

STATEMENT OF

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Chairman Hill, Ranking Member Waters, and members of the Committee, thank you for inviting me here today to discuss the policies behind rising costs of housing and borrowing, and potential solutions to those challenges.

The problem the Committee is addressing today has a number of dimensions, and it is important to unpack them so we better define the problem we are trying to solve. Most Americans know that everything got more expensive over the past five years as the country experienced the highest inflation since the 1970s. Not as many people know that house price inflation was dramatically worse than inflation as a whole. Between 1991 and 2025, US home prices increased roughly 330 percent, while consumer prices rose about 137 percent, meaning housing inflation was literally twice as bad as background CPI inflation. And of course Americans looking to buy a home care not only about the price of the home, but about the cost of financing a home. While there have been times when cheap credit fueled higher home prices, that is not the case today: Interest rates remain persistently high, and regulatory pressures that have reduced banks ability to serve the mortgage market have created a problem of credit supply that is almost as significant as the problem of housing supply itself.

Today I will focus on several dimensions of housing affordability and assess some potential solutions being discussed by the Committee, the Administration, and others.

First, I will address policies that fuel our persistent housing supply deficit – many of which originate at the state level, but which can be corrected using existing authorities under federal law.

Second, I will address two dimensions of federal banking policy that have created an undersupply of credit: policies coming out of the Dodd-Frank Act that have significantly diminished mortgage lending by banks; and bank supervision policies during the Biden Administration that strongly disincentivized bank lending to support multifamily housing.

Third, I will address the effect of persistently high interest rates on the monthly cost of homeownership.

And ***fourth***, I will touch upon the lingering uncertainty surrounding Fannie Mae and Freddie Mac, now in their 18th year of government conservatorship.

State Policies Exacerbating the Housing Supply Crisis

Every economics student learns that price is a function of supply and demand. It is clear that we have a supply/demand imbalance in this country and have for some time. Estimates vary, but the consensus, and the number supported

by Fannie Mae research when I was an executive there, is that we are about 5 million units short of what would be required to support total housing demand in this country based on rates of household formation and historical housing starts data. In a pure market economy, one would expect profit-minded developers to serve that demand to make money. Yet somehow the shortage has persisted for a long time. Why is that?

One reason is the magical thinking of rent control. I live in Los Angeles, and in downtown LA there is a giant billboard on the side of a decrepit building that reads “Rent Control: An LA Tradition since 1919.” Oddly, LA’s housing cost per square foot has been one of the highest in the nation for decades. Is this in spite of our grand tradition of rent control, or because of it? One might ask the same of the other major cities that compete for the crown of most expensive housing market notwithstanding rent control or rent stabilization ordinances – New York, Washington, D.C., and San Francisco, to name a few. In some of these cities, most notably New York, regardless of a building’s operating expenses and maintenance or repair needs, not only are annual rent increases capped for existing tenants, but the rent often cannot even be increased when an old tenant moves out and a new tenant moves in. As a result, building owners can predict very accurately the point at which the operating expenses of the building will exceed the building’s net operating income. When that point is reached, there is no further

capital available to perform necessary maintenance, meaning that small deferred repairs turn into major structural problems; and as we learned in 1970s New York, the building then fails, is taken over by the bank or by the city, and the disaster becomes a taxpayer problem without any tenants being any better off.

I would suggest that rent control policies should be judged by the results and not by their intent. Rents in cities that adopt rent control are persistently high and rising due to lack of supply – no investor wants to build a new unit in a place where they can't recoup their investment. By contrast, rents in cities without rent control – Austin, Dallas, Denver, Phoenix – are stable or even declining because of building booms in those cities. Which policy actually helps tenants? The proof is in the pudding.

Another reason for the housing shortage in certain areas has to do with state and local permitting, environmental, zoning, and climate mandates. I mentioned I live in Los Angeles, about five miles from the Eaton fire that destroyed about 6,700 residential structures. More than a full year after that devastation, permits have been issued to rebuild only about 1,170 of those units, and construction has begun on only 500 units. As shocking as that is – only about seven percent of burned properties are under reconstruction more than a year later – the data is even worse in the Palisades fire area, where the LA city government as opposed to the county government is in charge. There, about 6,800 residential structures burned

in the fires, and construction has been started on only about 100 of those lots. LA's complicated overlapping rules on an array of environmental, fair housing, energy efficiency, and similar issues may not explain all of this slow-rolling tragedy, but they are certainly a major factor.

