



Posted: 10/16/2007

NEED MONEY FAST?

Federal Home Loan Bank Provides Ready-Access Funds to Insurance Companies

By [Lisa Floreancig](#)

In 1930, the Great Depression was at its peak, destroying everything in its path, including, of course, the American banking system. With the collapse of the U.S. dollar, home ownership plummeted.

In an effort to jumpstart lending institutions and promote home ownership, Congress in 1932 created the Federal Home Loan Bank system, a membership-driven program. Two years after its creation, the FHLB gave its nod of approval to allow insurance companies to join this lending system. Yet it has taken more than seven decades for insurance companies to take advantage of the ready-access, on-demand, low-cost funds provided by the bank.

Today, 12 regional FHLBs serve more than 8,000 financial institutions and insurance companies throughout the United States, becoming the largest source of residential mortgage and community development credit. At the end of 2006, the total loan amount distributed to FHLB members was \$641 billion.

Although insurance companies were slow to make use of the benefits provided by FHLB, in a span of just five years, insurance company membership grew from 52 in 2000 to 111 in 2005. While there was a short period of time when it appeared as if only those smaller or medium-sized companies were attracted to FHLB, by the end of 2005, 19 larger companies realized the benefits of membership, primarily the ability to obtain same-day, low-cost funding with flexible terms.

The borrowing capacity provided by the FHLB can be a powerful tool for managing risk and profitability. Other benefits to membership within the FHLB system, include:

- Increasing back-up liquidity and financial flexibility
- Managing catastrophic liquidity events
- Increasing earnings through more aggressive liquidity management
- Increasing operational leverage and earnings through match trades
- Providing liquidity options to prevent tainting of HTM securities

- Filling liability maturity gaps up to 30 years
- Financing special projects, such as new facilities, without liquidating earning assets
- Acquiring grant money for low-income housing or community projects.

To borrow or obtain an advance from an FHLB, an insurer must become a member, which requires an application for member status from the insurance company, not its holding company. An insurer is not required to file a registration statement with the Securities Exchange Commission or obtain regulatory approval to secure funds. Advances receive no regulatory risk-based capital charge since they are classified as borrowed money on the liability side of the insurance company's balance sheet.

According to Fitch Ratings special report "Insurance Company Usage of the Federal Home Loan Bank System on the Rise," insurers that borrow or plan to borrow modest amounts from FHLB are viewed as having no material change in credit fundamentals. Fitch believes such borrowing can be a good source of liquidity and provide some financial flexibility to those insurers with limited access to capital. However, insurers that borrow excessively relative to their capital base or use proceeds in a risky manner will likely have negative rating implications.

From the member's perspective, a downside is that the over-collateralization requirements, usually 5 percent to 10 percent, could encumber insurance company assets. However, according to Fitch, this does not seem to be a major near-term concern given that most insurance members' advances were supported by less than 3 percent of their admitted assets.

Membership in a district is determined by the state in which an insurance company is domiciled. For companies with multiple subsidiaries crossing districts, multiple memberships may be required.



© Copyright 2007, National Association of Mutual Insurance Companies (NAMIC).