Written Testimony of Kathryn Judge, Harvey J. Goldschmidt Professor of Law, Columbia University

before the U.S. House of Representatives Committee on Financial Services

Oversight of the Federal Home Loan Bank System

July 21, 2026

Chairman Hill, Ranking Member Waters and Members of the Committee: Thank you for holding this hearing. The Federal Home Loan Bank system is one of the largest, most important and least understood parts of today's financial system. For nearly a century, the Federal Home Loan Banks have shaped the broader financial system and the type of credit available to American families. Nonetheless, they are often overlooked and misunderstood. I am grateful that you are making the time to better understand these critical financial institutions, the ways that they can help tackle today's housing affordability crisis and how to reduce opportunities for abuse.

When the Federal Home Loan Banks were first formed in 1932, they played a valuable role helping families access the financing they needed to buy homes. They did this through two core mechanisms: (1) by bolstering the health of a set of small, community-oriented financial institutions distinctly focused on supporting housing and serving working families and (2) by using collateral requirements to encourage those financial institutions to issue loans that better served the needs of working families. But the financial system today bears little resemblance to the financial system of 1932 and FHLBank membership has expanded dramatically. The result is a mismatch between how the FHLBank system works and the public aims it was designed to further.

The FHLBanks do provide some meaningful support affordable housing and they continue to aid smaller, community-oriented financial institutions. But at a time when so many Americans are struggling to afford a home, and as they continue to reap massive public subsidies, they should be doing even more. And while small financial institutions benefit from FHLBank membership, it is the largest banks and insurance companies that benefit most from today's FHLBank system.

Looking at the history and evolution of the FHLBanks over time explains how they drifted away from their core aim of helping working families buy homes and how to get them back on track. The first four decades of their operation show why they should again be used to primarily benefit the smaller, community-oriented financial institutions and to encourage socially useful, housing-related credit that is otherwise under-provisioned. The experience of the FHLBanks in recent decades explains why the AHP contributions should be higher than they are, providing an additional way of promoting affordable housing.

How the Federal Home Loan Banks Have Helped American Families

A. The Original Design of the FHLBank system

To understand what the Federal Home Loan Banks should do today, it is helpful to begin by understanding their original design and why it was so useful given the structure of the financial system back in 1932. At that time, housing finance was scarce, fragmented, and poorly suited to the needs of most families. The typical mortgage had a short duration, such as five years and very often was structured to require a large balloon payment. Accentuating the challenge, the Great Depression had caused residential construction to collapse and caused mortgage defaults to skyrocket.[1] The aim was to promote employment and access to home ownership by encouraging select financial institutions to issue mortgages that better suited the needs of working families.

The innovations were two-fold. First, the system was built to serve small financial institutions that were distinctly focused on helping working families save and buy homes. At the time, savings and loans (S&L), building associations and other thrift institutions were typically small, state-chartered institutions that could serve only people living in their local communities. Unlike banks that tended to focus on serving commercial interests, thrifts tended on serving the needs of working families, such as factory workers, houseworkers, mechanics and artisans.[2] These institutions had proliferated and thrived prior to the Great Depression, but faced particular hardships when stress set in because—in contrast to banks—they did not have access to the Federal Reserve system (which had been created in 1913). Like the Fed, the FHLBanks make collateralized loans to member institutions, allowing members access to fresh liquidity without having to sell its loans. It serves as a bank to its member financial institutions.

Insurance companies were also allowed to become FHLBank members as the most important investors in the small but burgeoning market for securitized home loans. Yet the focus throughout was supporting the financial institutions that supported the housing market. Even if a financial institution fit the right category for membership, the FHLBank Board could deny membership to any institution if it saw flaws in "the character of its management" or deemed its home-financing policies to be inconsistent with the overarching aim of making mortgages on sound terms that benefitted borrowers.

