

# The Federal Home Loan Bank System: The Lender of Next to Last Resort?

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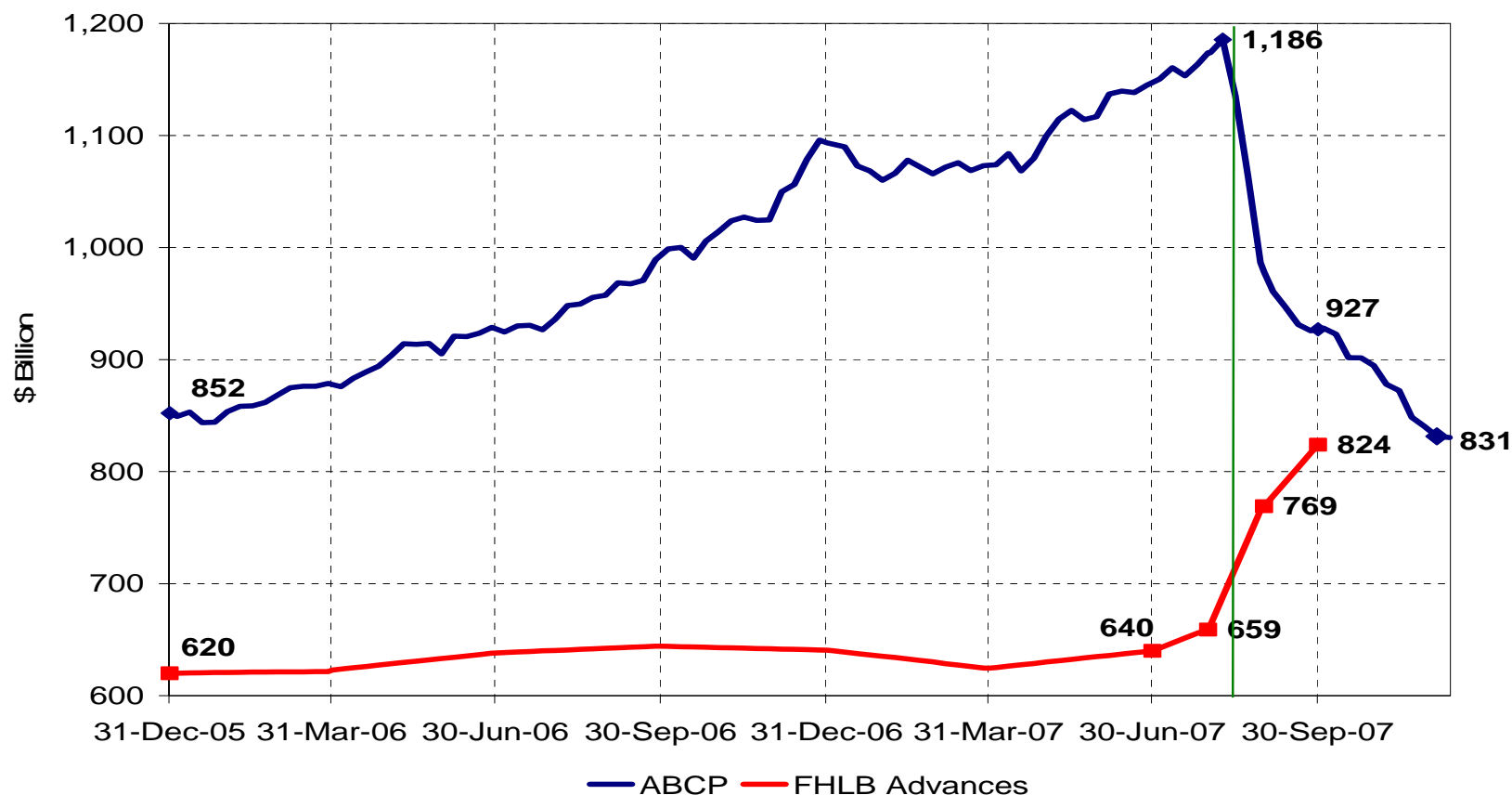


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# Funding: ABCP, FHLB Advances and Discount Window

- Outstanding ABCP declined \$259 bn from peak to end of Q3 (latest \$355 bn)
- FHLB Advances grew \$165 bn in August and September (\$184 bn in Q3)
- Discount Window borrowing max 3.2 bn (weekly average)

