



March 25, 2011

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
Fourth Floor  
1700 G Street, N.W.  
Washington, DC 20552

RE: Comments/RIN 2590-AA39

Dear Mr. Pollard:

The Vermont Captive Insurance Association (VCIA) thanks the Federal Housing Finance Agency for the opportunity to comment on its Advance Notice of Proposed Rulemaking (ANPR) regarding the membership criteria of Federal Home Loan Banks (FHLB). VCIA is the largest association for captive insurance companies in the world.

The ANPR, among other things, raises questions about whether captive insurance companies should be eligible for membership in FHLB and whether they are actively supervised by state regulators. Our comments are accordingly limited to the ANPR's discussion of captive insurance companies and related Question Thirteen.

Degree of Supervision and Examination

Insurance companies are explicitly eligible to become FHLB members under 12 U.S.C. § 1424 (a) (1). The ANPR's contemplated restriction of captive insurance companies from FHLB membership due to "inadequate supervision" is particularly concerning for several reasons. In Vermont, captive insurance companies are substantially regulated insurance companies and are, accordingly, capable of becoming FHLB members. Vermont has advanced, stringent captive laws, along with a dedicated captive regulatory and examination staff, which should satisfy FHFA's supervisory concerns. The Vermont Department of Banking, Insurance, Securities and Healthcare Administration itself, is accredited by the National Association of Insurance Commissioners (NAIC), which means that it meets national financial and regulatory standards established by the NAIC. Vermont's regulation of captives includes:

- Capital and surplus requirements;
- Licensing requirements;
- Annual financial reporting requirements;
- Inspections and examinations by insurance department staff at least every three to five years; and

- Investment restrictions.

Restricting membership based on cursory supervisory concerns conflicts with the FHLB statute. In particular, 12 USC § 1428 requires the FHFA Director to periodically conduct examinations of state laws governing institutions permitted to become members of FHLBs. Only if the Director's examination shall indicate . . . that under the laws of any such State or the regulations or procedures thereunder there would be inadequate protection [may the Director] withhold or limit the operations of any Federal Home Loan Bank in such State *until* satisfactory conditions of law, regulation, or procedure shall be established. (Emphasis added.)

The FHFA is explicitly given the burden of determining if a State's regulatory system governing FHLB member institutions is adequate: "the Director shall establish such examination, all or part of the cost of which may be considered as part of the cost of making advances in such state." The law only permits withholding or limiting the FHLB's operations if, following an examination, the FHFA board determines there are "inadequate protections." Moreover, that determination is only temporary; the withheld or limited operations may only last "until satisfactory conditions of law, regulation, or procedure shall be established."

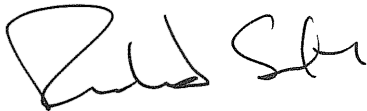
#### Bona Fide Involvement in Supporting Housing Finance

VCIA supports initiatives that ensure FHLB members engage in activities that enhance housing finance. However, VCIA believes the existing requirements that insurance companies, at the time of application for FHLB membership, "have mortgage-related assets that reflect a commitment to housing finance" and "originate or purchase long-term home mortgage loans" are sufficient in their current form. Imposing a continuing requirement beyond this would limit a captive insurance company's ability to adjust its asset base as necessary in the ordinary course of business.

The suggestions to prevent captive insurance companies that otherwise qualify from membership in the FHLB because of parties covered or inadequate supervision are without merit and are inconsistent with the statutory authority for the FHLB.

VCIA respectfully suggests that the current regulatory requirements for captive insurance companies remain unchanged. Thank you for this opportunity to comment.

Sincerely,



Richard Smith  
President