



**House  
Legislative  
Analysis  
Section**

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## ALLOW STATE BANKS INTO FHLB

House Bill 6204 with committee amendments  
First Analysis (11-27-90)

Sponsor: Rep. John Bennett  
Committee: Corporations & Finance

### ***THE APPARENT PROBLEM:***

The Federal Home Loan Bank Act regulates 12 regional "wholesale" banks in the country whose main purpose traditionally has been to act as a lender of first resort for depository financial institutions involved primarily in providing low-cost home mortgage financing, i.e. savings and loan associations. After severe problems surfaced within the savings and loan industry recently (where a growing number of bankruptcies forced the federal government not only to step in to cover the huge financial losses to depositors, but also to reregulate the industry), Congress enacted the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) in 1989. Among other things, FIRREA transferred oversight of the industry from the FHLB Board to the Department of Treasury and provided that other depository financial institutions (such as state and national banks and credit unions) could become FHLB members.

The FHLB of Indianapolis, as the regional bank affiliate for Indiana and Michigan, serves the needs of its member financial institutions in the state. Since FIRREA's enactment, the Indianapolis FHLB has targeted depository financial institutions other than savings and loans that are interested in providing low-cost home mortgage financing in their communities. While national banks and state or federal credit unions are currently allowed by law to become FHLB members, the state Banking Code (which regulates state-chartered banks) is silent on the issue. Because a number of state banks have shown an interest in becoming members of the FHLB, the Indianapolis FHLB has requested amending the act to give them this option.

### ***THE CONTENT OF THE BILL:***

The bill would amend the Banking Code to permit a state-chartered bank to become a member of the Federal Home Loan Bank (FHLB) and to exercise those powers conferred upon an FHLB member by the Federal Home Loan Bank Act that were consistent with the act. A state bank that became an FHLB member could pledge its assets to secure liabilities incurred under the Federal Home Loan Bank Act.

MCL 487.330 et al.

### ***FISCAL IMPLICATIONS:***

The Financial Institutions Bureau reports that the bill would not have state or local fiscal implications. (11-15-90)

### ***ARGUMENTS:***

#### ***For:***

The bill would allow state chartered banks the same access to the FHLB as other state financial institutions now enjoy (as provided by FIRREA, the federal law restructuring the savings and loan industry) and, thus, would allow them access to low-cost capital for affordable housing programs. The FHLB historically was tied to the nation's savings and loan associations

and provided much of the capital used to finance low-cost housing loans offered by thrifts. After the 1989 restructuring, other financial institutions were allowed to become FHLB members and take advantage of its special programs. Currently, most of the low-cost FHLB capital for housing purposes in Michigan has gone to a few national banks in the Detroit area. Some of Michigan's state-chartered banks, especially those in more rural communities, feel FHLB's federally subsidized capital could also help improve housing opportunities for citizens in those areas. The bill would give all the state's financial institutions equal access to the FHLB of Indianapolis and could help infuse low-cost capital into more of the state's housing markets. Of course, becoming an FHLB member would be entirely optional and would in no way change the federally-insured status of a bank. (In other words, a state bank's deposits would still be fully protected under the Federal Deposit Insurance Corporation.)

### ***POSITIONS:***

The Financial Institutions Bureau supports the bill. (11-15-90)

The Michigan Bankers Association supports the bill. (11-14-90)

The Federal Home Loan Bank of Indianapolis supports the bill. (11-15-90)