Federal Housing Finance Agency
Office of Inspector General

An Overview of the Federal Home Loan Bank System

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Executive Summary

The Federal Home Loan Bank Act of 1932 created the Federal Home Loan Bank System (FHLBank System or System) to reinvigorate a housing market devastated by the Great Depression. The FHLBanks support residential housing finance and community development and provide liquidity to members. The Federal Housing Finance Agency (FHFA or Agency) regulates and supervises the FHLBank System. FHFA is responsible for ensuring the System operates in a safe and sound manner, remains adequately capitalized and able to raise funds in the capital markets, and achieves its housing finance and community investment mission.

The System currently consists of 11 regional FHLBanks and the Office of Finance. The 11 FHLBanks are cooperatively owned by their more than 6,500 members, consisting of financial institutions such as commercial banks, thrift institutions, insurance companies, credit unions, and certified community development financial institutions. Each FHLBank operates within a defined geographic region, known as a district. The location of an institution's principal place of business generally determines in which FHLBank district the institution may become a member.

The Office of Finance serves as the fiscal agent for the FHLBanks. It issues debt, known as consolidated obligations, for all FHLBanks in the System. The FHLBanks then use debt proceeds to make secured loans, known as advances, to their member financial institutions and housing associates. FHLBanks require members to pledge assets as collateral for advances. An FHLBank may provide long-term advances (advances with a term of more than five years) to any member only for residential housing finance or to community development financial institutions for certain small business and development activities. An FHLBank may provide short-term advances (advances for terms of five years or less) to any member for any purpose. According to FHFA, the majority of FHLBank advances are short-term.

FHLBanks also operate affordable housing and community investment programs. Through these programs, the FHLBanks issue subsidies and letters of credit to member institutions to fund housing and community development projects that benefit very low- to moderate-income families and neighborhoods.

FHLBanks use advances as the primary means to meet their core mission. Demand for FHLBank advances, however, often reflects the broader economic environment and has been susceptible to sudden shifts throughout the System's history.

This white paper provides an overview of the history and current state of the FHLBank System in support of forthcoming OIG work. In addition, it highlights associated risk areas.

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ABBREVIATIONS

Advisory Bulletin	Advisory Bulletin 2015-05, *FHLBank Core Mission Achievement*
AHP	Affordable Housing Program
DBR	Division of Federal Home Loan Bank Regulation
FHFA or Agency	Federal Housing Finance Agency
FHLBank	Federal Home Loan Bank
FHLBank System or System	Federal Home Loan Bank System
Initiative	FHLBank System at 100: Focusing on the Future (an FHFA initiative)
LIBOR	London Interbank Offered Rate
OIG	Federal Housing Finance Agency Office of Inspector General
PLMBS	Private-Label Mortgage-Backed Securities

BACKGROUND

The FHLBanks, like Fannie Mae and Freddie Mac, are **government-sponsored enterprises** regulated and supervised by FHFA. FHLBanks play a key role in housing and community development by providing liquidity to financial institutions. This paper provides a background of the System in support of forthcoming work that aligns with OIG's risk-based plan covering FHFA's oversight of all its regulated entities.[1]

A **government-sponsored enterprise** is chartered by the federal government but privately capitalized and independently managed.

