

SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 1781 (Michelle Rodriguez)

Version: February 9, 2026

Hearing Date: June 23, 2026

Fiscal: No

Urgency: No

ID

SUBJECT

Federal Home Loan Banks

DIGEST

This bill prohibits a Federal Home Loan Bank from being stayed, enjoined, or prohibited from exercising or enforcing any right or cause of action against collateral pledged by an insurer-member, and prohibits a receiver, rehabilitator, liquidator, or conservator from voiding any transfer of, or any obligation to transfer, money or other property arising under, or in connection with, any Federal Home Loan Bank security agreement with an insurer-member, unless the transfer was made with actual intent to hinder, delay, or defraud either existing or future creditors.

EXECUTIVE SUMMARY

Federal home loan banks (FHLBs) are U.S. federal government-sponsored enterprises (GSEs) created to provide liquidity to financial institutions for funding housing and community development. FHLBs are cooperatively-owned by their member financial institutions, to whom they provide secured loans backed by collateral. Member financial institutions include commercial banks, credit unions, community development financial institutions, and insurance companies. As secured lenders, FHLBs have priority over other creditors when a borrower defaults or goes into receivership. However, the rules for an insurer insolvency are set by state law, under which the Insurance Commissioner becomes the receiver for an insolvent insurance company. To provide clarity for the FHLB's priority over all other claims, AB 1781 specifies that the FHLB shall not be stayed or enjoined from enforcing its rights or filing a cause of action for such against an insurance company to whom it made a secured loan. It also prohibits a receiver or similar entity from voiding any transfer or obligation to transfer property to the FHLB in connection with any security agreement the insurer had with the FHLB, except as specified.

AB 1781 is sponsored by the FHLB of San Francisco, and the Committee has received no timely letters of opposition. It previously passed out of the Senate Insurance Committee by a vote of 6 to 0.

PROPOSED CHANGES TO THE LAW

Existing law:

- 1) Establishes various procedures and requirements under which the Insurance Commissioner is to take control of an insolvent insurance company and its assets as receiver. (Ins. Code §§ 1010 et seq.)
- 2) Specifies that the provisions relating to insolvent insurance companies apply to all persons, except the State Compensation Insurance Fund, subject to inspection by the Insurance Commissioner, or those who purports to do insurance business in California, is in the process of organization in order to do insurance business, or from whom the Insurance Commissioner's certificate of authority is required for the transaction of business, or whose certificate of authority has been revoked or suspended by the Insurance Commissioner. (Ins. Code § 1010.)
- 3) Requires a superior court of the county in which the principal office of an insurer is located, upon a filing of the Insurance Commissioner or a filing of the Federal Deposit Insurance Corporation (FDIC) showing the insurer is not complying with the law, is in a hazardous financial condition, or is insolvent, to issue an order vesting title to all of the insurer's assets to the Insurance Commissioner, direct the Insurance Commissioner to take possession of all of the insurer's books, records, and property, and to conduct the business of the insurer as conservator. (Ins. Code § 1011.)
- 4) Establishes the California Insurance Guarantee Association (CIGA), with admitted insurers of specified classes of insurance as members, to pay or discharge the covered claims of property, casualty, and workers' compensation insurance when the insurer becomes insolvent. (Ins. Code §§ 1063 et seq.)
- 5) Specifies that all proceedings in which an insolvent insurer is a party or is obliged to defend a party in court, shall be stayed for 60 days, subject to waiver by CIGA or the Commissioner in certain cases, from the date that an order of liquidation or receivership for insolvency was entered by the court, and for an additional time thereafter as may be determined necessary by the court to permit proper defense or conduct of all pending causes of action by CIGA or the Commissioner. Requires that the liquidator, receiver, or statutory successor of the insolvent insurer must allow reasonable access to CIGA of the insolvent insurer's records, as is necessary for CIGA to carry out its duties toward covered claims. (Ins. Code § 1063.6.)

- 6) Establishes the California Uniform Liquidation Act to govern the rehabilitation, reorganization, or liquidation of an insolvent multi-state insurance company to ensure that creditors and policyholders are treated equitably. (Ins. Code §§ 1064.1 et seq.)
- 7) Specifies that, during the pendency of delinquency proceedings in this or any reciprocal state, no action or proceeding for attachment, garnishment, or execution can be commenced or maintained in California state courts against the delinquent insurer or its assets, and specifies that any lien obtained by any such action or proceeding within four months prior to the commencement of the delinquency proceeding or at any time thereafter shall be void as against any rights arising in such delinquency proceeding. (Ins. Code § 1064.9.)
- 8) Establishes the California Life and Health Insurance Guarantee Association (CLHIGA), with admitted insurers of specified classes of insurance as members, to pay or discharge the covered claims of life, health, and annuity insurance when the insurer becomes insolvent. (Ins. Code §§ 1067 et seq.)
- 9) Specifies that all proceedings in which the insolvent insurer is a party in an action in state court shall be stayed at least 180 days from the date that an order of liquidation, rehabilitation, or conservation is final, to permit proper legal action by CLHIGA on any matters germane to its powers or duties, and permits CLHIGA to apply to have any judgement regarding default be set aside by the court so that CLHIGA can defend the suit on the merits. (Ins. Code § 1067.16.)

