PennyMac®
Mortgage Investment Trust

January 9, 2015

Alfred M. Pollard, General Counsel
Attention: Comments/RIN 2590-AA39
Federal Housing Finance Agency
400 Seventh Street SW, Eighth Floor
Washington, DC 20024

Re: Notice of Proposed Rulemaking and Request for Comments —Members of Federal Home Loan Banks (RIN 2590-AA39)

Dear Mr. Pollard:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's ("FHFA") notice of proposed rulemaking regarding regulations governing Federal Home Loan Bank ("FHLBank") membership. PennyMac Mortgage Investment Trust ("PennyMac") is a New York Stock Exchange listed mortgage REIT that invests primarily in residential mortgage loans and mortgage-related assets. As of September 30, 2014, PennyMac had total assets of approximately $4.6 billion and shareholders' equity of approximately $1.6 billion.

PennyMac is a major participant in the market for newly originated home mortgage loans in the United States. In 2013, PennyMac delivered approximately $9.2 billion in new home loans to Fannie Mae and $6.2 billion to Freddie Mac, making PennyMac one of the largest seller/servicers for both Enterprises. PennyMac is the third largest aggregator, and largest non-bank aggregator, in the correspondent mortgage market. Correspondent aggregation is comprised of the acquisition of newly originated, prime credit quality, first-lien residential mortgage loans that have been underwritten to GSE and other investor guidelines, pooling loans into mortgage-backed securities ("MBS") and sale of the resulting securities to secondary market investors. As an active purchaser of new home loans, PennyMac provides a critical source of liquidity to its approximately 350 approved mortgage lenders, many of which are smaller community banks, regional banks and independent mortgage companies with limited capital, enabling them to more efficiently use their capital to originate loans on an ongoing basis.

Mortgage REITs like PennyMac are an important source of private capital available to the housing finance market and membership in the FHLBank system is a logical extension of PennyMac's existing activities. Unlike many other mortgage REITs, PennyMac's business model fits squarely within the scope of the activities that the Bank Act was intended to support. PennyMac acquires and holds whole mortgage loans, including newly originated home loans that are typically sold and/or securitized, and distressed home loans that are held for investment. In contrast to MBS investors that are typically shielded from credit loss due to government guarantees, PennyMac deploys private capital to take judicious credit risk on the loans that it acquires. FHLBank membership and advances would support PennyMac's mortgage banking activities in several important ways: 1) provide funding for portfolio lending of prime non-Agency loans, especially given the weak state of the private-label securitization market; 2) provide an alternate and stable source of funding to the warehouse financing from large banks that PennyMac currently relies on to acquire and securitize new home loans; and 3) provide alternate funding to the delivery of newly originated loans to Fannie Mae and Freddie Mac in the event of a disruption.

PennyMac applied for membership with the FHLB Des Moines in June 2014 through PMT Insurance, LLC ("PMTI"), a wholly-owned captive insurance subsidiary, and an institution eligible for membership in the FHLB system. As a result of the moratorium on admitting new captive members, PMTI's application has been on hold since it was submitted. PMTI is organized as a Missouri LLC and is a captive insurance company in good standing with the Missouri Department of Insurance, Financial Institutions and Professional Licensing.

We believe that prohibiting captive membership to the FHLBanks will weaken the housing finance market at a time when it is fragile and still heavily reliant on government support through the GSEs and Ginnie Mae. In 2013, almost 90% of new prime mortgages originated were eligible for Agency delivery, evidencing the lack of private capital participation in the market. The limited non-Agency lending taking place has been largely restricted to a narrow segment of the market comprising bank portfolio lending to prime jumbo borrowers. Further expansion of non-Agency lending requires expansion of stable financing available to fund such loans. One possible candidate, the non-Agency securitization market, remains in a weak state, with insufficient demand to support a meaningful volume of non-Agency lending. FHLBank advances can provide an important source of stable funding to bolster non-Agency lending and will be critical to reducing the mortgage market's reliance on the GSEs.

