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January 9, 2015

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

RE: RIN 2590-AA39 - Notice of Proposed Rulemaking;
Request for Comments from Members of Federal Home Loan Banks

Dear Mr. Pollard:

We wish to thank you for the opportunity to respond to the Federal Housing Finance Agency (FHFA) notice of proposed rulemaking regarding revised membership regulations for the Federal Home Loan Bank (FHLBank) System. On behalf of the Board of Directors of American Mutual Share Insurance Corporation (ASI), I am writing this letter to express our concerns with the FHFA's proposed rulemaking on the initial and ongoing membership requirements for the FHLBank System.

ASI has been a member of the FHLBank of Cincinnati since June 14, 2011 and has a long history, within its 40-year corporate existence, of participating in the US housing mortgage market, both directly and indirectly, consistent with the FHLBank's housing finance mission, as discussed further below. ASI is a licensed Ohio credit union share guaranty corporation insuring the share deposit accounts of participating credit unions, which mutually own ASI, much like the structure of the FHLBanks, providing its members with deposit insurance and other services under this cooperative structure, and operates as an alternative to Federal primary deposit insurance for credit unions. ASI provides "first dollar" primary insurance on aggregate deposits of approximately $12.2 billion in 130 credit unions, insuring 1.2 million individual credit union members, in nine states (Alabama, California, Idaho, Illinois, Indiana, Maryland, Nevada, Ohio, and Texas). ASI is licensed and dual-regulated by the Ohio Department of Insurance and Ohio Department of Commerce and is also subject to rules and regulations in its other states of operation. ASI and its wholly-owned property and casualty (P&C) insurance subsidiary, Excess Share Insurance Corporation (ESI), collectively referred to as "the Company," also provide excess deposit insurance of up to $250,000 per individual account relationship, in excess of the ASI or Federal primary insurance limits, to nearly 240 credit unions in 33 states and in the aggregate amount of $3.1 billion. ESI is licensed as a P&C insurance company in all of its states of operations.

ASI has a significant indirect involvement in the US housing market through its support, monitoring and examination of its 370 insured credit unions. These credit unions collectively have $101.8 billion in total assets and hold approximately $37.5 billion, or 35%, of their total assets in residential mortgages.

We believe that the FHFA's proposed rule is not needed, has excessively harsh remedies for non-compliance, and runs counter to congressional action supporting the FHLBank cooperative system, which has a demonstrated history of providing flexible, reliable funding to its member institutions – the proposed rule, meant to be protective as to the FHLBank's housing finance mission, results in a significant and unnecessary burden on FHLBank members. The FHLBank's existing lending model already ensures that the FHLBank's housing finance mission is met since members are currently required to pledge mission-consistent mortgage related assets to borrow from the FHLBank. The proposed rule, if enacted, would require that all FHLBank members be subjected to an additional ongoing mortgage asset requirement, which reduces the flexibility that FHLBank members currently enjoy within their managed balance sheets.

We understand the FHFA's desire to ensure that the benefits of FHLBank membership are being used to further the statutory mission of the FHLBank; however, we disagree that the proposed threshold tests for members, including those specifically impacting insurance companies and credit unions, achieves an outcome above and beyond what is already accomplished under the FHLBank's existing lending model. To the contrary, we are concerned that these new membership rules, as proposed, would undercut the FHLBanks' mission of providing a reliable source of housing finance to its members and unnecessarily prevent new, private capital from supporting the housing finance market.

Proposed Rule Is Not Needed Since There are No Identified Specific Problems in Need of Correction with Regard to FHLBank Member Insurance Companies

The FHFA notes that its proposed rule to require ongoing FHLBank membership eligibility requirements is needed because an applicant could cease making home mortgage loans after it becomes a FHLBank member. However, the FHFA reports that relatively few members would be harmed by the regulator's intent to sustain quantitative levels and, moreover, concedes it has found no evidence of a widespread problem of such conduct. Instead, the new rule would be adopted to correct *" ... the possibility that institutions having no significant past or future involvement in home mortgage lending may become and remain Bank members ... "* and enjoy the benefits of membership, namely *" ... favorably priced funding through advances."*

Under the proposal, insurance companies, such as ASI, must meet a new ongoing one percent asset ratio test in order to retain FHLBank membership. The origination or funding of residential mortgage loans, referred to by the FHLBank as the "makes" test, currently only applies at the time that a prospective member applies for FHLBank membership – it is not currently an ongoing requirement. The ongoing asset test in the proposed rule fails to recognize the many ways in which members support housing finance, including through the pledge of mission-consistent assets, in order to borrow from the FHLBank, originating or selling mortgages into the secondary market, purchasing and holding as portfolio investments the debt securities of US government agencies (FHLB, FHLMC, FNMA, etc.) that in turn support the US housing market, investing in affordable housing and community development with the congressionally established Affordable Housing Program, or other targeted investment programs.

In ASI's case, at the time of our application with the FHLBank of Cincinnati we held over 1% of our total assets in mortgage-backed securities (MBS), and although we currently hold a little under 0.5% of our total assets in MBS today, we believe that it is important to note that we also hold over 50% of our balance sheet in US government agency debt securities of the three primary agencies that support residential housing – FHLB, FNMA and FHLMC – with approximately 20% of ASI's assets held in FHLB debt securities. These statistics are not just at certain times of the year, but has been relatively consistent day in and day out over at least the past 20 years! Certainly, we believe that ASI strongly supports the US housing market and the related finance and other activities therein, even if ASI is not considered a significant direct lender within the residential housing market.

