

Federal Home Loan Banks: What Are They And Why Do They Need Reform?

Sharon Cornelissen, Director of Housing,
Consumer Federation of America

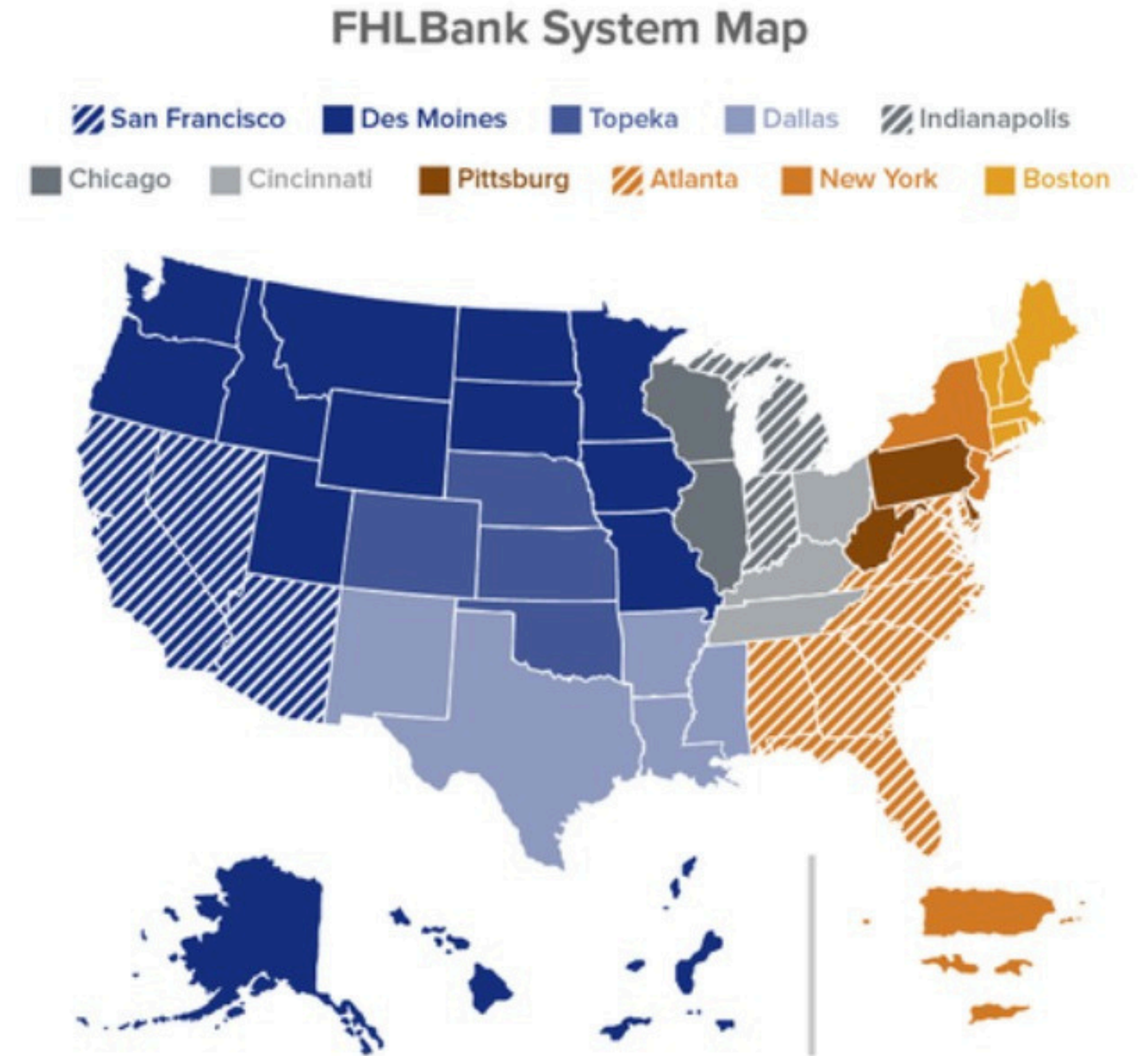
NCST, Community Impact Briefing, June 26, 2024



