American Property Casualty Insurance Association

INSURING AMERICA apci.org

March 30, 2023

Ms. Sandra Thompson
Director
Federal Housing Finance Agency
400 Seventh Street, SW, 8th Floor
Washington, DC 20024

Re: FHFA Review of FHLB System

Dear Director Thompson:

The American Property Casualty Insurance Association (APCIA) commends the Federal Housing Finance Agency (FHFA) for its continued review and evaluation of the mission, membership eligibility requirements, and operational efficiencies of the Federal Home Loan Banks (FHLBs), including conducting listening tours and roundtable sessions with stakeholders. APCIA is pleased to supplement the comments we submitted last October to provide the FHFA with the following overall thoughts and observations with respect to property casualty insurer membership in the FHLBs.

Insurance companies have been members of the FHLBs since the system was founded in 1932. As of year-end 2021, over 500 U.S. insurers were FHLB members, and property casualty insurers made up approximately 47% of those insurers.[1] Congress made the decision to permit insurer participation, and Congress has declined numerous opportunities over the years to restrict insurer membership in the FHLBs. On several occasions the FHFA has also explored questions of property casualty insurer eligibility, and we appreciate that the FHFA has always wisely chosen not to recommend major changes to Congress.

Insurers play an important role in furthering the FHLBs' mission to support housing finance and community investment. Insurers routinely purchase mortgage loans and mortgage-backed securities, which benefits the housing market by giving mortgage originators more capacity to underwrite new loans. At year-end 2021, the insurance industry as a whole had exposure to residential mortgage loans totaling $45.1 billion, along with $188 billion of exposure to multifamily/apartment mortgages.[2] Also at year-end 2021, approximately 5% of the U.S. insurance industry's total mortgage loans, or $32.8 billion, were pledged as collateral to the FHLBs.[3] In total,

[1] *Small Increase in U.S. Insurers' Exposure to the Federal Home Loan Bank System from 2020 to 2021*, National Association of Insurance Commissioners (NAIC) Capital Markets Special Report, page 1, (June 14, 2022); available here: https://content.naic.org/sites/default/files/capital-markets-special-reports-FHLB-YE2021.pdf

[2] *Small Increase to U.S. Insurers' Mortgage Loan Exposure at Year-End 2021*, NAIC Capital Markets Special Report, page 2, (Aug. 5, 2022); available here: https://content.naic.org/sites/default/files/capital-markets-special-reports-mortgage-loan-exposure-YE2021.pdf

[3] Id. at 6.

U.S. insurers reported $180.1 billion in assets pledged as collateral to the FHLB system at year-end 2021.[4]

Current rules appropriately require that insurers have an adequate nexus to the FHLBs' housing finance mission. FHLBs provide insurers with a low cost and secured source of financing that often primarily serves as a source of liquidity for insurers. This is especially important in years like 2021 and 2022 when property casualty insurers are paying claims arising from multiple natural disasters coupled with rising inflation and construction costs. 2022 was the eighth year in a row the U.S. suffered at least 10 catastrophes causing over a billion dollars in losses.[5] Further, the cost of the materials and labor needed to reconstruct homes and businesses remains elevated. From January 2020 through December 2022, the price of single-family residential home construction materials rose by 33.9%, which has contributed to increases in insurers' loss and underwriting costs.[6]

In the face of these economic headwinds, FHLBs provide critical liquidity, which has the added benefit of often being viewed upon favorably by rating agencies, to member insurers. The availability of FHLB liquidity helps insurers avoid having to sell assets when markets are down in order to pay claims. This helps to keep homeowners insurance premiums lower and thus makes homeownership more affordable. Accordingly, restricting insurer membership in the FHLBs could have the unintended and regressive consequences of making insurance and homeownership less affordable.

Finally, we are aware that the FHFA is considering membership eligibility to include certain non-bank entities such as mortgage banks, REITS, and FinTech companies. The FHFA should tread carefully when considering whether to admit unregulated entities to FHLB membership. Banks and insurers are both heavily regulated for solvency, so careful consideration must be given before potentially extending membership to new, unregulated entities.

Thank you for your consideration of our comments. APCIA looks forward to continuing to work with the FHFA, the FHLBs, and our joint member insurers in support of the FHLB system's important mission.

Sincerely,

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[4] *Small Increase in U.S. Insurers' Exposure to the Federal Home Loan Bank System from 2020 to 2021*, NAIC Capital Markets Special Report, page 7, (June 14, 2022); available here: https://content.naic.org/sites/default/files/capital-markets-special-reports-FHLB-YE2021.pdf

[5] *Hard Market Cycle Arrives: Inflation, Natural Disasters, and More Straining Property Insurance Markets*, APCIA, page 2; available here: https://www.apci.org/attachment/static/7825

[6] Id.