BOOM AND BUST: THE NEED FOR BOLD INVESTMENTS IN FAIR AND AFFORDABLE HOUSING TO COMBAT INFLATION

HYBRID HEARING

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BOOM AND BUST: THE NEED FOR BOLD INVESTMENTS IN FAIR AND AFFORDABLE HOUSING TO COMBAT INFLATION

Thursday, December 1, 2022

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

The committee met, pursuant to notice, at 10:09 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Scott, Green, Cleaver, Himes, Foster, Vargas, Gottheimer, Lawson, Pressley, Torres, Lynch, Adams, Tlaib, Dean, Garcia of Illinois, Garcia of Texas, Auchincloss; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Budd, Rose, Steil, Timmons, Sessions, and Norman.

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

I want to thank the Members for their patience this morning. We are in the process of reorganizing the Democratic Caucus, so I don't know how this is all going to work out, but we are going to get started.

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

Today's hearing is entitled, "Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation."

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

Good morning, everyone. First, I would like to say that I am incredibly proud that this committee has made it a top priority to ensure that every family has access to fair and affordable housing across the country.

Since I became Chair in 2019, this committee has held 55 hearings on housing, including the first-ever Full Committee hearing on homelessness. However, the opposite side of the aisle has repeatedly complained about our focus on housing, while offering no solutions to safely and affordably house families.

With Republicans holding the Majority next Congress, this will likely be our last hearing on housing affordability for the foreseeable future. But I know the ranking member is a good person, so I hope he will prove me wrong.

Unfortunately, our nation's housing crisis is getting worse. Some believe that robust Federal investments in fair and affordable housing aren't needed, but that deregulation in the private market alone will solve this crisis. But decades of dismal Federal investment in housing have landed us in the current housing crisis, and we cannot expect different outcomes without different interventions.

Today, there is no metropolitan area in the country where families can afford a home while making minimum wage. A chronic undersupply of housing has led to skyrocketing costs, and today, housing is a primary driver of core inflation.

While the Federal Reserve has leaned on interest rate hikes in the hopes of curing inflation, including four supersized rate hikes this year alone, those hikes do nothing to address the fundamental shortage of affordable housing and, in fact, make it worse. These hikes have made lending more costly, pricing first-time and first-generation homebuyers out of the market to record lows by adding to the already-high costs of purchasing a home. Housing construction has also slowed due to increased lending costs, exacerbating the existing supply shortage.

The Fed cannot address inflation alone. That is why last year, my committee fought to secure over $150 billion in fair and affordable housing investments in the House, which would reduce core inflation by addressing the root cause of our inadequate housing supply. These investments are estimated to create more than 1.4 million affordable homes, help 868,000 families lower their housing costs, and create jobs that will boost local economies.

Without these target investments, we will never fully address housing inflation. Instead, we will continue to face a homelessness crisis and skyrocketing rents, and homeownership will move further out of reach for everyday people, while private equity firms and banks, like JPMorgan Chase, gobble up more and more homes for profit.

We need bipartisan support for bold investments to make housing affordable and finally rein in core inflation.

With that, I yield back.

And 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.

And we will certainly, with the incoming Republican Majority, prioritize housing and financial stability next Congress, and put a great emphasis on that. And it is our hope that we can actually achieve some bipartisan results in the world of housing in a way that this committee hasn't done for—well, actually, probably as long as we have both served on this committee, unfortunately, but not for a lack of trying. But our hope is that we can work together and get something done.

But for this hearing, I am grateful that my colleagues across the aisle are finally ready to talk about inflation and how to combat it. Committee Republicans have consistently taken every opportunity to discuss the skyrocketing prices clobbering American families.

For more than a year, Republicans have been sounding the alarm about the Democrats' reckless fiscal agenda and its impact on households and job creators. Democrats chose to ignore those warnings. Republicans said that a massive $1.9-trillion spending bill would wreak havoc on our economy, and Democrats doubled down with even more spending.

Republicans offered simple amendments to the Democrats' partisan bills during our June markup this year to actually address the inflation crisis, and the Democrats rejected each one.

So I have to say, today's hearing is simply too little, too late.

Since Democrats took control of Washington, the cost of everything has gone up: food, energy, healthcare, and, yes, housing, the topic of this hearing, are all much more expensive today than they were just 2 years ago.

Rather than focus on the rising costs of housing, Democrats continue to turn to their tired old playbook of policies that actually make the problem worse, not better. These are policies such as the Down Payment Assistance Program and the numerous other programs included in the Democrats' doomed Build Back Better Act, which threw hundreds of billions of dollars into ineffective housing programs. While well-intentioned, this would do nothing to help lower the costs of housing or to increase our housing supply. Those are the things we need to address.

To find real solutions to bring to this housing crisis, we need to take a step back. Consider this: The average 30-year fixed-rate mortgage rate from June 2009 until the end of 2021 was 3.97 percent. Today, that same mortgage comes with a rate approaching a whopping 7 percent, whopping in comparison to the last decade, which was historically not whopping.

The speed and the magnitude of this increase is without comparison in history. So, there is that.

Then, there are two main contributors to this housing problem. First, Democrats' fiscal policies and regulatory policies are discouraging the building of new homes. We know that artificial local barriers to construction, such as restrictive zoning ordinances and overly-burdensome regulations, play a significant role in limiting new construction. A limited supply of something, coupled with increased demand, always leads to higher prices. And higher prices require larger loans, making it less affordable for families.

The second contributor is our current environment in which the Fed must tighten its monetary policy and reduce its balance sheet to fight out-of-control spending. This causes mortgage rates to increase, making them more expensive and riskier.

Economists are rightly concerned about the effect of quantitative tightening on the housing market. The $35-billion-per-month in agency mortgage-backed securities that are rolling off of the Fed's balance sheet takes money out of the housing market, limiting the availability of credit. We know the Fed's tools to address runaway inflation are blunt, but they are necessary to stabilize the economy and return to normal credit environments.

As lawmakers, we should do our part to assist in this effort to bring down prices. That means reining in spending and practicing fiscal discipline. A doubling down of failed housing policies is not the answer. We need innovative solutions.

Thank you, Madam Chairwoman. I yield back.

Chairwoman WATERS. Thank you, Ranking Member McHenry.

I now recognize the Chair of our Subcommittee on Housing, Community Development, and Insurance, the gentleman from Missouri, Mr. Cleaver, for 1 minute.

Mr. CLEAVER. Thank you, Madam Chairwoman.

Gas prices fell this week to a national average of $4.67, which is 12 cents lower than it was last week, so inflation is coming down. Nevertheless, we do have inflation and elevated consumer prices which are hitting our people in this country. The impact of inflation is felt particularly hard among low- and moderate-income Americans who have tight budgets and lack discretionary income.

However, as much as we are concerned about prices, we must not forget that housing is the single-largest expense for American families. Rents are 22.8 percent higher in the 50 largest cities than 2 years ago, with some hikes far exceeding what is reported in the Consumer Price Index, in some cases by hundreds or thousands more. The lack of housing stock has driven up the prices, and the Federal Reserve's rate hikes do nothing to alleviate housing inflation.

Bringing inflation under control and addressing the impact of inflation on American families begins and ends with the housing crisis.

Thank you, Madam Chairwoman, for your leadership and for holding this hearing today. And I yield back.

Chairwoman WATERS. Thank you, Mr. Cleaver.

I now recognize the ranking member of our Subcommittee on Housing, Community Development, and Insurance, the gentleman from Arkansas, Mr. Hill, for 1 minute.

Mr. HILL. Thank you, Madam Chairwoman.

Americans continue to fall behind because of Biden inflation, and their paychecks are worth less every month. Working Americans in central Arkansas and across the country are getting fleeced. So, I am glad the Majority has finally decided to hold a hearing on combating inflation.

Wasteful spending, productivity-killing regulations, and overly-accommodative monetary policy have led to a 40-year high in inflation. So, it doesn't make a whole lot of sense to me why the Majority keeps noticing bills that will make inflation worse, and put homeownership further out of reach, like the noticed Downpayment Toward Equity Act.

Today, we will hear from some of our witnesses advocating for tempting ideas, like rental or down payment assistance. But doubling down on failed housing policies won't make housing more affordable in America.

I have said it before, and I will say it again: Federal housing policies which only subsidize demand and don't address barriers to supply will never make housing more affordable.

I yield back.

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

I want to welcome today's distinguished witnesses to the committee: Nikitra Bailey, the executive vice president of the National Fair Housing Alliance; Margaret Eaddy, an activist and housing seeker; Michael Mitchell, the director of policy and research at Groundwork Collaborative; Mark Zandi, the chief economist at

Moody's Analytics; and Douglas Holtz-Eakin, the president of the American Action Forum.

You will each have 5 minutes to present your oral testimony. 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.

Ms. Bailey, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF NIKITRA BAILEY, EXECUTIVE VICE PRESIDENT, NATIONAL FAIR HOUSING ALLIANCE (NFHA)

Ms. BAILEY. Good morning, Chairwoman Waters, Ranking Member McHenry, and distinguished members of the committee. Thank you for the opportunity to testify in today's hearing.

I am Nikitra Bailey, the executive vice president of the National Fair Housing Alliance (NFHA), the only national civil rights organization dedicated to eliminating housing discrimination and ensuring equitable housing opportunities for everyone.

NFHA's top equity initiative creates fairness and transparency in algorithms to stop technology from recycling discrimination. Rising housing, gas, and food costs are the main drivers of inflation, but housing costs are the key driver. Home prices rose 10.4 percent in 2020, and another 18.8 percent in 2021. Rental housing prices rose 17.6 percent in 2021, far outpacing income increases. The Consumer Price Index rose 7.9 percent in the last year, the highest increase since 1982.

Housing costs accounted for more than 40 percent of the increase in the core inflation rate. Despite the Federal Reserve's quantitative easing, these trends are not slowing down. Housing continues to be the single-largest expense for the average consumer, with shelter accounting for 33 percent of the CPI.

While rental inflation is lessening as of October 31, 2022, Americans paid an average of $2,040 in market rent. There continues to be no city in our nation where someone making the minimum wage can afford to live in a two-bedroom apartment. It could take as long as 2023 for housing changes to be felt by consumers, and high inflation is likely to last through 2024.

The Federal Reserve lacks the teeth to address housing inflationary impact. Low housing inventory, record competition from corporate cash investors, restrictive zoning ordinances, supply-chain disruptions, rising building material costs, and labor shortages are all driving prices higher.

While carefully weighing anti-inflationary measures, the Fed's actions did not prevent the housing market from entering into a recession. Mortgages rates returned to well over 7 percent. And as of September 2020, pending home sales were down 10.2 percent month over month, with the declines the most acute in the Northeast. And that is just locking out first-time homebuyers, including many millennials from Charlotte, North Carolina, to Boise, Idaho.

Further, there is a shortage of 7 million affordable and available rental homes for extremely low-income renters. There is great irony in passing the Inflation Reduction Act without a single penny for fair and affordable housing, when every economic indicator has shown the direct connection between housing and inflation.

