Federal Home Loan Banks

Mortgage Purchases

September 2024

The 11 FHLBanks are lenders to member financial institutions, including commercial and savings banks, credit unions, insurance companies, and community development financial institutions.

As part of their business, the FHLBanks purchase mortgage loans from members.[1]

The FHLBanks primarily earn money from the difference between interest-earning assets and interest-bearing liabilities, supported by invested capital.

FHLBank Asset Composition

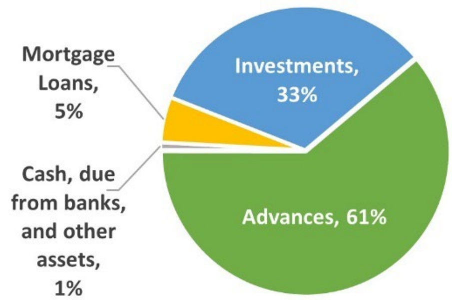
Advances are secured loans made to members. FHLBanks require members to pledge eligible assets as collateral for advances.

The FHLBanks hold **investments** in liquid assets, including in interest-bearing deposits, mortgage-backed securities, Treasury securities, and federal funds sold (unsecured loans generally transacted on an overnight term).

The FHLBanks purchase **mortgage loans** from approved members. Generally, these loans are for single-family homes (1-4 residential units) and held on FHLBank balance sheets.

Also included are cash, due from banks, and **other assets.**

As of June 30, 2024, the FHLBanks held about $1.3 trillion in assets. Mortgage loans accounted for 5 percent.



Source: FHLBank combined financial reports

FHLBank Mortgage Programs

Mortgage Partnership Finance (MPF)

⇒ Administered by FHLBank Chicago

⇒ Operates across six FHLBanks:

- Boston
- Chicago
- Dallas
- Des Moines
- Pittsburgh
- Topeka

Mortgage Purchase Programs (MPP)

⇒ Operated separately by FHLBank Cincinnati and FHLBank Indianapolis

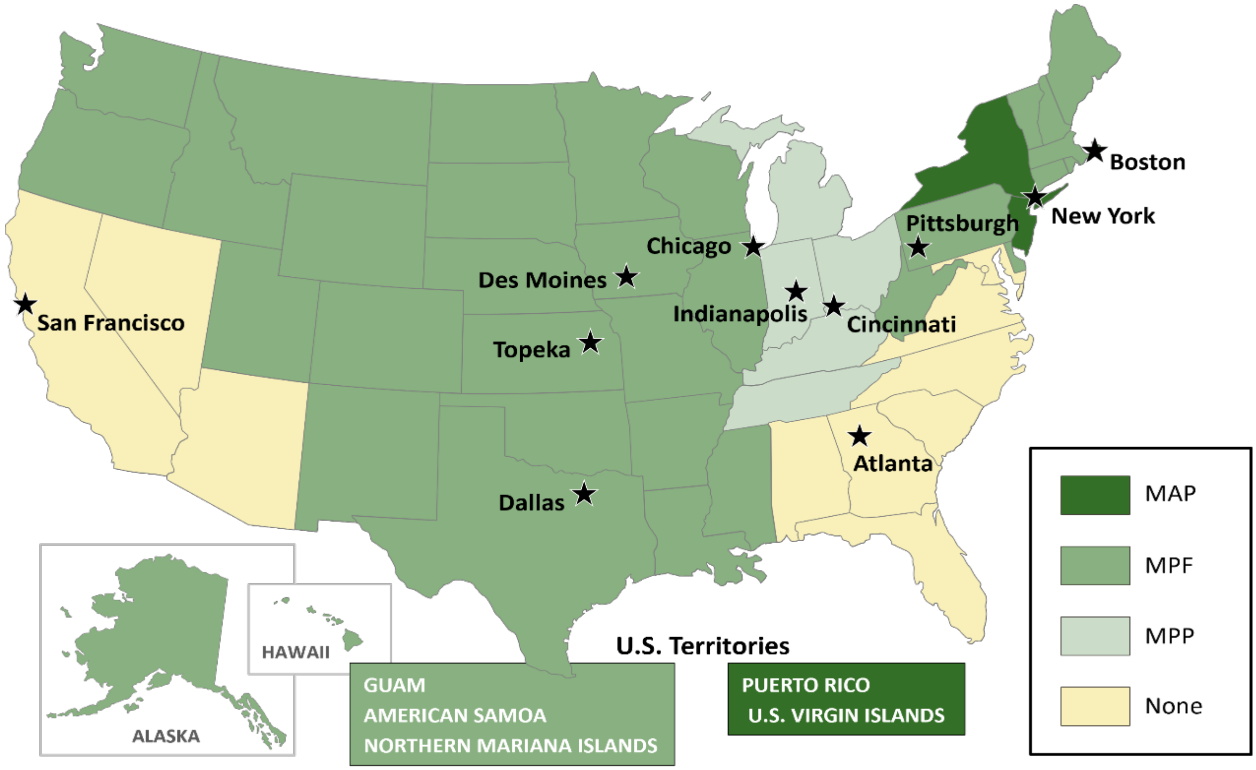
Mortgage Asset Program (MAP)

⇒ Operated by FHLBank New York

*The FHLBanks of Atlanta and San Francisco currently do not participate in any mortgage program but do have legacy mortgages in their portfolios.

