

# Funding Agreement Backed Notes/Securities (FABNs/FABS)

*Macroprudential Working Group Analysis  
July 21, 2025*

# Funding Agreement Backed Notes (FABNs) Discussion

## Background

The Financial Stability TF (FSTF) of the NAIC is the primary lens through which we are looking at this activity.

The FSTF serves as the liaison and communication mechanism to monitor and report our insurance representative's involvement in FSOC with state regulators.

FSOC and the Federal Reserve Board **have quantified** and highlighted this activity in their most recent reports on Financial Stability.

The FSTF is **unable to quantify** and monitor the activity in the FABN market to identify transmission channels of potential risk (both inward and outward risks) to and from the insurance industry and the interconnectedness to the capital markets.

# Funding Agreement Backed Notes (FABNs) Discussion

## Background

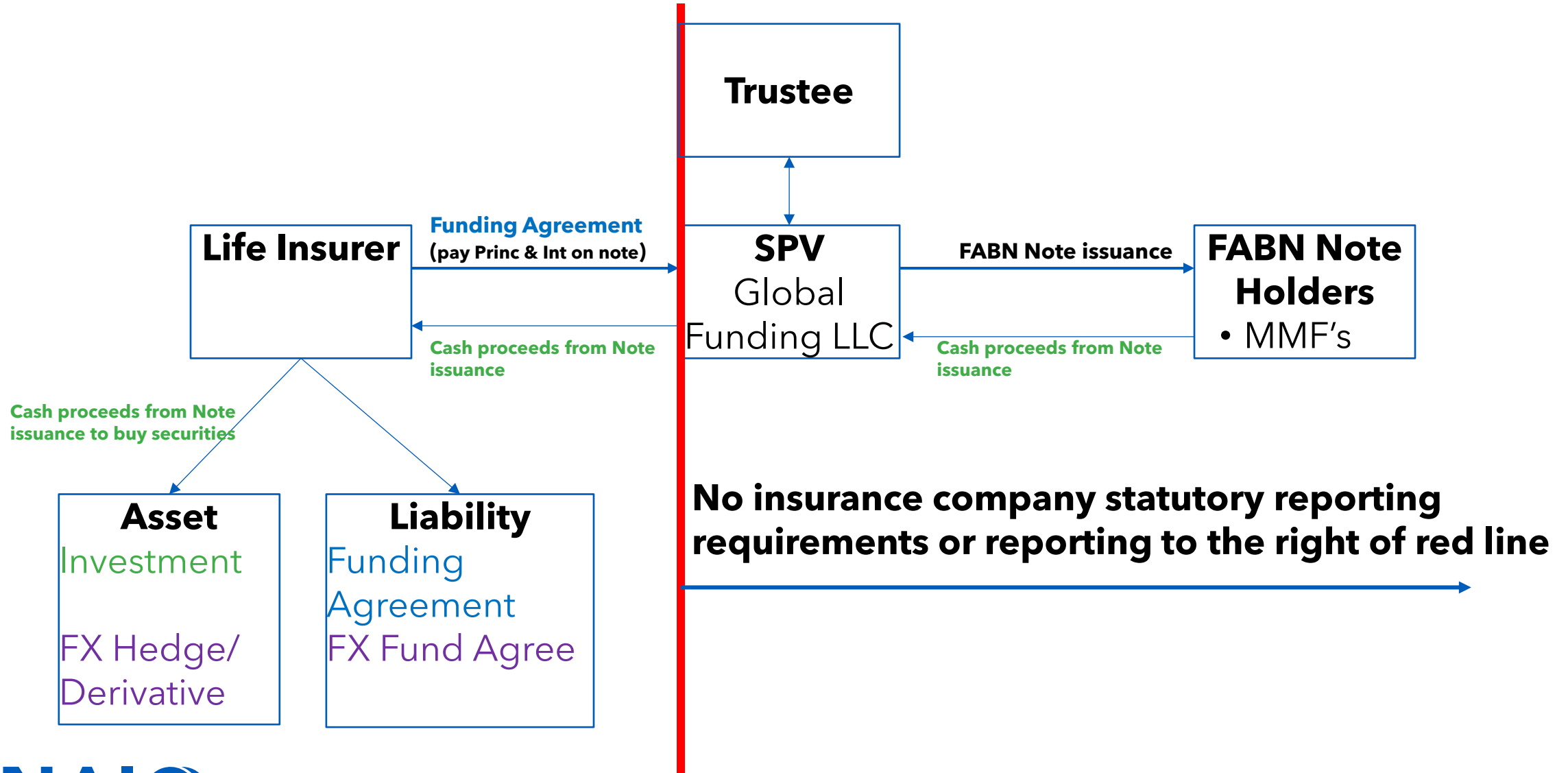
The NAIC has been relying on Fed data to track aggregate outstanding FABNs and the types of FABNs outstanding.