The second key innovation was to design the loans the FHLBanks extended to member thrifts (the "advances" as they still call them) to encourage those thrifts to make the types of loans most helpful to working families, helping those families to buy homes and slowly accrue savings. The focus was on collateral and other loan terms. The FHLBanks would only accept as collateral on advances first-lien loans, secured by a home with a value of $20,000 or less, and that were "long-term loans" in the view of the FHLBank Board.[3] Moreover, FHLBanks were authorized to extend advances with somewhat smaller haircuts when the duration was at least eight years, which was longer than most mortgages of the era.[4]

This design of encouraging GSEs to take the right types of risk can help them better serve the public. By agreeing to lend more to members who were posting amortizing, longer-term loans as collateral, the FHLBanks were using collateral terms to shape the types of mortgages available in ways that benefitted working families even though that sometimes meant accepting additional risk. Moreover, in contrast to the Fed, the FHLBanks could extend longer term advances to their member institutions. This again helped small institutions that could never access the capital markets directly develop a more reliable and different source of funding so they could better meet the needs of borrowers in their communities.

---

[1] See generally Kathryn Judge, The Unraveling of the Federal Home Loan Banks, 41 Yale J. on Reg. 1011 (2024) and sources cited therein.
[2] Id. at 334.
[3] Id. at 732 (1932) (current version at 12 U.S.C. § 1430(b).
[4] Id. at ch. 522, § 10(a)(1), 47 Stat. 725, 731-32 (1932) (current version at 12 U.S.C. § 1430(a)(1)).

By focusing on a small set of financial institutions that were focused on providing housing finance and serving working families, the FHLBanks helped those institutions to accomplish their core aims. These were small, community-oriented institutions that could do more lending and better serve their communities knowing they could rely on their local FHLBank. The collateral requirements and other terms of the advances that the FHLBanks provided to members further reflected and furthered their core public-oriented aims of encouraging credit of a type that was socially useful and under-provisioned.

B. The S&L Crisis and FIRREA

This system generally worked well until the late 1970s. The spike in inflation that took hold at that time hit thrifts particularly hard, planting the seeds for what would become the S&L crisis. Deregulation of both banks and thrifts blurred the once bright line between the two. Banks began to issue more mortgages and thrifts were allowed to engage in a much wider array of activities. These changes, coupled with the Congress's decision to make the Fed's discount window available to thrift institutions, obviated many of the original rationales animating the FHLBank system.

Yet the S&L crisis also prompted Congress to devise a new use for the system—a new source of off-balance sheet funding.[5] Like Fannie Mae and Freddie Mac before they were placed into receivership, the FHLBanks are a government-sponsored enterprise. They operate off the federal government's balance sheet but they also enjoy much more favorable funding terms because of a widespread assumption that the government would not allow them to fail. By the late 1980s, it was clear that delaying the closure of weak thrifts was only exacerbating the ultimate cost. But if the government was to pay for it directly, it would have to grapple publicly with its failure to meet deficit reduction targets.

In the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), Congress devised a way out of this bind and revamped the ways that the FHLBanks might serve public aims. To clean up the weak thrift institutions, Congress authorized the creation of two new entities. The funding, the Resolution Funding Corporation (RefCorp) issued roughly $30 billion in bonds that were used to support efforts by its sister organization to wind down weak institutions in an orderly fashion.[6] To avoid the hit to the government's budget, Congress made the FHLBanks primarily liable for the RefCorp bonds and required the FHLBanks to use 20% of their profits (after AHP obligations) to help pay interest on those obligations. Congress also required each FHLBank to create an Affordable Housing Program and to use at least ten percent of their net earnings to support the new AHP initiatives. In order to ensure the FHLBanks could generate the revenue needed to meet these new obligations, Congress allowed commercial banks to join the FHLBank system so long as at least 10 percent of their assets, at the time they joined, consisted of home mortgages.

The net result of industry changes, regulatory changes, the creation and growth of other GSEs, and the redesign of the FHLBank system was a sea change in the role of the FHLBanks and how they purport to serve public aims. They shifted away from using member and collateral requirements to encourage lending that helped families toward being used primarily as an off-balance-sheet source of funding. The question of whether the public was getting enough in

---

[5] See generally Kenneth Ryder, A Guide to FIRREA's Off-Budget Financing, 2 Stan. L. & Pol'y Rev. 82, 82 (1990).
[6] See generally Congressional Research Service, The Resolution Trust Corporation: Historical Analysis (Sept. 26, 2008), https://www.congress.gov/crs_external_products/RS/PDF/RS22959/RS22959.4.pdf

exchange for the significant subsidies, tax and regulatory advantages granted to the FHLBanks became even more pressing after 2011, when the FHLBank system fulfilled its obligations to RefCorp bondholders.[7] Now, rather than having to use nearly 30 percent of their earnings to supporting congressionally mandated aims, they had to use a mere 10 percent.

