A COMPARATIVE ANALYSIS OF FHLBANK MEMBER MORTGAGE LENDING

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Marsha J. Courchane
Senior Economist
Welch Consulting

&

Darcy Steeg
Associate Economist
Welch Consulting

Abstract

Our study uses 2003 Home Mortgage Disclosure Act (HMDA) data to examine the mortgage lending behavior of the members of the Federal Home Loan Bank System (FHLBank members). We compare and contrast mortgage originations and sales of the FHLBank members to other non-member depositories and to purchases of mortgage loans made by Fannie Mae and Freddie Mac.

The primary objective of this study is to provide, for the first time, detailed analysis of the behavior of the FHLBank members with respect to particular segments of the mortgage markets and to determine whether that behavior varies in a systematic manner with the volume of advances borrowed by that member in the same year. A second goal is to inform the public and policymakers of the ability and willingness of the FHLBanks, through advances to their members, to provide liquidity through mortgage financing to those most in need in the housing markets. Third, we compare and contrast the actions of the FHLBank members in terms of attainment of housing policy goals with the observed goal performance of Fannie Mae and Freddie Mac.

Our key findings demonstrate that:

- *FHLBank members comprise a very important share of mortgage markets.*
- *FHLBank advances are an important source of mortgage market liquidity.*
- *FHLBank members have higher overall origination rates and higher minority origination rates than do non-members.*
- *FHLBank members originate goal-qualifying mortgages at a higher rate than do non-members—with the top quartile of advances users doing best overall.*
- *FHLBank members retain in portfolio shares of goal-qualifying mortgages higher than those shares sold to Fannie Mae and Freddie Mac.*
- *The affordable goal and minority lending performance of FHLBank members is also strong in multifamily mortgage originations.*

Introduction

Much of the emphasis on public policy pertaining to the Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks) – involves the mission and the affordable lending activities of those Enterprises. Many previous studies have looked at the goal performance of Fannie Mae and Freddie Mac, yet little research has focused on the mortgage lending activities of the FHLBank members.[1] This research fills that gap.

Two recent studies address the lending behavior of FHLBank members and the use of advances to support that activity. Maloney and Thomson (2003) find that FHLBank mortgage-asset programs indirectly support the FHLBank System's mission of promoting access to housing for all Americans by providing members an additional outlet for their loans. To the extent that these programs displace or reallocate loan sales that would have normally been purchased by Fannie Mae or Freddie Mac, they increase the competitiveness of the secondary mortgage market and further lower the cost of housing finance to homeowners. Tucillo, Flick and Ranville (2005) use bank Call Report data for 2003 to find that advance use allows FHLBank members to hold a greater proportion of their portfolios in mortgage loans, small business loans, and agricultural credit than do non-members. Our results, also using 2003 data, focus in more detail on the types of mortgage loans held in portfolio and on the flow of advances to mortgages originated.

Congress created the Federal Home Loan Bank System, with its twelve regional banks, to help raise funds in the capital markets and lend it at low interest rates to community financial institutions so that they, in turn, could make home mortgages. Until 1989, the FHLBank System exclusively served the thrift and insurance industry. The Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA) opened up membership to commercial banks and credit unions. FHLBanks promote affordable housing by providing funds to lenders that can be used for mortgage loans and by providing direct grants and subsidies for housing and community economic development.

[1] See for example Bunce (200b, 2002), Case and Gillen (2000), Pearce (2001).

Since the passage of the Gramm-Leach-Bliley Act (GLBA) in 1999, the FHLBanks have been required to commit 10 percent of their annual net income to affordable housing programs and initiatives.

Public policy concerns focused on the FHLBanks emphasize that while enjoying an equivalent federal subsidy on debt issuance as do Fannie Mae and Freddie Mac, the FHLBanks do not face the same stringent requirements on mission related mortgage lending. In particular, critics have claimed that FHLBank advances can be used by FHLBank members to fund any type of activity in their portfolio, as long as the advances borrowed from the FHLBank system are correctly tied to mortgage (or other) collateral. Others have claimed that the FHLBank advances, while funding mortgage lending, go primarily to serve the needs of those high income borrowers applying for jumbo mortgages. Using the 2003 HMDA data for our analysis, we lay to rest these concerns.

