The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published NAIC Capital Markets Bureau Special Reports are available via its webpage and the NAIC archives (for reports published prior to 2016).

U.S. Insurers' Exposure to the Federal Home Loan Bank (FHLB) System at Year-End 2020

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Executive Summary

- U.S. insurers represented less than 10% of total FHLB members at year-end 2020 and totaled about 465 in number, mostly split between life (44%) and property/casualty (P/C) companies (46%).
- A total of $6.3 billion in book/adjusted carrying value (BACV) of capital stock was held by U.S. insurers at year-end 2020, up from $5.2 billion in 2019.
- U.S. insurers reported about $113.5 billion in BACV of FHLB advances outstanding at year-end 2020, representing a 24% increase from $91.5 billion at year-end 2019. About 73% of U.S. insurer outstanding FHLB advances at year-end 2020 were in the form of funding agreements.
- A total of $167.4 billion of collateral was pledged to the FHLB system by U.S. insurers at year-end 2020 ($182.2 billion in fair value), the majority of which were agency residential mortgage-backed securities (RMBS).
- Total U.S. insurers' investment in FHLB bonds was about $7 billion in 2020, down from $12.4 bill

As of year-end 2020, approximately 465 U.S. insurers were FHLB members, with P/C companies accounting for 46% of the total, followed by life companies at 44%. U.S. insurers may borrow from the FHLB regional banks—i.e., advances—if they purchase capital stock and become members. U.S. insurers may also hold FHLB bonds, but they do not have to be members to do so. FHLB bonds are reported in the annual statement filings within Schedule D Part 1 – Long-Term Bonds. More discussion on the FHLB system and U.S. insurers as FHLB members may be found in the NAIC Capital Markets Bureau's Primer on the FHLB published on Feb. 8.

U.S. Insurers' Exposure to FHLB Capital Stock

U.S. insurers reported holdings of FHLB capital stock with a BACV of $6.3 billion in 2020, up from $5.2 billion in 2019 (see Table 1). Life companies accounted for the majority of FHLB capital stock (close

Table 2: U.S. Insurers' Year-End 2020 Exposure to FHLB Capital Stock by Total Cash and Invested Assets ($BACV mil.)

U.S. Insurers' FHLB Advances and Pledged Collateral

Advances

For any U.S. insurer to borrow funds from an FHLB regional bank, also known as advances, they must be a member of the specific FHLB regional bank. To become a member of an FHLB regional bank, U.S. insurers must first acquire FHLB capital stock. Then, prior to applying for an advance, insurers must acquire activity-based FHLB stock in an amount equal to a specified percentage of the outstanding principal balance of the extended advance.[1] FHLB capital stock held by insurers is reported as common stock, regardless of whether capital stock reflects membership, activity or excess stock and regardless of the form of the advance; i.e., debt or funding agreement. The disclosure requirements for FHLB borrowings are included in SSAP No. 30R. U.S. insurers are required to disclose the aggregate amount of their borrowings from the FHLB, reflecting a compilation of all advances divided into categories of debt, funding agreements and "other." Items captured as "other" could reflect repurchase agreements, securities lending, or other such transactions. This disclosure is required for outstanding advances at the reporting date and the maximum number of aggregate borrowings from an FHLB at any time during the current reporting period.

FHLB advances are a stable source of low-cost funding with maturities that can vary from short-term to up to 30 years based on the needs of the U.S. insurer. Advances can be structured in different forms and are generally reflected as debt or funding agreements; i.e., for life companies that are licensed to issue deposit-type contracts. Advances may be used for a variety of purposes. For U.S. insurers, there has would be accounted for under SSAP No. 52 with established policy reserves for all contractual obligations arising from the contract provisions.

In December 2013, the FHLB proposed amendments to states' receivership laws that would allow an exemption from stay and voidable preference provisions for security agreements with the FHLB regional banks. As of November 2020, 19 states had adopted the legislative changes, which basically states that the FHLB is exempt from any stays regarding the collateral pledged by U.S. insurers for FHLB agreements if the insurer is placed into receivership.

Per the statutory financial statements for year-end 2020, about 240 U.S. insurers reported having FHLB advances throughout the year—i.e., maximum advances—half of which were life companies, followed by 90 P/C companies and 24 title and health companies combined. Note that this is about half of the 462 U.S. insurers that were FHLB members based on capital stock owned at year-end 2020.

U.S. insurers reported *maximum* advances totaling about $134.3 billion at year-end 2020 (see Table 3). Maximum advances are the total amount borrowed by U.S. insurers at any point of time during 2020. Large U.S. insurers, or those with total cash and invested assets greater than $10 billion, accounted for 83% (or $111.6 billion) of FHLB aggregate maximum advances in 2020; large life companies accounted for about $101.7 billion of this total. Overall, life companies accounted for 86% of U.S. insurers' total FHLB maximum advances at year-end 2020.

