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VIA ELECTRONIC SUBMISSION ON WWW.FHFA.GOV

Andre D. Galeano, Deputy Director
Federal Housing Finance Agency
Division of Federal Home Loan Bank Regulation
400 7th Street, NW, 7th Floor
Washington, DC 20219

RE: Request for Input re FHLBank Membership 12 CFR part 1263 (February 2020)

Dear Deputy Director Galeano:

The American Council of Life Insurers (ACLI) appreciates the opportunity to comment upon the captioned request for input. The ACLI is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety (90) million American families rely on the life insurance industry for financial protection and retirement security. ACLI member companies are dedicated to protecting consumers' financial well-being through life insurance, annuities, retirement plans, long-term care insurance, disability income insurance, reinsurance, and dental, vision and other supplemental benefits. ACLI's 280 member companies represent 94 percent of industry assets in the United States.

The Federal Housing Finance Agency (FHFA) requested input related to Federal Home Loan Bank (FHLBank) membership. The purpose of the request is to obtain information upon which new or different membership eligibility requirements might be devised on a consistent basis. As the FHFA mission statement acknowledges, the over-arching regulatory goals are to supervise effectively the housing mission of the FHLBanks by promoting their safety and soundness, and to enable the FHLBanks to support a stable and liquid mortgage market.

The qualification of insurance companies to become members of the FHLBanks was expressly made by Congress in 1932 with the enactment of the Federal Home Loan Bank Act. Life insurance companies have been members of the FHLBanks from their beginning. The number of insurance companies which are members of the FHLBanks has grown steadily in recent years. The contribution of life insurance companies to housing finance, affordable housing, and a stable mortgage market is indisputable. For example, 140 of the 210 life insurance company members of the FHLBanks are also ACLI members. In 2018, ACLI member life insurance companies also members of the FHLBanks were invested in $80 billion of residential mortgages and $279 billion in residential mortgage backed securities.[1]

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[1] $18 billion of this number is attributable to commercial multi-family housing MBS.

The utilization of FHLBank advances by life insurance companies has grown steadily for more than a decade.[2] The insurance companies' commitment of capital to the FHLBanks and the quality of the collateral posted for advances has grown and improved. There has never been a default on an advance by a life insurance company member of the FHLBanks in the entire history of the System. No life insurance company member of the FHLBanks has ever become insolvent.

The FHFA request for input was published before the declaration of the 2020 national emergency. Dislocations in the housing markets have been severe. Yet the enactment of the Federal Home Loan Bank Act in 1932 during the depths of the Great Depression of the 20th century was not coincidental. Rather, an important goal of the law was to bolster general liquidity of the U.S. financial system. Supporting member liquidity is a fundamental element of the FHLBanks' core mission and an important aspect of the FHFA strategic plan.[3]

Now comes the crisis of the 21st century. The public policy impetus of the Federal Home Loan Bank Act is immediately relevant, born again in the current national emergency. Just as the FHLBanks' ability to fulfill the statutory mandate to provide liquidity to their members was clearly demonstrated in the 2008-2009 financial crisis, so too are they likely to be called upon again in the current coronavirus crisis.

The COVID-19 pandemic is unprecedented for most people today, but not historically. Tragically, in the United States, between 500,000 to 675,000 people died in the early 20th century from the Spanish Influenza, with about 28% of the population being infected. Today, hopefully, responses like social distancing blunt COVID-19's human impact but it has already caused tremendous economic pain.

Those looking to the past for clues about the future might ask: how did life insurers fare during and after the Spanish Influenza? In a 1919 speech, the president of the Columbian National Life Insurance Company described how insurers performed during the deadliest pandemic in modern times:

> Throughout this world upheaval, insurance in all its varied branches has steadfastly performed its mission. It has not once faltered. It has grown until today [and] is a great tower of strength and importance to the business world and to the public in general.

He continued:

> 1918 has been referred to by insurance historians as 'the incomparable year.' It is the combination of events such as in all human probability can never happen again. Throughout it all, and under most adverse conditions, our insurance institutions have endured and developed.

Financial planning for high impact, low frequency disasters, such as the Spanish Influenza and the COVID-19 pandemic, is how life insurers rise to these challenges. In fact, 139 US life insurers currently in business can trace their origins to before the Spanish Influenza. These companies not only weathered the epidemic, they also successfully navigated the Great Depression, World Wars I & II, 9/11, and the Great Recession. Impressively, these 139 companies represent *most of the life insurance*

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[2] First quarter 2020 FHLBank System data indicates that all insurance companies make up 16 percent, or $129 billion, of all FHLBank advances.
[3] *FHFA Strategic Plan: Fiscal Years 2015-2019*.

industry today — 68.4% of total industry assets; 67.5% of all life insurance in-force; and 61.3% of all annuity reserves.

In a time of upheaval and uncertainty, it is comforting to know that the American life insurance industry has steadfastly navigated so many extraordinary events. Indeed, life insurers have been a source of strength and support to American families and individuals for more than 175 years. With FHLBank membership, they also support a stable and liquid mortgage market and will continue to provide that support through the current pandemic and beyond.

Considering the remarkable circumstances of today, the ACLI respectfully recommends that the principle most useful to the FHFA in evaluating the input it receives is to Do No Harm. The FHLBank System is working effectively and the key to its continued success is stability.

With such considerations existing FHFA guidance for all classes of membership in the FHLBanks should be sustained. This includes respect for the planned expiration of entity memberships grandfathered until 2021. The decisions made by the FHFA regarding FHLBank membership were sound. The FHFA should stay the course in this turbulent time. Thank you for your consideration.

Sincerely,

THE AMERICAN COUNCIL OF LIFE INSURERS

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