Our key findings demonstrate that:

- *FHLBank members comprise a very important share of mortgage markets.*
    - Even though over half of FHLBank members (in HMDA) have less than $250 million in assets, FHLBank members combined originate more than 80 percent of single-family, owner-occupied, conventional loans.
- *FHLBank advances are an important source of mortgage market liquidity.*
    - FHLBank members with the heaviest use of advances (top quartile based on the ratio of advances to total assets) originate the highest percentage of home purchase loans relative to other advance users.
- *FHLBank members have higher overall origination rates and higher minority origination rates than do non-members.*
    - FHLBank members originate 79 percent of mortgage loan applications from African American applicants and 83 percent of those from Hispanic applicants – more than 10 percentage points higher in each category than non-members.
- *FHLBank members originate goal-qualifying mortgages at a higher rate than do non-members—with those heaviest users of advances doing best overall.*

- Of loans originated, the top quartile of advance users originate 26 percent of their mortgages to borrowers in underserved areas, 42 percent of their mortgages to low-and moderate income borrowers and 14 percent of lending is for "special affordable" mortgages.

- *FHLBank members retain in portfolio shares of goal-qualifying mortgages higher than those shares sold to Fannie Mae and Freddie Mac.*
    - FHLBank members retain in portfolio 28 percent of geographically-targeted mortgage loans. Purchases from all lenders by Fannie Mae and Freddie Mac totaled 24 percent. Similarly members retained 42 percent of low- and moderate-income loans while Fannie/Freddie purchased 41 percent.[2]
- *The affordable goal and minority lending performance of FHLBank members is also strong in multifamily mortgage originations.*
    - FHLBank members originated 66 percent of multifamily loans in underserved areas and 47 percent in minority areas.

Organization

We organize the presentation of the report in six sections:

I. The Size and Importance of FHLBank Members
   a. Size Distribution of FHLBank Members
   b. Importance in Mortgage Origination Activity
II. Mortgage Origination Activity
   a. Distribution of Loans Originated by Size of Loans
   b. Origination Rates by Race
   c. Origination Rates by Advance Activity
III. Targeted Lending Activity
   a. Lending to Underserved and Low-Income Borrowers
      i. Member vs. Non-Member

[2] All percentages look at the volumes from HMDA. Actual goal-qualifying percentages at Fannie Mae and Freddie Mac will be different from these numbers as they make adjustments for counting protocols and for bonus points and adjustment factors. These corrections cannot be made to the HMDA data for FHLBank members or for the other GSEs.

ii. Member by Use of Advances

IV. Comparisons with Fannie Mae and Freddie Mac

V. Multifamily Lending Activity

Our conclusions follow.

I. The Size and Importance of FHLBank Members

In this research, we compare specific mortgage lending activities of the members of the FHLBanks to those institutions that are not members of the FHLBank System and to mortgage purchase activities of Fannie Mae and Freddie Mac. When membership in the System was expanded to include commercial banks after FIRREA, many became concerned that the advance activity of the FHLBanks was simply a way to provide low-cost liquidity to large bank members for the purpose of funding jumbo mortgages to those who least needed housing subsidization. This research supplies much needed comparative information about the mortgage lending activities of the FHLBank members compared to the market and to Fannie Mae and Freddie Mac.

While Fannie Mae, Freddie Mac, and the Federal Home Loan Banks all face regulations that stipulate their affordable lending mission performance, the obligation for Fannie Mae and Freddie Mac is set by HUD through affordable housing goals for targeted groups of borrowers or geographically targeted areas and the obligation for the Federal Home Loan Banks is met through an explicit tax and a mandated purpose for advance activity.

While not governed by HUD's affordable goals, the FHLBanks must meet affordable lending guidelines as revised in the GLBA in 1999. The GLBA mandates that the purposes of advances may be only for ''(A) providing funds to any member for residential housing finance; and (B) providing funds to any community financial institution for small businesses, small farms, and small agri-businesses.''[3] In addition,

[3] Gramm-Leach-Bliley Act, Title VI, Section 604.

