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## As the Federal Home Loan banks turn 90, we shouldn't mess with success

By Julieann M. Thurlow | May 13, 2022

This year marks the 90th anniversary of the founding of the Federal Home Loan Bank System. Rather than taking this moment to celebrate the critical role the 11 regional Home Loan banks play in supporting the economy with liquidity as a lender in times of economic stress as well as during normal economic cycles, some have instead decided to take aim at the Home Loan Bank System and call for changes. My advice: Don't mess with success.

Since the Home Loan banks are not well understood to those who don't regularly work with them — for the last nine decades, they have been an invaluable and often behind-the-scenes partner for banks and other regulated financial institutions invested in making communities better and ensuring access to credit for all Americans. As member-owned and capitalized institutions, they have quietly fulfilled an essential need — ensuring liquidity to lenders like my own bank, Reading Cooperative, no matter what economic conditions or crisis may have seized the larger economy.

When global credit markets freeze up, as they did during the 2007-8 financial crisis or at the beginning of the COVID-19 pandemic, the Home Loan banks are the lenders of first resort, stepping up to keep liquidity in the market when other sources of funding either disappear or are slow to act. In response to COVID-19 and the shutdown of the global economy, systemwide advances — the loans the Home Loan banks make to their members — shot up by \$165 billion, or 25%, over a brief period bridging March and April 2020, peaking at more than \$805 billion.

System advances have declined from that April 2020 peak, driven largely by federal stimulus that flooded the market and Home Loan bank members with liquidity and record member deposit levels. This is how the Home Loan Bank System is designed — its scalable model allows for each system bank to expand and contract based on regional member needs. And because those members (approximately 6,600 of America's well-regulated banks, credit unions, insurance companies and community development financial institutions) cooperatively own each Home Loan bank, the system is highly risk averse. Each Home Loan bank member monitors its investment in its respective Home Loan bank and no Home Loan bank has ever suffered a loss on an advance in the system's 90-year history.

Because they are not well known and not very well understood, it leads some to question whether the Home Loan Bank System has outlived its usefulness or should be "reformed" to change its purpose. Those calls usually come in times of abundant liquidity — such as we are living through — when there is low appetite for Home Loan bank advances. That is a shortsighted view that would be akin to removing your furnace in the summer. Trust me, no matter how hot it might get

in Boston in July, you're going to need that furnace come December. When economic conditions change — as they are sure to do, member financial institutions will need the Home Loan banks as we have throughout the last 90 years.

Liquidity levels locally appear to have peaked: Rising rates, investment returns, and a sense of endemic normalization makes the Home Loan bank system liquidity promise a necessity for the continued flow of credit. Massachusetts businesses and consumers are likely unaware that our local Home Loan bank in Boston provides a source of "just in time inventory" of cash and instruments for local banks and credit unions ensuring credit availability to meet their every financial need.

Further, those who think the Home Loan banks should be reformed to expand their usefulness to other types of lenders, like mortgage companies or fintechs, miss the fact that those entities have limited tangible assets and sparse regulation. Since these proposed new members would not have the assets to secure their borrowings or capital to invest or strict oversight, existing members' risk would be elevated markedly. Reform of this kind could destabilize the Home Loan Bank System and put its ability to meet its mission at risk.

Some say there's no need for 11 individual Home Loan banks — that in a time when funds can be allocated with the click of a mouse, the system should be centralized for efficiency. That argument misses another key mission of the Home Loan banks, which is to support local community needs. By law, the Home Loan banks must devote 10% of their profits each year to fund affordable housing grants that support their members' efforts to expand housing affordability and access in the communities they serve.

The regional nature of the system ensures that each Home Loan bank is closer to and knows more about their members and the communities they serve, and thus remains better able to assess and meet the needs of those unique regions and communities. For example, existing programs from the Federal Home Loan Bank of Boston provide down payment assistance, affordable housing finance and support for small-business stabilization and expansion. The regional nature of the Home Loan Bank System ensures that the impact of member financial institutions' lending and investment activity is felt locally. Otherwise, community financial institutions would have to compete for resources nationally and system program funding and benefits might not reach all corners of America, as it does today.

Safe, sound and reliable access to capital delivered through local lenders that know their communities has fostered a vibrant American economy. For 90 years the Federal Home Loan banks have helped to make that possible. Let's take a moment to celebrate that success and keep it going.