I. FHLBanks Today: Public Subsidies, High Profits, and Misplaced Priorities

The FHLBanks today continue to play a number of useful roles in the financial system. At the same time, they introduce distortions and do far less than they could or should to promote affordable housing. The issue is pressing because of today's housing affordability crisis and the significant subsidies and tax and regulatory advantages the FHLBanks continue to enjoy.

As the Congressional Budget Office explains in its 2024 Report on the Federal Home Loan Bank system, the system enjoys an array of public subsidies. The CBO estimates that for 2024, the FHLBanks enjoyed a subsidy, in the form of lower borrowing costs, between $4.7 billion to $7.9 billion.[8] It estimated that the regulatory and tax exemptions the system enjoys to amount to roughly $0.9 billion for the same period. The CBO further estimated that AHP contributions would total $0.4 billion for the year. The CBO anticipated that the remaining, and far greater amount, of the subsidy would primarily flow to member institutions. This comes through in their capacity to offer very attractive rates on advances and in the high dividends that the FHLBanks often pay to members.

These subsidies are the most obvious but far from only advantage given to the FHLBank system. Another notable example is what is sometimes called the "super-lien." This allows the FHLBanks to stand in front of the FDIC and all other unsecured creditors in the event that a financial institution fails while it still has an outstanding advance.[9]

a. The FHLBanks provide too little support for affordable housing and too much for the largest banks

Through the AHP and other initiatives, the FHLBanks do still play a helpful role in addressing today's housing affordability crisis. The size of that public role, however, remains small and insufficient compared to the benefits received by the FHLBanks, their capacity to support housing finance further with their retained earnings, and the needs presented by today's affordable housing crisis.

Zooming in on just one FHLBank provides a snapshot for how the broader system works today. In 2025, the FHLBank of Chicago reported that it enjoyed a net profit of $654 million.[10] More than 36% of the advances (loans to members) outstanding as of December 31, 2026 went to just five borrowers. Two of the top three biggest borrowers are insurance companies, and the other

---

7 FHFA Announces Completion of RefCorp Obligation and Approves FHLB Plans to Build Capital, Aug 5, 2011, https://www.fhfa.gov/news/news-release/fhfa-announces-completion-of-refcorp-obligation-and-approves-fhlb-plans-to-build-capital

8 CBO, The Role of Federal Home Loan Banks in the Financial System, March 2024, https://www.cbo.gov/publication/60064#_idTextAnchor036, at Tbl. 2.

9 For a thorough discussion of this super-lien and the distortions that result, see Stephen G. Cecchetti, Kermit L. Schoenholtz & Lawrence J. White, Reforming the Federal Home Loan Bank System, Aug 2, 2023, https://www.moneyandbanking.com/commentary/2023/8/2/reforming-the-federal-home-loan-bank-system.

10 Fed. Home Loan Bank of Chicago, Annual Report on Form 10-K for the year ending Dec. 31, 2025, https://www.sec.gov/Archives/edgar/data/1331451/000133145126000047/a20254q10k.pdf

top three borrower describes itself "as a leading provider of wealth management, asset servicing, asset management and banking solutions to corporations, institutions, families and individuals."[11] These large financial institutions are a far cry from the community-oriented banks that defined the early days of the FHLBank system. Looking just at institution type, the thrifts that the FHLBanks were designed to serve had advances outstanding of less than $1.6 billion at year end. By contrast, insurance companies had aggregate advances in excess of $20 billion.

