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The Honorable Richard Cordray
Director
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Dear Director Cordray:

I am writing to bring to your attention the development of single family rental backed securities and ask that the Consumer Financial Protection Bureau work to address unanswered questions about these new financial products. Part of the CFPB's mission is to study financial service providers and financial service products, and I believe that a CFPB study on rental backed securities would help investors and consumers better understand this emerging market. Proper federal review and oversight is essential to ensuring that all consumers have complete information and are protected from undue risk.

California's Inland Empire, which I represent, was hit particularly hard by the wave of foreclosures that occurred as a result of the financial crisis. Between 2008 and 2011, Riverside County saw 134,910 household foreclosures – a rate of one in every ten homes. After the flood of foreclosures, the Inland Empire housing market has seen record low prices and interest rates. Despite these strong incentives to buy, families and first-time homebuyers are finding it hard to purchase a home. It is increasingly the case that these homes are being purchased by investment companies looking to rent out the property, leaving the family purchaser of modest means shut out of the market. Many of the properties were distressed or real estate owned (REO) before institutional investors purchased them and converted them to rentals. While Southern California provides a clear example of this new trend, it is not the only region that has seen a rise in investment owned properties. Similar stories are coming out of Florida, Arizona, Nevada, and Georgia.

Now, these same investors have developed a new financial product linked to rental properties, a single family rental backed security. Last fall, Blackstone partnered with Deutsche Bank to announce the first rental backed security, offering $479 million in bonds backed by the rental income from some 3,207 properties in Arizona, California, Florida, Georgia, and Illinois. At the end of January, another large investor, American Homes 4 Rent announced a partnership with JPMorgan Chase, Goldman Sachs and Wells Fargo to sell $500 million in similar bonds. If these offering are successful, more firms may be encouraged to follow Blackstone and American Homes 4 Rent's lead. According to a report by the Center for American Progress, the market for rental backed securities could grow to $70 billion by 2016.

The Federal Reserve as well as a few ratings agencies raised concerns about these new bonds. Moody's Analytics gave the bonds in the highest traunch a Triple-A rating, but Fitch and Standard & Poor's refused to give the bonds a Triple-A rating, citing their limited track record and vulnerability due to the intricacy of maintenance expenses, capital expenditures, property tax fluctuation, and the potential for local municipality involvement. Additionally, a report by economists at the Federal Reserve raised concerns about the impact of rental backed securities on local housing markets where a majority of the properties are located, and argued that, "it will be important to monitor the development of markets for bonds backed by rental-income streams for the development of potentially destabilizing structures or concentrated exposures."

One of the CFPB's core functions is to monitor financial markets for new risks to consumers. The issues raised by Fitch Ratings and the Federal Reserve point to possible risk that could harm consumers if these bonds are affected by a downturn. It is with that in mind, that I request that the CFPB conduct a study of these new financial instruments. I would hope that any study would include the following information:

1. A list of local housing markets with high concentrations of rental properties purchased and managed by institutional investors, and analysis of common trends within these communities.
2. The impact of REO to rentals and rental backed securities on mortgage credit availability, rental prices, and housing prices in highly impacted communities, and the futures impact should the market for these bonds grow.
3. An evaluation of the risks of having the properties linked to rental backed securities located in only a few select markets, and whether changes in local housing markets could lead to instability in the overall bond structure.
4. A comparison between the rehabilitation, ongoing maintenance, and management costs that institutional investors spend on REO to rental properties compared with other owners who have established records of responsible single family rental management, and how that impacts local neighborhoods.
5. An analysis of the quality of property management for REO to rental properties, and whether it improves or deters timely and complete responses to tenant concerns.
6. Clarification on how the bonds are structured to determine whether the entire portfolio would go into default if the rental properties don't meet certain performance criteria, and whether there are sufficient protections from eviction for renters in the case of sale.
7. The impact on consumers, renters, and housing markets should poor performance force the properties to go into default or be sold.

Proper oversight of new financial innovations is key to ensuring we don't go down the same road of the unchecked sub-prime mortgage backed security, and create an unsustainable bubble that will wreak havoc when it bursts. I encourage the Consumer Financial Protection Bureau to conduct a study on rental backed securities so that all parties can have a thorough understanding of the potential risks associated with these bonds.

Sincerely,

Mark Takano

Mark Takano
Member of Congress