

To: Senate Committee on Finance

From: Federal Home Loan Bank of Boston

Date: February 24, 2023

Subject: Proposed Amendment to S.95, Insurers Loans Collateral Terms

My name is Joanne Sullivan. I am Vice President/Director at the Federal Home Loan Bank of Boston (“FHLBank Boston”), one of eleven regional Federal Home Loan Banks (FHLBanks) chartered by Congress in 1932. Banks, credit unions, insurance companies, and community development financial institutions located in the six New England states are eligible to join FHLBank Boston as a member. FHLBank Boston currently has 425 members, including 29 in Vermont.

The FHLBanks, which are government sponsored enterprises (GSEs), are cooperatively structured, member-owned wholesale banks that provide highly reliable wholesale funding to our members to support housing finance and community development. In order to access FHLBank funding, members pledge collateral, primarily consisting of residential loans or securities backed by residential loans. Members can thus “liquefy” their residential mortgage assets by pledging them to support their FHLBank borrowings, using the proceeds from those borrowings for further lending within their communities. In this way, the FHLBanks support housing finance and the local economy.

The FHLBanks also contribute at least 10% of our annual net income toward grants and subsidized loans for affordable rental and homeownership housing, in partnership with our members. As part of its Equity Builder and Housing Our Workforce programs, FHLBank Boston awards grants for down-payment and closing-cost assistance to help low- to moderate-income families realize the dream of homeownership. Moreover, since 2016, FHLBank Boston has provided discounted advances to members through its Jobs for New England program so that members can in turn provide critical below market-rate financing to small businesses in New England, many of which are owned by minorities, women, or veterans. These small business loans stimulate local economies by providing the funding needed to expand businesses and create or preserve jobs that would have otherwise been lost.

The FHLBanks’ GSE status enables us to borrow funds in global capital markets at attractive rates and pass on the benefit of such low-cost funds to our members by making loans to them on very narrow

margins. Having access to this reliable source of liquidity helps our insurance company members manage their balance sheets more efficiently and build capital to protect policyholders. Unlike commercial lenders that may halt lending to insurance companies at times when they face their own liquidity pressures, FHLBanks have historically been able to maintain access to the global capital markets and continue lending to our members across business cycles, including during times of economic and market stress, serving as a stabilizing force in the economy. FHLBanks also have a track record of working closely with insurance and banking regulators of financially weak members, continuing to make funding available to help keep the struggling members functioning while the regulators work to establish an orderly process for resolution or rehabilitation. In this way, FHLBanks can help protect the consumers, who are the policyholders (or depositors) of the struggling member, from the uncertainty and confusion that can result from the sudden, chaotic collapse of an insurance company, bank, or credit union.

PRESENT LAW:

As a government sponsored enterprise, FHLBank Boston is heavily regulated and is only permitted to advance funds to its members on a fully secured basis. Due to disparities between federal banking law and state insurance law, and concern over those disparities on the part of our regulator, FHLBank Boston's credit posture must be more conservative toward insurance company members than bank and credit union members.

BACKGROUND:

A central reason for the disparity described above is that Vermont insurance law does not provide the same protections that are afforded to the FHLBanks under federal banking law. For example, Vermont insurance law gives the receiver and the court broad powers to settle the insolvent insurance company's affairs, which could result in FHLBank Boston, as secured creditor, being subjected to a stay or injunction delaying its statutory right to resort to its collateral or subjected to "voidable transfer" or similar challenge to its secured position. Due to protections specific to the FHLBanks that are built into federal banking law, FHLBank Boston does not face these risks when it lends to bank and credit union members in Vermont.

ARGUMENT IN FAVOR:

By equalizing these disparities between state and federal law, this proposed amendment will enable the FHLBank Boston to equalize its approach to lending to insurance company members and bank and credit union members. The proposed change will make FHLBank Boston an even more attractive source of

funding, which would benefit and strengthen our Vermont insurance company members. The proposed change would also make FHLBank Boston more willing and able to continue to provide funding to an insurance company member in a declining financial condition, with the concurrence of the insurance commissioner. This would benefit policyholders by helping to stabilize the insurance company and possibly avoiding receivership, and if not, facilitating an orderly resolution or rehabilitation of the insurance company.

The FHLBank has been in conversation throughout with the Department of Financial Regulation and we have incorporated their suggestions. Similar legislation has already become law in 23 states. Furthermore, the American Council of Life Insurers supports this legislation, as it will strengthen insurance companies by providing them with better access to FHLBank funding.

CONCLUSION:

Thank you for your consideration of our position in support of this amendment. On behalf of the Federal Home Loan Bank of Boston, I respectfully request the Committee support this amendment as an addition to S. 95.

Respectfully submitted,

Joanne M. Sullivan
Vice President/Director