November 11, 2014

Federal Housing Finance Agency
Comments/RIN 2590–AA39
Attn: Alfred M. Pollard, General Counsel
400 Seventh Street SW., Eighth Floor
Washington, DC 20024

Dear Mr. Pollard,

The Insurance Institute of Indiana (hereinafter "III") hereby submits comments on behalf of affected members regarding the adverse effects of proposed rule 12 CFR Part 1263 as written. The III is a full service state insurance trade association with 29 member companies, which represents approximately 80% of the personal lines and about half of the commercial lines property and casualty insurance industry. While the III takes exception to the proposed rule, the following sections I and II provides the specific objections members have with proposed rule 12 CFR Part 1263 from a State's perspective.

I. The NPR arbitrarily redefines what constitutes an insurance company (Pp.23-27).

The Federal Home Loan Bank Act provides the following in pertinent part: "*Any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, community development financial institution, or any insured depository institution (as defined in section 1422 of this title), shall be eligible to become a member of a Federal Home Loan Bank. . . .*"

All insurance companies, regardless of type, have been permitted to seek FHLB membership since the founding of the System in 1932. The FHFA's proposal seeks to redefine the term "insurance company" to mean "a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities." In addition to usurping State authority to determine what qualifies as an "insurance company," the proposal would prevent insurers that the FHFA deems to not have their primary business as "underwriting insurance for unaffiliated entities" from either seeking or retaining FHLB membership.

While the FHFA suggests that their definition of "insurance company" would only impact captive insurers, some of which have been members for over 20 years, this carve-out violates Congress' original intent that "any" insurance company is eligible to join the system. For these reasons, the III takes particular exception to this provision.

II. The NPR requires all members maintain 1%-5% (or perhaps more) of assets in home mortgage loans (Pp.42-49).

Based on our analysis, some III members would fail this new membership test and would be forced to either alter its asset mix or have its membership terminated. FHLB membership regulations require, "*The applicant originates or purchases long-term home mortgage loans*" to be eligible for membership" (*See* 12

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CFR §1263.9). This requirement is often referred to as "the makes test" and has always been left up to the discretion of each FHLB at the time of membership. In recognition that FHLB membership provides significant incentives for new members to engage in its housing mission and that there are a variety of ways to demonstrate a commitment to housing finance, the "makes test" has never been a significant barrier to FHLB membership.

By inventing and imposing a new quantitative test requiring all members to hold 1%-5% of assets in first-lien residential mortgage assets on an ongoing basis, the proposed rule's new requirement would be both a barrier to recruiting new members and would disenfranchise existing members. As such, it would reduce the FHLBs' membership reach and ability to provide liquidity to the housing market through member access. In addition, it would negatively impact FHLB advances, income, dividends, and funding for affordable housing. For these reasons, the III takes particular exception to this provision.

The III appreciates this opportunity to comment on behalf of our affected members, and submits these two objections that adversely affects our membership.

Respectfully Submitted,

Marty P. Wood
President

Logan P. Harrison
VP and General Counsel