

By Electronic Mail ([rule-comments@sec.gov](mailto:rule-comments@sec.gov))

May 10, 2022

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

*Re: Order Granting Petition for Review and Scheduling Filing of Statements; In the Matter of Financial Industry Regulatory Authority, Inc. Regarding an Order Granting the Approval of Proposed Rule Change, as Modified by Amendment No. 1, To Amend the Requirements for Covered Agency Transactions Under FINRA Rule 4210 (Margin Requirements) as Approved Pursuant to SR-FINRA-2015-036, 87 Fed. Reg. 23287 (Apr. 19, 2022) (the "Order")<sup>1</sup>*

Dear Ms. Countryman,

CastleOak Securities, L.P. would like, as provided for in the Order, to state its opposition to the action made pursuant to delegated authority and to support the Petition for Review filed by the Bond Dealers of America, Inc. (the "BDA") and Brean Capital, LLC ("Brean") on January 27, 2022 (the "Petition"). We urge the Commission to reject the CAT Amendment and direct FINRA to correct their rule proposal so that it comports with standard MBS market practice.

My company is a boutique, minority-owned investment bank serving the capital markets needs of a broad array of corporate, governmental and institutional clients. We are active participants in the origination and sales and trading of mortgage-backed securities (MBS) issued or guaranteed by Ginnie Mae, Fannie Mae, Freddie Mac, in both the residential and multi-family markets. Likewise, we have an active presence in the private label MBS markets. MBS is a "core business" for CastleOak and we are concerned about the potentially significant disruption in the market for agency MBS as a result of the CAT Amendment to FINRA Rule 4210.

Additionally, the implementation of this proposal would have a drastic and direct impact on smaller businesses, which includes many minority, women, and veteran owned firms. Many, if not all of the dealers that make up our community do not have the middle and back office operational capabilities to collect and post margin on a nightly basis for all transactions. Additionally, the strain on our capital positions would be onerous and have the unintended effect of prohibiting most minority, women, and veteran owned firms from transacting in the TBA MBS space.

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<sup>1</sup> On January 20, 2022 the Division of Trading and Markets of the Securities and Exchange Commission approved under delegated authority an amendment to SR-FINRA-2015-036, which amends the requirements for covered agency transactions ("CATs") under FINRA Rule 4210 (the "CAT Amendment").

As more and more institutional accounts are expanding their business to be inclusive with the diverse dealer community, there has been a marked increase in the size of trades done with minority, women, and veteran owned broker dealers. Most, if not all, of these trades are typically done on a “risk-free” basis with a simultaneous purchase and sale, leaving us with no market exposure. Asking for margin to be posted on the buy-side only will still require us to raise our capital amounts to levels that will be unattainable, or will relegate us to only being able to participate in the smallest of trades in a fraction of the market. Counterparties will want to see significant capital positions to feel comfortable posting the margin. Therefore, smaller dealers will be significantly disadvantaged and larger dealers will be given a distinct advantage.

We are concerned that the requirement to collect margin or take a capital charge for routine, low-risk transactions could seriously disrupt the mortgage origination process. If dealers are unable to collect margin from investor customers due to the absence of a margin agreement and if their capital becomes fully impaired due to margin-related capital charges, those dealers would be unable to commit to purchase additional mortgage loans until the outstanding trades settle. That means less competition among MBS underwriters, fewer options for mortgage originators, and potentially higher costs for mortgage borrowers.

We are asking the Commission to stand with minority, women, and veteran owned broker dealers and to either reject the CAT amendment or to grant an exception to this rule proposal for firms like ours that operate on a “risk free” basis.

Congress established the federal mortgage agencies decades ago as a means to improve the availability and lower the cost of mortgage loans for American homebuyers. This system of mortgage origination and underwriting has worked flawlessly since its inception and has provided low-cost mortgage loans to hundreds of millions of Americans. There was no reason in the first place to introduce a complicating factor like SR-FINRA-2015-036, but the CAT amendment does not address the deficiencies in that 2016 rulemaking, and has the potential to cause significant disruption without enhancing safety or soundness. We urge the Commission to reject the CAT amendment.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'D.R. Jones', with a stylized flourish at the end.

David R. Jones

cc: Michael Decker (via email, [REDACTED])