BOOM AND BUST: INEQUALITY, HOMEOWNERSHIP, AND THE LONG-TERM IMPACTS OF THE HOT HOUSING MARKET

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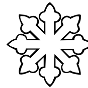

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BOOM AND BUST: INEQUALITY, HOMEOWNERSHIP, AND THE LONG-TERM IMPACTS OF THE HOT HOUSING MARKET

Wednesday, June 29, 2022

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 12:07 p.m., via Cisco Webex, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Scott, Cleaver, Perlmutter, Himes, Foster, Beatty, Gottheimer, Lawson, Axne, Pressley, Lynch, Adams, Tlaib, Dean, Garcia of Texas, Williams of Georgia; McHenry, Posey, Wagner, Williams of Texas, Hill, Zeldin, Davidson, Budd, Gonzalez of Ohio, Rose, Steil, Gooden, Timmons, and Norman.

Chairwoman WATERS. The Financial Services Committee will come to order.

Without objection, the Chair is authorized to declare a recess of the committee at any time.

Today's hearing is entitled, "Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market."

I now recognize myself for 4 minutes to give an opening statement.

As we celebrate National Homeownership Month, we must recognize that homeownership is the primary driver of wealth for most families in the United States. It is a source of stability and opportunity for families who can leverage their home equity to put their kids through college, to start a business, and to support them in retirement. However, not everyone has been able to realize the dream of homeownership, and the pandemic housing boom has made these disparities worse. In fact, while millions of people were able to take advantage of historically-low interest rates to purchase homes or refinance their mortgages, skyrocketing home prices and other ongoing challenges made it harder for Millennials, Gen X, Gen Z, people of color, and individuals without intergenerational wealth to compete and access homeownership.

So while the Federal Reserve estimates that home equity reached a record $27.8 trillion by early 2022, many qualified, would-be homebuyers could not partake in this wealth-building event. These trends threaten to further widen the already-wide racial wealth

and homeownership gaps. Nationwide, Black borrowers are the only group to experience a decline in home purchase lending among borrowers of color. For example, in my City of Los Angeles, the Black homeownership rate was 34 percent in 2021, lower than it was in 1910.

After experiencing a substantial loss of wealth during the post-2008 foreclosure crisis, households have continued to be locked out of opportunities to build wealth. It is unconscionable that despite historically-low interest rates, this nation was still unable to ensure that historically-underserved and excluded borrowers could make homeownership gains. We have heard stories of Black homeowners being disproportionately denied refinance loans through appraisal bias and other kinds of discrimination, including reports that Wells Fargo denied nearly 50 percent of Black refinance applicants. We have heard stories of borrowers relying on mortgage financing being outcompeted by all-cash buyers, including Wall Street-backed investors and buyers.

In a hearing chaired by Mr. Green yesterday, this committee heard about how the sales and conversions of homes into single-family rentals have harmed tenants, would-be homebuyers, and neighborhoods. Rising home prices are directly contributing to inflation, accounting for 40 percent of the price hikes in the last CPI score inflation numbers. And with recent interest rate hikes, we can expect that for many, the dream of homeownership will remain just that: a dream.

Congress must pass this committee's housing title of the Build Back Better Act, legislation I drafted that would create and preserve over one million homes. This $150-billion investment would ensure the long-term health of our economy by significantly increasing the supply of affordable housing, thereby reducing housing costs and corresponding inflationary pressures. Additionally, last week, committed Democrats passed my Downpayment Toward Equity Act, to provide down payment and lending assistance to first-time, first-generation homebuyers.

I thank our witnesses, and I yield back.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 4 minutes.

Mr. McHENRY. Thank you, Madam Chairwoman. Just last week, this committee marked up the Chair's Downpayment Toward Equity Act, a massive $100-billion spending spree that would continue fueling skyrocketing housing costs. It is this kind of unchecked spending that is pushing the housing market from boom to bust for the average American family. That is on top of 40-year high inflation and skyrocketing consumer prices across-the-board, which are outpacing wage gains. In fact, this is clobbering household budgets. And if purchasing a home is still within the realm of possibility, it will cost you double what it did just last year, from 3 percent to 6 percent now for a 30-year fixed-rate mortgage.

So, let's break down that statistic. The median sales price for a house so far this year, in 2022, is $428,700. With an FHA minimum allowable down payment of 3.5 percent, excluding closing costs and other fees, that means a first-time homebuyer might have to finance as much as $413,700. At 6 percent interest, you are looking at a monthly payment of $2,480. That is up from $1,740 last

year, which is a $740-a-month difference, or roughly a month's worth of groceries for a family of 4, and in addition, those groceries are more expensive this year.

Potential homebuyers are being pushed out of the market today. Instead of taking responsibility for this economic wreckage, President Biden is blaming anyone and anything other than his own policies. Earlier this month, he claimed there was, "zero evidence," that the $2.66 trillion in new spending from his first 500 days in office had anything to do with inflation, that his spending had nothing to do with inflation. He even called that notion, "bizarre." And if you ask me what is bizarre here, it is the cognitive dissonance between the Democrats' bad policies and their lack of accountability for this economic dumpster fire they have unleashed.

We have been down this road before, and we know where it inevitably leads. It starts with Democrats creating new programs or pressuring the Government-Sponsored Enterprises (GSEs) to make increasingly-risky loans for borrowers who can't keep up with the artificial price spikes they have created. And it ends with those families, many of them low-income and first-time homebuyers, being hurt the most when the housing market has a downturn, and taxpayers are left on the hook for tens of billions of dollars.

It doesn't have to be this way. We need to get serious about creating a sustainable housing finance system that can withstand the pressures of a market downturn. We should focus on ways to actually increase the supply of housing and create stable prices. And we should restore proper oversight of our housing finance regulators, like FHFA and FHA, both of which have somehow gone more than 2 years without appearing before this committee.

In fact, today's hearing would have been the perfect venue to hear from FHFA Director Thompson. Ranking Member Hill and I sent a letter last week urging the Chair to invite Director Thompson to testify on growing threats to our housing finance system. It is those threats on which we should be focused. Instead, all we are getting today is more excuses, more pleas for new reckless government housing spending, and more empty promises, and promises that this time, it will be different.

I yield back.

Chairwoman WATERS. Thank you very much. I now recognize the Chair of our Housing, Community Development, and Insurance Subcommittee, the gentleman from Missouri, Mr. Cleaver, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman. Homeownership is the single largest source of wealth for the American family. Homeownership promotes wealth-building by both acting as a forced saving mechanism and by allowing families to benefit from the appreciation of their home value. Americans who own their homes have gained more than $6 trillion in housing wealth over the past 2 years.

There are some Americans and institutional investors who have a remarkably positive story to tell about the housing boom during the pandemic. For other Americans and American communities, we are witnessing a gargantuan loss of wealth, which will leave a permanent impact on this nation. These Americans have lost their homes. They have seen the rising cost of housing eat away at their

incomes, and they have been delayed or they have been shut out of the opportunity to build meaningful wealth in this nation. The impact of this troubling landscape will be substantial, particularly in communities of color.

I appreciate this hearing, Madam Chairwoman, and your razor-like focus on housing opportunities. Thank you, and I yield back.

Chairwoman WATERS. Thank you very much. I now recognize the ranking member of our Housing, Community Development, and Insurance Subcommittee, the gentleman from Arkansas, Mr. Hill, for 1 minute.

Mr. HILL. Thank you, Madam Chairwoman. Thank you for holding today's hearing. I know every Member of Congress shares the common view that we face a serious housing affordability challenge across our country, even though we may disagree on the best ways to address it.

Madam Chairwoman, do you remember the famous politician in New York, Jimmy McMillan? You might know him as the Rent Is Too Damn High Party guy from the governor of New York race back in 2010. Back then, a lot of people thought that campaign was a joke, but when the average home being sold this year is over a half-million dollars, and last year, 146 cities in the United States hit the mark where a typical house cost a million dollars, people aren't laughing anymore. I look forward to hearing from today's witnesses about supply-side solutions to our nation's affordability challenges, their outlook for the housing market amid these turbulent economic conditions, and the Biden inflation.

With that, Madam Chairwoman, I thank the Chair, and I yield back.

Chairwoman WATERS. Thank you very much, Mr. Hill.

I want to welcome today's distinguished witnesses to the committee: Mr. Michael Calhoun, the president of the Center for Responsible Lending; Dr. Sameer Chandan, the director of the Center for Real Estate Finance Research and professor of finance at the NYU Stern School of Business; Dr. Jung Hyun Choi, a senior research associate at the Housing Finance Policy Center at the Urban Institute; Ms. Lydia Pope, the president of the National Association of Real Estate Brokers; and Dr. Norbert Michel, the vice president and director of the Center for Monetary and Financial Alternatives at the Cato Institute.

You will each have 5 minutes to summarize your testimony. You should be able to summarize your testimony in that time. Also, you should be able to see a timer that will indicate how much time you have left. I would ask you to be mindful of the timer so that we can be respectful of everyone's time.

And without objection, your written statements will be made a part of the record.

Mr. Calhoun, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF MICHAEL D. CALHOUN, PRESIDENT, THE CENTER FOR RESPONSIBLE LENDING

Mr. CALHOUN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for the opportunity to testify on the critical housing issues impacting American fami-

lies. In my testimony today, I will first summarize the impact and lessons of the COVID pandemic and its impact on housing. Next, I will set out the current affordability and supply challenges we face. And finally, I will discuss the steps needed to make sure our housing system provides affordable, sustainable housing in the upcoming years for American families.

As we all remember, in 2020, COVID brought precipitous job losses and a grinding halt of much of our economy. There were prospects of double-digit foreclosures exceeding even those of the Great Recession, along with mass renter evictions and landlord insolvency. However, the comprehensive response of Congress and Federal agencies was extraordinarily effective in preventing those calamities. Mortgage forbearance, with payments deferred to the end of the loan, maintained a strong housing market with low foreclosure rates and homeowners with sustainable mortgages. Likewise, the threatened wave of evictions of families who rent was largely averted through rental assistance that also sustained landlords. The overall economy recovered quickly, with a return to low unemployment, due to these interventions.

That said, we are all aware that today we face formidable challenges. Recent increases in house prices and interest rates combined to quickly produce a doubling of the monthly mortgage payment needed to buy a house. Rents have also escalated. As shown in the chart of my testimony setting out the history of housing booms and corrections in America, it will likely take a number of years for housing prices to normalize, usually through a flattening of house increases. Also, future stabilized interest rates will likely be higher than the record low rates of recent years. Combined, these will continue to reduce housing affordability. Housing production has also significantly trailed our needs for many years, and this shortage is a huge obstacle to families securing an affordable home.

Another continuing challenge is that the growth of household wealth and home equity has been heavily skewed. Today, the top 1 percent hold 30 percent of the overall wealth, and the top 10 percent hold nearly 70 percent, while the lower half of American households have a total of only 2.6 percent of our nation's wealth. Housing gains have likewise been skewed, including a massive homeownership and wealth gap that is projected to continue to grow in the coming years. This gap is reflected in the fact that today, Black college graduates have less wealth and lower homeownership than White households that did not complete high school.

In sum, there are pressing housing needs across the country, rural and urban. This calls for us to reform our housing policies and systems to better meet those needs with the families today facing more volatility financially in today's 21st Century economy, and many households not having the personal or family wealth and the opportunities that provides.

In my testimony, I detail a number of these specific policy reforms. First, we have to finish the COVID work of helping remaining families preserve their mortgages and their existing rental housing. It is far more effective to maintain housing security than to try to rebuild it.

Second, we must aggressively expand the housing supply, working at all levels of government and with multiple strategies. Next, with two 100-year crises hitting us in just a dozen years, we must harden our systems to withstand future systemic shocks. Equally important, the cost of addressing those shocks should be a collective burden and not placed on the most-vulnerable families.

In addition, we need well-structured supports that help families sustain the more frequent financial volatility occurring now. This includes deferral mods like we saw in the pandemic crisis, along with new programs, like reserve funds and loss of income insurance programs. These efficient systems both help individual families, and they de-risk, lower the risk of our overall markets and institutions. .

Finally, we must recognize the scope of historic and ongoing discrimination documented in our housing market and the massive wealth and homeownership gap it has produced. Our future must include a commitment to the necessary effort and resources required to rectify this and provide housing security across the country for American families.

Thank you, and I look forward to your questions.

[The prepared statement of Mr. Calhoun can be found on page 52 of the appendix.]

Chairwoman WATERS. Thank you. Next, we will go to Dr. Chandan. You are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF SAMEER CHANDAN, DIRECTOR OF THE CENTER FOR REAL ESTATE FINANCE RESEARCH AND PROFESSOR OF FINANCE, NYU STERN SCHOOL OF BUSINESS

Mr. CHANDAN. Chairwoman Waters, Ranking Member McHenry, and distinguished members of the committee, thank you for the invitation to testify on the critically-important issues of current housing market trends, the current housing market's historic decline in affordability, and policy options for supporting equitable access to homeownership.

My name is Sam Chandan. I am a professor of finance and director at the Center for Real Estate Finance Research at New York University's Stern School of Business.

Home prices in the United States reached their last nadir in 2012 and have been rising rapidly in the decades since. Appreciation accelerated within months of the pandemic's taking hold, with home prices increasing at the fastest pace on record over the last 2 years. Today, the median price for existing homes stands above $400,000 for the first time. The 2020 inflection owes in large part to a shift in the location preferences of relatively mobile and affluent households favoring larger homes and lower-density neighborhoods, and to other factors, including demographic trends, low-cost financing, pandemic supplements to household income, and house price expectations. On their own, these demand drivers would not generate extraordinary house price increases. Rather, demand has coincided with the national housing supply shortage, estimated at 3.8 million units by Freddie Mac, and as high as 6.8 million units by the National Association of REALTORS.

The supply shortage is especially severe for entry-level homes. This is a long-term trend, and not exclusively a feature of the current market. From approximately 40 percent in the early 1980s, the share of entry-level construction is now just 7 percent of homes under construction in the United States. Confounding longer-term supply and demand fundamentals, mortgage rates have surged in recent months. The impact of these increases has been immediate, resulting in historic deterioration in measures of housing affordability. The combined impact of higher prices and mortgage rates and limited entry-level home construction is being felt disproportionately by families of color, younger families, and income-constrained families aspiring to homeownership. Today, these groups face even higher barriers to the nation's most reliable vehicle for generational wealth building, social and economic mobility, and housing-related health outcomes.

Barriers to housing opportunity are wide-ranging and not only related to a family's financial circumstances. Prevailing models of credit scoring discrimination in the housing search process, higher financing costs unrelated to creditworthiness, and disparities in the labor market and health outcomes during the pandemic are among the myriad headwinds. There are no interventions that will immediately and completely close the housing gap. Nonetheless, it is encouraging that in recent months, major initiatives have been announced that ameliorate the medium- and long-term outlook, including elements of the Administration's Housing Supply Action Plan.

Fannie Mae and Freddie Mac's recently-announced equitable housing finance plans seek to address many of the structural drivers of persistent disparities, including new approaches to the consideration of positive rental payment history. For the plans to take important steps to improve access to financing, the Enterprises are not tools to address supply shortfalls directly. Whatever the mechanism, if the supply of affordable and workforce housing is not expanded, initiatives that enhance demand, however well-intentioned, will likely have the unintended consequence of undermining affordability for the very populations they are intended to support.

So even as construction numbers rise in response to market forces, a multi-level approach to enhancing housing supply for all will address building code and zoning issues at the local level, supply shortfalls for construction materials and skilled labor, which may well be exacerbated in the coming years by infrastructure programs, improved access to financing for a wider range of housing types, including modular housing and smaller multifamily rental properties, and recognizing that investment in housing equity is also an investment in public health, with clear implications for both chronic and infectious disease morbidity and mortality. Additional demand-side policies might reduce local taxes and transaction costs of buying and selling, removing a barrier to mobility as households grow their families, thereby freeing up entry-level homes.

As issues of supply loom large, the role of institutional investment in the housing market and its influence on prices has garnered increasing attention. Institutional buyers repositioning homes for the rental market represent a relatively new component

of housing demand, responsive to families seeking the benefits of residing in a single-family home without the obligations or the benefits of outright ownership. Following the financial crisis, institutional investors likely had a small, but favorable, impact supporting the stabilization of prices and housing occupancy in distressed neighborhoods. But the data also shows higher rent increases and rates of eviction facilitated by formal property management.

The institutional investor share of the market has risen since just prior to the pandemic, but still only accounts for approximately 2.5 percent of home sales, according to Freddie Mac. On balance, the available data suggests that institutional investment and repositioning of homes for the rental market are not currently material contributors to national housing supply shortages.

Thank you again for the opportunity to testify. I look forward to your questions.

[The prepared statement of Dr. Chandan can be found on page 62 of the appendix.]

Chairwoman WATERS. Thank you very much. Dr. Choi, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF JUNG HYUN CHOI, SENIOR RESEARCH, THE URBAN INSTITUTE

Ms. CHOI. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify today. I would like to start by mentioning that what I present today is based on my own views and should not be attributed to the Urban Institute, its trustees, or funders.

Today, I will share some key data points that highlight the racial disparities in homeownership that persisted prior to the pandemic, how the pandemic has disproportionately impacted households of color, and how the changes in the housing market environment are now again making it more difficult for households of color to access homeownership. Then, I will mention two promising demand-side solutions that the Federal Government could consider that can benefit households of color in obtaining and sustaining homeownership.

First, I would like to emphasize that large, persistent racial disparities in homeownership, one of the primary tools of building wealth, existed before the COVID-19 pandemic. Just before the pandemic, the Black homeownership rate was 30 percentage points lower than the White homeownership rate, the Latino rate was about 24 percentage points lower, and the Asian rate was about 12 percentage points lower. The racial disparities exist even after controlling for income. Our research finds that unless well-designed, intentional policies and actions are developed and executed, the racial homeownership gap, especially the Black/White gap, will remain unchanged in the next 20 years.

Thanks to various efforts by the government to help households stayed housed, including forbearance and emergency rental assistance, we have observed that both foreclosure and eviction rates fell below the pre-pandemic level. However, the data shows that both Black and Latino homeowners and renters were more likely to have missed their monthly housing payment amidst the pandemic.

Additionally, following the Great Recession, and now again during the COVID-19 pandemic, financial markets have tightened credit, restricting lending and making it difficult for households with less than perfect credit to buy homes. Credit history is the most cited reason for mortgage denial, having a disproportionate impact on Black and Latino borrowers, who are more likely to have missing or low FICO scores. Tighter lending standards and disparities in credit scores mean that many Black and Latino renters who would have been able to obtain a mortgage under prior credit standards were more likely to face greater difficulties in accessing homeownership. As a result, these households missed an opportunity to build wealth from the rising home prices and to benefit from the historically-low interest rates in the past couple of years.

Amidst the pandemic, both the home prices and rents have risen significantly. National home prices are now up more than 15 percent from a year ago, and rents have increased by more than 11 percent. The 30-year fixed-rate mortgage rate is now around 6 percent, more than double the average rate last year. The limited housing supply has led to increased competition in the market. The share of cash buyers in recent months accounts for more than a third of all home purchases. Homebuyers of color are more likely to purchase through FHA loans, but it has become more difficult for those using the FHA channel to compete with those with greater financial resources. Additionally, because of the spike in rental prices, those who remain renters will face greater difficulty saving up for future down payments.

While multiple strategies are needed to bridge the racial homeownership gap, including the increase in affordable housing supply, here I will mention two promising demand-side solutions that the Federal Government could consider. First, a better-targeted down payment assistance program. Our research finds that prioritizing first-generation homebuyers can serve a greater share of households of color. For example, if we increase the income limits to 120 percent of area median income, and provide assistance to renters with parents who also rent, the share of potential Black and Latino households that the down payment assistance program could serve is about 60 percent, compared to 46 percent of Black and Latino households under the 80-percent AMI criteria.

The second is to incorporate rental payments into mortgage underwriting. Our research finds that past housing payment is a better predictor of future mortgage performance than credit scores. The GSEs have started to explore ways to include rental payment history in mortgage underwriting. While the GSEs are moving in the right direction, much more work is needed, such as incentivizing more landlords to report rental payment data to credit bureaus, standardizing the data, expanding the use of rental payments for underwriting at Fannie Mae and introducing it at Freddie Mac, FHA, and VA, and also providing guidelines to lenders on how to use this data in the mortgage underwriting process.

Again, thank you for the opportunity to share my research with you today.

[The prepared statement of Dr. Choi can be found on page 75 of the appendix.]

Chairwoman WATERS. Thank you very much. Next, we will go to Ms. Pope. You are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF LYDIA POPE, PRESIDENT, NATIONAL ASSOCIATION OF REAL ESTATE BROKERS (NAREB)

Ms. POPE. Thank you. Honorable Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to speak to you today on the subject of homeownership, especially among Black Americans. My name is Lydia Pope. I am the president of the National Association of Real Estate Brokers, known as NAREB. We are the largest and the oldest Black real estate trade association in America, and we are referred to as "REALTISTs." Founded in 1947, with the mission of democracy in housing, NAREB was founded during a time of discriminative housing and lending policies that made it difficult for Blacks to own homes, and many of these policies still exist today. NAREB members, through its 94 chapters across America, are on the front lines of the Black communities, creating housing opportunities, advocating for fair practice, and promoting policies that remove barriers to wealth creation.

Today, increasing interest rates in the home price market are widening the wealth gap, delaying more and more Blacks from participating in the American Dream. Today, Black homeownership is nearly 30 percent behind White America, and lower than 50 years ago. COVID brought about some major shifts in the housing market. Today, we see investor cash buyers dominating the already-no-inventory market, who purchase these properties to rent, raising the rental prices nationally.

Today, if you are a Black person in America and you want to sell your home, you have to go through the, "un-Black process," in order to get a fair appraisal. Today, Blacks have been targeted by low-level pricing, down payment limitations, student loan qualifications, and outdated credit models accounting for race in credit scoring and underwriting. And today, there is a 1-percent increase in mortgage rates, decreasing the Black buying power by 11 percent.

To this end, economic inequality has deepened, and the homeownership rate has plummeted once again. Because of the national crisis and the effects of Black homeownership, NAREB, since 2013, has published annually what we call our, "State of Housing in Black America," (SHIBA) report, which has become one of the most referenced and cited housing documents when discussing Black homeownership, and it offers some sound practical solutions. And NAREB went a step further. In February 2022, we wrote our first White Paper report on Women Investing in Real Estate (W.I.R.E.), which provides data that impacts the discriminatory practices against Black women.

To close the wealth gap, NAREB is offering the final and following remedies that can impact and spur homeownership for Black Americans today, tomorrow, and for generations to come.

First, we fully support and urge the passage of the Down Payment Assistance Program that is part of the Build Back Better bill. Many Blacks fall into this as first-generation buyers and will greatly benefit from this fund. Second, NAREB supports the standard-

ization to student loan calculations. Although government policies encourage student loan deferment, they count it as a negative in the FICO scoring for mortgage credit determination. This creates a large barrier to homeownership for many Blacks who would otherwise qualify.

Third, NAREB calls for the elimination of loan-level pricing adjustments in which lenders have been increasing the cost of financing to borrowers who are creditworthy and meet the program guidelines. Fourth, NAREB supports the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE), and advocates for fair appraisals that understand diversity. Training must be broadened within the Appraisal Institute, and violations must be dealt with vigorously.

Fifth, NAREB supports low-balance mortgages and a secondary market for Blacks to buy these affordable units in communities that are predominantly minority. Sixth, NAREB supports the Equitable Housing Finance Plan that includes a special purpose credit program to address these inequalities in the housing finance system and extend the wealth-building benefits of homeownership.

And lastly, utilizing the services of a real estate professional is still needed in the home-buying process. People need consumer protection, experience, knowledge, and the human touch to walk them through this already-difficult process.

And in closing, I would say that this is a tough time, and we, NAREB, applaud the committee's efforts in this area. I am a resident of Cleveland, Ohio, and my past experience as a single Black woman with two children is why my mission and passion on equality and equity is so important. I was a victim of predatory lending, and I was that woman taken advantage of in the real estate market because no one held my hand to buy a home. My solution: To get a real estate license and stand before you as a national president to make the difference.

I implore the committees, the legislators, the administrative officials, the GSEs, the housing regulators, and the directors to join NAREB in promoting and assuring democracy in housing. Thank you.

[The prepared statement of Ms. Pope can be found on page 103 of the appendix.]

Chairwoman WATERS. Thank you very much.

Mr. Michel, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF NORBERT J. MICHEL, VICE PRESIDENT AND DIRECTOR OF THE CENTER FOR MONETARY AND FINANCIAL ALTERNATIVES, THE CATO INSTITUTE

Mr. MICHEL. Good afternoon. Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for the opportunity to testify today. My name is Norbert Michel, and I am the vice president and director of the Center for Monetary and Financial Alternatives at the Cato Institute. The views that I express today are my own and should not be construed as representing any official position of the Cato Institute.

Today, I argue that the best way for the Federal Government to make housing more affordable is to reverse course on Federal poli-

cies that increase demand. It is true that home equity frequently represents a large portion of many Americans' wealth, but it does not follow that Federal policy should promote housing debt. In fact, home equity depends largely on home price appreciation, an attribute fundamentally in conflict with more affordable housing. Federal policies undoubtedly make housing as well as other goods and services less affordable, and they do so because they artificially boost demand in supply-constrained markets. And from 2012 to 2021, home price growth rate was nearly double the income growth rate.

There are at least three glaring problems with these recent Federal policies. First, the level of Federal involvement in housing has been escalating for decades. Along with housing cost, that correlation is no accident. Combined, Fannie and Freddie have stood behind more than half of outstanding mortgage debt for decades, and in some years, were responsible for a share of close to 70 percent. From 2009 to 2020, Fannie and Freddie's annual share of the total mortgage-backed security (MBS) market averaged 70 percent. If we include Ginnie Mae securities, the Federal share of the MBS market averaged 92 percent per year over this period.

Virtually all Federal housing policies, even those outside the GSEs and FHA, are geared toward increasing demand. But because housing markets are almost always supply-constrained, these policies consistently put upward pressure on prices and rents. These policies include everything from supporting the GSEs to providing housing allowances to military and other government employees, as well as basic Section 8 vouchers. The economic principles are the same. They place upward pressure on prices because they increase the number of dollars chasing the same amount of housing, and there is surely some spillover to related markets.

Second, wasteful spending since 2020 has only worsened the effects of these demand-inducing housing policies. Congress passed five massive spending bills starting in November of 2021, totaling $7.5 trillion. This spending spree worsened inflation and exacerbated both labor market problems and pandemic-related supply chain problems, thus leading to the abnormally high increases in the CPI that Americans continue to experience.

Total spending, the demand-side measures bounced back sharply starting in the second quarter of 2020 and kept rising through the third quarter of 2021. Starting with April of 2021, virtually every monthly CPI report has indicated some form of abnormally high inflation. In May, the year-over-year CPI rose at an annual rate of 8.6 percent. The largest 12-month increase since 1981 was a broad-based increase, with prices for shelter, gas, and food being the largest contributors. Yet, Congress and the Administration seemed content with that failed approach of increased Federal spending. The problem is that Federal spending, whether it is on a museum, Section 8, or infrastructure, boosts demand while doing nothing to address supply constraints. That leads to more inflation while doing nothing to address the underlying issues that created the inflation in the first place.

Finally, the Federal Reserve has contributed to higher housing costs by continuing to support the MBS market and, therefore, fueling more leverage to buy homes in a low-interest-rate environ-

ment. Prior to the 2008 crisis, the Fed rarely held any MBS on its balance sheet, but now it acts as though it can operate without holding massive quantities of GSE-issued mortgage-backed securities. Between 2010 and 2022, the lowest amount held was $827 billion, and the Fed went from holding $1.4 trillion in 2020 to $2.7 trillion in 2022. In the face of a rapidly-rising CPI and steadily rising home prices, this MBS purchase policy makes very little sense.

Thank you for your consideration, and I will be happy to answer any questions you may have.

[The prepared statement of Dr. Michel can be found on page 86 of the appendix.]

Chairwoman WATERS. Thank you very much. I now recognize myself for 5 minutes for questions.

Ms. Pope, first of all, I want to thank you for being here and the work that the REALTISTs have been doing ever since I have been elected to office to deal with discrimination and other issues dealing with homeownership. During the pandemic, increased competition for homes in a tight housing market pushed homeownership further out of reach for many prospective first-time buyers, people of color, and low-wealth individuals. A recent study by the National Association of Real Estate Brokers showed that in 2021, the ratio of the homeownership gap grew to over 30 percent, higher than it was in 1960.

In my City of Los Angeles, the Black homeownership rate was 34 percent in 2021, lower than it was in 1910. Last week, our Democratic committee passed my Downpayment Toward Equity Act. My bill would authorize $100 billion for a new grant program to provide assistance of up to 10 percent of the purchase price of a home to first-time, first-generation homebuyers to cover down payments, closing costs, and to help buy down interest rates. What do you see as the potential impacts of such a program?

Ms. POPE. Thank you, Chairwoman Waters. This would have a great impact in the Black community, especially knowing that down payment is one of the largest factors of not just the systemic racism that we have encountered around the country over the years, but this will be a big help when it comes to generational wealth. That is a very good opportunity for Black Americans to take advantage of, and again, allow the creation of the generational wealth to continue. And it will help remediate the actions of the inequalities, the wealth gap, and the discriminatory practices. This will be a great help to Black American families.

Chairwoman WATERS. Thank you very much. Even though I had not planned on asking this question, I am very interested in knowing what is happening with the evaluation of homes in the Black community, and what is happening with the way that the discrimination appears to have been taking place for so many years.

Ms. POPE. As you know, around the country, all of the values have diminished. They have lowered the values because of the appraisals, and at NAREB, we are working very closely with our affiliates as well, and we are supporting the PAVE Act in order to stop the discrimination of the appraisals and the biases. We are hoping that we will have more training of the appraisers and more licensed appraisers to be able to do what they need to do in order to bring the economy back and to allow our Black homeowners to

be able to sell their properties and to buy properties not at those low values. We are taking the stand in supporting the PAVE.

Chairwoman WATERS. Thank you so very much. Professor Chandan, house prices have skyrocketed during the pandemic, appreciating nationally by nearly 20 percent between 2021 and 2022, making homeownership that much more unaffordable. In fact, according to the California Association of REALTORS, only 25 percent of Californians could afford to purchase a medium-priced home in the first quarter of 2022, compared to 47 percent of homebuyers nationally. One driver of this affordability crisis is the worsening housing supply shortage. Last year, the House passed the Build Back Better Act, which included over $150 billion in investments that would create and preserve over 1.3 million homes, including by offering incentives to local jurisdictions to ease burdens to buying and building new housing.

Can you talk about the importance of making the types of transformative housing and community development investments included in the Build Back Better Act?

Mr. CHANDAN. Thank you, Chairwoman Waters. I think what we do see, as you have alluded to, is that we have a significant challenge in terms of the supply and availability of new homes. That number has risen significantly over the course of the last year-and-a-half or so, and we have a substantial pipeline of homes under construction. But to your point, when we look at the mix of what is being built in the United States today, in part because of local zoning requirements, building codes, restrictions on the availability of land, and the cost of materials, only a very, very small share of those homes are within reach of income-constrained families and many aspirational homebuyers.

And programs that not only encourage supply, but encourage supply that is specifically directed towards income-constrained families and those who are aspiring to homeownership will be most effective in alleviating some of the supply challenges and pricing issues that we face.

Chairwoman WATERS. Thank you very much. Mr. McHenry, the gentleman from North Carolina, who is the ranking member of the committee, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman. Mr. Michel, I want to drill a little bit deeper into today's hearing title. It is called, "Boom and Bust," and, look, as I outlined in my opening statement, in President Biden's first 500 days in office, he increased Federal spending by more than $2.5 trillion. Our national debt now surpasses $30 trillion. The massive spending spree includes nearly $2 trillion in the so-called American Rescue Plan, the $256-billion Infrastructure Investment and Jobs Act enacted last year.

It doesn't include the $1.7-trillion so-called Build Back Better Act—or whatever they are calling it right now; it keeps changing week every week—which passed the House in November, and it was then called Build Back Better. It also does include a trio of housing bills that the Chair has introduced but that have not passed the House. That includes $600 billion in housing infrastructure, or the unscored Ending Homelessness Act that is likely to cost nearly $200 billion a year, and her $100-billion Downpayment

Toward Equity Act. Those are nearly a trillion dollars in new spending, all from borrowed money.

If you would, please explain both the observed and projected effects that this massive spending is having on the economy, and the connection to the record inflation Americans are experiencing.

Mr. MICHEL. Sure. The stimulus was more than triple—depending on exactly how you cut it—the gap between actual output in the economy and what we estimate as the potential output of the economy. Even before March of 2022, the $1.5-trillion spending package that we had back then, Federal spending, had increased people's quarterly disposable income, even on a per capita basis, by incredibly abnormal rates, things like 14 percent in the first quarter of 2021. That is well over the average quarterly increase, which is less than 1 percent during the last decade.

So, there is pretty much no way that sort of spending won't eventually lead to inflation. The result that we have now is really not all that surprising. It is just an enormous amount of money relative to what people are used to having on the whole. And this is worse, of course, for anyone on a fixed income or without a steady, secure, or indexed-to-inflation source of long-term income because they are not getting that money directly or indirectly at first. They are getting the price increases first, in many cases.

And then, in many cases, when they have already gotten some of the income, they are still getting an even larger price increase. Again, that is due to the magnitude, so this is bad for millions of people. And I think it is probably obvious to most people that the lower your income and the more volatile your income, the worse your situation, the harder this is going to be to deal with. That is kind of where I would go with that.

Mr. MCHENRY. We know that Federal spending comes in a lot of forms, but one of the worst is when we come up with new giveaway subsidies for people who probably don't need it and shouldn't get it. One good example is a provision in that Build Back Better bill that the House passed in November, and we marked up that same provision again last week. This provision would create a new first-generation down payment fund to give down payment grants up to $20,000, or 10 percent of the purchase price of a home. Individuals making up to 140 percent of the median income of the area would be eligible to get these grants if they didn't own a home in the last 3 years and the parents currently didn't own a home. This means an individual in Marin County in California making up to $232,000 could qualify for more than $97,000 in free government money on a $970,000 home, even if they had owned the same size home 1,000 days earlier. As an economist, what does a subsidy like that do to the marketplace? How do you respond to such an irrational demand-side subsidy, when no subsidy is even required in the first place?

Mr. MICHEL. Yes, this makes no sense at all. It is a terrible policy. The response will be even higher home prices. It is only a question of how long it will take and how much upward pressure you are going to get very soon. I would expect sellers to know that the first $100,000 or so is taken care of, so you can charge more. It is similar to the effect that dropping the interest rate has on a monthly payment. It is going to get capitalized into the price of the

home, so if you do that, you are going to get price inflation in the home and/or price increases in the homes. And if that $100 billion or that program doesn't get renewed, you would expect prices to flatten out and eventually drop. And then, anyone coming into the market late or with lower equity, who is already in, is at a very high risk for being underwater. So, it makes no sense at all in any way.

Chairwoman WATERS. Thank you very much. The gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets, is now recognized for 5 minutes.

Mr. SHERMAN. Thank you. A few comments first. It is interesting. We are all in favor of appreciation. We are all in favor of affordability. Those are contradictory. There is an irony there, but there are reasons for us to support both. Our committee naturally focuses on financing of housing, but we have to look at other governmental entities and what they are doing to the affordability of housing. Our friends over at the House Ways and Means Committee have taken away the deduction for property taxes for an awful lot of taxpayers, and they have not indexed that provision for inflation. So whether it is 2-percent inflation, or whether it is a much higher level of inflation, that provision hurts not only the upper-middle class, but will soon hit the middle-middle class. The same applies to their limitation on home mortgage deductions. While we are making housing more available, they are making housing more costly.

But the biggest impact is local government. The, "Not in My Backyard" (NIMBYs) really control housing, and in so many areas, people want either open space or maybe open space dotted by a few rich houses. The effect is that the cost of providing a new structure—and we need at least 5 million more of them—is double or triple what it would be. The physical cost of building the home isn't the cost. The cost is dealing with the zoning, the resulting increase in land prices, the fees, and all of the requirements that are often designed to make sure that communities are not economically integrated, and, of course, that means, in many cases, not racially integrated.

I realize we are focused on homeownership. Not everyone should buy a home. If you are not going to live there, or you are not sure you are going to live there for at least 6 years, it is not in your interest usually to buy a home, and there ought to be single-family homes that are available for rent. I believe one witness said 2.5 percent of the homes are owned by institutions that rent them out, and that seems reasonable. We have a labor market where people are willing to move around far more than they are in Europe, and that gives us an economic advantage. Our witness from the Cato Institute points out that government spending increases demand and inflation. What he did not point out is that taxes reduce demand and reduce inflation, and that is why Build Back Better was fully paid for, and why, if we can tax the wealthy appropriately, we can reduce inflation.

Mr. Calhoun, we often hear that FHA borrowers struggle to compete against those who are borrowing with a conventional mortgage. This is explained because sellers want to avoid the longer

closing times, and the tougher appraisal requirements. Last year, the House passed my bill—unfortunately, we did not have a unicameral legislature, so it died in the Senate—the Homebuyer Assistance Act, which broadens the types of appraisers that can appraise for an FHA purchase to be the same as those that can do the appraisals for the GSEs. This is significant because FHA borrowers are overwhelmingly first-time homebuyers and disproportionately people of color. Are there other policies that we can take, whether it is the appraisal requirements or elsewhere, so that FHA borrowers are on equal footing when they go to buy a house?

Mr. CALHOUN. Yes, Congressman, if I can first add one comment to your last comment, I think it is important. Included in my testimony is a chart that I will just show you here on the history of housing prices. The colored parts are—

Mr. SHERMAN. I will ask you to focus on the question. We have 40 seconds.

