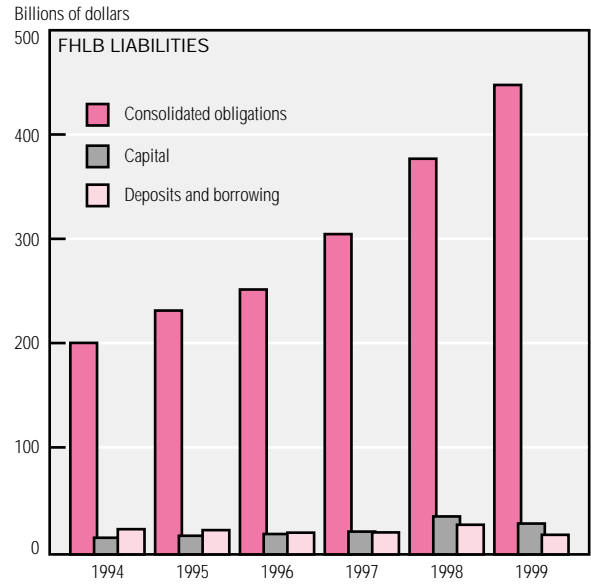
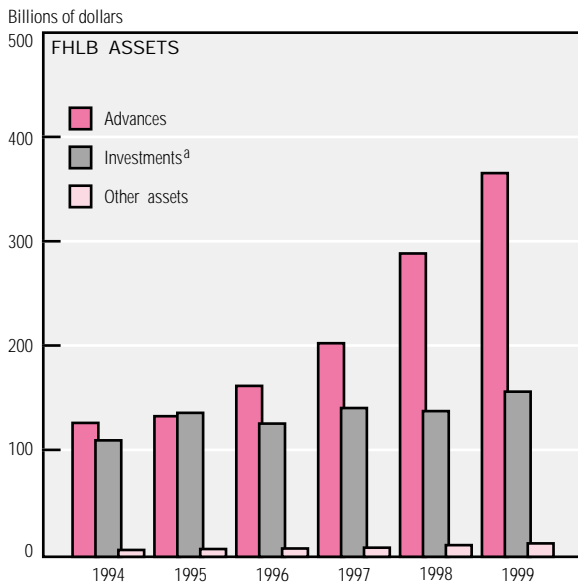
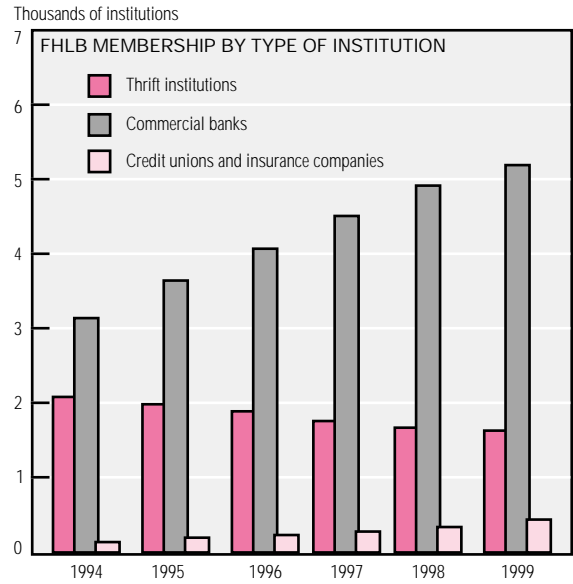
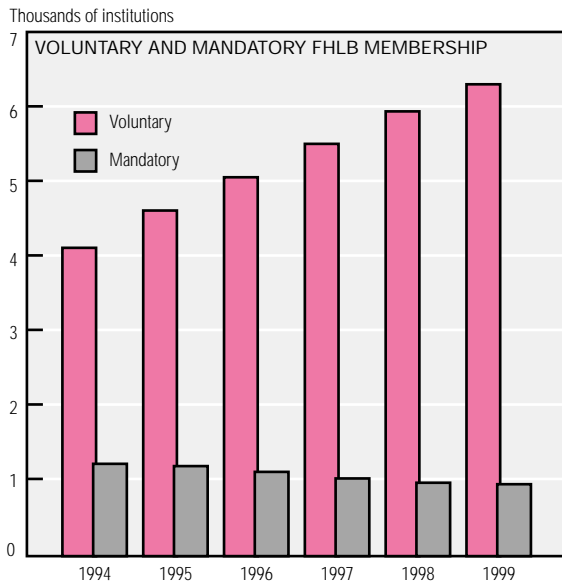


