

September 17, 2011

Securities and Exchange Commission

SUBJECT: Concept S7-34-11, Companies Engaged in the Business of Acquiring Mortgages and Mortgage-Related Instruments

To whom it may concern:

I am writing in opposition to changes in the regulation of mortgage REITs as described in concept regulation S7-34-11.

I am an individual investor who has a portion of my savings invested in mortgage REITs. I depend upon mortgage REITs for some of the income I will need to finance my retirement, which is hopefully within sight. Good, income yielding investments can be hard to find given present federal policy to suppress interest rates. Mortgage REITs, with their modest levels of leverage, are one means to obtain a decent cash return.

A debt-to-equity ratio of 5:1, as quoted in the Federal Register's Overview of the concept regulation, is hardly excessive. I need only remind the Securities and Exchange Commission that it was leverage ratios closer to 30:1 and even higher, which contributed to the failure or government stewardship of many banks during the financial crisis of 2008-2009. During this financial crisis, the mortgage REITs generally performed well with the few, notable exceptions being companies, which did not invest in mortgages backed by Freddie Mac or Fannie Mae.

Leverage is at the heart of the business model of the mortgage REITs. Eliminating leverage would eliminate the mortgage REITs. Because the mortgage REITs buy mortgages, their elimination would remove a very important buyer from the mortgage market and further prolong the recovery of the housing market.

The comparison of mortgage REITs to closed end funds is inappropriate. Mortgage REITs are like a financial institution which earns money by borrowing short and lending long. This is only a worthwhile endeavor if a modicum of leverage is used. Closed end funds, however, do not assume this quasi-financial role. Instead, they typically invest in stocks, bonds, real estate, etc. hoping to profit by capital appreciation and/or dividends and interest.

The arguments put forth in the Federal Register against the abuses of "deliberate misvaluation" and "overreaching by insiders" is hardly peculiar to mortgage REITs or any other investment vehicle under the jurisdiction of the Commission. Thus it would be nonsensical to single out a particular industry for regulation on this count. A casual perusal of the financial news will offer up many more inviting candidates to the Commission

I will refer to one investment I previously held in Thornburg Mortgage, a leveraged REIT, which failed. The company did not fail because of leverage, but because it generally held Alt-A and jumbo mortgages, which were not guaranteed by Freddie Mac and Fannie Mae. Thus

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the collateral for its borrowings were suspect during the 2008-2009 financial crisis.

In my opinion, the mortgage portfolio of Thornburg Mortgage was adequately disclosed and discussed in its quarterly reports. I listened to several of its quarterly conference calls and, thankfully, I liquidated my investment before the company started to collapse. I sold my shares in the company precisely because the disclosures made by the company convinced me that it would not weather the gathering financial storm. The decision was made based upon the type of securities Thornburg Mortgage held, not because of its leverage.

I appreciate the opportunity, which the Commission has provided me, to comment upon this concept regulation. I urge the Commission to reject the concept.

Respectfully,

Robert Hilton