

Government-Sponsored Wholesale Funding and the Industrial Organization of Bank Lending

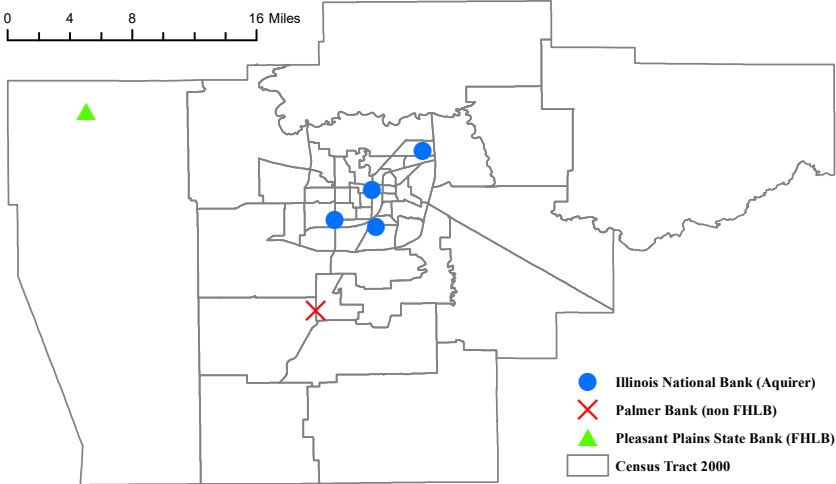
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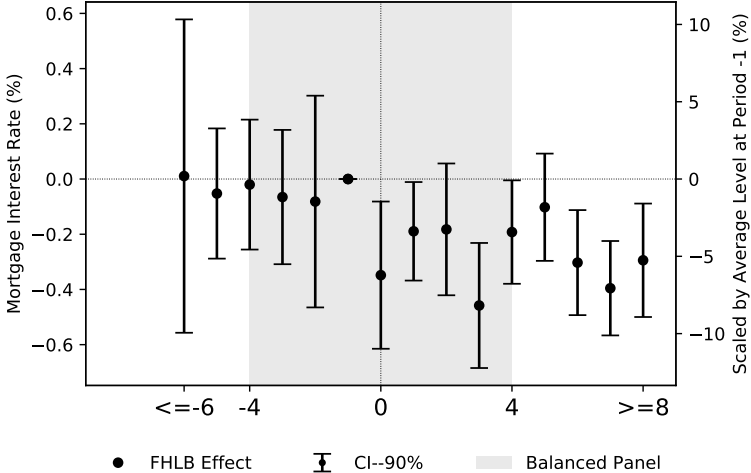
FHFA's Listening Session, March 2023

Multiple-Target Merger Example

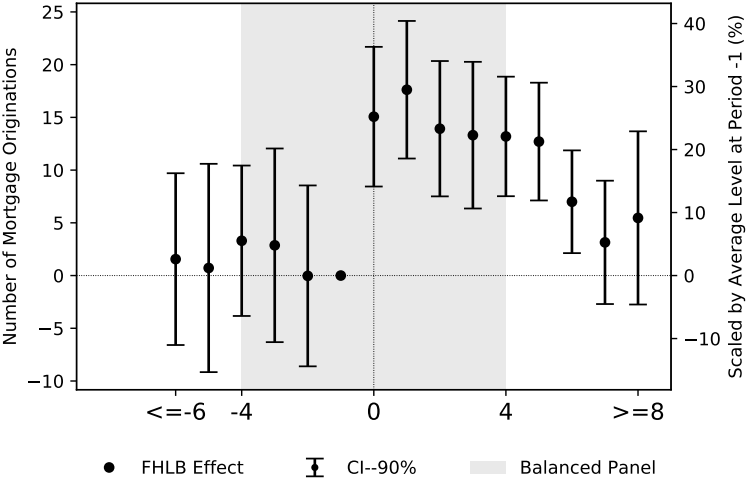
Figure 1: Illinois National Bank M&A in Sangamon County (2003)



Bank Effect #1: FHLB Funding Reduces Mortgage Rate by 18 bps



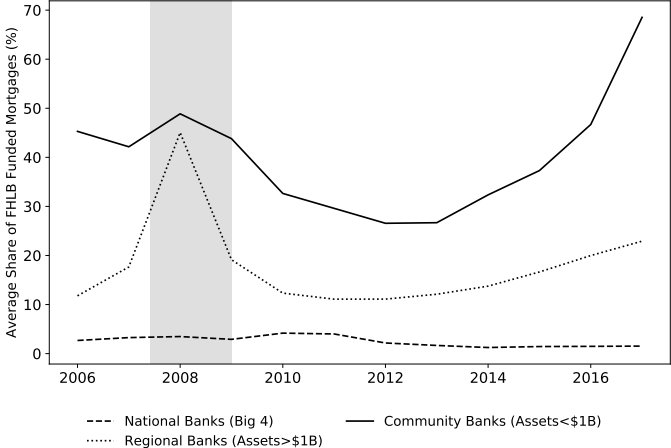
Bank Effect #2: FHLB Funding Increases Mortgage Lending by 16.3%



Placebo: Small Business Loan

Government-Sponsored Wholesale Funding Matters More for Smaller Banks

Figure 2: Share of FHLB Funded Residential Mortgages on Banks Balance Sheet (Outstanding FHLB Advances/Outstanding Residential Mortgages)

