

Letters of Credit – A Better Way to Collateralize Public Agency Deposits

What is an FHLBank San Francisco Letter of Credit?

A letter of credit is an obligation of the FHLBank San Francisco to make payment to a third party if a member financial institution does not perform its underlying obligation to that third party.

FHLBank San Francisco
233 Bush Street, Suite 2700
San Francisco, CA 94104
fhl.com

Irrevocable Letter of Credit

Click or tap to enter a date.
Letter of Credit No. Click or tap here to enter text.
Click or tap here to enter text.
Click or tap here to enter text.

Creeditings.

At the request and for the account of Click or tap here to enter text., Click or tap here to enter text., Choose an item. ("Member") the Federal Home Loan Bank of San Francisco (the "Bank") hereby establishes in favor of Click or tap here to enter text. (the "Beneficiary") the Irrevocable Letter of Credit No. Click or tap here to enter text., pursuant to which, subject to the terms and conditions contained herein, the Bank authorizes you to draw upon the Bank an amount not exceeding \$Click or tap here to enter text. (the "Credit Amount") at any time from the date hereof until the close of the Bank's business on Click or tap here to enter text. (the "Expiration Date"). The Credit Amount shall be automatically reduced without reinstatement as of the date and by the amount of any demand for payment honored by the Bank under this Letter of Credit. Upon the Bank's receipt of your request for reduction in the form of Exhibit B ("Request for Reduction"), the Credit Amount shall be reduced to the amount stated in the Request for Reduction by an amendment to this Letter of Credit. Except for reduction of the Credit Amount by reason of a demand for payment honored by the Bank or by reason of your request for reduction in the form of Exhibit B, the Credit Amount shall not be reduced without your written consent. The Credit Amount may be increased from time to time, at the request of the Member, by an amendment to this Letter of Credit. Partial drawings and multiple drawings are permitted.

Your notification to us in the form of Exhibit A (written on your letterhead and signed by your authorized officer, with the bank appropriately completed) (the "Certificate") and presented in full compliance with the terms and conditions of this Letter of Credit at or before 12:00 p.m. (San Francisco time) on a Business Day will be honored by our payment of the amount specified in Paragraph (2) of the Certificate in immediately available funds no later than 12:00 p.m. (San Francisco time) on the next Business Day following the date of presentation. Documents received after 12:00 p.m. (San Francisco time) will be deemed to have been received on the following Business Day. For purposes of this Letter of Credit, a Business Day is defined as any day on which the Bank is open to conduct business.

Unless you have been notified that presentation of the Certificate shall be made at another location, presentation of your Certificate must be made at the Bank's offices at 233 Bush Street, Suite 2700, San Francisco, California 94104, Attention: Operations Letters of Credit. We will make payment under this Letter of Credit by wire transfer funds to the account designated in your Certificate.

Upon honoring a drawing under this Letter of Credit, the Bank's obligations in respect of the drawing are discharged and the Bank will have no further obligations with respect to the drawing. If you make a demand for payment under this Letter of Credit that does not conform, in any instance, to the terms of this Letter of Credit, we will give you notice that the purported demand does not conform with the terms of the Letter of

Click or tap here to enter text.
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Credit and we may hold the documents of your deposit or return them to you, at our option. This may prevent the proceeds of the securities from being used for payment, and in the event that you have written (either signed or stamped) a check or other negotiable instrument, you will be responsible for payment of the check or other negotiable instrument. (b) the Collection Date, (c) the Expiration Date, (d) the Bank's authority to draw upon the amount of the drawing, the authority of any person signing on your behalf or your representations on the Certificate.

The Letter of Credit will be governed by and construed in accordance with the Uniform Customs and Practice for International Bankers' Credits (UCP) Revised, International Chamber of Commerce Publication 600 (the "Uniform Customs and Practice") and, to the extent not inconsistent with the Uniform Customs and Practice, the laws, regulations and other applicable laws of the United States of America. The Letter of Credit must be in writing, must be irrevocable and must be for the account of the Member.

