

January 12, 2015

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2509-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, D.C. 20024

**Re: Advance Notice of Proposed Rulemaking and Request for Comments
Members of the Federal Home Loan Banks (RIN 2509-AA39)
- United Insurance Company of America**

Dear Mr. Pollard:

United Insurance Company of America (“United”) welcomes the opportunity to comment on the Advance Notice of Proposed Rulemaking (“ANPR”) in which the Federal Housing Finance Agency (the “FHFA”) expressed its desire to restrict the membership requirements of insurance companies in the Federal Home Loan Bank System (the “FHLB”, “FHLB Banks” or “FHLB System”). United is an Illinois-domiciled life and health insurance company that is licensed to transact insurance business in approximately 48 states. As of December 31, 2013, United had approximately \$3.7 billion in assets and in 2013, had approximately \$568 million in revenue. As of the date of United’s FHLB membership application, United held approximately \$149 million in mortgage-backed securities. In 2013, United satisfied all initial tests and membership requirements to become a member of FHLB Chicago. As a result, United now relies on FHLB as an alternate source of liquidity.

In 1932, Congress created the 12 Federal Home Loan Banks through the Federal Home Loan Bank Act. The mission of the FHLB was to provide a reserve banking system for select financial institutions to support their residential mortgage lending activities. The FHLB banks, whose operations are funded through the sale of debt securities, serve the general public by providing readily available, low-cost funding to over 7,600 members, thereby increasing the availability of credit for residential mortgage lending and investment in housing and community development. Each FHLB bank is structured as a cooperative in which various types of financial institutions, including insurance companies, may obtain membership and access to secured loans (advances) for the purpose of funding residential housing finance.

On September 12, 2014, the FHFA released the ANPR proposing to revise its regulations governing FHLB membership eligibility requirements in an attempt to strengthen the connection between FHLB membership and its mission to support the housing finance market. Under the current FHFA regulation, in order to be eligible for FHLB membership, an applicant must demonstrate, among other things, that at the time of the application, it makes long-term home mortgage loans. As this requirement is not an on-going membership requirement, once FHLB membership is obtained, the member may reduce or eliminate its investment in mortgage-related assets without affecting its eligibility for FHLB membership. Under the proposed rule, the FHFA intends to establish an ongoing “asset-test” requirement that applicants must meet as a condition of remaining a FHLB member. Specifically, FHLB members, including insurance companies, would be required to continually hold at least 1% of their total assets in long-term home mortgage loans (home mortgage loans with a term to

maturity of five (5) years or greater). Noncompliant members could be barred from further access or have their FHLB membership terminated.

We believe that the proposed “asset-test” requirement may adversely affect the business operations and investment portfolios of insurers such as United that wish to remain members of FHLB. Currently, all assets that are available to secure FHLB advances must be substantially related to the support of housing and community development. FHLB membership should not be contingent on one asset holding. Many municipal bonds are designed to support and improve community growth and should be acknowledged as supporting the mission of FHLB.

As an insurance company, United is subject to significant regulatory oversight that is principally focused on solvency and protecting the interest of its policyholders. If this ongoing “asset-test” requirement is imposed, it would be difficult for United to maintain the limits of its investments in residential mortgage related investments and still satisfy its insurance regulatory obligations. In addition, by requiring insurance companies to hold a certain amount of long-term home mortgage loans at all times, the proposal effectively would allow the FHFA to control a portion of an insurance company’s balance sheet as a condition of remaining an FHLB member. United’s asset allocation potentially could become over-invested in housing related assets at the expense of other asset classes necessary for conducting its insurance operations.

In addition to the ongoing “asset-test” requirement, the FHFA is also seeking to clarify the standards by which an insurance company’s “principal place of business” is to be identified in determining the appropriate FHLB Bank district that an insurance company may join. Under the existing rule, the “principal place of business” of an insurance company is the state in which it maintains its home office, if designated as such by its charter or articles of organization. The proposed rule would add to the existing definition the requirement that an insurance company also conduct its business operations from the home office in order for that state to be considered as its principal place of business.

We believe that the proposed definition of “principal place of business” could undermine the importance of domicile and create needless confusion. While this change would only apply to prospective insurance company applicants, the application of this test could impact current insurance company members. For example, if a current member merged with another member of a different FHLB, or chose to re-domicile its place of business to another FHLB district, application of the proposed principal place of business definition could cause confusion as to which FHLB district is the correct district for membership and require the FHLBs involved to agree on the determination of the appropriate district for the surviving institution. We believe that the current regulation’s emphasis on an applicant’s state of domicile as the determinative factor of FHLB membership location works well. 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 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.

The proposed rule also contradicts the intent of Congress. As noted in the ANPR, insurance companies have been eligible for FHLB membership since its inception, and at no time since then has Congress sought to restrict the membership eligibility requirements of its members. Congress has explicitly recognized the mission of FHLB to provide members with access to liquidity without limiting

that purpose to housing finance. By seeking to establish a housing finance nexus that all FHLB members must meet, the proposal is in direct conflict with the overall mission of FHLB and Congressional intent. In

the absence of Congressional action, the FHFA is essentially setting a precedent of a regulator amending current law. We believe that the current regulation works well to support the FHLB's housing finance mission and that mission should not be altered except at the express direction of Congress.

Insurance companies are an integral part of the FHLB System. There are approximately 300 insurance companies that are members of the FHLB Banks representing approximately 12.4% of outstanding combined advances (9/30/14) and approximately 4% of the FHLB membership. Access to the FHLB System provides insurance companies with an alternate source of liquidity as well as better asset-liability management. If the proposed changes are adopted it could create uncertainty on the reliability of FHLB membership or result in the termination of existing insurance company FHLB membership. These actions will likely lead to smaller FHLBs with fewer assets, reduced profits, lower retained earnings, and a decreased market value of equity and capital stock. As a result, less money will be available to support the FHLB's economic development programs.

In conclusion, we view the FHLB as a critical partner and a key source of liquidity. We believe there is no compelling reason to add or amend the membership eligibility requirements in the manner proposed. The proposed rule would threaten United's access to a reliable source of liquidity and discourage insurance companies from becoming and/or maintaining membership. As a result, this could materially reduce the benefits that the FHLB Banks enjoys from having insurance companies as members and have an overall negative impact on FHLB System. For these reasons, we strongly urge the withdrawal of this proposal.

Thank you for accepting and considering United's comments on the ANPR. Given the potential adverse impact that the proposed changes would have in FHLB and its members, we believe that the FHFA should withdraw the ANPR.

Respectfully,



Serena S. Watson
Assistant Secretary
United Insurance Company of America

cc: Christopher L. Moses, Assistant Treasurer, United Insurance Company of America