Rather than relying on the Fed or Bloomberg, it would be a tremendous help to state regulators to receive insurance statutory reporting to identify aggregate issuance and outstanding FABNs and the types of FABNs issued, i.e., puttable, FX FABNs, etc.

A recent Fitch report, using Bloomberg as its source, highlighted approximately \$48 Billion of FX FABNs and the Fed data has only \$357 Million outstanding.

Additionally, there is a significant difference of the total FABNs outstanding between the Fed and Bloomberg.

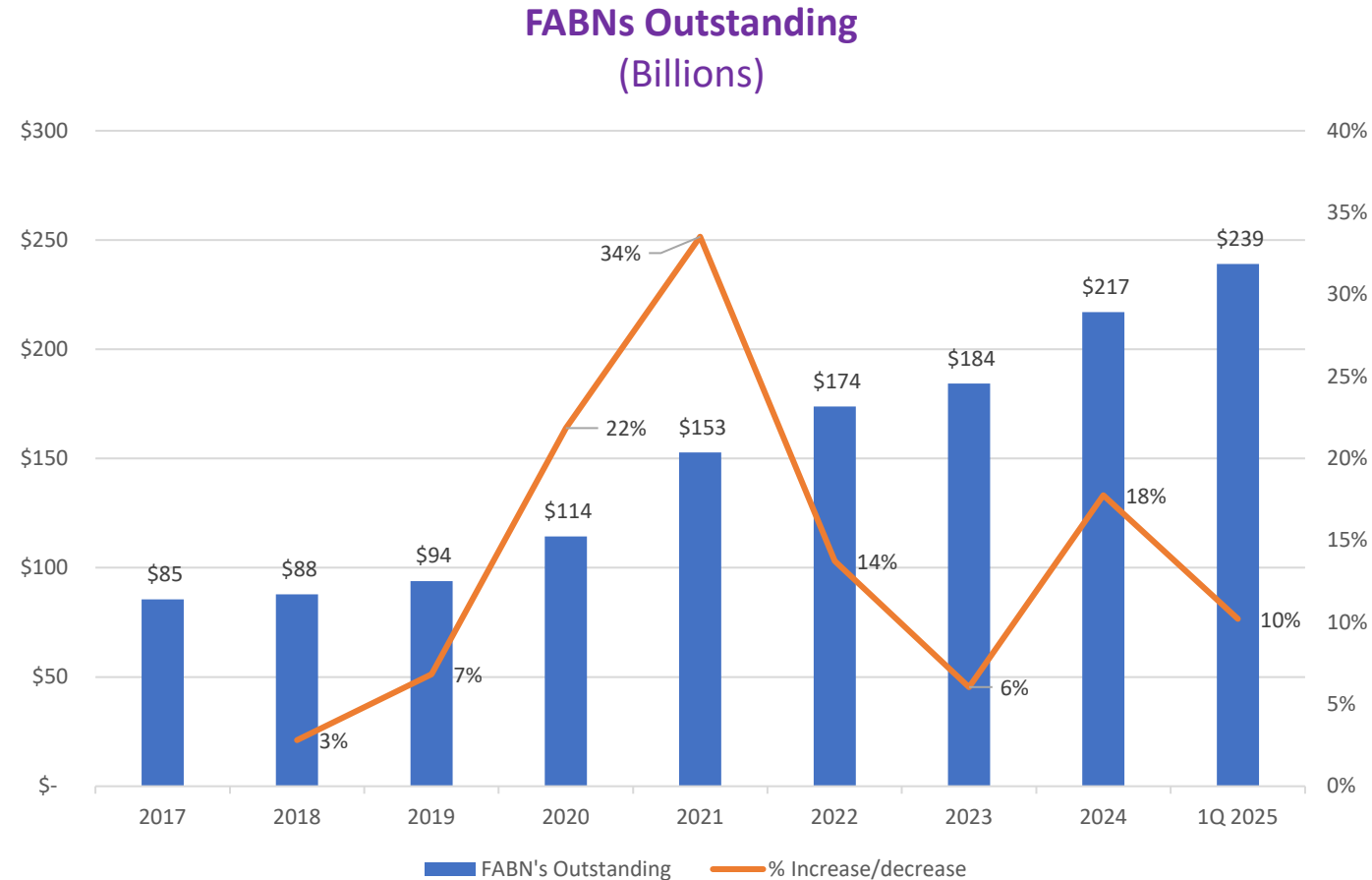
At this juncture, we do not believe this activity poses any outsized risk for individual insurers or the industry in the aggregate, although we do not have a complete data set, which could influence our risk assessment.