This is not unique to the FHLBanks of Chicago. The GAO found "that large banks—those with more than $10 billion in total assets—were responsible for a majority of banks' FHLBank borrowing since 2015, especially during periods of stress."[12] It further found that "[d]espite representing approximately 3 percent of active FHLBank members, large banks held, on average, nearly 74 percent of all outstanding FHLBank borrowing."[13]

The FHLBank of Chicago did undertake some meaningful efforts to promote affordable housing, including honoring its "statutory assessment of $73 million to fund [its] AHP General Fund" and a related program that helps eligible homebuyers with down payments and other acquisition costs.[14] The Bank also engaged in a number of voluntary programs to promote affordable housing, including two grant initiatives to which it contributed $19 million it was not required to provide. At the same time, the Bank also paid out $301 million—more than four times as much—in cash dividends to its members.[15] Its executives also enjoyed the bounties of the good year, with its Chief Executive Officer enjoying a total compensation package valued at $3,406,686.[16]

Again, there is nothing distinct about the FHLBank of Chicago. Retained earnings throughout the FHLBank system have marched steadily upward since 2011 when the Banks completed their RefCorp bond obligations. The FHLBank of Chicago and other FHLBanks are operating in line with the incentives and constraints currently imposed on them. But as this snapshot shows, the result is to enrich FHLBank executives and member institutions while contributing too little to affordable housing initiatives.

b. Helping weak banks limp along when they should close

Another way the flawed incentives of the current scheme are manifest is in the repeated tendency of the FHLBanks to provide liquidity to weak financial institutions, even when doing so undermines the health of the financial system, imposes costs on taxpayers and healthy financial institutions, and does nothing to further affordable housing opportunities. Events of the past few years illustrate longstanding flaws in the system's design. As deposits and market-based funding started drying up for regional banks in 2022, the FHLBanks stepped in. The FHLBanks provided fresh liquidity—the lifeblood of banks—to Silicon Valley Bank, Signature Bank, First Republic

---

[11] Northern Trust Corp, Annual Report on Form 10-K for the year ending Dec. 31, 2025 https://www.northerntrust.com/content/dam/northerntrust/corporate/global/en/documents/about-us/investor-relations/2025/northern-trust-2025-10-k.pdf

[12] GAO, FEDERAL HOME LOAN BANKS: Role During Financial Stress and Members' Borrowing Trends and Outcomes
GAO-26-107373, Published: Dec 17, 2025, https://files.gao.gov/reports/GAO-26-107373/index.html

[13] Id.

[14] Fed. Home Loan Bank of Chicago, Annual Report on Form 10-K for the year ending Dec. 31, 2025, https://www.sec.gov/Archives/edgar/data/1331451/000133145126000047/a20254q10k.pdf
at 11.

[15] Id. at 30.

[16] Id. at 100.

Bank, and Silvergate Bank, allowing each bank to limp along without undertaking the steps needed to address their fundamental weaknesses.

SVB, for example, went from having almost no loans outstanding at the end of 2021 to being the biggest single borrower from the FHLBank of San Francisco at the end of 2022. By that time, it had $15 billion in loans outstanding, 17 percent of FHLBank of San Francisco's total outstanding advances.[17] The second biggest borrower from the FHLBank of San Francisco at the end of 2022: First Republic Bank, with $14 billion, constituting 16 percent of the FHLBank's outstanding advances.[18] By late spring 2023, all four had failed. Nonetheless, the FHLBanks came out whole while the Federal Deposit Insurance Fund (FDIC) suffered major losses and financial regulators had to invoke an extraordinary "systemic risk exception" to contain the collateral damage stemming from two of the failures. The result was for losses to migrate from the FHLBanks to the Deposit Insurance Fund and ultimately to healthier institutions.

The FHLBanks played similar roles helping soon-to-fail banks stay afloat in the savings and loan (S&L) crisis of the 1980s and again during the 2007-2009 financial crisis. WaMu, IndyMac, Countrywide and other banks that failed or merged to avert failure during the 2007-2009 financial crisis took the same course.[19] And going back to the savings and loan crisis, S&Ls that ended up in resolution were far more likely to have borrowed, and typically borrowed far more, from the FHLBanks than their healthy peers.[20] In each of these instances, troubled financial institutions that probably ought to have been closed were allowed to limp along longer than was optimal thanks to fresh liquidity support from the FHLBanks.