FHLBanks must commit 10 percent or more of their respective annual net earnings to the Affordable Housing Program.[4] AHP subsidies must be used to fund the purchase, construction or rehabilitation or refinancing of owner-occupied housing for very low-, low- or moderate-income households ($\leq$80% AMI) or for rental housing with 20 percent or more of the units affordable for very low-income households ($\leq$50% AMI).[5] These requirements, like the affordable goal performance standards applied to Fannie Mae and Freddie Mac are meant to ensure that the subsidy enjoyed by the GSEs from low-cost debt financing translates into improving access to homeownership for those borrowers most in need of assistance.

Rather than look specifically at subsidies or grants made though AHP, in this research we look at the funding by FHLBank members of mortgage originations as detailed in the 2003 HMDA data.[6] These originations can be funded partially or fully through advances from the FHLBank System. While we have no way of demonstrating a direct link between a dollar of advances borrowed and a dollar of mortgage funds lent, we can demonstrate that those mortgage originators that are FHLBank members compare favorably to other lenders in terms of originations of goal-qualifying and minority borrowers, and retain in portfolio amounts of these types of mortgages comparable to the shares purchased by Fannie Mae and Freddie Mac. Using institution specific data (FIRE data) on the financial characteristics of commercial banks, savings banks and thrift institutions that have HMDA reportable loans, we are able to provide statistical

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[4] In 2003, the AHP had approximately $200 million available for its programs. The AHP is meant to subsidize housing costs through grants (direct subsidies) or below cost interest rates (loans) to those in very low-income and low- or moderate-income owner-occupied and rental housing.

[5] http://www.fhfb.gov/FHLB/FHLBP_housing_AHP.htm

[6] We obtain membership status, advances, and assets of members from the Federal Housing Finance Board. We obtain financial information from Plansmith's FIRE, Inc. and retain any credit card banks that have HMDA loans. From HMDA we include conventional loans, agency codes 1-4 (OCC, FRB, FDIC, OTS excludes NCUA and HUD), action codes 1-3 (Originated, Approved/not accepted, Denied), editstatus missing. For Single-Family analysis we keep owner-occupied, purchase or refinance loans, and for multifamily analysis (purpose 4) we keep occupancy 1-3.

comparisons of FHLBank members with non-members and with goal-qualifying and minority purchases of mortgages by Fannie Mae and Freddie Mac.[7]

a. Size Distribution of FHLBank Members

The data we use in this research combine Call Report information with HMDA data. As is done in other studies that examine behavior of Fannie Mae and Freddie Mac, we exclude from this data loans originated by subprime and manufactured housing lenders as identified by HUD as those loans generally are not purchased through a flow channel by the GSEs. With this data we can provide analysis on FHLBank members, non-members, and categorize members by type of institution, size of institution, and by advance usage. Table 1 provides the information on the size distribution of financial institutions.

Table 1

Institutions by Size and Source

	FIRE		HMDA	
Size (Total Assets)	Count	Percent	Count	Percent
<$250m	5245	72.05	2215	56.45
$250m - < $500m	1029	14.13	799	20.36
$500m - < $1b	486	6.68	437	11.14
$1b - < $10b	432	5.93	396	10.09
>= $10b	88	1.21	77	1.96
Totals	7280	100.00	3924	100.00

From Table 1, we note that over 70 percent of FHLBank members are small, community institutions. However, the share represented in HMDA of FHLBank community bank members is smaller and the share of larger members larger than the actual membership share. This results from the reporting requirements of HMDA.[8] Even

[7] Plansmith's FIRE, Inc.

[8] For HMDA filings in 2003, depository institutions with an office in an MSA are covered if they had more than $32 million in assets as of December 31, 2002. This implies that only larger FHLBank member banks and thrifts are required to file HMDA disclosures. Non-depository lenders are covered by the HMDA if they have assets of more than $10 million and have an office or loan activity in an MSA. They are also covered, regardless of their asset size, if they originate 100 or more home purchase loans (including

though HMDA does not include the entire mortgage lending activities of FHLBank members, the picture it does provide of those members reporting under HMDA favorably illustrates the importance of the FHLBank members in residential mortgage markets.

b. Importance in Mortgage Origination Activity

Table 2 below shows that the members originated over 80 percent of single-family loans in 2003. Also of interest is the fact that members have more than a third more home purchase loans than do non-members. An important public policy objective is increasing the homeownership rate for all in the United States, and HUD, in the release of its new goals for Fannie Mae and Freddie Mac, included sub-goals for purchase money loans for the first time. While refinancings represent lowering the cost of homeownership, the purchase money loans include those loans going to first time homebuyers.

