

# Federal Home Loan Bank System

## OVERVIEW

### Structure and Purpose

The Federal Home Loan Banks (FHLBs) are a system of regional member-owned corporations that provide lending institutions with a liquidity resource to finance housing and economic development activities. Congress established the Federal Home Loan Bank system in 1932 as a government sponsored enterprise to support mortgage lending and related community investment activity in the wake of the Great Depression. The FHLBs' mission is to provide reliable liquidity to its member institutions to support housing finance and community investment. While the FHLBs' mission reflects a public purpose, all FHLBs are privately capitalized and do not receive federal funding.

The Federal Housing Finance Agency (FHFA) regulates the FHLBs. It is responsible for ensuring that the FHLBs operate in a safe and sound manner, are adequately capitalized, are able to raise funds in the capital markets, and are held accountable to the FHLBs' mission. The FHFA also establishes housing goals for the FHLBs that measure the extent that FHLB programs are serving low- and very low-income families and families residing in low-income areas. The FHFA conducts on-site annual examinations and off-site monitoring of the FHLBs and the Office of Finance.

The FHLBs fund themselves primarily by issuing debt securities or consolidated obligations through the "system" of FHLBs in the capital markets through the Office of Finance, which acts as the FHLBs' agent. Although each FHLB is a separate corporate entity with its own management and board of directors, the FHLBs are jointly and severally liable for all consolidated obligation debt. The federal government does not guarantee or insure these consolidated obligations. However, the FHLBs' status as a government-sponsored enterprise enables the FHLBs to raise

funds at rates slightly above comparable obligations issued by the U.S. Department of the Treasury.

The FHLBs have thousands of members that include banks, thrifts, credit unions, insurance companies, and community development financial institutions. Of all insured lending institutions in the country, members represent approximately 80 percent of these institutions. To become a member, a financial institution must purchase stock in proportion to its holdings of mortgages and mortgage securities and its assets.<sup>2</sup>

Unlike the other government sponsored enterprises, Fannie Mae and Freddie Mac, FHLBs do not guarantee or insure mortgage loans. Instead, FHLBs act as a "bank to banks" by providing long- and short-term loans known as "advances" to their members, as well as specialized grants and loans aimed at increasing affordable housing and economic development. In some cases, FHLBs also provide secondary market outlets for members interested in selling mortgage loans.

### Programs and Coverage

Located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines,<sup>3</sup> Indianapolis, New York, Pittsburgh, San Francisco, and Topeka, the 11 Federal Home Loan Banks are each separate, government-chartered, member-owned corporations governed by a board of directors ranging from 14 to 29 directors.

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<sup>2</sup> Once an institution becomes a member, its required stock purchases increase with its actual borrowings.

<sup>3</sup> On May 31, 2015, the Federal Home Loan Bank of Seattle merged with the Federal Home Loan Bank of Des Moines. The institution is headquartered in Des Moines and maintains a Western office in Seattle, WA. Covering 13 states and three U.S. Pacific territories, it is the largest FHLB in the system in terms of membership and geography.

## This Guide covers the following FHLB products and services:<sup>4</sup>

**Affordable Housing Program (competitive):** Gap financing for rental or homeownership projects developed in partnership with community sponsors and distributed through a competitive process.

**Affordable Housing Program (homeownership set-aside):** Non-competitive grants aimed at providing down payment, closing cost, and rehabilitation assistance to increase affordable homeownership opportunities for member customers distributed through a non-competitive allocation or first-come, first-served process.

**Community Investment Program:** Discounted advance capital for community development lending.

**Advances:** Short- and long-term credit products ranging from overnight to 30-year funds and including a range of fixed and adjustable or floating rate structures, primarily offered to assist collateralized banks with portfolio mortgage lending.

**Mortgage Partnership Finance® Program:** Secondary market outlet offered to members of the FHLBs of Atlanta, Boston, Chicago, Dallas, Des Moines, New York, Pittsburgh, San Francisco, and Topeka. The MPF® Program includes conventional product offerings with credit risk-sharing execution, as well as conventional and government products with non-credit risk-sharing execution options.

**Mortgage Purchase Program:** Secondary market outlet offered to the members of the FHLBs of Cincinnati and Indianapolis. The Mortgage Purchase Program includes conventional and Federal Housing Administration (FHA) product offerings. Members retain credit risk on all loans delivered through the Mortgage Purchase Program.

## DOING BUSINESS WITH THE FEDERAL HOME LOAN BANKS

### Opportunities and Costs of Membership

FHLBs offer a variety of products and programs to its members to help them meet their affordable mortgage lending goals. These include grants, below market-rate loans, and discounted advances. Community banks

also receive liquidity and lower-cost funding options that would not otherwise be available to them.