Mr. CALHOUN. Okay. Yes, sir. Thanks. The current requirements for certified appraisers makes it much harder to find an appraiser, and creates more delays. That is one of the most important things. FHA is doing a number of other things, such as increasing their technological services so they move faster. And right now, they have several proposals that provide more clarity for lenders to make it easier for borrowers to qualify and to encourage lenders to participate in the FHA program. As you know, FHA is the largest provider of new home purchases for borrowers currently.

Mr. SHERMAN. I just want to point out how important it is to pass the chairwoman's Downpayment Assistance Program. Half of the Millennial homebuyers needed family to help them, and not everybody has a rich uncle or a helpful parent. I yield back.

Chairwoman WATERS. Thank you very much. The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Today marks the 20th housing hearing this committee has held in the 117th Congress, and yet it seems we are not any closer to bringing down the high cost of housing. Over the course of 20 hearings, instead of addressing the lack of production of new housing units, the Majority has spread blame on property owners, investors, appraisal firms, and the mortgage industry, more of the Biden blame game. Meanwhile, the Biden Administration, and Democrats, and Congress have recklessly spent trillions in taxpayer money that has worsened inflation, crippled supply chain and construction markets, and, ultimately, made housing even less affordable.

Dr. Michel, I represent the 2nd Congressional District of Missouri, which continues to experience labor shortages and supply chain issues that affect almost every industry from construction to manufacturing. Collectively, do the policies offered today by the Majority and the Biden Administration address those issues?

Mr. MICHEL. No, no, it would worsen it. This is the idea. I am sure it is well-intentioned. You want to help people. Everybody wants to help other people, and that is good, but the fact remains that if you go down this road of just giving out more money, it still takes a long time to build a house. You can't build a house in every single location where people want to live. There is not enough land. You don't have enough laborers to do everything that you want to

do. You have an infrastructure package that is going to draw laborers to that. So, you are going to be throwing more money, allowing people to bid up the same amount of resources over a short period of time, and that is the opposite of what you want to do if you want to make things more affordable and easier to obtain.

Mrs. WAGNER. Could you describe how the supply chain issues we are facing will continue to drive up home prices and rental rates if left unaddressed?

Mr. MICHEL. It would be the same sort of situation where you don't have enough of what you want, and you don't have a way to get everything quickly. If you talk about things like livestock or labor, you can't magically produce them, no matter how much you want to bid up the price. Letting these things go, letting these supply and demand forces sort of take hold without further subsidizing them is the only way to let those prices come back down, to let the market reallocate on its own pace rather than trying to just continue to increase the demand side.

Mrs. WAGNER. Yes. The Federal role in housing finance policies has expanded greatly over the last several decades, and yet the American homeownership rate remains at roughly the same level as the 1960s. Dr. Michel, is there evidence that would suggest the entrenched role of the Federal Government in the housing market has played a role in its current state?

Mr. MICHEL. Yes, absolutely. It is kind of amazing to hear lots of the other people on the panel suggesting that we just continue doing the same things we have been doing that got us into this mess in the first place. The only appreciable increase in, for example, the Black or Latino homeownership rate was prior to the last crisis, and that was not sustainable by definition. We want to keep helping people. That is good. That doesn't mean that you help people by giving them low-equity, long-term fixed loans that they can't afford. And if you have a volatile source of income, for example, you are not addressing the underlying economic issues. You are just throwing money at a problem, and you are putting somebody in a financially risky category. So the fact that you take some of that stimulus away or some of that subsidization away and then it is not sustainable, it ends in a bust.

Mrs. WAGNER. And, Dr. Michel, in my short time, I know your testimony outlines many harmful housing policies that the Democrats have been pushing in their Build Back Better growth plan, or whatever you want to call it, while the list is quite long. Could you briefly mention some of the most harmful policies?

Mr. MICHEL. Outside of the GSEs, is that—

Mrs. WAGNER. Yes.

Mr. MICHEL. I think if you look at the GSEs, that is the biggest chunk of it for me, the GSEs and the FHA. This is no longer a small program. This is the entire market, so it is essentially a Federal takeover. And with those expansions, we have seen this happen over and time again.

Mrs. WAGNER. Yes, thank you. I yield back the balance of—

Chairwoman WATERS. Thank you. And thank you so much, Mrs. Wagner, for recognizing that we have made housing a priority, with 20 hearings and no help from Republicans. Thank you very, very much.

The gentleman from New York, Mr. Meeks, who is also the Chair of the House Committee on Foreign Affairs, is now recognized for 5 minutes.

Mr. MEEKS. Thank you, Madam Chairwoman, and I just have to adjust quickly, because I heard Representative Wagner and Representative McHenry—they keep talking about, it seems to me, that some of the housing crisis, particularly with regard to Black America, predates all of what they are talking about. But it also seems to me that when you help someone, give them a handout, it is okay, but when you have the huge Republican tax cuts that go to the wealthiest of Americans, that is much more money than you see going to regular folks, that is okay.

And then to say that the President is not doing the right things when, in fact, we know that we are coming out of the greatest pandemic that this country has seen in over 100 years. And yes, the war in Ukraine is affecting the economies, which is why the President is at the G7 and at NATO now working together with our allies who are also suffering from inflation and suffering from Putin's war. There is no question about that. And I would hope that my Republican colleagues who say that they are supporting Ukraine, which we all should do, and make sure that they get the money that they need to defend themselves, but we should also support our people at home.

We had a conversation with Fed Chairman Powell, who said that if we hadn't made the investments that we made during the pandemic, our economy would not be as strong as it is right now, which is stronger than many other places or most other places around the world. I just had to get that in because, to say that we are supporting Ukraine, but then say, oh, the President is making it up, you can see the comparison just does not make sense. So, if you are not going to support Ukraine, then say you are not supporting Ukraine because that does cause us to have higher gas prices and inflation in the United States of America.

But my first question is to Ms. Pope. Ms. Pope, I know your great organization has put out a report, and I think that the chairwoman started talking about this earlier, about the state of housing in Black America, which discusses other challenges that are confronted by Black homeowners, including the home appraisal practices where the loans are already more costly for Black households, and on top of that, the Black homes tend to appreciate less or be valued at a lower value. This whole thing in regards to algorithms, can you explain what the role of Automated Valuation Models (AVMs) are and what more needs to be done to make sure that calculations and algorithms aren't having inadvertent negative consequences, or what should we be doing to make sure that we have equity there?

Ms. POPE. Thank you, Congressman Meeks. When it comes to the Black neighborhoods and the appraisers, you are absolutely correct. The housing market is diminishing. The appraisal values are low, and then what are we doing not just as a national association, but as America. It is important that when we are dealing with the appraisers in the appraisal society, that number one, 1 percent of the appraisal society are Black. We don't have enough African Americans within the industry to understand the values of our neighbor-

hoods where we grew up, that we know about, where we know the house across the street is worth more value than what the appraiser has stated.

The importance of even the PAVE policy, the PAVE Act—to discuss a lot of the challenges on the training that needs to happen within the appraisal society, the licenses that needs to take place. In addition to that, we need to make sure that we hire and employ more Black appraisers so that they can have an opportunity to lessen some of the guidelines for the appraisers to be able to increase that community so that we are able to have the true, in fact, real appraisers. When it comes to systemic racism, the low access to capital, to healthcare, to quality of food, the inequality and the racial discrimination that has happened over 400 years, it hasn't changed. And as we are seeing now, it is just being bought out, so it is so important that we, as an organization and as America, need to make a difference in the appraisal society, and we have to hire and employ more Black appraisers.

Mr. MEEKS. Thank you for that. And in my little time remaining, I am going to go to Ms. Choi just to ask, what role does the student loan debt play in serving as a barrier to homeownership, and how can we address this issue here in Congress? I put a bill out called the Making FHA Work for Borrowers with Student Debt Act, and I know for me, coming out of college with student loans prohibited me from owning a home for a while. Can you address that, Ms. Choi?

Ms. CHOI. Yes. Thank you for that question. I think this is a very important topic. I think student loan debt has the same issues with access to homeownership, because a lot of young adults who have wealthy parents get access to education without student debt, but we are seeing from the data a lot of young Black adults having a higher student debt for the same level of education. They are more likely to drop out of college because they have multiple duties to serve, and even after they graduate, they run into problems of being delinquent in that home, and that is also having a negative impact on us, the access to homeownership. I would love to look more into your bill, but I think this is a very, very important issue to address.

Mr. MEEKS. Thank you very much. I am out of time. Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Mr. Posey, you are now recognized for 5 minutes.

Mr. POSEY. Thank you, Chairwoman Waters. Mr. Michel, the opening lines of the Majority policy paper for this hearing suggests homeownership should be a policy tool for closing a wealth gap in this country. Please tell us what economic research suggests about making reduced wealth gap an objective for homeownership policy?

Mr. MICHEL. I don't agree that homeownership itself should be a policy. There are lots of reasons not to own a home. It is an individual decision. And if we are talking about something like sustainable homeownership, there are many economic conditions and reasons that will make that either difficult or easy. There is nothing wrong with renting. Federal policy should not distinguish between both or between either renting or owning.

Even though there is a correlation between things like, say, good citizenship and homeownership, it doesn't mean that one causes the other. There is actually lots of research that shows negative spillover effects from owning, especially low-equity, long-term low equity loans—negative spillovers like hesitancy to move in search of a better job opportunity, just to name one off the top of my head. Is that where you are going? I am not sure if I am answering exactly what you are—

Mr. POSEY. You are answering exactly—I just was looking for some balance, and you provided that balance, so thank you for being so straightforward.

Mr. MICHEL. Okay.

Mr. POSEY. When Secretary Carson was at HUD, we had begun to appreciate that making housing affordable depends a lot on being able to expand new housing supply while holding the line in the best way possible of building new housing. What happens to housing prices and affordability when we expand housing demand subsidies without addressing the conditions of housing supply?

Mr. MICHEL. Prices go up, and as the prices go up through either FHA or GSE loans that we have, we have more lower-equity loans. So, you have sort of pockets geographically throughout the United States that are either more or less constrained than others, and then you basically have one Federal policy that just says, give more loans, get more loans. So, it is not surprising to get exactly the result that we have had, which is more consumer debt and an incredibly rapid increase in home prices.

Mr. POSEY. What do you think Congress should do to help bring down the cost of building new housing so that we can expand supply to meet the growing demand without driving up prices?

Mr. MICHEL. There is very little that Congress can do to increase the supply, so what it has to do is concern itself with demand relative to supply, and that, again, means paring back on the increase in demand. Supply is going to be more local-driven, and you have to back off, literally back off. You have to shrink the footprint of all of the things that are being done federally to increase demand. Otherwise, you are going to keep getting higher prices.

Mr. POSEY. One of the bills under consideration in this hearing is the ability to provide $25,000, or even more, in high-cost areas to provide qualifying assistance to certain first-time, first-generation homebuyers in purchasing their first home. Can you comment on the pros and cons of that approach?

Mr. MICHEL. The pros of course are, if you are a recipient of that, you get the money for your down payment, and that is good for you, but the cons to that, again, are you are doing nothing to change the underlying conditions. So if you have an African American, for example, who doesn't have a rich uncle, you are assuming that simply giving them the money would be good for them. And again, while it might be good to be able to purchase that home, you are actually not purchasing a home. You are purchasing a mortgage.

And the research shows that what we what we get from spillovers from homeownership, you could actually be picking up the behaviors that somebody has or builds over time when they do save money. You are taking the saving the money part out of the

equation. You are saying that doesn't matter when, in fact, the research shows that part could matter more. And that is not to say that there shouldn't be something done to increase economic opportunity, but there is a difference between that and just giving somebody the check.

Mr. POSEY. Okay. Listen, for the record, Madam Chairwoman, I have been a REALTOR for well over 40 years, and I can assure you that during the entire time, since the very beginning, the first orientation class, every REALTOR is aware that there should not be any discrimination in housing whatsoever, and the only color any REALTOR should be concerned with is green, and that is putting the deal together. Thank you. I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Committee on Agriculture, is now recognized for 5 minutes.

Mr. SCOTT. Thank you, Madam Chairwoman. Ms. Pope, let me direct this question to you. A recent study pointed out that 33 percent of home sales in my area were made by private investment groups. And my area in Atlanta led the nation as the number-one metropolitan area in the entire nation for investor purchases of single-family homes. Ms. Pope, can you explain how this investor activity in this subset of housing markets impacts individual buyers and hurts us?

Ms. POPE. Thank you. Thank you, Congressman Scott. First of all, when lenders hesitate in a low-balance mortgage in an area, buyers can't purchase, so when they can't purchase, a lot of times it opens the doors for investors who pay cash. Also, these cash investors do them in bulk, so the more properties for less money, it is a wholesale. What happens in this case is it displaces the residents. It would create low inventory, and it definitely creates low inventory for the neighborhood. But what ends up happening is you have a high rental market that makes it not sustainable for the homeownership and it makes it difficult for anyone looking to buy a property, it is hard to buy because all of the properties have been taken up by these types of investors who are buying and paying in cash. Our typical homebuyer doesn't have the cash. They just don't have it. That is why financing is available. To strip that away from the American Dream is chasing them away from that homeownership.

Mr. SCOTT. Yes. And to your point, the Atlanta Journal-Constitution, our home newspaper, reported that this large investor buying activity was linked to a drastic decline in homeownership rates. And as is the case in so many situations, this connection disappeared when comparing predominantly White neighborhoods with predominantly Black neighborhoods. Ms. Pope, explain that for me?

Ms. POPE. And I hope I am explaining this correctly. When an investor buys a single property and they are going rent it or fix it up to sell, then that market is increased. It makes the inventory low, first of all, because that borrower can't purchase it at prime price. Now, it has excelled because that investor fixed the property up, resold it, and flipped it. That makes it very difficult in a community because then it becomes unaffordable and possibly having challenges with the appraisals, and that is what we are finding

across-the-board. I am from Ohio, and we have the same issues of having all of these investors buying in neighborhoods, increasing the sales price, or renting. Everything is escalated higher, and that makes it harder for a Black person or anyone to buy a home in that area because of the appraisal values or because they can't afford it now. It is not the typical, average, regular price.

Mr. SCOTT. And let me get to the genesis of the issue from my standpoint. How are these firms able to track what neighborhoods and areas will see, future high-paying jobs and good-performing schools, which tend to increase home prices?

Ms. POPE. When an investor buys a property, it strips away the homeownership. So you are right, the homebuyers—the school systems that they go to, the grocery stores they go to, the banks that are very little in the neighborhood becomes a challenge because now you are taking away that homeownership, that neighborhood that is created to have sustainability. So, they are stripped away when you are lessening the housing market and increasing the rental market.

Mr. SCOTT. My time is running out, but here is the bottom line I want you to answer. Is it fair to say that these private equity firms would then target single-family homes in majority African-American neighborhoods more than in majority White neighborhoods?

Ms. POPE. Yes.

Mr. SCOTT. Thank you very much. I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman. And for full disclosure to everybody on the call today, I am a small business owner, and I am an investor. As we are having these conversations, some of these questions I hear coming out of the left field about the housing market, we should take a second to recognize where the Biden economy currently stands, and it stands with everybody, not just one group or two groups. Everybody is being affected by the bad decisions coming out of this Biden Administration. The American savings rate is at its lowest level since the Great Recession, and while credit card debt is hitting all-time highs, supply chains are broken, having visible impact when our constituents go to the grocery store with empty shelves, but also on inventories for other small businesses. I am in the car business. I just said that I am a small business owner, in the car business. And we usually carry around 800 units on the ground, and today, as I sit here, in one of my businesses, we only have 26 units on the lot for sale, so I can tell you about supply chain problems.

The supply chain problems are making it particularly difficult for commercial and residential real estate industries. Projects are being delayed because they can't find the raw materials necessary to complete their builds. And when timelines get stretched out because of unforeseen circumstances and inflation, the overall cost goes up. Even if these builders are able to secure all of the necessary materials, they are having real problems in finding skilled workers to complete these new projects. And inflation is at a 40-year high as a result of out-of-control government spending by the

Biden Administration and to accommodative monetary policy. This has forced the Federal Reserve to raise interest rates at an unprecedented pace to get these unprecedented price increases under control, and this has led to the 30-year fixed-rate mortgage rise into a 14-year high this week of almost 6 percent.

To give it perspective, a year ago this mortgage rate was sitting at 3 percent. This is a massive year-over-year increase coupled with home prices hitting all-time highs and are not making this a buyer-friendly environment for anyone. And as a result of all of these factors, consumer confidence is currently sitting at its lower level since the start of the COVID pandemic. The Biden economy just simply is not working, so needless to say, we have a long way to go before Americans are confident again in the direction our economy is heading.

Mr. Michel, can you give us your opinion on how we got to this point, and then what steps we need to take to get our economy back on solid ground?

Mr. MICHEL. Part of it again, I think on the inflation side is the fiscal spending. Part of the supply chain issues, or largely the supply chain issues are due to the COVID government shutdowns. You had an incredibly large drop in demand and then a snap back in demand, bigger than anything in the historical record, so we have to be a little bit patient. We also have to stop spending more at the Federal level. It is only exacerbating supply chain problems. We only have so many resources to go around. You don't want to keep bidding them up.

And on the other side, I think the Fed is actually doing what they should be doing. The Fed has started tightening. At this point, monetary policy is probably the only tool that is going to help long term, and there are signs that it is starting to work. Credit markets are tightening, money growth is coming down, and there are signs of core inflation kind of turning back. So, I think we are on the right road as far as that goes.

Mr. WILLIAMS OF TEXAS. And we need to quit talking about tax increases. We need to keep taxes where they are and—

Mr. MICHEL. Yes. I don't really understand the tax increase thing, but go ahead.

Mr. WILLIAMS OF TEXAS. Yes, I don't understand it either, but we will move on to that later. Excessive regulations are important. They could be a major drag, as you know, on the economy and private sector participants. And there have been studies that have shown that in President Biden's first year in office, businesses have spent over 131 million paperwork hours complying with these new regulations, and I can tell you about that. I am in a business that is all commission. In my business, we even had to hire a compliance officer and pay him a salary to comply with these regulations with which we are getting burdened. This takes valuable time away from productive activities that could be adding value to the economy and helping people buy houses. So, we must always be looking at ways to free up businesses' time so they are not consumed with unproductive activity.

Quickly, you probably have done some extensive research on the Dodd-Frank Act, and can you discuss certain parts of the bill that

would lead you to believe we are holding back the economy that we could re-examine in this committee?

Mr. MICHEL. Sure. Definitely, Title I of Dodd-Frank, with systemic risk and financial stability regulation, giving the Fed and Treasury sort of a blank check to go out and just do anything in the name of guarding against potential systemic risk and failure, and that is showing up in crypto and fintech markets right now.

Mr. WILLIAMS OF TEXAS. Okay. My time is up, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Missouri, Mr. Cleaver, who is also the Chair of our Subcommittee on Housing, Community Development, and Insurance, is now recognized for 5 minutes.

Mr. CLEAVER. Thank you, Madam Chairwoman. Let me, first of all, just sort of deal with some of the issues that have been thrown out.

Mr. Michel, first of all, I appreciate your appearance here before the committee and presenting information, but what I would like you to address is, if there is a $2 trillion dropout of the revenues of the United States, does that contribute to inflation?

Mr. MICHEL. A drop in tax revenue contributed to inflation?

Mr. CLEAVER. Yes.

Mr. MICHEL. No, I would not make that argument, and maybe there is another way you can make that argument, but I would not make that argument.

Mr. CLEAVER. So, dropping $2 trillion out of—

Mr. MICHEL. In tax revenue.

Mr. CLEAVER. —in tax revenues is not as devastating on the economy as spending $1 trillion for infrastructure. Is it connected to who does it or what?

Mr. MICHEL. If you are asking me if one is inflationary and one is not, then I am going to say that if you drop $2 trillion in tax revenue out, it is not inflationary. And if you put $1 trillion of spending into the economy, that it is inflationary. And I guess if that is where this is going, where we have inflation, all we need to do is increase taxes, I don't know if that is actually equitable. I don't know that it actually works that way in practice—

Mr. CLEAVER. I didn't suggest that. I will play it back. I don't think I suggested that. If I did, I am—

Mr. MICHEL. Fair enough.

Mr. CLEAVER. Yes, I misspoke, if I said that. What I am trying to deal with is we spent $1 trillion. We had a $2.3-trillion hit on the economy with the tax cuts, and the revenue is falling substantially short of the $2 trillion to $2.3 trillion. Hopefully, we will get to a point where something is right or wrong because it is right or wrong, and that is who did it. And so, the $2-trillion drop hurt us. Let me ask you one other thing, and then I will move on.

My assumption is that you oppose the bipartisan infrastructure bill that some of us proudly voted for, both Republicans and Democrats. Is that true?

Mr. MICHEL. Correct. I don't think that was a good bill.

Mr. CLEAVER. Okay. What would you say to the people who are concerned about the 45,000 bridges in poor condition in the United States? What would you say to the people in your community who

need this statistic to realize we are in trouble? We rank 13th in the world in terms of our aging infrastructure, with 45,000 bridges in poor condition. What do you say to the people all around the country who believe we were in trouble? Every President since Bill Clinton has said they wanted to pass an infrastructure bill, we need an infrastructure week where the legislative process is going to begin. So, all of those people had to have been wrong that we desperately needed an infrastructure bill, is that what you are saying?

Mr. MICHEL. Yes. I would say that is wrong, and I would say that they are politically very popular for every President, and most Members of Congress, and Senators, yes.

Mr. CLEAVER. But why is it popular? Is it because here in Kansas City, we are getting ready to put in new bridges where we were having flooding where 25 people died? Is that something I should be apologetic about? I voted for it very proudly, and I have not heard a single Republican or Democrat or anybody else complain about it.

Mr. MICHEL. No. If I were you, I would want to get as much money as I could for my constituents from as many places I could get it from.

Mr. CLEAVER. Thank you, Madam Chairwoman. I appreciate the opportunity. And thank you, Mr. Michel, for your presence at our committee and your answers.

Chairwoman WATERS. Thank you so very much. You can add clean waterto that, Mr. Cleaver.

The gentleman from Arkansas, Mr. Hill, is now recognized for 5 minutes.

Mr. HILL. Thank you, Madam Chairwoman. I have certainly enjoyed this macroeconomic debate with our witnesses and our Members. It is always rewarding. I am sorry we are not in the committee room together today.

I would say to my good friend, Greg Meeks, that I appreciate his work on building bipartisan support for targeted support in Ukraine with our European allies. I didn't quite take his messaging that somehow Republicans don't support that, so I wanted to thank him for his working to make sure we have bipartisan support there. But I do want to correct the record for my good friend, Brother Cleaver, in Kansas City, and Greg on this tax issue. The Tax Cuts and Jobs Act helped all American families—Brown, White, and Black—with lower tax rates, easier filing, and a better child tax credit. We need to make those tax cuts permanent. That should be a priority for Democrats and Republicans.

On the revenue issue, corporate tax revenues, despite the large cut in the rate, are at their highest level in American history. We are earning more corporate tax revenue than we have in the history of the country, and a trillion dollars came back into the U.S. for U.S. investment there. So, I think that the gentleman's argument about revenue loss is quite exaggerated there. And the real challenge that we are talking about today is the impact on the supply chain, and Biden inflation, and the impact on housing affordability, and it is devastating, as I said in my opening comments.

And I want to start with Dr. Chandan. In your testimony—which was very interesting—you say the analysis shows that nationally, the institutional investor share of the market has risen since just

prior to the pandemic, but only accounts for 2.5 percent of home sales. By comparison, individual investors and mom-and-pop investors in our towns and cities and counties account for 24 percent of the market. So, Dr. Chandan, is there evidence that this is only in low-income neighborhoods, or is it across-the-board in these growing metro areas?

Mr. CHANDAN. Thank you, Congressman Hill. I think the data that you cite and that I cite in my testimony is provided by Freddie Mac in a recently-completed study. While there is always opportunity, and here there is significant opportunity to improve data transparency and availability, what we do know is that nationally, 24 to 25 percent of investors in markets that are buying single-family homes without the intention of living in them, or reselling them but are repurposing them as single-family rental homes, does include a wide range of investors, and we should be careful not to conflate large institutions with that entire pool.

Mr. HILL. Thank you. Let me reclaim my time because the marginal investor in your data you presented from Freddie is an individual mom-and-pop investor—

Mr. CHANDAN. Correct.

Mr. HILL. —not, per se, the institutional. Number two, I have never seen anything that it is disproportionately in low-income neighborhoods either. Let me ask you this. A lot of families have kids, and the number of kids in the rental market—a lot of apartments don't have multi-bedroom units. Isn't the best place for a mom with kids, who has multiple kids, sometimes a single-family home? Isn't that a better choice for her rather than an apartment where they don't have as much choice and no yard?

Mr. CHANDAN. One thing that we absolutely do observe is that as households age in their lifecycle, in particular, as you point out, as they have their first children, the set of amenities that they look for changes and expands, and, in many cases, will include things like parks, and good-quality public schools that you get better access to when you live in a home, in large part because of its location. For some families—

Mr. HILL. Yes, I am going to get to that. Thank you for that. If you have other comments on that, please submit them for the record because I think this is a key element of what we are talking about today. I also looked at the affordability chart, looking at my favorite source. Of course, everybody loves the St. Louis Federal Reserve Bank. And it shows that minority homeownership skyrocketed under the Trump Administration from its post-crisis low of basically 2016–2017. And then, the pandemic knocked off that home affordability and ownership rates for Black, Brown, and White Americans, so we need to get back on that.

I thank my chairwoman, and I yield back the balance of my time.

Chairwoman WATERS. Thank you. The gentleman from Colorado, Mr. Perlmutter, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Mr. PERLMUTTER. Thanks, Madam Chairwoman. My friend, Mr. Hill, I think started off on the right track. I am not sure he ended on the right track, but he started off on the right track by talking about this being a macroeconomic kind of question that we are ask-

ing. It is also microeconomic, and I would just say that we have had some questions about supply and demand. Listening to Dr. Michel, he doesn't really want to mess around with the supply. He wants to cut the demand, and he cuts the demand by making sure people don't have any cash. Okay. That will work. All of a sudden, there will be an oversupply.

In Colorado, long before Joe Biden took office, we have seen house prices increasing because we have had our population increasing, and the supply hasn't kept up with the population. That is really what is happening in Colorado, and probably other places in the country as well. In Ohio, maybe Arkansas, maybe New York, there have been people leaving, and house prices have stayed stable or maybe even dropped.

I guess a question to the entire panel, and, Ms. Pope, I really appreciated your economic analysis of things, probably the best, but just a bigger question. Demographically, in the United States of America, do we have enough housing for our population, and where do we see our population going over the next 10 years? Do we think that the supply will keep up with the demand, or do we see demand shrinking? I will start maybe with you, Ms. Pope, and see if you have considered sort of the demographic question, or if you have to look at it on a market-by-market basis?

Ms. POPE. Thank you so much for the question. In the future, I do not see the supply increasing. Demand is much higher than supply right now. And you have to remember that homebuyers in America, when they are purchasing a home or looking to buy, and the offers that are coming through the properties are at least 5 to 10 times more than it has been in the past, those same buyers are now in a renting capacity. Now, they are sitting ducks. When you look at all of those buyers who can't buy because of lack of inventory, that demand is strong, and the supply is going to take time unless we build and we do more housing within the cities, within the suburban areas, so that homeowners can be able to buy. So if the demand is very low, the supply has to increase. That is the only way that homebuyers can purchase property.

When you are talking about the offers that are there, as I mentioned earlier, it just doesn't work with that. There are just not enough properties. And we need the help, to have Congress, or anyone that can help, especially with the NAREB group, so that we can increase the supply so our buyers can purchase, but I don't see the supply happening that fast. I do not.

Mr. PERLMUTTER. Okay. Thank you.

Mr. Calhoun, you had a chart that you wanted to show with ups and downs of the housing market over the last, I don't know how many years. But I am curious if you have taken a look at demographic trends nationally, because it seems to me that sort of the birth rate is down. I don't know about the immigration rate. It goes up and down. But talk to me a little bit about how you see supply and demand on a general basis, not the monetary supply, just people and housing stock?

Mr. CALHOUN. Yes, and there are a couple of factors that make it clear that we have an absolute housing shortage, and I note that our fellow panelists from the Urban Institute have done research on this. One factor to put in is we have an aging housing supply.

It is not keeping up, and there is obsolescence with about 1 to 2 percent dropping out each year. So, even with steady state, you have to take that into account, but the big thing is that we are experiencing a huge shift. The new households are predominantly households of color, younger households who will be looking to buy homes. And, in addition, we have a factor with current older households, a trend towards families wanting to age in place for a longer period rather than sell that house and free it up for recycling. We have to remove barriers to the construction, particularly for the entry-level market, and that is an absolutely critical part to keep us where we are, but we also have to move forward.

Mr. PERLMUTTER. Okay. Let me stop you for one second just to make kind of a final comment. I know in the Western United States, the interest rates have already had an effect on the housing market. Land development has slowed, new construction has slowed, and home sales have slowed. So, any comment on the interest rate increases before my time expires—which expires right now, so you are not going to get a chance to answer.

I yield back to the Chair.

Chairwoman WATERS. Thank you very much. The gentleman from South Carolina, Mr. Norman, is now recognized for 5 minutes.

Mr. NORMAN. Thank you, Chairwoman Waters. First of all, I have, probably for over 45 years, built houses. I have built apartments. We have developed property. Quite frankly, some of the responses have been laughable. And the Democrats can pick who they want on the 20-some hearings we have had—this is my second hearing—but you might want to get people who have been in the business and could give you some real-life experiences. The number-one issue that is causing housing prices to go up is very simple; it is the war this Administration has put on oil and in gas. Now, the trucks that delivered a load of lumber to our house today—

Ms. GARCIA OF TEXAS. Excuse me, Madam Chairwoman. I cannot see Mr. Norman. Are you on, Mr. Norman?

Mr. NORMAN. Oh, yes, I'm sorry. Yes, ma'am.

Ms. GARCIA OF TEXAS. I don't see you on camera, sir.

Mr. NORMAN. Okay. Hold on. Let me get some—

Ms. GARCIA OF TEXAS. There you go.

Mr. NORMAN. You got it? Can you see it now?

Ms. GARCIA OF TEXAS. Yes, your friend in Texas.

Mr. NORMAN. Okay. Can everybody see it? How about now?

Ms. GARCIA OF TEXAS. You are good. No, we lost you again.

Mr. NORMAN. Okay. Awesome. Can you come in and see if you can—

Chairwoman WATERS. Is this—

Mr. NORMAN. Let me get this straightened out, and I will have my—what is going on here?

Chairwoman WATERS. Mr. Norman, I can't—

Mr. NORMAN. Yes, ma'am.

Chairwoman WATERS. Yes, you are on. We can't see you. Is your video on? Mr. Norman?

Mr. NORMAN. Video is on. Let us see. Yes, ma'am.

Chairwoman WATERS. We need to see you on. Okay.

Mr. NORMAN. Okay. Can I—

Chairwoman WATERS. You are coming on?

Mr. NORMAN. We can't get it. Can I come back again?

Chairwoman WATERS. Yes, we will come back to you. No problem.

Mr. NORMAN. I'm sorry. Thank you.

Chairwoman WATERS. Okay. Thank you very much. Let us go to the next person. The gentleman from Illinois, Mr. Foster, who is also the Chair of our Task Force on Artificial Intelligence, is now recognized for 5 minutes.

Mr. FOSTER. Thank you, Madam Chairwoman. Am I audible and visible here?

Chairwoman WATERS. Yes.

Mr. FOSTER. Okay. Thank you. I am struck by the fact that very often, it seems like we put a lot of effort into house construction, but not necessarily the right houses. If you look around at the number of empty nesters sitting around in mansions with large numbers of empty rooms, I bet we could cure the problem with people who are homeless in this country if we could somehow snap our fingers and reallocate that effort. I am a fan of the free market in almost all circumstances, and I am a little bit distressed by everything that is put into place to interfere with the free market in ways that lower the ability of people without a lot of means to purchase houses that they might be able to afford.

And I was wondering, what are the most cost-effective interventions in the free market or maybe just returns to the free market that would allow the supply and demand for low-end housing to line up, or removal of subsidies that we have in place, or rules that encourage people to build big houses on big lots instead of small multifamily? And I am interested in—we will have to put some Federal money into this—what are the most effective subsidies and where can we put them, either on the supply side or the demand side?

Mr. CALHOUN. If I may respond, and I will note for the record that I have both run billion-dollar home lending programs to families of modest means, and I have also been a private real estate developer and have experience from that side as well.

A couple of things that we can do, that we suggest and are being piloted now, is to help families, as I mentioned in my testimony, through the vulnerabilities of today's more volatile world. Gig economy workers shouldn't be precluded from having a chance at homeownership. And those are things like reserve funds, which our partner lending institution is piloting, as well as loss-of-income protection insurance that helps people make up for the deficiencies, quite frankly, in today's unemployment insurance programs.

Again, one of the things that we missed in this hearing is, we are in a different world than we were in 2008, thanks to the Dodd-Frank Act. People have affordable mortgages right now. We are not facing a dramatic plunge in pricing because of foreclosures as we did in 2008. We have made lending more sustainable. We just need to make it more inclusive, like it was in the 1950s and 1960s when we brought tens of millions of White families into the middle class through very affordable FHA and VA loans that go up to 100-percent financing. If those are properly underwritten with responsible programs, such as reserve funds and loss of income insurance, you

can do this in a way that is safer and more inclusive and relies on the free market to deliver the housing we need.

Mr. FOSTER. Yes, thank you, but there is still the short-term problem of the total amount of lumber. And it seems like part of the way out of that is to allocate the lumber toward building more smaller units. Dr. Chandan, it looks like you wanted to say something?

Mr. CHANDAN. Yes, sir. When we look at sort of the deterioration in the share of units being built that are small or entry level, we are down to about 7 percent from something that was significantly higher. The average home under construction right now is 2,500 square feet. This is not an entry-level home. A lot of this is at the local level. The availability of materials and skilled labor is certainly an issue. Another is local zoning that limits the ability to use smaller parcels of land or to build smaller homes.

Another is an allocation issue where in some parts of the country, local transfer taxes or the costs associated with buying and selling are high enough that at least on the margin, it will inhibit some families as they grow, from right-sizing into a larger home, opening up the supply of entry-level homes. You stay in that small space a little bit longer than you might otherwise because the transaction costs are high. Those are all things that, particularly at the local and State level, we can begin to address, that are largely in sort of the regulatory and zoning environment.

Mr. FOSTER. Thank you, and it looks like my time is up.

Chairwoman WATERS. Thank you very much. The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you. Thank you, Chairwoman Waters and Ranking Member McHenry, for holding this hearing. And thank you to our witnesses. Before I get into my questions, I just wanted to make a few comments. Earlier in the hearing, the chairwoman referred to this committee as the, "Democratic committee." I think that this is one of the problems with the committee as it is currently constructed. It should be the Financial Services Committee, of course, not the Democratic Financial Services Committee. That is why we get some of these hearing titles that show you, before the hearing even starts, that it will be biased and not a serious examination of the issues.

Additionally, Mr. Sherman stated that the Democrats' Build Back Better Act is fully paid for. This was directly contradicted by the bipartisan Congressional Budget Office [inaudible]. And I would also like to echo some comments at the outset that have been made by my colleagues concerning the proposals that are attached to the list for this legislative hearing. We are over $30 trillion in debt. We are experiencing the highest inflation in over 40 years. Gas is $5 per gallon. And the Majority has chosen to attach proposals to this hearing that would spend money we don't have, build full palaces that people can't afford, and exacerbate the inflation that is hurting everyday Americans.

On December 6, 2021, the Financial Crimes Enforcement Network (FinCEN) issued an advance notice of proposed rulemaking (ANPR) on anti-money laundering regulations for real estate transactions. The proposed rules would apply to non-finance real estate transactions. FinCEN already applies its framework to financed

real estate and commercial transactions as well as all-cash residential transactions. If this rulemaking is finalized, anti-money laundering requirements would be extended to virtually all real estate transactions. Dr. Michel, do you see any issues with expanding FinCEN's reach in this area?

Mr. MICHEL. I'm sorry, the very last part, do I see—

Mr. ROSE. Do you see any issues with expanding FinCEN's regulatory reach in this area?

Mr. MICHEL. Yes. It is kind of mind-boggling to me. I don't know why we would do that. I don't think there is a regulatory issue here. This is a supply/demand issue and not more than that. So, yes, I wouldn't be in support of that.

Mr. ROSE. And on a similar note, I have previously expressed concern that the Federal Government uses the Bank Secrecy Act to deputize the private sector to collect personal data from American citizens.

Dr. Michel, you have previously recommended that Congress should simply require financial firms to keep customer records and then have law enforcement abide by the Fourth Amendment to access those records. Could you please elaborate on this approach?

Mr. MICHEL. Yes. I think that would be a way of handling this. That is completely consistent with the constitutional protections that we are supposed to have. If you are accused of a crime, that is one thing. If you are not accused of a crime, then you shouldn't be subject to law enforcement actions. It seems to me the way to handle this with the Bank Secrecy Act is to say that the bank will keep records so that we can identify customer transactions. And if there is somebody who is legitimately suspected of a crime, then law enforcement will, just like in any other criminal investigation, go get a warrant, and then they can go and get that information. That is not a problem in any other criminal investigation, so it shouldn't be in this case.

Mr. ROSE. Thank you. I entirely agree with that assessment. Dr. Michel, kind of shifting gears, do the Fed's purchases of mortgage-backed securities put upward pressure on housing prices?

Mr. MICHEL. I don't think it is the biggest component, but yes, the direction has to be upward price pressure because it is increasing liquidity to some extent in the MBS market, making it easier to get loans. So, it is magnifying that problem, yes.

Mr. ROSE. And, Dr. Michel, as you know, Democrats on this committee have been trying to expand the Fed's set of responsibilities to include things like racial inequality and climate change. Do you worry about proposals to expand the Fed's mandate, and what impact do you think they could have on housing possibly, and should the Fed's responsibilities be narrower?

Mr. MICHEL. I am worried, and I do think it should be narrower, not broader.

Mr. ROSE. Thank you. I think my time has expired. Thank you, Chairwoman Waters, and I yield back.

