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January 12, 2015

Alfred M. Pollard, Esq., 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 (RIN2590-AA39) – Members of Federal Home Loan Banks; Comments of Two Harbors Investment Corp.

Dear Mr. Pollard

Two Harbors Investment Corp. welcomes the opportunity to comment on the Notice of Proposed Rulemaking released by the Federal Housing Finance Agency (FHFA) on Members of the Federal Home Loan Bank ("FHLBank") system. We commend FHFA on its work and commitment to building and maintaining an environment that reduces risks and potential threats to the broad banking and mortgage finance system. Particularly in light of the recent financial and housing crisis, we support standards to reduce the chance and severity of future downturns, contagion to the broader economy, and resulting negative effects on consumers and borrowers. As a member of the cooperatively-owned FHLBank system, we share your concerns that safety and soundness and mission is satisfactorily met by all members. Our comments are very much consistent with these goals and also take into account changes in the housing finance market over the years, as overly restrictive changes could unnecessarily constrain credit and increase costs for borrowers.

Key Recommendations

Address legitimate FHFA concerns without excluding captive insurers to retain housing finance market benefits and meet broader Congressional intent. In the proposed rule, FHFA proposes to define "insurance company" to exclude captive insurers from FHLBank membership, which would have unintended negative impacts on the housing finance market. Instead, Two Harbors encourages FHFA to preserve the definition as it currently stands to include captive insurers, since many captive insurance members provide benefits to the housing finance system, meet safety and soundness requirements, and support the mission of the FHLBank system. We recognize that FHFA may have certain objectives it hopes to achieve by proposing this change, and Two Harbors recommends that FHFA use a different means to achieve these objectives. We, therefore, set out several alternative approaches for FHFA to consider that can help remedy FHFA concerns without unnecessarily adversely affecting the mortgage market, mortgage credit availability, and housing market conditions.

Adopt the new proposed supplement to the 'home mortgage loan' definition. Two Harbors is supportive of the proposed rule's supplement to the statutory definition of "home mortgage loan" to include "all types of mortgage-backed securities (MBS) that are fully backed by first mortgage loans on single-or multi-family property or by other securities that are fully backed by such loans." We agree with FHFA that the economic interests of these MBS instruments are much the same and the difference is more of a legal technicality. We believe the proposed supplement takes into account changes in the housing finance market over several decades and is consistent with the FHLBank mission and Congressional intent, and helps to support a liquid and resilient housing finance market.

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In the remainder of this letter, we provide additional support for our first key recommendation to maintain the current insurance company definition by summarizing (1) the benefits of having captive insurance companies as FHLBank members; (2) notable Congressional actions regarding FHLBank membership in the past; (3) our views regarding interpreting Congressional intent for membership today; (4) certain cautions around eliminating captive insurer eligibility; (5) our experience with safety and soundness diligence during the membership process; (6) additional support that captive insurers can meet the provisions of the statute and fulfill the FHLBank mission; and (7) alternative approaches for FHFA to consider to avoid unnecessary costs, but still address potential concerns.

1) <u>Benefits of Having Captive Insurance Companies as FHLBank Members</u>

There are many benefits that stem from allowing captive insurers to be eligible members of the FHLBank system, particularly in light of current housing and housing finance market conditions.

Long term funding is important to provide liquidity and access to mortgage credit. There is a direct link between the stable long term funding that FHLBank advances can provide to members and the ability for these members to provide liquidity to the mortgage market. For example, captive insurers who are members and their affiliates can provide substantial liquidity to a variety of mortgage lenders on a consistent and price-competitive basis. This is good for potential homeowners because it provides them with a greater number of lenders from which to choose and allows them to secure mortgages with lower interest rates. In the past, securitization provided matched funding for lenders on a reliable basis. However, today, as the private label securitization market has been slow to return, long-term stable financing is scarce and often loans must be warehoused for a considerable period of time before they can be securitized. While commercial banks have deposits they can utilize to fund mortgage loans, other non-depository institutions who operate mortgage conduit platforms (including captive insurance members and their affiliates, such as Two Harbors), do not have such deposits and would have to rely entirely on securitization markets and shorter-term, higher-cost warehouse lines, if FHLBank membership were to be eliminated.