Coalition for FHLBank Reform

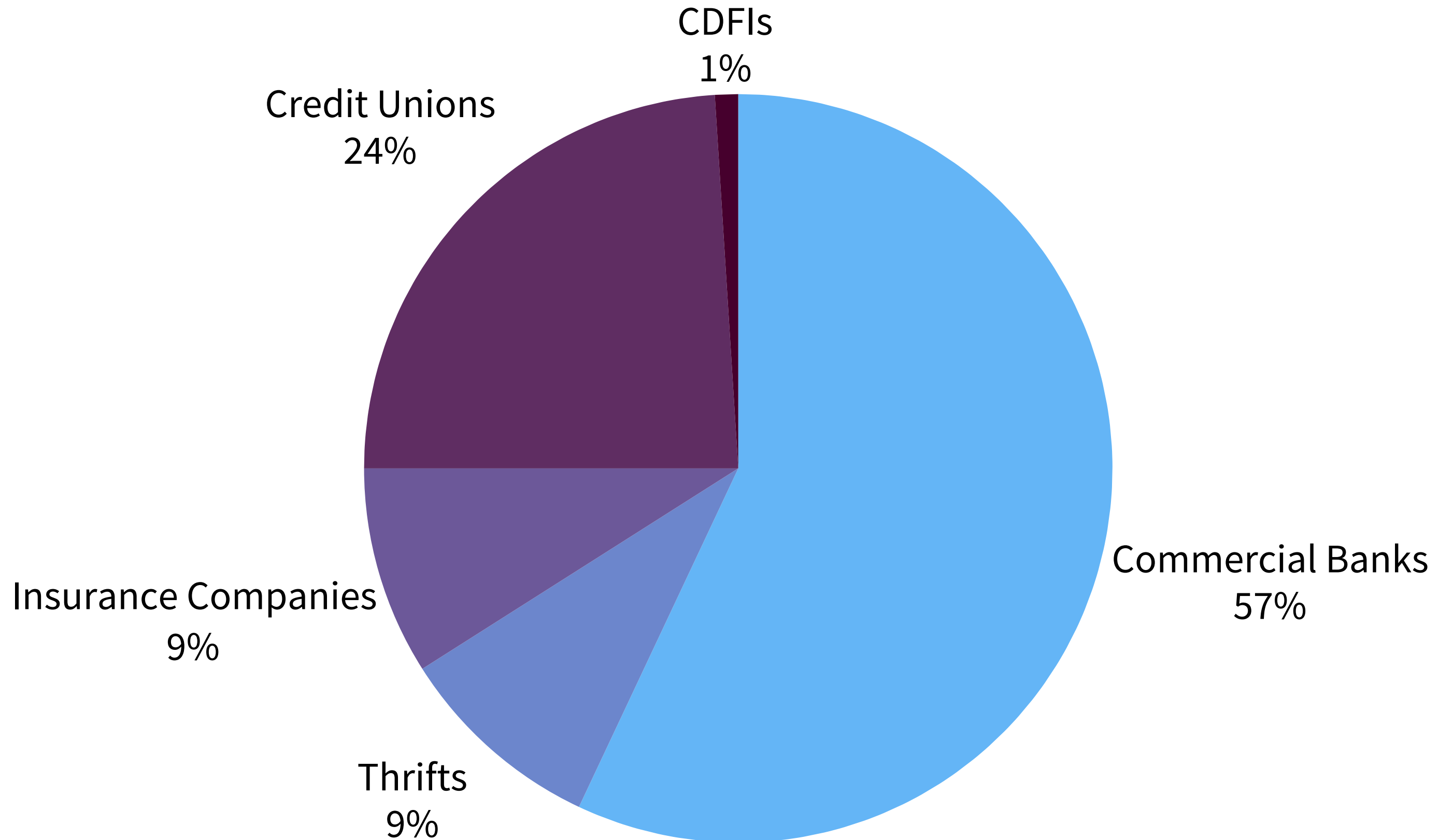
WHAT IS THE FEDERAL HOME LOAN BANK SYSTEM?

