From: Andrew Pizor <apizor@nclc.org>
Sent: Wednesday, June 24, 2020 2:55 PM
To: Gray, Jim <Jim.Gray@fhfa.gov>
Subject: [EXT] Response to FHFA request for information on FHLBanks and captive reinsurance membership

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Hi Jim,

I hope you're doing well. I just realized that yesterday was the deadline for the FHFA's "Federal Home Loan Bank Membership Request for Input." I had been looking for it to come out in the Federal Register so I could submit comments through that system, but I didn't realized FHFA didn't plan to publish it in the FR. It looks like FHFA's comment site is no longer accepting comments on this topic, so I was hoping you could forward this message to the appropriate department on behalf of NCLC and our low-income clients. I apologize that they're not as polished as our usual comments, but I thought it better to send this quickly rather than delay to format them, etc.

We encourage FHFA to leave the FHLBank membership rules unchanged. Allowing REITs and captive reinsurance companies to join the FHLBank system would reduce consumer protections and hurt local banks. The FHLB was created to serve the public interest by enhancing the availability of residential housing finance and community lending credit through their member institutions. A key aspect of how Federal Home Loan Banks accomplish this is by making low-interest loans to their members. Member banks are local, community banks around the nation.

In reviewing the FHLB membership rules after the last financial crisis, FHFA discovered that some institutions that were not eligible for membership, such as real estate investment trusts (REITs) were evading the membership rules to get low-interest loans from the FHLB. Then they used the loans to fund their own operations and investments instead of funding home mortgages. They were doing this by creating captive insurance companies (sometimes called "shadow insurance") as subsidiaries and then having the insurance company join the FHLB. This is problematic because it is deceptive; it undermines the purpose of the FHLB; it puts FHLB money at higher risk than the system is structured to handle; and it encourages the use of captive insurance for anti-consumer purposes. After carefully reviewing this problem, FHFA adopted a rule change to prevent captive insurers from being FHLB members.

Undoing that rule would allow Wall Street investors and others to continue abusing the FHLB system via shadow insurers. A legitimate captive insurer is typically created by large companies for self-insurance. But other companies create captive insurers to evade state insurance regulations (such as for minimum reserves); as an accounting trick (to move liabilities off the company's books); and—in this case—to improperly get access to low-cost credit. These abuses put consumers at risk from under-funded insurance companies and divert home mortgage credit away from community banks. The FHLBank system has been admirable in its stability. Allowing REITs and captive reinsurers to become members would endanger that stability and undermine the purpose of the FHLBank system.

Sincerely

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