

FHLB Membership Eligibility Parity



Quick Look:

- **The Federal Home Loan Bank Act (FHLB Act) treats similarly sized credit unions and community banks differently with respect to eligibility to join the Federal Home Loan Bank (FHLB) System.**
 - Under the FHLB Act, “Community Financial Institutions” are exempt from a requirement that 10% of assets must be dedicated to residential mortgage loans in order to access the liquidity provided by FHLBs. Instead, only 1% of assets must be directed to housing for these institutions.
 - However, the FHLB Act limits the definition of “community financial institutions” to FDIC-insured banks with less than \$1 billion in average total inflation-adjusted assets. See 12 U.S.C. § 1422(10).
 - Because credit unions are not insured by the FDIC (almost all are insured by the National Credit Union Administration), they cannot be considered “Community Financial Institutions.” Credit unions must meet more rigorous standards to join the system simply, because they were not included in the original FHFA definition.



Action:

- Congress should amend the Federal Home Loan Bank Act to ensure the eligibility requirements for similarly sized credit unions and banks are the same, by including credit unions in the definition of “Community Financial Institutions.”



Background:

- FHLBs are reliable, low-cost sources of liquidity for financial institutions. During the last financial crisis they served as a key liquidity source for credit unions ensuring that member service went uninterrupted.
- FHLBs also provide access to the secondary market for the sale of home mortgages. In the current, low-interest rate environment, credit unions can manage interest rate risk better with increased access to the secondary market. In this way, allowing credit unions access to the FHLB system would strengthen the overall strength of the financial market.
- A recent proposal by the Federal Housing Finance Agency would require FHLB members to retain 10% of assets in residential mortgages on an ongoing basis. “Community financial institutions” would be exempt from this requirement; but credit unions would not be. This disparity could jeopardize ongoing FHLB membership for some credit unions; while similarly sized banks do not face the prospects of their membership being revoked.
- There is no sound policy reason that a similarly sized credit union and bank should be treated differently for the purposes of FHLB membership.