



FHLBANK SYSTEM AT 100: FOCUSING ON THE FUTURE

BACKGROUND

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. Today, the Federal Home Loan Banks (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 better support housing and community development.

In recognition of significant changes to the mortgage market, the broader financial system, and the FHLBanks themselves over the past nine decades, the Federal Housing Finance Agency (FHFA) launched the *FHLBank System at 100: Focusing on the Future* initiative in August 2022, the first comprehensive review of the FHLBank System in decades. The initiative involved significant stakeholder outreach, a historical review of the role of the FHLBanks, and detailed analysis of the strengths and areas for improvement of the System's current operations and structure to ensure the FHLBanks remain well positioned to fulfill their mission.

The *FHLBank System at 100: Focusing on the Future* report can be found at <http://www.FHFA.gov/FHLB100>.

MISSION OF THE FHLBANK SYSTEM

FHFA plans to update and clarify its regulatory statement of the mission of the System to reflect the FHLBanks' two core objectives:

- 1) providing stable and reliable liquidity to their members, and
- 2) supporting housing and community development

STABLE AND RELIABLE SOURCE OF LIQUIDITY

FHLBank members use advances to support business operations and specific liquidity needs, which allows them to better serve their communities.

However, as has been made clear by a number of market events since 2008, 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. The FHLBank System does not have the functional capacity to serve as the lender of last resort for troubled members that could have significant borrowing needs over a short period of time. The FHLBanks should coordinate with their members' primary regulators and the Federal Reserve Banks to ensure their members' borrowing needs continue to be met when they no longer satisfy the FHLBanks' credit criteria. The FHLBanks also should regularly update their credit evaluations of their members to avoid encouraging excessive risk taking.

SUMMARY

FHFA seeks to position the Federal Home Loan Bank System to continue serving as a source of stable and reliable liquidity, while increasing support for housing and community development, in a safe and sound manner.

The initiative included robust external stakeholder input and detailed analysis by FHFA.

The report summarizes issues raised throughout the initiative, actions FHFA will take, and recommendations, some of which are for consideration by Congress.

The report is organized under four broad themes: (1) Mission of the FHLBank System, (2) Stable and reliable source of liquidity, (3) Housing and community development, and (4) FHLBank System operational efficiency, structure, and governance.

FHFA will undertake further review of these issues and will begin taking steps to address the recommendations through ongoing supervision, guidance, or rulemaking.

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



Additional steps that will better position the FHLBanks to perform their liquidity function include: (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

FHLBank lending currently supports housing finance primarily through the acceptance of housing-related collateral to secure advances. The FHLBanks also support housing finance directly by purchasing single-family mortgages through their Acquired Member Asset (AMA) programs. FHFA will seek to expand the FHLBanks' housing and community development focus by: (i) requiring the FHLBanks to establish mission-oriented collateral programs that could improve their support of 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; and (iii) re-evaluating the definition of long-term advances, which are required by statute to be used to fund residential housing finance.

The FHLBanks' Affordable Housing Programs (AHP), Community Investment Programs, and Community Investment Cash Advance Programs support affordable housing and community development through grants and subsidized advances. FHFA will re-evaluate these programs to encourage greater use in a safe and sound manner. If enacted by Congress, a doubling of the FHLBanks' statutory minimum contribution for the AHP would be one of the most significant means of increasing the FHLBanks' engagement in these activities.

FHLBANK SYSTEM OPERATIONAL EFFICIENCY, STRUCTURE, AND GOVERNANCE

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. Collaboration and consolidation of shared functions across the System is potentially where the largest efficiencies could be achieved.

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 structured to be efficient and stable moving forward. In addition, membership eligibility requirements for current and new members should promote sufficient mission orientation, while ensuring the safety and soundness of the System.

FHFA also will evaluate the optimal size and composition of an FHLBank's board of 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.

