

FEDERAL HOME LOAN BANK
OF SAN FRANCISCO
2001 ANNUAL REPORT

power

tools

AS EVERY CRAFTSPERSON KNOWS, USING THE RIGHT TOOL FOR THE TASK AT HAND CAN MAKE ALL THE DIFFERENCE IN THE QUALITY OF THE FINAL PRODUCT. FOR MEMBERS OF THE FEDERAL HOME LOAN BANK OF SAN FRANCISCO, ACCESS TO THE RIGHT FUNDING OPTIONS IS CRITICAL TO THEIR SUCCESS IN ACHIEVING THEIR FINANCIAL OBJECTIVES.

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highly
effective
products
and
programs
and
counting

THE BANK'S MEMBERS VARY TREMENDOUSLY IN OPERATING PHILOSOPHY, MARKETS SERVED, AND PRODUCTS OFFERED. THEY RANGE IN SIZE FROM \$21 MILLION TO \$186 BILLION. TO MEET THE NEEDS OF SUCH DIVERSE INSTITUTIONS, THE BANK HAS DEVELOPED AN ARRAY OF FUNDING OPTIONS THAT CAN BE USED TO TACKLE MANY DIFFERENT FINANCING CHALLENGES.



opportunity

A SINGLE FINANCING STRATEGY MAY RELY ON A COMBINATION OF BANK PRODUCTS AND PROGRAMS TO ACHIEVE A SPECIFIC GOAL. OR ONE CREDIT PRODUCT MAY DO THE JOB. WHAT'S IMPORTANT IS THAT THE BANK AND THE MEMBER WORK TOGETHER TO IDENTIFY THE RIGHT TOOLS TO EXECUTE THE MEMBER'S PREFERRED FINANCING STRATEGY AND ACHIEVE THE DESIRED RESULT.

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PETER A. MOZER
SENIOR VICE PRESIDENT AND TREASURER
CALIFORNIA FEDERAL BANK
SAN FRANCISCO, CALIFORNIA

“The Bank has been a true partner in facilitating these transactions. We appreciate the Bank’s team approach.”

California Federal Bank finds the Adjustable Rate Credit Advance indexed to LIBOR a useful tool for asset/liability management. In a rising rate environment, however, liabilities typically reprice more quickly than assets. In addition, the interest rates on California Federal’s adjustable rate assets are tied to a variety of indices, including some that may not move as quickly or go as high as LIBOR.

CHALLENGE

To protect its balance sheet from rising interest rates, California Federal asked the Bank to embed an interest rate cap in a LIBOR ARC Advance. The cost of the cap was incorporated into the spread to the index. The cap ensures that California Federal’s interest cost for a particular advance will not exceed the predetermined strike level.

STRATEGY

Embedding a cap in LIBOR ARC Advances helps to offset the differences in how quickly assets and liabilities reprice when interest rates are rising. In effect, the cap slows down the effects of rising interest rates on California Federal’s liabilities to better match the repricing characteristics of its assets.

RESULT

MEMBER PROFILE

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TOM MANTOR
PRESIDENT
BANK OF WALNUT CREEK
WALNUT CREEK, CALIFORNIA

CHALLENGE

When Bank of Walnut Creek recruited Jim Jackson to expand its commercial real estate lending department, Jim immediately recognized that Bank of Walnut Creek could only compete with other lenders if it offered both fixed and adjustable rate loans. But as a matter of policy, Bank of Walnut Creek was not willing to take on the exposure to interest rate risk normally inherent in fixed rate lending.

Bank of Walnut Creek joined the Federal Home Loan Bank of San Francisco in September 2000 and began using Amortizing Advances to match fund commercial real estate loans. Bank of Walnut Creek locks in the rate on the advance on the same day it locks in the rate on the real estate loan, matching the loan amount, maturity, and repayment structure, and building in its required spread.

STRATEGY

Bank of Walnut Creek's commercial real estate loan portfolio grew 100% in 2001. Bank of Walnut Creek believes its ability to offer fixed rate commercial real estate loans has strengthened its market presence and attracted new customers. According to Bank of Walnut Creek, access to capital market prices and the virtual elimination of interest rate risk are enabling it to compete with the mega-banks in this new arena.

RESULT

“Match funding with the Bank’s Amortizing Advance has enabled us to create a viable, full-fledged commercial real estate loan program and given us a real presence in this market.”

CARL F. RANSBURG

SENIOR VICE PRESIDENT, FINANCE,
AND CHIEF FINANCIAL OFFICER

POINT LOMA CREDIT UNION

SAN DIEGO, CALIFORNIA

“Some credit unions have an aversion to borrowing wholesale funds, but using Bank advances can be less expensive and gives you control over the structure, amount, and maturity of the transaction.”

