redcapital group

RED Mortgage Capital, LLC

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By Electronic Submission

Mr. Robert W. Errett
Deputy Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: SR-FINRA-2015-036, Proposed Rule to Amend FINRA Rule 4210 Margin Requirements for To Be Announced Transactions

Dear Mr. Errett:

Red Mortgage Capital is a HUD-approved mortgage lender that specializes in financing multifamily and healthcare projects with FHA mortgage insurance, and we typically fund our FHA-insured mortgage loans with Government National Mortgage Association (GNMA) mortgage-backed securities (MBS). FHA mortgage insurance and GNMA MBS have and continue to provide a long-term, stable and affordable source of capital for multifamily housing and healthcare projects.

Red Mortgage Capital is strongly opposed to the Rule Change to Amend FINRA Rule 4210 to establish margin requirements for the TBA market. For the multifamily housing and healthcare agency markets, we do not believe that margining should be required during the origination and securitization process for multifamily and healthcare agency lending.

Our understanding of the proposed rule is that it will impose daily "margin requirements" on GNMA multifamily and healthcare MBS transactions to ensure protection to investors from the risk of a failed delivery of the mortgage-backed security. These margin requirements would be in effect from the time the interest rate is set on the security to the closing of the underlying FHA-insured loan; they would be in addition to the industry-standard good faith deposit, which is currently .5% but will effectively be increased to 2.00% in the proposed rule.

The Proposed Rule Change is unnecessary intrusion into a long-standing, efficient and well-functioning market. Moreover, the proposed rule has the potential for unintended – and negative - consequences in the FHA-insured/GNMA marketplace.

It will place an undue burden on multifamily and healthcare lenders (costs associated with setting up margin accounts, monitoring daily changes, lines of credit, cost of margin, etc.). It will likely impact smaller, regional lenders who operate in secondary and tertiary markets and further concentrate lending activity in large financial institutions. As a result, delivery of FHA mortgage insurance to areas that are most likely to benefit from access to low-cost, affordable capital may be negatively impacted.

We believe that in order to maintain cohesiveness in the market for FHA mortgage insurance and GNMA MBS, and to avoid negative consequences to providers of capital for affordable multifamily housing and healthcare projects, the Proposed Rule Change should not be implemented. Thank you in advance for your consideration of this matter.

Sincerely,

James F. Croft
Senior Managing Director