

Before even considering the technical investment related merits of this proposal, if any, based on our background in Econometric work, it must be pointed out that making any of the proposed changes, or even seriously considering them, will do material damage to the United States economy if conducted at this time. The reason for this is that with economy at best struggling to recover, and mortgage rates being at extremely high spreads, removing or reducing major end demand for holding mortgages will increase the spread even further, making mortgages more expensive for both consumers and businesses. Given the focus of Mortgage REITs this will fall primarily on consumers, but businesses will have both direct (slightly higher spreads on commercial mortgages) and material indirect adverse effects (due to higher mortgage rates depressing home sales, depressing home prices and resulting in higher defaults and higher mortgage rates siphoning off cash that would otherwise be used for discretionary purposes). Even considering these changes at this time, when all types of mortgage capital are constrained, reduces the effected companies propensity to provide mortgage capital and has a damaging effect on United States economic growth, therefore consideration of such a change should at the minimum be differed until the economy can more readily afford the uncertainty and the damage from the change will be reduced or eliminated.

Why changes in these rules are not needed either due to normal regulatory prudence or provisions of the Dodd-Frank act:

The existing rules were just given a very severe and real time test by the recent credit crisis and passed with extraordinary success. Items:

- (1) No mortgage REIT received any form of government assistance,
- (2) No internally managed mortgage REIT failed,
- (3) The failure/bail out rate among mortgage REITs was miniscule compared to banks and the least among the classes of mortgage “lending” companies,
- (4) A number of mortgage REITs, Dynex Capital (DX) as an example, actually increased earnings during the credit crisis,
- (5) a larger number, PMC Commercial Trust (PCC) as an example, had stable earnings during the credit crisis.
- (6) Many Mortgage REITs, before this rule change announcement, were trading at or above their general pre-Credit Crisis levels, there are numerous examples including DX, MFA and NLY. Contrast this with banks which are nearly uniformly notably below. This is in spite of the major market decline that had already occurred when the rule announcement was made.

Since we can see that the current rules produce excellent results there is no need to examine them. Further, a change in the rules would be “untested” by real life performance and subject to the risk that there might, by inadvertence, be something in them that would cause them to produce worse performance than the existing rules in the next market/economic problem.

It is particularly true that internally managed mortgage REITs should not have their rules changed because they performed notably better than externally managed ones in the recent credit crisis and they are much more like an operating company than an externally managed REIT because their management is focused on just the single business and stands to loose their jobs, their stock options and their investment in the company should the business fail or undergo an adequately dramatic downturn.

Suggestion:

Make an immediate announcement that internally managed mortgages REITs shall be allowed to operate under their choice of the existing rules or under the new rules. The justifications for this include; elimination of damaging uncertainty in the market place leading to an improved condition for US economic growth compared to today, permitting all mortgage REITs to do contingency planning

since they have a set of known rules that they can plan to qualify for it proves essential to their business model, the fact that existing rules have served the investors in internally managed mortgage REITs astoundingly well, and the fact that it will simplify the agency's task and reduce the amount of time required (such as by a dramatic reduction in the number and extent of comments).

There are a number of additional qualification that might be added to this with a neutral or better effect, such as requiring for the exemption that the reporting managers and directors own an aggregate of company stock (common + preferred) equal to at least five times their annual aggregate compensation. This would align managements risk and incentives much more closely with shareholders. However, adding several, or complex, additional requirements would have a damaging effect.

Thank you for your consideration.