This Letter of Credit is not transferable or assignable, either in whole or in part, except with the express written consent of the Bank and the Beneficiary.

This Letter of Credit sets forth in full the undertaking of the Bank, and this undertaking may not be modified, amended or qualified in any way without the written consent of the Bank and the Beneficiary.

Very truly yours,
Federal Home Loan Bank of San Francisco

Click or tap here to enter text.

How Are Public Agency Deposits Secured?

Two Leading Options:

- Depository institution pledges securities as collateral
- Depository institution obtains a Letter of Credit from FHLBank San Francisco, which guarantees the repayment of non-insured funds to public unit depositories

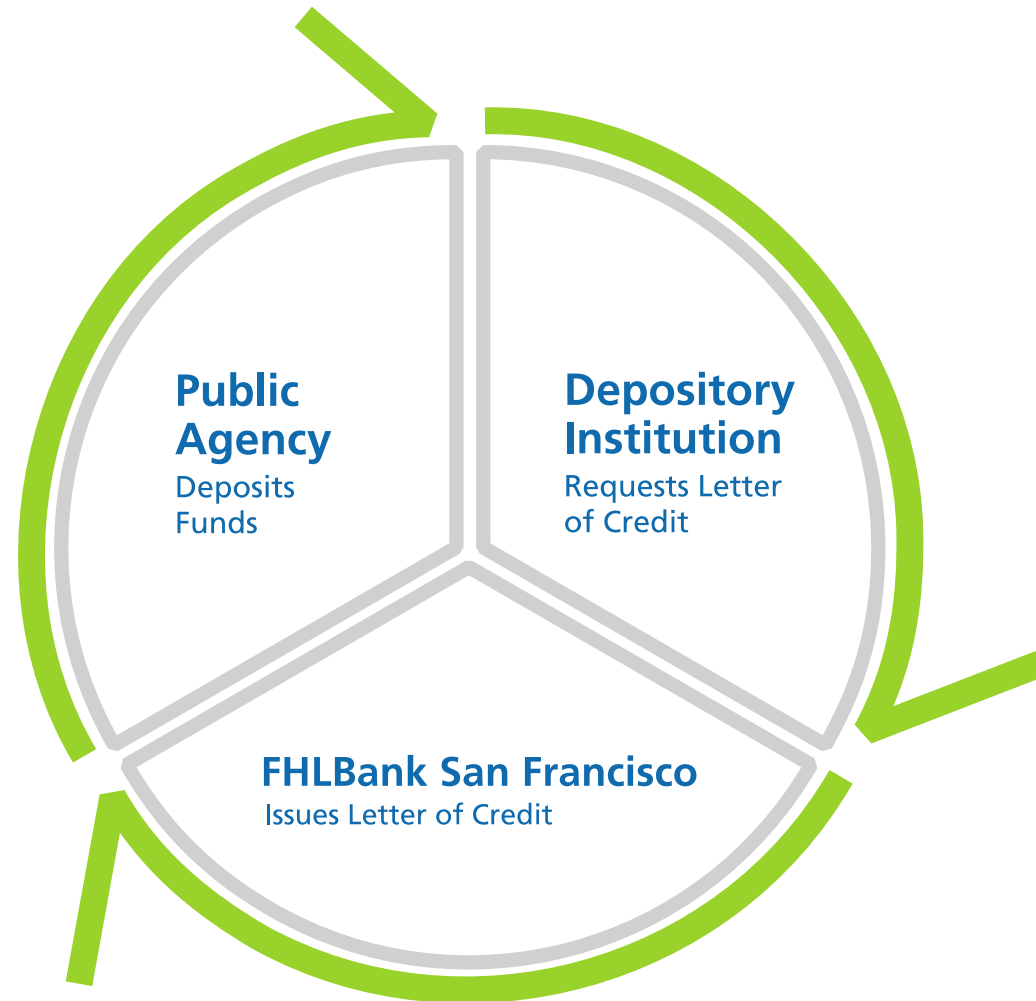
Securities Collateral: Disadvantages

1. Subject to market fluctuations, calls, maturities, and principal payments
2. Added administrative cost of additional monitoring by a third-party custodian
3. Opportunity cost of holding lower-yielding securities expressly for deposit collateral purposes rather than high-yielding loans, which support FHLBank San Francisco activity
4. Complicated liquidation and transfer process in the event of default
5. Subject to receivership proceedings

