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CHMI
Cherry Hill Mortgage Investment Corporation

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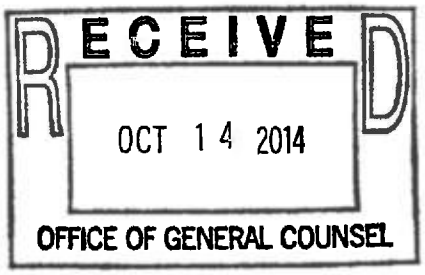

Re: Comments/RIN 2590-AA39

Dear Mr. Pollard:

Cherry Hill Mortgage Investment Corporation ("Cherry Hill") welcomes the opportunity to submit comments on the proposal of the Federal Housing Finance Authority (the "FHFA") to revise its regulations regarding membership in a Federal Home Loan Bank ("FHLB"), as published in the Federal Register on September 12, 2014 (the "Proposed Rule").

Cherry Hill is a servicing centric, hybrid mortgage REIT. Cherry Hill had formed a company to act as a captive insurance company, and it was preparing to apply for membership in a FHLB when the "voluntary" moratorium was imposed. As such, Cherry Hill has been, and for at least the next five years will continue to be, materially and adversely affected by the Proposed Rule, specifically the portion defining an insurance company so as to exclude the vast majority of captive insurance companies, including that to be operated by Cherry Hill. Our concerns regarding the Proposed Rule, however, go well beyond the effect on our business and competitive position. These concerns involve the reasoning, the process and the policy reflected in the Proposed Rule all of which, in our opinion, are deeply flawed.

The FHFA gave advance notice of its proposed rulemaking in 2010 (the "ANPR") in which the question of membership by captive insurance companies was raised. The ANPR states that shell insurance companies and captive insurance companies raise at least two concerns: "whether they are in fact subject to the degree of supervision and examination contemplated by section 4(a)(1)(B) of the Bank Act, and whether they have a *bona fide* (emphasis in original) involvement in supporting housing finance."

There was no indication in the ANPR, and there is no indication in the Proposed Rule, that the FHFA researched or discussed the level of regulation of captive insurance companies by state insurance commissioners.There is no factual evidence mentioned in the Proposed Rule supporting this concern. In fact, captive insurance companies are subject to the same or similar regulatory framework applicable to traditional insurance companies. In addition to submitting a business plan

and being required to operate in compliance with the plan, captive insurance companies are required to submit an annual actuarial certification. Most state insurance regulations also require submission of audited financiqal statements. Captive insurance companies also may not distribute assets without appproval by the regulator. Industry statistics demonstrate that the proportion of captive insurance companies that fail is less than the proportion of traditional insurance companies that fail. There simply is no evidence on the record that supports the hypothesis that captive insurance companies do not satisfy the statutory requirement or that they present a greater safety and soundness concern than any other type of member.

In addressing the second concern raised by the ANPR, the Proposed Rule requires that a member's involvement in suporting housing finance be "bona fide." The Bank Act itself does not inquire into the motive of a member's support for housing finance. In addition, the FHFA interprets its new found requirement regarding motivation to require the support to be soley that of the member rather than the overall organization of which the member is a part. The Proposed Rule postulates that the size of the advances by some captive members relative to their insurance liabilities indicates a lack of a bona fide support for housing finance by that member. In effect, the argument is that some members' support is too large and therefore those members lack bona fide involvement in supporting housing finance. Yet all advances are collateralized by the very instruments (long term mortgage loans or interests therein) that in fact support housing finance as required by the Bank Act. Other than the portion of the capital of our captive insurance company required to remain in cash by the state insurance commissioner, 100% of the assets of that company would be comprised of long term mortgage loans or interests in such loans.

The Proposed Rule defines an insurance company to be a company whose primary purpose is the underwriting of insurance for nonaffiliated persons or entities. "Defining the term in this manner also reflects the likely intent of Congress." However, that intent is not discerned from any analysis of the record; rather it is based on the simple fact that in 1932 "the concept of captive insurers was essentially unknown in the United States." The FHFA ignores the equally valid assumption regarding intent arising from the fact that Congress has repeatedly declined the opportunity to limit the type of insurance company that may be a member in connection with multiple amendments to the Bank Act since 1932, including significant amendments in 1989 and 1999. If existence in 1932 is the key factor then it is unclear how MBS and CMOs could have been intended to be included within the meaning of long term mortgages.