Congress and the Biden Administration are equipped to mitigate housing's outsized role in inflation, and voters are demanding action. Americans support major investments to build safe and affordable housing, even if it would grow the national debt, mean raising taxes, or cutting spending of the areas to pay for it. Voters want the Federal Government to address high housing costs with bipartisan legislation that grows the supply of homes, improves housing affordability, and provides rental and down payment assistance.

During the recent midterm elections, voters approved capping rate increases on rent, and ballot proposals to fund and authorize affordable housing construction across the country. Making key, impactful, demand-sized investments and supply-sized subsidies that prioritize fair housing will help to drive down housing costs while growing the economy. It is critical to embed fair housing in every action.

As a nation, we have tried and failed to create affordable housing opportunities by implementing Federal housing policies in discriminatory ways that entrench residential segregation. The roots of discrimination in housing are deep, pernicious, and persistent. Past race-conscious housing policies, banking, and other practices created today's structural inequalities.

By contrast, the equity-based provisions in the American Rescue Plan Act help to stave off another foreclosure-induced recession. The Great Recession robbed Black and Latino communities of $1 trillion in wealth. Even before the Fed's COVID-19 interventions exacerbated racial inequality, the Black-White wealth gap had grown by $20 trillion, with inequitable housing prices driving the disparity.

Why would we want to go back? The nation needs a comprehensive housing strategy rooted in equity. Equitable policies advance opportunity for everyone and create an economy that works for all. Priorities for funding must include critical support for local fair housing enforcement agencies to fight over 4 million incidents of housing discrimination, mostly in housing and rental, First-Generation DPA, the Neighborhood Homes Investment Act, and increased support for vouchers for families with children, and support for Native communities, older Americans, and people with disabilities.

Thank you.

[The prepared statement of Ms. Bailey can be found on page 66 of the appendix.]

Chairwoman WATERS. Thank you, Ms. Bailey.

Ms. Eaddy, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF MARGARET EADDY, ACTIVIST AND HOUSING SEEKER

Ms. EADDY. Good morning. My name is Margaret Eaddy, and I am from Hampton, Virginia. I am grateful to the Office of Representative Maxine Waters for providing me an opportunity to speak to you today.

The topic of this hearing, fair and affordable housing, is personal for me, and that is because my husband and I currently live in our vehicle. There are so many other things about me I would rather be sharing with you today. I am a visual artist who paints beautiful abstract paintings. I am a former librarian. I am an advocate for other parents like me who have been impacted by gun violence.

Being homeless steals your identity. People like my husband and I need stable housing first before we can accomplish our full potential. So today, I wanted to briefly share our housing story with you. Our experience has also brought us into contact with other families who are facing similar challenges, and I hope to speak up for them as well.

When the pandemic hit in 2020, my husband saw his hours cut in his job hauling trash to the landfill. We fell about $150 short on our rent. Instead of working with us, the landlord evicted us. My husband and I decided to move into our vehicle while we searched for other places, but we soon found out the barriers to finding a home were very steep. Whenever my husband and I would speak with rental offices, I would give them my name, they would type my name into some sort of data system, and then tell me, we see an eviction on your public record so we can't help you.

My husband and I were able briefly to find a place to live after our story received news coverage. We received support from kind individuals on GoFundMe. But this year, after that attention faded, our landlord chose to do what many landlords have done recently: They failed to renew our lease after it expired and then increased our apartment's rent beyond what we could pay. So for the last 4 months, my husband and I have been living in our car again.

In the parking lots where we sleep, and in homeless agencies where we visit, I have met many other homeless families. It hurts so bad to see moms and dads out there with their kids. The dads look like their pride was stolen away from them. And when they tell you their stories, they will tell you that their world turned upside down because their rent went up by even just 50 or 60 more dollars, and they couldn't afford that.

Even if an apartment were to be offered to us, the deposit and income requirements are so high. A landlord typically asks for 3 times the rent up front, $3,000, for example, for a place that rents for $1,000. We don't have that. The landlords can also require you to show that you make 3 times the monthly rent just to qualify. We can't show that.

All of this makes people in our situation more vulnerable to any landlord who will accept you, even if they overcharge you and provide unsafe conditions. When people have stable housing, it allows them to do so much more in life. I know that it is hard for a Member of Congress to imagine yourself living in your car. It was hard for my husband and I to imagine ourselves in this situation, but I am asking you today to imagine yourself in our situation.

You don't know how good it is to have a knob to turn every evening, to enter a space where you are safe and not in danger, until that is taken away from you.

There are so many people out here who, if they had safe, affordable houses they could stay in until the day they died, that would be something that they really do desire. Anything that you can do to help make this a reality will mean a lot to people.

Thank you.

[The prepared statement of Ms. Eaddy can be found on page 78 of the appendix.]

Chairwoman WATERS. Thank you so very much for your testimony.

Ms. EADDY. You are welcome.

Chairwoman WATERS. Mr. Mitchell, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF MICHAEL MITCHELL, DIRECTOR, POLICY AND RESEARCH, GROUNDWORK COLLABORATIVE

Mr. MITCHELL. Thank you. Thank you, Chairwoman Waters, and Ranking Member McHenry. Thank you for inviting me to testify today.

My name is Michael Mitchell, and I am the director of policy and research at the Groundwork Collaborative, an economic policy think tank based in Washington, D.C., dedicated to broadly share prosperity and abundance for all.

My testimony today will focus on three key points.

First, the Federal Reserve's actions to combat inflation on driving up rents as high interest rates increasingly price people out of the home-buying market and further crowd the rental market. They are also exacerbating the long-standing housing crisis by dampening sorely-needed investment in new construction.

Second, the Federal Reserve's aggressive interest rate hikes risk undermining a strong labor market and pushing our economy towards a recession. These actions are coming at great costs to workers and families across the country, particularly the most vulnerable.

And third, policymakers have the tools at their disposal to build a more resilient and equitable housing sector.

To my first point, the Federal Reserve's actions to combat inflation are driving up rents and dampening sorely needed investment in new housing construction. The Federal Reserve has raised interest rates 6 times so far in 2022, including 4 interest rate hikes of 75 basis points.

As the Federal Reserve continues to raise interest rates, other rates, such as mortgage rates, follow suit. The average 30-year fixed-rate mortgage rate across the U.S. is above 6.5 percent, and near 15-year highs.

As the cost of buying a house becomes more expensive, potential homebuyers are forced to remain in the rental market, where there are already too few rental units to meet demand, putting upward pressure on rental prices. The most recent CPI report for October revealed that rent prices have gone up 7.5 percent year over year, the highest rate in over 40 years.

Federal Reserve action also undermines private-sector investment in housing construction as the rising costs of borrowing makes such construction more costly and less profitable. In recent months, we have seen declines in permits for single-family home construction and single-family housing starts. The Fed-induced slowdown in the housing market will only exacerbate the 4-million-unit deficit in housing that predated this inflationary period.

The Federal Reserve's aggressive approach to interest rate hikes risks undermining a strong labor market and harming marginalized workers, while large corporate landlords use this moment to push up rents and boost profits.

Thanks to timely actions taken by the Biden Administration and Congress, we have experienced one of the strongest post-recession recoveries on record. However, this recovery is in jeopardy because of the Federal Reserve's aggressive interest rate hikes. In recent months, job and rate growth have slowed, and a broad range of experts, from Nobel Prize winning economists to financial analysts, have started to sound the alarm about how the Federal Reserve interest rate hikes could throw us into a devastating and totally-avoidable recession.

A recession at this moment would be particularly damaging to marginalized workers, workers of color, workers with disabilities, and women in the labor market, as discrimination in the labor market means these workers are the last to benefit from a strong economy and the first to suffer in a recession.

Yet, despite the significant threats that the Federal Reserve's interest rate hikes pose to economic security for millions, many of which are renters, large landlords have seen this moment as an opportunity to raise rents by as much as they possibly can. These companies have been very explicit about the fact that the Fed's actions have given them cover to raise rent more than overall inflation in order to pad their own pockets and those of their shareholders. On earnings calls, they have been forthright with shareholders about their ability to raise rents with zero concerns for the tenant.

So, what is to be done? While the Federal Reserve may be exacerbating the rent affordability crisis, there are a number of actions that Congress can take to address the growing costs of rent while also tackling key underlining factors to ensure adequate affordable housing into the future.

For immediate impact, Congress can protect lenders from burdensome rent increases in homes with federally-backed mortgages, tackle corporate profiteering in the housing sector, and make investments in helping families afford housing.

And for the longer horizon, Congress can make public investments geared toward boosting the housing supply, and work with municipalities to adopt new forms of zoning regulation that would enable an increase in the supply of affordable housing.

The Federal Reserve's actions to combat inflation are driving up rents and exacerbating a housing crisis that threatens the well-being of millions of families across the country. Congress will need to act to ensure that struggling families have access to quality and affordable housing.

In the long run, public investment in boosting housing supply will be critical to building a housing sector capable of meeting our country's needs.

Thank you. And I look forward to your questions.

[The prepared statement of Mr. Mitchell can be found on page 86 of the appendix.]

Chairwoman WATERS. Thank you very much.

Dr. Holtz-Eakin, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF DOUGLAS HOLTZ-EAKIN, PRESIDENT, AMERICAN ACTION FORUM

Mr. HOLTZ-EAKIN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee for the privilege of being here.

I want to make just a couple of simple points, and then I look forward to your questions.

The first is that obviously, housing is central to the inflation that is at decade highs, and also to efforts to control that inflation. As the committee well knows, measured year over year, inflation—CPI inflation in the most recent poll was 7.7 percent. But I think the more striking number is that if you look at the bundle that is food, energy, and shelter, that is now rising at 9.5 percent annually, down a bit from the 10 percent earlier. But still, every family when they fill up their car, go to the grocery store, and then go home is reminded of the erosion in their standard of living coming from this inflation.

Of that bundle, shelter stands out as the most important. Shelter inflation is now 6.9 percent year over year, up from 6.6 percent the month before, and indeed has risen every month since early 2021, and has shown no sign yet of peaking. And that puts the Federal Reserve in a great dilemma.

If shelter inflation is at 6 percent, and it's a third of the CPI, the only way the Fed can hit a 2-percent target is to have everything else be zero. That is not going to happen. And getting housing inflation under control is central to success in returning to a price stability mandate for the Federal Reserve. So as a direct matter, the Fed is going to have to focus on housing.

As an indirect matter, the housing market is an important conduit for monetary policy. If mortgage rates are higher and people want fewer mortgages, they are going to buy fewer homes. They are going to build fewer apartments. And in those fewer homes and fewer apartments, we are not going to put in furnaces, we are not going to put in refrigerators, and we are not going to carpet them, so the Fed's actions will have a broad cooling effect on large swaths of the economy. And so as a conduit, the housing market is going to carry an especially-large burden in controlling inflation.

This Fed's strategies will make that burden even larger because, as the ranking member mentioned, the Federal Reserve has gone from buying $30 billion a month in mortgage-backed securities to unwinding $35 billion a month in mortgage-backed securities. That's a $65-billion-a-month swing, roughly a fifth to a quarter of normal mortgage finance, which puts extra pressure on access to capital in the housing sector. So, we are going to see a Federal Reserve that needs to control housing inflation, and its procedures will indeed target the housing sector disproportionately.

