

Commonly Asked Questions

WHAT ARE THE FEDERAL HOME LOAN BANKS?

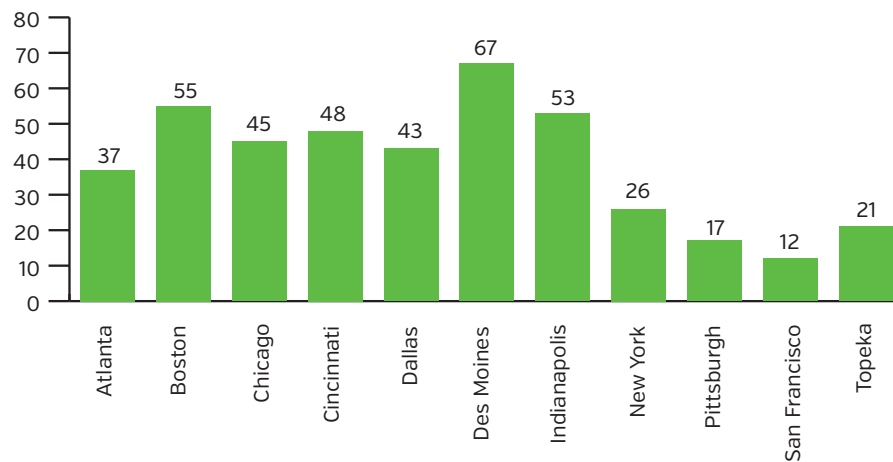
The Federal Home Loan Banks (FHLBanks) are 11 regional cooperative banks that U.S. member financial institutions use to support housing finance and community investment. Created by Congress, the FHLBanks have been one of the largest sources of funding for community lending for over eight decades.



CAN AN INSURANCE COMPANY JOIN THE FHLBANKS?

Qualifying insurance companies have the ability to join the FHLBank in the region in which they are principally located. The FHLBanks have insurance company members in a wide variety of sectors, including Life, Property/Casualty, Health, Title, Mortgage, and Risk Retention Groups.

Insurance Company Members by District (as of 12/31/18)



Source: 2018 Individual FHLBank 10-Ks

WHY WOULD AN INSURANCE COMPANY JOIN AN FHLBANK?

For insurers, the primary benefit is access to reliable low-cost funds. Insurers can quickly access a variety of funding options and increase financial flexibility with a back-up line of liquidity. Additionally, Insurers can potentially benefit from GSE (Government Sponsored Enterprise) competitive funding sources.

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FHLBank Membership: Benefits

FHLBANK PRODUCTS

FHLBanks offer several products and services to their members. Although credit products and services may vary by FHLBank, they generally consist of:

- Advances
- Lines of credit
- Standby letters of credit
- Customized structured funding/secured loans
- Technical/educational support

BENEFITS OF THE FHLBANK ADVANCE PROGRAM

Advances are the primary benefit that attract insurance companies to become members. Insurers can access funding through direct borrowings or through the issuance of a funding agreement with the FHLBank. Advances from the FHLBanks are secured; however, the eligible collateral are assets widely held by the insurance industry, as noted below.

Advances can help qualifying insurance company members in a number of ways:

- Act as a ready source of liquidity
 - Managing catastrophic events
 - Unexpected claims payments
 - Liquidity management while awaiting receipt of reinsurance recoverables
- Lower overall cost of funds
 - Benefit from GSE status
 - Pay down surplus notes
- Offer greater financial flexibility
 - Access to capital markets via the FHLB credit window at attractive rates
 - Ability to fund a particular project (i.e., new facilities, business opportunities)
 - Grow the balance sheet – investment strategies with objective to improve net income
- Aid investment portfolio management
 - Guard against being forced to sell securities at a loss
 - Ability to invest in the capital markets when cash is low, but markets are attractive
- Manage ALM risk

SAMPLE OF ELIGIBLE COLLATERAL FOR ADVANCES (DEPENDING UPON THE FHLBANK)

- U.S. Government Securities
- Agencies
- Mortgage Backed Securities (MBS)
- Collateralized Mortgage Obligations (CMOs)
- Municipals

Rating Agency Perspective

“FHLB programs provide financial flexibility for insurance company members and are an attractive source of capital because of the low rates offered on advances.”