Further, conduits are a necessary long-term provider of capital to the mortgage market, since commercial banks have shown reluctance in the past to own mortgages throughout interest rate cycles, especially in rising rate environments. Although private label securitizations by conduit platforms have returned on a limited basis since the crisis, the underlying loans have been almost exclusively of prime jumbo quality and it will be necessary for this market to return to large scale before loans of more typical credit quality or loan size can be considered for securitization at scale. Access to FHLBank advances, which can offer terms of five years or more, is very valuable to those who purchase or originate loans with the intention of holding the credit risk, particularly in the jumbo market where loans are not eligible for sale to the GSEs or insurance by FHA.

In a still-recovering housing market, it is important to retain liquidity and funding in the housing finance market. As a mortgage Real Estate Investment Trust (REIT), we – and many of the other entities who are captive insurance members – support long term mortgage lending in a still recovering housing market. This is consistent with the intent that the benefits of FHLBank membership accrue to institutions that are engaged in residential mortgage lending. The incremental liquidity we provide to lenders is important where many other private mortgage capital providers have pulled back. In 2012, Chairman Bernanke connected home price recovery to access to credit when he stated:

Certainly, some tightening of credit standards was an appropriate response to the lax lending conditions that prevailed in the years leading up to the peak in house prices.…However, it seems likely at this point that the pendulum has swung too far the other way, and that overly tight lending standards may now be preventing creditworthy borrowers from buying homes, thereby slowing the revival in housing and impeding the economic recovery.[1]

Hampering mortgage market liquidity, and thereby reducing access to credit, could negatively impact home prices, particularly while many areas are still recovering. According to CoreLogic data, although national home prices have significantly recovered from the more than 30% price decline at the trough, to only 12% below the peak 2006 level, many individual areas have not been so lucky. For example, Las Vegas, Nevada and Merced, California are still 38% and 36% below their 2006 peak levels, respectively.[2]

FHLB advances allow new types of mortgage products to be considered to expand access to credit. FHLBank advances also improve our ability to consider new types of mortgage products in a responsible manner since we hold the credit risk. The advances give us more certainty around longer term financing while we determine if a securitization is feasible – or allows us to not need to rely on securitization at all.

Membership as a captive insurer is consistent with the FHLBank mission for many entities. Many types of mortgage-related entities that have captive insurers are consistent with the FHLBank mission, improving liquidity and efficiency of the housing finance market. For

[1] http://www.federalreserve.gov/newsevents/speech/bernanke20121115a.htm.
[2] Underlying data aggregated from CoreLogic 2014, data through 4th Quarter 2014.

example, REITs by charter must hold a high percentage of real estate investments and earn a substantial portion of income through real estate. As a hybrid mortgage REIT, we support liquidity by holding both Agency and non-Agency mortgage-backed securities, mortgage servicing rights, and loans purchased from mortgage lenders as part of our conduit business. REITs that hold credit risk or operate conduit platforms are particularly helpful to providing liquidity to the primary mortgage market.

Impact on mortgage liquidity and credit access should be the determining factors when FHFA is using discretion to change eligibility standards. The proposed rule sheds light on FHFA's concern that captive insurance membership allows affiliate entities that are not eligible for FHLBank membership on a standalone basis to benefit indirectly from FHLBank advances. We think this concern is mitigated by looking past the organizational structure and, instead, to the ways in which the member , together with its affiliates, support the FHLBank mission and provide liquidity to the mortgage market. First, members and their affiliates must deliver eligible collateral as security, thereby inherently supporting real estate lending and the FHLBank mission even before accessing any FHLBank advances. Second, the housing finance system has changed considerably over the decades; the participants and their connectivity to the housing finance market are much more expansive and nuanced and changing definitions based on entity structure alone would, in practice, have negative unintended consequences to mortgage liquidity and credit access by eliminating important sources of capital support.

Membership supports FHFA objectives. FHFA's strategic plan released for 2015-2019[3] recognizes that the FHLBanks' "core mission is to serve as a reliable source of liquidity for their member institutions in support of housing finance and community lending." Separately, another GSE performance goal set out by FHFA is to expand access to housing finance for qualified financial institutions of all sizes and in all geographic locations. Taken together, FHLBank membership can help captive insurance members who meet the mission of the FHLBank system to provide liquidity to lenders who might otherwise have difficulty accessing it on a more consistent and price-competitive basis.