- Created by Congress in 1932
- 11 regional banks
- Liquidity for housing
- FHLBs are Government Sponsored Enterprises (GSEs) that provide cheap loans ("advances") to their members



Source: FHFA; Novogradac

WHO ARE FHLB MEMBERS?



Source: FHFA Report (2023), based on FHLBank data

WHAT DO FHLBS DO?



- “Bank for bankers”
- Below-market-rate loans (advances) in exchange for real estate-related collateral such as mortgages and mortgage-backed securities (MBS)
- Cooperatively owned, members as stockholders: get paid dividends

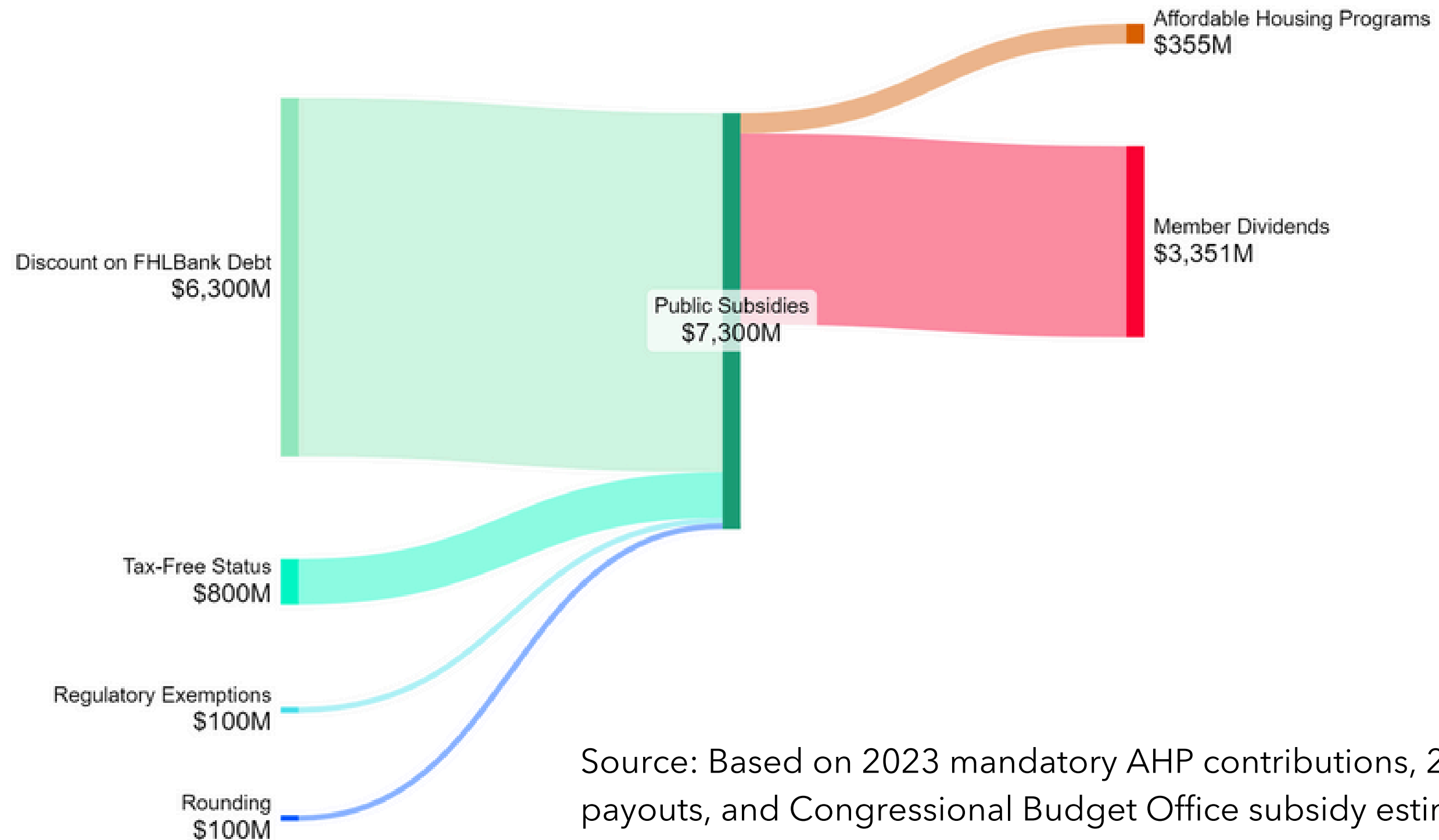
GOVERNMENT SPONSORED ENTERPRISE (GSE)