FHLBs are required to set aside portions of their profits to re-invest in the communities of their members in the form of grants and below market-rate loans through Affordable Housing Programs (AHP). Each FHLB administers its own AHP programs designed to address local housing needs and provide funding for community and economic development. Affordable Housing Program grants are awarded through a competitive application process for members working with community organizations and housing developers to create rental or homeownership opportunities for lower-income households.

The Homeownership Set-Aside program is a non-competitive program that offers grants for eligible member borrowers to fund down payment, closing costs, counseling, or rehabilitation costs assistance in connection with a household's purchase or rehabilitation of an owner-occupied home.

The Community Investment Program (CIP) offers discounted advances priced below standard advance offerings for qualified community development activities. These offerings can help members meet their business development and Community Reinvestment Act (CRA) goals for community-oriented and affordable housing lending.

Through membership in the FHLB system, community banks also gain access to low-cost funding and liquidity options typically unavailable to individual banks. The FHLB system provides its members with a variety of funding options including long- and short-term advances to help members manage their funding needs and provide mortgage-financing options in the communities they serve. FHLB advances are typically priced at a small spread over U.S. Department of Treasury obligations. The FHLBs also provide secondary market mortgage delivery options for members to decrease interest rate, prepayment, and credit risk. They also provide a way for members to mitigate their interest rate risk through customizable advance terms from one day to 30 years.

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<sup>4</sup> The FDIC encourages institutions to weigh the costs, benefits, and risks of these products and programs prior to participation.

FHLBs do not guarantee or insure mortgages. They simply lend against collateral. Therefore, if a mortgage that collateralizes an FHLB advance defaults, the FHLB will look to the lender to either post additional collateral or reduce the advance outstanding. This means that lenders have to hold some capital buffer to cover this risk.

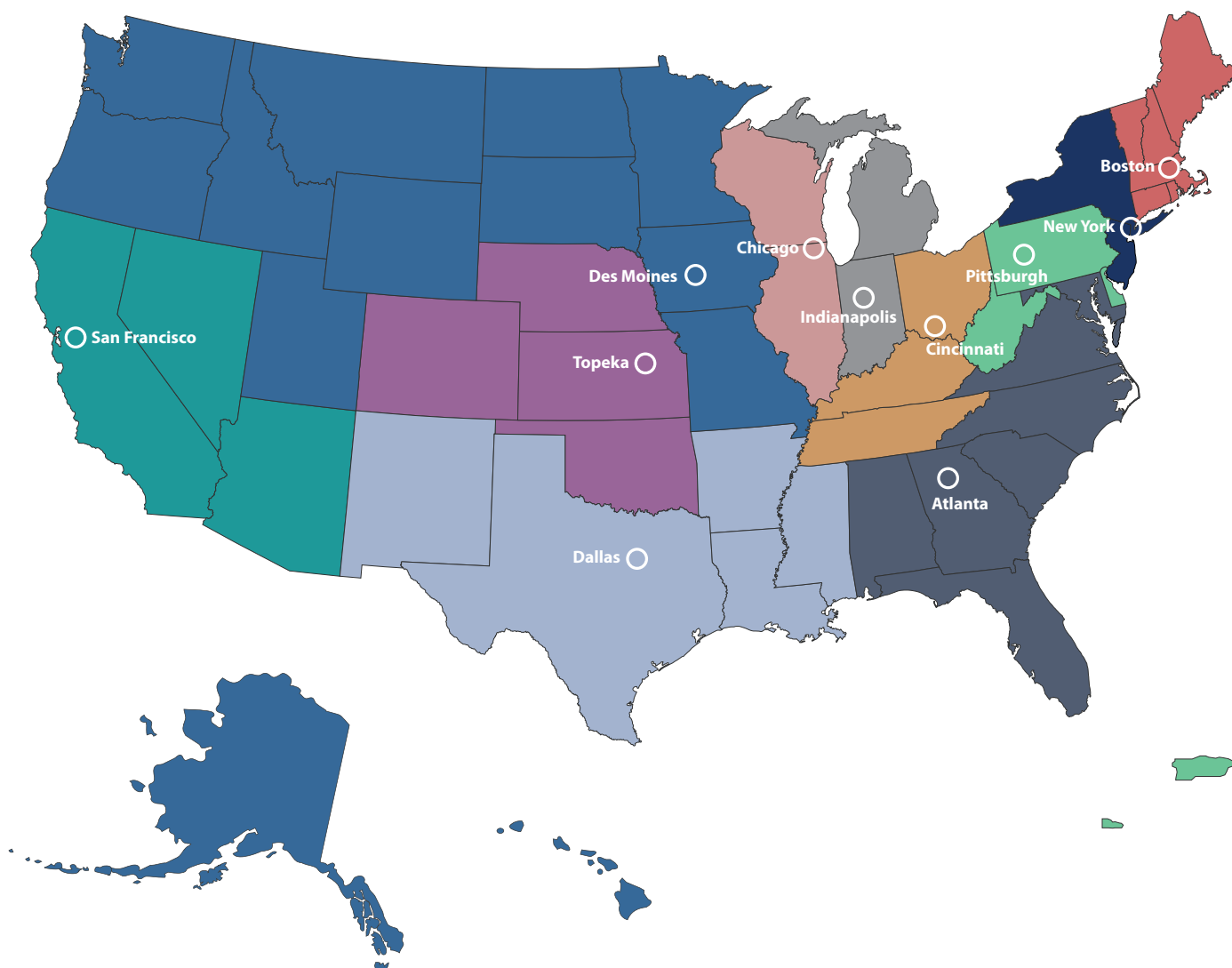
Each member must purchase a minimum investment of stock in the FHLB in proportion to its borrowings from the Federal Home Loan Bank, its holdings of mortgages and mortgage securities, and its assets. Each FHLB has an established minimum investment per member and the sum of all stock investments by all members must be sufficient to maintain the minimum capital requirements for each individual FHLB. Individual FHLBs may have their own requirements. Some FHLB profits from advances are returned to

