

What is the Federal Home Loan Bank System?

The Federal Home Loan Banks were chartered in 1932. Given the economic collapse of the Depression, mortgage loans were illiquid, and the principal mortgage lenders, which were small, local mutual savings and loans associations, often could not honor requests for savings withdrawals because they had no cash. This resulted in savings accounts being frozen. The objective of the creation of the FHLB was to re-liquify mortgages and the associated savings accounts at financial institutions.

Collectively, the Federal Home Loan Banks account for over \$1 Trillion of outstanding mortgage debt: they are third in line behind Fannie and Freddie in size. The FHLBs have the same government-sponsored advantages as the better-known GSEs, which allow them to compete equally with Fannie and Freddie in the debt and hedging markets. Over 1,000 mortgage lending institutions now participate in the FHLBs' secondary mortgage programs.

The principal customers of the FHLBs are interstate banks, not the local mutual thrifts of the 1930's. Savings and loan associations are no longer the principal providers of mortgages. Small savings and loan associations now represent a minor part of the housing finance market.

Twelve Federal Home Loan Banks are chartered by the Federal Home Loan Bank Board under the authority of the Federal Home Loan Bank Act of 1932, the Act. The FHLBs are under supervision of the Federal Housing Finance Board.: the objective is to facilitate the extension of credit. The banks make advances and services to their 7,992 member commercial banks, savings associations, insurance companies, and credit unions. The principal source of funds for the lending operation is sale of consolidated obligations such as bonds or mortgage backed securities to the public. Each FHLBank operates in a separate geographic district.

The principal investments of the FHLBanks are in advances to members secured by mortgage loans, Federal funds sold, commercial paper, mortgage backed securities, and GSE securities. The FHLBanks finance these investments primarily by issuing callable and non-callable bonds. The liabilities of each FHLBank are guaranteed by all of the other FHLBanks. All 12 Banks are registered with the Securities and Exchange Commission. The individual banks are located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburg, San Francisco, Seattle, and Topeka.