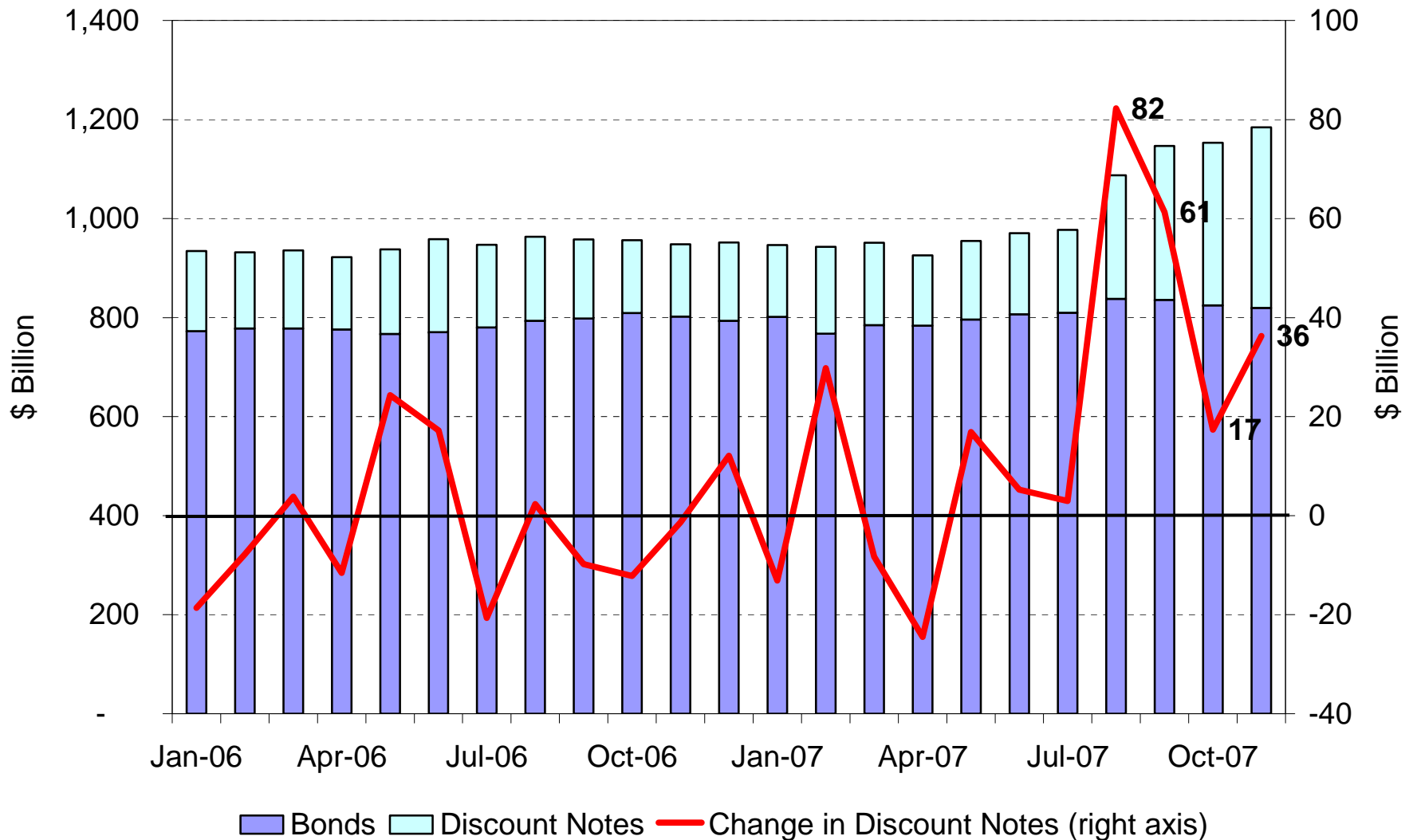


— ABCP — FHLB Advances

Source: FHLB Office of Finance, Federal Reserve Board



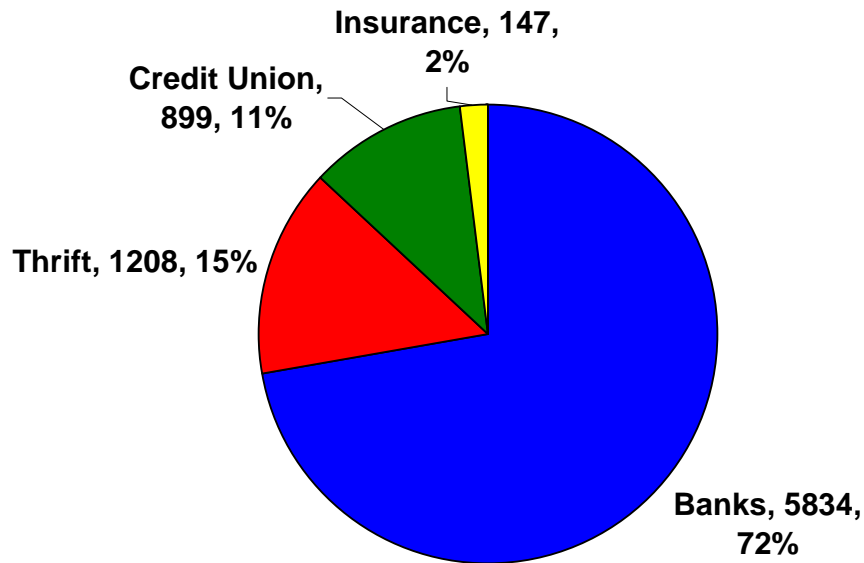
# FHLB Consolidated Debt Outstanding



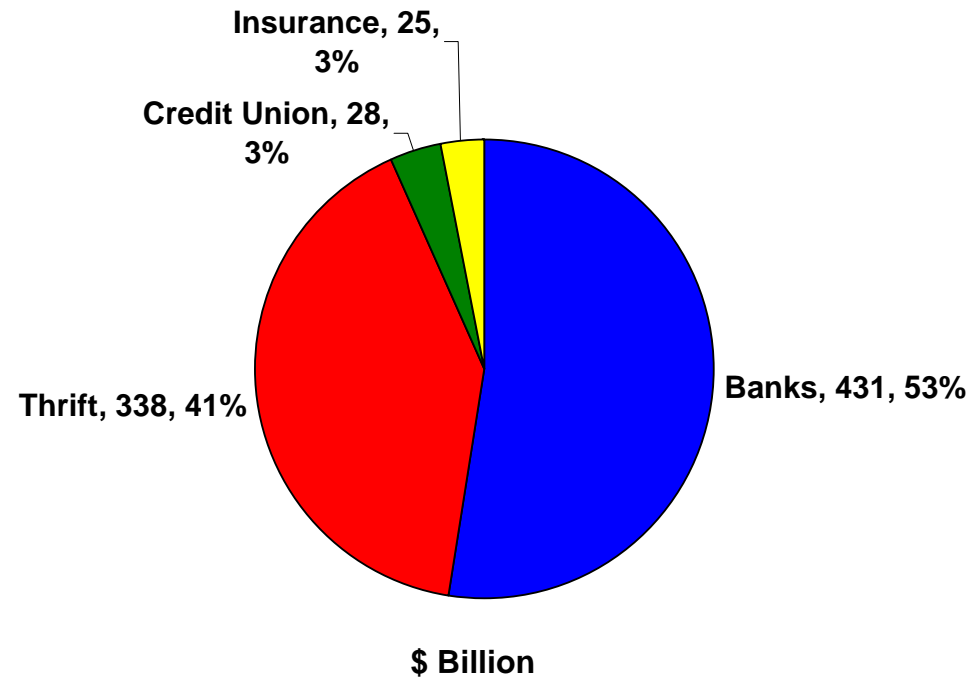
