
SENATE COMMITTEE ON INSURANCE

Senator Stephen Padilla, Chair

2025 - 2026 Regular

Bill No: AB 1781 **Hearing Date:** June 10, 2026
Author: Michelle Rodriguez
Version: February 9, 2026 Introduced
Urgency: No **Fiscal:** No
Consultant: Brandon Seto

SUBJECT: Federal Home Loan Banks

DIGEST: Prohibits a Federal Home Loan Bank (FHLB) from being stayed, enjoined, or prohibited from exercising or enforcing any right or cause of action against collateral pledged by an insurer-member or an FHLB insurer-member under any FHLB security agreement.

ANALYSIS:

Existing law:

- 1) Provides for the regulation of insurers, agents and brokers, and other insurance-like organizations by the Insurance Commissioner, and imposes a broad range of financial solvency, licensing and market behavior requirements, as set forth in the Insurance Code.

This bill:

- 1) 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 FHLB security agreement with an insurer-member unless the transfer was made with actual intent to hinder, delay, or defraud either existing or future creditors.
- 2) Defines “Federal Home Loan Bank” as an institution that is established under the Federal Home Loan Bank Act as a government-sponsored enterprise to support mortgage lending and related community investment.
- 3) Defines “insurer-member” as an insurer that is a member of a Federal Home Loan Bank, which consists of approximately 6,500 financial institutions in the United States, including commercial banks, community banks, credit unions, insurance companies, and community development financial institutions.

Background

According to the author:

AB 1781 provides important clarity in California law regarding the treatment of collateral pledged by insurance companies to the Federal Home Loan Bank 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.

Federal Home Loan Banks. FHLBs provide their members with a source of funding for mortgages and asset-liability management, liquidity for short-term needs, and additional funds for housing finance and community development. FHLBs provide long- and short-term loans, also called advances, to their members. All borrowed funds must also be backed by collateral pledged to the FHLB. Collateral includes mortgages, mortgage-backed securities, loans and securities issued by the United States Government, securities issued by any U.S. agency, cash or deposits at the FHLB, and other collateral that is real estate related.

Double Referral

Should this bill pass out of this committee, it will be heard in Senate Judiciary Committee, which will analyze the issues under its purview.

ARGUMENTS IN SUPPORT:

The Federal Home Loan Bank of San Francisco states:

“Reliable access to low-cost liquidity is essential for insurance companies, particularly during periods of financial stress or elevated claims activity. Like banks and credit unions, insurance company members of the Federal Home Loan Bank System rely on secured advances backed by eligible collateral, including mortgages, mortgage-backed securities, and U.S. Treasuries. These advances support financial stability and help members continue serving policyholders across economic cycles.

Under current California law, however, Federal Home Loan Banks do not receive the same protections for pledged collateral in an insurance company receivership that exist for depository institutions under federal law. As a result, collateral pledged to FHLBank San Francisco could be subject to stay or voidable transfer provisions, creating uncertainty and uneven treatment among Federal Home Loan Bank members. This disparity can lead to more restrictive or costly liquidity terms for California-domiciled insurers.

AB 1781 addresses this issue by clarifying that Federal Home Loan Banks may access pledged collateral as secured lenders during an insurance company receivership, consistent with federal law and with the treatment already afforded to banks and credit unions. The bill would also establish a clear and orderly receivership process, providing greater certainty for regulators, insurers, and market participants.

Importantly, AB 1781 does not create a special creditor preference or alter existing secured lending standards. The Uniform Commercial Code, priority of claims, and policyholder protections remain unchanged. In fact, improved access to reliable liquidity can benefit policyholders by supporting insurers' financial stability and facilitating orderly receivership operations if a failure occurs."

ARGUMENTS IN OPPOSITION:

None received.

SUPPORT:

California Bankers Association
California's Credit Unions
Federal Home Loan Bank of San Francisco

OPPOSITION:

None.

-- END --