Congress created GSEs to meet unmet credit needs. As GSE, the FHLBank System gets special advantages:

- \$4 billion Treasury line of credit
- Federal, state, and local tax exemptions
- Superlien status
- Implied federal guarantee on debt: 40 basis points discount

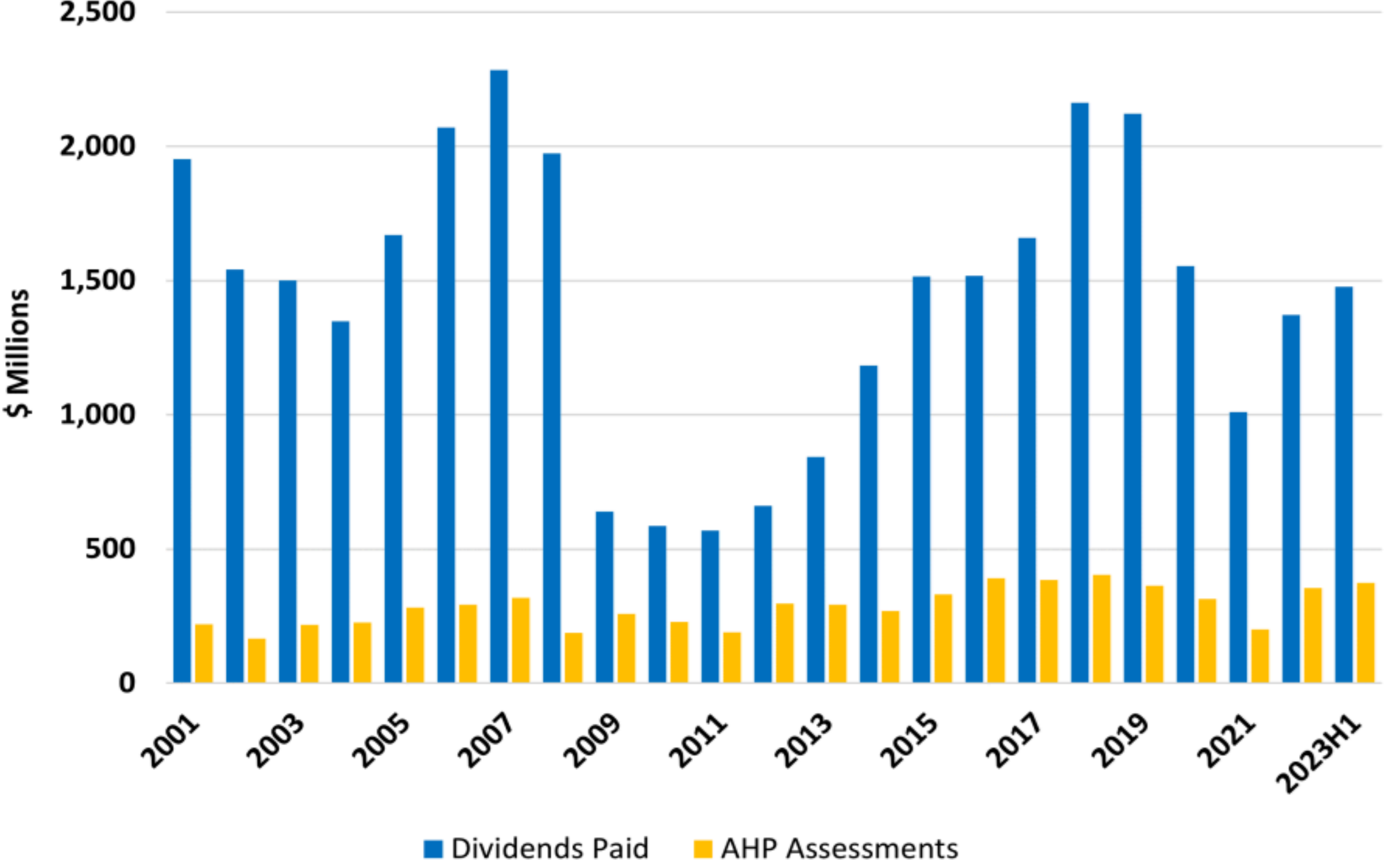
Congressional Budget Office: FHLBanks and their stockholders receive a \$7.3 billion government subsidy a year!