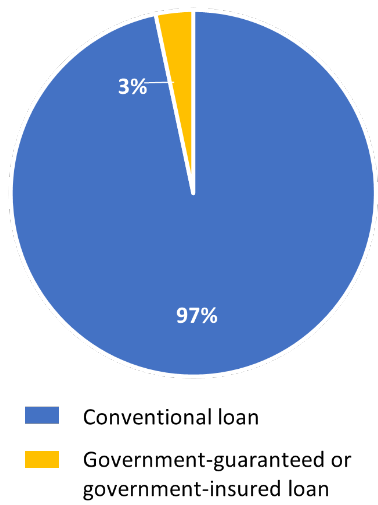
[1] Housing associates, including state and local housing authorities, that meet certain criteria may also sell mortgages to the FHLBanks. For purposes of this infographic, all member financial institutions and housing associates that sell mortgages to the FHLBanks are jointly called "members."

FHLBank mortgage programs are available to members in most of the country.



Source: OIG analysis of FHLBank information

Most mortgages on the FHLBanks' balance sheets are **conventional loans.** A much smaller portion of the mortgages are **government-guaranteed or government-insured loans.**



Source: OIG analysis of FHLBank combined financial reports

For a **conventional loan**, the FHLBank and the member share the credit risk. In a **government-guaranteed or government-insured loan,** the government agency guaranteeing or insuring the loan generally carries the credit risk.

Like advances, selling mortgage loans to FHLBanks provides liquidity to members. However, according to the FHLBanks Office of Finance, loans purchased by the FHLBanks under their mortgage programs "may carry more credit risk than advances, even though the respective [member] provides fully secured credit enhancement and bears a portion of the credit risk."[2]

[2] For more information on why FHLBank advances carry relatively low credit risk, see OIG, An Overview of the Federal Home Loan Bank System (WPR-2023-002) (March 31, 2023).

FHLBank advances and mortgage programs have different risks.

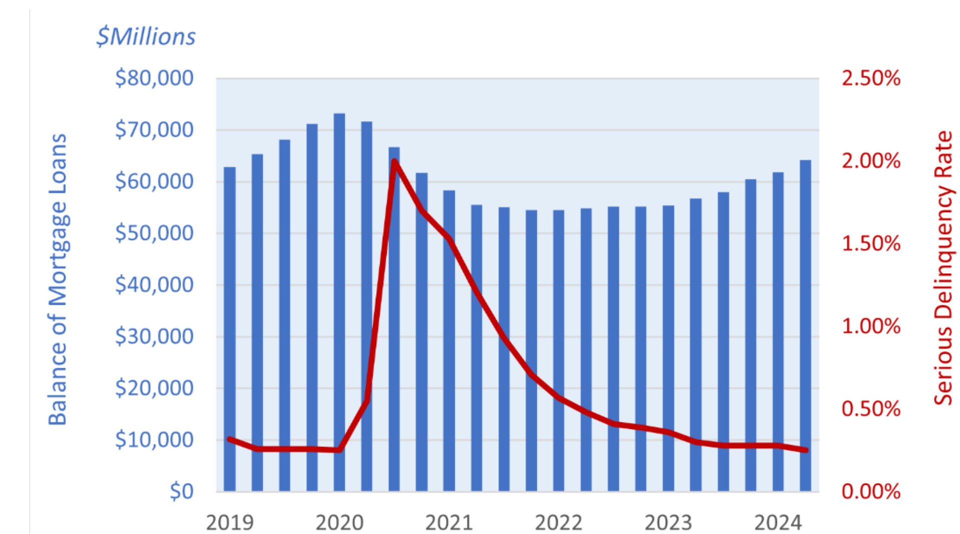
FHLBanks have never suffered losses on an advance.

- All advances are collateralized. The lending value of the collateral (largely mortgages for residential properties) exceeds the size of the advance. FHLBanks have a priority position on the collateral if the member becomes insolvent.
- Even in the aftermath of the 2008 financial crisis, FHLBank financial statements accounted for no credit losses on advances. Since then, the FHLBanks continue to account for no credit loss in their advance business.

Some FHLBanks have suffered losses from their mortgage portfolios in the past.

- When purchasing mortgage loans, the FHLBanks are vulnerable to volatility in the mortgage market. In addition to sharing the credit risk with members, FHLBanks generally accept the interest-rate and prepayment risk. That is, the risk of loss when fluctuating interest rates change the expected timing of mortgage repayment.
- The deterioration of the mortgage market following the 2008 financial crisis resulted in a sharp increase in expected losses for FHLBank mortgage loans. Expected losses represent the amount reserved for anticipated credit losses, not actual losses. FHLBank expected losses peaked at $138 million in 2011 (0.26% of mortgage portfolios). At the end of the second quarter in 2024, it was $29 million (0.05%).

The FHLBanks' balance of mortgage loans, however, is significantly less than that of advances.



Source: OIG analysis of FHLBank combined financial reports

Mortgage Programs

$65 Billion

Advances

$781 Billion

balance as of June 30, 2024

The rate of serious delinquency in FHLBank mortgages spiked in 2020, during the pandemic, and has since returned to pre-pandemic levels.

Key Takeaway

Mortgage purchases serve as interest-earning assets to FHLBanks and provide liquidity to their members. Although these mortgages account for a relatively small portion of the FHLBanks' portfolios, they are subject to risk that must be monitored and managed.