AAM
Insurance Investment Management

March 28, 2011

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

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

Dear Mr. Pollard:

I would like to comment on the Federal Housing Finance Agency's Advance Notice of Proposed Rulemaking (ANPR) regarding membership in the Federal Home Loan Bank system.

The ANPR poses the question of whether insurers should now be subject to the requirement that they maintain 10% of their assets in "residential mortgage loans." Due to regulation, and as a matter of prudent business management, a primary goal of insurers must be to structure their assets to ensure they can pay claims in a timely manner. The ANPR correctly cites that differences in portfolio structure exist between Property & Casualty insurers and Life insurers. However, within this broad division of the industry, there are meaningful differences among lines of business written. For example, certain lines of business in the Property & Casualty sector have liability structures that are characterized by short payment patterns and frequent claim activity. Other lines of business feature much longer payment patterns that may require cash flow for several years. With wide variations in the composition of insurance companies' businesses, portfolios are usually customized to meet the needs and requirements of each line of business and, more specifically, each company. The payment pattern and structures of residential mortgages may not necessarily be appropriate to support all lines of insurance. Requiring that insurance members maintain 10% of their assets in residential mortgage loans may force member companies to create sub-optimal portfolios simply to maintain membership in a Federal Home Loan Bank.

Of course, members must be expected to help the Federal Home Loan Banks fulfill their mission and meet the statutory requirement of supporting residential housing. The current system already does so without the possibility of membership requirements negatively impacting insurance company portfolios. As is noted in the ANPR, member advances are collateralized. In general, residential mortgage collateral is the most common form, and for long term loans, regulation dictates that borrowing can not exceed the level of mortgage related assets held. Therefore, any member who wishes to receive advances must own residential mortgage collateral commensurate with their level of borrowing from the bank. Collateralization of the loans forces compliance with the mission without the pre-defined test for support of the residential housing market.

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While it is not specifically asked in the ANPR, we would also encourage the FHFA to consider broadening the concept of "makes home mortgage loans." Current regulation provides preference for pass-through securities compared to Agency-issued Collateralized Mortgage Obligations (CMOs) as a demonstrated commitment to residential housing. The underlying collateral of both Agency CMOs and Agency pass-through securities is residential mortgages, and both therefore demonstrate a commitment to housing. The only difference between the two types of securities is that the cash flows from the underlying residential mortgages are distributed to security holders at different times. CMOs are owned across many insurance company portfolios as they allow insurers to better match the cash flows of the assets with the nature of their liabilities.

Insurance companies are subject to regulation at the state level. State regulation encompasses every aspect of the insurance industry, including asset allocation. The 10% requirement may, at times, conflict with the authority of state insurance regulators whose function it is to ensure the health of their licensed companies.

At a minimum, we encourage adoption of a grandfather clause whereby current members are exempt from the new rules, but new members must adhere to them. Further, if a minimum required allocation to mortgage related securities becomes an on-going requirement, we believe adopting a look-back period is appropriate. As valuations within the markets change, insurance companies may increase or decrease their investment in residential mortgage related assets. It is feasible that a periodic review of invested assets could coincide with a period of time when there exists better investment opportunities in sectors other than residential mortgage related loans. As a result of prudent portfolio management, the allocation to residential housing assets may be low at a given point in time, though the entity may have a long history of commitment to the sector. A look-back period would allow for member portfolios to demonstrate a history of commitment to housing and to be managed efficiently without causing members to fall in and out of compliance with any membership requirements.

Sincerely,

Daniel C Byrnes

Daniel C. Byrnes, CFA
Vice President

About AAM
AAM, based in Chicago, Illinois, is a SEC registered investment advisor specializing in the management of insurance company portfolios. AAM's team of senior managers averages 21 years of investment industry experience with a portfolio management team averaging 15 years of experience. As of December 31, 2010, AAM manages over $14.5 billion in assets for 98 insurance company clients, across all segments of the industry.

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