

November 10, 2011

The Honorable Scott Garrett
Chairman
Subcommittee on Capital Markets and
Government-Sponsored Enterprises
U.S. House of Representatives
2244 Rayburn House Office Building
Washington, DC 20515

The Honorable Carolyn Maloney
Ranking Member
Subcommittee on Financial Institutions and
Consumer Credit
U.S. House of Representatives
2332 Rayburn House Office Building
Washington, DC 20515

Re: H.R. 940, the U.S. Covered Bonds Act

Dear Chairman Garrett and Ranking Member Maloney:

I am writing on behalf of the Investment Company Institute¹ to express support and thank you for introducing H.R. 940, the U.S. Covered Bond Act. H.R. 940 lays the legislative framework to allow U.S. financial institutions to issue covered bonds. As Congress considers proposals to reform housing finance, this bill is an important step that offers a new creative option to promote private investment in the housing finance markets.

Mutual funds have been and continue to be substantial holders of debt issued, and mortgage-backed securities (MBS) guaranteed, by Fannie Mae and Freddie Mac (the GSEs). By the end of June 2011, the amount of mortgages on the books of the GSEs and in GSE-backed mortgage pools totaled \$6.3 trillion.² As of June 2011, mutual funds held about 14 percent of outstanding GSE debt and GSE-

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$11.8 trillion and serve over 90 million shareholders.

² Data are the sum of lines 29 and 30 on table L.217 of the *Flow of Funds Accounts of the United States*, September 16, 2011. Also, GSEs currently account for 46 percent of outstanding mortgages (home, commercial, farm, and multifamily). In the residential mortgage market, GSEs represent 56 percent of outstanding home mortgages.

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backed MBS.³ Over the past three and a half years, the federal government, primarily through the GSEs, has guaranteed nearly all of the MBS that have been issued in the U.S. In contrast, the private MBS market has shrunk to about half of its year-end 2007 size. This contraction likely reflects a lack of investor confidence largely stemming from the steep losses investors suffered in private MBS. H.R. 940 can play a role in creating a private capital solution and bolstering investor confidence. While Congress is considering a variety of options for reducing the role of the GSEs in the mortgage markets, we also believe it is essential to the success of a private covered bond market, and the stability of the markets as a whole, that Congress continues to ensure that the GSEs meet their existing MBS guarantees.

On behalf of the 90 million shareholders who currently are invested in the securities markets through mutual funds and other registered investment companies, we have an interest in the development of a covered bond framework that is characterized by transparency and legal certainty. We hope you will keep our views in mind as you work toward increasing the role of private mortgage financing, and are glad to be of assistance.

With kindest regards.

Sincerely,



Paul Schott Stevens

President & CEO

Investment Company Institute

³ Data are unpublished information drawn from a quarterly survey of the Investment Company Institute as of June 30, 2011.