Chairwoman WATERS. You are so welcome. And if it would make you happy, I wouldn't hesitate to call this a Republican-Democratic committee, if you would give us a vote on housing, okay?

Mr. ROSE. Thank you.

Chairwoman WATERS. The gentleman from Florida, Mr. Lawson, is now recognized for 5 minutes.

Mr. LAWSON. Thank you, Madam Chairwoman, and I would like to again welcome everyone to the committee. One of the things that I was thinking about is back in, I think it was 1972, when I was trying to get a house for the very first time. I owned a house by 2015, and so, I became an FHA borrower. But I noticed today that FHA is disproportionately the way that people of color sometimes go out and borrow money for housing. I never had a competitive disadvantage in the housing market. The share of FHA insurance mortgages have failed now to around about 18 percent, and it looks like here, basically in 2020 and to 2021, they continue to downward trend towards a lower level, I will say, up until about 2012.

If the present trend of increased home purchases continue, as projected, how could sellers be encouraged to conduct business with the FHA barriers when the cash incentivize and offers above the asking price? And this is to the whole panel.

Ms. POPE. Thank you so much for that question. You are right that sellers can take offers as cash buyers. We can't steer them. What we can do, as real estate practitioners, is at least educate your homeowners, and your sellers about the different type of financing. Sometimes, cash is not the right way to go. Sometimes, it is a better way to finance because you get more money. Sometimes, the cash borrowers are charging less than more because you think you can close in 7 or 10 days. A lot of times we find out that a couple of weeks later, you could have given that homeowner a better opportunity to buy a home. I would suggest that real estate agents begin educating and educating their sellers on the different options and why it is important for homeownership.

Mr. LAWSON. Okay. Would anyone else on the panel would like to respond?

Mr. CALHOUN. I will add, FHA can be more user-friendly. It has been constrained, as you know, in that it relies totally on appropriated funds for its operations, and it has historically been underfunded. It has played catch-up recently, thankfully, through appropriations over the last few years to upgrade its technology. But FHA needs to operate with the same resources that other lending options do so that they are equally competitive. And right now they are very much still resource-constrained, which makes them less user-friendly for both borrowers and sellers.

Ms. CHOI. I would just like to add that one of the things that we do have to think about, and I think this also relates to the last question about why White households are more likely to have the rich uncle in the first place, is that this is an outcome of many, many of the prior policies that have been in place in this country. The only way to reverse that trend is actually to lift up those poor people who have been previously discriminated against in the market. And just leaving alone in the market would not solve the racial disparities, as we have seen multiple times in a year. We have seen that the racial disparities have increased over time, and then the Black households were disproportionately impacted during the Great Recession. They have lost a huge amount of wealth in the market.

And one of the reasons is because they have been a target of predatory lending practices and subprime loans, which made a huge impact on their wealth. The data shows and a lot of academic research shows that these subprime loans and some predatory lending practices were more prevalent in the private sector. So, I don't think the argument of blaming the government on every issue actually makes sense, and I don't think it is actually the core reason that we are seeing the racial disparities that we are seeing in the housing market right now.

Mr. LAWSON. And I might not be able to get into the next question, but I had a townhouse, and recently, I got all these calls from outside people saying that they would like to buy my townhouse, and that they had the most competitive offer that they can give me. Those calls come in all the time, but I don't guess there is anything that we can do about that, because that really affects the market, whether it is a townhouse or another rental Since my time has run out, Madam Chairwoman, I will yield back.

Chairwoman WATERS. Thank you. The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Madam Chairwoman, and I want to thank all of our witnesses for being here today.

Yesterday, during an Oversight Subcommittee hearing where Democrats attempted to create scapegoats for their left-wing policies ruining the housing market, one of the Democrat witnesses advocated for—this was great—a government takeover of all private property and housing. "Yes," or "no," please from the witnesses. Does anyone on this panel believe that the government should own and operate all housing and property within the United States?

Mr. CHANDAN. No.

Mr. MICHEL. No.

Mr. TIMMONS. Let's just make it easy. Does anybody say yes? Is there one yes? Can anybody entertain me? Okay. There are no yeses. Okay. This same witness for the Democrats also advocated during the pandemic that renters and homeowners should participate in a, "rent and mortgage strike," and withhold payments due to their landlords or lenders, whether they can afford to pay them or not. So, I am going to make this really specific. Do any of the panelists believe that during the pandemic if someone did not lose their job, if they were not under financial hardship, that it would be appropriate for them to go on a rent or a mortgage strike? Do you think you have to pay your bills if you can? You might want to say that—

Mr. MICHEL. You should pay your bills if you can.

Mr. TIMMONS. Okay. Great, thank you. It seems that the current Majority's plan to address rising mortgage and rent costs is just to throw more and more money at the problem rather than addressing the root causes driving these price increases. The Federal Government has been heavily subsidizing housing for decades, with very little to show for it. In fact, homeownership rates among Black families have actually decreased since the Fair Housing Act passed in 1968. Yet my colleagues across the aisle, their plan is just more of the same. Throwing money at the problem as if demand is the issue in the housing market, when we all know the lack of supply

is what has long been driving increased costs and finding a home, whether that is to rent or to buy.

Just last week, this committee marked up the Chair's Downpayment Toward Equity Act on a party line vote. This bill would give individuals making over $200,000, which is more than any of us make as Members of Congress, almost $100,000 grants for home purchases. Putting aside what a terrible idea that is, Mr. Michel, how would the housing market respond to this type of grant program were it to become law?

Mr. MICHEL. Again, it is the same sort of phenomenon where you can look at a major drop in interest rates. What has happened over time is that decrease has been capitalized in home prices, so when the interest rate drops, the monthly payment drops. It is the same sort of effect. You would expect that to be capitalized in home prices in a relatively short period of time, maybe a little bit longer than the interest rate. Sellers would recognize that somebody is already coming to the table on a regular basis with that first, say, $50,000 or $100,000 covered. Therefore, you know that you can increase the price. That is going to get capitalized in prices.

Mr. TIMMONS. You kind of answered it, but what would the inflationary impact be? Would it go up?

Mr. MICHEL. Up, yes, that would be the direction, up.

Mr. TIMMONS. In short, the Chair's bill would make inflation even worse than it already is. Mr. Michel, could you explain to us how housing costs factor into the Core Price Index?

Mr. MICHEL. Yes. It is a shelter-based service sort of price where you have rental prices incorporated into it, and then for homeowners, it is a rental equivalent. So, it is based on the value of homes, and those also affect rents. And then the service that you get out of that component of your shelter is calculated to save the statistic part with a lag. It goes into the CPI, and it becomes a part of the index, and it is done with a fairly substantial lag. So, we are probably going to see an elevated shelter component of the CPI for at least another year, no matter what.

Mr. TIMMONS. Okay. Is it fair to say that this down payment grant program would directly counteract the actions being taken by the Fed to lower inflation?

Mr. MICHEL. Yes, and that it would continue to put upward pressure on the CPI through that housing component, yes.

Mr. TIMMONS. Thank you. It is obvious that we need to be focused on increasing the supply of housing rather than pushing supply-side subsidies when demand is already sky high. Especially throughout the Sunbelt, like in my State of South Carolina, we need more homes, not more subsidies. Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much. The gentlewoman from Massachusetts, Ms. Pressley, who is also the Vice Chair of our Subcommittee on Consumer Protection and Financial Institutions, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you, Madam Chairwoman, first and foremost, for your leadership and for the class, decorum, and fairness that you exhibit every day in this role.

Housing is a fundamental human right, yet across the country and in my district, the Massachusetts 7th, millions of people do not

have access to a safe, decent, and affordable place to call home. For decades, Black families have been locked out of homeownership opportunities due to discriminatory lending. And now, private-equity-backed institutional landlords have pushed this dream even further out of reach by gobbling up single-family homes and worsening the housing crisis across this country.

Ms. Pope, the 5 largest single-family rental companies own almost 300,000 homes. What are the consequences when institutional investors purchase these homes in bulk, often in cash, and how are they worsening housing affordability and forcing would-be homebuyers into the rental market?

Ms. POPE. Thank you for the question. Let me say again, when lenders hesitate to lend to low-balance mortgages, that means lower properties in neighborhoods, buyers can't purchase when they are hesitating, and what that does is it opens up the doors, as I stated earlier, for investors who pay cash. They buy the properties in bulk, for less money, then there is wholesaling. It displaces the residents, and it creates low inventory for the neighborhood.

When you have these cash buyers, the cash investors, and a homeowner can't have that American Dream because they are bought out of a cash deal, it makes it very difficult. Then, they have to go back and try to rebid on properties. That makes it harder because now it means there are many buyers who are pricing higher than is normal, which pushes them out of the market. It brings them into a mode where they have to rent, because many of them are in a situation where the rental market is getting ready or their rents are getting ready to either increase or is getting ready to ask, so they have to re-sign that lease for another year. So, it does stop a lot of prospective Black homeowners from buying homes.

Ms. PRESSLEY. Thank you. And, Ms. Pope, most of these homes that these institutional investors are buying up are in predominately Black neighborhoods. So, yes or no, based on what you were saying, is the influx of institutional investors in cash buyers driving up home prices in predominately Black communities?

Ms. POPE. Yes.

Ms. PRESSLEY. And homebuyers, Ms. Pope, are not the only ones impacted. Are these communities seeing rents go up as well?

Ms. POPE. Absolutely.

Ms. PRESSLEY. And, Ms. Pope, would you say that institutional investors are accelerating gentrification of communities of color and displacing low-income residents?

Ms. POPE. Yes.

Ms. PRESSLEY. Thank you. That is exactly what I have been hearing from people in Cities across my district, like Cambridge and Boston, where rents have risen by 30 percent and 27 percent higher than last year, respectively. This is unsustainable, and our most-vulnerable constituents are drowning financially because they cannot afford these rent increases. This hearing is about homeownership, but right now, homeownership isn't even feasible for many people in my district who are being squeezed by predatory rent hikes imposed by institutional investors.

Mr. Calhoun, you mentioned in your testimony that broad student debt cancellation would help address the racial homeownership gap. I agree. What other policies will provide relief to tenants facing unsustainable rent increases?

Mr. CALHOUN. Again, a couple of things. We have to increase the supply of affordable rental housing as well, and then one of the provisions that expired in January, the Children's Tax Credit. One of the things we talked about is homeownership producing wealth, and it is also a manifestation of people's existing wealth and existing financial security. Another thing is, actually, there is recent Federal Reserve research which shows that expansion of Medicaid increases not just general financial security, but homeownership, again, what you have talked about, putting people in a stable financial position so that they can either securely rent or purchase a home.

And if I may, I would like to give a shout out to two programs that we need to lift up, that have come out of Massachusetts. That is where one of the largest first-generation targeting programs was implemented. That was the basis for Chairwoman Waters' provision. And it also has one of the largest Statewide income loss insurance programs, which, again, we need those kinds of new approaches to provide efficient ways to address these housing problems.

Ms. PRESSLEY. Thank you. I was trying not to be too boastful, but I appreciate your lifting up those successful models. And, again, I thank you, Madam Chairwoman, once again for your steadfast leadership.

Chairwoman WATERS. Thank you very much. The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you, Madam Chairwoman. I appreciate you calling today's hearing. I have been listening along as we go today, and I continue to hear policies by those on the left that actually exacerbate inflation. People are getting clobbered. I was recently at a gas station in Beloit, Wisconsin, talking to a couple who were frustrated. They could barely afford to fill up their car with gas. They are frustrated with the grocery bills. Their rents are increasing. They are just getting clobbered, and they are getting clobbered because costs are going up.

And what I continue to hear is all sorts of excuses as to why costs are going up rather than looking at the real problem, and the real problem is that we have runaway spending in Washington, D.C. We have an energy policy that is on its head. We have a contraction of supply, particularly in energy. We have to unleash American energy because people are getting hurt every day by Democratic policies.

And so, I listened to what we are doing. I listened to where we were in the markup. We had this debate. We looked at billions of new dollars of spending, which would accelerate inflation. We just heard a proposal again. We saw it in the testimony about wiping away student debt, which of course, really isn't wiped away. It just shifts the burden to who pays for it, and it shifts it into more debt that all Americans will pay for, to the benefit of some of the wealthiest Americans, people who received graduate degrees, doc-

tors, attorneys. That is who it helps. And what would it do? It would accelerate inflation.

Dr. Michel, as we listen to this debate today and we are looking for real, substantive solutions, is the challenge on the demand side that Congress should be subsidizing the demand side, or is the problem on the supply side that we should be looking and focusing in on how do we sustainably increase the housing supply? And how do we consider that in this inflationary environment that the outgoing Majority has put us in?

Mr. MICHEL. Sure. The mistake with the supply argument is, well, we just need more houses, and that is a mistake because it is looking at supply without talking about demand. You should be talking about supply relative to demand. We know supply is relatively inelastic and fixed in the always-constrained housing supply markets. Therefore, the worst thing to possibly do is to constantly increase demand, which is exactly what Federal policy does. You are only going to get one result from doing that.

And then, to go to the sort of underlying issue, I think this is a great example that we just heard. If it is true that private equity firms are predominantly buying up foreclosed properties in poor neighborhoods, then the problem to address is the poverty, not the demand-side loan and lending ability of all of these government agencies. That is the way to address that.

Mr. STEIL. Let's dive in on kind of what would happen if we accelerated dramatic new Federal Government spending programs as we think about the inflationary pressures that we are feeling here in the United States. We marked up a bill that would have spent about $100 billion or so. What would be the economic impact of pumping in another $100 billion into the U.S. economy that, at the start of the Biden Administration, Democrats on a party line vote passed $1.9 trillion in new government spending already, when we took the fire that has been started, and we threw on $5 gallon of gasoline onto it?

Mr. MICHEL. You are going to get more inflation without clearing the supply problems. If you, for example said, okay, from now on, everybody gets whatever loan they want, well, they can go out and do whatever they want. That is fine. Everybody is going to be bidding on the same amount of stuff, the same amount of real resource constraints.

Mr. STEIL. If we pump in demand-side subsidies, to make it really clear, what happens to prices?

Mr. MICHEL. They go up.

Mr. STEIL. So, prices go up. Does it make it more affordable or less affordable to a family in Wisconsin?

Mr. MICHEL. It makes it less affordable.

Mr. STEIL. The Democratic policies are pumping a whole bunch more money which actually, at the end of the day, is going to hurt the people that we hear them claiming to assist. Is that accurate to you?

Mr. MICHEL. That is accurate, yes.

Mr. STEIL. It is the same story we see on energy policy. It is an attempt to contract supply on the energy side so that we don't unleash American energy, so we jack up the prices. We have some sort of transformational change, and it is clobbering people every

single day. Then, we come over to the housing side where people are getting pinched by higher rents and unaffordable mortgages, and we see the Federal Reserve having to raise interest rates because the Democrats are awash in runaway spending. As interest rates go up, it is even harder to get into a new home. It is harder to save for your down payment because of the inflationary pressure we are in. The hypocrisy is thick.

Dr. Michel, I appreciate you being here. Cognizant of the time, Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Massachusetts, Mr. Lynch, who is also the Chair of our Task Force on Financial Technology, is now recognized for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman, and thank you for having this hearing. This is probably one of the most pernicious problems that I deal with in our district. I represent the other half of Boston that Ms. Pressley does not represent, and we are really struggling with housing costs all across my district.

Dr. Chandan, I noticed, looking at the housing data, that the applications for mortgages have dropped off considerably, and that is understandable with the rise in interest rates. But I also noticed that the number of people applying for an adjustable mortgage has basically doubled. And I was here in 2008 on this committee, and I saw what happened when adjustable mortgages reset and people got stuck. The valuation of their home was going down, and yet their payments were going up, and we ended up with a housing crisis. Are there any protections that are available now, under today's circumstances, that were not available then that might prevent us from going into a similar tailspin?

Mr. CHANDAN. Thank you for the question, Congressman. I think, as compared to the housing boom and bust and financial crisis, there are a number of changes that have been made in the market. The adjustable rate mortgages of today do not have the same risk profile as those made during the housing boom. We don't see teaser rates. We don't see a rapid succession of resets. We don't see penalties on a refinancing into a permanent mortgage. That being said, adjustable rate mortgages ultimately do reset, so it is important that borrowers, particularly aspirational borrowers who may be income-constrained, who are reaching for that housing opportunity, that when they are taking an adjustable rate mortgage, they are mindful of and are well-informed of the potential risks that those products present.

Mr. LYNCH. I appreciate that. I do see there are quite a few products out there that are 7-year resets, so the buyer has some lead time there. And I think there is an open question of where we will be at with interest rates in 7 years, and the value of their home could be exceedingly greater at that point, so they might have a lot more equity and they could deal with it.

Mr. Calhoun, is there a concern out there? Is there a reason for me to be concerned about the increase in the number of adjustable mortgages? This has doubled pretty quickly. In a matter of weeks, it spiked. So, is there a concern out there? Is there a reason for concern out there?

Mr. CALHOUN. Thank you for the question. There is reason to watch it carefully. We are in a much different world than the mort-

gages in 2008, which actually had built-in increases even if market rates did not increase. But most borrowers have trouble with shocks to their mortgage payments. I think perhaps an even bigger risk that we face right now is there is heavy marketing of cash-out refinances today, and they come with the double whammy of not only are you doing that with a high interest rate, you are typically giving up a much lower fixed rate to get that. And the regulators in our housing agencies need to be very vigilant to protect consumers from that kind of predatory lender loan flipping. I think that is the big risk that we face out there. The Consumer Financial Protection Bureau (CFPB) has done a good job of keeping protections on adjustable rate mortgages, but, again, this is a place where consumers have a hard time understanding the impact of the increases and being able to absorb those shocks. Thank you for keeping an eye on this.

Mr. LYNCH. Thank you. Ms. Pope, do you have anything you want to add on that? I know you are keenly aware of this problem. I just would like to get your perspective.

Ms. POPE. Yes, thank you. I would like to add that when the homebuyers or homeowners are looking to raise their higher price, our best advice, especially coming from the National Association of Real Estate Brokers, is to look to a housing counselor. It is a free service. It educates them. It provides the understanding of these mortgages so that they are not going into these default loans. We do have an affiliate, the Housing Counseling Agency, NID, that is a nonprofit, and we look to them to do these so that the homeowners can understand what they are getting. That is what I would add to Mr. Calhoun's statement. Thank you.

Mr. LYNCH. Thank you, Ms. Pope. Madam Chairwoman, I yield back. Thank you very much again for having this hearing.

Chairwoman WATERS. Thank you very much. The gentleman from South Carolina, Mr. Norman, is now recognized for 5 minutes.

[No response.]

Chairwoman WATERS. I know that Mr. Norman had some problems early on and he could not be on the screen, and evidently those problems still exist. We will just keep going, and we will try and get him up before the end of the hearing.

The gentlewoman from North Carolina, Ms. Adams, is now recognized for 5 minutes.

Ms. ADAMS. Thank you. Thank you, Chairwoman Waters, and Ranking Member McHenry. This is a very important hearing, and I certainly appreciate you having it. And thank you to our witnesses for your testimony.

Mr. Calhoun, in your testimony you cite the affordable housing shortage as contributing to the issues that renters and buyers are facing. And just yesterday, our committee held a hearing on the single-family rental industry and the role they played in snapping up starter-price homes, further constricting the already-tight market. The homes that these firms are purchasing are, not surprisingly, concentrated in predominantly Black and Brown neighborhoods. And the same is true here in my district in Charlotte-Mecklenburg, North Carolina, where investors are willing to pay well above market prices in cash for homes and are acting as a gentrifying force. Can you discuss why addressing the housing

shortage is imperative to improving housing security and homeownership opportunities for all Americans?

Mr. CALHOUN. Thank you for the question, Representative. Absolutely, particularly, as others have mentioned, in the starter-home market is where we are feeling the most crunch for supply of available homes, and that is where we are seeing a lot of these houses being picked up. The first thing we should do is our Federal housing agencies as well as the GSEs should stop their auction sales of distressed loans in Real Estate Owned (REO) properties, and should instead put them back into individual homeownership, because when they auction them, even with some set-aside programs to nonprofits, overwhelmingly, these go to institutional investors, who are the ones who are able to afford to buy a whole pool of loans, and that is where a lot of them get snapped up. They also were buying individual homes, as you described, and that is a concern. And we need to both provide more affordable housing and not see it unnecessarily siphoned away out of the homeownership market in the affordable rental market.

Ms. ADAMS. Okay. That is what we can do to ensure that we don't see this transfer of housing and wealth from America's families to Wall Street. That is your opinion?

Mr. CALHOUN. That would be a big step in at least slowing that down.

Ms. ADAMS. Thank you, sir. I am proud to be the lead sponsor of H.R. 7078, the LIFELINE Act, along with Representative Rouzer, and Senators Leahy and Collins, a bill that would use already-appropriated dollars to support lots of funding housing development, and would free up over $8 billion in State and local Fiscal Recovery Fund dollars for affordable housing. We have over 100 national and local groups endorsing the bill, including the League of Cities, the Conference of Mayors, the National Association of Counties, and the National Association of Home Builders, so I do want to encourage all of my colleagues to sign on to this commonsense legislation.

And, Dr. Chandan, in your testimony, you concluded that we need a multifaceted approach to enhancing the affordable housing supply. Can you briefly discuss how increasing the housing supply, be it through public housing investments, or more Low-Income Housing Tax Credits (LIHTC) Fund housing, could immediately blunt the negative impacts to rentals that we have observed?

[No response.]

Ms. ADAMS. I think there is some kind of problem, Madam Chairwoman, with the—

Chairwoman WATERS. Where is that sound coming from? Do we have Financial Services staff?

Mr. CALHOUN. If it is helpful, Representative Adams, I can address that while he is getting—

Ms. ADAMS. Okay, Mr. Calhoun, would you?

Mr. CALHOUN. Yes.

Chairwoman WATERS. The sound is gone. Were you responding to Ms. Adams, Mr. Calhoun?

Mr. CALHOUN. Yes.

Chairwoman WATERS. Please, go right ahead.

Mr. CALHOUN. Your bill, H.R. 7078, is a great way to leverage and expand one of the most successful programs, the LIHTC, for adding to sustainable and affordable rental properties. And allowing it to use the Fiscal Recovery Funds (FSF) is a very efficient way to do that. And we certainly join the endorsement of that bill.

Ms. ADAMS. Thank you. Dr. Chandan, we have 30 seconds. Did you want to respond?

Mr. CHANDAN. Yes, if you are able to hear me, I think that Low-Income Housing Tax Credits is probably the most effective program we have in this country for addressing the housing needs of our most income-constrained families. And expansions of that program that would allow for increases in preservation of the low-income housing supply are going to be absolutely critical. It is not a surprise to me that there is broad support for this program.

Ms. ADAMS. Great. Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from South Carolina, Mr. Norman, is now recognized for 5 minutes.

[No response.]

Chairwoman WATERS. Is Mr. Norman back?

Mr. NORMAN. Madam Chairwoman, can you hear me?

Chairwoman WATERS. Yes.

Mr. NORMAN. Okay. How about see me?

Chairwoman WATERS. Okay. You are recognized for 5 minutes.

Mr. NORMAN. Okay. Thank you so much. First of all, thank you for this hearing. And as goes housing, so goes our economy. I think most economists recognize that. I have been building houses, both commercially and residentially, for over 45 years, and, quite frankly, I have heard a lot of people with answers. The problem we are having is very simple: gas and oil prices. The truck that brought lumber to the house today was not powered by solar panels. It was not powered by wind. It was powered by natural gas. If this committee really wanted to get to the to the bottom of this, high gas prices affect over 137 different subcontractors within the housing industry, like the sheetrock hangers, the people who dig the footings, the painters, and the architects. And to have a 106-percent increase in gas, is what is driving the prices up.

The second issue is not being able to get workers. This Administration paying people not to work is a severe problem. Third, supplies. I tried to order windows today, a simple window. Guess what kind of time frame we are talking about? Seventeen months. Seventeen months for a simple window. For those of you who have an ear with this Administration, beg them to let us start producing our own oil and gas and let's get away from buying it from oil countries like OPEC.

I have heard a lot of the blame game going around. I have heard the theory that algorithms are at fault. I don't understand that logic. I have heard the opinion that appraisers are a problem, and that they appraise minority homes less. For those of you who have never done this, the banks, the lenders determine who the appraisers are. The prices don't know if they go into a house of a White person, a Black person, the red person. They don't know that. They appraise for what they see, and the fact that I think Ms. Pope said,

there needs to be more Black appraisers. Appraisers are needed everywhere, so it doesn't matter the color of your skin.

I have heard the theory that institutional buyers reduce homeownership and that somehow they are to blame. Institutional buyers buy from that mom and dad who have owned the home for years, that young couple who have maybe owned a home for years and want to sell. Now, tell them that institutional investors are bad. They are just doing what they do best, which is invest in the capitalistic system, if they help the housing market. I have heard the question, why can't the government get involved to make developers build on bigger lots? The very simple answer is people don't want big lots. The reason people rent in a lot of cases is because they don't want the headaches of owning a home, of keeping it up, or paying the taxes.

So, the blame game is directly the responsibility of this Administration. Under the Trump Administration, homeownership for everyone was at an all-time high. And, quite frankly, if you want to really get the job done, you really need to talk to whomever is running this country and tell them we have to get the oil and natural gas back, and the blame game has to stop. Putin didn't cause the gas prices to go up. Russia didn't cause it. Santa Claus didn't cause it. It is this Administration and their lame policies that are killing this country. Inflation is a 100-percent tax on every American regardless of the color of your skin.

And let me just say this, and I appreciate this panel, but I would suggest having people who have actually been in the business. These armchair quarterbacks who have never done it, it is like going to a doctor who has never operated. He has read about it, but he has never operated. Or, would you get on a plane with a pilot who has never flown a plane? He has read about it. I would suggest if you don't really want to get to the bottom, get people who have experienced the housing at its basic level, and that will get the problem solved.

And I would just ask that we have more hearings in person. I apologize for the technical difficulties. And Madam Chairwoman, I yield back the balance of my time. Thank you so much.

Chairwoman WATERS. Thank you very much. Yes, we do decide who our witnesses are, and it's the prerogative of the Chair and my staff. Thank you.

The gentlewoman from Michigan, Ms. Tlaib, is now recognized for 5 minutes.

Ms. TLAIB. Thank you so much. Ms. Pope, before the gas prices went up, did we have a housing crisis?

Ms. POPE. Absolutely, yes.

Ms. TLAIB. Yes. How about you, Mr. Calhoun? Did we have a housing crisis?

Mr. CALHOUN. We have had a housing crisis and a shortage of production of housing. The National Association of Home Builders has described the shortage as going back at least 6 to 8 years.

Ms. TLAIB. That is right. I think it is important to make sure we push up against some of the gaslighting that continues to happen, and understand this housing crisis is not going anywhere. It has nothing connected to the cost of living, if anything, corporate greed and price gouging by many of the political corporate donors that

benefit from the high price even though the barrel of gas is going down, the prices continue to go up. Chairwoman Waters, I cannot thank you enough. You taught me that housing is infrastructure, and that housing is a human right. And I know during this pandemic, cash buyers, as we all know, have intensified bidding wars, driven up the housing prices and pushed many first-time cash-strapped homebuyers out of the running, out of being able to have their own homes.

According to Redfin, cash buyers were 4 times more likely to win a bidding war against buyers with mortgage financing in 2021, as many of you have already testified to. I know the Urban Institute also found that 3- and 4-bedroom homes priced at or below $100,000 are all purchased by all-cash buyers and investors. This is very important to communities like mine. This disproportionately affected communities that I represented. More than half of the homes in my district right now all are valued less than $100,000, and the Urban Institute has found that it is actually more difficult for borrowers to get an FHA mortgage for a home valued at less than $100,000 than for a loan larger than $100,000. Why?

We know this doesn't make any sense and that countless homebuyers, particularly first-time homebuyers, are being locked out of being able to get homeownership, which really is a connection to economic stability and pulling people out of poverty. This has impacted communities like mine, Detroit, which is an over 80-percent Black community. This has resulted in Michigan actually losing more Black homeownership than any other State in the country.

This is so important. Mr. Calhoun, FHA borrowers are overwhelmingly first-time homebuyers, as you know, and it impacts people like in my community who, on average, have less financial flexibility and lower down payments. How can we get the FHA financing improved? How can we make competitive financing options?

Mr. CALHOUN. Thank you for the question. I would say, first of all, we have great leadership at HUD with Secretary Fudge, and great leadership with the Center for Responsible Lending, Julia Gordon at FHA, who was totally committed in her career to doing this. A bunch of it is just playing resources at FHA. Again, by statute, they don't get to use any of the FHA premiums for operations, that is, to insulate the reserve fund. But that means they are totally dependent on fund appropriations and are tremendously underfunded compared to comparable private enterprises. First of all, they need those resources, but they do have a number of initiatives underway. They were able, thanks to some special appropriations, to upgrade their technology, which saved them in the crisis.

Ms. TLAIB. Yes. And I do have, H.R. 1532, which is in the Senate, that actually directs HUD to be able—and there is no financial impact on this—to look at best practices for FHA to be able to look at these small-dollar mortgages.

Professor Chandan, should we expect this trend to continue, going upward? What can the Federal Government do, in your opinion, to ensure that homes get into the hands of individual homebuyers instead of these private equity firms, and LLCs, and others that have been swallowing them?

Mr. CHANDAN. Sure. I think that the key issue emerging from the data that we have available is that while there is a pool of buyers that are positioning homes for the rental market that would otherwise be available for ownership, it is a very mixed group, and that we should not conflate the larger pool with that very large survey of private equity investors that, in fact, accounts for only about 2½ percent of the buyers.

What I would suggest is that when we are thinking about the rental supply in this country, ensuring that we have a diverse supply of rental opportunities, whether it be urban apartments, whether it be single-family homes, where someone wants the benefit of being able to live in that home, but it is also making the tradeoff. They don't want the obligations of homeownership, but they are willing to trade off the benefits that come with ownership as well and making that in an informed way addressing the supply issues. When we look at what is being built, the average home under construction today is 2,500 square feet. That is not within reach of many aspirational buyers. Addressing many of the challenges we face at the local level to ensure that we are able to build smaller homes that are within reach of some of those otherwise single-family renters is critical here.

Ms. TLAIB. Thank you so much, and I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you, Madam Chairwoman. Are you able to hear me? I have had some technology problems.

Chairwoman WATERS. Yes. We can hear you.

Ms. DEAN. Wonderful. Thank you, and thank you for hosting this important hearing.

Dr. Choi, I would like to start with you. I was struck by your testimony that unless we take action, you said the Black/White homeownership gap will remain unchanged for 20 years. Obviously, we cannot sit back and do nothing as policymakers. We have an obligation to try to correct that and close the gap. My district is Montgomery in Berks County, suburban Philadelphia. In my district, White homeownership is at a 76-percent rate, while Black homeownership is at 45, almost 46 percent, according to the National Association of REALTORS, putting the Black/White homeownership gap at over 30 percent, which is simply unacceptable.

We need to take action to address this tremendous disparity. We know how important homeownership is for families to build wealth. It is not just about having a place to live. It is about being able to help your kids pay for college, and to retire with dignity. One of the policy solutions you put forward to address the homeownership gap is targeted down payment assistance programs. So, I am proud to be a co-sponsor of H.R. 4495, the Downpayment Toward Equity Act, which authorizes a new HUD grant program to assist first-time, first-generation homebuyers in purchasing a home. I would love to see people in my district taking advantage of it.

Dr. Choi, can you talk about how targeted down payment assistance programs, such as the one proposed by H.R. 4495, would address the racial wealth gap?

Ms. CHOI. Yes. Thank you so much for the question. The existing programs—a lot of them have income-only criteria. And then, we do find that if we actually impose the first-generation criteria on top of income, that actually expands the share of Black and Latino households who can take advantage of those kinds of programs.

I do acknowledge that in this current market where the home prices are really heated up and the supply is restricted, a lot of people, even with down payment assistance programs, are really finding it difficult to become homeowners because they are not competitive enough. So, I do think this policy will have a longer-term impact because it is better targeted, but I don't think it will have an immediate outcome. But in the long term, it is one of the policies that can really, really kind of make a change in better targeting Black and Latino households who have been discriminated against in the housing market for a long time.

And I don't think if we kind of do it a very clever way of not trying to distribute money all at the same time, it wouldn't really increase the inflation pressures. If we actually do it in a very clever way and think for the long term, then it can actually do a better job of targeting the people who do not have a rich uncle that can support them getting into the housing market and create a more equal society. I think this could also have an impact on improving the economic health and resilience of our vulnerable communities, because when the pandemic hits and when the inflation goes up, it is the renters who are hit harder because their rent prices go up very fast. But if you are a homeowner, you are actually secured in paying the amount of mortgage payments over a long period of time, so you are less volatile to the economic shocks.

So, although there could be some preferences in accessing homeownership, if a person is disadvantaged just because they don't have wealthy parents, we do have to fix that issue. And I do believe that the target of a down payment assistance program is a long-term good policy. Thank you.

Ms. DEAN. Thank you, Dr. Choi. Ms. Pope, in the remaining time that I have, I was struck by your testimony on this issue. You stated that rising interest rates along with rising home prices and a limited housing inventory make a perfect storm to suffocate Blacks out of the housing market. I believe you are a practitioner, so please correct me if I am wrong there. Can you speak to this? What can we do to mitigate the effects of the current market conditions, particularly for minority households, and from your practice, from your work, what do you hear about preferences and the desire to be homeowners instead of renters?

Ms. POPE. Thank you. I will be quick. The down payment programs are very important for Black Americans as we try to get into homeownership. Also, we are dealing with the elimination of low-level pricing adjustments. That has been a challenge with the credit scoring because the percentage points is pulling us out of that. Also, with the appraisals we mentioned earlier, we are on the front lines of appraisals. There have been biases and there has been documentation as it pertains to the appraisals and the biases that happen within the Black industry as well as what I like to say is the student loans. If we can bring that to a level where it is more affordable, Blacks would be able to buy a home.

Ms. DEAN. Thank you. I see my time is up, so I yield back.

Chairwoman WATERS. Thank you very much. The gentlewoman from Georgia, Ms. Williams, who is also the Vice Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Ms. WILLIAMS OF GEORGIA. Thank you, Chairwoman Waters, for first holding this very critical conversation as it means so much to me and my constituents in Atlanta and the rest of the nation, because my hometown, Atlanta, unfortunately leads the nation in the racial wealth gap, and, unsurprisingly, it also leads the nation in the percentage of homes bought by investors.

Homeownership is tied directly to the ability to build generational wealth. When individual homeowners are locked out of the market by investor purchases, they have fewer opportunities to buy a home and build the type of generational wealth that will help close the racial wealth gap not only in Atlanta, but across the country.

So, Dr. Choi, listening to your testimony and the conversation that you were just having with Representative Dean, I am wondering what specific investments can we make to put individual homebuyers on more equal footing with private equity investors?

Ms. CHOI. Yes. That is a really great question, and I think one of the things I would like to also point out about the impact of institutional investors is that there is various research, but then particularly in Atlanta, there has been recent research because institutional investors are so prevalent. So nationally, they might not have a large impact. But in Atlanta specifically, we do find that an increase in institutional investors has affected renters, and especially Black renters, to access homeownership.

Ms. WILLIAMS OF GEORGIA. Unfortunately, Atlanta is also at the top of that list, Dr. Choi.

Ms. CHOI. I guess so, yes. I think the data is really concerning. Further, I think we talked a lot about the down payment assistance program. I know that some lenders and also GSEs are considering special purpose credit programs (SPCPs) where they can direct access to some of the capital to the communities or people of color who have been previously discriminated. I think SPCPs are another good way to bridge the racial equity gap in this country.

Another thing that I think is important is thinking about including rental payment data into mortgage underwriting. One of the things that we also see from the data is that a greater share of Black and Hispanic households do not have FICO scores, or they have lower FICO scores. And if you actually include rental payment history data into mortgage underwriting, our research does show evidence that this does disproportionately help households of color. I know that there is some movement in this space, but we also encourage more consideration of including rental payments in mortgage underwriting.

Ms. WILLIAMS OF GEORGIA. Thank you, Dr. Choi, and that is something that we are absolutely working on under the leadership of Chairwoman Waters in this committee. I just had an amendment last week that will do just that, allow consumers to opt into including their rental history in their credit scores. Also, during the pandemic, the percentage of home sales to first-time homebuyers

has been much lower than the 5-year average percentage. So, Dr. Choi, what does this mean for long-term homeownership trends and our ability going forward to address inequities in homeownership?

Ms. CHOI. Yes. I think homeownership is very unique because it is kind of like a way to build long-term wealth. And what our research shows is that if you delay purchasing your first home, you actually have lower wealth at the age of retirement, so the timing of buying your first home—the age is very important. And we know that Black households and Black people are less likely to buy homes earlier in their lives. That is one of the reasons that it is not just access to homeownership; it is the age of accessing homeownership and also sustaining homeownership. All of that factors into the wealth disparities. And as we mentioned again and again in this committee, homeownership and wealth transfers from parents to children, so this is not just one family issue. It actually is creating intergenerational wealth inequality, and that is a key reason that we have persistent racial disparities in this country.

Ms. WILLIAMS OF GEORGIA. Thank you so much, Dr. Choi. Increasing homeownership, especially among Black homebuyers, is not guaranteed without meaningful policy intervention. So, Dr. Choi, your organization estimates that homeownership could decline by 2040, especially for people who look like me, if action is not taken. Can you explain how this projection was reached, and what steps can be taken to expand government-backed loans to first-time homebuyers, particularly Black borrows?

Ms. CHOI. Yes. One of the things that I also wanted to point out about this research is that this was done before the pandemic, so we didn't incorporate the impact of the pandemic, and if we actually do, there is a high likelihood that the numbers would look worse over time. So, we do see that every time there is an economic shock, it is actually the communities of colors that have been disproportionately harmed. The pandemic, and the Great Recession show some evidence that when their economic situation is negative, people of color are most impacted. We did our projections by looking at the past data. This is a projection of household formation and income, and all of those factored into access to homeownership. And then, we do find that also because, again, homeownership—oh, sorry.