We have to rely on the  
Fed for this data

**YE24 Difference:**  
Bloomberg has \$135B  
Fed has \$217B

FX FABNs:  
Bloomberg \$48B  
Fed nil-\$357 Million



**Source:** <https://www.federalreserve.gov/releases/efa/efa-project-funding-agreement-backed-securities.htm>

## Summary of Key Risks

- **Reporting/Transparency Risk** -No insurance statutory reporting of FABNs
- **Liquidity Risk**
  - potential for FABNs to have optionality which allows the lender to demand funds unexpectedly (put risk)
- **ALM Risk**
  - the insurer invests in longer dated assets than the FABN term with the expectation the FABN will refinance or roll, but the lender (FABN) holder demands return of principal (roll risk/ALM risk)
- **Credit Risk**
  - Insurers hedge FX FAs that back FX FABNs with currency swaps, introducing derivative counterparty credit risk associated with this activity

## Mitigants

- FABNs are typically not puttable, meaning lenders cannot demand their cash outside of normal maturity dates
- Substantiation of appropriate ALM at entity level, ensuring duration and cash flow matching between the FA and investments

## Detailed Risks and Mitigation

### Reporting/Transparency Risk

- There is no detailed insurance statutory reporting of FABNs issued and outstanding
- We don't know if Extendable FABNs (XFABN) with embedded put options are issued and/or outstanding
- We don't know if FX FABNs and FX Funding Agreements are issued and/or outstanding
- Hidden leverage or Nontraditional liabilities as the Fed refers to them -meaning the liability/funding agreement is not categorized as debt

### Liquidity Risk

- If FABN noteholders put or do not roll their note and want their principal back and the insurer can't liquidate or liquidate at a loss the corresponding investment to raise cash and pay the principal on the note.
- Regulators do not receive statutory reporting to determine if the duration/maturity of the FA and the investment agrees to the FABN issued.
- Fitch views FABNs as having a modestly higher risk profile than traditional insurance lines, driven by the product's credit and rate sensitivities.