Sadly, this tightening cycle comes at a time when there were record-low vacancies in the rental market, and a record-low inventory in the owner-occupied sector. And so, we, once again, learn the lesson that if you let inflation get embedded into the economy, you have no good choices. You either live with the inflation, which is untenable in most people's minds, or you have to undertake actions which seem at odds with your other goals. And that is the position that we find ourselves in today.

It is unsurprising to me that in those circumstances, there will be calls for additional assistance into both rental and unoccupied housing. You are hearing those calls today. I would say two things about that. The first is, they are unlikely to succeed. The Fed's goal and its necessity is to cool the housing market and then allow housing demand to continue. Adding more demand subsidies will simply be counteracted by a higher and more-aggressive Fed of necessity. So, it is not going to be effective at this point in time.

And the historical record on demand subsidies is not exactly a sparkling one. Housing was at the center of the 2007–2008 financial crisis, and the Great Recession that was attributed to the housing Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. Long-standing subsidies to owner-occupied housing placed the taxpayers at tremendous risk, fed an unwise credit boom in the housing sector, and ultimately led to enormous losses in personal wealth across the economy.

Since then, nothing has changed. The GSEs remain in conservatorship. They are undercapitalized, and they are back to their traditional mission creed of finding additional ways to subsidize housing when it has been proven that that is an unwise course and is not going to be effective.

And so, I would encourage this committee to look at the other side of the market. Look at the supply side and find effective ways to deal with the chronic undersupply of housing; do not repeat failed demand stimulus.

Thank you.

[The prepared statement of Dr. Holtz-Eakin can be found on page 80 of the appendix.]

Chairwoman WATERS. Thank you very much.

And Dr. Zandi, you are now recognized for 5 minutes to present your oral testimony.

STATEMENT OF MARK ZANDI, CHIEF ECONOMIST, MOODYS ANALYTICS

Mr. ZANDI. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee. Thank you for this opportunity to participate in today's hearing.

My name is Mark Zandi, and I am the chief economist at Moody's Analytics. I am also the lead director of the Reinvestment Fund, a large Community Development Financial Institution (CDFI). And I am on the board of directors of MGIC, which is one of the nation's largest mortgage insurers. But the views I am expressing here today are my own.

I will make four points in my remarks, and they echo many of the remarks made by the other witnesses.

First, it is clear that American households are struggling with the hit to their purchasing power from the very high inflation. Prices are rising quickly for many goods and services, gasoline and food, new vehicles and, of course, housing, the subject of this hearing.

Just to make that point concrete, the typical American household making the median income has to devote $433 more per month to purchase the same goods and services that they were buying this time last year because of the high inflation. Clearly, for someone making $70,000 a year, that is financially overwhelming.

Second, there is a long list of reasons for why inflation is high. I would put at the top of the list the Russian invasion of Ukraine and the resulting surge in oil, natural gas, agriculture, and other commodity prices. The pandemic is still creating havoc, as we can see in China, the global supply chains into the labor market, and, of course, also the affordable housing shortage, which has been building since the great financial crisis over 10 years ago. In fact, I estimate that the shortfall in housing at this point is about 1.6 million homes, which is about 1 year's worth of new construction at the current pace.

This shortfall has been long in the making. It is behind the very-high house prices and the rents that we are struggling with, and it is key to the inflation that we are suffering through right now.

As others have pointed out, housing accounts for one third of the Consumer Price Index, and it has accounted for over a percentage point of inflation, given the Federal Reserve's target of 2 percent. That gives you a sense of how daunting this is.

My third point is that the Federal Reserve really does not have the policy tools needed to address this shortage, and its effort to quell inflation by raising interest rates, while appropriate, is adding to the cost of housing services. The higher mortgage rates resulting from the Fed tightening are undermining the affordability and the demand for homeownership, and that is causing more people to have to rent, which is causing rents to rise and adding to the cost of housing services.

Also, and I think less appreciated, the higher costs, the lending rates for new construction, those weigh against the building of new multifamily units for single-family rental, and that reduction in supply is also adding to rents and housing costs.

And this leads to my final point. Because of the inability of the Fed to address this issue, it is up to Congress and the Administration to adopt policies to help alleviate the shortage, and to improve supply to help rein in the inflation. These policies can include a range of things, including tax breaks, grants, access to less-expensive capital, and critical incentives to get local decision-makers to ease zoning rules and restrictions on development.

Now, grants tend to close the economic gap for local governments and philanthropies to build and renovate housing, and tax incentives tend to close the gap for private businesses to do the same.

But most immediately, I think I would focus on the tax-related policies. I think they can work quickly to increase housing supply, which has to be the focus, and bringing private capital to bear to address the affordable housing shortfall will be needed to bring it to scale and to help over the longer run, because even on the other side of the pandemic and its effects, the housing shortfall is going to be significant and add to inflationary pressures.

So, affordable housing is a serious problem. It is driving up the cost of housing and homeownership, and putting upward pressure on inflation that will be long with us, and it is a pernicious problem. But fortunately, there are policy solutions to this problem that make good economic and political sense.

I look forward to your questions.

Thank you.

[The prepared statement of Dr. Zandi can be found on page 94 of the appendix.]

Chairwoman WATERS. Thank you so very much, Dr. Zandi.

I now recognize myself for 5 minutes for questions.

Mrs. Eaddy, I want to thank you so much for appearing here today to share your very difficult story with this committee, and I am also very saddened that your experience is one that is shared by millions of families all across this country, especially among low-income families and people of color. No one should have to rely on GoFundMe to afford a roof over their head.

We throw around large amounts of money in our conversations. We talk about millions and billions and trillions. So, could you just talk a little bit about what something like $150 billion in fair funding or affordable housing investments would do for you and your family, and for those in similar circumstances? Would it make a difference in your life? What would it do for you?

Ms. EADDY. Of course, it would make a difference, Chairwoman Waters. Just a little bit of that, like one little drop of that money could change not only my life and my family's, but a lot of families' lives. That money could give us back our identity and our dignity, to feel safe again, to feel like we are human again, because when we are out here being homeless, it is just like everything is stripped away from us. It is like we don't see an end to it. But if we did have funds to help us, it would change our whole perspective. It would give us back our identity. It would give us our place back in society where we won't feel like we are the bottom of the barrel. It will give us just a safety net where we can feel as though we can accomplish things. Because if we have to constantly worry about having a roof over our head, we don't have time to adapt or try to even put into words, is there any hope to get housing.

I feel as though the money would be something that could really help us bring back not only our identity and our self-worth, but it would be something that would definitely help us go towards trying to make our lives better in the future.

So, having the resources to be able to get affordable housing would be an asset to us.

Chairwoman WATERS. Thank you so very much.

Dr. Zandi, can you tell us what robust Federal investments in affordable housing like those that we had in Build Back Better, which we passed through the House, would mean for inflation and the economy overall?

Mr. ZANDI. Chairwoman Waters, I think they would be very positive because they were almost entirely focused on the supply side of the housing market. And the lack of supply that has been developing since the financial crisis over a decade ago is the key reason for the surge in house prices and rents that are adding to the inflationary pressures that we are suffering through right now. Those various grants and tax breaks that were provided in the Build Back Better Plan to increase supply would address that question.

And those programs are already in place. Those tax breaks are already in place. They are tried and true. They are not perfect, but they do work, and many of them do work very, very quickly and can help increase the supply, particularly of affordable rental housing in the next 12, 18, 24 months when obviously, it is going to be very critical that we get inflation back in. And housing cost inflation, as has been pointed out, is a very key part of overall inflation. So getting rent growth, slowing it down, that would go a long way toward getting inflation back into its box and allowing the Fed to bring down interest rates, which, of course, would be critical to making sure the economy can get through the next 12 to 18 months without going into a recession.

So, I think of all of the policies in Build Back Better, the housing-related supply-side policies are particularly important in addressing the high inflation that we are suffering through at this point in time.

Chairwoman WATERS. Thank you very much.

The gentleman from North Carolina, Mr. McHenry, who is the ranking member of the committee, is now recognized for 5 minutes.

Mr. MCHENRY. Thank you, Madam Chairwoman.

Dr. Holtz-Eakin, with inflation that we haven't experienced since the 1970s, like the Carter Administration, the Biden Administration has exacerbated price instability and the cost of consumer goods going up. And that has been exacerbated by Federal spending. Obviously, the Fed has a certain role in monetary policy, but the fiscal house adds a key ingredient to the experience that we have here in the United States, pre-Ukrainian invasion.

So, can you explain how massive spending bills impact inflation price instability and, thereby, housing prices as well?

Mr. HOLTZ-EAKIN. Certainly. In 2021, we saw a 6-percentage-point increase in consumer price inflation in the United States. That has only happened three times. The first time was in 1952, when the U.S. economy was growing rapidly, 10.5 percent, a pretty big number, and the Federal Government increased its spending by 50 percent to prosecute the Korean War. With big Federal spending and a hot economy, consumer price inflation jumped right up. The Fed did nothing to offset it.

That is exactly what we saw in 2021. The $1.9-trillion American Rescue Plan was about a 50-percent increase in typical Federal spending. The Fed did nothing to counteract it. We saw a big jump in inflation in 2021. I think that's unquestionably a big root of the current inflation problem.

The other episode that is illustrative as well is in 1974 with the OPEC oil embargo, when global oil prices quadrupled overnight. That caused pressures in every business in America, which got passed on to consumers. And we saw supply chain issues. Those are certainly part of the inflation story, but they are not all of it. That excessive Federal spending, excessive stimulus produced demand across-the-board and rapid increases in prices.

Mr. MCHENRY. So, the Federal Housing Finance Agency (FHFA), in response to substantial changes in housing prices, and because of the change in Administration, has raised the statutory limit for the maximum-size mortgages that Fannie and Freddie can buy. And now, you have Government-Sponsored Enterprises enabling the financing of mortgages on homes sold up to $1,089,300, in some places across America.

So translated, taxpayers will now be on the hook to guarantee $1-million homes in places like California, New York, and the D.C. suburbs. Housing experts, like former FHFA Director Ed DeMarco, have observed that, "Excessively high loan limits exacerbate the affordability crisis."

Do you agree with Director DeMarco that something is not right here?

Mr. HOLTZ-EAKIN. I do. We have seen the track record of demand subsidies exacerbating higher prices because of the inadequacy of supply. These are especially poorly-targeted demand subsidies—$1-million homes are not exactly targeting those subsidies toward those who are most in need. So, it is the worst of both aspects of that policy.

Mr. MCHENRY. Okay. So to address inflation, what should Congress do?

Mr. HOLTZ-EAKIN. First, it should not exacerbate the problem. That is the number-one thing that a future Congress could do is not put the U.S. in this position again. As I mentioned, now that inflation is entrenched, there are no good choices for combating it. So, don't put the U.S. in that position again by having fiscal policies that add up, and don't exacerbate demand in an excessive fashion.

Mr. MCHENRY. And if Congress could do one or two things on housing to increase the affordability of the housing supply, to enhance the supply of housing, what would you say?

Mr. HOLTZ-EAKIN. I would echo some of the things that Mark Zandi said, which is, a carefully-thought-out long-term plan to increase supply is the key. A rapid response, trying to sort of solve this problem overnight, really just produces a huge construction boom and exacerbates the inflation problem. This is the wrong time for that. So, have a patient strategy that is going to increase the supply of rentals, especially housing in the United States.