Overview

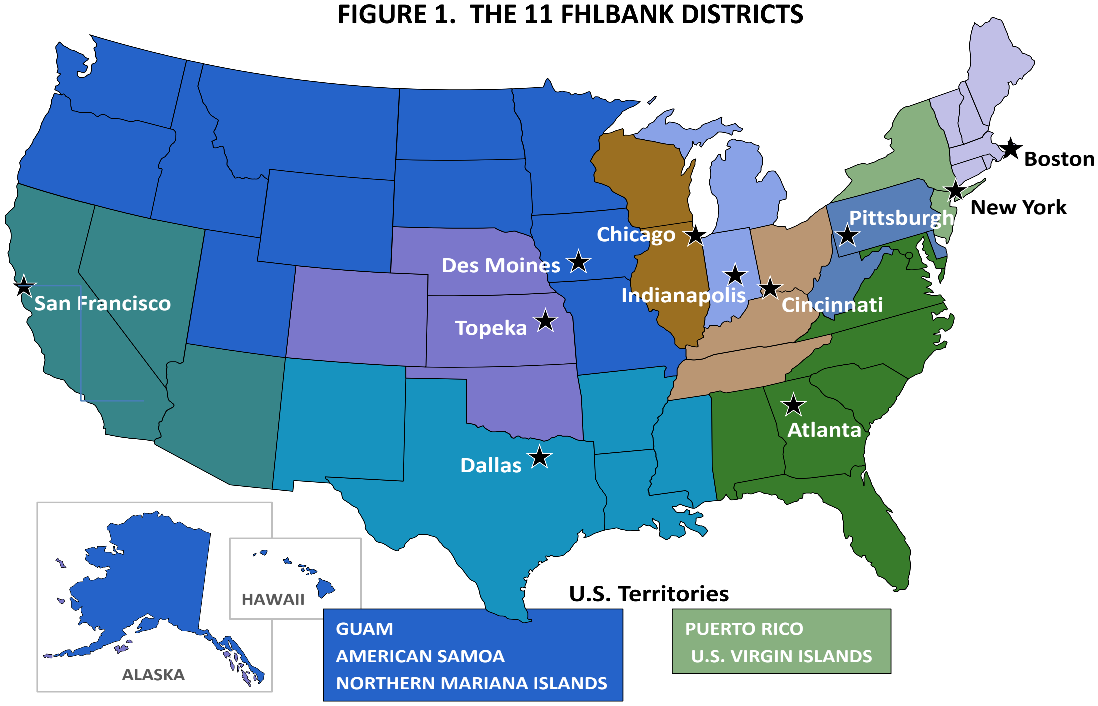
The Federal Home Loan Bank Act of 1932 created the FHLBank System to reinvigorate a housing market devastated by the Great Depression. The Act has been amended several times over the ensuing decades, in some cases to widen the scope of FHLBank authorities. Today, the FHLBanks support residential housing finance and community development and provide liquidity to members. To carry out its operations, the System's central Office of Finance issues debt, known as consolidated obligations, for all the FHLBanks in the System. FHLBanks then use debt proceeds to make secured loans, known as advances, to their members. FHLBanks require members to pledge eligible assets (e.g., residential mortgage loans, commercial real estate loans, and Fannie Mae and Freddie Mac mortgage-backed securities) as collateral to fully secure advances. An FHLBank may provide long-term advances (advances with a term of more than five years) to any member only for residential housing finance or to community development financial institutions for certain small business and development activities. An FHLBank may provide short-term advances (advances for terms of five years or less) to any member for any purpose. According to FHFA, the majority of FHLBank advances are short-term.[2] FHLBanks also maintain investment portfolios for liquidity purposes and to generate income.

[1] *See* OIG, *FHFA-OIG FY 2023 Annual Plan* (Oct. 6, 2022).

[2] As discussed below, institutions eligible for membership generally also engage in other financial activity, such as selling insurance or providing commercial banking services.

The FHLBanks operate within defined geographic regions, known as districts.[3] The FHLBank System currently consists of 11 regional FHLBanks and the Office of Finance. See Figure 1. FHLBanks are cooperatively owned by their more than 6,500 members, consisting of financial institutions such as commercial banks, thrift institutions, insurance companies, credit unions, and certified community development financial institutions.

FIGURE 1. THE 11 FHLBANK DISTRICTS



Structure of the FHLBanks

Although the FHLBanks have "joint and several liability" on consolidated obligations, as discussed later, each FHLBank exists as a separate entity with its own **board of directors**, management, and employees. Each FHLBank's members elect their own

A **board of directors** governs the FHLBank; for 2023, board sizes range between 14 and 22 directors. Generally, directors are elected by the members for a four-year term. Directors may only serve three consecutive full terms.

[3] The Federal Home Loan Bank Act grants the FHFA Director broad authority to establish and reorganize FHLBanks and to adjust the boundaries of FHLBank districts, provided that the number of regional FHLBanks is between eight and twelve. The Act permits a reduction in the number of FHLBanks to less than eight pursuant to a voluntary merger of FHLBanks or the liquidation of an FHLBank under relevant authority. The most recent structural change was the 2015 merger of two FHLBanks, serving 13 states and three U.S. Pacific Territories. For more information on the 2015 merger, see OIG, WPR-2016-002 (Mar. 16, 2016).

board of directors, which is comprised of **member directors** and **independent** (non-member) **directors**. Presidents of individual FHLBanks report to their board of directors. Presidential responsibilities include managing the FHLBank, administering FHLBank programs, and ensuring compliance with regulations and policies.