Letter of Credit: Advantages for Public Agencies

1. Rated Aaa by Moody's and AA+ by Standard & Poor's
2. Irrevocable, which ensures that the amount or term cannot be changed and that the letter of credit cannot be cancelled without the public agency's approval
3. Fixed face amount that is not subject to market fluctuations and margin calls
4. Seamless and timely payout if the need ever arises
5. No cost to the public agency
6. Established practice in accordance with the UCC

Letter of Credit: How It Works



FHLBank San Francisco

- A stable and reliable source of funding for members in Arizona, California, and Nevada
- Committed to strengthening communities through grants and discounted loans for affordable housing and economic development
- Rated Aaa by Moody's and AA+ by Standard & Poor's
- As of December 31, 2020:

Total Assets:	\$68.6 Billion	Total Letters of Credit:	\$ 17.7 Billion
Total Advances:	\$31.0 Billion	Total Capital:	\$ 6.0 Billion

FHLBank San Francisco Serves the 11th FHLBank District



143 Commercial
Banks

152
Credit Unions

152
Credit Unions

13 Savings
Unions

7
Community
Development
Financial
Institutions

4
Industrial Loan
Companies

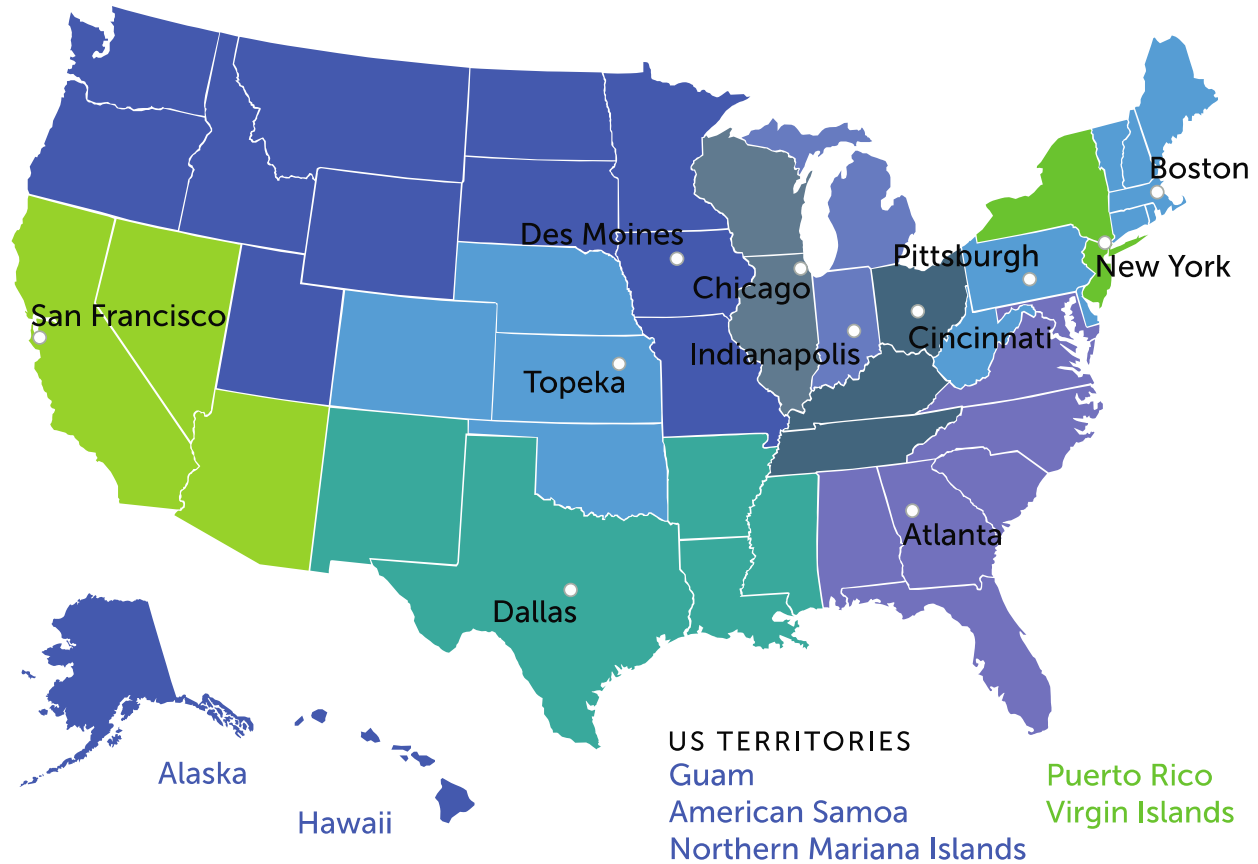
Federal Home Loan Bank System

- FHLBank San Francisco is one of 11 independent FHLBanks that support housing finance and community and economic development
- Raise funds in the global capital markets to provide funding to member financial institutions at favorable rates and terms
- Government-sponsored enterprises created and chartered by Congress in 1932
- Regulated by the Federal Housing Finance Agency
- Registered with the U.S. Securities and Exchange Commission
- As of December 31, 2020:

Total Assets:	\$820.7 Billion	Total Letters of Credit:	\$ 164.4 Billion
Total Advances:	\$422.6 Billion	Total Capital:	\$ 50.2 Billion

