



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

May 30, 2014

### **H.R. 3584**

#### **A bill to amend the Federal Home Loan Bank Act to authorize privately insured credit unions to become members of a Federal home loan bank, and for other purposes**

*As ordered reported by the House Committee on Financial Services on March 14, 2014*

H.R. 3584 would allow privately insured credit unions to become members of the Federal Home Loan Bank (FHLB) system. The bill also would direct the Government Accountability Office (GAO) to report to the Congress on privately insured institutions and their insurers. CBO estimates that implementing this legislation would not have a significant cost. Enacting H.R. 3584 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

The FHLB system is a cooperative, government-sponsored enterprise made up of 12 regional banks that offer financing to more than 7,500 members (banks, thrift institutions, insurance companies, and credit unions). FHLBs make loans (known as “advances”) and provide other credit services that members use to fund mortgages and other loans. Consolidated assets of the FHLBs totaled \$834 billion at the end of calendar year 2013, including almost \$500 billion in advances.

H.R. 3584 would permit state-chartered, privately insured credit unions to become members of the FHLB system. Under current law, such credit unions may only gain membership if they are also community development financial institutions. Based on information from the Credit Union National Association, there are about 130 privately insured credit unions holding about \$11 billion in assets that would become eligible for membership under the bill. CBO believes that it is unlikely that any advances made to these institutions would alter the financial condition of the FHLBs given the relative size of the credit unions to the FHLB system and the requirement that all advances be fully secured. Because these credit unions are privately insured, spending by the Federal Deposit Insurance Corporation would not be affected if an institution ultimately failed.

The bill also would direct GAO to report to the Congress on the adequacy of insurance reserves held by private deposit insurers and whether privately insured institutions comply with federal disclosure regulations. The cost of the study would be less than \$500,000, CBO estimates, and would be subject to the availability of appropriated funds.

H.R. 3584 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt state laws that allow for voiding specific types of contracts between FHLBs and insolvent credit unions whose deposits are insured by private insurers. By limiting the application of state law, the bill would impose an intergovernmental mandate. However, the preemption would impose no duty on state governments that would result in additional spending, and the threshold established by UMRA for costs of intergovernmental mandates (\$76 million in 2014, adjusted annually for inflation) would not be exceeded.

H.R. 3584 also would impose a private-sector mandate on private insurers of credit union deposits. It would require such insurers to submit a copy of their annual audit to the National Credit Union Administration within seven days of having an audit completed by an independent auditor. Insurers also would be required to send those reports to the Federal Housing Finance Agency for privately insured credit unions that are members of the FHLB system. Based on information from the Federal Deposit Insurance Corporation, CBO estimates that the cost of complying with the mandate would be small and would fall well below the annual threshold for private-sector mandates established in UMRA (\$152 million in 2014, adjusted annually for inflation).

The CBO staff contacts for this estimate are Daniel Hoople (for federal costs), J'nell L. Blanco (for the intergovernmental mandate), and Paige Piper/Bach (for the private-sector mandate). The estimate was approved by Theresa Gullo, Deputy Assistant Director for Budget Analysis.