FHLBank System at 100

Focusing on the Future

MESSAGE FROM THE FEDERAL HOUSING FINANCE AGENCY

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In 1932, Congress created the Federal Home Loan Bank System (System) to help revive a housing market devastated by the Great Depression, as well as to provide an ongoing, reliable source of liquidity and support to financial institutions engaged in home mortgage lending. The role of the System has evolved since its origin, both at the direction of Congress and in response to shifts in the mortgage and financial markets. Nevertheless, while the nation's housing finance system has changed dramatically over the past 90 years, providing liquidity to support housing finance and community development, especially through small, community-based institutions with limited access to capital markets, remains a critical and core focus of the System.

With the Federal Home Loan Banks (FHLBanks) approaching their centennial, the Federal Housing Finance Agency (FHFA) announced the *FHLBank System at 100: Focusing on the Future* initiative in August 2022 to ensure the FHLBanks remain well positioned to meet the needs of their members and the communities they serve. As part of this review of the FHLBank System, FHFA solicited written input from the public and held listening sessions and roundtable discussions across the country. Through this process, FHFA undertook detailed analysis to form a vision for the FHLBanks' future that will allow them to advance their mission in a safe and sound manner.

Clarifying the mission of the FHLBanks and updating how FHFA evaluates their performance in achieving that mission is a central theme of the initiative. Over the 90 years of the System's existence, its membership base, the types of collateral that can be pledged for advances, and the FHLBanks' product offerings have expanded. As these shifts have occurred, the connection of the FHLBank System to housing and community development has become less direct.

While the FHLBanks play a critical role as providers of liquidity, the System must also appropriately support housing and community development.

The System has been a reliable source of liquidity for its members, especially during times of market stress, such as during the onset of the financial crisis in 2008 and the COVID-19 pandemic. Most recently, in March 2023, the FHLBanks experienced significant advance demand because of banking sector volatility and the failure of several regional banks, and they provided a record volume of advances to ensure their members had access to liquidity in an uncertain market. These bank failures and the ongoing market stress highlighted the need for a clearer distinction between the appropriate role of the FHLBanks, which provide funding to support their members' liquidity needs across the economic cycle, and that of the Federal Reserve, which maintains the primary financing facility for troubled institutions with immediate, emergency liquidity needs. The FHLBanks must also work with their members' primary regulators to ensure processes are built to meet the needs of members in all market conditions.

While housing affordability has long been a challenge in many markets, consumers now are facing high costs to own or rent homes throughout the country, exacerbated by a limited supply of affordable single-family and multifamily housing. FHFA is committed to reducing barriers and increasing support for the FHLBanks' housing and community development activities, especially in underserved and financially vulnerable communities, which include rural and tribal areas, as well as communities of color, all while ensuring the safety and soundness of the FHLBank System. The Agency will also consider how to ensure members that have access to low-cost funding from the FHLBanks appropriately support housing and community development activities.

In addition, there is a need to revisit structural and governance requirements that were designed to reflect a housing finance system of the past. The regional composition of the FHLBank System has been, and likely will continue to be, impacted by demographic shifts and consolidation among members—trends that will require continued monitoring and analysis. The FHLBanks should collaborate, where appropriate, to achieve greater operational efficiencies and improve delivery of products and services. FHFA will explore opportunities to harmonize member eligibility requirements and modernize the composition and size of FHLBank boards of directors.

Overall, this report provides a blueprint for innovative and prudent steps to bolster and improve the FHLBank System. The publication of this report represents the beginning of a multi-year, collaborative effort with stakeholders to address the recommended actions in the report. FHFA can implement some of the recommendations through ongoing supervision, as well as rulemaking or guidance, under existing statutory authorities. However, there are some recommendations that can only be fully implemented through Congressional action.

Stakeholder participation was critical to the success of this initiative, and we are thankful to everyone who contributed their time and expertise—from the more than 230 people who spoke at one of our listening sessions or participated in one of the 19 regional roundtable discussions to the nearly 600 stakeholders who provided written input. These contributions were instrumental in shaping the recommendations in this report, and we look forward to continued collaboration and partnership.

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Cover photo courtesy of NeighborWorks Boise. Photos used in this report were provided by organizations that hosted a site visit as part of the *FHLBank System at 100: Focusing on the Future* initiative. Visit www.FHFA.gov/FHLB100 for more information.

EXECUTIVE SUMMARY

The Federal Home Loan Bank System (System) has served as a key component of the nation's housing finance system since its creation over 90 years ago. The mortgage market, the broader financial system, and the Federal Home Loan Banks (FHLBanks) themselves have undergone significant changes over nine decades. These changes reflect underlying shifts in technology and structured products, land use and development, demographics, legal and regulatory frameworks, and consumer preferences.

Today, the FHLBanks connect domestic financial institutions—many of which are small, community-focused lenders—to the global capital markets. Those connections make it possible for lenders to provide more consistent and sustained support for housing finance and community development. By many metrics, the FHLBanks have achieved this objective, as the liquidity they provide has facilitated affordable homeownership and rental housing throughout the country. Despite these successes, the evolving nature of the modern mortgage market necessitates an in-depth review of the structure, operations, and oversight of the FHLBanks to ensure they are most effectively advancing their mission.

The Federal Housing Finance Agency (FHFA), established by Congress in 2008, serves as regulator of the FHLBank System. In August 2022, FHFA launched the *FHLBank System at 100: Focusing on the Future* initiative, the first comprehensive review of the FHLBank System in decades. Throughout this process, FHFA undertook a prospective analysis of changes that may be warranted to ensure the FHLBanks are well positioned to fulfill their mission in the years ahead. The initiative involved significant stakeholder outreach, a historical review of the role of the FHLBanks, and detailed analysis of both the strengths and areas for improvement in the System's current structure.

FHFA's vision for the future is to have an effectively governed System that efficiently provides stable and reliable funding to creditworthy members and delivers innovative products and services to support the housing and community development needs of the communities its members serve, all in a safe and sound manner.

In this report, FHFA presents the actions that it plans to pursue in service of this vision. This report categorizes these actions under four broad themes. The themes are:

1. Mission of the FHLBank System
2. Stable and reliable source of liquidity
3. Housing and community development
4. FHLBank System operational efficiency, structure, and governance

Mission of the FHLBank System

In the decades since the FHLBank System was established in 1932, the System's membership has grown more diverse, and there have been significant structural changes in the housing and mortgage markets, such as the types of products widely available to consumers and the growth of structured securitization markets as compared to whole loan sales. At the same time, there remain significant unmet housing and community development needs across the country. Against this backdrop, and for complex and varied reasons, there has been a decreased focus on housing-related activities by many institutions that are members of the FHLBank System. These changes, taken together, highlight the need for FHFA to clarify the mission of the System so the FHLBanks are held accountable for serving their public purpose.

FHFA plans to update and clarify its regulatory statement of the System's mission to better reflect the FHLBanks' appropriate role in the broader housing finance system. In doing so, FHFA will develop improved metrics and thresholds by which to oversee the FHLBanks and will incorporate mission performance in the supervisory rating and evaluation processes. FHFA will also evaluate how the FHLBanks could provide financial incentives in a safe and sound manner to members with a strong and demonstrable connection to the mission of the System.

There are two core objectives to the FHLBanks' mission: (1) providing stable and reliable liquidity to their members, and (2) supporting housing and community development. These objectives are described in greater detail below.

Stable and Reliable Source of Liquidity

A key function of the FHLBanks is to provide low-cost, stable, and reliable funding to creditworthy members, primarily in the form of advances. Many institutions obtain advances in the normal course of their business operations, while others rely on them when facing specific liquidity needs. For depository institutions, FHLBank advances can provide liquidity when deposit outflows are elevated, which allows them to continue to serve their communities. This is a particularly important benefit for smaller institutions with limited access to the capital markets.

The role of the FHLBanks in providing secured advances must be distinguished from the Federal Reserve's financing facilities, which are set up to provide emergency financing for troubled financial institutions confronted with immediate liquidity challenges. Due to operational and financing limitations of the market intermediation process, the FHLBanks cannot functionally serve as the lender of last resort, particularly for large, troubled members that can have significant borrowing needs over a short period of time. To address this, the FHLBanks should coordinate with their members' primary regulators and the regional Federal Reserve Banks to ensure financial institutions' borrowing needs continue to be met when they no longer meet the FHLBanks' credit criteria. Moreover, the FHLBanks' model of providing liquidity primarily through secured advances should be accompanied by a thorough and regularly updated credit evaluation of their members to avoid encouraging excessive risk taking.

There are additional steps FHFA believes will better position the FHLBanks to perform their liquidity mission, including: (i) enhancing the ability of the FHLBanks to maintain interest-bearing deposits with commercial banks to manage intra-day liquidity requests; (ii) limiting the potential for an increase in debt issuance costs for all members following a large liquidity request from a single member; and (iii) strengthening capital management and stress testing to ensure the FHLBanks remain well positioned to serve their members through all economic environments.

Housing and Community Development

The FHLBanks' funding support for their members has expanded beyond housing finance, and it is critical for the FHLBanks to take proactive steps to ensure the liquidity they provide to their members adequately promotes the housing and community development components of their mission, as this is a fundamental reason for the System's existence.

The primary mechanism by which FHLBank lending currently supports housing finance is through the acceptance of housing-related collateral and some Community Financial Institution (CFI)[1] collateral to secure advances. The FHLBanks also support housing finance directly through their purchase of single-family mortgages (Acquired Member Asset (AMA) programs). FHFA will seek to expand these efforts by: (i) requiring the FHLBanks to establish mission-oriented collateral programs that could improve their support of safe, sustainable housing finance and community development products that lack a reliable secondary market outlet; (ii) increasing the FHLBanks' engagement with mission-oriented members such as community development financial institutions (CDFIs); and (iii) re-evaluating the definition of long-term advances, which are generally required by statute to be used to provide funds for residential housing finance.

The FHLBanks' Affordable Housing Programs (AHP), Community Investment Programs (CIP), and Community Investment Cash Advance (CICA) programs are directed at supporting affordable housing and community development through grants and subsidized advances. These programs have had a

1 The Federal Home Loan Bank Act (Bank Act) and FHFA's Advances regulation define a CFI as an institution whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and that has average total assets below the statutory cap. *See* 12 U.S.C. 1422(10); 12 CFR 1263.1. The Bank Act set the statutory cap at $1 billion in 2008, and requires FHFA to adjust the cap annually to reflect the percentage increase in the CPI-U, as published by the U.S. Department of Labor. For 2023, the CFI limit is $1.417 billion. *See* 87 FR 80184 (Dec. 29, 2022).

positive impact in furthering the mission of the System, but they remain small relative to the broader housing needs throughout the country. And while these programs are not a holistic solution to addressing all affordable housing and community development needs, FHFA will re-evaluate them to encourage greater use in a safe and sound manner. If enacted by Congress, a doubling of the statutory minimum contribution for the AHP would be one of the most significant means of increasing the FHLBanks' engagement in these activities.

FHFA will explore revising the community investment standards that members must meet to maintain access to long-term advances. Known as Community Support Requirements (CSR),[2] these standards provide incentives for lenders to support housing and community development—for example, by taking into account a member's record of lending to first-time homebuyers.

FHLBank System Operational Efficiency, Structure, and Governance

Similar to the System's mission requirements, many of its existing operational, structural, and governance requirements were created during an era in which the financial system and housing markets were fundamentally different from what they are today. For that reason, these requirements warrant renewed focus to ensure they are appropriately calibrated to the modern-day responsibilities of the System.

While FHLBank advance demand can fluctuate significantly, the FHLBanks' operational costs are largely fixed. Improving operational efficiency helps to reduce costs, and the resulting savings can be passed to members through lending activities or increased net income, which leads to increased AHP funding. Because each individual FHLBank's operations are relatively small, collaboration and consolidation of shared functions across the System is potentially where the largest efficiencies could be achieved.

The structure of FHLBank districts and composition of their membership affect the efficiency and mission impact of FHLBanks' activities. The FHLBank districts have undergone minimal change since 1932 despite significant shifts in their membership and a steady increase in the expense of operating an individual FHLBank. This highlights the need to ensure the FHLBanks are efficient and stable moving forward. Moreover, membership eligibility requirements for current and new members should promote sufficient mission orientation, while still ensuring the safety and soundness of the System.

Many board governance requirements were also established decades ago and warrant revision. FHFA will evaluate the optimal size of an FHLBank board of directors while working to revise requirements for independent

2 *See* 12 U.S.C. 1430(g). Commercial banks and savings associations in the U.S. are required to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods, through laws like the Community Reinvestment Act of 1977, 12 U.S.C. 2901-2908.

directors to ensure the boards are able to effectively address emerging risks and oversee the safety and soundness and mission achievement of the FHLBanks in today's financial market environment.

Moving Forward

FHFA's review of the FHLBank System spanned over a year and featured engagement with hundreds of interested stakeholders. In many ways, however, the real work of implementing FHFA's vision for the FHLBank System at its centennial begins with the publication of this report.

In the months and years ahead, FHFA will undertake further review of the issues described in this report and will take steps in pursuit of its recommendations through ongoing supervision, as well as guidance or rulemaking.

Much of this work will entail additional collaboration and communication with key stakeholders, including federal and state regulators. Certain other recommendations require statutory changes, which in turn require coordination with, and support from, Congress.

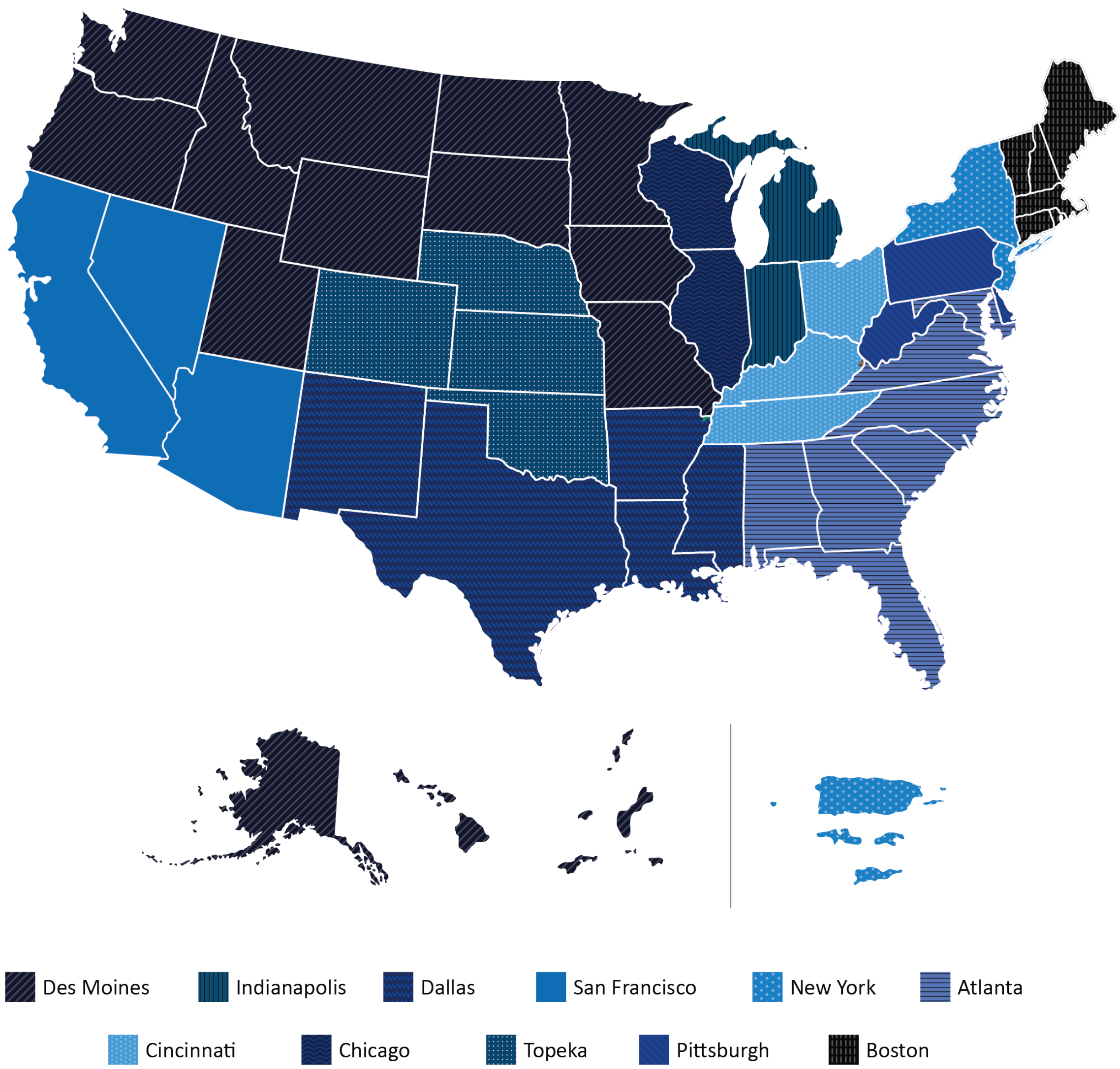
The continued safety and soundness and mission achievement of the FHLBank System is critical to the health of the U.S. housing finance system. FHFA is committed to mitigating the risks facing the FHLBanks, facilitating opportunities for them to serve the needs of their members, and ensuring they are well positioned to support housing finance and community development in all parts of the country for the long term.

Photo courtesy of NeighborWorks Boise, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

I. BACKGROUND TO FHLBANK SYSTEM AT 100: FOCUSING ON THE FUTURE

In 1932, Congress sought to reinvigorate housing markets devastated by the Great Depression by enacting the Federal Home Loan Bank Act (Bank Act), which established the System as a new source of funding for mortgage lenders. Today, the System consists of 11 regional FHLBanks, each serving a designated geographic area of the United States and its territories, as well as the Office of Finance, which issues consolidated obligations to fund the FHLBanks' operations (see Figure 1).[3]

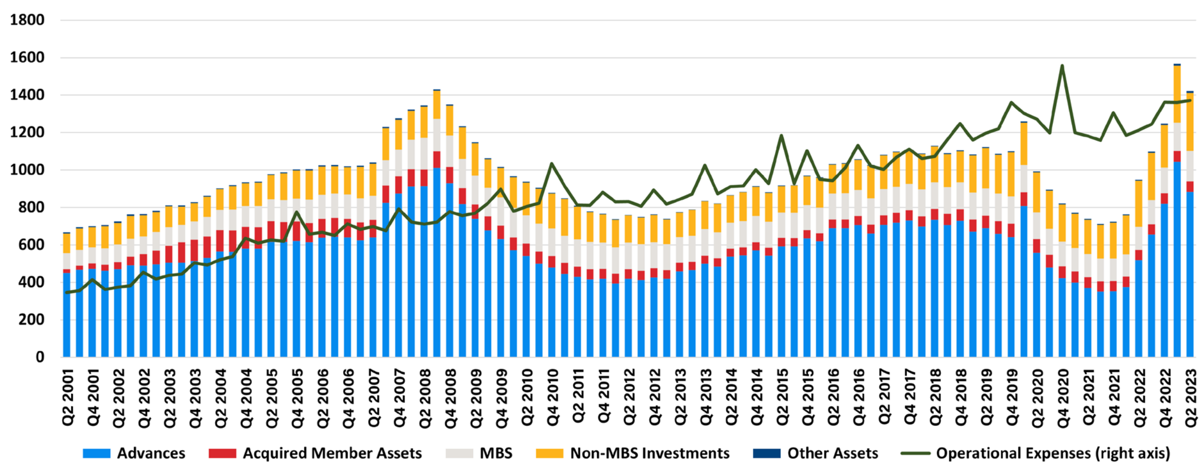
FIGURE 1: FHLBANK SYSTEM MAP



3 The Office of Finance issues debt for the FHLBank System in the form of discount notes and bonds. Collectively, these debt securities are known as consolidated obligations. For additional detail, see https://www.fhlb-of.com/ofweb_userWeb/pageBuilder/debt-securities-home-41.

Housing and financial markets have evolved over the intervening decades and many of these changes have affected the FHLBanks, their membership, and the FHLBanks' ability to serve their housing finance mission. More recently, member demand for advances dropped to a 20-year low in late 2021, many member institutions have decreased their focus on housing and community development activities, advances have grown more concentrated among larger members, and operational expenses have remained high even with lower business volumes (see Figure 2). As the regulator of the FHLBanks, FHFA announced in August 2022 that it would conduct a comprehensive review of the FHLBank System, the *FHLBank System at 100: Focusing on the Future* initiative. This report, informed by feedback from stakeholders and by FHFA's supervisory work and analyses, outlines FHFA's vision for the future of the FHLBank System as it approaches its centennial in 2032. The report also incorporates lessons learned from periods of market stress, including events in March 2023,[4] and FHFA's proposed actions to ensure the System remains safe and sound while the FHLBanks serve their mission.

FIGURE 2: FHLBANK ASSETS AND OPERATIONAL EXPENSES ($ BILLIONS)



Source: Based on FHLBank data, as of June 30, 2023
Note: Dollar amounts are par value unless otherwise specified.

FHLBank System Membership

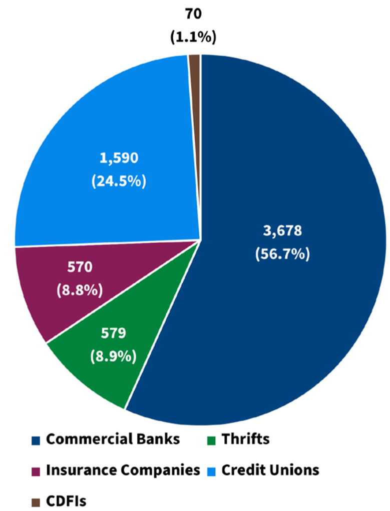
Each FHLBank is a cooperative owned by member institutions located within its geographically defined district.[5] In 1932, eligibility for FHLBank membership was limited to thrift institutions, whose charters generally required them to focus on mortgage lending, as well as insurance

4 Appendix 5 is responsive to a request from Sen. Sherrod Brown, Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, dated April 20, 2023, requesting a detailed review in the *FHLBank System at 100: Focusing on the Future* report on the FHLBank System's role in providing liquidity in the months and days leading up to recent bank failures; and whether all actions were consistent with safety and soundness, financial stability, and the FHLBank System's mission.

5 *See* 12 U.S.C. 1423, 1424, 1426, 1427.

companies, provided they made long-term mortgage loans and met certain other eligibility requirements. Eligibility for FHLBank System membership expanded in 1989 to include federally insured commercial banks and credit unions, provided they had at least 10 percent of their assets in residential mortgage loans. In 2008, eligibility was further expanded to include CDFIs, and in 2015 to non-federally-insured credit unions (implemented through rulemaking in 2017).[6] Figure 3 shows the distribution of FHLBank membership as of June 30, 2023. Certain eligible non-members, referred to in FHFA regulations as "housing associates,"[7] also have limited access to products and services offered by the FHLBanks.

FIGURE 3: FHLBANK MEMBERS BY MEMBER TYPE

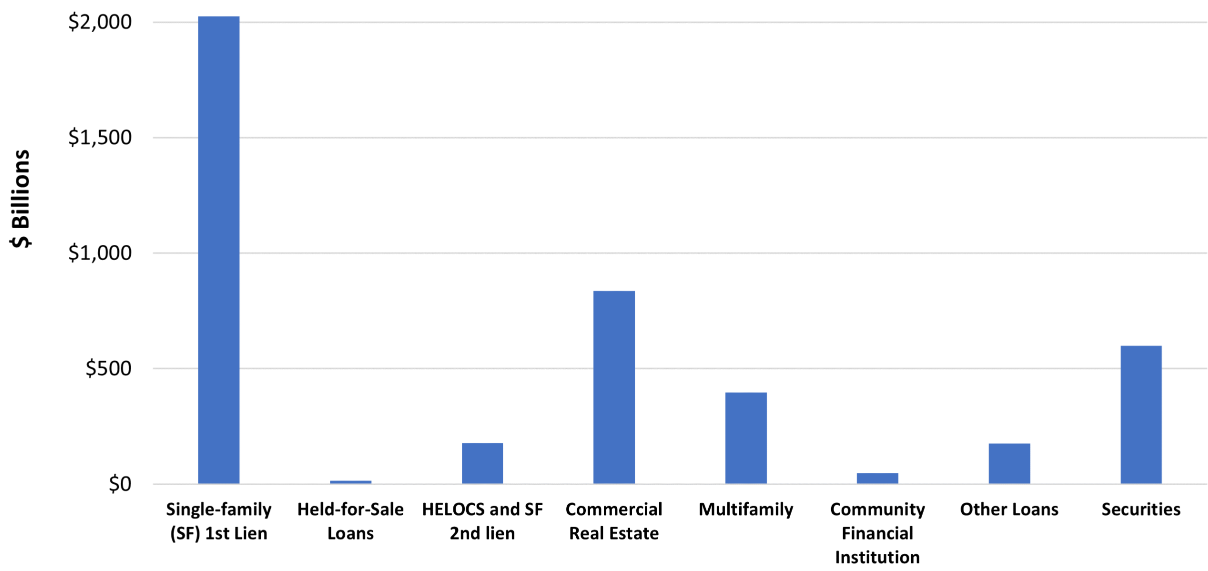


Source: Based on FHLBank data, as of June 30, 2023
Note: 6,487 members as of June 30, 2023

Photo courtesy of Community Investment Corporation, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

6 *See* 12 CFR part 1263 for FHLBank membership eligibility requirements.
7 *See* 12 U.S.C. 1430b; 12 CFR part 1264. Most housing associates are state or local housing finance agencies.

FIGURE 4: COLLATERAL TYPES PLEDGED BY FHLBANK MEMBERS

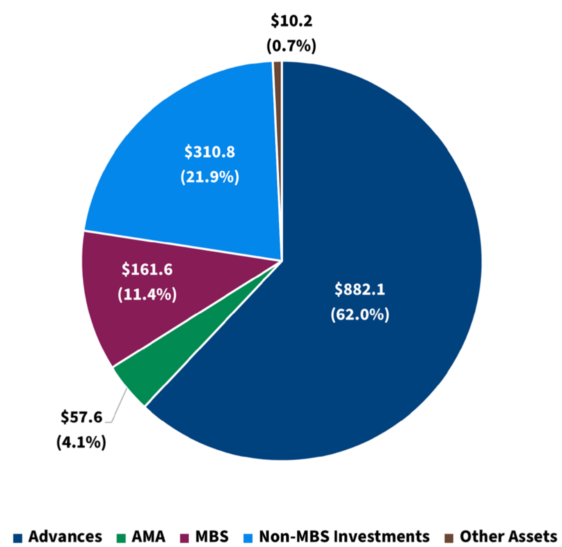


Source: Based on FHLBank data, as of June 30, 2023

Basic Business Functions

The primary business of the FHLBanks is to make fully secured, low-cost loans, known as advances, to their members. In the early history of the FHLBank System, eligible collateral for advances was limited to home mortgage loans, and the FHLBanks were the only viable source through which most mortgage lenders could leverage their existing mortgages to secure funding to make additional home mortgage loans. Over time, the FHLBanks' role began to shift due to a variety of factors, such as the creation and development of the market for mortgage-backed securities (MBS), which provided financial institutions an alternative means of obtaining liquidity from traditionally non-liquid mortgage assets. Congress also permitted the

FIGURE 5: FHLBANK ASSETS ($ BILLIONS)



Source: Based on FHLBank data, as of June 30, 2023

FHLBanks to accept a wider range of collateral, including U.S. government and agency securities, commercial real estate loans, and commercial MBS. Because of this broad range of acceptable collateral, and because membership eligibility requirements for holding residential mortgage loans are not currently applied on an ongoing basis once an applicant becomes a member, FHLBank advances now support a wider range of member activities beyond housing finance. Figure 4 provides the distribution of eligible collateral as of June 30, 2023.

Over time, the FHLBanks have introduced other products and services, such as: (1) the AMA programs, under which the FHLBanks purchase qualifying residential mortgage loans from participating members, and (2) standby letters of credit, through which FHLBanks essentially guarantee payments owed by members to third parties. In addition, the FHLBanks now invest in a wider range of financial instruments, including housing-related MBS and non-mortgage investments.

FIGURE 6: ASSET DISTRIBUTIONS ($ BILLIONS)

Liabilities ($ Billions)	
Consolidated Obligations	
Bonds	955.5
Discount Notes	365.5
Deposits	13.3
Mandatory Redeemable Capital Stock	1.5
Other Liabilities	13.0
Total Liabilities	**1,348.8**
Capital ($Billions)	
Capital Stock	47.6
Retained Earnings	26.4
Accumulated Other Comprehensive Income	-0.6
Total Capital	**73.4**
Total Liabilities and Capital	**1,422.3**

Figure 5 shows the distribution of FHLBank System assets as of June 30, 2023. Advances, AMA, and MBS are the three assets that connect the FHLBank System to financing different types of real estate, including residential housing. Generally, most non-mortgage assets–such as U.S. Treasuries, federal funds (fed funds) sold,[8] or repurchase agreements–are used by FHLBanks to meet the short-term liquidity needs of their members, manage their balance sheets, and earn income.

While the composition of FHLBank membership has expanded to include more types of depository and non-depository institutions, the FHLBanks' core function of providing liquidity both in normal financial environments and during times of market stress has not changed. The FHLBank System continues to serve as a reliable and stable source of liquidity through issuance of advances funded primarily by consolidated obligations. Historically, the FHLBanks have benefited from ready access to low-cost funding from the market, even during periods of financial market dislocation, due in

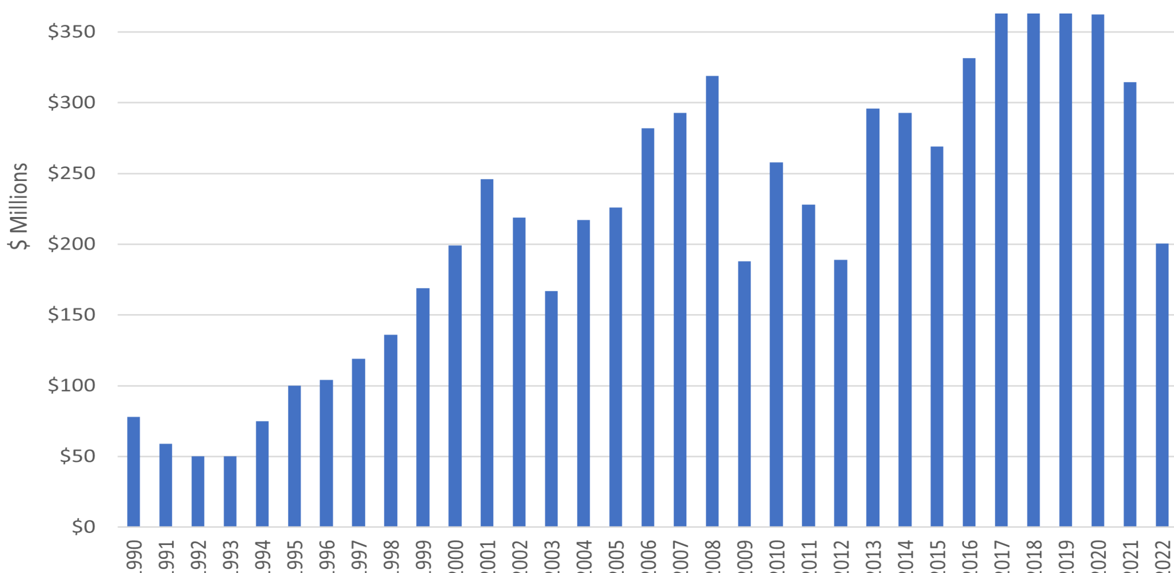
8 The federal funds market consists of domestic unsecured borrowings in U.S. dollars by depository institutions from other depository institutions and certain other entities, primarily government-sponsored enterprises.

part to their joint and several liability and status as Congressionally-chartered Government-Sponsored Enterprises (GSEs).[9] Figure 6 provides the distribution of the System's aggregate capital and liabilities, including consolidated obligations, deposits, retained earnings, and capital stock, as of June 30, 2023.

Affordable Housing and Community Development Programs

The Bank Act requires each FHLBank to operate an Affordable Housing Program, which provides grants or subsidized advances to finance homeownership or rental housing for low- or moderate-income households. Each FHLBank is also required to offer a Community Investment Program, which provides lower-cost advances to finance housing and economic development projects at targeted income levels.[10] The Bank Act requires each FHLBank to contribute at least 10 percent of its prior year's net earnings on an annual basis to fund its AHP. Figure 7 shows the FHLBanks' combined statutory funding contributions through 2022.[11]

FIGURE 7: FHLBANKS' AHP STATUTORY FUNDING CONTRIBUTIONS (1990-2022)



Source: Based on FHLBank data, as of December 31, 2022
Note: The amount of funds awarded annually may include funding adjustments from prior years or funds accelerated from future years. In these circumstances, an FHLBank's amount of awarded funds may differ from the statutorily required contribution of funds.

9 While the Office of Finance often issues consolidated obligations on behalf of a specific FHLBank, each of the other FHLBanks is jointly and severally liable for the timely repayment of principal and interest on all consolidated obligations. *See* 12 U.S.C. 1431(b), (c). Although FHLBank System consolidated obligations must "plainly state that such obligations are not obligations of the United States and are not guaranteed by the United States," 12 U.S.C. 1435, the FHLBanks' status as GSEs likely supports FHLBank debt.

10 *See* 12 U.S.C. 1430(i), (j) (CIP and AHP, respectively).

11 In Figure 7, the statutory funding contribution for a given year is based on the FHLBanks' net income in the prior year.

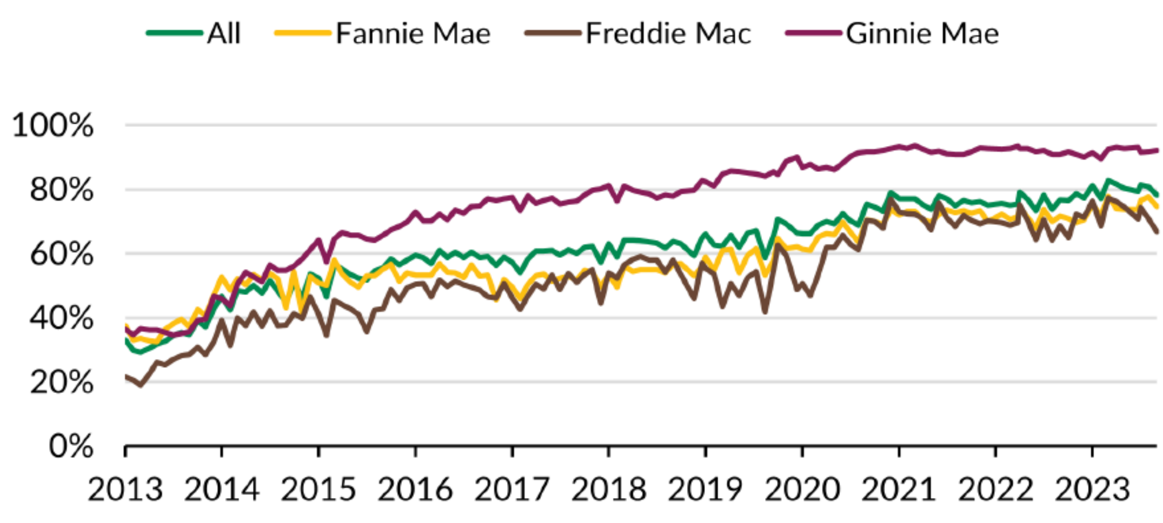
Photo courtesy of Nevada HAND, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

Evolution of U.S. Mortgage Finance and the FHLBank System

Over the course of the FHLBanks' existence, structural changes to the financial system have changed the role of the FHLBanks. Beginning in the late 1960s, Congress began to broaden the authorities of thrifts, which comprised most of the System's membership throughout much of its history, permitting them to offer a wider range of financial services and invest in a wider range of financial instruments. In 1980, thrifts and credit unions also obtained access to the Federal Reserve's discount window, a source of liquidity previously available only to commercial banks. When commercial banks and credit unions were granted access to the FHLBank System in 1989, these organizations maintained their access to the Federal Reserve discount window. The FHLBanks remain a reliable source of liquidity for members, but the distinction between the System's role and that of the Federal Reserve discount window as lender of last resort has not been clear, especially during times of market stress.

While depository and insurance members have generally maintained ready access to the FHLBank System, CDFIs that support low-income communities have found it more difficult to access System products and services due to FHLBank-imposed requirements—for example, on collateral eligibility, modeling, and haircuts. Many CDFIs also lack experience engaging with an FHLBank and may opt not to pursue membership if the barriers appear larger than the benefits.

FIGURE 8: NONBANK ORIGINATION SHARE



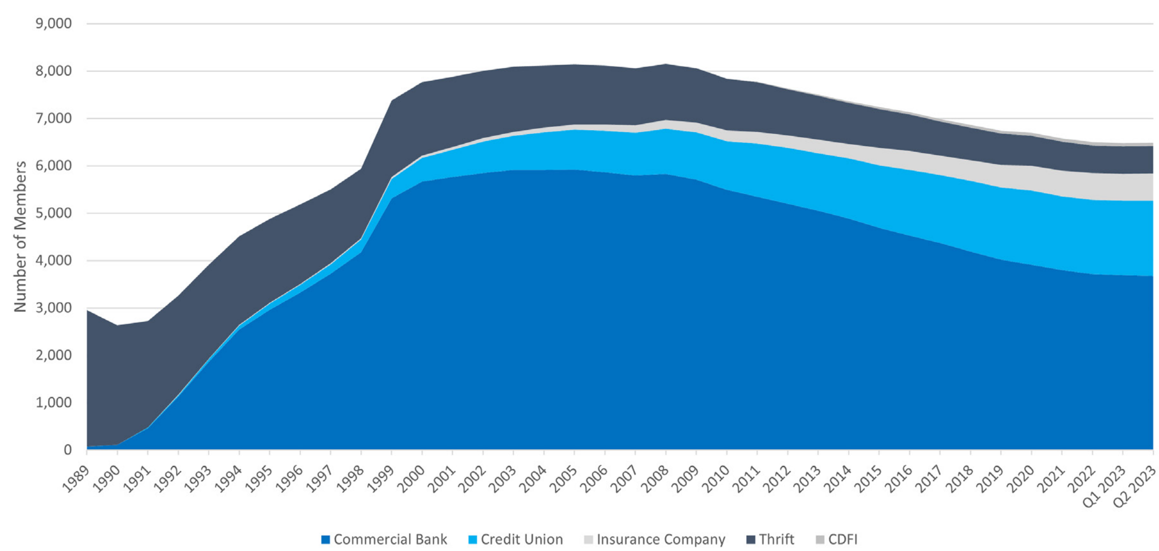
Source: eMBS and Urban Institute

Moreover, domestic housing finance markets have fundamentally changed since the FHLBank System was created. For example, the development of the MBS market provided a means through which residential mortgage lenders could fund new home loans, thereby providing an alternative to FHLBank advances. Another notable change has been the growth of nonbank mortgage companies, which are not eligible for FHLBank membership, but which originate and service a large and increasing share of mortgages (see Figure 8). Relatedly, depository institutions (banks, credit unions, and thrifts) that are eligible for FHLBank membership account for a decreasing share of home mortgage lending in general.