Mr. MCHENRY. So, a long-term approach to a long-term problem?

Mr. HOLTZ-EAKIN. Yes.

Mr. MCHENRY. Mr. Zandi, do you agree?

Mr. ZANDI. Yes. I would focus on the supply side here in the immediate future. And I do think the tax incentives that I mentioned in my remarks would be particularly effective in the near term: the Low-Income Housing Tax Credit (LIHTC); the Neighborhood Homes Investment Act tax credits; and the New Market Tax Credits Program. Again, the infrastructure for getting that capital out into the marketplace is already there. It is well-functioning. The Administration is making tweaks to these programs to make them more effective. Congress is passing legislation or proposing legislation to make them more effective.

Mr. MCHENRY. Thank you for your testimony. Thank you for testifying, and thank you, Dr. Holtz-Eakin.

Chairwoman WATERS. Thank you very much.

The gentleman from Georgia, Mr. Scott, who is also the Chair of the House Agriculture Committee, is now recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Madam Chairlady.

About 10 years ago, the U.S. Department of Housing and Urban Development estimated that we in Congress needed to spend $26 billion on construction projects for repairing the nation's stock of aging housing. Unfortunately, Congress didn't do anything about that.

After years of failing to address this problem, the current backlog of unfunded capital projects has now ballooned to an estimated $80 billion. These types of projects include things like repairing damaged roofs, replacing broken heating and air-conditioning, and reconstructing aging sewage lines, critical repairs that also affect the health and the safety of 1.2 billion families who are living in public housing units.

And so, Ms. Bailey, I want to ask you, how do we get into a situation where we have an $80-billion backlog of public housing construction and projects? And specifically, how many public housing units are lost each year to this backlog?

And, Ms. Bailey, I want to express to you that I am very concerned about this. Public housing is how I got my start in politics. I represented all of the basic large public housing in Atlanta as I launched my political career, so I am very concerned about it.

How many public housing units are lost each year to this $80-billion backlog? This is a major national issue.

Ms. BAILEY. Thank you so much for the question.

I agree with you. Even before this crisis, families were struggling and our infrastructures were struggling. We have a massive underload. We are not properly resourcing the communities that have been locked out of opportunity for the entirety of our nation. We have constantly relied on affordable housing with our root in it in fair housing to lead the nation forward exacerbating inequality. So we need a ton of investment, as you outlined, to address the public housing deficiencies all over our country.

And what is important about using those resources to affect those deficiencies is the reality that the courage that Mrs. Eaddy used today in being here gives us an opportunity to help families just like hers have the God-given human dignity restored that they desperately need.

Mr. SCOTT. Right, that's an excellent answer. And we have to draw more attention to helping those people. It is public housing. That means it is congressional housing. It is what we in the public sector, which is the Federal Government, which is HUD, this is our challenge to do.

My second question to you is, from what I understand, public housing authorities are not required to submit capital needs assessments for what projects need repair. You can't repair projects if you don't know which ones to repair. If that is correct, how does HUD keep track of the number of backlogged projects?

Ms. BAILEY. I would like to follow up with you—

Mr. SCOTT. Ms. Bailey, if you could answer that.

Ms. BAILEY. I would like to follow up with you in response. I would say we have to make sure HUD is adequately funded because part of the challenge is that it lacks the technology and staffing, people, that it needs to effectively operate. HUD was massively defunded by the former Administration, and we have to, right now, make sure HUD has every resource to continue to do all that Secretary Fudge is doing to address our nation's affordable housing crisis.

Mr. SCOTT. And do you know that there are people who started out in the public housing, and they are out, they are sleeping on the streets in my district in Georgia. And we have been helping them. We have been saving them. And Chairwoman Waters and I and this committee have put together housing assistance, helping them with getting running water.

Thank you, Madam Chairwoman, but this is a serious issue.

Chairwoman WATERS. Thank you very much.

The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Thank you very much, Madam Chairwoman.

Mr. Mitchell, I would like to go through a quick discussion with you.

Do you work well with HUD?

Mr. MITCHELL. Our organization does not work with Housing and Urban Development.

Mr. SESSIONS. I have tried. I have tried, and we have had at least one hearing with Secretary Fudge of HUD. Today, we have heard our young chairwoman say Republicans offered no solutions to try and fix the housing crisis. Today, we heard a blame game for there is not enough money, funding. But, Madam Chairwoman, I would like to enter into the record a series of letters—

Chairwoman WATERS. Without objection, it is so ordered.

Mr. SESSIONS. —about discussions that people back in Texas have had with not only Secretary Fudge, that was very unsuccessful, but also from her organization on issues related to north Texas having an excessive number of people who were without housing. And the executive director of the Dallas Housing Authority, Mr. Troy Broussard, had been working for quite some time with local advocates, people who wished to come in and provide affordable housing and to do these things because they saw firsthand the problems in north Texas. As you know, Texas is growing, and north Texas is exponentially growing. In a series of letters and conversations, including with the senior Member from north Texas, Chairwoman Eddie Bernice Johnson, and myself, we were completely unsuccessful in attempting to get HUD to even respond properly. And they came back and, by and large, gave excuse after excuse after excuse, saying a waiver would be too complicated for Dallas, Texas, to deal with the problems that local people have. That is all they asked for.

And instead of saying, let's work with you, they ignored over a year of trying to solve the problem. And the problem, while I am not a housing expert, should have put a person from the Secretary of HUD, where they flew down to Dallas, Texas—and we are going to find this out next year when our young chairman will be—as the chairman, we are going to have the Secretary come and tell us what did they do? Did they fly down? Did they do calls? And then, we are going to have the Dallas Housing Authority come and tell us about all their efforts to try and do something.

So, I find what is happening today very regrettable, because Republicans did try and help. The Honorable Eddie Bernice Johnson, a senior Member of this body, and the Honorable Greg Meeks, a senior member of this committee—we went and personally met with them earlier in the year to try and say, please help us in Texas and in north Texas. And we got zero help from HUD.

I would have to beg the question, what good does it do to have someone whose job is bigger than they are in that position? And so, I would like to let each of you know we do appreciate your feedback today.

I don't agree that the blame game of Republicans or the prior Administration holds any significance to where we are. President Biden accepted the ball where it lay, and that is what he will be held accountable for. And each of you, I sympathize with you. I have a Down's Syndrome son. I am in the disability community. They are struggling mightily, people who cannot take care of themselves. This Administration has turned its back on them.

Thank you for the time, Chairwoman Waters.

Chairwoman WATERS. You are so welcome. And let me remind you that we passed from this committee, the Build Back Better bill, $150 billion, and HUD and the President are providing the leadership.

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.

There has been a comment about inflation. I should point out that inflation is going to be worse, or has been worse over the 2022–2023 period in most other developed countries as compared to the United States. So the real lesson is, don't be a developed country on a planet with COVID-19 and a European war. We have done our best to handle the situation. Every other country that is similarly situated has as well.

We are told that maybe we shouldn't have a higher conforming loan limit in California than in other States. I take this personally. If you have a similar house, in a similar neighborhood, in one State, in another State, the U.S. Government should provide the same level of assistance rather than say it is okay to do it somewhere else but not in California.

I believe Mr. Holtz-Eakin pointed out the inadequacy of supply, which I think is the problem. It is supply and demand. But keep in mind we have more square footage of housing in our country than any other major country in the world. It is just we have giant homes for some people and others are living on the streets. We are urged to be patient. It is hard to be patient while you are living in your car.

There are three problems: There is the homelessness problem, where people can't even get an apartment; there are people who are in apartments, but the rent is too damn high; and there are people who can't afford or cannot comfortably afford to buy a home. We can build a few buildings with Federal money. We as politicians can be there to cut the ribbon. But if you are trying to provide housing for nearly 340 million people in a capitalist society, you have to look at the homes that are going to be built and operated in the capitalist society, otherwise you are just cutting ribbons for a few hundred people.

We can incentivize the building of homes, but it is nothing compared to what local governments do to prevent the building of workforce housing. If you require no more than 4 homes on an acre, and a $100,000 feed to hook up to local services, you are not going to have housing that people can afford.

We have the fiscalization of land use planning where a city in my State loses money if they allow the construction of housing, and in many places. The way for the city, which makes the land use planning decisions to make money, is an auto dealership or luxury homes. Low cost to the city. Lots of revenue for the city. It is absolutely absurd that we provide cities with money based upon how rich their residents are. If every city in every State got the same amount of money per resident, we would have a fair provision of local services and the end of an incentive to keep out workforce housing.

We see zoning decisions made to keep out poor people, sometimes to keep out people of color, and sometimes to preserve the environment, which often adds up to being the same thing. If you can't build an apartment building anywhere in the city, you can't have workforce housing in that city. And when you look at the zoning and the fees, which this Congress has not prohibited, it is not surprising that we have more square footage than any other developed country and more per person, and we have more homeless than any other developed country.

I have to shift to another issue. Ms. Bailey, should we be doing more to provide assistance for safe parking? Because a good chunk of the homeless people in my area have a car; they just don't have a place to live.

Ms. BAILEY. Sir, we should be doing more. I am sorry, thank you so much for the question. And we should be doing more to make sure families can remain safely housed. The American Rescue Plan Act that this Congress passed included increased support to protect homeowners with the Emergency Rental Assistance Program. We have done a tremendous job of holding—

Mr. SHERMAN. I am going to try to squeeze in one more question.

Mr. Mitchell, is there any way that we can create enough housing if we allow cities to charge $100,000, $150,000 per unit to the developer and to not allow more than 4 or 5 units of housing per acre?

Mr. MITCHELL. I think it will be critical for local governments to make sure that they are creating zoning laws that allow for construction of the kinds of units that are necessary to house the number of people to meet demand, and currently we are not doing that. And as you mentioned, in most localities it is not possible at this moment.

Mr. SHERMAN. Thank you.

Chairwoman WATERS. Thank you very much.

The gentleman from Florida, Mr. Posey, is now recognized for 5 minutes.

Mr. POSEY. Thank you very much, Chairwoman Waters, for holding this hearing, and for holding the many hearings that you have held in seeking solutions to the unaffordable housing crisis.

Mr. Holtz-Eakin, in the Inflation Reduction Act and many of our housing proposals, we see proposals that attempt to solve inflation or housing pricing by simply giving more money to groups to pay higher prices. We also have proposals to give some people money to buy gasoline. Please comment on this approach to inflation and high prices.

Mr. HOLTZ-EAKIN. This is subsidizing demand. One of the problems is that demand is too high relative to supply. And so, it just exacerbates the problem in the long run and undermines the intent of the program.

Mr. POSEY. The Build Back Better Act is being noticed in this hearing. Can you please comment on the housing strategy in this proposal, including the heavy emphasis the bill places on investment and refurbishing of public housing projects?

Mr. HOLTZ-EAKIN. I have not stayed current with the provisions in Build Back Better since it did not become law, but I would be happy to get back to you in writing.

Mr. POSEY. Okay. Madam Chairwoman, I yield back the balance of my time.

Chairwoman WATERS. The gentlewoman from New York, Mrs. Maloney, who is also the Chair of the House Committee on Oversight and Reform, is now recognized for 5 minutes.