FHLBank advances should also increase the diversity and stability of funding available to important mortgage market participants such as PennyMac. The stability of FHLBank funding provides member institutions with the confidence needed to hold loans in portfolio and invest in growing their lending activities beyond Agency-eligible products. It also gives members greater resilience to withstand dislocations in financial markets that might disrupt the availability or cost of other types of financing.

FHFA has proposed multiple substantive revisions, which we address below. While we disagree with the proposed rule relating to captive membership, we generally support the other proposed rules, subject to additional clarification on final implementation.

1. **The "makes long-term home mortgage loans" and "10 percent" requirements**

   PennyMac agrees with the proposal to establish quantitative standards uniformly applied across the membership base. We believe that the proposed rule is a common sense approach to ensuring that members have a measurable commitment to housing finance. PennyMac also agrees with the one-year grace period for members found to be out of compliance with either requirement.

2. Ongoing compliance requirement

PennyMac agrees with the proposal to require annual compliance with the standards above. We believe that it is appropriate for ongoing membership to be paired with demonstration of an ongoing commitment to housing finance.

3. Definition of insurance company

PennyMac disagrees with the proposal to limit the definition of an insurance company to "a company whose primary business is the underwriting of insurance for nonaffiliated persons or entities." Captive insurance companies, like other insurance companies, are closely regulated at the state level. State regulators review business plans, financial statements, and actuarial reports, and proposed distributions of capital must receive regulatory approval. There is no evidence that Congress intended to restrict certain classes of insurance companies from gaining membership based on the counterparties they insure. To the contrary, in a comment letter dated November 17th, 2014, 68 members of Congress state that when Congress adjusted the FHLBank membership rules four years ago, Congress deliberately chose not to narrow eligibility, making its intent clear.

4. Review of audited financial statements

PennyMac is not opposed to FHLBank review of audited financials for insurance companies, however FHFA has not articulated any specific shortcomings associated with the current regulations and/or NAIC capital standards. Before commenting further on this proposal, greater clarity is required to understand the metrics or other criteria that will be used to evaluate an insurance company's financial condition.

5. District for FHLBank membership

PennyMac agrees with the proposal that would require an institution to be a member only of the FHLBank of the district in which its principal place of business is located. PennyMac operates on a nationwide basis, with loans acquired and serviced in all 50 states. Given the central oversight of the FHLBanks by the FHFA and the desire for uniform regulation across districts, we believe that this proposal may be helpful in promoting greater clarity for potential applicants at the outset of the process.

* * *

FHFA's proposed rule relating to the definition of an insurance company, if enacted, would restrict FHLBank membership in a manner contrary to the FHFA's strategic objectives of expanding the availability of mortgage credit to qualified borrowers and encouraging a more stable and liquid housing finance market. We believe that entities like PennyMac, whose mortgage banking activities are strongly aligned with the FHLBank mission, are a vital part of the nation's housing finance system. Denying access to FHLBank funding for a mortgage REIT like PennyMac that serves a critical role for hundreds of community and regional banks and other independent mortgage companies would have an adverse impact on the revitalization of the U.S. residential mortgage market. Furthermore, if enacted, the proposed rule would preclude new captive members from joining the FHLBank system while preserving membership for existing captives for a period of five years. By taking such action, the FHFA will give selected market participants a material advantage for an extended period of time. We do not believe that it is FHFA's desire or rightful role to create an uneven playing field in the mortgage market to the advantage of some and the detriment of others.

In the interest of supporting a robust and vibrant U.S. residential mortgage finance market, we respectfully request that the FHFA not implement the proposed rulemaking that would reduce access to FHLBank financing at the very moment when it is most needed to encourage the return of private capital and normalization of the U.S. housing market.

Sincerely,

Stanford L. Kurland
Chairman and CEO, PennyMac Mortgage Investment Trust