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June 20, 2011

The Honorable Spencer Bachus
Chairman, House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Barney Frank
Ranking Member, House Financial Services Committee
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Bachus and Ranking Member Frank:

The Securities Industry and Financial Markets Association (**SIFMA**) and its U.S. Covered Bond Council (the **Council)**[1] strongly support the passage of H.R. 940, the United States Covered Bond Act of 2011.

We believe U.S. covered bonds are an untapped but proven source of capital that could expand the amount of capital for households. Efforts to further support a sustained economic growth should ensure that financial intermediaries have more rather than fewer tools at their disposal to maintain a constant flow of credit through the economy. We believe that covered bonds offer a good alternative to expand the types of financing available to consumers and strengthen the domestic housing market.

While the balance sheets of financial institutions cannot replace the multi-trillion dollar securitization market, covered bonds can bridge funding gaps in the short term and can supply a much needed source of complementary liquidity in the long term. Similarly, while covered bonds are no panacea for the difficult policy issues that have been raised in the context of GSE reform, a robust covered-bond market should immediately attract private capital without need of a federal subsidy and would ultimately contribute to a more stable system of mortgage finance.

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[1] The U.S. Covered Bonds Council is sponsored by the Securities Industry and Financial Markets Association (**SIFMA**). SIFMA brings together the interests of hundreds of securities firms, banks, and asset managers. SIFMA's mission is to develop policies and practices which strengthen financial markets and which encourage capital availability, job creation, and economic growth while building trust and confidence in the financial market. SIFMA, with offices in New York and Washington, D.C., is the regional member of the Global Financial Markets Association. For more information, please visit www.sifma.org.

Covered bonds are an effective vehicle for infusing long-term liquidity into the financial system. By using covered bonds to more closely match the maturities of their assets and liabilities, financial institutions are able to reduce refinancing risks that can have a destabilizing influence on the banking system more broadly. Another benefit of covered bonds is their separate and distinct investor base. These investors are providing liquidity that would not otherwise be made available through the unsecured-debt or securitization markets, and as a result, covered bonds enable financial institutions to add another source of funding rather than merely cannibalize their existing sources.

In our view, the dedicated covered-bond legislation and public supervision created by H.R. 940 creates a degree of legal certainty that regulatory initiatives cannot replicate. Such certainty is critical because the nature of covered bonds as a high-grade defensive investment with limited prepayment risk leaves no room for ambiguity on the rights and remedies available at law, especially in the event of the issuing institution's insolvency. Investors will not dedicate funds to this market unless the legal regime is unequivocal and the risks can be identified and underwritten.

We believe that this legislation provides an important first step in promoting alternative financing for our markets and strongly urge the House Financial Services Committee to vote in favor of H.R. 940.

With kindest personal regards,

Sincerely,

Kenneth E. Bentsen, Jr.
EVP, Public Policy and Advocacy
Securities Industry and Financial Markets Association

KEB:bge/msm