Finally, while the supply of affordable housing has been low for decades, shortages in materials and labor for construction were exacerbated by the COVID-19 pandemic, contributing to increasing house prices and rents. These issues compound affordability problems and raise the level of subsidy needed (from sources such as the AHP) for housing development and renovation projects or for homeownership down payments.

Shifts in the housing finance market and changes in the composition and activities of member institutions raise questions about the types of entities that should have access to FHLBank products and services, as well as concerns about how effectively the FHLBanks are achieving their mission to provide liquidity and support for housing finance. Figure 9 shows changes in the composition of FHLBank membership since 1989, the year that the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) opened FHLBank membership to all insured depository institutions holding more than 10 percent of their assets in residential mortgage loans.

FIGURE 9: FHLBANK MEMBERSHIP (1989-2023Q2)

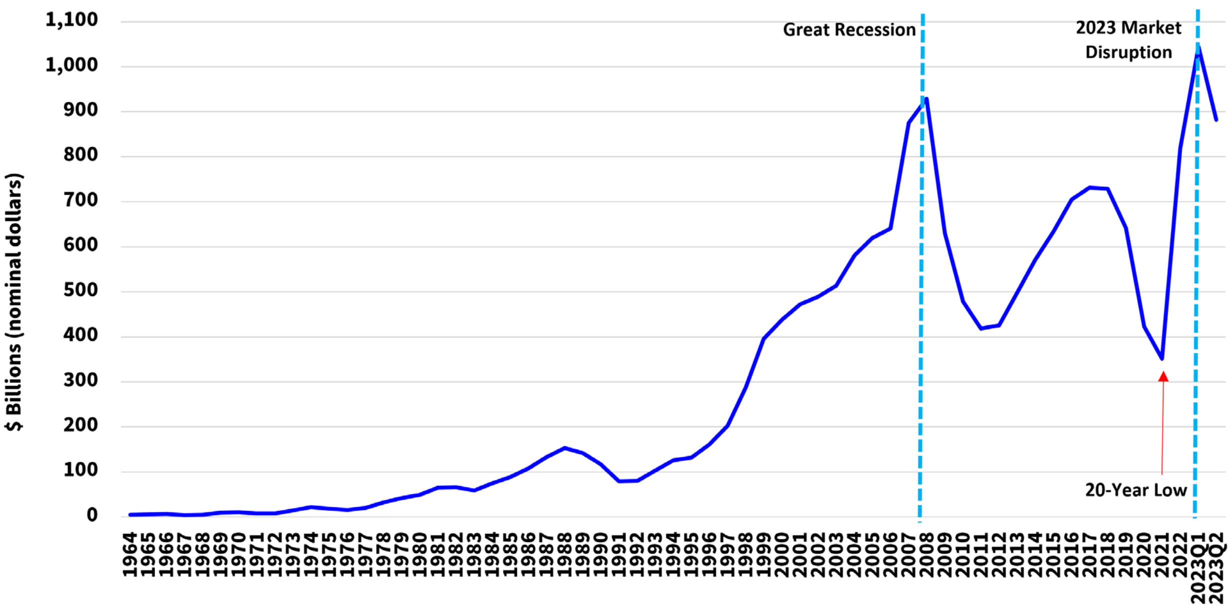


Source: Based on FHLBank data, as of June 30, 2023

Spring 2023 Market Stress

As shown in Figure 10, advance volumes fell to 20-year lows in late 2021, coinciding with rising volumes of deposits that provided a liquidity cushion for commercial banks during the pandemic. However, advance demand started to increase during 2022 and early 2023, as an increase in short-term interest rates made money market funds a more attractive option for many depositors, leading to deposit outflows. While demand for advances creates more business for the FHLBanks, some advances during this time appeared to fund member activities unrelated to housing or community development.

FIGURE 10: FHLBANK ADVANCES OUTSTANDING SINCE 1964 (BOOK VALUE)

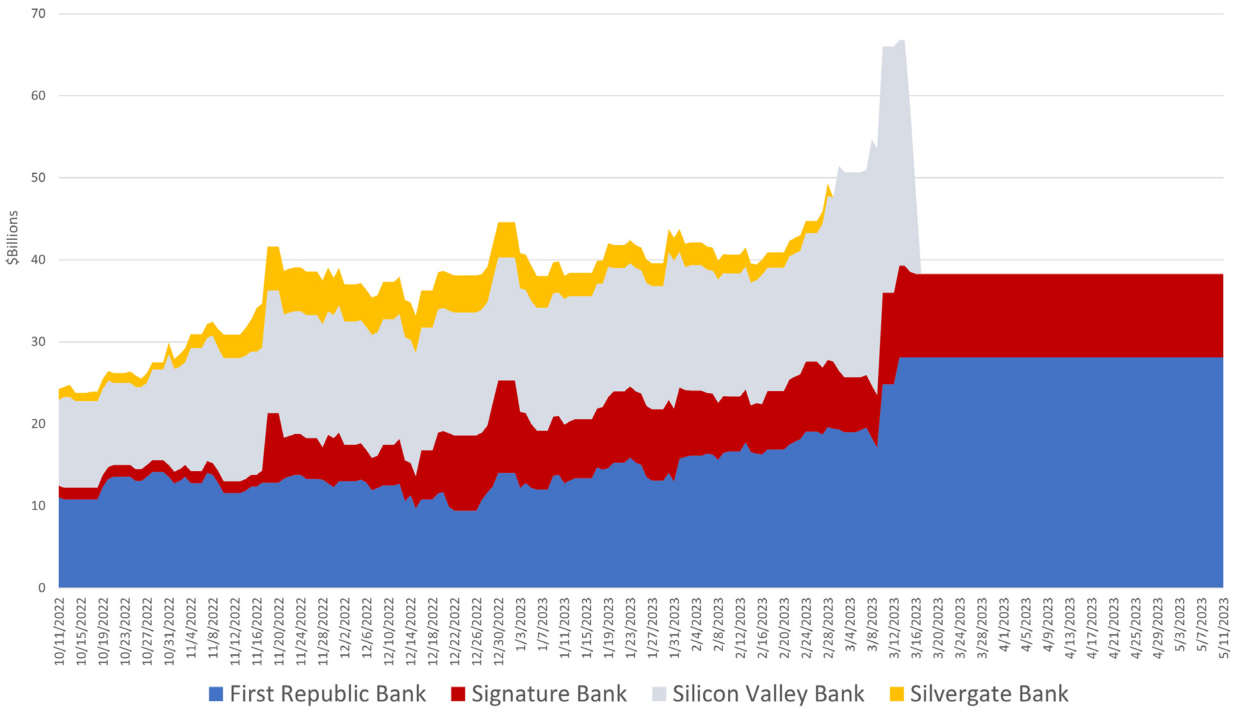


Source: Based on FHLBank data, as of June 30, 2023

During the week beginning March 13, 2023, the FHLBanks funded $675.6 billion in advances, the largest one-week advance volume in FHLBank System history. While the FHLBank advances helped many members withstand market stress, Silvergate Bank (an active borrower) voluntarily dissolved in the prior week. Shortly thereafter, Silicon Valley Bank and Signature Bank failed after actively borrowing from their respective FHLBanks. First Republic Bank, another member, failed approximately seven weeks later. As shown in Figure 11, these four entities increased their borrowings from their FHLBanks starting in late 2022. This resembled a pattern observed in the lead-up to the 2008 crisis, during which the System saw increased borrowing by members in distress just before failure.[12]

12 Washington Mutual and Countrywide both had significant advances outstanding at the time of their failures and increased their borrowing in the lead-up to their failures.

FIGURE 11: FAILED MEMBER ADVANCES OUTSTANDING



Source: Based on FHLBank data, as of May 11, 2023

The FHLBank System did not incur losses on its advances to these failed members. One of the failed banks paid off its advances before dissolution. The Federal Deposit Insurance Corporation (FDIC) paid off the advances and any associated prepayment fees for two of the failed entities, and the purchasing bank for First Republic Bank remains liable for its outstanding advances. The broader financial system, however, incurred losses because of these failures, highlighting the need for greater focus by the FHLBanks on evaluating member creditworthiness and better coordination with their members' primary regulators when a member's financial condition is deteriorating. Costs to the financial system of failed entities may be borne by the FDIC and the National Credit Union Administration (NCUA) when they pay off outstanding advances. These costs are then passed on to their regulated entities through increased insurance premiums.

While concerns with FHLBank lending to significantly deteriorating financial institutions must be addressed, the System has served its broader membership base successfully during periods of market stress. Nevertheless, during the March 2023 bank failures, the FHLBank System's role of providing low-cost liquidity came under stress, due to sizable advance demand from large members, some of which were significantly bigger than the FHLBanks themselves. While the System maintains strong liquidity levels for its size, the FHLBanks generally must issue debt to meet all their members' needs—particularly the largest members. There are also limitations on the ability of debt markets to absorb FHLBank debt in a short period of time, the amount of cash the FHLBanks can hold in interest-bearing deposit accounts or at the Federal Reserve, and the ability of the System to meet sizable liquidity requests late in the day or after debt markets close.

During the March 2023 bank failures, the FHLBanks also discovered that some large, troubled members had not established the ability to borrow from the Federal Reserve discount window and therefore were overly reliant on the FHLBanks. While the FHLBanks continue to serve as a source for reliable liquidity—which allows members, particularly smaller members, to continue to serve their communities—the Federal Reserve has long been considered the U.S. banking system's lender of last resort.[13] The reliance of some large, troubled members on the FHLBanks, rather than the Federal Reserve, for liquidity during periods of significant financial stress may be inconsistent with the relative responsibilities of the FHLBanks and the Federal Reserve.

FHFA's Vision for the FHLBank System at 100

FHFA's vision for the future of the FHLBank System is to have an effectively governed System that efficiently provides stable and reliable funding to creditworthy members, and delivers innovative products and services to support the housing and community development needs of the communities its members serve, all in a safe and sound manner. This vision reflects the language of the Bank Act and is guided by: (i) FHFA's assessment of the housing and financial market landscape; (ii) financial market disruptions spanning many decades; (iii) feedback from hundreds of stakeholders received by FHFA during the listening sessions and roundtables held in 2022-2023; and (iv) lessons learned from the implementation of the Bank Act, other statutory and regulatory requirements, and the voluntary merger of the FHLBank of Seattle and the FHLBank of Des Moines.

This report presents actions that FHFA plans to take in support of its vision for the FHLBank System. These actions, discussed in the sections that follow, are organized under four broad themes: (i) Mission of the FHLBank System; (ii) Stable and Reliable Source of Liquidity; (iii) Housing and Community Development; and (iv) FHLBank System Operational Efficiency, Structure, and Governance.

13 The Federal Reserve System was set up to, among other responsibilities, serve as lender of last resort. Prior to the establishment of the Federal Reserve in 1913, large private sector banking firms performed this role. Since the Great Depression, the Federal Reserve's actions as lender of last resort were undertaken using its authority to provide discount window funding to insured depository institutions. Such loans can be to individual institutions facing funding pressures, or they can be to banks more generally to address broader financial stresses. *See* https://www.federalreserve.gov/newsevents/speech/fischer20160210a.htm

Photo courtesy of Nevada HAND, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 for more information.

1930s

1932
Federal Home Loan Bank Act creates FHLBanks and the FHLBB as regulator of the FHLBank System; FHLBB charters 12 regional FHLBanks

- **1929-1939** Great Depression
- **1938** Fannie Mae created

1933
Banking Act of 1933 establishes the FDIC

Home Owners' Loan Act directs FHLBB to create and oversee HOLC and authorizes FHLBB to begin chartering and regulating federal thrifts

1934
National Housing Act creates FHA, which over time leads to the 30-year self-amortizing mortgage; creates FSLIC under direction of the FHLBB to provide deposit insurance for thrifts

1937
FHLBank System issues first consolidated obligations

1940s-50s

1944
Servicemen's Readjustment Act (G.I. Bill) creates the VA loan guaranty program

- **1941-1945** United States engaged in World War II
- **1954** HOLC decommissioned

1946
FHLBank of Los Angeles merged with FHLBank of Portland to create FHLBank of San Francisco, reducing System to 11 FHLBanks

1951
FHLBank System retires federal government stock held from inception

1960s-70s

1963
FHLBank of San Francisco split into two Banks: FHLBank of San Francisco and and FHLBank of Spokane (later Seattle), increasing System to 12 FHLBanks

- **1964** Civil Rights Act signed
- **1968** Fannie Mae privatized
- **1970** Freddie Mac created

1965
Department of Housing and Urban Development Act creates HUD

1968
Fair Housing Act (Title VIII of the Civil Rights Act of 1968) prohibits discrimination in housing access on the basis of race, religion, sex, national origin, familial status, or disability

Housing and Urban Development Act of 1968 creates Ginnie Mae; provides subsidies for low- and moderate-income housing and community redevelopment

1970
Emergency Home Finance Act of 1970 provides $250 million to the FHLBB for distribution to FHLBanks for subsidizing interest rates on advances to spur home construction

1980s

1982

Garn St. Germain Depository Institutions Act eliminates statutory restrictions on collateral the FHLBanks may accept

1986-1995 Savings and Loan Crisis

1989 FSLIC dissolved; Freddie Mac privatized

1989

FIRREA creates AHP, CIP, CICA; creates RTC and RefCorp (funded by FHLBanks) to resolve troubled thrifts; establishes requirements for long-term advances and limits advances to members that do not qualify as QTLs

Commercial banks and credit unions eligible to become FHLBank members (if at least 10% of assets are in residential mortgage loans)

1990s

1992

Federal Housing Enterprises Financial Safety and Soundness Act of 1992 creates OFHEO as a division of HUD and mandates Enterprise goals for low-income and underserved community investment

HCDA mandates comprehensive studies of the FHLBanks, which give rise to recommendations, several of which eventually lead to statutory changes

1999

Federal Home Loan Bank System Modernization Act modifies Bank Act provisions including on capital structure of the FHLBanks; makes membership voluntary for all institutions; modifies the FHLBanks' RefCorp payment obligation; eliminates QTL provisions

2000s-10s

2004

Finance Board issues rule requiring FHLBanks to register stock with the SEC (codified in statute in 2008)

2008

CDFIs eligible to become FHLBank members

2007-2008 Global Financial Crisis

2007-2010 United States Mortgage Crisis

2008 Fannie Mae and Freddie Mac placed in conservatorship

2008

HERA creates FHFA by combining FHFB and OFHEO; gives FHLBank members authority to elect their independent directors; authorizes FHLBanks to merge voluntarily; establishes affordable housing goals

2010

Dodd-Frank Wall Street Reform and Consumer Protection Act overhauls financial regulation; creates the Consumer Financial Protection Bureau and eliminates OTS

2015

FHLBank of Seattle voluntarily merges into FHLBank of Des Moines, reducing System to 11 FHLBanks

Non-federally-insured credit unions eligible to become FHLBank members

2022

FHFA launches ***FHLBank System at 100: Focusing on the Future Initiative***

II. MISSION OF THE FHLBANK SYSTEM

The shift in the composition of FHLBank membership away from institutions with a strong focus on mortgage lending, the broadening of eligible collateral to include non-housing-focused assets, and as was made clear from the stakeholder responses, the increasing volume of unmet housing and community development needs across the country, have led FHFA to consider the FHLBanks' role in the housing finance system. In addition, stakeholders expressed differing views of the mission of the FHLBank System. Therefore, clarifying the mission of the FHLBanks is a key step in implementing the recommendations arising from the *System at 100* initiative.

A mission statement for the FHLBank System should explicitly reflect the purpose, intention, and overall objective of the System. Among other things, it should provide a basis for evaluating the FHLBanks' ability to meet mission objectives in a safe and sound manner and serve as a reliable source of low-cost financing in support of housing and community development. FHLBank members that demonstrate a meaningful commitment to the overall mission of the FHLBanks should receive the greatest benefit from the System.

Clarify the FHLBank Mission

The Bank Act does not explicitly describe the mission of the FHLBanks. The Federal Housing Finance Board (Finance Board), FHFA's predecessor, codified the FHLBanks' mission through its Core Mission Activities (CMA) regulation in 2000.[14] The CMA regulation, which was subsequently adopted by FHFA, expresses the FHLBanks' mission as "providing financial products and services, including but not limited to advances" to members to assist in the financing of "housing, including single-family and multi-family housing serving consumers at all income levels" and "community lending."[15] This statement links the FHLBanks' role in providing liquidity for their members to activities that support housing and community development. FHFA plans to develop a clear mission statement for the FHLBank System that explicitly incorporates the following core objectives: (i) provide liquidity to members; and (ii) support housing and community development. These core objectives will be explored in greater detail in the chapters to follow.

System at 100: An FHLBank mission statement that encompasses the core objectives of providing liquidity and support for housing and community development.

Provide Liquidity to Members

Throughout their existence, the FHLBanks have provided their members with low-cost advances that are fully secured by eligible

14 *See* 65 FR 25267 (May 1, 2000).
15 *See* 12 CFR 1265.2.

collateral, for general business purposes. One purpose of these advances is to serve as a liquidity cushion for members in times of deposit outflows. This enables members, and particularly smaller members, to continue to serve their communities—both as mortgage lenders and more generally as financial intermediaries.

Support Housing and Community Development

Congress emphasized the importance of FHLBank advances supporting housing and community development by requiring that long-term advances be made only for "residential housing finance." In the case of CFI members, advances are also intended to provide funds for additional uses such as small businesses, small farms, small agri-businesses, and community development activities.[16] The Bank Act also stipulates that only those members who meet the "standards of community investment or service" under the CSR may obtain long-term advances.[17] These provisions reflect the importance of the FHLBanks' role in supporting housing and community development activities through their low-cost advance programs.

Advances may also support the housing and community development objective, to the extent residential mortgage loans, multifamily loans, and eligible other real estate-related collateral are pledged to secure the advance. In addition, this objective captures direct purchase of home mortgage loans through the FHLBanks' AMA programs.

The Bank Act also requires the FHLBanks to support affordable housing and community development through targeted programs.

Enhance Mission Achievement by the FHLBanks

FHFA believes that it is important to assess mission achievement.

System at 100: FHLBanks' mission achievement is assessed and FHFA will consider a mission examination rating.

FHFA's current evaluation of FHLBank performance addresses one component outlined above, providing liquidity to members, by measuring the ratio of an FHLBank's advances plus AMA to its outstanding consolidated obligations.[18] However, the CMA regulation does not include any measures for expected mission achievement, and FHFA's additional CMA guidance does not currently fully consider support for housing and community development activities. To emphasize the importance of all aspects of the mission,

16 *See* 12 U.S.C. 1430(a)(2). FHFA's Advances regulation defines a long-term advance as an advance with an original term to maturity greater than five years. See 12 CFR 1266.1.

17 *See* 12 U.S.C. 1430(g).

18 As outlined in AB 2015-05 *FHLBank Core Mission Achievement* and AB 2018-07 *FHLBank Liquidity Guidance*, the denominator of the ratio is adjusted by subtracting certain U.S. Treasury obligations that qualify as "high quality liquid assets."

FHLBank Examination Rating

FHFA uses a uniform rating system, similar to those used by other federal financial regulators, when conducting examinations of its regulated entities. FHFA's regulated entities receive a rating for each of the following seven components: capital, asset quality, management, earnings, liquidity, sensitivity to market risk, and operational risk (CAMELSO). A composite rating is then derived from the seven component ratings.

The findings and conclusions from FHFA's examinations of the FHLBanks' affordable housing and community development programs are taken into consideration in assigning the management component rating and, to a lesser extent, the operational risk component rating.

FHFA plans to issue a proposed rule that would clarify the mission of the FHLBanks and provide metrics and thresholds for measuring mission achievement. FHFA also will consider how to incorporate mission achievement in a more meaningful way in its examination processes, including the potential inclusion of a stand-alone mission examination rating. Currently, examination findings and conclusions related to mission objectives are reflected in multiple examination rating components but are only a subset of the elements considered in those ratings. Unless significant weaknesses are identified, achievement of mission objectives receive limited acknowledgment in FHFA's Reports of Examination and the composite ratings for the FHLBanks. Compliance with fair lending and fair housing laws and equity initiatives are not currently assessed in supervisory ratings, although FHFA has begun supervisory engagement with the FHLBanks concerning fair lending and fair housing compliance.

While the importance of the FHLBanks operating in a safe and sound manner cannot be overstated, an FHLBank's support for all aspects of its mission should be reflected more explicitly in its examination ratings.

Establish Incentive Structure for FHLBank Members to Support FHLBank Mission

Congress has vested the FHLBanks with certain market advantages that enable them to provide low-cost wholesale funding and other services to their members. Therefore, it is reasonable to expect that the benefits of FHLBank membership should accrue predominantly to institutions that demonstrate a meaningful commitment to supporting the housing and community development mission of the FHLBanks. Currently, FHLBank member engagement in mission activities varies widely, largely by member type.

System at 100: Implementation of a meaningful framework that recognizes members with a strong and demonstrable commitment to the mission of the banks.

To encourage members to increase their support for the FHLBank mission, FHFA plans to undertake a rulemaking and issue related guidance, as appropriate, whereby each FHLBank would provide added benefits—such as discounted advance rates or differential dividends on capital stock—to members with a strong and demonstrable connection to the FHLBanks' overall mission. These incentives should be targeted across the FHLBank membership, including towards smaller institutions. Any rulemaking and guidance would also ensure that eligible FHLBank members continue to have reliable access to the FHLBank System and that any changes do not adversely affect the FHLBanks' safe and sound condition.

Enhance FHLBank District Needs Assessment, Goal Setting, Planning, and Reporting

To achieve meaningful results, it is important that the FHLBanks are guided by an informed and comprehensive assessment of district needs and that the planning processes and achievements are publicly disclosed.

System at 100: FHLBanks to publish more comprehensive annual reports on their affordable housing and community development activities that include evaluation of outcomes and assessments of program effectiveness.

The FHLBanks currently develop multiple documents describing their district needs, goals, planning, and reporting. Specifically, each FHLBank publishes an annual Targeted Community Lending Plan that identifies and assesses significant affordable housing and community development needs in the FHLBank's district and describes the FHLBank's strategy for addressing those needs.[19] Each FHLBank also develops a Strategic Business Plan[20] and prepares an annual AHP Implementation Plan.[21] The FHLBanks' Affordable Housing Advisory Councils publish annual reports that describe the FHLBanks' affordable housing and community development activities over the past year. However, each of these documents is limited in scope. Therefore, FHFA will provide guidance to the FHLBanks and subsequently initiate a rulemaking to enhance the requirements for Targeted Community

19 FHFA collects and publishes the FHLBanks' Targeted Community Lending Plans, *available at* https://www.fhfa.gov/programs/affordable-housing/fhlbank-community-lending-plans

20 By regulation, FHFA requires each FHLBank to adopt a strategic business plan, which, among other things, must include a description of how the significant business activities of the FHLBank will achieve its mission and purpose and plans for maximizing activities that further the FHLBank's housing finance and community lending mission. *See* 12 CFR 1239.14(a)(1).

21 *See* 12 CFR 1291.13(b). The annual AHP Implementation Plan sets forth how an FHLBank will address the significant housing needs in its district under its AHP.

Lending Plans in its CSR regulation[22] to make them more comprehensive and transparent. This includes incorporating advances, activities under AMA and affordable housing and community development programs, and other business activities.

FHFA will also provide guidance to the FHLBanks on developing approaches for evaluating outcomes, assessing program effectiveness, and enhancing public reporting. FHFA will also require the FHLBanks to post the plans and performance reports on their public websites.

Photo courtesy of Nevada HAND, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

22 *See* 12 CFR 1290.6(a)(5).

III. STABLE AND RELIABLE SOURCE OF LIQUIDITY

The FHLBank System was established to provide a stable and reliable source of liquidity for its members, and the FHLBanks have successfully fulfilled this function over the history of their existence. Access to low-cost liquidity has been particularly important for smaller, community-based organizations with limited access to the capital markets.

To ensure that access continues, it will be important to address weaknesses in the FHLBanks' oversight of members' liquidity and credit risk management that were evidenced in the March 2023 bank failures. This will ensure that the FHLBanks continue to be a reliable and stable source of liquidity, but that they do not — and are not perceived to — serve as lenders of last resort. In addition, enhancements to stress testing requirements and a more frequent periodic review of retained earnings policies would ensure that the FHLBanks remain sufficiently capitalized to withstand losses from the failure of member institutions as well as any emerging risks, including climate risk.

Ensure FHLBanks are not the Lender of Last Resort

The FHLBanks' advance activity is funded primarily by the issuance of bonds and short-term notes, and there are practical limits to the amounts that the FHLBanks can issue in a single day. When member demand for advances is high, these limitations can become acute, particularly late in the day when debt markets have slowed or closed.

System at 100: FHLBanks have protocols and agreements in place for members to borrow from the Federal Reserve discount window.

The FHLBanks can better serve their members if they coordinate with their large depository institution members and the members' prudential regulators to make certain that these members have established protocols to meet their emergency liquidity needs from the Federal Reserve discount window when necessary. Ensuring that the FHLBanks are not acting as lenders of last resort for institutions in weakened financial condition will allow the FHLBanks to use their available liquidity to provide financing to all members so they can continue to serve their communities.

During the 2023 market stress caused by multiple regional bank failures, it became apparent that several large depository members were effectively using the FHLBanks as their lender of last resort. These members did not have agreements in place or collateral positioned to borrow from the Federal Reserve discount window. Accordingly, FHFA will provide guidance to the FHLBanks to work with their members and the members' primary federal regulators to ensure all large depository members have established protocols to borrow from the Federal Reserve discount window so that these institutions' borrowing needs continue to be met. Additionally, FHFA expects the FHLBanks to negotiate appropriate agreements with the regional Federal Reserve Banks to ensure expedited movement of collateral if a member's lending activity must be moved to the Federal Reserve discount window.

Preserve Debt Issuance Benefits for all Members

System at 100: Debt issuance activity is well managed to ensure all members have access to the same low borrowing rates.

The FHLBanks' success in serving their mission is driven by their ability to issue debt at rates only slightly higher than those on comparable U.S. Treasury (Treasury) instruments. Minimizing their debt issuance cost[23] allows the FHLBanks to pass benefits to members in the form of favorable advance pricing (relative to other funding sources) since the debt issuance cost is the core driver of advance pricing.[24] However, debt issuance costs are affected by volume. A large debt issuance to fund advances for a single FHLBank could lead to suboptimal pricing of advances and may even increase advance pricing for all FHLBank members. For example, in June 2022, a large debt issuance with a three-week maturity distorted the cost of similar advances for several days, adversely affecting several FHLBanks. Members subsequently either withdrew their funding requests or shifted to a different maturity point. This issuance highlighted the need to adjust current processes to ensure that FHLBanks can reliably provide liquidity at a low cost to all members, not just one large member.

To ensure the FHLBanks issue debt in a manner that accounts for the negative effects that a single large borrower could have on the activity of all members, FHFA plans to take steps to limit large issuances that unduly raise debt clearing costs or debt issuance activity.

Improve FHLBanks' Ability to Meet Short-Term Liquidity Needs

Besides issuing debt, the FHLBanks can meet members' short-term liquidity needs using funds held in their deposit accounts at the Federal Reserve or in their interest-bearing deposit accounts (IBDAs) at large domestic banks. In some circumstances, they may also borrow fed funds, typically from another FHLBank.

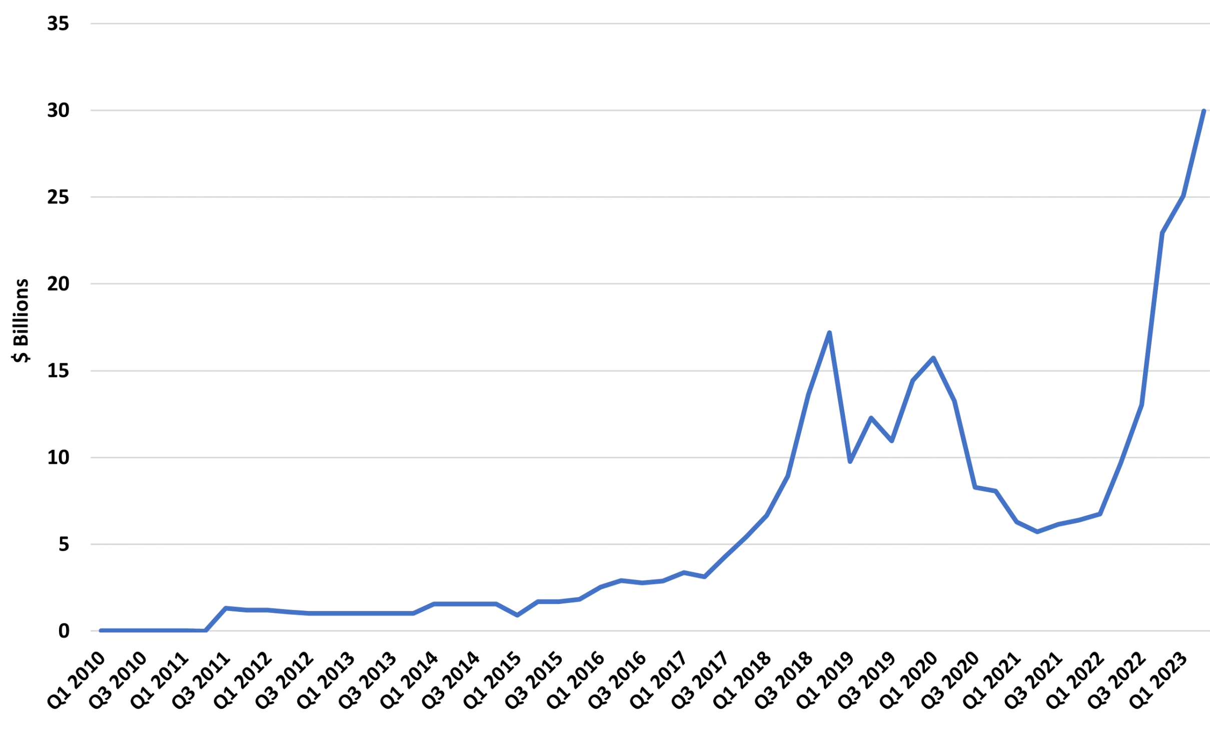
System at 100: Limits on maximum exposure on unsecured extensions of credit are similar for overnight assets of similar risk profile.

23 In this report, the debt issuance cost refers to the all-in cost of debt.
24 *See* 12 CFR 1266.5(b)(1)(i).

Because FHLBanks cannot earn interest on deposits at the Federal Reserve by statute, over the past five years the FHLBanks have increased their use of overnight IBDAs with large domestic banks that have high credit ratings (See Figure 12). However, FHFA's regulations limit the maximum exposure on unsecured extensions of credit that an FHLBank may have with an individual counterparty, and this applies to the FHLBanks' deposits with large members.[25] The regulations provide for a higher credit limit for overnight fed funds sales, the primary overnight investment used when the regulation was last amended, relative to other types of overnight investments. Since IBDAs have less than a one-day maturity, it is reasonable that they receive similar treatment in the regulation to overnight fed funds sales.

Accordingly, FHFA will seek to enable the FHLBanks to better manage intra-day liquidity and respond to member requests. FHFA plans to undertake a rulemaking to amend its regulation establishing limits on unsecured extensions of credit to provide deposits held in IBDAs at highly-rated banks with the higher limit that currently applies only to overnight fed funds.

FIGURE 12: INTEREST-BEARING DEPOSIT ACCOUNT AVERAGE DAILY OUTSTANDING BALANCE



Source: Based on FHLBank data, as of June 30, 2023

25 *See* 12 CFR 1277.7.

Strengthen Member Risk Management

Safe and sound execution of a member's request for liquidity requires that an FHLBank first evaluate the member's ability to repay the funds. While pledged collateral may protect an FHLBank against the risk of loss, it serves only as a backup source of repayment if the member cannot repay an advance. It is also important that an FHLBank make a timely assessment of any deterioration in a member's financial condition to ensure that it deploys appropriate risk mitigation measures, such as reductions in credit limits, delivery of pledged collateral, frequent valuation of collateral, reduction in the maturity of the advances, and active communication with the member's primary regulator when warranted.

System at 100: Robust mechanisms to identify deteriorating member financial condition in a timely manner.

FHFA is initiating multiple actions to strengthen member risk management and ensure the FHLBank System remains safe and sound. These actions will also reduce the FDIC and NCUA's collateral disposition cost where a failed member is a bank, thrift, or credit union. To date, when an FDIC-insured depository member has failed, the FDIC-as-receiver has always chosen to pay off the failed member's advances and any related fees due in exchange for a release of collateral.[26] While this may not result in losses for the FHLBanks, the ultimate losses increase the cost of resolution for the FDIC and are borne by other parts of the financial system.

Improve Member Creditworthiness Evaluation

Member credit evaluations at the FHLBanks assess a member's ability to repay advances. The market disruptions in March 2023 exposed weaknesses in the member credit evaluations by certain FHLBanks that impeded adequate anticipation and management of the risk of potential member failures. As a result, FHFA has communicated its expectation that the FHLBanks revisit their policies, procedures, and systems for evaluating the financial condition of members. In addition, FHFA will issue updated guidance related to ongoing evaluations of member credit with the goal of the FHLBanks working with their members and their members' primary regulators to identify concerns before they precipitate impairment of a member's ability to receive advances.

However, the FHLBanks should work with their members' primary regulators and establish protocols for timely communication when there is a material decline in a member's financial condition, or when regulators determine that new advances to that member would be counterproductive. In addition, FHFA will enhance its oversight of the FHLBanks' credit risk evaluation of their members. FHFA encourages the FHLBanks to

26 The FDIC is required to choose the least cost resolution option. *See* 12 U.S.C. 1823(c)(4).

work with each other and share expertise to develop mechanisms to identify deteriorating member financial condition in a timely manner.

Deny or Limit Advances for Members with Insufficient Capital

Insufficient capital or undercapitalization can lead to failure, and liquidity should only be provided to members with low capital if there is full involvement and concurrence of the member's primary regulator. Currently, FHFA's Advances regulation prohibits the FHLBanks from making new advances or renewing outstanding advances for a term greater than 30 days to a member without positive tangible capital unless the member's prudential regulator requests in writing that the FHLBank make the advance.[27] The Finance Board adopted this provision because it was concerned that an FHLBank could inadvertently contravene the wishes of a member's primary federal regulator by making advances available to capital deficient members.[28]

Beginning in 2022, several stakeholders requested that FHFA waive this regulatory requirement, given the volume of unrealized losses on depository members' securities holdings that was not recognized in regulatory capital, but which was reflected in FHFA's regulatory measure of tangible capital.[29] At the end of 2022, the banking industry had more than $600 billion in unrealized losses arising from its securities holdings. FHFA declined to waive the requirement, concluding that its regulatory definition of tangible capital was an appropriately conservative measure and already allowed the primary federal regulator to request an exception as appropriate.

The extension of advances to members without positive tangible capital would heighten both the credit risk exposure to an FHLBank as well as the potential losses to the FDIC or the NCUA in the case of a member's failure. Moreover, as discussed above, the FHLBanks are not designed or equipped to take on the function of the lender of last resort. FHFA plans to retain this regulatory requirement and to review and strengthen its policies and guidance to limit access to advances for members with insufficient capital. FHFA also plans to reinforce its guidance that the FHLBanks work with the member's primary federal regulator in these situations.

27 *See* 12 CFR 1266.4(b)(1), (c)(2).

28 *See* 59 FR 2945, 2946 (Jan. 20, 1994).

29 For the last decade, prudential bank supervisors have allowed most depositories to opt out from including "Accumulated Other Comprehensive Income" within their regulatory capital calculations. *See*, e.g., 12 CFR 324.22(b) and 79 FR 20754, 20757 (Apr. 14, 2014) (FDIC regulation and final rule on AOCI opt-outs).

Study FHLBank Advance Prepayment Fee Requirements for Members in Weakened Financial Condition

FHFA requires by regulation that each FHLBank charge its members prepayment fees on most advances with a maturity of more than six months to make the FHLBank financially indifferent to the borrower's decision to prepay an advance prior to its maturity date.[30] This requirement protects the FHLBank System's financial condition by reducing the FHLBanks' exposure to interest rate and reinvestment risks. The regulation provides that an FHLBank may choose to waive a prepayment fee if it will not result in an economic loss to the FHLBank.

The prepayment fee requirement applies even when a borrowing member fails, and in the case of depository members, the receiver pays off FHLBank advances and related fees in exchange for a release of collateral. This requirement may increase the cost of the failure—either directly when the fee is paid by the FDIC or NCUA, or indirectly when an acquiring institution pays a lower acquisition amount (to the FDIC or NCUA) for a failed institution to offset the prepayment fees.

FHFA will initiate a study of the FHLBank System's treatment of prepayment fees for certain situations. As a result, FHFA may consider initiating a rulemaking to amend the Advances regulation to make the FHLBank or the FHLBank System responsible for prepayment fees due from a failed member on long-term advances provided shortly before the member fails and without consultation with the primary federal regulator. This would allow the FHLBanks to continue to provide liquidity to their members but also provide an incentive for them to improve their due diligence before making new advances to members experiencing financial difficulties.