Mrs. MALONEY. Thank you so much, Madam Chairwoman. And I thank you for holding this hearing, and I thank you for focusing on the need for more housing. It is a persistent problem, the affordability of housing in my own district, and I would say in my city, in my State, and clear across this country.

And the raising of interest rates has worsened affordability for homebuyers and homeowners and even renters. For example, between April 2021 and April of this year, mortgage rates increased by nearly 2 basis points, and the median home price rose by over $50,000. And the monthly cost of homeownership, which includes a monthly payment on a 30-year mortgage, property taxes, property insurance, and mortgage insurance grew by at least $500-a-month. But in some cases, in metropolitan areas, it has grown by over $1,000 a month.

I would like to ask Dr. Zandi, an economist, whether raising these interest rates contributes to the increased cost of housing for homeowners, which is a goal of most families and renters in this country.

Mr. ZANDI. Thank you, Congresswoman, for the question. Yes, clearly it does. I think your statistics strike that point quite clearly. I will point out, though, that to a significant degree, this is by design. The Federal Reserve is working hard to slow the economy's growth, to quell the wage and price pressures. And the most rate-sensitive sectors of the economy are going to suffer the most as a result. Single-family housing is the most rate-sensitive sector of the economy. If you are going to buy a home, most people have to get a mortgage, and thus the rate sensitivity.

Unfortunately, this is by design. But it does bring up the broader point that housing affordability is going to be a long-term issue, even when we get to the other side of this and get inflation back in and interest rates back down. And homeownership is going to be under significant pressure going forward.

So it is about supply in the near term, but I do think, longer run, we also have to think about ways to improve affordability for lower-income disadvantaged groups. And demand-side policies will become more important at that point in time. But in the here and now, the reduction of affordability is by design. The Fed is working to slow the economy's growth, and they are doing it by hitting the single-family housing market very hard.

Mrs. MALONEY. But there would be other ways to address the inflation that is in our economy. I would venture to say that housing has not caused the inflation in our country, it is more caused by the war in Ukraine—

Mr. ZANDI. Absolutely.

Mrs. MALONEY. —or the war in Afghanistan, and the destruction of our supply chain. Why don't we address those causes as opposed to attacking housing and the affordability of housing?

I am concerned about the impact it is going to have on my constituents and other Americans to be able to afford a home with these interest rates going so high. We have a 30-year mortgage. My question is, could we change our policy to have a 50-year mortgage and possibly alleviate some of the pressures homeowners face in making their monthly payments?

And I would add that this housing inflation affects renters too, because when the mortgage goes up, then the rent also goes up. So, I would like your take on changing it from a 30-year mortgage, which is really the standard that we have in America, to a 50-year mortgage, for 50 years, so that you could lower the rate and allow people who are confronting constrictions in their income to afford homeownership.

Mr. ZANDI. That is an interesting idea. I would say the United States is very unusual compared to every other country, except for the few exceptions, to having the 30-year fixed-rate loan. Most countries have much shorter mortgages. They adjust immediately if market interest rates are 2-year or 3-year or 5-year. And that is because of Fannie Mae and Freddie Mac.

Fannie Mae and Freddie Mac allow for the 30-year fixed-rate mortgage to be the bread-and-butter mortgage in the United States. And right now, that is insulating homeowners from this run-up in interest rates.

I don't know that a 50-year mortgage would advance the ball, Congresswoman, only because the typical American household lives in their house for no more than 10 years. So, very, very few people would actually live in that house over that period of time.

I would throw out another idea: Assumability of mortgages. Right? So, you get a mortgage at a lower mortgage rate, and when you move, you can take that mortgage with you. FHA has some mortgages like that. That might be an idea that would be very helpful in helping insulate the housing market and homeowners and improving affordability in the longer run.

Mrs. MALONEY. Thank you. My time has expired.

Chairwoman WATERS. Thank you very much. The gentlelady's time has expired.

The gentleman from Missouri, Mr. Luetkemeyer, is now recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chairwoman.

Mr. Holtz-Eakin, the Administration is considering, under an FHA program, to have rent control put in place. According to a survey of our nation's economists, more than 8 in 10 of them believe that rent control ordinances would harm both the quality and quantity of affordable housing in areas where it is implemented.

American economist Walter Williams once said, "Short of aerial bombardment, the best way to destroy a city is through rent controls." Would you agree with that?

Mr. HOLTZ-EAKIN. I would. There is a track record of failure of rent control provisions in States and localities across the United States. It is not a theoretical issue. This is something that has not worked on the ground.

Mr. LUETKEMEYER. It is concerning. I think the discussion this morning is quite interesting from the standpoint that Mr. Sherman, a minute ago, was talking about trying to increase the supply. You have been talking about supply. Mr. Zandi has been talking about supply. And it seems as though the different communities try to constrict the supply through the amount of regulation they put out there.

It has been a while, so I may be wrong on this figure, but it seems to me that I saw or heard a figure in this committee at one time that 25 percent of the cost in some communities is rules and regulations compliance. I don't know if it is that great or not, but that is significant. And Mr. Sherman made the point a minute ago about hundreds of thousands of dollars—and I have a relative who lives in California, so I know it is extremely high in California to try and build a house or build any sort of commercial building, just for the permits and all of the other things you have to go through. These are costs that drive the cost of the construction up, which means it has to be recouped through the rents that are charged for the occupants of that building. There has to be a way to control those and find a better way to do this. Don't you think so?

Mr. HOLTZ-EAKIN. Everyone who studies this problem comes to the conclusion that an enormous amount of it stems from decisions made at the local level, whether they are land use zoning restrictions or our construction codes, a variety of regulatory costs that raise the cost of housing. That has to be part of the solution.

This committee, unfortunately, is not in every locality in the United States. And it always comes up, what can the Federal Government do? And those tools are far more limited. I think that is one of the reasons that historically, the Federal Government has always turned to demand subsidies. It is not that hard to do that at the Federal level. It is very hard to control these regulatory land-use decisions at the local level.

Mr. LUETKEMEYER. To take it to the extreme, one of my sons-in-law is in the construction business, and part of it is he builds hotels. But he is in this business and understands building apartments and hotels and things like that. He lives in Colorado, and he was telling me about Boulder, where you can't even build a new apartment building in Boulder.

So, how do you solve the housing problem whenever you have a community board there, the city council that would prohibit any new construction? They don't want people to come. This is crazy. And it is a college town where the demand is soaring. It makes no sense.

I think we have to find a new way to address this from the standpoint of thinking differently about trying to address the problem instead of trying to constrict it and hope it goes away. It doesn't work.

In part of the discussion this morning with regards to inflation—you and I have had this discussion offline, and in my Small Business Committee a couple of times, and I really appreciate your comments on it—it looks like inflation is fed by four different things: rules and regulations; energy; money supply; and the supply chain employee problems that we have talked about. And much of this can be done with the Administration without congressional action, when you look at rules and regulations.

I think your entity, your association came up with a figure of $200 billion as what it cost last year for compliance. And it is over another $100 billion this year by this Administration just on compliance for new rules and regulations. This is crazy that it has to all be implemented and charged through rents and higher costs to the people who purchase products and services.

Mr. HOLTZ-EAKIN. That is exactly right. We do keep track of the burden placed on the private sector of every new final regulation in the Federal Government. And the Biden Administration finalized $200 billion of regulatory cost in its first year. That is the highest we have ever seen in our time doing this. It is well over a hundred this year. And those are costs that will have to be passed on to consumers and will show up as higher prices.

Mr. LUETKEMEYER. One more quick question. It seems like we have a Fed in contradiction to the Administration on the standpoint the Fed is trying to constrict your ability—the demand, and on the other side, when you throw millions and trillions of dollars into the economy, you are trying to increase demand and supply.

I have never seen the Fed and the Administration at odds like this. Would you like to make a quick comment on that?

Mr. HOLTZ-EAKIN. There is nothing the Administration has done that has helped the Fed. They could relieve some tariffs, and those are bit costs, especially in the construction of homes. We did a calculation, and I would be happy to get it to you, that could do something with the regulatory costs. They could not forgive the student loans, which is basically a $420-billion spending program. There is nothing about what the Administration has done that is aiding and abetting the Fed's efforts to fight inflation.

Mr. LUETKEMEYER. Thank you very much.

Madam Chairwoman, my time is up, so I yield back.

Chairwoman WATERS. Thank you very much. You just hit upon an issue that I think we could work together on, and that is reducing the cost at the local levels from permitting one-stop shops. And in the Build Back Better Act, we had appropriations in there for those who deal with the zoning problems in producing affordable housing.

Mr. LUETKEMEYER. There is a lot of common ground, Madam Chairwoman.

Chairwoman WATERS. I think we can work together on that. Thank you.

The gentleman from Texas, Mr. Green, who is also the Chair of our Subcommittee on Oversight and Investigations, is now recognized for 5 minutes.

Mr. GREEN. Thank you, Madam Chairwoman. And I thank the witnesses for appearing.

Mr. Zandi, if we had not had a global pandemic which shut down the world's economy, and disrupted supply chains, if we hadn't had a war in Ukraine, would this be a different conversation that we are having today?

Mr. ZANDI. Oh, absolutely. Those two massive, unprecedented shocks to the supply side of the economy are the principal reasons for the very high inflation we are suffering through right now. And another person made the point earlier, one strong piece of evidence of that is this inflation that we are suffering through now is across the globe in all parts of the world. And it just drives home the point that these two supply shocks are difficult for any country to navigate through, and certainly, we are struggling as a result of it. There are other reasons, but those are the two key reasons for this high inflation.

Mr. GREEN. I raise these issues because I defend President Biden. I think President Biden has done a pretty good job under the circumstances that he has had to negotiate. And I think that for us to just allow it to be said simply that these are Biden problems is an extortion of the facts; it is not just an exaggeration. It is unbelievable that we would try to pin all of this on a President who has been able to manage our situation such that we are better off than most of the economies in the world.

Is this a true statement, Mr. Zandi? Are we better off than most of the economies in the world?

Mr. ZANDI. Yes, our economy is performing exceptionally well compared to the rest of the world. You can see that in the strong value of the U.S. dollar against all currencies. It is very, very high by historical standards, and that is because the U.S. economy is performing much, much better than other places in the world. So, yes, I think that is very much the case.

Mr. GREEN. Let me add this as well, there is talk about not having had hearings on inflation. Well, Democrats have acted. We have not just had hearings, we have acted on this inflation. We have reduced the cost of pharmaceuticals for seniors. Inflation is all about paying for things at a high price. We have brought those prices down. We have reduced the cost of healthcare for seniors. I happen to care about seniors. Some people seem to think that if you only help seniors, you are not helping the economy. Seniors are a large part of the economy, and they need help too.

We have also engaged in the passage of legislation to boost the manufacturing of semiconductors. This is a real problem for us, having semiconductors made abroad. And we can bring down the cost of cars by dealing with the cost of semiconductors.

So, we have done our share. And it is time for my colleagues across the aisle to come up with the solutions and present them so that they too can have the opportunity to be perused closely and scrutinized even closer for what they are doing.

