



November 6, 2015

Robert W. Errett
Deputy Secretary
U.S. Security & 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

I am writing this letter as a response to issues and concerns with SR-FINRA-2015-036 margin requirements.

As background, Highland Commercial Mortgage (HCM) is an approved Ginnie Mae issuer and FHA Map underwriter that through the use of FHA Loan Insurance, specializes in making construction and refinancing mortgages loans for owners and developers of multifamily housing. Although I have been in the business since 1992, HCM was established in 2012 and we currently service over \$700 million in loans and have approximately \$500 million of multifamily loans in our new production pipeline. All of our loans are funded through the issuance of Ginnie Mae multifamily securities.

The following are issues and concerns of the proposed rule:

- As a 23 year veteran of this industry, who has been involved in over \$4 billion dollars of Ginnie Mae trades, I have had only one security, in the early 90's that failed to be delivered to the investor. My experience is typical of the entire industry that both purchase and issue Ginnie Mae multifamily securities. So, any historical concern that precipitated the need for the proposed rule, as it relates to the margining requirement, is not readily apparent.
- They system of consummating the Ginnie Mae multifamily security trade agreement, between the investor and the mortgagee, who issues the securities, is very well established and efficient. This rule will serve only to disrupt both a system that has always worked very well and the markets that support it.
- The proposed rule would require that the securities be valued and revalued every day for the purposes of funding the required margining account. Ginnie Mae multifamily



mortgage securities are not widely traded instruments from whose daily value can be accurately or readily determined. No market mechanism currently exist that can reasonable accommodate this sort of daily valuation.

- The mortgagee typically places a 1% deposit with the investor that would be forfeited in the event of a failed trade. Other provisions allow for the mortgagee to be responsible for liquidated damages in certain situations. This arrangement historically has proved virtually flawless as it relates to ensuring that the delivery of the securities is consummated.
- The capital necessary to adhere to the proposed rule's daily margining requirement will place an unreasonable burden on smaller independent mortgagees, like HCM, that will strain their ability to effectively compete against large banks that operate in the same space. Consequently, forcing consolidation in the industry and driving up the financing cost of the affordable rental housing that the FHA multifamily loan insurance program is designed to create. The result will be less affordable rental housing.
- Presuming that the mortgagee fails to deliver a security, the lender under his trade agreement, would forfeit the agreed upon good faith deposit and the capital that was tied up in the margin account would be returned to the Investor or Mortgagee. The business arrangement dictated the terms of the failed trade and not the margining rules. Hence the burden of securing and locking up a large amount of margin capital is unnecessary.
- The rule is not supported by any research, empirical or even anecdotal data, specific to the FHA Multifamily lending business, to support the necessity of its requirements.
- As an FHA Mortgagee, HCM is highly regulated and required by Ginnie Mae and FHA to adhere to minimum net worth and liquidity requirement that are verified by an independent financial audit. The minimum financial requirements are escalated as our firm's origination and servicing levels increase. Hence, adding the additional requirement that HCM fund daily a margining account(s) places an undue and unnecessary burden on HCM and other independently owned firms that are FHA Multifamily lenders.
- The Multifamily Ginnie Mae securities are forward settling and sold by HCM to sophisticated investors that hedge their exposure to market fluctuations. Hence, funding daily a margining account is unnecessary and redundant and costly.
- Counter party risk between the lender and the broker/investor is monitored on a regular basis by both parties to ensure that trade agreement exposure does not become



too concentrated. Both FHA and Ginnie Mae require HCM and other mortgagees to have in place procedures for managing and monitoring this exposure.

- As a Multifamily Ginnie Mae issuer, HCM delivers a single asset Ginnie Mae pool, unlike single family lenders that must warehouse and accumulate a minimum amount mortgages prior to the pool deliver. This stark contrast between the single family and multifamily model is the most glaring reason why the margining requirements the rule would impose on the Multifamily Issuer are simple not necessary. HCM has one trade agreement for each loan and delivers them one at a time, hence removing most if not all market exposure associated with warehousing.

I appreciate your review and consideration of our concerns as the impact of these proposed requirements could be detrimental to a business model that has for over 30 years, in a very efficient manner, financed affordable rental housing for our country. The need for affordable housing in this country is at peak levels, so please consider carefully my concerns, for this rule will drastically disrupt a mature and viable housing financing model at a time when we need it most.

Sincerely,

A handwritten signature in blue ink that reads "John Moore".

John O. Moore Jr. (Chip)
President