### Mitigants

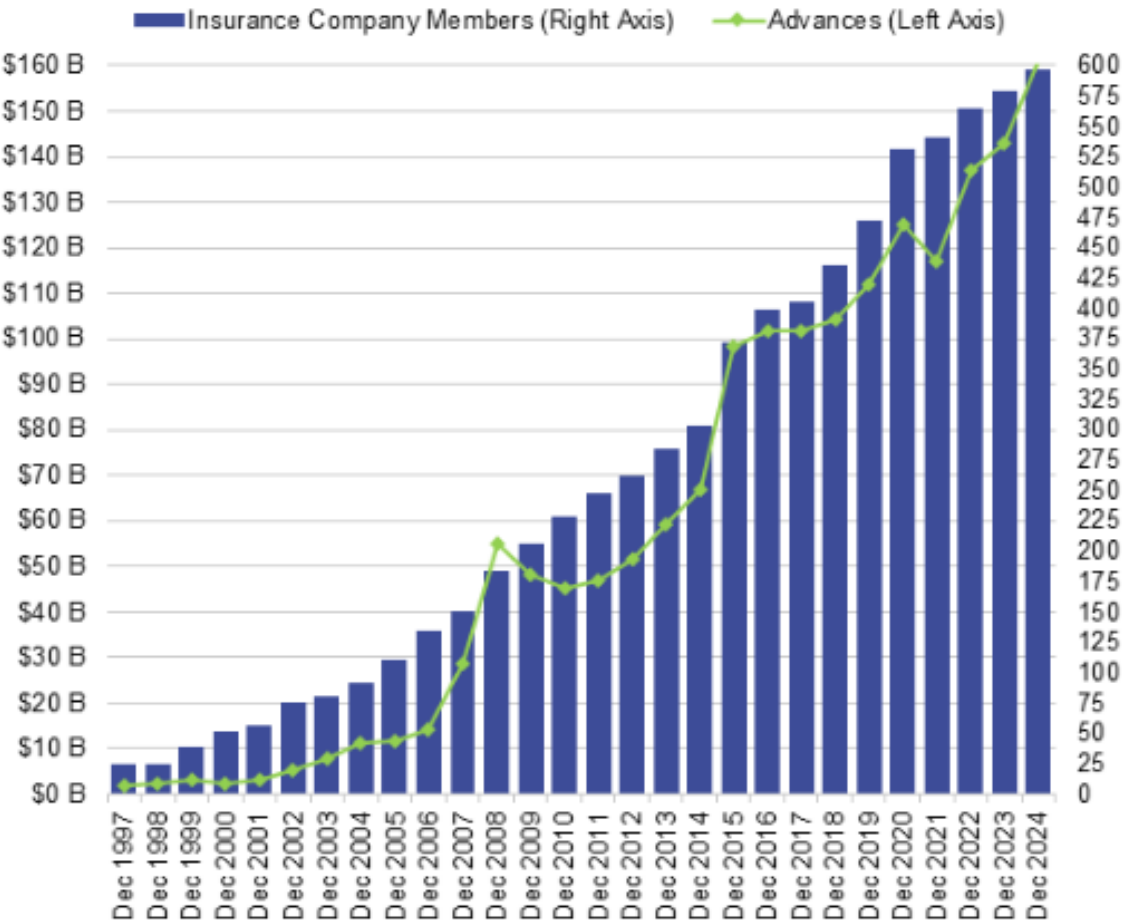
- FABNs are typically not puttable, meaning lenders cannot demand their cash outside of normal maturity dates
- Insurer ALM, AAT, CFT, and there is duration and maturity match between the FABN, FA and investment.
- Theoretically, the maturity of the FABN should match the maturity of the funding agreement -but we don't know this because regulators do not receive any statutory reporting on the FABNs issued

