Proposed Rule Summary

Prepared by NASCUS Regulatory Affairs Department
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Federal Housing Finance Agency FHLB Membership

The Federal Housing Finance Agency (FHFA) has proposed changes to the rules governing membership in one of the 12 Federal Home Loan Banks (FHLBs). FHFA states it proposed the rule "to ensure that [FHLB] members maintain a commitment to housing finance and that only eligible entities can gain access to [FHLB] advances and the benefits of membership." The proposed changes would affect all members of the FHLB, including credit unions. The National Mortgage News reports that FHLB Chicago President and CEO Matt Feldman estimates that the proposed rule would have eliminated between $230 billion and $350 billion of borrowing capacity from existing FHLB members that would have failed to qualify for membership under the proposed rule in just the past five years.

Comments are due to the FHFA by January 12, 2015. The entire proposed rule may be read here.

Summary

Applicants for FHLB membership are subject to an application requirement of holding 1% of their assets in home mortgage loans. This requirement applies only at application. There is no ongoing requirement to hold the 1% of home mortgage loans.

- FHFA proposes establishing a test that would require all FHLB members to hold 1% of their assets in home mortgage loans on an ongoing basis throughout their membership.

Credit unions and other non-CFIs are currently required, at time of application, to hold 10% of their assets in residential mortgage loans. The requirement only applies at application.

- FHFA proposes that entities subject to the 10% residential mortgage requirement be required to maintain the 10% of assets in residential mortgage loan on an ongoing basis.

The FHFA proposes several other changes to FHLB membership. The proposal would define as "insurance company" as a company that has as its primary business the underwriting of insurance for nonaffiliated persons. As a result mortgage real-estate investment trusts (REITs) would lose access to the funding of FHLB. Currently, some REITs establish insurance subsidiaries, "captive insurers," to handle their insurance needs. These captive insures had been eligible for membership in the FHLB, providing the REITs access, but would be excluded under the new rules. The proposal would also clarify the standards by which an insurance company's "principal place of business" is identified to determine the appropriate bank district for membership.

The rule does not expand FHLB membership to privately insured credit unions. Providing general access to privately insured credit unions requires Congressional action. Privately insured credit unions designated as community development financial institutions remain eligible to join.