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Ohio National Financial Services®

March 28, 2011

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

via email and U.S Mail

Attention: Comments/RIN 2590-AA39

Dear Mr. Pollard:

Ohio National Financial Services, Inc. is responding to your Request for Comments to the ANPR dated December 27, 2010. As a mutual life insurance holding company, we have a number of concerns with this proposal.

1. **10 Percent Test.** The first proposal would require that an insured depository institution that was not a member as of January 1, 1989 may become a member only if it has at least 10 percent of its total assets in residential mortgage loans. The proposal would require that members consistently maintain this 10 percent of assets as an ongoing obligation.

   Insurance companies rely on the FHLB as an important source of liquidity and as a way to reduce risk through enhanced asset liability management. Applying a continuous 10 percent requirement to insurance companies would place an additional regulatory burden on FHLB members and would inject an element of uncertainty, as members could never be sure of their ability to meet these tests.

   Insurers have contributed significant capital to the FHLB system. Recent statistics indicate that insurance companies represent 10% of outstanding combined advances and 8% of FHLB capital stock. The proposed changes would not only impact insurers, but would also negatively impact the FHLB.

2. **Makes Long-Term Mortgage Loans.** Like the proposed 10 percent requirement, the FHFA seeks to amend its regulations to make the long-term home mortgage loan requirement an ongoing obligation.

   Presently, this requirement is met if demonstrated by the applicant's most recent financial report and there is no quantifiable benchmark (any volume in number or dollars of loans). Making this rule a continuous requirement could result in a conflict of interest for financial institutions and insurers in particular. Mutual companies such as Ohio National must operate in the best long-term interests of our policyholders. As we have seen over the past several years, the practice of originating or purchasing securitized mortgages has resulted in huge losses for some institutions. Companies should and must base their investment concentration on prudential risk management, rather than on an arbitrary external requirement that may not be suitable to all companies and may invite companies to take on more risk than is desired.

1. **Sanctions.** FHFA is considering two possible courses of action for members that have fallen out of compliance. It could either terminate the violating institution's membership or prohibit access to bank services during a period certain, neither of which is a prudent move.

   Adopting regulations that prohibit access to bank services (liquidity) for even a short period of time could have far-reaching consequences. Institutions that depend in part on bank services could see their liquidity discounted both by regulators and the market based on the reduced availability of funding. Historically, members that pledged assets to banks as security for funding were assured that these advances were always available as a ready and continuing source of funds. The alternative sanctions presented inject uncertainty to the availability of continuing funding when needed.

2. **FHFA Involvement on Membership Issues.** The FHFA has asked whether it should step in to resolve close membership issues, or leave such decisions to the discretion of the banks.

   This suggests that the FHFA is seeking to expand its role into the area of enforcement. Particularly when so many other agencies are also expanding their mandate, the "bigger picture" needs to be carefully reviewed before this is allowed. Having too many governmental entities involved in enforcement is neither efficient nor effective, particularly at a time when Congress is undertaking a comprehensive review of the housing finance system.

The ANPR presents a number of issues that could fundamentally change the way financial institutions, including insurance companies, do business. At a minimum, what has long been a stable source of funding may be drastically impacted at a time when such liquidity sources are most needed. If additional governmental regulation is needed, it should support, not undermine, economic growth.

The changes proposed could significantly curtail insurance company membership and use of the FHLB system, contrary to Congressional intent and years of established policy. Insurance companies have been statutorily allowed membership in the FHLB since the Act was passed in 1932.

Moreover, the ANPR fails to provide any compelling reason for the imposition of revised membership regulations. The ANPR does not cite any specific abuses of the membership regulations that would merit the need for sweeping changes to the current rules. Congress has had many opportunities to clarify and tighten membership requirements if it believed the intent of the Federal Home Loan Bank Act was not being followed or if there were abuses of the FHLB system. However, Congress has not done so.

For the foregoing reasons, we respectfully ask that the ANPR be withdrawn. Thank you for the opportunity to provide comments.

Sincerely,

Christopher A. Carlson

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