Federal Home Loan Bank of San Francisco

Summary of the Capital Plan

Effective August 3, 2015

This Summary highlights certain terms of the Capital Plan. It is not intended to be a comprehensive overview of all the terms in the Capital Plan and should not be considered as a substitute for the Capital Plan. Members and former members should consult the full Capital Plan for an understanding of all the terms applicable to the Bank's Capital Stock.

This Summary is neither an offer to sell or exchange nor a solicitation of an offer to purchase or exchange any capital stock of the Federal Home Loan Bank of San Francisco ("Bank"). This Summary highlights important aspects of the Capital Plan and is not a complete description of the Capital Plan.

The Capital Plan and this Summary are subject to change at any time.

Background

The Federal Home Loan Bank System Modernization Act of 1999 established capital requirements for the Federal Home Loan Banks. The requirements are found in the Federal Home Loan Bank Act and the regulations of the Federal Housing Finance Agency (Finance Agency).[1]

The Bank's Capital Plan is designed to:

- Treat members in an equitable manner;
- Enable the Bank to meet its regulatory capital requirements;
- Work under a variety of alternative balance sheet structures;
- Provide sufficient flexibility to adapt to changing circumstances within established parameters; and
- Be easy to understand and manage.

Following is a summary of the provisions of the Capital Plan.

Characteristics of Capital Stock; Issuance of Capital Stock

Under the Capital Plan, the Bank will issue one class of capital stock. This capital stock has a par value of $100 per share, and may be issued, exchanged, redeemed, and repurchased only at its stated par value. The capital stock is redeemable on 5 years' written notice, subject to certain conditions. The Bank's stockholders own the Bank's retained earnings.

Minimum Stock Requirement

The statute and regulations require that the minimum stock requirement for members must be sufficient to enable the Bank to meet its own regulatory requirements for total capital, leverage capital, and risk-based capital. The Capital Plan requires each member to own stock in an amount equal to the greater of:

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

In addition, the Capital Plan requires each member to own stock in an amount equal to its capital stock assessment, if any (discussed below).

Membership Stock Requirement

Each member's membership stock requirement is capital stock equal to 1.00% of the member's "membership asset value," which is determined by applying the appropriate "membership asset factors" to the member's

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[1] References to the Finance Agency mean the Federal Housing Finance Agency, as successor to the Federal Housing Finance Board, or any successor agency to the Finance Agency.

"membership assets" (discussed below). Each member's membership stock requirement is limited to a cap of $15 million.

In the Capital Plan, membership assets are generally defined as assets of a type that, at the time of origination of a transaction between the member and the Bank, may qualify as collateral security for the member under applicable law, whether or not the assets are pledged to the Bank.

The Bank chose membership asset value as the basis for the membership stock requirement because it generally represents a proxy for member access to Bank products.

To ensure a simple and objective data collection process, the Bank will use data from members' regulatory reports (when available) or, for members that do not file periodic regulatory reports, financial statements or other financial information to determine membership assets. All membership assets are included in the Bank's calculation of the membership stock requirement; however, these assets may or may not be accepted by the Bank as collateral for particular credit transactions with the Bank.

The Bank will review each member's membership assets on an annual basis (or, at the Bank's discretion, more frequently) and make any necessary adjustments to the member's membership stock requirement. The Bank also will recalculate each member's membership stock requirement if the Board of Directors adjusts this requirement within the ranges authorized in the Capital Plan (discussed below).

Activity-Based Stock Requirement

Each member's activity-based stock requirement is capital stock equal to:

- 2.70% of the member's outstanding advances; plus
- 0.00% of the member's outstanding mortgage loans purchased and held by the Bank.

The activity-based stock requirement permits the Bank to expand and contract with member activity.

The Bank will adjust each member's activity-based stock requirement for any change in the level of the member's transactions with the Bank; in addition, the Bank will recalculate the member's activity-based stock requirement for all outstanding activity if the Board of Directors adjusts this requirement within the ranges authorized in the Capital Plan.

Authorized Ranges for Minimum Stock Requirement

The statute and regulations require that the Board of Directors review, and adjust as necessary, the minimum stock requirement for members to ensure that the Bank always meets its own regulatory and internal requirements for total capital, leverage capital, and risk-based capital. Therefore, the Capital Plan provides the Bank with the ability to adjust the membership and activity-based stock requirements within specified ranges.

Adjustments within the specified ranges might occur because of fluctuations in the Bank's balance sheet, fluctuations in the Bank's retained earnings, or because of changes in the proportion of members that are subject to the membership stock requirement instead of the activity-based stock requirement. Adjustments within the ranges will permit the Bank to avoid becoming over- or under-capitalized.