Federal Home Loan Banks



a. Investments include federal funds sold.
 NOTE: 1999 data are as of September 30, 1999.
 SOURCE: Federal Home Loan Bank System, *Quarterly Financial Report* for the nine months ended September 30, 1999.

The 12 Federal Home Loan Banks are stock-chartered, government-sponsored enterprises designed to provide liquidity for specialized housing finance lenders. FHLB membership has increased steadily over the years, reaching its high of 7,856 institutions at the end of 1999:IIIQ. Mandatory membership, however, continued its decline to 929 institutions, partly because of consolidation in the thrift industry. (All federally chartered savings associations must belong to their district Federal Home Loan Bank.)

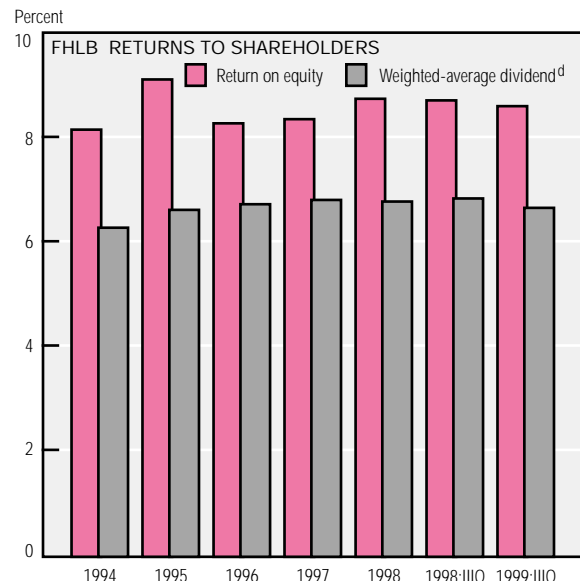
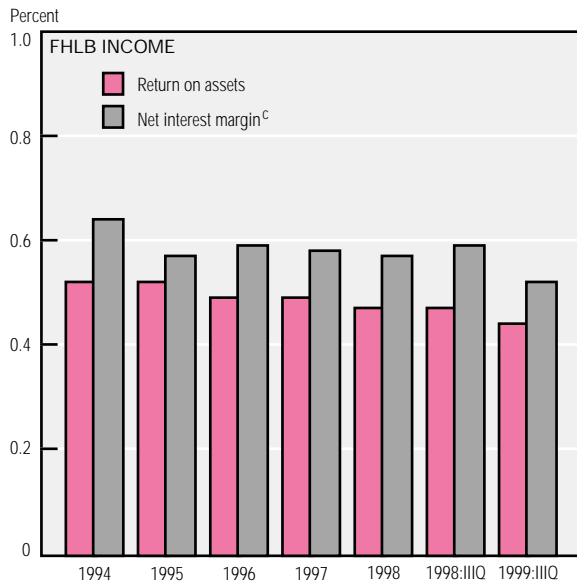
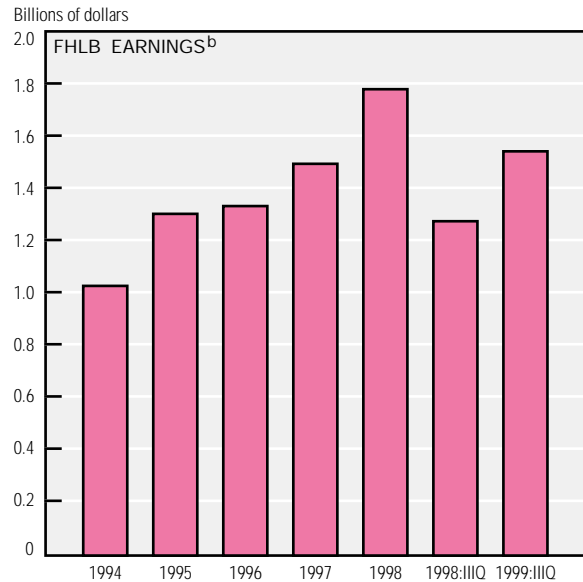
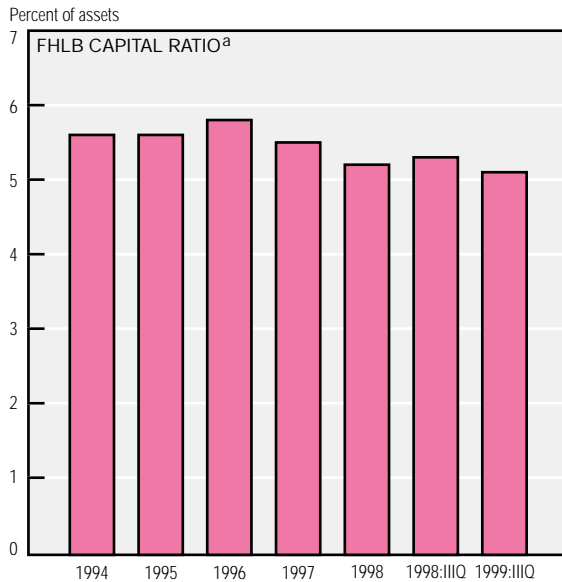
Growth in voluntary FHLB membership is driven by commercial banks, which account for more than 66% of all members and nearly 72% of voluntary members. FHLB advances, which represent an important funding source for member institutions' mortgage portfolios, increased from \$288.2 billion at the end of 1998 to \$365.3 billion at the end of 1999:IIIQ.

