



FEDERAL HOUSING FINANCE AGENCY

ADVISORY BULLETIN

AB 2015-05

FHLBANK CORE MISSION ACHIEVEMENT

Purpose

This Advisory Bulletin provides Federal Housing Finance Agency (FHFA) guidance on Federal Home Loan Bank (Bank) core mission achievement. It should be considered in conjunction with FHFA's Advisory Bulletin 2010-AB-02, *Strategic Plans*. The Advisory Bulletin also describes how FHFA will assess the Banks' core mission achievement, as well as FHFA's expectations about the content of the strategic plans for Banks with core mission assets below specified levels.

Background

FHFA currently has in place a core mission activities regulation (12 CFR § 1265.2), which describes the mission of the Banks as follows:

The mission of the Banks is to provide to their members and housing associates financial products and services, including but not limited to advances, that assist and enhance such members' and housing associates' financing of: (a) housing, including single-family and multi-family housing serving consumers at all income levels; and (b) community lending.

Further, the regulation defines core mission activities to include:

- All advances,
- All letters of credit,
- All intermediary derivative contracts,
- Most mortgage loans (Acquired Member Assets or AMA),
- Certain debt and equity investments in targeted community development and in small business investment companies (SBICs),
- Investment in certain SBIC securities guaranteed by the Small Business Administration,

- Investment in notes and certificates guaranteed by the Department of Housing and Urban Development under section 108 of the Housing and Community Development Act of 1974, and
- Investments and obligations for housing and community development issued or guaranteed under Title VI of the Native American Housing Assistance and Self-Determination Act of 1996.

Guidance

When developing its strategic business plan with respect to core mission, FHFA will expect each Bank to consider the guidelines established in this Advisory Bulletin. FHFA's regulation on strategic business plans requires each Bank's board of directors to adopt, maintain, and periodically review a strategic business plan that "describes how the business activities of the Bank will achieve the mission of the Bank consistent with" the core mission activities provisions.¹

Components of Core Mission

Core mission assets and activities should be divided into two parts.

- *Primary Mission Assets* – Advances (inclusive of Community Investment Program (CIP) Advances and Community Investment Cash Advances (CICA)) and AMA are "Primary Mission Assets." These two assets are fundamental to the business of a Bank and most directly contribute to the mission of the Banks. Because a portfolio of residential mortgage loans presents risks not present with advances, FHFA expects that each Bank's board of directors will establish a prudential limit on its maximum holdings of AMA, which should be governed by the Bank's ability to manage the risks inherent in holding mortgages.
- *Supplemental Mission Assets and Activities* – This category includes other types of assets or activities that also support the Banks' housing finance and community lending mission, though in a less direct way than advances and AMA. Supplemental Mission Assets and Activities would include, but not be limited to, advance commitments, Housing Finance Agency debt instruments, investment in certain small business investment company securities, certain Small Business Administration government guaranteed investments, standby bond purchase agreements, off-balance sheet mortgages, and letters of credit.

Measuring Core Mission Achievement

FHFA will assess each Bank's core mission achievement by calculating the ratio of its Primary Mission Assets relative to consolidated obligations (COs). FHFA will make these calculations, starting at year-end 2015, using annual average par values, as reported by the Banks in FHFA's

¹ The regulation on strategic business plans is currently located at 12 CFR § 917.5, but FHFA has proposed to relocate the provision to 12 CFR § 1239.31

Call Report System (CRS), and will assess each Bank's core mission achievement on an annual basis as part of the examination process.

Consideration of Core Mission Achievement

When considering its core mission achievement, FHFA will expect each Bank to use the following framework.

- *Preferred Advances and AMA Ratio* – This term refers to a ratio of advances and AMA to COs of at least 70 percent.

For Banks that maintain a “Preferred Advances and AMA Ratio,” FHFA will not undertake a further evaluation regarding its mission achievement. Nonetheless, a Bank in this category should include as part of its strategic plan an assessment of its prospects for maintaining this level of mission achievement.

- *Evolving Advances and AMA Ratio* – This term refers to a ratio of advances and AMA to COs of less than 70 percent but at least 55 percent.

For Banks that have an “Evolving Advances and AMA Ratio,” FHFA will undertake a further evaluation regarding its mission achievement, the nature of which will depend on the Bank's actual ratio. For those Banks where the ratio is:

- Closer to 70 percent, FHFA expects the Bank's strategic plan to explain how the Bank will bring the ratio closer to the “Preferred Advances and AMA Ratio.” If, however, the Bank had significant amounts of Supplemental Mission Assets and Activities or of CIP advances and CICA, FHFA would be less concerned than if the Bank did not.
 - Closer to 55 percent, FHFA expects the Bank's strategic plan to include a more detailed description of the actions the Bank plans to take to bring its Primary Mission Assets closer to the “Preferred Advances and AMA Ratio.” This provision of the strategic plan should explain in some detail the Bank's plans to increase its mission focus, such as by increasing Primary Mission Assets or Supplemental Mission Assets and Activities, or by decreasing its other investments.
- *Advances and AMA Ratio below 55 percent* – This category would include any Bank with a ratio of Advances and AMA to COs below 55 percent.

FHFA will evaluate in detail Banks with Primary Mission Asset ratios below 55 percent. At a minimum, FHFA will expect the Bank's strategic plan to include a robust explanation describing in detail the circumstances that caused the Primary Mission Asset ratio to fall below 55 percent, as well as a detailed description of its plans to increase its ratio.

In assessing the mission achievement of such Banks, FHFA will take into consideration the potential effects of business cycle fluctuations on advance demand and the Banks' ability to influence that demand. However, FHFA will expect that if a Bank were to have a Primary Mission Assets ratio below 55 percent over the course of several consecutive reviews, then the Bank's board of directors should consider possible strategic alternatives, in addition to the balance sheet actions noted above, as part of its strategic planning.

Advisory bulletins communicate guidance to FHFA supervision staff and the regulated entities on specific supervisory matters pertaining to the FHLBanks, Fannie Mae, and Freddie Mac. For the FHLBanks, contact Amy Bogdon, Associate Director at Amy.Bogdon@fhfa.gov or Christina Muradian, Principal Financial Analyst at Christina.Muradian@fhfa.gov in Regulatory Policy and Programs, Division of FHLBank Regulation.