Strengthen Capital Management

A sufficient level of capital is necessary to ensure that an entity can absorb potential losses and meet unexpected obligations. The FHLBanks' capital structure primarily consists of capital stock, which is required by statute to be redeemed and repurchased at par, and retained earnings. While an FHLBank's capital stock may be used for loss absorption in an adverse event, this could result in the FHLBank breaching its capital requirements and being unable to redeem or repurchase capital stock at par.[31] Thus, the requirement to redeem capital stock at par effectively means the FHLBanks must maintain sufficient retained earnings to absorb losses in all but the most severe circumstances.

Retained Earnings Policies

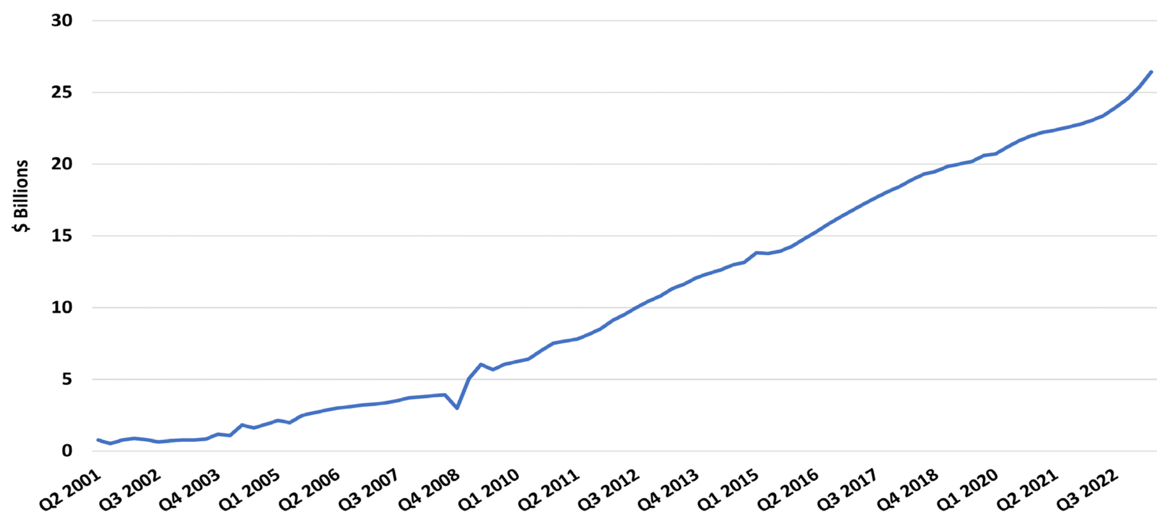
The FHLBanks currently satisfy all statutory and regulatory capital requirements and continue to build retained earnings. FHLBank capital requirements are governed by statute

30 *See* 12 CFR 1266.6(b).
31 *See* 12 U.S.C. 1426(a)(4), (d)(1), (d)(2)(B).

and FHFA regulations,[32] but the level of retained earnings is based on each FHLBank's retained earnings policy.[33] Each FHLBank has a retained earnings policy that provides for the assessment of the risk of losses under alternative scenarios and the establishment of a minimum amount of retained earnings sufficient to cover such losses (and protect the par value of the capital stock).

Despite the overall growth in retained earnings across the System over the past 20 years (see Figure 13), individual FHLBanks may need to continue to grow their retained earnings to mitigate against the risk of capital stock impairment. FHFA plans to instruct the FHLBanks to re-evaluate and update their retained earnings policies, including their methodologies and assumptions, on a regular basis. Based on these updated policies, FHFA will take additional steps, as necessary, to ensure each FHLBank remains in a strong capital position.

FIGURE 13: RETAINED EARNINGS



Source: Based on FHLBank data, as of June 30, 2023

Institute Annual Assessment and Disclosure of FHLBank Stress Testing

The market stress in early 2023 underscores the need for the FHLBanks to enhance their stress testing. Stress testing and public disclosure of stress test results give the public confidence that an entity's capital is sufficient to absorb losses and support operations during adverse economic conditions. FHFA requires the FHLBanks to employ stress testing in their management of capital,[34] liquidity, interest rate, and credit risk, and has provided guidance for conducting these

32 *See* 12 U.S.C. 1426; 12 CFR part 1277.

33 AB 2003-08 (Capital Management and Retained Earnings) provides guidance that each FHLBank should specifically assess the adequacy of its retained earnings in light of alternative possible future financial and economic scenarios.

34 *See* 12 CFR 1277.4(g), .5(b).

stress tests.[35] Stress testing for the regulatory requirement of risk-based capital is reported to FHFA and to the public at an aggregated level (total risk-based capital for each FHLBank) in the Combined Financial Report. FHFA reviews the FHLBanks' internal stress testing through examination and supervision processes.

As the collective FHLBank System is significant in size, public perception of its viability adds to the confidence in the overall financial system. FHFA plans to initiate a rulemaking to require certain stress testing protocols for the FHLBanks. FHFA will propose adjusting the scenarios published by the Federal Reserve, as warranted, to reflect the risks present in the FHLBank System, which may differ in some ways from the risks faced by financial institutions that are subject to stress testing under the Dodd-Frank Wall Street Reform and Consumer Protection Act.[36]

Prioritize Climate Resiliency and Improve Climate Risk Assessments

System at 100: Climate risk incorporated into credit evaluations.

Climate change is impacting the U.S. housing finance system in a number of ways, including higher insurance costs on properties in areas at greater risk of damage due to natural disasters (e.g., hurricanes, flooding, wildfires). The FHLBanks' assets are supported by collateral whose value could materially decrease from events caused or made more severe by climate change. It is therefore important that the FHLBanks assess risks related to climate and natural disasters on the FHLBanks' businesses, their members, and the communities they serve. FHFA plans to issue guidance for the FHLBanks to begin incorporating climate resiliency efforts into their core businesses, as well as in their AHP and voluntary and pilot programs. Some FHLBanks have already included climate resiliency in their AHP scoring criteria, homeownership set-aside programs, and voluntary or pilot programs.

35 Specifically, AB 2018-07 *Federal Home Loan Bank Liquidity Guidance* provides for annual liquidity stress testing, AB 2018-09 *Interest Rate Risk Management* provides for periodic stress testing of interest rate risk, and AB 2018-02 *Federal Home Loan Bank Use of Models and Methodologies for Internal Assessments of Mortgage Asset Credit Risk* describes minimally acceptable criteria for a macroeconomic stress scenario to be used in assessing mortgage asset credit risk. Prudential Management and Operations Standard 4, *Management of Market Risk—Measurement Systems, Risk Limits, Stress Testing, and Monitoring and Reporting*; and Standard 5, *Adequacy and Maintenance of Liquidity and Reserves* (Appendix to 12 CFR part 1236) also address stress testing.

36 Assets vary significantly across FHLBanks and over time due primarily to their capacity and flexibility to provide advances to members during market disruptions. Tailoring the scenarios to address this structural feature of the FHLBanks could provide a more meaningful test of their response to market disruptions.

Like many financial institutions, the FHLBanks are in the early stages of understanding the effects of climate risk on their lines of business. A key first step to evaluating their exposure to climate risk is to obtain and understand the relevant data. The next step involves analyzing the data and modeling scenarios to determine how to incorporate climate risk into their risk management frameworks and their targeted housing and community development programs. This will ensure that the FHLBanks' programs support energy efficient and disaster resilient practices in new construction and retrofits, and that their activities help low-income households absorb the upfront costs needed to enhance resiliency and energy efficiency in a safe and sound manner.

Photo courtesy of NeighborWorks Boise, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

IV. HOUSING AND COMMUNITY DEVELOPMENT

Improving safe and sound access to affordable housing and investing in community development is an effective strategy for building strong and sustainable communities. The primary means by which FHLBank lending supports housing is through the acceptance of housing-related collateral to secure advances. Through the establishment of the AHP and CIP, Congress also directed the FHLBanks to provide funding for affordable housing and community development in their districts beyond their support for housing through advances. In addition, regulatory actions codified the FHLBanks' ability to purchase mortgages through AMA programs and their ability to make long-term advances for community lending activities through CICA requirements.

To improve the ability of the FHLBanks to impact housing and community development, FHFA intends to ensure the FHLBanks are effectively engaging with mission-oriented organizations. Additionally, FHFA will work with the FHLBanks to ensure collateral and advances are supporting housing and community development and will recommend to Congress that the FHLBanks provide additional funding support for the AHP. The System should also consider opportunities to expand its support of housing and community development through pilot and voluntary programs and through greater involvement in multifamily activities and single-family purchase programs.

Increase Support to Mission-Oriented Organizations

FHLBank lending supports community-based organizations with limited access to the secondary or debt markets. Today, this support is well-established for community banks and credit unions, including depository CDFIs.[37]

System at 100: Consistent and uniform support for non-depository CDFIs, including outreach to promote their engagement with the System.

Non-depository CDFIs specialize in providing financial services in low-income and tribal communities, helping families finance their first homes, providing support to community residents running their own businesses, and investing in local health centers, schools, and community centers.[38] However, these institutions have struggled to become members of the FHLBank System, and those that have attained membership have faced difficulties accessing FHLBank products and services. There are nearly 600 non-depository CDFIs operating nationwide, but only 70

37 CDFIs include prudentially regulated insured depository institutions such as community development banks and credit unions, and non-prudentially regulated institutions like loan and venture capital funds.
38 *See* https://www.cdfifund.gov/sites/cdfi/files/documents/cdfi_infographic_v08a.pdf.

are FHLBank members, and only 28 had outstanding advances as of the second quarter of 2023.

According to some stakeholders, challenges for CDFIs in accessing the benefits of membership include the FHLBanks' lack of familiarity with the business models of these institutions, along with a lack of sufficient real estate-related assets to pledge as collateral. Under the Bank Act, CDFIs cannot use most non-housing community development collateral—often the majority of a CDFI's collateral—to secure advances.

Cooperativas, many of which are certified as CDFIs, are Puerto Rican credit unions that provide funding to local communities and underserved households. Many Cooperativas also have experienced challenges in joining the FHLBank System.[39] Cooperativas are not federally insured depositories, as they are instead insured and supervised by the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC) in Puerto Rico. While some Cooperativas may be eligible for FHLBank membership under the provisions of FHFA's regulations, no Cooperativa has become a member of the FHLBank System. While FHFA plans to provide a regulatory interpretation to clarify how Cooperativas may qualify for FHLBank membership, FHFA does not believe there is a need for deviation from standard practices for membership eligibility and credit evaluation.

FHFA may require the FHLBanks to coordinate their evaluations of CDFIs and other mission-oriented organizations and to develop prudent means of lending to these entities. The FHLBanks should revisit advance product offerings and member lending and collateral requirements, since these determine the extent to which members may benefit from the access to liquidity afforded by FHLBank membership. For example, FHLBanks sometimes require larger haircuts on CDFI collateral, in part because many CDFIs do not have a federal or state prudential regulator and have lengthier resolution periods in the event of bankruptcy.[40] The FHLBanks could also consider developing alternative credit support programs to address potential safety and soundness risks as a complement to improved collateral haircut and collateral management policies and to enhance access to advances.

39 Cooperativas de ahorro y crédito (Cooperativas) are member-owned financial institutions in Puerto Rico, with a presence in nearly all the island's 78 municipalities. Cooperativas mainly serve local communities and low- and moderate-income households, supporting financial inclusion, asset-building, and community development. They also provide financing to support investments in residential resiliency to extreme weather events. Today, the nearly 100 Cooperativas in Puerto Rico have more than 1 million members, roughly one-third of the island's population. As of March 2023, they held nearly $12 billion in assets, including $1.6 billion in mortgages.

40 The CDFI Fund of the U.S. Department of the Treasury establishes criteria for CDFI certification, with a central requirement being that the financial institution must have a primary mission of promoting community development. *See* 12 CFR 1805.201(b)(1). However, the CDFI Fund is not a prudential regulator.

FHFA will also encourage the FHLBanks to facilitate relationships between their non-depository mission-oriented members and their depository members. For example, non-depository CDFIs could offer their expertise in addressing the needs of underserved communities, thereby facilitating the ability of depository institution members to deliver products outside of their typical offerings. In turn, CDFIs could receive increased access to financing from these depository members.

Establish Mission-Oriented Collateral Programs

System at 100: A fully transparent FHLBank Mission-oriented Collateral Program.

The evolution of the FHLBanks' collateral requirements reflects the policy objectives of Congress and FHFA (or its predecessor agencies). This has resulted in a broad range of collateral that is eligible to secure advances, including home mortgages, U.S. government securities, MBS, and other real estate-related collateral meeting certain safety and soundness requirements.[41] Eligible CFI collateral also includes secured loans for small business, agriculture, or community development, or securities representing a whole interest in such secured loans.[42]

While FHFA regulations set forth general collateral eligibility requirements, each FHLBank establishes its own practices regarding acceptability, market valuations, valuation caps, and haircuts for each collateral type. These practices differ by FHLBank based on risk appetite, and are influenced by factors including member type, member rating, and haircut methodologies and assumptions. To enhance lending in support of housing and community development, FHFA expects each FHLBank to develop, in a safe and sound manner, a Mission-Oriented Collateral (MOC) program that incentivizes the use of collateral with a strong connection to the mission of the FHLBank System. FHFA encourages the FHLBanks to study the options suggested during the *FHLBank System at 100: Focusing on the Future* initiative and work together when developing their MOC programs. FHFA will review all MOC program proposals and will consider rulemaking to update its regulations and guidance as warranted. To provide more transparency on collateral pledged by FHLBank members, FHFA intends to include a discussion of the amount and types of MOC pledged in the Report on Collateral Pledged to FHLBanks.

41 *See* 12 CFR 1266.7(a).
42 *See* 12 CFR 1266.7(b).

A BRIEF HISTORY OF ELIGIBLE COLLATERAL

For much of the early history of the FHLBank System, eligible advance collateral was limited to home mortgage loans. Under the original Bank Act, home mortgages having no more than 15 years to maturity and an underlying real estate value of $20,000 or less were eligible.[43] However, Congress gave favorable treatment to amortized loans with an original term of eight years or more by allowing members to borrow against a higher percentage of the unpaid principal balance and underlying real estate value than was available on advances secured by other types of loans.[44] The maximum term to maturity of eligible mortgage collateral increased over the years—to 20 years in 1935,[45] 25 years in 1947,[46] and 30 years in 1964,[47] both to encourage the creation of mortgages having those characteristics and to reflect evolving market norms.[48] The dollar limit on mortgage collateral also changed, increasing five times between 1932 and 1982, until it was removed entirely in 1987.[49] Since 1935, the FHLBanks have been permitted to accept as collateral any obligations of the United States or guaranteed by the United States.[50]

In 1982, after changes in the law allowed member thrift institutions to expand into more diverse investments, Congress eliminated all restrictions on eligible collateral, allowing each FHLBank to make advances "upon such security as [the Federal Home Loan Bank Board] may prescribe."[51] However, in 1989, Congress once again limited the range of eligible collateral. In addition to first mortgages and U.S. government securities, FHLBanks were authorized to accept securities representing a whole interest in first mortgages and "other real estate-related collateral" acceptable to the FHLBank and meeting certain safety and soundness requirements.[52]

In 1999, Congress authorized the FHLBanks to accept a broader range of assets as collateral for advances to CFIs, including secured loans for small business or agriculture, or securities representing a whole interest in such secured loans.[53] In 2008, Congress added secured loans for community development activities to the list of eligible collateral for CFIs. [54]

43 *See* Federal Home Loan Bank Act, Pub L. No. 72-304, § 10(b), 47 Stat. 725, 732 (1932).
44 *See* Pub. L. No. 72-304, § 10(a), 47 Stat. 732.
45 *See* Pub. L. No. 74-76, § 6, 49 Stat. 293, 295 (1935).
46 *See* Pub. L. No. 80-311, 61 Stat. 714 (1947).
47 *See* Pub. L. No. 88–560, § 906, 78 Stat. 769, 805 (1964).
48 H. Rept. 1703 on H.R. 12175, Aug. 5, 1964, p. 29 (Housing Act of 1964).
49 *See* Pub. L. No. 74-76, § 6, 49 Stat. 293, 295 (1935); Pub. L. No. 83-560, § 502, 68 Stat. 590, 634 (1954); Pub. L. No. 88–560, § 906, 78 Stat. 769, 805 (1964); Pub. L. No. 93–449, § 4(c), 88 Stat. 1364, 1367 (1974); Pub. L. No. 95–128, § 406, 91 Stat. 1111, 1137 (1977); Pub. L. No. 97–320, § 352, 96 Stat. 1469, 1507 (1982); Pub. L. No. 100–86, § 105, 101 Stat. 575, 601 (1987).
50 *See* Pub. L. No. 74-76, § 5, 49 Stat. 294-95.
51 *See* Pub. L. No. 97–320, § 352, 96 Stat. 1507.
52 *See* Pub. L. No. 101–73, § 714, 103 Stat. 419-20.
53 *See* Pub. L. No. 106-102, § 604(b), 113 Stat. 1338, 1451 (1999).
54 *See* Housing and Economic Recovery Act, Pub. L. No. 110-289, § 1211, 122 Stat. 2654, 2790 (2008).

Once an FHLBank's MOC program is approved and established, FHFA expects the FHLBank to work with its members to encourage their use of MOC, find risk mitigants for less-liquid, non-standard, or unique MOC, and improve transparency of collateral practices.[55]

Grant Authority for CDFI and Credit Union Members to Pledge CFI Collateral

The Bank Act provides insured depository institutions that meet the statutory definition of a CFI with certain advantages with respect to the range of collateral they may pledge to secure FHLBank advances relative to other member types. The statute permits FHLBanks to accept a wider range of eligible collateral from CFI members, including small business loans, small farm loans, small agri-business loans, community development loans, and securities representing a whole interest in such loans.[56] While these types of loans are not directly connected to housing, they support the communities where people live and provide stability to housing markets.

The Bank Act and FHFA's Advances regulation define a CFI as an institution that has average total assets below the statutory cap and whose deposits are insured by the FDIC.[57] While the vast majority of non-depository CDFIs—which are mission-focused institutions—and credit unions have assets below the statutory cap, they do not qualify as CFIs and are therefore unable to pledge CFI collateral because their deposits are not insured by the FDIC. FHFA recommends that Congress amend the Bank Act to authorize all CDFI and credit union members with assets below the statutory cap to pledge CFI collateral to secure FHLBank advances, which will enable the FHLBanks to better fulfill their mission of supporting housing and community development.

Increased Mission-Focused Advances

Advances are available in a wide variety of structures and terms. While the Bank Act places no restrictions on the use of short-term advances, it requires that a long-term advance only be made for the purposes of providing funds for residential housing finance, or for small business, small farm, small agri-business, and community development activities in the case of CFIs.[58]

System at 100: Revised definition of "long-term advance" that promotes use of FHLBank advances for purposes consistent with the mission of the FHLBank System.

Because advances are not earmarked for specific purposes, this statutory requirement is implemented in FHFA's Advances regulation through a "proxy test." This test requires

55 Currently, some FHLBanks publish selected collateral eligibility criteria and/or haircuts on their public websites, and some provide more information on internal member platforms.
56 *See* 12 U.S.C. 1430(a)(3)(E).
57 *See* 12 U.S.C. 1422(10); 12 CFR 1263.1.
58 *See* 12 U.S.C. 1430(a)(2).

an FHLBank to determine that the principal amount of the member's total long-term advances does not exceed the book value of its "residential housing finance assets" prior to approving an application for a long-term advance.[59] FHFA's regulations exempt loans that provide financing under the CICA program from the proxy test because these advances clearly are for mission purposes.

The Bank Act does not define "long-term advance" and leaves that determination to the FHLBanks' regulator. In its Advances regulation, FHFA has defined the term as an advance with an original term to maturity greater than five years.[60] In contrast, FHFA's CSR regulation defines "long-term advance" as an advance with a term to maturity greater than one year.[61]

Since 2020, 10 to 30 percent of outstanding advances had an original term to maturity greater than five years, subjecting them to the proxy test. If the term to maturity requirement were modified to one year, between 40 and 70 percent of outstanding advances could potentially be subject to the proxy test (see Figure 14).[62] While this revision would more effectively tie advance usage to the mission of the FHLBanks, it could also have an adverse impact on the ability of some members to obtain advances with terms greater than one year. FHFA will conduct a study to evaluate the appropriate term to maturity for long-term advances that would most effectively balance the FHLBank System's mission and safety and soundness objectives. Depending on the outcome of the analysis, FHFA will consider a rulemaking to revise the definition of a long-term advance in the Advances and CSR regulation.

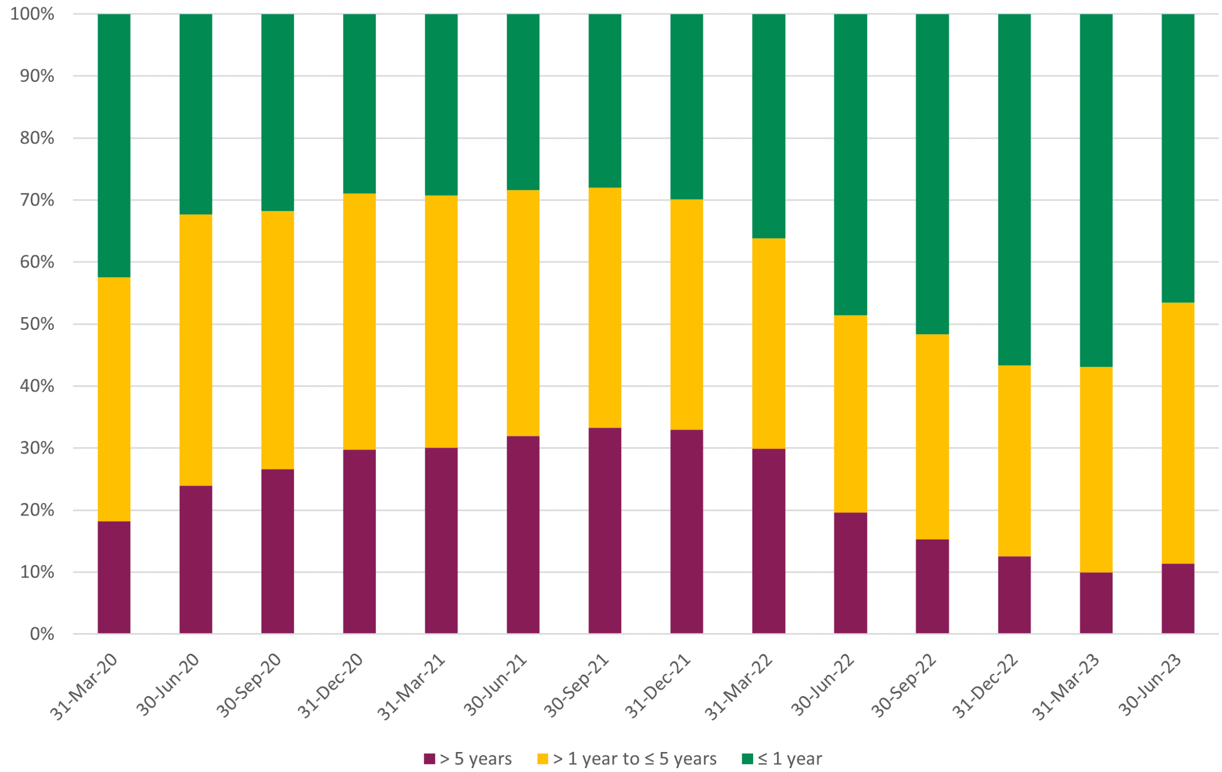
59 *See* 12 CFR 1266.3.

60 *See* 12 CFR 1266.1. For CFI members, "residential housing finance assets" are defined to include small business loans, small farm loans, small agri-business loans, or community development loans.

61 *See* 12 CFR 1290.1.

62 FHFA recognizes that such a change could lead to a change in behavior by the FHLBanks and their members. Changing the definition of "long-term advance" could also influence the FHLBanks' issuance of CICA advances, as an application for CICA advances is exempt from the proxy test. 12 CFR 1266.3(b)(2).

FIGURE 14: FHLBANK SYSTEM SHARE OF TOTAL ADVANCES OUTSTANDING BY ORIGINAL TERMS TO MATURITY



Source: Based on FHLBank data, as of June 30, 2023

Increase Financing for CIP and CICA Programs

Approximately $3.5 billion and $1.4 billion in respective CIP and CICA advances were offered in 2022, amounting to less than 0.1 percent of total advances. Additionally, only 175 of the nearly 6,500 FHLBank members obtained either CIP or CICA advances in 2022.

System at 100: Increased use of CIP and CICA programs by FHLBanks and their members.

FHFA will work with the FHLBanks to identify ways to expand the use of the CIP and CICA programs as part of an increased emphasis on lending in support of affordable housing and community development (see Figure 15).

In addition, FHFA will undertake a rulemaking to propose amendments to its CICA regulation to promote increased use of the CIP and CICA programs and enhance the FHLBanks' ability to respond to an evolving economic landscape. FHFA plans to update the geographically defined targeted beneficiaries in the regulation to remove references to inactive programs, include references to new programs, and address the regulation's targeted income levels for urban and rural areas, which may assist localities in achieving more sustainable, mixed-income communities.

FIGURE 15: CIP AND CICA PROGRAMS: PROGRAM TYPE, ELIGIBILITY, AND FUNDING TYPE

Program Characteristics		CIP	CICA
Type		Statutorily required (Bank Act)	Voluntary
Participants		FHLBank members	FHLBank members and housing associates[a]
Eligible Uses		Economic development, mixed-use, or housing	Economic development or mixed-use
Targeted Income	Housing	Household incomes are 115 percent or less of area median income (AMI)	N/A
	Economic Development	Household incomes are 80 percent or less of AMI, or activities are located in neighborhoods where at least 51 percent of households are low- or moderate-income	Includes designated redevelopment areas, Empowerment Zones and Champion Communities,[b] and areas where rural households' incomes are 115 percent or less of AMI, or urban households' incomes are 100 percent or less of AMI
Funding Type		Advances and standby letters of credit[c]	Long-term advances, standby letters of credit, and grants
Advance Pricing		Cost of funds plus reasonable administrative costs	Regular advance pricing or discounted advance pricing

a. See 12 U.S.C. 1430(j)(10); 12 CFR part 1292. Housing associates are defined to include eligible state and local housing finance agencies. Housing associates are not FHLBank members, but FHLBanks may offer them advance products except CIP advances. See 12 U.S.C. 1430b; 12 CFR part 1264.

b. See 12 CFR 1292.1.

c. Standby letters of credit issued by an FHLBank guarantee payments made to another entity under stated conditions.

Increase Statutorily Required Minimum Funding for AHP

The Bank Act requires each FHLBank to contribute at least 10 percent of its prior year's net earnings to its AHP. In 2022, the FHLBanks awarded approximately $266.9 million through their annual mandatory AHP funding, which assisted over 25,000 low- or moderate-income households, including over 12,000 very low-income households.[63]

System at 100: Amendment of the Bank Act to require each FHLBank to increase its contributions to its AHP.

Given the challenges to housing affordability in markets across the country—rising rents and interest rates, high construction costs, increasing house prices, and limited housing supply—it is important to re-evaluate the level of AHP support provided by the FHLBanks. Many participants at the roundtable discussions called for Congressional action to increase the FHLBanks' statutorily required AHP minimum annual contribution.

Stakeholders at the roundtable discussions also expressed the view that the FHLBanks receive certain advantages from their status as GSEs, and a greater portion of these benefits should be passed through to consumers and communities. FHFA supports the view that the unique advantages of the GSE status[64] come with corresponding responsibilities for the FHLBanks to support their public mission. Estimates of the advantages of GSE status for the FHLBanks—and their members—include:

- The FHLBanks are exempt from paying most federal, state, and local taxes.[65] The cost savings from the tax exemption, estimated around $800 million in 2022,[66] is more than triple the 10 percent AHP contribution in 2022.
- The FHLBanks issue debt in the capital markets at rates only slightly higher than those on comparable Treasury instruments. This ability arises from the joint and several nature of consolidated obligations, as well as the perception that the federal government would provide support in the event of a default by the FHLBanks.[67] Estimates of

63 The level of AHP funds awarded can include funding adjustments from prior years and may therefore differ from statutory funding contribution levels calculated based on FHLBank net income.

64 These include the exemption of the FHLBanks' corporate earnings from federal and state income taxes, *see* 12 U.S.C. 1433, favorable treatment of FHLBank capital stock and consolidated obligations under the Federal securities laws, *see* 12 U.S.C. 1426a, and limited authorization for Treasury to purchase consolidated obligations, *see* 12 U.S.C. 1431(i), (*l*).

65 *See* 12 U.S.C. 1433.

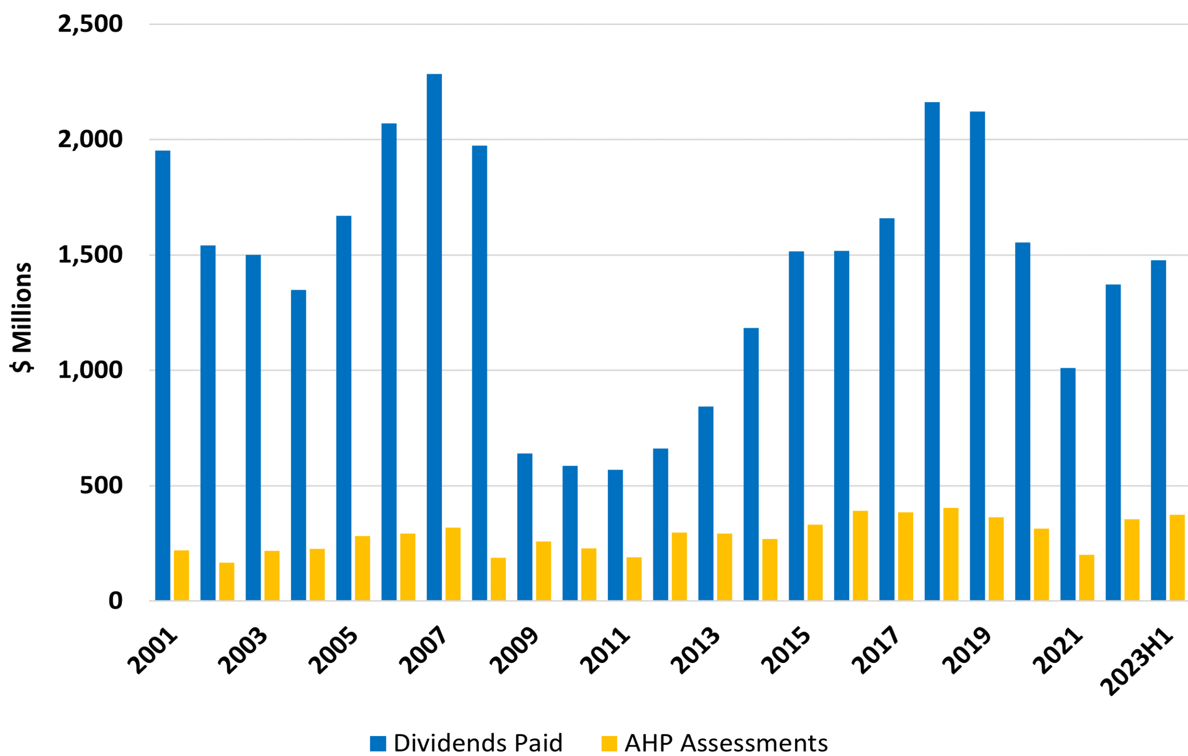
66 *See* Jim Parrott & Mark Zandi, *In Defense of the Federal Home Loan Banks* (Apr. 2023), *available at* https://www.urban.org/sites/default/files/2023-04/In%20Defense%20of%20the%20Federal%20Home%20Loan%20Banks_0.pdf and Cornelius Hurley, *Weighing the Costs and Benefits of Federal Home Loan Banks*, American Banker (Nov. 21, 2022), *available at* https://www.americanbanker.com/opinion/weighing-the-costs-and-benefits-of-federal-home-loan-banks.

67 All obligations of the FHLBanks must plainly state that they are neither obligations of, nor guaranteed by, the United States. 12 U.S.C. 1435. However, Parrott & Zandi state that the market perceives a "very high likelihood of support from the US Government," and report that the System's long-term senior unsecured debt rating was Aaa, while individual FHLBanks had standalone ratings of a1 or aa3. *See* Parrott & Zandi (Apr. 2023).

the annual value of these advantages range from $100 million to $6 billion or more. [68]

- The FHLBanks distribute a significant amount of earnings in the form of dividends every year. The System paid out an average of $1.3 billion in dividends each year from 2020 to 2022 and paid out $1.5 billion in the first half of 2023 (See Figure 16).

FIGURE 16: FHLBANK DIVIDENDS AND AHP ASSESSMENTS



Source: Based on FHLBank data, as of June 30, 2023

FHFA supports an increase in AHP contributions, as the FHLBanks have the financial capacity to make a larger AHP contribution without adversely affecting their safety and soundness.

The history of the FHLBank System supports this conclusion. For example, to resolve troubled thrifts, FIRREA created the Resolution Funding Corporation (REFCorp) to fund the Resolution

68 Parrott & Zandi follow an approach similar to that used by Deborah Lucas & Marvin Phaup, *Federal Subsidies and the Housing GSEs* (Congressional Budget Office, May 2001), where the authors estimate the value of the implicit guarantee for 2022 at $4.7 billion. *See* https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/reports/gses.pdf. Other commenters, such as Cornelius Hurley, provide only a rough estimate, using an approximation of the interest rate differential multiplied by the approximate level of debt outstanding. He estimates the value of the implied guarantee at $6 billion ($1.2 trillion of debt multiplied by a 50 basis point interest rate differential). *See* Hurley (Nov. 21, 2022). Dan Siciliano reports a lower estimate of $10 to $100 million, which he describes as the actuarial cost of the implied guarantee. *See* "*The Bank System's Guardian Angel You've Never Heard Of*," (Aug. 18, 2023) in "Forward Guidance," podcast hosted by Jack Farley, *available at* https://www.youtube.com/watch?v=Pm3eEsXUQWg.

Trust Corporation (RTC). Over time, the FHLBanks were able to fund their AHP and provide additional contributions to REFCorp, while continuing to meet their members' financing needs. Since fulfillment of the REFCorp obligations in 2011, each FHLBank has been voluntarily setting aside 20 percent of its net income to a restricted retained earnings account.[69] While accounted for separately, these restricted retained earnings are considered part of the full capital position of the FHLBanks and contribute to their capacity to absorb losses. The ability of the FHLBanks to fund AHP initiatives while continuing to set aside 20 percent of their net income highlights their capacity to fund a higher all-in AHP obligation.

Moreover, as discussed earlier in this report, the FHLBanks have increased their overall retained earnings markedly over the past 20 years (see Figure 13). This growth in retained earnings exceeds the addition to the FHLBanks' restricted retained earnings attributable to the completion of their REFCorp obligation. Even as the System has continued to supplement its capital position and fund its existing AHP obligations, it has paid significant dividends to members, as illustrated in Figure 16.

Based on these considerations, FHFA encourages the FHLBanks to voluntarily increase their annual AHP contribution and will recommend that Congress consider amending the Bank Act to at least double the minimum required annual AHP contribution. In addition, FHFA will continue to monitor whether individual FHLBanks may need to continue to grow their retained earnings to ensure they remain safe and sound and to mitigate against the risk of capital stock impairment.

FHFA also will conduct additional research to further document the extent to which consumers and communities benefit from the FHLBank System. Estimating the direct and indirect public benefit of the FHLBank System is complex. Valuing the direct public benefit is relatively straightforward, and includes the required AHP assessment, as well as contributions by the FHLBanks to voluntary programs and other subsidized advances. The indirect benefits, such as the liquidity supplied to the housing markets through the FHLBanks' core business of making advances to their members, are more difficult to quantify. There are also different stakeholders that benefit from the FHLBank System, ranging from private sector actors to specific sectors of the housing economy and the general public.

Based on its additional research and analysis, FHFA may propose regulatory changes to correct imbalances in the relative value of the public and private benefits provided by the FHLBank System.

69 An FHLBank can pause this obligation when its restricted retained earnings equal 1.0 percent of consolidated obligations. If restricted retained earnings reach 1.5 percent of consolidated obligations, the FHLBank can reallocate the excess to its unrestricted retained earnings account.

Streamline AHP Regulatory Requirements

The Bank Act specifies the authorized uses of AHP funds, while FHFA's AHP regulation provides additional requirements and parameters under which the FHLBanks operate their AHP. FHFA plans to amend the AHP regulation to streamline certain requirements and expand access to AHP programs. Some of the revisions FHFA is considering include updating AHP regulatory provisions for revolving loan funds, assessing options for AMI flexibility in high-cost areas, increasing per-household homeownership set-aside grants in high-cost areas, and revising certain project compliance and monitoring requirements to increase programmatic efficiency.

System at 100: Revisions to AHP regulation to allow more entities to access AHP funds.

Photo from Anadarko, OK, one of the communities FHFA visited as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 for more information.

AFFORDABLE HOUSING PROGRAM

The Bank Act specifies that AHP funds are to finance the purchase, construction, or rehabilitation of owner-occupied housing for low- or moderate-income households (with incomes at 80 percent or less of AMI), and the purchase, construction, or rehabilitation of rental housing where at least 20 percent of the units are affordable for and occupied by very low-income households (with incomes at 50 percent or less of AMI). Each FHLBank's AHP leverages other types of financing and supports affordable housing for special needs and homeless families, among other groups.

The FHLBanks are authorized to operate two programs:

- Competitive Application Program (General Fund and Targeted Fund(s)) – A member of an FHLBank submits an application for AHP funds to the FHLBank on behalf of a nonprofit or for-profit sponsor and is evaluated in comparison to other applications under the FHLBank's scoring system. Establishment of a competitive application program is mandatory for each FHLBank.

- Homeownership Set-Aside Program – FHLBanks make grants available to their members, who provide the funds as down payment, closing cost, or counseling assistance to homebuyers, or as rehabilitation assistance to homeowners. Establishment of a homeownership set-aside program is elective for each FHLBank. FHFA's regulation limits the share of funds that an FHLBank may allocate annually to its set-aside program.

Enhance Support for Prudently Structured Voluntary and Pilot Programs

To address specific district needs, the FHLBanks allocate funds to implement a variety of voluntary programs focused on housing and community development for vulnerable and underserved communities. These voluntary programs could be expanded to complement AHP, CIP, and CICA. Some stakeholders suggested expanding voluntary programs to include support for special purpose credit programs, emergency funds to address unanticipated cost overruns or funding gaps that threaten completion of a construction project, or larger grants for specific projects that are responsive to local needs, minimizing the number of funding sources.

