Property Casualty Insurers
Association of America

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Robert W. Woody
Senior Counsel, Policy

December 4, 2012

Mr. Alfred M. Pollard
General Counsel
Attention: Comments 2012-N-14
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024

RE: Advisory Bulletin on Collateralization of Advances and Other Credit Products Provided by Federal Home Loan Banks to Insurance Company Members – Notice with Request for Comment

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 Notice with Request for Comments on the FHFA's proposed Advisory Bulletin regarding Federal Home Loan Bank lending to insurance company members. 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 $190 billion in annual premium, 40 percent of the nation's property casualty insurance. Member companies write 46 percent of the U.S. automobile insurance market, 32 percent of the homeowners market, 38 percent of the commercial property and liability market, and 41 percent of the private workers compensation market.

The proposed Advisory Bulletin, and especially the narrative in the FHFA's Notice and Request for Comment, suggests that the FHFA has misgivings about the prudence of FHLB lending to its insurer members. These misgivings were also evident in the FHFA's December 27, 2010 Advance Notice of Proposed Rulemaking, which, in effect, raised questions about whether insurers should continue to be eligible for FHLB membership. As PCI and numerous other commenters pointed out in response to that ANPR, insurers have been eligible for membership in the FHLB system for 80 years, and that relationship has been a positive one. Property casualty insurers play a significant role in the U.S. housing market, which is dependent on the availability of affordable insurance. Indeed the Congress has clearly recognized this as it has taken no action over those 80 years to restrict insurer eligibility.

The Request for Comment on the Advisory Bulletin seems to be predicated on a misperception that the FHBLs are lending to insurers without an understanding of how insurers are regulated, of the statutory accounting rules applicable to insurers, or how insolvencies are handled by state regulators. Given that insurance insolvencies have been far less common that depository institution insolvencies and that no FHLB has ever taken a loss on an advance to an insurance company in the past 80 years, the basis for the FHFA's misgivings about member banks' ability to underwrite loans to insurers is difficult to understand. Nevertheless, we hope the following will provide the FHFA with some comfort.

The proposed Advisory Bulletin suggests that the Statutory Accounting Principles (SAP) employed by insurers and insurance regulators is "quite different from state to state." In fact, it is quite uniform across the states. While there are some variations, all states utilize the National Association of Insurance Commissioner's (NAIC) Accounting Practices and Procedures Manual, which leads to substantial uniformity and consistency in insurer financial statements throughout the country. The Bulletin also suggests uncertainty about a FHB's status as a secured creditor of an insurer. Although this may vary a bit depending on the state and the type of loan at issue, there is little, if any, uncertainty. State insurance laws set forth order of priority for claims.

Insurance regulators throughout the country require property casualty insurers to maintain investment portfolios of investment grade marketable securities. While there are some variations between states, investment requirements applicable to insurers are *uniformly more conservative* than those applied to depository institutions which can include residential mortgages and below-investment grade commercial mortgages. These insurer assets fully collateralize advances made by FHLBs to insurer members. Many FHLBs have chosen to increase lending to insurers as a way of prudently diversifying their loan portfolios and shoring up their depository institution loans having more liberal collateral requirements with more conservatively collateralized insurer loans. The FHFA's request for comment notes the increase in lending to insurers with an apparent tone of alarm. Indeed, this increase should provide the agency with comfort as such lending is in fact a prudent and a healthy diversification technique employed by FHLBs to strengthen their financial position.

The FHLBs' highly successful record of lending to insurers suggests that the banks are more sophisticated about their insurer lending practices than the FHFA recognizes. The FHLBs are required by law to manage their risks responsibly and this requires a sufficient understanding of the accounting methods used by insurers, of their underwriting practices, and how they are regulated. The FHLBs analyze each loan to insurers on a case-by-case basis in detailed discussions with the insurers' management. Their successful record over an 80-year period speaks for itself.

During the 80-year period in which the FHLB has been lending to insurers, there have been only three instances in which member insurers became impaired. In each case, FHLBs collaborated with state insurance regulators managing those rehabilitations and in each case the result was that the banks did not take a loss on any advance to insurers. This adds further mystery to the FHFA's apparent misgivings about FHLB lending to insurers.

The FHFA's request for comment asks whether the agency "should consider establishing specific and uniform standards for making advances to insurance companies." PCI believes that setting such uniform standards would be unwise. We live in a large and diverse country – a fact the current 12-bank FHLB system's structure recognizes and accommodates. FHLBs have historically operated with a significant degree of regional autonomy, recognizing that the communities each bank serves can differ in significant ways. The highly successful record the FHLBs have established suggests that the current system has worked well and does not suggest a need for one-size-fits all approach to supervision of FHLB practices with respect to lending to insurer members.

PCI understands that, while the FHFA has established a working relationship with the NAIC on other matters, the agency has not consulted with the NAIC regarding the concerns expressed in the Advisory Bulletin and the preamble. We would recommend that the FHFA open a dialog with the NAIC on these topics as we are confident that this should alleviate the FHFA's stated concerns. In addition, PCI would be happy to meet with FHFA officials to provide any further information or assistance the agency may require.

Sincerely,

Robert W. Woody