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December 4, 2012

Alfred M. Pollard, General Counsel
Attention: Comments/2012-N-14
Federal Housing Finance Agency – Eighth Floor
400 7th Street, SW
Washington, D.C. 20024

Re: 2012-N-14: Request for Comments on Proposed Advisory Bulletin on Collateralization of Advances and Other Credit Products Provided by the Federal Home Loan Banks to Insurance Company Members of the Federal Home Loan Banks ("proposed AB")

Dear Mr. Pollard:

Thank you for the opportunity to submit comments on the proposed Advisory Bulletin pursuant to which the Federal Housing Finance Agency ("FHFA") proposes to set forth standards to guide FHFA staff concerning supervision of secured lending to insurance company members by the Federal Home Loan Bank ("FHLBank"). On behalf of Jackson National Life Insurance Company ("Jackson"), and its wholly-owned captive insurance subsidiary Squire Reassurance Company, LLC ("Squire Re"), each members of the Federal Home Loan Bank of Indianapolis ("FHLBI"), I am submitting these comments to address the issues raised by the proposed Advisory Bulletin with regard to secured lending to insurance companies.

<u>Background and Importance of Insurance Company Membership</u>

By way of background, insurance companies have traditionally been welcomed as members of their respective regional FHLBanks since the inception of the FHLBank Act in 1932 as a result of their historical and, in many cases, continued direct participation in the issuance of, or investment in, residential home loans. Insurance companies are a significant and valuable part of the FHLBank System, representing 12.6 percent of outstanding advances as of December 31, 2011.

Jackson and other life insurance company members work closely with their respective FHLBank to identify opportunities to participate in the FHLBank's redevelopment and charitable initiatives. These efforts, including Habitat for Humanity and FHLBank's Community Investment Program, which offer below market rate advances to members for financing housing and economic development benefitting low and moderate income families, are a direct result of Jackson's membership in the FHLBI. Given the importance of insurance company members to the FHLBank system and its ability to fulfill its mission, the FHFA should avoid making any unnecessary or unwarranted changes which impose inflexible system-wide guidelines or policies, such as those contained the proposed AB.

Regional Structure Strengths

By Congressional design, each FHLBank is regionally focused and controlled. This creates a structure that allows each of the regional banks to be responsive to the community credit needs and customer relationships within its region. Any broad-brush approach imposed on the FHLBanks would be in direct conflict with this structure and mission. Each member has unique characteristics and should be evaluated for membership and underwritten for advances on an individual basis as each of the regional member banks have quite competently and effectively done to date. Each of the FHLBanks maintains current and effective lending policies, conservatively structured and designed to account for the particular risk characteristics of each type of member institution.

The current twelve bank system is sufficiently concentrated to provide the individual banks with economies of scale and operating efficiencies, and yet their independence encourages innovation and provides member organizations, large and small with both input on bank policy and access to liquidity. Given the state by state variations on the characteristics and needs of member institutions, the FHLBank system's regional structure permits each of its regional banks to reflect and honor the cooperative structure of the system and serve the unique needs of its members. It is for these important reasons that the lending policies differ among the FHLBank regions for banks, thrifts, credit unions, captive organizations and insurance companies. While lending policies differ, there is one constant: each bank lends on a fully-secured basis and manages advances to a zero-loss expectation.

Absence of a Need for the Proposed System-Wide Guidelines

The premises and justifications articulated by the FHFA in support of the need for the guidance are in many cases unfounded and collectively do not support the need for global policy guidelines on insurance member lending. There are no clear risks articulated that are not currently addressed by existing lending policies that would warrant placing limitations on the independence of the various FHLBanks and their boards to determine how they will conduct business and carry out their mission. In examining whether there exists a need for this guidance, it is also important to note that while FHLBank lending practices vary by and are tailored to characteristics and needs unique to each geographic region, no FHLBank has ever realized a loss on an insurance company advance since the inception of the system in 1932.

The Introduction and Background sections of the proposed AB purport to establish a need for the guidance by suggesting that it is warranted based on: (i) the inherent nature of the insurance business differing from the banking sector, (ii) the use by the insurance industry of Statutory Accounting Principles ("SAP") and (iii) the differing risk characteristics associated with lending to insurance companies as opposed to banks.