Ms. WILLIAMS OF GEORGIA. Dr. Choi, unfortunately, I am out of time, but I was so intrigued by your research that I will be following up with additional questions.

Thank you, Madam Chairwoman, for hosting this hearing, and I yield back the zero time that I have remaining.

Chairwoman WATERS. Thank you very much. And I would like to thank our distinguished witnesses for their testimony today.

The Chair notes that some Members may have additional questions for these witnesses, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

And with that, again, I thank you so very much, and this hearing is adjourned.

[Whereupon, at 2:54 p.m., the hearing was adjourned.]

A P P E N D I X

June 29, 2022

Testimony of Michael D. Calhoun

President, Center for Responsible Lending

United States House of Representatives
Committee on Financial Services

"Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market"

June 29, 2022

I. Introduction

Good afternoon, Chairwoman Walters, Ranking Member McHenry, and Members of the Committee. Thank you for the opportunity to testify on the state of homeownership and the US housing market, which so profoundly affects American families and comprises nearly 20% of the United States' economy.

I am the President of the Center for Responsible Lending (CRL), a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is an affiliate of Self-Help, a community development lender headquartered in Durham, NC. Since 1980, Self-Help has provided over $7 billion in financing to 131,000 families, individuals and businesses under-served by traditional financial institutions. It helps drive economic development and strengthen communities by financing hundreds of homebuyers each year, as well as nonprofits, child-care centers, community health facilities, public charter schools, and residential and commercial real estate projects. Through its credit union network, Self-Help's two credit unions serve over 170,000 people in North Carolina, South Carolina, California, Illinois, Florida, and Wisconsin and offers a full range of financial products and services. Learn more at www.self-help.org and www.self-helpfcu.org.

In recent years, the federal government took measures to protect families' housing security from COVID-19 harm. However, increased house prices, rents and interest rates make it even harder today than pre-COVID for families to rent or buy a home in both rural and urban areas. These trends also have blocked progress on addressing America's huge racial homeownership and wealth gaps. As a result, housing stability and financial security continue to grow for those with higher incomes and wealth, while many families face dire prospects in today's housing market.

Today, I will first assess the housing policy response to COVID and then identify the work that is yet to be done on housing in response to COVID along with the lessons to be drawn going forward. Next, I will describe the state of housing affordability and ownership, including the major challenges we face. Finally, I will set out critical reforms required to advance equitable homeownership opportunities and housing security.

II. Federal Government's COVID-19 Response

There are three conclusions to be drawn from the federal government's response to COVID from a housing perspective. First, the government's fast and systemic response to help homeowners prevented the mass foreclosures initially feared. Second, by stopping avoidable tenant evictions, health and housing crises were averted along with long-term harm to families. Third, the government's actions protected families, the housing and housing finance markets, and the wider economy.

Congress enacted the critical *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act),[1] to both protect homeowners, renters, loan servicers and others from COVID financial disruption and to stabilize markets and the economy. The CARES Act succeeded on both counts.

Under the CARES Act, Fannie Mae and Freddie Mac, the Government-Sponsored Enterprises (GSEs), provided homeowners unable to make their mortgage payments with long-term forbearance and loan modification options. Missed mortgage payments could be deferred through deferral loan modifications. These work in two ways. First, mortgage payments that homeowners cannot make are added to the end of the first mortgage term or whenever the first loan is repaid. Second, no additional interest is charged to the borrowers, so the modification does not increase homeowners' monthly payments or total costs. Homeowners do not have to make up missed payments in a lump sum once forbearance ends or pay any more interest than if COVID had not struck. FHA provided similar loan modification using its partial claims process.

Even before the CARES Act, the GSEs, as directed by Federal Housing Finance Agency (FHFA), led the market in offering long-term forbearance for borrowers affected by COVID. Thanks to all these efforts mortgage payment delinquency is now at very low levels,[2] but homeowners exiting forbearance need assistance, including from expanded loan modification options described in section IV below.

The government also supported mortgage loan servicers during the COVID disruption. FHFA directed the GSEs to cover servicers' advancement of suspended mortgage payments to investors holding mortgage-backed securities. Maintaining these payments prevented severe financial strain accumulating on non-bank servicers and disruption to the mortgage market.

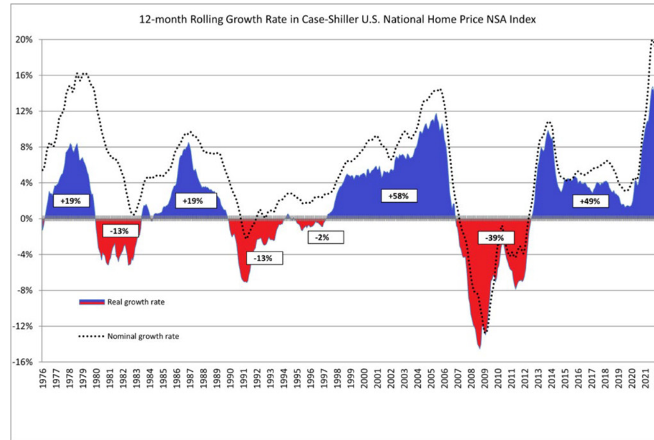
The CARES Act also helped tenants and their landlords with rental assistance to avoid mass evictions and maintain landlords' income. Families were also provided with income replacement support to ease their COVID burden, pay for necessities, and keep the economy from freezing.

III. Families' Housing Experiences in Recent Years and Today

Recent years have produced historic changes in the housing market, with COVID disruptions, house price appreciation, and shocking shortages in affordable properties to rent and buy. These trends have benefits and costs, but the benefits have disproportionately gone to the wealthy, while many working families and families of color fall further behind.

The Case-Schiller index tracks growth in house price appreciation. As the chart below shows, recent house price appreciation has been massive and comparable in size to that of the 2000s, with important differences in the dynamics that produced the growth.

[1] 15 U.S.C. § 9001 et seq.
[2] Connie Kim, *Mortgage delinquency rate falls to historic low*, Housing Wire (June 27, 2022), https://www.housingwire.com/articles/mortgage-delinquency-rate-falls-to-historic-low/.



While both the current and previous house price appreciation periods were heavily driven by additional credit fueling a housing price boom, expansive credit in the 2000s was due to unaffordable mortgages with teaser interest rates. Recently, it was historically low interest rates increasing home buyers' purchasing power. The difference is that homebuyers now have sustainable mortgages that are fully underwritten for ability to repay, as required by Dodd-Frank.

A persistent pattern in house prices, as shown in the chart, is that they move in cycles, with booms followed by corrections that return prices to the long-term trend. Unsustainable mortgages in the 2000s led to high foreclosure rates, ultimately reaching 10%. In contrast, foreclosure rates are now historically low due to sustainable mortgages and COVID support that protected jobs. Going forward, we are likely to see home price appreciation flatten as conditions normalize and real home prices return to their historic mean.

Rapid house price appreciation in recent years has created record levels of home equity.[3] This in turn has contributed to record levels of household wealth, at over $141 trillion.[4] However, these benefits are not shared equitably among American families. The distribution of wealth is skewed towards the wealthiest households at historic levels. Today, the top 1% have over 30% of total

[3] Andrew Martinez, *Borrowers have a record $11 trillion in tappable equity*, National Mortgage News (June 6, 2022), https://www.nationalmortgagenews.com/news/borrowers-have-a-record-11-trillion-in-tappable-equity.
[4] Board of Governors of the Federal Reserve System (U.S.), *Households; Net Worth*, retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/BOGZ1FL192090005Q.

wealth, and the top 10% hold nearly 70% of total wealth. In contrast, the bottom half of households have only 2.6% of the nation's wealth.[5]

Wealth disparities are reflected in homeownership rates, where large racial homeownership gaps persist, with Black households over 30 percentage points behind whites and Latino households 24 points behind.[6] This means that fewer Black and Latino families enjoy any house price appreciation. Those Black and Latino families who are homeowners attain far less home equity growth on average than whites due to owning less valuable houses.[7] Recent high house price appreciation has caused an overall greater concentration of wealth in America, and an increase in the racial wealth gap.

As the COVID-19 pandemic stretched on, the extraordinary measures taken by the Federal Reserve kept mortgage interest rates at record lows for many months. As a result, rate-term refinances dominated the mortgage market in 2020 and 2021, and millions of homeowners were able to complete a rate/term refinance to lower their monthly mortgage payments during a time of great financial difficulty. However, research provides clear evidence that the benefit of refinancing was not evenly enjoyed, given the slower refinancing rates among lower-income and Black and Latino homeowners.[8]

A major risk going forward is homeowners pressured into very expensive cash-out refinance loans. As mortgage volumes decline due to higher interest rates, there are increased efforts to market cash-out refinance loans, touting homeowners' greater home equity. These loans pose a major risk of stripping homeowner equity through new closing fees and the loss of currently lower interest rates. To keep monthly mortgage payments from rising with now higher interest rates, these loans will offset higher interest rates by renewing the long to the original term, wiping out the borrower's progress in paying off the loan. The CFPB, the GSEs and government housing agencies must protect families from abusive lender loan flipping.

This house price appreciation and rent increase reflect housing shortages that particularly impact affordable housing. This was caused by multiple factors, including many years of underbuilding single-family homes and affordable rental units. Contributing factors include land and labor shortages, local and state obstacles to new housing, and construction material price increases and shortages. GSE and government agency sales of distressed loans have resulted in the underlying

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[5] Board of Governors of the Federal Reserve System (U.S.), *Distribution of Household Wealth in the U.S. since 1989*, https://www.federalreserve.gov/releases/z1/dataviz/dfa/distribute/table/.
[6] Alanna McCargo and Jung Hyun Choi, *Closing the Gaps: Building Black Wealth Through Homeownership*, Urban Institute (November 2020) ("*Closing the Gaps*"), Figure 3 at p. 4, https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.
[7] *Closing the Gaps*, at p. 12.
[8] See *Inequality During the COVID-19 Pandemic: The Case of Savings from Mortgage Refinancing*, by Sumit Agarwal, Souphala Chomsisengphet, Hua Kiefer, Leonard C. Kiefer, Paolina C. Medina :: SSRN and *Mortgage Prepayment, Race, and Monetary Policy* - Federal Reserve Bank of Boston (bostonfed.org); Freddie Mac, *Almost 50% of Black and Hispanic Borrowers Could Save $1,200 Annually by Refinancing* (May 12, 2021), https://www.freddiemac.com/research/insight/20210512-black-hispanic-borrowers-save-refinancing.

properties going to investors that take them out of the homeownership market and into the rental one, where rents are raised aggressively. Addressing the housing shortage is imperative to improving America's housing security and homeownership opportunities. The Administration's recent housing cost initiatives, Build Back Better housing provisions, incentives for state and local zoning reforms, and ending distress loans/REO sales are key steps in addressing the supply problem. Progress will require significantly expanded efforts across these many fronts.

Finally, the sudden and dramatic rise in mortgage interest rates combined with housing price increases has produced one of the largest and quickest housing affordability shocks in many decades. Monthly mortgage payments have more than doubled in barely two years, with house prices up over 30% and mortgage rates nearly doubling. House prices typically normalize after such appreciation booms, but that can take a number of years. Mortgage interest rates have risen dramatically, but previous rates reflected years of accommodating monetary policy that kept interest rates at historic lows. Future rates are likely to be closer to historic norms and above those atypically low rates. These rising costs hit new homeowners and lower wealth families, including families of color, the hardest, as they are the most dependent on mortgage financing and have much less home equity, if any. They also make it much more difficult for families who currently rent to make the transition to owning. This makes renewed efforts and new strategies to advance affordable housing and housing equity even more important.

IV. Required Reforms to Advance Housing Opportunity and Security

Housing discrimination in America has a long legacy, including explicit government redlining and exclusion from FHA lending, VA loans and other housing programs. Research shows that present housing practices and policies continue to discriminate far too often. Black buyers were shepherded into lower growth areas and treated differently to white buyers almost half the time in one investigation.[9] Black and Latino homebuyers also pay more for their mortgages, even after controlling for all factors used in the pricing.[10] Another recent study found that loan officers of color approved more borrowers of color. These loans performed well and significantly reduced the denial rates for these borrowers.[11] Disparities in home appraisals have been widely

[9] Ann Choi, Keith Herbert, Olivia Winslow, and Arthur Browne, *Long Island Divided - Undercover investigation reveals evidence of unequal treatment by Long Island real estate agents* (November 17, 2019), https://www.nareb.com/long-island-divided-an-investigation-by-newsday/; *The Jim Crow South? No, Long Island Today*, The New York Times (November 21, 2019), https://www.nytimes.com/2019/11/21/opinion/long-island-real-estate-discrimination.html.

[10] Stephen J. Popick, *Did Minority Applicants Experience Worse Lending Outcomes in the Mortgage Market? A Study Using 2020 Expanded HMDA Data Federal Deposit Insurance Corporation*, Federal Deposit Insurance Corporation (June 2022), https://www.fdic.gov/analysis/cfr/working-papers/2022/cfr-wp2022-05.pdf.

[11] W. Scott Frame, Ruidi Huang, Erik J. Mayer & Adi Sunderam, *The Impact of Minority Representation at Mortgage Lenders* (June 2022), https://www.nber.org/papers/w30125.

publicized this year and are being investigated.[12] It is a moral and economic imperative to aggressively root out this discrimination and move closer to fair lending.

Historic discrimination is also reflected in racial wealth disparities that pose steep barriers to homeownership opportunities for people of color. There is an 8 to 1 disparity between median white and Black household wealth and a 5 to 1 disparity between white and Latino wealth.[13] But racial disparities are yet starker when excluding from this often-cited statistic durable goods, like cars and furniture, that cannot be converted into cash without dramatically reducing their value. When these basic household items are excluded, and only financial assets are counted, the disparity balloons to over 20 to 1 between whites and Latinos and over 40 to 1 between whites and Blacks.[14] Given that financial assets are required to buy a house, weather financial stress or send a child to college, and this second metric more accurately captures that capacity.

This legacy wealth disparity profoundly impacts housing opportunity. Individual and family wealth directly affects the ability to make a down payment to buy a home. It also drives credit scores and other key requirements for both homeownership and rental housing. Wealth provides a cushion to weather financial disruptions in both expenses and income. The absence of this wealth forces families to push out payments to catch up, with heavy damage to their credit scores to qualify to buy or rent a house or the ability to sustain a mortgage when financial disruptions occur. Providing equal lending under our current housing system is vitally important but, studies show, the legacy of unequal wealth still leaves much of the racial homeownership gap unaddressed.[15] This is because our current system best serves those with financial security and compounds the legacy of discrimination.

Updated Housing Policies to Broadly Serve Americans' Housing Needs

Many homeowners have recovered from pandemic-induced financial stress. However, as of the end of May, there were 1.46 million homeowners 30 days or more past due and another 146,000 in the foreclosure process.[16] Many of these homeowners are suffering from ongoing hardship due to the pandemic and will need mortgage modifications to create an affordable payment.

The GSE's and FHA's modifications for COVID-19-impacted borrowers had substantial payment reduction targets, and those homeowners who were able to complete a modification in 2020 or 2021 were able to benefit. However, mortgage rates have increased 250 basis points

[12] PAVE Interagency Taskforce on Property Appraisal and Valuation Equity, https://pave.hud.gov/.
[13] Alanna McCargo and Jung Hyun Choi, *Closing the Gaps: Building Black Wealth Through Homeownership*, Urban Institute (November 2020), https://www.urban.org/sites/default/files/publication/103267/closing-the-gaps-building-black-wealth-through-homeownership_1.pdf.
[14] Chuck Collins, Dedrick Asante-Muhammad, Josh Hoxie, and Sabrina Terry, *Dreams Deferred - How Enriching The 1% Widens The Racial Wealth Divide*, Institute for Policy Studies - Inequality.org (2019), p. 19, https://inequality.org/wp-content/uploads/2019/01/IPS_RWD-Report_FINAL-1.15.19.pdf.
[15] Jung Hyun Choi, Alanna McCargo, Michael Neal, Laurie Goodman, Caitlin Young, *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets*, Urban Institute (October 10, 2019), https://www.urban.org/research/publication/explaining-black-white-homeownership-gap-closer-look-disparities-across-local-markets.
[16] Source: Black Knight's First Look at May 2022 Mortgage Data – Black Knight, Inc. (blackknightinc.com).

since the beginning of 2022[17] and the continued rise in house prices already discussed has reduced the amount of payment reduction the GSE and FHA modifications can deliver. As a result, most modifications undertaken today will fall well short of the payment reduction targets. As a near term response, the GSEs and FHA should adjust their COVID-19 modification waterfalls to include additional payment reduction steps and/or change their loan-to-value-related eligibility requirements to provide those borrowers facing ongoing pandemic-related hardship with payment reductions at their targets that create an affordable payment. Without these adjustments, many of the nearly 1.5 million borrowers may instead lose their homes to foreclosure.

Over the medium term, the government housing agencies (the GSEs, FHA, and VA) should use the valuable lessons provided by the combined experiences from the aftermath of the Great Recession and the pandemic to improve their loss mitigation programs.

Recent research provides compelling evidence that mortgage defaults and foreclosures are caused by income or expense shocks and indicate the need for permanent programs that address these causes, whether they are specific to the borrower or systemic in nature.[18] The pandemic provides an all-too-real example of a systemic shock: more than 8 million homeowners used CARES Act forbearance over the course of the pandemic. While the exact number of prevented defaults and foreclosures is difficult to estimate, so far over 80% have either returned to making on-time monthly payments or paid off their mortgage in full.[19]

As an initial step, the government housing agencies should consider making some or all of the temporary changes implemented to address the COVID-19 emergency a permanent part of their loss mitigation waterfalls. Streamlined modifications with term extension to 40-years, interest rate reductions, and principal deferral have proven to be powerful tools that, when used appropriately can create affordable payments for homeowners suffering from financial hardship.

In addition, normalizing the use of temporary forbearance as an early step in loss mitigation waterfalls in non-systemic situations would provide an effective countermeasure for homeowners facing an income loss or expense shock and could provide assistance to homeowners before they fall behind on their payments.

Similarly, mortgage reserve accounts that are funded at origination and provide borrowers experiencing an expected life event with immediate liquidity or income disruption insurance contracted by the government agency or GSEs that fills in for lost income are promising ideas that merit serious consideration.

Given the fact that low-income borrowers and families of color did not substantially benefit from the low mortgage rates through refinancing, the agencies should prioritize making streamline refinance programs effective. CFPB should issue a regulation to permit the GSEs to establish streamline refinance programs, and FHFA should implement a streamline GSE program for low-

[17] Source: OPTIMAL BLUE MORTGAGE MARKET INDICES – Optimal Blue.
[18] See Ganong_Noel_Mortgage_Default_April_2022.pdf (cpb-us-w2.wpmucdn.com) and What Triggers Mortgage Default? New Evidence from Linked Administrative and Survey Data by David Low:: SSRN.
[19] Source: BKI_MM_Apr2022_Report.pdf (blackknightinc.com).

balance loans. FHA should improve its existing streamline refinance program.[20] Taking these steps could remove some or all of the barriers that make refinancing inaccessible for many low-income, Black and Latino homeowners, creating more equitable rates of refinancing during future refinancing waves.

Finally, increased house prices and interest rates make it even more important for the GSEs and federal housing agencies to avoid unnecessary charges to working families seeking to become homeowners. One of the largest costs in mortgages is coverage of the risk of systemic crises, like the COVID pandemic. Currently, this cost is imposed most heavily on lower wealth borrowers in more vulnerable jobs. The COVID response forcefully demonstrated that these systemic crises require broad responses, and that the cost of the programs should be distributed evenly across all loans. Similarly, fees like Loan Level Price Adjustments, which are surcharges on GSE mortgages to these working families, should also be as evenly distributed as feasible while maintaining the GSE's overall mortgage portfolio.

V. Other Policy Decisions That Profoundly Affect Housing Opportunities and Stability

Affordable rental housing and homeownership opportunities are rightly seen as fundamental for families to thrive and advance, including to build wealth. At the same time, these housing conditions are also driven by other policies that impact financial stability and provide the means for a family to secure housing. For example, while homeownership builds wealth, existing family and intergenerational wealth is also a key means for enabling homeowners to be able to purchase a home. It is true that wealth begets wealth. Polices that fundamentally improve families' financial position and the ability to purchase and sustain housing deeply impact housing opportunities, and it is important to holistically consider them.

Today, secure housing is hindered by our broken student debt system that leaves too many graduates, and particularly graduates of color, with unaffordable student debt. Because these families have less personal and intergenerational wealth, they are forced to borrow more for college, with Black women borrowing the most.[21] After graduation, Black graduates again do not have the family wealth to help pay for school as they start out in careers and face their own financial challenges. Studies also show that graduates of color earn less than their peers as a result of continuing employment discrimination.[22] As a result, while white graduates are able to

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[20] See, for example, *Adjustments to Help the FHA Streamline Refinance Program Reach More Low-Wealth Families*, Center for Responsible Lending.
[21] The Center for Responsible Lending, *Necessary Relief: Substantial Cancellation Will Ease the Burden of Unaffordable Student Debt (and Boost the Economy)* (May 2022), https://www.responsiblelending.org/sites/default/files/nodes/files/research-publication/crl-student-loan-cancellation-9may2022_2.pdf.
[22] Valerie Wilson, *African Americans are paid less than whites at every education level*, The Economic Policy Institute (October 4, 2016), https://www.epi.org/publication/african-americans-are-paid-less-than-whites-at-every-education-level/; Valerie Wilson and William M. Rodgers III, *Black-white wage gaps expand with rising wage inequality*, The Economic Policy Institute (September 20, 2016), https://www.epi.org/publication/black-white-wage-gaps-expand-with-rising-wage-inequality/.

pay off student debt after graduation, Black and Hispanic graduates often remain saddled with a continuing, and often growing, debt for decades after graduation.[23] This debt has been shown to thwart many activities, including buying a home, starting a small business and even beginning a family. This barrier makes it challenging to make progress on closing the racial homeownership gap without addressing student debt. Solutions include broad debt cancellation and reform of the income-driven repayment program.

Medicaid expansion is another program that significantly affects families' financial stability. A dozen states, primarily in the South, have not yet approved Medicaid expansion. As medical debt often pushes families into financial distress, and collectors aggressively pursue the debt, it is not surprising that providing reliable health insurance coverage has a significant impact on financial security. Recent research confirms this and shows a positive impact on homeownership as well.[24]

Finally, the termination this January of the expansion of the Children's Tax Credit immediately consigned millions of families with children back into poverty and reduced financial stability for many more.[25] The resulting reduced opportunities include short and long-term safe and secure housing.

VI. Conclusion

The COVID response actions taken to support housing were hugely successful in preventing the pandemic's impact from being far worse. At the same time, COVID's economic disruptions revealed longstanding disparities and weaknesses in our housing system. The housing price boom and widespread rate-term refinances expanded wealth and racial disparities. Today's housing affordability crisis demands that we use this time to update our housing policies, using the lessons and successes learned, to provide broad housing opportunity and finally make progress on closing the racial homeownership gap.

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[23] The Heller School for Social Policy and Management, Brandeis University, *Stalling Dreams How Student Debt is Disrupting Life Chances and Widening the Racial Wealth Gap* (September 2019), https://heller.brandeis.edu/iere/pdfs/racial-wealth-equity/racial-wealth-gap/stallingdreams-how-student-debt-is-disrupting-lifechances.pdf.

[24] Margot Jackson, Chinyere Agbai, Emily Rauscher, *The Effects of State-Level Medicaid Coverage on Family Wealth*, The Russell Sage Foundation Journal of the Social Sciences (August 2021), https://www.rsfjournal.org/content/7/3/216.

[25] Center for Budget and Policy Priorities, *If Congress Fails to Act, Monthly Child Tax Credit Payments Will Stop, Child Poverty Reductions Will Be Lost* (December 3, 2021), https://www.cbpp.org/research/federal-tax/if-congress-fails-to-act-monthly-child-tax-credit-payments-will-stop-child; Isaac Chotiner, *The Devastating Effects of Losing the Child Tax Credit*, The New Yorker (March 4, 2022), https://www.newyorker.com/news/q-and-a/the-devastating-effects-of-losing-the-child-tax-credit#:~:text=The%20reason%20for%20the%20sharp,children%20are%20living%20in%20poverty.

Statement of

Sameer Chandan, PhD[1]

Director of the Center for Real Estate Finance Research

and Professor of Finance

NYU Stern School of Business

Before the

United States House Committee on Financial Services

For the Hearing

Boom and Bust: Inequality, Homeownership, and the

Long-Term Impacts of the Hot Housing Market

Wednesday, June 29, 2022

[1] The views expressed in this testimony are those of the author and do not necessarily reflect the views of New York University (NYU) or the NYU Stern School of Business.

Chairwoman Waters, Ranking Member McHenry, and other distinguished members of the United States House Financial Services Committee,

Thank you for the invitation to testify today on the critically important issues of home price and mortgage financing trends, disparities in homeownership, the causes and potential consequences of the current housing market's historic decline in affordability, and policy options for supporting equitable access to homeownership opportunities.

My name is Sameer Chandan. I am a professor of finance and director of the Center for Real Estate Finance Research at New York University's Leonard N. Stern School of Business.

House Price Trends

Home prices in the United States reached their post-Great Financial Crisis (GFC) nadir in 2012 and have been rising rapidly in the decade since then.[2] Notwithstanding disruptions to the economy, labor market, and the daily lives of American families, appreciation accelerated within months of the pandemic's taking hold in the United States, with home prices increasing at the fastest pace on record during the last two years.[3] Few if any regions have diverged from the trend, with 67 of the largest 100 markets reporting record-high price appreciation since mid-year 2021.[4]

The 2020 inflexion in the rate of house price appreciation has several drivers. The increase in demand for single-family homes, a positive demand shock, owes in large part to a shift in the location preferences of relatively mobile households favoring lower density neighborhoods, [5] and to

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[2] S&P Dow Jones Indices LLC, S&P/Case-Shiller U.S. National Home Price Index [CSUSHPISA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CSUSHPISA, June 26, 2022 and U.S. Federal Housing Finance Agency, All-Transactions House Price Index for the United States [USSTHPI], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/USSTHPI, June 26, 2022.
[3] ibid.
[4] Joint Center for Housing Studies of Harvard University. 2022. The State of the Nation's Housing 2022. https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_State_Nations_Housing_2022.pdf
[5] https://www.dallasfed.org/research/economics/2021/1228.aspx

supporting factors, including demographic trends, pandemic supplements to household income, low financing costs, and house price expectations. New evidence from Freddie Mac's automated underwriting system also points to migration from high-cost markets to relatively lower cost areas as a contributor to current price dynamics.[6]

On their own, these demand drivers would not have generated record shattering house price increases. Rather, stronger demand has coincided with a national housing supply shortage estimated at 3.8 million units by Freddie Mac[7] and as high as 5.5 to 6.8 million units in the National Association of Realtors (NAR)'s underbuilding gap analysis.[8]

The roots of the housing supply shortage can be traced to the collapse of the housing bubble in the mid- to late-2000s . Privately-owned single-family home completions reached a seasonally-adjusted annual peak of 1.9 million units in March 2006, falling to just 368,000 in March 2011 as the construction pipeline withered over the intervening years.[9] Between 2012 and 2021, annual completions averaged 747,000 units, well below the 50-year average rate of over 1 million new single-family homes. On a population-adjusted basis, annual housing production averaged 3.2 units per thousand people between 2009 and 2020, as compared to 7.7 units between 1959 and 2008.[10] As a nation, we have underinvested in both single-family and multifamily housing for well over a decade.

Of critical importance, the supply shortfall has been especially severe for entry-level homes, defined by Freddie Mac as homes of 1,400 square feet or less. From approximately 40 percent in the early 1980s, the share of entry-level single-family home construction has been falling over time, and sat at

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[6] https://www.freddiemac.com/research/insight/20220622-pursuit-affordable-housing-migration-homebuyers-within-us-and-after-pandemic
[7] https://www.freddiemac.com/research/insight/20210507-housing-supply
[8] https://www.nar.realtor/newsroom/once-in-a-generation-response-needed-to-address-housing-supply-crisis
[9] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Completed: Single-Family Units [COMPU1USA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/COMPU1USA, June 27, 2022.
[10] Kaul, K., Goodman, L., and Neal, M. 2021. The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage. https://www.urban.org/research/publication/role-single-family-housing-production-and-preservation-addressing-affordable-housing-supply-shortage

just 7 percent in 2021.[11] The median single-family home started in Q4 2021 was 2,561 square feet.[12] Aggregate supply trends and the characteristics of new supply can be explained by a combination of factors, including restrictive zoning and building codes, increasing material costs, skilled labor shortages, financing constraints unfavorable to affordable and workforce housing,[13] and underinvestment in supporting infrastructure.

As of May 2022, NAR reports the median price for existing-home sales climbed above $400,000 for the first time. For single-family homes specifically, median prices have increased by almost $53,000 over the last year and by more than $110,000 from the median price in 2020.

To be clear, the magnitude of these increases is without precedent, exceeding the runups observed during the housing boom of the early and mid-2000s, when speculative investment in housing and looser oversight and regulation of mortgage lending fueled the housing bubble and ultimate market collapse.

Mortgage Rates

Until recently, rising home prices have coincided with historically low borrowing costs, including 15- and 30-year fixed mortgage rates.[14] Reflecting the shift in the broader economy and monetary policy environment, however, these rates have surged in recent months, signaling a major shift in market dynamics. Since the beginning of 2022, the 15-year mortgage rate has more than doubled, while the 30-year rate has nearly doubled. The impact of these increases has been immediate, resulting in the

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[11] https://www.census.gov/construction/chars/
[12] https://www.census.gov/construction/nrc/index.html and U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately Owned Housing Starts in the United States, Average Square Feet of Floor Area for One-Family Units [HOUSTSFLAA1FQ], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/HOUSTSFLAA1FQ, June 28, 2022.
[13] Kaul, K., Goodman, L., and Neal, M. 2021. The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage. https://www.urban.org/research/publication/role-single-family-housing-production-and-preservation-addressing-affordable-housing-supply-shortage
[14] Freddie Mac, 30-Year Fixed Rate Mortgage Average in the United States [MORTGAGE30US], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/MORTGAGE30US, June 26, 2022.

most rapid deterioration on record in the NAR's measures of housing affordability.[15] As compared to the beginning of this year, the monthly payment on today's median existing home purchase has increased by more than $500, equivalent to a rise in prices of approximately 35 percent in just the last 6 months.[16] For millions of low- and moderate-income families aspiring to homeownership, opportunity has moved beyond reach.

Seeking ways to blunt the impact of higher rates, homebuyer interest in adjustable-rate mortgages (ARM) has been increasing. As of the week ending June 17, 2022, the ARM share of mortgage applications was 10.0 percent,[17] near its highest level since 2008. Owing to reforms introduced following the GFC, ARMs are not as risky as they once were. Teaser rates, refinancing penalties, and high frequency rate resets are absent from today's ARMs. Nonetheless, future exposure to interest rate resets is a source of risk for borrowers opting into this lower cost financing vehicle as a means of closing affordability gaps.

As the buyer pool adjusts to higher financing costs, some voluntary sellers will remove their homes from the for-sale market, reducing the inventory of homes for sale. This will be offset in part by recent increases in single-family construction. On balance, institutional forecasts anticipate slower appreciation but not a decline in house prices. Freddie Mac's second quarter forecast, published in April, shows house price increases of 10.4 percent in 2022 and 5.0 percent in 2023.[18] Fannie Mae's forecast, published on June 10, similarly shows appreciation falling from double-digits this year to single-digits in 2023.[19] Neither forecast points to an improvement in broad measures of affordability.

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[15] https://www.nar.realtor/research-and-statistics/housing-statistics/housing-affordability-index
[16] Author's calculations, assuming a 30-year fixed rate mortgage, 80% loan-to-value ratio, mortgage rates as reported in Freddie Mac's Primary Mortgage Market Survey, and a purchase price equal to the median existing home sale price reported by NAR for May 2022.
[17] https://www.mba.org/news-and-research/newsroom/news/2022/06/22/mortgage-applications-increase-in-latest-mba-weekly-survey
[18] https://www.freddiemac.com/research/forecast/20220418-quarterly-forecast-purchase-market-will-remain-solid-even-mortgage-rates-rise
[19] https://www.fanniemae.com/media/document/pdf/housing-forecast-061622

Housing Equity

The combined impact of higher prices, higher mortgage rates, and limited entry-level single-family home construction is felt disproportionally by households of color in the United States. As compared to pre-pandemic trends, these groups now face even higher barriers to our nation's most reliable vehicle for generational wealth building, social and economic mobility, and housing-related health outcomes.

Black and Hispanic household wealth was disproportionately impacted by the GFC and 2008 recession, with long-term implications for homeownership that continue to reverberate through our measures of housing equity. The Bipartisan Policy Center reports that, between 2007 and 2011, Black and Hispanic households lost 31 percent and 44 percent of their wealth, respectively, as compared to 11 percent for White households.[20] The steeper initial decline owes in part to a disproportionate share of wealth held in home equity during the housing collapse and homeownership concentrated in neighborhoods that experienced higher levels of distress.

The recovery in wealth between 2011 and 2019 was also incomplete, owing to factors including undervaluation of homes in predominantly minority neighborhoods and lower homeownership rates.[21] Grappling with lower initial wealth and lower earnings, as well as higher employment insecurity during the pandemic, many Black and Brown households aspiring to ownership have found themselves at a substantial and increasing disadvantage in the homebuying market as prices and mortgage rates have increased.

Barriers to housing equity are wide-ranging and not simply related to the financial circumstances of people of color. Apart from systematic differences in income and wealth, prevailing models of credit scoring, discrimination in the home search process, higher financing costs unrelated to

[20] Minott, O. and Winkler, A., 2021. Understanding and Addressing Racial and Ethnic Disparities In Housing. https://bipartisanpolicy.org/report/understanding-and-addressing-racial-and-ethnic-disparities-in-housing/
[21] ibid.

creditworthiness, and disparities in labor market and health outcomes during the pandemic are among the myriad headwinds to closing the ownership gap.

The relatively higher vulnerability of Black and Brown homeowners and renters to economic and labor market stresses has persisted even as the economy has recovered and labor markets have tightened. During the first half of June 2022:

- 6.3 percent of homeowners responding in the Census' Household Pulse Survey reported they are not caught up on their mortgage payments. For White, non-Hispanic households, that share was 4.5 percent, as compared to 11.8 percent for Black households[22]
- 5.9 percent of responding homeowners reported it is "very likely" they will have to leave their home in the next two months due to foreclosure. For White, non-Hispanic households, the share was 3.7 percent, as compared to 9.8 percent for Black households[23]
- 14.9 percent of responding renters reported they are behind on rent payments. For White, non-Hispanic households, the share was 10.3 percent, as compared to 24.7 percent for Black households.[24]

Steps to Improving Housing Equity

As context for these observations, it is important to note that, looking back as far as the 1960s, the United States has not seen an observable narrowing in the homeownership deficit for Black households in particular.[25,26] There are no viable policy interventions that will immediately address housing equity gaps or the shortfall in the supply of affordably-priced and workforce housing. Nonetheless, it is encouraging that in recent weeks and months, major initiatives to address

[22] Author's tabulations of U.S. Census Bureau Household Pulse Survey, Week 46, June 1 to 13, 2022. Table 1a. https://www.census.gov/data/tables/2022/demo/hhp/hhp46.html#tables
[23] ibid. Table 3a.
[24] ibid. Table 1b.
[25] U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Black Alone in the United States [BOAAAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/BOAAAHORUSQ156N, June 26, 2022 and U.S. Census Bureau, Homeownership Rates by Race and Ethnicity: Non-Hispanic White Alone in the United States [NHWAHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/NHWAHORUSQ156N, June 26, 2022.
[26] https://bipartisanpolicy.org/report/understanding-and-addressing-racial-and-ethnic-disparities-in-housing/

affordability and housing equity have been announced by the Administration, the Department of Housing and Urban Development (HUD), the Federal Housing Finance Administration (FHFA), and at the local level.

Fannie Mae and Freddie Mac's recently announced Equitable Housing Finance Plans seek to address many of the structural drivers of these persistent disparities, by incorporating updated approaches to underwriting, such as the consideration of positive rental payment history. Importantly, this specific measure enjoys broad support amongst housing researchers, housing advocates, and several industry associations.

While the Plans takes important steps to address housing disparities, principally by improving access to financing, the Government-Sponsored Enterprises are not structured to address housings supply shortfalls directly. If the supply of affordable and workforce housing is not expanded in the medium- to long-term, initiatives that enhance demand, however well intentioned, designed, and executed, will likely have the unintended consequence of undermining affordability for the very populations they are intended to support.

The Administration's Housing Supply Action Plan[27] includes a range of measures to address barriers to new supply and close the housing gap over time, while recognizing that many of these issues are only actionable at the local level. It is noteworthy than single-family home construction has increased sharply over the last two years, to levels not seen since the mid-2000s.[28] However, the location and physical characteristics of the median home under construction, and its anticipated price point, do not directly address the housing needs of Black and Brown communities.

A multifaceted approach to enhancing affordable and workforce housing supply constraints will:

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[27] https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/

[28] U.S. Census Bureau and U.S. Department of Housing and Urban Development, New Privately-Owned Housing Units Under Construction: Single-Family Units [UNDCON1USA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNDCON1USA, June 26, 2022.

- Address state and local building codes and zoning, in particular to allow for smaller homes and higher density housing in connected neighborhoods;
- Improve the supply of construction materials;
- Invest in the next generation of skilled construction labor;
- Improve access to low-cost or subsidized financing for a wider range of affordable housing types, including manufactured and modular housing, and small multifamily properties; and,
- Invest in public transportation and co-located social infrastructure to open new land development opportunities.