System at 100: Prudently structured pilot and voluntary programs to address unmet needs of the communities.

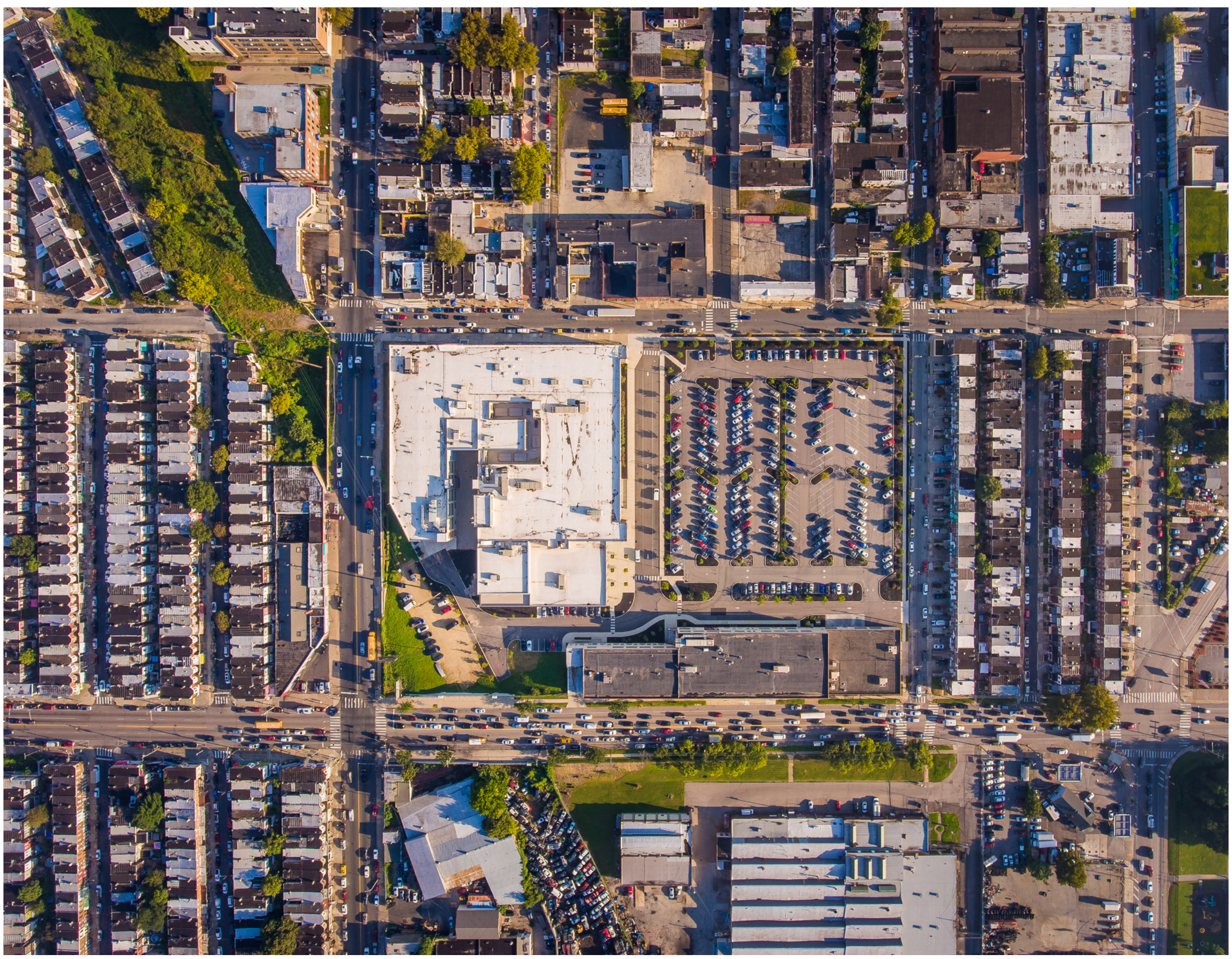


Photo courtesy of Esperanza, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 for more information.

FHLBANK VOLUNTARY PROGRAMS

In addition to their mandatory AHP annual funding contributions, the FHLBanks allocate funds to implement a variety of voluntary programs to address specific needs in their districts. Some of these programs are highlighted below. See FHFA's 2022 Report on FHLBank Targeted Mission Activities or visit the FHLBanks' websites for more information on FHLBank voluntary programs.

- The FHLBank of Dallas Housing Assistance for Veterans (HAVEN) program provides grant funding to eligible U.S. veterans and active-duty, reserve, or National Guard service members who became disabled as a result of their military service and to Gold Star Families to make accessibility modifications to existing homes, offset construction costs of a newly built home that meets accessibility needs, and pay for certain other expenses.

- The FHLBank of Boston's Jobs for New England program offers zero percent advances to members so they can provide low-interest loans to eligible small businesses for job creation and retention or economic development.

- The FHLBank of Pittsburgh's Blueprint Communities® program prepares and supports teams of local leaders over the long term as they develop and implement plans to revitalize older communities and neighborhoods.

- The FHLBank of Cincinnati's Carol M. Peterson Housing Fund provides grant funding for accessibility rehabilitation, weatherization, and emergency repairs for low-income homeowners who have special needs and/or are at least 60 years of age.

The FHLBanks could also initiate pilot programs that allow the FHLBanks' management and boards of directors to evaluate the efficacy and suitability of permanent, larger-scale programs that require FHFA approval. Some stakeholders suggested funding pilots to support predevelopment activities for multifamily housing, including site assessments, feasibility studies, and financial planning. Many mission-oriented housing and service organizations do not have the resources to manage these activities, which are necessary first steps to increase the supply of affordable multifamily housing.[70]

FHFA will provide guidance to the FHLBanks establishing standards on the size, scope, and duration for pilots to encourage the FHLBanks to initiate transparent small-scale initiatives. FHFA will also ensure the Agency's oversight and supervisory functions foster prudent and meaningful use of pilot and voluntary programs to address unmet needs in the communities they serve in a safe and sound manner.

Enhance Support for Multifamily Housing

The FHLBanks support multifamily housing activities through AHP funding, CIP advances, advances secured by multifamily properties, and investments in commercial MBS. However, the FHLBanks could expand their efforts to support multifamily housing through their core business and innovative pilot programs, targeting specific housing needs and encouraging new solutions for financing multifamily housing.

System at 100: Increased support for multifamily lending.

Potential activities include revisiting multifamily collateral eligibility, haircuts, and valuations, as well as enabling adaptive reuse of commercial properties, supporting transit-oriented multifamily housing, and fostering new ideas and information sharing. The FHLBanks should find innovative ways to increase the production, rehabilitation, and preservation of multifamily housing, particularly smaller multifamily properties.

Enhance Member Community Support Requirements

System at 100: Enhanced community support standards and reporting on the achievement of these standards by FHLBank Members.

To maintain continued access to long-term advances, the Bank Act requires FHLBank members to meet community investment or service standards, considering factors such as a member's record of lending to first-time homebuyers and performance under

70 AHP funds can be used to support predevelopment activities, but only in conjunction with the submission of an application for project funding for purchase, construction, or rehabilitation of affordable housing.

the Community Reinvestment Act (CRA).[71] The CRA encourages commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities, including low- and moderate-income neighborhoods.

FHFA will consider opportunities to strengthen the CSR requirements, including through development of appropriately tailored requirements based on member type and mission orientation.

The CSR provides incentives for FHLBank members to support housing and community development. FHFA will conduct a thorough review before undertaking a proposed rulemaking to enhance the community support standards in its CSR regulation,[72] which implements this statutory requirement. Potential amendments could include requiring more detail from members about their lending or activities to support first-time homebuyers, and establishing additional standards that demonstrate support for multifamily housing or community development.

Enhance AMA Programs and Expand Affordable Housing Goals

The FHLBank AMA programs currently facilitate the purchase of only first lien conventional single-family mortgages, although purchase of mortgages on multifamily properties would be permissible under the AMA regulation.[73] Many stakeholders, including community banks and credit unions, expressed support for the FHLBanks' AMA programs. FHFA encourages the FHLBanks to work with their members to propose safe and sound niche AMA products, such as loan products that focus on local credit needs or that are not easily commoditized or funded through securitization. Specific examples from the roundtable discussions include loan financing for the: (i) purchase and renovation of homes in distressed neighborhoods, where the value of the rehabilitated home may not be supported by current market appraisals; (ii) purchase of small multifamily properties; and (iii) purchase and adaptive reuse of commercial properties to support housing finance and community development.

Additionally, FHFA plans to undertake a rulemaking to expand its affordable housing goal categories for AMA purchases that support housing finance in minority census tracts. Under the 2020 FHLBank Affordable Housing Goals regulation, each FHLBank with an AMA program must ensure that at least 20 percent of its annual AMA mortgage purchases encompass a combination of goal categories that include purchase and refinance mortgages for low-income families, very

71 12 U.S.C. 2901-2908.

72 12 CFR part 1290.

73 *See* 12 CFR 1268.3(a) (permitting FHLBanks to acquire as AMA "whole loans that are eligible to secure advances under [12 CFR] 1266.7(a)(1)(i)," which includes first mortgage loans on multifamily property).

low-income families, and families in low-income areas.[74] In 2021, FHFA amended its Affordable Housing Goals regulation for Fannie Mae and Freddie Mac to create a minority census tract sub-goal, which was designed to encourage loan purchases in minority census tracts.[75] The FHLBank Affordable Housing Goals regulation would be amended to establish a similar minority census tract goal for the FHLBanks.

Photo courtesy of Century Housing, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

74 *See* 85 FR 38031 (Jun. 25, 2020); 12 CFR part 1281.
75 *See* 86 FR 73641 (Dec. 28, 2021); 12 CFR part 1282.

V. FHLBANK SYSTEM OPERATIONAL EFFICIENCY, STRUCTURE, AND GOVERNANCE

In addition to the programmatic and supervisory issues discussed previously, structural factors are also a key determinant of the FHLBanks' ability to fulfill their mission in a safe and sound manner. Facilitating an optimal structure and the efficient functioning of the FHLBank System is essential to its future viability. Below are several actions under consideration by FHFA related to the organization and operations of the System as a whole, the composition of the FHLBanks' membership base, the size and composition of the FHLBanks' boards of directors, and the appropriate compensation and incentives for FHLBank executives.

Improve FHLBank System's Operational Efficiency

The FHLBanks' primary business of making advances ebbs and flows with the financial needs of their members and changing conditions in the financial markets, and the volume of this business can be increased without significant changes in cost. However, technology costs and the costs of adapting to changing business, physical, and social environments have been increasing, irrespective of demand for advances. While each FHLBank should continue to focus on its own operational efficiency, the FHLBanks also should work together to achieve System efficiencies, such as by establishing centers of excellence for activities and programs that affect multiple districts.

System at 100: System collaboration and use of Centers of Excellence.

Establishing centers of excellence would provide a way for the FHLBanks to develop a deeper understanding of specific issues, including business function efficiency or aspects of their housing and community development mission. The FHLBanks could consolidate scarce, high-demand capabilities, including knowledge, skills, and work experience; increase the speed of development, delivery, and maintenance of critical business processes; and overcome the obstacles and challenges that have prevented full support of underserved communities and certain types of members.

Recent FHLBank efforts to evaluate counterparty credit and the acceptance of eNotes as collateral highlight how efficiency gains may be achieved through collaboration among the FHLBanks. FHFA encourages the FHLBanks to work together on additional aspects of their mission, including efforts to improve climate resiliency, boost support for affordable multifamily housing, and increase Native American and tribal community access to, and use of, FHLBank products and services.

Native American and Tribal Communities Use Case

The FHLBank System, for example, could employ the centers of excellence model to address challenges the FHLBanks have encountered in their efforts to work with Native American and tribal communities. The center could be charged with developing expertise about Native American and tribal communities, improving awareness of the mission, products, and services of the FHLBank System, and advancing access to the FHLBank System.

In 1995, the FHLBank of Des Moines established a program tailored specifically to the challenges of lending to tribal communities. Through this program, the FHLBank has awarded $155.7 million in down payment and closing cost assistance to help more than 32,700 families in Native American and tribal communities with the purchase of a home. Sharing lessons learned with other FHLBanks could improve engagement with Native American and tribal communities throughout the country.

Monitor System Structure

Under the Bank Act, the FHLBank System generally must consist of between eight and 12 districts.[76] In establishing the System in 1932, the Federal Home Loan Bank Board (FHLBB) chose to charter 12 FHLBanks, the maximum number permissible under the statute. The FHLBank System has consisted of 12 FHLBanks in 1932-1946 and 1964-2015, and 11 FHLBanks at all other times, including currently. The total number of FHLBank districts may be reduced to fewer than eight pursuant to a voluntary merger between FHLBanks under section 26(b) of the Bank Act[77] or a decision by the Agency to liquidate an FHLBank pursuant to section 1367 of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (Safety and Soundness Act).[78]

System at 100: Updated System structure as needed to ensure the stability of support to communities.

After commercial banks and credit unions became eligible for membership in 1989, total System membership increased to over 8,000 institutions in the early 2000s. Subsequently, the consolidation of commercial banks has resulted in an overall decline in membership to approximately 6,500 institutions today (see Figure 9 above). While the overall number of current FHLBank members is relatively high, the number of members at each individual

76 *See* 12 U.S.C. 1423(a).
77 12 U.S.C. 1446(b).
78 12 U.S.C. 4617.

FIGURE 17: FHLBANK DISTRICT SIZE

District	Number of States and US Territories	Number of Members
Des Moines	16	1,260
Atlanta	8	797
Dallas	5	785
Topeka	4	669
Chicago	2	656
Cincinnati	3	613
Boston	6	427
Indianapolis	2	347
San Francisco	3	327
New York	4	326
Pittsburgh	3	280

Source: Based on FHLBank data, as of June 30, 2023

FHLBank varies widely—from a low of 280 to a high of 1,260 members. The number of states and territories in each FHLBank district also varies considerably, ranging from two to 16 states or territories (see Figure 17). FHLBanks with low membership counts are more reliant on continued activity by a smaller number of institutions and are therefore at greater risk of being impacted by consolidation of depository members. FHFA will commence a study on whether realignment and consolidation are necessary for the efficiency of the system.

As was highlighted by the merger of the FHLBanks of Des Moines and Seattle in 2015, consolidation can lead to efficiency gains and lower operating costs. FHFA will continue to evaluate the System to ensure the ongoing stability of each FHLBank and use its authorities or encourage the FHLBanks to consider voluntary mergers if future viability is in question. This would be accomplished in a manner that preserves the regional nature of the system, if appropriate.

The Bank Act provides FHFA with authority to consolidate FHLBanks and reorganize FHLBank districts.[79] FHFA will review the issue in the near term and establish a protocol for regular periodic reviews to determine whether districts should be re-aligned. However, because that

79 *See* 12 U.S.C. 1423(a), 1445, 1446(a).

general authority for consolidation is limited by the requirement that the number of FHLBank districts not be reduced to fewer than eight, subject to the exceptions described above, FHFA may recommend statutory amendments to Congress if it determines such changes are warranted.

Harmonize Member Eligibility Requirements

The Bank Act restricts eligibility for FHLBank membership to specified types of institutions. Expansion of eligibility to new member types since 1932 has been the result of Congressional action to amend the Bank Act.

System at 100: Equitable mission treatment and minimum expectation for all member types.

Regardless of type, an institution must meet a number of mission and safety and soundness requirements to be deemed eligible, although the applicability and methods of determining compliance with these eligibility requirements vary depending on the member type.[80] For example, while insured depository institutions (except those that qualify as a CFI) must have at least 10 percent of their total assets in residential mortgage loans to be eligible for membership, other membership types are not subject to this requirement.[81]

Currently, some requirements are applied on an ongoing basis (e.g., an institution must maintain its status as an eligible entity type—such as a depository institution maintaining its charter or a CDFI maintaining its CDFI Fund certification), and some are applied only at the time of application (e.g., the requirement that a non-CFI depository institution hold at least 10 percent of its assets in residential mortgage loans). To ensure that members continue to support the FHLBank mission, FHFA plans to initiate a rulemaking to require that certain members have at least 10 percent of their assets in residential mortgage loans or equivalent mission assets (including assets that qualify as CFI collateral where appropriate) on an ongoing basis to remain eligible for FHLBank financing. FHFA expects to analyze the impacts of such a requirement on different types of member institutions as part of the rulemaking process.

80 *See* 12 U.S.C. 1424; 12 CFR part 1263.6.
81 12 U.S.C. 1424(a)(2)(A), (4).

FHFA's Requirements on FHLBank Membership

For purposes of determining eligibility for membership, FHFA's regulation groups members and applicants into three categories: (1) federally insured depository institutions (including, for most purposes, qualifying non-federally-insured credit unions and CDFIs that are insured depositories),[82] (2) insurance companies, and (3) non-depository CDFIs. There are further distinctions among insured depository institutions, as CFIs are treated differently from non-CFIs in some respects. The regulation requires each institution, regardless of type, to meet the same six general requirements to be deemed eligible for membership:

- it is duly organized under federal, state, or tribal law;
- it is subject to inspection and regulation under federal or state banking or similar laws (or, in the case of a non-depository CDFI, is certified by the CDFI Fund of the United States Department of the Treasury);
- it makes long-term home mortgage loans;
- its financial condition is such that advances may be safely made to it;
- the character of its management is consistent with sound and economical home financing; and
- its home financing policy is consistent with sound and economical home financing.[83]

In addition, the regulation parallels the Bank Act by requiring that a non-CFI depository institution applicant (essentially, any credit union or larger commercial bank) must have at least 10 percent of its total assets in residential mortgage loans to be eligible for membership (the "10 percent" requirement).[84] The regulation does not apply the 10 percent requirement to CFIs, which are expressly exempted by statute, or to CDFIs and insurance companies, about which the statute is silent. The regulation, however, requires institutions that are not insured depository institutions (i.e., non-depository CDFIs and insurance companies) to have "mortgage-related assets" that "reflect a commitment to housing finance," as determined by each FHLBank in its discretion, to be considered eligible.[85]

82 By statute, non-federally-insured credit unions meeting certain requirements may be considered to be "insured depository institutions" for purposes of FHLBank membership eligibility. *See* 12 U.S.C. 1424(a)(5).
83 *See* 12 CFR 1263.6(a).
84 *See* 12 CFR 1263.6(b).
85 *See* 12 CFR 1263.6(b), (c).

The authority to establish eligibility requirements for FHLBank membership remains with Congress, but FHFA can make regulatory changes to create greater consistency in applying existing statutory requirements to evaluating applicant eligibility for FHLBank membership. To ensure that membership requirements more effectively support the mission and safety and soundness of the FHLBanks, FHFA will monitor and may consider harmonizing the manner in which membership eligibility requirements are applied to the different membership types and ensure that advance terms and pricing are not manipulated by members with access to multiple FHLBanks.

Member Eligibility Requirements

In 2016, FHFA issued a final rule clarifying the definition of "insurance company" to prevent entities ineligible for membership under the Bank Act from using captive insurance subsidiaries to circumvent the statute and gain access to FHLBank funding.[86] Since this change, some stakeholders have increasingly advocated for nonbank mortgage companies and mortgage real estate investment trusts (REITs) to be allowed direct access to the system. All members should be subject to effective and consistent safety and soundness and mission-related eligibility requirements, and compliance with those requirements should be evaluated based on standards of similar rigor for all eligible membership types. FHFA plans to study this issue further and potentially initiate a rulemaking to strengthen and harmonize the implementation of the membership requirements and ensure that members continue to support the FHLBank mission. Possible amendments to the FHLBank membership regulation could require that all applicants for membership demonstrate a measurable and ongoing commitment to housing finance, standardize the financial documents that each type of entity must submit as part of a membership application, and strengthen the standards by which compliance with certain membership requirements is assessed.

Additionally, if Congress were to expand membership to entities that are currently ineligible under existing law, such as nonbank mortgage companies or mortgage REITs, to ensure the ongoing safety and soundness of the System and mission orientation of members, FHFA recommends that such entities be subject to membership requirements that currently apply to most members including: (1) inspection and regulation, (2) community support or service requirements, and (3) the requirement that 10 percent of their assets be in residential mortgage loans or an equivalent mission asset or activity requirement.

86 *See* 81 FR 3246 (Jan. 20, 2016). Some of the entities that had used captive insurance companies to obtain membership were involved in housing-related activities.

Parity between Members with and without Multidistrict Membership

Generally, an entity can only be a member of the FHLBank in the district in which its principal place of business is located. With the repeal of restrictions on interstate banking in 1994, however, some bank holding companies acquired multiple subsidiaries with memberships in different FHLBank districts. As of March 2023, there were 24 bank holding companies with subsidiaries having membership with multiple FHLBanks, and many parent insurance companies have two or more subsidiaries with membership in the same or different FHLBanks, resulting in a total of 320 memberships for 111 parent insurance companies. The issue is further complicated by the fact that parent insurance companies may have subsidiaries chartered in different states as well as separately chartered companies for different lines of insurance. Moreover, insurance companies within the same parent organization often share management teams and boards of directors.

Entities with access to multiple FHLBank districts have posed challenges in the past when they attempted to engage the FHLBanks in competition with each other or frequently transferred business from one FHLBank to another for better dividends, better pricing, or more flexible collateral requirements. At times, this has resulted in volatility in advance demand among the FHLBanks. FHFA will continue to monitor the effect multi-district members have on the FHLBanks and encourages improved communication and information sharing among the FHLBanks on the borrowing activity of multi-district members. FHFA will provide guidance on multi-district member management as necessary.

Ensure Optimal Board Size

The responsibilities of an FHLBank's board of directors include establishing strategic objectives, approving the FHLBank's risk appetite and ensuring its alignment with mission objectives, providing operational oversight, and approving significant policy decisions and executive compensation.[87]

System at 100: Updated governance requirements to maximize board efficiency and effectiveness.

Each FHLBank's effectiveness in achieving its mission and safety and soundness goals is influenced by its governance. Consequently, each FHLBank's board must be structured to carry out its responsibilities effectively. Best practices for corporate governance place emphasis on both the quantity (size) and quality (composition) of the board, and require that the size and composition be evaluated and adjusted, as necessary, in response to changes in an entity's business lines and operating environment.

87 *See* 12 CFR parts 1236, 1239, and 1261.

In 2024, the FHLBanks' board sizes will range from 14 to 22 directors. A significant driver of larger board sizes at most FHLBanks is the statutory "grandfather provision," which requires that FHFA allocate to each state in each FHLBank district at least as many member directorships as the state held in 1960, regardless of whether members in the state have sufficient required stock holdings to warrant that number of seats today.[88] Thus, the grandfather provision tends to expand FHLBank board sizes without ensuring proportional representation of states with a large and active membership base.

Given that the fiduciary duty of board directors is to act in the best interest of the FHLBank,[89] FHFA will study the optimal board size for effective oversight and make recommendations to Congress regarding any necessary statutory changes, including the removal of the "grandfather provision."

Photo of Eastmoor Circle (Moorhead, MS), one of the developments FHFA visited as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

88 *See* 12 U.S.C. 1427(c). For example, while members in the state of New Jersey (part of the FHLBank of New York district) "earned" two seats for 2024 based on the amount of FHLBank stock required to be held by members in that state as of December 31, 2022, FHFA was required to designate two additional seats (four total) to comply with the "grandfather provision." States grandfathered to have a board allocation greater than one seat are: Colorado, Kentucky, Louisiana, Oklahoma, and Tennessee, which each receive at least two seats; California, Kansas, Massachusetts, Michigan, and Texas, which each receive at least three seats; Illinois, New Jersey, New York, Ohio, and Wisconsin, which each receive at least four seats; Indiana, which receives at least five seats; and Pennsylvania, which receives six seats.

89 *See* 12 CFR 1239.4(b).

Size and Composition of FHLBank Boards of Directors

The Bank Act provides that each FHLBank is to have a board of 13 directors, "or such other number as the Director [of FHFA] determines appropriate." It further specifies that a majority of each FHLBank's board must be "member directors" who are officers or directors of FHLBank member institutions, while not less than 40 percent must be "independent directors" who are unaffiliated with the FHLBank or its members. The statute requires that FHFA determine annually each FHLBank board's total number of directorships, as well as the relative number of member directorships and independent directorships, for the following calendar year.

Additional requirements include:

- Member directorships at each FHLBank must be allocated among the states of the FHLBank district in proportion to the relative amount of FHLBank stock that all of the members in each state were required to hold as of the end of the preceding calendar year.
- Each state must have at least one member directorship, but no more than six.
- Each state must be allocated at least as many member directorships as it had on December 31, 1960 (the "grandfather provision").
- Member directors are nominated and elected by the members in the respective states of each FHLBank district. Independent directors are nominated by each FHLBank's board, after consultation with the FHLBank's Affordable Housing Advisory Council, and are elected by the FHLBanks' members on an at-large basis.[90]

Ensure Proper Composition of the Boards of Directors

Effective governance requires directors to have the knowledge and experience to govern an institution of the size and complexity of an FHLBank. Member directors, nominated and elected by the members in the respective states of each FHLBank district, represent the interests of the members located in their state. Independent directors, nominated by each FHLBank's board in consultation with the FHLBank's Affordable Housing Advisory Council and elected by the FHLBanks' members on an at-large basis, bring knowledge and expertise in a variety of areas related to FHLBank activities and operations. Each board must also have among its independent directors two "public interest" directors, who are subject to different qualification requirements to ensure they can provide the community and consumer advocacy perspective.

90 *See* 12 U.S.C. 1427(a)-(c); 12 CFR 1261.3-.8.

FHFA plans to address four issues to strengthen the composition of the FHLBanks' boards: (i) expand the list of qualifying experience for regular independent directors (i.e., those not designated as "public interest" directors) to reflect business developments in housing finance and new and emerging risks and complex problems; (ii) encourage the FHLBanks to evaluate potential gaps in board knowledge and pursue opportunities to address these gaps by nominating individuals with particular skills, backgrounds, and experience, including knowledge of CDFI business models; (iii) clarify qualification requirements for "public interest" independent directors to emphasize that a nominee's experience must include advocating for, or otherwise acting primarily for the direct benefit of, consumer or community interests; and (iv) facilitate the nomination of individuals with technical subject matter expertise, and as necessary, recommend that Congress amend the Bank Act to provide flexibility to permit such individuals to serve on the board, even if they do not reside in the district as is currently required (which will help attract directors with specialized knowledge and skills).

Implement Executive Compensation Flexibilities

The board of directors of each FHLBank is responsible for setting the compensation of the FHLBank's executives. No FHLBank may pay compensation to an executive officer that is not reasonable and comparable with compensation paid by similar businesses involving similar duties and responsibilities.[91]

System at 100: Compensation that aligns to the FHLBanks' public purpose.

The FHLBanks' standard practice in setting the salaries of FHLBank executives is to compare executive salaries for similar positions at similarly sized commercial banks. Unlike commercial banks, however, each FHLBank is a member-owned cooperative GSE with a public purpose and mission. The FHLBanks have lower risk profiles than commercial banks. Because the FHLBanks are not comparable to commercial banks in many regards, the current method of assessing "comparability" is a key driver of the high levels of executive compensation at the FHLBanks.

While FHFA has recently issued clarifying guidance on more appropriate comparator institutions, statutory amendments are needed to fully address the issue of elevated compensation. Therefore, FHFA plans to recommend that Congress amend the Safety and Soundness Act to eliminate the

91 *See* 12 CFR 1230.3(a).

restrictions on the Agency's authority to prescribe levels or ranges for the compensation of executive officers of the FHLBanks.[92]

Executive incentive compensation goals are also approved by each FHLBank's board. FHFA's regulation on the Responsibilities of Boards of Directors, Corporate Practices, and Corporate Governance makes clear that each FHLBank's board of directors "is responsible for directing the conduct and affairs of the entity in furtherance of the safe and sound operation of the entity."[93] To ensure each FHLBank's board of directors has the proper focus on carrying out its public policy mission, FHFA plans to amend its regulation to describe mission performance as a core responsibility of the board. This amendment will clarify each board's duty to take concrete steps to incorporate successful achievement of both safety and soundness and mission activity in executive incentive compensation goals.

Photo courtesy of Community Investment Corporation, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

92 *See* 12 U.S.C. 4518(d).
93 *See* 12 CFR 1239.4(a).

VI. MOVING FORWARD

The completion of the actions described in this report is a longer-term undertaking. Some of this work will build on efforts already underway. For example, FHFA has begun discussions with the FHLBanks and provided initial guidance to address several issues identified in this report, including weaknesses in member credit risk management and the need for executive compensation plans to reflect mission achievement.

FHFA has also communicated and collaborated with other regulators and stakeholders on key issues for which coordinated efforts will be necessary. As a result, the FHLBanks have already begun discussions with the Federal Reserve Banks to draft agreements that would facilitate the transfer of a member's collateral to the Federal Reserve if the member needs to borrow from the discount window. FHFA has also initiated discussions with members' primary federal regulators to improve the timely exchange of information on member financial condition.

In the years ahead, FHFA will pursue a series of steps, including developing guidance, soliciting public input, and undertaking rulemakings, on actions that are within FHFA's existing authority to implement. These will likely include actions related to:

- Amending FHFA's CMA regulation to revise and clarify the mission statement and set forth criteria for assessing mission achievement;
- Developing an examination component rating for mission achievement or other revisions to FHFA's examination guidelines to reflect mission achievement;
- Enhancing the scope of the Targeted Community Lending Plan by amending the requirements contained in the regulation governing CSR;
- Preserving the benefits of FHLBank debt issuance for all members by limiting debt issuances that unduly raise debt clearing costs or debt issuance activity;
- Increasing limits on maximum exposure on unsecured extensions of credit for IBDAs to align with limits on overnight exposures, by amending the maximum limits to a single counterparty;
- Revising the appropriate maturity term for the definition of a long-term advance as necessary;
- Considering whether district mergers or realignment are necessary to meet FHFA's safety and soundness objectives;
- Standardizing and strengthening membership eligibility requirements, including amending the Membership regulation;
- Requiring that at least 10 percent of certain members' assets remain in residential mortgage loans or equivalent mission assets, including assets that

qualify as CFI collateral, on an ongoing basis; and

- Expanding the list of expertise for independent directors.

Other recommendations contained within this report, such as at least doubling the statutory minimum contribution for the AHP, allowing more mission-oriented institutions—such as credit unions and CDFIs—to pledge CFI collateral, removing the "grandfather provision," and eliminating restrictions on setting executive pay will require Congressional action. FHFA will propose specific requests for Congressional action to make statutory changes, in some instances after conducting additional analyses on these issues. Together, these efforts will represent the next—and most important—phase of the *FHLBank System at 100: Focusing on the Future* initiative.

The continued safety and soundness and mission achievement of the FHLBank System is fundamentally important to the health of the U.S. housing finance system. FHFA remains committed to carrying out its statutory responsibilities as regulator of the FHLBanks and taking actions that advance its vision for the FHLBank System as it approaches its second century.

Photo courtesy of NeighborWorks Boise, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 for more information.

APPENDIX 1: LIST OF ACRONYMS

AANHPI – Asian American, Native Hawaiian, and Pacific Islander

AHP – Affordable Housing Program

AMA – Acquired Member Asset

AMI – Area Median Income

Bank Act – Federal Home Loan Bank Act of 1932

CDFI – Community Development Financial Institution

CFI – Community Financial Institution

CICA – Community Investment Cash Advance

CIP – Community Investment Program

CMA – Core Mission Activities

CRA – Community Reinvestment Act

CSR – Community Support Requirements

FDIC – Federal Deposit Insurance Corporation

FHA – Federal Housing Administration

FHFA – Federal Housing Finance Agency

FHLBank – Federal Home Loan Bank

FHLBB – Federal Home Loan Bank Board

Finance Board – Federal Housing Finance Board

FIRREA – Financial Institutions Reform, Recovery, and Enforcement Act of 1989

FSLIC – Federal Savings and Loan Insurance Corporation

GSE – Government-Sponsored Enterprise

HERA – Housing and Economic Recovery Act of 2008

HOLC – Home Owners' Loan Corporation

IBDA – Interest-Bearing Deposit Account

MBS – Mortgage-Backed Securities

MOC – Mission-Oriented Collateral

NCUA – National Credit Union Administration

OFHEO – Office of Federal Housing Enterprise Oversight

OTS – Office of Thrift Supervision

REFCorp – Resolution Funding Corporation

REIT – Real Estate Investment Trust

RTC – Resolution Trust Corporation

Safety and Soundness Act – Federal Housing Enterprises Financial Safety and Soundness Act of 1992

SEC – Securities and Exchange Commission

APPENDIX 2: OVERVIEW OF FHLBANK SYSTEM

This appendix presents an overview and brief history of the FHLBanks since their inception in 1932. This section is generally organized chronologically and focuses on central themes relating to the public mission of the FHLBanks.

Overview

The FHLBank System is a government-sponsored enterprise established in 1932 under the Bank Act. Today, the FHLBank System consists of 11 regional FHLBanks and the Office of Finance, a joint office whose main function is to issue and service FHLBank debt securities.[94]

Each FHLBank is a cooperative established to support housing and community development by providing financial products and services to its member institutions and, to a very limited extent, eligible non-member mortgagees (referred to in FHFA regulation as "housing associates"),[95] within its geographically defined district. Only members may own FHLBank stock,[96] and all members are required to maintain a minimum investment.[97] Each FHLBank is managed by a board of directors that is elected by its members.[98] Only members and housing associates may directly access products and services provided by an FHLBank.[99]

Under the Bank Act, eligibility for FHLBank membership is restricted to certain types of entities, essentially including: federally insured depository institutions, non-federally-insured credit unions meeting certain criteria, insurance companies, and CDFIs. Federally insured depository institutions include thrifts (i.e., savings and loans, savings associations, and savings banks) and commercial banks, whose deposits are insured by the FDIC, as well as credit unions whose shares (deposits) are insured by the NCUA.

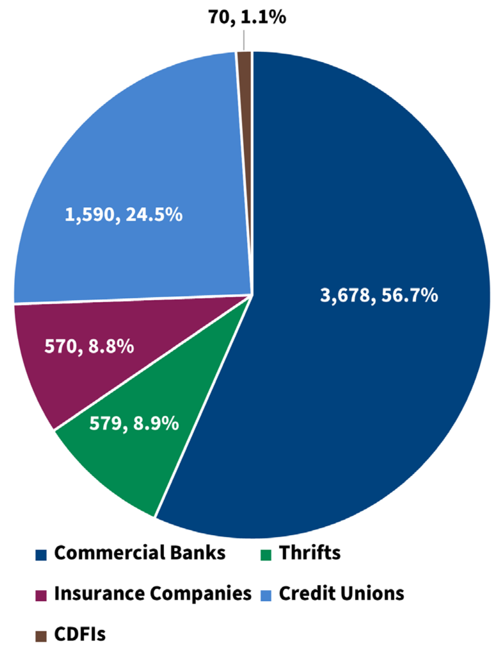
An institution in one of these categories may become an FHLBank member if: (1) it is duly organized under federal, state, or tribal law; (2) it is subject to inspection and regulation under federal or state banking or similar laws (or, in the case of a non-depository CDFI, is certified by the CDFI Fund of the United States Department of the Treasury); (3) it makes long-term home mortgage loans; (4) its financial condition is such that advances may be safely made to it; (5) the character of its management is consistent with sound and economical home financing; and (6) its home financing policy is consistent with sound and

94 *See* 12 U.S.C. 1431; 12 CFR part 1273.
95 *See* 12 U.S.C. 1430b; 12 CFR part 1264.
96 12 U.S.C. 1426(a)(4)(B). Former members with advances outstanding also may be required to hold stock until the advances are paid off.
97 12 U.S.C. 1426(c)(1).
98 *See* 12 U.S.C. 1427(a), (b), (c).
99 *See* 12 U.S.C. 1429, 1430(a)(1), 1430b.

economical home financing.[100] If the entity is an insured depository institution, it must also have at least 10 percent of its total assets in residential mortgage loans, unless it qualifies as a CFI, in which case it is exempted from this "10 percent requirement."[101] CFIs are defined as FDIC-insured depository institutions with total assets below an adjustable statutory threshold (set at $1.417 billion for 2023).[102]

The FHLBanks' primary business is providing low-cost loans, known as advances, to their members.[103] FHLBank advances are available in a wide variety of structures and terms, but in all cases must be fully secured by eligible collateral, which includes residential mortgage loans and mortgage-backed securities, as well as government securities, cash, and other real estate-related collateral meeting certain requirements.[104] CFIs may also pledge secured small business, small farm, small agri-business, and community development loans, and securities backed by such loans, as collateral for advances.[105] In most cases, FHLBank members must use the proceeds of long-term advances—currently defined by FHFA as advances with an original term to maturity of more than five years[106]—to fund residential housing finance.[107] Members may use the proceeds of shorter-term advances for any business purpose.

