



**State of Vermont  
Department of Banking, Insurance,  
Securities and Health Care Administration**

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March 25, 2011

Via E-mail: [RegComments@fhfa.gov](mailto:RegComments@fhfa.gov)

Mr. Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
4<sup>th</sup> Floor, 1700 G Street, NW  
Washington, DC 20552

Re: RIN 2590-AA39, Proposed Rules re: Federal Home Loan Bank Membership

Dear Mr. Pollard:

On behalf of the Captive Insurance Division of the Vermont Department of Banking, Insurance, Securities' and Health Care Administration, thank you for the opportunity to comment on the proposed rules regarding Federal Home Loan Bank Membership.

**Background:**

Vermont is home to over 575 captive insurance companies, making it the third largest captive domicile in the world, and the largest U.S. domicile by a considerable margin. Among the many reasons for our success as a captive domicile is our reasonable yet thorough approach to regulating captives. At present, at least 5 Vermont captives are members of a Federal Home Loan Bank, and others are in the application process. All but one of the current members has mortgage lending as their parent organization's core business.

Many of the questions posed deal with the standards for admission and continued membership in a Federal Home Loan Bank. I do not consider myself qualified to comment on the specific criteria for membership standards, therefore I do not express any opinion on what those standards should be. However, as a regulator of a specific type of financial institution, I feel strongly that whatever admission standards are established for membership should be maintained at all times. A standard that is applied only at the time of admission is akin to licensing a surgeon without requiring continuing education and re-certification, or licensing an insurance company without monitoring its continuing solvency. I encourage the FHFA to develop sensible standards that will apply to all members for the duration of their membership.

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### **Question 13**

Question 13 indirectly asks whether captive insurance companies should be precluded from membership, which would be the result if companies that do not write insurance for third parties are barred. In large part, the basis for considering this exclusion appears to be the assertion that these companies are inadequately supervised. In most domiciles where captives are sited, the regulation is actually very similar to the supervision of traditional insurance companies, but tailored to the captive's special – and limited – purpose.

In Vermont, for example, captives must file an annual report, audited financial statements, an actuarial certification of reserves, and submit to examination by the Vermont Department of Insurance every three to five years; for all practical purposes the same regulatory reporting and examination requirements demanded of traditional companies. In addition, captive insurers must remain in continuous compliance with minimum capital and surplus levels and with their approved plan of operation.

The Captive Insurance Division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration is accredited by the National Association of Insurance Commissioners. While it may seem presumptuous, I believe that the high regulatory standards employed by the State of Vermont be given closer scrutiny as a potential benchmark standard for all captive insurance companies seeking membership in the FHLB. Our Captive Insurance Division currently provides guidance and advice to many other states and the NAIC in the formulation and development of regulatory standards, and we are frequently requested to render such advice on both legislation and regulatory rulemaking. Our lengthy history with captive insurance companies has enabled us to develop a finely-tuned and apt body of legislative and regulatory experience, one which we would be pleased to share with the FHFA in this connection.

If a determination is ultimately made that captive insurers are not a good fit for FHLB membership, that should not be based on the misconception that domestic captive insurance companies are loosely regulated.

Sincerely,

David F. Provost, CFE  
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