



January 9, 2015

VIA ELECTRONIC SUBMISSION

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

Dear Mr. Pollard:

On behalf of the Delaware Captive Insurance Association (“**DCIA**”), an association whose members are primarily captive insurance companies and those who provide services to captive insurance companies, I am submitting this comment letter in response to the request by the Federal Housing Finance Agency (“**FHFA**”) for comments on its notice of proposed rulemaking (“**NPRM**”) regarding members of the Federal Home Loan Banks (“**FHLBanks**”). The NPRM, in part, would exclude captive insurance companies as members of FHLBanks. For reasons set forth herein, the DCIA does not support the exclusion of captive insurance companies from membership in FHLBanks.

The regulatory changes proposed by the FHFA constitute an impermissible amendment of the Federal Home Loan Banking Act (“**FHLBA**”). The FHLBA explicitly states that an insurance company is eligible to become a member of a FHLBank. The FHLBA does not define insurance company nor explicitly authorize the FHFA to adopt rules and regulations that restrict membership in FHLBanks. Insurance companies (including captive insurance companies) have been members of the Federal Home Loan Bank System (“**FHLBS**”) for many years.

Captive insurance companies are insurance companies. Captive insurance companies: (A) underwrite risks of affiliated and unaffiliated entities, (B) are licensed by the state or domicile where formed and are subject to regulatory oversight, and (C) are generally subject to the same terms and conditions pertaining to administrative supervision, conservation, rehabilitation, receivership, and liquidation as other insurance companies. Generally, the ability of captive insurance companies to either lend money or pay dividends to affiliated organizations is tightly regulated and requires prior review and written approval from the applicable state insurance commissioner.

Captive insurance companies are formed primarily to provide alternatives to traditional insurance and risk transfer. Captive insurance companies tend to be efficient and economical as they are typically owned by those who have a financial interest in the well-being of the captive insurance company. As with other insurance companies, captive insurance companies determine the risks to be underwritten, set the premium rates based on market conditions and actuarial analysis, write policies for the risks insured, collect premiums, and pay out claims for insured losses. Captive insurance companies also maintain reserves and surplus, manage their investments, assume and cede reinsurance and otherwise operate and conduct their business much like other insurance companies. Accordingly, there is no basis upon which to treat captive insurers, by regulation, differently from other insurers.

Captive insurance companies provide insurance similar to that provided by other insurance companies, such as property and casualty, general liability, product liability, director and officer liability, and professional liability. Captive insurers are also subject to extensive regulation by state insurance departments, which in virtually all instances includes: (i) requirements imposing minimum capital and surplus and additional solvency monitoring, (ii) approval requirements for material transactions, (iii) notice and approval of significant changes in business plan or management, (iv) continuous financial analysis, and (v) periodic financial examination. While captive insurance company business models are diverse, under current regulations, only those captive insurance companies that support liquidity in the housing markets are approved for FHLBank membership.

Advances to all FHLBank members are supported by eligible collateral. Captive insurance companies are not excluded from such requirements and are subject to the same FHLBank credit requirements as other FHLBank members, which requirements provide incentives to expand commitment to housing and community and economic development. Captive insurance company applicants are subject to the same scrutiny as any other member to ensure that they share the housing policies and goals of the FHLBanks. No distinction need be made between captive insurance companies and other insurance companies as the collateral requirement for advances works in both instances. It follows that captive insurers do not pose a risk to the FHLBS that is materially greater or different than other insurance companies.

No change in the current regulations regarding captives is warranted. The NPRM does not present any evidence that eliminating captive insurance companies as members is either necessary or advances the mission of the FHLBS. The NPRM notes that advances made to a captive, especially if transferred to the captive's parent, might not be used to support the FHLBS's housing mission. Because there are no provisions in the FHLBA that prohibit intercompany transfers of assets or funds so long as the collateralized advance is made to an eligible member, this risk exists anytime FHLBanks make an advance to a member and is not unique to advances made to captive insurance companies. Current regulations and guidance are sufficient without the need to exclude captive insurance companies as members of FHLBanks. Additionally, exclusion of captive insurers from membership in FHLBanks runs contrary to the Congressional goal of increasing membership in the system in order to sustain a high level of membership and thus a high level of interest income to FHLBanks.

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For the reasons discussed above, the Delaware Captive Insurance Association respectfully requests that the FHFA withdraw its NPRM. The proposed rule, including the elimination of eligibility for captive insurance companies and mandatory terminations of their membership in FHLBanks, are at odds with the FHLBA.

Sincerely,

A handwritten signature in blue ink, appearing to read "Peter Cavanaugh", with a long, sweeping flourish extending to the right.

Peter Cavanaugh, President
Delaware Captive Insurance Association

