



January 9, 2015

Mr. Alfred Pollard
General Counsel
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: Regulatory Information Number (RIN), 2590-AA39, Notice of Proposed Rulemaking regarding membership requirements in the Federal Home Loan Bank System

Dear Mr. Pollard,

We are writing this letter in response to the Federal Housing Finance Agency's ("FHFA") request for comment regarding the Notice of Proposed Rulemaking ("NPRM") regarding membership requirements in the Federal Home Loan Bank ("FHLB") System, specifically as it pertains to the current membership of Truman Insurance Company LLC ("Truman"), a wholly-owned subsidiary of Annaly Capital Management, Inc. (the "Company" or "Annaly"), in the Federal Home Loan Bank of Des Moines ("FHLB Des Moines"). The purpose of this letter is to provide information about the role that Truman and Annaly play in the U.S. residential real estate markets and how membership within the Federal Home Loan Banking System directly aligns with the FHLB mission of housing and community development.

Annaly is a New York Stock Exchange listed company that commenced operations on February 18, 1997. With total stockholders' equity of over \$13 billion, Annaly is the largest publicly traded mortgage real estate investment trust ("mortgage REIT") in the United States. By its design as a mortgage REIT, Annaly's mission is to invest in housing and other forms of real estate which directly aligns with and supports the mission of the FHLB System.

The Company owns a portfolio of real estate-related investments, including mortgage pass-through certificates, collateralized mortgage obligations, agency callable debentures, other securities representing interests in or obligations backed by pools of mortgage loans. Annaly's holdings of over \$80 billion in mortgage-backed securities ("MBS") help to finance nearly half a million homes.¹ Annaly focuses its activities on capital preservation and income generation through proactive portfolio management, supported by a conservative liquidity and leverage posture and prudent capital allocation. The Company's leverage and liquidity is conservatively managed, applying risk management practices such as stress testing and related metrics similar to those of other sophisticated financial institutions, all of which is monitored on a continuous basis.

Since the Company's inception in 1997, Annaly has paid cash dividends to its individual and institutional shareholders for 70 consecutive quarters. 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 dynamic market environments.

Annaly, inclusive of its subsidiaries such as Truman, maintains a comprehensive corporate governance framework and robust risk infrastructure, consisting of various risk management committees at both the Company and Board of Directors level. Annaly also maintains an independent audit services function which ensures adherence to the Company's internal policies and procedures and compliance with regulatory best practices. It is this prudent and comprehensive approach to risk management that has

¹ Source: Company filings as of September 30, 2014. Assumes US Existing Home Sales Median Price of \$205,000 and 10% down payment.

allowed Annaly to continuously operate during the most recent credit crisis and to pass rigorous exam procedures required of Truman when it was admitted to the FHLB Des Moines.

Annaly and mortgage REITs in general impose rigorous internal controls on their operations. Moreover, as publicly traded entities, companies such as Annaly are also subject to a comprehensive regulatory regime which includes regulation and oversight by the Securities and Exchange Commission (“SEC”), state and corporate governance laws, and self-regulatory organizations such as national stock exchanges and the Internal Revenue Code. The regulatory regime applicable to publicly traded mortgage REITs requires transparency in the form of extensive disclosure of key information about their business, financial condition and results of operations, capital and financing sources, related party transactions and more. In addition, a captive insurance subsidiary of Annaly, Truman is regulated by the Missouri Department of Insurance, Financial Institutions and Professional Registration. To remain in compliance with the state regulator, Truman is required to produce and file an annual report, audited financial statements, actuarial certification of loss reserves and financial projections. Further, both Truman and Annaly produce a variety of reports for the FHLB Des Moines to support the ongoing member credit evaluation process.

Mortgage REITs are one of the few participants in the MBS market dedicated almost solely to real estate investment and capitalized by funds raised in the public markets. At certain times of economic stress, the sector has provided countercyclical capital formation and equity investment, arguably helping to support MBS asset prices in the process. In order to further this trend of private capital participation in the U.S. housing market, Annaly respectfully suggests that certain tests and on-going supervision be implemented to allow for the continued membership of captive insurance companies within the FHLB system. We recommend any or all of the following:

- **Parental Guarantee of Captive Insurance Member:** In order to address any FHFA concern about the stability of captive insurance members, FHFA could require a parental guarantee on behalf of a captive insurance member. The contractual obligation of a parent company would serve to ensure that ample financial resources exist to alleviate concern regarding the safety and soundness of the member entity.
- **Ongoing Asset and Income Test:** In order to address any FHFA concern about parent company alignment with the housing mission of the FHLB System, FHFA could mandate that the parent company of a captive insurance member firm submit to regularly scheduled asset and income tests. These tests could mandate that the activities and holdings of parent companies are directly related to real estate or, specifically, U.S. housing. A template for such a construct already exists in the asset and income tests that presently govern mortgage REITs under the Internal Revenue Code to ensure their tax exempt status.
- **Permanent Equity Capital:** In order to address any FHFA concern about capital adequacy, the FHFA could ensure no significant portion of the parent firm’s capital is of a callable nature.
- **Risk Management Practices:** In order to address any FHFA concern about risk management, the FHFA could provide specific risk management guidelines to be administered by the chief risk officer at each of the FHLBs. This task may be streamlined by the creation of standardized reporting procedures and documents and data.

Mortgage REITs, like Annaly, provide a private market solution for the current and future of residential real estate finance. The capital that is raised by mortgage REITs, which has grown as the sector has flourished and received wider acceptance by a broad base of investors, is an important contributor to the demand for mortgage credit, thus increasing liquidity in the marketplace. Moreover, mortgage REITs are ideal holders of real estate-related assets given their expertise in the asset class and long-term investment horizon.

Annaly respects the important role played by the FHLB System and is dedicated to supporting its mission by providing essential private capital and liquidity to the residential real estate markets. While borrowings from the FHLB to this point have been modest and an insignificant portion of the Company’s borrowings, Truman’s membership to the FHLB Des Moines is a valuable step in Annaly’s mission of being a consistent, long-term investor in multiple segments of the U.S. real estate market. We respectfully ask for your on-going support of Truman’s membership to the FHLB Des Moines, and more importantly, Annaly’s

role in the current and future state of U.S. home finance. Should you have questions or concerns regarding any of the matters addressed in this letter or other topics of interest, please do not hesitate to contact us for further discussion.

Sincerely,



Wellington Denahan
Chairman and Chief Executive Officer

cc: The Honorable Mel Watt, Director of Federal Housing Finance Agency