Member directors, who are directors or officers of member institutions, comprise the majority of each FHLBank board.

At least two-fifths of each FHLBank board must be **independent directors**, who must reside in that FHLBank's district and may not be an officer of any FHLBank, or an officer, director, or employee of a member institution. There are two types of independent directors:

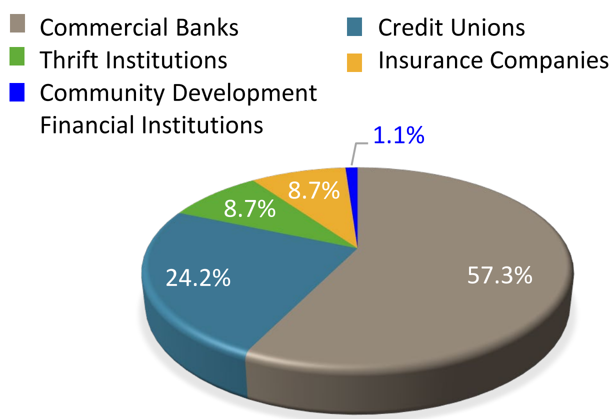
- Public interest directors possess vetted experience representing consumer or community interests in banking services, access to credit, housing, or consumer finance protection. Each FHLBank must have at least two public interest directors.
- Other independent directors should have experience in, or knowledge of, one or more areas relevant to FHLBank business (e.g., auditing and accounting, risk management).

FHLBank Membership

FHLBank membership eligibility has expanded since the System was created in 1932. At inception, FHLBank membership generally included only savings and loan institutions (thrifts) and insurance companies. But in the 1980s, in response to the thrift crisis at the time, Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Among other things, the Act expanded FHLBank membership to make commercial banks and credit unions eligible for membership in the FHLBank System. As of year-end 2022, the majority of FHLBank members (57 percent) were commercial banks. See Figure 2.

FHLBank membership is voluntary. The location of an institution's principal place of business generally determines in which FHLBank district the institution may become a member.[4] All members must purchase and maintain a minimum stock investment in their district's FHLBank. FHLBank stock is not publicly traded.

FIGURE 2. DISTRIBUTION OF FHLBANK MEMBERSHIP AS OF DECEMBER 31, 2022



Source: FHLBank Office of Finance.

[4] Financial holding companies may own subsidiaries situated in several FHLBank districts, and each eligible subsidiary may become a member of the FHLBank in the district in which it is situated.

FHLBank Advances

FHLBanks use advances as the primary means of fulfilling their mission. Advances consist of cash loans that, as noted earlier, must be fully secured with eligible collateral, for example, mortgages or mortgage-related assets. Furthermore, advances typically receive protection under the FHLBanks' "super lien" authority. The super lien provision of the Federal Home Loan Bank Act may give an FHLBank a higher-priority security interest in collateral than would otherwise be the case. The primary practical effect of the super lien gives the FHLBanks priority claim to assets pledged as collateral for advances when the Federal Deposit Insurance Company becomes the receiver of an FHLBank member.[5] These factors contribute to FHLBank advances generally carrying low credit risk, according to FHFA.

Advances typically account for the largest source of interest income for the FHLBanks collectively. Accordingly, demand for advances becomes an important factor for FHLBank earnings. FHLBank advances are available to members at competitive prices relative to alternative funding sources. However, despite the attractive pricing of advances to members, various factors beyond FHLBank control impact the demand for advances. For example, as discussed below, increased funding from other sources, such as cash deposits at member institutions, can decrease member demand for FHLBank advances.

Office of Finance

The Office of Finance serves as the fiscal agent for the FHLBanks. The FHLBanks principally fund their activities through consolidated obligations (i.e., debt) issued through the Office of Finance. Each FHLBank is primarily liable for the payment of principal and interest on the portion of debt issued on its behalf. Nevertheless, each FHLBank also maintains "joint and several liability" for the payment of principal and interest on all consolidated obligations across the FHLBank System. Accordingly, if one FHLBank is unable to make its payments, the other FHLBanks must make the payments.

FHLBanks primarily earn money by making more interest on their assets than the interest they must pay on their liabilities.