2) Notable Congressional Actions Pertaining to FHLB Membership in the Past

The FHLBank system has been an important source of financing since the Federal Home Loan Bank Act of 1932 ("Bank Act") was enacted. The Bank Act established the cooperatively-owned 12 member bank system "with the goal of helping provide a stable source of long-term funding for residential mortgage lending."[4] Membership was open to building and loan associations, savings and loan associations, cooperative banks, homestead associations, insurance companies, and savings banks as long as each was (1) duly organized under the laws of any state or the United States, (2) was subject to inspection and regulation under the banking laws, or under similar laws, of a state or the United States, and (3) generally made home mortgage loans that were long term loans.[5]

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[3] http://www.fhfa.gov/AboutUs/Reports/ReportDocuments/FHFA-Strategic-Plan-FY-2015-2019.pdf , pg. 10.
[4] W. Scott Frame and Lawrence J. White. "The Federal Home Loan Bank System: Current Issues in Perspective" https://www.stern.nyu.edu/sites/default/files/assets/documents/con_039560.pdf .
[5] Federal Home Loan Bank Act of 1932. http://www.legisworks.org/congress/72/publaw-304.pdf, pg. 726.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act expanded membership eligibility to insured depository institutions that had at least ten percent of its total assets in residential mortgage loans.[6]

In 1999, the Gramm-Leach-Bliley Act amended the Bank Act to include community financial institutions as additional new eligible members.[7] Community financial institutions (CFIs) were defined as an entity with deposits insured under the Federal Deposit Insurance Act and has total assets less than $500 million, to be adjusted annually.

In 2008, the Housing and Economic Recovery Act added community development financial institutions (CDFIs) as eligible members of the FHLBank system and increased the asset limit for CFIs to $1 billion, to be adjusted annually.[8]

3) <u>Interpreting Congressional Intent for Membership Today</u>

In the face of significant and rapid change in the housing finance market, particularly after the housing and financial crisis, FHFA should be guided by the larger goals and purposes of the Bank Act in pursuing the challenging task of ensuring that the eighty year old system stays true to its mission – to support home mortgage lending and liquidity for the primary market.

The proposed rulemaking states that "where the statute does not define a term FHFA has the authority to define it by regulation, as necessary to give effect to the purpose and intent of the statute."[9] The proposed rulemaking then goes on to suggest that Congress did not intend for captive insurance companies to be eligible. It is not clear to us that this is the case. The proposed rulemaking suggests that this was not Congress' intent because it allows affiliates that are not themselves eligible for FHLB membership to benefit indirectly from access to advances. However, captive insurance company eligibility for FHLBank membership is highly consistent with the broader statute to support mortgage lending and liquidity – and seeking to reinterpret this definition might in fact go against Congressional intent.

Instead, we encourage FHFA to focus on the broader purposes of the Bank Act and not just one specific element of the statute, when it seeks to interpret "insurance companies," especially if it is going to do something as profound and unprecedented as to limit or condition insurance company participation for the first time in FHLBank history. We argue that FHFA is approaching the question of Congressional intent narrowly, and that instead FHFA should look to the goals of the Bank Act in its entirety.

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[6] Financial Institutions Reform, Recovery and Enforcement Act of 1989. http://thomas.loc.gov/cgi-bin/query/F?c101:1:./temp/~c101WgnUcZ:e750575.
[7] Title VI of Gramm-Leach-Bliley Act. http://www.gpo.gov/fdsys/pkg/PLAW-106publ102/pdf/PLAW-106publ102.pdf .
[8] Sections 1206 and 1211 of the Housing and Economic Recovery Act of 2008. http://www.gpo.gov/fdsys/pkg/PLAW-110publ289/pdf/PLAW-110publ289.pdf.
[9] Notice of Proposed Rulemaking released on September 2, 2014, pg. 23.

FHFA should consider the consistent theme throughout the Bank Act that focuses on expanding access to credit and providing funds to lending institutions to make long-term fully amortizing home mortgage loans available to homeowners. For example, FHFA should consider that the Bank Act of 1932 included a provision that any homeowner who is unable to obtain mortgage money from any other source may obtain it from banks organized under the Bank Act.[10] Although later determined inoperable, it shows Congress' general intent that the system was meant to provide broad liquidity and access. Additionally, the Bank Act has limited disqualifications for eligible members – only based on safety and soundness and mission – showing that membership was meant to be broad.[11]

These, and other aspects of the Bank Act that established the FHLBank system, point to Congressional intent that the FHLBank system should help provide broad access to mortgage financing. These exemplify the broader mission of the statute and support a more comprehensive membership approach.

