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Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
400 Seventh Street SW, Eighth Floor  
Washington, DC 20024

Attention: Comments/RIN 2590-AA39

**Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks**

Dear Mr. Pollard:

Liberty Mutual Insurance Group (Liberty Mutual) welcomes the opportunity to file comments in response to the Federal Housing Finance Agency's (FHFA) request for comments on its proposed revisions to Federal Home Loan Bank (FHLB) membership rules on behalf of its five member companies. These are fundamental changes to the FHLB system and we are concerned as a current member.

Boston-based Liberty Mutual is a diversified global insurer and the third largest property and casualty insurer in the U.S. based on 2013 direct written premium. The Liberty Mutual ranks 81<sup>st</sup> on the Fortune 500 list of largest corporations in the U.S. based on 2012 revenue. As of December 31, 2013, Liberty Mutual had \$121.282 billion in consolidated assets, \$19.012 billion in total equity, and \$38.509 billion in annual consolidated revenue. Liberty Mutual holds a substantial amount of residential mortgage loans (\$8b) and low-income housing tax credit investments (\$350m).

The FHFA proposes to fundamentally alter longstanding FHLB membership requirements by:

- Imposing a new requirement on all members to hold at least one percent of assets in "home mortgage loans" (first lien single and multi-family mortgages with original terms of 5 years or longer; and MBS, CMOs backed by such mortgages). The proposal goes on to suggest the FHFA may increase this test to 2% or even 5% in the future. There has never been such a quantitative asset test for initial or continuing eligibility;
- Requiring, on an ongoing basis, that all insured depository members, except institutions with assets less than \$1.1 billion and Community Financial Institutions, hold at least 10% of assets in "residential mortgage loans." There has never been a mortgage asset test for continued membership.

Although Liberty Mutual is a relatively new member, insurers have been eligible for membership in the FHLB system since its inception in 1932. Over 200 insurance companies are an integral part of the system. A proposal that reduces the number of eligible insurers (or other institutions) means less liquidity and security in the FHLB system and increased borrowing costs for other institutions including those that directly offer residential mortgages.

As we said in our March 25, 2011 comment letter on the ANPR (RIN 2590-AA39) about our membership in the Federal Home Loan Bank of Boston, it enables Liberty Mutual and other insurers to participate in the Affordable Housing and Community Investment Programs. Insurers also invest in Low-Income-Housing Credits, an important resource for creating affordable housing. Removing certain insurers from FHLB membership will thus also have a detrimental impact on the ability of the FHLB system to provide affordable housing funds to the communities they serve. Membership of property casualty insurers is particularly appropriate because we write the property insurance so important to home ownership and residential mortgage lending.

The current rules work well and ensure a sufficient link between membership and the important housing finance mission of the FHLB system. The proposal fails to provide compelling reasons or evidence for instituting quantitative and ongoing membership requirements *by regulation* for the first time in 82 years. In fact, the proposal's requirement to maintain a percentage of the balance sheet in housing-related assets may well bring into question the reliability of the FHLB system as a source of liquidity, particularly if the next economic crisis were to temporarily challenge member compliance. Further, members could never be certain the percentage requirement might not increase in the future with changing views at the FHFA.

Indeed, the proposal runs counter to the Congress' expansive view of the role and mission of the FHLB system, demonstrated over and over again as it has reconsidered and amended the FHLB Act many times since 1932. On each occasion, the Congress voted to expand the system by for example, broadening membership and the types of collateral that can support advances. Never has Congress chosen to constrict the program. Each time, the Congress had the opportunity to change membership requirements. It did not. Each time, and with each of its annual reports to the Congress, the FHFA has had an opportunity to bring any concerns about these issues to the attention of the Congress. It did not.

We again call upon the FHFA to exercise restraint and allow more appropriate consideration by the Congress if it chooses to do so.

Sincerely,



John D. Doyle  
Vice President and Comptroller