Enhancing demand is similarly multifaceted, and will:

- Address structural barriers to mortgage access and the housing market itself;
- Develop programs to flexibly address the greater risk of temporary income disruptions; and,
- Reduce the transactions costs of individual homeowners' buying and selling, removing a barrier to mobility as households age, thereby freeing up entry-level homes;

The Role of Institutional Investors

As supply issues loom large, the role of institutional investment in the single-family housing market and its influence on prices has garnered increasing attention. Institutional buyers, acquiring single-family homes and repositioning them for the rental market, represent a relatively new component of housing demand, meeting the needs of families that may want some of the benefits of residing in a house without the financial or other obligations of outright ownership.

Their role in the market following the GFC was facilitated by three key factors: an abundance of homes for sale, including portfolios of homes in foreclosure; constrained access to mortgage financing for individual homebuyers; and, reduced, technology-enhanced acquisition and portfolio

management costs.[29] During this time, institutional investors likely had a small but beneficial impact in some markets, supporting the stabilization of prices and housing occupancy in distressed neighborhoods[30], but also driving higher rent increases and rates of eviction through professional property management than smaller landlords.[31]

As affordability has deteriorated, the question has turned to institutional buyers' role in a market where for-sale supply is constrained rather than abundant, and access to financing has improved materially. Research by Freddie Mac, published this month, attributes prevailing price appreciation trends to diverse drivers—low mortgage rates, strong demand, migration patterns, and constrained supply.[32] The analysis shows that, nationally, the institutional investor share of the market has risen since just prior to the pandemic, but still only accounts for approximately 2.5 percent of home sales. By way of comparison, individual investors and other non-institutional investors account for 24 percent of the market, nearly ten times the institutional share.

The available data suggests that institutional investment and repositioning of homes for the rental market are not currently material contributors to national housing supply shortages, though we may observe some degree of variation in the institutional investment share of the market across metropolitan areas and neighborhoods.

Rental Affordability

While the direct impact of rising house prices and rapidly rising mortgage rates has been a clear focus of policy and public attention, the indirect impact of rising prices and mortgage rates on affordability in the rental housing market deserves special attention. Since 2014, broad measures of

[29] Mills, J., Molloy, R., Zarutskie, R., 2019. Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class. Real Estate Economics 47, 399–430.. doi:10.1111/1540-6229.12189
[30] Lambie-Hanson, L., Li, W., Slonkosky, M., 2022. Real estate investors and the US housing recovery. Real Estate Economics.. doi:10.1111/1540-6229.12396
[31] Raymond, E. L., Duckworth, R., Miller, B., Lucas, M., & Pokharel, S. 2018. From Foreclosure to Eviction: Housing Insecurity in Corporate-Owned Single-Family Rentals. *Cityscape*, *20*(3), 159–188. https://www.jstor.org/stable/26524878
[32] https://www.freddiemac.com/research/insight/20220609-what-drove-home-price-growth-and-can-it-continue

rent growth have exceeded improvements in earnings,[33] undermining the stability of low- and moderate-income household budgets and increasing the share of moderately and severely rent-burdened families. The most current tabulations by the Joint Center for Housing Studies at Harvard show that more than 40 percent of Black renter households are moderately or severely burdened; for Hispanic households, the share is just under 40 percent.

As homeownership moves further out of reach and rising rents limit savings towards a down payment, a larger share of renters that might otherwise "graduate" to ownership will instead remain renters. This portends a widening gap between demand and supply for workforce rental housing that can be most effectively addressed over the long term through programs that enhance a diverse supply of affordably priced rental housing options.

Thank you again for the opportunity to testify. I look forward to your questions.

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[33] U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: Rent of Primary Residence in U.S. City Average [CUUR0000SEHA], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CUUR0000SEHA, June 26, 2022 and U.S. Bureau of Labor Statistics, Average Hourly Earnings of All Employees, Total Private [CES0500000003], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CES0500000003, June 26, 2022.

About Sameer Chandan, PhD FRICS FRSPH

Sameer ("Sam") Chandan is a professor of finance and Director of the Center for Real Estate Finance at the New York University Stern School of Business, home to the school's applied real estate research initiatives, industry and policy engagement, and MBA and undergraduate real estate programs, ranked #2 and #4 in the nation respectively by U.S. News and World Report.

Prior to joining Stern in February 2022, Professor Chandan was the Larry & Klara Silverstein Chair and academic dean of the Schack Institute of Real Estate at the NYU School of Professional Studies. He is also founder of Chandan Economics, an economic advisory and data science firm serving the institutional real estate industry, a contributor to *Forbes*, and host of the *Urban Lab* on Apple Podcasts.

Among his diversity and inclusion initiatives, Professor Chandan is global chair of the Real Estate Pride Council, an association of lesbian, gay, bisexual, and transgender leaders in the professions of the built environment, and a member of the Real Estate Executive Council (REEC). In 2017, he founded the National Symposium of Women in Real Estate (WIRE), which has since grown into one of the industry's largest annual mentorship forums connecting senior executives and early-career women in real estate.

A Fellow of the Royal Institution of Chartered Surveyors (FRICS), the Royal Society for Public Health (FRSPH), and the Real Estate Research Institute (RERI), and a contributing member of the American Society for Microbiology (ASM), Professor Chandan's multifaceted applied research interests address real estate capital market, urban epidemiology, and the preparedness of global cities and other systemically important urban areas in managing and mitigating novel public health threats. He holds an honorary appointment as the Economist Laureate of the Real Estate Lenders Association and has served on the real estate advisory council of the Federal Reserve Bank of Atlanta.

While serving as dean of the Schack Institute, Professor Chandan secured the largest gift commitment in the program's 54-year history to support the creation of a new center in Shanghai, and founded the NYU SPS CREFC Center for Real Estate Finance in collaboration with the Commercial Real Estate Finance Council. A first among academic real estate programs, he created endowed scholarships for the advancement of women in real estate, LGBTQ+ persons in real

estate, and for graduate students who attended a Historically Black College or University (HBCU) for their undergraduate degree.

Professor Chandan holds editorial board appointments with the *Yale Journal of Health Policy, Law, and Ethics; Real Estate Finance; Commercial Real Estate Finance World*; and, *Summit Journal*. He currently serves as a chair of the International Well Building Institute's Health Equity Advisory Board.

Prior to founding Chandan Economics, he was the global chief economist at Real Capital Analytics (RCA). During his tenure as chief economist at Reis, now part of Moody's Analytics, he was part of the executive team that took the company public.

He received his BSc in Economics from the Wharton School of the University of Pennsylvania, MA in Economics and MSc in Engineering from the University of Pennsylvania, and PhD in Applied Economics from the Wharton School of the University of Pennsylvania.

DISPARATE IMPACTS OF THE COVID-19 PANDEMIC ACROSS RACE AND ETHNICITY IN THE HOUSING MARKET

Statement of

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Senior Research Associate, Urban Institute

before the

Committee on Financial Services,

United States House of Representatives

BOOM AND BUST: INEQUALITY, HOMEOWNERSHIP, AND THE LONG-TERM IMPACTS OF THE HOT HOUSING MARKET

June 29, 2022

* The views expressed are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

I thank Laurie Goodman, Janneke Ratcliffe, and Fiona Blackshaw for helpful comments and Amy Peake, Victoria Van de Vate, and Katherine LoBue for help in preparing this testimony.

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Chairwoman Waters, Ranking Member McHenry, and members of the committee, thank you for inviting me to speak before you today about inequality in the housing market.

I am a senior research associate in the Housing Finance Policy Center at the Urban Institute, a leading research organization dedicated to developing evidence-based, nonpartisan insights that improve people's lives and strengthen communities. The views expressed in this testimony are my own and should not be attributed to the Urban Institute, its trustees, or its funders.

My testimony today focuses on how long-standing racial and ethnic disparities in the housing market have worsened during the COVID-19 pandemic. Additionally, recent changes in the housing market environment—including rising interest rates, increasing home prices and rents, and tighter lending standards—are making it more difficult for households of color to obtain and sustain homeownership and are widening the racial wealth gap. Two promising demand-side strategies—better targeting down payment assistance and incorporating rental payment history into mortgage underwriting—could help the federal government address these disparities.

Large Racial and Ethnic Disparities in Homeownership Predate the Pandemic

Homeownership is the primary tool for building wealth in the United States, but households of color face greater barriers in accessing homeownership and difficulties sustaining homeownership. As a result, the median Black family has one-eighth, and the median Latino family has one-fifth, of the wealth that the median white family has.[1] Householders who buy their first homes earlier in life are more likely to have greater wealth when they reach their retirement age.[2] However, in 2019, only 23 percent of households headed by Black adults ages 25 to 40 were homeowners. This number has fallen by 11 percentage points since 2000 and is substantially lower than the rate for other racial and ethnic groups.

The overall Black homeownership rate was 42 percent in 2019, 30 percentage points lower than the white homeownership rate. This gap is larger now than in 1960 before the passage of the 1968 Fair Housing Act. Because of concentrated predatory lending practices in Black neighborhoods, Black households experienced the greatest drop in homeownership during the Great Recession and the slowest recovery afterward. The Latino homeownership rate was about 24 percentage points lower than whites in 2019, and the Asian homeownership rate was about 12 percentage points lower.

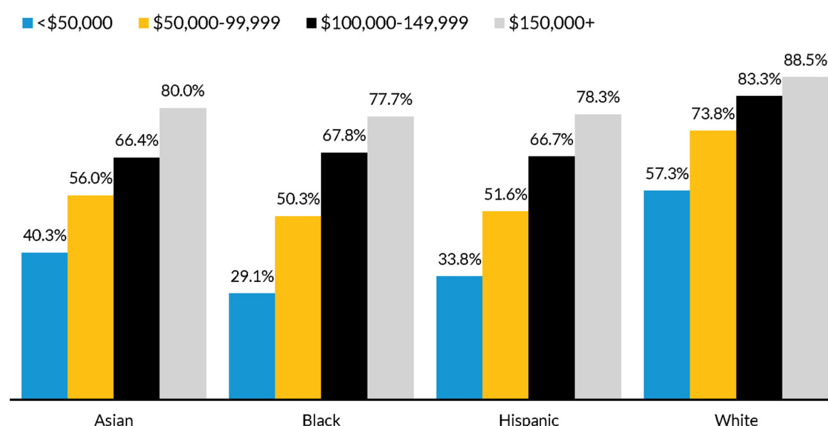
Even after controlling for income, the homeownership disparity remains. For all income ranges, homeownership rates for households of color lag behind white households (figure 1). In fact, for Asian households, we see a wider gap in homeownership rate once we control for income.

[1] Neil Bhutta, Andrew C. Chang, Lisa J. Dettling, and Joanne W. Hsu, "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, Board of Governors of the Federal Reserve System, September 28, 2020, https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.htm.

[2] Jung Hyun Choi and Laurie Goodman, "Buy Young, Earn More: Buying a House before Age 35 Gives Homeowners More Bang for Their Buck," *Urban Wire* (blog), Urban Institute, November 8, 2018, https://www.urban.org/urban-wire/buy-young-earn-more-buying-house-age-35-gives-homeowners-more-bang-their-buck.

FIGURE 1

Homeownership Rates by Income Group and Race/Ethnicity



Source: 2019 American Community Survey.

The higher mortgage denial rate for home purchase loans partially explains the racial disparities in homeownership. Black and Latino households are more likely to be denied home purchase loans. In 2020, almost a quarter of Black homebuyers were denied mortgages. About 18 percent of Latino households were denied. Again, Black households have a substantially higher mortgage denial rate than white households at all income levels. For example, the mortgage denial rate was 48 percent for Black households with incomes below 50 percent of area median income (AMI), compared with 29 percent for white households with similar incomes. For households earning more than 150 percent of the AMI, the home purchase mortgage denial rate for Black households was 12.5 percent while for white households it was only 5.3 percent.

These differences are just one outcome of long-term structural discrimination that Black households encountered when accessing and sustaining homeownership. Black households faced multiple explicit and implicit barriers as the housing finance system evolved,[3] and today, despite the visible improvement in fairness, the financial damage is still preventing Black households from becoming homeowners.

Goodman and Zhu (2021) project that unless well-designed intentional policies and actions are designed and implemented, the Black-white homeownership gap will remain unchanged in the next 20 years.[4] The Black homeownership rate is expected to decline to 41 percent by 2040, 30 percentage

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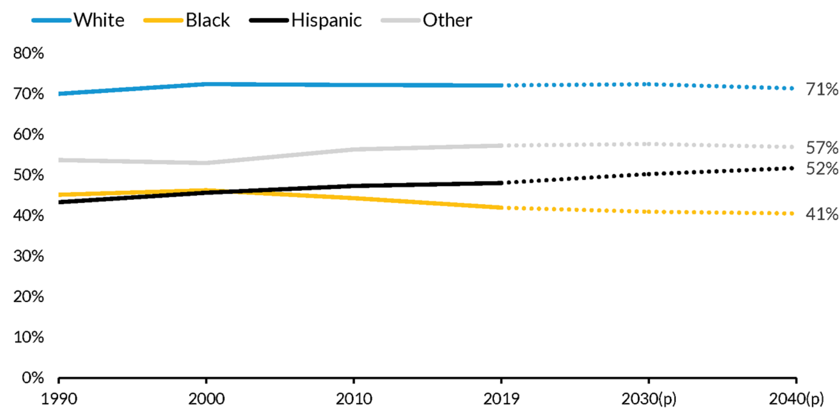
[3] See Alanna McCargo and Jung Hyun Choi, *Closing the Gap: Building Black Wealth through Homeownership* (Washington, DC: Urban Institute, 2020).

[4] See Laurie Goodman and Jun Zhu, *The Future of Headship and Homeownership* (Washington, DC: Urban Institute, 2021).

points below the white homeownership rate. Note that this analysis does not incorporate the effect of the COVID-19 pandemic, which disproportionately impacted households of color. The COVID-19 pandemic threatens to widen the racial homeownership and wealth gap as Black and Hispanic communities continue to suffer greater health and economic losses than white communities.

FIGURE 2

Historical Homeownership Rates and Projections for 2030 and 2040 by Race and Ethnicity



Source: Urban Institute estimates using decennial Censuses and American Community Survey data.

Homeowners and Renters of Color Were More Impacted by COVID-19

Thanks to various efforts by the government to help households stay housed during the COVID-19 pandemic, including forbearance and emergency rental assistance, both foreclosure and eviction rates fell below pre-pandemic levels. However, homeowners and renters of color were more likely to be missing their monthly housing payments, showing their greater vulnerability to macroeconomic changes.

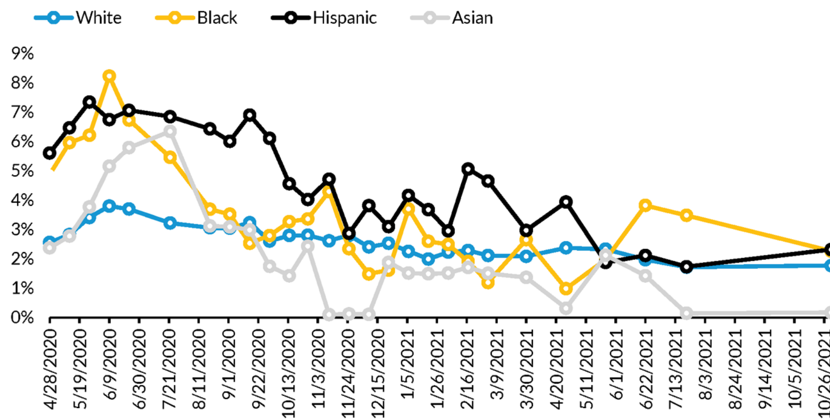
The University of Southern California's Understanding America Study (UAS) followed the same households from the outbreak of the pandemic through October 2021. Although the sample size is smaller than the Census Bureau's Household Pulse Survey, the UAS data have a significantly higher response rate (above 80 percent versus below 5 percent), and the housing payment data better align with large administrative datasets.[5] Unlike administrative datasets, UAS provides detailed demographic information that enables us to track housing payments across racial and ethnic groups.

[5] See Jung Hyun Choi, Laurie Goodman, and Daniel Pang, *Navigating Rental Payment and Eviction Data during the Pandemic* (Washington, DC: Urban Institute, 2022).

For homeowners, we find the share of Black and Latino households who missed their mortgage payment went up to about 7–9 percent in the early months of the pandemic. While the numbers came down over time as the economy improved and government benefits including stimulus checks and UI payments were distributed, Black and Latino households were still more likely to miss their mortgage payment than white households. (For comparison, the share of white homeowners missing monthly mortgage payments stayed between 2 and 4 percent throughout the pandemic.) Asian households also experienced a sharp increase in the share of missed rental payments in the summer of 2020 (over 6 percent), but this number sharply declined in August 2020 and remained low.

FIGURE 3

Share of Homeowners Who Missed Their Mortgage Payments by Race and Ethnicity, April 2020–October 2021



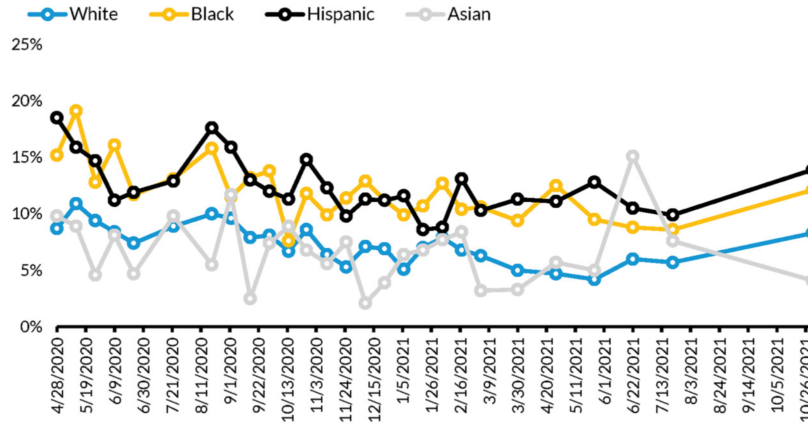
Source: Understanding America Study.

The share of renters who missed their housing payments is significantly higher than the share of homeowners. This is largely because renters, especially lower-income renters and renters of color, were more likely to work in industries such as food, accommodation, and other service jobs that were hit hard by the COVID-19 pandemic.[6] Black and Latino renters were more likely to miss their monthly rent payments than white renters (figure 4). Every month, between 15 to 20 percent of Black and Latino renters missed their rent. The numbers did go down a bit in late 2020, again reflecting the gradual economic recovery and various government interventions, including Emergency Rental Assistance.

[6] Mary K. Cunningham, Laurie Goodman, and Jung Hyun Choi, "Don't Overlook the Importance of Unemployment Benefits for Renters," *Urban Wire* (blog), Urban Institute, April 23, 2020, https://www.urban.org/urban-wire/dont-overlook-importance-unemployment-benefits-renters.

FIGURE 4

Share of Renters Who Missed Their Rent Payments by Race and Ethnicity, April 2020–October 2021



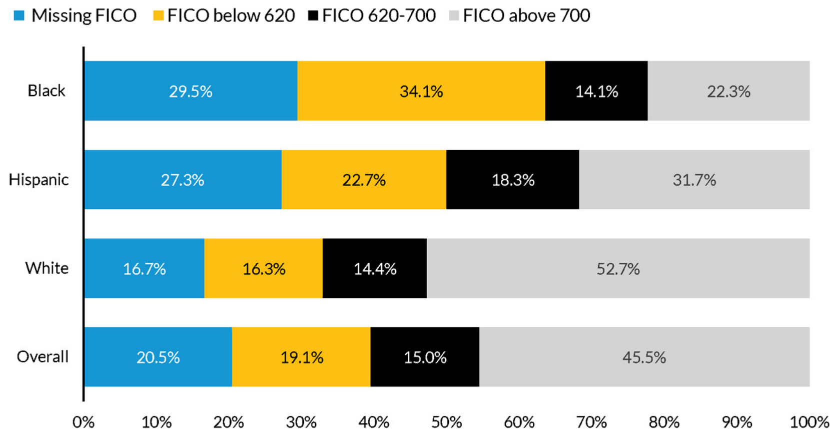
Source: Understanding America Study.

Following the Great Recession (and now again during the COVID-19 economic fallout), financial markets tightened credit, restricting lending and making it difficult for households with less-than-perfect credit to buy homes. Credit history, the most cited reason for mortgage denial, has a disproportionate impact on Black and Latino borrowers (figure 5). About 30 percent of Black adults do not have FICO scores, and about 34 percent have FICO scores below 620. For Latino adults, these numbers are 27 percent and 23 percent, respectively. Past discriminatory practices that denied communities of color access to financial services resulted in today's disparities in credit scores, making people of color less likely to satisfy lenders' credit requirements.[7]

[7] Liam Reynolds, Vanessa G. Perry, and Jung Hyun Choi, "Closing the Homeownership Gap Will Require Rooting Systemic Racism Out of Mortgage Underwriting," *Urban Wire* (blog), Urban Institute, October 13, 2021, https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting.

FIGURE 5

FICO Score Distribution by Race and Ethnicity



Source: 2018 credit bureau data obtained from Freddie Mac.

Tighter lending standards and disparities in credit scores mean that many Black and Latino renters who would have been able to obtain a mortgage under the prior credit standards were more likely to face greater difficulties accessing homeownership and benefiting from the lower interest rates and rising home prices of the past couple of years. This resulted in widening racial and ethnic wealth gaps.

Rising Home Prices, Rents, and Interest Rates Will Likely Disproportionately Harm Households of Color

Since the beginning of the pandemic, both home prices and rents have risen significantly. National home prices were 21 percent higher in March 2022 than a year ago, and rents were up by about 11 percent.[8] The 30-year fixed mortgage rate is now around 6 percent,[9] more than double the average rate in 2021. Increased competition in the market has also worsened prospects for buying a home, especially for households with few financial resources. The share of cash buyers has increased in recent months and currently accounts for more than a third of home purchases. Together with limited supply, the rise in competition has led to a drop in monthly active listings on sale and median days on the market (the time from when a property is listed to when the transaction is closed). From April 2018 to April 2022, the

[8] Diana Olick, "Home Prices Surged over 20% in March as Interest Rates Also Rose, According to S&P Case-Shiller," CNBC, May 31, 2022, https://www.cnbc.com/2022/05/31/home-prices-surged-in-march-as-interest-rates-also-rose-sp-case-shiller.html; Abha Bhattarai, Chris Alcantara and Andrew Van Dam, "Rents Are Rising Everywhere. See How Much Prices Are Up in Your Area," *Washington Post*, April 21, 2022, https://www.washingtonpost.com/business/interactive/2022/rising-rent-prices/.

[9] Diana Olick, "30-Year Mortgage Rate Surges to 6.28%, Up from 5.5% Just a Week Ago," CNBC, June 14, 2022, https://www.cnbc.com/2022/06/14/30-year-mortgage-rate-surges-to-6point28percent-up-from-5point5percent-just-a-week-ago.html.

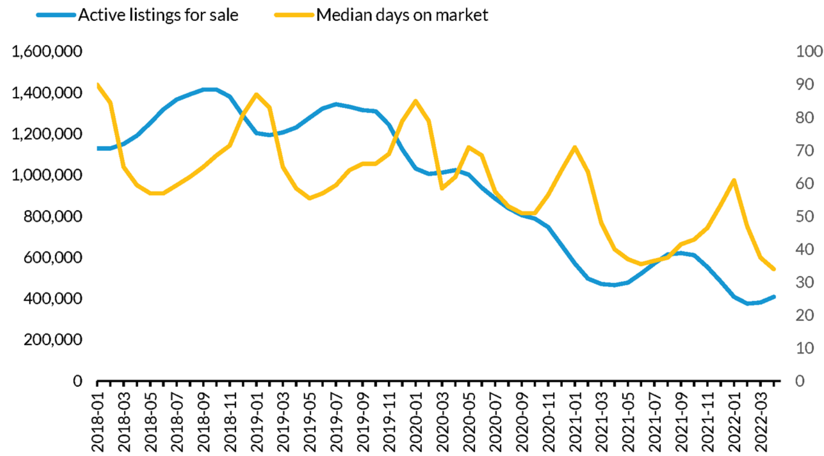
number of active listings on sale dropped 65 percent, and the median days on the market dropped 43 percent (figure 6).

These numbers indicate that households who remained as renters because of tight credit and limited supply will face greater challenges finding affordable homes to purchase. Homebuyers of color are more likely to purchase through FHA loans, but it has become more and more difficult for buyers using the FHA channel to compete with buyers with greater financial resources.[10] Additionally, because of the spike in rental prices, people who remain renters will have greater difficulties saving up for future down payments.

All these factors indicate that the racial homeownership and wealth gap will likely widen further unless we can quickly address the housing supply challenges and find innovative solutions to safely expand the credit box to households of color.

FIGURE 6

Active Listings and Median Days on the Market, January 2018–April 2022



Source: Realtor.com.

[10] Laurie Goodman, and Janneke Ratcliffe, "The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps," *Urban Wire* (blog), Urban Institute, June 16, 2021, https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps.

How the Federal Government Could Help Households of Color Obtain and Sustain Homeownership

No single solution can bridge the persistent racial-ethnic homeownership gap. Multiple strategies and actions are needed from a collaboration of multiple stakeholders, including an increase in the affordable housing supply. Here I highlight two promising demand-side solutions that the federal government could consider to help households of color obtain and sustain homeownership.

Better Target Down Payment Assistance

Saving for a down payment is one of the greatest obstacles renters face to buying a home.[11] The challenge to come up with enough savings is especially significant for young adults of color whose parents cannot provide support through intergenerational wealth. My Urban colleagues and I find that young adults with homeowning parents are significantly more likely to be homeowners than those with parents who rent.[12] We also find that Black college graduates have a lower homeownership rate than whites who don't finish high school,[13] highlighting how the differences in family wealth affect young adults' access to a stable wealth-building opportunity.

There are many down payment assistance (DPA) programs in this country, and most impose income limits for borrowers' eligibility. However, income criteria alone are less effective in reaching Black and Latino families. Additionally, people of color are less likely to be homeowners across all income categories (see figure 1 on page 2), suggesting many of them, even with higher incomes, are struggling to access homeownership compared with white households.

My recent analysis with Janneke Ratcliffe finds that increasing income limits to 120 percent of AMI and targeting assistance to first-generation homebuyers—those who have been renters for the past three years and whose parents also rent—can increase the number of eligible Black and Latino borrowers more than imposing an 80 percent AMI limit alone. For a DPA program using an 80 percent of AMI criteria, 46 percent of the potential households are either Black or Latino households.[14] The first-generation DPA program increases the share of potential Black and Latino households to 64 percent.[15]

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[11] See Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability–2018* (Washington, DC: Urban Institute, 2018).

[12] See Jung Hyun Choi, Jun Zhu, and Laurie Goodman, *Intergenerational Homeownership: The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices* (Washington, DC: Urban Institute, 2018).

[13] Jung Hyun Choi and Laurie Goodman, "Why Do Black College Graduates Have a Lower Homeownership Rate Than White People Who Dropped Out of High School?" *Urban Wire* (blog), Urban Institute, February 27, 2020, https://www.urban.org/urban-wire/why-do-black-college-graduates-have-lower-homeownership-rate-white-people-who-dropped-out-high-school.

[14] See Nikitra Bailey, Tucker Bartlett, Mike Calhoun, Keith Corbett, Debby Goldberg, Deborah Momsen-Hudson, Lisa Rice, and Eric Stein, *First Generation: Criteria for a Targeted Down Payment Assistance Program* (Washington, DC: National Fair Housing Alliance and Center for Responsible Lending, 2021).

[15] Jung Hyun Choi and Janneke Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership," *Urban Wire* (blog), Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership.

Incorporate Rental Payments into Mortgage Underwriting

Credit history is one of the most cited reasons for mortgage denials, but many households of color are credit invisible. According to FICO, about 53 million US adults cannot be scored under its classic models.[16] Almost 30 percent of Black adults do not have FICO scores, compared with 27 percent of Hispanic adults and 17 percent of white adults.

Rent and mortgage payments have a lot in common. Both are monthly payments for housing, so it is natural to expect a household that pays its rent on time would also make timely mortgage payments. And, according to an Urban Institute study, renters and homeowners at similar income levels have similar monthly housing payments.[17] Past mortgage payment history is a stronger predictor of future performance than credit scores.[18] Even for households with lower FICO scores, those who do not miss mortgage payments are significantly less likely to default on their mortgages in the subsequent two years. This finding suggests that including rental payments in mortgage underwriting can enhance predictability for mortgage performance.

The GSEs have started to explore ways to include rental payment history in mortgage underwriting. In August 2021, Fannie Mae announced that it would allow rental payments to be incorporated into mortgage applications for certain first-time homebuyers. Under the new standard, its Desktop Underwriter system will enable single-family lenders "to automatically identify recurring rent payments in the applicant's bank statement data to deliver a more inclusive credit assessment," with the applicant's consent. In November 2021, Freddie Mac entered into a contract with Esusu, a rental credit reporting company, to increase rental payment data into credit files for its new multifamily loans.

Because households of color are more likely to be renters and more likely to be credit invisible, they are more likely to benefit from including rental history payments in mortgage underwriting. Our analysis support this finding, even after incorporating the fact that households of color are more likely to miss their monthly rental payments. Currently, negative rental payment history is often reflected in credit files through collection or eviction efforts, but those who pay on time get no credit for doing so.

While the GSEs are moving in the right direction, much more work is necessary to facilitate the use of rental payment data in mortgage underwriting. This work includes encouraging more landlords to report rental payment data to credit bureaus; standardizing these data; expanding the use of rental payment data for underwriting at Fannie Mae; introducing its use at Freddie Mac, FHA and the VA; and providing guidelines to lenders on how to use these data in their underwriting process.

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[16] See FICO, "Expanding Credit Access with Alternative Data" (San Jose, CA: FICO, 2021).

[17] Laurie Goodman and Jun Zhu, "Rental Pay History Should Be Used to Assess the Creditworthiness of Mortgage Borrowers," *Urban Wire* (blog), Urban Institute, April 17, 2018, https://www.urban.org/urban-wire/rental-pay-history-should-be-used-assess-creditworthiness-mortgage-borrowers.

[18] Laurie Goodman and Jun Zhu, "Fannie Mae's Decision to Incorporate Rental Payments into the Mortgage Origination Process Will Expand Access to Homeownership Over Time," *Urban Wire* (blog), Urban Institute, August 12, 2021, https://www.urban.org/urban-wire/fannie-maes-decision-incorporate-rental-payments-mortgage-origination-process-will-expand-access-homeownership-over-time.

Our research shows that economic downturns can lead to even worse outcomes for individuals and families of color.[19] Many timely policies and actions amid COVID-19 kept people stay housed, and I hope our society could take the lessons we learned from the pandemic and create longer-term solutions to improve the economic health and resilience of vulnerable communities and families.

I appreciate your consideration of this testimony and welcome any future opportunity to share research and data with the Committee.

[19] See Michael Neal and Alanna McCargo, *How Economic Crises and Sudden Disasters Increase Racial Disparities in Homeownership* (Washington, DC: Urban Institute, 2020).

Testimony
Before the United States House of Representatives Committee on Financial Services
Hearing on "Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market"
Full Committee

Norbert J. Michel
Vice President and Director
Center for Monetary and Financial Alternatives, Cato Institute

June 29, 2022

Introduction

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, thank you for the opportunity to testify at today's hearing. My name is Norbert Michel and I am Vice President and Director for the Center for Monetary and Financial Alternatives at The Cato Institute. The views I express in this testimony are my own and should not be construed as representing any official position of The Cato Institute.

It is always convenient to blame "Wall Street" and "speculators" for economic difficulties because those terms obscure the human component that drives specific economic outcomes, thus making it easy to deflect blame away from individuals and difficult to objectively evaluate particular claims. The tactic is very effective. For instance, recent stories have stoked fears that large institutional investors (private equity firms) are causing rapid price increases in single family housing markets.[1]

Yet, research demonstrates that institutional investors play a very small role in the single family housing market – both in absolute terms and relative to large multifamily housing companies and other single family home investors.[2] A Philadelphia Federal Reserve Bank paper, for instance, shows that "from 2006 to 2014, the share of large institutional buyers of total

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[1] Ryan Dezember, "If You Sell a House These Days, the Buyer Might Be a Pension Fund," *The Wall Street Journal*, April 4, 2021, https://www.wsj.com/articles/if-you-sell-a-house-these-days-the-buyer-might-be-a-pension-fund-11617544801; Staff, "Institutional Investors, Higher Material Costs Lead To Rising Home Prices," *The Real Deal Real Estate News*, April 13, 2021, https://therealdeal.com/national/2021/04/13/institutional-investors-higher-material-costs-lead-to-rising-home-prices/; and, Staff, "Investors, Speculators Plow Into US Housing Market: Report," *The Real Deal Real Estate News*, June 21, 2019, https://therealdeal.com/national/2019/06/21/investors-speculators-plow-into-us-housing-market-report/

[2] For a list of the largest multifamily companies, see "The Top 15 Multifamily Property Managers of 2021," Multifamily.loans, January 22, 2021, https://www.multifamily.loans/apartment-finance-blog/the-top-15-multifamily-property-managers-of-2019.

purchases increases from virtually zero to 1.47 percent while the share of LLC purchases goes up by 4.04 percentage points."[3] The authors claim that "despite the rise that began after 2010, in 2014 their shares remained small: The average share of large institutions as buyers was 1.47 percent."[4] Additional research by the Federal Reserve indicates that institutional investors comprised "1 to 2 percent of all single-family purchases from 2012 to 2014," while "purchases by other investors accounted for 18 to 19 percent of single-family home purchases during the same period," and that "buy-to-rent investors owned about 0.14 percent of the housing stock in 2014, whereas corporate investors owned 6 percent and individual investors owned 6 percent."[5]

Despite the small share, the evidence also suggests that "institutional investors contribute to the improvement of the local housing market by reducing vacancy rates as they shorten the amount of time distressed properties stay in REO [real estate owned foreclosure]," and that "institutional investors help lower local unemployment rates by increasing local construction employment."[6] Citing other research, the Urban Institute's Laurie Goodman argues that institutional investors "grew up in 2010-2013 buying distressed properties that no one else would buy and in fact put a floor on the market, so they provided a very, very valuable service and they basically cleaned up the distressed market, a lot of which required repairs."[7] Goodman also cites evidence that "institutional operators owned just 300,000 single-family units in 2019," approximately 2 percent of the roughly 15 million one-unit detached single-family *rental* homes in the United States, and less than 0.5 percent of the total number (80 million) of detached single-family homes in the United States.[8] More recent research by the National Rental Home Council (NRHC) estimates that 0.74 percent of single-family home purchases in the second quarter of 2021 were made by "large investors."[9] Put differently, the

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[3] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky, "Institutional Investors and the U.S. Housing Recovery," *Federal Reserve Bank of Philadelphia*, WP 19-45, November 2019, p. 17, https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2019/wp19-45.pdf.
[4] Lambie-Hanson, et al., pp. 10-11.
[5] James Mills, Raven S. Molloy, and Rebecca E. Zarutskie, "Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?," *Federal Reserve Board*, Working Paper 2015-084, p. 2, https://www.federalreserve.gov/econresdata/feds/2015/files/2015084pap.pdf.
[6] Lambie-Hanson, et al., p. 1. Separately, an Urban Institute report quotes Lambie-Hanson saying that "there really isn't any evidence in our research that institutional investors led to higher rents or greater eviction rates for our sample of counties tracked through the recovery." See Caitlin Young, "Institutional Investors Brought Higher Home Prices and Lower Vacancies to the Housing Recovery," *Urban Wire*, March 5, 2020, https://www.urban.org/urban-wire/institutional-investors-brought-higher-home-prices-and-lower-vacancies-housing-recovery.
[7] Jerusalem Demsas, "Wall Street Isn't To Blame For The Chaotic Housing Market," *Vox*, June 11, 2021, https://www.vox.com/22524829/wall-street-housing-market-blackrock-bubble. Also see Laurie Goodman and Edward Golding, "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire*, October 20, 2021, https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair.
[8] Demsas, "Wall Street Isn't To Blame For The Chaotic Housing Market."
[9] National Rental Home Council, "NRHC Analysis of Data Shows Just 0.74% of Home Purchases in Second Quarter of 2021 Made by Large Investors," October 15, 2021, https://www.rentalhomecouncil.org/wp-content/uploads/2021/10/Investor-purchases-Blog-Oct-2021.pdf.

NRHC estimates that 99.26 percent of single-family homes purchased in the second quarter of 2021 "were made by someone, or some entity, other than a large investor."[10]

In contrast, the federal government is heavily involved in the single-family home market, particularly in ways that increase demand by making it easier to obtain home mortgages. Given that housing markets are consistently supply constrained, there is little doubt that federal housing finance policies contribute greatly to higher home prices. Unfortunately, several new Biden administration policies, as well as multiple proposals being considered in Congress, promise to implement the same types of failed housing policies of the past. Collectively, these policies will further expand government intervention in housing markets at a great cost to millions of Americans, pushing up prices as well as rental rates, wasting taxpayers' money and making housing less affordable.

Excessive Government Involvement in U.S. Housing Markets

Federal intervention has increasingly become the norm in housing markets since the 1930s, and the perceived success of these policies has helped perpetuate and expand that involvement. The United States is the only major country in the world with a federal government mortgage insurer, government guarantees of mortgage securities, *and* government-sponsored enterprises (GSEs) in housing finance. As of 2010, comparing the United States with 11 other industrialized countries, only two have a government mortgage insurer (Netherlands and Canada), two have government security guarantees (Canada and Japan), and two have GSEs (Japan and Korea).[11] Denmark even maintains a prepayable fixed-rate 30-year mortgage without the need for GSEs or other government support, and at a lower cost to borrowers than in the United States.[12]

Most federal intervention in housing finance boosts demand, typically by making it easier to obtain a home mortgage. Federal policies encourage borrowing by supporting the operations of Fannie Mae, Freddie Mac, and Ginnie Mae, and by providing loan insurance through the Federal Housing Administration (FHA), the Veterans Affairs (VA) home-lending program, and the U.S. Department of Agriculture's Rural Development Program. Historically, the federal tax code has also promoted housing investment and consumption by allowing taxpayers to deduct mortgage interest and capital gains from the sale of a home from their

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[10] National Rental Home Council, "NRHC Analysis of Data."

