



KAREN WELDIN STEWART
INSURANCE COMMISSIONER

December 19, 2012

Via Electronic Mail

(RegComments@fhfa.gov)

Mr. Alfred M. Pollard
General Counsel
Attention: Comments/2012-N-14
Federal Housing Finance Agency
Fourth Floor, 1700 G Street, NW
Washington, D.C. 20522

Re: Comments for Advisory Bulletin No. 2012-N-14 on Collateralization of
Advances and Other Credit Products

Dear Mr. Pollard:

On behalf of Insurance Commissioner Karen Weldin Stewart, I submit the following comments to the Federal Housing Finance Agency (FHFA) regarding the above referenced advisory bulletin. The overall impression of the Advisory Bulletin is that the FHFA desires that the FHLBanks it regulates understand the state insurance laws of the insurance companies to whom advances are made. As a fellow regulator, in the sense that the FHFA regulates the FHLBank lender and the Commissioner regulates the insurance company borrower, the Commissioner appreciates the FHFA's effort to promote an advisory bulletin that provides a better understanding of the laws.

The Commissioner agrees with some of the points in the Advisory Bulletin. For example, the Advisory Bulletin inquires if the FHLBanks have relationships with the insurance regulators in the states where it has insurance company members. These relationships are important and must be encouraged. Additionally, the Advisory Bulletin recommends that FHLBanks obtain opinions of qualified counsel to ensure the insurance companies are eligible to become FHLBank members and to take advances. This is a

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logical recommendation so long as hired counsel understands and has experience with the state insurance regulatory process, and the specialized laws and rules of insurance regulation.

The Commissioner does not want the Advisory Bulletin to become a means of making FHLBanks more reluctant to accept additional insurers as members; nor at the same time making the FHLBanks more reluctant to make advances to current insurer members. Two examples of potential reluctance are the references to the risk characteristics of lending to insurance companies and statutory accounting.

The Advisory Bulletin addresses the risk characteristics of lending to insurers. Specifically this involves insurers who have taken FHLBank advances and then face rehabilitation proceedings. On two fronts, the Commissioner is taking a leadership role in this area. First, she has formed an FHLBank task force within the Delaware Insurance Department to examine legislation under consideration in the Delaware General Assembly. Though a bill has not yet been filed, we believe this legislation would:

(A) Provide that the FHLBanks are not subject to a stay or prohibited from exercising their rights to collateral pledged to them by an insurance company borrower who becomes subject to an insolvency proceeding; and

(B) Exclude the FHLBanks from the voidable preference provision of the insolvency statute.

As the Commissioner's internal task force conducts its work, she expects that its members will contact the FHFA for its views on insurance company memberships in the FHLBanks. On the second front, she serves as the vice chair for the National Association of Insurance Commissioners Receivership and Insolvency Task Force. Last month this task force formed a new working group titled *Federal Home Loan Bank Legislative Working Group*. The new working group, of which Delaware is a member, will consider issues that arise when an FHLBank member insurer goes into rehabilitation.

While the objectives of Statutory Accounting Principles (SAP) differ from the objectives of Generally Accepted Accounting Principles (GAAP), these differences are not large enough to encumber insurers from becoming FHLBank members. GAAP is designed to meet the varying needs of the different users of financial statements. SAP is

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designed to address the concerns of regulators, who are the primary users of statutory financial statements. As a result, GAAP stresses measurement of emerging earnings of a business from period to period, such as matching revenue to expense. On the other hand, SAP stresses measurement of ability to pay claims in the future. This difference is illustrated by the fact that statutory policy reserves are intentionally established on a conservative basis emphasizing the long-term nature of the liabilities. Under GAAP, the experience expected by each company, with provision for the risk of adverse deviations, is used to determine the reserves it will establish for its policies. GAAP reserves may be more or less than the statutory reserves. It is important to note that Commissioner Stewart and her fellow regulators in the other states regularly monitor and examine the insurance industry. Monitoring consists of the filing of quarterly financial statements, use of solvency tools like risk based capital, and the examination of insurers every three to five years. Of course if insurance regulators believe an insurer poses a risk, then they can utilize additional regulatory tools. The Commissioner stresses that the insurance industry is well regulated at the state level and the differences in accounting and regulation should not handicap insurance company FHLBank membership.

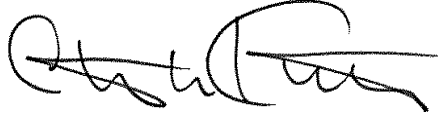
The Advisory Bulletin also addresses whether FHLBanks have established policies related to lending to captive insurance companies. The Commissioner encourages the establishment of such policies because captive insurance is a growth industry as evidenced by Delaware. The Commissioner has made Delaware one of the top five U.S captive domiciles, and the world's fastest growing captive domicile. Commissioner Stewart formed the Bureau of Captive and Financial Insurance Products ("Bureau") in July 2009. At that time Delaware had only 38 captive insurers. Today Delaware boasts nearly 400 captive insurers. These insurers are in various types to include risk retention groups, special purpose financial captives, and sponsored cell captives. In only three years Commissioner Stewart's vision to make Delaware a top tier domicile has paid dividends. The Bureau is financially self-sufficient and generates a monetary surplus. In the realm of satisfying the FHLB's mission to promote housing, Delaware is home to a number of captive insurers whose parent entities are involved in commercial and residential real estate. These particular captives are well capitalized and suited to be FHLBank members, and have the ability to further the housing mission. It is also important to note that nearly all Delaware domiciled captive insurers file their financial statements using GAAP accounting. With the growth of captive insurance, it is reasonable to anticipate that more captive insurers will seek FHLBank membership. Consequently, both the FHFA and FHLBanks should prepare for this new development.

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In closing, Commissioner Stewart extends her hand to Acting Director DeMarco to develop a relationship between two regulatory agencies. The Commissioner desires to know more about FHFA's role as a regulator, and the risks and concerns it sees with insurance company memberships.

Thank you for considering these comments.

On Behalf of the Commissioner,

A handwritten signature in black ink, appearing to read "Steve Kinion". The signature is fluid and cursive, with a large initial "S" and "K".

Steve Kinion
Director
Bureau of Captive and Financial Insurance Products