FIGURE 2-A: FHLBANK MEMBERS BY MEMBER TYPE



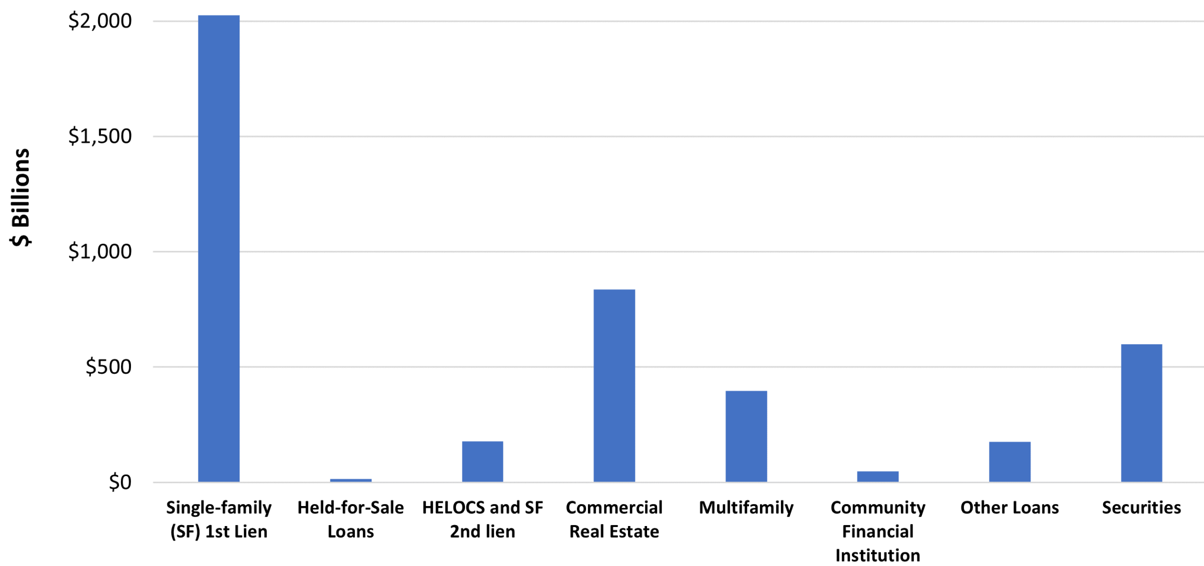
Source: Based on FHLBank data, as of June 30, 2023

Note: 6,487 members as of June 30, 2023

The FHLBanks also provide their members with several other products and services, such as AMA programs (through which the FHLBanks purchase qualifying residential mortgage loans from their members), standby letters of credit, and deposit accounts.[108] Each FHLBank is also required by the Bank Act to operate an AHP, through which it provides grants or

100 *See* 12 U.S.C. 1424 (a)(1), (2); 12 CFR 1263.6(a).
101 *See* 12 U.S.C. 1424(a)(2)(A), (4).
102 *See* 12 U.S.C. 1422(10); see also 87 FR 80184 (Dec. 29, 2022).
103 *See* 12 CFR 1201.1, 1264.1-.6, 1266.16-.17.
104 *See* 12 U.S.C. 1430(a)(3)(A)-(D).
105 *See* 12 U.S.C. 1430(a)(3)(E).
106 *See* 12 CFR 1266.1.
107 *See* 12 U.S.C. 1430(a)(2)(A). CFIs can also use long-term advances to fund small business, small farm, small agri-business, and community development loans.
108 *See* 12 CFR part 1268 (AMA); 12 CFR part 1269 (standby letters of credit); 12 CFR 1270.3 (deposits from members).

FIGURE 2-B: COLLATERAL TYPES PLEDGED BY FHLBANK MEMBERS



Source: Based on FHLBank data, as of June 30, 2023

subsidized advances through its members to finance homeownership for low- or moderate-income households (households with incomes at or below 80 percent of AMI),[109] and rental housing where at least 20 percent of the units are occupied by, and affordable to, very low-income households (households with incomes at or below 50 percent of AMI). Each FHLBank is also required by the Bank Act to operate a Community Investment Program, through which it provides lower-cost advances to finance housing and economic development projects at targeted income levels.[110] The Bank Act requires each FHLBank to contribute annually at least 10 percent of its prior year's net earnings[111] to fund its AHP but does not mandate a minimum funding contribution to the CIP.

The primary source of funding for the FHLBanks' operations is through the issuance of FHLBank System consolidated obligations.[112] Paid-in capital and deposits constitute a much smaller contribution to FHLBank funding. The FHLBanks' statutory joint and several liability for payments of principal and interest on their consolidated obligations is one factor that enables them to raise funds in the capital markets at interest rates only slightly higher than those on comparable

109 *See* 12 U.S.C. 1430(j).
110 *See* 12 U.S.C. 1430(i).
111 *See* 12 U.S.C. 1430(j)(5).
112 *See* 12 U.S.C. 1431(b), (c).

Treasury instruments. Another factor is the statutory advantages Congress has granted the FHLBanks, including exemption from most state and federal income taxes,[113] favorable treatment of FHLBank capital stock and consolidated obligations under the federal securities laws,[114] and limited authorization for Treasury to purchase consolidated obligations.[115] Although all obligations of the FHLBanks must plainly state that they are neither obligations of, nor guaranteed by, the United States,[116] the perception that the government would support investors in the event of a default by the FHLBanks may also be a material factor in the favorable interest rates available to the FHLBanks. These advantages are intended to enable the FHLBanks to support housing finance and community development by, among other things, providing support to their member institutions so they remain strong and viable and can continue to serve their communities, not just with mortgage loans but with financial services generally.

The Establishment of the FHLBanks

During the Great Depression, with a U.S. housing finance system that had essentially ceased functioning and home foreclosures increasing sharply, President Herbert Hoover signed the Bank Act into law on July 22, 1932. The law was based on a 1931 proposal informed by the recommendations of a presidential commission focused on facilitating homeownership, as well as by earlier efforts to establish a discount banking system to support institutions originating mortgages in the same way the Federal Reserve System supported commercial banks.[117]

The original Bank Act established a federal agency, the FHLBB, to supervise the FHLBanks,[118] and authorized it to establish a minimum of eight and a maximum of 12 regional FHLBanks.[119] The management of each FHLBank was vested in a board of directors, with most of the directors to be elected from among the officers and directors of member institutions.[120]

To the exclusion of other types of home financing institutions, only thrift institutions

113 *See* 12 U.S.C. 1433.
114 *See* 12 U.S.C. 1426a. FHLBank consolidated obligations are classified as "exempted securities" under the Securities Act of 1933 and as "government securities" under the Securities Exchange Act of 1934.
115 *See* 12 U.S.C. 1431(i), (l).
116 12 U.S.C. 1435.
117 Public Papers of the Presidents of the United States—Herbert Hoover 1931 at 589-90; *The Federal Home Loan Bank Act: Hearing on H. R. 12280 Before the H. Rules Comm.* 72nd Cong. 1 (1932) (statement of Hon. Michael K. Reilly, a Rep. in Congress from the State of Wisconsin), available at https://www.google.com/books/edition/_/dd_th_EKL8AC?hl=en&gbpv=1.
118 *See* Federal Home Loan Bank Act, Pub. L. No. 72-304, § 17, 47 Stat. 725, 736-737 (1932), *codified at* 12 U.S.C. 1437 (1932).
119 *See* Pub. L. No. 72-304, § 3, 47 Stat. 726, *codified at* 12 U.S.C. 1423 (1932).
120 *See* 12 U.S.C. 1427 (1932). The original boards included 11 directors, two of which were to be appointed by the FHLBB and the remainder elected by the members.

and insurance companies were eligible for membership, provided they made long-term home mortgage loans and met certain other eligibility requirements.[121] Thrifts made the types of "sound and economical" home mortgage loans that the President and many in Congress believed could place the U.S. housing financing system on stronger footing.

At the outset of the Great Depression, the most common form of home financing in the United States was the "straight" first mortgage loan, which typically had a low loan-to-value ratio (usually 40-60 percent), and a short term to maturity (typically five years or less), and required repayment of the entire principal at maturity.[122] Thrifts, however, had increasingly made available an alternative type of mortgage loan with features more suitable for people of modest means—specifically, longer maturities (typically 8 to 12 years), full amortization, and higher loan-to-value ratios. Insurance companies, in particular life insurers, were likely included as members because they had been "tending toward the amortized long-term loan" and policymakers wished to encourage that tendency.[123] Each FHLBank was authorized to make advances to members based on the security of current home mortgages, excluding mortgages with more than 15 years to maturity or secured by real estate having a value of more than $20,000.[124] Amortized home mortgage loans with an original term of at least eight years were treated favorably, being subject to a lower required discount than other types of mortgage collateral.[125]

The Bank Act authorized each FHLBank to issue capital stock and established minimum stock purchase requirements for members.[126] The Bank Act required the Treasury to purchase that portion of the minimum required stock of each FHLBank that was not purchased by members.[127] Each FHLBank was also authorized to issue secured bonds and debentures, as approved by the FHLBB.[128] Although the original Bank Act did not authorize the issuance of consolidated obligations, it provided that the FHLBanks were to be jointly and severally liable for the principal and interest due on each other's

121 *See* Pub. L. No. 72-304, § 4(a), 47 Stat. 726, *codified at* 12 U.S.C. 1424(a) (1932).

122 Susan M. Hoffman & Mark K. Cassell, *Mission Expansion in the Federal Home Loan Bank System*, (SUNY Press, 2010) at 31 (*hereinafter* "Hoffmann & Cassell").

123 President's Conference on Home Building and Home Ownership, *Report II: Home Finance and Taxation: Loans, Assessments and Taxes on Residential Property,* Reports of the Committees on Finance and Taxation (Washington, D.C., National Capital Press, 1932) at 26.

124 *See* Pub. L. No. 72-304, § 10(a), (b), 47 Stat. 731-732, *codified at* 12 U.S.C. 1430(a), (b) (1932).

125 *See* Pub. L. No. 72-304, § 10(a)(1), (2), 47 Stat. 731-732, *codified at* 12 U.S.C. 1430(a)(1), (2) (1932).

126 *See* Pub. L. No. 72-304, § 6(c), 47 Stat. 727-728, *codified at* 12 U.S.C. 1426(f) (1932).

127 *See* Pub. L. No. 72-304, § 6(f), 47 Stat. 728-729, *codified at* 12 U.S.C. 1426(g) (1932). Hoffmann & Cassell at 37. Once the amount of capital paid in by members equaled the amount paid in by the Secretary of the Treasury, an FHLBank was required to gradually repurchase at par and retire the capital stock held by the United States. The final Treasury stock was paid off on July 2, 1951.

128 *See* Pub. L. No. 72-304, § 11(a), 47 Stat. 733, *codified at* 12 U.S.C. 1431(a) (1932).

individual debt.[129] As is the case currently, all obligations of the FHLBanks were required to "plainly state that such obligations are not obligations of the United States and are not guaranteed by the United States."[130]

The FHLBB chose to establish the maximum permissible 12 FHLBanks. They opened for business on October 15, 1932, and made their first advances a few months later.

HOLC and the National Housing Act

In 1933, in a further effort to stem home mortgage defaults and foreclosures, Congress passed the Home Owners' Loan Act,[131] which created the Home Owners' Loan Corporation (HOLC), under the administration of the FHLBB. The HOLC bought delinquent mortgages from lenders and refinanced the loans at lower interest rates, lowered the monthly payments, and extended the period for repayment to help people keep their homes. The Home Owners' Loan Act also authorized the FHLBB to begin chartering federal savings and loan associations and entrusted it with their regulation and supervision. The creation of a federal thrift charter was intended to facilitate the establishment of "local mutual thrift institutions" in areas without an existing financial institution that provided mortgage lending. All federal thrifts were required to be FHLBank members.[132] For the next 56 years, the FHLBank System and the national thrift system were in many respects the same, with the FHLBanks being delegated various supervisory authorities over their member thrifts for much of that time.

The passage of the National Housing Act of 1934[133] further altered the home lending landscape by creating the Federal Housing Administration (FHA) to insure mortgages and the Federal Savings and Loan Insurance Corporation (FSLIC) to insure thrift deposits. Congress authorized Fannie Mae, then a government corporation, to buy FHA-insured home mortgages in 1938[134] and, later, to buy Veterans Administration mortgages.[135]

FSLIC was under the administration of the FHLBB, which also constituted its board. Federally-chartered thrifts were required by law to carry FSLIC insurance and state-chartered thrifts could choose to do so. Similar to the role of the FDIC, which had been created in 1933 to insure deposits in commercial banks, FSLIC was authorized to provide loans to troubled thrifts, arrange for them to be absorbed by stronger institutions,

129 *See* Pub. L. No. 72-304, § 11(f), 47 Stat. 734*, codified at* 12 U.S.C. 1431(f) (1932).
130 *See* Pub. L. No. 72-304, § 15, 47 Stat. 736, *codified at* 12 U.S.C. 1435 (1932).
131 Pub. L. No. 73-64, 48 Stat. 128 (1933).
132 *See* 1937-38 *FHLBB Annual Report* at 23.
133 Pub. L. No. 73-479, 48 Stat. 1246 (1934).
134 National Housing Act Amendments of 1938, Pub. L. No. 75-424, 52 Stat. 8 (1938).
135 *See* Serviceman's Readjustment Act of 1944, Pub L. No. 78-346, 58 Stat. 284 (1944).

or wind them down and pay out their insured deposits to savers if needed.[136]

The National Housing Act also amended the Bank Act to provide for the issuance of FHLBank System consolidated obligations, in addition to individual FHLBank debt.[137] In the first few years of their operation, the capital provided by the U.S. Treasury and member institutions proved sufficient to meet the financial requirements of the FHLBanks. In 1937, however, the FHLBanks tapped the public debt markets for the first time with an initial offering of $24.7 million in consolidated obligations. The issuance was "oversubscribed many times within a few hours."[138] Since that time, the FHLBanks have been significant participants in the capital markets, and there has been strong investor demand for their securities issuances. Between 1932 and 1948, the FHLBanks, with the approval of the FHLBB, collectively employed a fiscal agent to issue, and perform payment and other functions in connection with, the consolidated obligations.[139] In 1948, the FHLBB adopted regulations bringing the fiscal agent's activities within the FHLBank System in the form of the Office of Fiscal Agent,[140] which was reorganized as the Office of Finance in 1972.[141]

World War II and Post-War

In the early days after the December 1941 attack on Pearl Harbor, the FHLBanks helped stabilize members by supplying liquidity to mitigate heavy savings withdrawals.[142] Although few homes were built during World War II, the FHLBanks maintained a moderate level of lending activity.[143] The FHLBanks were also active in helping finance war costs, becoming a channel through which war bonds were purchased, issued, and redeemed, and extending advances to assist member thrifts in purchasing war bonds for their own portfolios.[144]

While the FHLBanks' advance growth was interrupted by the war, it resumed at an accelerated pace after the war. Post-war increases in advances reflected the growth of member thrifts, the high level of activity in building, purchasing, and financing homes, and the general rise in prices.[145] The FHLBank System was designed partly as a means of moving money for mortgage lending from areas where it was abundant to areas in which there was an unmet demand. This function was demonstrated in the 1950s and 1960s, when the FHLBanks tapped abundant

136 *See A Guide to the Federal Home Loan Bank System* (Mar. 1987) at 10-11.
137 *See* Pub. L. No. 73-479, § 503, 48 Stat. 1261.
138 *See* 1936-37 *FHLBB Annual Report* at 15.
139 *See* GAO Report B-226708, 1988 WL 228055 (Sept. 6, 1988).
140 *See* 24 CFR § 122.80 (1949).
141 *See* Jonathan A. Scott, The Federal Home Loan Banks Office of Finance, *Governance Challenges Within a Cooperative* (FHLBanks Office of Finance, 2019) at 8.
142 *See The Federal Home Loan Bank System 1932-1952* (1952) at 62-63.
143 *See The Federal Home Loan Bank System (1961)* at 43.
144 *See The Federal Home Loan Bank System* 1932-1952 (1952) at 62-63.
145 *See The Federal Home Loan Bank System* (1961) at 44.

sources of capital in the eastern United States to provide funds for homebuilding and home mortgage lending to fast-growing western states with a deficit of capital, such as California and Arizona.[146]

Although the FHLBank System made a meaningful contribution in facilitating home construction and ownership in the post-war years, these benefits were not available to all Americans. The FHLBB and HOLC engaged in discriminatory home mortgage redlining practices that are now illegal, with long-term negative impacts on people and neighborhoods.[147] In the 1940s and 1950s, the FHLBB and HOLC, along with the FHA, used Residential Security Maps (which designated an area as "hazardous" if even a small share of the population was African American), as part of their examinations and mortgage lending decisions.[148]

1960s and 1970s — Increasing Interest Rate Instability and the Creation of Freddie Mac

Thrifts grew and prospered in the 1950s largely because of stable interest rates; however, in the 1960s, economic conditions began to change. Thrifts started to face increased competition for deposits from commercial banks, which could pay interest rates that thrifts could not match, and from other investment vehicles. In a series of legislative and regulatory acts beginning in the late 1960s and continuing through the 1980s, Congress and other policymakers sought to make thrifts more competitive by expanding their lending authorities beyond home finance, allowing them to operate in ever-widening geographic areas, and authorizing them to pay higher rates of interest on savings accounts than commercial banks were permitted to pay.[149]

In the wake of a credit crunch that essentially halted mortgage lending and homebuilding, Congress created Freddie Mac in 1970 to provide a secondary market primarily for home mortgages originated by thrifts and other FHLBank members.[150] Freddie Mac was to operate under the direction of the FHLBB and it began operations with $100 million raised by selling stock to the FHLBanks.[151] Freddie Mac was authorized to issue not only debt securities to fund loans held in portfolio, but also innovative new securities—called participation certificates—which would allow investors to own a beneficial interest in a pool of underlying mortgages.[152]

146 *See The Federal Home Loan Bank System* (1961) at 46.
147 *See Bruce Mitchell & Juan Franco,* HOLC "Redlining" Maps: *The Persistent Structure of Segregation and Inequality*, (National Community Reinvestment Coalition, 2018), *available at* https://ncrc.org/wp-content/uploads/dlm_uploads/2018/02/NCRC-Research-HOLC-10.pdf. *See also* Kenneth T. Jackson, *Crabgrass Frontier: The Suburbanization of the United States* (Oxford University Press, 1985) at 197, 203.
148 *See* Hoffmann & Cassell at 73, *citing* Douglas S. Massey & Nancy A. Denton, *American Apartheid: Segregation and the Making of the Underclass* (Harvard University Press, 1993). *See also* Jackson at 201.
149 *See A Guide to the Federal Home Loan Bank System* (Mar. 1987) at 13-14.
150 *See* Emergency Home Finance Act of 1970, Pub. L. No. 91-351, Title III, 84 Stat. 450, 451-458 (1970).
151 *See A Guide to the Federal Home Loan Bank System* (Mar. 1987) at 14, 56-57.
152 *See* Hoffmann & Cassell at 47-48. Ginnie Mae pioneered the use of the pass-through security slightly before Freddie Mac.

1980s — The Thrift Crisis and FIRREA

Throughout the 1970s and 1980s, interest rate volatility made it difficult for thrifts to rely on deposits as a source of funding for home loans. Short-term rates rose above the levels thrifts were allowed to pay on deposits, and many depositors moved their savings to alternatives such as money market funds.[153] In response, Congress passed legislation to lift interest rate limitations,[154] but many thrifts became insolvent due to the interest rate mismatch between their low-yielding long-term assets (mortgages) and high-cost deposits. In response, Congress allowed thrifts to try to boost earnings by investing in assets beyond traditional home mortgages. Relatedly, Congress also authorized the FHLBB to broaden eligible advance collateral, and the FHLBB then permitted the FHLBanks to take as collateral any property they found acceptable and in which they could secure an interest.[155]

None of these steps were adequate to maintain the viability of the thrift system, and by 1987, the FSLIC was insolvent. The Competitive Equality Banking Act provided for the recapitalization of the FSLIC through the Financing Corporation (FICO), which was authorized to issue obligations of up to $10.825 billion in the capital markets.[156] To encourage the FHLBanks to help stabilize distressed thrifts, it also added the so-called "super lien" provision to the Bank Act. This provision gave the FHLBanks' security interests in advance collateral priority over those of creditors, including the FSLIC, with unperfected security interests in the same assets.[157] Ultimately, the measures mandated by the Competitive Equality Banking Act were inadequate to stem continuing losses sustained by the thrift industry, and it became apparent that more comprehensive changes needed to be made to the thrift system, including the FHLBank System.

Such comprehensive change came in 1989 through FIRREA, which restructured the apparatus of federal thrift supervision and insurance, while making provisions for the resolution of the thrift crisis. In conjunction with these steps, FIRREA disassembled the FHLBank System as it then existed and established the fundamental parameters of the FHLBank System as it exists today. Congress dissolved the FHLBB and split its regulatory functions between the newly

153 The Interest Rate Control Act of 1966 gave the FHLBB the authority to regulate rates that thrifts paid on various types of deposits. Until interest rate limits were phased out, the FHLBB typically set deposit rates higher than the rates for commercial banks to attract deposits to fund housing loans. Hoffmann & Cassell at 45.

154 *See* Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980, Pub. L. No. 96-221, 94 Stat. 132 (1980).

155 *See* Garn-St. Germain Depository Institutions Act of 1982, Pub. L. No. 97-320, §§ 321-335, 352, 96 Stat. 1499-1505, 1507 (1982).

156 Pub. L. No. 100-86, 101 Stat. 552 (1987). The Financing Corporation was capitalized by the FHLBanks, who were required to cede $600 million in retained earnings. Dirk S. Adams & Rodney R. Peck, *FIRREA and the New Federal Home Loan Bank System*, Santa Clara Law Review, Vol. 32, No. 1 (Jan. 1, 1992) at 23-24. The Financing Corporation paid off its last long-term debt obligation on September 26, 2019 and was dissolved in 2020.

157 *See* Pub. L. No. 100-86, 101 Stat. 602 § 306(d).

formed Office of Thrift Supervision, to act as federal thrift regulator, and the Finance Board, as regulator of the FHLBanks. The FSLIC was dissolved and a new Savings Association Insurance Fund was established within the FDIC.[158] Freddie Mac was removed from the FHLBank System and its ownership was privatized through freely traded stock.

To resolve troubled thrifts, FIRREA established the RTC and created the Resolution Funding Corporation to fund the RTC. The FHLBanks were required to cede an additional $2.8 billion in retained earnings to defease the bonds issued by REFCorp, and to contribute up to $300 million per year from the FHLBank System's annual earnings for interest payments on the bonds.

In the first fundamental change to the FHLBank System's membership structure since its inception, FIRREA amended the Bank Act to permit (but not require) federally insured commercial banks and credit unions to become FHLBank members, provided that they had at least 10 percent of their assets in residential mortgage loans.[159] Unlike the thrifts that had composed virtually the entirety of the FHLBank System's membership rolls for decades, commercial banks were not required by charter to focus on home mortgage lending. To encourage such a focus, FIRREA required that long-term advances be used only for "residential housing finance," and re-established collateral eligibility requirements centered on mortgage and real estate-related assets. It also limited advances to members not qualifying as "Qualified Thrift Lenders," who were required to have a minimum of 65 percent of assets in housing-related investments.[160]

Codifying targeted lending programs in the Bank Act for the first time, FIRREA required each FHLBank to establish an AHP to provide funds through its members to support affordable housing for very low- and low- or moderate-income households by contributing annually at least 10 percent of its prior year's net earnings to fund the program.[161] FIRREA also required each FHLBank to operate a CIP to provide low-cost advances to its members to support "community-oriented lending," without mandating any required minimum funding contribution. Each FHLBank was also required to appoint a Community Investment Officer who would be responsible for the operation of the AHP and CIP.[162] In addition, each FHLBank was required to establish an Affordable Housing Advisory Council to advise on the FHLBank's low- or moderate-income housing programs and needs in the district, as well as on utilization of FHLBank advances for

158 In 2006, the Savings Association Insurance Fund was combined with the FDIC's Bank Insurance Fund.
159 *See* Pub. L. No. 101–73, § 704, 103 Stat. 415-416, *codified at* 12 U.S.C. 1424(a).
160 *See* Pub. L. No. 101–73, § 714, 103 Stat. 419-421, *codified at* 12 U.S.C. 1430(a).
161 *See* Pub. L. No. 101–73, § 721, 103 Stat. 423-426, *codified at* 12 U.S.C. 1430(j).
162 *See* Pub. L. No. 101–73, § 721, 103 Stat. 423, *codified at* 12 U.S.C. 1430(i).

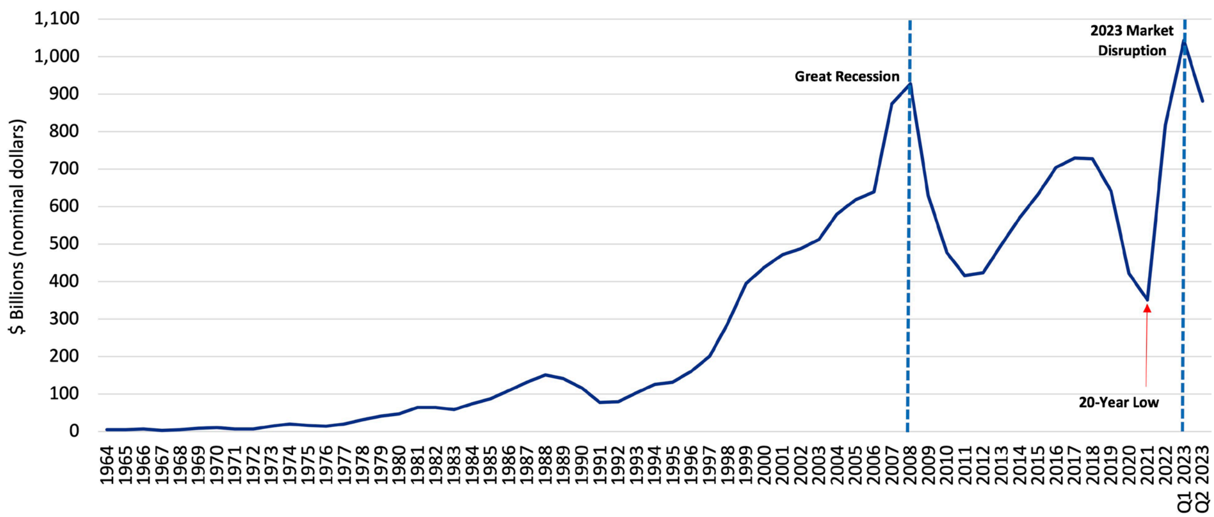
these purposes and to submit annual reports with these analyses to the Finance Board.[163]

Finally, FIRREA altered the required composition of the FHLBanks' boards of directors by increasing the number of regulator-appointed directors from two to six and requiring that two of these six directors be representatives from organizations with more than a two-year history of representing consumer or community interests on banking services, credit needs, housing, or financial consumer protections.[164]

Post-FIRREA

During 1989 and 1990, the FHLBanks' membership and advance activity contracted as thrifts continued to fail. But in 1992, the FHLBanks began what would be a sustained growth trajectory

FIGURE 2-C: FHLBANK ADVANCES OUTSTANDING SINCE 1964 (BOOK VALUE)



Source: Based on FHLBank data, book value, as of June 30, 2023

as they started to design new advance products to meet the needs of commercial banks.[165] The number of commercial banks in the FHLBank System began to grow rapidly, and by the end of 1994, they composed a majority of FHLBank members. Their membership continued to grow through 2005, before beginning a slow decline that continues today, primarily due to industry consolidation.

163 *See* Pub. L. No. 101–73, § 721, 103 Stat. 425-26, *codified* at 12 U.S.C. 1430(j)(11).
164 *See* Pub. L. No. 101–73, § 707, 103 Stat. 417, *codified* at 12 U.S.C. 1427(a).
165 *See* Hoffmann & Cassell at 54, 161 (fn. 19).

Until 1999, the FHLBanks' REFCorp obligation was a fixed dollar amount. To help fund this obligation, the FHLBanks began to bring in new members and take other steps aimed at increasing profits, such as increasing their holdings of agency MBS and other investments.[166] By the mid-1990s, the FHLBanks collectively had a slightly greater portion of assets in investments than in advances.

The growth of the FHLBanks' investment portfolios gave rise to assertions that the FHLBanks were engaging in arbitrage, taking funds raised though issuance of their relatively low interest consolidated obligations and investing them in more profitable MBS and federal funds, and were straying from their public mission. Eventually, greater borrowing by growing numbers of commercial bank members tilted the balance back toward advances.

In the late 1990s, several FHLBanks initiated pilot programs under which they began to acquire whole mortgage loans from member institutions. These programs were intended to provide an alternative secondary market for member institutions and allow them to earn more on the mortgages they originated than by selling them to Fannie Mae or Freddie Mac. Full authorization to engage in these programs on an ongoing basis was codified with the Finance Board's adoption of the AMA regulation in 2000.[167]

In 1992, Congress passed the Housing and Community Development Act, which required a number of studies analyzing and making recommendations with respect to various topics relating to the FHLBanks, including appropriate capital standards, expansion of credit products and services and eligible collateral for advances, support for community-based lenders, the overall role of the FHLBank System in housing finance, and the likelihood that the FHLBanks would be able to continue to pay their annual REFCorp obligation.[168] The studies served as a basis for a number of legislative changes that were later adopted.

Ten years after FIRREA, the Federal Home Loan Bank System Modernization Act of 1999 made further changes to the statutory scheme under which the FHLBanks operate. It made membership voluntary for all FHLBank member institutions, established a new permanent capital structure for the FHLBanks, established leverage requirements, changed the REFCorp obligation from a fixed dollar amount to 20 percent of the FHLBank System's annual earnings after AHP contributions, and eliminated the Qualified Thrift Lender provisions. It also added provisions allowing CFIs to pledge an expanded range of collateral (specifically secured loans relating to small business, small farm, and small agri-business)

166 At the time of FIRREA, FHLBank investments in MBS had been capped at 50 percent of capital, but the Finance Board raised the limit to 300 percent, where it remains today. *See* 12 CFR 1267.3(c).
167 *See* 65 FR 43969 (July 17, 2000), *codified at* 12 CFR part 1268.
168 *See* Pub. L. No. 102-550, § 1393, 106 Stat. 3672 (1992).

and to use long-term advances—previously permitted only for residential housing finance purposes—for providing funds for small businesses, small farms, and small agri-businesses.[169]

In 2004, the Finance Board issued a rule requiring the FHLBanks to register their stock with the U.S. Securities and Exchange Commission despite it not being publicly traded.[170] The Finance Board adopted this rule, in part, to ensure full and consistent disclosure of financial information across the FHLBank System for the benefit of market participants and to create a standard for compliance from all FHLBanks. In accordance with the timeline set by the Finance Board, the FHLBanks completed this registration in 2005. The registration requirement was codified into statute by the Housing and Economic Recovery Act of 2008.[171]

The Financial Crisis and HERA

As the Financial Crisis began to unfold in 2007, the FHLBank System proved to be an important provider of liquidity and was the largest lender to U.S. depository institutions.[172] During that time, the FHLBanks and the Federal Reserve worked in complementary ways, with the FHLBank System taking on some of the demand from the Federal Reserve discount window and providing less expensive domestic liquidity.

On July 30, 2008, President George W. Bush signed HERA[173] into law. HERA restructured the regulation of the FHLBanks and Fannie Mae and Freddie Mac (the Enterprises) by merging the Office of Federal Housing Enterprise Oversight (OFHEO), which had regulated the Enterprises, and the Finance Board into the newly established FHFA as the independent regulator of both the FHLBanks and the Enterprises. HERA also transferred the Department of Housing and Urban Development's Enterprise policy and mission oversight functions to FHFA.[174]

HERA granted FHFA the authority to ensure the safety and soundness of these regulated entities by setting capital standards, setting prudential management standards, enforcing orders through cease-and-desist authority and civil money penalties, limiting asset growth and capital distributions for undercapitalized institutions, placing a regulated entity into receivership, and reviewing and approving new Enterprise product offerings.[175]

169 *See* Pub. L. No. 106–102, §§ 601-6084(a), 113 Stat. 1338, 1450-14631 (1999). In 2008, Congress expanded the definition of CFI collateral to include secured loans for community development activities. See Housing and Economic Recovery Act, Pub. L. No. 110-289, § 1211, 122 Stat. 2790 (2008).
170 *See* 69 FR 38799 (2004).
171 *See* Pub. L. No. 110-289, § 1112, 122 Stat. 2677.
172 A.B. Ashcraft, M.L. Bech, & W.S. Frame, *The Federal Home Loan Bank System: The Lender of Next-to-Last Resort?* (Federal Reserve Bank of New York, Nov. 2008) at 5, 22, *available at* https://www.newyorkfed.org/research/staff_reports/sr357.html.
173 Pub. L. No. 110-289, 122 Stat. 2654 (2008).
174 *See* Pub. L. No. 110-289, §§ 1101, 1301, 1311, 122 Stat. 2661, 2794, 2797.
175 *See* Pub. L. No. 110-289, §§ 1109-1111, 1141-1158, 122 Stat. 2674-77, 2730-2778 (2008).

HERA also added CDFIs to the types of institutions eligible for FHLBank membership, instituted affordable housing goals for the FHLBanks, and required FHFA to establish a public use database for the FHLBanks' AMA programs.[176] The legislation also adjusted the dollar threshold below which an FDIC-insured depository institution qualifies as a CFI from $500 million to $1 billion (adjustable for inflation). In addition, HERA temporarily authorized the FHLBanks to use AHP subsidized advances to refinance homeownership loans for low- or moderate-income households.[177] HERA also eliminated the longstanding power of the FHLBank System regulator to appoint a portion of each FHLBank's directors and vested in member institutions the power to elect the entirety of an FHLBank's board of directors (while continuing to require that a portion of board directors be independent).[178] HERA further provided that, in addition to the Agency's existing general authority to establish and liquidate FHLBanks as well as define their districts, any two or more FHLBanks could merge voluntarily with the approval of FHFA and the boards of directors of the FHLBanks involved in the merger.[179] This authority was exercised in 2015 when the FHLBank of Des Moines absorbed the FHLBank of Seattle in a voluntary merger.

176 *See* Pub. L. No. 110-289, §§ 1205, 1206, 1211, 1212, 122 Stat. 2786-2787, 2790.

177 *See Pub. L. No. 110-289, § 1218, 122 Stat. 2793.* FHLBank authority to use AHP subsidized advances for this purpose was for a two-year period and limited to first mortgages on primary residences, subject to a regulation issued by the Finance Board to implement this temporary statutory authority. The regulation was sunset after the two-year period.

178 *See* Pub. L. No. 110-289, § 1202, 122 Stat. 2783-2785.

179 *See* Pub. L. No. 110-289, § 1209, 122 Stat. 2789.

MEMBERSHIP

When the Bank Act was originally enacted in 1932, FHLBank membership was limited to thrift institutions (described as "any building and loan association, savings and loan association, cooperative bank, homestead association, . . . or savings bank") and insurance companies, provided they were duly organized, were subject to inspection, and made long-term home mortgage loans. An institution was considered ineligible for membership if its financial condition was "such that advances may not safely be made" to it or the character of its management or its home-financing policy was "inconsistent with sound and economical home financing," or with the purposes of the Bank Act.[180] With the advent of the federal savings association charter in 1934, those institutions were required to be FHLBank members. Membership remained voluntary for state-chartered thrifts and insurance companies. Throughout most of the FHLBanks' history until 1989, the FHLBanks had very few, and at times no, insurance company members.

In 1989, as it rethought the structure and composition of the FHLBank System, Congress in FIRREA extended FHLBank membership to all "insured depository institutions," including FDIC-insured commercial banks and thrifts and credit unions insured by the NCUA. FIRREA included multiple provisions intended to ensure that the newly eligible institutions engaged to some extent in residential mortgage lending. Thus, a commercial bank or credit union was required to have at least 10 percent of its assets in residential mortgage loans to be eligible for membership. Congress also limited the extent to which commercial bank and credit union members could obtain advances by imposing certain limitations, which were based on the status of those institutions as Qualified Thrift Lenders.[181] Under those provisions, a member that was not a Qualified Thrift Lender was required to purchase greater amounts of FHLBank stock for a given level of advances, could apply for advances only for housing finance purposes, and was assigned a lower priority for obtaining advances than the Qualified Thrift Lender members. Congress also capped the volume of advances that each FHLBank could have outstanding to its non-Qualified Thrift Lender members at 30 percent of the FHLBank's total advances.[182]

In 1999, Congress repealed nearly all of the "non-Qualified Thrift Lender restrictions" on commercial bank and credit union members, retaining only the requirement that such institutions have at least 10 percent of assets in residential mortgage loans to be admitted to membership.[183] It also introduced the concept of CFIs (FDIC-insured depositories having total

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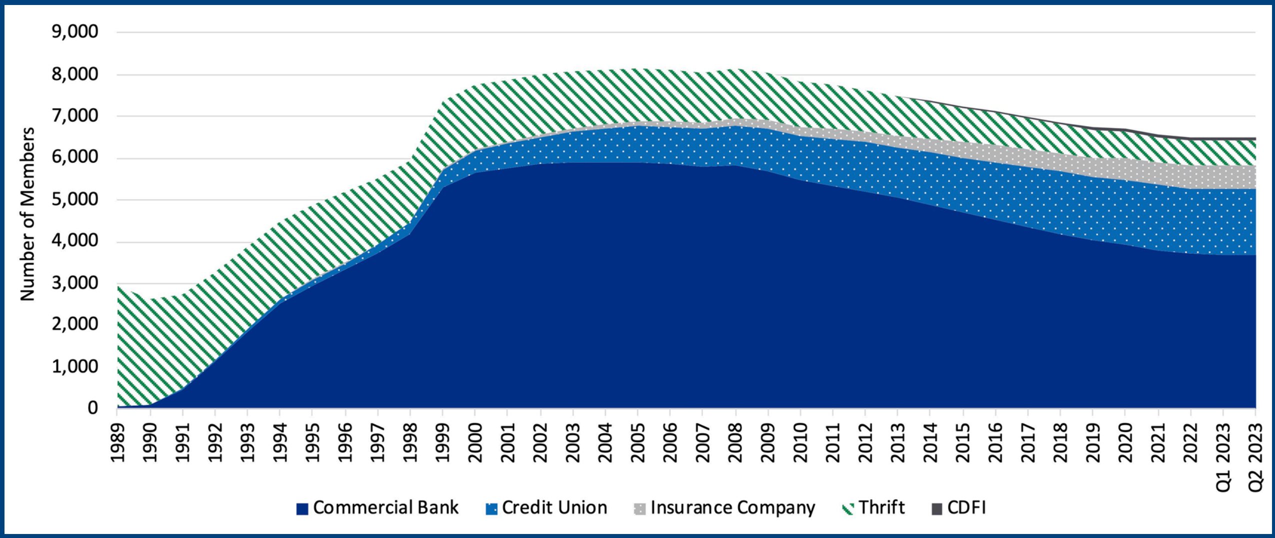
180 *See* Pub. L. No. 72-304, § 4(a), 47 Stat. 726.
181 *See* Pub. L. No. 101-73, §§ 704(a), 714(b) , 103 Stat. 415-416, 420-421.
182 *See* Pub. L. No. 102-550, § 1392(a), 106 Stat. 4009 (establishing the 30 percent limit for advances to members that are not Qualified Thrift Lenders).
183 *See* Pub. L. No. 106–102, § 604, 13 Stat. 1452.

assets below a statutory threshold) and exempted them from the 10 percent requirement, as well as allowing them to pledge a wider range of collateral.[184]

In 2008, Congress made CDFIs eligible for membership.[185] Effectively, this extended membership to non-depository CDFIs, with CDFI banks and credit unions having already been eligible as "insured depository institutions" since 1989. In 2015, membership was further extended to non-federally-insured credit unions meeting certain requirements.[186]

Prior to 1989, nearly 100 percent of members had been thrift institutions.[187] By 2004, thrift institution representation had declined to 16 percent of total membership as the number of thrift institutions in existence decreased, with commercial banks representing 73 percent and credit unions representing 10 percent of total members.[188] That trend for thrift institutions has continued, as they represented approximately 9 percent of the membership base as of June 30, 2023, while commercial banks, credit unions, and insurance companies represented 57 percent, 25 percent, and 9 percent of total members, respectively.[189]

FIGURE 2-D: FHLBANK MEMBERSHIP (1989-2023Q2)



Source: Based on FHLBank data, as of June 30, 2023

184 *See* Pub. L. No. 106–102, §§ 602, 604, 13 Stat. 1450-1451.

