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Mary Jo White
Chair
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Chairwoman White:

I am writing to bring to your attention the recent increase in investor owned rental properties and the development of single family rental backed securities. It is my belief that the development of these new financial products deserves thorough federal review and oversight. A key component of the Security and Exchange Commissions' mission is to protect investors and I ask that the SEC pay close attention to this emerging market and work to address unanswered questions about how these new bonds are structured.

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 tranch 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."

As the primary overseer and regulator of the United States securities markets, I believe the SEC can play a crucial role in clarifying how these new bonds are being sold. The issues raised by Fitch Ratings and the Federal Reserve point to possible risk that could harm investors and consumers if these bonds are affected by a downturn. It is with that in mind, that I request that the SEC gather information about rental backed securities. I would hope that information would include:

1. 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.
2. Specific details about how well the properties must perform and what vacancy rate was assumed when structuring the bond.
3. How consumers, renters, and housing markets would be impacted if poor performance forced the properties to go into default or be sold.
4. Further information about what happens when these bonds mature, and the likelihood that the borrower would be unable to refinance the bonds and be forced to sell properties to repay bondholders.
5. The type of investors who are purchasing the bonds.
6. Details about how the riskier tranches are sold and whether they are being re-packaged into collateralized debts obligations (CDOs) and resold with higher ratings.
7. How the bonds compare to mortgage backed securities, and any areas of the bond deal that may put investors and renters at undue risk.
8. Policy or regulatory suggestions to minimize potential risk to consumers and financial markets.

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 Securities and Exchange Commission to review these bonds and ensure that investors have access to full details about these new bonds. For further information, please contact Amanda Eaton, on my staff, at 202-225-2305.

Sincerely,



Mark Takano
Member of Congress