Categorical exclusion of insurance captives is inconsistent with these larger goals. Congress has adjusted membership over the years, but has never restricted membership for types of insurance companies. In fact, as listed above, adjustments to eligibility have generally expanded membership, recognizing the emergence of new types of institutions that support mortgage finance over time.

However, also consistent with the statute, we do understand that FHFA might legitimately choose to establish some additional membership requirements to make sure that the mission and safety and soundness goals are adequately met, as further addressed below.

4) Certain Cautions around Eliminating Captive Insurer Eligibility

Even if the proposed rule change only affects a small number of entities, it could still be significant to mortgage finance and the housing market. FHFA Director Watt indicated during his recent Senate Banking testimony that only a "small percentage" of current FHLBank members would be affected by the rule. We would caution that looking at the relative percentage of current FHLB members affected is not the best way to assess the impact of implementing the rule. It could disproportionately impact certain types of borrowers or types of lending; or it could affect institutions that are not yet members, but would be very beneficial to the mortgage finance system if they were to gain membership in the future.

Disproportionate impact on certain types of lending. It could be the case that a change in membership status of a small number of entities would have a meaningful impact on particular types of lending or certain types of borrowers. For example, some captive insurance members

[10] http://www.legisworks.org/congress/72/publaw-304.pdf, pg. 727.
[11] "No institution shall be eligible to become a member of, or a nonmember borrower of, a Federal Home Loan Bank if, in the judgment of the board, its financial condition is such that advances may not safely be made to such institution or the character of its management or its home-financing policy is inconsistent with sound and economical home financing, or with the purposes of this Act." The Federal Home Loan Bank Act, Sec 4. (a) http://www.legisworks.org/congress/72/publaw-304.pdf.

provide a large amount of liquidity to the jumbo mortgage market (i.e., those loans that exceed the conforming loan limit eligible to be delivered to the GSEs or for FHA insurance) and represent a sizable portion of private label securitization issuance. Right now a large volume of new mortgage originations are delivered to the GSEs or insured by FHA. The remaining volume is split between bank balance sheets and a small amount of private label securitization by only a handful of issuers. Of the new issue private label securitizations issued in 2013 and 2014, insurance captive members and their affiliates sponsored more than a third of the total issuance, and more than two thirds of the securitizations in those two years involved REITs holding some or all of the subordinate credit tranches.[12]

Entities that aren't members today could contribute to mortgage credit availability by becoming members in the future. As discussed above, the housing finance landscape has changed significantly over the last several decades, especially since the crisis, and continues to evolve to keep pace with a changing economy, mortgage market and regulatory environment; as a result, restricting FHLBank membership by excluding potential future members may have an important impact on future mortgage credit availability. Economic conditions and market share by different market participants could change – and the benefit of having additional members able to access FHLBank advances could positively affect stability of mortgage credit access and the housing market nationally.

5) Practical Experience with Safety and Soundness Diligence

We agree that it is important for FHFA to focus on safety, soundness, and transparency of the FHLBank system. In doing so, FHFA should consider the evaluation and admission process for a captive insurer, which based on our experience, is quite rigorous.

FHLBanks undertake a substantial diligence process for membership. Representatives from FHLBank Des Moines visited our offices in person and, among other things, reviewed parent company audited financial statements covering the prior three fiscal years, interviewed company personnel about financial condition, business operations and strategy, and reviewed numerous corporate and legal documents for the captive insurer, affiliate and parent entities as part of their due diligence process. They calculated minimum capital stock required; required a certification of adopted board resolutions and affidavits on our financial condition and character of management; and also conducted a mortgage REIT market overview with an independent advisor. The entire application process for our captive insurer entity took approximately 10 months to complete.

We also continue to provide on an ongoing basis a large amount of information at the parent and captive level to FHLBank Des Moines, including information about our investment portfolio (that is, portions of our portfolio that are unrelated to the eligible collateral for FHLB advances), financial statements, and various risk and operational metrics. We believe that FHLBank Des Moines institutes similar, if not more robust, oversight precautions as other sophisticated secured lending counterparties.

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[12] Source: Merrill Lynch, Pierce, Fenner & Smith Incorporated, as of 4th Quarter 2014.

