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Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Fourth Floor 5
Attention: Comments/RIN 2590-AA39
1700 G Street, NW
Washington, DC 20552

Re: Advance Notice of Proposed Rulemaking and Request for Comments - Members of the Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

Liberty Mutual Group (Liberty Mutual) welcomes the opportunity to file comments in response to the Federal Housing Finance Agency's (FHFA) request for comments on its Advance Notice of Proposed Rulemaking (ANPR) reviewing current Federal Home Loan Bank (FHLB) membership requirements. Liberty Mutual is a member of the Federal Home Loan Bank system. Boston-based Liberty Mutual is a diversified global insurer and fifth largest property and casualty insurer in the U.S. based on 2009 direct written premium. Liberty Mutual ranks 71st on the Fortune 500 list of largest corporations in the United States based on 2009 revenue. As of December 31, 2010, Liberty Mutual had $112.350 billion in consolidated assets, $95.372 billion in consolidated liabilities, and $33.193 billion in annual consolidated revenue. Liberty Mutual holds a substantial amount of residential mortgage loans and holds some low-income tax credit securities.

The ANPR suggests the FHFA may be considering the imposition of new restrictions to limit or eliminate insurer membership in the FHLB system. Although Liberty Mutual is a relatively new member, insurers have been eligible for membership in the system since its inception in 1932. Over 200 insurance companies are an integral part of the FHLB system. They represent 10 percent of outstanding combined advances and 8 percent of FHLB capital stock as of September 30, 2010. Decreased insurer involvement means significantly reduced liquidity in the FHLB system and increased borrowing costs for other institutions. Insurer members provide capital for any advances from the FHLB and by doing so provide increased security to the FHLB system.

Through our membership in the Federal Home Loan Bank of Boston, Liberty Mutual (as well as other insurers) is able to participate in the Affordable Housing and Community Investment Programs. Insurers also invest in Low-Income-Housing Credits, an important resource for creating affordable housing. Removing insurers from FHLB membership would have a negative impact on the ability of the FHLB system to provide affordable housing funds to the communities they serve. Beyond these activities, property casualty insurer members play a critical role in the U.S. housing market by writing the property insurance indispensable for residential mortgage lending. FHLB membership is not only appropriate, but also important to achieving system objectives.

The ANPR does not set forth a compelling reason to reverse long-standing policy permitting insurer membership. Indeed, the ANPR says the intent is not to solve a problem with the rules (and none were noted in the FHFA report to Congress), but to ensure sufficient membership ties to the FHLB housing finance mission. Yet, limitations on, or elimination, of insurer membership is being considered just when our nation's housing markets seek to recover from the recent financial crisis. One might suggest this is a particularly inappropriate time to restrict insurers' contributions to the system.

The ANPR asks whether insurers should be subject to a requirement that 10% of their total assets be in residential mortgage loans – a requirement never before applied to insurers, but only to some depository institutions. If the 10 percent residential mortgage loan requirement is not applied, the questions suggest consideration of an alternative required level of mortgage related assets or level of investment in residential mortgages should be applied to insurers. The ANPR also proposes to establish objective and quantifiable standards for the requirements that each member (i) "makes long-term home mortgage loans" which could also be applied on an ongoing basis, rather than at the time of application, and (ii) has a "home financing policy." Noncompliant members could be barred from further access or have their membership terminated.

No one questions the important role insurers' play in the US housing market. Yet, the ANPR suggests consideration of inflexible, required levels of mortgage-related assets and investments that are of great concern. Insurer balance sheets are very different from those of insured depository institutions reflecting different risk and different business models. State insurance regulatory requirements are pervasive and recognize those differences. A failure by FHFA to recognize these differences, for example, by adopting a rigid 10% residential mortgage loan requirement, would create a significant potential that many insurers would be unable to meet the requirements and would be effectively driven from the FHLB system. The existing regulations strike the correct balance by requiring a general "commitment to housing finance" while also recognizing that the primary role of regulating insurer investments properly rests with state insurance regulators. The ANPR offers no compelling reason to upset this balance, and we strongly urge the FHFA to refrain from changing current policy, which has worked well for nearly 80 years.

Over the years, Congress has had many opportunities to review the Federal Home Loan Bank Act and take action to restrict insurer membership. It has not done so. The current Congress will have yet another opportunity as it undertakes a comprehensive review of housing finance and examines the role of the FHLB system. We call upon the FHFA to exercise restraint and allow more appropriate consideration by the Congress if it chooses to do so.

Sincerely,

Paul Mattera