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Federal Home Loan Bank, Tax-Free: Liquidity to Support Housing

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Executive Summary

Criticism of the Federal Home Loan Bank (FHLB) system has been steadily growing for years—intensifying after the collapse[1] of Silicon Valley Bank.[2] The FHLB works as intended. However, that did not stop the Federal Housing Finance Agency (FHFA) from publishing a report proposing substantial reforms to fix what is not broken.[3] Criticisms of the FHLB fall into three main categories: 1) The FHLB doesn't support small-to-medium banks; 2) the FHLB costs taxpayers' money; and 3) the FHLB has fallen short of its mission to support housing and community development. This bundle of misplaced assertions has led to misguided reform efforts.

[1] Theron Mohamed, "Silicon Valley Bank's just suffered the worst financial meltdown in 15 years. Here's what you should know, and what A-list market minds are saying," Business Insider, March 13, 2024, https://markets.businessinsider.com/news/stocks/silicon-valley-bank-svb-live-blog-fed-fdic-bailout-experts-2023-3.
[2] Stefan Gissler, Borghan Narajabad, and Daniel K. Tarullo, "Federal Home Loan Banks and Financial Stability," Harvard Public Law Working Paper No. 22-20, last revised on July 21, 2022, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4135685.
[3] "FHLBank System at 100: Focusing on the Future," Federal Housing Finance Agency, November 7, 2023, https://www.fhfa.gov/sites/default/files/2024-01/FHLBank-System-at-100-Report.pdf.

Introduction

The FHLB has been inundated with complaints, usually relating to its role as a liquidity provider to Silicon Valley Bank (SVB) shortly before it announced insolvency.[4] These complaints, and all of the fallacies and misnomers underpinning them, are summed up well by the Brookings Institution:

“As SVB needed cash they used the arcane Federal Home Loan Bank system to borrow heavily, becoming the SF FHLB’s top borrower with $20 billion. The FHLB is called the lender of next to last resort, and when a bank fails the FHLB is the only entity that gets paid out ahead of the FDIC. Thus, the more indebt a bank is to the FHLB, the greater the losses borne by the taxpayer if the bank fails.”[5]

While erroneous, most criticisms of the FHLB focus on its reputation as the lender of next-to-last resort and on the liquidity, it provides to its members at the taxpayers' expense. But the reality is that the FHLB is an essential component of Main Street banking and has been for decades—filling a market need for liquidity without costing the taxpayer a cent. But this has not stopped this narrative from being lobbied on the Hill, resulting in a growing belief that the FHLB is a tax dollar-wasting lender to large and failing banks. Nor has it stopped the Federal Housing Finance Agency (FHFA), the FHLB’s chief regulator, from bending to these criticisms—resulting in a proposal from the FHFA to limit the FHLB’s ability to lend to large banking institutions.[6]

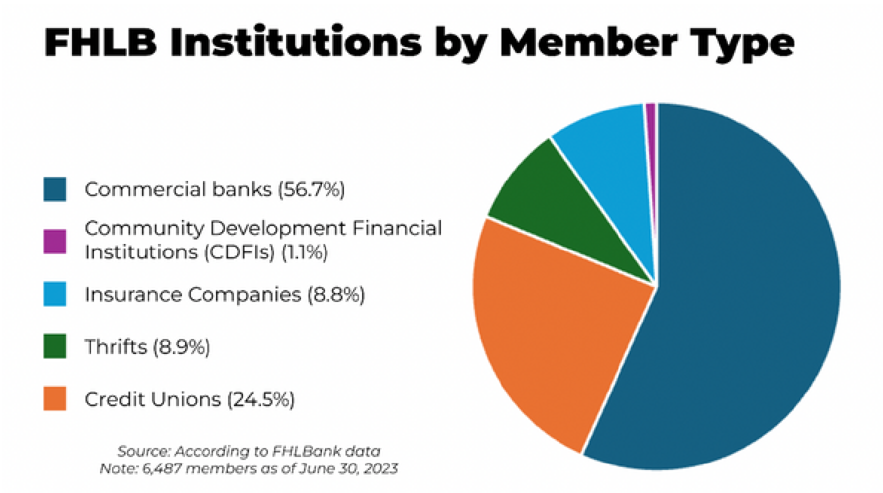
Proposed solutions tend to emanate from faulty assumptions about the FHLB’s role, specifically concerning servicing small and medium-sized banks and credit unions.
To explain why this is the case, it is first necessary to understand the FHLB system and why its role in the financial market is so important. Understanding this history exposes the flaws in these near-sighted critiques and elevates the purpose and usefulness of the FHLB.