Straight forward borrowing by insurer and using the proceeds to invest

- Another form of leverage/spread business
- Transparent and detailed statutory reporting-in Notes, Interrogatories, Exhibit 7
- The confusion with FABNs is that life insurers issue Funding Agreements to the FHLB as part of the loan agreement to pay principal and interest
- Funding Agreements that back FABNs cannot be distinguished from funding agreements issued for other purposes or other deposit-type contracts such as GICs
- Although the funding agreement reserve is categorized as a liability, it is classified as an insurance liability and NOT Debt
- The total debt and leverage is not very transparent-for both FABNs and FHLB loans



### FHLBank System Insurer Members & Advances



Source: FHLB NY

	Billions
12/31/2024 FHLB*	\$ 161.138
12/31/2024 FABN	\$ 216.949
Total	\$ 378.087

\*Source: FHLB Combined Financial Report as of 12-31-24

## Aggregate Industry Exposures:

- **FHLB + FABNs = \$378 Billion?**
  - **10% of Invested Assets** (Life Co's w FHLB & FABN)
  - **106% of Capital & Surplus** (Life Co's w FHLB & FABN)
  - **300% or 3x Cash** (Life Cash & Cash Equivalents-\$129B)

## Other categories of leverage:

- **Debt Issuance-\$80B**
- **Surplus Notes-\$51B**
- **Repurchase Agreements-\$45B**
- **Securities Lending-\$44B**
- **Revolvers/LOC-?**

	Billions
12/31/2024FHLB	\$ 161.138
12/31/2024FABN?	\$ 217.506
Total	<b>\$ 378.087</b>

1. Does the presentation summarize the process, risks and mitigants fairly and accurately? Please comment, correct, etc.
2. Could you share some examples of how you manage the potential risks? i.e., ALM, investment strategy, etc.
3. Thoughts on potential disclosure or reporting of FABN activity and identification of the funding agreements that back FABNs?

Possible areas for disclosure:

- Annual Statement-Exhibit 7/Interrogatories/Notes
- Asset Adequacy Testing
- Cash Flow Testing
- Liquidity Stress Testing
- ORSA and/or Enterprise Risk Report Form F

4. Comment on whether FABNs and FHLB advances are considered leverage/debt?
5. Should debt-to-equity ratios include debt-like insurance liabilities?
6. How is it decided which legal entity issues and books the funding agreement?
7. Derivative Use-FX FABNs and FX Funding Agreements. FX FAs disclosure and Hedging overview



