



South Carolina Department of Insurance

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NIKKI R. HALEY
Governor

RAYMOND G. FARMER
Director



October 31, 2014

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Watt,

I am the Director of the Department of Insurance in the state of South Carolina, one of the leading domiciliaries of captive insurance companies in the United States.

I am writing to express our concerns about the notice of proposed rulemaking regarding membership eligibility in Federal Home Loan Banks (RIN 2590-AA39) recently issued by the Federal Housing Finance Agency (FHFA). The proposed rule includes significant changes to long-standing membership rules for the Federal Home Loan Bank (FHLBank) system and is likely to have an adverse impact on existing and prospective members and on the communities served by the system. Since their creation more than 80 years ago, the FHLBanks have helped community banks, credit unions, insurance companies and other financial institutions provide needed financial services to communities and have served as a stabilizing presence in the financial system during periods of economic challenge.

The proposed rule would eliminate the ability of captive insurance companies to participate in the FHLBank system. This is apparently based on a concern that the system of financial oversight and regulation provided by state governments is inadequate for the FHFA to rely upon. State regulators in South Carolina and other states have a strong system of financial regulation in place to ensure the safety and solvency of captive insurers. We conduct thorough financial examinations of captive insurance companies and believe these companies serve an important function in the insurance marketplace. Any suggestion that state regulation of captive insurers is insufficient for the FHFA to rely upon is simply inaccurate. We invite you to have a discussion with state regulators about the level of oversight we provide and believe you will be impressed with the robust financial regulation in place.

The FHLBank system serves as a critical source of liquidity for many insurers, including captive insurers. We believe it is important that captive insurance companies continue to enjoy the same privilege as other insurers to participate in the system.

Sincerely,

Raymond G. Farmer