Not only do FHLBank members perform well on both these measures – overall originations and purchase money loans – those with the heaviest use of advances do particularly well in overall originations.[9] This result is consistent with FHLBank members using advances for the purpose intended – providing liquidity in mortgage markets.

Table 2

Originations by Type of Loan and Member Status (%)

	Member				Non-Member
Purpose	Total	Top Quartile	Other Users	Non-User	Total
SF Loans	82.13	33.39	33.37	15.37	17.87
Home Purchase	23.88	24.86	23.09	24.22	17.59
Refinance	76.12	75.14	78.41	75.78	82.41

refinancings) during a calendar year. Non-depository lenders are not allowed to hold FHLBank membership.

[9] We define "top quartile" to be those FHLBank members in the top quartile of the advances/assets distribution. Other users are those members with advances but not in the top quartile. Non-users are members but have no advances in this year.

II. Mortgage Origination Activity

Policy makers care not only that mortgages are originated but that when public homeownership subsidies exist, the funds made available benefit those most in need. We provide in this study two sets of statistics – origination rates and distributions of loans originated. Both are important. The origination rate data demonstrate that for the same types of borrowers, FHLBank members have higher origination rates (approval rates) than do non-members.[10] The distributions provided later in the paper show what types of loans are originated. As evidenced by setting loan limit restrictions on Fannie Mae and Freddie Mac, public policy clearly supports providing liquidity particularly to those who may be lower income and those buying lower cost homes. In HMDA, this latter effect can be measured by assuming that the mortgage loan amount is highly correlated with home values.

a. Distribution of Loans Originated by Size of Loan

The distribution of mortgage loan amounts for the FHLBank members follows in Table 3.

Table 3

Distribution of Loans Originated by Size of Loan (%)

Loan Amount (#)	Total Member	Non-Member	Total
Less than $150,000	56.95	55.03	56.61
$150-$322,700	34.96	35.63	35.08
$322,700-$620,500	6.98	7.77	7.12
More than $620,500	1.11	1.57	1.19

The conforming loan limit that determines loans available for purchase by Fannie Mae and Freddie Mac was set at $322,700 for one-unit homes in 2003. The four-unit single-family limit was $620,500. Any homes at or below the limit are "conforming"

[10] While HMDA includes information on originations and on loans approved but not accepted, our origination data only includes the former.

loans and those above the limit are "jumbo." The 7 percent of loans between that limit cannot be classified as jumbo or conforming as unit information is not available in HMDA.

Given the available data, it is clear that any criticism of the FHLBank members implying excessive jumbo loan mortgage activities relative to conforming loan originations is without merit. In fact, non-members originated a higher percentage of jumbo loans while members originated slightly more loans in the smallest loan size.

These findings differ from those found in an earlier study funded by Freddie Mac to address the costs and benefits of GSEs. The study had inferred that approximately half of FHLBank advances were used to fund jumbo loans, with the top ten advance holders holding a 52 percent jumbo share of net mortgage acquisitions.[11] This same figure was cited in recent testimony at a Senate Banking hearing on the GSEs.[12] The analysis here uses current 2003 HMDA data, has bank level information for all FHLBank members, and compares originations and retentions between member and non-member institutions. As shown above, we find that members are no more likely to originate jumbo mortgages than are non-members. If anything, the opposite appears to be the case. The jumbo share for members is about 8.1 percent (using a $332,700 cut-off), compared with 9.4 percent for non-member institutions. We also find that the largest users of advances (in terms of dollar volume) in 2003 do not originate or retain a disproportionate share of jumbo mortgages. In most cases, the share of originations that are jumbo mortgages ranges from about 5 to 10 percent, similar to the share observed for members as a whole. The two exceptions -WAMU and World Savings - are heavily concentrated in California. The jumbo share of loans that are retained by the top advance users also ranges from about 5 to 10 percent, with the exception of World Savings. The apparent decline in jumbo shares from 1999 to 2003 might reflect the growing ease of securitization of jumbo mortgages.