This bill:

- 1) Defines, for its provisions, the following terms:
 - a) “federal home loan bank” to mean an institution that is established under the Federal Home Loan Bank Act (12 U.S.C. §§ 1421 et seq.) or its successor statute; and
 - b) “federal home loan bank insurer-member” to mean an insurer that is a member of a Federal Home Loan Bank.
- 2) Specifies that, notwithstanding any other provision of the Insurance Code related to insurer insolvency and delinquency, CIGA or CLHIGA, or the Uniform Liquidation Act, a Federal Home Loan Bank shall not be stayed, enjoined, or prohibited from exercising or enforcing any right or cause of action against collateral pledged by an insurer-member under any Federal Home Loan Bank security agreement or any pledge or similar arrangement relating to a security agreement to which the Federal Home Loan Bank is a party.
- 3) Specifies that, notwithstanding any other provision of the Insurance Code related to insurer insolvency and delinquency, a receiver, rehabilitator, liquidator, or

conservator shall not void any transfer of, or any obligation to transfer, money or other property arising under, or in connection with, any Federal Home Loan Bank security agreement with an insurer-member, or any pledge, security, collateral, or any guarantee agreement or similar arrangement relating to a Federal Home Loan Bank security agreement with an insurer-member, unless the transfer was made with actual intent to hinder, delay, or defraud either existing or future creditors.

COMMENTS

1. Author's statement

In support of this measure, the author states:

AB 1781 provides important clarity in California law regarding the treatment of collateral pledged by insurance companies to the Federal Home Loan Bank (FHLB) system. Insurance companies rely on stable and affordable liquidity to meet their obligations, particularly during periods of financial stress. The FHLB system plays a critical role in providing that liquidity through secured advances, just as it does for banks and credit unions.

However, unlike those institutions, current California law does not explicitly address how FHLB pledged collateral is treated in the event of an insurance company receivership. This lack of clarity creates uncertainty for insurers, regulators, and financial markets, which can ultimately restrict access to liquidity and weaken a key financial backstop.

AB 1781 addresses this issue by confirming that FHLBs retain their rights as secured lenders with respect to pledged collateral. The bill does not alter creditor priority, secured lending standards, or policyholder protections. Instead, it establishes a clear and consistent legal framework that aligns California with federal standards and with more than thirty other states that have already adopted similar provisions.

By reducing uncertainty and strengthening insurer access to liquidity, AB 1781 helps promote financial stability and ensures that insurance markets can continue to serve consumers effectively, especially during times of economic stress.

2. The Federal Home Loan Banks

Federal home loan banks (FHLBs) are U.S. government-sponsored enterprises (GSEs) created by the Federal Home Loan Bank Act of 1932 (Pub. L. 72-304 (Jul. 22, 1932) 47 Stat. 725) to provide liquidity to financial institutions for funding housing and

community development.¹ They were created during the Great Depression to promote home construction, the issuance of home mortgages to homebuyers, and community development. FHLBs are cooperatively-owned by their member financial institutions, to whom they provide secured loans backed by collateral.² Member financial institutions include commercial banks, credit unions, community development financial institutions, and insurance companies. Most lending institutions and banks in the United States are members of FHLBs.

FHLBs fund their loans by issuing bonds in the capital markets, and their status as GSEs allow them to borrow at a lower cost and provide loans on better terms than private financial institutions. Through this system, FHLBs serve the public by providing lending institutions reliable, low-cost funds that the institutions can then use to lend to homebuyers and fund housing and community development.

While FHLBs are private entities owned by their member institutions, they are regulated by the federal government through the Federal Housing Finance Agency (FHFA). The FHLB of San Francisco serves member-institutions across California, Nevada, and Arizona.

