House Legislative Analysis Section
Olds Plaza Building, 10th Floor
Lansing, Michigan 48909
Phone: 517/373-6466

FHLMC & FNMA SECURITIES

House Bill 5213 as enrolled
Second Analysis (4-27-94)

Sponsor: Rep. Alvin Hoekman
House Committee: Insurance
Senate Committee: Commerce

THE APPARENT PROBLEM:

Public Act 106 of 1991, enacted only very recently, allowed the state to regulate the amount of insurance company investments in privately issued mortgage-backed securities. The federal government had preempted state regulation in this area but permitted states to override the preemption. In overriding the federal preemption and reasserting the state's authority in this area, Public Act 106 made insurance company investments in privately issued mortgage-backed securities subject to the diversification of assets regulations in the Insurance Code, including securities issued by the Federal National Mortgage Association (FNMA or Fannie Mae) and the Federal Home Loan Mortgage Association (FHLMA or Freddie Mac). Reportedly, this has created problems for some companies because their investments in FNMA and FHLMA securities now exceed the amount permitted by the Insurance Code. The code, generally speaking, says a company cannot have more than five percent of its assets invested in, loaned to, receivable from, secured by, leased or rented to, or deposited with one person or invested in one parcel of real estate. However, the restriction does not apply to investments where the principal and interest are fully guaranteed by the United States or any state. (The purpose of the regulations is to protect the public by reducing the likelihood that an insurance company will become insolvent because of a bad investment, and so they prohibit the concentration of assets in any single investment.) Although securities issued by Fannie Mae and the FHLMA are not fully guaranteed by the U.S. government, they are nevertheless considered to pose no real risk to the investor in much the same way as guaranteed investments. It has been recommended that investments in such securities be exempt from the diversification of investments regulations.

THE CONTENT OF THE BILL:

The bill would amend the Insurance Code to provide that the restriction on the amount of assets an insurance company can put in any one investment not apply to mortgage-related securities issued by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association.

The bill would also specify that assets invested in separate legal entities would be considered as investments with one person if the underlying security consists of residential mortgage pools and the collateralized mortgage obligations are rated investment grade by a securities rating organization approved by the insurance commissioner.

MCL 500.411 et al.

FISCAL IMPLICATIONS:

The Senate Fiscal Agency reports that the bill would have no fiscal impact on state or local government. (11-18-91)

ARGUMENTS:

For:

Insurance specialists say there is no need to apply the five percent investment restriction to investments in FHLMC or FNMA securities, as those securities, while not backed by the full faith and credit of the United States government, pose no real risk. Other privately issued mortgage-related securities would still fall under the regulation.