[11] See Pearce, J. and J. Miller, III, "Freddie Mac and Fannie Mae: Their Funding Advantage and Benefits to Consumers," 2001, p. 16.

[12] Fishbein, Allen, "The Role of the Government Sponsored Enterprises in the Mortgage Market," Testimony before the Committee on Banking, Housing, and Urban Affairs, US Senate, February 10, 2005, p. 7.

b. Origination Rates by Race

While increasing the rate of minority homeownership has always been important, in the last few years the Administration and HUD have promoted this goal even more vigorously. The affordable goals HUD set for the GSEs did not (and do not) have an explicit minority goal, but the geographically targeted (underserved) goal contains specific mention of high-minority areas and the special affordable goal, meant to support lending to very low-income households, also favors minorities.[13] Similarly, the regulations facing FHLBank members have an affordable lending mission component, but do not address particular needs of minority borrowers. As with the other GSEs, however, public policy advocates look to FHLBank members to be proactive in promoting minority homeownership rates. Table 4 demonstrates the success of the FHLBank member approach.

Table 4

Origination Rates

	Total Member	Non-Member	Total
Overall	**90.2**	**83.4**	88.9
Race			
Black	78.8	67.4	75.6
Hispanic	82.5	72.1	79.5
White	92.0	86.0	91.0
Other/NA	87.1	85.0	86.6

[13] Mortgages that qualify for the low- and moderate-income goal are for homes affordable to families with income at or below 100% of the local area median income (LAMI); those that qualify for the underserved area goal are located in: 1) metropolitan area census tracts with income of 90% or less of the LAMI or with minority population of 30% or more and incomes of 120% or less of the LAMI, and 2) non-metropolitan counties with income of 95% or less of the LAMI, or with minority population of 30% or more and income of 120% or less of the LAMI; those qualifying for the special affordable goals are for homes affordable to (1) families with income at or below 60% of the LAMI and (2) homes affordable to families with income at or below 80% of the LAMI and located in low-income census tracts (≤ 80% of applicable median income).

The FHLBank members clearly have higher origination rates, overall, than do non-members – originating more than 90 percent of loans applications received by them while non-members originated only 83 percent.[14]

We can measure the efforts of the FHLBank members in promoting minority homeownership by comparing minority origination rates with those of non-members. Members originate 79 percent of applications received from African Americans while non-members originate only 67 percent. For Hispanics, the FHLBank members also look strong, originating 83 percent compared with a non-member origination rate of only 72 percent. While an "approval rate gap" still exists compared with White applicants, that gap is smaller for both African Americans and Hispanics when obtaining loans from FHLBank members. The members' origination rate for Whites is 13 percentage points more than for African Americans, for example, while the non-member origination rate for Whites (86 percent) is a full 19 percentage points higher than for African Americans.

c. Origination Rates by Advance Activity

While we see high origination rates across the board and across race and ethnicity, we have not yet examined the relationship between advances borrowed by members and mortgage origination activity. A new study by Tucillo, et al. (2005) provides strong evidence that advances of FHLBank members support higher mortgage portfolios by those members. Their data, using information on stocks of assets and liabilities, answer a very important policy question about the positive impact of advances on retained mortgage portfolios. Our data, using flow measures, complements their analysis. We categorize members by advance usage with the top quartile having a ratio of advances to total assets in the top quartile of all FHLBank members with advances. "Non-users" are members who did not draw any advances in 2003, and "other users" are the intermediate category.

[14] This analysis excludes manufactured housing and subprime lenders from the HMDA data using the designation provided through data obtained from R. Avery at the Federal Reserve Board, based on information from HUD. It includes only conventional loans (no FHA or VA).

Table 5			
Origination Rates by Use of Advances			
	Top Quartile	Other User	Non-User
Overall	91.0	90.1	89.0
Race			
Black	81.0	77.7	76.2
Hispanic	83.6	82.8	79.6
White	92.9	91.7	90.9
Other/NA	88.3	86.1	86.2

Not only do members have high origination rates for minorities, these rates are correlated with the degree of advance usage. The top quartile of advance users have origination rates higher than member non-users in all categories, but the relative disparity among advance users compared with non-users is highest and most favorable for African American and Hispanic borrowers.