members in the form of stock dividends or Affordable Housing Program funded business development opportunities.

### Bank Eligibility and Application Process

All federally insured depository institutions are eligible to apply for membership with their FHLB. Membership applications can be found on each of the individual FHLB websites, along with application requirements. It is common for prospective members to have extensive discussions about their applications with FHLB staff.

Membership is geographically determined. Prospective members may only apply to and become a member of the FHLB region that represents the location of their headquarters or primary place of business, even though some institutions have multiple entities with locations in more than one FHLB region.



In addition to being a legal entity in sound financial standing with a CRA rating of “satisfactory” or better, the prospective member must have the following characteristics:

- **Makes long-term home mortgage loans:** The institution either purchases or originates long-term home mortgage loans. Long-term home mortgage loans are defined as home mortgage loans with a maturity of five years or more. An institution may also qualify through a mortgage banking operation or by purchasing and holding mortgage-backed securities.
- **10-Percent Rule:** The institution has at least 10 percent of its total assets in residential mortgage loans. Community Financial Institutions (defined as FDIC-insured depository institutions with average total assets over the preceding three-year period of less than \$1.108 billion, adjusted annually) are exempt from the 10-percent rule.

In addition, the member must purchase a minimum investment of stock in the FHLB in proportion to its borrowings from the Federal Home Loan Bank, its holdings of mortgages and mortgage securities, and its assets. Each FHLB sets its own stock thresholds and structure, and has an established minimum investment per member and the sum of all stock investments by all members must be sufficient to maintain the minimum capital requirements for each individual FHLB. Further, individual FHLBs may have their own requirements. FHLB stock may be held as a bank asset.

### System Requirements and Quality Control

System and quality control requirements vary by type of service and by FHLB. For example, the FHLBank of Atlanta uses FHLBAccess®, which is a web-based system that provides members with online support for reports, statements, and other relevant information for monitoring account relationships with the FHLB.

Community banks should check individual FHLB websites for specific requirements (see Resources).

### Training

Each FHLB offers training opportunities for members to learn more about FHLB products and business-related opportunities. See individual FHLB summaries for training information offered.

### RESOURCES

**The Council of Federal Home Loan Banks**

<http://www.fhlbanks.com>

**Federal Home Loan Banks Office of Finance**

<http://www.fhlb-of.com>

**Supervisory role of FHFA over FHLBs**

<http://www.fhfa.gov/SupervisionRegulation/FederalHomeLoanBanks/>

**Federal Home Loan Bank of Atlanta**

<http://corp.fhlbatl.com/>

**Federal Home Loan Bank of Boston**

<http://www.fhlbboston.com/>

**Federal Home Loan Bank of Chicago**

<http://www.fhlbc.com>

**Federal Home Loan Bank of Cincinnati**

<http://web.fhlbcin.com/Pages/fhlbcin.aspx>

**Federal Home Loan Bank of Dallas**

<http://www.fhlb.com/>

**Federal Home Loan Bank of Des Moines**

<http://www.fhlbdm.com/>

**Federal Home Loan Bank of Indianapolis**

<http://www.fhlbi.com/>

**Federal Home Loan Bank of New York**

<http://www.fhlbny.com/>

**Federal Home Loan Bank of Pittsburgh**

<http://www.fhlb-pgh.com/>

**Federal Home Loan Bank of San Francisco**

<http://www.fhlbsf.com/>

**Federal Home Loan Bank of Topeka**

<http://www.fhlbtopeka.com/>