This imposed costs on healthy institutions that were forced to compete with these institutions as they gambled for resurrection. It also very often increased the costs of the ultimate cleanup and the messiness of that process. The FDIC, for example, imposed a special assessment of approximately $16.7 billion to cover the losses incurred by the Deposit Insurance Fund in connection with the failure of SVB and Signature.[21] At year-end 2023, FDIC estimated the cost of the Deposit Insurance Fund arising from the sale of First Republic Bank to J.P. Morgan, after its extensive reliance on the FHLBanks to stay afloat, was also around $16.7 billion.[22]

At the same time the FDIC was bearing these costs, the FHLBanks walked away without losing a cent. The design and operations of FHLBanks allow them to avoid incurring any of the costs that the failure of a member bank often imposes on the Deposit Insurance Fund, other banks and the economy more generally. As economists Stephen Cecchetti, Kermit Schoenholtz and Lawrence White have observed: "reflecting the super-lien, the overcollateralization of their advances, and the implicit federal guarantee of their liabilities, the FHLBs appear unconcerned about the viability of their borrowers: They are willing to provide speedy, low-cost funding to

---

[17] Fed. Home Loan Bank of S.F. Annual Report on Form 10-K for the year ending Dec. 31, 2022, https://www.sec.gov/ix?doc=/Archives/edgar/data/1316944/000131694423000047/fhlbsf-20221231.htm.
[18] Id.
[19] Kathryn Judge, Three Discount Windows, 99 Cornell L. Rev. 795 (2014); Adam B. Ashcraft, Morten L. Bech & W. Scott Frame, The Federal Home Loan Bank System: The Lender of Next-to-Last Resort?, 42 J. Money, Credit and Banking 551 (2010).
[20] Lisa K. Ashley et al., Access to FHLBank Advances and the Performance of Thrift Institutions, 22 Fed. Rsrv. Bank of Chi. Econ. Persps. 33, 40, 41 tbl.6 (1998).
[21] Federal Deposit Insurance Corporation (FDIC), Special Assessment Pursuant to Systemic Risk Determination, 12 CFR Part 327, https://www.govinfo.gov/content/pkg/FR-2023-11-29/pdf/2023-25813.pdf
[22] FDIC, 2023 Annual Report (2024), at https://www.fdic.gov/sites/default/files/2024-03/pr23073a.pdf at 82.

failing institutions—something we assume private lenders would not do."[23] In short, the FHLBanks are very good at minimizing the risks to which they are exposed, but they do so in ways that impose costs on other creditors and can contribute to systemic risk.

c. Exacerbating liquidity strains and credit constraints are antithetical to the System's mission

The way the FHLBanks often prioritize private interest over public good also comes through in their approach to lending during periods of distress. During periods of systemic distress, the Federal Reserve and other central banks typically encourage banks and other financial institutions to borrow *more* from the central bank. Central banks encourage banks to borrow because they understand that systemic liquidity strains hurt market functioning and can cause systemic distress to grow and spread, which hurts businesses and households in the real economy.

Yet the FHLBanks often take the opposite approach. Even during periods of systemic distress, when their decisions have reverberations throughout the financial system, they often prioritize their own financial health at the expense of these important public aims.

The events of 2007 and 2008 bring this challenge to life. For more than a year before Lehman Brothers failed, growing strains in financial markets were making it very difficult for banks to have faith they would have access to adequate liquidity when needed. At the same time, the securitization market that had been a critical mechanism facilitating the flow of credit into home loans was drying up. The Fed responded by trying to find new and creative ways to encourage borrowing and add more liquidity into the financial system. The FHLBanks took a different approach.

