

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

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JOHNSON ON TRANSITIONING TO A STRONGER HOUSING FINANCE SYSTEM

November 22, 2013

WASHINGTON – Today, Senate Banking Committee Chairman Tim Johnson (D-SD) held a hearing titled “Housing Finance Reform: Developing a Plan for a Smooth Transition.”

Below is Chairman Johnson’s statement as prepared for delivery:

“The Committee will come to order.

“Today we continue our series of hearings to better inform the Committee’s efforts to reform our housing finance system. While we have spent time examining what the different components of a new system should look like, today, we focus on how to develop a credible plan that will seamlessly transition us from the current system to the new one.

“This is a critical issue, especially as we consider the significance of the housing market to the overall economy. If the transition is not properly managed, or does not have enough flexibility built in, then we are asking for trouble and could end up with potential market disruptions, which would impede economic growth. That is the last thing we want.

“There are a number of transition issues worth discussing, starting with how best to wind down Fannie Mae and Freddie Mac while we build a stronger system. A key goal is ensuring taxpayers are fully repaid as we also consider what well-functioning systems and assets could be utilized in a new system. We should seek to find options that make the best use of existing resources to avoid making the transition needlessly inefficient, costly, and complex.

“We also need to examine the timing and sequence of the transition plan. There should be transparency with respect to the details of the transition to provide market participants the certainty they need to make long-term

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plans and decide what roles they may want to play. While there should be clear goals to make sure we eventually reach the desired outcome, we should also consider allowing for some overlap so that the new system is well-tested and fully functioning before we turn off the lights on the old system. There's simply no need to roll the dice when we are talking about nearly twenty percent of our economy.

"A few other questions to contemplate: What is the best way to verify that risk-sharing structures work and sufficient private capital is able to provide mortgage credit through good times and bad? What kinds of emergency powers are needed to deal with unforeseen events during the transition and minimize market disruptions? If a common securitization platform will help deliver a single security, should the platform be fully operational before shutting down the old system? And what steps are needed to make sure legacy MBS issued by Fannie and Freddie do not become orphaned?"

"Given our witnesses' expertise in housing finance, as well as some of our witnesses' experiences managing other transitions, I look forward to hearing their views on these important questions and other issues."

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