WHERE DO \$7.3B IN PUBLIC SUBSIDIES GO?



Source: Based on 2023 mandatory AHP contributions, 2023 dividend payouts, and Congressional Budget Office subsidy estimates

Home Loan Banks Pay 4-5X as Much in Dividends as to Affordable Housing Programs!



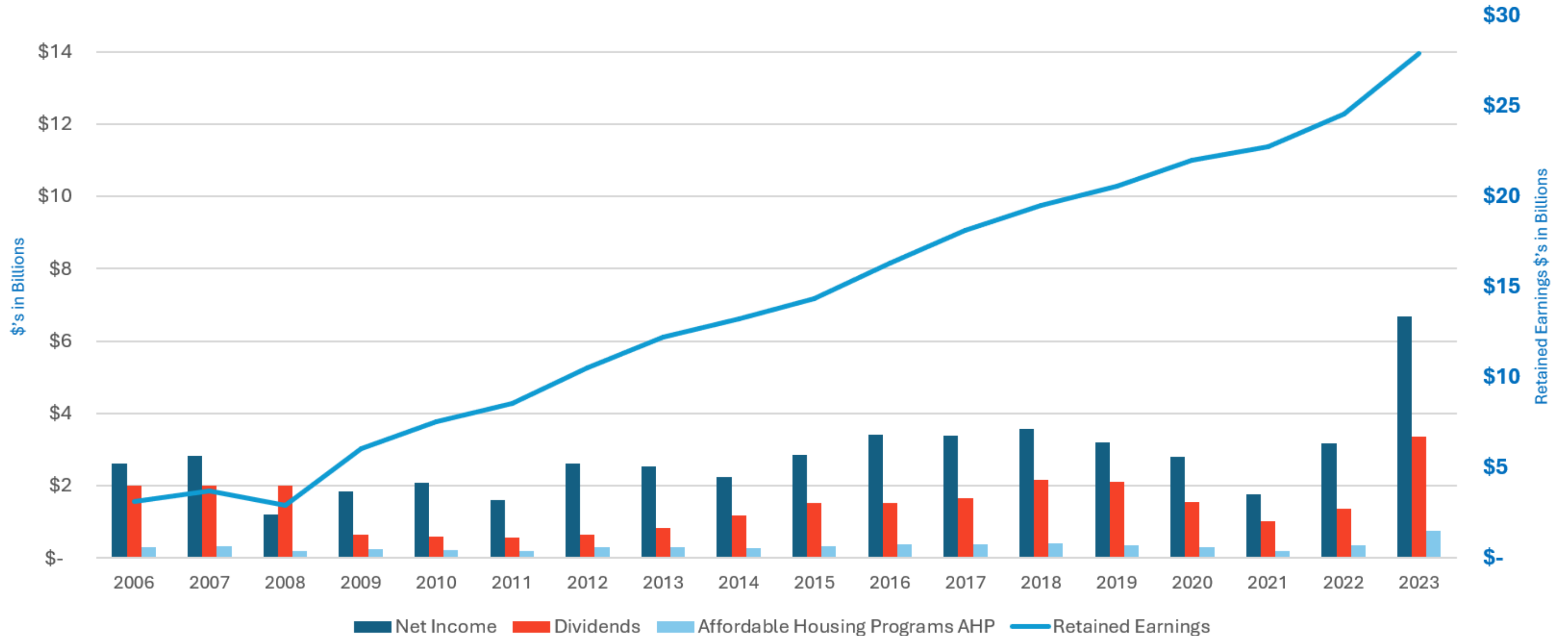
Source: FHFA Report (2023), based on FHLBank data

