

MINUTES OF THE HOUSE FINANCIAL INSTITUTIONS COMMITTEE

The meeting was called to order by Chairman Anthony Brown at 3:30 p.m. on March 9, 2009, in Room 784 of the Docking State Office Building.

All members were present except Mario Goico,.

Committee staff present:

Bruce Kinzie, Office of the Revisor of Statutes
Sean Ostrow, Office of the Revisor of Statutes
Melissa Calderwood, Kansas Legislative Research Department
Terri Weber, Kansas Legislative Research Department
Joyce Bishop, Committee Assistant

Conferees appearing before the Committee:

Bill Sneed, Legislative Counsel, American Investors Life Insurance Company
Tad Kramar, Vice President & Assistant General Counsel, Federal Home Loan Bank of Topeka
Natalie Haag, 2nd Vice President Division of Governmental Affairs, Security Benefit Corporation

Others attending:

See attached list.

Chairperson Brown opened the hearing on **SB 139 - Insurance, deposits and securities, Federal home loan bank.**

Tad Kramar, Vice President & Assistant General Counsel, Federal Home Loan Bank of Topeka, presented testimony in support of **SB 139 (Attachment 1).**

Bill Sneed, Legislative Counsel, American Investors Life Insurance Company, presented testimony in support of **SB 139 (Attachment 2).**

Natalie Haag, 2nd Vice President Division of Governmental Affairs, Security Benefit Corporation, presented testimony in support of **SB 139 (Attachment 3).**

Chairperson Brown closed the hearing on **SB 139.**

Chairperson Brown opened the floor for discussion regarding possible action on **SB 39 - School districts; direct investment moneys.**

Richard Proehl distributed a proposed amendment to **SB 39 (Attachment 4).**

Richard Proehl made a motion to accept the amendment to SB 39. Tom Burroughs seconded the motion. The motion passed unanimously.

Niles Dillmore made a motion to pass SB 39 as amended favorably from committee. Cindy Neighbors seconded the motion. The motion passed unanimously.

The next meeting is scheduled for March 11, 2009.

The meeting was adjourned at 3:50pm.

TESTIMONY OF THE FEDERAL HOME LOAN BANK OF TOPEKA

On

SENATE BILL No. 139

Before the

HOUSE FINANCIAL INSTITUTIONS COMMITTEE

I am Tad Kramar, Vice President and Assistant General Counsel of the Federal Home Loan Bank of Topeka. On behalf of FHLBank Topeka, I thank you for giving us the opportunity to testify in support of SB 139.

FHLBank Topeka promotes housing and economic development by providing wholesale funding and related products and services that help member financial institutions provide affordable credit to foster strong and vibrant communities. FHLBank Topeka was created in 1932 as a federally-chartered government sponsored enterprise. It is wholly-owned by its member financial institutions, comprised of commercial banks, thrifts, credit unions and insurance companies chartered in Kansas, Nebraska, Colorado and Oklahoma. FHLBank Topeka has maintained the highest credit rating – triple A – from both Moody’s and Standard and Poor’s. It has over \$50 billion in assets and over \$2 billion in capital.

FHLBank Topeka is regulated by the Federal Housing Finance Agency (Finance Agency) in Washington, D.C. and has been providing custodial services for its member institutions for more than forty years. The Finance Agency’s Examination Manual states: “The FHLBanks provide a secure and convenient method for clearing and safekeeping securities for the FHLBanks and their members.”

Consequently, last year the National Association of Insurance Commissioners (NAIC) adopted amendments to expressly include the Federal Home Loan Banks as authorized custodians of insurance company assets under the NAIC Model Act on Custodial Agreements and Use of Clearing Corporations and the NAIC Model Regulation on Custodial Agreements and the Use of Clearing Corporations.

We worked with the Kansas Insurance Department and two Kansas insurance company members to propose SB 139, which follows the NAIC amendments. K.S.A. 40-229a allows insurance company assets to be deposited with Kansas financial institutions acceptable to the Kansas Commissioner of Insurance. SB 139 would amend it to include Federal Home Loan Banks in the definition of “financial institution” and to modify the references to banking regulators and banking laws so that the Federal Home Loan Banks’ regulator and the Federal Home Loan Bank Act would be included.

K.S.A. 40-2a20 allows Kansas property and casualty insurance companies to designate a state or national bank to obtain a nominee name in which the insurance company’s securities may be registered, and to arrange for such securities to be held in a clearing corporation. 40-2b20 does the same for Kansas life insurance companies. SB 139 would make it clear that Federal Home Loan Banks can obtain nominee names for their securities to be held in a clearing corporation.

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As of January 31, 2009, FHLBank Topeka held \$32 billion in current par value of other institutions' securities in safekeeping, along with \$15 billion of its own securities. Passage of SB 139 would benefit the State of Kansas because it would confirm that Kansas insurance companies can place their securities in safekeeping with a safe, conservatively managed, triple A-rated institution that has ably served Kansas banks, thrifts, credit unions and insurance companies since 1932. In addition, lending and collateral transactions between the FHLBank and its insurance company members are more efficiently handled when the insurance company's securities are held by the FHLBank instead of going through third parties.