Again, an example can be helpful. The FHLBank of Pittsburgh reported that in the first quarter of 2008, it responded to the growing disruptions in credit markets by lowering the lending value for one-to-four-family mortgage loans, and private-label mortgage-backed securities that member banks posted as collateral for loans. This meant that a bank that had relied on the FHLBank as a source of funding could now borrow less relative to the collateral posted when it rolled over existing loans at its local FHLBank. The FHLBank of Pittsburgh also narrowed the type of private-label MBS it would accept as collateral to only that rated AAA and it imposed additional new obligations on members when borrowing.[24]

These changes were prudent from the narrow perspective of protecting Pittsburgh's balance sheet. But they also show how the System can exacerbate the cyclicality of credit markets and liquidity strains in ways that are counter to the public interest. The tendency of FHLBanks to prioritize their own bottom lines continues today in their willingness to demand blanket liens against all of a bank's assets, despite the fact such liens can impede a bank's ability to borrow from the discount window.[25] There are steps being taken to address these challenges, but they still persist. Ultimately, this hurts American families and the flow of credit to the housing market by

---

[23] Stephen G. Cecchetti, Kermit L. Schoenholtz & Lawrence J. White, Reforming the Federal Home Loan Bank System, Aug 2, 2023, https://www.moneyandbanking.com/commentary/2023/8/2/reforming-the-federal-home-loan-bank-system.

[24] Fed. Home Loan Bank of Pittsburgh, Quarterly Report on Form 10-Q for the year quarter ending March 31, 2008, https://www.sec.gov/Archives/edgar/data/1330399/000095015208003731/l31432ae10vq.htm at 2

[25] When the Fed is making a loan via the discount window or via an emergency liquidity facility, the Federal Reserve Bank making the loan can only do so if secured to its satisfaction. E.g., 12 CFR 201.3.

accentuating the type of cyclicality that contributed to the recession that followed the 2007-2009 financial crisis and the under-supply of new homes in its wake.

To be sure, given banks' reluctance to use the discount window, there have been benefits at times to the ways banks have used FHLBanks advances as a source of liquidity during times of stress. Rather than reducing the need for reform for the FHLBank system, these benefits show why the FHLBank system and discount window should be fixed in tandem. Just as fixing the FHLBank system is key to enhancing the utility of the discount window, ensuring the discount window is viable and well-functioning is key to minimizing the challenges that could otherwise arise from efforts to re-orient the FHLBank system to better benefit the public.

II. Looking ahead

There is a lot of room for improving the operations of the FHLBanks. The opportunities include statutory reforms, regulatory reforms and voluntary efforts to better serve the public interest. I will discuss just a few of the options available.

a. Increase contributions to the Affordable Housing Program

The easiest immediate reform is to raise the mandatory AHP assessment. The current 10 percent requirement was created when the FHLBanks were also responsible for helping to pay off obligations on the RefCorp bonds. That obligation ended in 2011. Since then, the FHLBanks have accumulated substantial retained earnings and frequently paid dividends well above prevailing risk-free rates.

Congress should make it clear that contributions should double from the prevailing 10 percent to at least 20 percent of net income, consistent with the recommendation in FHFA's FHLBank System at 100 Report. Even though the FHLBanks have recently increased their voluntary contributions, there is no guarantee they will continue to do so.

More creative designs, such as requiring AHP contributions in the amount of 20 percent of ordinary earnings and a higher percentage of earnings above a specified return-on-equity threshold might further help to ensure that the public subsidies that the FHLBanks enjoy are translating into meaningful progress on affordable housing. Raising the AHP contribution is not sufficient by itself, but it is plainly justified when retained earnings, member dividends and executive compensation remain so robust.

b. Focus support on smaller, community-oriented financial institutions

In the early days of the FHLBanks, the strict limitations on who could join meant that many of the benefits that accrued to the system were transmitted via smaller, community-oriented financial institutions to helping working families. The FHLBanks helped institutions that could never access funding from the capital markets on their own to do so through the FHLBank system. And access to FHLBank advances made it easier for those institutions to thrive, allowing them to help working families to save and buy homes.

This design still makes sense for community banks and thrifts, smaller regional banks and thrifts, and other community-oriented members. It is far weaker for globally active banks, giant custodians, and major insurance companies. Nonetheless, they are too often the biggest users of the FHLBank system. This changes the ultimate beneficiaries of the system, shifting it away from working families and affordable housing to bank investors and the large, sophisticated clients that are the focus of the largest banks and insurance companies.

