



**Property Casualty Insurers
Association of America**

Advocacy. Leadership. Results.

Robert W. Woody
Vice President, Policy

January 12, 2015

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

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

Dear Mr. Pollard:

The Property Casualty Insurers Association of America (PCI) appreciates the opportunity to provide comments in response to the Federal Housing Finance Agency's (FHFA) Notice of Proposed Rulemaking (NPRM) and Request for Comments regarding membership in the Federal Home Loan Bank (FHLB) system. PCI is composed of more than 1,000 member companies, representing the broadest cross section of insurers of any national trade association. PCI members write more than \$210 billion in annual premium, 39 percent of the nation's property casualty insurance. Member companies write 47 percent of the U.S. automobile insurance market, 33 percent of the homeowners market, 36 percent of the commercial property and liability market, and 39 percent of the private workers compensation market.

As was the case with the FHFA's 2011 Advanced Notice of Proposed Rulemaking on this topic, PCI is concerned that the NPRM evidences an uneasiness on the part of the FHFA about insurer membership in the FHLB system. However, the reasons for this unease are not apparent as neither the ANPRM or the NPRM cite any compelling evidence that insurer membership has had anything other than a positive impact on the FHLBs. As we noted in 2011, insurers have been eligible for FHLB membership for the entirety of the FHLB system's 82-year history. The decision to permit insurer participation was made by Congress, which has declined numerous opportunities over the years to restrict insurer membership. The FHFA again appears to be seeking to change membership rules in the absence of any exigent problem and with a lack of any sign that Congress wants the rules changed. Indeed, in some respects, PCI believes the NPRM proposes changes that exceed the FHFA's authority.

Asset Test. Current rules require that insurer members of FHLBs maintain investment portfolios that “include mortgage related assets” that “reflect a commitment to housing finance.” The NPRM proposes to augment this requirement with a quantitative minimum level of home finance related investments, *i.e.*, for insurers at least one percent (1%) of assets must be in home mortgage loans (which term is defined somewhat broadly, but is less flexible than the current requirement). The NPRM also raises the alarming possibility that this minimum might be increased to as much as 5% in the future. The NPRM’s only apparent argument in support of this proposal is a vague allusion to instances in which some institutions with minimal housing-related assets have been admitted to FHLB members, but the NPRM acknowledges that “the FHFA has found no evidence that this problem is widespread.” It therefore seems apparent that the proposed new quantitative asset test is a solution in search of a problem and should be withdrawn. The current rules already substantially require that insurers have an adequate nexus to the FHLBs’ housing finance mission.

Ongoing Test. The NPRM would also require that the asset test be met on an ongoing basis – a departure from current requirements for which the NPRM again offers no compelling argument in support. The Federal Home Loan Banks have estimated that: (1) more than 21 percent of insurer members would have failed an ongoing one percent test or would have been ineligible to join at least once during the 2008-2013 period (21% for property/casualty insurers and 10 percent for life insurers); and (2) 46 percent of insurer members would fail to meet a five percent test (39 percent for property/casualty insurers and 46 percent for life insurers). Small insurers would likely be the most severely impacted as they may have fewer options for alternative sources of immediate liquidity. And because PCI’s small to medium-sized member companies tend to serve rural areas, those communities could be hit hardest. As we noted in our 2011 comments, our member companies who are also FHLB members contribute to the FHLB’s system’s support of its Affordable Housing Program and Community Investment Program. Thus, the proposal could harm these areas doubly by denying the institutions that serve them needed liquidity and by reducing the amount of AHP funds available to those communities.

PCI is concerned that this proposal to create an ongoing requirement could have unintended consequences. For example, in a financial crisis, assets can fall precipitously which could cause FHLB members to fall out of compliance just when the liquidity offered by the FHLB is needed most. Thus, members would never have any certainty that they will have access to FHLB liquidity. This uncertainty is increased greatly by the NPRM’s suggestion that the minimum asset test may increase in the future. This could cause insurers to question the value of FHLB membership and perhaps discourage some from joining, thus depriving the FHLB of an important source of capital.

Definition of Insurance Company. The NPRM also proposes to define “insurance company” to mean “a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities.” The preamble to the NPRM states that “the principal effect of this provision would be to prohibit captive insurers from becoming Bank members.” However, the proposed definition threatens (perhaps unintentionally) the ability of non-captive insurers and other insurers to be FHLB members. Mutual insurers, for example, are owned by their policyholders so there could be an argument that those policyholders are “affiliates” of the insurer and thus the mutual insurer falls outside the proposed definition. This is a particular concern for association captive insurers, which are mutual insurance companies authorized under some state laws and have no parent company in the sense that traditional captives do, but instead insure a group of policyholders that engage in similar or related trade or business. It is also a common practice for insurers existing within a group to reinsure their affiliates. While the proposed definition does state that the insurer must underwrite for nonaffiliates as its “primary business,” no guidance is provided as to how the FHFA will analyze what an insurer’s “primary

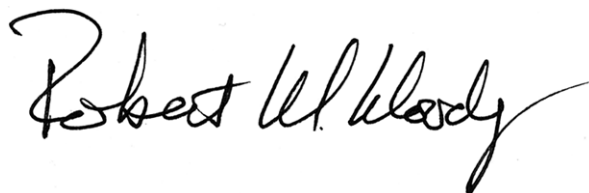
business” is. PCI encourages the FHFA to abandon this proposed definition, but at a minimum the FHFA should take care to define the term carefully so as not to exclude non-captive insurers or association captives from eligibility.

Principal Place of Business. PCI also believes that the NPRM’s proposal to change the way in which an insurer’s principal place of business is determined is ill advised. Creating situations in which an insurers’ principal place of business for FHLB membership purposes is in a state other than its domiciliary state creates confusion. Regardless of what determination the FHLB may make about an insurer’s principal place of business, the fact remains that the insurer’s primary regulator is in its domiciliary state. Because FHLBs must maintain close relationships with state insurance departments that regulate their insurer members, the FHLBs would be placed in a position of having members whose domiciliary regulators were located in states outside of the Bank’s district and thus require the FHLBs to maintain relationships with numerous other regulators who may often be far removed geographically from the Bank’s district. PCI sees no significant benefit to this proposal and urges that it be withdrawn.

Audited Financial Statements. The NPRM proposes to require all insurer applicants for FHLB membership to submit audited financial statements. For the most part this is not problematic, but there are circumstances in which certain insurers, especially smaller ones, can be exempt by state law or regulation from a requirement to file audited financials. In such cases, an FHLB requirement to produce audited financial statements would impose a significant burden that the state regulator believes should not be imposed. PCI urges the FHLB to accept the financial statements such insurers file under prevailing state law.

Again, PCI appreciates the opportunity to comment on the NPRM and we would be pleased to provide any further information that would be helpful to the FHFA.

Sincerely,

A handwritten signature in black ink that reads "Robert W. Woody". The signature is written in a cursive, flowing style with a large initial "R".

Robert W. Woody