HOW DOES AHP SUPPORT HOUSING?

- Down Payment Assistance programs (on average \$8,000 cash assistance)
- Gap funding for LITHC and other affordable housing developments (typically around \$12,500 subsidy per unit)
- Home rehab grants (~ 760 in 2022)

A good start -- but much more can be done!

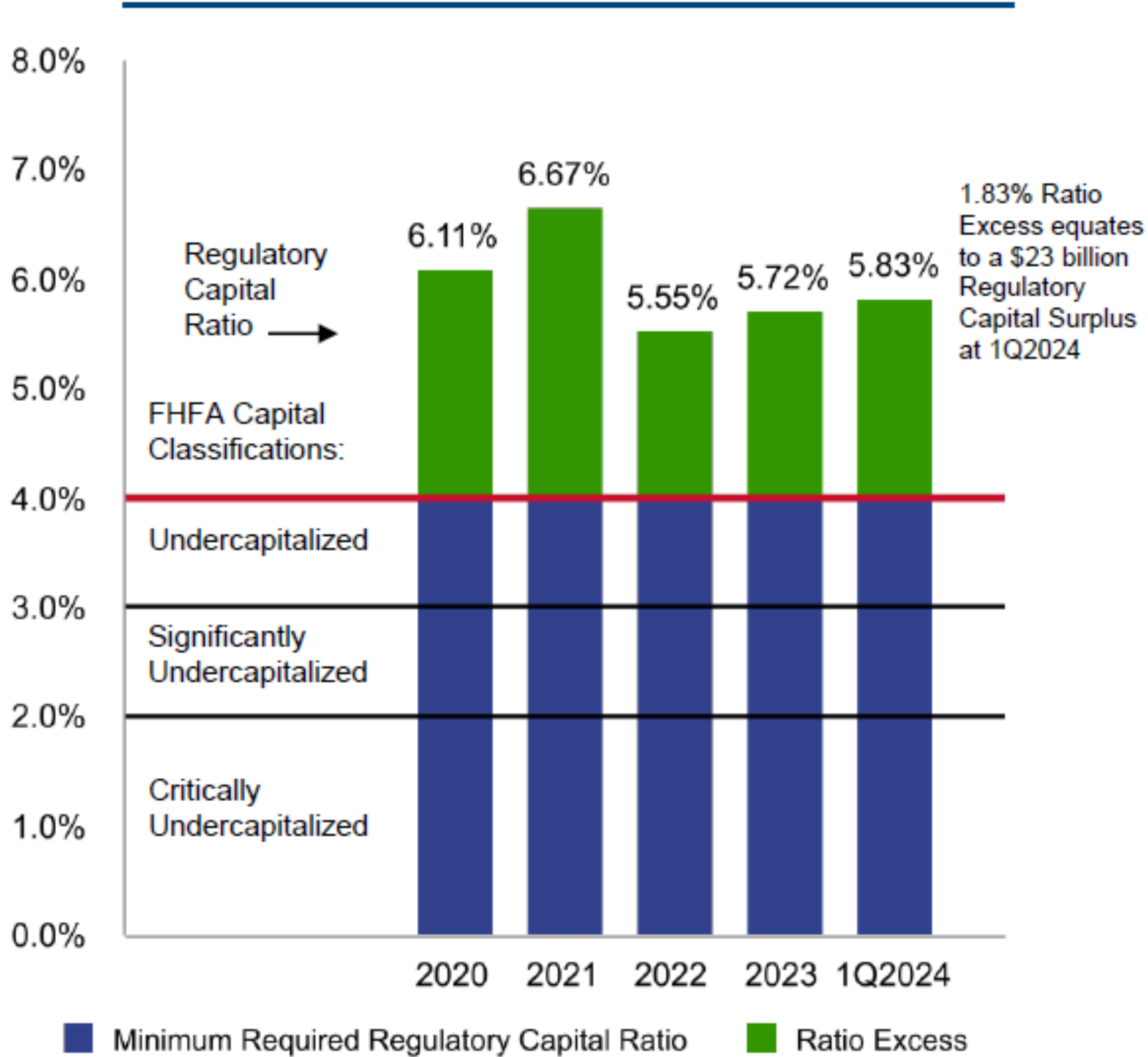
RETAINED EARNINGS RELATIVE TO NET INCOME, DIVIDEND PAYOUT, AND AHP



Source: Policy Kinetics, FHLBank System Combined Financial Reports 2006-2023

FHLBanks currently sit on \$23B in Regulatory Capital Surplus

Regulatory Capital Ratio Reflects Capital Surplus*



Source: FHLBank Office of Finance, Investor Presentation, June 2024



FHFA REPORT: *FHLBs at 100*



MISSION



**SAFETY AND
SOUNDNESS**



**HOUSING AND
COMMUNITY
DEVELOPMENT**



**OPERATIONAL EFFICIENCY,
STRUCTURE, AND
GOVERNANCE**

What Should FHLB Reform Look like?

In Congress:

- Raise mandatory AHP contributions from 10% to 30%



FHFA Regulation:

- Define mission as *liquidity for* housing and community development
- Reward members that contribute most to housing: including CDFIs and Community Banks
- Help make AHP more relevant and useful to regional housing needs
- Leverage FHLB capital stock (i.e. loan fund, credit enhancements)
- Ensure that \$7.3B in subsidies address affordable housing needs!



RFI on Mission (due July 15!)

<https://www.fhfa.gov/public-input/fhlbank-mission>

- What is the mission of the FHLBs?
- How should benefits to members be based on mission-alignment?
- What is the right balance between public subsidies and public benefits?

They want to hear from you!



RFI on AHP (due August 19)

<https://www.fhfa.gov/public-input/fhlbank-affordable-housing-program-competitive-application-process>

