SELECTIVE®

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The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

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

Dear Director Watt:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking ("NPR") regarding Federal Home Loan Bank ("FHLBank") membership.

Selective Insurance Company of the Southeast and Selective Insurance Company of South Carolina (together, "Selective Indiana"), both Indiana domestic insurers, have been members of the Federal Home Loan Bank of Indianapolis since March of 2009. As of September 30, 2014, Selective Indiana held approximately $90 million in residential and commercial mortgage-backed securities (the insurer non-FHLBank affiliates of Selective Indiana held an additional approximately $563 million of mortgage-backed securities as of September 30). Insurance companies such as Selective Indiana and its affiliates are large investors in home financing, which is the mission of the FHLBank.

When the FHLBank system was created in 1932, membership was restricted as follows:

> Any building and loan association, savings and loan association, cooperative bank, homestead association, insurance company, savings bank, community development financial institution, or any insured depository institution (as defined in section 1422 of this title), shall be eligible to become a member of an FHLB.

While the primary business of Selective Indiana and its affiliates is with unaffiliated parties, we do not believe that access to the FHLBank system should be restricted by insurer type or customer base for regulated insurance companies that also invest in home financing loans and securities. The purpose of the FHLBank system is to provide liquidity for home financing – and the benefits of membership should remain available to all financial institutions that meet the original definition from 1932 and invest in housing financing.

One of the reasons Selective Indiana joined the FHLBank was the stability it provided during the 2008 economic crisis. Given the system's success and importance, we are concerned the proposed rule could jeopardize the ability of FHLBanks to provide liquidity to financial institutions that invest in housing finance when they need it most. During the financial crisis, insurance companies also generally proved to be stable entities due to the high degree of oversight from state insurance regulators. We believe this regulation was effective because it focused on financial stability – not customer base.

Since 1932, insurance companies and banks of all types have changed the way they do business. In both cases, however, regulators – whether state for insurers and state or federal for banks – have overseen the way these institutions do business. We believe that by leaving the definition of membership the same as in 1932, insurance regulators can define an insurance company; the same way bank regulators can define a bank. Provided they invest in housing finance, both should be permitted as members of the FHLBank.

Currently, if a member does not have assets that meet the FHLBank's statutory and regulatory requirements for eligible collateral, it cannot borrow. Under the proposed regulation, however, even if a member has assets that meet this test, a member could be expelled from membership if the member cannot meet the new—and unprecedented—mortgage asset tests for continued membership. The consequences are harsh and the terms of the proposed rule are inconsistent with the express terms of the FHLBank Act.

We respectfully ask you to further reflect on the proposed rule. The Treasury Department has not taken a formal position on this rule but has acknowledged the need for a balanced approach. We request that you consult further with other insurance and banking regulatory agencies before finalizing any rule. The housing market recovery is fragile, and this is not the time to make it more complicated for financial institutions that invest in home financing.

Sincerely,

Jennifer W. DiBerardino
Senior Vice President, Investor Relations & Treasurer