November 6, 2014

Alfred M. Pollard, General Counsel

Federal Housing Finance Agency - Fourth Floor

1700 G Street, NW

Washington, D.C. 20552

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

Dear Mr. Pollard:

Thank you for the opportunity to comment on the Federal Housing Finance Agency’s ("FHFA") notice of proposed rulemaking ("NPR") regarding Federal Home Loan Bank ("FHLBank") membership. Among other things, the proposed rule would make captive insurance companies ineligible for FHLBank membership. I am a former board member and Chairman of the FDIC (1978-85) and former Chairman of Fifth Third Bancorp and am currently Senior Managing Director & Global Head of Financial Institutions for FTI Consulting. The views I express in this letter are my own.

I am convinced that the implementation of the proposals in the NPR will have a negative impact on housing finance and the overall growth of our economy. While most of the American public is unaware of the Federal Home Loan Banks, the FHLBanks are greatly beneficial to our economy as they provide much-needed liquidity in good times and, especially, in bad. FHLBank members provide the investments, loans, and access to capital markets needed for businesses to grow and create jobs and for consumers to save, borrow, and make payments. The flow of liquidity from the FHLBanks to their members and out into the market is an important ingredient to strong and sustainable economic growth. While I appreciate the FHFA’s desire to protect the FHLBank system, I am perplexed that the FHFA is proposing drastic anti-liquidity alterations to FHLBank membership without clear evidence of actual problems.

I have often observed that the presence of the following three factors are warning signs for troubled financial institutions: (1) concentration of risk; (2) inadequate liquidity; and (3) significant exposure to capital markets on either the asset or funding side. For captive insurers and other members, like small community banks and credit unions, that fail the new compliance tests, being shut out from the FHLBanks increases the presence and severity of these factors. Institutions on the losing side will have less access to funding, will pay more for funding, and/or will enter riskier transactions to receive funding.

The FHFA is apparently concerned certain businesses will use their captive insurance companies as a backdoor to access the FHLBanks, but there is no comparable concern for other members’ holding companies, who, like REITs and other businesses, are ineligible for membership. A captive insurance company is formed under state law, is subject to state insurance regulatory oversight and, once a member, is subject to FHLBank credit and housing mission policies. Membership grants captive insurers access to long-term funding, which provides them with liquidity and risk mitigation. To obtain this funding, captive insurers must own FHLBank stock and hold housing assets, which furthers the mission of the FHLBanks. The FHFA should trust and respect the states that have crafted captive insurance company legislation and the regulators that enforce it. Similarly, after 82 years of successfully providing liquidity and funding for housing and community development, the FHLBanks have demonstrated the ability to assess the risks of lending to members and potential members, including captive insurance companies.

The FHFA is further concerned that a loophole exists for members to forego all housing-related business after joining an FHLBank. Statistics are contained in the proposal to demonstrate that a wide majority of members currently satisfy the 1% and 10% tests. These statistics are cited to make the new compliance requirements seem benign, but in reality, they illustrate the lack of a need for perpetual compliance with these tests. It is troubling that current members will lose their eligibility, maintaining membership will be more burdensome and costly, and our economy will suffer serious collateral damage in a regulatory effort to solve problems that do not appear to exist.

Diminished membership inflicts harm on the profits and liquidity of the FHLBanks. A less apparent consequence is the reduced diversification of membership. Insurance companies, including captive insurers, do not follow the same business cycles of the banking industry, and provide diversification for the advances portfolio as their wholesale funding needs differ as well. Diverse membership also provides more sponsors for projects under the affordable housing and community investment programs. Among the most basic of investing advice is the need to diversify your portfolio to minimize risk, and the same advice holds true for the FHLBanks. The presence of insurance company members, of all types, helps to calm the waters in economic storms so that the FHLBanks can continue to provide liquidity to the housing market and fund affordable housing and community investment initiatives.

 Finally, I believe the FHFA’s proposals are beyond the scope of and produce results that are contrary to its mission. Eliminating currently eligible businesses and increasing the regulatory burden on members is a dramatic shift from long-standing Congressional policy to expand FHLBank access. The proposed changes will make the system less reliable. With fewer members, fewer advances will be made and less liquidity and funding for housing finance and community investment will be available. Again, with no threat to the safety and soundness of the system, there are no obvious benefits to balance the costs.

 In closing, while I am confident that the FHFA is well-intentioned, I also believe that the proposals in the NPR, if adopted, will impede economic growth and weaken the FHLBank system. Thank you for your consideration of these comments.

Respectfully,



 William M. Isaac