



January 9, 2015

VIA FHFA Website: www.fhfa.gov/open-for-comment-or-input

Alfred M. Pollard, Esq., 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; Request for Comments – Members of the
Federal Home Loan Banks (RIN 2590-AA)**

Dear Mr. Pollard:

The Vermont Captive Insurance Association (“VCIA”) is writing to comment on the Federal Housing Finance Agency’s (“FHFA”) notice of proposed rulemaking and request for comments on “Members of the Federal Home Loan Banks”, published on September 12, 2014 (“NPR”). VCIA is the largest trade association in the world for captive insurance. Established in 1985, the association has grown to provide programs that support the captive insurance industry on both the state and federal levels for its 450-plus member companies. The NPR reviews current statutory and regulatory provisions governing Federal Home Loan Bank (“FHLB”) membership, proposes regulatory changes to the eligibility requirements for membership, and invites comments on all aspects of the NPR. VCIA appreciates the opportunity to submit the following comments.

Insurance companies have been eligible to become FHLB members since the FHLBs were created in 1932. While the FHLB Act does not define or limit “insurance company,” the FHFA is proposing to arbitrarily exclude captive insurance companies from membership eligibility without clearly articulating a safety and soundness concern or any other valid concern unique to captives. Citing only a “belief” that some captives may be formed by other companies, including real estate investment trusts (REITs), to access FHLB funding, the NPR provides no specific evidence of its claims or any discussion of the ways in which such practices would threaten the FHLBs’ mission, given the FHFA’s and the FHLBs’ current regulatory protections. Regardless of the FHFA’s intent to exclude captive insurance companies from the definition of “insurance company,” the fact remains: captive insurance companies are insurance companies, and the FHLB law specifically authorizes “insurance companies” to become members of FHLBs.

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Captive insurance companies are formed to underwrite risks of both affiliated and nonaffiliated entities. The FHLBs and state insurance departments have sufficient regulatory tools to deal with issues that might arise with a particular captive insurer. Captives are subject to the same regulatory bodies and oversight as are other insurance companies including regulatory requirements for supervision, conservation, rehabilitation, receivership and liquidation. Additionally, similar to other insurers, the ability of a captive insurance company to either lend money or pay dividends to affiliated organizations is tightly regulated and generally requires prior review and written approval from the domiciliary state insurance regulator. The FHFA should not be dictating the types of permissible insurance products for insurance company members, or for any members.

The NPR focuses on entities that are not eligible to become members using captives to gain access to the FHLB System. However, the parent of an eligible member should not affect the eligibility of membership for its subsidiaries. The parent corporation should be allowed to choose the financial charter of its subsidiaries that is most appropriate for its situation and eligible entities that became members should not be expelled from membership simply for having a parent company that may be ineligible for membership.

VCIA recognizes the need for the FHFA to promulgate appropriate rules and standards that all FHLB participants are required to meet. We believe the FHFA has failed to clearly articulate a compelling problem that exists to support the discriminatory treatment of captive insurers being proposed. Any supervisory concerns can be handled by the FHFA and the FHLBs without resorting to the most drastic penalty it can impose upon a member – expulsion. The disruptive and unintended consequences to our members, the FHLBs and the U.S. financial system far outweigh any perceived benefits that might be achieved.

In conclusion, the proposed rule provides no evidence to support eliminating captive insurers from being eligible for membership in the FHLBs. In doing so, the rule is in violation of the law authorizing companies to be members of FHLBs and is arbitrary and capricious. VCIA urges the FHFA to withdraw the proposed rule with respect to its treatment of captive insurance companies.

We greatly appreciate your consideration of these comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard Smith', written in a cursive style.

Richard Smith
President