

October 14, 2014

Federal Housing Finance Agency
Office of Strategic Initiatives
400 7th Street, S.W.
Washington, D.C. 20024

Re: FHFA Request for Input on Single GSE Security

Two Harbors welcomes the opportunity to submit this comment to FHFA's Proposed Single Security Structure and appreciates FHFA's request for input on this important matter. We are supportive of single security effort and believe that it can have several beneficial outcomes, including a deeper and more liquid TBA market as well as savings for the taxpayer by reducing or eliminating Freddie Mac's need to pay Market Adjusted Pricing (MAP) fees. Two Harbors would also welcome the opportunity to provide further feedback as the development and implementation of a single security continues. We have outlined below key recommendations to help support a smooth transition to this structure.

Key recommendations:

Two Harbors encourages FHFA to focus on a few key aspects of any transition to a single security structure in order to preserve liquidity, support the long term viability of a single security, and minimize any chance of market disruption:

- I. Begin by testing a single product, for example the 15-year fixed rate mortgage.
- II. Establish an ongoing conversion mechanism for exchanging legacy Fannie Mae MBS and Freddie Mac PCs for the new security.
- III. Establish a market participant and stakeholder working group to provide FHFA and the GSEs feedback on an ongoing basis throughout the transition process.
- IV. Consider using Freddie Mac's payment delay of 45 days for greater market efficiency.
- V. Consider a commitment by and public statement from FHFA and both GSEs that they will continue to monitor and take action to reduce any prepayment differentials, such that both Freddie Mac and Fannie Mae securities avoid an unexpected increase in prepayments relative to each other.

Further detail about each recommendation:

Begin by testing single product - We agree with FHFA that beginning with just a few products to test the transition process makes sense. In fact, it could be beneficial to begin with one product that represents smaller volume than the benchmark 30-year fixed rate – for example, 15 year fixed rate mortgages - to test the transition process. This would help ensure that any unforeseen issues are contained and can be learned from before expanding to the 30-year fixed rate market.



Establish conversion mechanism – The option for market participants to deliver legacy securities in exchange for the new security should be put in place and have no deadline.

Establish external working group - We encourage FHFA to establish a working group comprised of market participants and housing finance stakeholders, including tax and accounting experts, to advise in the transition. Because we believe there will be many steps to this process and decision points cannot all be foreseen right now, as FHFA and the GSEs must make decisions, they should consult this working group in order to get input and feedback along the way. This will help reduce the risk of unintended consequences.

Consider using a shorter payment delay – Since it is most efficient for the market to receive payments as quickly as process and systems allow, FHFA should consider using Freddie’s shorter 45 day payment delay for the new security.

Consider commitment by FHFA and GSEs to reduce prepayment differentials - Because historical pricing differentials were originally tied to prepayment differences, commitment from the GSEs and FHFA to continue monitoring and where necessary take action to reduce “churning,” or increased prepayments relative to each other.

We appreciate the opportunity to provide the foregoing comments in response to FHFA’s Request for Input and would be pleased to participate in further discussions with FHFA on this topic. If you have questions or desire clarification concerning the matters addressed in this letter, please do not hesitate to contact me via telephone at (612) 629-2500 or via email at thomas.siering@twoharborsinvestment.com.

Sincerely,

Thomas E. Siering
President and Chief Executive Officer