



GSE Activity Report

Monday, October 3, 2022

FHLB-o-Rama

Summary

Our take on the first two days of FHFA's FHLB "listening session" last week is that battle lines are shaping up much as we expected with the exception of a couple of powerful groups with new ideas about how the System could be put to better use for themselves and/or the public interest. As noted when these sessions were [announced](#), our strategic thinking centers around what FHFA can do on its own under current law or how far it decides to stretch it. Key questions and our forecasts for next steps follow.

Impact

As anticipated, views differed markedly on who should be allowed to join a Home Loan Bank under what terms. The MBA and related witnesses used their time to argue for nonbank access and banking groups pressed just as hard to keep membership pretty much as is. Regardless, allowing nonbanks into the System as full-fledged members requires statutory change, which is unlikely in the near term unless something goes seriously wrong in the System. However, as discussed below, some interesting ideas for quasi-nonbank access were floated along with several other new FHLB activities possible under current law. Another for-sure discussion surrounded the System's affordable-housing mission, with groups in this arena arguing for much higher requirements. Again, this would take new law, but some ideas within statutory boundaries were also suggested. These and other significant points at these sessions were:

- **AHP:** The National Association of Realtors used its formidable clout to suggest raising the dollar amounts related to affordable housing to reflect inflation. Doing so would hike them very significantly, pushing statutory boundaries the System is sure to cite but that may not prove insurmountable. The NAR also wants AHPs to focus on first-time homeownership, a mission FHFA may well have the latitude to mandate and could surely encourage. The same is true for an NCRC recommendation that AHP contributions no longer be considered in light of System profitability, turning the Banks into more of a public utility.
- **Safety and Soundness:** This came up largely in a statement from BU's Cornelius Hurley, but the NAR interestingly also pushed for tougher capital and liquidity standards along with stringent eligibility requirements if membership is opened to more insurance companies as it recommends and perhaps to other entities.
- **Consolidation:** Perhaps because they don't have their own FHL Bank anymore, Washington Bankers pressed for System consolidation. Other banking witnesses were mum or cautious, but AFR pressed for System consolidation along with the executive-comp restrictions also pressed by BU's Hurley.
- **New Activities:** Small mortgage banks urged FHFA to allow the Banks to provide liquidity in

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com

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the face of stress events such as margin calls and provide new FHLB support for pipeline hedging. Public-interest witnesses also want the system to focus on small business and/or climate change, activities possible under current law only if they can be subsumed under [AMA authority](#).

- **CRT:** Interestingly, the NAR also opposed any risk-sharing along lines FHFA allows and indeed favors for Fannie and Freddie.

Are we forgetting the FHLBs themselves? No, but the FHLB Council's testimony was essentially that the System is great and anything FHFA can do to make it greater still would be even better. We infer the System is as internally divided as usual on all points of substance, with this coming clear when and if FHFA comes up with anything specific.

Outlook

We'll amend our issues inventory once the third day of these listening sessions concludes tomorrow. So far, it's open field for FHFA to do something, nothing, or quite a lot.