<u>Authorized Ranges for Membership Stock Requirement</u>

The range for the membership stock requirement is capital stock in an amount equal to 0.50% to 1.50% of a member's membership asset value. The range for the cap on each member's membership stock requirement is $10 million to $50 million.

<u>Authorized Ranges for Activity-Based Stock Requirement</u>

The ranges for the activity-based stock requirement are:

- For advances, capital stock in an amount equal to 2.00% to 5.00% of a member's outstanding advances; and

- For mortgage loans sold by a member to the Bank, capital stock in an amount equal to 0.00% to 5.00% of a member's outstanding mortgage loans purchased and held by the Bank.

Capital Stock Assessment

As an additional means to ensure that the Bank always meets its own minimum stock requirements, the Capital Plan enables the Board of Directors to impose a capital stock assessment. This means that, in the event that losses or other events cause the Bank to fall below (or are expected to cause the Bank to fall below) its minimum capital requirements, a member may be required to purchase additional stock above its membership and activity-based stock requirements. The amount of each member's capital stock assessment, if any, will be determined by allocating among all members, in proportion to the number of shares of capital stock that then constitutes each member's minimum stock requirement, the amount of additional capital stock necessary to enable the Bank to meet its minimum regulatory capital requirement plus its target operating ratio.

Member Options in the Event of Capital Stock Assessment

If the Board of Directors imposes a capital stock assessment as described above, then the Bank will issue the additional stock and debit the member's transaction account with the Bank for the par value of the stock unless:

- To the extent permitted under the governing contract, and subject to any applicable prepayment fees, the member reduces the amount of any outstanding activity with the Bank to a level such that the member holds sufficient capital stock to meet its adjusted minimum stock requirement (including its capital stock assessment); or
- The member provides written notice to the Bank not to issue the additional stock.

If the member chooses the latter option, the notice will constitute grounds for the Board of Directors to terminate the institution's membership immediately, and the Bank may require the member to prepay any outstanding indebtedness, subject to any applicable prepayment fees. The 5-year redemption period for Bank stock will begin on the date of the member's involuntary termination.

The Board of Directors, in its sole discretion (subject to regulatory oversight by the Finance Agency), will decide when all or any part of the capital stock assessment is no longer necessary. At that time, the Bank may implement a pro-rata reduction in the number of shares of each member's capital stock assessment.

Ownership and Transfer of Capital Stock

Bank stock may be owned only by Bank members or, if required by the Bank, by a former member or a member's successor. At the request of a member, the Bank, in its sole discretion, may transfer a member's excess stock to another Bank member or to an institution that has been approved for membership but that has not yet purchased stock. All transfers must be made at par value.

Voting Rights

The members are entitled to vote only in connection with (i) the election of directors and (ii) the ratification of a merger agreement of the Bank with another Federal Home Loan Bank. By statute, each member eligible to vote may vote the number of shares that it was required to hold as of the prior December 31. For each open directorship, no member may vote shares in excess of the average of the number of shares required to be held by all members located in that member's state as of the prior December 31. For ratification of a merger agreement, no member may vote shares in excess of the average of the number of shares required to be held by all members as of the prior December 31.

Dividends

Payment of a dividend is at the discretion of the Bank's Board of Directors, subject to the regulatory oversight of the Finance Agency. All capital stock will share in any dividends without preference. Dividends may be paid in the form of cash or capital stock. Dividends will be paid to the stockholders of record during the time period for which the dividend is declared, and will be computed on the amount of time during the relevant time period that the shares were outstanding. This is consistent with the Bank's current practice. The Bank may not pay any dividends if it is not (or if, after payment of the dividend, it would not be) in compliance with its minimum regulatory capital requirements.

Liquidation, Merger, or Consolidation

No class of stock will receive a preference in the event of liquidation, merger, or consolidation of the Bank (subject to the regulatory discretion of the Finance Agency).

Redemption and Repurchase of Capital Stock While Membership Continues

Redemption Upon Application by the Member

A member may request that the Bank redeem its capital stock. The request must identify the particular shares to be redeemed, and the identified shares may not be subject to an outstanding request for redemption. If the notice does not identify the particular shares to be redeemed, the member will be deemed to have requested redemption of the most recently purchased shares that are not subject to a pending redemption notice, followed by the shares most recently acquired other than by purchase that are not subject to a pending redemption notice. Following the requested redemption, the member must continue to meet its minimum stock requirement under the Capital Plan.

A member may cancel its redemption notice before the expiration of the redemption period, subject to a cancellation fee of $0.50 per share during the first 30 months of the redemption period and $1.00 per share after that. If, following the requested redemption, the member would fail to meet its minimum stock requirement, the Bank will not redeem the member's capital stock. If the Bank is prevented from redeeming a member's capital stock for this reason, the redemption notice will be automatically cancelled, and the member must pay a cancellation fee of $1.00 per share. This provision is intended to discourage members from simply providing rolling notices of redemption, which could create operational problems for the Bank. If the member meets the redemption requirements (and the Bank meets its minimum regulatory capital and other applicable requirements), the Bank will redeem the member's capital stock at the end of the 5-year redemption period.

