March 28, 2011

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

RE: Advanced Notice of Proposed Rulemaking RIN 2590-AA39/ 75 Fed. Reg. 81145 (12/2710) – Membership Requirements

Dear Mr. Pollard:

The Federal Housing Finance Agency (FHFA) has requested comments on an advance notice of proposed rulemaking (ANPR) regarding its desire to review current Federal Home Loan Bank (FHLBank) membership requirements. The Financial Services Roundtable, the American Council of Life Insurers (ACLI), the American Insurance Association (AIA), the National Association of Mutual Insurance Companies (NAMIC), and the Property Casualty Insurers Association of America (PCI) appreciate the opportunity to comment on the ANPR.

The questions posed in the ANPR are of concern to our members. The ANPR suggests that the FHFA is considering requiring FHLBank members to "maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership" on a continuing basis, rather than only when they apply. This requirement suggests that the FHFA is considering reversing a long-standing regulatory interpretation of the Federal Home Loan Bank Act of 1932 (FHLBank Act or Bank Act) by subjecting insurance companies to the requirement that they hold at least ten percent of their total assets in residential mortgage loans, a requirement that by statute applies only to insured depository institutions. Alternatively, if the ten percent residential mortgage loan requirement is not applied to insurance companies, the questions suggest that the FHFA is considering establishing for insurance companies an alternative required level of mortgage-related assets that may be deemed to constitute a sufficient commitment to housing finance for FHLBank membership. The ANPR also proposes that objective and quantifiable standards be established for the requirements that each member (i) "makes long-term home mortgage loans" that 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.

Insurance company balance sheets are very different than those of insured depository institutions. These differences make it difficult for the insurance companies to comply with the ten percent residential mortgage asset requirement. As a result, the suggested changes to FHLBank membership could significantly restrict insurance company membership in and use of the FHLBank System. This restriction could impede the fragile housing market's recovery. Insurance companies have played and continue to play an important role in the housing finance market and in driving economic development in communities across the United States. Quite a few insurance companies hold substantial amounts of single and multifamily mortgages and mortgage debt securities on their balance sheets, which support the FHLBank's primary housing finance mission. Many insurance companies also invest in Low-Income-Housing Tax Credits, which are an important resource for creating affordable housing in the United States. The proposed restrictions could also limit funding options for insurance companies, and in turn may limit the ability of FHLBank insurance company members to further provide needed liquidity to mortgage and housing-related assets.

Currently, over 220 insurance companies are members of the FHLBanks. Insurance companies are an integral part of the FHLBank System, representing ten percent of outstanding combined advances and eight percent of FHLBank capital stock as of September 30, 2010. In addition, many insurance companies rely on FHLBank products for contingent liquidity planning, managing high impact liquidity events, and reducing risk through enhanced asset liability management. A possible decrease in involvement by insurance companies could take significant liquidity out of the FHLBank System, possibly making borrowing for other institutions more expensive. Currently the advances made to FHLBank insurance company members are conditioned on providing collateral, thus providing security to the FHLBank system.

Insurance companies also play an integral role in FHLBank community development efforts. Several insurance companies are active participants in the FHLBanks' Affordable Housing Program (AHP). The AHP is one of the largest private sources of affordable housing grant funding in the United States, as well as the FHLBanks' Community Investment Program (CIP), which offers below market rate advances to members for financing housing and economic development that benefits low- and moderate-income families. The proposal's effect of limiting FHLB membership would reduce much needed funding for these effective programs.

The ANPR does not present any compelling reason for imposing new membership rules. It also acknowledges at a time when the housing finance system can least afford it that there is not a problem with the current membership requirements, which have served the FHLBanks and insurance companies well for many years. In fact, the ANPR specifically recognizes that its intent is not to be responsive to a problem, but rather to ensure that membership bears a sufficient nexus to the primary housing finance mission of the FHLBanks. However, the FHFA's annual report to Congress on the state of the FHLBanks did not note any problems with the implementation of the existing rules.

The suggested changes would also contradict decades of established policy and Congressional intent. The intent of Congress on insurance company membership in the FHLBank System has been clear and unequivocal – insurance companies have been statutorily allowed membership in the FHLBanks since the FHLBank Act was enacted in 1932. At no time since then, in spite of numerous other opportunities to review and amend the Bank Act, has Congress decided to restrict insurance company membership. Accordingly, any fundamental alterations to the FHLBank System should be done with Congressional guidance. The Administration and Congress are currently conducting a comprehensive review of the housing finance system in the United States. This review will examine the FHLBanks' role in providing liquidity to the financial system.

For these reasons, we urge that the FHFA table or delay this ANPR, at least until Congressional action. We appreciate the opportunity to comment.

Sincerely,

American Council of Life Insurers (ACLI)
American Insurance Association (AIA)
The Financial Services Roundtable
National Association of Mutual Insurance Companies (NAMIC)
Property Casualty Insurers Association of America (PCI)