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Vice President & Senior Associate General Counsel

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The Federal Housing Finance Agency
c/o Adam.Russell@FHFA.gov
400 7th Street SW
Washington DC 20024

RE: Federal Home Loan Bank System Comprehensive Review

To the Federal Housing Finance Agency:

The American Council of Life Insurers (ACLI)¹ commends you for undertaking a review of the Federal Home Loan Bank System (the “System”), beginning with the public listening session on September 29. We are extremely supportive of the Home Loan Banks’ mission to provide their members with a reliable source of funding for housing finance, community lending and asset-liability management, as well as liquidity for members’ short-term needs. Life insurance companies were qualified as original members of the System when it was chartered by Congress in 1932, and we have seen first-hand how the System provides benefits to its members and the U.S. economy. Over the last 90 years, the System has excelled at providing much needed affordable housing and community development within each Home Loan Bank region and has generally ensured financial stability as a direct provider of liquidity throughout multiple economic cycles.

The Home Loan Banks’ mission aligns well with the life insurance industry’s own goals of long-term financial stability and wellness through life, annuity, and retirement products. Life insurers’ contracted commitments to their customers drive their long-term investments in housing, community development and infrastructure through direct lending, ownership opportunities and secondary market activities. As active System participants, we believe that any changes to the Home Loan Banks’ mission, framework, or operations should retain a strong commitment to affordable housing development, as well as maintain life insurers’ access to Bank membership.

Life Insurers and the Market

Life insurers are important participants in the U.S. economy, working actively to protect Americans’ financial wellness every day. Keeping financial promises to policyholders helps policyholders stay in

¹The ACLI is the leading trade association driving public policy and advocacy on behalf of the life insurance industry. Ninety million American families rely on the life insurance industry for financial protection and retirement security. ACLI member companies are dedicated to protecting consumers’ financial wellbeing 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% of industry assets in the United States.

their homes. The death of a loved one or a disability often introduces financial hardships. Life and disability insurance products help provide financial stability during these times of crisis. The life insurance industry pays out \$2.4 billion on average to policyholders each day, compared to Social Security's \$3 billion. The business model which makes life insurance companies stalwart institutions is founded on the certainty that they will maintain their financial solvency and capacity to deliver on their promises now and in the long run. Strict state laws govern insurance company solvency and capitalization, and life insurance companies make sure they always have sufficient funds to pay claims without assistance from state or federal governments. Key to this process is the investment of premiums received on policies, annuity contracts and other products, and the reserving of assets to meet obligations when they arise.

Life insurers do more than just pay substantial claims; they also invest in the U.S. economy. Life insurers are among the largest sources of investment capital, and life insurance company investments drive economic and job growth throughout the country. Financial strength is so critical that insurers shape their long-term capital investments and capital strategies in reliance on and respect for functional regulatory precedent and stability. Life insurance company investments are often long-term investments to help meet policyholder liabilities, which often extend decades into the future. This unique nature of our business makes the life insurance industry a natural supporter of mortgages and housing-related assets, and the perfect partner and member of the System.

Life insurance companies also provide substantial liquidity to the housing market, which is supported by our industry's membership in the System. While much has changed since 1932, life insurers have kept pace with those changes and, in addition to directly underwriting some residential mortgages, also provide liquidity and additional underwriting capabilities, including the origination of commercial mortgage loans for multifamily housing, community facilities and infrastructure developments.

Life insurers are also core purchasers of residential and commercial mortgage-backed securities ("MBS"), which allows lenders to provide affordable financing options to individual and commercial borrowers. Life insurance companies held more than \$510 billion in housing-related investments as of year-end 2021, including \$47 billion in single-family mortgages, \$179 billion in multifamily mortgages, and \$284 billion in MBS. Importantly, life insurers are major purchasers of *long-dated* mortgage-backed securities. Of the \$284 billion in MBS held by insurance companies, nearly 60 percent (60%) have a maturity (at the time of purchase) that is greater than 30 years, and 29 percent (29%) are purchased with a maturity between 20 and 30 years. The demand for long-dated MBS creates downward pressure on overall residential mortgage rates, providing lower-cost lending products for homebuyers than would have otherwise been available. Another benefit for homebuyers is the option of a 30-year fixed-rate mortgage with no prepayment penalties. In fact, the United States is one of the few countries in the world to offer 30-year, fixed-rate mortgages with no prepayment penalty. The benefits of this long-dated mortgage product can easily be seen around the world as foreign homeowners are dealing with resetting residential mortgage rates during the current rising interest environment.

In addition, many ACLI members make their own commitments to affordable housing, and the ACLI itself is committed to enhancing life insurer impact investing.² Just this year, ACLI launched its 360 Community Capital non-profit, aimed at connecting life insurers with affordable housing and community development investment opportunities.