185 *See* Pub. L. No. 110-289, § 1206, 122 Stat. 2787.

186 *See* Fixing America's Surface Transportation Act, Pub. L. No. 114-94, § 82001 (2015).

187 *See*, e.g., Federal Home Loan Bank Board, *Federal Home Loan Bank Board Journal*, at 7 (1989) (indicating that membership of the FHLBank System was 3,331 savings and loan associations and savings banks, and only 7 members of other kinds).

188 *See* GAO Testimony Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Federal Home Loan Bank System, statement of Thomas J. McCool, Managing Director Financial Markets and Community Interests, GAO-05-489T (Apr. 13, 2005). Insurance companies represented just over 1 percent of members as of December 31, 2004.

189 *See* Federal Home Loan Banks, *Combined Financial Report* (June 30, 2023) at 63. Total membership was 6,487 institutions. Non-depository CDFIs, which were authorized to become members in 2008, represented just over 1 percent of members.

On July 15, 2011, nearly 22 years after the enactment of FIRREA, the FHLBanks fulfilled their final REFCorp obligation payment. Concurrently, FHFA announced that it had approved the addition of substantively identical provisions to each FHLBank's capital plan (except for the FHLBank of Chicago, which was not yet operating under an approved capital plan) obligating each FHLBank to allocate 20 percent of its net income (equivalent to the funds previously used to pay the REFCorp obligation) to a restricted retained earnings account until the account equals one percent of that FHLBank's share of outstanding consolidated obligations. This approach had been developed collaboratively among the FHLBanks and was approved by FHFA as an appropriate safety and soundness action in view of the FHLBanks' joint and several obligations on FHLBank System consolidated obligations.

In December 2015, Congress amended the Bank Act to authorize the FHLBanks to approve applications for membership from state-chartered credit unions without federal share insurance (regardless of their CDFI status) where specified requirements have been met.[190] Subsequently, in 2016, FHFA adopted a regulation to curtail membership eligibility of captive insurance subsidiaries, which were used to circumvent membership eligibility requirements of the Bank Act (primarily by mortgage REIT parent or affiliate companies) to gain access to FHLBank advances to fund their own operations and investments.[191]

In the years immediately prior to the publication of the rule, the number of new membership applications from captive insurers increased significantly. This trend raised concerns at FHFA that captive insurers were being promoted and used as vehicles to obtain FHLBank membership benefits, including access to FHLBank funding, by institutions ineligible for membership by statute. Moreover, captive insurers' level of advances activity was disproportionately large in relation to their own business operations and related investment needs, and many of the parent companies were guaranteeing repayment of the advances made to their captive insurer subsidiaries and providing the collateral for those advances. Most of the parent companies that received indirect FHLBank funding through those captive insurance subsidiaries were not themselves subject to inspection and regulation by federal or state banking regulators or by state insurance regulators. The regulation addresses this supervisory concern by defining the term "insurance company"—which is not defined in the Bank Act—to exclude captives, thereby rendering them ineligible for FHLBank membership.[192]

190 *See* Pub. L. No. 114-94, § 82001(a), 129 Stat. 1795, *codified* at 12 U.S.C. 1424(a)(5). FHFA adopted implementing regulations in 2017. See 82 FR 25716 (June 5, 2017).

191 *See* 81 FR 3246 (Jan 20, 2016).

192 *See* 12 CFR 1263.1.

During the COVID-19 pandemic, FHFA authorized the FHLBanks to accept Paycheck Protection Program loans as eligible collateral.[193] The FHLBanks provided additional flexibilities and support to help members and their communities respond to financial hardships, including offering discounted advance funding and collateral relief programs to members, expanding voluntary grant programs to enable small businesses to stay afloat, and increasing charitable contributions. Most recently, in March 2023, the FHLBanks experienced significant member advance demand because of banking sector volatility caused by member bank failures. For more information pertaining to the failures, FHFA, and the FHLBanks' response, please refer to Appendix 5.

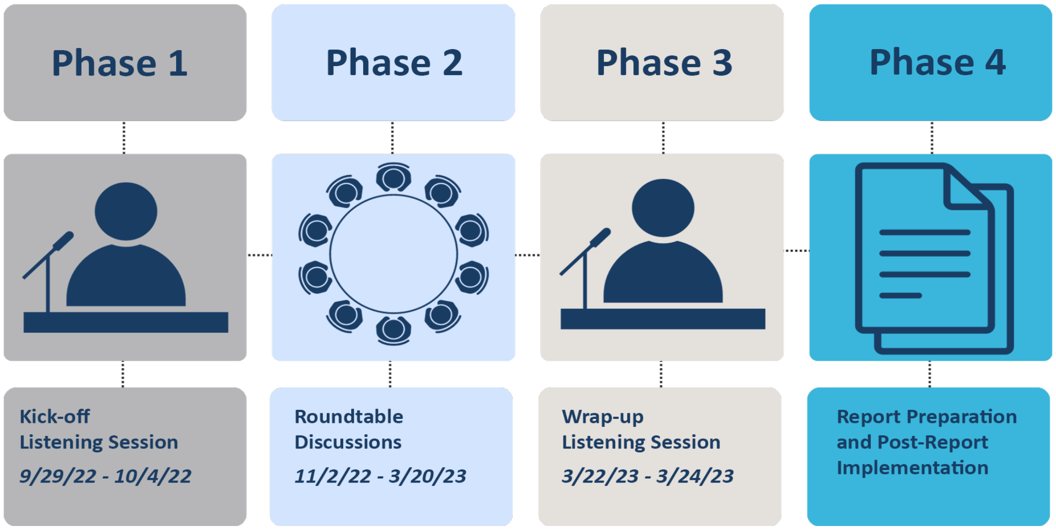
Photo courtesy of Esperanza, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

193 FHFA issued a public guidance letter to the FHLBanks, *available at* https://www.fhfa.gov/sites/default/files/2024-05/PPP-Loans-as-Collateral-for-FHLBank-Advances.pdf.

APPENDIX 3: FHLBANK SYSTEM AT 100 INITIATIVE — APPROACH

FHFA organized the initiative's public engagement into phases that provided multiple opportunities for input (see Figure 3-A below). FHFA drew on feedback received in listening sessions, roundtables, and other discussions with stakeholders, as well as through written comments, when preparing this report.

FIGURE 3-A. PHASES OF THE FHLBANK SYSTEM AT 100 INITIATIVE



Phase 1: Kick-off Listening Session

FHFA began the *FHLBank System at 100: Focusing on the Future* initiative with a public listening session. In total, 83 speakers presented their thoughts over three days: September 29 and 30, and October 4, 2022. While listening session participants were welcome to address any topic related to the FHLBank System, FHFA requested feedback on six areas:

- FHLBanks' mission and purpose
- Organization, operational efficiency, and effectiveness of the FHLBank System
- FHLBank System's role in promoting affordable housing and community development
- Needs of rural and financially vulnerable communities
- Member products and services
- Membership eligibility requirements[194]

194 Visit www.fhfa.gov/FHLB100 to see topics on which FHFA specifically requested feedback.

In addition to helping FHFA identify areas in need of additional discussion and exploration during subsequent phases of the review, the feedback also directly informed the preparation of this report.

Community banks and trade associations accounted for the largest number of speakers at the kick-off listening session, followed by affordable housing developers and CDFIs. Other speakers included representatives of credit unions, insurance companies, mortgage companies, and housing finance agencies, as well as academic researchers and other individuals. Several of the speakers currently serve, or previously served, on the board of an FHLBank, as either a member director or independent director, or on an FHLBank's Affordable Housing Advisory Council, and spoke in their official or personal capacity.

Phase 2: Regional Roundtable Discussions

Following the kick-off listening session, FHFA completed the second phase of the initiative—regional roundtable discussions designed to probe into the feedback received at the listening session and through written input. FHFA staff traveled to locations across the country and invited local stakeholders and subject matter experts to discuss specific topics, including those of local or regional concern. Each event was livestreamed, and recordings and transcripts are available on the FHFA website and YouTube channel.[195]

Whenever possible, FHFA worked with local organizations to conduct site visits for FHFA staff to view projects or areas of need. For example, FHFA visited a food hall under construction in a Baltimore neighborhood to help address the lack of healthy dining options, affordable rental apartments mainly serving Native Americans outside Oklahoma City, and the site of a new housing development for low-income seniors in rural Ohio. These visits provided an opportunity to see firsthand how communities are responding to local housing and community development challenges, and where FHLBank resources have been—or could be—helping to address these challenges.

195 *See* the *FHLBank System at 100: Focusing on the Future* initiative web page, available at www.fhfa.gov/FHLB100, for additional information, including a synopsis of each roundtable and site visit, a complete list of roundtable participants, and discussion questions sent to participants in advance of each roundtable discussion.

FIGURE 3-B. REGIONAL ROUNDTABLE LOCATIONS, TOPICS, AND DATES

Location	Topic	Date
Washington, DC	Mission and purpose of the FHLBank System	November 2, 2022
Chicago, IL	Affordable housing and community development in financially vulnerable communities	November 17, 2022
Indianola, MS	Affordable housing and community development in rural and underserved communities	November 21, 2022
Oklahoma City, OK	Native housing and community development, Part 1: Tribal housing authorities and banks	December 1, 2022
Washington, DC	Native housing and community development, Part 2: CDFIs and nonprofits	December 8, 2022
Baltimore, MD	Communities of color and closing the racial homeownership gap	December 12, 2022
Philadelphia, PA	Membership eligibility and requirements, collateral, and safety and soundness	December 15, 2022
Las Vegas, NV	CDFIs, community and economic development	February 13, 2023
Los Angeles, CA	Affordable housing and community development in financially vulnerable communities	February 15, 2023
Boise, ID	Support for emerging high-cost areas	February 17, 2023
Athens, OH	Affordable housing and community development in rural and underserved communities	February 27, 2023
Detroit, MI	Member products and services, Part 1	March 1, 2023
Washington, DC	Member products and services, Part 2	March 3, 2023
Wilmington, NC	Climate resiliency	March 6, 2023
San Juan, PR	Access to the FHLBank System	March 8, 2023
Boston, MA	Corporate governance and system structure	March 13, 2023
Hawaii and American Samoa (virtual)	Access to the FHLBank System	March 17, 2023
Guam and the Northern Mariana Islands (virtual)	Access to the FHLBank System	March 17, 2023
Alaska (virtual)	Access to the FHLBank System	March 20, 2023

Phase 3: Wrap-Up Listening Session

FHFA closed out the public input phase of the initiative with a 3-day listening session on March 22, 23, and 24, 2023, with 38 individuals providing input. In addition to the six areas identified at the start of the initiative, FHFA encouraged listening session participants to discuss topics covered during the first listening session and respond to questions posed at the regional roundtables.[196]

Written Input

FHFA also solicited public written input in two rounds, coinciding with the kick-off and wrap-up listening sessions, and in total, received submissions from almost 600 stakeholders. Nearly 70 percent of these came from insured depository institutions and trade associations. The composition of organization types submitting comments shifted significantly between the first round and second round, with CDFIs and Cooperativas accounting for over a quarter of the comments in the second round as compared to less than 5 percent in the first round.

Other Engagements

In addition to the listening sessions, roundtables, and written input, FHFA engaged with other stakeholders, including FHLBank staff and leadership, as well as peer regulators. Meetings with these organizations helped supplement input received through the public events. FHFA also engaged with Congress through direct communication received from several Representatives and Senators during the public input period.

Engagement with FHLBank Staff and Leadership

FHFA annual examinations, mid-cycle visitations, and periodic meetings with the FHLBanks continued throughout the initiative, during which FHLBank representatives shared their perspectives on topics raised in the public events. FHFA also met with a small group of FHLBank Presidents to gather information on certain issues and practices, including alternative means of achieving supervisory objectives. The FHLBank Presidents also shared preliminary plans for addressing some of the issues raised during the public discussions.

At the annual Affordable Housing Advisory Council Leadership Meeting in October 2022, FHFA brought together Affordable Housing Advisory Council members, FHLBank Community Investment Officers, and other FHLBank staff to offer their perspectives on affordable housing and community development needs and the FHLBanks' ability to address them through new and existing programs, including voluntary programs. FHFA also hosted five "Visioning Sessions" with Affordable Housing Advisory Council members from across the country. Participants were asked to identify populations, communities, market segments, or purposes that the

196 The collected list of questions is available, by roundtable, on FHFA's website, at www.fhfa.gov/FHLB100.

FHLBanks may be uniquely positioned to support and describe how the FHLBank System can best support affordable housing and increase supply, expand community and economic development, and address climate risk.

Engagement with Peer Regulators

FHFA works cooperatively with the regulators of the FHLBank members, and periodically met with peer regulators while preparing this report to invite insights and feedback. FHFA maintains information sharing agreements with all federal banking agencies, which allows for the communication of confidential supervisory information when necessary. Further supporting regulatory cooperation, the FHFA Director is a member of the Financial Stability Oversight Council, which includes the heads of several financial regulatory agencies.

Other External Stakeholder Engagements

To raise awareness of the initiative and solicit additional input from smaller organizations with limited resources, FHFA also participated in external conferences and meetings. For instance, FHFA met with representatives from the South Dakota Native Homeownership Coalition during a larger conference and joined standing conference calls with other organizations, such as the National NeighborWorks Association.

Photo courtesy of NeighborWorks Boise, one of the organizations that hosted a site visit as part of the FHLBank System at 100: Focusing on the Future initiative. Visit www.FHFA.gov/FHLB100 *for more information.*

APPENDIX 4: SUMMARY OF FEEDBACK RECEIVED

Below is a summary of the feedback received on the FHLBank System from the nearly 800 stakeholders who spoke at a listening session, participated in a roundtable discussion, or submitted written input.

Summary of Feedback

The feedback FHFA received through listening sessions and written input can be separated in two categories, driven largely by organization type. Most current depository and insurance company members, and industry groups that represent these members, were primarily focused on ongoing access to liquidity and conveyed the view that changes to the FHLBank System were not warranted. They cautioned that changes could jeopardize the FHLBanks' ability to provide stable and reliable liquidity to members—in particular, smaller members that have limited access to other sources of capital. They also highlighted the FHLBank System's flexibility to scale up and down and noted the record volume of advances in the spring of 2023 that enabled members to withstand uncertain market conditions.

Others, including non-depository CDFIs, small credit unions, affordable housing advocates and practitioners, community development organizations, representatives from fair housing organizations, and individuals who had previously engaged with the FHLBank System questioned whether the FHLBanks had strayed from their "public purpose" of funding mortgage lending and supporting affordable housing and community development. Numerous participants questioned whether current FHLBank activities justify the benefit the FHLBanks derive from their GSE status. While supportive of the FHLBank System, these stakeholders expressed the view that the FHLBanks should ensure that a greater portion of the benefit flows through to consumers and communities.

FHLBank System Mission

Stakeholders did not agree on what mission activities are and how they are best executed. Current members pointed to the liquidity provided by the FHLBanks and current AHP funding as evidence of mission achievement, while others urged FHFA to look beyond this short-term liquidity support and consider the FHLBanks' broader role in the housing finance system and the support the FHLBanks should provide for all aspects of their mission.

Safety and Soundness and the FHLBank System's Mission Achievement

Stakeholders agreed safety and soundness of the FHLBank System underpins the FHLBanks' ability to fulfill their mission. However, some stakeholders challenged the FHLBanks' emphasis on never having taken a loss on an advance. Participants suggested the risk posture of the FHLBanks constrains them from addressing member and community needs.

Regional Footprint

Many stakeholders cautioned against consolidation of the FHLBank System, citing a belief that regional districts enable the FHLBanks to be responsive to specific needs within their districts, especially those of small and rural communities. Some supporters of the existing regional structure acknowledged that centralizing certain back-office activities (similar to how the Office of Finance functions) could generate efficiencies, reduce redundancies, and lead to cost savings without undermining the benefits of the regional structure of the FHLBank System.

FHLBank Membership Eligibility

Most participants argued against expanding eligibility for FHLBank membership, especially to institutions that do not have a prudential regulator, are not subject to Community Reinvestment Act or other community service requirements, or do not have a strong connection to housing. These participants expressed concern that expanding membership eligibility would jeopardize the safety and soundness of the entire FHLBank System. However, some independent mortgage banks and REITs suggested that they should be eligible for membership due to their significant role in the current housing market. Mortgage REITs, in particular, noted that their purchase of agency MBS creates liquidity and stability in the housing finance system and supports the mission of the FHLBanks. Other participants expressed the view that holding agency MBS, while important, does not on its own fully demonstrate mission achievement or provide evidence of a direct connection to housing.

FHLBank Products and Services

Participants generally agreed that FHLBank products, services, and programs enable members to engage in activities that align with the FHLBanks' mission. The participants highlighted the benefit of low-cost FHLBank advances that provide liquidity and FHLBank letters of credit that help attract municipal deposits. Community banks and credit unions also expressed support for the FHLBanks' mortgage acquisition programs.

Some participants, however, encouraged the FHLBanks to develop more targeted products, including products focused on local credit needs and products for members offering loans that are not easily commoditized or funded through securitization. Examples include small-dollar loans, loans on small multifamily properties, and purchase and renovation loans in distressed neighborhoods, where the value of the rehabilitated home may not be supported by current market appraisals.

FHLBank Support for Small Multifamily Housing

During a site visit to Chicago's Woodlawn neighborhood, FHFA staff saw firsthand the importance of small multifamily housing, which is a source of unsubsidized affordable rental housing in many communities.[197] The FHLBanks could explore how to increase support for the development, rehabilitation, and preservation of these small properties through the FHLBanks' core business activities. They could also explore improving the ability of members to capitalize their small multifamily assets. In conjunction with their work on mission-oriented collateral, FHFA encourages the FHLBanks to consult with members holding small multifamily mortgages to identify what, if any, obstacles exist to pledging these loans as collateral.

Finally, many participants urged the FHLBanks to develop products and services to increase their support for organizations such as CDFIs that have an obligation to serve low-income individuals and communities.[198]

Roundtable Discussion: CDFIs, Community and Economic Development

FHFA collected stakeholder feedback on access to the FHLBank System by organizations engaged in mission-oriented activities at a roundtable discussion in Las Vegas, Nevada with representatives from CDFIs. Participants repeatedly voiced concern about the lack of understanding by the FHLBank System of the CDFI business model and lending practices. They stated that this unfamiliarity with CDFIs translated into high collateral haircuts and FHLBank advance products that do not reflect their lending needs, which in turn reduced the CDFIs' ability to address community needs. Participants urged FHFA, the FHLBanks, and CDFIs to work together to figure out an effective paradigm, suggesting CDFI membership could reside in one or two FHLBanks that have more familiarity with the CDFI model, or that FHFA could create a de novo FHLBank with membership restricted to CDFIs. They encouraged the FHLBanks to use empirical data to assess the risk of products offered by CDFIs and other mission-oriented lenders, rather than assuming that loan characteristics outside the FHLBanks' usual credit box are inherently riskier.

Visit www.fhfa.gov/FHLB100 for the full summary of this and the other 18 roundtable discussions, as well as transcripts and recordings of the roundtables.

197 Visit www.FHFA.gov/FHLB100 for synopses of all roundtable discussions and site visits.

198 The U.S. Department of Treasury CDFI Fund designates as certified CDFIs specialized organizations that provide financial services in low-income communities and to people who lack access to financing. See the CDFI Fund webpage for more on CDFI certification requirements, at https://www.cdfifund.gov/programs-training/certification.

FHLBank Support for Affordable Housing and Community Development

Many stakeholders shared testimonials on the success of the FHLBanks' affordable housing and community development programs in their communities. They noted the positive impact of the FHLBanks' support for community healthcare facilities, school districts, and art centers, and provided examples of small and large affordable housing developments that received primary funding and critical gap funding through the AHP. Others noted the value of the homeownership set-aside program for low- and moderate-income homebuyers, and its role in strengthening the health of local communities and making homeownership a reality for potential borrowers who would not otherwise be able to afford a down payment.

Numerous participants called for Congressional action to increase the FHLBanks' statutorily required AHP minimum annual contribution to between 20 and 30 percent of net earnings, while others stated that the current 10 percent of net earnings is sufficient. Those participants calling for an increase noted the challenging conditions affecting housing affordability in markets across the country, such as rising rents and interest rates, high construction costs, and limited housing supply, which have made the attainment of safe and sustainable homeownership and rental housing difficult for many households. Those who supported keeping the required contribution at the current level noted that the FHLBanks already allocate additional funds, including through voluntary programs, to address specific affordable housing and community needs in their districts. However, participants also noted that voluntary programs are often oversubscribed and recommended the FHLBanks make funding available on a rolling basis and allocate additional resources to these programs to help more households.

Regulatory Burdens and Constraints

Most participants suggested easing regulatory burdens and constraints on the FHLBanks' affordable housing and community development programs. Some participants noted that applying for and using these programs requires a large commitment of time and effort for a relatively small amount of money. They urged FHFA and the FHLBanks to reduce monitoring and other compliance requirements, particularly where AHP provides a small portion of total project funding and other funding sources have similar compliance guidelines. They indicated smaller organizations may lack the financial or human resources needed to fully comply with application, reporting, and monitoring requirements.

Participants identified a need for flexibility, including expanding the statutory household income eligibility limits, especially in high-cost markets where current limits on eligible income and assistance levels may not be responsive or sufficient to address the range of housing needs. Participants also asked for FHLBank funding to cover the cost of resident services, which provide crucial support for some households to thrive and maintain stable housing.[199] Some participants supported creating more voluntary programs, which the FHLBanks can set up quickly and use more flexibly to respond to evolving housing and economic development needs.

Participants noted that while affordable housing and community development programs can provide targeted support, they cannot achieve the scale needed to address challenges all communities face. They described a need for the FHLBanks to support affordable housing and community development through their core business activities, such as advances and AMA, which are not subject to the reporting and monitoring requirements that apply under the AHP.

Support for Non-Contiguous States and Territories

Stakeholders outside of the contiguous United States—in Hawaii, Alaska, and the U.S. territories of Puerto Rico, U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands—highlighted the unique challenges they face, including high housing and construction costs exacerbated by their remote locations, limited skilled labor forces, poor infrastructure, limited access to banking institutions, and exposure to extreme weather. Some participants indicated that the FHLBanks lack familiarity with the needs of communities in these areas, which can limit their ability to provide targeted support. Others, including representatives from Cooperativas in Puerto Rico, noted the absence of non-English language materials.

Support for Underserved and Financially Vulnerable Communities

Participants commended some of the FHLBanks' support in addressing the needs of underserved and financially vulnerable people and communities. However, some also urged the FHLBanks to take additional actions, and emphasized that addressing the needs of these communities will require innovation and creative thinking, as well as a willingness to identify and build on programs that are already working.

Some of the suggestions for the FHLBank System offered by participants include actions the FHLBanks could take to increase awareness and build relationships and trust:

- Expanding outreach to increase awareness of FHLBank products, services, and programs to support homeownership
- Increasing diversity among the FHLBank professionals that serve underserved and financially vulnerable communities

199 The use of AHP funds for resident services is not permissible by statute. 12 U.S.C. 1430(j)(1)-(2).

- Building FHLBank capacity to engage Native American and Asian American, Native Hawaiian, and Pacific Islander (AANHPI) communities, to build trust and facilitate the flow of capital to support creation of affordable housing
- Improving transparency and public reporting on FHLBank investments in tribal lands, as well as Hawaiian homelands
- Providing support for financial literacy and financial education
- Evaluating and disclosing the results of activities to address the needs in these communities, and sharing best practices and experiences across the FHLBank System

Other suggestions would directly address housing and community development needs in underserved and financially vulnerable communities, including:

- Supporting financing to rehabilitate homes in need of substantial repair, especially where the cost of repairs may exceed the value of the renovated home
- Supporting financing for predevelopment costs, accessory dwelling unit construction, and small multifamily housing
- Developing expertise in working with tribal governments to finance projects on tribal land
- Providing support for rental properties that can accommodate large or multigenerational families
- Promoting entrepreneurship and support for small and minority developers
- Increasing AHP set-aside funding for Native Americans and Indigenous populations

Closing the Racial Homeownership Gap

Some participants recommended that FHFA and the FHLBank System increase their efforts to close the racial homeownership gap. Participants mentioned the challenges faced by potential minority homebuyers, including fewer resources for a down payment, a lack of affordable housing supply, appraisal bias, historic disinvestment in minority communities, and language access issues for non-English speakers. They recommended building capacity of potential project sponsors and emerging developers, particularly organizations led by and serving people of color.

Roundtable Discussion: FHLBank Support for Communities of Color and Closing the Racial Homeownership Gap

At a regional roundtable in Baltimore, Maryland in December 2022, participants from a cross-section of housing finance, community development, and advocacy organizations discussed opportunities for the FHLBanks to play a larger role supporting communities of color and closing the racial homeownership gap. Suggestions included improving language accessibility for AANHPI homebuyers and homeowners when sharing information; providing low interest acquisition, development, and construction loans to minority developers; providing additional funds for down payment assistance; and creating special purpose credit programs for first-generation and economically disadvantaged homebuyers.

Participants urged the FHLBanks to be innovative—to develop pilot programs that test concepts and expand on those that work, while maintaining safety and soundness.

Visit www.fhfa.gov/FHLB100 for the full summary of this and the other 18 roundtable discussions, as well as transcripts and recordings of the roundtables.

Climate Resiliency Efforts

Participants generally agreed that the FHLBank System can act as a convener to bring different groups together to share information, improve awareness of climate-related physical and transition risks, and discuss green and resilient housing and community development opportunities. Participants noted some of the efforts on climate resiliency currently available at the FHLBanks, including post-disaster forbearance options and assistance for communities that need to rebuild following an extreme weather event.

Participants shared a variety of ideas for the FHLBanks to promote energy-efficient and disaster resilient construction and other green retrofits, such as using set-aside funding programs or providing low-cost advance programs or favorable collateral discounts on energy-resilient collateral.

Participants emphasized the importance of considering lower-wealth and minority communities that are disproportionately impacted by climate-related risks and noted the inequity resulting from their inability to afford improvement and recovery cost burdens. They added that FHFA, the FHLBanks, and FHLBank members should be mindful of the potential impacts of withdrawing from certain areas based on the areas' risk profiles. Further, participants called for improved disclosures of climate risk information, and for more information sharing about existing FHLBank housing and disaster relief program participation by region.

Goal Setting, Reporting, and Transparency

Some participants emphasized the importance of accountability and transparency and noted the reporting the FHLBanks currently undertake through their Targeted Community Lending Plans and annual reports of their Affordable Housing Advisory Councils. Some participants expressed the view that a public statement of proposed goals and a discussion of the FHLBanks' actions towards mission achievement needed to be strengthened. Some supported requiring the FHLBanks to report how members use advances to ensure a connection between member borrowing and the FHLBanks' mission. However, many participants opposed this idea due to the administrative burden that would accompany expanded reporting.

Some participants suggested expanding the reporting in the FHLBanks' Targeted Community Lending Plans to increase awareness of the FHLBanks' affordable housing and community development programs and achievements. Others suggested that FHFA consider requiring the FHLBanks to prepare an affordable housing strategy or equitable housing finance plan that would describe their planned activities and summarize actions taken in the prior year.

Compensation and Mission Achievement

Many participants stated that FHLBank executive compensation was not reflective of compensation for other public service-oriented positions and expressed that the HERA compensation limits should be updated to include the FHLBanks.[200] Participants also asked for a stronger tie between executive compensation and mission achievement.

FHLBank Leadership and Board Diversity

Participants called for greater diversity within each FHLBank's leadership team, as well as each FHLBank's respective board of directors, to better serve and reflect their communities. These recommendations included greater diversity in the FHLBanks' leadership across a range of factors, such as gender, race, skill, and expertise, including a commitment to affordable housing and economic development for public interest directors. Some participants felt that credit unions and other smaller members, such as CDFIs, were disadvantaged by the existing requirements for determining board representation.

200 While HERA has been interpreted to permit FHFA, as conservator for each Enterprise and acting with powers of the Enterprise's Board, to establish compensation for Freddie Mac and Fannie Mae employees, FHFA cannot take that approach with the FHLBanks, which are not in conservatorship.

APPENDIX 5: FHLBANKS AND RECENT BANK FAILURES

During March 2023, Silvergate Bank voluntarily dissolved and soon after, Silicon Valley Bank and Signature Bank failed. First Republic Bank failed approximately seven weeks later. Collectively, these four banks are referred to as the "failed members" in this appendix.[201] All four failed members encountered significant headwinds through the end of 2022 and into early 2023 as interest rates rose, deflating the value of certain longer-maturity assets.

Closure/Resolution Dates for Failed Members	
March 8, 2023	Silvergate Capital Corporation announces voluntary liquidation of Silvergate Bank.
March 10, 2023	California Department of Financial Protection and Innovation closes Silicon Valley Bank.
March 12, 2023	New York State Department of Financial Services closes Signature Bank.
May 1, 2023	California Department of Financial Protection and Innovation closes First Republic Bank, and FDIC announces sale to JPMorgan Chase.

The voluntary liquidation of Silvergate Bank and failure of Signature Bank were accelerated by the collapse of FTX, a cryptocurrency exchange, in November 2022. Silvergate's business strategy was intertwined with the cryptocurrency industry through its Silvergate Exchange Network.[202] Signature Bank, a member of the FHLBank of New York, had an associated cryptocurrency network, Signet. Silicon Valley Bank experienced stress arising from its significant exposure to interest rate risk, reliance on uninsured deposits, and lack of a workable plan to access liquidity in challenging market conditions.[203] Faced with heavy deposit withdrawals related to weakened balance sheets, large volumes of uninsured deposits, and pressure exacerbated by events such as the FTX collapse, the failed members began to substantially increase their FHLBank advance borrowing to offset deposit flight.

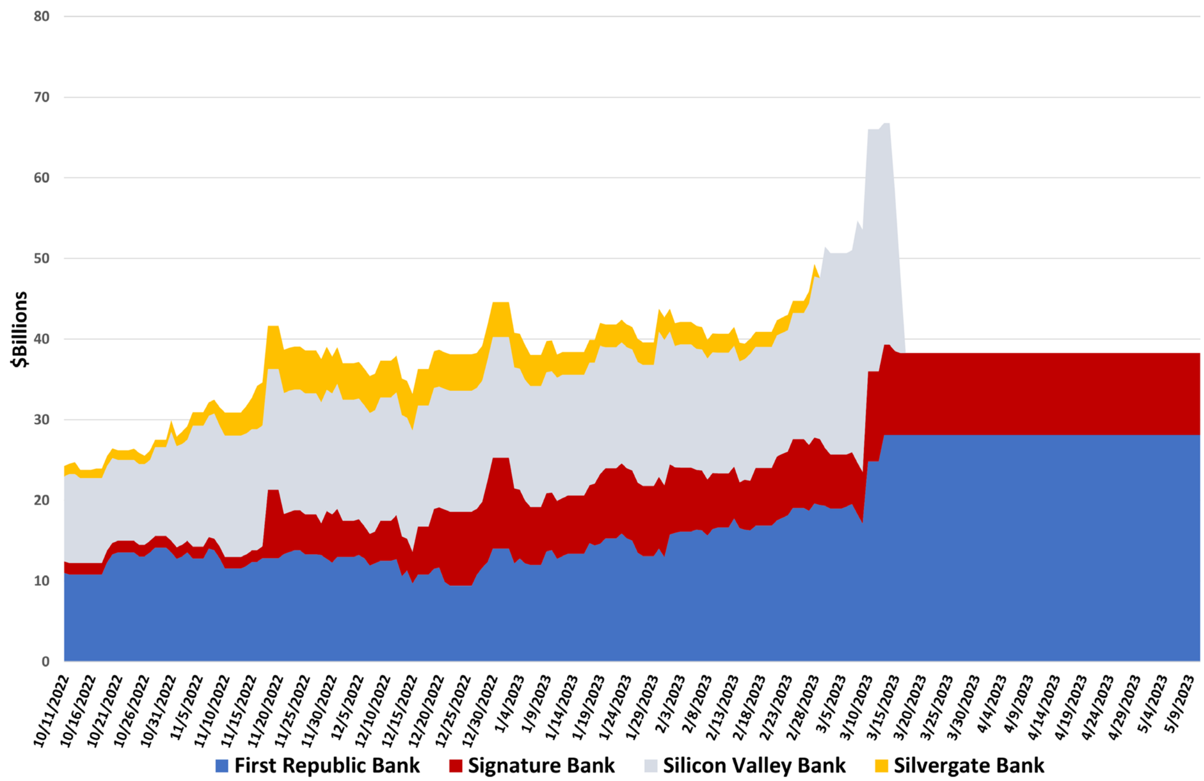
201 Silvergate Bank, Silicon Valley Bank, and First Republic Bank were members of the FHLBank of San Francisco. Signature Bank was a member of the FHLBank of New York. Although Silvergate Bank announced a voluntary self-liquidation on March 8, 2023, it is included as a bank failure given the timing and reasons for its closure. Further, on June 1, 2023, the Federal Reserve Board announced a consent order (issued jointly with the Department of Financial Protection and Innovation of the State of California) against Silvergate Capital Corporation and Silvergate Bank to facilitate the voluntary self-liquidation.

202 Silvergate announced the discontinuation of Silvergate Exchange Network on its public website on March 3, 2023. *See*: https://silvergate.com/uncategorized/silvergate-capital-corporation-announces-intent-to-wind-down-operations-and-voluntarily-liquidate-silvergate-bank/#:~:text=In%20addition%2C%20Silvergate%20Bank%20made,through%20the%20wind%20down%20process.

203 Federal Reserve Board of Governors, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank*, (Apr. 28, 2023).

Figure 5-A displays the volume of advances outstanding to these failed members from the beginning of 2022 through early May 2023.[204]

FIGURE 5-A: FAILED MEMBER ADVANCES OUTSTANDING



Source: Based on FHLBank data, as of May 11, 2023

Despite supplementing their balance sheets with advances, all four members were unable to avoid failure. Silvergate Bank announced its voluntary liquidation on March 8, 2023, and paid off all advances. On the same day, Silicon Valley Bank announced a balance sheet restructuring that included the sale of certain securities and an intention to raise capital.

The bank experienced a run by depositors on March 9, 2023, with deposit outflows exceeding $40 billion and an additional $100 billion in deposit outflows expected the next day. On March 10, 2023, Silicon Valley Bank was placed into receivership, and the FDIC subsequently repaid Silicon Valley Bank's $30 billion in FHLBank advances. The Silicon Valley Bank failure raised concerns that the failure might lead to a wider banking crisis.

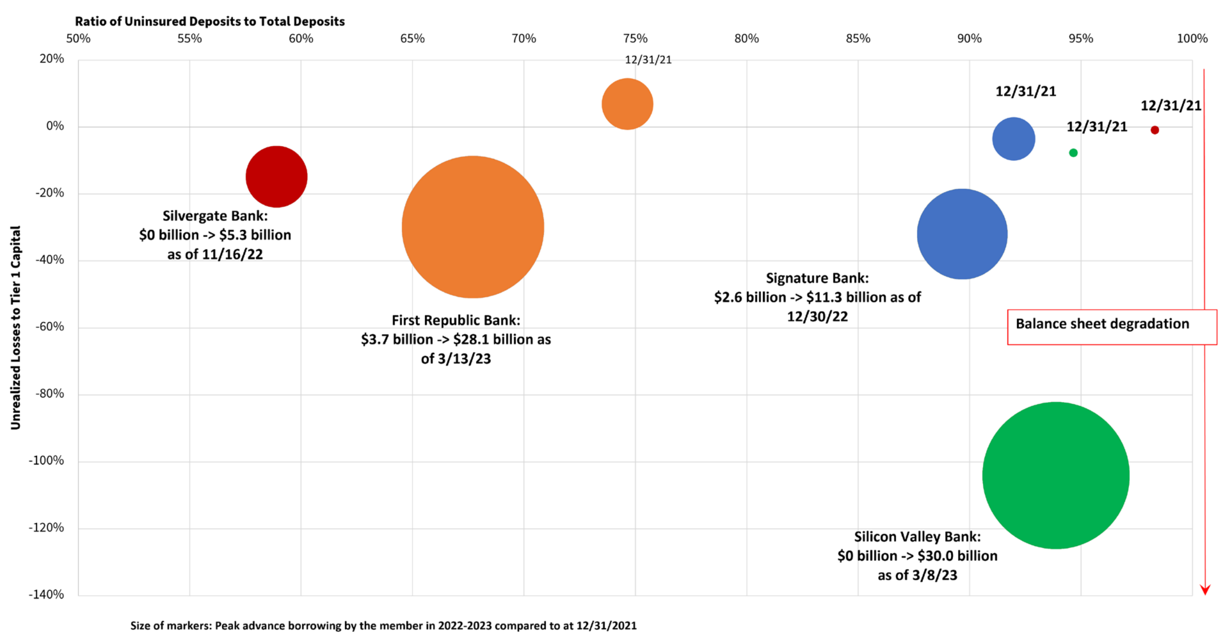
These concerns prompted coordination among FHFA and the FHLBanks to prepare the FHLBanks

204 The advances shown for Signature Bank after March 12 are to Signature Bridge Bank, N.A., the "bridge bank" established after the FDIC was appointed as receiver for Signature Bank, New York, NY. Signature Bridge Bank, N.A. was also placed into receivership with the FDIC on March 19, 2023. Advances shown for First Republic are advances that continued after its acquisition by JPMorgan Chase.

to fund a significant volume of advances in the coming week. During the week beginning March 13, 2023, the FHLBanks funded $675.6 billion in advances (largely in overnight issuance), the largest one-week volume in FHLBank history. By the end of the week, the total overall outstanding advances grew by $223.3 billion.

