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GREGORY R. SHOOK
President and Chief Executive Officer

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OFFICE OF GENERAL COUNSEL

December 11, 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"). I appreciate your time in reviewing this matter.

Essex Savings Bank is a $320 million community bank, with a full service Trust Department with $310 million under management and a wholly owned subsidiary Essex Financial Services, a broker dealer and registered investment advisor with assets under management of $3.5 billion operating under a mutual umbrella and a member of the FHLB Boston. Over the years we have borrowed as much as $35 million to fund loans in the run up of lending principally during 2002 – 2008. At that time we were able to match fund at a lower cost than we could attract from depositors and laddered the borrowings to stagger our liquidity while protecting our interest rate risk. We used solid underwriting practices with 20% down payments, appropriate ratios and private mortgage insurance should someone need 5% or 10% down lending. We were one of three banks in the State of Connecticut to not lose money in any quarter during the financial crises. Market conditions are always moving and good community bankers need access to lines for loans or liquidity purposes in the future to keep our balance sheet safe and to manage and lower risk. Tools from the FHLB help us do this and provide safeguards for liquidity if needed and advances for affordable housing projects help our bank meet our community Reinvestment Act obligations as well. FHLB advances are critical to meet our liquidity management needs beyond our internal cash 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. Further it would needlessly remove current members in good standing and exacerbate the harmful effects on financial institutions and our economy. The FHLB system's experience, even during the most difficult financial crisis since the 1930's, does not suggest that the current rules governing FHLB membership expose the FHLB Boston or any other FHLB bank to excessive risk.

Community banking provides an economic engine to the communities we operate in to provide jobs, fund businesses and provide numerous one on one financial counseling that builds personal relationships and the quality of life.

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

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. We are one of the few banks that believes our loans are the strongest assets if underwritten properly and we manage our interest rate risk. We can do this with a strong FHLBB system - our loans our guaranteed by us not the Freddie or Fannie and the taxpayer. Our bank pays taxes on our earnings which fills the general funding of government services.

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 Essex Savings Bank. Reliable access to FHLB Boston's well-priced advances and the ability to borrow overnight when we need to is a core part of our liquidity plan and balance sheet management. 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 to you.

Sincerely,

Gregory R. Shook
President & Chief Executive Officer