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MORTGAGE BANKERS ASSOCIATION

August 17, 2016

Robert deV. Frierson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Enhanced Prudential Standards for Systemically Important Insurance Companies [RIN 7100 AE 54]

Mr. Frierson:

The Mortgage Bankers Association[1] (MBA) greatly appreciates the opportunity to comment on the Board of Governors of the Federal Reserve System's (Board) Enhanced Prudential Standards for Systemically Important Insurance Companies proposed rule (proposed rule).[2] The proposed rule addresses the requirement in Section 165 of the Dodd-Frank Act that directs the Board to establish enhanced prudential standards for nonbank financial companies that the Financial Stability Oversight Council has determined should be supervised by the Board.[3] MBA is concerned that the significant advancement of the Board's regulatory authority for systemically important insurance companies (SIICs) in the proposed rule could lead to unintended consequences unless the proposed rule is carefully constructed.

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[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 280,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,200 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: www.mortgagebankers.org.

[2] Fed. Reg. 81, p.38610, June 14, 2016.

[3] Fed. Reg. 81, p.38610.

MBA notes that Section 165 of the Dodd-Frank Act only addresses enhanced prudential standards for SIICs. MBA strongly recommends that the Board stay within this statutory framework should it consider new rules for non-SIICs. In addition, the final rule should be sensitive to the competitive environment for SIICs, non-SIICs and other financial institutions.

Prudential Standards Should Account for SIICs Business Models

The enhanced prudential standards under consideration include risk-based capital requirements and leverage limits, liquidity requirements, certain risk-management requirements, resolution-planning requirements, single-counterparty credit limits, and stress-test requirements.[4] Importantly, the Dodd-Frank Act permits the Board to tailor the enhanced prudential standards among companies on an individual basis, taking into consideration their "capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board . . . deems appropriate."[5] MBA strongly supports this flexibility and opposes overly prescriptive prudential standards for SIICs.

Independent of the proposed rule, the SIICs have significantly enhanced their risk management practices. In the proposed rule, the Board provides the following recognition of these efforts:

> The systemically important insurance companies currently have both risk-management frameworks and policies already in place. They have already invested significant resources in building up their risk-management frameworks in recent years. The Board expects that these frameworks, along with the companies' planned improvements, would largely comply with the proposed standards.[6]

Given this strong progress made to date by the SIICs to enhance their risk management frameworks, MBA strongly recommends that the Board work closely with the SIICs to implement further risk management practices that take into consideration the unique structures of the SIICs. We are concerned that overly prescriptive risk management requirements could have unintended consequences by potentially skewing investment decisions based on regulatory compliance purposes versus the most efficient allocation of capital among a variety of investment categories, including commercial real estate debt and CMBS.

Inclusion of CMBS in the Liquidity Buffer Requirement

The proposed rule does not include commercial mortgage-backed securities (CMBS) in the 90-day liquidity buffer. However, the proposed rule allows for "other assets" to be included in the

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[4] Fed. Reg. 81, p.38610.
[5] Fed. Reg. 81, p.38611.
[6] Fed. Reg. 81, p.38621.

liquidity buffer that meet certain requirements.[7] Similar to the corporate debt market, there has been an active secondary market for investment grade CMBS during periods of robust and stressed market conditions. MBA strongly recommends that investment grade CMBS be included in the 90-day liquidity buffer. This would provide parity for CMBS with investment grade corporate debt. Excluding CMBS from the 90-day liquidity buffer has the potential to dampen insurance company demand for CMBS for reasons beyond economic decisions.

Conformance with the State Regulation of Insurance Companies

Prior to implementing the proposed rule, MBA strongly recommends that the Board coordinate closely with the National Association of Insurance Commissioners (NAIC) to ensure that the proposed rule does not contradict existing state-level insurance laws and regulations. In order to reduce SIIC compliance costs and to ease potential regulatory uncertainty, the Board should identify and eliminate potential conflicts with state-level insurance company laws and regulations in the final rule.

Commercial Real Estate Regulatory Environment

Importantly, MBA has ongoing concerns about the cumulative impacts of the new Dodd-Frank and Basel III regulatory regimes for all commercial real estate capital sources. MBA strongly recommends that the Board, in coordination with the other prudential regulatory agencies, perform a comprehensive review of existing and pending regulations to eliminate conflicts among regulations and eliminate unwarranted barriers to commercial real estate capital formation.

MBA greatly appreciated the opportunity to comment on the proposed rule. If you have any questions regarding this letter, please contact me at ggreen@mba.org or (202) 557-2840.

Sincerely,

George Green

George Green
Associate Vice President
Mortgage Bankers Association

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[7] These requirements are: 1) Has low credit risk and low market risk; (2) Liquid and readily-marketable, as defined in paragraph (b)(3)(iii) of this section and (3) Is a type of asset that investors historically have purchased in periods of financial market distress during which market liquidity has been impaired. See Fed. Reg. 81, p.38630.