[11] Michael Lea, "International Comparison of Mortgage Product Offerings," *Research Institute for Housing America Special Report*, September 2010, https://business.sdsu.edu/_resources/files/real-estate/research/10122_research_riha_lea_report.pdf.

[12] Jesper Berg, Morten Bækmand Nielsen, and James Vickery, "Peas in a Pod? Comparing the U.S. and Danish Mortgage Finance Systems," Federal Reserve Bank of New York, *Economic Policy Review*, Vol. 24, no. 3, December 2018, https://www.newyorkfed.org/research/epr/2018/epr_2018_US-danish-mortgage-finance_berg; Frances Schwartzkopff, "World's Cheapest Mortgage May Be Around the Corner in Denmark," *Bloomberg*, March 21, 2019, https://www.bloomberg.com/news/articles/2019-03-21/world-s-cheapest-mortgage-may-be-around-the-corner-in-denmark; and, Frances Schwartzkopff, "20-Year Mortgages Hit Zero for First Time in Danish Rate History," Bloomberg, August 7, 2019, https://www.bloomberg.com/news/articles/2019-08-07/nordea-offers-20-year-mortgages-at-zero-interest-as-rates-plunge.

federal income tax liability. Additionally, the Basel capital requirements have long provided financial institutions with capital relief for holding mortgage-backed-securities (MBS) rather than whole loans, while Fannie Mae and Freddie Mac have long enjoyed lower equity requirements than banks.[13]

Prior to the 2008 financial crisis the federal government controlled a dominant share of the U.S. housing finance system, and that share has expanded. As of December 31, 2020, Fannie and Freddie (both of which remain in government conservatorship) had combined total assets of $6.6 trillion, representing approximately 42 percent of the nation's outstanding mortgage debt.[14] From 2008 to 2019, the FHA's annual market share of purchase loans ranged from 16.49 percent to 32.6 percent.[15] From 2009 to 2020, Fannie and Freddie's annual share of the total MBS market averaged 70 percent. Including Ginnie Mae securities, those that are backed by FHA mortgages, the federal share of the MBS market averaged 92 percent per year.[16] Moreover, from 2008 to 2020, the Federal Reserve went from holding zero MBS to more than $2 trillion (combined Fannie, Freddie, and Ginnie MBS).[17]

Yet, the evidence suggests that the expansive federal role has done little to expand homeownership. Robust mortgage financing exists in virtually every developed nation of the world without the high degree of government involvement found in the United States, but the overall U.S. homeownership rate is below average among developed nations (64.5 percent in the United States versus 68.1 percent for Organisation for Economic Co-operation and

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[13] Norbert J. Michel and John Ligon, "Basel III Capital Standards Do Not Reduce the Too-Big-to-Fail Problem," Heritage Foundation Backgrounder no. 2905, April 23, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2905.pdf; and, Norbert J. Michel, "Strict Bank-Like Capital Rules Needed for Fannie Mae and Freddie Mac," Heritage Foundation Backgrounder no. 3474, March 9, 2020, https://www.heritage.org/sites/default/files/2020-03/BG3474.pdf.

[14] For the fiscal year ending December 31, 2020, Fannie Mae reported $4 trillion in total assets while Freddie Mac reported $2.6 trillion. See Federal National Mortgage Association, "Annual Report," December 31, 2020, p. 61, https://www.fanniemae.com/media/38271/display. p. 61; and Federal Home Loan Mortgage Corporation, "Annual Report," December 31, 2020, p. 34, http://www.freddiemac.com/investors/financials/pdf/10k_021121.pdf, p. 34. The 42 percent figures it is the author's estimate using the Federal Reserve's (now discontinued) 2019 reported total for mortgage debt outstanding ($15.8 trillion). See Board of Governors of the Federal Reserve System, "Mortgage Debt Outstanding, All holders (DISCONTINUED) [(MDOAH])," retrieved from FRED Economic Data, Federal Reserve Bank of St. Louis, October 15, 2021, https://fred.stlouisfed.org/series/MDOAH, October 15, 2021.

[15] See United States Department of Housing and Urban Development, "FHA Single Family Market Share, 2020 Q1," p. 4, https://www.hud.gov/sites/dfiles/Housing/images/FHASFMarketShare2020Q1.pdf.

[16] These figures include both single-family and multi-family MBS. Securities Industry and Financial Markets Association, "US MBS Securities: Issuance, Trading Volume, Outstanding," October 13, 2021, https://www.sifma.org/resources/research/us-mortgage-backed-securities-statistics/us-mortgage-backed-securities-statistics-sifma/; and, Ginnie Mae, *Insurance Summary*, March 2021, https://www.ginniemae.gov/data_and_reports/reporting/MonthlyIssuanceReports/Mar21_ISS.pdf.

[17] Board of Governors of the Federal Reserve System, "Assets: Securities Held Outright: Mortgage-Backed Securities: Wednesday Level [WSHOMCB]," retrieved from FRED, Federal Reserve Bank of St. Louis, June 26, 2022, https://fred.stlouisfed.org/series/WSHOMCB.

Development (OECD) countries).[18] And even though the U.S. ownership rate has changed little since the 1960s, volatility of home prices and home construction in the United States were among the highest in the industrialized world from 1998 to 2009.[19] Federal housing finance policies have, at the very least, magnified economic instability by inducing higher home prices.[20] Federal involvement expanded after the most recent financial crisis, for instance, and home prices have risen to 43 percent *more* than where they peaked prior to their 2007 crash.[21] The fact that prices are so far from the bottom of a housing cycle is worrisome, especially since empirical evidence links large increases in housing prices to banking crises.[22]

Other research, when examining asset price booms and busts in the OECD countries from 1970 to 2001, estimates that the probability of a real estate boom ending in a bust is 53 percent, whereas stock market booms have just a 13 percent probability of ending in a crash.[23] Another study estimates that a 1 percentage point increase in real home prices raises the probability of a U.S. financial crisis by 0.07 percent.[24] Moreover, the role of housing prices in U.S. financial crises is linked to high-leverage lending, where policies ensure that both borrowers and those who fund mortgages can do so with relatively little loss-absorbing equity. For decades, U.S. housing finance policy has helped increase the number of mortgages requiring low down payments used for financing homes, even though evidence clearly indicates that the risk of loan default increases (particularly among first-time home buyers) as the loan-to-value ratio increases.[25]

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[18] These figures represent the combined ownership rate for people who own their home outright and those who own a mortgage, for both the United States and all Organisation for Economic Co-operation and Development (OECD) countries, using 2019 data, as reported in the OECD Affordable Housing Database, October 15, 2021, available at https://www.oecd.org/housing/data/affordable-housing-database/.

[19] Dwight M. Jaffee, "Reforming the U.S. Mortgage Market Through Private Market Incentives," in Satya Thallam, ed., *House of Cards: Reforming America's Housing Finance System*, George Mason University, Mercatus Center, March 2012, pp. 23-25, http://mercatus.org/sites/default/files/House_of_Cards_March_2012.pdf (accessed March 6, 2014).

[20] Broadly, federal housing policies have caused more than their share of economic turmoil. See Alex J. Pollock and Edward J. Pinto, "Political Disasters in US Housing: The Lessons of History," *Housing Finance International*, AEI Op-Ed, September 30, 2021, https://www.aei.org/op-eds/political-disasters-in-us-housing-the-lessons-of-history/.

[21] This 43 percent figure refers to the S&P/Case-Shiller U.S. National Home Price Index. See S&P Dow Jones Indices LLC, "S&P/Case-Shiller U.S. National Home Price Index [(CSUSHPISA])," retrieved from FRED Economic Data, Federal Reserve Bank of St. Louis, October 15, 2021, https://fred.stlouisfed.org/series/CSUSHPISA.

[22] Carmen M. Reinhart and Kenneth S. Rogoff, "Is the 2007 US Sub-prime Crisis so Different? An International Historical Comparison," *American Economic Review*, 98, no. 2 (May 2008): 339–44.

[23] Michael D. Bordo and Olivier Jeanne, "Boom-Busts in Asset Prices, Economic Instability, and Monetary Policy," NBER Working Paper no. 8966, June 2002, pp. 9–10.

[24] See Ray Barrell et al., "Bank Regulation, Property Prices and Early Warning Systems for Banking Crises in OECD Countries," *Journal of Banking and Finance*, Vol. 34, no. 9 (September 2010): 2255–64. Also see Mark Calabria, "The Role of Mortgage Finance in Financial (In)Stability," in *Homeownership Built to Last: Balancing Access, Affordability, and Risk after the Housing Crisis*, ed. Eric S. Belsky, Christopher E. Herbert, and Jennifer H. Molinsky (Washington: Brookings Institution Press, 2014), pp. 372–93.

[25] "Legislative Proposals to Determine the Future Role of FHA, RHS and GNMA in the Single- and Multi-Family Mortgage Markets," Testimony Before the House Financial Services Subcommittee on Insurance, Housing and Community Opportunity, 112th Cong., First Session, (September 8, 2011)(statement of Carol J. Galante), https://financialservices.house.gov/uploadedfiles/090811galante.pdf, pp. 14–15; Patric H. Hendershott and

Owning one's own home is commonly viewed as part of the American Dream, and policymakers – as well as special interest groups – regularly promote building wealth through buying a home. They also tout beneficial "spillover effects" from homeownership, such as increased engagement in civic institutions, greater political participation, and positive educational outcomes for children. However, much of the evidence for causal spillover effects – that is, the notion that owning a home *causes* people to change their behavior in beneficial ways – is weak, and the size of such spillover effects, where they do exist, does not appear to justify the historical level of government involvement.[26] Furthermore, other research has suggested that homeownership is associated with *negative* spillover effects, such as higher unemployment due to an incentive against relocating.[27] Finally, although home equity frequently represents a large portion of many Americans' wealth, purchasing a home can be a risky investment that depends entirely on home price appreciation, an attribute fundamentally in conflict with housing becoming more affordable.[28]

Price Appreciation and Ownership Rates: A Closer Look

William R. Schultz, "Equity and Nonequity Determinants of FHA Single-Family Mortgage Foreclosures in the 1980s," NBER Working Paper no. 4440, August 1993, https://www.nber.org/papers/w4440; George M. Von Furstenberg, "Default Risk on FHA-Insured Home Mortgages as a Function of the Terms of Financing: A Quantitative Analysis," *Journal of Finance*, 1969, Vol. 24, no. 3 (June 1969), pp. 459-4–77; and Morris A. Davis et al., "A Quarter Century of Mortgage Risk," AEI Economics Working Paper no. 2019-04, May 2021, https://www.aei.org/research-products/working-paper/mortgage-risk-since-1990/.

[26] Jane R. Zavisca and Theodore P. Gerber, "The Socioeconomic, Demographic, and Political Effects of Housing in Comparative Perspective," *Annual Review of Sociology*, July 2016, Vol. 42, pp. 347-367, https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6078393/; David R. Barker, "The Evidence Does Not Show That Homeownership Benefits Children," *Cityscape*, 2013, Vol. 15, No. 2, pp. 231-234, https://www.jstor.org/stable/41959125; and, Edward L. Glaeser and Jesse M. Shapiro, "The Benefits of the Home Mortgage Interest Deduction," National Bureau of Economic Research Working Paper no. 9284, October 2002, https://www.nber.org/system/files/working_papers/w9284/w9284.pdf.

[27] See David G. Blanchflower and Andrew J. Oswald, "Does High Home-Ownership Impair the Labor Market?," National Bureau of Economic Research Working Paper no. 19079, May 2013, https://www.nber.org/system/files/working_papers/w19079/w19079.pdf; Jennifer Brown and David Matsa, "Locked in By Leverage: Job Search During the Housing Crisis," *Journal of Financial Economics*, Vol. 136, No. 3, June 2020, pp. 623-648; Sewin Chan, "Spatial Lock-in: Do Falling House Prices Constrain Residential Mobility?," Journal of Urban Economics, Vol. 49, No. 3, May 2001, pp. 567-586; and, Fernando Ferreira, Joseph Gyourko, and Joseph Tracy, "Housing Busts and Household Mobility: An Update," Federal Reserve Bank of New York Economic Policy Review, November 2012, pp. 1-15, https://www.newyorkfed.org/medialibrary/media/research/epr/12v18n3/1210ferr.pdf.

[28] For *at least* the past 20 years, home prices have exhibited similar volatility to equity markets. Joe Cortright, "Why Homeownership Is Frequently A Bad Bet," *City Commentary*, July 15, 2019, https://cityobservatory.org/why-homeownership-is-frequently-a-bad-bet/. Also see Daniel Indiviglio, "Should the Government Encourage Home Ownership?," *The Atlantic*, June 17, 2010, https://www.theatlantic.com/business/archive/2010/06/should-the-government-encourage-home-ownership/58320/; and, Daniel Indiviglio, "The Fallacy of Eternal Home Price Appreciation," *The Atlantic*, April 6, 2010, https://www.theatlantic.com/business/archive/2010/04/the-fallacy-of-eternal-home-price-appreciation/38546/.

While government intervention in housing has steadily increased, the overall rate of U.S. homeownership has remained nearly constant over the past 50 years.[29] On the other hand, the level of residential mortgage debt has increased more than fivefold – Federal Reserve data show that inflation-adjusted mortgage debt increased from about $3 trillion in 1970 (two years after Fannie Mae became a GSE) to $15.8 trillion in 2019. While countless government programs are touted as boosting homeownership, these policies have tended to increase *mortgage* ownership. According to the Census Bureau, the homeownership rate was 64 percent in 1970. That's basically where it hovered for most of the 1980s and 1990s, higher than where it bottomed out in 2016, and almost exactly where it stood in the middle of 2019.[30]

There is, of course, much more to the home ownership story than just the national rate. For instance, the Census Bureau's American Community Survey (ACS) reports homeownership rates by core-based statistical area (CBSA), a statistic that can be paired with each CBSA's median price-to-income ratio.[31] These figures show a national ownership rate of 63.3 percent for 2019.[32] However, for the 25 CBSAs with the highest price-to-income ratios (the least affordable homes), the average ownership rate is just 61.8 percent. In San Jose and Los Angeles, both among the three CBSAs with the least affordable homes, the ownership rates are 56.6 percent and 48.6 percent, respectively. For the 25 CBSAs with the lowest price-to-income ratios (the *most* affordable homes), the average rate is 69.5 percent. For at least the last decade, federal policies have fueled debt and correspondingly rapid home price appreciation at a much higher rate in the entry-level segment (lower-priced homes) of the market.[33]

Overemphasis on Rates and Demand Rather Than Supply

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[29] Between 1940 and 1960 the U.S. homeownership rate increased from 44 percent to 62 percent. Research suggests that it is "likely that there was some commonality between the drivers of the increases in non-farm home ownership in the pre-1930s and the post-1940 periods." See Daniel K. Fetter, "The 20th-Century Increase in US Home Ownership: Facts and Hypotheses," *National Bureau of Economic Research*, July 2, 2013, p. 5, http://www.nber.org/chapters/c12801.pdf. One key factor—which explains approximately 17 percent of the homeownership rate increase from 1940 to 1960—was that people began buying homes at much younger ages than previously. Research also suggests that increasing income accounted for up to 50 percent of the increase from 1940 to 1960, and up to 20 percent may have resulted from tax benefits becoming more pronounced as income increased. See Daniel K. Fetter, "The 20th-Century Increase in US Home Ownership: Facts and Hypotheses," pp. 16-18.

[30] U.S. Census Bureau, Homeownership Rate in the United States [RHORUSQ156N], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/RHORUSQ156N, October 15, 2021.

[31] These figures were provided to the author by the AEI Housing Center.

[32] According to Census data, the African American ownership rate in 2000 was 46.3 percent, *higher* than the 2019 rate of 44 percent. See United States Census Bureau, "Historical Census of Housing Tables: Homeownership by Race and Hispanic Origin," 2000, https://www2.census.gov/programs-surveys/decennial/tables/time-series/coh-ownershipbyrace/ownershipbyrace-tab.txt; and, United States Census Bureau, "Quarterly Residential Vacancies And Homeownership, Second Quarter 2021," July 27, 2021, Table 7, https://www.census.gov/housing/hvs/files/currenthvspress.pdf.

[33] See Edward J. Pinto, Norbert J. Michel, and Tobias Peter, "Comment Letter for Qualified Mortgage Definition under the Truth in Lending Act (Regulation Z), Consumer Financial Protection Bureau, Docket No. CFPB-2019-0039," September 18, 2019, https://www.aei.org/research-products/report/comment-letter-on-the-qualified-mortgage-definition/.

Even if the aforementioned positive spillover effects from home ownership clearly outweighed the negative ones, it would not automatically follow that the federal government should undertake a policy of actively encouraging people—especially those with low wealth—to finance home purchases with low-equity long-term debt. Such mortgages are risky for both borrowers and lenders, and the ability to consistently repay a mortgage in timely fashion – or consistently pay rent in a timely manner – is dependent on broad economic and social factors. Those factors, including education quality and regulatory barriers that hamper employment, ultimately determine the ownership and rental rates in the economy, and it is a mistake to assume that any particular ownership rate is the "correct" one. Policies that simply target the ownership rate are destined to fail precisely because they do nothing to change the underlying economic factors that govern the long-term rate of home ownership.

In 1994, President Clinton launched National Partners in Homeownership, a private–public cooperative, with an explicit goal of raising the U.S. homeownership rate from 64 percent to 70 percent by 2000.[34] Although the rate increased from 64 percent in 1994 to 69 percent in 2004, at a time when Fannie and Freddie went from holding (combined) 35 percent of the nation's mortgages to more than 43 percent,[35] more than 4 million people lost their homes during the 2008 financial crisis, and the rate fell back to 65 percent – only 1 percentage point higher than in 1968. This episode is emblematic of longstanding federal housing finance policy with a misplaced emphasis on the rate of ownership and federal intervention that boosts the quantity of home mortgages.

These demand-side policies have been particularly problematic because, compared to increasing the supply of housing, it is rather easy to boost demand. Housing supply is always relatively constricted in the sense that available land (in locations that people most desire to live) is a prerequisite for large scale home building, and because a new home (or apartment building) takes at least several months to construct. In many areas, state and local regulatory restrictions have contributed heavily to supply constraints in housing markets, often by limiting the amount of land that can be used for particular types of housing.[36] Inducing demand in supply-constrained markets can only serve to put upward pressure on prices, and housing markets are no exception. Thus, federal housing finance policies have typically made it more expensive (everything else constant) to either buy or rent a dwelling. Nonetheless, inducing demand is precisely what federal policies have done for decades, and there appears to be no desire in Congress (or the administration) to reverse, or even slow, that trend.

[34] Norbert Michel and John Ligon, "Fannie and Freddie: What Record of Success?," Heritage Foundation Backgrounder no. 2854, November 7, 2013, https://www.heritage.org/housing/report/fannie-and-freddie-what-record-success.

[35] These figures refer to *Total Mortgages Held or Securitized by Fannie Mae and Freddie Mac, as a Percentage of Residential Mortgage Debt Outstanding,* as reported by the FHFA. See Federal Housing Finance Agency, Data, *Enterprise Share of Residential Mortgage Debt Outstanding 1990 – 2010*, 2021, https://www.fhfa.gov/DataTools/Downloads/Pages/Current-Market-Data.aspx.

[36] Lee Ohanian, "Common-Sense Policy Reforms for California Housing," Cato Policy Analysis no. 920, August 31, 2021, https://www.cato.org/policy-analysis/common-sense-policy-reforms-california-housing; and, Vanessa Brown Calder, "Zoning, Land-Use Planning, and Housing Affordability," Cato Policy Analysis no. 823, October 18, 2017, https://www.cato.org/policy-analysis/zoning-land-use-planning-housing-affordability.

Congress and Biden Administration Set To Further Interfere With Housing Markets While Increasing Risky Debt and Prices

Recent moves by the Biden administration, as well as multiple congressional proposals, demonstrate a clear commitment to implementing the same types of failed housing policies that have consistently expanded government intervention in housing markets at a great cost to millions of Americans. For instance, the Treasury and the Federal Housing Finance Agency (FHFA) announced (on September 14, 2021) that they would suspend certain conditions (added in 2021) to the Preferred Stock Purchase Agreements (PSPAs) that govern the conservatorships of Fannie Mae and Freddie Mac.[37] The PSPAs are key to protecting taxpayers against future bailouts and ensuring that Fannie and Freddie (the enterprises) do not further crowd out private capital,[38] but the administration has weakened those protections by suspending the provisions that capped the enterprises' purchases of multifamily housing loans, as well as single-family loans "with higher risk characteristics," second homes, and investment properties.[39] These last two provisions have nothing to do with helping people become homeowners, and they represent a naked give away to special interests that lobby to maximize real estate lending. Uncapping the enterprises' multifamily loan purchases is also a giveaway to corporate rent seekers and will likely do little, if anything, to increase the amount of housing that would otherwise go unbuilt.

Separately, the FHFA announced a new notice of proposed rulemaking to amend the Enterprise Regulatory Capital Framework (ERCF) enacted in 2020.[40] The ERCF framework was designed to strengthen the enterprises and protect taxpayers and was among the most meaningful housing finance reforms since 2008. Yet, the administration wants to lower the enterprises' prescribed leverage buffer amount (PLBA) *and* the floor on the risk weight assigned to any retained credit risk transfer (CRT) exposures. Just as with weakening the PSPA provisions, it makes zero sense to lower the GSEs' capital requirements, especially when home prices have risen so much. Aside from the potential effect on home prices, rolling back these reforms will weaken the enterprises' capital position and force taxpayers to back more high-risk loans, thus

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[37] Federal Housing Finance Agency, "FHFA and Treasury Suspending Certain Portions of the 2021 Preferred Stock Purchase Agreements," *News Release*, September 14, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-and-Treasury-Suspending-Certain-Portions-of-the-2021-Preferred-Stock-Purchase-Agreements.aspx.

[38] Joel Griffith and Norbert Michel, "Revising the Preferred Stock Purchase Agreements of Fannie Mae and Freddie Mac May Be the Biggest GSE Bailout Yet," Heritage Foundation Backgrounder no. 3448, November 4, 2019, https://www.heritage.org/sites/default/files/2019-11/BG3448.pdf.

[39] Federal Housing Finance Agency, "FHFA and Treasury Suspending Certain Portions of the 2021 Preferred Stock Purchase Agreements," *News Release*, September 14, 2021, https://www.fhfa.gov/Media/PublicAffairs/Pages/FHFA-and-Treasury-Suspending-Certain-Portions-of-the-2021-Preferred-Stock-Purchase-Agreements.aspx.

[40] Federal Housing Finance Agency, "Enterprise Regulatory Capital Framework Rule—Prescribed Leverage Buffer Amount and Credit Risk Transfer," Notice of proposed rulemaking, *Federal Register*, Vol. 86, no. 184, September 27, 2021, https://www.govinfo.gov/content/pkg/FR-2021-09-27/pdf/2021-20297.pdf.

increasing the risk of future bailouts. Of course, reducing the capital requirements is precisely what various special interest groups have been calling for since the FHFA originally proposed the ERCF. For instance, the cottage CRT industry, ironically a group that consists mostly of large investors and Wall Street firms, has long called for *no risk weight floor* on CRT exposures, which is equivalent to treating them as risk-free investments as safe, or safer, than U.S. Treasuries.

From a safety and soundness standpoint, the idea that CRTs completely eliminate the enterprises' risk is pure fantasy – they increase the enterprises' financial obligations and their value to either the enterprises or taxpayers is highly questionable.[41] Similarly, it makes little sense to lower the existing leverage buffer, a mechanism that serves as a part of a backstop to the enterprises' risk-based capital requirements. In addition to the tier 1 leverage ratio, the GSEs are supposed to maintain a fixed buffer of at least 2.5 percent tier 1 capital to adjusted total assets. Lowering this amount – or any of the risk-based requirements – cannot legitimately be described as improving the enterprises' safety and soundness because it does the exact opposite. If anything, the original rule should have required *higher* capital ratios, so that the enterprises' requirements were more in line with those of the Global Systemically Important Banks (GSIBs).

Nonetheless, the administration is now proposing to replace the fixed buffer with "a dynamic leverage buffer determined annually and tied to the stability capital buffer," a change that the FHFA estimates will reduce the enterprises' leverage buffers by about two-thirds.[42] Perhaps worse, the administration is setting up an even larger reduction in capital. The new proposal asks for comments on whether "the prudential risk weight floor of 20 percent on single-family and multifamily mortgage exposures [is] appropriately calibrated,"[43] a clear signal that the administration wants to lower the enterprises' overall capital requirements.

Harmful Programs Included in Reconciliation Package

Aside from these risky housing finance provisions, the administration and Congress are trying to implement multiple housing policies that will waste taxpayers' money and make housing *less* affordable. For instance, the House Financial Services Committee inserted $10

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[41] Federal Housing Finance Agency, "Performance Of Fannie Mae's And Freddie Mac's Single-Family Credit Risk Transfer," May 2021, https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/CRT-Overview-05172021.pdf. The report also explains (see page 23) that "CRT investors and counterparties are projected to receive a simple return [interest and premiums received less write downs and reimbursements divided by risk in force at issuance] of about 26 percent on the original reference pool UPB in the baseline scenario and 16 percent in the 2007 Replay."

[42] Federal Housing Finance Agency, "Enterprise Regulatory Capital Framework Rule—Prescribed Leverage Buffer Amount and Credit Risk Transfer," Figure 2, p. 53237.

[43] Federal Housing Finance Agency, "Enterprise Regulatory Capital Framework Rule—Prescribed Leverage Buffer Amount and Credit Risk Transfer," p. 53238. Even the Financial Stability Oversight Council (FSOC) officially stated that the enterprises' capital requirements should not be lower than those in the 2020 ERCF. United States Department of the Treasury, "Financial Stability Oversight Council Issues Statement on Activities-Based Review of Secondary Mortgage Market Activities," September 25, 2020, p. 4, https://home.treasury.gov/news/press-releases/sm1136.

billion into a reconciliation bill for the First-Generation Downpayment Assistance Fund, a program loosely designed to provide downpayment assistance to first-time homebuyers.[44] There is no doubt that it is difficult to save a large downpayment for a mortgage, but it does not follow that the federal government should provide even a portion of those funds. Among other problems, subsidizing downpayments puts upward pressure on home prices, making it more expensive for everyone who buys a home and for those who rent. The way the proposal is written, there is little doubt that federal agencies will define *first time homebuyer* broadly, so that anyone who has not owned a home during the past few years will still qualify. Moreover, the funds will be available to states as well as *eligible entities*, including those who provide grants to buy shared equity homes, those for which lenders provide a second mortgage to the homeowner in return for sharing any profits when the home is later sold. Naturally, the best chance for earning a profit in this case is if home prices rise, so the policy design is all but an admission that the program helps put upward pressure on prices.

Unsurprisingly, downpayment assistance programs have a miserable track record in the United States, and in 2008 Congress eliminated the FHA's seller-funded downpayment assistance program because it was such a disaster.[45] A 2007 Government Accountability Office report showed that "the probability that loans with seller-funded downpayment assistance would result in claims against the [FHA's insurance] fund was 76 percent higher in the national sample and 166 percent higher in the MSA sample than it was for comparable loans without such assistance."[46] Separate from loans in that failed FHA program, delinquencies of single-family FHA loans with downpayment assistance are consistently higher than FHA loans without such assistance.[47] In fact, there is evidence that borrowers who provide even small downpayments from their own savings display lower default rates than those who receive downpayments from an outside source, possibly suggesting that *the act of saving* the money is

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[44] House Financial Services markup providing for reconciliation pursuant to S. Con. Res. 14, the Concurrent Resolution on the Budget for Fiscal Year 2022, Section 40201, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408300. Also see Norbert Michel, "House Financial Services Is Pushing For A Downpayment Assistance Program, Another Failed Policy From The Past," *Forbes*, September 17, 2021, https://www.forbes.com/sites/norbertmichel/2021/09/17/house-financial-services-is-pushing-for-a-downpayment-assistance-program-another-failed-policy-from-the-past/?sh=777c8ec94394.

[45] Legislative Proposals To Determine The Future Role Of FHA, RHS, and GNMA In The Single- And Multi-Family Mortgage Markets, Hearing Before The Subcommittee On Insurance, Housing, And Community Opportunity Of The Committee On Financial Services, U.S. House Of Representatives, 112th Congress, First Session, May 25, 2011, https://www.govinfo.gov/content/pkg/CHRG-112hhrg66870/html/CHRG-112hhrg66870.htm.

[46] U.S. Government Accountability Office, "Seller-Funded Down-Payment Assistance Changes the Structure of the Purchase Transaction and Negatively Affects Loan Performance," GAO-07-1033T, June 22, 2007, https://www.gao.gov/assets/gao-07-1033t.pdf; and, Bruce Foote, "Treatment of Seller-Funded Downpayment Assistance in FHA-Insured Home Loans," *Congressional Research Service*, March 11, 2009, https://www.everycrsreport.com/files/20090311_RS22934_8a19891e362701515226541e1e64be0c057e3d02.pdf.

[47] The monthly FHA Single-Family Loan Performance Trends Report is available online as far back as 2013, and it shows similarly above average delinquencies throughout the years. For one example, see U.S. Department of Housing and Urban Development, *Federal Housing Administration, Annual Report, Fiscal Year 2020*, p. 39, https://www.hud.gov/sites/dfiles/Housing/documents/2020FHAAnnualReportMMIFund.pdf.

an important signal of underlying attributes.[48] The following list provides several additional examples of harmful housing policies proposed in the aforementioned reconciliation bill.[49]

- Provides $80 billion for public housing "preservation and creation," with $66.5 billion to be allocated at the discretion of the Housing and Urban Development Secretary.[50] This funding level is troubling on its own, given the abject failure of public housing,[51] but it is even more disturbing given Senator Chuck Schumer's recent public plea for $80 billion to "help bring much-needed change to the housing authority in New York City."[52] In a 2018 lawsuit, the federal government detailed the decrepit conditions that the New York City Housing Authority trained its employees to hide from HUD inspectors, thus protecting their $2 billion per year transfer from federal taxpayers.[53] The markup also includes a separate $750 million appropriation for the HUD Secretary to "oversee the implementation" of these funds.
    - Another troubling component of the bill is a provision (Section 40001(d)(2)) that amounts to a functional repeal of the Faircloth amendment, a change that would allow a *net increase* in public housing project construction.[54] Allowing a net increase in public housing projects would be a major reversal of federal housing policy, one that upends a longstanding bipartisan agreement that public housing projects were a major failure.[55]
- Includes $72 billion for "activities and assistance" for the HOME Investment Partnerships Program,[56] a federal block grant program created by the Cranston-Gonzalez National Affordable Housing Act of 1990. Typically, Congress appropriates between $1.5 and $2 billion per year for this program.[57] The program has a troubling

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[48] Austin Kelly, "'Skin in the Game': Zero Downpayment Mortgage Default," *Journal of Housing Research*, Vol. 17, no. 2, 2008, https://www.tandfonline.com/doi/abs/10.1080/10835547.2008.12091991.
[49] All references herein refer to the House Financial Services markup providing for reconciliation pursuant to S. Con. Res. 14, the Concurrent Resolution on the Budget for Fiscal Year 2022, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408300.
[50] Section 40001.
[51] See Howard Husock, "Public Housing and Rental Subsidies," *Manhattan Institute*, February 24, 2017, https://www.manhattan-institute.org/html/public-housing-and-rental-subsidies-10055.html.
[52] Charles Schumer, "NYCHA Needs Big Money For Major Progress," September 21, 2021, https://www.cityandstateny.com/opinion/2021/09/nycha-needs-big-money-major-progress/185481/.
[53] Kaja Whitehouse, Nolan Hicks, Yoav Gonen and Bruce Golding, "Feds: NYCHA Covered Up Public Housing Dangers For Years," *New York Post*, June 11, 2018, https://nypost.com/2018/06/11/feds-city-covered-up-public-housing-dangers-for-years/.
[54] The provision reads "Paragraph (3) of section 9(g) of the United States Housing Act of 1937 (42 U.S.C. 1437g(g)(3)) shall not apply to new funds made available under this section."
[55] Jenny Schuetz, "Four Reasons Why More Public Housing Isn't The Solution To Affordability Concerns," *Brookings Institute*, January 14, 2021, https://www.brookings.edu/blog/the-avenue/2021/01/14/four-reasons-why-more-public-housing-isnt-the-solution-to-affordability-concerns/.
[56] Section 40002.
[57] Katie Jones, "An Overview of the HOME Investment Partnerships Program," *Congressional Research Service*, R40118, January 4, 2021, https://sgp.fas.org/crs/misc/R40118.pdf.

track record of fraud even at its existing level of funding,[58] and it already funds duplicative programs including downpayment assistance plans.[59] This total also includes $36 billion for the Housing Trust Fund, as well as $50 million for "existing technical assistance providers" and $300 million for the HUD Secretary to oversee the implementation of these funds. The Housing Trust Fund is rife with waste – even though it received more than $1 billion since 2016, more than 65 percent of those funds were not disbursed, and the Fund completed production of 800 housing units, representing a cost of "one completed unit of housing for every $1.5 million in the fund."[60]

- Establishes a new Housing Investment Fund with an appropriation of $9.6 billion.[61] This fund is "a special account within the Community Development Financial Institutions Fund," and the appropriation includes $360 million for the CDFI Fund to administer and oversee the new Fund.[62]
- Includes $6 billion for the HUD Secretary to provide "direct loans, grants, and direct loans that can be converted into grants…to fund projects that improve the energy or water efficiency, implement green features, including clean energy generation or building electrification, electric car charging station installations, or address climate resilience of multifamily properties." The appropriation includes $76 million for the HUD Secretary to oversee the implementation of these funds, as well as $360 million for "expenses of contracts administered by the Secretary."[63]
- Appropriates $4 billion for the purpose of "providing direct loans, which may be forgivable, to owners of distressed [multifamily] properties for the purpose of making necessary physical improvements."[64] The appropriation includes $130 million for the HUD Secretary to oversee the implementation of these funds.

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[58] Joint Hearing entitled "Fraud in the HUD HOME Program," House Financial Services Committee, November 02, 2011, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=401964.

[59] Department Of Housing And Urban Development, Office Of Community Planning And Development, Home Investment Partnerships Program, Summary Of Resources, https://www.hud.gov/sites/dfiles/CFO/documents/20_2022CJ-HOME.pdf.

[60] Rep. Patrick McHenry (R-NC), "HUD's Housing Trust Fund Falls Short of Objective to Provide Support to Low-Income Americans," Press Release, April 15, 2021, https://republicans-financialservices.house.gov/news/documentsingle.aspx?DocumentID=407961.

[61] Section 40003.

[62] Community Development Financial Institutions are certified by the Community Development Financial Institutions Fund (the CDFI Fund), established in the U.S. Department of the Treasury. CDFIs are mainly private firms that receive public money from the CDFI Fund. CDFIs have been around since at least the 1930s (although not in their current form), but they proliferated in the 1960s and 1970s; more than 1,000 now exist. There is a dearth of academic literature on CDFIs partly because their operations are so diffuse and difficult to track. See Lehn Benjamin, Julia Sass Rubin, and Sean Zielenbach, "Community Development Financial Institutions: Current Issues and Future Prospects," *Journal of Urban Affairs*, 2004, Vol. 26, no. 2, pp. 177-195, https://www.tandfonline.com/doi/abs/10.1111/j.0735-2166.2004.00196.x.

[63] Section 40006.

[64] Section 40007.

- Provides up to $75 billion for Section 8 rental housing vouchers,[65] an amount that is more than three times current federal assistance levels for tenant-based rentals.[66] This change will magnify upward pressure on rental prices.[67] The appropriation also includes $750 million for the HUD Secretary to oversee the implementation of these funds.
- Separately appropriates $15 billion for Section 8 project-based rental assistance, with up to $348 million to provide technical assistance to recipients, and $40 million for the HUD Secretary to oversee the implementation of these funds.[68]
- Includes $4.5 billion to establish the Unlocking Possibilities Program, for the purpose of "awarding planning grants to develop and evaluate housing policy plans and substantially improve housing strategies," and for "awarding planning grants to streamline regulatory requirements and shorten processes."[69] The appropriation includes $70 million for the HUD Secretary to provide technical assistance to grantees, and also $150 million for the HUD Secretary to oversee the implementation of these funds.
- Appropriates $7.5 billion for a Community Restoration and Revitalization Fund, established to award grants for "community-led projects that create civic infrastructure to support a community's social, economic, and civic fabric, create fair, affordable and accessible housing opportunities, prevent residential displacement, acquire and remediate blighted properties, and promote quality job creation and retention."[70] The amount includes $1 billion for the HUD Secretary to provide technical assistance to grantees, and also $300 million for the HUD Secretary to oversee the implementation of these funds.
- Separately appropriates $1.99 billion to the HUD Secretary for the purpose of "administering and overseeing the implementation of [this bill] and the Department's programs generally, including information technology, inspections of housing units, research and evaluation, financial reporting, and other costs.[71]

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[65] Section 40010.
[66] Peter G. Peterson Foundation, "How Does The Federal Government Support Housing For Low-Income Households?," July 29, 2020, https://www.pgpf.org/blog/2020/07/how-does-the-federal-government-support-housing-for-low-income-households.
[67] The larger the rental subsidy program becomes, in terms of number of renters and size of the subsidy, the more upward pressure the program will have on rental rates. A similar policy problem exists with military housing allowances in severely supply-restricted areas, such as the Hawaiian Islands. See Eric Pape, "Living Hawaii: How Military Policies Drive Up Rents on Oahu," *Honolulu Civil Beat*, June 17, 2015, https://www.civilbeat.org/2015/06/living-hawaii-how-military-policies-drive-up-rents-on-oahu/. For a more general view of how housing vouchers can lead to higher rental rates, see Robert Collinson and Peter Ganong, "How Do Changes in Housing Voucher Design Affect Rent and Neighborhood Quality?," *American Economic Journal: Economic Policy*, 2018, Vol. 10, no. 2, pp. 62-89, https://www.aeaweb.org/articles?id=10.1257/pol.20150176.
[68] Section 40011.
[69] Section 40104.
[70] Section 40106.
[71] Section 40301.

