The Daily Dish

Huh?

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Eakinomics: Huh?

Okay, I've got a great idea. Let's find an enormous, thinly capitalized, ostensibly privately owned financial entity that benefits from an array of special treatments by the federal government. Next, make sure that they make loans in the real estate sector – historically the most systemically risky area. Finally, during an expansion loosen the regulatory reins and let the entity enter into even riskier new lines of business. Now stir in an economic downturn and financial duress, then sit back and enjoy the meltdown, potential collapse and – as always – taxpayer bailout of the entity. Terrific fun.

No, this is not Fannie Mae and Freddie Mac reverting to their historic norms. This is the current policy toward the *other* housing government-sponsored enterprises – the Federal Home Loan Banks (FHLBs). The 11 banks of the FHLB system were created during the Great Depression, but they are now owned by regulated financial institutions and are not publicly traded. In order to get access to FHLB loans, an institution must contribute capital.

FHLBs get lots of preferential treatment. They are exempt from all corporate federal, state, and local taxation. The capital invested in FHLBs gets preferential treatment under the Basel capital regime. In exchange for these goodies, the FHLBs must contribute 10 percent of annual earnings to affordable-housing programs. Thus, the FHLBS are inextricably linked to government policy in the same unattractive fashion as Fannie and Freddie. And, to solidify to notion that the taxpayer had a stake in the FHLBs, during the financial crisis the Treasury was authorized to purchase unlimited amounts of FHLB debt.

Given all this, it was with abject horror that I read in *The Wall Street Journal* that "the system's federal regulator is considering whether to allow further growth, via lending to nonbank mortgage institutions and real-estate investment trusts, which have come to play big roles in housing finance."

Winding down the FHLBs? Good idea. Putting them on financial steroids? Not so much.