The Senate Financial Institutions and Insurance Committee approved SB 139 on a voice vote without opposition and had the bill placed on the Senate Consent Calendar, where it was approved without objection. Accordingly, we at the Federal Home Loan Bank of Topeka enthusiastically support SB 139 and hope that you will approve it and have it placed on the House Consent Calendar. Thank you.

Tad Kramar
Vice President and Assistant General Counsel
Federal Home Loan Bank of Topeka
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TO: THE HONORABLE ANTHONY BROWN, CHAIR
HOUSE FINANCIAL INSTITUTIONS COMMITTEE

FROM: WILLIAM W. SNEED, LEGISLATIVE COUNSEL
AMERICAN INVESTORS LIFE INSURANCE COMPANY

RE: S.B. 139

DATE: MARCH 9, 2009

Mr.Chairman, Members of the Committee: My name is Bill Sneed and I am Legislative Counsel for American Investors Life Insurance Company ("AIL"). AIL is a member of Aviva USA, one of the largest sellers of fixed annuities in the United States. AIL is a Kansas domestic insurer located in Topeka, Kansas. We appreciate the opportunity to testify as a proponent of S.B. 139.

This proposal would modify the Kansas Insurance Code to specifically allow the Federal Home Loan Bank to act as a custodian to an insurance company's assets. Kansas law currently allows state and federal banks to custody assets of an insurance company, and S.B. 139 does not alter the current framework of requirements governing custodial relationships. Further, under this bill, the Kansas Insurance Department would continue to have regulatory authority over such custodial arrangements. The bill passed the Senate 39-0.

Finally, we would urge the Committee to act favorably on the bill.

As always, we appreciate the opportunity to speak to the Committee, and I am happy to stand for questions at your convenience.

Respectfully submitted,



William W. Sneed

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**HOUSE FINANCIAL INSTITUTIONS COMMITTEE
SENATE BILL 139**

Testimony Presented by:
Natalie G. Haag
2nd Vice President
Dir. of Gov't Affairs/Asst. Gen. Counsel
Security Benefit Life Insurance Company
Topeka, Kansas

Mr. Chair and members of the Committee:

Thank you for the opportunity to testify in support of Senate Bill 139. Senate Bill 139 amends the Kansas Insurance Code to clarify that the Federal Home Loan Bank is authorized to custody an insurance company's assets. Currently, Kansas law allows state and federal banks to custody assets of an insurance company. None of current statutory protections regarding custodial relationships, or the regulatory authority the Kansas Insurance Department has over them, will be modified as a result of this statutory change. The Kansas Insurance Department supports the efforts to correct this oversight in Kansas law.

Security Benefit would request your support of SB 139. Additionally, the subject matter is not controversial and we would request it be placed on the consent calendar.

SENATE BILL No. 39

By Committee on Education

1-15

HOUSE FINANCIAL INSTITUTIONS
DATE: 3-9-2009
ATTACHMENT: 41

10 AN ACT concerning certain municipalities; relating to the investment of
11 public moneys; amending K.S.A. 2008 Supp. 12-1677b and repealing
12 the existing section.

13
14 *Be it enacted by the Legislature of the State of Kansas:*

15 Section 1. K.S.A. 2008 Supp. 12-1677b is hereby amended to read
16 as follows: 12-1677b. (a) The governing body of any city or county or
17 school district which has a written investment policy approved by the
18 governing body of such city or county or school district and approved by
19 the pooled money investment board may ~~may seek approval from the~~
20 **pooled money investment board as provided in subsection (b)** ~~to~~
21 invest and reinvest pursuant to the approved investment policy in the
22 following investments, as authorized under paragraph (6) of subsection
23 (b) of K.S.A. 12-1675, and amendments thereto:

and such written investment policy is approved by

may

24 (1) Direct obligations of, or obligations that are insured as to principal
25 and interest by, the United States of America or any agency thereof and
26 obligations and securities of United States sponsored enterprises which
27 under federal law may be accepted as security for public funds, except
28 that such investments shall not be in mortgage-backed securities;

29 (2) interest-bearing time deposits in any banks, savings and loan as-
30 sociations and savings banks; or

31 (3) repurchase agreements with banks, savings and loan associations
32 and savings banks, or with a primary government securities dealer which
33 reports to the market reports division of the federal reserve bank of New
34 York for direct obligations of, or obligations that are insured as to principal
35 and interest by, the United States government or any agency thereof and
36 obligations and securities of United States government sponsored enter-
37 prises which under federal law may be accepted as security for public
38 funds.

in

39 (b) ~~On condition of approving the investment policy of any city,~~
40 ~~county or school district, the pooled money investment board shall~~
41 ~~review the policy to assure that it~~ **addresses liquidity, diversifica-**
42 **tion, safety of principal, yield, maturity and quality and capability**
43 **of investment management staff. In addition, the policy shall pro-**

require that such policy