



What is the Federal Home Loan Bank?

The Federal Home Loan Bank (FHLB) System is a government-sponsored enterprise that ensures there is plenty of capital available for qualified home mortgage loans. It is a group of eleven banks that function both separately and as a unit to reliably and securely provide lending capital to thousands of member financial institutions. About 80% of lending institutions in the U.S. rely on the FHLB System.

Each FHLB lends to member financial institutions that issue real estate loans. By having this regional bank to borrow from at a low cost, the member institutions can make more low-cost mortgage loans to customers than they could without this source of financing. In return, and as a condition of their membership, the institutions purchase stock in the bank in their region.

These "banks for the banks" are government-sponsored enterprises, like Fannie Mae and Freddie Mac. But unlike those entities, the FHLB System is not guaranteeing or insuring mortgage loans. It focuses instead on keeping a low-cost source of capital for banks and credit unions so they can keep issuing mortgage loans and don't experience cash flow issues.

For example, if a local credit union in Indiana buys stock in the FHLB of Indianapolis and they later experience a higher-than-average volume of mortgage applications from qualified applicants, they can request an "advance" from the FHLB (a kind of loan). They'll receive an interest rate low enough that they can still cover their costs for these mortgage loans, keeping themselves in business while offering more mortgages to qualified applicants. The credit union then uses its residential mortgages as a form of collateral for the advance.

FHLB Boston's Impact

- In 2022, FHLB Boston awarded approximately \$19.6 million in grants, loans, and subsidies throughout New England, \$4.2 million of which funded a dozen projects in Massachusetts.
- In 2021, the Federal Home Loan Bank of Boston awarded over \$2 million in grants, subsidies, and low-interest loans to 7 projects throughout the state of Massachusetts. These projects will create over 120 affordable housing units throughout several communities.
- In 2020, FHLB Boston awarded over \$17 million in subsidies to 29 separate projects, ranging from affordable home ownership to refitting homes for seniors aging in place.

BRPC PROGRAM

Community Planning Program
berkshireplanning.org/programs

How the Federal Home Loan Bank System Works

The FHLB System manages to stay independent from tax money through the stocks the member institutions buy. These banks also issue a kind of debt security called a “consolidated obligation” in capital markets. These debt programs generate revenue to keep the FHLB System running.³

The banks are located in Atlanta, Boston, Chicago, Cincinnati, Dallas, Des Moines, Indianapolis, New York, Pittsburgh, San Francisco, and Topeka. While they are each separate entities with boards of directors, they work as a system to issue their consolidated obligations.

A big part of why these banks are particularly helpful is that they make it possible for banks to provide loans to underserved populations they might not otherwise have financial incentive to serve. Both the Federal Home Loan Banks themselves and the FHFA more broadly see greater access to mortgage capital as connected to increasing homeownership for people who have been underserved with mortgage loans in the past.

Affordable Housing Grants

Federal Home Loan Banks must contribute 10% of their net income from the previous year to affordable housing through the Affordable Housing Program (AHP). The minimum annual combined contribution by the 12 Federal Home Loan Banks must total \$100 million. Member banks partner with developers and community organizations seeking to build and renovate housing for low to moderate income households.

AHP consists of two programs: a competitive application program and a homeowner set-aside program. Under the competitive application program, a Federal Home Loan Bank member submits an application on behalf of a project sponsor. If rental housing is developed with AHP funds, at least 20% of the units must be reserved for and be affordable to households with incomes below 50% of AMI. Owner-occupied housing must be occupied by households with incomes below 80% of the area median income (AMI).

The Affordable Housing Program is designed to help member financial institutions and their community partners develop affordable owner-occupied and rental housing for very low to moderate income families and individuals. Projects serve a wide range of needs. Many are designed for seniors, persons with disabilities, homeless families and individuals, first-time homeowners, and others with limited resources.

Local Success

The Federal Home Loan Bank issued \$711,981 in subsidies to Soldier On in Pittsfield.

The Gordon Mansfield Veterans Community features 39 housing units featuring a full kitchen, living area, and bedroom for formerly homeless veterans.