III. Targeted Lending Activity

a. Lending to Underserved and Low Income Borrowers

While minority homeownership is a goal of the current Administration and implicitly supported by the HUD affordable goals, the goals themselves are set with respect to income levels of borrowers, and only secondarily take into account racial composition of Census tracts. These goals reflect public policy.[15] As stated with the issuance of the new HUD goals (from 2005 to 2008) -- "These new affordable housing goals will help the GSEs achieve the standard that Congress intended leading the mortgage finance industry in helping low- and moderate-income families afford decent

[15] Federal Register, Vol. 69, No. 211, Tuesday, November 2, 2004, p63580-63887, Department of Housing and Urban Development, 24 CFR Part 81, HUD's Housing Goals for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) for the Years 2005–2008 and Amendments to HUD's Regulation of Fannie Mae and Freddie Mac; Final Rule.

housing," said HUD Secretary Alphonso Jackson.[16] While not covered by the regulations directly, those who measure the subsidies and benefits accruing to the GSEs often include the FHLBanks' mission as part of the affordable lending mandate. How do the FHLBank members compare with others in meeting affordable housing goals? We look at two statistics – the origination rates of members within the goal categories and the distribution of loans originated. The actual performance standards set for Fannie Mae and Freddie Mac only pertain to their distribution of purchases, but we are also concerned with the rate at which borrowers in these categories are approved. We compare members with non-members and members among advance usage categories to answer this question.

i. Member vs. Non-Member

Table 6

Origination Rates by Affordable Goal Measure

Goal Measure	Total Member	Non-Member	Total
Geographically-Targeted	85.5	76.8	83.6
Low- and Moderate- Income	87.4	77.5	85.5
Special Affordable	83.5	71.4	81.0

Member origination rates exceed non-member origination rates in all three goal categories by 9 to 11 percentage points in each. For example, the FHLBank members approve 86 percent of loans from their borrower applicants who come from underserved (low income/high minority) areas and 87 percent of their borrowers with low and moderate incomes while non-members have rates less than 80 percent in each category.

[16] http://www.hud.gov/news/release.cfm?content=pr04-133.cfm (last accessed 01/14/05). By 2008, Fannie Mae and Freddie Mac must reach an low- and moderate income goal of 56% of their purchases, a geographically targeted (underserved areas) goal of 39% and a special affordable goal of 27%.

ii. Member by Use of Advances

Table 7			
Origination Rates by Affordable Goal Measure and Advance Usage			
Goal Measure	Top Quartile	Other User	Non-User
Geographically-Targeted	86.8	85.8	82.1
Low- and Moderate- Income	89.3	87.0	84.2
Special Affordable	86.0	83.0	79.5

In each goal category, we also see that those members that rely most on the use of advances as a percentage of their total assets originate loans at higher rates than those members who do not use advances. Non-user originate rates still dominate non-member originate rates (found in Table 6), but the ability to obtain liquidity from the FHLBank System allows the members in the top quartile of advance users to do even better than other members.

The comparisons presented in Tables 6 and 7 do show a clear link between the use of advances and the provision of liquidity to those most in need. However, other issues also need to be addressed. Specifically, are these advances necessary? Would we see the same type of goal-qualifying mortgage activity if liquidity came solely from Fannie Mae and Freddie Mac, through their mandated purchases of goal-qualifying mortgages? That is, do FHLBank members simply serve as a conduit for meeting the goals of the other GSEs, rather than providing a complementary channel and additional liquidity to these borrowers? To address these issues, we need to look at the portfolio activity of FHLBank members and compare those to the purchases of Fannie Mae and Freddie Mac from all lenders.

IV. Comparisons with Fannie Mae and Freddie Mac

Tucillo (2005) finds that, in support of the housing sector, FHLBank members devote 15 to 20 percent of their portfolios to mortgage lending while non-members hold 7 to 16 percent of their portfolios in assets. This evidence is suggestive of membership supporting the housing sector, but it is a static view. It may simply indicate that non-members sell more to the secondary market. Table 8 provides the snapshot view for a single year of mortgage flows.