Figure 5-B shows that advances to the four failed members grew (size of circle represents the total advances outstanding as of the dates noted) as unrealized losses increased as a proportion of their Tier 1 capital. Uninsured deposits concurrently decreased (as a proportion of total deposits) as depositors fled. On March 12, 2023, Signature Bank's state chartering authority and regulator closed the bank and appointed the FDIC as receiver. Of the $11.2 billion in outstanding advances at the time of Signature Bank's failure, $4.7 billion remained outstanding as of June 30, 2023. The outstanding advances were assumed by Signature Bridge Bank, N.A. and the FDIC paid off the advances in installments through July 20, 2023. On May 1, 2023, the California Department of Financial Protection and Innovation closed First Republic Bank, which was acquired by JPMorgan Chase. Of the FHLBank advances to First Republic Bank at the time of its acquisition, $26.4 billion remained outstanding as of September 29, 2023.

FIGURE 5-B. 2022-2023 PEAK AND 12/31/2021 ADVANCES OUTSTANDING RELATIVE TO 12/31/22 AND 12/31/21 UNINSURED DEPOSITS AND UNREALIZED LOSSES

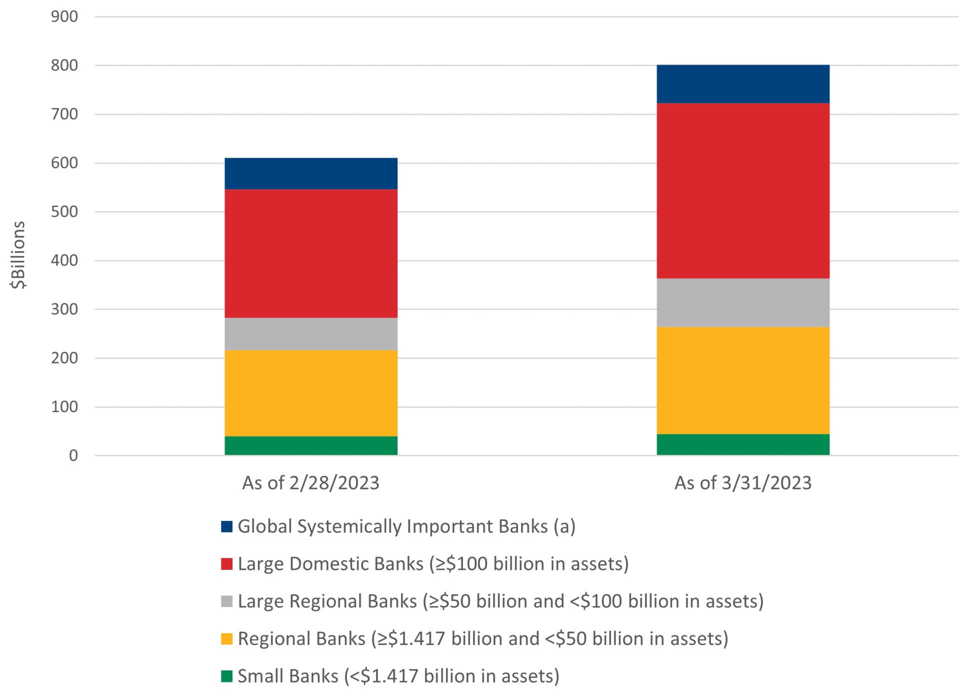


Source: Based on FHLBank data, as of May 11, 2023, and data and analytics provided by S&P Global Market Intelligence

Financial Stability

While lending to the failed members, the FHLBanks also made advances to many other members experiencing deposit outflows, helping them withstand the market stress. Figure 5-C displays the growth in advances between February 28, 2023, and March 31, 2023, by depository institution size and type. From February 28, 2023, to March 31, 2023, advances to depository institutions grew by $190.6 billion, to $801.3 billion.

5-C. ADVANCES OUTSTANDING BY DEPOSITORY INSTITUTION SIZE AND TYPE



[a] The Financial Stability Board identifies Global Systemically Important Banks using methodology designed by the Basel Committee on Banking Supervision. See https://www.fsb.org/2022/11/fsb-publishes-2022-g-sib-list/ for more information.

Source: Based on FHLBank data, as of March 31, 2023

Safety and Soundness

The FHLBanks maintained strong liquidity and lending capacity throughout the period of sector disruption. However, FHFA supervision staff observed weaknesses at some FHLBanks related to member credit risk analyses, with the FHLBanks placing undue reliance on collateral protection in support of decisions to make or extend advances. As a member's creditworthiness changes, FHLBank member credit rating models and processes should absorb new information promptly to adjust collateral control requirements, haircuts, and lending maturities to mitigate risk. However, the March 2023 events exposed weaknesses in the member credit risk management frameworks of some FHLBanks to anticipate and manage the risk of potential member failures. While collateral does mitigate credit risk, it is not a substitute for accurate creditworthiness assessment and should only serve as security for repayment.

FHFA's Advances regulation prohibits the FHLBanks from making new advances or renewing outstanding advances for a term greater than 30 days to a member with negative tangible capital unless the member's prudential regulator requests in writing that the FHLBank make such advances.[205] This provision was adopted to ensure that the FHLBanks would not inadvertently contravene the wishes of a primary federal regulator by making advances available to a capital deficient member.[206] In 2022, FHFA was asked to modify its requirements as interest rates were rising and unrealized losses on securities accounted for as available-for-sale increased at many members, causing tangible equity of those members to turn negative in some cases. Members, the FHLBanks, and the banking industry at large expressed concern that members would be unable to borrow from their FHLBank unless FHFA waived its regulation.

The extension of advances to members with negative tangible capital, however, could heighten credit risk exposure for an FHLBank and increase potential losses to the FDIC or the NCUA following the failure of a member. Further, the FHLBanks are not designed or equipped to serve as the lender of last resort. Ultimately, FHFA concluded that negative tangible capital was an initial risk indicator, and a primary federal regulator's input was critical, as it would have deeper knowledge about the member's health than the FHLBank could gather on its own.

FHFA is continuing to assess the lessons learned from the March 2023 events and to ensure that the FHLBanks and their members are positioned to handle future crises. These events also highlighted areas for additional focus by FHFA's supervisory function. For example, FHFA has identified areas where

205 *See* 12 CFR 1266.4(b)(1), (c)(2). An FHLBank may renew outstanding advances for successive terms of up to 30 days each to a member without positive tangible capital but must honor any written request from the member's regulator that the FHLBank not renew such advances. 12 CFR 1266.4(c)(1).
206 *See* 59 FR 2945, 2946 (Jan. 20, 1994).

supervisory assumptions based on previous experience were insufficient or inaccurate when applied to a highly stressed, rapidly developing scenario. As a result, FHFA is actively monitoring the FHLBanks' lending activity and has provided guidance to them to reassess and update their member credit frameworks. Additionally, FHFA has provided guidance to the FHLBanks to improve communication with members regarding the FHLBanks' limitations on extending further credit when a member's distress signals potential failure. FHFA has also emphasized the importance of capturing all appropriate dimensions of risk when assessing member creditworthiness and that the FHLBanks should not rely primarily on collateral to mitigate risk in tenuous situations.

Coordination With Other Regulators

In general, the FHLBanks have established and maintained productive relationships with their members' federal and state regulators. Communication channels between the FHLBanks and their members' primary federal regulators are longstanding and well developed. Through regular communication, FHLBanks respond to questions from primary federal regulators about collateral types, valuation, and control policies; advance pricing policies; and member borrowing limits. Similarly, primary federal regulators respond to FHLBank questions about risk trends at their members. By statute, members' primary federal regulators are required to make those members' reports of examination available to the appropriate FHLBank upon request.[207] However, the examination reports are not directly available to FHFA.

The FHLBanks rely on supervisory information from a primary federal regulator for a general perspective of a member's financial health, but the information may be lagged. For example, FHLBanks generally obtain reports of examination from primary federal regulators only upon request, and consequently, FHLBanks may receive reports of examination long after problems are identified.

While it is important that the FHLBanks and regulatory authorities share perspectives on credit risk management practices and potential systemic implications arising from them, the FHLBanks must also perform their own independent assessment of member creditworthiness. Under certain exceptional circumstances, an FHLBank may need to diverge from standard lending procedures in consultation with FHFA and a member's primary federal regulator to address broader risk mitigation concerns. This is especially the case in situations with explicitly agreed-upon purposes, such as preparing for an institution's failure or in keeping with systemic risk exceptions. In these situations, all appropriate officials, including those at the primary federal regulators, FHFA, and the applicable FHLBank must agree on the course of action

207 *See* 12 U.S.C. 1442(a).

when necessary and properly document that agreement.

Although most communication between the FHLBanks and primary federal regulators occurs with the primary federal regulators' supervision teams, lines of communication between the FHLBanks and other functions at the primary federal regulators are also important—for example, with the Federal Reserve's discount window and FDIC's Division of Resolution and Receiverships. During the March 2023 events, FHFA observed that the FHLBanks' funding desks did not have clear lines of communication to the Federal Reserve's discount window. Strong communication between the FHLBanks and Federal Reserve Banks is necessary to facilitate the transition of members to the Federal Reserve's discount window when necessary.

Coordination with the Federal Reserve

While the FHLBanks serve an important role in facilitating liquidity for their members, they are not lenders of last resort. In rapidly deteriorating situations, a member may quickly reach an FHLBank's limitation on extending additional credit. Therefore, both the member and the FHLBank must be ready for the member to transition to the Federal Reserve discount window.

To support their members in a transition from FHLBank borrowing to Federal Reserve discount window borrowing, an FHLBank must understand and test the procedures necessary to subordinate liens or release collateral to the Federal Reserve Bank. FHFA has reiterated to the FHLBanks the importance of having necessary agreements with the Federal Reserve Banks in place prior to a crisis.

Similarly, members must understand Federal Reserve Bank lending requirements and should test their borrowing lines to ensure they can quickly obtain funding that their FHLBank may be unable to provide. Understanding the difference between the Federal Reserve discount window's primary credit and secondary credit lending programs, for example, can help a member use the most appropriate facility based on its financial condition. FHFA is working with the FHLBanks to ensure they are preemptively establishing the necessary expectations and infrastructure to transition members from their FHLBank to the Federal Reserve discount window when necessary.

The FHLBanks have already begun working with their members to address borrowing capacity at the Federal Reserve discount window (where applicable), and FHFA will continue to monitor these efforts going forward. Communication between the members' primary regulators, the FHLBanks, and FHFA can also be strengthened.

Mission

As discussed in Appendix 2, several statutory and regulatory requirements pertaining to FHLBank membership and advances are intended to ensure that FHLBank lending promotes all aspects of the FHLBanks' mission.

However, FHLBank advances to Silvergate Bank, which maintained a tenuous connection to home financing (primarily through agency MBS) in recent years, highlight the difficulty of ensuring that FHLBank funding to any particular member is aligned with the FHLBank System's housing finance and community development mission.

Use of Advances

Silvergate Bank met all membership eligibility requirements when it became a member of the FHLBank of San Francisco in 1997, and its business strategy and profile were consistent with that of a traditional banking institution until 2013. At that time, Silvergate Bank began to shift its business to align with the cryptocurrency industry, and this alignment accelerated in 2017 when it established Silvergate Exchange Network. Since Silvergate Bank's advance borrowings generally had maturities shorter than five years, those advances did not need to be supported by residential housing finance assets held on Silvergate's balance sheet, as would have been required for long-term advances.[208] In addition, FHFA currently applies the requirement that an applicant have at least 10 percent of its total assets in residential mortgage loans only at the time of application, not as an ongoing requirement to retain FHLBank membership.[209] The fact that Silvergate Bank's lending activities did not bear strong resemblance to member mission expectations suggests these policies need to be revisited to improve their effectiveness.

While Silvergate Bank's assets and business model did not bear a strong connection to housing finance, the other failed members did engage in significant housing-oriented activity. For example, Signature Bank's mortgage portfolio included loans on nearly 3,000 apartment buildings with more than 80,000 units, the majority of which were covered by the state of New York's rent stabilization law. Nearly half of Silicon Valley Bank's assets were held in MBS at the close of 2022, and approximately two-thirds of First Republic Bank's assets were in real estate loans or MBS during the same period.

Intra-Day Lending

During the March 2023 events, some troubled members misunderstood the ability of an FHLBank to provide advances late in a business day, especially in large volumes. FHLBank advance capacity depends on a combination of the funding available on its balance sheet plus funding it can raise through the financial markets. When financial markets close, an FHLBank's ability to make advances to a member may be very limited.

208 *See* 12 CFR 1266.3.

209 In 2014, FHFA issued a proposed rulemaking that would have made the 10 percent requirement ongoing, *see* 79 FR 54848 (Nov. 2, 2014), but FHFA considered many comments objecting to that proposal and subsequently decided not to include the ongoing requirement in the final rule, *see* 81 FR 3246 (Jan. 20, 2016).

Lessons Learned

FHFA identified three primary lessons highlighted as a result of the market disruption: (1) While collateral mitigates credit risk, it is not a substitute for an accurate creditworthiness assessment and should only serve as security for repayment; (2) Coordination among FHLBanks, the members' primary federal regulators, and the Federal Reserve discount window is critical to ensure the FHLBanks are fully apprised of members' financial standing and that all liquidity needs can be met during times of market stress; and (3) FHLBank funding to members should be provided in alignment with the FHLBank System's mission. Considering the events from March 2023, this report addresses FHFA's ongoing work to re-emphasize and strengthen FHLBank review of member creditworthiness and to encourage greater coordination and communication with their members' primary regulators and the Federal Reserve discount window, particularly when there is a material decline in a member's financial condition. Earlier chapters of the report also outline FHFA's planned actions to enhance members' connection to the affordable housing and community development components of the FHLBank System's mission, and to improve the fairness and consistency of treatment of different member types by harmonizing membership eligibility requirements and the standards by which compliance with those requirements is assessed.

APPENDIX 6: LITERATURE REVIEW OF PRIOR RESEARCH AND REVIEWS

The FHLBank System has been the subject of numerous academic journal articles. The articles included in this review were all written after passage of the Federal Home Loan Bank System Modernization Act of 1999 and therefore are relevant to the System as it exists today. For the most part, these articles examine two questions. First, does the structure of the System embed moral hazard such that the System poses a systemic risk to the broader financial system? Second, do FHLBank advances promote more lending activity by System members?

Moral Hazard and Systemic Risk

Each article recognizes that the System is a significant contributor to liquidity in the broader financial system. Further, there is general acknowledgment that the System has demonstrated the flexibility to react quickly and substantially in situations of market stress. However, as articulated in several articles, such as Gissler, Narajabad, and Tarullo (2022), Scott and Hein (2010), and Flannery and Frame (2006), there are two key aspects of the System structure that taken together might create incentives for the FHLBanks to extend more credit than financially prudent, and/or to extend credit in a manner where substantial extensions of credit and the related funding are so mismatched as to represent a significant risk exposure, thus presenting a systemic risk to the broader financial system. The two structural aspects of the System responsible for this concern are: (1) the market's perceived federal guarantee of System debt combined with a modest explicit line of credit with Treasury, which in effect lowers the cost to the System of issuing debt, and (2) the super lien protection afforded the FHLBanks, which significantly lessens the risk to the FHLBanks of extending secured lending to their members.

Furthermore, Gissler, Narajabad, and Tarullo (2022) point to other aspects of the System's structure that contribute to potentially misplaced incentives, including that: (1) the FHLBanks are privately owned cooperatives that have incentives to pursue profitable opportunities, (2) FHLBank debt is treated as government debt and so has a privileged status in commercial bank and credit union portfolios, (3) the FHLBanks do not pay federal or state/local taxes, (4) interest on FHLBank debt is exempt from state/local taxes, and (5) as argued by Flannery and Frame (2006), there is no claimant positioned to discipline the FHLBanks except the regulator. Taken together, these facts are generally referred to as a moral hazard problem presented by the System.

There are two lines of research that explore the moral hazard problem. The first looks at whether there is evidence that the FHLBanks are in fact extending credit imprudently such that member institutions are subject to greater financial risks. The second looks at whether there are regulatory or other checks on the moral hazard problem.

Two articles, Davidson and Simpson (2016) and Stojanovic, Vaughan, and Yeager (2008), explore empirically the relationship between the extension of advances and member commercial bank risk, where commercial bank risk is comprised of credit, interest rate, liquidity, and leverage risks. It is important to note that this line of research necessarily involves statistical techniques that identify statistically significant “associations” between advances and commercial bank risk but does not assume or identify causality. Davidson and Simpson (2016) find that if commercial bank default risk (which is a 1,0 dummy variable where 1 indicates a bank will default in the next calendar year) is low (value of zero), then there is no relationship between extending advances and commercial bank risk. Alternatively, if commercial bank default risk is high (value of 1), then there is a positive association between advances and commercial bank risk, suggesting that commercial banks heading for default obtain advances to invest in risky investments where, upon their eventual default, the risk will be borne by the FDIC’s insurance fund under the super lien.

It is noted in Scott and Hein (2010), however, that FHLBanks typically tighten collateral requirements for those banks whose financial condition is observed to deteriorate, hence limiting the potential for such a loss. Davidson and Simpson (2016) also find that the extension of advances is associated with lower bank interest-rate risk, particularly for smaller banks. Stojanovic, Vaughan, and Yeager (2008) find that the extension of advances is associated with higher levels of liquidity and leverage risk. However, again they find that interest rate risk is lessened with the extension of advances. Further, they conclude that extending advances is not associated with a change in credit risk or bank failure risk.

Two articles, Cassell and Hoffmann (2011) and Scott and Hein (2010), written on the heels of the 2008 financial crisis, look at the question of whether FHLBank activity presented a moral hazard problem to the financial system, thus contributing to the foreclosure crisis. Both point to the fact that the FHLBanks weathered the recession without suffering the levels of losses that were experienced by Fannie Mae and Freddie Mac that led FHFA to place each of those Enterprises into conservatorship. Further, both articles point to the key regulatory and FHLBank risk management policies and practices which were responsible for the FHLBanks’ satisfactory performance through the crisis. Specifically, they identify the FHLBanks’ collateral policies and lending limits, limits on MBS investments, and self-capitalizing structures, as the key policies and practices mitigating the moral hazard concern. The FHLBanks did suffer some losses associated with the crisis, but as the authors argue, these regulatory policies and practices reined in the FHLBanks' risk taking, such that the losses they did suffer were more than covered by available retained earnings.

One additional issue raised by both Gissler, Narajabad, and Tarullo (2022) and Ashcroft, Bech, and Frame (2010) concerns the FHLBanks' role in acting as a lender of last resort during periods of market stress. Gissler, Narajabad, and Tarullo (2022) argue that extensions of advances during stress periods can potentially complicate the role of the Federal Reserve as a lender of last resort. However, despite this potential, they do not find that this concern has materialized. Ashcroft, Bech, and Frame (2010) point out that during the 2008 financial crisis, the FHLBanks were prompt in providing needed liquidity, before the Federal Reserve was able to intervene. Both articles point to needed reform or coordination in the role of lender of last resort. Gissler, Narajabad, and Tarullo (2022) also point to some pros and potential cons related to the fact that the FHLBanks have been active in various money markets, and through advances, in assisting commercial banks in particular to navigate changes to regulatory liquidity requirements and other regulatory changes that have been implemented since 2017.

Advances and Lending Activity

Several articles focused on assessing the impact of advances on lending to specific sectors and lending in general. Zhang (2020) finds that access to advances leads to lower mortgage rates, and consequently higher levels of mortgage lending. Davidson and Simpson (Spring 2016) model the relationship between advances and small business lending, and find the relationship is generally positive. Frame, Hancock, and Passmore (2007) model bank portfolio responses to access to advances and find that advances are used as a general source of liquidity and generally dampen the sensitivity of mortgage lending to macroeconomic shocks. Along the lines of the moral hazard argument, Hall (2005) finds that advances are associated with banks that have higher percentages of loans to assets, and lower levels of capital, where both indicators are in the direction of riskier institutions.

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APPENDIX 7: ACCESSIBLE FIGURES

Figure 1. FHLBank System Map

Figure 1 is a map showing the states and U.S. territories in each FHLBank district.

District	States and U.S. Territories
Atlanta	Alabama, District of Columbia, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia
Boston	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Chicago	Illinois, Wisconsin
Cincinnati	Kentucky, Ohio, Tennessee
Dallas	Arkansas, Louisiana, Mississippi, New Mexico, Texas
Des Moines	Alaska, American Samoa, Guam, Hawaii, Idaho, Iowa, Minnesota, Missouri, Montana, North Dakota, Northern Mariana Islands, Oregon, South Dakota, Utah, Washington, Wyoming
Indianapolis	Indiana, Michigan
New York	New Jersey, New York, Puerto Rico, Virgin Islands
Pittsburgh	Delaware, Pennsylvania, West Virginia
San Francisco	Arizona, California, Nevada
Topeka	Colorado, Kansas, Nebraska, Oklahoma

Figure 2. FHLBank Assets and Operational Expenses

Figure 2 shows trends in FHLBank assets and operational expenses from 2001 to 2023. Figure 2 is based on FHLBank data, as of June 30, 2023. Dollar amounts are in billions, and are par value unless otherwise specified.

	Advances	Acquired Member Assets	MBS	Non-MBS Investments	Other Assets	Total Assets	Operational Expenses
Q1 2001	$450.38	$16.50	$84.33	$119.08	$6.40	$676.69	$0.09
Q2 2001	$450.25	$19.61	$84.99	$105.88	$5.92	$666.65	$0.09
Q3 2001	$466.58	$22.64	$85.38	$112.53	$6.84	$693.97	$0.09
Q4 2001	$472.54	$27.64	$86.73	$106.66	$5.56	$699.13	$0.10
Q1 2002	$461.86	$31.62	$88.79	$117.54	$5.47	$705.28	$0.09
Q2 2002	$470.22	$38.28	$93.06	$116.57	$6.93	$725.05	$0.09
Q3 2002	$490.47	$47.02	$95.50	$121.91	$7.25	$762.16	$0.10
Q4 2002	$489.34	$60.46	$96.39	$112.01	$6.30	$764.49	$0.11
Q1 2003	$494.89	$74.55	$99.04	$107.65	$5.75	$781.89	$0.10
Q2 2003	$506.07	$90.22	$97.79	$111.58	$5.79	$811.45	$0.11

	Advances	Acquired Member Assets	MBS	Non-MBS Investments	Other Assets	Total Assets	Operational Expenses
Q3 2003	$505.67	$107.92	$94.14	$96.92	$6.18	$810.83	$0.11
Q4 2003	$514.04	$113.44	$97.87	$96.52	$5.00	$826.86	$0.13
Q1 2004	$530.75	$115.32	$102.26	$109.75	$4.89	$862.97	$0.12
Q2 2004	$563.93	$115.90	$107.16	$110.02	$4.41	$901.42	$0.13
Q3 2004	$562.43	$114.66	$111.45	$126.05	$4.30	$918.88	$0.13
Q4 2004	$581.22	$113.92	$113.10	$121.01	$4.47	$933.71	$0.16
Q1 2005	$580.13	$113.66	$114.37	$124.18	$4.67	$937.02	$0.15
Q2 2005	$615.80	$111.38	$116.79	$128.95	$4.73	$977.67	$0.16
Q3 2005	$615.35	$107.19	$117.23	$143.28	$4.87	$987.92	$0.15
Q4 2005	$619.86	$105.24	$122.33	$150.14	$5.55	$1,003.12	$0.19
Q1 2006	$614.65	$103.53	$124.37	$154.86	$6.22	$1,003.65	$0.16
Q2 2006	$638.17	$101.62	$127.77	$150.25	$6.60	$1,024.40	$0.17
Q3 2006	$644.16	$99.69	$129.91	$145.39	$6.26	$1,025.41	$0.16
Q4 2006	$640.68	$97.98	$130.23	$145.02	$6.06	$1,019.97	$0.18
Q1 2007	$624.42	$96.32	$127.84	$167.90	$5.70	$1,022.18	$0.17
Q2 2007	$640.04	$94.38	$128.26	$170.21	$6.00	$1,038.89	$0.17
Q3 2007	$824.00	$92.97	$136.37	$169.03	$7.11	$1,229.49	$0.17
Q4 2007	$875.06	$91.61	$143.51	$157.91	$7.80	$1,275.89	$0.20
Q1 2008	$913.10	$90.79	$157.55	$155.13	$7.31	$1,323.89	$0.18
Q2 2008	$913.90	$89.13	$168.72	$166.64	$6.55	$1,344.93	$0.18
Q3 2008	$1,011.69	$87.92	$173.14	$150.07	$6.57	$1,429.39	$0.18
Q4 2008	$928.64	$87.36	$169.17	$158.18	$6.33	$1,349.68	$0.19
Q1 2009	$817.41	$85.03	$157.54	$167.41	$5.31	$1,232.70	$0.19
Q2 2009	$738.81	$77.75	$152.84	$174.23	$4.71	$1,148.36	$0.19
Q3 2009	$677.88	$74.18	$151.93	$153.85	$4.31	$1,062.14	$0.21
Q4 2009	$631.16	$71.44	$152.03	$157.01	$4.31	$1,015.95	$0.22
Q1 2010	$572.04	$68.79	$155.97	$163.66	$5.67	$966.13	$0.19
Q2 2010	$540.32	$66.80	$150.72	$175.46	$4.05	$937.34	$0.20
Q3 2010	$499.62	$64.30	$150.75	$185.34	$3.91	$903.92	$0.21
Q4 2010	$478.59	$61.19	$146.88	$187.58	$4.07	$878.32	$0.26
Q1 2011	$445.09	$58.43	$145.75	$195.88	$3.80	$848.95	$0.23
Q2 2011	$428.46	$55.86	$145.06	$175.26	$4.79	$809.43	$0.20
Q3 2011	$415.38	$55.17	$144.51	$160.20	$3.22	$778.48	$0.20
Q4 2011	$418.16	$53.37	$140.16	$151.54	$3.13	$766.35	$0.22
Q1 2012	$393.93	$52.60	$141.10	$147.14	$3.21	$737.99	$0.21
Q2 2012	$418.37	$51.71	$142.11	$144.68	$2.89	$759.76	$0.21
Q3 2012	$412.26	$50.67	$140.71	$142.43	$2.90	$748.98	$0.20
Q4 2012	$425.75	$49.41	$138.52	$146.07	$2.91	$762.67	$0.22

	Advances	Acquired Member Assets	MBS	Non-MBS Investments	Other Assets	Total Assets	Operational Expenses
Q1 2013	$418.30	$47.94	$137.14	$132.74	$2.83	$738.95	$0.20
Q2 2013	$458.46	$46.61	$137.25	$130.49	$2.40	$775.22	$0.21
Q3 2013	$465.11	$45.15	$139.46	$137.29	$2.42	$789.43	$0.22
Q4 2013	$498.60	$44.42	$140.31	$148.65	$2.54	$834.52	$0.26
Q1 2014	$484.44	$43.64	$139.86	$150.42	$2.51	$820.87	$0.22
Q2 2014	$536.63	$43.29	$139.41	$144.38	$2.58	$866.30	$0.23
Q3 2014	$544.57	$43.32	$138.83	$154.24	$2.38	$883.34	$0.23
Q4 2014	$570.73	$43.53	$139.18	$157.75	$2.43	$913.61	$0.25
Q1 2015	$542.19	$44.21	$137.33	$153.93	$2.53	$880.20	$0.23
Q2 2015	$592.38	$44.78	$136.10	$141.52	$2.56	$917.35	$0.30
Q3 2015	$591.46	$44.85	$134.92	$146.00	$2.70	$919.93	$0.23
Q4 2015	$634.02	$44.56	$133.68	$154.57	$2.70	$969.53	$0.28
Q1 2016	$618.14	$44.77	$135.75	$159.84	$3.19	$961.68	$0.24
Q2 2016	$689.79	$45.68	$138.44	$153.78	$3.21	$1,030.90	$0.24
Q3 2016	$688.60	$47.05	$140.49	$156.74	$3.48	$1,036.35	$0.25
Q4 2016	$705.23	$48.48	$138.65	$162.37	$3.57	$1,058.29	$0.28
Q1 2017	$660.74	$48.97	$139.61	$173.54	$3.40	$1,026.26	$0.26
Q2 2017	$706.85	$50.54	$139.68	$180.93	$3.85	$1,081.85	$0.25
Q3 2017	$719.39	$52.21	$140.18	$182.47	$3.64	$1,097.89	$0.27
Q4 2017	$731.54	$53.83	$141.30	$173.87	$3.66	$1,104.19	$0.28
Q1 2018	$697.07	$54.90	$143.78	$188.43	$3.81	$1,087.98	$0.27
Q2 2018	$734.46	$57.21	$142.36	$192.06	$4.28	$1,130.36	$0.27
Q3 2018	$706.01	$60.08	$142.57	$176.60	$4.13	$1,089.38	$0.29
Q4 2018	$728.77	$62.53	$142.99	$165.18	$4.27	$1,103.74	$0.31
Q1 2019	$671.38	$64.08	$144.05	$198.01	$5.06	$1,082.58	$0.29
Q2 2019	$689.38	$66.55	$145.41	$215.98	$5.21	$1,122.53	$0.30
Q3 2019	$658.76	$69.42	$145.34	$207.27	$5.23	$1,086.01	$0.30
Q4 2019	$641.52	$72.49	$145.61	$234.45	$5.16	$1,099.24	$0.34
Q1 2020	$806.94	$74.56	$143.76	$227.35	$6.62	$1,259.24	$0.33
Q2 2020	$557.55	$72.91	$143.16	$213.80	$5.04	$992.47	$0.32
Q3 2020	$479.02	$67.92	$138.49	$204.29	$4.75	$894.46	$0.30
Q4 2020	$422.64	$62.84	$131.81	$199.29	$4.29	$820.87	$0.39
Q1 2021	$399.07	$59.41	$125.26	$182.54	$4.46	$770.75	$0.30
Q2 2021	$370.35	$56.54	$124.25	$182.92	$4.23	$738.30	$0.30
Q3 2021	$350.04	$56.10	$121.73	$179.88	$4.46	$712.21	$0.29
Q4 2021	$351.28	$55.50	$120.88	$191.24	$4.47	$723.36	$0.33
Q1 2022	$374.57	$55.48	$119.09	$207.68	$5.49	$762.31	$0.30
Q2 2022	$518.88	$55.75	$121.55	$246.13	$5.21	$947.53	$0.30
Q3 2022	$655.03	$56.01	$128.89	$251.27	$6.16	$1,097.36	$0.31

	Advances	Acquired Member Assets	MBS	Non-MBS Investments	Other Assets	Total Assets	Operational Expenses
Q4 2022	$819.12	$56.05	$137.60	$226.73	$7.86	$1,247.36	$0.34
Q1 2023	$1,044.61	$56.23	$152.35	$303.69	$9.15	$1,566.04	$0.34
Q2 2023	$882.06	$57.61	$161.58	$310.81	$10.23	$1,422.28	$0.34

Figure 3. FHLBank Members by Member Type

Figure 3 shows the distribution of FHLBank members by member type. Figure 3 is based on FHLBank data, as of June 30, 2023. As of June 30, 2023 there were 6,487 members.

Member Type	Number of Members	Share of Members
Commercial Banks	3,678	56.7%
Thrifts	579	8.9%
Insurance Companies	570	8.8%
Credit Unions	1,590	24.5%
CDFIs	70	1.1%

Figure 4. Collateral Types Pledged by FHLBank Members

Figure 4 shows the types and amounts of collateral pledged by FHLBank members. Figure 4 is based on FHLBank data, as of June 30, 2023. Dollar amounts are in billions.

Collateral Category	Dollars (billions)
Single-family (SF) 1st Lien	$2,024.5
Held-for-Sale Loans	$15.8
HELOCS and SF 2nd lien	$178.8
Commercial Real Estate	$836.8
Multifamily	$397.0
Community Financial Institution	$48.1
Other Loans	$175.8
Securities	$598.2

Figure 5. FHLBank Assets ($ billions)

Figure 5 shows the distribution of FHLBank assets by type. Figure 5 is based on FHLBank data, as of June 30, 2023. Dollar amounts are in billions.

Type	Amount of Assets	Share of assets
Advances	$882.1	62.0%
AMA	$57.6	4.1%
MBS	$161.6	11.4%
Non-MBS Investments	$310.8	21.9%
Other Assets	$10.2	0.7%

Figure 7. FHLBanks' AHP Statutory Funding Contributions (1990-2022)

Figure 7 shows the trend in FHLBank Affordable Housing Program statutory funding contributions from 1990 to 2022. Figure 7 is based on FHLBank data, as of December 31, 2022. The amount of funds awarded annually may include funding adjustments from prior years or funds accelerated from future years. In these circumstances, an FHLBank's amount of awarded funds may differ from the statutorily required contribution of funds.

Year	Contribution amount ($ millions)
1990	$78.0
1991	$59.0
1992	$50.0
1993	$50.0
1994	$75.0
1995	$100.0
1996	$104.1
1997	$119.0
1998	$136.0
1999	$169.0
2000	$199.0
2001	$246.0
2002	$219.0
2003	$167.0
2004	$217.0
2005	$226.0
2006	$282.0

Year	Contribution amount ($ millions)
2007	$293.0
2008	$319.0
2009	$188.0
2010	$258.0
2011	$228.0
2012	$189.0
2013	$296.0
2014	$293.0
2015	$269.1
2016	$331.5
2017	$391.7
2018	$384.3
2019	$404.1
2020	$362.5
2021	$314.7
2022	$200.5

Figure 8. Nonbank Origination Share

Figure 8 shows trends in the share of nonbank mortgage loan originations from 2013 to September 2023, for all loans, loans acquired by Fannie Mae, loans acquired by Freddie Mac, and loans acquired by Ginnie Mae. The source is eMBS data and the Urban Institute.