Source: FHLB Office of Finance

# Members and Advances

## Members



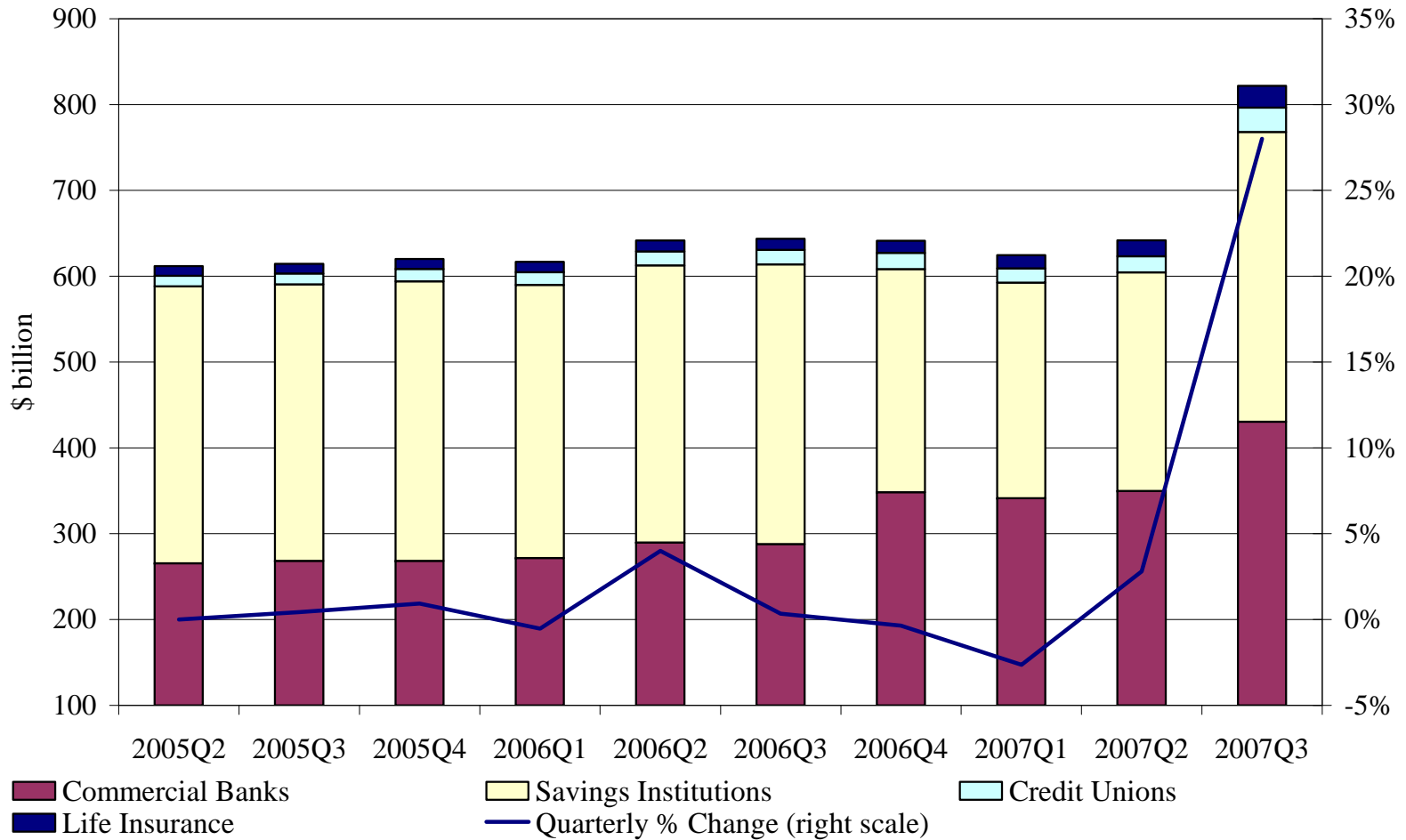
## Advances



Source: FHLBanks Quarterly Combined Financial Report, Federal Reserve Statistical Release Z.1

