



October 13, 2016

The Honorable Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024

Re: **FHFA Single-Family Credit Risk Transfer**

Director Watt,

We are writing this letter in response to the Federal Housing Finance Agency's ("FHFA") request for input regarding the evolution of the Credit Risk Transfer ("CRT") market of the government-sponsored enterprises (the "GSEs").

Annaly Capital Management Inc. ("Annaly" or the "Company") is a New York Stock Exchange listed company that commenced operations on February 18, 1997. With total stockholder's equity of \$12.9 billion¹, Annaly is the largest publicly traded mortgage real estate investment trust ("mortgage REIT") in the United States.

The Company owns a portfolio of real estate-related investments, including mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, credit risk transfer securities and other securities representing interests in or obligations backed by pools of mortgage loans, commercial real estate assets and corporate debt.

Since the Company's inception in 1997, Annaly has produced a total shareholder return of 678 percent, and returns have been consistently paid in the form of quarterly cash dividends totaling more than \$14 billion to Annaly's individual and institutional shareholders. Annaly's track record of performance has been achieved through a variety of economic and interest rate cycles and is a testament to Annaly's ability to continually navigate changing market environments.

In recent years, Annaly has sought to diversify its investment strategy by investing in credit businesses whose assets have complementary cash flows to its Agency mortgage-backed securities ("MBS") such as commercial loans, commercial mortgage-backed securities ("CMBS"), and residential credit securities including GSE CRT securities, subject to limitations of current regulation.

Mortgage REITs are among the few participants in the MBS market dedicated almost solely to real estate investment and capitalized by funds raised in the public markets. The permanent capital raised by mortgage REITs continues to be an important contributor to meet the demand for mortgage credit, aiding marketplace liquidity and pricing. It is our belief that the mortgage REIT model should be considered an essential part of the private market solution for the future of residential housing finance, as well as current efforts to de-risk the housing finance system through innovations such as CRT.

We understand that the FHFA is aware of the regulatory hurdles that face REITs from participating in the CRT market more broadly, and thank the FHFA for considering expanded investor participation in Enterprise CRT programs a "high priority"². Solving these issues, either through coordination among regulators or through transaction structuring, should be a priority for the GSEs and the FHFA. No matter

¹ Pro-forma figure as of 6/30/2016.

² FHFA's *Single-Family Credit Risk Transfer Progress Report*, June 2016.

what form or forms of credit risk transfer products the GSEs use, the additional private capital that Annaly and other REITs could provide would benefit the credit risk transfer initiative.

Annaly supports the joint comment letter submitted to the FHFA by the Securities Industry and Financial Markets Association, the National Association of Real Estate Investment Trusts, and the Association of Mortgage Investors which provides more detail on the technical requirements that limit REIT involvement in the emerging CRT market and highlights some of the permanent capital raised by REITs such as Annaly.

We welcome the opportunity to work with the FHFA, regulators, legislators and market participants to update these rules to help meet FHFA's stated participation goals.

Thank you for the opportunity to respond and we look forward to discussing these issues with you at your convenience.

Sincerely,



Kevin Keyes,
President & Chief Executive Officer