This latest recorded increase in advances is partly the result of members locking in funding for mortgage portfolios that mature after January 1, 2000. Collectively, Federal

Home Loan Banks increased their investment portfolios by \$18.5 billion during the first nine months of 1999, offsetting a \$2.9 billion decline in 1998. The lion's share of funding for FHLB assets comes from the \$477.5 billion consolidated obligations of the FHLB System—bonds issued on behalf of the 12 Federal Home Loan Banks collectively. Member institutions' deposits and short-term borrowings provided another \$16.2 billion in funding, and equity capital supplied \$26.9 billion.

(continued on next page)

Federal Home Loan Banks (cont.)



a. Total capital ratio is calculated as capital stock plus retained earnings as a percent of total assets at period's end.

b. Net income.

c. Net interest margin is calculated as annualized net interest income as a percent of average earning assets.

d. Weighted average dividend rates are calculated by dividing annualized dividends paid in cash and stock by the daily average of capital stock eligible for dividends.

NOTE: Bars labeled 1998:IIIQ and 1999:IIIQ include data for the first three quarters of the year.

SOURCE: Federal Home Loan Bank System, *Quarterly Financial Report* for the nine months ended September 30, 1999.

The tremendous growth in FHLB assets has had a negative impact on profitability. Despite steady increases in net income from 1994 to 1998, return on assets has fallen steadily from 52 basis points (bp) in 1995 to 47 bp in 1998. This trend continued during the first nine months of 1999, as return on assets came in at 44 bp, down from 47 bp during the same period in 1998.

This decrease in profitability is due in part to deterioration of the net

interest margin from 59 bp to 52 bp over the first nine months of 1998 and 1999, respectively. Asset growth has also lowered the capital-to-assets ratio from 5.8% in 1996 to 5.2% at the end of 1998. The capital ratio at the end of 1999:IIIQ stood at 5.1%, down from 5.4% at the end of 1998:IIIQ. Greater leverage is responsible for the increase in return on equity from 8.26% in 1996 to 8.73% in 1998. At 8.59%, however, the return on equity over the first

nine months of 1999 was off slightly from the same period in 1998. Finally, the weighted-average dividend mirrored the performance of return on equity—slightly lower over the first three quarters of 1999 than for the comparable period in 1998.

Overall, the Federal Home Loan Banks' performance last year suggests that they remain an important source of funding for the housing finance industry.