As secured lenders, FHLBs have priority over other creditors when a borrower defaults or goes into receivership. When a bank that is a member of an FHLB fails, the receiver in the bankruptcy proceeding (usually the Federal Deposit Insurance Corporation (FDIC))³ must recognize the priority of any security interest granted to an FHLB over the claims and rights of any other party, including the receiver, with limited exceptions. (12 C.F.R. § 360.2.) This is because the laws relating to the FHLBs require that FHLBs' security interests in the borrower's property is entitled to priority over the claims of any other party, including any receiver. (12 U.S.C. § 1430(e), C.F.R. § 1266.8.) Under federal rules, if the receiver has possession of the insolvent borrower's collateral that was used to secure advances from an FHLB, the receiver is required to promptly provide that collateral to the FHLB upon request and the receiver and the FHLB must develop a mutually agreeable plan for the payment of the FHLB's advances made to the insolvent borrower. (12 C.F.R. § 360.2.)

3. California law regarding insolvent insurers

However, while the receivership of insured banks is regulated by federal law, insurer insolvencies are generally governed by state law. They are explicitly exempted from federal bankruptcy law. Instead, under California law, when an insurance company fails, the company goes into receivership under the Insurance Commissioner (Commissioner). State law prescribes this process, and allows the Commissioner to

¹ Council of FHL Banks, <https://fhlbanks.com/#>.

² Congressional Budget Office, *The Role of Federal Home Loan Banks in the Financial System*, Pub. No. 59712 (Mar. 2024).

³ 12 U.S.C. § 1821(c).

petition state courts for rehabilitation, liquidation, reorganization, or conservation to manage the insolvent insurance company and meet its obligations to creditors and policyholders. These are called delinquency proceedings. The Commissioner takes possession of the insurance company's assets to then manage and administer them under the orders of the court. (Ins. Code § 1011.) For the claims of policyholders of insolvent insurance companies in receivership, the California Insurance Guarantee Association (CIGA) and the California Life and Health Insurance Guarantee Association (CLHIGA) administer and pay out the covered claims.⁴

During delinquency proceedings, no other actions or proceedings against the insolvent insurer or their assets may be initiated or continued. (Ins. Code § 1064.9.) Upon an order of liquidation, rehabilitation, or conservation by the court, all other proceedings involving the insurer regarding claims are also stayed for a period of time. (Ins. Code §§ 1063.6, 1067.16.)

4. AB 1781 provides protection from automatic stays in bankruptcy proceedings for the pledged collateral for FHLB loans

According to the author, California law is not clear regarding how an FHLB's right to an insolvent insurance company's collateral is treated when the insurance company goes into receivership under the Commissioner. This, they argue, "creates uncertainty for insurers, regulators, and financial markets, which can ultimately restrict access to liquidity and weaken a key financial backstop."

To resolve this uncertainty, AB 1781 specifies in various sections of the Insurance Code relating to insurance company insolvency, the receivership process, and CIGA and CLHIGA that the FHLB retains its rights to pledged collateral. Specifically, it states that the FHLB cannot not be stayed, enjoined, or prohibited from exercising or enforcing its rights or any cause of action against collateral that the insolvent insurance company pledged to the FHLB. It further specifies that a receiver, rehabilitator, liquidator, or conservator cannot void any transfer of, or any obligation to transfer, assets in connection with an FHLB security agreement with an insurance company, unless the transfer was made with actual intent to hinder, delay, or defraud either existing or future creditors.

These provisions would act to give an FHLB the right to obtain an insolvent insurance company's assets to pay off the loan made by the FHLB, regardless of the fact that the insurance company is in receivership. While the FHLB, as a secured creditor and under federal law, has priority interest in an insurance company member's assets, the receivership process typically provides the receiver with control of the insolvent company's assets and operations as the insolvency is resolved. As mentioned above,

⁴ Conservation and Liquidation Office, Cal. Dept. of Ins. (accessed Jun. 6, 2026), <https://www.insurance.ca.gov/0500-about-us/02-department/025-clo/>.

typically, any other lawsuits involving the insolvent insurance company or its assets are stayed for the pendency of the delinquency proceeding. Under AB 1781, this would not apply to FHLBs.

SUPPORT

Federal Home Loan Bank of San Francisco (sponsor)

OPPOSITION

None received

RELATED LEGISLATION

Pending Legislation: None known.

Prior Legislation:

AB 3012 (Wood, Ch. 258, Stats. 2020) expanded covered claims under CIGA to include benefits under workers' compensation law of any state, if the injured worker is a California resident and not otherwise entitled to coverage from another organization, as specified.

SB 482 (Johnston, Ch. 974, Stats. 1993) established the California Life and Health Insurance Guarantee Association Act that created the California Life and Health Insurance Guarantee Association.

SB 243 (Bane, Ch. 1466, Stats. 1988) established the California Uniform Liquidation Act.

PRIOR VOTES:

Senate Insurance Committee (Ayes 6, Noes 0)

Assembly Floor (Ayes 74, Noes 0)

Assembly Insurance Committee (Ayes 17, Noes 0)