[5] When a financial institution closes, the Federal Deposit Insurance Corporation is appointed as receiver and the closed financial institution is placed into receivership. Generally, a bank closes when it is unable to meet its obligations to depositors and others. As receiver, the Federal Deposit Insurance Corporation is tasked with liquidating the financial institution's assets to pay the depositors and creditors. The FHLBank's super lien provision acts in combination with regulations of the Federal Deposit Insurance Corporation.

- **FHLBank assets** generally consist of advances, investments (e.g., mortgage-backed securities), and mortgage loans held in portfolio.[6] Advances make up the largest portion, representing 66 percent of total FHLBank assets as of year-end 2022. According to the Office of Finance, FHLBank assets expand and contract based on the needs of their members and the communities they serve.

- **FHLBank liabilities** generally consist of consolidated obligations, deposits, and mandatorily redeemable capital stock.[7] In recent years, consolidated obligations represented over 95 percent of the FHLBanks' total liabilities.

Affordable Housing and Community Investment Programs

The FHLBanks operate three housing and community investment programs: the Affordable Housing Program (AHP), the Community Investment Program, and the Community Investment Cash Advance program. Only FHLBank members may submit applications (on behalf of project sponsors) under the AHP and Community Investment Program. FHLBank members and housing associates may submit applications under the Community Investment Cash Advance program.

Affordable Housing Program

The Federal Home Loan Bank Act requires each FHLBank to establish an AHP and contribute at least 10 percent of its prior year's net income to the program. FHLBank AHPs issue subsidies to members by direct grants or reduced interest rates on advances. Members use AHP funds for the purchase, construction, or rehabilitation of housing for very low- and low- or moderate-income households.[8] The FHLBanks make these subsidies available through the following two programs:

- Under the **competitive application program**, FHLBanks award funds to housing projects based on their evaluation of eligible project applications. The competitive application program accounts for the majority of AHP funds.

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[6] FHLBanks may purchase and hold mortgage loans from member institutions under Acquired Member Assets programs. Mortgage loans held for portfolio under these programs are either conventional mortgage loans or government-guaranteed or -insured mortgage loans.

[7] In general, FHLBanks reclassify capital stock to "mandatorily redeemable capital stock" after a member exercises a written redemption right, provides notice of its intent to withdraw from membership, or becomes a non-member due to circumstances such as merger or acquisition, relocation, or charter termination.

[8] Low- or moderate-income households are defined as households with incomes of 80 percent or less of the area median income. Very low-income households are defined as households with incomes of 50 percent or less of area median income.

- Under the **homeownership set-aside program**, member institutions apply for FHLBank "set-aside" funds and distribute the funds as down payment, closing cost, or counseling assistance to homebuyers, or as rehabilitation assistance to homeowners. Federal regulation limits the amount an FHLBank may allocate annually to its set-aside program, and funds are awarded on a first-come, first-served basis.

In 2021, the FHLBanks awarded about $352.4 million through the AHP nationwide, with approximately $262.6 million for competitive application programs and $89.8 million for set-aside programs.[9]

Community Investment Program

Each FHLBank must also offer a Community Investment Program. However, this program does not require specific funding contributions as with the AHP. Through the Community Investment Program, FHLBanks provide advances and letters of credit to their member financial institutions to fund the purchase, construction, rehabilitation, or refinancing of affordable owner-occupied and rental housing for income-eligible families. The program also provides financing for commercial and economic development activities that benefit low- and moderate-income families or infrastructure in low- and moderate-income neighborhoods, such as roads, bridges, and retail stores. Through the Community Investment Program, the FHLBanks funded about $1.7 billion in targeted housing and economic development advances in 2021.

Community Investment Cash Advance Program

A Community Investment Cash Advance program is optional for FHLBanks; it is authorized under the Federal Home Loan Bank Act and federal regulation. Through the Community Investment Cash Advance program, FHLBanks provide advances, letters of credit, and grants to their member financial institutions and housing associates for targeted beneficiaries or at targeted income levels. The program funds certain economic development activities, including social services and public facilities. In 2021, the FHLBanks funded $1.0 billion in Community Investment Cash Advance economic development advances.