There is no need to exclude large financial institutions from the FHLBank system, but modest tweaks could allow the benefits to again be distributed in ways that disproportionately advantage community, regional and other smaller financial institutions. As an example, a rule providing that no FHLBank can extend additional advances when doing so would cause a single borrower to have outstanding advances in excess of 3 percent of the FHLBank's aggregate advances outstanding could go a long way to ensuring that the benefits of the system do not flow disproportionately to bigger institutions. It would be even more effective if coupled with corresponding caps elsewhere, such as stock ownership.

Limiting total advances to one member at a level such as 3 percent would have the added benefit of helping to prevent large, troubled financial institutions from excessively relying on the FHLBanks. SVB and First Republic Bank in 2023 and so many banks and thrifts during the 2007-2009 financial crisis used FHLBank advances to compensate for depositor exits in ways that proved costly from the FDIC and society. A cap on total borrowings would help prevent this and encourage better liquidity planning and management by larger banks.

Congress, the FHFA and FHLBanks should also consider doing more to tier advance pricing based on member size and market access. Smaller institutions could receive modestly better rates, for example, while very large firms would pay a rate closer to their unsubsidized market alternatives. This would better align the subsidy with need.

The strength of the U.S. financial system lies in its wide range of financial institutions, helping to serve a wide array of households and communities. Yet the trend has been toward far fewer, far bigger financial institutions. When FIRREA became law in 1989, there were roughly 15,000 banks and thrifts insured by the FDIC[26] Today, that figure is just above 4,000.[27] The proportion of assets controlled by the biggest banks have also risen rapidly. In 1989, when FIRREA became law, the top eight biggest banks controlled 22.6 percent of the market.[28] More recently, the three biggest banks have often controlled half the market.[29] In short, although the FHLBanks purport to help smaller financial institutions, in their current form, they have done very little to slow the rapid decline among these institutions. This can and should change.

These types of rules would not prevent the FHLBank system from expanding rapidly, as it often does, during periods of stress. Nor would it narrow the mix of financial institutions eligible to join the FHLBank system. It would, however, help ensure the benefits flow in ways that primarily benefit the type of financial institutions most likely to prioritize affordable housing and otherwise serve working families and small businesses.

c. Use healthy risk sharing to promote affordable housing

Grants alone cannot match the scale of the housing-affordability challenge. The more powerful tools are the ones embedded in the original Act: designing advances to encourage the type of lending that benefits families and society but that is otherwise under-provisioned.

---

[26] See Allen N. Berger et al., The Consolidation of the Financial Services Industry: Causes, Consequences, and Implications for the Future, Journal of Banking & Finance, Vol. 23, 135-194 (1999);

[27] FDIC, Quarterly Banking Profile - Q1 2026, https://www.fdic.gov/quarterly-banking-profile/quarterly-banking-profile-q1-2026

[28] Allen N. Berger et al., The Consolidation of the Financial Services Industry: Causes, Consequences, and Implications for the Future, Journal of Banking & Finance, Vol. 23, 135-194 (1999);

[29] Bank Concentration for United States, FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/DDOI01USA156NWDB (using the most recent data available, which stops in 2021).

Congress should direct FHFA to establish mission-sensitive lending standards and preferential advance pricing for loans that address demonstrable market gaps.

The housing market and housing finance are very different today than they were in 1932. The FHFA should examine where there are meaningful frictions in the lending needed to support housing production. This may entail a focus on multifamily homes or on stages in the construction process that entail greater risk.[30] Specific ideas could be generated from the bottom up. One strength of the FHLBank system is its regional design, allowing FHLBanks to work closely with institutions in their districts. There could be incentives provided for experimental projects that encourage risk sharing in new ways.

This does not mean ignoring risk. It requires sharing risk deliberately to promote public aims. A public institution that never takes a loss on a loan, as the FHLBanks celebrate, is failing to use its authority in ways that could serve meaningful public aims.

d. Mitigate cyclicality

Credit markets generally tend to suffer from cyclicality that runs counter to the common good. There is too much credit when times are flush, helping to push up already inflated asset prices, and too little when times are lean, which is precisely when families, small businesses and the economy most need credit to survive and thrive. These trends can be even more pronounced in real estate. In the mid-2000s, for example, many families were offered mortgages with atypical terms, including low monthly payments for the first few years. In an environment where house prices seemed to be going steadily up, this seemed to many like a good way to provide a home for their family and to slowly accrue wealth.

