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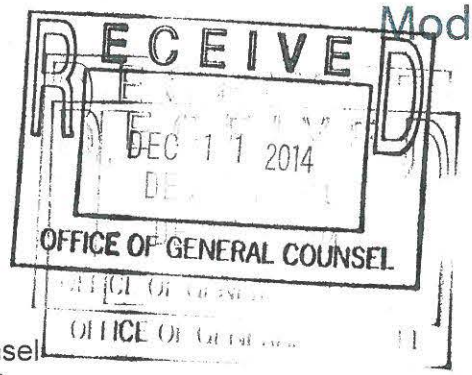

December 9, 2014

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

Re: Notice of Proposed Rulemaking; Request for Comments – Members of the Federal Home Loan Banks

Dear Mr. Pollard:

We are submitting this comment to express our concerns about the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking and request for comments on "Members of the Federal Home Loan Banks" published on September 12, 2014. For the reasons described below, we respectfully request the withdrawal of this proposal.

Modern Woodmen of America ("MWA"), a fraternal benefit society, was founded in 1883. We offer life insurance and annuity products to our members. Our mission is to improve the quality of life for our over 750,000 members nationwide. We are an organization that values financial strength and stability.

As a shareholder and customer, we greatly value our membership in the FHLB of Chicago and view it as a key partner in our success. For our Society, access to FHLB liquidity and term funding is critically important because it offers us access to cash advances quickly and at a reasonable cost to help us manage our cash flows. We consider the FHLB system a vital tool to help us manage future liquidity events, should any arise.

The proposed rule would impose, for the first time ever, on-going requirements for MWA to meet as a condition of remaining a member of the FHLB of Chicago. As an insurer, the proposal would require us to hold at least 1 percent of our total assets in long term home mortgage loans (meaning home mortgage loans with a term to maturity of five (5) years or greater), however it also considers increasing the requirement to 2 percent or 5 percent. Failure to meet the requirement would result in the eventual termination of our membership in the FHLB of Chicago.

This proposal is troubling for many reasons. While the proposed requirement may not appear to the FHFA to be onerous, the practical consequences would be very severe and disruptive. To begin with, our ability to rely on the liquidity provided by the FHLB of Chicago, particularly in times of economic distress, would be seriously undermined if the FHFA is allowed to establish requirements we must meet simply to remain a FHLB of Chicago member. This has never been the case in the 82-year history of the FHLBs. Membership in the FHLBs has been steadily expanded by Congress over the years, never contracted. With the imposition of such a requirement, we could never be assured that when the next financial crisis occurs we will have continued access to FHLB of Chicago liquidity.

An estimate of the impact of this proposal shows that the proposal would severely limit the number of insurers which would remain eligible for FHLB membership, more than any other category of members. Had this requirement been in effect over the previous six years, from 2008 to 2013, more than 21 percent of insurers would have failed an ongoing 1 percent test or would have been otherwise ineligible at least once during this time period. If the requirement were set at 5 percent, the failure rate for insurers that were members of an FHLB leaps to 46 percent, or nearly half.

The failure rates among the different categories of insurance companies are very significant as well. Twenty-one percent of property and casualty (P&C) insurance company members would have failed an ongoing 1 percent test while 10 percent of life insurers would have failed at that level. If the required level is set higher, such as 5 percent, the number of insurance company members that would have failed rises significantly to 46 percent for life insurers and 39 percent of P&C companies. These requirements would limit dramatically the ability of the insurance industry to take advantage of the many benefits of the FHLBs and strongly discourage prospective members from joining.

By requiring us to hold a certain amount of long term home mortgage loans at all times, the proposal effectively would allow the FHFA to control a portion of our balance sheet as a condition of remaining an FHLB of Chicago member. Our asset allocation potentially could become over-invested in housing related assets at the expense of other asset classes in which we might otherwise wish to invest. This result also would contradict the intent of Congress, which has explicitly recognized the FHLBs' mission of providing liquidity to members without limiting that purpose to housing finance. By seeking to establish a housing finance nexus that all FHLB members must meet, the proposal does not appear to recognize the legitimate uses of FHLB funding beyond housing finance activities.

Additionally, once the FHFA has established that it can impose requirements for remaining an FHLB member, there would be nothing to prevent it from increasing those thresholds, or imposing entirely new requirements, in the future. As mentioned, the proposal already contemplates increasing the minimum threshold from 1 percent to 2 percent or 5 percent. What would prevent the FHFA from stopping there? This proposal might simply be the first of many such eligibility requirements imposed upon FHLB members, purportedly in an effort to ensure a sufficient housing finance nexus is maintained at all times by members. In essence, this could lead to the politicization of FHLB membership. The FHFA director is a political position, appointed by the President and confirmed by the U.S. Senate. A future FHFA director might be tempted to try and encourage FHLB members to hold yet more housing loans or other types of assets on their balance sheets in order to achieve a certain political agenda. Such fears are not unfounded. Past Administrations from both political parties increased housing goals for Fannie Mae and Freddie Mac in an effort to increase the level of homeownership and serve politically favored constituencies, with disastrous results.

The proposal's redefinition of "insurance company" to mean "a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities" for purposes of FHLB membership is problematic for MWA. Mutual insurance companies and fraternal benefit societies, such as ours, which by definition are owned by their policyholders, may be captured by this proposed "insurance company" definition since their policyholders may be viewed as affiliated parties, thus making them ineligible for FHLB membership.

Finally, the overall intent of this proposal seems to restrict and narrow FHLB membership, resulting in fewer members. We are concerned about the destabilizing effects that would result as some members have their memberships terminated while others engage in inefficient activities merely to maintain their membership. These actions will likely lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. As a result, less money will be available to support the FHLB's economic development programs.

In conclusion, we view the FHLB of Chicago as a critical partner and a key source of liquidity. This proposal would threaten our access and undermine the reliability of the FHLB, discourage prospective members from joining, potentially politicize FHLB membership and constrain the FHLB's ability to serve its members and our constituencies. Despite these real and damaging effects, there appear to be no specific benefits that would be achieved by this proposal. The costs clearly outweigh the benefits. For these reasons, we strongly urge the immediate withdrawal of this proposal.

We appreciate the consideration of our views.

Sincerely,

W. Kenny Massey

cc: Darcy Callas
General Counsel, MWA