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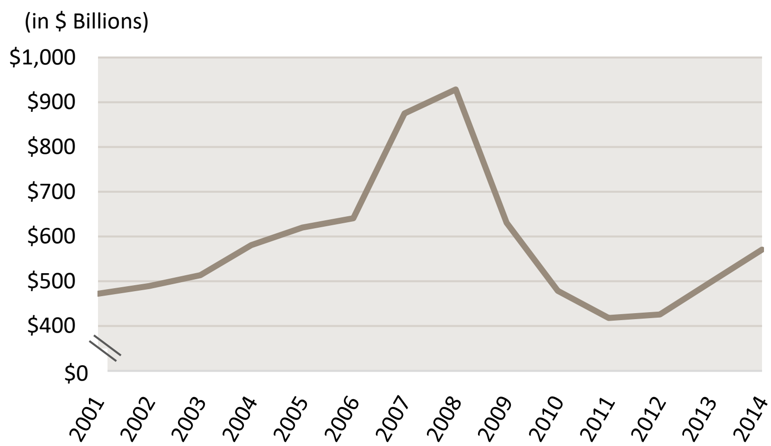
[9] For more information on the Affordable Housing Program, see OIG, *The Division of Federal Home Loan Bank Regulation Followed Its Guidance in Performing Annual Examinations of Each Federal Home Loan Bank's Affordable Housing Program but the AHP Examination Planning Processes Require Improvement* (Feb. 9, 2023) (AUD-2023-001).

The FHLBanks and the 2008 Financial Crisis

At the onset of the financial crisis in late 2007, when the broader market tightened credit access, demand for FHLBank advances surged to a historic high. See Figure 3. Advances peaked at more than $900 billion at year-end 2008. However, the condition and performance of many FHLBanks deteriorated in 2009, largely due to declining advances coupled with FHLBank investments in **private-label mortgage-backed securities** (PLMBS) in the years leading to the financial crisis.

FIGURE 3. FHLBANK ADVANCES, 2001-2014 ANNUAL BALANCE



Source: OIG analysis of FHLBank financial data.

In 2009, advances declined 32 percent from the previous year and continued to decline through 2011, resulting in less interest income to the FHLBanks. In 2011, interest income from advances fell to just over $3 billion, compared to over $29 billion in 2008.

Private-label mortgage-backed securities are residential mortgage-backed securities where the underlying loans or pools of loans are not guaranteed by Fannie Mae, Freddie Mac, or Ginnie Mae.

Also in 2009, FHLBank investments in PLMBS began generating billions of dollars in losses. When several FHLBanks made these investments between 2005 and 2007, PLMBS were rated highly by credit agencies. However, as reported by FHFA, some FHLBanks relied too much on credit ratings and did not conduct sufficient independent due diligence on the credit risk associated with PLMBS.[10] The FHLBanks suffered significant losses on these investments when the housing market collapsed. By mid-2011, FHLBank losses due to PLMBS reached over $2 billion. Although losses were subsequently recovered after the crisis, PLMBS were a significant concern for many years, according to FHFA.

In 2012, advances began to increase and FHLBank holding of PLMBS declined. Then-FHFA Acting Director Edward DeMarco remarked that most FHLBanks "emerged from the financial crisis in relatively good condition." By year-end 2014, advances increased

[10] *See* FHFA, 2009 Report to Congress, at 61 (May 25, 2010).

36 percent from the 2011 low; that year, PLMBS accounted for 2 percent of FHLBank assets compared to the high of 8.3 percent at year-end 2006.

FHFA Oversight

On July 30, 2008, in response to the financial crisis, the President signed the Housing and Economic Recovery Act of 2008 into law. The Housing and Economic Recovery Act of 2008 established FHFA as the new independent regulator of the FHLBank System.[11] FHFA regulates and supervises the FHLBanks and the Office of Finance. The Agency is responsible for ensuring the System operates in a safe and sound manner, remains adequately capitalized and able to raise funds in the capital markets, and achieves its statutory mission.

FHFA's Division of Federal Home Loan Bank Regulation (DBR) oversees the System. DBR performs annual examinations of each FHLBank and the Office of Finance pursuant to the Federal Home Loan Bank Act. Further, Agency regulations require each FHLBank's board of directors to maintain a strategic business plan that describes how "significant business activities" of that FHLBank will achieve its housing finance mission and "public purposes."

RECENT DEVELOPMENTS IN THE FHLBANK SYSTEM ....

