

**Blue Cross
Blue Shield**
of Michigan

Carolynn Walton
Vice President & Treasurer
Telephone: (313) 983-1650
Facsimile: (866) 587-3983



600 Lafayette East
Mail Code 1800
Detroit, MI 48226

December 3, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 7th Street SW, Eight Floor
Washington, D.C. 20024

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

Dear Mr. Pollard:

Blue Cross Blue Shield of Michigan (BCBSM) appreciates the opportunity to review and provide comments on the Federal Housing Finance Agency (FHFA) proposed revision to regulations governing Bank membership that would significantly revise the agency's rules regarding membership in a Federal Home Loan Bank (FHLB), located at 12 CFR part 1263.

BCBSM is a nonprofit mutual insurance company founded in 1939. We are the largest health insurer in Michigan, serving 4.4 million people statewide and 1.3 million more across the nation. With more than 155 hospitals and over 30,000 doctors we have the largest network of doctors and hospitals in Michigan.

BCBSM was the first Michigan insurance company to be accepted into the Federal Home Loan Bank of Indianapolis (FHLBI) in 2002 and supports the FHLB System's mission of promoting access to housing for all Americans through participation in the FHLB mortgage-asset program. At the close of 2013, BCBSM held \$938 million in mortgage backed securities; a portion of which is posted as collateral as required by FHLBI for current borrowings. Purchasing mortgage backed securities reallocates loan sales which would likely be purchased by Fannie Mae or Freddie Mac; reallocating loan sales increases competitiveness of the secondary mortgage market thereby lowering finance costs to homeowners.

BCBSM was also able to utilize the FHLBI Community Investment Program for a campus improvement project located in an enterprise zone in downtown Detroit. The CIP loan enabled BCBSM to increase employment at its downtown Detroit facility.

Membership in the FHLBI is an integral part of BCBSM's financial plan. A key component of our enterprise risk management plan is a dependable funding source for liquidity and operations. FHLBI membership provides inexpensive lending rates under which BCBSM currently has access to \$2 Billion. Having liquidity options allows us to meet contingency obligations set forth by regulators and the insurance industry. Further, we are able to hold lower cash balances and maximize investment income.

BCBSM is proud to be a strong proponent of the FHLBI's mission and enjoys membership benefits. However, we have the following concerns with proposed changes to regulations governing Bank membership:

Establishing a quantitative standard for determining compliance with the makes long-term home mortgage loans requirement

The proposed rule would establish a quantitative standard across the FHLB system for membership requiring all insurance companies and other non-depository institutions to have one percent of home mortgage loans to total assets on a statutory/regulatory basis. Currently, each FHLB determines its own standards for membership which allows each bank to be responsive to specific community credit needs in its region. Our concern is, language in the proposed rule leaves room for this threshold to increase. If the percentage requirement of mortgage backed securities is allowed to increase, over time this could have a significant impact on the structure of the investment portfolio and potentially negative impact on investment income. As a non-profit mutual health insurance company, BCBSM is heavily reliant on investment income to support the mission of the company and its members.

Limit the types of insurance companies that are eligible for membership

The proposed rule seeks to limit the term "insurance company" to mean "a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities." While intended to impact only captive insurers, the definition is indeed, far broader and could impact reinsurers and other companies. Additionally, the proposal is especially harmful to Michigan where lawmakers, regulators, businesses, and the FHLBI have worked together to develop a robust captive insurance law. Restricting the definition would terminate several existing FHLB members and could potentially put BCBSM and its subsidiaries' eligibility at risk.

December 3, 2014

Page 3

Require that, a Bank examine the applicants most recent audited financial statements to determine whether an insurance company applicant meets the financial condition requirement

The greatest risk to BCBSM and its subsidiaries is the FHFA's request for comments on criteria that could be used to create a standard metric to determine the financial condition of an insurance company. Each type of insurance company has a unique capital structure based on the lines of business they underwrite. The adoption of a standardized metric could put membership eligibility at risk. Currently, each FHLB has its own criteria in place to evaluate potential members in their region in order to protect their interests and the interests of those they serve. For example, the FHLBI has invested time and money to conduct due diligence to understand the business practices and financial statements of each type of insurance company in their membership. As a result, Indiana and Michigan have changed their insurance codes to protect FHLBI collateral interest in case of insurance company insolvency.

Thank you again for this opportunity to provide feedback. We are very supportive of the efforts of the FHFA but continue to have concerns as stated above. Ultimately, we feel the existing regulations work well for the FHLB System and respectfully request you consider withdrawing your request for revisions. Please let us know if you have any questions, or would like further clarification.

Sincerely,



Carolynn Walton

CW:lm