

June 6, 2024

The Honorable Sandra L. Thompson  
Director  
Federal Housing Finance Agency  
400 7<sup>th</sup> Street SW  
Washington, D.C. 20024

Dear Director Thompson:

I write today to urge the Federal Housing Finance Agency (FHFA) to address our country's affordable housing crisis by reforming the broken Federal Home Loan Bank (FHLB) System.

In 1932, Congress created the Federal Home Loan Banks to address the biggest housing crisis of the era: the Great Depression.<sup>1</sup> The core premise underlying the FHLBs is simple. Congress set up the banks as a government-sponsored enterprise, endowing this System with an implied government guarantee, tax exemptions, and regulatory benefits.<sup>2</sup> In exchange, the eleven regional FHLBs provided liquidity to their members—including banks, credit unions, and insurance companies—to support housing and community development.<sup>3</sup>

While the FHLBs initially kept their end of the bargain, in recent decades, they have failed to deliver on their housing and community development mission. This March, the Congressional Budget Office (CBO) released a report quantifying, for the first time, the public subsidies received by FHLBs.<sup>4</sup> That report estimated that the FHLBs will receive \$7.3 billion in public subsidies in this year alone.<sup>5</sup> While these subsidies were meant to address our nation's housing needs, they mostly supported bank executives and shareholders instead. Last year, the FHLBs paid \$3.4 billion to their members in dividends and only \$395 million to Affordable Housing Programs (AHP)—a staggering 8.5 to 1 ratio.<sup>6</sup> Over the last five years, 42% of FHLB members did not

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<sup>1</sup> FHLBanks Office of Finance, "History of Service," [https://www.fhlf-of.com/ofweb\\_userWeb/pageBuilder/mission--history-29](https://www.fhlf-of.com/ofweb_userWeb/pageBuilder/mission--history-29); Federal Deposit Insurance Corporation, "Federal Home Loan Bank System," <https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-3-docs/federal-home-loan-bank-system.pdf>.

<sup>2</sup> *Id.*; NYU Furman Center Blog, "The GSE Public-Private Hybrid Model Flunks Again: This Time It's the Federal Home Loan Bank System (Part 1)," Donald H. Layton, March 4, 2024, <https://furmancenter.org/thestoop/entry/the-gse-public-private-hybrid-model-flunks-again-this-time-its-the-federal-home-loan-bank-system-part-1>.

<sup>3</sup> *Id.*

<sup>4</sup> Congressional Budget Office, "The Role of Federal Home Loan Banks in the Financial System," report, March 7, 2024, <https://www.cbo.gov/publication/60064>.

<sup>5</sup> *Id.*

<sup>6</sup> Consumer Federation of America, "New Report Shows Federal Home Loan Banks Received \$7.3 Billion in Subsidies, but Offered Little Public Benefits in Return," press release, March 15, 2024, [https://consumerfed.org/press\\_release/new-report-shows-federal-home-loan-banks-received-7-3-billion-in-subsidies-](https://consumerfed.org/press_release/new-report-shows-federal-home-loan-banks-received-7-3-billion-in-subsidies-)

originate a single mortgage.<sup>7</sup> To make matters worse, a recent Government Accountability Office report found that the FHLBs provided tens of billions of dollars to prop up Silicon Valley Bank, Signature Bank, and First Republic Bank before these banks failed.<sup>8</sup>

FHFA is the primary regulator for the FHLBs and is responsible for ensuring the FHLBs are accountable to their mission and that they are operating in a safe and sound manner.<sup>9</sup> Last November, FHFA released a report documenting areas of improvement for the FHLB system as well as recommendations for FHFA and Congressional action.<sup>10</sup> I commend the FHFA for “the first comprehensive review of the FHLBank System in decades,” launched in recognition of the significant changes over the past nine decades to the mortgage market, the broader financial system, and the FHLBs.<sup>11</sup>

Congress should pass legislation to reform the FHLBs. For instance, Congress can increase the FHLBs’ mandatory AHP contributions, address exorbitant executive compensation practices, and redefine what entities are eligible to be FHLB members. But as the primary regulator of the FHLBs, FHFA has the authority to act now. Indeed, your November 2023 review provided a detailed set of regulatory recommendations, at least two of which you should act on immediately.