# FABN Overview

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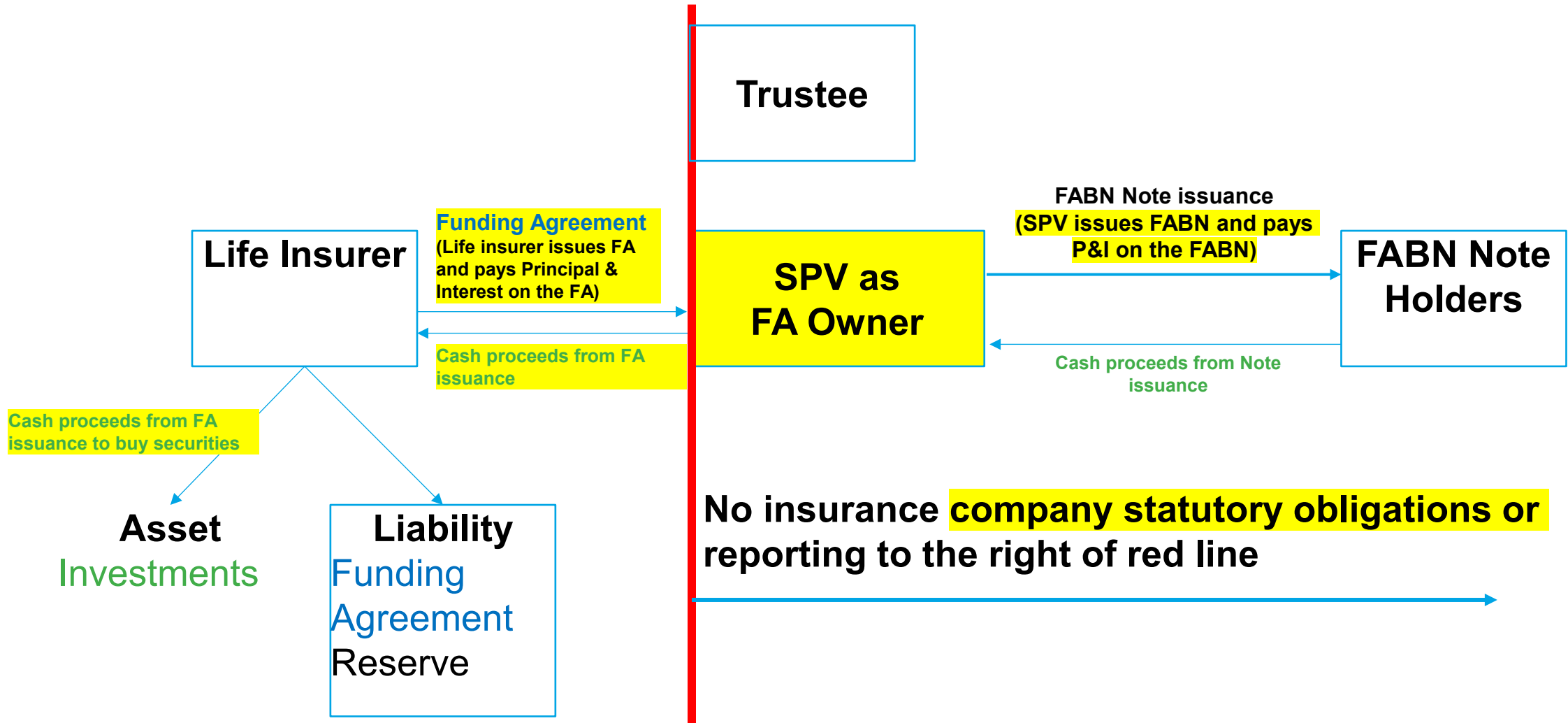
# Key Questions

1. Why do FABNs exist?
2. Why is this not a debt instrument?
3. What are the withdrawal characteristics?
4. How is risk managed?

# Why do FABNs exist?

- A Funding Agreement-Backed Note (“FABN”) converts non-tradeable Funding Agreements (“FAs”), which appeal to a limited buyer base, to a match-funded, match-rated liquid Medium Term Note saleable to large institutional and middle market investors with secondary market liquidity and pricing transparency
  - FAs have been issued to institutional investors for ~50 years and FABN’s facilitate the issuance to a broader buyer base
- The structure transfers the credit quality of the policyholder claim at the insurance operating company to rated notes

# Funding Agreement Backed Notes (FABNs) Flow Chart





# Characteristics of FAs in context of FABNs

- Institutional annuity-like contract without mortality similar to other spread based products
- Governed by the laws of the underwriting insurer's home state
- Owner and holder is an SPV which is not an insurance company and is a bankruptcy-remote entity
- Direct obligation of insurance companies with same priority as other insurance policyholders
- Held by a trustee and is the SPV's sole asset and source of funds to pay the noteholders in the program
  - Security interest perfection is achieved by the trustee who takes possession of the FAs

# Usage of FABN Programs

- FABNs provide institutional investors (e.g., asset managers, public and private pension funds, state and local government entities, sovereign wealth funds, etc.) access to high-quality securities collateralized by insurance FAs
- FAs issued to SPVs generate spread-related earnings that can be passed on to policyholders/shareholders via dividends or bolster statutory surplus
- FA proceeds flow into insurers' general accounts, allowing insurers to generate spread-related diversification of product offerings for insurance companies

# Characteristics of SPVs

- Owner and holder of FA is an SPV which is not an insurance company and is a bankruptcy-remote entity
- Exclusive purpose is to acquire FAs from insurers match funded to FABN issuances
- The non-tradable FA held by the SPV secures the SPV's issuance of liquid investment products (FABN)

