FHFA Should Maintain Focus on Liquidity that Funds Local Communities

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Washington, D.C. – The Federal Housing Finance Agency (FHFA) should not make any changes to the Federal Home Loan Bank System that would undermine the ability of institutions to access essential funding, the Conference of State Bank Supervisors (CSBS) and the National Association of State Credit Union Supervisors (NASCUS) said in a joint comment letter today.

Federal Home Loan Bank liquidity helps community banks and credit unions fund loans that support home ownership and drive local economic development. As of the end of Q1 2024, more than $590 billion in Federal Home Loan Bank advances supported bank and credit union lending. Potential changes to the Federal Home Loan Bank System's mission plus a new incentive program outlined by the FHFA in a request for information could be harmful, the letter said.

"The Federal Home Loan Bank System provides critical, reliable liquidity to state-chartered banks and credit unions, including in times of economic stress, so they can fund loans that support their local communities," said CSBS President and CEO Brandon Milhorn. "Liquidity policy changes made without coordination, or with inadequate consideration for the timing of such changes, could undermine financial stability, particularly as financial institutions continue to face a higher rate environment and economic headwinds."

Research featured at the Community Banking Research Conference estimates that Federal Home Loan Bank funding increases mortgage originations by $130 billion and lowers mortgage interest payments by $13 billion every year. Additionally, Federal Home Loan Bank funding significantly empowers smaller institutions to compete against larger financial institutions, enabling these entities to provide more mortgage loans in their local markets. This increased competition leads to an annual increase in mortgage originations of $50 billion.

State supervisors have a vested interest in the future of the Federal Home Loan Bank System. The liquidity provided by the Federal Home Loan Banks supports financial stability and economic growth – top priorities for state supervisors. More than 90% of the state-chartered banks that state regulators supervise are Federal Home Loan Bank members, and state-chartered banks represent more than half of the FHLBank Systems' member institutions.

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The Conference of State Bank Supervisors (CSBS) is the national organization of financial regulators from all 50 states, American Samoa, District of Columbia, Guam, Puerto Rico, and U.S. Virgin Islands. State regulators supervise 79% of all U.S. banks and a variety of non-depository financial services. CSBS, on behalf of state regulators, also operates the Nationwide Multistate Licensing System to license and register non-depository financial service providers in the mortgage, money services businesses, consumer finance and debt industries.