First, while the agency’s recent request for information on the FHLBs’ mission was a good first step,<sup>12</sup> FHFA should issue a rule clarifying the mission of the FHLBs. The November report highlighted the need for FHFA to seriously consider the role of FHLBs in the housing finance system as FHLB membership has shifted away from institutions with a strong focus on mortgage lending and broadened eligible collateral to include non-housing-focused assets.<sup>13</sup> At a time when unmet housing needs are growing across the country, it is crucial for FHFA to clarify the mission of the FHLBs as “(i) providing stable and reliable liquidity to their members, *and* (ii) supporting housing and community development,” not simply to prop up failing banks.<sup>14</sup>

Second, FHFA should use its regulatory authority to change the membership requirements for the FHLBs, ending the current absurd state of affairs where, in recent years, nearly half of FHLB

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but-offered-little-public-benefits-in-return/; Federal Home Loan Banks, “Combined Financial Report for the Year Ended December 31, 2023,” March 22, 2024, p. 51, [https://www.fhlb-of.com/ofweb\\_userWeb/resources/2023Q4CFR.pdf](https://www.fhlb-of.com/ofweb_userWeb/resources/2023Q4CFR.pdf).

<sup>7</sup> Bloomberg, “How a Vegas Whale, and Many More, Tap Billions Meant for US Housing,” Noah Buhayar, Heather Perlberg, and Tom Schoenberg, October 20, 2023, <https://www.bloomberg.com/news/articles/2023-10-20/savvy-financiers-tap-billions-meant-for-mortgages-from-1-4-trillion-fhlb-system>.

<sup>8</sup> Government Accountability Office, “Federal Home Loan Banks: Actions Related to the Spring 2023 Bank Failures,” report, March 8, 2024, <https://www.gao.gov/assets/d24106957.pdf>.

<sup>9</sup> Federal Deposit Insurance Corporation, “Federal Home Loan Bank System,” <https://www.fdic.gov/resources/bankers/affordable-mortgage-lending-center/guide/part-3-docs/federal-home-loan-bank-system.pdf>.

<sup>10</sup> Federal Housing Finance Agency, “FHLBank System at 100: Focusing on the Future,” November 2023, <https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHLBank-System-at-100-Report.pdf>.

<sup>11</sup> *Id.*, p. 1.

<sup>12</sup> Federal Housing Finance Agency, “FHFA Requests Input on FHLBank System Mission,” press release, May 16, 2024, <https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-Requests-Input-on-FHLBank-System-Mission.aspx>.

<sup>13</sup> *Id.*, p. 95.

<sup>14</sup> *Id.*, p. 7.

members have not originated a single mortgage.<sup>15</sup> Under current rules, members only need to hold at least 10% of their assets in residential mortgage loans at the time they apply to join a FHLB.<sup>16</sup> In a recent hearing of the Senate Committee on Banking, Housing, and Urban Affairs, Director Thompson acknowledged the need to establish “ongoing checks” for FHLB membership.<sup>17</sup> FHFA should act swiftly to promulgate rules that would require members to hold at least 10% of their assets in residential mortgages *on an ongoing basis* to remain eligible for FHLB financing.

With the ever-growing housing crisis, Congress and federal regulators must work together to improve our housing finance system. Therefore, I ask that FHFA immediately move forward with proposed rulemakings to clarify the FHLBs’ mission statement and membership, and request a briefing on your efforts to do so no later than June 20, 2024.

Thank you for your attention to this important matter.

Sincerely,



Elizabeth Warren  
United States Senator

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<sup>15</sup> Consumer Federation of America, “New Report Shows Federal Home Loan Banks Received \$7.3 Billion in Subsidies, but Offered Little Public Benefits in Return,” press release, March 15, 2024, [https://consumerfed.org/press\\_release/new-report-shows-federal-home-loan-banks-received-7-3-billion-in-subsidies-but-offered-little-public-benefits-in-return/](https://consumerfed.org/press_release/new-report-shows-federal-home-loan-banks-received-7-3-billion-in-subsidies-but-offered-little-public-benefits-in-return/).

<sup>16</sup> Federal Home Loan Banks, “Combined Financial Report for the Year Ended December 31, 2023,” March 22, 2024, p. 61, [https://www.fhfb-of.com/ofweb\\_userWeb/resources/2023Q4CFR.pdf](https://www.fhfb-of.com/ofweb_userWeb/resources/2023Q4CFR.pdf).

<sup>17</sup> Office of U.S. Senator Elizabeth Warren, “At Hearing, Warren Highlights Federal Home Loan Banks’ Failures to Meet Affordable Housing Mission, Calls on Housing Regulators to Act,” press release, April 19, 2024, <https://www.warren.senate.gov/newsroom/press-releases/icymi-at-hearing-warren-highlights-federal-home-loan-banks-failures-to-meet-affordable-housing-mission-calls-on-housing-regulators-to-act>.