



## **U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS**

**EMBARGOED UNTIL 2:30 p.m. (EDT), July 28, 2008**

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### **TREASURY RELEASES BEST PRACTICES TO ENCOURAGE ADDITIONAL FORM OF MORTGAGE FINANCE**

**WASHINGTON-** The U.S. Treasury Department took steps today to encourage additional sources of mortgage finance and strengthen financial institutions by issuing Best Practices for Residential Covered Bonds.

“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,” said Treasury Secretary Henry M. Paulson, Jr. “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.”

A covered bond is secured debt instrument that provides funding to a depository institution, collateralized by high-quality mortgage loans that remain on the issuer’s balance sheet. Covered bonds have the potential to increase funding for mortgages and to strengthen our financial institutions by offering them a new funding source that will diversify their overall funding portfolio.

While a large European covered bond market already exists, valued at \$3.3 trillion in 2007, only two U.S. institutions to date have issued covered bonds. Market participants sought structural clarity to develop the U.S. covered bond market.

This document is intended to provide clarity and homogeneity to the new market. It is meant to define a starting point for the U.S. covered bond market and serve as a complement to the Federal Deposit Insurance Corporation final policy statement.

Treasury worked with the FDIC, the Federal Reserve, the Office of the Comptroller of the Currency, the Office of Thrift Supervision and the Securities and Exchange Commission when developing the guide. The Department also consulted with market participants, including potential issuers, investors, underwriters, ratings agencies as well as international regulators.

Treasury believes the \$11 trillion mortgage market can benefit from all forms of mortgage finance. Covered bonds can serve as a complement to the housing government sponsored enterprises, helping to provide additional funding to homeowners.

[Secretary Paulson first discussed Treasury’s interest](#) in helping to develop covered bond guidance in March 2008. The initiative is one of many options Secretary Paulson has pursued to help stabilize the

mortgage finance market, including regulatory reform of the government sponsored enterprises, FHA modernization and the creation of HOPE NOW, a coalition of mortgage servicers, lenders and counselors that aims to reach more troubled borrowers.

In conjunction with the release of the Best Practices Guide, Treasury will update its own collateral acceptability policy to include covered bonds as an approved asset category for securing the Treasury's investments and deposits of public money with commercial counterparties.