What can the federal government do about this? A lot, actually. The Department of Housing and Urban Development distributes tens of billions of dollars in grants to state and local housing agencies. Under existing law, these funds are conditioned on the state or locality adopting policies that promote the construction and availability of housing. HUD could declare that some of these rent control ordinances in fact reduce the construction and availability of housing and refuse to subsidize states that pursue these policies. HUD also has the power under Section 8 and various other statutory provisions to revoke approval or withhold funding to localities that pursue policies that reduce the supply of housing. HUD could further consider preempting state and local rent control, environmental review, green energy, and other anti-housing laws to the extent they would apply to HUD-insured mortgages. It is even conceivable that local laws setting price controls on rental apartments constitute concerted action against competitive pricing in violation of federal antitrust laws. The affordability situation especially in our blue coastal cities is dire enough that all of these options are worth considering.

Federal Banking Policy Has Reduced Investment in Housing Finance

Since the Dodd-Frank Act in 2010, and accelerating during the last Administration, federal banking policy has sharply reduced the role that banks play in financing housing and homeownership, and has almost entirely turned housing finance into a government program. The scale is dramatic: Nonbanks currently originate the large majority of all mortgages, and while banks originate the remainder, most of those loans wind up on government-related balance sheets, including Fannie Mae, Freddie Mac, Ginnie Mae, and the VA. Only about 10 percent of mortgage credit risk is borne by the private sector – a dramatic shift from a generation ago. I will briefly highlight two causes of this situation.

First, when Dodd-Frank was adopted during President Obama's first term, it imposed a series of rules that strongly disincentivized mortgage lending as a banking line of business. The way mortgages are treated for stress test purposes; the way mortgage servicing rights are valued; the earnings volatility of long dated mortgage assets on bank balance sheets; and especially the treatment of mortgage assets under Basel III for capital ratio purposes, all made mortgages an unattractive business for banks. The ability-to-repay rules and the qualified mortgage test as enforced by the CFPB also created massive new liability risks.

Second, bank supervision – the shadowy world in which bank examiners exercise judgment with very few specific constraints – led banks to be wary of lending to apartment owners and developers. In the wake of Silicon Valley Bank’s failure and the subsequent unwinding of Signature Bank and First Republic, bank examiners combed through the portfolios of banks looking for loans to downgrade. Examiners who had failed to predict Silicon Valley Bank’s failure didn’t want to be caught flat-footed again, and so they found any excuse to downgrade multifamily and other commercial real estate loans. I have personally reviewed examples of loans to longstanding community bank clients, loans that had never had a payment default, that were downgraded from “pass” all the way to “charge off,” creating severe capital problems for these banks – all for paperwork issues that did not correlate to any actual financial risk. Banks were also discouraged from providing term extensions, rate modifications, and other accommodations that likely would have reduced expected loan losses. This signal to banks – that they should reduce their footprint in multifamily lending, sell multifamily loans at steep discounts, and in some cases exit the business altogether, reduced the competitive supply of credit. That appears to have changed significantly under the new leadership of the banking agencies in the Trump Administration, but for four years banks clearly got the message that they should deploy their capital somewhere other than housing.

“Higher for Longer” Interest Rates Continue to Hurt Home Affordability

It hardly needs mentioning that persistently high interest rates contribute to the home affordability crisis. The average 30-year fixed mortgage interest rate in January 2021 when President Trump left office was 2.65 percent. By President Biden’s last year in office, the 30-year mortgage touched 7.2 percent. Today, the average rate has come down a full point to just over 6 percent, but it is still historically high. When applied to the inflated average price of a single-family home in America -- \$415,000 – this means that the typical family would need a down payment of \$80,000 to buy the average house, and would then have a mortgage of almost 2,000 per month not including taxes and insurance. If mortgage rates were to come down two points, that family could save \$500 per month. So the interest rate environment has to be discussed openly in any talk of housing affordability.

Fannie Mae and Freddie Mac

No discussion of home affordability would be complete without at least a mention of the government-sponsored enterprises Fannie Mae and Freddie Mac. The agencies that basically created the 30-year mortgage provide enormous stability to the market and value to the American people. They have been profitable enough to build up significant capital in the years since I left the Fannie

Mae board in 2020. And yet after more than 17 years in government conservatorship the political uncertainty surrounding their rules and their future create a weight on the market. Depending on which party is in power, the agencies have sometimes used their power to implement agendas that skew markets – as, for example, when the Federal Housing Finance Agency in 2023 changed loan-level price adjustments to charge borrowers with low credit scores and high loan-to-value ratios a lower price than borrowers with good credit scores and higher down payments. Political decisions like this that are divorced from sound credit underwriting create risk in the agency portfolio that could in the wrong circumstances destabilize the platforms. I have long supported returning the agencies to private sector ownership under bank-like capital and supervisory requirements as a way to restore market discipline, and the President’s leadership in putting this issue on the agenda is a positive step in this direction.

Thank you for the opportunity to speak with you today and I thank the Committee for shining a spotlight on these important issues. I look forward to the Committee members’ questions.