

The Federal Home Loan Bank System must stay open to large institutions

By [Ryan Donovan](#) July 12, 2023, 10:00 a.m. EDT

Limiting large-bank access to the system could have an unintended negative impact on smaller banks, writes Ryan Donovan, president and CEO of the Council of Federal Home Loan banks.

While it may have gone largely unnoticed, Bloomberg recently reported that the Federal Housing Finance Agency will move to limit large financial institutions' access to the Federal Home Loan Bank System.

Without proper context, attribution or confirmation, one might easily dismiss this article as mere clickbait with an anti-large bank bias. But this would be a mistake.

The limitations on the access of large financial institutions to the Home Loan Bank System carry serious implications that could endanger the financial sector, harm borrowers and communities and hinder efforts to make homeownership more affordable.

Limiting the access of large institutions would obstruct an affordable and reliable source of funding relied on by financial institutions of all sizes in both good times and times of financial stress. While the Home Loan banks are not lenders of last resort, access to their funding provides stability for the entire financial sector. Indeed, many Home Loan member banks incorporate access to Home Loan bank funding into their business plans. When market challenges do arise, members know they can turn to their Home Loan bank to help them weather the storm. Things likely would have turned out much differently for many banks had this not been the case in March 2023, not to mention the early days of the COVID-19 pandemic or the financial crisis. It's unclear how the public interest would be served by destabilizing access to a reliable source of liquidity.

Furthermore, the participation of large financial institutions in the Home Loan Bank System helps keep the cost of the funding it provides low and covers a substantial portion of its operations. If large members are excluded, the cost of the liquidity will increase and the full costs of the system will be shouldered by Main Street banks and credit unions, insurance companies and Community Development Financial Institutions. This would directly harm borrowers and local communities in the form of higher borrowing costs and reduced availability of credit. Under our current structure, the Home Loan Bank System saves consumers to the tune of \$17 billion in mortgage payments each year. Again, it is difficult to see how the public interest would be served by making mortgage credit more expensive, an outcome that directly opposes the FHFA's strategic goal of fostering equitable access to affordable and sustainable housing.

Restricting the participation of large members in the Home Loan Bank System also goes against the overwhelming feedback received by the agency during its recent review process. Stakeholders from across the country emphasized the important role the banks play for members of all asset sizes. The majority of stakeholders expressed the need for more, rather than less, support from the system, particularly regarding affordable housing. Responding to this demand, each of the 11 Home Loan banks voluntarily committed to contributing 50% more than their statutory requirement to affordable housing and community development initiatives, despite no government mandate.

Absent shutting our Affordable Housing Programs (AHP) down entirely, it is difficult to imagine a better way to ensure that the system contributes less to affordable housing than to eliminate access for larger members. After

all, AHP contributions are a function of each Home Loan bank's net income. Eliminating banks with more than \$250 billion in assets, for example, would reduce the size of the system by almost 30%, deeply cutting into the system's ability to fund affordable housing. Moreover, more than 40% of the AHP sponsors are large-bank members with the experience and know-how to make effective use of these critical resources; without their participation, AHP and other efforts will lose key partners.

The few voices that articulated concern about large bank participation are those who take the extreme position of questioning whether the Federal Home Loan banks should exist at all. If the Federal Housing Finance Agency or Congress eliminates large bank access to the system, they just might get their way. But this outcome will come at the expense of community banks, credit unions and homebuyers, which is precisely why FHFA should dispel the dangerous rumor suggesting that access for large banks to the Home Loan Bank System is in jeopardy.

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