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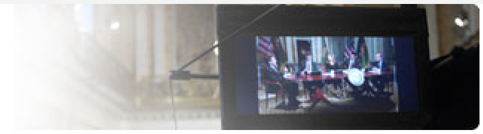

Secretary Henry M. Paulson, Jr. Statement on Covered Bond Best Practices

7/28/2009

HP-1101

Washington - Good afternoon. Thank you all for coming today. Joining me on stage are FDIC Chairman Sheila Bair, Federal Reserve Governor Kevin Warsh, OCC Comptroller John Dugan and OTS Director John Reich. We also welcome representatives from Bank of America, Citigroup, JP Morgan Chase, and Wells Fargo. I will make a few remarks, my colleagues will also address you and then Jeff Brown with Bank of America will speak.

As we are all aware, the availability of affordable mortgage financing is essential to turning the corner on the current housing correction. And so we have been looking broadly for ways to increase the availability and lower the cost of mortgage financing to accelerate the return of normal home buying and refinancing activity.

The housing government-sponsored enterprises, Fannie Mae, Freddie Mac and the Federal Home Loan Banks, and the Federal Housing Administration are funding more than 70 percent of residential mortgages during these months of market stress. They must continue to be active here.

At the same time, private-label securitization, another important source of mortgage finance, has become severely strained and credit conditions have tightened. In addition to securitization done by housing GSEs, private mortgage-backed securitization benefits the American consumer and our markets. The private-label market will evolve in response to current challenges, and I expect it to return with greater risk-awareness and investor discipline. We also believe it is useful to explore additional mortgage financing options to complement more traditional funding models.

One option we have looked at extensively is covered bonds, which are a $3 trillion market used widely in Europe for mortgage funding. I believe covered bonds have the potential to increase mortgage financing, improve underwriting standards, and strengthen U.S. financial institutions by providing a new funding source that will diversify their overall portfolio.

Treasury has been working with our regulatory counterparts to look at ways to support the emergence of the covered bond market in the United States. We consulted with our European counterparts, including the UK Treasury. We also spoke with potential U.S. market participants, including issuers, investors, underwriters and ratings agencies. While many European countries have dedicated covered bond legislation, the U.S. regulatory environment is different. Covered bonds are a promising financing vehicle and we believe this market can grow in the United States absent federal legislative action.

To help achieve our goal of broader choices in mortgage finance, today Treasury is publishing a Best Practices guide for U.S. residential covered bonds. This document is intended to outline practices that will promote covered bond market simplicity and homogeneity, using high quality mortgages as collateral. It is a starting point and complements the FDIC final policy statement of July 15th.

I appreciate the FDIC's strong leadership in advocating covered bonds and providing clarity to potential investors. Together, the FDIC final policy statement and a Treasury Best Practices guide should give market participants the tools to build a market that will benefit U.S. families and the U.S. economy. A U.S. covered bond market also will present new opportunities for further international investment in the United States.

We knew that this initiative would be successful only if the largest banks paved the way. And so I welcome the announcement by America's four largest banks, Bank of America, Citigroup, JPMorgan Chase and Wells Fargo, that they intend to establish covered bond programs and kick-start this market in the United States. And, I am also pleased to know that the two existing domestic issuers of covered bonds intend to align their programs with these new practices.

We applaud these banks for their leadership and for recognizing an opportunity to help increase mortgage funding availability and strengthen our financial system. We are at the early stages of what should be a promising path, where the nascent U.S. covered bond market can grow and provide a new source of mortgage financing.

Covered bonds are simply one tool for mortgage financing and will not, alone, complete the housing correction. We will continue to pursue our efforts to avoid preventable foreclosures and to speed, without impeding, the necessary course of this housing correction. Thank you and now Chairman Bair will say a few words.