[4] “Silicon Valley Bank’s insolvency explained,” Wealth Management, March 2023, https://www.ig.ca/en/insights/silicon-valley-banks-insolvency-explained.
[5] Aaron Klein, “SVB’s collapse exposes the Fed’s massive failure to see the bank’s warning signs,” Brookings, March 16, 2023, https://www.brookings.edu/articles/svbs-collapse-exposes-the-feds-massive-failure-to-see-the-banks-warning-signs/.
[6] Austin Weinstein and Katanga Johnson, “US Regulator Considers Limiting Big Banks’ Borrowing From Backstop Lender,” Bloomberg, June 30, 2023, https://www.bloomberg.com/news/articles/2023-06-30/us-regulator-weighs-limiting-big-banks-borrowing-from-fhlbs.

About the FHLB

First established in 1932 as part of the Federal Home Loan Bank Act,[7] the FHLB system is a government-sponsored enterprise (GSE) composed of nine regional banks originally designed to address "frequent liquidity shortfalls, or cash flow disruptions, experienced by mortgage lenders during the Great Depression."[8] It was intended to serve as a counterpart to the Federal Reserve and enhance banking system stability by allowing depository institutions to borrow money from the government during financial difficulty. Over the years, Congress has modified the FHLB system several times in response to changing economic realities and various crises, such as the 1980s Savings and Loan Crisis,[9] and following the 2007 Subprime Mortgage Crisis, resulting in an expanded role.[10]

Today, the FHLB system consists of "11 regionally based, wholesale suppliers of lendable funds" to more than 6,500 member financial institutions of all shapes and sizes. Among these are community banks, commercial and savings banks, credit unions, insurance companies, and community development institutions.[11] Based on June 2023 FHLBank membership data, community banks, and credit unions represent the lion's share of member institutions, equal to 56.7 percent, and 24.5 percent respectively.[12] Thrifts comprise only 8.9 percent of member institutions, followed by insurance companies at 8.8 percent, and Community Development Financial Institutions, or CDFIs, at just 1.1 percent.[13]



[7] 12 U.S.C. 1421 et seq. (Public Law 72-304).
[8] "The Federal Home Loan Bank (FHLB) System and Selected Policy Issues," Congressional Research Service, August 27, 2020, https://crsreports.congress.gov/product/pdf/R/R46499/2#:~:text=and%20Selected%20Policy%20Issues,-The%20Federal%20Home&text=investments%20through%20various%20programs.,grants%20for%20low%2Dincome%20projects.
[9] Kenneth J. Robinson, "Savings and Loan Crisis," Federal Reserve History, November 22, 2013, https://www.federalreservehistory.org/essays/savings-and-loan-crisis.
[10] John V. Duca, "Subprime Mortgage Crisis," Federal Reserve History, November 22, 2013, https://www.federalreservehistory.org/essays/subprime-mortgage-crisis.
[11] "The Federal Home Loan Banks" FHLBanks," accessed on July 3, 2024, https://fhlbanks.com/.
[12] "Federal Home Loan Bank Membership Data," Federal Housing Finance Agency, June 30, 2023, https://www.fhfa.gov/data/federal-home-loan-bank-membership-data.
[13] Ibid.

