



# United States Senate Committee on Banking, Housing, and Urban Affairs

Christopher J. Dodd (D-CT), Chairman

## Senate Committee on Banking, Housing, and Urban Affairs

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### **Dodd Statement on Covered Bonds Hearing**

**WASHINGTON** – Today Senate Banking Committee Chairman Chris Dodd (D-CT) held a hearing on the potential uses of covered bonds, as well as the regulatory issues raised by the expanded use of these bonds in the United States.

“Covered bonds can provide an additional option to the two dominant funding mechanisms in the US marketplace, which are securitization and the traditional portfolio lender model, where a bank holds mortgages on its balance sheet and funds them with deposits,” said Chairman Dodd. “Proponents of covered bonds point to their greater transparency, because these assets remain on a bank’s balance sheet so investors can analyze their value more easily than in the case of some other asset-backed securities. Proponents also note that issuers of covered bonds have a long term interest in the underlying loans because they keep them on the balance sheet, which increases investor confidence.

“While American banks are not prohibited from issuing covered bonds to raise capital, few currently do so. Some potential investors are concerned about the treatment of covered bonds if the issuer goes into conservatorship or receivership. They believe that legislation and agency rulemaking are needed to provide clarity about how covered bonds would be regulated. Any such measures would define the rights and responsibilities of investors, issuers, and regulators. They feel that this would stimulate the growth of a larger domestic covered bond market.

“It is important that Congress look for alternative measures that could stimulate the economy. The Committee is holding today’s hearing to learn more about this alternative and whether it will contribute to safe, stable and sustained economic growth.”

*Below is Chairman Dodd’s statement as prepared for delivery:*

“Today, the Banking Committee will hear testimony on covered bonds, a potentially significant alternative means for raising capital for housing finance. Covered bonds have been issued widely in Europe for many years, but not in the United States. The purpose of today’s hearing is to learn more about covered bonds, exploring whether they could contribute to sustained economic growth and whether it is in the public interest to encourage their broader use in the United States.

“The hearing grew out of discussions on covered bonds that came up during the latter part of the Senate-House conference for the Dodd-Frank Act. I am pleased to have worked with Ranking Member Shelby and Senator Corker in organizing the hearing. As the Banking Committee has not previously held hearings on covered bonds and the subject has raised issues among Federal regulators, we determined to explore the matter more carefully before acting.

“When speaking of a covered bond in the U.S. context, we generally mean a debt security issued by a bank and backed by cash flows from mortgages or public sector loans. The bond is backed both by the bank’s promise to repay and by the assets pledged as collateral.

“Covered bonds can provide an additional option to the two dominant funding mechanisms in the US marketplace, which are securitization and the traditional portfolio lender model, where a bank holds mortgages on its balance sheet and funds them with deposits. Proponents of covered bonds point to their greater transparency, because these assets remain on a bank’s balance sheet so investors can analyze their value more easily than in the case of some other asset-backed securities. Proponents also note that issuers of covered bonds have a long term interest in the underlying loans because they keep them on the balance sheet, which increases investor confidence.

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“We are pleased to have before us experts who will provide testimony about the history of covered bonds, their uses and potential benefits, as well as their interaction with existing mortgage financing mechanisms. The panel also includes Federal regulators who can share their perspective on the regulation of banks that would issue covered bonds, including the impact on the Deposit Insurance Fund.

“On the first panel, I am pleased to welcome Congressman Scott Garrett, who has a strong interest in this area and introduced legislation on covered bonds. On the second panel, we will hear from Julie Williams, Chief Counsel and First Senior Deputy Comptroller, Office of the Comptroller of the Currency; Michael Krimminger, Deputy to the Chairman, Federal Deposit Insurance Corporation; Scott Stengel, on behalf of the U.S. Covered Bond Council; Professor Kenneth Snowden, University of North Carolina at Greensboro; and Mr. Ric Campo, on behalf of National Multi-Housing Council and the National Apartment Association.”

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