

Bachus Statement On Covered Bonds

December 15, 2009

WASHINGTON - Congressman Spencer Bachus, the top Republican on the Financial Services Committee, made the following statement during the Full Committee hearing entitled "Covered Bonds: Prospects for a U.S. Market Going Forward."

"Thank you Mr. Chairman for holding this hearing on legislation introduced by Capital Markets Ranking Member Scott Garrett on covered bonds.

"The collapse of Fannie Mae and Freddie Mac and their subsequent trillion dollar federal bailout have renewed calls to explore private market alternatives to a government-sponsored model of mortgage financing. As one of our witnesses at today's hearing, Mr. Scott Stengel of the U.S. Covered Bond Council, states in his testimony, 'Covered bonds also represent a cost-efficient form of on-balance-sheet financing for financial institutions that, in turn, can reduce the cost of credit for families, small businesses, and the public sector.'

"Covered bonds are also a private market solution to the need for market participants to have 'skin in the game.' The issuers of covered bonds are responsible to their bond holders for the risk posed by the underlying loan pool. For example, if the underlying loans default, bond holders can make claims against the issuer. And if the issuer becomes insolvent, bondholders have a secured claim to the assets in the loan pool, as well as recourse to other assets of the insolvent firm. Additionally, issuers of covered bonds are required to account for the risk posed by their bonds on their balance sheets.

"In June, Mr. Garrett introduced legislation providing a statutory framework for a U.S. covered bond market that promotes greater legal certainty for investors in these instruments. Chairman Frank should be commended for convening this hearing on Mr. Garrett's legislation and other ideas for encouraging the development of a covered bond market in this country.

"Mr. Chairman, a functioning securitization market is necessary for a successful housing market recovery. Covered bonds are one of several solutions that this Committee should explore as we move forward with proposals to revive stalled private mortgage credit markets. I look forward to hearing expert testimony from the witnesses and working with you."