Following the financial crisis and its aftermath, FHFA sought to reduce risk and focus on core mission in FHLBank business. In July 2015, FHFA issued Advisory Bulletin 2015-05, *FHLBank Core Mission Achievement* (Advisory Bulletin) to the FHLBanks. The Advisory Bulletin established that FHFA will assess FHLBank achievement of core mission by using a core achievement ratio, which includes advances as "primary mission assets."[12] Around that time, then-FHFA Director Melvin Watt remarked, "Focusing on [FHLBank] core mission is very much related to safety and soundness…."[13] A senior FHFA official recently explained the Agency's idea at the time was that focusing on advances would both accomplish FHLBank mission and reduce risk, as advances are less risky than PLMBS, for example.

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[11] Prior to the 2008 creation of FHFA, the FHLBanks were overseen by the Federal Housing Finance Board.

[12] *See* FHFA, Advisory Bulletin 2015-05, *FHLBank Core Mission Achievement* (Jul. 14, 2015) ("The mission of the Banks is to provide to their members and housing associates financial products and services, including but not limited to advances, that assist and enhance such members' and housing associates' financing of: (a) housing, including single-family and multi-family housing serving consumers at all income levels; and (b) community lending.").

[13] *See* FHFA, *Prepared Remarks of Melvin L. Watt Director of FHFA at the 2015 Federal Home Loan Banks Directors Conference* (May 13, 2015).

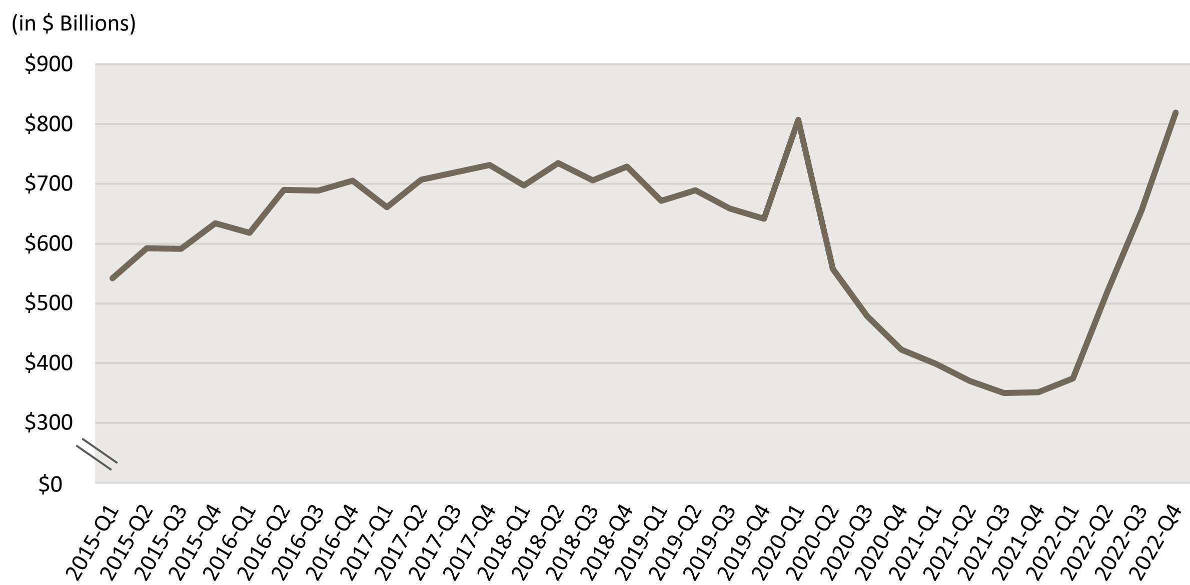
The Agency assesses core mission achievement annually for each FHLBank and for the System as a whole. Under the Agency's assessment, the System collectively has met the preferred core mission ratio since FHFA began this assessment at year-end 2015; and individually, until 2021, most of the FHLBanks (at least eight) have met the preferred core mission ratio.

Because advances are the largest asset class for the FHLBanks, core mission achievement will often depend on advance balances. In 2021, advances dropped significantly and only five individual FHLBanks met the preferred core mission ratio. Advance demand, as highlighted during the 2008 financial crisis and further detailed below, often reflects the broader economic environment. An Agency official explained that when advances decline, there is a decline in the core mission achievement ratio.