- Separately appropriates $100 million to the HUD Secretary "to competitively award funds for technical assistance and capacity building to non-Federal entities, including nonprofit organizations that can provide technical assistance activities to community development corporations."[72]
    - Just the funds allocated (in the above-listed provisions) to HUD for "overseeing and implementing" sum to $4.5 billion, representing 8 percent of HUD's FY 2022 budget ($56.5 billion).[73]

Harmful Programs Included in Spending Bill

The most recent omnibus spending bill, a 2,700-page $1.5 trillion package that sailed through Congress in a matter of days, is the fifth massive spending bill passed since March 2020.[74] The bill adds nearly $100 billion to the current base spending level. These funds, regardless of the so-called trade-off between defense and non-defense spending, represent the latest round of higher deficit-financed government spending that will add to the increasing inflationary pressures hurting millions of Americans, including seniors and younger families.[75]

The omnibus includes thousands of earmarks that funnel billions in deficit financed spending to special-interest pork projects. These projects include subsidies for an Institute for Rural Partnerships and a Cattle Contracts Library in Vermont, a state that accounts for a miniscule share of U.S. agriculture.[76] Other examples include $3 million for a fisherman's co-op facility in Guam, $2.75 million for an innovation center in Waverly, New York, $2.5 billion to build a new museum in St. Johnsbury, Vermont, $5 million for an electric substation in Delaware, $2 million to reduce inequity in access to solar power, and $10 million to tear down an abandoned hotel in Fairbanks, Alaska.[77]

Prior to passing this omnibus, Congress added to deficit-financed spending with a $1.2 trillion infrastructure package in November 2021, the $2 trillion March 2020 Cares Act that included billions in loans and grants, the $900 billion Response and Relief Act in December 2020

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[72] Section 40302.

[73] U.S. House Committee on Appropriations, "Appropriations Committee Releases Fiscal Year 2022 Transportation, and Housing and Urban Development, and Related Agencies Funding Bill," *Press Release*, July 11, 2021, https://appropriations.house.gov/news/press-releases/appropriations-committee-releases-fiscal-year-2022-transportation-and-housing.

[74] Matthew Dickerson, "8 Ways Massive Omnibus Spending Bill Is a Mistake," The Daily Signal, March 9, 2022, https://www.dailysignal.com/2022/03/09/8-ways-massive-omnibus-spending-bill-is-a-mistake/.

[75] Norbert J. Michel, "Inflation: A Brief Look Back, and A Path Forward," Cato at Liberty, November 9, 2021, https://www.cato.org/blog/inflation-brief-look-back-path-forward.

[76] David Ditch, "Omnibus Thread About What's in the 2,741 Page Omnibus Spending Bill As I Read It," March 9, 2022, https://twitter.com/DavidADitch/status/1501578341178089490. Also see Dickerson, "8 Ways Massive Omnibus Spending Bill Is a Mistake."

[77] Ditch, "Omnibus Thread About What's in The 2,741 Page Omnibus Spending Bill As I Read It."

that further extended the counterproductive unemployment benefit bonus, and the $1.9 trillion American Rescue Plan in March 2021.[78] All these spending packages, the sum total of which is $7.5 trillion, worsened inflation. They also exacerbated labor market problems and pandemic-related supply chain problems, thus leading to the abnormally high increases in the Consumer Price Index that Americans continue to experience.[79]

On virtually the same day that the Biden administration released its $6 trillion budget (with a $1.4 trillion deficit), the government official in charge of COVID relief announced that the Paycheck Protection Program (PPP) was the "biggest fraud in a generation," with approximately $80 billion doled out fraudulently (a figure that adds to the $170 billion previously stolen from other COVID relief programs). The latest report confirms what was already widely acknowledged, that many of these stolen funds were used to buy expensive cars and fund vacations, as well as purchase larger homes.[80] The fashion in which these spending packages were designed reflects, in part, a refusal to acknowledge the extent to which both the private sector and existing government programs satisfy existing consumer needs.

Conclusion

Between March 2020 and March 2022, Congress has increased the federal deficit with more than $7.5 trillion through its spending bills. These wasteful spending policies have harmed Americans both young and old by hampering economic growth and worsening inflation. They have also compounded other existing harmful policies, such as the Federal Reserve's support of the secondary mortgage market, massive federal intervention in housing markets, and state and local supply-constraints.

All the average American has to show for decades of failed federal housing policies is excessive debt, high housing costs, volatile home prices, overregulation, distorted markets, and a trail of federal bailouts. The U.S. homeownership rate is almost exactly where it was in the 1960s, home prices have consistently outpaced income growth, and taxpayers have been

[78] David Ditch, "Congress' Wasteful Spending Spree Must End With Infrastructure Bill," The Daily Signal, November 12, 2021, https://www.heritage.org/budget-and-spending/commentary/congress-wasteful-spending-spree-must-end-infrastructure-bill.
[79] Norbert J. Michel, "Inflation and the Fed: How Congress Should Approach Monetary Policy," Heritage Foundation Backgrounder No. 3624, June 1, 2021, https://www.heritage.org/sites/default/files/2021-06/BG3624.pdf; and, Norbert J. Michel, "Many Consumer Prices Are Higher: Time to Eliminate Government-Imposed Economic Roadblocks," Heritage Foundation Backgrounder No. 3650, August 20, 2021, https://www.heritage.org/sites/default/files/2021-08/BG3650.pdf. Also see Matthew Dickerson, David Ditch, and Richard Stern, "Congress Is Writing Blank Check for Big Government, Socialist Tax-and-Spend Spree," The Daily Signal, December 10, 2021, https://www.heritage.org/budget-and-spending/commentary/congress-writing-blank-check-big-government-socialist-tax-and-spend.
[80] Ken Dilanian and Laura Strickler, "'Biggest fraud in a generation': The looting of the Covid relief plan known as PPP," NBC News, March 28, 2022, https://www.nbcnews.com/politics/justice-department/biggest-fraud-generation-looting-covid-relief-program-known-ppp-n1279664.

forced to shell out hundreds of billions of dollars. Although it is convenient to blame "Wall Street," "private equity," and "speculators" for distorted housing markets, the truth is that the federal government is – and has been for some time – the dominant force in U.S. housing markets.

Rather than focus on underlying economic and social problems, and removing regulatory barriers that restrict supply, federal policies have consistently increased demand by making it easier to obtain home mortgages. There appears to be no momentum in Congress to reverse these trends. In fact, the new Biden administration policies, and multiple proposals being considered in Congress, will implement the same types of failed housing policies of the past. Collectively, these policies will further expand government intervention in housing markets at a great cost to millions of Americans. They will put even more upward pressure on prices and rental rates, waste taxpayers' money, and ultimately make housing less affordable.

Thank you for the opportunity to provide this information. I welcome any questions that you may have.

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Honorable Chairwoman Waters, Ranking Member McHenry, members of the committee, thank you for the opportunity to speak to you today on the very important subject of homeownership, especially among Black Americans.

My name is Lydia Pope, President of the National Association of Real Estate Brokers, the largest and oldest minority real estate trade association in America, referred to as NAREB. NAREB was founded in 1947 with the mission of "Democracy in Housing" an issue that we have advocated for and are here today to support. NAREB was founded during a time of onerous and egregious housing and lending policies that either barred or made it difficult for Blacks to own homes; of which, many of those policies still exist today. Today Black homeownership is nearly 30 percentage points behind those of White America and is lower today than when Congress first passed Fair Housing anti-discrimination laws[1].

NAREB members, through it's 100 chapters across America, are on the front lines of minority urban communities creating housing opportunities for homeownership, advocating for a level playing field, and promoting policies that remove barriers to wealth creation through Black Homeownership. With the lingering effects of the pandemic, escalating interest rates, year over year increases in home prices, NAREB is as relevant today as it was at our founding in 1947.

First, the COVID pandemic, of the last two years, has brought about some major shifts in the housing market. Today we see cash buyers dominating the market, driving up home prices, and swallowing up properties at every price range. Many cash buyers are purchasing homes direct to rent. To this end, economic inequality has deepened during the pandemic. The wealth of a White family today exceeds that of a Black family by ten folds[2]. The black homeownership rate has plummeted during the Pandemic from 2019 to today. Moreover as the country emerges from the 1st phase of the pandemic, rising interest rates along with rising home prices and a limited housing inventory make a perfect storm to suffocate Blacks out of the housing market. With a 1% increase in mortgage rates decreases buying power by 11%. Increasing interest rate and home price market, is widening the wealth gap, delaying more and more Blacks from participating in the American Dream[3].

[1] https://www.forbes.com/advisor/mortgages/black-homeownership-gap/
[2] https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/
[3] https://mymortgageinsider.com/1-percent-rate-increase-11-percent-price-reduction/

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Moreover, Blacks continue to experience discriminatory lending practices; advancements are being made by technology firms and Fintech companies whose intent on replacing real estate practitioners with automation. More has to be done to close the wealth inequality chasm, remove lending and racist lending practices and ensure consumers are protected by licensee's.

To quantify the effects of how national crisis' and racist lending policies, and automation stifle Black homeownership, NAREB annually publishes our "State of Housing In Black America" report[4]. Our annual report, has become one of the most referenced and cited housing documents when discussing Black homeownership. The report is published annually in the last quarter of the year using the most recent HMDA data published by HUD. While our report chronicles the many challenges confronted by Black homebuyers, it also offers sound practical administrative solutions that can immediately spur Black homeownership.

Second, while homeownership is a proven road to wealth creation, most of us can agree that Blacks have not faired well, due to Jim Crow lending practices that were and are promulgated by lenders, as well as quasi-government agencies Fannie Mae, Freddie Mac and the Federal Home Banking system. The stymying effects of the Jim Crows laws prevented intergeneration wealth accumulation and transfer which our white counterparts continue to enjoy today. The proliferation of these laws is glaringly evident today, not only in the homeownership numbers but also in the inability of Black families to provide down payment assistance to subsequent generations. While we understand the great divide that exists in the current Congress, we believe that many of the solutions that could bring parity exist within the administrative powers of our federal agencies.

Furthermore, these discriminatory practices are revealed when student loans are considered in lending. They appear in unequal amounts when appraising homes for Black borrowers. These discriminatory practices have locked out well-qualified buyers because of risked based pricing that is nothing more than a Black tax. The continued covert discriminatory practices, in part, is a contributing factor to the trailing Black homeownership numbers.

A third component of the racial wealth gap and black homeownership is contained in emerging lending trends. Banks are no longer the principal source of mortgage credit. Lightly regulated nonbanks have emerged in the sector as the primary lenders. This

[4] https://www.nareb.com/shiba-report/ https://www.nareb.com/shiba-report/

change in lending is also being supported by a narrative that technology firms and FinTechs can replace the need for real estate practitioners and professionals. The narrative is that the minimal fees that borrowers pay for service and consumer protection are unnecessary today. Black consumers and consumers, in general, need protection and recourse from bad actors. Appraisers, title insurers, regulated lenders and real estate brokers are key safeguards in the home buying process that ensure proper value, transfer of title, fair and disclosed lending costs, and ethical representation of buyers and sellers for the property transaction that is often the biggest financial investment working families make in their attempt to build asset wealth for their families.

Current market trends dictate the need for a NAREB and organization like ours that safeguard and protect consumers from enterprising opportunist that would like to remove the Real Estate professional from the transactions. With the proliferation of the use of technology and algorithms in real estate transactions, who will ensure consumers are not taken advantage of?

We believe Real Estate practitioners, Title Companies, Licensed Appraisers, and housing counselors are integral trusted advisors, regulated and trained to ensure consumer safety. While technology may be utilized in real estate transactions, it should never be used to replace the licensee who has taken to the oath of consumer protection.

NAREB believes the challenges of black homeownership are fixable “if acknowledged.” That is; there is a reason: 1) Blacks do not generally have a multigenerational homeownership wealth; 2) Secondary market entities and government insurers (FHA) should not add additional costs to the real estate transaction of “at-risk borrowers” who are often minorities buying in predominantly minority communities; 3) since Black college graduates disproportionately have student loans, largely because of lack of family wealth – a redo is needed if government policy encourages student loan deferments but counts the deferment as a negative in the FICO scoring for mortgage credit determination; and 4) lenders are often hesitant to provide mortgages particularly in areas where housing prices are lower[5] – e.g. Cleveland, St. Louis, Detroit, Baltimore, New Orleans, and Rural Areas – these happen to be communities with large Black populations. Incentives need to be developed to encourage a marketplace in these areas.

[5] https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/small-mortgages-are-hard-to-get-even-where-home-prices-are-low https://www.pewtrusts.org/en/research-and-analysis/articles/2020/09/11/small-mortgages-are-hard-to-get-even-where-home-prices-are-low

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To this end, with nearly 75 years of advocating and promoting fairness in housing. As President of NAREB I offer the following remedies that can have immediate impact and spur homeownership for Blacks today, tomorrow and for generations to come.

1. We fully support and urge passage of the Down Payment Assistance program that is part of the Build Back Better Bill. Many Blacks fall into the first-generation buyer and would greatly benefit from the approximate 9 Billion dollar fund. According to the latest census data only 8% of all homeowners are Black. This single digit number supports the need for this program and extreme opportunity to ignite homebuying among Black Americans.

2. We call for the elimination of all Loan Level Price Adjustments, otherwise known as LLPA's or Risk Based Pricing. Price adjustments were introduced in 2008 as a result of Fannie Mae and Freddie Mac's under capitalization. LLPA's vary based on loan to value, credit scores, occupancy and number of units. The purpose of LLPA's was to ensure capitalization of Fannie and Freddie during a time of crisis. That crisis has long been gone. Removing LLPA's will greatly increase the pool of buyers especially for Blacks.

3. NAREB supports the standardization to student loan calculations for student loans. Nearly 90% of Black students that attend a four-year public college obtain student debt. Student debt coupled with deferment policies creates an insurmountable barrier to homeownership for many Blacks who otherwise would qualify.

4. We support the creation of low-balance mortgages in the secondary market. There still remains neighborhoods and communities across this vast country where housing prices remain affordable. The creation of a low-balance mortgage products would create opportunities for Blacks to buy these affordable units in communities that are predominately minority.

5. To further support Black homeownership opportunities, NAREB launched its' 5 Pillars of homeownership. The 5 pillars provide a framework for Black wealth creation through homeownership. The 5 Pillars:

a. Civic and Faith-Based Engagement
b. Women in Real Estate (WIRE)
c. Diversity and Inclusion / Small Business
d. Multi-Generational Wealth Building
e. Government Relations and Advocacy

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Each of our initiatives and programs aligns with one of these 5 pillars, bringing both clarity and direction to our goal of increasing Black homeownership. Additionally, the pillars provide an opportunity for industry partners to align their interests with ours in our collective quest to close the Black wealth and homeownership gap.

In sum, Federal government's remedy to pass an existing discrimination in homeownership has been a hard-fought battle to buy and large outlaw discriminatory practices (e.g. Fair Housing and Open Housing contained in the Housing Act of 1968); or to provide information to allow private citizens to track discriminatory practices or outcomes (CRA and HMDA). All of these tools are useful.

However, today, there remains a need to redress racial economic harm caused by private and public sector practices. Homeownership and the denial of access to homeownership compounds access to family wealth situations. That is; like a savings account and compounded interest, multigenerational homeownership provides capital for families to for instance: send children/grandchildren to college without loans; help another generation with down payments on their homes and thus eliminate PMI or FHA insurance costs; or provide a source of credit that can be used as equity in a new business. Thus, the homeownership advantage white families received from the 1930s through the 1980s compounds the racial wealth gap today.

This is a tough issue, but NAREB applauds this Committee's efforts in this area. Without direct and immediate action inequities will continue to be roadblocks to Black Americans, the wealth Gap will continue to widen, and discriminatory practices will redline Blacks out of the housing market. I implore this committee, legislators, administration officials, the GSE's, housing regulators and Directors to join NAREB in promoting and ensuring "Democracy In Housing."

Thank you!

June 29, 2022

Cedar Band of Paiute Indians

Lower Brule Sioux Tribe

Rosebud Sioux Tribe

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
2129 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
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Re: House Financial Services Committee hearing titled: "Boom and Bust:
Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market"

Chairwoman Waters, Ranking Member McHenry, and Members of the House Financial Services Committee, the Cedar Band of Paiutes, the Lower Brule Sioux, and the Rosebud Sioux tribes[1] would like to express our appreciation for your interest in the housing market and the supply, price, and access challenges facing American homebuyers. We appreciate the Committee's consideration to include our joint tribal testimony for the hearing Record and for the opportunity to inform the Committee on the efforts our respective tribal nations are making to enable homebuyers to purchase a home and become successful homeowners.

- Each of our tribes owns and operates a national governmental housing finance agency that responsibly provides much-needed down payment assistance (DPA) for the purchase of a home to largely first-time, minority and low- to moderate-income homebuyers across the nation.
  - In this testimony, we include recommendations to enhance the transparency of the performance and pricing for the FHA-insured loans assisted by the DPA programs offered by 1800+ governmental entities.
- Each of our tribes supports HUD's Section 184 loan program.
  - Included in this testimony are recommendations to update and streamline the administration of the Section 184 program.

- Each of our tribes recommends that HUD engage in a robust tribal consultation process so that it can better understand the value we are bringing to homebuyers, particularly low- to moderate-income, first-time, and minority homebuyers, and the benefits that our recommendations will bring to consumers, whom we serve, and to HUD itself by improving HUD's risk-management capabilities.

[1] Each of our tribes are recognized by the federal government as independent tribal nations.

DOWN PAYMENT ASSISTANCE

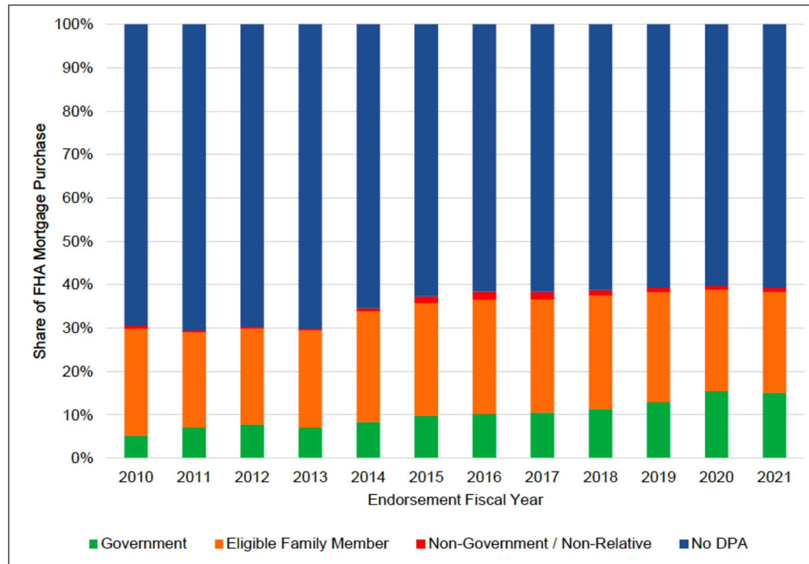
Governmental Housing Finance Agency DPA Programs Are Crucial to Narrowing the Racial Wealth Gap

When properly structured and administered, DPA programs, like those we provide, play a critical role in overcoming the obstacles many minority, first-time and low- to moderate-our income households face in purchasing a home and should be a key component of policy solutions to bridge the racial wealth gap.

A significant part of the wealth gap stems from the substantially lower homeownership rates among Hispanic and African-American individuals, as compared to White non-Hispanic individuals. In the first quarter of 2021, the U.S. Census Bureau reported that the country's overall homeownership rate was 65.6%. Among White non-Hispanic households, the homeownership rate was 73.8%. However, the Native American homeownership rate was only 50.8%, the Hispanic homeownership rate was only 49.3%, and the African-American homeownership rate was only 45.7%, hovering near 50-year lows. The recent rapid escalation in home prices likely is presenting further challenges to Natie American, Hispanic and African-American individuals seeking to become homeowners.

DPA has become a crucial tool in helping families purchase a home. Traditionally, the only other route to DPA than government programs has been through gifts from relatives. Such gifts, however, are not widely available to all borrowers, including those who lack access to intergenerational wealth. Most low- to moderate-income and minority homebuyers do not come from families who have the financial ability to provide their relatives with a down payment, so these borrowers absolutely need the DPA programs offered by governmental entities, including our 100% tribally owned housing finance agencies.

Exhibit III-10: FHA Purchase Activity by Type of Down Payment Assistance



NOTE: Data does not account for instances where down payment assistance data was missing from origination data submitted to FHA.
SOURCE: U.S. Department of HUD/FHA, October 2021.
Refer to data table D-10 in Appendix D.

Source: https://www.hud.gov/sites/dfiles/Housing/documents/2021FHAAnnualReportMMIFund.pdf

Our housing finance agencies responsibly provide DPA to qualified applicants who can make mortgage payments but lack the resources for a down payment. Well over 50 percent of our borrowers whom we assist are minorities (African-American, Hispanic, Asian, and Native-American), over 70% of our borrowers are low- to moderate-income, and nearly all our borrowers are first-time homebuyers. We purposefully seek to help underserved, historically marginalized communities through homeownership, and directly advance economic equity, particularly for first-time, low- to moderate-income, and minority homebuyers.

Governmental DPA Programs Are Well Run and Have Strong FHA Loan Performance

The number of households utilizing DPA has grown. The chart above shows that over the past eleven years most of the DPA assistance came from family members, with 15% coming from government entities, including our 100% tribally owned housing finance agencies. This demonstrates the need to take steps to expand, and not contract, the ability of government entities, including tribally owned housing finance agencies, to provide valuable DPA assistance.

Governmental DPA programs are well run and do not pose a risk to FHA or the FHA Mutual Mortgage Insurance Fund (MMIF). FHA's own data reflect that FHA loans involving DPA

through government programs perform significantly better than FHA loans involving DPA in the form of gifts from family members:

	IIF Shares%[a]	Rates in Percent of Active Loan Counts						
		All Past Due[b]	30 Day	60 Day	90+ Day	In Foreclosure	In Bankruptcy	Seriously Delinquent Ratio
Gov't	8.91	14.64	4.21	1.47	7.58	0.79	0.60	8.96
Relative	15.88	16.75	4.96	1.51	8.19	1.49	0.61	10.28

[a] Insurance in force shares of total FHA Title II single-family loans
[b] Includes all loans 30 or more days past due, including those in bankruptcy or foreclosure
Source: HUD/FHA, November 2021

The better performance of loans associated with governmental DPA programs results from the process by which governmental entities fund DPA. Governmental DPA program providers are inherently interested in the performance of the FHA mortgage loan because, for example, sanctions can be imposed on FHA mortgagees for poor loan performance.

Our organizations understand and take seriously our responsibility to protect the MMIF. We carefully review the performance of the FHA mortgage loans and adjust credit standards, as necessary. Further, many governmental DPA programs offer the borrower significant support. For example, CBCMA's Chenoa Fund program requires borrowers with FICO scores between 600-639 to receive pre-purchase education and counseling, and all borrowers, once they become homeowners, receive 18 months of post-purchase counseling from a HUD-approved counselor. As another example, CBCMA's Chenoa Fund program offers borrowers the option of choosing a non-repayable second lien loan. If the borrower makes 36, on-time, consecutive monthly mortgage payments on the first FHA-insured mortgage loan, their second lien is forgiven. This product incentivizes borrowers to prioritize their monthly mortgage payments on the FHA-insured first lien mortgage, which reduces FHA defaults and lowers risk to the MMIF.

Our collective goal is to ensure long-term sustainable homeownership. Our borrowers, the communities in which they live, and we only benefit if our borrowers remain successful homeowners.

Governmental DPA Programs are Competitive

The DPA market is competitively served by over 1,800 governmental national, state, and local housing finance agencies providing DPA. In addition, the governmental DPA market faces competition from borrowers receiving DPA assistance from their relatives. While nearly all borrowers receiving DPA are first-time home buyers, governmental entities providing DPA provide that assistance to homebuyers who do not have access to intergenerational wealth and gifts from family members, as noted above.

Mortgage bankers are traditionally the intermediary between the borrowers and the DPA offering. This highly competitive industry drives mortgage lenders to continuously search for the lowest cost option for the borrower to retain that transaction. Thus, lenders continuously search for "best execution," meaning the lowest cost offering for their client or they risk losing the transaction altogether to another lender. This competitive process benefits consumers.

Our programs complement the full breadth of providers and products participating in the mortgage market by serving a broad audience of consumers, driving a healthy, competitive market, and introducing innovative, but responsible financial products.

In addition, since our programs are offered nationally, we bring added competition to markets that previously might have been underserved.

Most Governmental DPA Programs are Privately Financed and Do Not Rely on Grants to Fund Their DPA Programs

Today's governmental entity housing finance agencies' DPA programs are financed in the private market and do not rely on grant programs, whose funding can be intermittent and is often limited. Our funding structures enable us to responsibly provide DPA to borrowers sustainably and without interruption or limitation.

Notably, we are pleased to report that our programs were able to provide continued DPA assistance throughout the Pandemic.

Enhanced Data Collection is Needed: "A Monitored Marketplace"

As noted above, HUD's data show that FHA-insured loans receiving DPA from governmental entities performs better than the loans assisted by relatives. Both HUD and each governmental entity, however, would benefit if HUD collected a more granular level of data from each governmental entity. This enhanced data collection would enable HUD to better-manage the risk to the MMIF and would also enable each governmental entity to better-assess and manage its risk. Enhanced data collection would also provide HUD with the information it needs to allay any pricing concerns it may have.

Currently, HUD collects loan performance data for governmental housing finance agencies as a group, but not for each individual governmental housing finance agency. This can easily be done because HUD's forms and systems are already capable of this collection. Indeed, HUD already collects this data from DPA provided by non-profit entities.

Notably, Congress already recommended that HUD collect a more granular level of data on the performance of the FHA-insured loans assisted by governmental entities. We would encourage Congress to, once again, make this recommendation to HUD.

- Identification

HUD should require that, for every FHA mortgagor that receives DPA from a governmental entity, the originator enter an Employer Identification Number (i.e., taxpayer ID number) or similar unique identifier into the FHA system. The fields for such data already exist in HUD's system because in 2000 HUD issued Mortgagee Letter 00-8 requiring that originators collect this data for non-profits providing down payment assistance.

HUD simply needs to require originators to enter similar data for all governmental entities providing DPA. This will enable HUD to monitor the performance of each governmental entity's programs. Additionally, HUD will be able to discern how governmental entity DPA programs affect the interest rates on the FHA first mortgage. This would enable HUD to ensure that the governmental entities' DPA programs are not increasing the costs to borrowers without commensurate benefits.

- Reporting

Once HUD identifies the governmental entity providing the DPA, it can begin reporting the performance of each governmental DPA program. Governmental entities will then be able to have accurate performance information for their programs as well as understand their performance relative to their peers. This will allow each governmental entity offering DPA to identify any deficiencies more easily in their programs, if any exist, and better track the effects of remedial measures they may need to take. [This will also allow HUD to better-assess its risk.]

After setting up performance monitoring for each governmental DPA program, HUD should establish uniform performance standards. For example, HUD could use compare ratios as it does with FHA mortgage lenders. If a governmental DPA program has a compare ratio relative to its peers of 150 or higher, meaning the loans it assists default at 1.5 times the default rate of its peers, it may be placed on a "Watch" list. Each governmental entity could determine how best to keep their relative performance below 150, whether that is by imposing credit standards, such as credit score minimums and debt-to-income (DTI) maximums for borrowers receiving DPA, or by increasing borrower support services such as pre-purchase education, post-purchase counseling, or some other form of a down payment substitute. Most importantly, it would give each governmental entity the opportunity to try alternative, innovative practices to better assist underserved borrowers. If DPA is responsibly provided within certain credit standards or with the proper down payment substitutes, the amount of DPA that is provided will naturally be limited, but more importantly, whatever amount is provided will not be a detriment to the MMIF or a risk to taxpayers.

This type of monitoring and reporting will ensure that the overall delinquency and default rates of FHA mortgages receiving DPA from governmental entities is acceptable. When performance is measured, it improves. When performance is measured and reported, it improves more rapidly. Once this data is available, HUD could then better assess what action, if any, may be necessary to ensure that the performance of DPA-assisted mortgages do not present a substantial risk of loss to taxpayers.

- Pricing Transparency

To ensure that consumers are best served, we recommend that each government entity report quarterly to HUD their average pricing for the previous quarter.

HUD'S SECTION 184 LOAN GUARANTEE PROGRAM

The Section 184 loan guarantee program was created by the Housing and Community Development Act of 1992 ("the Act"). Prior to 1992, it was difficult for Native Americans who lived on reservations to obtain a mortgage. When the Section 184 Loan Guarantee Program was created by the Act, attaining a loan or mortgage became easier. Today, however, the program needs to be streamlined and updated. Without being reengineered, its continued existence is threatened.

Background

Administered by the Office of Native American Programs within the US Department of Housing and Urban Development, Section 184 loans are specifically designed for American Indian and Alaska Native families, Alaska Village, Tribes, or tribally designated housing entities. These loans can be used both on and off reservation lands for new construction, rehabilitation, purchase of an existing home, or refinance. Section 184 is a program that is specifically geared towards these groups because of the unique status of Native American lands.

These lands and areas are being held in Trust by the U.S. government for specific Tribes or individuals belonging to Native American Tribes. Because of the legal status of a Trust, these lands cannot be mortgaged to prevent the private seizure of Native American lands. Private lenders were unwilling to grant home loans and mortgages because of the difficulty in securing collateral against a loan. The Section 184 was created to give private lenders the insurance they needed to progress with mortgage loans on the reservation. Later, as HUD recognized that many Natives do not live on reservations, the program was expanded to encompass areas in states and counties designated by HUD as Tribal Operating Areas.

If the land is on tribal trust land, the eligible buyer works with the Bureau of Indian Affairs (BIA) and HUD to set up the home as a lease hold estate, turning the property into a leased entity for the duration of the mortgage plus 10 years. Both departments must approve the mortgage, and it is the lease, not the land itself, that the lender seizes if the loan defaults. The land still belongs to the Tribe and is a part of the Trust; the lender cannot sell the land to anyone other than an eligible tribe member, the tribe, or the Indian Housing Authority.

As noted above, Section 184 is reserved for members of Native American and Alaskan tribes, so to receive a Section 184 loan you must be an enrolled member of a federally recognized tribe. Enrollment into a tribe is solely made by the tribal government and the tribe will typically provide a card or letter proving your enrollment into the tribe. Proof of tribal enrollment will be necessary when applying for a Section 184 loan. The participating Tribes are allowed to determine where Section 184 is eligible, whether it is limited to specific counties or is available statewide.

<u>Program Reforms are Needed</u>

Most immediately, HUD needs to resolve the current claims payment crisis by clearing up its current backlog of unpaid claims if the lenders participating in the 184-loan program are

expected to remain active participants. HUD's current backlog far exceeds the processing times required under HUD's own guidelines.

In addition, a coalition of Section 184 lenders that provide over 90 percent of the Section 184 loans nationwide, made additional recommendations to modernize and streamline the Section 184 program in a letter they submitted to HUD on August 12, 2021. Those recommendations were:

1. ONAP needs to adopt and implement the FHA "Direct Endorsement" program for the Section 184 program. This "best practice" would –
   - Allow lenders to issue the Loan Guarantee Certificate ("LGC") after closing and for ONAP to audit files to check lender compliance.
   - Enable lenders to stay in compliance with GNMA by eliminating any delay in providing the required governmental insurance or guarantee to GNMA for pool certification.
   - Eliminate many of the ONAP work overload issues and "bottlenecks" that have arisen because of ONAP's current outdated process of manually reviewing all files prior to the issuance of their LGC.
2. ONAP needs to update the 184 program's underwriting standards to reflect the current "best practices" adopted by FHA, VA, and RHS while also addressing the unique needs of Indian Country.
   - To accomplish this goal, a joint industry-government working group needs to be set up to update these underwriting standards.
3. ONAP needs to adopt and utilize FHA's system for monthly mortgage insurance premium payments.
4. ONAP needs to improve its response times.
   - ONAP needs to put in place a tracking system so that incoming inquiries can be tracked, and outgoing responses can occur on a timely basis. This includes responding to property preservation inquiries expeditiously to avoid property deterioration which negatively impacts neighborhoods, communities (including tribal communities), and the other homeowners in those neighborhoods.
   - Section 184 lenders' calls and request for guidance and clarification often go unanswered. This lack of responsiveness and inability to provide the industry with clear guidance makes it exceedingly difficult for the Section 184 lenders to serve Native American homebuyers purchasing properties on tribal trust lands. The industry needs their calls returned and needs clear guidance.

We support the recommendations made by the coalition of 184 lenders because we are concerned that without those recommendations being implemented, the 184 program will become obsolete and Native Americans will be disadvantaged.

TRIBAL CONSULTATION

As tribal governments, we encourage HUD to engage in robust and meaningful tribal consultation in order for HUD and the Administration's policy leaders to better understand responsible and innovative housing programs in which our tribal organizations are involved. We are enormously proud of our programs. They are well run, do not pose risk to HUD, FHA or the

MMIF, and seek to address the significant wealth gap in this country by safely providing DPA to many first-time, low- to moderate-income, and minority homebuyers who would not be able to purchase a home without our DPA assistance.

In coordination with 184 lenders, we also believe that we can assist HUD in reengineering the Section 184 loan program so that it can serve our borrowers purchasing homes on tribal trust lands.

In closing, we would again like to express our appreciation for the opportunity to share with the Committee a review of our efforts to responsibly expand homeownership opportunities to many first-time, low- to moderate-income, and minority homebuyers. We also appreciated the opportunity to make recommendations for HUD to make program improvements that will accrue to everyone's benefit, including homebuyers.

Sincerely,

Delice Tom
C1D59BC6077DB6D42DA95915B0204CE1 contractworks.
Delice Tom
Chairwoman
Cedar Band of Paiute Indians

Clyde Estes
37B72A45A6008CBEDB06DE07D9130D55 contractworks.
Clyde J.R. Estes
Chairman
Lower Brule Sioux Tribe

Scott Herman
F764788A07140E40C991D8AC786A70D5
Scott Herman
President
Rosebud Sioux Tribe

June 29, 2022

The Honorable Maxine Waters
Chair
House Committee on Financial Services
2221 Rayburn House Office Building
Washington, DC 20515

The Honorable Patrick McHenry
Ranking Member
House Committee on Financial Services
2004 Rayburn House Office Building
Washington, DC 20515

Dear Chair Waters and Ranking Member McHenry:

On behalf of the National Association of REALTORS®' 1.5 million members working in all aspects of the residential and commercial real estate industries, I write to you applauding the work of the Committee for dealing head-on with many of the issues in the current housing market during the hearing entitled: "Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market."

Homeownership has traditionally been the main driver of household wealth in the United States. The home has provided economic security for millions of Americans for generations and has historically performed better than other asset classes. While this system has benefited a great number, it has also laid bare many of the current inequalities that make it difficult for millions of potential borrowers to enter the world of homeownership.

The housing market has seen explosive growth throughout the last decade. While this has benefited many Americans who have been able to purchase a home, we are starting to see negative effects from this uncertain housing economy. With mortgage rates increasing two to three percent in just the last six months, many who were unable to access credit are now being left on the sidelines. This problem is particularly felt by communities of color. While the homeownership rate for White Americans has remained stable and over 70%, the Black homeownership rate has dropped to around 40%, a level not seen since the 1960s.[1] There are many reasons for this, including the lack of investment in affordable housing, an outdated system of mortgage underwriting, the lack of construction, an influx of cash buyers and institutional investors, economic inequality, and the cost of labor and materials.

Generational problems require generational solutions. We are encouraged the Committee has taken direct action on this issue, and we applaud the work of Chair Waters in advancing the housing provisions within the *Build Back Better Act*. Support for building new affordable housing and renovating the current housing stock is essential to building the current and next generation of homeowners. Downpayment programs, such as the *Downpayment Toward Equity Act*, provide avenues for underserved communities to overcome the challenges of saving for a down payment.

[1] National Association of REALTORS®, 2022 Snapshot of Race and Home Buying in America, February 2022, https://cdn.nar.realtor/sites/default/files/documents/2022-snapshot-of-race-and-home-buying-in-the-us-04-26-2022.pdf

And the Unlocking Possibilities program and the *Neighborhood Homes Investment Act* create new incentives for additional home construction.

Additionally, NAR's latest research shows that the rise of institutional investors in communities is adding an additional hurdle for buyers in hot housing markets[2]. Though the challenges are not felt in all areas of the country, Wall Street investors are focusing investments in areas of the Southeast, where they have dramatically raised rents. This is converting many affordable, single-family homes to permanent rentals. This impact has been greatest on communities of color and on a scale that we have not seen previously. This is an impactful trend and one that is causing additional stress on the market. NAR supports ideas that would incentivize sellers to sell their homes to owner-occupied borrowers, and we are encouraged by the work at FHA to offer foreclosed properties to owner-occupied residents and non-profits over large investment firms.

We are also encouraged by the White House's recent Housing Supply Action Plan which would address several important housing availability and accessibility issues. The plan details important steps, including zoning reforms, further explorations of accessory dwelling units (ADUs), changes to housing financing, and improving supply chain issues.

Regulatory agencies are also taking a strong look at programs that will create new pathways for borrowers to obtain mortgage financing in a safe and responsible manner. Fannie Mae and Freddie Mac's (the GSEs) recently announced equity plans provide a blueprint for access to ownership for historically underserved communities without changing credit underwriting, including the exploration of Special Purpose Credit Programs, which have been allowed for over 50 years. The GSEs and FHA can also take smaller steps, like evaluating new credit scoring models, including rental payments in underwriting, and reducing guarantee fees and mortgage insurance premiums, that will help ease some of the stresses of higher interest rates.

