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December 3, 2012

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

Dear Mr. Pollard:

The purpose of this letter is to comment on Advisory Bulletin on Collateralization of Advances and Other Credit Products Provided by Federal Home Loan Banks to Insurance Company Members [No. 2012 –N-14] (hereinafter “AB”) issued by the Federal Housing Finance Agency. My comments will be focused solely on the AB’s mention of captive insurance companies.

In paraphrasing a bullet point on page 4 of the AB, it states that when assessing the loans made to captives, it should be taken into consideration whether the captive’s affiliates are regulated in a manner “comparable” to banks or insurance companies. As the regulator of the Federal Home Loan Bank (hereinafter “FHLB”), you are obviously entitled to regulate the FHLB in any manner you see fit. However, given that most captive insurance companies are owned by non-regulated businesses, the bar you set may be impossibly high. For example, the largest line of business written by captive insurance companies is medical malpractice. Hospitals are indeed regulated but not necessarily comparable to banks or insurance companies. Perhaps the draft should define “comparable.”

In other places within the AB, care is taken to highlight the differences between statutory accounting (STAT) and GAAP. The AB seems to place on a high regard on financial statements completed on a GAAP basis versus those produced on a STAT basis. Please understand that almost all captive insurance companies file on a GAAP basis, unlike traditional insurance companies which use STAT. Those captive insurers that do file on a STAT basis are usually those entities that are formed by life insurance companies. But again, far and away the vast majority of captives file on a GAAP basis.

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We believe that captive insurance companies in Michigan are regulated in most essential ways similarly to traditional insurance companies. For example, captives have minimum capitalization standards, actuarial opinion guidelines, annual financial reporting requirements, and are subject to on-site financial examinations.

It would seem that unless there has been an actual history of financial problems with captive insurance companies that are members of the FHLB, the current practice of having each applicant stand on its own merits should be continued.

Thank you for the opportunity to offer a comment.

Yours truly,

David Piner
Director of Captives
State of Michigan