Federal Home Loan Banks' Comprehensive Review

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Issue Update

In August 2022, the Federal Housing Finance Agency (FHFA) initiated a comprehensive review of the Federal Home Loan Bank (FHLB) System, the first in its 90-year history. The review included two listening sessions in Washington, DC and 19 regional roundtables in which ABA and a number of bankers participated and filed comments. FHFA issued a comprehensive report on the review in November 2023 which makes 55 recommendations for changes to the System. Key recommendations include: clarifying the dual mission of the FHLBs to provide liquidity to members and support for affordable housing efforts by members; ensuring that FHLBs are not the "lender of last resort" for members; and strengthening member risk management. While FHFA made no specific recommendations to expand or restrict membership in the System, longstanding efforts by groups seeking to gain access to the System or restrict some banks' existing access are likely to continue.

FHFA has authority to make some changes to the System, including changing affordable housing requirements and imposing regulatory or supervisory restrictions on provisions of liquidity to members. In other areas, such as expansion or restriction of membership eligibility, or mission, only Congress can make changes. FHFA has undertaken a series of Requests for Input (RFI) as the next stage in the review process, before proposing rulemaking or other changes. While the policy priorities of a Trump-appointed FHFA Director are unknown, we expect more focus on ending the longstanding conservatorships of Fannie Mae and Freddie Mac and less efforts to refocus the FHLBanks. However, consistent with experience under the Biden Administration, the FHLB policy may be influenced by efforts to address the severe housing affordability issues facing the country.

Why It Matters

The FHLBs have been a fundamental part of the nation's financial system for more than eight decades, and they provide members with an important source of funding for mortgages and liquidity management. The System has proven to be well designed; its cooperative structure ensures that each participant has an interest in its safety and soundness. Member institutions capitalize the System with their investment, and in return, they receive the benefit of borrowing at attractive rates, earning potential dividends on their investment, and eligibility for Affordable Housing Program funds (and other community support programs) in lieu of or in addition to potential dividends.

We agree that an expansion of the Affordable Housing Program (AHP) mandate or some other form of community support obligations may be appropriate. However, because the FHLBanks are chartered by Congress, requirements about the level of support they must provide to affordable housing and community development is to be decided by Congress. We are generally supportive of voluntary efforts by the FHLBs to expand their affordable housing efforts, and especially welcome efforts that help community banks further affordable housing efforts.

Attention by FHFA to the FHLBbanks' role in the provision of liquidity is expected and reasonable. How FHFA addresses these issues – especially as it relates to day-to-day liquidity management will be important. It is essential that any changes be subject to careful consideration by all stakeholders, including members and prudential regulators, and that no changes are made without input and understanding by all impacted parties.

Changes in this area have the potential for significant negative impact on banks of all sizes, and these changes could require a comprehensive realignment of the financial system to avoid significant disruption.

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While the financial system is evolving, and numerous new entities compete with FHLB members in the housing and community development finance arena, those entities do not have comparable capital requirements as well as comparable prudential requirements and oversight as existing FHLB members. Most also do not have the kinds of eligible collateral used to back borrowing from the System in its current form. Given the success of the FHLBs, it is not surprising that these entities want to join or replicate the System. However, their admission would introduce significant risk to the cooperative System. Allowing entities with vastly different regulation, collateral and oversight into the System risks destabilizing it and putting existing members' capital at risk, with potential negative cascading effects throughout the financial system and U.S. economy.

Recommended Action Items

- Explain to Congress and FHFA why your bank is a member of the System – include points about the access to necessary liquidity in all economic cycles and specifics about how your bank uses System access to further economic opportunity in your community including through the Affordable Housing Program (AHP).

- Urge Congress not to expand FHLB membership to less regulated entities or those without collateral to back their borrowing, which would destabilize the FHLB System and put bank investments at risk.

- Engage with FHFA through the RFI process to be sure that they hear how important the FHLBs are to your bank, your community and your customers.