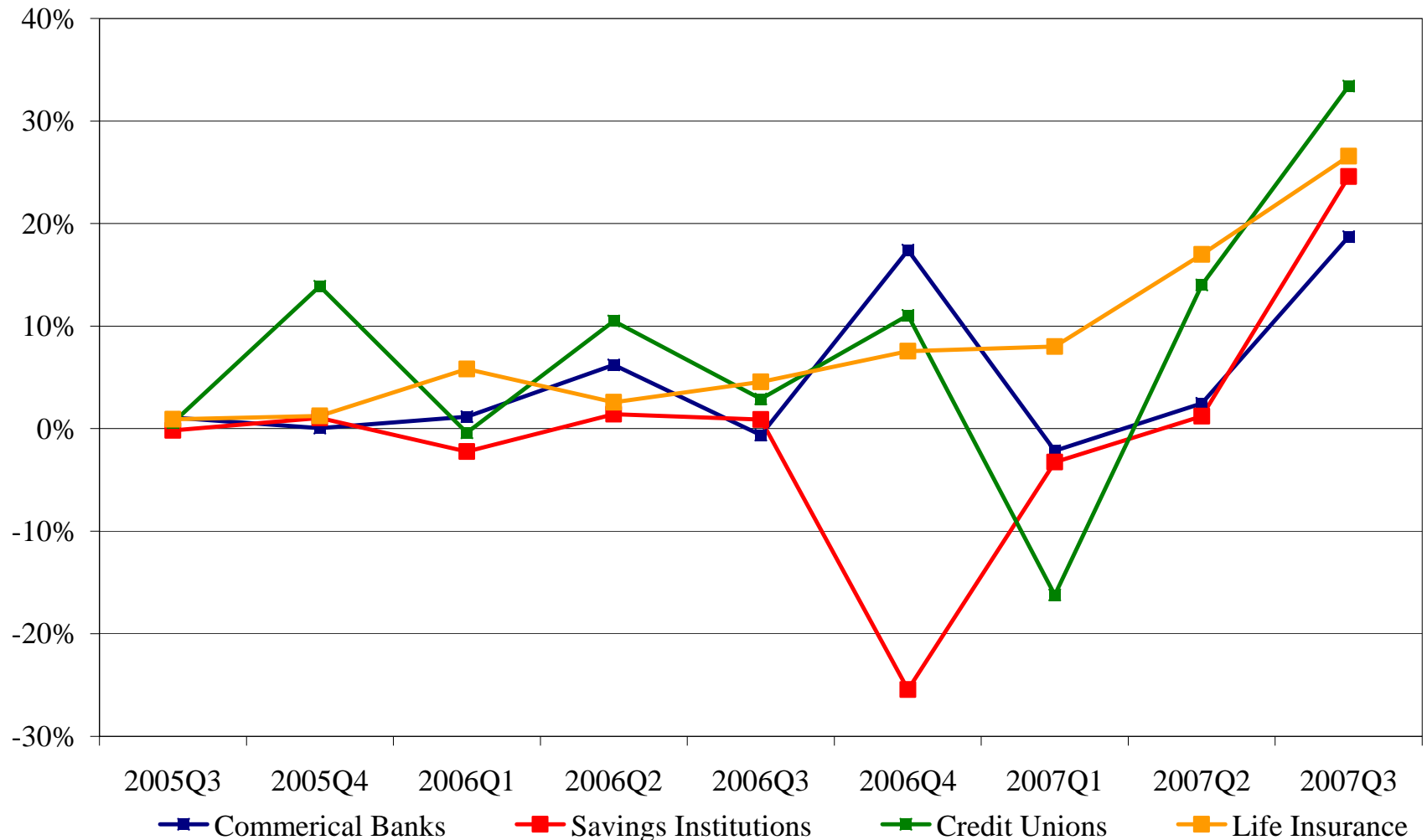
# FHLB Advances by Institution Type

FHLB Advances, Quarterly % Change



Source: Federal Reserve Statistical Release Z.1

# Quarterly %-Change in FHLB Advances



Source: Federal Reserve Statistical Release Z.1

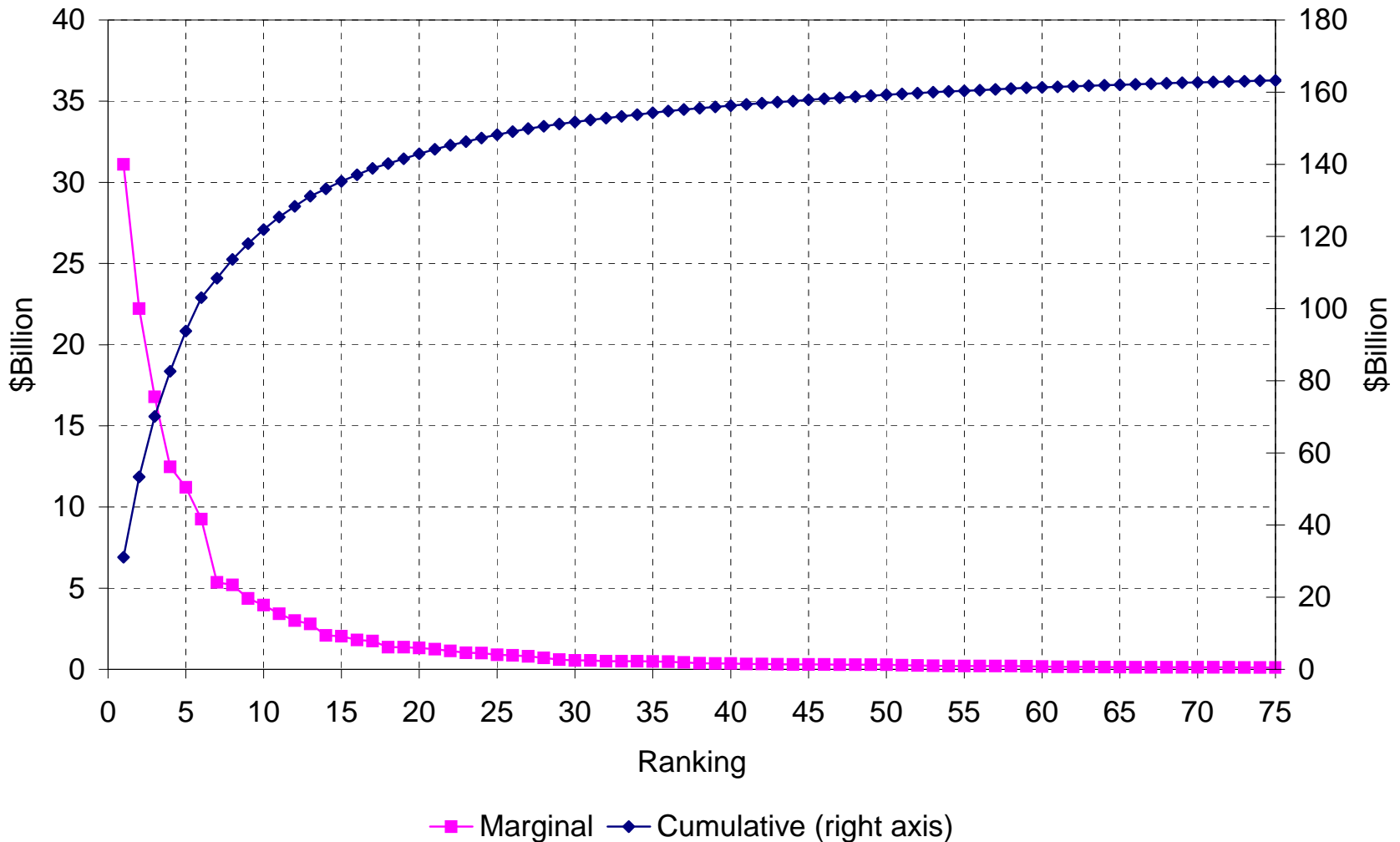
## Top 10 Members Holding Advances at Par Value at 9/30/07

