institutions are required to deliver loan collateral to the Bank.

Listed below are the maximum borrowing capacities for selected mortgage loans under our blanket lien pledging method for reviewed loans (detailed reporting), which provides the highest borrowing capacities available at the Bank, and for selected securities. These values are subject to change and may be adjusted to reflect new conditions in the housing, mortgage, and securities markets. The actual borrowing capacity assigned to a member's pledged loan collateral will depend on the results of our field review and other factors.

<u>Loans That Are Priced Monthly</u>	<u>Standard Borrowing Capacity (as a Percentage of Market Value)</u>
Residential First Lien Mortgage Loans & Participations	85%
<u>All Other Loans</u>	<u>Standard Borrowing Capacity (as a Percentage of Unpaid Principal Balance)</u>
Multifamily First Lien Mortgage Loans & Participations	65%
Commercial First Lien Mortgage Loans	60%
Residential Second Lien Mortgage Loans & Participations and Home Equity Lines of Credit	20%
<u>Selected Securities</u>	<u>Borrowing Capacity</u>
U.S. Treasury bills (one year or less)	99.5%
U.S. Treasury notes & bonds (one to ten years)	98%
Agency discount notes and debenture notes and bonds	98%
Agency MBS passthroughs	95%
Agency CMOs	95%

**Collateral Review**

Bank staff will periodically conduct a field review of loan collateral at the member's offices at no cost to the member.

Field reviews are usually scheduled when a member initially borrows from the Bank and every 6 to 24 months after that, depending on the financial condition of the member, its borrowing level, and the findings of the previous review (if applicable). Results of the field review will be used to determine collateral eligibility and whether it is necessary to adjust the member's borrowing capacity. Field reviews typically last from two to three days.

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), Community Investment Program (CIP), and Homeownership Preservation Advance (HPA)
- Loans secured by manufactured housing

For CFIs, residential housing finance assets also include small business, small farm, and small agribusiness loans.

**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.

**Note:** CDFIs are exempt from this requirement because they are certified by the CDFI Fund.

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), 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. The activity-based stock requirement is 4.7% of the member's outstanding advances. We may adjust this requirement from time to time within limits established in our Capital Plan.

## 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 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

- You submit the Membership Application required forms and exhibits to the Bank and remit 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.)
- Except for CDFIs, the Bank requests a copy of your 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 you as needed.
- Once the regulatory examination report is received, if applicable, and the application is deemed complete, the Bank determines whether you meet all statutory and regulatory eligibility requirements and underwriting review standards required for membership.
- The Bank notifies you of approval or denial of your membership application within 60 days after the application is deemed complete.
- If you are 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 headquartered in Arizona, California, and Nevada, the three states that compose the FHLBank System's 11th District. The Bank's members may include federally insured depositories, insurance companies, and community development financial institutions (CDFIs). Federally insured depositories include commercial banks, credit unions, industrial loan companies, and savings institutions. CDFIs include privately insured, state-chartered credit unions, community development loan funds, and venture capital funds that are certified as CDFIs by the CDFI Fund of the U.S. Department of the Treasury.

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. Federally insured depository institutions, insurance companies, and community development financial institutions (CDFIs) may become members of the FHLBank System. Federally insured depository institutions include commercial banks, credit unions, savings institutions, and industrial loan companies. CDFIs include community development loan funds, venture capital funds, and privately insured, state-chartered credit unions that are certified as CDFIs by the CDFI Fund of the U.S. Department of the Treasury.
- Q. What is a Community Financial Institution (CFI)?
- A. A CFI is an FDIC-insured depository institution with average total assets for the preceding three yearends of less than \$1,040 million (as of 1/1/11).

### **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 may affect the amount available for dividends:
- 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 in stock or cash form?
- A. The Bank has historically paid quarterly stock dividends, The Bank began paying cash dividends in 2009 to comply with Finance Agency rules, which do not permit the Bank to pay stock dividends if the Bank's excess stock exceeds 1% of its assets.

Q. What dividend rates has the Bank paid recently?

A. The annual dividend rates for the last five years are:

2006	5.41%
2007	5.20
2008	3.93
2009	0.21
2010	0.34

Please note that historical dividends paid by the Bank are not an indication that the Bank will pay dividends in the future and are not an indication of the 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 obligation bonds and discount notes are sold through the Office of Finance. These consolidated obligations are the joint and several obligations of the 12 FHLBanks. These consolidated obligations are rated Aaa by Moody's Investors Service and AA+ 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 (fhlsf.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 or the Price Indications available on the Bank's member website.