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December 4, 2012

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency  
Eighth Floor  
400 7<sup>th</sup> Street SW  
Washington, DC 20024

Attention Comments: 2012-N-14

Dear Mr. Pollard,

The Independent Community Bankers of America (ICBA)<sup>1</sup> welcomes the opportunity to comment on the Advisory Bulletin<sup>2</sup> on Collateralization of Advances and Other Credit Products Provided by Federal Home Loan Banks to Insurance Company Members. The vast majority of ICBA members are also Federal Home Loan Bank (FHLB) members. Insurance companies comprise about 3.3 percent of total FHLB membership and 12.6 percent of advances as of December 31, 2011.

### **Background**

As the FHFA points out, lending to insurance companies exposes the FHLBs to a number of risks that are not associated with advances to their insured depository institutions members. In large part, these risks arise from the fact that, unlike the FHLBs' commercial bank, thrift and credit union members, insurance companies are only regulated at the state level. In dealing with its insurance company members, each FHLB

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<sup>1</sup>The Independent Community Bankers of America®, the nation's voice for more than 7,000 community banks of all sizes and charter types, is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

With nearly 5,000 members, representing more than 23,000 locations nationwide and employing more than 280,000 Americans, ICBA members hold more than \$1.2 trillion in assets, \$1 trillion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).

<sup>2</sup>Although Advisory Bulletins do not have the force of a regulation or an order, they reflect the position of the FHFA staff on the particular issues addressed and are followed by FHFA staff in carrying out the agency's supervisory responsibilities.

must understand multiple statutory and regulatory regimes and must assess how its interests may be affected by the variations between those regimes. This is made more difficult by the fact that there is little precedent to indicate how the insurance commissioner in any given state would deal with repayment of the member's outstanding advances or with the FHLB's security interest in advances collateral in the event of a failure of an insurance company. In some states, a FHLB might be required to liquidate collateral in order to obtain repayment of its advances to a failed insurance company, which introduces additional uncertainties about its ability to be made whole. Specifically, there is a lack of judicial consideration of how the Federal Home Loan Bank Act Section 10(e) "super lien" would interact with various federal and state laws governing insurance companies.

In addition, the financial statements of insurance companies are based upon statutory accounting principles that are specific to insurance companies, as opposed to the generally accepted accounting principles in the United States on which the financials of most other domestic companies, all federally insured depository institutions and the FHLBs themselves are based. While the statutory accounting principles adopted by each state are similar, required reporting practices and reporting frequencies, as well as data definitions and data formats may be quite different from state to state.

The Advisory Bulletin sets forth a series of considerations that FHFA proposes to use in the monitoring of insurance company transactions with the FHLBs. It focuses on principles that would be used by agency supervisory staff to assess each FHLB's ability to evaluate the financial health of its insurance company members and the quality of their eligible collateral as well as the extent to which the FHLB has a first-priority security interest in that collateral.

### **ICBA Views**

ICBA supports the FHFA's decision to address the special situation of the collateralization of products that the FHLBs provide to insurance company members. The FHLBs have a very long history of lending to "traditional" FHLB members; however, lending to insurance company members presents unique challenges as the FHFA points out. It is important that FHLB and FHFA staff have the knowledge and expertise to understand and monitor insurance company members' financial reports, collateral and other circumstances that may expose the FHLBs to the unique risks of doing business with these institutions. We encourage the FHFA to consider establishing specific and uniform standards for making advances to insurance companies, including more specific collateral policy guidance, to ensure that practices are reasonably uniform across the FHLB system. This would promote investor understanding and confidence that business between insurance company members and the FHLBs is not exposing the FHLBs to undue risk and also help the FHLBs understand the risk across the system. This should include the potential for more stringent collateral acceptance and valuation policies for insurance company members.

We appreciate the opportunity to comment on this important issue. Please contact me by email at [ann.grochala@icba.org](mailto:ann.grochala@icba.org) or by phone at 202-659-8111 if you would like to discuss our comments further.

Sincerely,

/s/

Ann M. Grochala

Vice President, Lending and Housing Policy