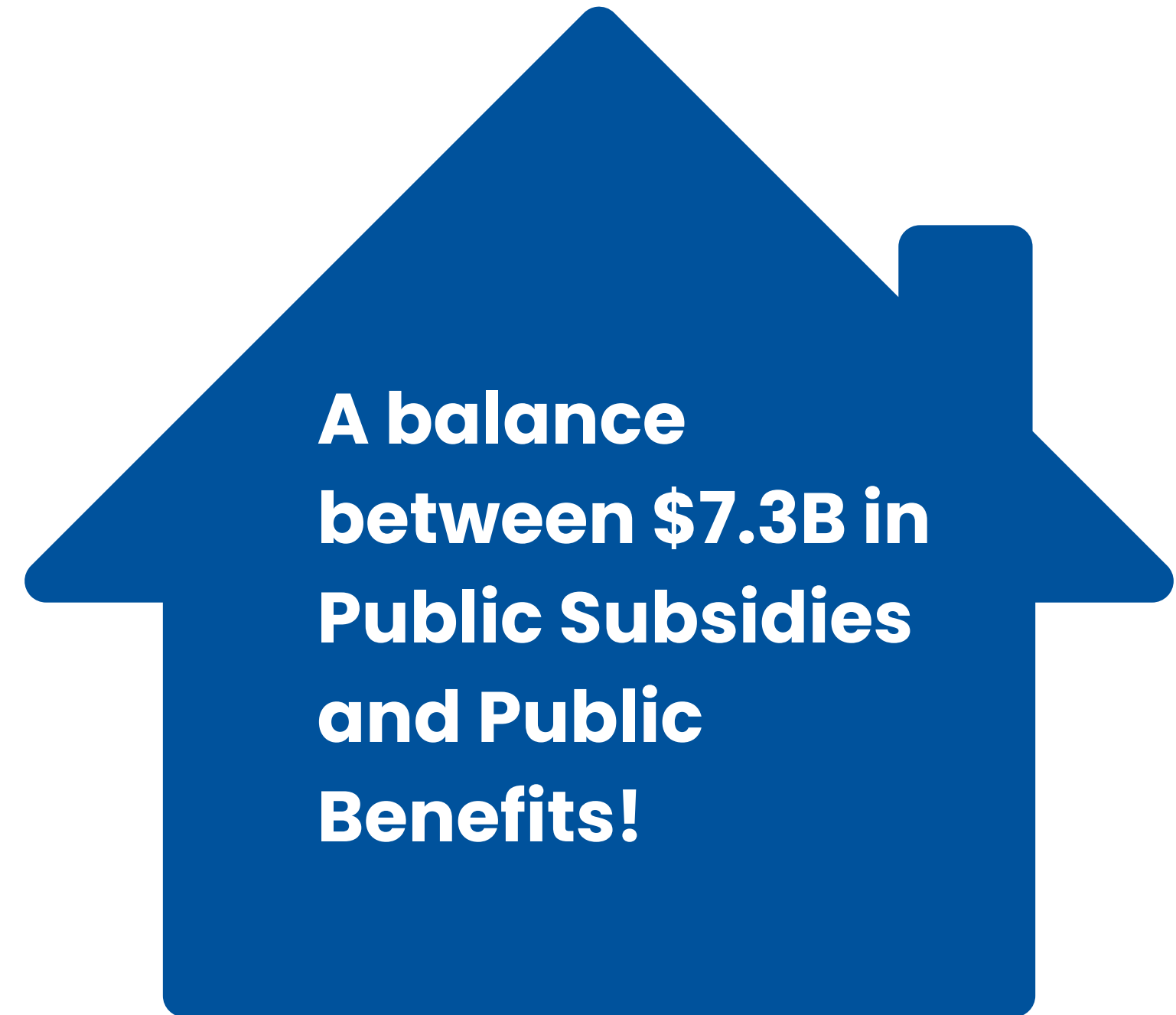
- How can the AHP application process be made more effective?
- How does it compare to other funding applications for gap funding?
- How could the AHP application process be simplified?

Congressional Action?

- Biden-Harris administration: AHP 10% to 20% with a focus on housing supply
- Senator Cortez-Masto's FHLB Mission Implementation Act

Bringing HOME Back to HOME Loan Banks...

- A 92-year-old GSE that meets today's housing finance needs
- Prioritizing mission in staffing, innovative programming, leveraging retained earnings, maximizing AHP





Coalition for FHLBank Reform



fhlbreform.org



scornelissen@consumerfed.org



twitter.com/FHLBReform