AEGON

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 Transamerica Life Insurance Company and Monumental Life Insurance Company (members of the AEGON group), we are submitting this comment on the ANPR.

We appreciate the opportunity to submit commentary on the captioned advanced notice of proposed rulemaking (ANPR). However, we respectfully suggest that the ANPR is untimely given congressional intention to evaluate the housing finance system, and that no compelling reason exists to alter insurance company membership requirements. Indeed, consideration of all the factors of our current economic situation suggests that some of the implications of the notice might be contrary to a sound public policy.

The ANPR suggests 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. Because of the different nature of their businesses, including the longer-term nature of insurance company liabilities, management of insurance company balance sheets is very different than that of insured depository institutions. As a result, it would be unrealistic for insurance companies to comply with a ten percent residential mortgage asset requirement.

Such action by the FHFA risks destroying the positive contributions of insurance companies' housing finance activity and the Banks at precisely the time housing finance activity is in historic need of support from as many sources as possible. 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 2009, the most recent year for which data is available, 946 life insurance companies invested $538 billion in residential mortgage loans, residential MBS (RMBS) and commercial MBS (CMBS) (the latter which includes multi-family housing).[1] Life insurance companies additionally invest tens of billions of dollars in commercial mortgage loans that are specific to multi-family housing, and which helps both to enhance the infrastructure afforded to the residential community and provide jobs to residents of the community.

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 ten (10) percent of outstanding combined advances and eight (8) percent of FHLBank capital stock as of September 30, 2010. The historical reasons for the different qualifications for different kinds of financial institution members of the Banks remain sound to this day. Arbitrarily limiting insurance company membership in the Banks could have an adverse liquidity impact not only on the insurance companies, but on other non-insurance company members of the Bank System as well.

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.

Imposition of static requirements will reduce insurance company utilization of Bank financing and, correspondingly, result in insurers reducing rather than increasing (or maintaining) their level of investment in the residential mortgage markets. Further, insurance companies need to be able to manage their assets on a flexible basis, especially during times or circumstances of duress.

To summarize, we believe the ANPR is untimely and unwarranted, both in general and specifically with regard to insurance company membership in the Bank system. As explained

[1] Data in this paragraph tabulated by ACLI from National Association of Insurance Commissioner (NAIC) data, and used with permission. NAIC does not endorse any analysis or conclusions based upon the use of its data. MBS are multi-class; single-class MBS are not included.

above, the ANPR, if implemented, would undermine the very purpose for which the FHFA is considering such rulemaking by ultimately limiting insurance company contributions to the housing markets and the Banks themselves. 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 systems in the United States, including a review of the important role served by the FHLBanks as providers of liquidity. The contributions of the insurance industry are simply too important to the fragile housing market to risk, particularly at this juncture of our economic recovery.

Accordingly, we respectfully request that the FHFA withdraw the membership ANPR. We appreciate the opportunity to comment.

Sincerely,

Craig Fowler
SVP, AEGON