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December 4, 2012

*Via Electronic Mail: [RegComments@fhfa.gov](mailto:RegComments@fhfa.gov)*

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

Re: 2012-N-14

Dear Mr. Pollard:

I write on behalf of Liberty Mutual Insurance Group (Liberty Mutual). Liberty Mutual welcomes the opportunity to comment in response to the Federal Housing Finance Agency's request for comments on its Advisory Bulletin on Collateralization of Advances and Other Credit Products Provided by Federal Home Loan Banks to Insurance Company Members. Liberty Mutual is a member of the Federal Home Loan bank system. Boston-based Liberty Mutual is a diversified global insurer, third largest P&C insurer in the United States and sixth largest in the world based on 2011 direct written premium. Liberty Mutual ranks 84th on the Fortune 100 list of largest US corporations. As of December 31, 2011, Liberty had \$116.851 billion in consolidated assets, \$99.252 billion in consolidated liabilities, and \$34.671 billion in annual consolidated revenues. Liberty Mutual holds a substantial amount of residential mortgage loans and holds some low-income tax credit securities.

The FHLB System membership is open to commercial banks, thrifts, credit unions, insurance companies, and any entity certified as a Community Development Financial Institution by the US Department of Treasury, provided they satisfy regulatory membership criteria. Each member group has unique risks that can and are being managed by the individual FHLBs in their secured lending.

With specific regard to insurance companies, the Advisory Bulletin has significant policy implications for membership and access to the FHLB System. As such, the impact of the Advisory Bulletin on FHLB activities would be similar to Congress exercising its prerogative to change the Federal Home Loan Bank Act. Policy questions should be determined by Congress rather than by new administrative interpretation of long-existing regulations. While insurance companies have been members of the FHLB System since 1932 and no loss has ever been taken on an insurance company advance, the October 2012 Advisory Bulletin singles-out insurance companies and would have the impact of restricting their FHLB access and devaluing their membership. By capping each FHLB's exposure to insurance companies in relation to capital structure and retained earnings, insurer access would be reduced, insurer participation in the FHLB's mission would be minimized, and the value of insurer membership would be negatively impacted.

These negative effects on insurers are equally detrimental to FHLBs and their mission to promote affordable housing. The differences between insurance company and depository lending provide the FHLBs with a risk-reduction opportunity. By diversifying into insurance company lending, the FHLBs have arguably reduced their overall risk. During the past four years FHLB advances to member depository institutions have declined about 60%. In contrast, insurance company advances increased about 20% during the period and helped stabilize income and affordable housing program grant levels.

Insurance company membership supports the FHLB's mission and its ability to transact business on a safe and sound basis. The reason insurers were permitted to become FHLB members by the Federal Home Loan Bank Act of 1932 was not because they wrote insurance per se, but because their investment activities supported the FHLB's mission and they were subject to a comprehensive regime of state regulation.

The differences in risks associated with lending to insurance companies versus depositories can be mitigated by prudent secured lending practices. As with all advances, loans to insurance companies are fully-secured and managed to a zero-loss expectation. While differences in practices exist across the FHLB System, insurance company lending practices are uniformly more conservative than for insured depositories.

The FHLBs are required to underwrite the financial strength of each member institution individually before extending credit and can legally only lend to them on a fully-secured basis. Understanding the prudential operations or overall risk management of an individual insurance company is part of the underwriting process, and must be undertaken on a case by case basis in discussions with the company's management team by each FHLB. When an insurance company enters into a funding agreement with an FHLB, it does so based on the applicable FHLB's Advances Pledge and Security Agreement and fully secures the advance based on the FHLB's credit policies. Finally, users of FHLB funding agreement advances must report their existence, magnitude, and that they have investments being used as collateral on their statutory filings.

For these reasons, Liberty Mutual urges the FHFA to consider the Advisory Bulletin's negative implications for both insurance company members and for the FHLB System. Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads "Paul Mattera". The signature is written in a cursive, flowing style.

Paul Mattera