



Western & Southern Financial Group

March 28, 2011

Alfred M. Pollard, General Counsel  
Attention: Comments/RIN 2590-AA39  
Federal Housing Finance Agency  
1700 G Street NW, Fourth Floor  
Washington DC 20552

RE: Advanced Notice of Proposed Rulemaking RIN 2590-AA39 / 75 Fed. Reg. 81145  
(12/2710) – Membership Requirements

Dear Mr. Pollard:

The following is submitted on behalf of the Western & Southern Financial Group, Inc. (W&SFG). Our lead insurance company was founded in 1888, and Western-Southern Life Assurance Company has been a member of the Federal Home Loan Bank (FHLB) of Cincinnati since November of 2006.

This is a response for request for comments on the above-referenced advanced notice of proposed rulemaking (ANPR) whereby the FHFA seeks to review and possibly amend insurance company membership requirements in a manner that could bar insurance company members from further access or, perhaps cause their membership to be terminated.

We are concerned that these changes, if enacted, would have a negative impact on financing the housing market, FHLB and its members. We recommend no alteration to the current membership requirements for the following reasons:

- 1) Congressional intent;
- 2) Negative impact to FHLB;
- 3) Importance of membership to insurance companies;
- 4) Legislation would hurt insurance companies; and
- 5) A profound reduction in community reinvestment.

## Congressional Intent

In the original FHLB Act of 1932, insurance companies were specifically allowed as statutory members. Currently hundreds of insurance companies enjoy membership in the FHLB.

The proposed changes to membership requirements not only conflict with this original congressional intent, but also would have a deleterious and undermining effect on the exact protection the ANPR is seeking to provide. In his recent testimony to the House Subcommittee on Capital Markets, Insurance, and Government-Sponsored Enterprises (GSEs), FHFA Director DeMarco noted that “Legislation is needed to restructure and strengthen our nation’s housing finance system and to resolve the enterprise (GSE) conservatorships.” The ANPR should be withdrawn pending congressional action regarding the GSEs.

## Negative Impact to FHLB

Insurance companies are a significant portion of the FHLB membership. As of September 30, 2010 insurance companies represented 10 percent of advances and 8 percent of FHLB capital stock.

Insurance companies provide significant liquidity and diversification to the FHLB system. More importantly, their capital stock holdings provide needed capital support for maintaining its viability. It is this capital base which ultimately assists the ability of the FHLB to loan to community banks.

Unlike banks, insurance companies are generally characterized as having longer term liabilities to match their policyholder obligations. This long-term bias provides stability, making insurance companies a desirable member within the general membership. We believe that imposing limits on insurance company membership adversely affects not only insurance companies, but also bank members.

## Membership Importance to Insurance Companies

With the beginning of Financial Crisis in 2007, FHLB lending to its members increased significantly providing timely liquidity to the financial system. Insurance company member capital was a significant contributor to the FHLB’s ability to provide this member liquidity.

Access to the FHLB provides insurance companies with contingent liquidity as well as better asset-liability management. Now more than ever, insurance companies rely on the FHLB as a contingent source of funding, managing assets and reducing risk. To impair or eliminate this access to capital without identifying a specific need or rationale for this action is untimely.

## Insurance Companies Substantial Contribution to the Housing Market

The ANPR focuses too much on origination of loans as the determinant for membership. Only focusing on origination fails to recognize the substantial changes that have occurred in the housing finance markets as a result of securitization. By focusing on origination rather than actual investment, the proposed membership requirements fail to appreciate the significant investment insurance companies commit to housing finance.

Insurance companies, like W&SFG, primarily hold mortgages indirectly via residential mortgage backed securities (RMBS). The reason is that RMBS securities more effectively match insurance companies' liabilities, as well as provide liquidity.

Further, insurance companies are large holders of direct commercial mortgage loans and commercial mortgage backed securities (CMBS), much of which is ultimately tied to apartments and other forms of housing. According to data collected by the American Council of Life Insurers (ACLI), the 101 life insurance company members of the FHLB have mortgage loans, CMBS, and RMBS totaling over \$220 billion.

## Insurance Company Impact on Community Reinvestment and Development

Insurance companies, like W&SFG, are substantial contributors to local community economic development. Here are just a few noteworthy examples of W&SFG investments in Greater Cincinnati:

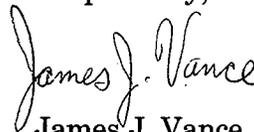
- Beginning in 2005 with completion in 2011, W&SFG invested \$400mm constructing Great American Tower at Queen City Square, the tallest building in Cincinnati. An economic impact report prepared by the University of Cincinnati's Economics Center for Education and Research, regarding the economic and fiscal effects of the proposed Great American Building at Queen City Square, projects a widespread economic boost for the Greater Cincinnati region. The report predicts that, upon its completion in 2011, the 41-story skyscraper will generate an annual economic impact of \$1.66 billion throughout the Greater Cincinnati region. A total of 8,655 jobs will be generated or retained, with annual earnings of \$388 million for local area residents.
- From 1968-2005 W&SFG invested over \$150mm to numerous real estate developments in Cincinnati, including the following projects:
  - Brackett Village Low Income Housing
  - 550 East Fourth Street Apartments
  - The Carthaginian Senior Housing
  - The assembly of land parcels for Cincinnati Public Schools

Additionally, W&SFG is an investor in Low Income Housing Tax Credits throughout the country. Recently we have committed to a large apartment building in downtown Chicago, which will provide low income housing.

In summary, insurance companies like W&SFG are already significant investors in financing the housing market. Our continued membership is compatible with the FHLB mission, and is as consistent today as it was in 1932 when the FHLB Act was enacted.

We appreciate the opportunity to comment on the ANPR. Given these potential harmful effects on the FHLB and its members, as well as the potential impact to the housing financial markets, we strongly recommend that the FHFA withdraw the membership ANPR.

Respectfully,

A handwritten signature in cursive script that reads "James J. Vance".

James J. Vance  
Vice President and Treasurer