

# Federal Home Loan Bank System Insurance Parity

## *National Council of Insurance Legislators (NCOIL) 2023*

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### Federal Home Loan Bank System

The Federal Home Loan Bank System (FHLBanks) is a congressionally-chartered government sponsored enterprise of 11 regional, member-owned cooperatives providing liquidity, affordable housing and other financial services to its 6,500 member stockholders in the United States and U.S. Territories, including over 560 insurance company members with borrowings reaching nearly \$140 billion as of year-end 2022. With combined total assets of \$946.7 billion, as of June 30, 2022, the FHLBanks have awarded approximately \$7 billion in Affordable Housing Program grants and deeply discounted loans since 1990, supporting hundreds of thousands of units for households at or below 80% of area median income.

### The Issue

The FHLBanks seek legislation to improve terms of FHLBank lending to its member insurance companies. Under Federal Deposit Insurance Act (FDIA) (see 12 U.S.C. 1821(d)(5)(D)(iii) and (e)(14), the 11 FHLBanks are exempt from stay and voidable preference requirements for depository institutions (banks or credit unions) in receivership. Consequently, an FHLBank is able to promptly apply an appropriate amount of collateral pledged by an insolvent depository institution toward the satisfaction of such member's outstanding obligations to an FHLBank.

The FHLBanks' regulator, the Federal Housing Finance Agency (FHFA) views lending to insurance companies in states without similar exemptions to stay and voidable preference as a higher risk than lending to depositories. As a result, the FHFA requires insurance companies to borrow from FHLBanks on less advantageous terms including more stringent collateral requirements. 25 states and two U.S. Territories have adopted statutes similar to the FDIA's federal stay and voidable preference exemptions resulting in more favorable lending terms to insurance companies in those states. However, state laws in 25 states governing FHLBank lending to insurance companies still lack parity with federal banking law. This lack of parity has been an area of focus by the FHFA and places a burden on the FHLBanks' core lending business to its insurance members and also, indirectly, lowers the amount of funds available for affordable housing support.

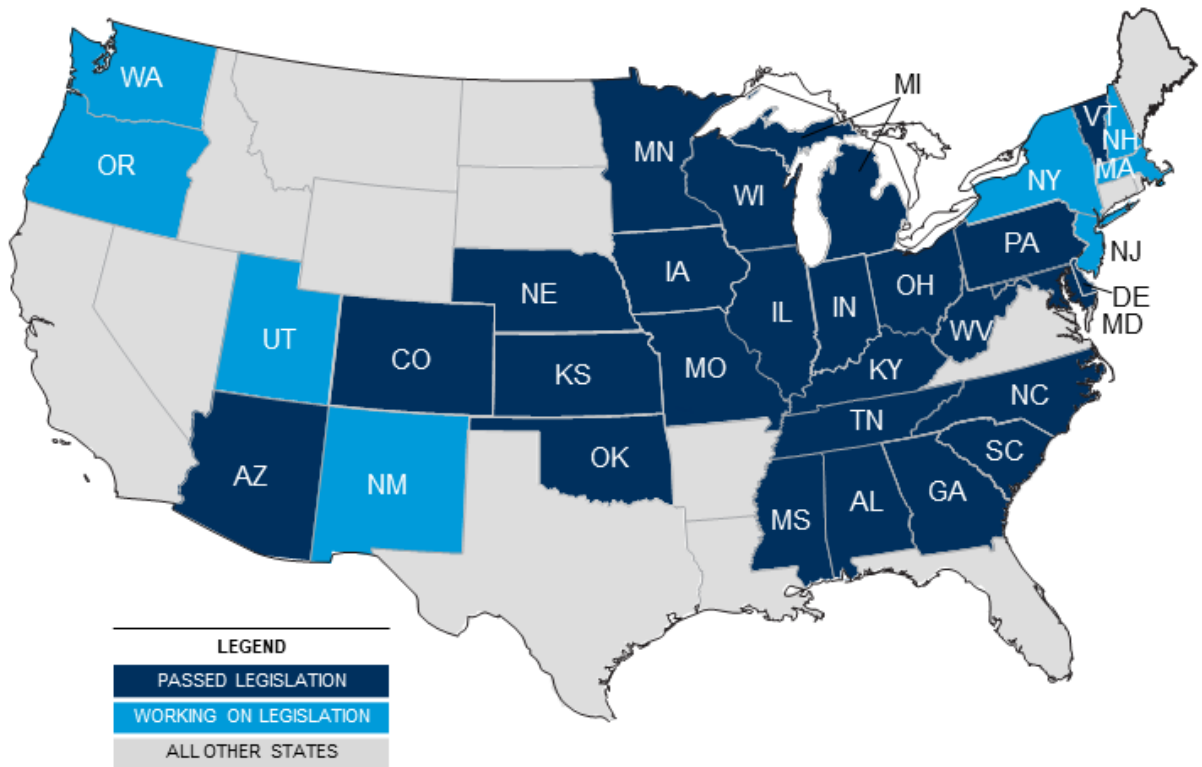
### FHLB Insurer-Member Model Act Impact

Application of the FHLB Insurer-Member Model Act would address this parity issue for our insurance company members. The Model Act is functionally identical to language already passed in 25 states and two Territories. The proposed Model Act would:

- Allow a limited exemption for the FHLBanks from judicial stays and preference requirements after ten days following the commencement of a delinquency proceeding, and provide a process for the FHLBank, the member, and the receiver to follow.
- Allow FHLBank insurance company members to more efficiently manage their assets and their funding, including additional borrowing capacity and parity in pledged collateral valuation.
- Establish a more robust framework for cooperation and coordination between the FHLBanks and the Departments of Insurance.

## STATES WITH EXEMPTIONS FOR THE FHLBANKS FROM STAY AND VOIDABLE PREFERENCE

25 states, the Commonwealth of Puerto Rico, and the United States Virgin Islands have passed, and other states are working on passing, stay and voidable preference amendments



ALASKA	HAWAII	PUERTO RICO	U.S. VIRGIN ISLANDS