South Street Securities Holdings Inc.

January 7, 2015

Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency - Fourth Floor
1700 G Street, NW
Washington, DC 20552

Re: (RIN 2590-AA39) Notice of Proposed Rulemaking Regarding Membership Requirements in the Federal Home Loan Banking System

Dear Mr. Pollard,

Thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking ("NPR") regarding Federal Home Loan Bank ("FHLB") membership. Among other things, the proposed rules would reduce the number of current and prospective FHLB members, and by extension also reduce the amount of financing available for residential mortgages and related securities. We believe these rule changes do not support the mission of the FHLB and their implementation may negatively impact the flow of capital to the housing finance markets.

I am CEO of South Street Securities Holdings Inc., and we operate as our principal subsidiary, South Street Securities LLC, a FINRA regulated broker dealer and Tier I Netting Member of FICC, which specializes in providing financing to investors in Residential Mortgage Backed Securities. We currently provide $18 billion of financing to the US Mortgage Market and operate under similar risk, margining and collateral posting requirements as many FHLB members.

In our experience, the short and long term liquidity provided by the FHLB system has been highly supportive to the vitality of the mortgage finance market. This is particularly true in periods of distress when the FHLB is often the primary source of liquidity for certain classes of mortgage-related securities. The knowledge that the FHLB exists as a backstop in times of distress and the understanding that membership is widely available to qualified institutions greatly contributes to the smooth functioning of those markets, even in more stable environments.

The proposed rules unnecessarily restrict certain insurance institutions and create uncertainty with respect to the ongoing eligibility of depository members that do not meet the 10% residential asset test. As articulated by the Council of FHL Banks, the FHLB banks currently have ample discretion and authority to monitor the safety and soundness of their members on an entity level basis.

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In particular, the exclusion of "Captive" Insurance Companies that currently meet FHLB membership seems to be arbitrary and contrary to current policy goals. Captive Insurance companies often have as much as 100% of their balance sheet invested in mortgage related assets and frequently fulfill the mission of the FHLB system better than some other membership categories. They contribute key benefits to the FHLB system and the broader housing market, including:

- bringing incremental private capital and lending capacity into the housing market;
- investing in different parts of the home loan capital markets, creating greater diversification and stability for the system;
- operating in certain product lines that may be underserved by depository institutions;
- focusing on longer-term capital deployment in the housing market.

It should be noted that Captive Insurance Companies are subject to the same strict rules for credit quality, advances, haircuts, margining and liquidity as other members of the FHLB system. They are also subject to extensive regulatory oversight, capital standards, investment restrictions, reporting requirements and other state laws.

We believe the FHLB system is strongest and most true to its mission when it fosters a diverse membership based upon its policy goals and the original intent of Congress. As the Federal Government seeks a smaller role in the mortgage market and the Federal Reserve decreases its purchases of mortgage backed securities, we are concerned there will not be enough private capital to support the market without significant repricing. The FHLB system is designed to attract private sources of capital to the US housing market and brings ample liquidity that is subject to extensive credit, collateral and ongoing margin requirements. Limiting membership during this transition period may complicate the larger US public policy goals.

For the above reasons and many of the points made by other market participants during the notice period, we respectfully ask the FHFA to reconsider the proposed rules that seek to limit qualified institutions and potentially restrict the expansion of private capital into the US housing market.

Regards,

James Tabacchi
President and CEO

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