	<b>Name</b>	<b>Advances (\$ millions)</b>	<b>Percent of Total Advances</b>
1	Citibank, N.A.	\$98,682	12.0%
2	Countrywide Bank NA	\$51,050	6.2%
3	Washington Mutual Bank	\$43,711	5.3%
4	World Savings Bank, FSB	\$24,241	2.9%
5	RBS Citizens NA	\$21,856	2.7%
6	Sovereign Bank	\$21,078	2.6%
7	Bank of America Rhode Island, NA	\$19,581	2.4%
8	World Savings Bank, FSB (Texas)	\$17,263	2.1%
9	U.S. Bank, NA	\$16,806	2.0%
10	Bank of America California, N.A.	\$14,750	1.8%
		<b>\$329,018</b>	<b>40.0%</b>

Source: FHLB Office of Finance



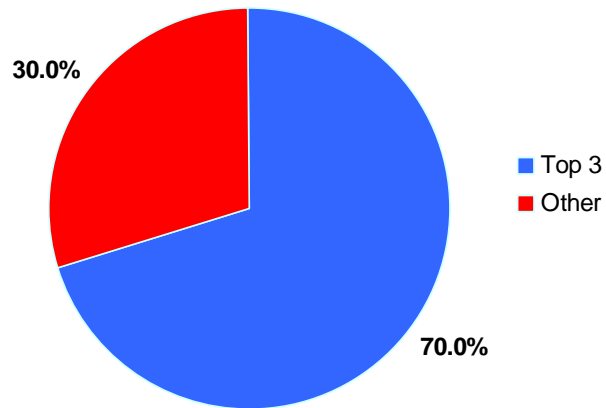
# Top 75 Increases in FHLB advances Q2 to Q3, 2007



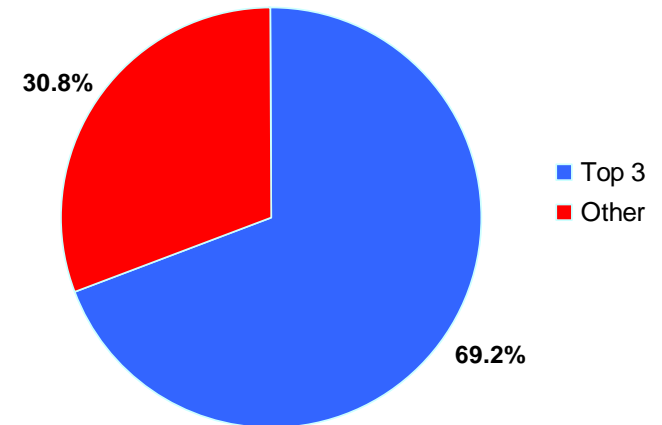
Source: Call and Thrift Financial Reports

# Concentration of Advances

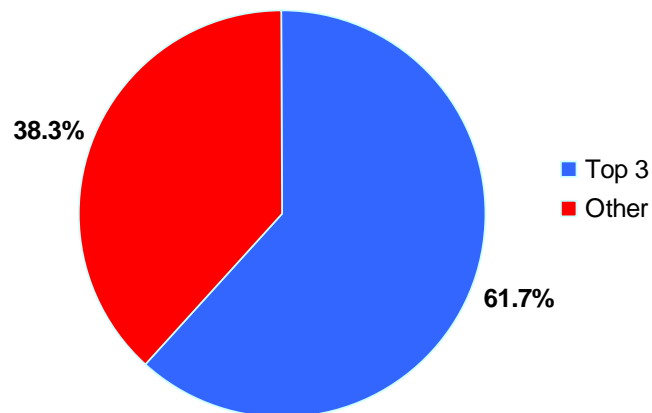
Concentration of Advances for FHLB SF



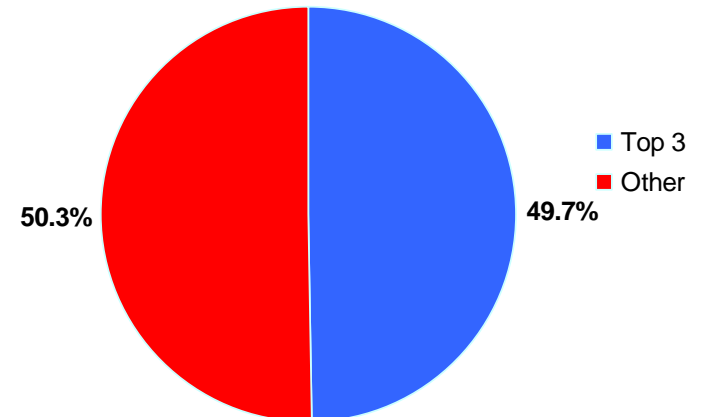
Concentration of Advances for FHLB Seattle



