

to our members

In 2001, the Federal Home Loan Bank of San Francisco continued to deliver the products and programs members need to provide accessible and affordable credit to their communities. The Bank's members operate in a complex and challenging business environment, one that demands financial sophistication and powerful tools to help them remain stable and profitable over the long term. As the profiles in this year's annual report demonstrate, members rely on the Bank to help them manage liquidity, control costs, reduce interest rate risk, and create new loan products. In addition, the Bank's community investment programs and initiatives help members in their efforts to revitalize neighborhoods and bridge the housing affordability gap for lower income families. Throughout the year, the Bank explored new ways to help members achieve these diverse goals.

In 2001, the nation's economy slowed and interest rates fell to record lows, causing a surge in mortgage refinancings and a shift from adjustable rate to fixed rate loans. As members experienced strong retail deposit growth coupled with attractive alternative sources of funds, member demand for advances started to taper off during the second quarter of the year. While average advances increased 8% in 2001 relative to the prior year, total advances declined by \$7.8 billion, or 7%, from yearend 2000 to yearend 2001.

Two-thirds of the members took advantage of the Bank's credit programs during 2001. Many members seized the opportunity presented by historically low interest rates to lock in long-term fixed rate funding, resulting in an \$11.5 billion increase in long-term fixed rate advances during the year. In all, 218 of the Bank's 324 members had advances outstanding during 2001, and 120 members increased their advance borrowings between yearend 2000 and yearend 2001.

To give Community Financial Institutions greater access to Bank credit, as authorized by the Gramm-Leach-Bliley Act, in 2001 the Bank introduced guidelines for CFIs to pledge small business, small farm, and small agribusiness loans. The Bank also expanded its collateral guidelines for residential second lien mortgage loans and

home equity lines of credit, and it began accepting the pledge of loans registered with MERS®. In addition, the Bank instituted a policy on predatory lending, which defines the criteria the Bank will use to determine whether a loan is predatory and therefore ineligible to be pledged to the Bank as collateral.

The Bank launched its participation in the Mortgage Partnership Finance® Program in 2001 to provide members with a competitive alternative to the traditional secondary market. Under the program, the Bank buys conventional conforming and government-guaranteed fixed rate mortgage loans from members and pays them monthly credit enhancement fees for managing the credit risk of the loans. The MPF® Program allows members to capitalize on their expertise in managing credit risk while taking advantage of the Bank's ability to manage the interest rate and prepayment risks inherent in long-term fixed rate mortgages. Five members signed up as Participating Financial Institutions during the year, and the Bank expects to begin buying loans from members in 2002.

To support members' efforts to create affordable housing for low- and moderate-income households and foster community economic development, the Bank funded \$618.8 million in Community Investment Program advances in 2001. In addition, the Bank funded \$24.3 million in Advances for Community Enterprise to support job creation and retention. The Bank also issued \$125.4 million in housing-related letters of credit and \$5.6 million in letters of credit designed to support job creation and retention.

The Bank's Affordable Housing Program continues to be a popular, and therefore highly competitive, program. In 2001, the Bank received 287 applications and awarded \$38.3 million to 123 winning projects and programs to help create affordable housing for 6,810 very low-, low-, and moderate-income households. Since 1990, the Bank has awarded to the Bank's members and their affordable housing developer partners over \$234 million to help more than 48,000 families and individuals obtain quality affordable housing or purchase a home of their own.

In the second year of the Individual Development and Empowerment Account Program, the Bank awarded \$6.6 million to provide matching grants to first-time homebuyers saving to buy a home through an individual development account or through HUD's Family Self-Sufficiency Program.

In 2001, the Bank continued to foster collaborative efforts among faith-based organizations and financial institutions under its Faith-Based Housing and Economic Development Initiative, which was launched in 2000. The Bank conducted four workshops throughout the District and co-sponsored a faith-based conference with HUD, helping to connect faith organizations to a variety of resources, training opportunities, and potential partners to further their involvement in affordable housing and community economic development. Partly as a result of these efforts, 18 faith organizations were successful in winning \$4 million in AHP subsidy during the year.