While there is no one silver bullet for solving the housing irregularities, innovative and robust ideas like those of the committee and the White House will help to ease many of the burdens so many Americans face when trying to purchase a home.

The National Association of REALTORS® looks forward to continuing its work with the committee as we strive to create a more equitable and robust housing market that serves all Americans.

Sincerely,

Leslie Rouda Smith
2022 President, National Association of REALTORS®

[2] National Association of REALTORS®, Impact of Institutional Buyers on Home Sales and Single-Family Rentals, May 2022, https://cdn.nar.realtor/sites/default/files/documents/2022-impact-of-institutional-buyers-on-home-sales-and-single-family-rentals-05-12-2022.pdf

Boom and Bust: Inequality, Homeownership,
and the Long-Term Impacts of the Hot Housing Market
House Financial Services Committee
Written Testimony of Samuel Kenney, Senior Policy Analyst
June 29, 2022

UnidosUS, previously known as NCLR (National Council of La Raza), is the nation's largest Hispanic[i] civil rights and advocacy organization. Through its unique combination of expert research, advocacy, programs, and an Affiliate Network of nearly 300 community-based organizations across the United States and Puerto Rico, UnidosUS simultaneously challenges the social, economic, and political barriers at the national and local levels.

Increasing homeownership for the Latino community is the single most powerful strategy for closing the racial and ethnic wealth gap, which currently sits at $146,000 dollars between the median White and Hispanic household.[1] And Hispanic Americans are a growing and influential sector in the U.S. housing market. Indeed, they are the only demographic group projected to increase homeownership rates over the next 20 years.

Yet homeownership remains sadly out of reach for too many Latino families. To become a homeowner, Latinos must overcome barriers to homeownership readiness, including a restrictive credit environment; disproportionately low wages; address any medical, student or consumer debt; and a competitive and expensive housing market. They also must be able to afford to retain their home as economic conditions shift.

Latinos are often unable to purchase homes because of lending discrimination and high home prices. In 2017, more than 30% of Latino adults reported experiencing discrimination while searching for an apartment or buying a home,[2] and they are more than twice as likely as Whites to be denied—or fear being denied—a home loan.[3] Furthermore, in 2018, Latinos reported that they experienced numerous obstacles to buying a home, including low credit scores, the inability to afford a down payment, and insufficient income for monthly payments.[4] As a result of these and other factors, the Hispanic-White wealth gap has barely changed in the last several decades.

Although the COVID-19 pandemic is imposing high costs on Latino workers and their families, homeownership remains a cornerstone of their American dream. Despite the pandemic, an overwhelming desire to purchase a home resulted in historic levels of demand for

[i] The terms "Hispanic" and "Latino" are used interchangeably by the U.S. Census Bureau and throughout our materials to refer to persons of Mexican, Puerto Rican, Cuban, Central and South American, Dominican, Spanish, and other Hispanic descent; they may be of any race. Our materials may also refer to this population as "Latinx" to represent the diversity of gender identities and expressions that are present in the community.

homeownership in the U.S. Facing these strong economic headwinds, in 2020, Latinos were the only demographic to increase their homeownership rate for a sixth consecutive year.[5]

Most new homebuyers will be people of color, and a majority will be Latino. Latinos are the youngest and fastest-growing segment of the nation's population, and their access to economic opportunities will have a significant role in shaping the nation's economic future. Indeed, projections from the Urban Institute show that all future net homeownership growth will come from non-White households.

But the challenges they face are substantial. Compared to Whites, Latinos generally are younger and have lower levels of income and wealth, lower credit scores on average, and larger and multigenerational families.[6] They are also more likely to be first-time homebuyers. Latinos account for nearly one third of first- time homebuyers in 2021—exceeding their share of the general population.[7] The Urban institute predicts that "by 2040, more than 20 percent of young households will be Hispanic—triple the share in 1990"[8] and that between 2020 and 2040, 70 percent of all new homeowners will be Latino.[9]

To deepen support for the Latino community, UnidosUS works with our network of community-based financial and housing counseling providers which helps to inform our understanding of Latinos' homeownership challenges and opportunities. The UnidosUS Wealth and Housing Alliance (UWHA) (formerly the National Homeownership Network, or NHN) is the nation's largest network of community-based organizations working to empower Latino wealth-building through homeownership.[ii]

In addition to direct services and counseling, UnidosUS publishes reports, provides testimony, and advocates for policies to increase access to credit, make financial services more inclusive, and increase homeownership rates of lowiincome people and the Latino community.

Today's overheated and hyper-competitive housing market places low- and middle-income homebuyers at a disadvantage, exacerbating inequality.

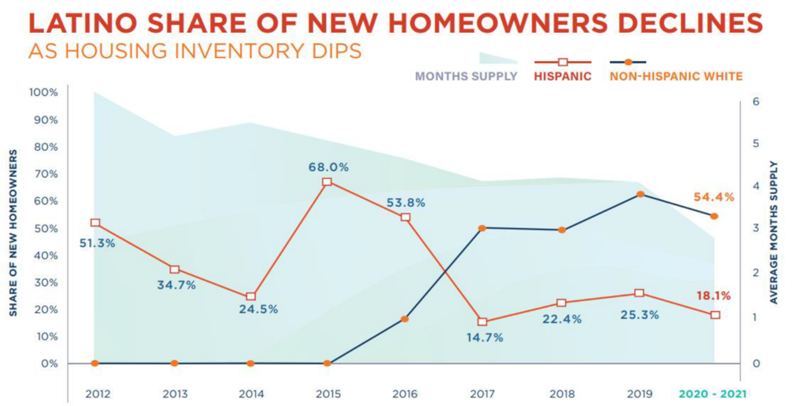
The United States is facing a large shortfall in housing supply, with Freddie Mac estimating a 3.8-million-unit deficit.[10] Over the next decade, the number of households is expected to grow by 8.5 million, and it is clear that without significant increases in housing supply, intolerably high prices across the housing market will continue.

The pandemic fueled a desire for more space and single-family homes while simultaneously causing disruptions to the supply chain, further increasing the gap between supply and demand.[11] At the same time, the share of single-family home purchases by investors has

[ii] The UWHA develops effective programs that blend research, advocacy, and direct housing and financial counseling. The UWHA is a HUD-approved housing counseling intermediary and trains hundreds of housing counselors emphasizing individual, culturally competent counseling. Established in 1997, the UWHA includes 50 independent community-based organizations that support more than 60,000 families a year.

continued to grow, accounting for more than 25% of all purchases nationally in various months of 2021.[12]

One result is a homebuying market that greatly disadvantages first-time homebuyers, delays entry into the housing market, and can exacerbate inequality. As inventory declines and prices rise, a majority of new homeowners has changed from Latino to non-Hispanic Whites, as illustrated in the graph below.



Source: "2020 State of Hispanic Homeownership Report" National Association of Hispanic Real Estate Professionals (NAHREP), https://nahrep.org/downloads/2020-state-of-hispanic-homeownership-report.pdf

Institutional investors can wield key advantages over families seeking a home in a competitive housing market.

As noted by the White House in the recently released White House Housing Supply Action Plan, the share of single-family home purchases by investors has continued to grow—accounting for more than 25% of all purchases nationally in various months of 2021.[13] Some of the units being purchased by institutions will be removed from the pool of owner-occupied housing and made into long-term rentals, thereby lowering the opportunities for first generation homebuyers to enter the market and cementing the relative position of institutional owners.

Even in the search for homes to buy, institutional investors have key advantages over families seeking a home in today's competitive housing market. First, institutional investors have deep pockets and frequently purchase homes with cash. In comparison, most families seeking to purchase a home must secure a mortgage. Due to their relative simplicity, all-cash offers are generally preferred by sellers. Second, institutional investors can assume greater financial risk concerning the condition of properties (sometimes buying them sight unseen) by wielding economies of scale to reduce renovation costs and negotiate lower labor costs by contractors.[14]

In addition, across the market, many buyers are waiving home inspection contingencies,[15] bidding well over the asking price,[16] and relying on "love letters" to help their bid stand out.[17] So-called "love letters" can provide information to the seller, such as race, ethnicity, and family status, which can influence sellers' decisions.

In the face of these obstacles, the homeownership gap must be addressed with specific policies to allow buyers a fair chance to compete.

Latino homeowners have 28 times the wealth of Latino renters, (with a median net worth of $171,900 compared to $6,210 median net worth, respectively).[18] Increasing homeownership among Latinos will continue to build intergenerational wealth and reduce the existing wealth gap.[19] Moreover, Latinos are more likely than other groups to have most of their assets invested in their homes.[20]

Home equity is one of the largest components of net worth and over the long-term homeownership is correlated with wealth accumulation. This is particularly true for borrowers with the ability to maintain homeownership through market fluctuations.[21]

While Latinos will be a driving force behind new homeowner development, given the state of the housing market, there is an urgent need for specific supports to address the challenges they will face. The Housing Supply Action Plan released by the White House describes laudable steps to increase the overall supply of housing as well as housing that is affordable.[22]

But the Administration cannot solve the crisis on its own. Congress must also implement transformative and badly needed housing investments. Only through a combination of administrative action and robust federal funding can the country truly resolve its affordable housing crisis.

In addition to increasing the supply of affordable housing, we urge support for policies to provide lower- and middle-income families the opportunity to compete in the homeownership market, such as:

- **Down payment assistance for first time homebuyers.** A down payment is one of the top three main barriers cited by Latinos looking to purchase a home.[23] Targeted first-generation, first-time down payment assistance (DPA) addresses a major barrier to homeownership for people of color, including Latinos. It can ensure that borrowers retain their limited cash reserves for homeownership retention and costs, including repairs or other expenses. A targeted DPA program can lead to both lower monthly payments and greater home equity.[24]
- **Housing counseling assistance for Latinos and others to overcome barriers.** The federal government should continue to invest in and fund at significant levels existing housing counseling programs. This helps consumers increase their savings, reduce debt, raise their credit scores, and improves individuals' overall financial outlook.[25] In addition,

counseling reduces the risk of foreclosure for borrowers ensuring that homebuyers are informed and empowered, benefitting both the borrower and the lending institution.[26]

- **Special Purpose Credit Programs (SPCPs), which are an impactful, but underused tool to address systemic barriers in financial systems.** At their core, SPCPs are a vehicle to deliver on the 1974 Equal Credit Opportunity Act's promise that a person may not be denied credit because of their race, gender, or other identities. For example, government-sponsored housing credit subsidy targeted at the aged or the poor; or programs offering credit to a limited clientele such as credit union programs and educational loan programs. If Latino entrepreneurs were given the same leg up from the financial system as their White counterparts, Latino-owned businesses could create $2.3 trillion in annual revenue.[27] Latinos aspiring to become homeowners and who can access a sustainable mortgage loan can be a driving force of the housing market.[28]

We sincerely thank the Chairwoman and Ranking Member and members of the subcommittee for their time and attention to this important matter.

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[23] Norena Limón et al., "2020 State of Hispanic Homeownership Report" National Association of Hispanic Real Estate Professionals (NAHREP), https://nahrep.org/downloads/2020-state-of-hispanic-homeownership-report.pdf (accessed June 20, 2022)

[24] Choi, Jung Hyun and Ratcliffe, Janneke, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership", Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership

[25] Butrica, Barbar A. and Martinchek, Kassandra, "Effective Programs and Policies for Promoting Economic Well-Being", Urban Institute, February, 2020, https://www.urban.org/sites/default/files/publication/101105/Effective%2520Programs%2520and%2520Policies%2520for%2520Promoting%2520Economic%2520Well-Being_1.pdf

[26] U.S. Department of Housing and Urban Development, Office of Housing Counseling, "Best Practices for Expanding Housing Counseling Services.", https://www.hud.gov/sites/documents/OHC_BPEHCS070212.PDF

[27] Pérez, Lucy, et al., "The economic state of Latinos in America: The American dream deferred", McKinsey & Company, December 2021, https://www.mckinsey.com/~/media/mckinsey/featured%20insights/sustainable%20inclusive%20growth/the%20economic%20state%20of%20latinos%20in%20america%20the%20american%20dream%20deferred/the-economic-state-of-latinos-in-america-the-american-dream-deferred-executive-summary.pdf?shouldIndex=false

[28] Alvarez, Janet,"The future of home ownership is Latino", CNBC, June 26, 2021, https://www.cnbc.com/2021/06/26/the-future-of-home-ownership-is-latino.html

Zillow Statement for the Record
House Financial Services Committee Hearing Entitled: Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market."
Jun 29, 2022

Zillow appreciates the opportunity to submit this statement for the record at the hearing of the House Financial Services Committee, entitled: "Boom and Bust: Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market."

Zillow was founded to empower people with knowledge and information about housing and make it radically easier for people to move. The introduction of the Zestimate, our proprietary valuation tool, combined with advanced technology, content, and connections, has turned Zillow into a household name.

Despite the transparency that's empowered millions of people in their home journey, very little innovation has happened around the transaction itself. We now live in an always-on world, but real estate isn't always on. In fact, it's still primarily offline and full of disjointed pieces that fall largely on the consumer to piece together. Other industries have ushered in a new era of convenience; the time for a seamless and convenient real estate transaction experience is now, and Zillow is building products and services that make it easier for people to unlock life's next chapter.

Today, we are focused on creating a more integrated digital experience, where we help connect the complicated pieces of moving - from finding an agent, to getting a mortgage or touring a home - in a more seamless experience for buyers, sellers, and agents. Despite millions of people using our websites and apps and our position as a trusted brand, our market share is quite modest, with Zillow participating in roughly 3% of customer transactions in the U.S. overall.

We believe that by making the process of moving easier and empowering consumers, we can create a housing market that is more accessible and affordable for all Americans. We encourage lawmakers to seek solutions that remove barriers, promote innovation, increase the supply of homes, and create more opportunities for the public to pursue affordable home ownership.

State of the Housing Market

Over the past several years, the residential housing market has exhibited record breaking year-over-year price growth. Home values continue their rapid rise combined with interest rates that are at their highest

levels in over 10 years and record low for-sale inventory. Rental prices also continued their rapid growth, rising year-over-year in all 50 of the nation's largest metros at an average rate of 15.9% as of May, 2022. Although rents have soared since the start of 2021, the rapidly rising cost of a mortgage still generally makes rent the more affordable option. A typical rent payment in May is cheaper than a mortgage payment (with a 20% down payment), including taxes and insurance, in 45 of the 50 largest U.S. metros.[1]

While their growth rate has recently begun to decelerate, home prices continue to rise and sit at all-time highs. The path of home price appreciation has been nothing short of remarkable. The Zillow Home Value Index (ZHVI) – a measure of the nation's typical home value – has risen by nearly 40% (or by more than $97,000) since February 2020, just before the pandemic began.

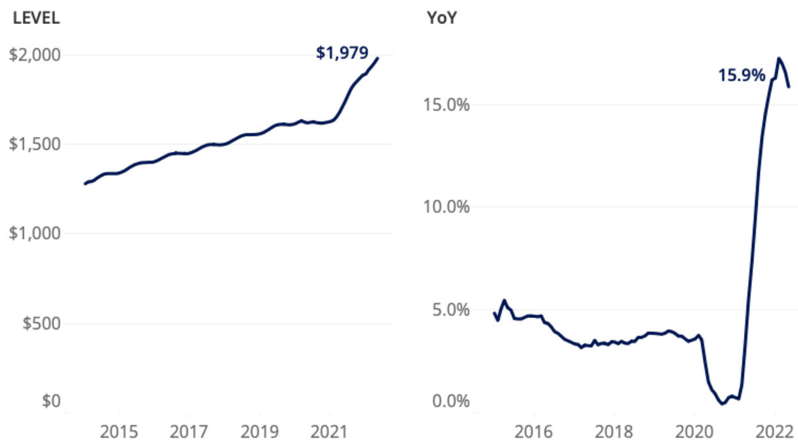
These realized increases in home values and sharp rises in mortgage rates have severely hampered affordability, as measured by the share of median homeowner income that a mortgage payment on the national ZHVI reflects. According to our metrics, this figure is the highest it has ever been, dating back to 2007.

[1] Zillow *May 2022 Market Report* (Jun. 2022)

Monthly Mortgage Payments | May 2022

Waning affordability could place more upward pressure on a rental market that has already seen the typical monthly payment skyrocket in recent months. After stalling in the pandemic's early months, the Zillow Observed Rent Index (ZORI) – which measures the typical monthly rental payment – has spiked higher over the last year and at easily its strongest ever pace.

Zillow Observed Rent Index | May 2022



How Did We Get Here?

Supply

The driving force behind sharply-rising prices is a persistent shortage of available homes for-sale. The annual change in for-sale inventory set new record lows during much of the pandemic, and while levels have begun to rise in recent months, there were still 40% fewer listings on the market in May 2022 than there were in May 2019.

The enduring inventory shortfall can be attributed to a number of factors. In general, the flow of new listings entering the market has lagged behind the pre-pandemic pace for most of the last two years. While some of this is due to an increased interest in second homes, sellers have also expressed some hesitance to list their home due to uncertainty about being able to find or afford their next one. In a way, this dynamic has exacerbated the inventory shortage throughout the last few years.

Construction activity has also played a role. While new housing construction enjoyed consistent growth through much of the pandemic, shortages of materials and available labor have made it difficult for builders to complete these projects. Home builders have been doing what they can to meet unrelenting housing demand during the pandemic, but there remains a large deficit that resulted from years of underbuilding following the Great Recession. As recently as May 2022, our analysis showed that supply and labor challenges continue to impact builders' ability to complete projects in a timely fashion.[2]

Our estimates as of December showed that there is a cumulative housing permit shortfall across the top 35 metro areas, totalling 1.35 million missing single-family home permits, with Dallas, Miami, Phoenix, and Seattle seeing the biggest shortage relative to population growth. A panel of experts that we surveyed in mid-2021 identified relaxed zoning rules as the most productive method to increase new housing supply. Furthermore, our survey analysis shows there is broad support to allow accessory dwelling units, duplexes, and triplexes in residential neighborhoods, a modest approach to densification that would help address the "missing middle" of for-sale homes in many markets. 77% of homeowners and renters surveyed in this analysis agreed that adding these types of housing options in their communities would improve affordability.[3]

Demand

A persistent inventory shortage inflamed home price appreciation over the last couple years, but demand-side factors have played a pivotal role as well.

The pandemic supercharged demand for housing. As millions of Americans spent more time at home, they began to seek more living space, both indoors and outdoors. The large millennial generation, in particular, included a wave of people born in the years around 1990. The Census Bureau estimates that

[2] Zillow *May Housing Starts: Bottleneck of Homes Finding its Way to Market Amid Affordability Woes* (Jun. 2022)
[3] Zillow *77% of homeowners and renters support adding more housing options in residential neighborhoods to help improve affordability* (Apr. 2022)

in April 2020, there were about 5 million more people in the ten-year age range from 26 to 35 than there had been in April 2010[4]. And that cohort included all five of the most common ages: 29, 30, 28, 31, and 27 years old. These young adults were poised for major lifestyle transitions on the eve of the pandemic and then were motivated to accelerate many of those choices. Whether it was moving out to get a place of their own; moving to a larger home or a single-family home; or buying their first home, the extra need for living space in the pandemic nudged many people to act sooner than later on their moving plans.

For those taking the leap to buy a home in the pandemic, record-low mortgage interest rates – around or under 3% on 30-year fixed-rate mortgages – gave people one more reason to act now rather than to wait, and helped to make the monthly cost of higher home prices affordable[5]. Some homebuyers were further facilitated by the freedom to work remotely, which may have helped account for surging demand outside of the expensive urban cores of coastal markets. Vacation towns, in particular, saw outsized interest and price appreciation throughout the last two years[6].

The Role of Technology

Historically, consumers have not had an easy, accessible and transparent platform to get their real estate information or shop for their next home. Zillow empowers consumers with information at their fingertips, including complete listing coverage, estimated home values, their fair housing rights under law, local down payment assistance programs, and information to help them navigate the traditionally opaque and complex home-buying and renting process.

The Zestimate is our free-to-use home value estimation tool and incorporates data from public records, Multiple Listing Service (MLS) and user-submitted information into Zillow's proprietary formula, also taking into account home facts, location, and market trends. Zillow publishes a Zestimate for 104 million homes across the country and uses state-of-the-art statistical and machine learning models that can examine hundreds of data points for each individual home. This tool produces an estimate that provides consumers with a starting point to better understand what their property may actually be worth. The Zestimate is not an appraisal or underwriting tool, and ultimately a home's value is what someone is willing to pay for it.

Zillow incorporates features on our platform that empower buyers with financial tools and information such as local down payment assistance resources. Additionally, we recently launched a first-of-its-kind feature that will make the home search easier for vets by displaying VA loan eligibility information for approximately 55,000 qualifying condominium units across the country.

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[4] United States Census Bureau *Census Population Estimates Program,* (Apr. 2022)
[5] In fact, 60% of home buyers in early 2021 cited low mortgage interest rates as a reason influencing their decision to move, according to the Zillow Consumer Housing Trends Report, based on a representative survey of more than 2,000 buyers.
[6] Zillow, *Demand in Vacation Areas Unrelenting amid Pandemic-Driven Work Flexibility* (Mar. 2022)

Zillow also provides consumers with information about their rights and responsibilities under the law. We display local, state, and federal fair housing protections as well as source of income protections on every rental listing on our platform and proactively educate real estate partners about fair housing laws and consistently remind them of their obligations under the law and our own policies.

Technology companies are also working to remove consumer pain points from the transaction through instant buying, commonly known as iBuying. iBuyers provide a service to sellers by making market-rate cash offers to sellers, allowing the seller the convenience to move on their timeline. iBuyers will make light repairs to ensure the home is clean, safe and functional, and then quickly list the home for sale on the open market. This service provides market value offers and is attractive to homeowners that are looking for convenience, clarity, and flexibility by removing many of the pain points associated with moving.

However, iBuyers make up a very small part of the purchase market, accounting for just over 1% of all real estate transactions in Q1 of 2022. Zillow operated an iBuying service, Zillow Offers, from 2018-2021 operating in 25 markets. In November 2021 we made the decision to sunset Zillow Offers. Ultimately, volatility in home prices complicated our ability to accurately forecast individual home values 3-6 months into the future. This, combined with operational difficulties from labor and material constraints further led to challenges in timing, pricing, and resale. We concluded that there were better ways to serve consumers in a less labor and capital intensive way.

Zillow is continuing to work on new innovations, such as 3D home tours, real-time touring, augmented reality for home shoppers, faster, more accurate and unbiased appraisals enabled by remote technology, and helpful tools to prepare consumers for financing are central to this vision. Building on these innovations, we recently launched a new tool that allows shoppers to compare up to five homes side-by-side using Zillow's Homes to Compare tool and can tour a home from the comfort of their own living room. All of these solutions are designed to empower consumers when they are shopping for a home.

Additionally, buyers have the option of using Zillow's mortgage and affordability calculators to understand what they can afford before shopping around for a lender using Zillow's mortgage marketplace. If they choose, a buyer can also get preapproved for a mortgage with Zillow Home Loans before using Zillow's agent finder to read agent reviews and profiles and hire the best agent for their needs.

The government can also play a role in helping consumers realize the solutions they demand. Passing H.R. 3962, the SECURE Notarization Act, to provide easier options at closing is a start, but we also encourage Congress to re-examine laws that were written well before the internet revolutionized the way consumers sell, buy, rent and finance their homes. Reforming the Real Estate Settlement Procedures Act (RESPA) and the E-Sign Act will help make it easier, and likely less costly, for consumers to buy and sell real estate.

Consumers Need Policy Solutions & Private Investment to Solve the Housing Shortage

Zillow is firmly committed to supporting policy solutions that increase housing supply. We advocate for legislation that reforms residential zoning laws to increase density through increasing the construction of "missing middle" housing.[7] Restrictive zoning rules are a significant barrier to affordable housing construction, inflating housing prices and production costs by creating inefficient land-use practices. Reforming zoning rules to allow for even a modest amount of new density in overwhelmingly single-family dominant zoned communities could lead to millions of new housing units being built nationwide.[8] Additionally, our research has found that modest zoning reforms is a straightforward measure that would significantly increase critically needed housing supply.[9]

Zillow looks forward to working with Congress on bipartisan solutions that will have a sustained impact on U.S. housing affordability and supply. This can be achieved by investing in the construction and rehabilitation of affordable housing units through direct funding, tax incentives, and removal of regulatory barriers that deter new construction. Congress and the Administration should also continue incentivizing local and state governments to remove exclusionary zoning restrictions. Taken together, these solutions will help to alleviate supply constraints and ease price growth by empowering the construction of net new affordable housing units within existing communities.

Thank you again for the opportunity to provide the committee with a statement for the record.

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[7] Zillow *A Modest Proposal: How Even Minimal Densification Could Yield Millions of New Homes* (Dec. 2019)
[8] Zillow *Playing Catch-up: Putting the Recent Home Building "Boom" in Context* (Dec. 2021)
[9] Zillow *A Modest Proposal: How Even Minimal Densification Could Yield Millions of New Homes* (Dec. 2019)

Rep. Sylvia Garcia Submission for the Record

Responses from Dr. Choi

- Thank you, Madam Chair, and thank you to the witnesses for being here today as we discuss this important issue.
- As we know, homeownership is an essential way for individuals and families to build generational wealth, both at home in my district and across the nation.
- Homeownership in my hometown of Houston is becoming more challenging, particularly for minority communities, largely because of an affordability issue.
- Home prices skyrocketed as demand did, creating an environment in which only the wealthiest could participate.
- Minority communities have historically been at a disadvantage in the housing market, due to issues of lending discrimination and predatory practices, family wealth disparities, and, more recently, institutional investments.

Question 1:

- First, I'd like to discuss the issue of lending discrimination with Dr. Choi. My district is majority Latino, and Latinos are 81% more likely than white homebuyers to be denied conventional lending. As a result, they must rely on Federal Housing Administration lending, which puts them at even more of a disadvantage as FHA borrowers face delays and competition from buyers who have conventional loans.
- How can we ensure that we are reaching all groups with responsible lending? Does the answer lie in reform to the FHA system or in tackling loan discrimination? How can we begin to address this lending equity gap that Latinos and other minority groups face?

Our research suggests that the answer to this question is: Both.

Although there is no single solution that will ensure all groups receive responsible lending, strengthening the FHA's role is a critical part of the solution. The FHA accounts for 34 percent of purchase mortgages to Latino borrowers (according to 2020 Home Mortgage Disclosure Act data) compared with just 14 percent for white borrowers, and when combined with US Department of Veterans Affairs (VA) loans, government-backed mortgages make up the largest share of purchase mortgages used by Latino borrowers in 2020 (43 percent). This compares with 41 percent of Latino borrowers' purchase mortgages financed through the government-sponsored

enterprises (Fannie Mae and Freddie Mac). The recent increase in cash purchases (see our discussion of investors below) and seller unwillingness to accept offers from FHA-financed buyers[1] poses a direct threat to Latinos' home purchasing capacity. As noted below, increasing the flexibility of the FHA appraisal and property valuation requirements could address a key barrier for FHA borrowers.

Because of its low down payment requirements, smaller average loan balances, and more flexible underwriting rules, the FHA is an important option for first-time buyers of color. But, as our Housing Credit Availability Index shows, lenders in the government channel (and in the government-sponsored enterprise channel) have maintained tight credit since the Great Recession, below levels that were considered acceptable under the reasonable lending standards of the early 2000s.[2] These tightened guidelines make it harder for borrowers with low or nontraditional incomes and credit histories to qualify for mortgages. The more the FHA can facilitate the use of alternatives to credit scores and account for nontraditional sources of income, the more Latino households are likely to qualify. Enhancements and flexibilities in specific products, such as purchase-renovation lending, could further help first-time homebuyers. And generally strengthening the FHA through investments in systems and people could extend the reach of this important homeownership tool.

At the same time, it is important to address the systemic barriers that Latino households face across the mortgage cycle. The effects of historical racial and ethnic discrimination in housing remain prevalent, as many Black and Latino households have not had the opportunity to benefit from family wealth accumulated through intergenerational homeownership. In addition, they still face inequities in employment and in access to mainstream banking and credit resources that can help build positive credit histories. Efforts like special purpose credit programs[3] and first-generation targeted down payment assistance (DPA)[4] can level the playing field.

Urban Institute research underscores the importance of doing so. We project that, through 2040, the number of white homeowning households will fall and that all growth in homeownership will come from nonwhite households. Because of the large share of Latino households entering prime homebuying years over that period, researchers project Latino households are poised to constitute 70 percent of all net new homeowners. We find that "Hispanic households are the only

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[1] Laurie Goodman and Janneke Ratcliffe, "The Tight Housing Market Boxes Out Government-Insured Borrowers, Widening Homeownership Gaps," *Urban Wire* (blog), Urban Institute, June 16, 2021, https://www.urban.org/urban-wire/tight-housing-market-boxes-out-government-insured-borrowers-widening-homeownership-gaps.

[2] "Housing Credit Availability Index," Urban Institute, last updated August 8, 2022, https://www.urban.org/policy-centers/housing-finance-policy-center/projects/housing-credit-availability-index.

[3] See the website for the Special Purpose Credit Program Toolkit for Mortgage Lenders at https://spcptoolkit.com/.

[4] Jung Hyun Choi and Janneke Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers Could Help Millions Access the Benefits of Homeownership," *Urban Wire* (blog), Urban Institute, April 7, 2021, https://www.urban.org/urban-wire/down-payment-assistance-focused-first-generation-buyers-could-help-millions-access-benefits-homeownership.

group holding the homebuying ground," but without access to affordable homes and the credit to buy them, this outcome is far from certain.[5]

Question 2:

- Further, I would like to discuss the issue of institutional home investments and iBuying. Dr. Chandan, Yesterday, the Subcommittee on Oversight and Investigations held a hearing entitled on private equity and single-family rentals. We discussed the ways that investment groups can use predatory practices, particularly in Texas and other Sunbelt states, to maximize profit at the expense of the wellbeing of tenants.
- How much has institutional homebuying contributed to rising home prices? And, how should Congress act to address this problem?
  The limited supply relative to demand has put upward pressure on home prices, and with historically low interest rates during the pandemic, the share of investors and cash buyers has increased, further elevating home prices. About a third of homes are bought by cash buyers,[6] and about 20 percent of homes in recent months were bought by investors.[7] These investors include individuals buying second homes and small mom-and-pop landlords, who typically own fewer than 10 units. According to Freddie Mae, large institutional investors and i-buyers account for only 4 percent of home purchases[8] and have a limited impact on home price increases.

  But, as I stated during the hearing, the impact of institutional investors on home prices is likely to vary across locations. For example, recent research in Atlanta[9] found that the rise in the share of institutional investors in the single-family market dampened the homeownership rate, while no such relationship was found for smaller investors. The research also found that Black households, who have fewer resources with which to compete for homeownership, were most likely to be pushed out. At the national level,

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[5] Laurie Goodman and Jun Zhu, "The Number of Hispanic Households Will Skyrocket by 2040. How Can the Housing Industry Support Their Needs?" *Urban Wire* (blog), Urban Institute, February 25, 2021, https://www.urban.org/urban-wire/number-hispanic-households-will-skyrocket-2040-how-can-housing-industry-support-their-needs.

[6] Jung Hyun Choi, "Disparate Impacts of the COVID-19 Pandemic across Race and Ethnicity in the Housing Market" (Washington, DC: Urban Institute, 2022), https://www.urban.org/research/publication/disparate-impacts-covid-19-pandemic-across-race-and-ethnicity-housing-market.

[7] Lily Katz and Sheharyar Bokhari, "Investor Home Purchases Slump 17% from Pandemic Peak as Interest Rates Rise," Redfin, last updated June 22, 2022, https://www.redfin.com/news/investor-home-purchases-q1-2022/.

[8] Freddie Mac, "What Drove Home Price Growth and Can It Continue?" (McLean, VA: Freddie Mac, 2022), https://www.freddiemac.com/research/insight/20220609-what-drove-home-price-growth-and-can-it-continue.

[9] Brian Y. An, "Concentrated Home Purchasing by Institutional Investors: Who Gets Pushed Out of the Market?" (presentation given at the Atlanta Regional Housing Forum, Atlanta, GA, June 1, 2022), https://www.atlantaregionalhousingforum.org/_files/ugd/9bcf20_11f06a798a664f85b75fdba51f0df29c.pdf.

Federal Reserve researchers found[10] that the increasing presence of institutional investors explains about half the increase in real home price appreciation rates between 2006 and 2014 and is mostly responsible for homeownership rate declines.

Still, more research is needed to identify the size of the impact institutional investors have on home price increases. Institutional investors do bring benefits to the market, as they have greater capital to repair and renovate homes and improve quality.[11] Therefore, rather than directly targeting investor activity, it would be more realistic to implement policies to level the playing field between those who have greater financial resources to purchase homes and those who do not.

As interest rates rise, we are observing some cooldown in investor activity and a rise in the share of home purchases with FHA and VA loans, which a greater proportion of households of color and first-time homebuyers use for home purchases. But Congress could consider improving the government loan process so FHA borrowers can be more competitive even in heated markets. For example, the US Department of Housing and Urban Development (HUD) and the VA could consider adjusting appraisal requirements, which deter sellers from entertaining FHA buyers' offers and can derail transactions when they do accept them. HUD and the VA could also consider allowing for parties to renegotiate the price if the appraised value is less than the agreed-upon price, following the rules applied to conventional loans.[12]

Some are concerned that providing greater DPA could further increase home prices, but a well-targeted DPA program could help borrowers with fewer financial resources access homeownership; for many of these families, the lack of DPA is still the most common barrier to homeownership.[13] Congress could consider designing and implementing the first-generation DPA program[14] or providing clear guidelines for special purpose credit programs.[15]

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[10] Lauren Lambie-Hanson, Wenli Li, and Michael Slonkosky, *Institutional Investors and the U.S. Housing Recovery* (working paper, Federal Reserve Bank of Philadelphia, 2019), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3494193.

[11] Laurie Goodman and Edward Golding, "Institutional Investors Have a Comparative Advantage in Purchasing Homes That Need Repair," *Urban Wire* (blog), Urban Institute, October 20, 2021, https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair.

[12] Goodman and Ratcliffe, "The Tight Housing Market."

[13] Laurie Goodman, Alanna McCargo, Edward Golding, Bing Bai, and Sarah Strochak, *Barriers to Accessing Homeownership: Down Payment, Credit, and Affordability—2018* (Washington, DC: Urban Institute, 2018), https://www.urban.org/sites/default/files/publication/99028/barriers_to_accessing_homeownership_2018_4.pdf.

[14] Choi and Ratcliffe, "Down Payment Assistance Focused on First-Generation Buyers."

[15] National Fair Housing Alliance, "NFHA and MBA Launch Online Toolkit to Help Lenders Develop Special Purpose Credit Programs for Underserved Communities," press release, June 21, 2022, https://nationalfairhousing.org/nfha-and-mba-launch-online-toolkit-to-help-lenders-develop-special-purpose-credit-programs-for-underserved-communities/.

Question 3:

- I also want to turn our attention to an issue inherent in this discussion but unfortunately too often left out. That is the issue of homelessness.
- What remains unsaid in these discussions is that factors like foreclosures and predatory lending can – and too often do – result in homelessness for individuals and families.
- Dr. Choi, can you provide your thoughts on how we can ensure that those bearing the brunt of our nation's housing crisis do not end up on the streets? And, how can we make sure that homeless individuals have access to housing and ultimately to homeownership should they choose?

Foreclosures and predatory lending led many households to lose homes and significant housing wealth following the Great Recession. But in the current housing market, the lack of housing supply, especially affordable housing supply, is keeping many individuals and families from staying housed. Rental prices have risen significantly from a year ago, and our research finds[16] that even though many tenants are struggling to make ends meet, most landlords are planning to increase rent further.

Swift policy actions, such as unemployment benefits, emergency rental assistance, and the eviction moratorium, prevented the increase in eviction and homelessness amid the pandemic, but we need long-term policies to improve renters' financial health, prevent homelessness, and enhance homeownership opportunities. On the supply side, we need more affordable housing, which will take several policy actions, including reforming zoning and land-use regulations, providing financial incentives to developers to build more affordable homes, and expanding manufactured housing.[17] On the demand side, expanding housing choice vouchers to renters would help keep renters housed when facing economic shocks. Because of underfunding, only one in five renters[18] who qualifies receives vouchers. Our research found that both tenants and landlords have

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[16] Jung Hyun Choi, Laurie Goodman, and Daniel Pang, "Though Most Mom-and-Pop Landlords Plan to Raise Rent under Market Rates, Many Tenants Will Struggle Financially," *Urban Wire* (blog), Urban Institute, June 29, 2022, https://www.urban.org/urban-wire/though-most-mom-and-pop-landlords-plan-raise-rent-under-market-rates-many-tenants-will.

[17] Jung Hyun Choi and Daniel Pang, "Opinion: Without Real Solutions, Renters Will Continue to Be Worse Off," CNN Business, last updated July 22, 2022, https://edition.cnn.com/2022/07/22/perspectives/rent-home-prices-inflation/index.html?fbclid=IwAR0iBHVwcz2qPimlOfiBJ_ZIsF4_JH4ZbJg_PdXt_j9-bjYoLsLBnHw9vyU.

[18] Corianne Payton Scally, Samantha Batko, Susan J. Popkin, and Nicole DuBois, *The Case for More, Not Less: Shortfalls in Federal Housing Assistance and Gaps in Evidence for Proposed Policy Changes* (Washington, DC: Urban Institute, 2018), https://www.urban.org/research/publication/case-more-not-less-shortfalls-federal-housing-assistance-and-gaps-evidence-proposed-policy-changes.

benefited from housing choice vouchers during the pandemic because they guarantee at least a portion of the rent being paid.[19]

Without long-term investments today, future economic downturns are likely to produce even greater social and economic costs.

[19] Jung Hyun Choi and Laurie Goodman, "Housing Vouchers Have Helped Tenants and Landlords Weather the Pandemic," *Urban Wire* (blog), Urban Institute, March 23, 2021, https://www.urban.org/urban-wire/housing-vouchers-have-helped-tenants-and-landlords-weather-pandemic.