



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

Thursday, February 27, 2014

Please support Senate Bill 187 –
An Act Concerning Federal Home Loan Banks and the Insurers 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 liquidity to support housing finance and community development. Banks, thrifts, credit unions 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. For example, bank members are permitted to secure their borrowings with whole mortgage loans, while insurance company members are required to pledge very liquid assets, such as U.S. Treasury or Agency securities. A central reason for this is that state insurance law does not provide the FHLBanks with 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, under Connecticut insurance law, a receiver 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 bill 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 such 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.

The Committee favorably reported this bill to the Senate last year. After several additional committees approved the bill, the bill was tabled pending consideration of the matter by the National Association of Insurance Commissioners. Last fall, a task force of the NAIC studied the FHLBanks' nationwide legislative initiative at length. After extensive discussions with the FHLBanks, insurance receivers, and others, the task force neither opposed nor supported the FHLBanks' proposed legislative language. While leaving to each state the determination of whether to enact such legislation, the task force's report stressed the benefits that FHLBank funding provides to the insurance industry, including low cost liquidity and increased operating leverage, and recommended that these benefits be factored into a state's review of the proposed legislation.

Similar legislation has already become law in Indiana, Michigan, Nebraska and Oklahoma, and has been introduced in several other states, including Colorado, Delaware, Iowa, Kansas and Massachusetts.

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.