Home Loan Bank Mission and Affordable Housing

In addition to our own affordable housing commitments, the ACLI and its members are strongly supportive of System's activities to support housing finance, community lending and economic development. The System should maintain a strong mix of support for both workforce housing (affordable to 80-120 percent (80-120%) of area median income) and affordable housing (affordable to below 80 percent (80%) of area median income), as demands for both are at all-time highs. While we do not have any specific recommendations on activities, including enhanced contributions to the Affordable Housing Program, we are committed to working with the FHFA and the System to find the right balance of profit reinvestment opportunities to meet local housing needs and improve investment in rural and financially vulnerable communities.

Home Loan Bank Operational Efficiency

A question raised is whether some or all the Home Loan Banks should be consolidated into a more centralized System rather than sustaining the eleven separately managed Banks.³

Regional banks ensure that funding and community investments remain in or return to the represented regions and states. Regional banks are more responsive to the unique needs of their members. It should be noted that the System is already a hybrid model with centralization of certain functions, such as financing (e.g., Office of Finance).

The existing hybrid model works well. While centralization of certain back-office functions might generate some efficiencies, the essence of the regional bank organizational model should be maintained.

...(continued)...

² More information on ACLI's impact investing activities, including the industry's affordable housing commitments may be found at <https://www.acli.com/impactinvesting>.

³ The *Federal Home Loan Bank Act of 1932* requires that there should not be less than eight Home Loan Banks in the System.

Life Insurers and Home Loan Bank Membership

Life insurers hold a mix of investments to support their ability to meet customer claims (i.e., asset liability management),⁴ some of which are highly liquid to fulfill immediate claims and others that are not readily liquid but help support expected liabilities over long-time horizons. All asset liability management must maintain a focus of meeting strict state regulatory capital and reserving requirements. Managing liquidity in all economic environments is critical for the financial health of the life insurance industry. The System allows life insurers to access additional, short-term liquidity to meet claims while providing flexibility during all economic cycles. The liquidity provided by the System to its insurance company members is extremely important.

When life insurers utilize Home Loan Bank financing, they are required to pledge government, mortgage and housing related collateral in excess of any financing. Insurers build their balance sheet for liquidity, which includes ensuring that abundant mortgage and housing related investments are held and available for pledging to the Home Loan Banks until the advances are repaid.

Life insurers utilizing Home Loan Bank advances have provided a stable base of revenue to support the System's infrastructure and generate Home Loan Bank profits, of which at least ten percent (10%) must be contributed to the System's affordable housing programs. The value of this reliable Home Loan Bank business is evident from the recent years of the COVID pandemic, when advances to community and savings bank members of the System declined significantly while advances to insurance company members remained strong.

Membership Eligibility

Life insurance companies should continue to be eligible for membership in the Home Loan Banks in any revisions to the System considered by the FHFA. Insurance company members of the Home Loan Banks provide stability to the System and decrease systemic risk. They also provide a significant capital buffer for the System by holding \$5.7 billion in Home Loan Bank capital stock. Further, insurance companies are subject to robust statutory capital, reserving and other regulatory supervision requirements, and they adhere to corporate governance and risk management best practices which, in turn, assures their continued operation and position as a stabilizing force within the System.

In addition, the FHFA should continue to ensure the Home Loan Banks can maintain their ability to provide liquidity to the U.S. economy through advances to its members. As discussed above, the Home Loan Banks' ability to provide advances to its members is an immediate and important

⁴ The asset liability management (ALM) process is an integrated review of assets and liabilities to inform decisions designed to achieve a sound and sustainable fund. The goal of the ALM process is to balance the expected cost of future policy and pension payments with the expected future investment returns.

financial stability resource outside of the Federal Reserve's emergency lending authority, providing additional stability to financial markets.

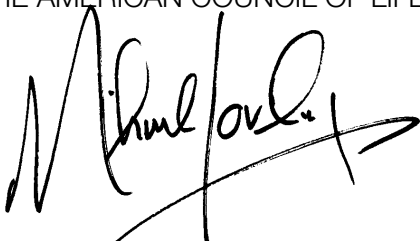
To the extent that FHFA considers any changes to Home Loan Bank membership eligibility, the FHFA should consider if an industry is subject to regulatory scrutiny and robust capital holding requirements similar to those for existing members such as insurance companies and depository institutions. Such requirements limit potential exposures of the Home Loan Banks to systemic risk, so the System may continue its mission and also serve as a source of liquidity to its members during all economic cycles.

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Thank you for your consideration.

Sincerely,

THE AMERICAN COUNCIL OF LIFE INSURERS

A handwritten signature in black ink, appearing to read "Michael Lovendusky", with a large, sweeping flourish extending from the end of the signature.

MICHAEL LOVENDUSKY
Vice President & Senior Associate General Counsel