Federal Home Loan Bank System Map

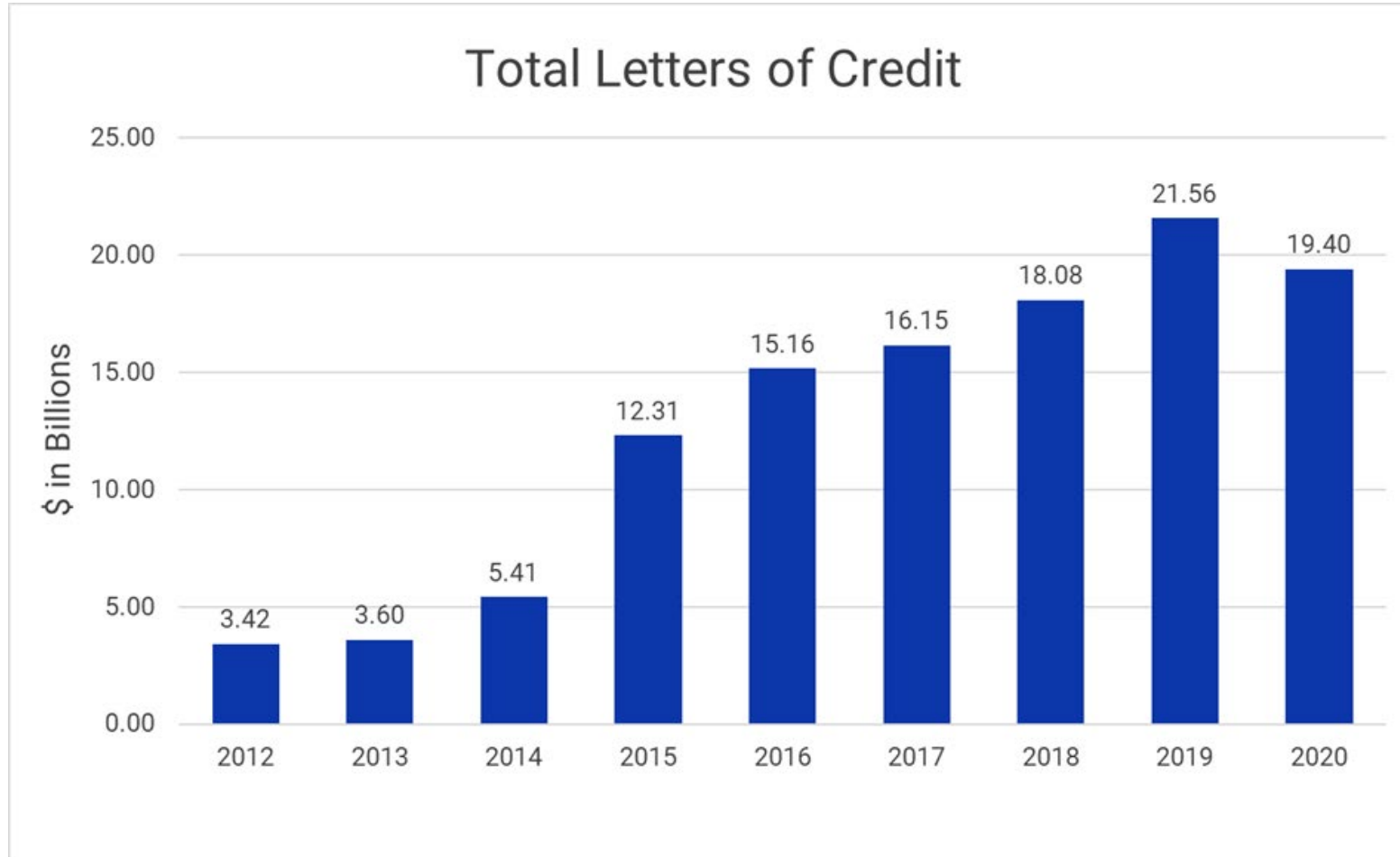
11 Federal Home Loan Bank Systems



Letters of Credit Are Widely Accepted

- Arizona: Arizona Pooled Collateral Program
- California: Local Agency or State Deposits
- Nevada: Nevada Collateral Pool
- Public agencies in 17 other states use FHLBank San Francisco Letters of Credit to secure their deposits

FHLBank San Francisco Letter of Credit Volume by Year

