

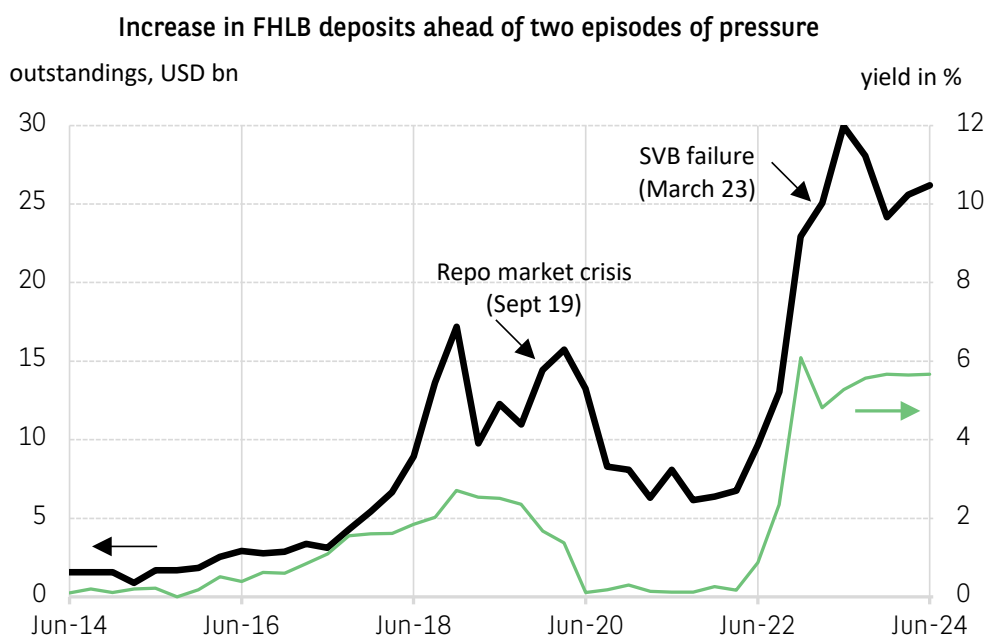
# CHART OF THE WEEK



16 October 2024

## UNITED STATES: FHLB DEPOSITS, LEADING INDICATORS OF PRESSURE ON LIQUIDITY

Céline Choulet



Source: FHLB Office of Finance, BNP Paribas

On 30 September, the Federal Housing Finance Agency (FHFA) announced its intention to raise counterparty exposure limits on the deposit accounts of Federal Home Loan Banks<sup>1</sup> (FHLB) to the same level as those limits set for their federal funds loans<sup>2</sup>, an approach already discussed in its December 2023 report<sup>3</sup>. This harmonisation could lead FHLBs to favour deposits with banks, as these are better remunerated. Supply on the federal funds market, on which FHLBs occupy a prominent position as lenders, would be reduced, driving up the effective rate of federal funds.

On the plus side, this could help big American banks to meet their specific liquidity requirements<sup>4</sup>. The speed with which FHLB deposits were built up in 2018, then in 2022, and the remuneration offered as a counterparty (which exceeded that of bank reserves with the Federal Reserve), suggest in fact, that they are improving the intraday and daily liquidity positions of big banks. Their increase in December 2018 and 2022, on the eve of two episodes of extreme liquidity pressure (September 2019 and March 2023), although different, further suggests that they constitute relevant leading indicators, which would, in a timely way, complement the list of those indicators already monitored by the Federal Reserve.

celine.choulet@bnpparibas.com

<sup>1</sup> FHLBs are private credit cooperatives that support the funding of the residential real estate market through secured loans to their members.

<sup>2</sup> FHFA Proposes Rule to Expand Access to Liquidity for the Federal Home Loan Banks | FEDERAL HOUSING FINANCE AGENCY

<sup>3</sup> BNP Paribas Etudes Economiques (2024), "Lenders of next-to-last resort": too big a role for the Federal Home Loan Banks?, EcoFlash 24-01, 18 January.

<sup>4</sup> That relating to the G-SIB resolution planning includes minimising maturity mismatches on an intraday basis rather than a daily basis. However, federal funds loans are not suitable to meet this type of requirement. Borrowed funds are usually repaid in the morning, and the loans renewed at noon, so that liquidity escapes the banks for a few hours.

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