



**Blue Care  
Network**  
of Michigan

December 5, 2014

Alfred M. Pollard, General Counsel  
Attention: Comments/RIN 2590-AA39  
Federal Housing Finance Agency  
400 7<sup>th</sup> 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 Care Network of Michigan (BCN) welcomes the opportunity to provide comments on the Federal Housing Finance Agency (FHFA) proposed revision to regulations governing Bank membership that would revise the agency's rules regarding membership in a Federal Home Loan Bank (FHLB), located at 12 CFR part 1263.

BCN is a nonprofit Health Maintenance Organization entity and is the largest health HMO in Michigan, serving over 800,000 people statewide.

BCN with its parent Blue Cross Blue Shield of Michigan have been long time partners with the Federal Home Loan Bank of Indianapolis (FHLBI) and fully support 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, BCN held \$230 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.

Membership in the FHLBI is an integral part of BCN'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 BCN currently has access to. 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 and assist our involvement in health care reform related enrollment growth.

BCN 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 HMO, BCN is 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 BCN at risk.

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

An additional risk to BCN is the FHFA's proposed 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.

Very Truly Yours,

A handwritten signature in black ink, appearing to read 'J. Kallas', written over a horizontal line.

James Kallas  
Vice President of Finance & Controller  
Blue Care Network of Michigan

JPK:ss