Table 8

Retained Portfolios Compared to Sales (%)

Purchaser	Total Member	Non-Member
Retained	28.17	30.70
Sold to F/F	54.28	62.40
Sold to "Other"	10.60	0.95
Sold to Other Institution	6.95	5.96

In 2003 we see that members are retaining roughly the same share in portfolio as non-members, but that they sell less to Fannie Mae and Freddie Mac in the secondary market than do the non-members. A recent phenomenon is the growth of the MPF and MPP securitization programs at the FHLBanks. This activity is measured within the category Sold to “Other”. As expected, FHLBank members utilize this conduit and the very small amount of activity here by the non-members likely represents some small amount of sales to state housing finance agencies not elsewhere counted. While this “flow” data does not find the same magnitude of retentions as found in the “stock” data analyzed by Tucillo (2005), it does demonstrate that the numbers he finds cannot be explained by higher sales to the secondary market by the non-members and, thus, offers support for his hypothesis.

In comparing the portfolio activities of the FHLBank members with Fannie Mae and Freddie Mac, we need to look not at origination rates from a goal targeted group (as shown in Tables 6 and 7) but at the shares of loans originated by goal category and at those shares held in portfolio or sold in the secondary market. The FHLBank members must choose whether or not to originate loans following the accept criteria of the automated underwriting systems of Fannie Mae and Freddie Mac, or to originate loans that may meet the mission of the FHLBanks, meet Community Reinvestment Act (CRA) criteria, but perhaps not meet the purchase requirements of Fannie Mae and Freddie Mac.

Often banks will have specific CRA lending programs with more flexible guidelines than they would need to impose for secondary market sales. A clear difference is that loans that meet the low- and moderate-income thresholds for CRA must be below 80 percent of the AMI while that number is 100 percent of LAMI for the affordable goals set by HUD. Our comparison of goal targeting lending follows from examination of Tables 9 – 11.

Table 9

Goal Performance of Conventional, Conforming Loans by Advance Usage (%)

	Member			Non-Member
Goal Measure	Top Quartile	Moderate User	Non-User	Total
Geographically-Targeted	25.6	24.5	24.8	28.1
Low- and Moderate- Income	41.8	42.6	38.7	39.1
Special Affordable	14.3	15.3	13.4	14.4

We find that FHLBank members mirror the market in terms of goal performance, with their share of geographically targeted loans slightly lower and their share of loans to low- and moderate-income borrowers slightly higher than non-members. Special affordable shares are nearly identical. The distributions shown across all goal categories also demonstrate, once again, that the use of advances can be helpful in targeting funds to those markets most in need. Members in the top quartile of advance users have higher shares (relative to non-users) in all three goal categories.

Finally, we provide evidence that supports our claim that FHLBank members are not simply a conduit for the other GSEs. They do, in fact, meet the needs of the GSEs as they comprise a significant share of the market (as shown in Table 2) but they retain very similar shares in portfolio, using liquidity from advances or from sales to the FHLBanks directly to fund their mortgage originations. Table 10 demonstrates this result for the affordable goal-related activities and Table 11 provides support for the finding that FHLBanks do much to further minority homeownership needs.

Table 10

Comparison of Single-Family, Owner-Occupied Loans Retained by FHLBank Members and All Loans Purchased by Freddie Mac and Fannie Mae (F/F) by Goals

Goal Performance	Total Member	Top Quartile Advance User	Total Purchased by F/F
Geographically Targeted			
Retained	27.8	27.3	
Sold to F/F	23.9	25.0	24.2
Low- and Moderate-Income			
Retained	41.7	40.2	
Sold to F/F	41.7	42.6	40.6
Special Affordable			
Retained	15.7	14.5	
Sold to F/F	14.2	14.4	13.8

Across all three goal performance categories, we observe that FHLBank members retain the same or higher percentages of loans in their own portfolios as they sell to Fannie Mae and Freddie Mac combined. We also notice that the heaviest advance users hold higher shares in portfolio for all but the low- and moderate-income loans. In comparison with the percentages purchased by Freddie Mac and Fannie Mae from all institutions (the column on the right), the same results hold. We can conclude that FHLBank members do at least as well as Fannie Mae and Freddie Mac in meeting the needs of targeted groups of borrowers. As they retain these loans in their own portfolios, they meet these needs for their portfolios without reliance on the secondary mortgage market sales and liquidity.