In the release for the Proposed Rule, the FHFA states that it received 137 responses to the ANPR "almost all of which opposed revising the membership regulation in any of the ways discussed in the notice." Despite the views of "almost all" of the commentators, the Proposed Rule tracks the proposals in the ANPR without any discussion of further research or analysis in the almost four years since the publication of the ANPR. The Proposed Rule also does not reflect consideration of other possible regulatory approaches which may have been less draconian and more precise in addressing the perceived issues. The disregard for the views of "almost all" commentators and the

lack of any evidence that less intrusive or objectionable approaches were considered indicates regulatory overreach. As more than one commentator has noted, this is a regulation in search of a problem.

The process proceeding the publication of the Proposed Rule, coupled with the terms of the Proposed Rule, raise significant fairness issues. The continuation of the membership of existing captive insurance companies creates a material competitive advantage for those companies and their affiliates for the next five years. At the same time, the "voluntary" 90-day moratorium on admission of captive insurance companies as FHLB members effectively prevented Cherry Hill and other simalarily situated companies from qualifying for five years of advance availability from a FHLB. Finally, the Proposed Rule seeks to ensure that its prohibition on membership by captive insurance companies is retroactive to almost 90 days prior to the publication of the Proposed Rule, not the final regulation. This approach clearly circumvents the purpose of the rulemaking process.

While the Proposed Rule allows captive insurance companies that were members at the time of publication of the Proposed Rule to remain members for five years, it does limit the advances they may have outstanding to no more than 40% of their total assets, presumably to address the safety and soundness concern of the FHFA. However, if such a limit adequately addresses that concern with respect to existing captive insurance company members, why would it not suffice as the means of addressing that concern for new captive insurance company members? Such an approach would permit this new source of private risk capital to contribute to the mission of the FHLB system. This is only one possible approach to addressing the perceived safety and soundness concern; surely there are others that could have, and should have, been explored in the almost four years between publication of the ANPR and the publication of the Proposed Rule.

Since the financial crisis, there has been little dispute regarding the need to attract private capital into the nation's housing finance system, and that goal has been consistently expressed by members of Congress and various regulators. Real estate investment trusts are required to maintain at least 75% of their assets, and to derive at least 75% of their gross income, from real estate related assets. Of all the financial vehicles in the market, REITs are most clearly aligned with the mission of the FHLBs. In addition, REITs are particularly efficient vehicles for bringing private capital into the housing finance system due to their singular focus on real estate related assets and the single level of taxation they enjoy. The various FHLBs generally are enthusiastic supporters of the additional liquidity and funding brought to bear on their respective financial conditions (through the purchase of activity stock and interest payments on advances) and on their ability to better satisfy their mission. The Proposed Rule acknowledges but dismisses this alignment of interests because the FHFA views the captive insurance company as a means to circumvent the intent of Congress. Rather than a circumvention of the rules, the use of a captive insurance company complies with the letter of the Bank Act and produces a result that furthers the purpose and spirit of the Bank Act.

The Proposed Rule devines the intent of Congress that captive insurance companies should not be members but ignores the fact that since 1932, Congress itself has not felt the need to make that distinction. It also ignores (and admitedly so) the fact that all borrowings by members, including captive insurance companies, are more than adequately collateralized by long term mortgage loans which further the mission of the FHLB system. The collateral requirements are the same for insurance company members (captive or otherwise) as they are for depository institutions. It is hard to see how captive insurance companies create a greater risk to the system.

The fact that membership by captive insurance companies complies with the letter of the law, coupled with the lack of any factual evidence to provide a basis for the concerns of the FHFA and the availability of less restrictive alternative regulatory approaches suggests that the Proposed Rule should not be enacted in its current form. We strongly urge that result.

Sincerely,

CHERRY HILL MORTGAGE INVESTMENT CORPORATION

By: _____
Robert C. Wipperman
General Counsel