Recent Trends in FHLBank Advances

FHLBank advances experienced notable shifts during the COVID-19 pandemic. In the first quarter of 2020, advances grew about 26 percent as "members sought additional liquidity amid the uncertainty in the financial markets due to the COVID-19 pandemic," according to the Office of Finance. Immediately after, in the second quarter of 2020, advances fell sharply, by about 31 percent. Advances continued to decline through the end of 2021 "due to increased liquidity in the financial markets and increased deposit levels" at member institutions. Overall, advances decreased 56 percent between first quarter 2020 and year-end 2021. See Figure 4.

FIGURE 4. FHLBANK ADVANCES, 2015-Q1 THROUGH 2022-Q4



Source: OIG analysis of FHLBank financial data.

The 2021 decline in advances was accompanied by a shift in the composition of the members holding FHLBank advances. Insurance companies held a disproportionate amount of advances compared to commercial banks. Specifically, insurance companies accounted for the largest portion of advances at year-end 2021 (34.8 percent) while only making up slightly more than 8 percent of FHLBank membership. Commercial banks, on the other hand, made up about 58 percent of FHLBank members and accounted for 34.6 percent of advances at year-end 2021. An Agency official explained that this composition shift occurred because of a large decline in advances to commercial banks, as advances to insurance companies increased just slightly.

FHFA has highlighted the different risks FHLBanks face in lending to insurance companies compared to federally insured depository institutions.[14] For example, insurance companies are regulated primarily by state authorities. The laws governing federally insured depository institutions are uniform across the country while the laws governing insurance companies vary from state to state and "are less well known to the FHLBanks," according to the Agency.

During 2022, advances rebounded and surpassed pre-pandemic levels by year's end. At year-end 2022, advances reached $819 billion, more than double the balance at year-end 2021. Composition of advance balances shifted back to commercial banks holding the majority (59 percent) of FHLBank advances. Insurance companies represented the second largest segment of borrowers at 17 percent. The Office of Finance reported the significant increase was "driven by depository member demand for liquidity due to such factors as declining deposit balances, loan growth, and the effects of higher interest rates."[15]

According to FHFA, the FHLBanks' liquidity position nearly doubled since the Agency issued guidance in 2018. This strengthened liquidity position helped facilitate the ability of the FHLBanks to meet recent spikes in advance demand.[16]

Risks Facing the FHLBank System

The FHLBank System faces various risks:

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[14] *See* FHFA, Advisory Bulletin 2013-09, *Collateralization of Advances and Other Credit Products to Insurance Company Members* (Dec. 23, 2013).

[15] The Federal Reserve raised its benchmark interest rate seven times throughout 2022, marking the largest annual count of rate hikes since 2005.

[16] Although this white paper details information primarily related to trends and developments in FHLBank advances, the System has experienced changes in other areas. For example, retained earnings were 0.11 percent of assets at the end of 2001 and grew to 1.97 percent of assets by the end of 2022, according to FHFA.

- **Operational risk**: The Office of Finance defines operational risk as "the risk of potential loss resulting from inadequate or failed internal processes, people, or systems, or from external events." According to FHFA, continued remote operations due to the COVID-19 pandemic caused elevated operational risk at the FHLBanks. FHFA also reports the FHLBanks are subject to "increasingly sophisticated" cyberattacks, a component of operational risk. More broadly, according to the Financial Stability Oversight Council,[17] the finance and insurance industries experienced the most cyberattacks of any industry from 2015 to 2020. FHFA reports FHLBanks continue to evolve controls to address cyber and technology risks.

- **Market risk**: Market risk describes the risk that changes in interest rates and other market volatility can adversely affect earnings or capital. According to FHFA, interest rate risk management is a key component in market risk management. In its 2021 Annual Report to Congress, FHFA reported FHLBank exposure to market risk as "moderate." Recent interest rate increases may pose additional exposure to market risk for the FHLBanks. According to the Office of Finance, interest rate changes could have a "material adverse effect" on FHLBank net interest income. Additionally, FHFA publicly reported several FHLBanks could enhance their risk management on related issues, such as LIBOR transition.[18]

- **Concentration risk**: According to the Office of Finance, when "advances are concentrated in a smaller number of members, an FHLBank's risk of loss resulting from a single event could become greater." This is a form of concentration risk. We previously reported on the concentration of FHLBank advances to large financial institutions,[19] and FHFA continues to monitor this trend. More recently, the Office of Finance reported that the financial industry continues to consolidate. This could lead to further concentration of large member institutions in some FHLBank districts and a decline in membership and "significant loss of business" for other districts. As of year-end 2022, 5 of the 11 FHLBanks had at least 50 percent of advances concentrated to their top five borrowers. At the most extreme, the top five borrowers held 78 percent of one FHLBank's advances.

