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Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Advance Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Banks

Dear Mr. Pollard:

The Federal Housing Finance Agency (FHFA) has requested comments on an advance notice of proposed rulemaking (ANPR) in which the agency has expressed its desire to review current Federal Home Loan Bank (FHLBank) membership requirements. On behalf of American Fidelity Assurance Company, I am submitting this comment on the ANPR.

From the perspective of insurance companies, the questions posed in the ANPR are troubling. They suggest that the FHFA is considering requiring FHLBank members to “maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership” on a continuing basis, rather than only when they join. The questions also suggest that FHFA is considering reversing Congressional intent as set for in 12 U.S.C. § 1424(a)(2)(A) of the Bank Act by subjecting insurance companies to the requirement that they hold at least 10 percent of their total assets in residential mortgage loans, a requirement that applies only to insured depository institutions.

Alternatively, if the 10 percent residential mortgage loan requirement is not applied to insurance companies, the questions suggest that the FHFA is considering establishing for insurance companies a required level of mortgage-related assets that may be deemed to constitute a sufficient commitment to housing finance for FHLBank membership. Additionally, the questions suggest that objective and quantifiable standards could be established for the requirements that each member “makes long-term home mortgage loans” and has a “home financing policy.” Noncompliant members could be barred from further access or have their membership terminated.

The suggested changes to FHLBank membership requirements could significantly restrict insurance company membership in and use of the FHLBank System and contravene decades of established policy and Congressional intent. The intent of Congress with respect to insurance company membership in the FHLBank System has been clear and unequivocal – insurance companies have been statutorily allowed membership in the FHLBanks since the FHLBank Act was enacted in 1932. At no time since then, in spite of numerous other opportunities to review and amend the Bank Act, has Congress decided to restrict insurance company membership.

Currently, more than 200 insurance companies are members of the FHLBanks. Insurance companies are a significant and valuable part of the FHLBank System, representing 10 percent of outstanding combined advances and 8 percent of FHLBank capital stock as of September 30, 2010. Insurance companies rely on FHLBank products for contingent liquidity planning, managing high impact liquidity events, and reducing risk through enhanced asset liability management.

Insurance companies historically have played and continue to play a significant role in our housing market and in driving economic development in communities across the United States. They hold substantial amounts of single and multifamily mortgages and agency debt supporting the mortgage market on their balance sheets. Insurance companies also invest in Low-Income Housing Tax Credits, which are an important resource for creating affordable housing in the United States. In addition, insurance companies are active participants in the FHLBanks' Affordable Housing Program (AHP), one of the largest private sources of affordable housing grant funding in the United States, as well as the FHLBanks' Community Investment Program (CIP), which offers below market rate advances to members for financing housing and economic development benefitting low-and moderate-income families.

The ANPR does not present any compelling reason for imposing new membership rules on any existing or potential member (particularly insurance companies), and does not present any information showing that there is a problem with the current membership rules, which have served the FHLBanks well for many years. In addition, the ANPR fails to cite any compelling benefit to requiring continuous compliance and imposing restrictions on insurance company membership. In fact, as noted above, the ANPR only opens the door to damaging the important role insurance companies have played in supporting housing finance and community and economic development since the Bank Act was enacted in 1932.

Imposing drastic limits on insurance company membership at the FHLBanks could have significant adverse liquidity impacts not only on the insurance companies, but on the other non-insurance company members of the FHLBank system as well. The FHFA should not proceed down this path toward fundamentally altering the FHLBank System without express Congressional guidance, especially at this time when Congress and the Administration are undertaking a top to bottom review of the housing finance system in the United States, including a review of the important role served by the FHLBanks as a provider of liquidity. Also, as the economy is slowly recovering from its worst downturn in recent memory, now is exactly the wrong time to potentially remove sources of liquidity from the marketplace and potentially hinder versus help economic growth and job creation.

Accordingly, we urge that the FHFA withdraw the membership ANPR. I appreciate the opportunity to comment.

Very truly yours,

David Abeln

Vice President – Director Fixed Income Investments