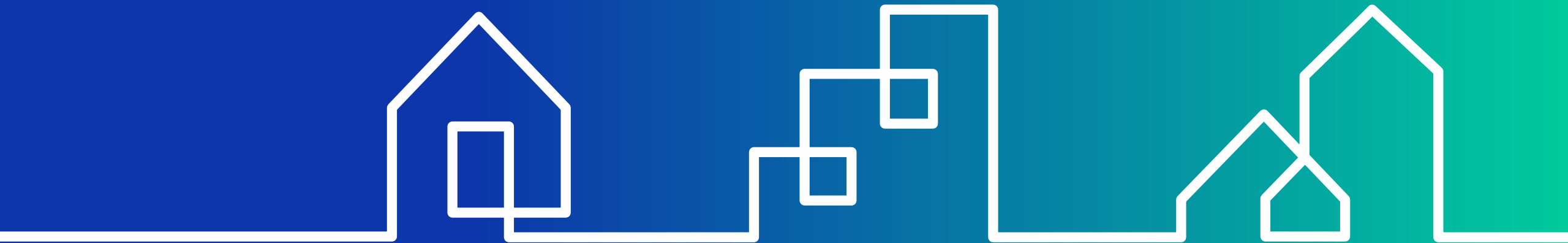


Could a Letter of Credit Work for You?

1. Established strategy for securing public agency deposits
2. Backed by a highly rated government-sponsored enterprise
3. Widely accepted, with \$164 billion of public agency deposits secured by FHLBank Letters of Credit nationwide
4. Irrevocable, efficient, easy to use

Questions?

Contact us at (xxx) xxx-xxxx



Thank you.