Together, these member institutions cooperatively own and operate the FHLB system, which relies on private investors using private funds to buy the debt it acquires from issuing loans, despite being created by Congress. While the FHLB system continues to support mortgage lending, it also serves as an everyday liquidity provider to member financial institutions, some of whom may not focus exclusively on mortgage lending.[14]

In this role, one of the primary services FHLBanks provide to member institutions is low-cost loans called advances, which are over-collateralized loans fully secured by eligible collateral and paid back with interest after maturity.[15] In turn, member institutions use these advances to fund loans to various local community institutions that require quick access to capital. This can be particularly important during times of market volatility, such as during the COVID-19 pandemic, or more recently during the March 2023 SVB collapse. As noted in a recent Government Accountability Office (GAO) report on the matter:

“The two FHLBanks relied on established policies, procedures, and agreements with the relevant Federal Reserve Banks to help Signature Bank and First Republic Bank transfer pledges of collateral between the FHLBanks and the Federal Reserve Banks. These efforts allowed the banks to access additional funding. FHLBSF and Federal Reserve Bank of San Francisco officials said SVB failed before the bank could coordinate collateral pledges between FHLBSF and the Federal Reserve Bank.”[16]

Established to perform a public function, the FHLB system was given a statutory super-lien by law, which affords it first claim to “assets pledged as collateral for advances when the Federal Deposit Insurance Company becomes the receiver of an FHLBank member.”[17] It also enables the orderly processing of bank assets in the event of insolvency. A uniform commercial code precedes this, prioritizing the FHLB as a secured lender. For these reasons, FHLB advances carry low risk and are quite popular.

[14] “The Role of Federal Home Loan Banks in the Financial System,” Congressional Budget Office, March 2024, https://www.cbo.gov/publication/60064.
[15] “Affordable Mortgage Lending Guide,” Federal Deposit Insurance Corporation, updated October 12, 2021, https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-3-docs/advances.pdf.
[16] “Federal Home Loan Banks: Actions Related to the Spring 2023 Bank Failures,” U.S. Government Accountability Office, March 8, 2024, https://www.gao.gov/assets/d24106957.pdf.
[17] “An Overview of the Federal Home Loan Bank System,” Federal Housing Finance Agency Office of Inspector General, March 31, 2023, https://www.fhfaoig.gov/sites/default/files/WPR-2023-002.pdf.

Mid-to-Small Bank Access to Liquidity

The FHLB's role as an everyday liquidity provider has made it particularly important for small-to-medium-sized local banks and credit unions. These smaller financial institutions have a more difficult time obtaining access to liquidity. Large banks are better able to access global liquidity markets than smaller banks and local credit unions, which lack the necessary money and resources.

That is the market need the FHLB fills by providing loans to both small and large banks without size affecting interest rates. Such indiscrimination regarding the size of borrowing banks offers a massive advantage for small FHLB member institutions by allowing them to maintain some parity with larger institutions. A level playing field for loans is critical to the survival of small and local financial institutions, which may otherwise be unable to compete with large banks with deep financial coffers.[18]

The FHLB is only able to provide this invaluable service due to the prime rating of their debt sales used to finance their loans, called consolidation obligations.[19] These debt securities have rates only slightly higher than famously low-risk, low-interest U.S. treasury securities, making them attractive to any investor with a low-risk tolerance.[20]

Midsized banks (those banks sized from $10 billion to $250 billion in assets), and smaller banks (those from $1 billion to $10 billion) are the first and second most consistent users of FHLB liquidity. Accessing these advances is a core component of these banks' financial model.[21] This fact is rarely acknowledged by critics who tend to look only at 10-Q and 10-K data reports, which only provide data on the top 10 borrowers in terms of dollars. A study on the FHLB's effect on systemic support by Moody and Urban Institute researchers found that increases in a bank's advances led to decreases in bank failures.[22] Specifically, research finds that placement in the 95th percentile of FHLB advances reduced failure rates by upward of 17 percent.[23] These positive outcomes would be even greater if the loan taken by the financial institution was smaller, thus supporting the idea that the FHLB promotes small bank and credit union stability.[24]

