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# Highlights

Highlights of [GAO-03-973](#), a report to the Ranking Minority Member, Senate Committee on Banking, Housing and Urban Affairs and the Chairman, Subcommittee on Capital Markets, House Committee on Financial Services

## Why GAO Did This Study

The Federal Home Loan Bank System's (FHLBank System) traditional approach to providing community and housing finance through 12 regional FHLBanks (see figure) faces continual challenges due to consolidation in the financial services industry and the emergence of mortgage lenders with nationwide operations. In addition, the Federal Housing Finance Board (FHFB), the System's financial regulator, is analyzing the benefits and costs of potential changes to the System's membership rules that would make it easier for financial institutions to join multiple FHLBank districts (referred to as multidistrict membership). To provide information that would be helpful in assessing the potential safety and soundness implications of these developments, GAO was asked among other items to (1) determine whether key differences exist in the terms—such as interest rates and collateral requirements—that FHLBanks make on loans, also known as advances, to member financial institutions such as banks and thrifts and (2) discuss FHFB's oversight of the FHLBanks and safety and soundness data reporting requirements.

## What GAO Recommends

GAO recommends that FHFB collect data necessary to monitor System safety and soundness. In written comments, FHFB and the FHLBanks agreed with GAO's recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-03-973](http://www.gao.gov/cgi-bin/getrpt?GAO-03-973).

To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or [ShearW@gao.gov](mailto:ShearW@gao.gov).

# FEDERAL HOME LOAN BANK SYSTEM

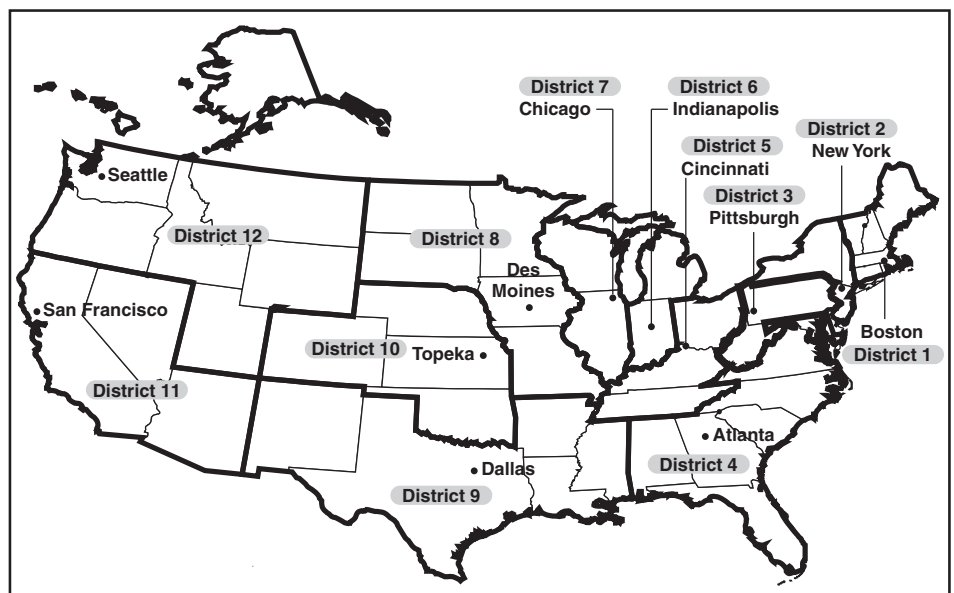
## Key Loan Pricing Terms Can Differ Significantly

### What GAO Found

Federal statutes and regulations require that the FHLBanks set advance interest rates above their borrowing costs and fully secure advances with eligible forms of collateral, such as single-family mortgage loans. However, within this framework, each of the 12 FHLBanks has independent authority to set advance pricing terms, which can result in several significant key differences among the banks. For example, due to differing costs and business strategies, FHLBank advance interest rates may differ and many FHLBanks charge lower interest rates based on advance size while others do not. Moreover, FHLBanks may set differing collateral requirements for their members. For example, one FHLBank allows its members to borrow up to 60 percent of the value of single family mortgages pledged as collateral to secure advances while another allows up to 85 percent.

Among the FHLBanks' differing approaches to setting advance pricing terms, FHFB has not found that any practice results in significant violations of statute or regulation. However FHFB also collects collateral data from the FHLBanks that have questionable value in their current format for monitoring the System's safety and soundness. Because FHLBank officials do not have clear information about how FHFB would like the data reported, the FHLBanks use different reporting definitions and criteria, which limits the data's analytical usefulness. Moreover, FHFB has not collected data necessary to assess the current extent of competition within the FHLBank System and the implications of holding companies with subsidiaries that operate in multiple FHLBank districts as well as multidistrict membership.

Locations of Federal Home Loan Banks



Source: FHFB.