FHLB Chicago

Federal Home Loan Bank of Chicago
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June 4, 2018

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
Eighth Floor, 400 Seventh Street, SW
Washington, D.C. 20219

Re: Comments/Regulatory Review No. 2018-N-03

Dear Mr. Pollard:

On behalf of the Federal Home Loan Bank of Chicago ("FHLB Chicago" or "Bank"), we appreciate the opportunity to comment on the Federal Housing Finance Agency's (the "Finance Agency") Notice of Regulatory Review (the "Notice"). The Notice solicits comments on how all Finance Agency regulations, except for those regulations adopted or substantially amended within the past two years, "may be made more effective and less burdensome". This letter seeks to identify the regulatory issues which we believe are in need of review and revision; and that improvements in the areas described below could have a beneficial impact on the operations and performance of the FHLB Chicago.

Captive Insurance Companies; General Eligibility Requirements for Membership (12 C.F.R. § 1263.6)

The Finance Agency's Federal Home Loan Bank membership eligibility regulation, 12 C.F.R. § 1263.6 (the "Membership Rule"), was recently amended (effective February 19, 2016) to prohibit captive insurance companies ("Captives") from joining a Federal Home Loan Bank ("FHLB") and requires existing Captive members to exit their memberships after expiration of a transition period. We ask the Finance Agency to revise the membership rule in order to permit Captives that are currently members to continue their membership. Insurance companies have been eligible to become FHLB members since Congress adopted the Federal Home Loan Bank Act, 12 U.S.C. § 1421 et. seq., and created the FHLB System in 1932. Congress did not place any limitations on the types of insurance companies that are eligible for FHLB membership. Moreover, it is not clear that Congress ever intended members in good standing of a Federal Home Loan Bank to have their membership terminated by regulation. In the preamble to the Membership Rule, the Finance Agency stated it was primarily concerned with a subset of Captives that may be obtaining advances to fund operations of their parent unrelated to housing finance. Defining "insurance company" in a manner that terminates membership eligibility for

all Captives unnecessarily excludes those Captives that support housing finance and promote the FHLB mission that Congress established.

From a policy perspective, when the Captive member is an affiliate of a depository institution, we believe that its membership should be maintained when the Captive and parent demonstrate a strong connection to housing finance. For example, one of our significant borrowers, as of the date of this letter, is a Captive of national bank that is otherwise eligible for membership; and the national bank through significant mortgage originations, supports home ownership in the U.S. Its borrowings and its membership in our Bank undoubtedly further our housing finance mission and support our affordable housing activities through the income generated from the Bank products it utilizes. Further, as a Captive of a national bank, its parent is subject to a comprehensive system of prudential regulation and supervision under the national banking laws, which provides a comparable level of oversight and transparency to our other bank, thrift and credit union members. Such regulatory oversight and supervision should allay any safety and soundness concerns the Finance Agency expressed in the preamble to the Membership Rule and therefore, the Finance Agency should permit such Captives to maintain their membership in a Federal Home Loan Bank.

General eligibility requirements –12 CFR § 1263.6 (40% test for Captives)

We request a modification to the maximum advance calculation for Captive members contained in 12 C.F.R. § 1263.6(e)(1)(i)(A) to allow an FHLB to make this calculation based on the most recent financial statements available, whether such statements have been filed with the Captive's regulatory agency or not. By referencing the term "total assets", 12 C.F.R. § 1263.6(e)(1)(i)(A) requires that the 40% test look to the assets reflected on the Captive's "regulatory financial report". Because the regulatory financial reports may only be required annually, the result is that the 40% test is often based on information other than the most recent, and best, available information. The Bank requests that the language in §1263.6(e)(1)(i)(A) be modified to read as follows: *"After making or renewing the advance, the total outstanding advances to that Captive would not exceed 40 percent of the Captive's total assets as reflected in the Captive's most recent available financial statements, whether or not such statements are regulatory financial reports; and".*

Redemption and Repurchase of Stock –12 C.F.R. § 1277.26(b)

We request clarification around the repurchase of membership capital stock from Captive members whose membership will be terminated by February 2021. The language of 12 C.F.R. § 1277.26(b) provides that membership termination cannot in and of itself cause previously required capital stock to become excess stock upon membership termination. However, it is our understanding that other FHLBs may have received guidance from the Finance Agency allowing immediate repurchase of membership capital stock from previously terminated Captives, regardless of their capital plan provisions. For the sake of clarity and consistency, we request that the Finance Agency clarify whether FHLBs may choose to repurchase membership capital stock

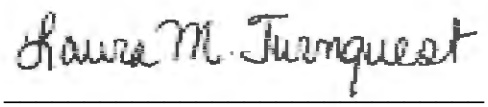
from Captive members whose membership will be terminated by February 2021 as excess stock upon membership termination.

Involuntary Termination of Membership –12 C.F.R. § 1263.27

We request clarification around 12 C.F.R. § 1263.27, which states an FHLB's board of directors may terminate the membership of an institution for the following reasons: 1) failure to comply with the Federal Home Loan Bank Act, any Finance Agency regulation, or any requirement of an FHLBank's capital plan; 2) insolvency or the appointment of a conservator, receiver or other legal custodian under state or federal law; or 3) jeopardizing the safety and soundness of an FHLBank if membership continues. This regulation provides that an institution whose membership is terminated shall cease being a member on the date on which an FHLB's board of directors acts to terminate membership. However, frequently, in connection with insolvency, receivership, or conservatorship, an institution is consolidated into another member or non-member institution and its charter is cancelled well before an FHLBank's board of directors is able to take formal action to terminate membership. Additionally, there are instances where the member's assets and liabilities are not consolidated into another member or non-member institution and are instead retained by the receiver; its charter terminating on the date of receivership. In both scenarios it seems unnecessary and redundant for an FHLBank's board of directors to act to terminate the membership of an institution whose charter has been cancelled and no longer exists. Accordingly, for reasons of practicality and efficiency, we seek regulatory clarification as to whether board action is required to terminate membership where an institution's charter is cancelled in connection with insolvency, receivership, or, conservatorship. Relatedly, we seek clarification as to whether 12 C.F.R. § 1263.24 (instead of 12 C.F.R. § 1263.27) applies when an institution is consolidated with another member or non-member institution in connection with its insolvency, receivership, or conservatorship.

Thank you for your consideration of these comments.

Federal Home Loan Bank of Chicago



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