[18] Jim Parrott and Mark M. Zandi, "In Defense of Federal Home Loan Banks," Urban Institute, April 2023, https://www.urban.org/sites/default/files/2023-04/In%20Defense%20of%20the%20Federal%20Home%20Loan%20Banks_0.pdf.
[19] "About Debt Securities," FHLBanks Office of Finance, accessed June 28, 2024, https://www.fhlb-of.com/ofweb_userWeb/pageBuilder/debt-securities-21#:~:text=The%20FHLBanks%20raise%20funds%20for,in%20the%20global%20capital%20markets.
[20] "The Role of Federal Home Loan Banks in the Financial System," Congressional Budget Office, 2024.
[21] Damien Moore, Jim Parrott, Martin Wurm, and Mark M. Zandi, "The Federal Home Loan Banks Support Systemic Stability," Urban Institute, November 3, 2023, https://www.urban.org/research/publication/federal-home-loan-banks-support-systemic-stability.
[22] Rosalind L. Bennett, Mark D. Vaughan, and Timothy J. Yeager, "Should the FDIC Worry about the FHLB? The Impact of Federal Home Loan Bank Advances on the Bank Insurance Fund," Federal Deposit Insurance Corporation, July 2005, https://www.fdic.gov/analysis/cfr/2005/wp2005/2005-10.pdf.
[23] Ibid.
[24] Ibid.

In other words, FHLB advances were not associated with increased risk. Other research has found similar results, such as a 2016 study that found “small banks benefit from the risk management features of FHLB advances.”[25]

Despite concerns that the FHLB’s structure contributes to misaligned incentives and protects banks from the consequences of their actions,[26] evidence suggests that FHLBs go above and beyond to act responsibly when lending to member institutions and helps “derisk the system” by demonstrating flexibility to react quickly to market stress.[27] For example, the FHA notes that between February 28 and March 31 of last year alone – the peak days of the SVB collapse – FHLB advances to depository institutions grew by $190.6 billion from $610.5 billion to $801.3 billion. Likewise, a 2010 study that examined FHLBanks’ behavior during the 2008 financial crisis found they were quick to respond to their members' liquidity needs, intervening much more quickly than the Federal Reserve.[28] FHLBanks were also better able to weather the recession than mortgage market juggernauts Fannie Mae or Freddie Mac, which both failed so spectacularly that they were placed under conservatorship, where they remain today.[29]

The Federal Reserve Discount Window (DW) remains the lender of last resort for struggling banks,[30] but the short-term nature and the stigma attached to it[31] often prevent it from being effective in times of crisis.[32] A DW loan usually has a 90-day limit on primary credit, which is helpful when banks face default, but not great for long-term stability. Alternatively, FHLBanks can offer a variety of advances that are available over different timeframes, useful both during periods of stress and for everyday operations. Longer-term FHLB advances provide a higher level of stability, which makes the financial market more accessible to smaller institutions.

[25] Travis Davison and W. Gary Simpson, “Federal Home Loan Bank Advances and Bank Risk,” Journal of Economics and Finance, Forthcoming, July 25, 2014, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2471836.
[26] Daniel K. Tarullo, “How to limit the risks to financial stability posed by the Federal Loan Bank System,” Brookings, July 11, 2022, https://www.brookings.edu/articles/how-to-limit-the-risks-to-financial-stability-posed-by-the-federal-home-loan-bank-system/.
[27] Bob Fernandez, “FHLBanks Help ‘Derisk the System,’ Official Says, Amid Call for Change,” The Wall Street Journal, January 19, 2024, https://www.wsj.com/articles/fhlbanks-help-derisk-the-system-official-says-amid-call-for-change-8c24c6a5.
[28] Jonathan A. Scott and Scott E. Hein, “The Federal Home Loan Banks: The GSE that Avoided Conservatorship,” SSRN Electronic Journal, Feb. 2010, DOI: 10.2139/ssrn.1175366.
[29] “History of Fannie Mae and Freddie Mac Conservatorship,” Federal Housing Finance Agency, last updated October 17, 2022, https://www.fhfa.gov/conservatorship/history.
[30] “The Discount Window,” The Federal Reserve, last updated June 7, 2024, https://www.frbdiscountwindow.org/Pages/General-Information/The-Discount-Window.
[31] Huberto M. Ennis and David A. Price, “Understanding Discount Window Stigma,” Federal Reserve of Richmond, April 2020, https://www.richmondfed.org/-/media/RichmondFedOrg/publications/research/economic_brief/2020/pdf/eb_20-04.pdf.
[32] Kyle Cambell, “Pressure mounts on Fed to play its part in modernizing discount window,” March 13, 2024, https://www.americanbanker.com/news/pressure-mounts-on-fed-to-play-its-part-in-modernizing-discount-window.