Concentration of Advances for FHLB Boston



Concentration of Advances for FHLB Atlanta

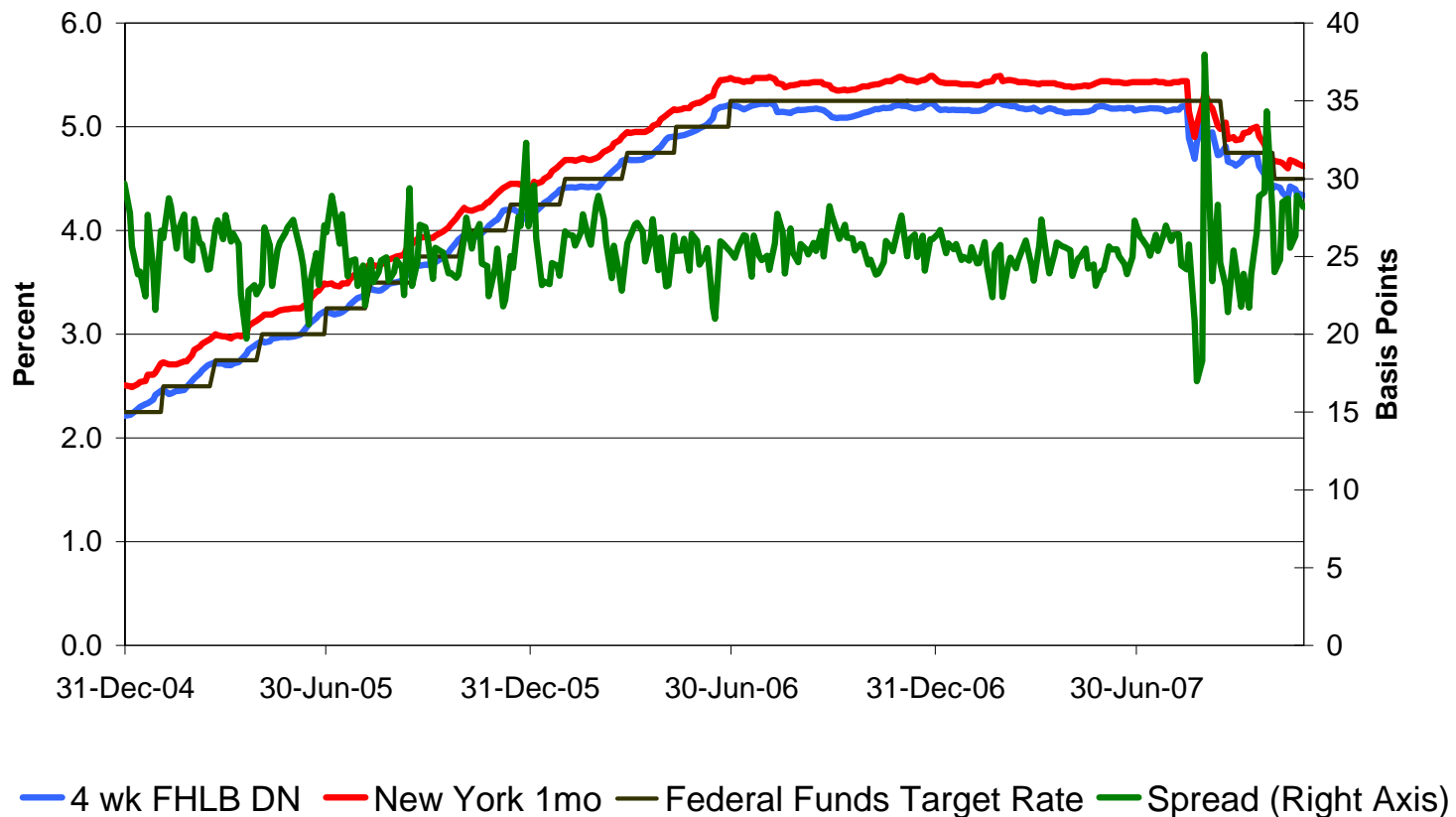


Source: Call and Thrift Financial Reports, FHLBanks 10-Q

# Pricing of Advances

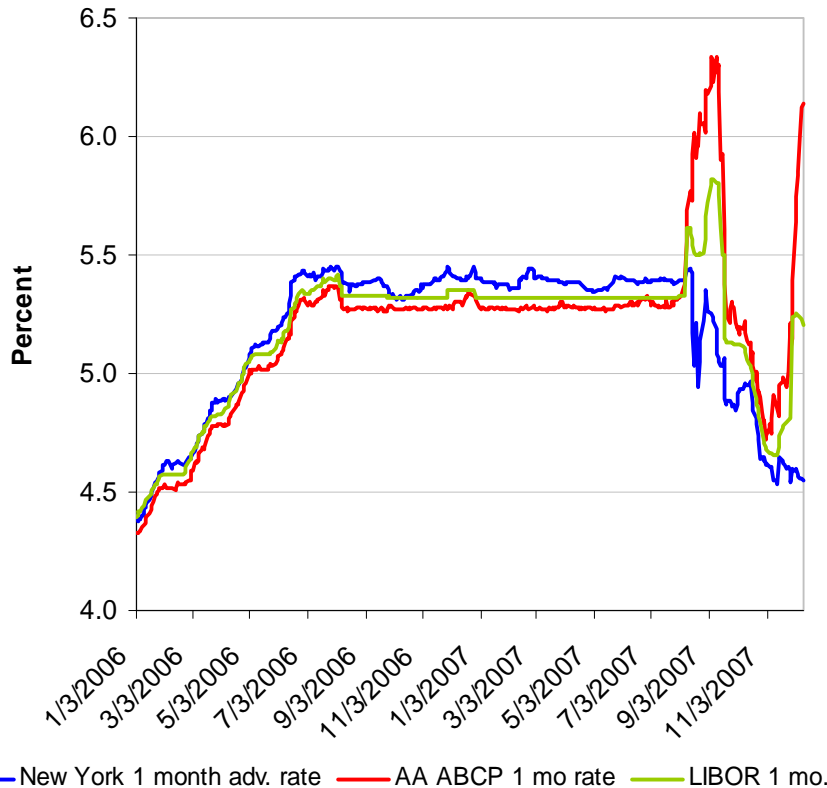
- Pricing is a spread to FHLB cost of funding (typically tied to Treasury or 1 mo OIS Federal Funds)
- Advance rates differ across FHLBanks but so do dividends

