DWIGHT CAPITAL

Secretary
Securities and Exchange Commission
100 F Street, NE
Washington DC, 20549

RE: Variation Margining on TBA GNMA Commercial Mortgage Backed Securities

Dear Secretary:

I write to express our concerns with the proposed rule on margining as it is currently written. Overall, we believe this is a poor solution to manage any perceived risk in the rate lock process for Mortgage Backed Securities Lenders, as expressed by the below points. There are also many outstanding questions that should be contemplated and addressed prior to any change in law. Finally, such drastic changes in the law will disproportionately affect smaller lenders that focus on the core business of FHA originations and GNMA securitization.

Our main points of contention are as follows:

- GNMA Mortgage Backed Securities will be subject to margining between the time of rate lock and full delivery of the MBS
    - Once a lender locks a rate for a borrower, both parties are contractually obligated to deliver to the dealer. Borrowers and Lenders engage in several different legal documents to confirm this, including rate lock authorizations and rate lock agreements. Upon signing of the rate lock agreement, the borrower believes they have closed and funded their new loan and have no reason not to deliver. Breaking this lock would be very expensive legally for the borrower. At that point, the forward sale is complete. The Dealer is then managing the risk of delivering the funding to meet its obligation to the borrower of principal and rate. The Lender needs to manage the risk of delivering the security, which means procuring the loan. Dealers are in the business of balance sheeting and hedging the risk while they wait to aggregate/tranche to earn their fees. Lenders are in the business of one-time borrower fees and servicing. Forcing Lenders into the margin/hedging business feels counterintuitive to their place in the market, since they are not taking execution risk due to the rate lock process currently in place. This also differs substantially from the residential markets, in which lenders may

take on a pipeline of several loans without locking in rates with dealers or other investors. Not rate locking creates the potential for bankruptcy on the part of a lender.

- FINRA points to margining occurring in futures markets as an example of why variation margins should be imposed on lenders. We believe this is very different risk due to the ability of a futures trader to speculate, lever or imperfectly hedge collateral. Again, the process of lending on GNMA multifamily collateral from a lender's point of view is akin to a perfect arbitrage - where the lender has contractually locked-in a buyer and a seller of identical collateral with near-term delivery. There is no time in a GNMA Multifamily lender's pipeline in which the lender is exposed to rate fluctuations or uncertain execution terms.
- There is no data FINRA can point to that shows newly issued multifamily/healthcare MBS have a failure rate that could pose a systemic risk to the banking sector. If anything, the recent recession proved these securities provided much needed capital when other traditional sources of capital were unavailable. Questions to be addressed:
    - How many "lenders" have failed to deliver to Investors over the years?
    - How many "lenders" have collapsed due to systemic risk?
    - In fact, there is more risk of a Dealer collapsing than a Lender. We propose to segregate Agency/GSE TBA business and other Lender principal transactions into separate companies to prevent the risk of a Lender failing from something other than pure TBA business, which poses very little risk.
- This proposed rule will negatively impact construction loans in particular, if transactions are subject to margining until issuance of a Permanent Loan Certificate following Final Endorsement.
    - This in no way should be the responsibility of the Lender. This is the dealer's risk as soon as they begin funding. The construction market would be greatly affected if this was put into place.

Our business will specifically be affected. As a new lender in the FHA space, we could be forced to lower volume, in order to smooth liquidity for the purpose of margining our rate locks throughout the closing process. As of HUD's fiscal year 2015, we were a top ten multifamily FHA lender in only our first year of business with almost half a billion dollars in loan commitments. This volume was accomplished through competition, some of that being competition on rates. Without rate competition in the market, larger lenders will have the ability to inflate FHA's overall portfolio rate. This has been clearly documented by GNMA in analysis of overall FHA portfolio rates prior to 2008 and after 2008. As FHA volume increased and more lenders were chasing after the same transactions, the portfolio's rate was drastically reduced. The interest rate environment was favorable during this time period as well, but without competition, lenders would have taken the rate benefit in profits as opposed to passing it on to the borrower and lowering FHA's risk.

In conclusion, if FINRA's concern is protecting Dealers, the focus should be put on the hedge placed in relation to the trade. This is the protection against rate movement. Posting variation margin is superfluous when such a hedge is in place and puts an unnecessary onus on Lenders who have yet to create any systematic risk in this sector.

We look forward to more anlysis of this law as proposed with the goal of having multifamily lenders exempt from variation margining.

Thank you,

Tyler Griffin

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