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MACQUARIE

January 9, 2015

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC, 20024

Re: RIN 2590-AA 39 –Proposed Rulemaking Regarding Membership Requirements in the Federal Home Loan Bank System

Dear Mr. Pollard:

I write on behalf of Meadowlark Insurance Company LLC ("Meadowlark"), which has a membership application currently pending before the Federal Home Loan Bank of Indianapolis ("FHLBI"). Meadowlark is a Michigan pure captive insurance company that provides otherwise unavailable insurance coverage for its parent in respect of certain mortgage assets[1], and a wholly-owned indirect subsidiary of Macquarie Group Limited ("Macquarie"). Macquarie is publicly-listed on the Australian Securities Exchange and is regulated by the Australian Prudential Regulation Authority and certain of its subsidiaries are regulated by, among other agencies, the U.S. Securities and Exchange Commission, Commodity Futures Trading Commission and the Federal Energy Regulatory Commission. Macquarie is a global provider of financial, advisory, investment and funds management services, has locations in 28 countries globally and has assets under management of more than $370 billion.

I am writing in response to the request for comments in relation to the Notice of Proposed Rulemaking and Request for Comments –Members of the Federal Home Loan Banks (RIN 2590-AA 39) (the "Proposed Rule") published by the Federal Housing Finance Agency (the "FHFA"). Meadowlark appreciates the opportunity to provide input to the Proposed Rule and supports FHFA's intention to limit membership in the Federal Home Loan Bank ("FHLB") system to entities that demonstrate a commitment to housing finance. However, for the reasons outlined below, we believe the Proposed Rule would jeopardize the mission of the FHLB system by needlessly restricting capital to the home mortgage market via certain proposed limitations on FHLB membership.

Promotion of Mortgage Finance

Meadowlark was formed for the singular purpose of providing capital to the U.S. housing finance sector. As provided in its application for membership to the FHLBI, Meadowlark intends to invest in residential, whole, first-lien mortgage loans on single family homes, cooperatives, condominiums, 1-4 unit apartments and various mortgage-backed securities. Meadowlark projects that substantially all of its balance sheet will be devoted to long-term home mortgage assets. Having devoted substantial time and

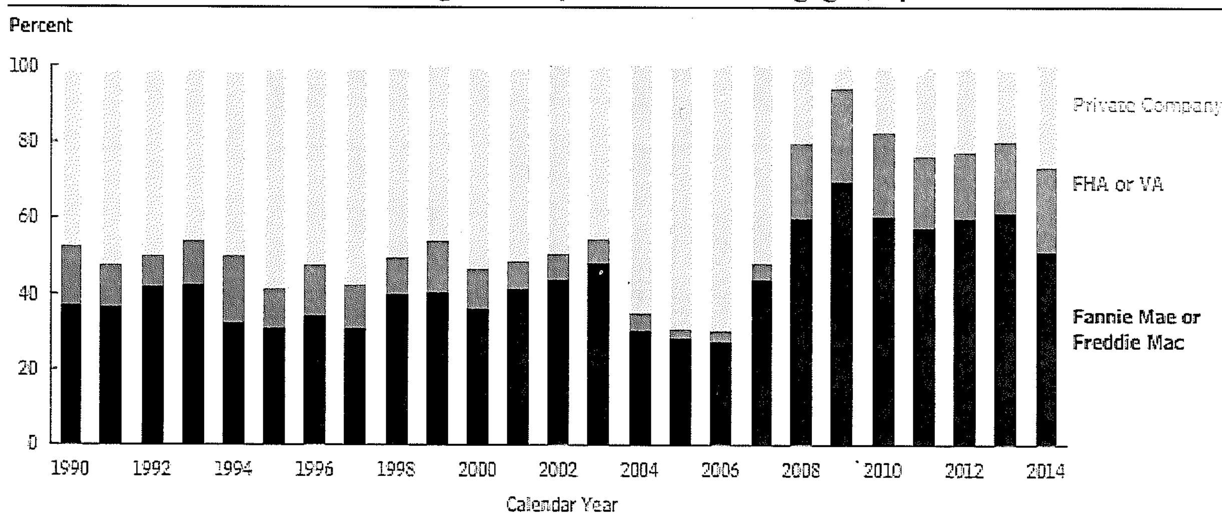
[1] Meadowlark currently insures a limit of $5,000,000 per occurrence, on a claims-made basis, with projected 2018 insurance coverage on over $2.1bn of private residential mortgage loan exposure.

resources to attaining membership in the FHLBI for the very purpose of facilitating housing finance, Meadowlark now finds its objective blocked on the incorrect notion that its membership—and the membership of similar captive insurance companies—would be detrimental to the FHLBI's mission.