Table 11			
Comparison of Single-Family, Owner-Occupied Loans Retained by FHLBank Members and All Loans Purchased by Freddie Mac and Fannie Mae (F/F) by Race			
Race	Total Member	Top Quartile Advance User	Total Purchased by F/F
Black			
Retained	3.6	3.4	
Sold to F/F	2.9	3.3	3.2
Hispanic			
Retained	5.4	7.6	
Sold to F/F	5.2	6.8	5.9
White			
Retained	77.8	75.7	
Sold to F/F	77.7	73.7	76.0

Similarly, FHLBank members strongly support minority borrowers, retaining more African American and Hispanic loans than they sell to Fannie Mae and Freddie Mac, and exceeding the overall market share of African American loans purchased by Fannie Mae and Freddie Mac from all lenders. As we saw with minority loan originations, the heaviest advance users do well here too retaining slightly more African American loans than Fannie and Freddie buy from the market and considerably more Hispanic loans.

In conclusion, when compared with Fannie Mae and Freddie Mac, the FHLBanks support the market for targeted lending (in terms of either those borrowers satisfying affordable goal performance measures or minority borrowers) even more than do Fannie and Freddie with their explicit goal requirements.

V. Multifamily Lending Activity

Another area of lending in which FHLBank members provide important liquidity is the multifamily market. The data in HMDA are somewhat limited in this area but the information allows some inference. We provide two tables with very interesting results. Table 12 shows that the multifamily loans originated by FHLBank members are more goal rich, across all three goals, than those of non-members. We also find, again, that advance liquidity helps the members originate more of these loans – those in the top quartile in terms of advance use have over 70 percent of their multifamily loans in underserved areas and over 50 percent of the multifamily loans in minority census tracts. Both of the percentage distributions of loans in these categories are considerably higher than those observed for non-members or for member, non-users of advances. The ability to obtain low-cost financing through the advance activity offered by FHLBank membership truly helps not only those in owner-occupied, single-family housing units, but also those in rental housing offered in multifamily units.

Table 12

Goal Shares of Multifamily Loans Originated (%)

Goal Performance	Member			Non-Member
	Top Quartile	Other User	Non-User	Total
Geographically Targeted	70.4	62.0	63.2	58.4
Minority Tract	53.3	41.1	40.5	42.2

In Table 13, we provide the distribution of multifamily loans by type of lending institution. Here we observe that the thrift institutions do even better than the other types of institutions in targeting multifamily lending to underserved and minority areas. As thrifts continue to constitute a large part of the FHLBank membership, this argues well for a continued contribution of the FHLBank members toward improving the availability of housing to those most in need.

Table 13

Thrifts Focus on Underserved and Minority Areas

Area	Commercial Banks	Savings Banks	Thrifts	Total
Not Underserved	36.27	37.74	29.89	33.68
Underserved	63.61	60.84	70.04	66.11
N/A	0.12	1.42	0.07	0.21
Total	100.00	100.00	100.00	100.00
Minority Tracts	Commercial Banks	Savings Banks	Thrift	Total
Non-Minority	58.24	69.93	44.11	53.01
Minority	41.76	30.07	55.89	46.99
Total	100	100	100	100

VI. Conclusions

This study introduces into the public policy arena some strong and compelling evidence that the FHLBanks, through both their mission focus and advance activity, provide an important source of funding to the borrowers for whom public policy measures such as the GSE affordable goals are designed. The FHLBank members originate loans and minority loans at higher rates than do non-members. Those with heaviest use of FHLBank advances perform well across the measures we have analyzed including meeting the needs of very-low income borrowers, low- and moderate-income borrowers, those in underserved areas, and minority borrowers. Also, FHLBank members retain in portfolio loans of equal "goal-richness" as those they ultimately sell to Fannie Mae and Freddie Mac.

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