



November 5, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, D.C. 20552

Re: Notice of Proposed Rulemaking and Request for Comments – Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

Thank you for the opportunity to provide comment on the Federal Housing Finance Agency's notice of proposed rulemaking on Federal Home Loan Bank membership requirements. I appreciate the opportunity to submit this comment on the Proposed Rule on behalf of BankNewport.

BankNewport (the "Bank") is a 195-year old, \$1.3 billion community bank based in Newport, Rhode Island and is regulated by the Federal Deposit Insurance Corporation. The Bank is 100 percent owned by OceanPoint Financial Partners MHC, a non-public financial holding company regulated by the Federal Reserve. The Bank offers a broad product line serving the banking needs of both businesses and consumers. Like all community banks, we pride ourselves in the crucial role we play in meeting the banking services and financial needs of our customers and the contribution we make supporting the economic vitality and development of the communities we serve.

We are concerned that the proposed changes would significantly increase FHLBank membership requirements for existing and prospective members, thereby reducing the availability and negatively affecting the reliability of liquidity on which we depend. Moreover, stricter requirements will call into question our ability to borrow under all future economic scenarios. The proposed changes will not only make certain members ineligible for membership, it would discourage potential members from joining. The net effect would be to inhibit the FHLBanks' ability to serve the liquidity and housing and community development needs of their districts.

During the nation's recent financial crisis, when dislocations in the capital markets made funding from other sources difficult, our FHLBank was a critical source of liquidity to BankNewport. In addition, they provide various funding terms that have helped to mitigate interest rate risk in the current low rate environment. As an example, many consumers have been depositing maturing certificates of deposits into more liquid money market and savings accounts in preparation for an eventual increase in interest rates. Conversely, consumers want to borrow for longer maturities because rates are so low. This creates interest rate risk and is a source of regulatory concern within the industry. The FHLBanks offer us the opportunity to selectively borrow longer-maturity advances in a cost-effective manner.

Here in Rhode Island, BankNewport is just one of more than 440 members of FHLB Boston. As of June 30, 2014, we have borrowed \$132.6 million of the collective \$30 billion in advances they have outstanding. This number would certainly shrink with the loss of members that fail to meet the proposed membership requirements. The net effect would result in less economic activity in New England and a corresponding slowdown of FHLB Boston's members' ability to assist in the economic recovery.

The Federal Home Loan Bank Act includes requirements to become a member of an FHLBank. In the past, Congress has taken action to amend the Act in ways that have expanded membership and expanded eligible collateral. Congress has not sought to require continuous testing of such requirements or a percentage of assets to demonstrate a commitment to housing finance. We believe that it is Congress' purview to do so, not the Federal Housing Finance Agency's.

As proposed by the Agency, ongoing compliance with membership requirements would impose additional regulatory burdens on FHLBank members and add an element of uncertainty to FHLBank membership. We would be required to manage our balance sheet to make certain we have ample assets to meet the proposed membership requirements to ensure access to FHLBank funding products. As a result, if the Proposed Rule were adopted, the FHLBanks would be viewed by existing and potential members as a far less reliable funding partner. The Proposed Rule would also shrink the amount of private capital flowing from the global markets through the FHLBanks and their members to the U.S. mortgage market and the communities we serve. As an example, the Affordable Housing Program, the largest single, private source of funding for low- and moderate-income housing in the country, is funded by 10 percent of each FHLBank's net profits annually. FHLB Boston members have been awarded more than \$422 million in total subsidies and subsidized advances to create or preserve more than 25,000 affordable rental and ownership units in New England. Hundreds of member financial institutions and nonprofit sponsors have participated in expanding and rehabilitating housing stock throughout New England. Moreover, 245 members have been approved to participate in the FHLB Boston's Equity Builder Program and have made over \$25 million in grants to assist eligible first-time homebuyers with down-payment, closing-cost, homebuyer counseling, and rehabilitation assistance. However, the adverse impact the Proposed Rule would have on FHLB Boston's ability to grow and even maintain existing levels of advances, would directly lead to reduced funding of its programs targeted to affordable housing. As a result, FHLB Boston and the other FHLBanks will likely find it difficult to continue the positive trend of increased dollars flowing from the FHLBank system to support affordable housing if the Proposed Rule is adopted.

BankNewport has been instrumental in working to create affordable rental and home ownership within its market area. Through our partnership with the FHLB of Boston, we were able to assist our customer Church Community Housing to provide financing and grants of \$3.0 million to develop Sandywood Farms in Tiverton, RI. The project is highlighted on the FHLB of Boston's website.

In the 113th Congress, the Senate Banking Committee and House Financial Services Committee have been engaged in legislative efforts to achieve comprehensive housing finance reform. As part of these efforts, they have had the opportunity to review the role and mission of the FHLBanks. Throughout these deliberations, there has been no consideration of restricting membership in the FHLBanks. To the contrary, discussions have revolved around potentially expanding the role of the FHLBanks and access to them in a reformed housing finance system. In the next Congress, housing finance reform is likely to be given a high priority. Under these circumstances, the regulator should defer to Congress, as it always has, to determine the FHLBanks' role in a future housing finance model.

Finally, I wish to emphasize how important reliable access to FHLB Boston is to our financial institution. The Proposed Rule would create uncertainty in our region and beyond and impede the slowly improving housing market and its positive effect on a continued economic recovery. If adopted, the Proposed Rule would seriously alter, and even harm, the strong and stable relationship with the FHLBanks that we and other member financial institutions have relied on for decades.

For these reasons, we respectfully request that the Proposed Rule be withdrawn. Thank you for the opportunity to submit a comment.

Sincerely,

Gregory Derderian, CPA
EVP-Chief Financial Officer and Treasurer
BankNewport