Let's talk about people who live in the streets of life. It is my opinion that the greatness of a nation will not be measured by how we treat people who live in the suites of life, but rather how we treat people who live in the streets of life. People who have to sleep in their cars, asking us to imagine what it is like to sleep in a car? I appreciate the question, but I think that it is more like water on a duck. It just rolls off.

I have never had to sleep in a car. We live in a different world. If people who sleep in cars were making these decisions, you would get different results. We live in a different world. We don't have to worry about healthcare. If we get sick, we just walk across over to the Capitol Building, where there is a doctor waiting on us right now.

We live in a different world. We make hundreds of thousands a year. Our salaries are different. And I just resent and regret that you have to come begging and appealing to us with tears in your eyes, asking us to help.

I stand with you, and I stand with poor people, regardless of their hues. White people need help too. I stand with you.

And I yield back the balance of my time.

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

The gentleman from Michigan, Mr. Huizenga, is now recognized for 5 minutes.

Mr. HUIZENGA. I agree with my colleague, Mr. Green, that we do live in a different world.

But, Ms. Eaddy, I want to address you first before I get into some of the arguments you may have heard. Well, let's just call them robust discussions. That is a more polite way.

We have common goals. We have different paths for getting there. But I want to say thank you for sharing your very personal story. I want you to know I hear you, I see you, and I believe my colleagues see you and hear your story.

I recently had a chance to, in my hometown, visit with an organization called Jubilee Ministries, that is working on trying to get at that workforce housing. And they had been running into, like all of us—my family is actually in construction—all of us have been running into on the development side the difficulty of maneuvering past local governmental regulations to allow for affordable housing to exist. It is density issues. It is various elements of sort of over-engineering in a way. In fact, the National Association of Home Builders says that their estimate is $98,000 per house for the average added cost because of those local requirements.

So, how have we attempted to get at that? I know my colleague, Mr. Barr from Kentucky, who has been on this issue for a long time as well, has a bill, the Housing PLUS Act. I have been involved in this issue for a long time as well. And we know that there have been burdens that have been put in place. Mr. Holtz-Eakin has talked about this, and Mr. Zandi and others have as well. Mr. Mitchell talked about that. We have some agreement here that we have to get at this.

What we don't necessarily have agreement on is sort of the sources of inflation and what are some of the causes of that. I know, for example, in building houses, supply has gotten tighter and it has gotten more expensive. Labor has gotten tighter and is therefore more expensive. We know that 70 percent of a barrel of oil, for example, is used for energy. But the other 30 percent goes into things like shingles and siding and PVC pipes. And when we are constraining that by choice here in the United States, by this Administration, we are then limiting the ability to have affordable materials there.

By the way, I ran this little formula past Fed Chairman Powell the last time he was here, of how to explain inflation. And I estimate in various studies that we have looked at, about 20 percent of the inflation that we are seeing today is due to supply chain, about 20 percent is due to labor, and about 20 percent is due to energy. Now, those last two are governmental policy-driven. But 40 percent of that is monetary policy in spending. We have been flooding the zone, which has caused that pressure to go upwards in so many areas, whether it is in cars, as my colleague from Texas will tell you, or whether it is housing, whether it is groceries, whatever it might be. So, we know that record inflation continues to impact the lives of hardworking Americans.

I am going to quickly move through—I know there is a number of well-intentioned things that the other side has done, but it does throw fuel on the fire. The University of Michigan Consumer Sentiment Index estimated that the American sentiment over the past 6 months is comparable to late 2008 and 2009, when the great financial crisis plunged our country into economic crisis.

The impact of the COVID pandemic spared no one. In Michigan alone, some 32 percent of businesses reported government-mandated shutdowns in 2020, and job recovery has been slow. Reckless spending, including more government investments and the over-regulation will continue the current trajectory. But today, we are talking about housing. So, let's do that quickly.

Michigan rental rates have increased 10.5 percent, outpacing the national average. In the Grand Rapids metropolitan area, the yearly change for a one-bedroom apartment is up 5 percent, while a two-bedroom is up 17 percent. Home sales are down 17 percent Statewide. The average monthly payment on a $350,000 home in Zeeland, Michigan, will cost approximately $500 more than it did last year because of those interest rates. Gas prices in my hometown of Holland continue to be well above the national average. It is real money for people. It is real money.

And Mr. Holtz-Eakin, I think we can agree that both monetary and fiscal policy will be key to delivering the elusive soft landing. I am just not sure it is possible. Do you believe that we can even achieve a soft landing?

Mr. HOLTZ-EAKIN. I think it is possible, but the historical record is very poor on that front. We have never had a soft landing when inflation has been up above 4 percent and unemployment below 5 percent. And that is where we find ourselves.

Mr. HUIZENGA. Madam Chairwoman, I appreciate the opportunity. And I blew up my staff's direction that they wanted to go.

But, Ms. Eaddy, I wanted you to know you are heard, we hear you, and we appreciate you.

Chairwoman WATERS. Thank you very much. And I hear you and I see you. And the proof of the pudding is in the eating. I will be looking forward to working with you on housing and getting affordable housing.

With that, 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 express my appreciation for your emphasis on housing. I didn't grow up in a car. It was just a little bit better. We had two rooms with no heat. But I grew up in Texas, so it wasn't quite as bad as it would be here in D.C.

I am obsessed with housing because I don't want a single kid to grow up like I did, not one. We have to keep working on it, and even if we have to debate, we have to do that. You can never really defeat a person on a cause that will never give up, give out, or give in. And on this issue of housing, we need to face it, we need to fight it, and we need to finish it.

Madam Chairwoman, thank you.

Let me ask Ms. Bailey and Dr. Zandi, there is in my congressional district in Kansas City one of the nation's first housing co-ops called Parade Park, which is now in distress. It is a massive 510-unit housing project. It is not public housing. It is a co-op. And this week, in fact, yesterday, Monday, HUD took management control of the property, and they are trying to preserve this affordable housing asset in my congressional district.

Now, my greatest concern was and still is that if HUD had not taken it over, it would have eventually been condemned, foreclosed, and demolished. It is a huge tract of land. And my fear was that some corporate investor would come in, redevelop, raise the prices, and alter the community.

So, Ms. Bailey, Dr. Zandi, what can Congress do to prevent the mass transfer of affordable housing from community ownership to these large profit-seeking corporations—I guess that may be redundant—but what can we do?

Ms. BAILEY. Thank you for the question. We can do something different. We can make sure we put the resources in the hands of owner-occupants. We have to do something different. Supply-side strategies alone have not produced different outcomes. We need things like targeted first-generation down payment assistance so first-time millennial homebuyers can get to the table fast enough to have their offers actually considered. One out of seven homes in communities all over the country is being purchased by investors, pushing out millennial homebuyers of every hue. So, we have to make sure that those communities get the resources they need so that they can actually eat at the table.

We know that student loan debt is one of the major barriers for these millennials. So passing the President's student loan debt, just allowing that to process forward could really help lift their debt-to-income ratios to make those families ready to actually participate and be at the table in a competitive way against these investors.

Mr. CLEAVER. Dr. Zandi?

Mr. ZANDI. It is a very difficult problem. I will mention two possible ways to address it. The first is around the cost of financing. In many cases, investors, particularly institutional investors in the housing space, have access to lots of capital, cheap capital, and they are able to use that to buy properties and win those properties when they are competing with other potential buyers.

So, if a co-op—and I don't know the circumstances here, but I am just kind of thinking about this more broadly—was able to get access to capital more readily and more affordably, that might give them a better chance of holding on and winning out in that competition.

And we have Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. And there are other government institutions that can be involved in this to help make that come to reality.

Second, and this is not specifically to the co-op, it is to single-family housing. One of the problems is when single-family housing goes into default and foreclosure, then large investors—again, because they have access to cheap capital—can come in and buy those properties and take ownership. I think—and this is one of the proposals the Biden Administration has recently made in its housing supply proposals is to make sure that philanthropies like CDFIs and others that are looking out for these communities have first opportunity at these foreclosed properties, these defaulted properties, before they actually go to institutional investors.

So, two different markets, but a similar kind of problem. And I think we have some tools that we could use to help address this problem.

Mr. CLEAVER. Thank you very much. And thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you.

The gentleman from Kentucky, Mr. Barr, is now recognized for 5 minutes.

Mr. BARR. Thank you, Madam Chaiworman.

And let me join my colleagues in commending our witness, Ms. Eaddy, for your courage in coming before us and sharing your personal story. It shows a lot of fortitude to come before Congress and testify and share your personal story. It shows a lot of guts. And what it says about you and your character is that we know you and your husband can make it. You can do it. We appreciate your testimony. And we know that hope is available to you because of your strength that we see.

My question to you is that, in addition to housing assistance that you are asking for, would it be helpful to also have an advocate for you, someone that you can talk to, in addition to housing, and help you with job counseling, financial literacy programming for you and your family? Would it be helpful if you also had some additional services that could connect you with other services in addition to the housing assistance?

Ms. EADDY. Thank you for your question, Mr. Barr. Anything that will be an asset for us to be able to come back into the community, to make sure that we can succeed in this, would be good. Of course, we want an advocate to be able to help us with our financials and job descriptions, or anything to do with that. Of course, we need advocates to speak up for us and teach us how to be literate with our finances and everything, anything that will help us be an asset to the community.

Mr. BARR. And you are an asset to the community, and I can see that. And I am not saying this applies to you, but others who have difficulty with homelessness or living in their vehicles and not having a home, some of them have substance abuse challenges or mental illness issues—I'm not saying that applies to you—so do you think it would be helpful for them, in addition to housing, to connect them with mental health services or substance abuse counseling?

Ms. EADDY. Yes, it would be.

Mr. BARR. Great. Let me ask Mr. Holtz-Eakin a question about Chairwoman Waters' Downpayment Toward Equity Act, which would spend $100 billion on essentially, no-strings-attached checks of $25,000 that potential homebuyers could use towards a down payment on a home. Let's analyze the effects that this would have on a macro level. Would legislation like this contribute to home price inflation?

Mr. HOLTZ-EAKIN. Yes.

Mr. BARR. Let's talk about it in combination with Fed policy right now, the tightening program that the Fed is engaged in. As the Fed is actively trying to tamp down soaring home prices by increasing interest rates to reduce demand, would legislation like the Chair's work directly against the Fed's goal of reducing demand?

Mr. HOLTZ-EAKIN. Yes. And most likely what would happen is the Fed would be more aggressive. Overall home purchases would continue to decline, because that is the necessary objective for them. This might change the composition of who gets the house.

Mr. BARR. So, demand-side subsidies would actually increase the likelihood that the Fed would have to be even more aggressive in raising interest rates and borrowing costs?

Mr. HOLTZ-EAKIN. Yes, absolutely.

Mr. BARR. And would legislation like this result in a greater supply of housing or simply more demand for the same limited resource?

Mr. HOLTZ-EAKIN. The latter. It is not a supply-targeted policy.

Mr. BARR. So while maybe not as flashy as handing out $25,000 taxpayer-funded checks so wealthy individuals can buy million-dollar homes, what are some of the serious proposals that Congress should be considering to actually increase our housing supply and address this affordability issue?

