

GAO Highlights

Highlights of [GAO-15-352](#), a report to congressional requesters

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.

GAO analyzed data on membership rates as of December 2014 and advances obtained as of September 2014; reviewed requirements for gaining membership and obtaining advances; and interviewed FHLBank and FHFA officials and a sample of nondepository CDFIs based on selected criteria, including geography and asset size. Specifically, GAO interviewed 10 nondepository CDFIs that were members (one from each FHLBank district with a nondepository CDFI member when GAO began work) and 12 that were not members (one from each of the 12 districts).

GAO makes no recommendations in this report. GAO provided a draft of this report to FHFA and the 12 FHLBanks for comment. FHFA and four FHLBanks provided technical comments that were incorporated into the report as appropriate.

View [GAO-15-352](#). For more information, contact Daniel Garcia-Diaz at (202) 512-8678 or GarciaDiazD@gao.gov.

April 2015

FEDERAL HOME LOAN BANKS

Collateral Requirements Discourage Some Community Development Financial Institutions from Seeking Membership

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

District	Cumulative number of nondepository CDFI members					Total CDFIs in district	Membership rate
	2010	2011	2012	2013	2014		
Atlanta	1	1	1	1	2	73	2.74%
Boston	0	0	0	1	4	48	8.33
Chicago	0	1	1	1	1	24	4.17
Cincinnati	1	3	4	4	4	30	13.33
Dallas	0	0	2	3	4	45	8.89
Des Moines	0	1	1	1	1	48	2.08
Indianapolis	0	0	0	1	2	13	15.38
New York	0	0	1	2	2	63	3.17
Pittsburgh	0	0	0	0	1	32	3.13
San Francisco	0	2	3	4	5	68	7.35
Seattle	0	0	0	0	2	53	3.77
Topeka	0	0	0	0	2	25	8.00
Total	2	8	13	18	30	30 + 492 nonmembers = 522	5.75%

Legend: Members (solid green bar), Nonmembers (hatched bar). CDFI = community development financial institution

Source: GAO analysis of FHFA membership database and CDFI Fund data. | GAO-15-352

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.