



Testimony of Edward A. Hjerpe, III
President and Chief Executive Officer
Federal Home Loan Bank of Boston,
Before the Joint Committee on Insurance and Real Estate

Tuesday, March 12, 2013

Please support Senate Bill 1092 –
An Act Concerning the Insurer Rehabilitation and Liquidation Act

My name is Ed Hjerpe. I am the President and CEO of the Federal Home Loan Bank of Boston, one of twelve regional FHLBanks chartered by Congress in 1932. The FHLBanks are cooperatively structured, member-owned wholesale banks that provide their members with reliable access to low-cost funding and back-up liquidity to support housing finance and community development. Insured depository institutions and insurance companies located in the six New England states are eligible to voluntarily join the Boston Bank as a member.

As a government sponsored enterprise, the Bank is heavily regulated, and is only permitted to advance funds to its members on a collateralized, fully secured basis. Currently, the Bank's collateral policies are less favorable for insurance company members than for bank members, both as to the discount applied to pledged collateral and the types of assets we accept as collateral. The central reason for this is that state insurance law does not provide the same protections that are afforded to FHLBanks under federal banking law. Under current state law, upon an insurance company's insolvency, the Bank would be subject to an automatic stay delaying its ability to exercise its rights in its collateral. Also, Connecticut insurance law could void an insurance company member's delivery of additional collateral to us in order to maintain the value of their pledged assets, depending upon the timing of the delivery. Due to protections specific to the FHLBanks that are built into federal banking law, the Bank does not face either of these risks in its lending to insured depository institutions.

By equalizing these disparities between state and federal law, this proposed legislation will enable us to change our collateral practices for our insurance company members to make them analogous with our collateral practices for insured depository institutions, and management plans to recommend these changes to our Board if the legislation is enacted. Doing so will make us an even more attractive source of funding, which would be good for our insurance company members as well as for the Bank.

We have met with Commissioner Leonardi to discuss this legislation, and have worked with his staff to make changes in response to their concerns. We understand that the Insurance Department is not opposed to the legislation. Similar legislation has already become law in Michigan and Indiana, and has been introduced in several other states, including Massachusetts, where the Insurance Commissioner has been supportive.

Thank you for your consideration of our position in support of this legislation. If you have any questions, please feel free to contact either me, or Carol Pratt, the Bank's General Counsel.