– *AM Best*¹

¹ Reproduced with the permission of the AM Best Co., “A.M. Best’s Perspective on Operating Leverage, January 2012.”

FHLBank Membership: Considerations and Process

CONSIDERATIONS

In order to borrow (obtain an advance), an insurance company must first become a member of its regional FHLBank.

- Applications for membership must come from a regulated U.S. insurance company (not the holding company) that is organized by law, subject to regular inspection and regulation, and that files an annual NAIC statement with its governing state insurance regulator.
- Company demonstrates sound financial standing and an accomplished business strategy.
- Company should determine receptivity to membership by insurance regulators, rating agencies and other constituents, and understand and review accounting implications.
- Company must be able to make long-term mortgage loans, or own governments, agencies, MBS, CMOs, and/or other qualifying assets (depending on the FHLBank).
- Membership stock requirement is subject to a five-year holding period with the amount typically set at a small percentage of an FHLBank specified asset base.
- Additional activity stock is required for advances – typically 2% to 6% of advance. Redemption can be requested upon repayment of advance.
- All stock is traded at \$100/share.

PROCESS

The process for membership will vary by the FHLBank, but will usually require the following steps:

FHLBank Membership Process



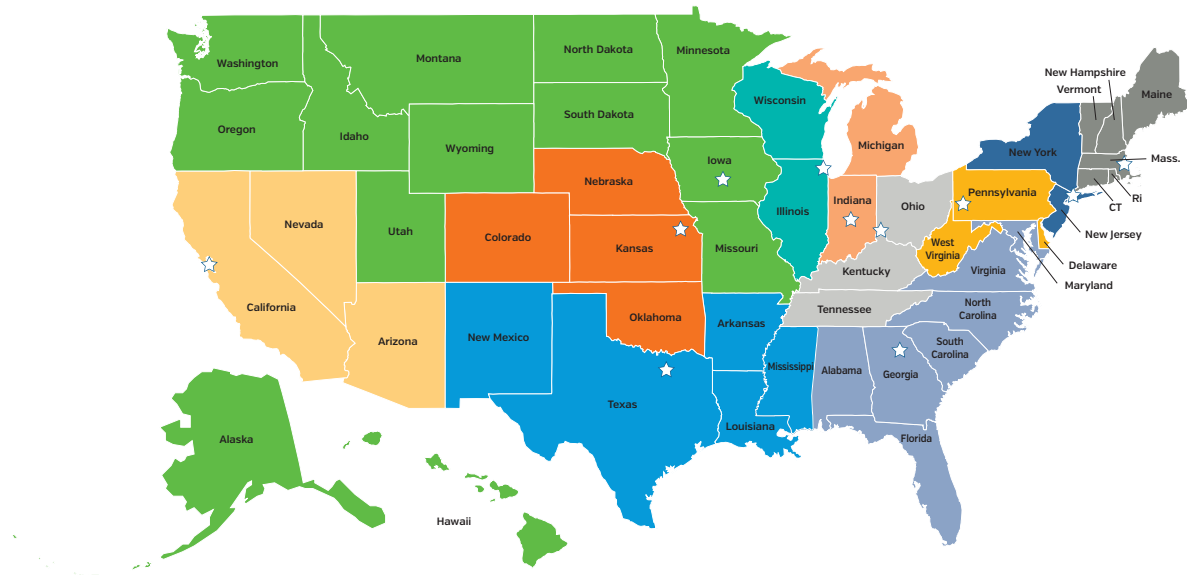
Source: NEAM, FHLB

Dividend policy will vary by FHLBank, but FHLBank stock typically pays a competitive dividend.

Federal Home Loan Bank Locations

STARS SIGNIFY THE FHLBANK FOR EACH REGION

For more information, contact the FHLBank nearest you.



Source: NEAM, FHLB

ATLANTA

www.fhlbatl.com
800.536.9650

CINCINNATI

www.fhlbcin.com
513.852.7500

INDIANAPOLIS

www.fhlbi.com
800.442.2568

SAN FRANCISCO

www.fhlbsf.com
800.283.0700

BOSTON

www.fhlbboston.com
617.292.9600

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312.565.5700

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www.fhlbdm.com
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