

# Federal Home Loan Bank Advances and Commercial Bank Portfolio Composition

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## Abstract

Federal Home Loan Bank (FHLB) advances are a source of government-sponsored liquidity intended to encourage housing finance, although “community financial institutions” may use such funds more generally. Because money is fungible, it is an empirical question as to how advances are actually employed. Using panel-vector autoregression techniques, we estimate dynamic responses of U.S. commercial bank portfolios to: FHLB advance shocks, bank lending shocks, and macroeconomic shocks. We find that FHLB advances: (i) are used as a general source of liquidity by U.S. commercial banks of all sizes and (ii) dampen the sensitivity of mortgage lending to macroeconomic shocks at small banks.

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