Repurchase Initiated by the Bank

In its discretion, the Bank may repurchase a member's excess stock by giving the member 15 days' written notice. The member may waive the notice period.

Limitations on Redemption and Repurchase

The Bank may not redeem or repurchase any stock if following the redemption or repurchase the Bank would fail to meet any minimum regulatory capital or other applicable requirement.

Withdrawal or Termination of Membership

Voluntary Withdrawal

A member may withdraw from membership upon 5 years' written notice. The Bank's receipt of a notice of withdrawal will start the redemption period for all capital stock then held by the withdrawing member that is not subject to a pending redemption notice. During the redemption period, a member must continue to meet its minimum stock requirement. The redemption period for any capital stock acquired or received by the withdrawing member after the Bank's receipt of the notice of withdrawal will begin on the date of acquisition or receipt by the member; however, any capital stock that is not required to meet the member's minimum stock requirement will be excess stock and will be subject to repurchase by the Bank.

Cancellation of Notice of Withdrawal

A member may cancel its notice of withdrawal at any time before the end of the redemption period. The Bank will charge a fee to any member that cancels its notice of withdrawal. The cancellation fee is $0.50 per share during the first 30 months of the redemption period and increases to $1.00 per share after that.

Termination as a Result of Merger, Consolidation, Relocation, or Self-Liquidation Resulting in Cancellation of Charter

If a Bank member is merged or consolidated into another Bank member, its membership will terminate upon cancellation of its charter. The capital stock of the disappearing member will be transferred on the Bank's books to the account of the surviving member.

If a Bank member is merged or consolidated into a nonmember (including a member of another Federal Home Loan Bank), its membership will terminate upon cancellation of its charter. If a member relocates its principal place of business outside the Bank's district, its membership will terminate in accordance with applicable regulations. If a member's charter is cancelled as a result of the member's self-liquidation ending its corporate existence, its membership will automatically terminate upon termination of its charter. Any capital stock that is not required to meet the former member's minimum stock requirement will be excess stock and will be subject to repurchase by the Bank.

If the terminated member acquires or receives any additional stock during the 5-year redemption period (for example, a stock dividend), the redemption period for that stock will begin on the date of acquisition or receipt; however, any capital stock that is not required to meet the former member's minimum stock requirement will be excess stock and will be subject to repurchase by the Bank.

Involuntary Removal from Membership

The Board of Directors may immediately terminate the membership of any member that:

- Fails to comply with any statutory or regulatory requirement or any requirement of the Capital Plan;
- Becomes insolvent or otherwise subject to the appointment of a receiver or conservator; or
- Would jeopardize the safety or soundness of the Bank if it were to remain a member.

The 5-year redemption period for Bank stock then held by the member will begin on the date of the member's involuntary termination. The minimum stock retention requirement for a former member whose membership has been terminated involuntarily as the result of the appointment of a conservator or receiver will be the activity-based stock requirement, and any capital stock that is not required to meet the activity-based stock requirement will be excess stock and will be subject to repurchase by the Bank.

If the involuntarily terminated member acquires or receives any additional stock during the 5-year redemption period (for example, a stock dividend), the redemption period for that stock will begin on the date of acquisition or receipt; however, any capital stock that is not required to meet the terminated member's minimum stock requirement will be excess stock and will be subject to repurchase by the Bank.

Payment on Redemption

As long as the Bank meets its minimum regulatory capital and other applicable requirements, and unless the terminated member must continue to comply with a minimum stock requirement, the Bank will redeem the terminated member's capital stock at the end of the redemption period.

Suspension of Redemption

If the Board of Directors determines that the Bank may be unable to satisfy in full all redemptions for a given quarter because (1) following the redemption the Bank would fail to meet or would be likely to fail to meet its minimum regulatory capital requirement, or (2) redemption would otherwise prevent the Bank from operating in a safe and sound manner, then the Board of Directors, in its sole discretion (subject to the regulatory oversight of the Finance Agency), may temporarily suspend redemption.

The Bank must notify the Finance Agency of any determination to suspend redemption. Unless the Finance Agency directs otherwise, the Board of Directors will determine the amount of funds, if any, to be made available for redemption for that quarter. For each member holding capital stock with respect to which the redemption period has expired, the Bank will redeem a pro rata number of shares, based on the total amount of funds available for redemption.

The Bank may not repurchase any excess stock without the Finance Agency's prior approval during any period in which redemption has been suspended.

