Remarks by
Sheila Bair, Chairman,
Federal Deposit Insurance Corporation,
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Thank you, Secretary Paulson. And thank you for your leadership in supporting new sources of mortgage lending.

All of us have been working very hard on finding ways to stabilize financing for the housing market. The best practices template announced by Secretary Paulson today can be a key part of a more stable market to finance mortgage lending.

As we know all too well, there are no magic bullets to solve the housing crisis. One of the big challenges is to reinvigorate the credit markets as a source of liquidity. Bankers have been looking in recent months for new ways to fund mortgages as questions continue to arise about the "originate-to-sell" model.

As this process unfolds, we absolutely must learn from the mistakes of the past. We must ensure that market mechanisms return to incentives that encourage sound underwriting and strong capital. I think that covered bonds can help achieve these goals, while bringing positive innovation to the U.S. market as a new on-balance-sheet financing tool.

As securities backed by mortgages that continue to be held by the originating bank, covered bonds will provide needed liquidity to the bank while encouraging safe underwriting.

The FDIC has worked with the industry since 2006 when the first U.S. covered bonds were issued. Our goals have always been to balance the liquidity offered by the bonds with our responsibilities as a banking regulator and deposit insurer.

To achieve this, earlier this month we issued a final Statement of Policy on covered bonds. It addresses a simple question that the marketplace needed to have answered: How would the FDIC respond as receiver for a bank issuing covered bonds? We believe the Statement provides this clarity. We also believe the criteria we used will help foster a balanced and sustainable U.S. covered bond market.

A vital next step is being provided today by Secretary Paulson. Treasury's best practices for covered bonds set a high standard in which investors can be confident. These standards also fulfill the requirements of our Statement of Policy.

We believe that such high standards for the industry strengthen the groundwork for a vibrant and stable covered bond market. Covered bonds can be a useful tool to help restore confidence and stability to the housing industry, as well as to the mortgage finance system.

Combined with our Statement of Policy and these "best practices" for covered bonds, the industry now has what it needs to more fully explore this new kind of mortgage financing.

My congratulations to Secretary Paulson, and to his team at Treasury.

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