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December 15, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

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

Dear Mr. Pollard:

On September 12, 2014, the Federal Housing Finance Agency (FHFA) has requested comments on a notice of proposed rulemaking (NPR) in which the agency has expressed its desire to review the nexus between Federal Home Loan Bank (FHLB) membership requirements and the FHL Banks' housing finance and community development mission as established by Congress. The proposed rulemaking reviews current membership requirements and discusses possible changes to membership eligibility. The National Association of Mutual Insurance Companies (NAMIC) appreciates the opportunity to provide comments on this NPR.

NAMIC is the largest property/casualty insurance trade association in the country, serving regional and local mutual insurance companies on main streets across America as well as many of the country's largest national insurers. The 1,400 NAMIC member companies serve more than 135 million auto, home and business policyholders and write more than $196 billion in annual premiums, accounting for 50 % of the automobile/homeowners market and 31 percent of the business insurance market. Through our advocacy programs we promote public policy solutions that benefit NAMIC companies and the consumers we serve. Our educational programs enable us to become better leaders in our companies and the insurance industry for the benefit of our policyholders.

The FHFA is proposing to alter the eligibility standards for FHLB membership by tightening the housing finance requirements. Members would be required to "maintain a demonstrable involvement in residential mortgage lending and otherwise comply with the statutory requirements for membership." Specifically, the proposal would:

- Impose a new and continuing test on all FHLB members that requires them to maintain at least 1% of their assets in first-lien home mortgage loans, including mortgage backed securities (MBS), with maturities of 5 years or more to maintain their membership in the FHLB. The proposal also suggests a 2% or even 5% test as options.

- Require all insured depository members (other than FDIC-insured depositories with less than $1.1 billion in assets) to maintain, on an ongoing basis, at least 10 percent of their assets in a broader range of residential mortgage loans, including junior liens and MBS, in order to maintain their membership in the FHLB. The FHL Bank Act specifically only requires a 10% test "to become" a member.

As NAMIC noted in its March 28, 2011, comments on the Advance Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39), insurance companies rely on FHLB products for managing high-impact liquidity events and reducing risk through asset liability management. Additionally, insurance companies are integral to the FHLB system, with over 200 FHLB members, including many NAMIC members. Not allowing certain insurers who currently participate in the system to remain would remove significant liquidity from the FHLB System, making borrowing for other institutions – for example, those that directly offer residential mortgages – more expensive.

Such a decrease would also go against historical precedent. Insurance companies have been statutorily permitted to be members of the FHLB system since the Federal Home Loan Bank Act was passed in 1932. Since that time, it has been the tendency of Congress to broaden the field of FHLB membership and the types of acceptable collateral to qualify for membership. Congress has had several opportunities to revise and clarify the housing finance requirements if it believed that the intent of the program was not being followed, but it has left these provisions untouched.

FHLB membership for mutual property casualty insurance companies seems especially appropriate and supportive of the mission of the FHLB since mutual companies:

- Are concentrated in personal lines product offerings (most importantly, homeowners insurance products), access to which makes home ownership (mortgages) possible.
- Are substantially involved and naturally inclined toward residential and community development due to their local – "main street" – presence, and their preference and reliance on investment bond portfolios/holdings for financial strength.
- Benefit more than stock companies from FHLB membership since equity markets are not available to most mutual insurance companies as a source of capital.

As there is no sound argument that the proposed limitations are required for enhanced stability or quality of collateral, the proposal appears to be based more on a political issue; i.e. that the federal housing finance programs of the FHLBs should be restricted to entities involved in housing finance. Ignoring the decades of Congressional acceptance of insurance companies as deeply involved in housing finance, FHFA has now proposed that the litmus test for insurance companies should now be the level of assets in first-lien home mortgage loans held by insurance companies.

While NAMIC agrees with the notion that FHLB membership should not be unconditional, the decades of uninterrupted Congressional approval of insurance companies as integral to housing finance must be considered, as should the numerous, existing legal and procedural safeguards.

- Under Title 12 U.S. Code § 1430(a)(2), an FHLB advance can only be made for the purposes of (A) providing funds to any member for residential housing finance; and (B) providing funds to any community financial institution for small businesses, small farms, small agri-businesses, and community development activities.

- Title12 U.S. Code § 1430(a)(3) provides that any such advance require the insurance company to provide the Bank with "eligible capital" related to housing.

- FHLB collateral policies encourage new members to increase their support of housing or community and economic development over time. By regulation, FHLB members can only pledge collateral that is mission-related and supportive of housing and/or community and economic development.

- Long-term FHLB borrowings (defined as five years or longer) are limited to each member's residential mortgage holdings. This so-called residential housing finance asset test is an on-going fungibility test ensuring that long term FHLB funding is only being used to support residential housing.

- All members must periodically complete the community support statement. This on-going requirement ensures that insurers are supporting programs to assist first-time home buyers. If a member does not submit evidence of assistance to first-time homebuyers, the FHFA will restrict that member's access to advances with terms exceeding one year

Existing FHLB collateral policies and regulations certainly appear to be sufficient to ensure that FHLB members are engaged in the mission. An FHLB advance to an insurance company can only be for housing and the collateral pledged must be related to housing. An insurance company could not obtain a FHLB advance unrelated to housing or without collateral related to housing. What the Bank member insurance company may or may not have in its reserves when it is not seeking or holding an advance from the FHLB is irrelevant.

As we stated in 2011 and reiterate now, there is no compelling reason to revise and tighten membership regulations at this time. The NPR notes on page 9 that one aspect of the FHFA's review was to assess whether the existing regulatory membership eligibility requirements "could permit the Banks to admit as a member an institution that has such a tenuous connection to home mortgage lending that it should not be allowed to access the benefits of Bank membership." There is no reference to any finding of members that were improperly admitted, nor is there any indication that any allegations of possible improper admission had even been made. The NPR does not cite any specific abuses of membership that would suggest a review of eligibility requirements was in order. It is not clear what the NPR is designed to accomplish, but it would most likely result in increased economic uncertainty.

Representing mutual insurance companies, NAMIC is particularly aware of the benefits of collective ownership and participation in organizations such as the FHLBs. We know that the strength and stability of collective organizations, as well as the benefits they provide to the overall economy, are bolstered by promoting – rather than impeding – membership. As there is no evidence that the FHLB has been admitting improper members, the FHFA proposal to limit insurance company membership in FLHBs will only reduce the collective membership and ability of FHLBs to fulfil their statutory purpose to support residential mortgage lending.

For the above reasons, we respectfully urge the FHFA to remove the proposed requirements that insurance companies be required to maintain the arbitrary asset levels and classes as set forth in the NPR.

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