Chelsea Groton Bank
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OFFICE OF GENERAL COUNSEL

November 14, 2014

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street, SW, Eighth Floor
Washington, D.C. 20024

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

Dear Mr. Pollard:

The purpose of this letter is to comment on the Federal Housing Finance Agency (FHFA) notice of proposed rulemaking on Federal Home Loan Bank membership requirements ("Proposed Rule"). Thank you for this opportunity.

Chelsea Groton Bank is an approximately $935 million community bank based in New London County, Connecticut and a member of the FHLB Boston. The availability and cost of FHLB advances is critical to our liquidity management. We are very concerned that the Proposed Rule will ultimately compromise the FHLB's ability to provide reliable access to competitively priced advances by shrinking its market role and thereby its access to the capital markets.

The FHLB Boston has successfully supported the New England region and its financial institutions for more than 80 years. It was tested by the 2008 financial market crisis and never wavered from its willingness and ability to meet its members' funding needs during that extraordinary period of stress in the capital markets. Policies that unnecessarily restrict FHLB membership, such as those included in the Proposed Rule, could have had serious consequences had they been in effect during the crisis by needlessly removing current members in good standing and exacerbating the harmful effects on financial institutions and our economy.

We are concerned that the Proposed Rule's significant increase in FHLB membership requirements for existing and prospective members will reduce the availability and negatively affect the reliability of liquidity on which we depend. Further, we are concerned that this would result in higher borrowing costs. The proposed changes may not only make certain members ineligible for membership, it may discourage potential members from joining. The net effect would be to inhibit the FHLB's ability to serve the liquidity and housing and community development needs of New England.

B. Michael Rauh, Jr. President & CEO 860-448-4104 860-448-4119 mrauh@chelseagroton.com

Here in Connecticut, Chelsea Groton Bank is just one of more than 440 members of FHLB Boston. As of June 30, 2014, we collectively borrowed more than $30 billion in advances and own more than $3 billion in capital stock. These numbers would certainly shrink with the loss of members that fail to meet the proposed membership requirements. The net effect would hurt New England's economy as access to capital is constrained. This is particularly worrisome as the New England region has been slower to recover from the effects of the financial market crisis than other parts of the country.

The Proposed Rule would also burden members with ongoing requirements to track and report on compliance with membership requirements. This new regulatory compliance burden will increase our expenses and add to the mountain of Dodd Frank related compliance already choking community banks like ours.

Another consequence of the Proposed Rule is that the ongoing membership requirements provide an incentive for us to manage our balance sheet to make certain we have ample assets to meet the proposed membership requirements and ensure access to FHLB funding products. This may conflict with decisions we would otherwise make regarding asset and liability management. The period of historically low interest rates that continues has caused us and many other banks to minimize the volume of longer term mortgages that we hold on our balance sheet. Perversely, the proposed ongoing membership test may cause us to tolerate a higher level of low yielding mortgages that will adversely impact earnings when, inevitably, interest rates rise. This could ultimately become a safety and soundness issue as we accept greater balance sheet risk in order to comply with the FHLB membership test.

The Proposed Rule would also shrink the amount of private capital flowing from the global markets through the FHLB and their members to the U.S. mortgage market and the communities we serve. This could adversely impact the FHLB's Affordable Housing Program (AHP), the largest single private source of funding for low- and moderate-income housing in the country. AHP is funded by 10 percent of each FHLB'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 lower profits and reduced funding of its programs targeted to affordable housing. As a result, FHLB Boston and the other FHLB banks will likely find it difficult to continue the positive trend of increased dollars flowing from the FHLB system to support affordable housing.

The Federal Home Loan Bank Act includes requirements to become a member of an FHLB bank. The precedent has long existed that it is Congress' purview to modify membership requirements, not the Federal Housing Finance Agency's. On numerous occasions, 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. The Proposed Rule is inconsistent with past Congressional actions regarding FHLB membership.

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 FHLB banks. Throughout these deliberations, there has been no consideration of restricting membership in the FHLB banks. To the contrary, discussions have revolved around potentially expanding the role of the FHLB banks 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 FHFA should defer to Congress, as it always has, to determine the FHLB banks' role in a future housing finance model.

Finally, I wish to emphasize how important the FHLB Boston is to Chelsea Groton Bank and the communities we serve. Reliable access to FHLB Boston's well-priced advances when we need them is a core part of our liquidity plan. The Proposed Rule could result in reduced access and higher cost. Further, it 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 FHLB Boston that we and other member financial institutions have relied on for decades.

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

Sincerely,

B. Michael Rauh, Jr.
President & Chief Executive Officer