Mr. HOLTZ-EAKIN. As I mentioned earlier, the tax incentives to increase construction, I think, make sense over the long term. You want to have a predictable, reliable environment that provides supply at a lower cost, so lightening the regulatory burdens at the local level. If you have a way to influence that, do it. There are tariff policies in place from the Federal Government that are raising the cost of construction and construction goods. That will be a sensible thing that could be reduced. And the Low-Income Housing Tax Credit is not perfect, but it is a thing.

Mr. BARR. Yes. And to your point, in my remaining time I will just point out that a 2021 study by the National Association of Home Builders found that basic regulatory costs add $93,800 to the price of a new home. Do you support Federal efforts to remove some of that regulatory burden to amplify the supply?

Mr. HOLTZ-EAKIN. I think that is a sensible idea. I don't know how you can do it, but I would be happy to work with you on that.

Mr. BARR. Okay. My time has expired, so I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Connecticut, Mr. Himes, who is also the Chair of our Subcommittee on National Security, International Development and Monetary Policy, is now recognized for 5 minutes.

Mr. HIMES. Thank you, Madam Chairwoman. And a big thank you to our panel, especially Ms. Eaddy.

I have been doing this for a while, and I have seen witnesses who have lots of lawyers and days of preparation, and you have made a real impact with your story here. I chair the Select Committee on Economic Disparity and Fairness in Growth, and all over the country, we found people like you who could live their dreams and contribute to the workforce if they just had that platform, which is not an automobile. Thank you.

I really care about this issue, because if we are going to address economic disparity, we are going to do a bunch of stuff, but housing may be first, second, or third in line. We are not spending nearly enough time this morning talking about the fundamental underlying issue, which is, by one estimate, 3.8 million missing homes.

Madam Chairwoman, I want to place into the record some work that was done by our former colleague, Denny Heck. It is a report called, "Missing Millions of Homes," which talks about the supply—

Chairwoman WATERS. Without objection, it is so ordered.

Mr. HIMES. I want to devote my time to—we said we should look at it, we should focus on it, but what can we actually do? Now, by way of preface here, we are talking about the Federal Reserve. The Federal Reserve is damned if they do, and damned if they don't, as long as there are not 4 million units that we need out there.

The work we did on my Committee on Economic Disparity showed two things: one, lots of interference with supply associated with local zoning regulations and all sorts of other issues; and also, a severe lack of supply in the workforce. Apparently, the construction workforce used to average 36 years of age in 1985, and today, it is 42 years of age. So, you have an aging workforce.

I am going to start with Mr. Mitchell. But Mr. Mitchell, I am going to ask you to be really brief because I want to hear from our other witnesses. What specifically can the Congress of the United States do to address the supply—and let me say too—LIHTC, I get it. I worked with LIHTC. There is actually bipartisan support for increasing LIHTC. Two million units. That is good stuff.

But apart from tax subsidies, what else can the Congress do to rapidly allow for the construction of some 4 million units in this country?

Mr. MITCHELL. Absolutely, Congressman. I think one of the most important things that Congress can do is to continue to make large public investments. I think things that have been targeted in the Build Back Better, specifically billions of dollars for the Housing Trust Fund, resources to renovate stock that is already available and make sure that it is quality and affordable would go a long way.

Mr. HIMES. Any programs there that you see as particularly effective?

Mr. MITCHELL. I would lift up, I think, the National Housing Trust Fund. That could be really critical.

Mr. HIMES. Thank you. I appreciate that.

Let me go to Dr. Zandi on the supply question.

Mr. ZANDI. Yes. I think what would really be critical is providing financing for manufactured housing. If you really want to get a lot of units out there fast, make it easier for people to get loans for purchasing a manufactured home. Right now, they are chattel loans, and that is a fragmented market, very costly, and very difficult. This is something with which Fannie Mae and Freddie Mac could be very helpful in developing a more cost-efficient, homogeneous market for those loans.

And if you can do that, then you take the manufactured housing market, which today produces 100,000 units a year, to something that is meaningfully higher than that, very affordable, and can be in any community across the country. So if I was looking for something that wasn't tax-related, I would be focused on that like a laser beam.

Mr. HIMES. Thank you. I appreciate the specificity.

Let me open it up a little unfairly to Ms. Bailey and Mr. Holtz-Eakin. Local zoning—I have lots of small towns that are uninterested in being told by the Federal Government that they have to lighten up their zoning. So, we have a real problem without much of a lever.

Let me start with Mr. Holtz-Eakin. If you would, leave a little bit of time for Ms. Bailey. But what leverage, if any, do we have to—I don't want to use the word, "coerce," but to encourage a rethink of zoning and regulation?

Mr. HOLTZ-EAKIN. I think you framed it exactly right. Those regulations and zoning rules exist because they want them. And so, you are going to have to somehow have a lever that causes them to change their mind. Usually, that is financial and making Federal aid contingent upon the behavior at the local level. That is probably the lever that would be the one you want to try. And I am happy to yield to you the rest of the time. That is a hard question.

Mr. HIMES. It is a tough question, Ms. Bailey, but I would love to get your perspective.

Ms. BAILEY. Fully enforce our nation's robust fair lending laws and fair housing infrastructure. We actually have this unfounded association between race and risk that is really the root of a lot of those zoning ordinances and we are causing the economy to underperform. So if we fully enforce our nation's fair housing and lending laws, we would actually create equitable opportunities that could help us actually create jobs. Fair housing actually creates job.

Mr. HIMES. Thank you. That was perfection. My time just ran out. Thank you very much, 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 I thank everybody for being here today.

And, Ms. Eaddy, I want to join in on thanking you for your testimony. It reminds me of a Bible passage. Luke 6:38 says, "A good measure, pressed down, shaken together and running over, will be poured into your lap. For with the measure you use, it will be measured to you." You are giving a lot today. And we appreciate it very much.

I also want to just touch on what we have talked about. It has been a great hearing. I think we have a lot of common ground here, which is good to see. But I own some apartments, and I will tell you, everybody has touched on the fact that the biggest problem is not in the rates, but that the rates are based on interest, they are based on local jurisdiction, and they are based on inflation. We would love to charge less, so that is something we can work on. It looks like we all agree on that.

American families and businesses have been feeling the impacts of runaway inflation for far too long. We have heard it today. Research of the Federal Reserve Bank of San Francisco confirms what Republicans have been warning about for the past 2 years: Reckless government spending contributed to the price increases that we have. We are all experiencing it; it is a real problem. I am in the car business, so I can tell you all about that. It was irresponsible to think we could spend trillions of dollars and expect there to be no negative consequences.

And rather than recognizing the ramifications of their policy decisions, my Democratic colleagues seem to have doubled down on their belief that inflation can be tamed with even more government spending. Simply look at the bills attached to this hearing. There are billions of dollars in new Federal programs that will make prices even worse off and higher. So let's be very clear, you can't spend your way out of this inflationary cycle.

Mr. Holtz-Eakin, can you discuss how the policies attached to this hearing, including the entirety of the $3 trillion Build Back Better, which everybody has talked about, will further contribute to the inflation all Americans are currently facing?

Mr. HOLTZ-EAKIN. By and large, they continue the tradition of demand subsidies, especially in housing. There is a long tradition of that in the Federal budget. And yet, we are here with an enormous affordable housing crisis and large inflation. It seems to me that we should learn the lesson and try something else.

Mr. WILLIAMS OF TEXAS. Right. Now, the mismatch between housing supply and demand has been getting continually worse each year. And it is the total problem with everything. There is more demand than we have. I am in the car business; we don't have any vehicles to sell but there is a lot of demand, and that is ramping up inflation.

This has driven home prices up to their recent highs and made homeownership unrealistic for many Americans. And when you hear people talk about a 50-year mortgage, that is pretty scary. As we look for solutions to this problem, we must focus on the supply side of this equation instead of on programs that will create more demand for housing and continue the inflationary cycle.

If we incentivize the private sector—which is always good—to build new housing units, that will begin to alleviate the upward price pressure. Unfortunately, supply chain issues and labor shortages are making the numbers more challenging for the private sector to make these types of large investments. I believe the Tax Code can be used to help make the economics of these deals work.

So, Mr. Zandi, you discussed some tax credits in your testimony that could help solve some of the problems. Could you elaborate on these suggestions and how they would allow the private sector, someone like me and others, to invest in new housing units?

Mr. ZANDI. Yes. At the end of the day, you want to incent builders to go out and build more homes as fast as possible, and we want them to build mostly affordable rental—we need housing across the housing stock, but the most acute problem is affordable rental property.

I mentioned three different tax credits in my written testimony. We talked about LIHTC. That is tried and true and, I think, very effective.

Another tax credit that I think we should do is the Neighborhood Homes Investment Act, which helps with rehabilitation. As you know, in many communities, both urban and rural, you can renovate; buy old property and renovate; buy old buildings and renovate, and the market value is too low to cover the cost of that renovation. So, this tax credit would help builders and others defray that cost until we get more renovation of this old housing stock that we have in different parts of the country.

And the third is the New Markets Tax Credit. Again, tried and true, and there is a lot of bipartisan support for it. And that really is incredibly effective at building underserved communities. It helps not only with affordable housing, but it helps with healthcare centers and community centers and healthy food, all of the things that are critical to making housing work for a community.

I think I focused on those three things. And, again, those programs are in place. They are very well-understood by everyone who is participating in them. I think we can just juice them up a little bit. And I think we can get a lot more housing supply here in the not-too-distant future.

Mr. WILLIAMS OF TEXAS. Okay. Thank you very much. I yield back.

Chairwoman WATERS. 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. I guess this question is for Mr. Holtz-Eakin or Mr. Zandi. If you look at all of the different incentives that we tried to apply to get people in housing, both on the supply side and the demand side, has anyone systematically looked at what gets the most people into a house per unit of Federal expenditure?

Mr. HOLTZ-EAKIN. I don't know the answer to that. If someone does, it is Mark Zandi, so you should let him answer.

Mr. FOSTER. Okay. Mark, you are up.

Mr. ZANDI. That is my buddy.

Well, it depends on circumstance, Congressman, right? If you are saying on average through the business cycle on trend, and you are talking about homeownership, getting lower-income people into homeownership, those demand-side measures are critical. The down payment is the single-biggest barrier to homeownership.

Now, I am not advocating that that is the appropriate policy at this point in time, but there will come a time in the not-too-distant future when we should be focused on that, because homeownership hasn't gone anywhere in 40 years. It has gone up, it has gone down, it has gone all around, but it is back to where it was 40 years ago. And if you kind of do the arithmetic here, it is headed south, not north, if we don't do something about it.

I do think down payment assistance that is well-targeted and paid for—it needs to be paid for—would be very helpful here. And that is very, very effective. Not now. But when you look out 2, 3, 4 years from now, I think that will be a big bang for the buck, as they say, for that kind of policy.

Mr. FOSTER. Yes. But I guess my question is, is there something—if it hasn't been done—that the Congress could commission that, let's have someone look systemically at all of the different things we try and try to figure out what is the most-effective use? Ms. Bailey, do you have a—

Ms. BAILEY. Thank you so much. Chairwoman Waters' Downpayment Toward Equity Act would invest over $100 billion in first-generation down payment assistance. It would create 5 million net new homebuyers, of whom 1.7 million would be Black, 1.32 million would be Latino, and 1.4 million would be White, because White people in rural communities are locked out by these same policies.

