Facts You Can Bank On

FHLBANKS
A NATION OF LOCAL LENDERS

Get to know the FHLBanks and their role in the U.S. Financial System

DID YOU KNOW?

The Federal Home Loan Banks are funded entirely by private capital

HOW DOES IT WORK?

- Each of the 11 FHLBanks is a cooperative. Members (banks, credit unions, insurance companies, and other financial institutions) purchase stock as a condition of membership and to transact business with their FHLBank, and those funds provide a source of capital for each FHLBank.
- The Office of Finance issues bonds and discount notes in the debt markets on behalf of the entire FHLBank System, the proceeds of which are made available to the FHLBanks and primarily used to make advances (loans) to members.
    - Purchasers of FHLBank System debt include domestic and international fixed-income investors, such as fund managers, banks, central banks, state and local governments, corporations, insurance companies, and pension funds.
- Investors in FHLBank System debt accept a rate of return that may be lower than other marketplace options because they see it as a safe investment in part because:
    - FHLBank loans and other extensions of credit must be fully secured, and members are required to pledge additional collateral when considered necessary by their FHLBank,
    - Each FHLBank retains a perfected security interest in all pledged collateral, and
    - The FHLBanks are jointly and severally liable for the debt of the entire FHLBank System.
- Congress does not appropriate taxpayer funding for the FHLBank System. Debt securities issued on behalf of the FHLBanks are not obligations of the United States and are not guaranteed by the federal government.

The FHLBank System structure holds the private sector, not taxpayers, responsible for liquidity risk

The FHLBanks help maintain the health of the American financial system!