The FHFA proposal also contemplates the potential for a heightened required ratio of two or five percent of mortgage assets to total assets, presenting not just another regulatory burden, but the ability for the FHFA to arbitrarily "raise the bar" at any point in time for no apparent safety or soundness reason.

Proposed Rule Is Not Needed Since There are No Identified Specific Problems in Need of Correction with Regard to FHLBank Member Credit Unions and the Rules are Discriminatory Towards Credit Unions

Through the years, the US Congress has demonstrated their intent with respect to the FHLBank System's role in housing finance, essentially showing a desire to expand FHLBank membership, its housing finance mission and access to liquidity in the US economy. For example, in 1989, under the Financial Institutions Reform, Recovery and Enforcement Act, Congress included commercial banks and federally-insured credit unions as new eligible FHLBank members, and established the Affordable Housing Program (AHP). In 1999, Congress acted to expand eligible collateral for community financial institutions, and through the Housing and Economic Reform Act of 2008, community development financial institutions were granted permission to join the FHLBanks. More recently in 2014, the US House unanimously passed legislation (H.R. 3584) that would have allowed a subset of the credit union industry not currently permitted to be FHLBank members -- i.e., those credit unions that have their primary deposit insurance through ASI -- to become FHLBank members.

We believe the resulting additional burdens of continual membership eligibility compliance could have adverse effects on many FHLBank's members, a number of which are federally insured credit unions that have the Company's excess insurance coverage. The one or 10 percent ratio requirement will likely encourage members to artificially manage their balance sheets during annual year-end reviews, rather than meet their customers' needs as they arise. We understand that the FHLBank cooperative structure does not demand that members engage in home mortgage lending 365 days per year, and recognizes that the needs of members' customers fluctuate over time. In our dealings with the FHLBank, borrowings by any member require a pledge of adequate collateral, comprised of residential housing related assets and typically at a multiple of the amount borrowed, which naturally results in FHLBank mission-consistent activity.

Even more to the point, it appears that the proposed rule regarding the ongoing 10% mortgage assets test would affect all credit unions, while only impacting banks with total assets over $1.1 billion. Smaller banks would be exempt while credit unions would be "all in" under the proposal, even though generally speaking credit unions tend to be smaller than banks on average. As a result, credit unions would be discriminated against under the proposed rule and be immediately and negatively impacted, more so than other financial institutions. This may become an entry barrier for credit unions wanting to join the FHLBank System.

The proposed rule has the distinct appearance of reversing the intent of the US Congress with respect to the FHLBank System's role in housing finance. The FHFA is attempting to *" ... ensure that benefits of membership, such as favorably priced funding through advances, accrue only to institutions that demonstrate a meaningful commitment to supporting residential housing finance ... "* Instead, the impact of the proposed rule is to effectively amend past congressional statutory provisions, reversing and shrinking FHLBank membership, changing the FHLBank housing finance mission, altering access to liquidity by FHLBank members and presenting entry barriers towards future membership for current non-members, all without congressional approval!

We believe the current FHLBank business model has been structured to ensure fulfillment of the FHLBanks' housing finance mission, as was originally envisioned by the US Congress. Member institutions can only borrow when they have mission-consistent assets to pledge as collateral, and therefore members only benefit from favorable pricing on borrowings when engaged in mission-related activity.

Termination of FHLBank Membership is a Harsh Penalty for Arbitrary Threshold Requirements

While we prefer that the proposed rule be withdrawn or at least see the FHFA give consideration to our comments and the comments of others that are submitted, in the event that the rule is adopted as proposed, the proposal also includes provisions for membership termination, which could occur without regard to business cycles and/or unusual economic circumstances. The termination provisions being proposed are based solely upon the proposed membership eligibility percentage levels and are grossly punitive to both the FHLBank member and its customers. Threatening the termination of an institution's membership is counter intuitive to the FHLBank cooperative model, especially when collateral requirements are already in place to ensure secured lending and a connection to housing finance. Moreover, terminated members lose flexible access to FHLBank borrowings for five years, resulting in an inability to access a reliable source of liquidity, especially during periods of economic stress, which could result in adverse and unintentional consequences impacting the US financial system.

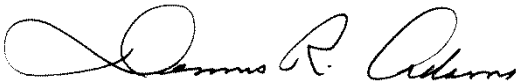
Conclusion

The proposed rule and its underlying operative requirements appear disproportionately harsh as compared to any harm that the FHFA is attempting to correct or avoid within the FHLBank System – a system that has successfully operated for 82 years through a myriad of adverse economic conditions, including the Great Depression in the 1930s and, more recently, the Great Recession in 2008-2009, the after-effects of which are still being felt.

For the reasons discussed above, we respectfully ask you to reconsider the proposed rules or, in the alternative, further open the discussion to public debate.

Thank you for your consideration.

Sincerely,



DENNIS R. ADAMS
President/CEO

DRA/jrd