To the contrary, the U.S. housing finance market is in dire need of additional private capital sources, such as captive insurance companies. As set out in a recent study released by the Congressional Budget Office[2], the U.S. government, primarily via Fannie Mae and Freddie Mac, currently accounts for approximately 80% of residential mortgage lending in the U.S. As demonstrated in Chart 1, the mortgage finance market has, since 2008, never seen greater involvement from the federal government (and, as a result, taxpayers), a clear indication that additional private capital is needed. Especially as various Congressional proposals are considered for reducing potential risks associated with the GSEs, new sources of capital are critical to maintaining a well functioning mortgage market and ensuring that liabilities do not rest with taxpayers.

Chart 1: Public vs. Private Historical Mortgage Finance Market Share[1]

Shares of the Market for New Single-Family Residential Mortgages, by Guarantor or Holder



Source: Congressional Budget Office based on data from *Inside Mortgage Finance*.

Notes: The market shares shown here represent the distribution of all single-family residential mortgages (including home-equity loans) originated in a given year, by the entities that guarantee or (in the case of unguaranteed mortgages) hold them. "Single-family" mortgages are loans for units that house one to four families.

Data for 2014 are through June 30, 2014.

FHA = Federal Housing Administration; VA = Department of Veterans Affairs.

From a public policy standpoint, new participants to the mortgage finance market should be encouraged, particularly as traditional private lenders such as commercial banks focus on rebuilding and repositioning their businesses in accordance with new regulatory requirements. With such existing pressures, banks' ability to grow their share of mortgage assets is likely limited[3]. We believe that a tightening of credit in the mortgage market will have a broader adverse effect on the economy as a whole. In so far as Meadowlark—and others like it who now find their current or prospective membership in the FHLB jeopardized—intends to make credit available to borrowers who may not be eligible for federally

[2] Congressional Budget Office, "Transitioning to Alternative Structures for Housing Finance", December 2014.

[3] Mortgage Bankers Association, "Who Will Own Mortgage Assets?", November 2014.

sponsored loan programs or who might not be in the "target market" for commercial banks, Meadowlark would be aligned with the FHFA in trying to promote a more robust housing market in the U.S. Of course, a key element to the ability of Meadowlark to fund mortgages is the ability to access financing made available by the FHLBI for just such a purpose—specifically, the ability to gain access to financing outside of the short-term, bank-provided, wholesale funding markets, a key focus of other regulators which appears to be at odds with the Proposed Rule[4].

Protections for the FHLB

Since the establishment of the FHLB system in 1932, insurance companies have been eligible for membership and for over twenty years, captive insurance companies, in particular, have been members in good standing of the FHLB. Meadowlark, like all insurance companies—captive and otherwise—is subject to inspection and regulation by state insurance regulators, in its case, by the State of Michigan Department of Insurance and Financial Services. As such, Meadowlark is subject to a robust initial review process, both of its proposed business plan and of its management personnel and various policies and procedures, and to ongoing requirements and inspection. Like typical insurance companies, Meadowlark must produce audited financial statements and actuarial reports. Accordingly, the level of oversight and supervision by state regulatory authorities should provide substantial independent comfort that the safety and soundness of the FHLB system is not compromised by the admission of captive insurance companies.

Furthermore, the FHLBI imposes transactional-level requirements which provide thorough protections, not only with respect to advances to captive insurance companies, but to advances to any FHLBI member. In particular, the FHLBI establishes specific eligibility criteria for collateral, only advances amounts subject to FHLBI-established haircuts, monitors the value of any posted collateral, can require additional collateral and, in the case of a Michigan insurance company member, is provided specific statutory protections in the event of an insurance company insolvency. The practical effect of these protections focuses FHLBI's residual risk on individual mortgage loans rather than on the risk of a member default on an advance. Therefore in our view, there is no reason to discriminate against one class of prospective FHLB member.

In the absence of any indication of Congressional intent and any indication of considered cost-benefit analysis, we believe there simply is no reason to exclude captive insurance companies from membership in an FHLB, especially those who can meet objective criteria to demonstrate their commitment to participating in the U.S. housing market. At a time when a stated "long-term goal is to ... have the private market get in there and provide these [mortgage] loans"[5], it seems particularly ill-conceived to summarily exclude an entire class of prospective members who we believe have the ability and capital to stimulate mortgage lending.

[4] Fed Governor Daniel Tarullo, testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, Washington, DC, September 2014.

[5] President Barack Obama, Remarks given at Hilton Woodland Hills, CA, August 2013.

We respectfully urge the FHFA to reconsider the Proposed Rule. I would welcome the opportunity to speak with you should you request additional information and may be reached at (212) 231-1000.

Sincerely,

MEADOWLARK INSURANCE COMPANY LLC

Michael P. McLaughlin
President