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[17] FHFA is a member of the Financial Stability Oversight Council. The Council is charged with monitoring threats to the financial stability of the United States and improving collaboration between financial regulatory agencies, among other responsibilities.

[18] The London Interbank Offered Rate (LIBOR) is an interest rate benchmark that reflects the cost at which large banks can borrow on an unsecured basis in wholesale financial markets. LIBOR will no longer be valid for use after June 30, 2023. Like Fannie Mae and Freddie Mac, the FHLBanks must transition contracts that reference LIBOR. *See* OIG, *Update on Enterprise Transition from LIBOR to an Alternative Index for Single-Family ARMs* (Mar. 17, 2021) (WPR-2021-002).

[19] *See* OIG, EVL-2014-006 (Apr. 16, 2014).

- **Liquidity risk**: The Office of Finance describes liquidity risk as the risk that an FHLBank will not be able to appropriately meet its financial obligations or member credit needs. According to the Office of Finance, "disruptions in the short-term capital markets or changes to the regulatory environment" could adversely impact FHLBank liquidity. FHFA Director Sandra Thompson has noted multiple times that the FHLBanks remain a critical source of liquidity for members, particularly during times of economic stress. The primary sources of FHLBank liquidity include proceeds from the issuance of consolidated obligations, as well as cash and certain investment holdings.

- **Credit risk**: Credit risk is the potential that a borrower or counterparty will not meet their contracted obligations. Advances, which comprise the primary group of credit obligations to the FHLBanks, generally carry low credit risk, as described above. Credit risk developed into a top risk concern in the aftermath of the financial crisis due to FHLBank investments in PLMBS. As holdings of PLMBS declined, FHLBank exposure to credit risk generally decreased. Nevertheless, the FHLBanks are still subject to credit risk due to lending and investment activities outside of advances.

FHLBank System at 100: Focusing on the Future

On August 31, 2022, FHFA announced a comprehensive review of the FHLBank System, an initiative entitled "FHLBank System at 100: Focusing on the Future" (Initiative). As the System approaches its 100th anniversary, the Agency specified its interest in receiving feedback on various topics, including: FHLBank mission and purpose; membership eligibility; operational efficiencies; FHLBank role in addressing housing finance and community and economic development; addressing the needs of rural and financially vulnerable communities; and membership products and services. The Initiative began at the end of September 2022 with public listening sessions followed by a series of regional roundtables that continued through early 2023. FHFA also accepted written comments from the public concerning the Initiative.

The Initiative has garnered notable interest. The public listening sessions included more than 80 speakers representing a variety of organizations. At the initial session, Director Thompson acknowledged the Agency has never done such a comprehensive review of the System and noted there is "more that the [FHLBanks] can and should do."

FHFA continues to gather and analyze the information received for the Initiative and plans to release its findings later this year.

CONCLUSION

The FHLBank System was created during the Great Depression and has since played an important role in providing liquidity to member institutions and supporting housing and community development. The immediate increase in FHLBank advances at the beginning of the 2008 financial crisis and, later, at the start of the COVID-19 pandemic, illustrate that role. However, the notable declines in advances that followed these increases reinforce that the FHLBank risk landscape is susceptible to sudden shifts in demand driven by economic events, underscoring the importance of managing and mitigating associated risk. As one of the entities under FHFA's purview, and because of the FHLBanks' mission in housing and community development, OIG has forthcoming work on the FHLBank System.

OBJECTIVE, SCOPE, AND METHODOLOGY ....

The objective of this white paper is to provide an overview of the history and current state of the FHLBank System and discuss related risks. To achieve this objective, we reviewed internal FHFA documents, as well as publicly available documents. We also interviewed FHFA officials.

We provided FHFA with the opportunity to respond to a draft of this white paper. We appreciate the cooperation of FHFA staff, as well as the assistance of all those who contributed to the preparation of this white paper.

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