



January 7, 2015

Alfred M. Pollard, 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 and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

The Federal Housing Finance Agency has requested comments on a notice of proposed rulemaking on Federal Home Loan Bank (FHLB) membership requirements. National Life Insurance Company is a leading writer of indexed life insurance and annuity products offering living benefits, including terminal, chronic, and critical illness benefits. We are a member of the FHLB of Boston and we appreciate the opportunity to submit this comment on the proposed rule.

We believe that that there is no compelling reason to add or amend membership requirements in the manner proposed and that doing so is likely to bring negative consequences. Our FHLB is strong and has been supporting its members and the region successfully. We are not aware of any credit loss or any safety and soundness issues that the FHLBs have experienced associated with doing business with its members. We are concerned that the proposed changes would adversely affect the ability and/or willingness of insurance companies to become members and/or maintain membership in a Federal Home Loan Bank, potentially materially reducing the additional liquidity and other benefits FHLBs enjoy from having insurance companies as members, inhibiting the FHLBs' ability to meet their primary purpose.

Home Mortgage Loan Test

The proposed rule includes a new requirement that members hold at least one percent of their assets in home mortgage loans on an ongoing basis. Insurance company assets are currently subject to a variety of multi-state laws and regulations. Insurance companies also closely monitor their investment portfolios to ensure that their returns will support the obligations of the company to its policy and contract owners as well as meet the pricing assumption embedded in those products.

Existing FHLB collateral requirements already incent insurance companies to hold home mortgage loans. FHLBs demand and have rights to collateral with a value in excess of their outstanding advances. The collateral itself is of a kind determined by statute but notably includes government agency securities, residential mortgage loans, mortgage-backed securities and other real estate related assets.

An arbitrary requirement that a percentage of an insurance company's portfolio be held in home mortgage loans provides no material, substantive benefit to the FHLB and could adversely impact an insurance company's compliance with other applicable laws or regulations and/or its ability to effectively manage its asset liability matching.

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Principal Place of Business

The proposed rule attempts to clarify how an FHLB should determine the “principal place of business” of an insurance company for purposes of membership. The current regulation defines an institution’s “principal place of business” as the state in which it maintains its home office, which is typically the state of domicile. The proposed rule adds a second component for insurance companies to conduct business operations from the home office in order for that state to be considered its principal place of business.

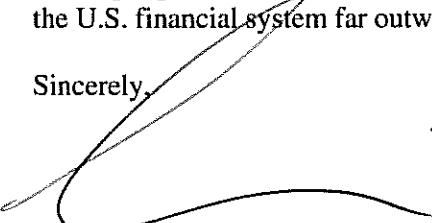
Insurance companies are created, governed and regulated by state law. Insurance companies are subject to pervasive and ongoing regulation and contact with their domiciliary states, including being subject to comprehensive examinations and ongoing reporting requirements, and being required to obtain regulatory approval prior to any merger, acquisition or consolidation. The corporate powers of an insurance company, such as the authority to borrow and pledge assets to secure borrowings, are governed by the state of domicile’s insurance code. Additionally, the insurance company’s state of domicile’s insurance department will regulate, inspect and oversee the insurance company including in the event the insurance company is rehabilitated or liquidated. Therefore, the existing regulation defining an institution’s “principal place of business” as the state in which the institution maintains its home office is appropriate.

Definition of “Insurance Company”

The proposed rule would define the term “insurance company” to mean “a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities”. The principal effect of this provision would be to prohibit captive insurers from becoming members of the FHLB. We believe that this rule is overly broad and would have unintentional impacts. We recommend that captive insurance companies, with a parent or affiliate that is itself eligible for membership in a FHLB, should not be excluded from membership. Many captive insurance companies of life insurance companies, who themselves are eligible for membership, are significant supporters of the housing market through their investments in residential mortgage back securities. They should not be excluded from membership simply due to their classification as a captive insurance company.

Finally, we wish to emphasize how important reliable access to FHLB is to National Life Insurance Company. The proposed rule would create uncertainty and we respectfully request the withdrawal of this proposal. The existing regulations work well and the disruptive and unintended consequences to the FHLBs, its members and the U.S. financial system far outweigh any perceived benefits that might be achieved.

Sincerely,



Craig Fowler
Vice President, Head of Corporate Development