



REAL PEOPLE. REAL RESULTS.

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January 12, 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 Requests 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") above referenced proposed rule. Stonegate Mortgage Corporation ("Stonegate") is a New York Stock Exchange listed mortgage company that originates, finances and services residential mortgage loans. As of September 30, 2014, Stonegate Mortgage had total assets of approximately \$1.67 billion and shareholder's equity of approximately \$300.8 million.

Stonegate is a significant participant in the market for newly originated home mortgage loans in the United States. In 2013, Stonegate originated \$8.7 billion of residential mortgages and through September 30, 2014 originated \$9.3 billion. Stonegate originates its mortgages through three channels: Retail - through a network of 50+ retail branches and a direct retail channel branded Stonegate Direct, Wholesale - through 1,200+ residential mortgage brokers, and Correspondent - through 700+ mortgage bankers who sell closed mortgages to Stonegate. Stonegate's Correspondent channel includes independent mortgage bankers and smaller community banks and credit unions. Stonegate is also a seller-servicer for Fannie Mae and Freddie Mac and a licensed issuer and servicer for Ginnie Mae. As of September 30, 2014, Stonegate serviced a portfolio of \$17.7 billion of residential mortgages of which 99% were serviced for Fannie Mae, Freddie Mac and Ginnie Mae. Lastly, Stonegate has a warehouse financing business which operates as NattyMac, LLC ("NattyMac") whereby Stonegate provides funding to 100+ mortgage bankers who will close mortgages in their own name through funding provided by NattyMac. In summary, Stonegate's business model is to provide products, capital and services to a) consumers who desire mortgages and b) businesses that operate in the mortgage industry.

Stonegate has formed a subsidiary, Stonegate Insurance, LLC ("Stonegate Insurance") which would operate as a captive insurance subsidiary of Stonegate. Stonegate Insurance has applied to become a



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regulated captive insurance company in the State of Michigan, and we expect to be approved shortly. After securing the approval of Michigan, we anticipate applying for membership to the Federal Home Loan Bank of Indianapolis. Consequently, the FHFA's proposed rule change regarding captive insurance company's membership in the FHLB system will, if implemented, negatively impact the opportunities for Stonegate to continue to provide capital to consumers and mortgage-related businesses.

Stonegate believes that the FHFA should not change the definition of an insurance company to exclude captive insurance companies from joining the FHLB system. The FHLB system's purpose, as we understand it, is to expand the availability of mortgage credit to qualified borrowers and to ensure a stable and liquid housing finance market. Restricting captive insurance companies from joining the system would not appear to accomplish or enhance either of those objectives. Denying access to FHLB funding for an independent mortgage company like Stonegate Insurance would have an adverse impact on the revitalization of the residential mortgage market, particularly since Stonegate, in turn, provides capital and funding to hundreds of community banks and independent mortgage companies and tens of thousands of consumers. Simply put: if you want to encourage private capital to enter the mortgage market and encourage the continued growth of the housing markets, do not restrict currently available avenues for independent mortgage companies to lower their cost of funds through membership in the FHLB system.

Furthermore, we understand in the proposed rule that current captive insurance companies will be grand-fathered membership for a 5 year period. Several of those captive insurance companies are subsidiaries of direct competitors of Stonegate. By restricting Stonegate's access to FHLB funding while allowing certain of our competitors access would give those competitors a material competitive advantage for that grand-fathered period.

To support a robust and vibrant U.S. residential mortgage market, we respectfully request that the FHFA not implement the proposed rule-making.

Sincerely,

A handwritten signature in black ink that reads "Mike McElroy". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Mike McElroy
General Counsel
Stonegate Mortgage Corporation

Jeff Ellington
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