# Characteristics of FABNs

- Can be issued in unlimited series or tranches subject to maximum aggregate principal amount of FA
- Nonstandard and designed to meet the diversification needs of investors
- Secondary market liquidity and pricing transparency
- Can be fixed rate, floating rate, or zero-coupon over multiple tenors in various currencies
- Securitized instruments passing along the proceeds of the FA in a structured manner
- Notes are non-recourse to the insurer
- All outstanding notes are rated by at least two internationally recognized rating agencies

# AM Best View on FABN Programs

- “AM Best views FABS programs as a reasonable activity for highly rated companies with diverse lines of business, considerable expertise in asset/liability and investment management, and strong financial flexibility.”
- Since the net proceeds from funding agreements are used in matched funding operations, AM Best views this as operating leverage

# AM Best Key Rating Factors for Insurance Companies

- State regulatory opinions on priority of FAs: many states have specific language in their regulations that FAs are considered policyholder liabilities and therefore receive the highest priority of claims (i.e., pari passu with policyholder claims)
- FABN structure
  - How direct is the investors' recourse to the FA
  - Whether the flow of FA payments to investors is impeded
  - How strictly the noteholders can enforce their security interest in the FA
- ALM and liquidity factors: although the FA's assets generally are only notionally segregated in the insurer's general account, a close match between the FA's assets and liabilities should be maintained
- Companies that issue substantial volumes of "stable value" products, or where the majority of general account liabilities comprise institutional investment products, may experience downward pressure on their balance sheet strength assessment due to elevated operating leverage
- Notes issued under a standard FABN program receive the same Issuer Credit Rating as the sponsoring insurance company when (1) underlying FAs are obligations of the insurer's general account and (2) the FAs are pari passu with other insurance contracts issued by the company based on the regulations of the insurer's state of domicile

