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MetLife®

March 28, 2014

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 20006-1506

Re: Comments to FINRA Rule 4210 for Transactions in the TBA Market

MetLife recognizes the substantial effort and consideration that the Financial Industry Regulatory Authority ("FINRA") has dedicated to ensuring a more resilient financial system by proposing margin requirements for transactions in the To Be Announced ("TBA") market (the "TBA Market") and appreciates the opportunity to comment on the proposed amendments to FINRA Rule 4210 for transactions in the TBA Market (the "Proposal").

MetLife, Inc. is the holding company of the MetLife family of insurance companies. The MetLife organization is a leading provider of insurance, annuities and employee benefit programs, serving 90 million customers on a global basis. MetLife holds leading market positions in the United States (where it is the largest life insurer based on insurance in force), Japan, Latin America, Asia, Europe and the Middle East. MetLife, Inc. is a public company with securities listed on the New York Stock Exchange and registered under the United States Securities Act of 1934.

The MetLife insurance companies are licensed and regulated in the jurisdictions where they are domiciled and conduct business. Such regulations govern the business conduct and financial aspects of the insurance business, including standards of solvency, statutory reserves, reinsurance and capital adequacy.

MetLife believes that the margin requirements as set forth in the Proposal will impede the operational efficiency of the TBA Market thereby negatively impacting market liquidity for these transactions, increasing the costs to invest in the TBA Market, and ultimately having a chilling effect on the consumer mortgage market. We respectfully ask that FINRA consider the suggestions set forth below.

Costs to Collateralize Short Duration Settlements Exceed the Risk Inherent in the Settlement Period.

Prior to and during the financial crisis of 2008, the TBA Market remained stable and liquid without the support of collateral securing the settlement of these transactions. FINRA, following the lead of the Treasury Markets Practice Group ("TMPG"), is proposing that collateral be pledged for: (i) TBA and specified pool transactions with settlement dates that extend beyond one business day, and (ii) collateralized mortgage obligation ("CMO") transactions with settlement dates of greater than three business days. The posting of collateral for transactions that essentially carry the risk of "spot trades" create operational inefficiencies and increased costs for dealers and institutional investors alike.

There are substantial costs in operating and maintaining a collateral management infrastructure to accommodate the short settlement periods required under the Proposal. Monitoring, allocating and transferring collateral to cover short dated settlements create operational burdens and expenses that far outweigh the risk inherent in settlement periods with duration of less than three days. Moreover, the requirements of the Dodd-Frank Act have placed demands on dealers and institutional investors to develop the most efficient allocation of securities that constitute eligible collateral for derivatives transactions. The Proposal adds an additional layer of regulation that creates competing demands for eligible collateral required by financial institutions that sell or invest in these products. The pool of eligible collateral within an institution is not infinite. The opportunity costs of posting collateral to an ever-expanding range of financial products will force institutions to forgo dealing in these products and / or pass the additional costs of collateralization onto consumers. In the case of the TBA Market, collateralization of short duration settlements will likely result in decreased demand and liquidity in these markets and substantially higher borrowing costs for Americans purchasing homes. In the case of MetLife, the increased costs associated with purchasing mortgage-backed securities ("MBS") to match insurance and annuity obligations will increase the costs of these products as well.

MetLife recognizes that default risk increases as settlement periods are extended. However, we believe that such risks must be balanced against the costs and negative impact on the markets that are affected. Accordingly, MetLife suggests that FINRA amend the Proposal to cover only forward-settling TBA transactions whose settlement dates extend beyond the first standard settlement date set by the Securities Industry and Financial Markets Association ("SIFMA") following the trade date for such transaction. For example, if a party executes a TBA transaction with a trade date of April 1, 2014, and the next settlement date set by SIFMA for the securities underlying such transaction is April 10, 2014, then no margin would be required in respect of such transaction. Any transactions executed on April 1, 2014 with a scheduled settlement date set by SIFMA that falls beyond the April 10, 2014 settlement date would, however, be subject to the margin requirements of the Proposal.

Margin Delivery Periods and Transaction Close Outs for the Failure to Deliver Margin Should be at the Discretion of the Parties.

Under the Proposal, any exposure deficiencies not collateralized within five business days would require an immediate "liquidating action." MetLife objects to the mandatory five day close out period for the failure to deliver margin set forth in the Proposal. TBA transactions will be governed by the SIFMA Master Securities Forward Transaction Agreement ("MSFTA") in compliance with the TMPG's best practice guidelines for the execution of TBA transactions. The MSFTA sets forth certain events of default ("Events of Default"), which include the failure of a party to deliver collateral when required; and further allows for the parties to agree on a cure period to remedy any such failure. MetLife believes that the declaration of an Event of Default should remain the province of the parties based upon terms negotiated in the MSFTA, the non-defaulting party's assessment of prevailing circumstances surrounding such default, the credit worthiness of the counterparty to the transaction, and current market conditions.

The Proposal further provides that maintenance margin and exposure deficiencies must be collateralized within one business day of the creation of such exposure. MetLife objects to this abbreviated margin delivery period as it is inconsistent with generally established collateral delivery periods of two to three business days that exist in the derivatives and other similar markets. Requiring such an abbreviated margin delivery period will require dealers and investors to modify existing collateral delivery systems and procedures. Modifications to these systems and procedures will be a time consuming and costly process.

MetLife believes that each of these changes suggested in the Proposal will have the unintended consequences of increasing the costs associated with executing TBA transactions and will ultimately reduce the liquidity in the MBS market. Accordingly, we suggest that FINRA omit the mandatory five day liquidation period set forth in the Proposal, and continue to allow the parties to maintain the flexibility to determine appropriate close out and cure periods as provided for in the MSFTA. We further suggest that FINRA allow the parties to negotiate maintenance and variation margin delivery periods that are consistent with standard market conventions.

Conclusion

MetLife would like to reiterate our appreciation for the efforts that FINRA expended in attempting to create a more resilient TBA Market. We are pleased to be able to continue to participate through the comment process and respectfully submit that certain aspects discussed above have the potential to unintentionally reduce market liquidity, increase costs in the MBS markets and unnecessarily increase the financing costs for home-buying Americans.

Respectfully,

Jason Valentino
Director

Kevin Budd
Associate General Counsel