Taxpayer Free

One of the greatest benefits of the FHLB system is that it can meet the short and long-term liquidity needs of its members without costing the taxpayer directly or putting them at risk. Since the FHLB provides liquidity through private debt purchasers, those purchasers—not taxpayers—bear the risk of advances. Still, two myths regarding taxpayer burdens within the FHLB system ultimately support the incorrect idea that taxpayers are on the hook for FHLB liquidity offerings. First, the use of the Deposit Insurance Fund (DIF) by the FHLB during bank failures constitutes an imposition on the taxpayer. Second, the supposed "implied guarantee" by the Treasury on the FHLB in the event of their insolvency. Both are inaccurate, contributing to misunderstandings about the FHLB and ultimately leading to poorly conceived and unneeded policy corrections. The next sections will discuss each of these myths.

Myth #1: The Deposit Insurance Fund Costs Taxpayers

The claim that the FHLB is wasting taxpayer funds through its access to the DIF is perhaps best articulated by New York University (NYU) Stern faculty members in the book, SVB and Beyond: The Banking Stress of 2023.[33] The argument goes that because the FHLB has a "super lien" in the event of a bank foreclosure, it can run the risk of claiming DIF funds if the sale of bank assets cannot produce enough liquidity. However, the DIF itself is not taxpayer-funded, but instead funded through the premiums of mostly large Federal Deposit Insurance Company (FDIC) bank members. Any claim that FHLB access to DIF would affect taxpayers is wrong on its face.

Experts and policymakers are also wrong to assume that costs are passed on to depositors when a bank must pay a premium. The advances that the FHLB issues are matched with collateral from the borrowing bank. When advances are paid back, it is the collateral amount that is returned to the FHLB. Arguing that the return of collateral to a lender for a loan is a public issue is disingenuous and ignores the FHLBs' claim over their own collateral in the event of the failure to return advances. In their report on the role the FHLB played in SVB's collapse, the GAO noted that "repayment of FHLBank advances for a failed bank does not impose a direct cost to the Deposit Insurance Fund."[34] Due to the overcollateralized nature of advancements, the liquidation of said collateral is more than enough to cover outstanding debts.

[33] Viral V. Acharya, et al., "SVB and Beyond: The Banking Stress of 2023" NYU Stern Business School, July 3, 2023, https://drive.google.com/file/d/1M067WVIlogb0Jtrsl33ggpbHIAtVjlR6/view.
[34] "Federal Home Loan Banks: Actions Related to the Spring 2023 Bank Failures," Government Accountability Office, March 8, 2024, https://www.gao.gov/assets/d24106957.pdf.

Myth #2: Implied Guarantee

The supposed “implied guarantee” on the FHLBs’ debt, is one of the biggest misnomers about the FHLB system. An implied guarantee, as the name suggests, is in no way official nor does it imply any obligations on the part of the U.S. government to intervene in the event of bank insolvency. The Congressional Budget Office (CBO)[35] and a recent FDIC report both acknowledge this reality.[36] In fact, at no time in the FHLB’s 92-year history has this guarantee ever been tested as expected from a secured lender. Despite never being used in the real world, the implied guarantee has been factored into CBO calculations on the subsidies received by the FHLB.

Groups like the Coalition for FHLB Reform use this implied guarantee to inflate the numbers of the FHLBs’ subsidies from $1 billion to $7.3 billion.[37] The implied guaranteed subsidy makes up over 86 percent of the total FHLB subsidy and, if accepted, fundamentally changes the narrative of the system. Without the implied guaranteed subsidy, there is no argument to be made that the FHLB is not doing enough to promote the public interest, or that the subsidy is going mostly to “private profits” as the group claims.[38]

Furthermore, the idea that the FHLB should be evaluated based on comparing the alleged subsidies it receives to how much it spends on housing and community development programs like the Affordable Housing Program, Community Investment Programs, and Community Investment Cash Advance programs, fundamentally misunderstands the purpose and value of regional bank co-ops. The value of the FHLB system is not just found in how much affordable housing assistance it provides, although it does this too, but in the stability, it brings to the financial sector by giving member institutions quick and easy access to low-interest liquidity for everyday use and emergencies.[39] Without this support system, many small and medium-sized banks would need to find an alternative source of their billions in borrowed liquidity. This public benefit, not the unsubstantiated and repeatedly rejected “implied guarantee,” must be considered when evaluating the net effects of the FHLB system.

