Collateral Requirements Discourage Some Community Development Financial Institutions from Seeking Membership

Why GAO Did This Study

The Housing and Economic Recovery Act of 2008 (HERA) made nondepository CDFIs eligible for membership in the FHLBank System. The System includes 12 regional FHLBanks that make loans, known as advances, to their members at favorable rates. GAO was asked to review the FHLBanks’ implementation of HERA provisions relating to nondepository CDFIs. Among other things, this report discusses (1) challenges posed by membership and collateral requirements for nondepository CDFIs, and (2) FHFA and FHLBank efforts to facilitate broader nondepository CDFI participation in the System.

What GAO Found

Collateral requirements rather than membership requirements discouraged some nondepository community development financial institutions (CDFI)—loan or venture capital funds—from seeking membership in the Federal Home Loan Bank (FHLBank) System. CDFIs are financial institutions that provide credit and financial services to underserved communities. Less than 6 percent of nondepository CDFIs (30 of 522) were members of the System as of December 2014 (see figure). Requirements for membership (such as stock purchase amounts) can vary where regulation gives FHLBanks discretion, but nondepository CDFIs GAO interviewed generally stated these requirements did not present a challenge. In addition, most FHLBanks imposed collateral requirements on nondepository CDFIs—such as haircuts (discounts on the value of collateral)—comparable with those for depository members categorized as higher risk. (This was sometimes also the case for other nondepository members such as insurance companies.) FHLBank officials stated nondepository CDFIs have different risks compared with depository members (for example, nondepository CDFIs are not supervised by a prudential federal or state regulator as are other FHLBank members). To address these risks, they imposed more restrictive requirements. Some of the nondepository CDFIs GAO interviewed cited limited availability of eligible collateral and steep haircuts as challenges for obtaining advances and therefore a disincentive to seeking membership. Less than half of the nondepository CDFIs that were members as of September 2014 had borrowed from the FHLBanks; the cumulative advances from October 2010 to September 2014 totaled about $307 million (less than 1 percent of the total advances outstanding as of December 2014). Two FHLBanks made the majority of the advances.

Rates of Nondepository CDFI Membership by FHLBank District, as of December 2014

The Federal Housing Finance Agency (FHFA), which oversees the System, and FHLBanks have facilitated efforts to broaden nondepository CDFI participation in the System by educating about and promoting membership to nondepository CDFIs. For example, FHFA officials told us that they encouraged the FHLBanks to hold a conference to discuss nondepository CDFI membership. Officials from 10 FHLBanks also stated that they had solicited applications from CDFIs. In late 2014, several FHLBanks amended stock purchase and collateral requirements to better accommodate nondepository CDFI membership and access to advances.

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