(i) Inherent nature of the insurance business -- The proposed AB suggests that the insurance industry is inherently more risk prone than the banking industry. The proposed AB asserts that the insurance industry's "unique product" causes revenues (premiums) to be collected in advance of knowing the "ultimate cost" (claims) and that future claims levels can vary from estimates due to "unforeseen events or litigation." This characterization illustrates a fundamental oversimplification of the insurance industry. While the insurance industry and its business and products differ from those of the banking industry, mere differences in the respective businesses do not justify the disproportionate membership and lending constraints now being proposed by the FHFA. This is especially true given the relatively higher historic incidence of insolvencies experienced in the banking industry. The insurance industry has a long history of prudence and financial stability grounded in financial and operational conservatism. All member institutions, including banks, are per se in the business of evaluating risks, prudently designing and pricing products, and engaging in effective underwriting of business transacted. Insurance companies utilize long-standing actuarial methods to analyze, underwrite and price the various risks associated with each contract, thereby arriving at a premium charged on each contract commensurate with that risk.

(ii) SAP Accounting -- Statutory accounting is a conservative method of accounting focused on protecting the rights of the insurance company's policyholders. In many cases, it requires more conservative accounting than US GAAP, which may delay the emergence of capital and surplus in the interest of policyholder security. Further, the underlying tenets and capital requirements of this regime were tested and supported through the recent economic turmoil.

(iii) Risk characteristics that differ from those of banks -- Differences in risk characteristics do not necessarily increase the risk profiles of the FHLBanks:

- Portfolio theory suggests that the FHLBanks can reduce overall risk by diversifying risk exposures. Since insurance company borrowing needs are not perfectly correlated with those of depositories, prudently adding insurance company lending should reduce FHLBank advance portfolio and income volatility. This principal has been illustrated during the past four years as advances to depository institutions have declined over 60% while insurance company advances have increased over 20%. The growth of insurance company advances has reduced FHLBank business risk by stabilizing income and affordable housing program grant levels.
- The FHLBanks have mitigated the different risks associated with each membership group through prudent secured lending practices. All advances are fully-secured and capitalized by the borrower and managed to a zero-loss expectation by the FHLBank. While differences exist across the System, insurance company lending practices are uniformly more conservative than for insured depositories. In particular, the "super lien" has permitted depositories to pledge less liquid collateral on less restrictive terms for FHLBank advances than insurance companies.
- Insurance company's longer term liquidity needs cause them to primarily invest in marketable securities. For this reason, insurance companies provide more liquidity to the financial system than do banks and, as a result, advances are primarily collateralized by high credit quality relatively liquid assets with readily available market prices. Due to their conservative lending policies and the absence of a super-lien, the FHLBanks require physical possession of insurance company collateral and have a perfected first-priority security interest. In addition, the commercial loans pledged by insurers are generally of CMBS or better quality, could be readily sold or securitized, if necessary, and are also held in physical possession by the FHLBanks. Unlike depositories, the FHLBanks do not permit insurers to operate on either a blanket lien or specific listing collateral status.

It is also suggested that the proposed AB guidelines are necessary because insurance companies are regulated at the state as opposed to the federal level. Jackson strongly disagrees that long standing and effective state regulation is, in any sense, a justification for the guidelines sought to be imposed. The issues associated with this premise have been fully and effectively dealt with in the comment letter submitted by The National Association of Insurance Commissioners ("NAIC") dated November 28, 2012. Jackson fully supports and endorses the positions taken by the NAIC.

Conclusion

Jackson would respectfully request that the proposed Advisory Bulletin be withdrawn. The historical relationship between insurers and FHLBanks has worked well to support the FHLBank housing finance and community development mission. In Jackson's view, neither the mission nor the independent operations of the regional FHLBanks should be altered except at the express direction of the United States Congress.

Sincerely,

P. Chad Myers
Executive Vice President and Chief Financial Officer

cc: Congressman Mike Rogers
Congressman Gary Peters
Congressman Bill Huizenga
Congressman Ed Perlmutter