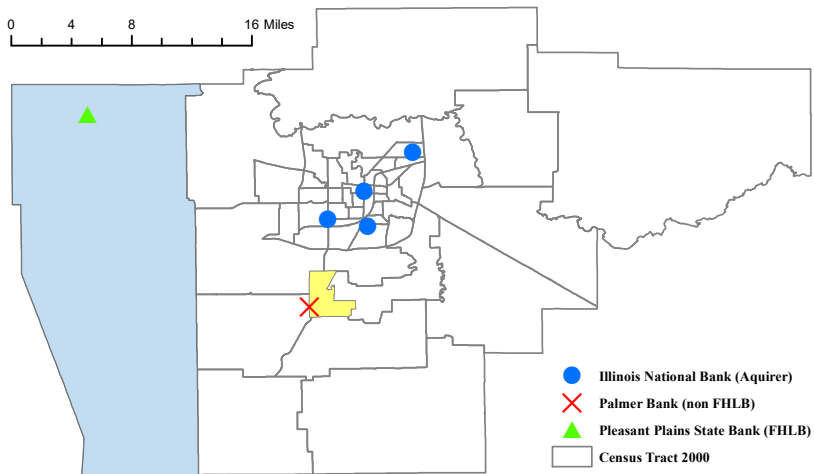


weighted

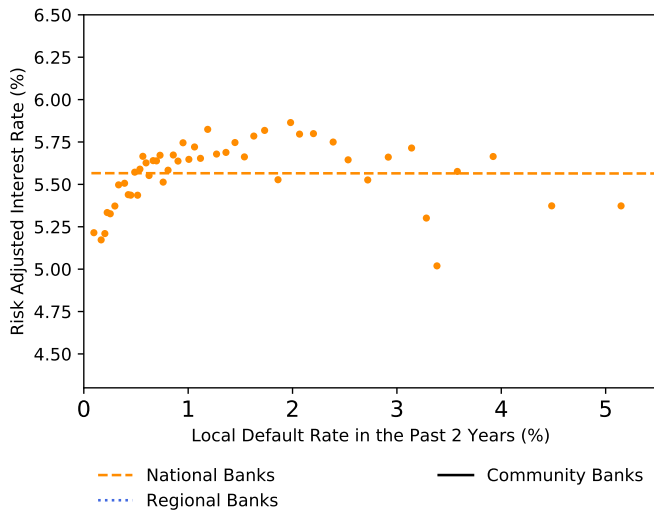
Do Small Banks Matter?

1: Small Banks Make Local Lending Market More Competitive

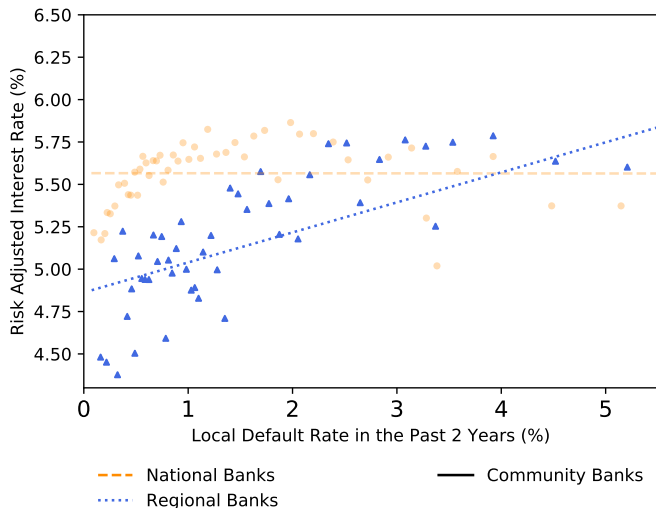
Figure 3: Illinois National Bank M&A in Sangamon County in 2003



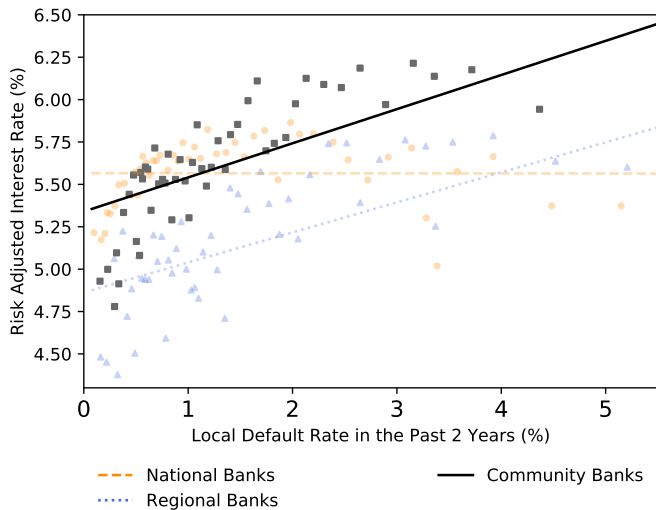
2: Small Banks More Responsive to Local Shocks



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Takeaways

- ▶ Government-sponsored wholesale funding facility (FHLB)
 - ▶ passes cheaper funding to the borrowers (\downarrow 8 bps);
 - ▶ increases market competition, thus improves the cost reduction pass-through (\downarrow 3 bps, \uparrow \$50 Billion).

Thank You!