If the Finance Agency determines to liquidate the Bank, all outstanding stock, whether or not subject to a notice of redemption or repurchase, will be treated exactly the same, and no further redemptions or repurchases will occur except in connection with the liquidation of the Bank.

Amendment to the Capital Plan

Both the Board of Directors and the Finance Agency must approve any amendment to the Capital Plan. The Bank will provide written notice to members at least five business days prior to the effective date of any amendment.

Retained Earnings Enhancement

Establishment of Restricted Retained Earnings Account

The Bank established a new restricted retained earnings account and began allocating funds to this new account in the third quarter of 2011. This new retained earnings enhancement account is separate from any other retained earnings accounts maintained by the Bank.

Funding of the Account

The Bank is required to set aside at least 20% of its net income into the retained earnings enhancement account each quarter until the balance of the account equals at least 1% of the Bank's average balance of outstanding consolidated obligations for the previous quarter. The Bank may contribute more than 20% of quarterly net income at its discretion.

If the Bank incurs a net loss for a quarter but the Bank's year-to-date net income is positive at the end of that quarter, the Bank may reduce the amount in the retained earnings enhancement account so that it equals 20% of year-to-date net income.

If the Bank incurs a net loss for a quarter and year-to-date net income is negative at the end of that quarter:

- The Bank may reduce the amount in the retained earnings enhancement account by the amount of any allocations already made during the current year. The account balance after any reduction must be equal to or greater than the beginning-of-year balance.
- If the net loss exceeds the amount of the current year's allocations, the Bank may apply the remaining portion of the loss to any other retained earnings that are not included in the retained earnings enhancement account.
- If all other retained earnings have been reduced to zero, the Bank may apply any remaining portion of the net loss to reduce the amount in the retained earnings enhancement account. In this case, the account balance may fall below the beginning-of-year balance.

If the Bank incurs net losses for a year-to-date period resulting in a decrease to the retained earnings enhancement account below the beginning-of-year balance, the Bank's subsequent quarterly allocation requirement will increase to 50% of quarterly net income until the entire amount of the decrease has been restored.

If the retained earnings enhancement account balance exceeds 1.5% of the Bank's average consolidated obligations for the previous quarter, the Bank may reallocate the excess amount from the retained earnings enhancement account to another retained earnings account.

Dividend Restriction

Funds in the retained earnings enhancement account may not be used to pay dividends.

No Effect on Shareholders' Rights to Retained Earnings

If the Bank is liquidated or any future federal action takes the Bank's restricted retained earnings, nothing in the Capital Plan provisions that relate to retained earnings enhancement will change the statutory rights of the Class B stockholders in the Bank's retained earnings, including the retained earnings held in the retained earnings enhancement account.

Termination of Retained Earnings Enhancement Obligations

The Capital Plan provisions that relate to the retained earnings enhancement account remain in effect until the Joint Capital Enhancement Agreement adopted by all of the Federal Home Loan Banks is terminated. The Joint Capital Enhancement Agreement may be terminated in one of two ways:

- **Voluntarily**: According to the Joint Capital Enhancement Agreement, the Federal Home Loan Banks may voluntarily terminate the Joint Capital Enhancement Agreement by an affirmative vote of the Boards of at least two-thirds of the then-existing Federal Home Loan Banks. The Federal Home Loan Banks must provide written notice to the Finance Agency that they have voted to terminate the Joint Capital Enhancement Agreement.

  On the date written notice regarding the vote is delivered to the Finance Agency, the requirement to allocate 20% of earnings to the retained earnings enhancement account will cease. One year from the notice delivery date, all other restrictions on the use of the restricted retained earnings contained in the Joint Capital Enhancement Agreement, including the restriction on the use of the restricted retained earnings to pay dividends, would also cease.

- **Automatically**: The Joint Capital Enhancement Agreement may be terminated automatically if there is a change in the Federal Home Loan Bank Act or other applicable statute that will result in any new or higher assessment or tax on the net income or capital of the Federal Home Loan Banks, or if there is a change in the Federal Home Loan Bank Act, another applicable statute, or the Finance Agency's regulations that will result in a mandatory allocation of a Federal Home Loan Bank's quarterly net income to any retained earnings account that is higher than the annual amount, or total amount, specified in an Federal Home Loan Bank's capital plan in effect immediately prior to the event that caused the automatic termination.

  The Capital Plan describes procedures for determining whether an automatic termination event has occurred and when the Joint Capital Enhancement Agreement is considered terminated. On the termination date, the requirement to allocate 20% of earnings to the retained earnings enhancement account would cease. One year from the termination date, all other restrictions on the use of the restricted retained earnings contained in the Joint Capital Enhancement Agreement, including the restriction on the use of the restricted retained earnings to pay dividends, would also cease.