Letter to the Editor of Bloomberg
2023

FHLB System Provides Clear Value to the US Public: Ryan Donovan

To the Editor;

Re: Bloomberg's editorial board, "Home Loan Banks Are Adrift and Asking for Trouble" (July 19):

Your recent editorial erroneously conflates perceived costs with added value and mischaracterizes key facts about the Federal Home Loan Bank System. While we can understand why the market may assume an implicit government guarantee of the System's debt given our critical role in supporting financial stability, the cost to taxpayers from this guarantee has been precisely zero. As the editorial recognizes, the System is privately funded. It is not supported by Congressional appropriations and taxpayers do not pay out-of-pocket expenses to keep the System operating. Even accepting the notion that the System's implied guarantee and tax-preferred status imposes a so-called lost revenue "cost" of $5.5 billion, your editorial neglects to answer its own question as to whether taxpayers are getting their money's worth. The answer is an emphatic "yes." A recent University of Wisconsin study highlights that the System saves borrowers $13 billion in mortgage interest payments every year. No matter how you slice it, this is a tremendous value for consumers and a great deal for taxpayers.

Additionally, your editorial points out that non-bank lenders now comprise the majority of the mortgage market and suggests that the role of the System in this market has necessarily declined as a result. Here again, two issues are conflated. Mortgage origination is only one piece of the mortgage market. Thousands of System members across the country, particularly smaller, community-based lenders, continue to originate mortgages and hold them on their balance sheets. Thousands of other System members are involved in the buying, packaging, or purchasing of mortgage-backed securities that stem from mortgages originated by non-bank lenders, the proceeds of which provide those same non-bank lenders with additional funding to originate more mortgages and keep mortgage credit freely flowing. As the University of Wisconsin study makes clear, access to System funding leads to a more than 16 percent increase in mortgage originations.

If anything is adrift when it comes to the Federal Home Loan Bank System, it may simply be an understanding of the public value it provides and the important role it plays in our financial system.

Ryan Donovan
CEO & President, Council of Federal Home Loan Banks