In the fall of 2002, the Bank will host "Expanding the Territory," a conference for faith communities, financial institutions, housing and economic development corporations, public agencies, and community groups that will focus on expanding the role of faith communities in affordable housing and community economic development through new strategies for capitalization, collaboration, and education.

The high cost of housing in metropolitan areas throughout the 11th District creates an affordability challenge not only for low-income households, but for middle-income workers as well. Teachers, firefighters, nurses, police officers, and service workers, among others, often cannot afford to buy a home near the cities where they work. In 2001, the Bank joined forces with the San Francisco Chamber of Commerce to create a pilot workforce housing initiative to provide homeownership assistance to people who work in San Francisco and earn up to 120% of area median income. The Bank's goal is to create a model program that can be replicated in other high-cost areas with low homeownership rates and to purchase securities backed by first mortgages originated under the pilot or under similar workforce housing programs.

Details of the pilot workforce housing initiative will be announced in San Francisco on April 26, 2002, at a conference hosted by the Bank and the San Francisco Chamber of Commerce. "Workforce Housing Summit: Creating Homeownership Opportunity" will also examine the urgent need for workforce housing in the San Francisco Bay Area and will explore innovative financing and development strategies to address the current affordability crisis.

One measure of the Bank's value to community-oriented lenders is its success in attracting new members. In 2001, 52 financial institutions joined the Bank, bringing total membership to a record 324 institutions, including 210 banks, 55 credit unions, 46 savings institutions, and 13 thrift and loan companies. Each of these new members represents another opportunity for the Bank to promote housing and community economic development in Arizona, California, Nevada, and the other regions served by these members.

As a cooperative, the Bank seeks to balance its goal of providing low-cost credit to members in fulfillment of its public policy mission with a second key objective: to provide a reasonable rate of return on the capital supplied by its members. In general, the Bank seeks to pay a market-rate dividend, which is primarily based on the Bank's earnings on invested capital, and uses earnings on member credit and on other investments to pay the Bank's operating expenses and assessments (with additional earnings, if any, also contributing to the dividend). The Bank invests member capital in high-quality, short- and intermediate-term financial investments to reduce the risk of loss if investments have to be liquidated to redeem excess stock.

The Bank paid an annual dividend rate of 5.99% for 2001, a relatively high rate of return given the low interest rate environment that prevailed throughout the year. The annual dividend rate for 2000 was 7.17%, reflecting higher interest rates and two supplemental payouts of retained earnings, which added 0.63% to the annual dividend yield.

The Bank finalized its proposed capital plan and submitted it to the Federal Housing Finance Board on October 29, 2001, the deadline specified in the final capital rule. The Bank is working with the Finance Board as it reviews the plan and is making other preparations for implementing the plan. The Bank's proposed capital plan is available on the Bank's website at www.fhlbsf.com.

In closing, we thank all those who made a significant contribution to the Bank's performance in 2001—the Board of Directors, the Affordable Housing Advisory Council, and Bank staff. In particular, we would like to acknowledge five directors whose terms ended on December 31, 2001—J. Lance Erikson, John J. Gisi,

Elihu M. Harris, Elvin W. Moon, and Robert F. Nielsen. We also welcome the two new industry directors who joined the Board at the beginning of the year—Kenneth R. Harder and Rick McGill. In addition, we welcome Ross J. Kari, who joined the Bank in February 2002 as Executive Vice President and Chief Operating Officer.

Finally, we would like to thank you, our members, for using the Bank's products and programs to meet your financial goals and respond to the credit needs of your communities. In your skilled hands, we know the tools we offer will be used to make a difference in the lives of people throughout the 11th District and the other regions you serve.



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D. TAD LOWREY
VICE CHAIRMAN OF THE BOARD



A handwritten signature in cursive script, appearing to read "Mary Lee Widener".

MARY LEE WIDENER
CHAIRMAN OF THE BOARD



A handwritten signature in cursive script, appearing to read "Dean Schultz".

DEAN SCHULTZ
PRESIDENT & CHIEF EXECUTIVE OFFICER