## FHLB NY Advance Rates and CoF Comparison

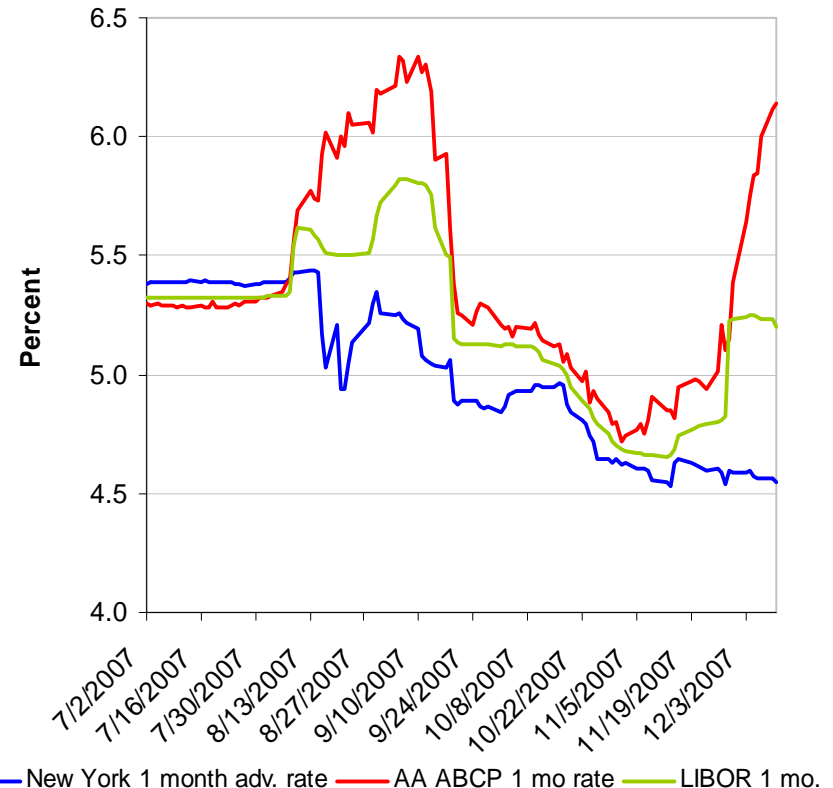


# FHLB Advances, AA ABCP and LIBOR

2006 to Present



Recent Period



Source: FRB, BBA, FHLB New York

# Advances vs. Discount Window (Example)

As of Dec. 12, 2007

<b>30-day loan/advance</b>	<b>FHLB New York</b>	<b>Discount Window</b>
Mortgage Backed Securities pledged	1,000,000	1,000,000
Haircut	10%	7%
Advance (subtotal)	900,000	930,000
Activity Requirement	4.50%	-
Capital stock purchase	40,500	
Remaining left to fund	140,500	70,000
Lending rate	4.51	4.75
Remaining rate (1-month LIBOR)	5.10	5.10
Dividend rate	6.00	0.00
<b>Weighted average rate</b>	<b>4.53</b>	<b>4.77</b>