Table 3: U.S. Insurers' Year-End 2020 FHLB Maximum Advances by Total Cash and Invested Assets ($BACV mil.)

Total advances *outstanding* at year-end 2020 were $113.5 billion in BACV for U.S. insurers. Chart 1 shows the trend in U.S. insurers' FHLB advances over the last six years. The 19% increase from 2019 to 2020 may be due in part to attractive funding opportunities in the continued low interest rate environment. It includes a larger proportion of P/C companies with FHLB advances in 2020 compared to prior years. As FHLB advances

Chart 1: U.S. Insurers' Historical FHLB Advances ($BACV mil.)

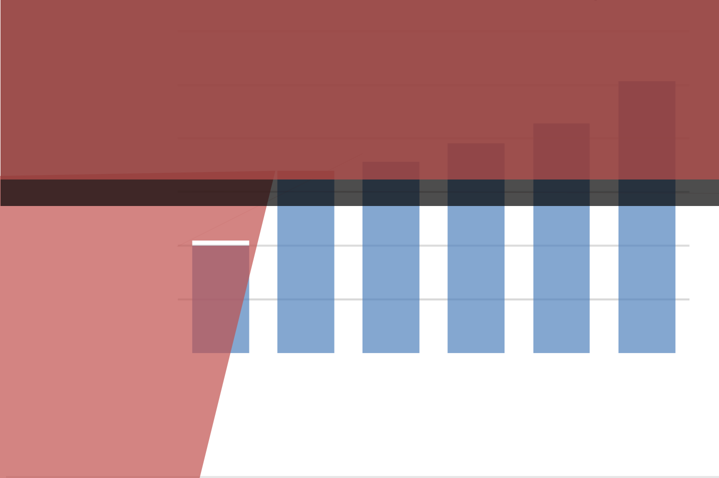

Chart 2 shows the composition of U.S. insurers' FHLB advances from 2018 through 2020 as reported in the annual statement filings to the NAIC. Funding agreements—i.e., deposit-type contracts that pay a guaranteed rate of return over a specified time period—made up the largest proportion in all three years, ranging between 73% and 77% of the total. Debt accounted for most of the remainder, with other types of borrowings at 5% or less of total advances in each of the three years.

Chart 2: U.S. Insurers' FHLB Borrowings by Debt Type, 2018–2020 ($BACV mil.)

At year-end 2020, 18 private equity (PE)-owned U.S. insurers were FHLB members. Of those 18 insurers, 12 had outstanding FHLB advances of $14.5 billion. Throughout 2020, the maximum amount of FHLB advances for these 12 insurers totaled approximately $15.2 billion. Being PE-owned, an insurer's asset sourcing capabilities tend to benefit from the PE firms' networking capabilities.

Collateral

To obtain an FHLB advance, U.S. insurers must not only purchase activity-based stock in an amount equal to a certain percentage of the requested advance, but they must also pledge high-credit quality eligible collateral to the FHLB. Eligible collateral includes mortgages; government securities; or other real estate-related loan types, such as commercial real estate, among others. The amount of collateral required depends on the type of collateral pledged, which must also be identified as a restricted asset in the statutory financial statements. That is, *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* requires U.S. insurers to disclose amounts that are reported in the financial statements but are “restricted” because they are pledged as collateral or under the exclusive control of the insurer. FHLB capital stock held and assets that are pledged as collateral to an FHLB are considered restricted assets subject to this disclosure.

In the Notes to the Financial Statements (Note 11 – Debt), U.S. insurers reported $167.4 billion in assets pledged as collateral to the FHLB system at year-end 2020, up from $132.3 billion as of year-end 2019 (see Table 4). Each FHLB member must pledge collateral to receive advances, and the fair value of pledged collateral is required to exceed the amount of the FHLB advance. The value allowed in the calculation also varies depending on the quality and liquidity of the asset. The maximum collateral pledged by U.S. insurers in 2020 was $193.9 billion, compared to $150.5 billion in 2019.

Table 4: U.S. Insurers’ Year-End 2020 FHLB Pledged Collateral ($BACV mil.)

The majority of collateral posted by members to secure FHLB advances consisted of single-family residential mortgage loans at 47% of the total at year-end 2020 (see Chart 4), followed by commercial real estate loans at 23% of the total.

Chart 4:

Source: FHLB Investor Presentation, April 2021.

The FHLB issues senior unsecured bonds through its Office of Finance that are “joint and several”

Chart 5:

Source: FHLB Investor Presentation, April 2021.

The Capital Markets Bureau will continue to monitor trends with U.S. insurers' exposure to the FHLB and report, as deemed appropriate.

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org.](mailto:CapitalMarkets@naic.org)