FHLBank practices include further protections, including a parental guarantee to the captive insurer in favor of the FHLBank Des Moines. The parental guarantee issued in favor of FHLBank Des Moines provides additional protection to the FHLBank system. In addition, the FHLBank system applies haircuts, including the requirement to purchase activity stock of the FHLBank, that are much higher than those that repo and warehouse lines use, further protecting the FHLBank system against asset valuation declines. Finally, total FHLBank advances is a small percentage of Two Harbors' overall financing composition, largely resulting in a complementary diversification of financing sources.

6) <u>Additional Support that Captive Insurers Can Meet Statutory Provisions and Fulfill Mission</u>

The insurance that our captive insurer provides is widely recognized. Our captive insurer provides two types of insurance. It provides insurance on mortgage impairment-related losses within our conduit and securitization platforms and first loss insurance coverage on directors and officers liability. In addition to being recognized as an insurance company by the Missouri state insurance regulator, the captive has secured reinsurance protection from a third party reinsurer on the directors and officers insurance coverage. Our captive insurer provides tangible value to our affiliates, particularly emphasized by the fact that our regulatory status as an insurance company granted us direct access to the U.S. reinsurance market.

Two Harbors is actively sponsoring an application to support affordable housing through its FHLBank membership. Two Harbors will be sponsoring an application for an affordable housing grant being submitted by Aeon, a non-profit housing developer based in Minnesota, to FHLBank Des Moines during the upcoming application cycle.[13] As a member of the FHLBank system, we feel strongly that it is important for our organization to participate in the 2015 Affordable Housing Program offered by FHLBank Des Moines, which meets many aspects of the FHLBank mission. Given the recency of our captive's membership, this upcoming application period will be our first opportunity to take part in the Affordable Housing Program funding cycle and we are honored to be working with Aeon and FHLBank Des Moines in this worthy endeavor.

7) <u>Alternative Approaches for FHFA to Consider to Mitigate Adverse Consequences</u>

We understand that, through the proposed rulemaking, FHFA may hope to achieve specific objectives and is proposing to do so through membership eligibility changes. Consistent with our view that appropriate standards should be set to reduce risks, but not increase costs or constrain credit unnecessarily, we present alternative ways that FHFA could address its concerns, but still retain the benefits of captive insurers as members.

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[13] Aeon is a nonprofit affordable housing developer. It has built or renovated more than 2,100 affordable apartments and townhomes in the Twin Cities area, which provide stability to more than 4,000 people each year – including individuals and families with low to moderate incomes and formerly homeless individuals. Of their 36 properties, 26 offer additional supportive services to help residents in achieving housing stability and personal goals. http://www.aeonmn.org/who-we-are/.

We list three possible objectives that FHFA may want to accomplish and then suggest specific approaches that FHFA could consider in order to meet that objective. FHFA could choose to apply just one of the below recommendations, or a combination, to satisfy the objectives it is seeking to achieve. We recommend that parent companies in the below context be defined as the consolidated group of affiliates. For each of the below, we recommend that they only apply to FHLBank members that are captive insurers and their parent companies; we are not recommending that FHFA apply these approaches to the broader FHLBank membership, such as depository institutions.

A) If FHFA wants to ensure that the parent and captive are meeting the FHLBank mission to provide liquidity in support of housing finance and community lending:

<u>*Approach 1:*</u> FHFA could apply a more stringent mission test to potential captive insurance members and their parents (the consolidated group of affiliates) using asset or income tests, and it could make this an ongoing test. FHFA should consider setting a simple, but heightened, asset (or income) test threshold. For example, FHFA could require that 60 percent of a parent's assets be real estate related, which would include both residential and commercial real estate assets. Or FHFA could require that 30% of a parent's assets meet FHFA's new proposed "long term home mortgage loan" definition. This would help ensure that the consolidated group of affiliates has a substantial portion of their business committed to assets that fit within the FHLBank mission on an ongoing basis.