# Risk Management of FABN Programs

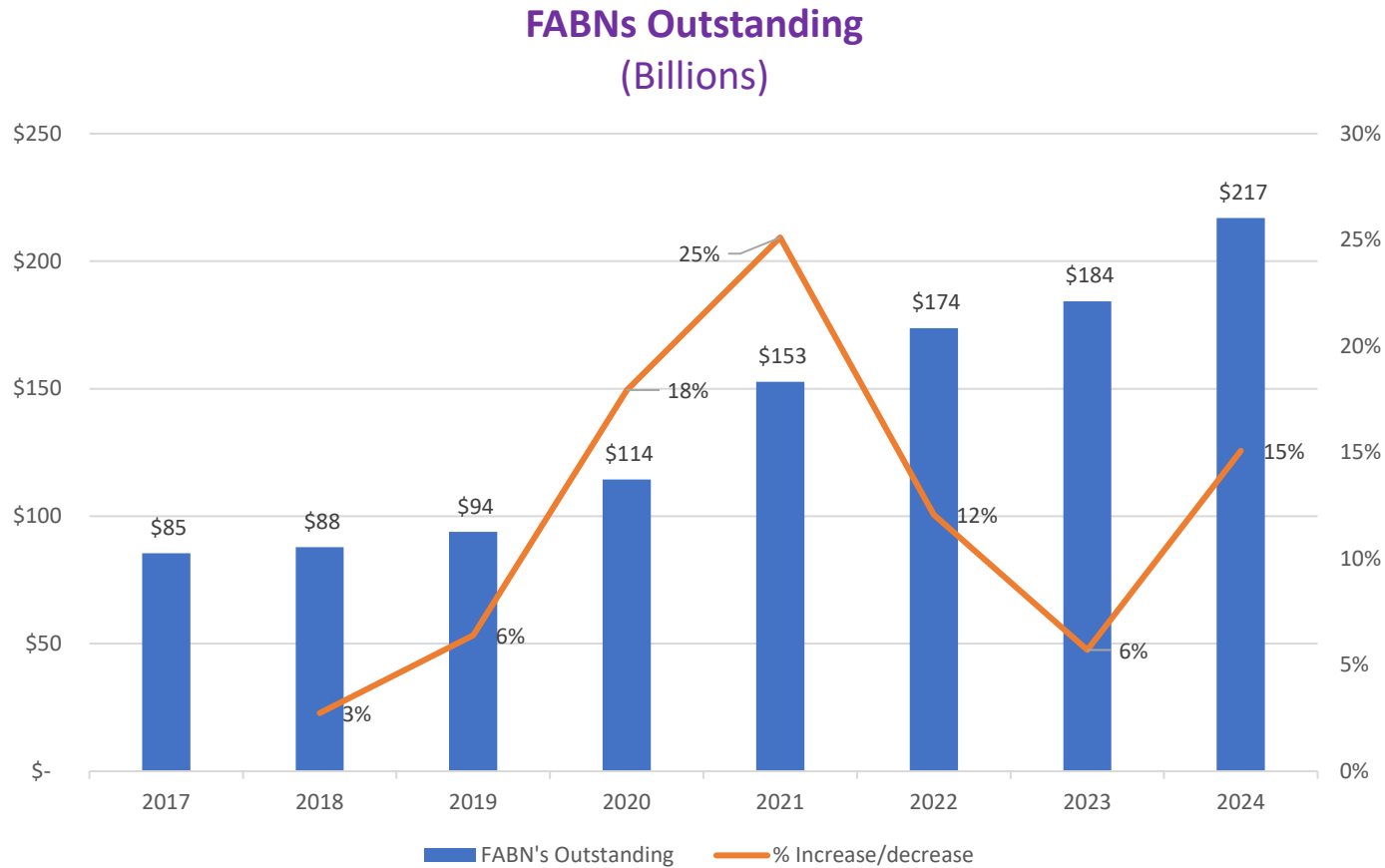
- To effectively eliminate mismatch, the terms of FAs match the terms (rate, maturity, and principal) of notes issued by SPVs
- When applicable, Insurers and SPVs will generally enter cross-currency and interest-rate swaps with swap counterparties to reduce the risk of currency and payment mismatches
- Risk-reduction techniques include:
  - Cash-flow matching
  - Diversification of assets
  - Laddered liability maturities
  - Surplus and capital backed with liquid assets
  - Back-up line of credit
  - Commercial paper facilities
  - Repurchase agreements
  - Other external liquidity options

# Documentation for FABN Programs

- Offering memorandum, term sheets, and indenture
- Operative documentation of the FA
- Documentation of third-party credit support (if applicable)
- Legal opinions of the FA and SPV



# FABN Volume



## Sources for FABN Information

- Bloomberg (@FABN)
- Investment banks

# Key Points

1. FAs are operating insurance company liabilities (shown as deposit-type contracts\* on the balance sheet) filed with and approved by state departments of insurance
2. State insurance regulations generally recognize FAs as contract holder obligations pari passu with other general account liabilities (if held in the general account); FAs are not debt
3. FAs are classified as operational leverage (not financial leverage) because they are issued for spread lending purposes and proceeds are not used for general corporate purposes
4. Insurer obligation is to the contract holder (i.e., SPV) not FABN noteholders
5. FABNs provide investors access to high-quality securities backed by insurance contracts
6. FABN terms mirror FA
7. Current marketplace for FABN is generally a term certain liability (with very predictable cash flows based on known terms, crediting rates, etc. and not exposed to policyholder behavior or other actuarial risks); however, optionality has existed in the past and could be included in the future. The market provides full disclosure to any optionality. No insurance risk or incremental risk for FABN programs for ALM cash flow matching than for any other insurance liability.
8. FA liabilities can be effectively defeased through proper ALM, being mindful that credit risk management on the investments backing the liabilities certainly plays a role.