Independent Banker

November 2024

Portfolio

[tag] Checks and Balances

**[hed] How we’re pushing back against upcoming FHLB regulations**

[dek] Significant changes could be in store for the Federal Home Loan Bank system, with possible negative effects for community banks.

[byline] By Tim Roy, ICBA

[body]

Back in 1932, the Federal Home Loan Bank Act created the Federal Home Loan Bank (FHLB) system, a government sponsored enterprise (GSE) intended to support mortgage lending and community investment activity. Today, that system is viewed as a fundamental part of the nation's financial system.

For context, the FHLB System comprises roughly 6,800 member financial institutions—including most ICBA member banks—11 regional FHLBs and the Office of Finance. It provides a source of funding for mortgages and asset-liability management, liquidity for a member's short-term needs, and additional funds for housing finance and community development. Members can even obtain “advances” that are primarily collateralized by residential mortgage loans and government and agency securities.

About a year ago, the Federal Housing Finance Agency (FHFA) released a report, “FHLBank System at 100: Focusing on the Future” (available at *<i>fhfa.gov<i>*), based on a yearlong study of the FHLB system. The agency took a deep dive into the system to better understand what needs to change, what should stay the same and potential areas of improvement. The FHFA gathered stakeholders from around the country to talk about the FHLBs, and ICBA participated in many of these stakeholder roundtables.

Our position was clear: The FHLB System is important to community banks, and any attempts to block our members’ access to the funding will ultimately cause more harm than good.

Very few ICBA members don’t participate in their respective FHLB system, which allows banks to use the advances to make more mortgage loans and invest in their communities. The program also helps them maintain their lending cycles, which is critical for most smaller institutions.

Not all FHLB member financial institutions directly access the advances, but they know those funds are there as a backup source of liquidity. They know that the regional FHLBs are there to provide a support system both for community banks and for the national housing finance system as a whole. These are very important assurances for institutions that participate in a system that’s been in place for more than 90 years.

**[subhed] Don’t fix what isn’t broken**

If you polled ICBA’s members and asked about the FHLB system and their experiences using it, the feedback would be largely positive. This is one of many reasons why ICBA is strongly encouraging FHFA not to mess with an already good thing. Critics, however, argue that the system is outdated in today's mortgage market and that the program’s government backing gives member banks an unfair advantage and higher profits due to its more favorable rates.

We would argue that these “advantages” translate into direct positive effects on the communities and customers that the FHLBs’ members serve.

For example, the FHLB system’s dual mandate requires its members to provide affordable housing; they’re mandated by law to submit 10% of their earnings and apply it to affordable housing. In fact, many of the individual FHLBs voluntarily contribute far more than what is required.

Right now, there’s a push for the FHLB system to do more to ensure that advances go directly to mortgage loans—as opposed to taking those advances and moving that money around in other ways, like using them to obtain better rates on the international market. Critics want to make sure that the program’s advances are contributing to mortgage loans, fair housing and/or affordable housing.

The reality is that ICBA’s members will *<i>always<i>* invest in their communities; it’s in their DNA. The FHLB system’s advances allow them to do even more good in their communities. They don’t need tracking mechanisms or arbitrary requirements dictating the need to “maintain a certain percentage of their portfolios in mortgage loans” to prove this point.

Still, there’s been an ongoing argument suggesting the need for a continual requirement on banks to have a certain percentage of their assets in mortgage loans. We find this problematic because it may prevent community banks from accessing the system because they may not meet the requirement. In fact, most community banks are all very active in and investing in their local communities.

**[subhed] Preparing for a possible shift**

It's been a year since FHFA released its report, and there have since been a few proposed rulemakings that haven’t affected the program. Over the next few months, there could be several more proposed rulemakings focused on making changes to the program. It’ll be a slow process, but it’s something that ICBA members—and especially FHLB members—should be watching.

At ICBA, we recently formed a task force of community bankers who specialize in the FHLB system’s lending programs and products and are very knowledgeable about the process. They know what the consequences of some of these policies will be down the line. We're taking this knowledge and experience and turning it into actionable policy, all with the goal of ensuring that community banks will continue to be able to access valuable liquidity and obtain advances with minimal new barriers to entry.

***Tim Roy*** *(**tim.roy@icba.org**) is ICBA’s vice president of housing finance policy.*

[ends]

[boxout]

**How you can help**

* If you’re ever in front of a member of Congress who can instigate change, or if they have connections to FHLB or FHFA, tell them why this program is so vital to community banks, borrowers and their communities.
* If you get any flak from a regulator for taking an advance or dealing with other program-related roadblocks, we want to know about it. It helps us push back and take a stand.

[sources]

https://www.fhfa.gov/sites/default/files/2024-01/FHLBank-System-at-100-Report.pdf