[35] “The Role of Federal Home Loan Banks in the Financial System,” Congressional Budget Office, 2024.
[36] “Affordable Mortgage Lending Guide,” Federal Deposit Insurance Corporation, updated Oct. 12, 2021, https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-3-docs/federal-home-loan-bank-system.pdf.
[37] Sharon Cornelissen, “Opinion: What is the public actually getting for $7.3B in housing subsidies,” HousingWire, March 29, 2024, https://www.housingwire.com/articles/opinion-what-is-the-public-actually-getting-for-7-3b-in-housing-subsidies/.
[38] Ibid.
[39] “FHLBanks Anticipate Providing $1 Billion for Affordable Housing and Community Development,” Affordable Housing Finance, May 8, 2024, [34] Viral V. Acharya, et al., “SVB and Beyond: The Banking Stress of 2023” NYU Stern Business School, July 3, 2023, https://drive.google.com/file/d/1M067WVIlogb0Jtrsl33ggpbHIAtVjlR6/view.

The Cornerstone of Housing

Critics of the FHLB program often argue that it has deviated from its mission to support housing and community development. The FHLB has indeed undergone significant changes over the years—facilitated by shifts in mortgage lending, technology, and product and service offerings—but its mission appears to have evolved only with the blessing of Congress. These changes have not undermined the FHLB's commitment to providing housing assistance.

When Congress expanded FHLB membership in 1989 to include other financial institutions like commercial banks, credit unions, and community development financial institutions, it also stipulated that member institutions would support affordable housing and community development programs.[40] For instance, non-community financial depository institutions must have at least 10 percent of their assets in residential mortgage loans or in equivalent mission-oriented assets to be eligible for membership.[41]

Under the Chevron deference doctrine,[42] federal agencies had significant discretion to interpret vague or unclear statutes.[43] But as the Supreme Court recently clarified in the Loper Bright Enterprises v. Raimondo decision, Congress ultimately decides the purpose of a government-sponsored enterprise (GSE). Therefore, how Congress defined the mission of the FHLB in the Housing and Economic Recovery Act of 2008 is important.[44] This Act states the FHLB's mission is to provide "liquidity to members" and "affordable housing and community development."[45] Thus, three criteria are given: liquidity for members, affordable housing (the AHF), and community development. A changing market has required the FHLB to change and adapt. However, that does not mean the FHLB has abandoned its mission and stopped supporting liquidity, housing, and community development. The FHFA has acknowledged market-driven changes at the FHLB stating:

"The mortgage market, the broader financial system, and the Federal Home Loan Banks (FHLBanks) themselves have undergone significant changes over nine decades. These changes reflect underlying shifts in technology and structured products, land use and development, demographics, legal and regulatory frameworks, and consumer preferences."

[40] Pub. L. No. 101–73, § 704, 103 Stat. 415-416, codified at 12 U.S.C. 1424(a).
[41] Ibid.
[42] Tom Temin, "What the Supreme Court Decision Overturning Chevron Deference Means to You," Federal News Network, July 1, 2024, https://federalnewsnetwork.com/management/2024/07/what-the-supreme-court-decision-overturning-chevron-deference-means-to-you/#:~:text=40%20year%20precedent.-,In%20a%20case%20brought%20by%20New%20England%20fisherman%2C%20the%20court,week's%20decision%20reverses%20that%20thinking.
[43] Loper Bright Enterprises v. Raimondo, 603 U.S. ___, https://www.supremecourt.gov/opinions/23pdf/22-451_7m58.pdf.
[44] H.R. 3221 – 110th Congress (2007-2008): Housing and Economic Recovery Act of 2008, July 30, 2008, https://www.congress.gov/110/plaws/publ289/PLAW-110publ289.pdf.
[45] Ibid.