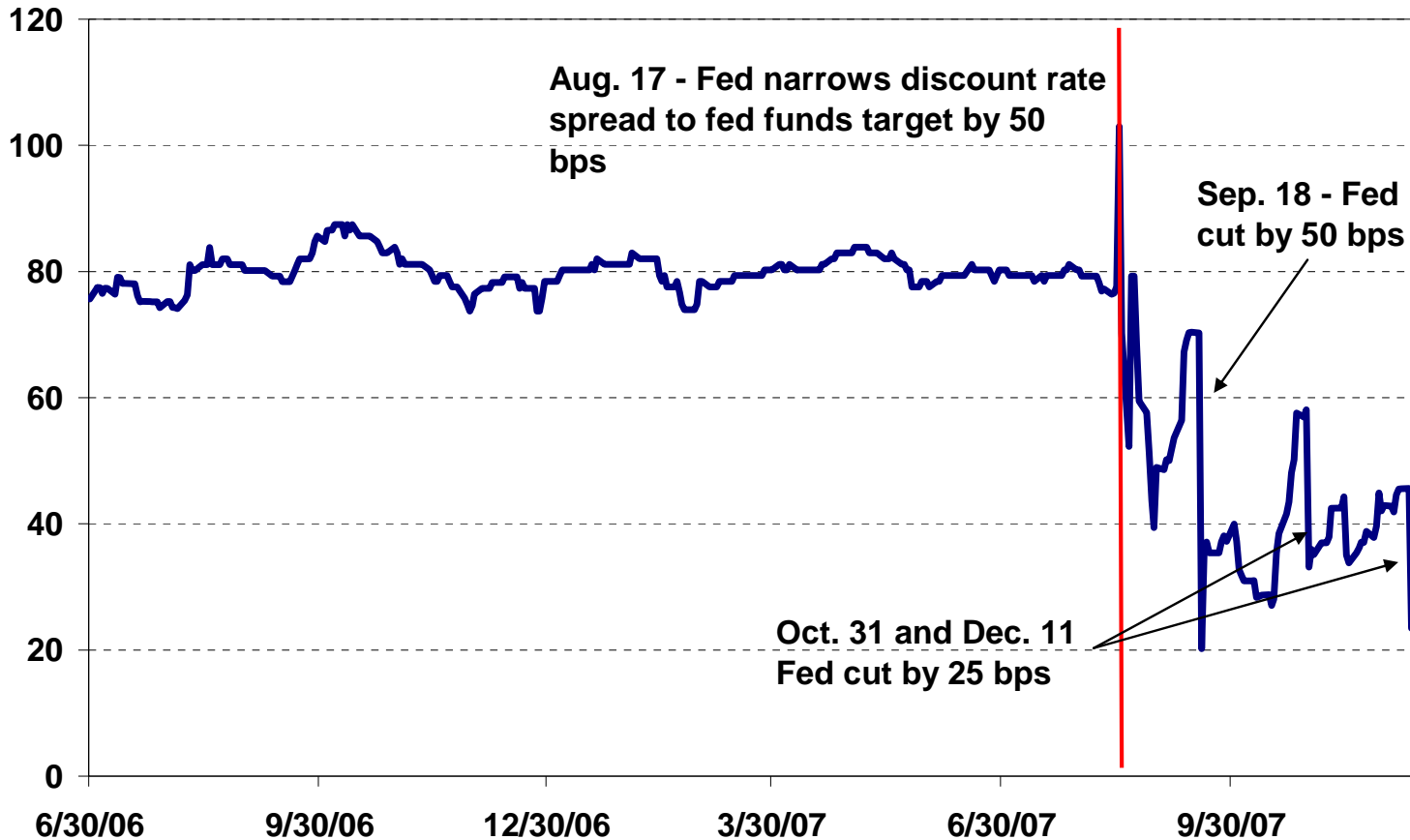
Source: Bloomberg, FRBNY

We ignore the capital charge for holding extra FHLB Stock as it is economically small. The calculation is sensitive to the exact haircuts applied to the specific security pledged and is only intended for illustrative purposes

# Advances vs. Discount Window

Historical Spread Between All-In Funding Rate Offered by Fed Discount Window  
Versus FHLB New York (Example)

Basis points



Source: Bloomberg

# Recap

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- Many funding sources seized due to subprime concerns
- USD ABCP: Outstanding has fallen by \$355 bn from peak
- Total collateral pledged at Discount Window grew by \$150\* bn but little was borrowed (\$3.2 bn)
- Many institutions went to Federal Home Loan Banks
- Advances up \$184 bn in Q3
- Six institutions accounted for \$100+ bn
- Institutions borrowed because they
  - Brought nonconforming loans onto balance sheet
  - Increased cash on hand
  - Wanted to support liquidity facilities for ABCP programs
  - Had other funding needs
- The use of FHLB advances rather than borrowing from the discount window reflects several factors:
  - the lower cost, longer terms, the lack of stigma and ease of use

\* William C. Dudley, "May you Live in Interesting Times" , remarks at the Federal Reserve Bank of Philadelphia on October 17, 2007

# History – déjà vu?: Fahey vs. Gregory

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- In 1944, a stand in for the “flamboyant” president of Long Beach Federal Savings and Loans Thomas Gregory was elected executive of FHLB LA
- A “fast-buck boy” that took advantage of fast growing markets (Florida and California)
- Allegations: LBF S&L made large loans to developers that bought materials from a company partly owned by Gregory
- Fahey (an “authoritarian” FHLB commissioner) distrustful of Gregory refused to approve the elected executive
- Tensions ensued with lobbying in Congress until Fahey announced that the FHLB LA would be abolished and merged with FHLB Portland to create FHLB SF in March ‘46
- 2 months later Fahey authorized the seizure of LBF S&L (a healthy thrift) due to “unsafe and unsound” practices. Sparked a run on deposits
- Endgame: Gregory did get LBF S&L back. Fahey was not reappointed by Pres. Truman but the Ninth Circuit Court upheld Fahey’s decision to abolishing the FHLB LA
- The legal implication: Federal Housing Finance Board (the current regulator) have broad powers over the FHLB system.

Sources: Mason, David (2005) “From Buildings and Loans to Bail Outs” and Carnell, Richard (2005) ‘Handling the Failure of a Government-Sponsored Enterprise’



# FHLB Consolidated Balance Sheet

	Dec. 31, 2006	June 30, 2007	Sept. 30, 2007	\$ Change Q2-Q3 '07	% Change Q2-Q3 '07
<b>Assets</b>					
Federal Funds Sold	77.1	100.4	98.1	-2.2	-2%
Advances	640.7	640.0	824.0	184.0	29%
Investments	193.5	194.8	204.9	10.1	5%
Mortgage loans	98.0	94.4	93.0	-1.4	-2%
Other Assets	7.2	7.5	8.0	0.5	7%
<b>Total Assets</b>	<b>1,016.5</b>	<b>1,037.1</b>	<b>1,228.0</b>	<b>190.9</b>	<b>18%</b>
<b>Liabilities</b>					
Discount Notes	157.5	163.5	309.0	145.5	89%
Bonds	776.7	789.5	825.0	35.5	4%
Other Liabilities	37.3	39.5	43.0	3.5	9%
<b>Total Liabilities</b>	<b>971.5</b>	<b>992.5</b>	<b>1177.0</b>	<b>184.5</b>	<b>19%</b>
Capital	45.0	44.6	51.0	6.4	14%
<b>Total Capital and Liabilities</b>	<b>1016.5</b>	<b>1037.1</b>	<b>1228.0</b>	<b>190.9</b>	<b>18%</b>
<b>Capital / Assets</b>	<b>4.4%</b>	<b>4.3%</b>	<b>4.2%</b>		<b>-3%</b>

Source: FHLB Office of Finance