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## EXPANDING THE AUTHORITY OF FEDERAL HOME LOAN BANKS IS UNNECESSARY AND RISKY

*RONALD D. UTT, PH.D.*

When the Senate Banking Committee marks up S. 1405, the Financial Services Modernization Act, it will consider an amendment that would significantly expand the role of the federally sponsored Federal Home Loan Bank System into U.S. financial markets and put it in direct competition with private, tax-paying commercial banks and other private lenders. The amendment, titled the Federal Home Loan Bank System Modernization Act of 1998 (S. 1423), would allow the Federal Home Loan Bank System to expand beyond its traditional focus on the thrift industry into a wide variety of non-residential commercial loans, including loans to small business, rural development, and agriculture, as well as provide other housing finance services.

The Federal Home Loan Bank System was created in the 1930s to provide the then beleaguered savings and loan industry with a backup source of short-term liquidity in the form of advances. Over time, however, these advances became an important and permanent source of capital that helped to fuel the speculative real estate lending that led ultimately to the financial collapse of the savings and loan industry in the mid-1980s and a multibillion-dollar bailout tab for taxpayers. This series of unintended events strongly suggests that any expansion of the Federal Home Loan Bank System's now limited powers be done with great caution and only after careful deliberation.

The areas in which the Federal Home Loan Bank System would be permitted to encroach under the proposed Federal Home Loan Bank System Modernization Act already are well served by a variety of existing private financial institutions and by other government or government-sponsored enterprises, such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the U.S. Small Business Administration, the Farm Credit Administration, and various programs of the U.S. Department of Agriculture. Thus, any expansion of lending authority at this time would appear unnecessary and risky for taxpayers.

—Ronald D. Utt, Ph.D., is Grover M. Hermann Fellow in Federal Budgetary Affairs at The Heritage Foundation.

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