Then the financial crisis hit, hurting the economy and caused home prices to plummet. By 2009, nearly one in four homeowners was underwater.[31] This was a source of great stress for many, as they felt compelled to pay off mortgages with outstanding balances that were greater than the value of the house they inhabited. The spike in unemployment made it impossible for many to keep up the payments. By 2012, three million homes had been foreclosed and another two million were in the midst of a foreclosure process.[32] Builders and developers suffered alongside families, contributing to lower levels of residential real estate development in the years that followed the housing shortage the nation faces today.

An institution that is designed to promote affordable housing should be designed to lean against the wind. That would mean increasing haircuts when times are flush and reducing them during times of stress. It would further entail expanding the type of housing-related collateral the

---

[30] Although they would go further have the FHLBanks make loans directly rather than share risk with member financial institutions, Aaron Klein and Chris Hughes have some innovative ideas along these lines. See Aaron Klein and Chris Hughes, Reform the Federal Home Loan Banks to finance the housing America needs, Brookings Commentary, April 27, 2026, https://www.brookings.edu/articles/reform-the-federal-home-loan-banks-to-finance-the-housing-america-needs/. See also A Guggenheim Executive's Radical Plan to Build Millions of New Homes, Odd Lots Podcast with Jim Milstein, July 18, 2024, https://www.bloomberg.com/news/audio/2024-07-18/odd-lots-a-radical-plan-to-build-millions-more-homes-podcast

[31] Frank James, Nearly One In Four U.S. Homes With Mortgages 'Underwater', NPR, November 24, 2009, https://www.npr.org/sections/thetwo-way/2009/11/one_in_four_us_homes_underwate.html

[32] Joshua Abel and Joseph Tracy, The Changing Face of Foreclosures, NY Fed: Liberty Street Economics, March 21, 2012, https://libertystreeteconomics.newyorkfed.org/2012/03/the-changing-face-of-foreclosures/.

system will accept when credit is scarce, and doing the opposite during times of froth. This is just one of the ways, but an important way, that the incentives of the FHLBanks should be revised away from minimizing their own credit risk toward policies that promote home ownership and housing finance through the credit cycle.

e. Require standardized borrower and collateral disclosure

Each FHLBank should be required to standardize how they collect borrower, collateral and other data and they should make more of that data publicly available. One option would be to require each FHLBank to provide, on a quarterly basis, in a uniform machine-readable format: its 20 largest borrowers; advances to each borrower; maturities; collateral categories; weighted-average lending values or haircuts by category; material changes in collateral treatment, among other information. Similarly detailed information should be provided on membership, dividends and other ways that the FHLBanks benefit members. And longer term, efforts should be made to provide more standardized and rigorous approaches to assessing their impact on housing finance generally and on affordable housing in particular.

There is meaningful room for flexibility with respect to format and level of granularity. But much more data, in a standardized, usable format, is key to allowing Congress and the public better understand who really benefits from the FHLBank system and how the system is furthering affordable housing.

f. Align compensation with public outcomes.

Compensation systems should reward executives for advancing Congress's housing mission, not maximizing earnings. Both the level and design of executive-compensation at the FHLBanks accentuates the tendency to focus on minimizing risk and maximizing profits even when those aims do not further the public good. Advance growth, net income, and dividends are not the right measures of whether the FHLBanks are fulfilling the roles for which Congress created them.

Executive compensation at the FHLBanks should focus on the public aims these institutions were designed to promote. This could include incentive compensation to encourage strategic risk sharing that helps smaller financial institutions and overcomes frictions in the loan market. Compensation of top executives should also reward those executives for finding innovative ways to use the FHLBanks' distinct design and large retained earnings to make meaningful progress in addressing today's affordability crisis. Comparisons to private banks are ill-suited to produce the appropriate design or the right level of executive compensation at the FHLBanks.