Point Loma Credit Union’s high loan to share ratio was exacerbated in 2001 by an influx of fixed rate mortgage refinances, which created both a demand for liquidity and additional interest rate risk at historically low rates. And depositors weren’t interested in locking in long-term rates on their certificates of deposit precisely because of the low interest rate environment.

CHALLENGE

STRATEGY

Over the course of six months, Point Loma took down a series of relatively small Fixed Rate Credit Advances with terms of 1, 2, 3, and 5 years, typically borrowing once every two weeks, often in several maturities. Its goal was to space out the advance terms over the following five years, in effect creating a laddered liability.

RESULT

Point Loma satisfied its immediate liquidity needs and locked in a low, blended fixed rate on its borrowings while dampening the potential future effect of rising rates on rapidly repricing liabilities. As these advances mature, Point Loma expects to be able to walk its cost of funds up the yield curve slowly, rather than having to reprice the entire amount at once.

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CHRISTINA C. BROWN
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
XEROX FEDERAL CREDIT UNION
EL SEGUNDO, CALIFORNIA

CHALLENGE

Xerox Federal Credit Union wanted to replace income lost as the result of an asset sale and put its capital back to work. Xerox FCU decided to explore creative ways to finance a securities purchase, focusing on a laddered approach that would enable it to keep its long-term funding costs low while managing interest rate risk.

Xerox FCU took down seven advances, including a 10-year Putable with a 5-year lockout and a 5-year Putable with a 2-year lockout. For the 5-year Putable, Xerox FCU asked the Bank to embed a “knockout” indexed to LIBOR so that the Bank can only exercise its put option on the advance if LIBOR reaches or exceeds the predetermined strike rate.

STRATEGY

Even with the embedded knockout, the 5-year Putable was considerably less expensive than a standard Fixed Rate Credit Advance, increasing the credit union’s yield on its leveraged transaction. Xerox FCU expects that placing a condition on the put may reduce the likelihood that it will be exercised and give the credit union more time to plan ahead for replacement funding if rates rise more than anticipated.

RESULT

“Bank staff were very **flexible and open** to creating a new structure, and we were very happy with their **willingness to try something new.**”

KENNETH L. DONAHUE
SENIOR VICE PRESIDENT AND
CHIEF FINANCIAL OFFICER
UNITED SECURITY BANK
FRESNO, CALIFORNIA

“Using the Bank’s Letter of Credit was a much more cost-effective way to meet our liquidity needs. We wanted to find out how it would work, and it turned out to be a perfect fit.”

United Security Bank needed liquidity to support loan growth and wanted to keep its interest expense low. Although it had enough capital to qualify for additional deposits from the State of California, all of the securities collateral it had pledged to the state was already being used to support existing deposits.

CHALLENGE

STRATEGY

United Security was the first member to use the Bank’s Standby Letter of Credit to collateralize California State deposits. United Security collateralized the Letter of Credit from the Bank with whole loans rather than the securities collateral that the state would have required.

RESULT

Even with the Letter of Credit fee, the all-in cost for the deposits was very attractive, enabling United Security to fund its loans at a lower cost relative to other funding sources. The ability to pledge whole loans as collateral added to the cost efficiency of this funding strategy.

Fixed Rate Credit (FRC) Advance

Callable FRC Advance

Putable Advance

Amortizing Advance

Flexible Amortizing Advance

Variable Rate Credit (VRC) Advance

Adjustable Rate Credit (ARC) Advance

DN Auction-Indexed Advance

Securities-Backed Credit (SBC) Program

Guaranteed Availability of Liquidity Advance (GALA)

Other Cash Needs (OCN) Advance

Standby Letters of Credit

Interest Rate Swaps, Caps & Floors

Community Investment Program (CIP)

Advances for Community Enterprise (ACE)

Affordable Housing Program (AHP)

Individual Development and Empowerment Account (IDEA) Program

Mortgage Partnership Finance® (MPF®) Program

powered by
performance

THE PRODUCTS AND PROGRAMS LISTED HERE REPRESENT THE BASIC ARRAY OF FUNDING OPTIONS THE BANK OFFERS. BUT WHEN YOU CONSIDER THE POSSIBLE VARIATIONS IN MATURITIES, INDICES, CASH FLOW AND PAYMENT OPTIONS, AND EMBEDDED FEATURES SUCH AS SWAPS, CAPS, AND FLOORS, IT IS CLEAR THAT THIS LIST IS JUST THE BEGINNING.