



## REGULATORY INTERPRETATION 2010-RI-04

**Subject:** Bridge Depository Institution as Member of a Federal Home Loan Bank

**Issue:** Whether a Federal Home Loan Bank (Bank) may accept a bridge depository institution, organized by the FDIC to temporarily carry on the business of a failed member, as a member for the period during which it operates pending resolution by the FDIC

**Conclusion:** A Bank may treat a bridge depository institution as continuing the membership of the failed member.

### **Background:**

In a situation in which the Federal Deposit Insurance Corporation (FDIC) is unable to find an acquirer for a failing insured depository institution, the FDIC may organize a “bridge depository institution” to carry on the business of the failed institution while the FDIC finds an acquirer, or set of acquirers, on acceptable terms. These bridge entities are organized under section 11(n) of the Federal Deposit Insurance Act<sup>1</sup> and are commonly referred to as “bridge banks” because the original version of the statute applied only to banks, not savings associations.

Bridge banks can be an important tool in the FDIC’s resolution activities, since the failed institutions for which they would be used can be among the largest, most complex and difficult to resolve. For those reasons they may be the most costly, especially if they have to be resolved quickly without the use of a bridge bank. Because such an institution may be large, if it is a member of a Federal Home Loan Bank, it may have a large amount of advances outstanding from that Bank. It is important for the benefit of such a Home Loan Bank that the FDIC be able to resolve the Bank’s large failed member in an orderly manner, including disposing of the advances in a way that does not require the Home Loan Bank to liquidate its collateral. And more generally, facilitating orderly resolutions by the FDIC contributes to the stability of the financial markets that the Home Loan Banks and other financial institutions operate in, and should be a goal of all financial regulators.

This Regulatory Interpretation concludes that a Federal Home Loan Bank may accept a bridge bank as a member in order to facilitate the FDIC’s resolution of a failed member of the Bank.

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<sup>1</sup> 12 U.S.C. § 1821(n).

*Analysis:*

A bridge bank may exhibit unusual characteristics. It is not required to hold any particular level of capital.<sup>2</sup> It has such assets and liabilities as the FDIC chooses to transfer to it from the receivership estate of the failed institution.<sup>3</sup> Its board of directors is appointed by the FDIC,<sup>4</sup> and adopts such bylaws as the FDIC may approve.<sup>5</sup> It has limited life.<sup>6</sup>

The Federal Home Loan Bank Act does not address the status of bridge banks as members of Federal Home Loan Banks, and neither do any of the regulations adopted by the FHFA or its predecessor the Federal Housing Finance Board. However, it is appropriate to regard a bridge bank as a continuation of the failed institution. All of its assets and liabilities are those of the failed institution. It carries on the business of the failed institution. In fact, its purpose is to carry on that business, in order to preserve its value while an acquirer or acquirers can be found. For these reasons, though the bridge bank has a new charter, FHFA regards the bridge bank as a continuation of the failed institution. Therefore, the Home Loan Bank may treat it as continuing the membership of the failed institution.<sup>7</sup>

Maintaining the bridge bank as a member of the Home Loan Bank would be unsatisfactory as a long-term arrangement. A bridge bank is unlikely to be adequately capitalized and there may be other requirements of membership for the typical financial institution that a bridge bank would not meet. However, a bridge bank by statute has only a limited life. And, as a practical matter, the FDIC has a substantial financial interest in resolving it and disposing of it to an acquirer or acquirers as soon as feasible. Therefore, its failure to meet membership requirements need not be more troublesome than in the case of a more typical member institution that, while meeting membership requirements initially, has fallen out of

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<sup>2</sup> Federal Deposit Insurance Act, § 11(n)(4)(C), (5).

<sup>3</sup> *Id.*, § 11(n)(3).

<sup>4</sup> *Id.*, § 11(n)(2)(D).

<sup>5</sup> *Id.*, § 11(n)(2)(E).

<sup>6</sup> *Id.*, § 11(n)(9).

<sup>7</sup> By analogy, the normal rule with respect to consolidating members is that the resulting institution continues the membership of the surviving charter; but in a case in which more than 80 percent of the assets of the consolidated institution are derived from a disappearing institution that was a member of a different Federal Home Loan Bank, it is the membership of that disappearing institution that survives, and the memberships of the other institutions terminate, regardless of the identity of the surviving charter. Federal Housing Finance Agency regulation 12 C.F.R. § 1263.24(a).

compliance, as the institution's membership does not immediately terminate upon noncompliance with a Federal Home Loan Bank membership requirement. So with a bridge bank, continuing membership is permissible during the period in which the FDIC arranges for its disposition.

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This Regulatory Interpretation is issued pursuant to 12 C.F.R. § 907.5 and is subject to modification or rescission by the Director of the Federal Housing Finance Agency.