



United States Senate Committee on Banking, Housing, & Urban Affairs

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CRAPO STATEMENT ON THE TRANSITION TO A NEW HOUSING FINANCE SYSTEM

November 22, 2013

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Ranking Member of the Senate Banking, Housing and Urban Affairs Committee, today delivered the following remarks during a Banking Committee hearing held to examine the best plan for a smooth transition into a new housing finance reform system:

"Thank you, Mr. Chairman.

"The issue of how we transition into a future system is one of the most important topics we will cover in this series of housing finance reform hearings. Numerous challenges will face our regulators and market participants as we move toward a new housing finance system. These challenges are real and must be addressed, but they must be weighed in the context of the consequences of the status quo.

"The status quo means government control of nearly all of our nation's mortgage-backed securities market, stifling financial innovation. The status quo means little, if any, reduction in the \$5 trillion of outstanding mortgage debt to which the taxpayer is currently exposed. The status quo means continued legal and market uncertainty creating costs that we may be realizing for decades to come.

"These realities prove that inaction carries its own dangers to our housing market, as does action that merely gives the appearance of change without recognizing the mistakes of our past. With that in mind, I look forward to hearing from our witnesses regarding issues we need to consider and recommendations they have to most effectively transition to a reformed system.

"During yesterday's hearing, we heard recommendations on how to best equip a future regulator to meet the transitional issues it might face in preparing to assume its responsibilities. I expect that today's hearing will give us the opportunity to pair the lessons learned yesterday with today's relevant information, particularly as it pertains to how to handle the assets of Fannie Mae and Freddie Mac.

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"As we proceed with this discussion, there are many questions that must be considered, such as:

- 1) While Fannie and Freddie are unique institutions, what do past experiences suggest are processes to maximize the return on investment for the taxpayer, while also minimizing the disruption in our markets?
- 2) How do we allow adequate time to achieve and measure the appropriate benchmarks of the transition, while still ensuring accountability in the process?
- 3) What is the best way of dealing with the legacy obligations of Fannie and Freddie to ensure adequate protection for both taxpayers and the investors?

While these questions do not represent an exhaustive list, they do provide insight into the complex issues that we must address.

"S. 1217 seeks to address the questions we will face through a five-year phase-in for the future regulator—the Federal Mortgage Insurance Corporation, or FMIC. This phase-in would coincide with the beginning of a wind-down of Fannie and Freddie supervised by the Federal Housing Finance Administration or FHFA.

"Once the five-year phase-in is complete and FMIC becomes operational, Fannie and Freddie's charters would be revoked and they would cease writing new business. However, the wind-down of the companies would continue and during that time the obligations of Fannie and Freddie would be explicitly guaranteed by the federal government, offset by a continued revenue stream from the companies. Additionally, so long as FMIC did not believe any actions interfered with its duties, FHFA would be free to sell or transfer the assets and business lines of Fannie and Freddie to aid in their resolution.

"One suggested use for some infrastructure of these companies is to aid in the establishment of the small bank mutual company prescribed in S. 1217. Another destination for this infrastructure is likely within the Common Securitization Platform envisioned in the bill.

"There has been much discussion of these concepts and others proposals for how Fannie and Freddie's assets might be best utilized in a future housing finance system. This discussion is productive and we must consider all perspectives so that we reach on optimal solution for consumers and taxpayers. However, the consequences of inaction far outweigh the value of comprehensive reform. The status quo is not an option.

"We now have momentum in both houses of Congress and within the White House towards achieving real reforms. We must build upon this momentum. I welcome the views of all who seek to aid in this effort and look forward to the testimony we will hear today.

"Thank you, Mr. Chairman."

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