Date	All	Fannie Mae	Freddie Mac	Ginnie Mae
Jan-13	33.0%	37.5%	21.6%	36.4%
Feb-13	29.9%	33.0%	20.6%	34.7%
Mar-13	29.2%	33.6%	19.0%	36.6%
Apr-13	30.5%	32.9%	22.4%	36.2%
May-13	31.7%	32.6%	26.1%	36.3%
Jun-13	32.7%	36.5%	25.3%	35.5%
Jul-13	34.3%	38.1%	27.1%	34.5%
Aug-13	35.5%	39.7%	28.1%	35.0%
Sep-13	34.6%	37.2%	28.5%	35.6%
Oct-13	39.0%	42.6%	30.9%	39.2%
Nov-13	37.2%	40.7%	28.5%	39.6%
Dec-13	42.8%	47.2%	32.4%	46.7%
Jan-14	46.7%	52.7%	39.3%	46.0%
Feb-14	42.3%	48.7%	31.3%	43.7%
Mar-14	48.4%	52.1%	40.0%	50.5%
Apr-14	48.1%	50.3%	37.6%	54.2%
May-14	50.0%	53.5%	41.8%	52.7%
Jun-14	47.6%	51.9%	37.4%	51.3%
Jul-14	51.6%	53.8%	42.3%	56.5%
Aug-14	48.4%	52.1%	37.5%	54.9%
Sep-14	44.8%	43.2%	37.7%	54.8%
Oct-14	51.2%	54.4%	41.2%	56.2%
Nov-14	46.0%	40.9%	39.8%	58.3%
Dec-14	53.6%	52.9%	46.6%	61.1%
Jan-15	52.3%	50.8%	41.2%	64.3%
Feb-15	46.5%	50.2%	34.5%	57.4%
Mar-15	56.6%	58.0%	45.5%	64.5%
Apr-15	55.2%	53.7%	44.1%	66.6%
May-15	53.5%	51.0%	42.7%	65.8%
Jun-15	52.3%	49.6%	41.1%	65.7%
Jul-15	51.7%	53.0%	35.7%	64.6%
Aug-15	54.6%	53.1%	42.4%	64.2%

Date	All	Fannie Mae	Freddie Mac	Ginnie Mae
Sep-15	55.5%	55.2%	42.8%	65.8%
Oct-15	58.4%	56.7%	48.7%	67.4%
Nov-15	56.4%	51.4%	45.5%	68.5%
Dec-15	57.9%	54.1%	49.4%	69.8%
Jan-16	59.5%	53.2%	50.5%	73.0%
Feb-16	58.8%	53.4%	50.7%	70.2%
Mar-16	56.9%	53.3%	46.5%	70.1%
Apr-16	61.0%	56.8%	51.8%	72.2%
May-16	58.7%	54.2%	49.7%	70.6%
Jun-16	60.4%	54.1%	51.5%	73.6%
Jul-16	58.8%	52.5%	50.3%	72.6%
Aug-16	60.4%	56.4%	49.5%	74.7%
Sep-16	58.7%	52.9%	48.6%	74.8%
Oct-16	59.1%	53.3%	46.6%	77.2%
Nov-16	56.3%	45.5%	46.3%	76.6%
Dec-16	58.9%	52.1%	50.7%	77.1%
Jan-17	57.2%	49.5%	46.1%	77.5%
Feb-17	54.1%	46.1%	42.5%	73.5%
Mar-17	58.5%	50.4%	46.9%	78.0%
Apr-17	60.8%	53.1%	50.4%	75.7%
May-17	60.8%	53.8%	49.0%	76.6%
Jun-17	61.1%	51.5%	53.3%	77.3%
Jul-17	59.5%	52.4%	48.8%	75.5%
Aug-17	61.2%	52.9%	53.9%	75.9%
Sep-17	60.1%	51.9%	51.0%	76.3%
Oct-17	62.0%	54.8%	53.5%	78.3%
Nov-17	62.3%	54.2%	55.0%	79.7%
Dec-17	57.3%	49.6%	44.5%	80.2%
Jan-18	63.1%	53.5%	54.1%	81.3%
Feb-18	58.9%	49.6%	52.3%	76.4%
Mar-18	64.3%	56.1%	56.4%	81.1%
Apr-18	64.2%	54.3%	58.1%	79.9%
May-18	63.9%	55.0%	59.1%	79.2%
Jun-18	63.6%	55.0%	58.0%	78.7%
Jul-18	63.2%	54.9%	58.1%	77.3%
Aug-18	61.7%	54.1%	54.3%	78.3%
Sep-18	63.8%	56.7%	58.1%	78.0%

Date	All	Fannie Mae	Freddie Mac	Ginnie Mae
Oct-18	63.1%	56.9%	53.5%	79.4%
Nov-18	59.3%	53.2%	46.1%	79.8%
Dec-18	64.9%	56.0%	57.0%	82.8%
Jan-19	66.0%	58.9%	55.3%	82.5%
Feb-19	62.7%	54.7%	53.7%	81.1%
Mar-19	62.2%	61.1%	43.5%	84.8%
Apr-19	65.7%	61.4%	50.6%	85.7%
May-19	61.9%	54.0%	47.0%	85.5%
Jun-19	66.4%	59.5%	52.6%	85.3%
Jul-19	67.2%	61.5%	54.5%	84.8%
Aug-19	58.7%	53.3%	41.8%	84.0%
Sep-19	65.6%	57.8%	54.6%	85.7%
Oct-19	70.8%	64.7%	62.6%	84.6%
Nov-19	69.3%	61.5%	59.6%	88.8%
Dec-19	66.4%	62.1%	48.8%	90.2%
Jan-20	66.3%	61.4%	50.8%	86.8%
Feb-20	66.2%	61.0%	46.9%	87.9%
Mar-20	69.0%	65.1%	53.3%	86.2%
Apr-20	70.0%	66.3%	62.0%	87.0%
May-20	69.3%	65.8%	61.9%	86.2%
Jun-20	72.5%	69.8%	65.6%	88.1%
Jul-20	70.2%	66.6%	62.9%	90.3%
Aug-20	68.8%	63.7%	61.1%	91.4%
Sep-20	75.5%	70.6%	70.4%	91.7%
Oct-20	74.5%	70.0%	70.0%	91.8%
Nov-20	73.1%	69.0%	67.9%	92.2%
Dec-20	79.1%	73.8%	76.9%	92.7%
Jan-21	77.1%	72.1%	73.0%	93.3%
Feb-21	77.2%	73.2%	72.4%	92.7%
Mar-21	77.1%	73.2%	72.3%	93.6%
Apr-21	75.3%	70.6%	70.9%	92.5%
May-21	73.8%	69.9%	67.3%	91.7%
Jun-21	78.0%	72.3%	75.9%	91.9%
Jul-21	77.1%	73.7%	71.1%	91.1%
Aug-21	74.9%	72.9%	68.4%	90.8%
Sep-21	76.7%	73.3%	72.0%	90.8%
Oct-21	75.8%	72.6%	70.4%	91.8%

Date	All	Fannie Mae	Freddie Mac	Ginnie Mae
Nov-21	76.3%	73.3%	69.3%	92.9%
Dec-21	75.1%	70.0%	70.2%	92.6%
Jan-22	75.6%	72.2%	69.7%	92.5%
Feb-22	75.1%	70.7%	68.9%	92.7%
Mar-22	75.5%	71.5%	69.7%	93.4%
Apr-22	79.2%	74.3%	75.4%	92.7%
May-22	77.0%	71.2%	70.4%	92.8%
Jun-22	73.5%	68.0%	64.4%	91.7%
Jul-22	78.2%	73.8%	70.5%	92.2%
Aug-22	73.8%	69.9%	64.2%	90.8%
Sep-22	76.8%	71.7%	68.7%	90.9%
Oct-22	76.7%	70.9%	64.9%	91.8%
Nov-22	78.6%	69.7%	72.2%	90.8%
Dec-22	77.4%	70.5%	71.2%	90.2%
Jan-23	81.3%	75.4%	76.4%	91.4%
Feb-23	77.1%	71.7%	68.7%	89.5%
Mar-23	82.7%	77.9%	77.3%	92.5%
Apr-23	81.7%	74.0%	76.2%	93.0%
May-23	80.3%	73.7%	74.4%	92.8%
Jun-23	79.4%	73.9%	70.8%	93.1%
Jul-23	81.4%	76.6%	74.4%	91.6%
Aug-23	80.9%	77.7%	71.0%	91.7%
Sep-23	78.2%	74.7%	66.9%	92.2%

Figure 9. FHLBank Membership (1989-2023Q2)

Figure 9 shows changes in the number of FHLBank members by member type, from 1989 to Q2 2023. Figure 9 is based on FHLBank data, as of June 30, 2023.

Year	Commercial Bank	Credit Union	Insurance Company	Thrift	CDFI	Total
1989	74	1	4	2,872	0	2,951
1990	107	4	3	2,524	0	2,638
1991	463	12	4	2,244	0	2,723
1992	1,128	27	9	2,095	0	3,259
1993	1,863	58	12	1,980	0	3,913
1994	2,541	87	14	1,868	0	4,510
1995	2,960	135	17	1,770	0	4,882

Year	Commercial Bank	Credit Union	Insurance Company	Thrift	CDFI	Total
1996	3,320	168	17	1,679	0	5,184
1997	3,721	203	25	1,557	0	5,506
1998	4,177	265	24	1,469	0	5,935
1999	5,317	405	39	1,616	0	7,377
2000	5,668	497	52	1,545	0	7,762
2001	5,767	574	57	1,483	0	7,881
2002	5,848	658	75	1,424	0	8,005
2003	5,909	727	81	1,374	0	8,091
2004	5,910	799	92	1,311	0	8,112
2005	5,917	846	111	1,268	0	8,142
2006	5,864	875	134	1,240	0	8,113
2007	5,796	906	151	1,205	0	8,058
2008	5,831	951	184	1,180	0	8,146
2009	5,703	1,004	206	1,143	0	8,056
2010	5,494	1,028	228	1,091	0	7,841
2011	5,347	1,123	248	1,042	8	7,768
2012	5,202	1,178	262	974	13	7,629
2013	5,048	1,216	284	933	18	7,499
2014	4,884	1,271	303	871	30	7,359
2015	4,690	1,319	372	817	41	7,239
2016	4,526	1,389	398	772	45	7,130
2017	4,370	1,435	406	729	48	6,988
2018	4,191	1,490	437	686	59	6,863
2019	4,021	1,526	472	659	60	6,738
2020	3,915	1,559	530	629	64	6,697
2021	3,797	1,560	542	609	68	6,576
2022	3,712	1,569	564	583	70	6,498
Q1 2023	3,688	1,579	563	581	70	6,481
Q2 2023	3,678	1,590	570	579	70	6,487

Figure 10. FHLBank Advances Outstanding since 1964 (book value)

Figure 10 shows changes in the book value of FHLBank advances outstanding from 1964 to 2Q 2023. The figure shows a peak in advances outstanding in 2008, during the Great Recession, a 20-year low in 2021, and another peak during the 1Q 2023 market disruption. Dollar amounts are in billions and are nominal dollars. Figure 10 is based on FHLBank data, as of June 30, 2023.

Year	Period-end Advances ($ billions)
1964	5.32
1965	6.00
1966	6.93
1967	4.39
1968	5.26
1969	9.29
1970	10.61
1971	7.94
1972	7.98
1973	15.15
1974	21.78
1975	17.84
1976	15.86
1977	20.17
1978	32.67
1979	41.84
1980	48.96
1981	65.20
1982	66.00
1983	58.98
1984	74.62

Year	Period-end Advances ($ billions)
1985	88.83
1986	108.64
1987	133.06
1988	152.78
1989	141.80
1990	117.10
1991	79.06
1992	79.88
1993	103.13
1994	125.89
1995	132.26
1996	160.69
1997	202.26
1998	288.19
1999	395.75
2000	437.86
2001	472.54
2002	489.34
2003	514.04
2004	581.22
2005	619.86

Year	Period-end Advances ($ billions)
2006	640.68
2007	875.06
2008	928.64
2009	631.16
2010	478.59
2011	418.16
2012	425.75
2013	498.60
2014	570.73
2015	634.02
2016	705.23
2017	731.54
2018	728.77
2019	641.52
2020	422.64
2021	351.28
2022	819.12
2023Q1	1,044.61
2023Q2	882.06

Figure 11. Failed Member Advances Outstanding

Figure 11 shows changes in advances outstanding for four FHLBank members: First Republic Bank, Signature Bank, Silicon Valley Bank, and Silvergate Bank, from October 11, 2022 to May 11, 2023. Dollar amounts are in billions. Figure 11 is based on FHLBank data, as of May 11, 2023.

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
9/23/22	14.00	1.45	7.50	0.00
9/24/22	14.00	1.45	7.50	0.00
9/25/22	14.00	1.45	7.50	0.00
9/26/22	13.85	1.45	7.00	0.20
9/27/22	13.85	1.45	7.00	0.60
9/28/22	12.25	1.45	8.00	1.20
9/29/22	11.25	1.45	12.00	1.20
9/30/22	11.00	1.45	13.50	0.70
10/1/22	11.00	1.45	13.50	0.70
10/2/22	11.00	1.45	13.50	0.70
10/3/22	11.00	1.45	12.00	0.90
10/4/22	11.00	1.45	14.00	1.10
10/5/22	11.00	1.45	13.50	1.30
10/6/22	11.00	1.45	13.00	1.30
10/7/22	11.00	1.45	12.50	0.80
10/8/22	11.00	1.45	12.50	0.80
10/9/22	11.00	1.45	12.50	0.80
10/10/22	11.00	1.45	12.50	0.80
10/11/22	11.00	1.45	10.50	1.30
10/12/22	10.80	1.45	11.00	1.30
10/13/22	10.80	1.45	11.00	1.50
10/14/22	10.80	1.45	10.50	1.00
10/15/22	10.80	1.45	10.50	1.00
10/16/22	10.80	1.45	10.50	1.00
10/17/22	10.80	1.45	10.50	1.20
10/18/22	10.80	1.45	10.50	1.20
10/19/22	12.30	1.45	10.50	1.20
10/20/22	13.30	1.45	10.50	1.20
10/21/22	13.55	1.45	10.00	1.20
10/22/22	13.55	1.45	10.00	1.20
10/23/22	13.55	1.45	10.00	1.20
10/24/22	13.55	1.45	10.00	1.40

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
10/25/22	13.05	1.45	10.00	1.40
10/26/22	13.05	1.45	10.00	1.00
10/27/22	13.55	1.45	10.00	1.20
10/28/22	14.15	1.45	11.00	0.90
10/29/22	14.15	1.45	11.00	0.90
10/30/22	14.15	1.45	11.00	0.90
10/31/22	13.55	1.45	13.50	1.40
11/1/22	12.75	1.45	12.50	1.20
11/2/22	13.05	1.45	12.50	1.50
11/3/22	13.55	1.45	12.50	1.70
11/4/22	12.80	1.45	15.00	1.70
11/5/22	12.80	1.45	15.00	1.70
11/6/22	12.80	1.45	15.00	1.70
11/7/22	14.03	1.45	15.00	1.70
11/8/22	13.80	1.45	15.50	1.70
11/9/22	12.80	1.45	15.00	2.30
11/10/22	11.55	1.45	15.00	2.90
11/11/22	11.55	1.45	15.00	2.90
11/12/22	11.55	1.45	15.00	2.90
11/13/22	11.55	1.45	15.00	2.90
11/14/22	11.85	1.45	15.00	3.40
11/15/22	12.35	1.45	15.00	3.90
11/16/22	12.35	1.45	15.00	5.34
11/17/22	12.85	1.45	15.00	5.34
11/18/22	12.85	8.45	15.00	5.34
11/19/22	12.85	8.45	15.00	5.34
11/20/22	12.85	8.45	15.00	5.34
11/21/22	13.35	4.95	15.00	5.34
11/22/22	13.60	4.95	15.00	5.34
11/23/22	13.80	4.95	15.00	5.34
11/24/22	13.80	4.95	15.00	5.34
11/25/22	13.30	4.95	15.00	5.34
11/26/22	13.30	4.95	15.00	5.34
11/27/22	13.30	4.95	15.00	5.34
11/28/22	13.20	3.95	15.00	5.34
11/29/22	12.75	5.95	15.00	5.34
11/30/22	12.30	5.95	15.00	4.54

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
12/1/22	13.00	5.95	15.50	4.54
12/2/22	13.00	4.45	15.00	4.54
12/3/22	13.00	4.45	15.00	4.54
12/4/22	13.00	4.45	15.00	4.54
12/5/22	13.20	4.45	15.00	4.54
12/6/22	12.85	3.95	15.00	4.54
12/7/22	11.90	3.95	15.00	4.54
12/8/22	12.20	3.95	15.00	4.54
12/9/22	12.50	4.95	15.30	4.54
12/10/22	12.50	4.95	15.30	4.54
12/11/22	12.50	4.95	15.30	4.54
12/12/22	12.70	5.45	15.25	4.54
12/13/22	10.60	4.95	15.00	4.54
12/14/22	11.30	3.95	15.00	4.54
12/15/22	9.70	3.95	15.00	4.54
12/16/22	10.80	5.95	15.00	4.54
12/17/22	10.80	5.95	15.00	4.54
12/18/22	10.80	5.95	15.00	4.54
12/19/22	11.50	7.43	15.00	4.54
12/20/22	11.70	7.43	15.00	4.54
12/21/22	9.90	8.93	15.00	4.54
12/22/22	9.40	9.18	15.00	4.54
12/23/22	9.40	9.18	15.00	4.54
12/24/22	9.40	9.18	15.00	4.54
12/25/22	9.40	9.18	15.00	4.54
12/26/22	9.40	9.18	15.00	4.54
12/27/22	10.75	8.18	15.00	4.34
12/28/22	11.65	8.18	15.00	4.34
12/29/22	12.35	10.18	15.00	4.30
12/30/22	14.00	11.28	15.00	4.30
12/31/22	14.00	11.28	15.00	4.30
1/1/23	14.00	11.28	15.00	4.30
1/2/23	14.00	11.28	15.00	4.30
1/3/23	12.20	9.28	15.00	4.30
1/4/23	12.80	8.53	15.00	4.30
1/5/23	12.20	7.78	15.00	4.30
1/6/23	12.00	7.18	15.00	3.84

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
1/7/23	12.00	7.18	15.00	3.84
1/8/23	12.00	7.18	15.00	3.84
1/9/23	13.70	7.18	15.00	3.84
1/10/23	13.80	7.18	15.00	3.84
1/11/23	12.75	7.18	15.30	2.83
1/12/23	13.10	7.18	15.30	2.83
1/13/23	13.40	7.18	15.00	2.83
1/14/23	13.40	7.18	15.00	2.83
1/15/23	13.40	7.18	15.00	2.83
1/16/23	13.40	7.18	15.00	2.83
1/17/23	14.70	7.18	15.20	2.83
1/18/23	14.40	7.68	15.00	2.83
1/19/23	14.60	8.68	15.90	2.83
1/20/23	15.30	8.68	15.00	2.83
1/21/23	15.30	8.68	15.00	2.83
1/22/23	15.30	8.68	15.00	2.83
1/23/23	15.90	8.68	15.00	2.83
1/24/23	15.30	8.68	15.00	2.83
1/25/23	15.00	8.68	15.00	2.83
1/26/23	13.50	8.68	15.00	2.83
1/27/23	13.10	8.68	15.00	2.83
1/28/23	13.10	8.68	15.00	2.83
1/29/23	13.10	8.68	15.00	2.83
1/30/23	14.00	8.93	18.00	2.83
1/31/23	12.95	8.93	18.00	2.83
2/1/23	15.75	8.68	16.50	2.83
2/2/23	15.95	8.18	15.00	2.83
2/3/23	16.15	7.93	15.25	2.83
2/4/23	16.15	7.93	15.25	2.83
2/5/23	16.15	7.93	15.25	2.83
2/6/23	16.35	7.43	15.00	2.83
2/7/23	16.25	7.43	15.00	2.83
2/8/23	15.65	6.93	15.00	2.33
2/9/23	16.45	6.93	15.00	2.33
2/10/23	16.65	6.68	15.00	2.33
2/11/23	16.65	6.68	15.00	2.33
2/12/23	16.65	6.68	15.00	2.33

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
2/13/23	17.75	6.43	15.00	2.33
2/14/23	16.55	5.68	15.00	2.33
2/15/23	16.35	6.18	15.00	1.89
2/16/23	16.25	6.18	15.70	1.89
2/17/23	16.85	7.18	15.00	1.89
2/18/23	16.85	7.18	15.00	1.89
2/19/23	16.85	7.18	15.00	1.89
2/20/23	16.85	7.18	15.00	1.89
2/21/23	17.50	7.93	15.00	1.89
2/22/23	17.85	7.93	15.00	1.89
2/23/23	18.15	7.93	15.00	1.89
2/24/23	19.05	8.53	15.65	1.51
2/25/23	19.05	8.53	15.65	1.51
2/26/23	19.05	8.53	15.65	1.51
2/27/23	18.70	8.18	17.50	1.51
2/28/23	19.60	8.18	20.00	1.51
3/1/23	19.40	8.18	20.00	0.00
3/2/23	19.30	7.18	25.00	0.00
3/3/23	19.00	6.68	25.00	0.00
3/4/23	19.00	6.68	25.00	0.00
3/5/23	19.00	6.68	25.00	0.00
3/6/23	19.25	6.43	25.00	0.00
3/7/23	19.55	6.43	25.00	0.00
3/8/23	18.25	6.43	30.00	0.00
3/9/23	17.10	6.43	30.00	0.00
3/10/23	24.82	11.18	30.00	0.00
3/11/23	24.82	11.18	30.00	0.00
3/12/23	24.82	11.18	30.00	0.00
3/13/23	28.10	11.18	27.50	0.00
3/14/23	28.10	11.18	27.50	0.00
3/15/23	28.10	10.43	20.00	0.00
3/16/23	28.10	10.18	10.00	0.00
3/17/23	28.10	10.18	0.00	0.00
3/18/23	28.10	10.18	0.00	0.00
3/19/23	28.10	10.18	0.00	0.00
3/20/23	28.10	10.18	0.00	0.00
3/21/23	28.10	10.18	0.00	0.00

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
3/22/23	28.10	10.18	0.00	0.00
3/23/23	28.10	10.18	0.00	0.00
3/24/23	28.10	10.18	0.00	0.00
3/25/23	28.10	10.18	0.00	0.00
3/26/23	28.10	10.18	0.00	0.00
3/27/23	28.10	10.18	0.00	0.00
3/28/23	28.10	10.18	0.00	0.00
3/29/23	28.10	10.18	0.00	0.00
3/30/23	28.10	10.18	0.00	0.00
3/31/23	28.10	10.18	0.00	0.00
4/1/23	28.10	10.18	0.00	0.00
4/2/23	28.10	10.18	0.00	0.00
4/3/23	28.10	10.18	0.00	0.00
4/4/23	28.10	10.18	0.00	0.00
4/5/23	28.10	10.18	0.00	0.00
4/6/23	28.10	10.18	0.00	0.00
4/7/23	28.10	10.18	0.00	0.00
4/8/23	28.10	10.18	0.00	0.00
4/9/23	28.10	10.18	0.00	0.00
4/10/23	28.10	10.18	0.00	0.00
4/11/23	28.10	10.18	0.00	0.00
4/12/23	28.10	10.18	0.00	0.00
4/13/23	28.10	10.18	0.00	0.00
4/14/23	28.10	10.18	0.00	0.00
4/15/23	28.10	10.18	0.00	0.00
4/16/23	28.10	10.18	0.00	0.00
4/17/23	28.10	10.18	0.00	0.00
4/18/23	28.10	10.18	0.00	0.00
4/19/23	28.10	10.18	0.00	0.00
4/20/23	28.10	10.18	0.00	0.00
4/21/23	28.10	10.18	0.00	0.00
4/22/23	28.10	10.18	0.00	0.00
4/23/23	28.10	10.18	0.00	0.00
4/24/23	28.10	10.18	0.00	0.00
4/25/23	28.10	10.18	0.00	0.00
4/26/23	28.10	10.18	0.00	0.00
4/27/23	28.10	10.18	0.00	0.00

Date	First Republic Bank	Signature Bank	Silicon Valley Bank	Silvergate Bank
4/28/23	28.10	10.18	0.00	0.00
4/29/23	28.10	10.18	0.00	0.00
4/30/23	28.10	10.18	0.00	0.00
5/1/23	28.10	10.18	0.00	0.00
5/2/23	28.10	10.18	0.00	0.00
5/3/23	28.10	10.18	0.00	0.00
5/4/23	28.10	10.18	0.00	0.00
5/5/23	28.10	10.18	0.00	0.00
5/6/23	28.10	10.18	0.00	0.00
5/7/23	28.10	10.18	0.00	0.00
5/8/23	28.10	10.18	0.00	0.00
5/9/23	28.10	10.18	0.00	0.00
5/10/23	28.10	10.18	0.00	0.00
5/11/23	28.10	10.18	0.00	0.00

Timeline of FHLBank History

1929-1939: Great Depression

1932: Federal Home Loan Bank Act creates FHLBanks and the FHLBB as regulator of the FHLBank System; FHLBB charters 12 regional FHLBanks

1933: Banking Act of 1933 establishes the FDIC; Home Owners' Loan Act directs FHLBB to create and oversee HOLC and authorizes FHLBB to begin chartering and regulating federal thrifts

1934: National Housing Act creates FHA, which over time leads to the 30-year self-amortizing mortgage; creates FSLIC under the direction of the FHLBB, to provide deposit insurance for thrifts

1937: FHLBank System issues first consolidated obligations

1938: Fannie Mae created

1941-1945: United State engaged in World War II

1944: Servicemen's Readjustment Act (G.I. Bill) creates the VA loan guaranty program

1946: FHLBank of Los Angeles merged with FHLBank of Portland to create FHLBank of San Francisco, reducing System to 11 FHLBanks

1951: FHLBank System retires federal government stock held from inception

1954: HOLC decommissioned

1963: FHLBank of San Francisco split into two Banks: FHLBank of San Francisco and FHLBank of Spokane (later Seattle), increasing System to 12 FHLBanks

1964: Civil Rights Act signed

1965: Department of Housing and Urban Development Act creates U.S. Department of Housing and Urban Development (HUD)

1968: Fannie Mae privatized; Fair Housing Act (Title VIII of the Civil Rights Act of 1968) prohibits discrimination in housing access on the basis of race, religion, sex, national origin, familial status, or disability; Housing and Urban Development Act of 1968 creates Ginnie Mae; provides subsidies for low- and moderate-income housing and community redevelopment

1970: Freddie Mac created; Emergency Home Finance Act of 1970 provides $250 million to the FHLBB for distribution to FHLBanks for subsidizing interest rates on advances to spur home construction

1982: Garn St. Germain Depository Institutions Act eliminates statutory restrictions on collateral the FHLBanks may accept

1986-1995: Savings and Loan Crisis

1989: FSLIC dissolved; Freddie Mac privatized; FIRREA creates AHP, CIP, and CICA; creates RTC and RefCorp (funded by FHLBanks) to resolve troubled thrifts; establishes requirements for long-term advances and limits advances to members that do not qualify as QTLs; commercial banks and credit unions eligible to become FHLBank members (if at least 10% of assets are in residential mortgage loans)

1992: Federal Housing Enterprises Financial Safety and Soundness Act of 1992 creates OFHEO as a division of HUD and mandates Enterprise goals for low-income and underserved community involvement; HCDA mandates comprehensive studies of the FHLBanks, which give rise to recommendations, several of which eventually lead to statutory changes

1999: Federal Home Loan Bank System Modernization Act modifies multiple Bank Act provisions including on the capital structure of the FHLBanks; makes membership voluntary for all institutions, including federal thrifts; modifies the FHLBanks' RefCorp payment obligation to a percentage of earnings instead of a fixed amount; eliminates QTL provisions

2004: Finance Board issues rule requiring FHLBanks to register stock with the SEC (codified in statute in 2008)

2007-2008: Global Financial Crisis

2007-2010: United States Mortgage Crisis

2008: CDFIs eligible to become FHLBank members; Fannie Mae and Freddie Mac placed in conservatorship; HERA creates FHFA by combining FHFB and OFHEO; gives FHLBank members authority to elect their independent directors (formerly appointed by regulator); authorizes FHLBanks to merge voluntarily; establishes affordable housing goals

2010: Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) overhauls financial regulation; creates the Consumer Financial Protection Bureau (CFPB) and eliminates OTS

2015: FHLBank of Seattle voluntarily merges into FHLBank of Des Moines, reducing System to 11 FHLBanks; non-federally-insured credit unions eligible to become FHLBank members

2022: FHFA launches FHLBank System at 100: Focusing on the Future initiative

Figure 12. Interest Bearing Deposit Account Average Daily Outstanding Balance

Figure 12 shows trends in the interest-bearing deposit account average daily outstanding balance from 1Q 2010 to 2Q 2023. Dollar amounts are in billions. Figure 12 is based on FHLBank data, as of June 30, 2023.

Quarter	Dollars (billions)
Q1 2010	0.0
Q2 2010	0.0
Q3 2010	0.0
Q4 2010	0.0
Q1 2011	0.0
Q2 2011	0.0
Q3 2011	1.3
Q4 2011	1.2
Q1 2012	1.2
Q2 2012	1.1
Q3 2012	1.0
Q4 2012	1.0
Q1 2013	1.0
Q2 2013	1.0
Q3 2013	1.0
Q4 2013	1.0
Q1 2014	1.6
Q2 2014	1.6
Q3 2014	1.6
Q4 2014	1.6
Q1 2015	0.9
Q2 2015	1.7
Q3 2015	1.7
Q4 2015	1.8
Q1 2016	2.5
Q2 2016	2.9
Q3 2016	2.8
Q4 2016	2.9
Q1 2017	3.4
Q2 2017	3.1
Q3 2017	4.3

Quarter	Dollars (billions)
Q4 2017	5.4
Q1 2018	6.7
Q2 2018	8.9
Q3 2018	13.6
Q4 2018	17.2
Q1 2019	9.8
Q2 2019	12.3
Q3 2019	11.0
Q4 2019	14.4
Q1 2020	15.7
Q2 2020	13.3
Q3 2020	8.3
Q4 2020	8.1
Q1 2021	6.3
Q2 2021	5.7
Q3 2021	6.1
Q4 2021	6.4
Q1 2022	6.8
Q2 2022	9.6
Q3 2022	13.0
Q4 2022	22.9
Q1 2023	25.1
Q2 2023	30.0

Figure 13. Retained Earnings

Figure 13 shows changes in the FHLBanks' retained earnings from 1Q 2001 to 2Q 2023. Dollar amounts are in billions. Figure 13 is based on FHLBank data, as of June 30, 2023.

Quarter	($ billions)
Q1 2001	.654
Q2 2001	.750
Q3 2001	.519
Q4 2001	.752
Q1 2002	.876
Q2 2002	.771
Q3 2002	.636
Q4 2002	.717
Q1 2003	.751
Q2 2003	.746
Q3 2003	.833
Q4 2003	1.173
Q1 2004	1.064
Q2 2004	1.798
Q3 2004	1.616
Q4 2004	1.845
Q1 2005	2.136
Q2 2005	1.981
Q3 2005	2.473
Q4 2005	2.671
Q1 2006	2.825
Q2 2006	2.995
Q3 2006	3.083
Q4 2006	3.189
Q1 2007	3.264
Q2 2007	3.348
Q3 2007	3.511
Q4 2007	3.715
Q1 2008	3.786
Q2 2008	3.867
Q3 2008	3.901
Q4 2008	2.970
Q1 2009	5.059
Q2 2009	6.022
Q3 2009	5.655
Q4 2009	6.050
Q1 2010	6.219
Q2 2010	6.416
Q3 2010	6.985
Q4 2010	7.489
Q1 2011	7.672
Q2 2011	7.790
Q3 2011	8.129
Q4 2011	8.519
Q1 2012	9.100
Q2 2012	9.506
Q3 2012	9.999
Q4 2012	10.438
Q1 2013	10.818
Q2 2013	11.317
Q3 2013	11.642
Q4 2013	12.091
Q1 2014	12.366
Q2 2014	12.606
Q3 2014	12.951
Q4 2014	13.159
Q1 2015	13.824
Q2 2015	13.754
Q3 2015	13.927
Q4 2015	14.266
Q1 2016	14.793
Q2 2016	15.274
Q3 2016	15.819
Q4 2016	16.314
Q1 2017	16.766
Q2 2017	17.229
Q3 2017	17.674
Q4 2017	18.094
Q1 2018	18.460
Q2 2018	18.912
Q3 2018	19.306
Q4 2018	19.504
Q1 2019	19.849
Q2 2019	20.017
Q3 2019	20.184
Q4 2019	20.587
Q1 2020	20.728
Q2 2020	21.207
Q3 2020	21.653
Q4 2020	21.986
Q1 2021	22.224
Q2 2021	22.380
Q3 2021	22.566
Q4 2021	22.760
Q1 2022	23.026
Q2 2022	23.375
Q3 2022	23.930
Q4 2022	24.556
Q1 2023	25.390
Q2 2023	26.426

Figure 14. FHLBank System Share of Total Advances Outstanding by Original Term of Maturity

Figure 14 shows the shares of FHLBank advances by original term to maturity (greater than 5 years; greater than one year and less than or equal to 5 years; less than or equal to one year), between March 31, 2020 and June 30, 2023. Figure 14 is based on FHLBank data, as of June 30, 2023.

Date	≤ 1 year	> 1 year to ≤ 5 years	> 5 years
3/31/20	42.4%	39.4%	18.2%
6/30/20	32.3%	43.8%	24.0%
9/30/20	31.7%	41.6%	26.6%
12/31/20	28.9%	41.3%	29.7%
3/31/21	29.3%	40.6%	30.1%
6/30/21	28.4%	39.7%	32.0%
9/30/21	28.0%	38.7%	33.3%
12/31/21	29.9%	37.1%	33.0%
3/31/22	36.2%	33.9%	29.9%
6/30/22	48.6%	31.8%	19.6%
9/30/22	51.7%	33.0%	15.3%
12/31/22	56.7%	30.8%	12.6%
3/31/23	56.9%	33.2%	10.0%
6/30/23	46.5%	42.1%	11.3%

Figure 16. FHLBank Dividends and AHP Assessments

Figure 16 compares FHLBank dividends paid and Affordable Housing Program assessments from 2001 to the first half of 2023. Dollar amounts are in millions. Figure 16 is based on FHLBank data, as of June 30, 2023.

	Dividends Paid	AHP Assessments
2001	$1,951.29	$219.13
2002	$1,541.89	$167.39
2003	$1,501.01	$217.50
2004	$1,347.57	$226.75
2005	$1,669.00	$282.99
2006	$2,069.10	$293.83
2007	$2,283.36	$319.09
2008	$1,974.40	$188.36
2009	$640.74	$258.58

	Dividends Paid	AHP Assessments
2010	$585.72	$228.14
2011	$569.30	$189.35
2012	$660.44	$296.77
2013	$842.96	$293.30
2014	$1,184.13	$269.20
2015	$1,514.76	$331.50
2016	$1,517.47	$391.70
2017	$1,658.32	$384.31
2018	$2,161.22	$404.05
2019	$2,120.81	$362.46
2020	$1,553.03	$314.67
2021	$1,009.37	$200.52
2022	$1,372.16	$355.22
2023H1	$1,476.10	$374.49

Figure 2-A. FHLBank Members by Member Type

Please see Figure 3, which is identical to Figure 2-A.

Figure 2-B. Collateral Types Pledged by FHLBank Members

Please see Figure 4, which is identical to Figure 2-B.

Figure 2-C. FHLBank Advances Outstanding Since 1964 (book value)

Please see Figure 10, which is identical to Figure 2-C.

Figure 2-D. FHLBank Membership (1989-2023Q2)

Please see Figure 9, which is identical to Figure 2-D.

Figure 3-A. Phases of the FHLBank System at 100 Initiative

Figure 3-A shows the four phases of the FHLBank System at 100 initiative:

- **Phase 1: Kick-off Listening Session, September 29, 2022 to October 4, 2022**
- **Phase 2: Roundtable Discussions, November 2, 2022 to March 20, 2023**
- **Phase 3: Wrap-up Listening Session, March 22, 2023 to March 24, 2023**
- **Phase 4: Report Preparation and Post-Report Implementation**

Figure 5-A. Failed Member Advances Outstanding

Please see Figure 11, which is identical to Figure 5-A.

Figure 5-B. 2022-2023 Peak and 12/31/2021 Advances Outstanding Relative to 12/31/22 and 12/31/21 Uninsured Deposits and Unrealized Losses

Figure 5-B shows the amount of advances outstanding for four FHLBank members, on December 31, 2021 and at the point in 2022 or 2023 when the member had a peak amount of advances outstanding. Dollar amounts are in billions. Figure 5-B also shows changes in unrealized losses to tier 1 capital at these two points in time, for each member. Finally, figure 5-B shows the ratio of uninsured deposits to total deposits at these two points in time, for each member. Figure 5-B is based on FHLBank data, as of May 11, 2023, and data and analytics provided by S&P Global Market Intelligence.

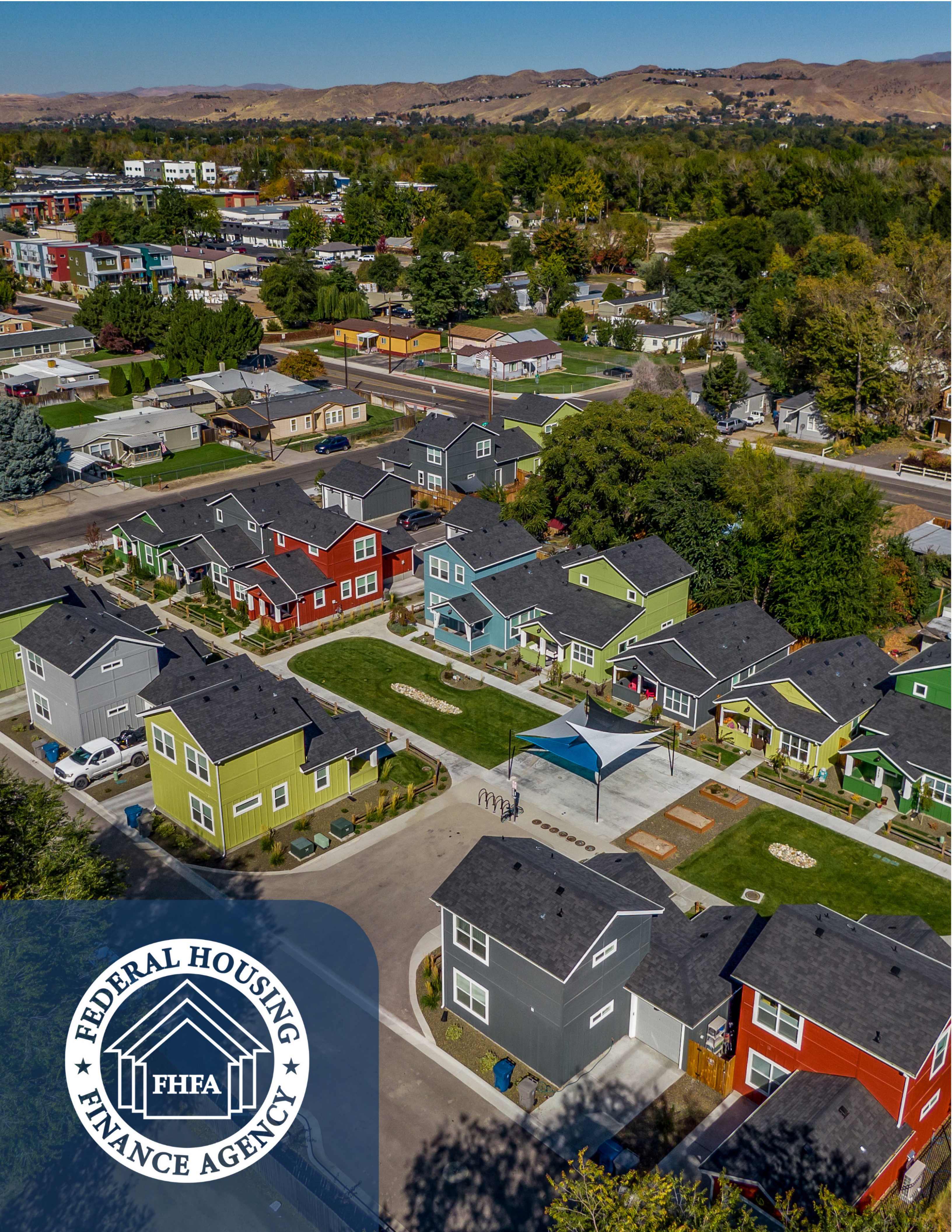
	Advances outstanding, 12/31/21	Unrealized losses to tier 1 capital, 12/31/21	Uninsured deposits vs. total deposits, 12/31/21	Advances outstanding, 2022-2023 peak	Unrealized losses to tier 1 capital, 2022-2023 peak	Uninsured deposits vs. total deposits, 2022-2023 peak
Silvergate Bank	$0	-0.9%	98.3%	$5.3, as of 11/16/22	-14.8%	59%
First Republic Bank	$3.7	6.9%	74.6%	$28.1, as of 3/13/23	-29.9%	68%
Signature Bank	$2.6	-3.5%	92.0%	$11.3, as of 12/30/22	- 32.0%	90%
Silicon Valley Bank	$0	-7.7%	94.7%	$30.0, as of 3/8/23	- 104.1%	93.9%

Figure 5-C. Advances Outstanding by Depository Institution Size and Type

Figure 5-C shows advances outstanding by different types and sizes of depository institutions, as of February 28, 2023 and March 31, 2023. Dollar amounts are in billions. Figure 5-C is based on FHLBank data, as of March 31, 2023.

	As of 2/28/2023	As of 3/31/2023
Global Systemically Important Banks (a)	$64.50	$78.18
Large Domestic Banks (≥$100 billion in assets)	$263.72	$359.39
Large Regional Banks (≥$50 billion and <$100 billion in assets)	$65.63	$99.40
Regional Banks (≥$1.417 billion and <$50 billion in assets)	$177.01	$219.93
Small Banks (<$1.417 billion in assets)	$39.87	$44.39

(a) The Financial Stability Board identifies Global Systemically Important Banks using methodology designed by the Basel Committee on Banking Supervision. See https://www.fsb.org/2022/11/fsb-publishes-2022-g-sib-list/ for more information.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