Because REITs must abide by very specific and rigorous asset and income tests under the Internal Revenue Code in order to maintain REIT status, for REIT parents, FHFA could reference the Internal Revenue Code asset and income tests as adequate to meet this test rather than reconstruct new tests. For example, at least 75% of a REIT's assets must be investments in equity ownership of real property, mortgages secured by real estate, government securities, and cash. In addition, 75% of a REIT's gross income must be derived from real estate income, which include rents from real property, interest from mortgages, and gains from the sale of mortgages and/or real property held for investment. Even individually, each of these asset and income tests sets a high threshold for commitment to real estate related investments and activity for REITs. But taken together, these tests result in a comprehensive and extensive way to ensure the consolidated group of affiliates is consistently supporting the FHLBank mission well beyond the 10% asset test applied during the FHLBank membership application process.

<u>*Approach 2:*</u> FHFA could apply a more stringent eligible collateral test to captive insurance members where collateral pledged for advances must be real estate-related. Due to the secured nature of FHLBank financing, a member or its affiliate must deliver eligible collateral to pledge against advances, thereby requiring a member to support the FHLBank mission even before it pledges that collateral for advances. Therefore, restricting collateral eligibility so that it must be real estate related helps make sure that

the member is using the advances for purposes that more strictly align with the FHLBank mission.

B) If FHFA wants to make sure parent and captive have stable capital with long-term investment strategies:

Approach 3: FHFA could require that a parent's equity capital (e.g., stockholders' equity or owners' equity) must be at least 75 percent permanent or locked-up capital. We would suggest that common stock, preferred stock and capital surplus count towards permanent capital. Additionally, FHFA could also count capital that has a lock-up period of at least five years at any given point in time as fulfilling the 75 percent requirement. This would help eliminate eligibility for limited life entities and support entities with long term investment horizons.

C) If FHFA wants to institutionalize and standardize safety and soundness, risk management, and reporting practices across the system:

Approach 4: FHFA could establish a new risk management position at each FHLBank that has captive insurance members or a common position that could be used to standardize practices for the FHLBank system as a whole. The position would be dedicated specifically to corporate credit analysis and the person who fills this position should be required to have extensive corporate credit risk management experience. This would help to ensure that, should an applicant be a new type of entity that is less familiar to FHLBank staff; this person could conduct appropriate diligence.

In the proposed rulemaking, FHFA notes that it was not able to obtain annual statement data for 14 insurance company members that are also captive insurers (this is out of a total of 31 insurance companies for which FHFA was not able to obtain annual statement data). To remedy such instances of data unavailability, FHFA could consider ongoing reporting of certain information and specific risk metrics to the respective FHLBanks. This could help standardize such reporting across the FHLBank system and ensure that FHFA has access to adequate information concerning the financial health of FHLBank members.

Approach 5: FHFA could also require ongoing reporting and transparency to the captive insurer's respective FHLBank. This could include information about the parent company and captive insurer that the FHLBank or FHFA believes is important to adequately assess financial health, investment strategy, and other risk metrics. This reporting could be required on a periodic basis, as appropriate.

Based on our experience, however, these safety and soundness provisions are not necessary. The FHLBank Des Moines staff has been knowledgeable and capable in this area, and has requested extensive information at both the parent and affiliate levels on an ongoing basis. The above approaches could, however, be a way for FHFA to standardize and institutionalize best-in-class risk management practices across the FHLBank system.

Conclusion

We, again, would like to commend FHFA on its work and commitment to building and maintaining an environment that reduces risks and potential threats to the broad banking and mortgage finance system. In light of the recent financial and housing crisis, we support standards to reduce the chance and severity of future downturns, contagion to the broader economy, and resulting negative effects on consumers and borrowers. As a result, we understand and appreciate the spirit underlying the proposed rulemaking and the rationale behind modifying the definition of insurance company. In this letter, we have put considerable thought in outlining a set of possible alternatives for FHFA to consider because we recognize that not all captive insurers that exist in our country today, or those that could potentially form, may make sense as FHLBank members. However, for all of the reasons listed above, many parent companies and their captive insurance companies, particularly those that are committed to mortgage investment, fit very well with the FHLBank mission to provide liquidity in support of housing finance and community lending. We generally believe that captive insurance eligibility is a good thing and that different types of captive insurance members can indeed positively benefit the FHLBank system and support its mission; their membership improves access to credit for borrowers and contributes to a stable and efficient housing finance system. We ask, therefore, that FHFA carefully consider these benefits before changing the definition of insurance company.

We appreciate the opportunity to provide this letter in response to FHFA's Notice of Proposed Rulemaking and would be pleased to participate in further discussions with FHFA in this regard. Should you have any questions or desire any 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