These changes reflect changing economic realities and are not a fundamental abandonment of the second part of the FHLB's core mission to support the housing sector. It is unrealistic to expect the FHLB to maintain the same structure over nearly a century, but it has had to perform new public services like providing profits to the Affordable Housing Fund (AHF). Since 1990, all 11 FHLBanks have contributed over $7.6 billion collectively to the AHF, supporting over one million households.[46] The FHLB did not have to contribute funds towards housing in this manner when it began, thus its role in promoting homeownership has expanded, not declined. Without being prompted by the government the San Francisco FHLB[47] has voluntarily agreed to increase its annual contribution to affordable housing and related services from 10 percent of its net profits to 15 percent, including awarding $32.9 million in AHP grants just in 2023 alone.[48]

Beyond the investment in the AHF, FHLBanks assist the housing market simply through their liquidity provision services, which are perfectly in line with Congress's original intent. A study from the University of Wisconsin estimated that FHLB involvement reduced interest payments on mortgages by $13 billion a year and made over $130 billion in additional mortgage credit available annually.[49] The FHFA's FHLB report acknowledges these facts and goes as far as stating that:

"By many metrics, the FHLBanks have achieved this objective, as the liquidity they provide has facilitated affordable homeownership and rental housing throughout the country."

Accusations that the FHLB has fallen victim to mission creep and now fails to adequately provide housing assistance conveniently ignore the economic changes that have occurred in the market over the last few decades and misrepresent the FHLB's role as being both a liquidity provider and as a housing market support mechanism. In its role as the latter, the FHLB has not deviated and only enhanced this role through the AHF. Though markets and technology change, the FHLB remains a stable source of liquidity for the housing sector and a boon for prospective first-time homeowners.

[46] "Affordable Housing and Community Development," FHLBanks, accessed on July 3, 2024, https://fhlbanks.com/affordable-housing-draft/.
[47] Tom Flannigan and Mary Long, "FHLBank San Francisco Awards $32.9 Million in AHP Grants to Address the Region's Significant Affordable Housing Shortfall," FHLBank San Francisco, July 10, 2023, https://www.fhlbsf.com/about/newsroom/fhlbank-san-francisco-awards-329-million-ahp-grants-address-regions-significant.
[48] "Congressman Ciscomani Joins FHLBank San Francisco in Tucson to Address Affordable Housing Crisis Through Multi-Agency Efforts," Globe Newswire, June 19, 2024, https://www.morningstar.com/news/globe-newswire/9156325/congressman-ciscomani-joins-fhlbank-san-francisco-in-tucson-to-address-affordable-housing-crisis-through-multi-agency-efforts.
[49] Dayin Zhang, "Federal Home Loan Bank May Save Borrowers Money, Level the Playing Field for Small Banks," Wisconsin School of Business, February 4, 2021, https://business.wisc.edu/news/federal-home-loan-bank-may-save-borrowers-money-level-the-playing-field-for-small-banks/.

Conclusion

Over the last few years, the FHLB System has received a torrent of criticism—but critics fundamentally misunderstand the purpose and value of the FHLB. The purpose of the FHLB is to fill the pressing market need for an everyday liquidity provider. It has been a stabilizing force in an often turbulent financial market where reliable access to cheap liquidity is not always a given.In offering fully secured advances to member financial institutions of all shapes and sizes in good times and bad, it has supported small and medium-sized local banks and credit unions as they compete with larger banks.

The FHLB also remains a key contributor to housing and community support, as Congress intended. By supporting these institutions with liquidity, and funding the AHF, the FHLB appears to fulfill its mission of supporting housing and community development. As American Consumer Institute President and Founder Steve Pociask has stated, "This GSE has served its purpose and mission, and continues to support the variety of financial institutions needed to serve the nation."

Understanding why and how the FHLB system operates is critical to dispelling the myths increasingly being perpetuated by its critics. Left unchecked, those criticisms will lead to policy missteps that produce serious unintended consequences and threaten to unwind the many benefits of the FHLB system.