

Statement
by John von Seggern
President & CEO
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on
The Federal Home Loan Banks' new System Capital Initiative
Washington, DC
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The Federal Home Loan Banks have developed a plan to enhance capital. The System Capital Initiative will further strengthen the financial soundness of our 12 member-owned, regional cooperatives. When combined with existing measures, the System Capital Initiative will boost the ability to protect lenders, investors and taxpayers against the potential of any future losses.

The System Capital Initiative calls for each Federal Home Loan Bank to reserve 20 percent of its earnings in a restricted retained earnings account. This amount is equal to the current assessment by the federal government on FHLBanks to help offset the costs of REFCORP. This plan:

- creates an additional buffer to absorb unexpected losses on the balance sheets of FHLBanks;
- assures a steady flow of funds to support housing and community development;
- provides even greater security and certainty to FHLBank debt investors;
- strengthens the long-term viability of Affordable Housing Program (AHP) grants to nonprofits;
- reduces further the potential that FHLBanks will ever require taxpayer assistance.

Two decades ago, REFCORP was established to issue bonds to investors in order to help fund the Resolution Trust Corporation (RTC). The RTC used the proceeds from the sale of the bonds to pay the costs of liquidating failed savings institutions. FHLBanks were required to make contributions toward payments on the REFCORP bonds. To date, the FHLBanks have paid a total of approximately \$8.6 billion in interest payments on these obligations. Strong earnings since 1999 have allowed the FHLBanks to pay more than \$300 million per year to REFCORP, accelerating the payment schedule. The FHLBanks now expect to fully satisfy their REFCORP obligations in 2011.

The FHLBanks' System Capital Initiative is a positive example of financial institutions focusing on the importance of building capital strength for safety and soundness. It is a unified plan, collaboratively created by the 12 FHLBanks, that reduces the potential that the federal government would ever need to step in and buttress these important institutions of the nation's housing finance system.

The FHLBanks are regional cooperatives owned by nearly 8,000 members. Their members are community banks, credit unions, community development financial institutions and insurance companies. Local lending institutions in the U.S. borrow funds from the FHLBanks to finance housing, jobs and economic growth. The FHLBanks are a mechanism for economic stability because they serve as a dependable source of funds from the global markets to communities through their member institutions.