We need creative, innovative, targeted solutions like that to bring in the very borrowers that the future system depends. We won't have a housing system if we don't put equity at the center. The market's future buyers, 7 out of 10 of them, will be people of color. If people of color are not able to overcome the barrier of down payments and get access to homeownership, our housing system tanks, which means the gross domestic product, of which housing accounts for nearly 20 percent, drags down the whole economy.

Inclusive solutions are about bringing everyone along. We commend the chairwoman for her brilliant leadership. And it is not lost on any of us that one day her picture will hang on these walls. And families like Ms. Eaddy and her wonderful husband will not be in a position to have to do it on their own because the American way has been that we have never required families to do it on their own. Our public policies create opportunity for people. We have not done it in an equitable way. Now, COVID requires equity.

Mr. FOSTER. The thing I am struggling with is, okay, we can also help her with housing vouchers, just a big expansion of the housing. But how do we look at that, with housing vouchers that will, over time, cause more people to build more units if we really expanded the housing voucher thing? It is one of the ways to get at the mismatch between the number of units available and the number that are needed. And I am just trying to understand how we most effectively use the subsidies that we will have available.

Ms. BAILEY. We can enforce our laws. Source-of-income discrimination is one of the primary barriers for why women with families cannot get access to those housing vouchers, because landlords are denying them those units. So, we have the tools. We have to have the courage.

Mr. FOSTER. And just following up on Representative Himes' questions about the carrots and sticks that the Federal Government may have available to get rid of some of the local barriers, what would be the most cost-effective way in terms of changing the number of units available per expenditure of Federal dollars? And is there any, even a rough way, to calculate how effective those might be?

Mr. Holtz-Eakin, do you want to take a swing at that? Or how we would even go about trying to understand whether that might be the most effective way to spend our money here.

Mr. HOLTZ-EAKIN. This sounds like the kind of thing on which the Congressional Budget Office (CBO) could be useful in helping you. They have a long history of looking at both Federal mandates on State and local governments, but also the responses of States and localities to Federal spending programs. And I think that is the place where you want to look at the track record and see what worked.

Mr. FOSTER. Okay. And we will be following up for the record with Mr. Zandi on that.

Thank you. I will yield back.

Chairwoman WATERS. The gentleman's time has expired.

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

Mr. HILL. Thank you, Madam Chairwoman. And let me too start out with thanking all of you for your work for the committee today in expressing your views on this important topic. And I thank our chairwoman for her passion and commitment to housing as a public policy topic.

I want to follow up too on Mr. Himes' comments, my good friend from Connecticut, talking about this gap, the supply-side gap. I think that is important. He raises some really good issues.

First, I have offered amendments consistently on the House Floor for 8 years that nonunion construction trades be approved DOL apprenticeships. And every year that bill is voted down by the Majority. But the DOL union-based apprenticeship program only produces about 88,000 construction trades, when we have a market demand of over 600,000 a year. So I think opening up and qualifying more people to fill that gap is an important labor component in the supply side on construction.

Local zoning is also an important issue. And I was very pleased to see Ed Pinto's work at the American Enterprise Institute on walkable communities and how cities could develop best practices for increasing density, changing a lot of the rules, and making it cheaper and more affordable to come and do in-fill housing, which also brings with it quality grocery stores and things of that nature. We are doing that in Little Rock, and I have been impressed with some of the performance there.

I agree with Mr. Zandi on New Markets Tax Credits. I was on the CDFI advisory board when President Bush was in office. And it is something that Congress has generally supported, but the numbers are so high, it is almost impractical in multifamily. And certainly impractical in low- to moderate-income affordable housing, I think, because the program really—if you can't spend $10 million in one location, it ends up not being competitive. So, perhaps Congress can look at that.

And then, I support extending the Tax Cuts and Jobs Act Opportunity Zones and making a much more aggressive approach there on how we can have better Opportunity Zones that benefit low- to moderate-income housing opportunities.

So those are some issues on the supply side, I think, that are very, very important.

Chair Powell gave a speech at the Brookings Institution yesterday where he broke down core inflation to three components: goods; housing; and services other than housing. And he acknowledged housing services inflation, which measures the rise of all rents and rental equivalent costs in owner-occupied housing. And in my view over, particularly over the last 2 years of this intense 40-year inflation, it is way understated, the Consumer Price Index. As many of you know, 30 percent of the CPI and 40 percent of the CPI are based on both rental and housing.

Mr. Chairman, I would like to put in the record the core CPI inflation index.

Mr. GREEN. [presiding]. Without objection, it is so ordered.

Mr. HILL. Thank you, my friend.

Mr. Holtz-Eakin, would you agree that the method of calculating owner-occupied housing lags the market and understates the full picture of just how much housing prices and rents have gone up? We heard one of our witnesses talk about 22 percent rent increases. Is it understated?

Mr. HOLTZ-EAKIN. Yes, it is understated. It lags the market.

Mr. HILL. So, it is really worse. What we are facing in rental increases and home price increases are worse than they have appeared in the trailing statistics?

Mr. HOLTZ-EAKIN. Yes.

Mr. HILL. Yes. And I think that is something that is, again, frustrating that housing has taken such a big hit. But let me say that when we spend money in this Congress like drunken sailors, and keep accommodative monetary policy far too long at zero, we all pay the price, all of our families pay the price with these higher mortgage rates.

I was looking at H.R. 4495, the Downpayment Toward Equity Act, and as I noted in my opening comments, it doesn't really address supply. It is a more demand-driven issue. And I will just give you some feedback that in Arkansas, we are one of, I think about 20 States, that uses the bond program and recycles that down payment assistance money. On top of HUD's HOME Program, and Community Development Block Grant (CDBG) Programs, we really have worked hard, including with the CARES Act money, to provide down payment assistance to people who are qualified. And we have a surplus every year, meaning we really have, I think, a good housing market in Arkansas.

But I would like to see CBO or GAO tell us where the weaknesses are in down payment assistance. Because in my home State of Arkansas, I think we really have been helpful to everyone in that emerging equity.

But I would love to hear more from you, Ms. Bailey. If you could submit to the record some comments on where you think it is adequate and where it is the most weak, that would help us.

Thank you. I yield back.

Mr. GREEN. The gentleman's time has expired.

The Chair now recognizes the gentleman from California, Mr. Vargas, for 5 minutes.

Mr. VARGAS. Thank you very much, Mr. Chairman.

First of all, I want to thank Chairwoman Waters. I agree with Ms. Bailey that she has been a champion for housing, and I think that she has been the lion of Los Angeles in trying to get more affordable housing, and I appreciate her very much.

Mr. Chairman, I also appreciate you. You quoted the Bible, and I am sure you knew what you were doing, but you modernized it and called it the people in the street of life. But you were really quoting Matthew 25, which is the last judgment. And I want to read a little bit of this passage.

"For I was hungry and you gave me something to eat, I was thirsty and you gave me something to drink, I was a stranger and you invited me in, I was naked and you clothed me, I was ill and you comforted me, I was in prison and you came to visit me."

And, of course, they asked him, "When did we do that?" And he answered, "When you did it for the least of my brothers."

Now, I have to say that I think both sides share that. I have many friends on the Republican side, and I have great respect for the gentleman who was sitting next to you, Mr. French Hill, who is a good friend of mine. I know that he wants to do that. And trying to get there, I think is the hard part, because we disagree on strategy, but hopefully we can come together a little bit more to get things done.

I do want to ask about inflation because this has been brought up a number of times. Mr. Holtz-Eakin, you addressed inflation. What is the inflation rate in the EU?

Mr. HOLTZ-EAKIN. I don't know the exact rate right now, but they have very high inflation, especially since the onset of the—

Mr. VARGAS. Is it higher than ours?

Mr. HOLTZ-EAKIN. I'm sorry?

Mr. VARGAS. Is it higher than the United States?

Mr. HOLTZ-EAKIN. In some places, yes.

Mr. VARGAS. Okay. How about in the U.K.?

Mr. HOLTZ-EAKIN. Yes.

Mr. VARGAS. Have they implemented President Biden's policies?

Mr. HOLTZ-EAKIN. No. But I think if you look at the period when the policies I mentioned were most important, it is 2021, when we saw inflation get to nearly 7 percent on the Consumer Price Index year over year. European inflation was nothing like that. All of that preceded the invasion of Ukraine by Russia.

So the period where the policy impacts, the excessive monetary stimulus, the excessive fiscal stimulus, was 2021. That produced—

Mr. VARGAS. Then, you don't think this is related to the pandemic?

Mr. HOLTZ-EAKIN. I think that European inflation went up about a percentage point a quarter in 2021, went from zero to 4 percent. That was, by their standards, very high inflation. And that is a good metric of the impact of the pandemic on global supply changes. We were nearly double that. That was the additional monetary and fiscal stimulus that the U.S. undertook.

Mr. VARGAS. Yes. But the interesting thing is this they didn't implement our policies, and they are higher than us. It is an 11.5 percent inflation rate in the EU, and the U.K. is 11 percent, much higher than we are.

So this whole thing was used politically and, interestingly, didn't actually work. Americans are much smarter than I think some of my colleagues on the other side think, and they knew that it was political and it wasn't reality.

But, anyway, let's move on. Because I do agree with a lot of what they have said today about regulations at the local level. I do believe that. However, I also think—and because no one wants poor people. That is the problem. Everyone wants density somewhere else, not in their own community. It is a real problem.

But, Mr. Mitchell, I wanted to ask you this: In the Build Back Better, Chairwoman Waters and the rest of us were pushing, and especially she was, for $150 billion. What would that have done for affordable housing in the United States?

Mr. MITCHELL. Thank you, Congressman.

I think there are two kind of horizons that we need to be thinking about the policies here. In the immediate future right now, given the rapid rise in rental prices, that is being able to make sure that renters in this moment have the support that they need to be able to afford rent or other folks being able to find housing, and there are significant investments in Build Back Better that would have allowed for that to happen.

At the same time, there were also resources available to make sure that we have the housing supply in the long term that is either being upkept or renovated or putting more housing supply online. So, there are resources in Build Back Better to accomplish both of those goals.

Mr. VARGAS. And I agree with my colleagues, again, on the other side of the aisle. It is a big-time supply issue. We have to build more, and we have to figure out how to do that, hopefully together.

I have 10 seconds left. So, again, I want to thank everyone, all of the witnesses here. And I yield back.

Thank you.

Mr. GREEN. The gentleman's time has expired.

The gentleman from West Virginia, Mr. Mooney, is now recognized for 5 minutes.

Mr. MOONEY. Thank you, Mr. Chairman. Thank you for this hearing. I think it is important that we talk about these issues.

My question is directed at Mr. Holtz-Eakin. Earlier this year, the Government-Sponsored Enterprises (GSEs) announced their plans for equitable housing finance at the direction of the Federal Housing Finance Agency (FHFA). The plans call for lower down payment requirements and reduced mortgage insurance costs for prospective minority homeowners, among many other things, many other changes disregarding considerations of risk and ability to pay. And increasing homeownership by encouraging riskier mortgages is exactly what led to the 2008 financial collapse, which actually disproportionately hurt the minority homeowners it was intended to help, yet it seems we learned nothing.

Moreover, FHFA Director Sandra Thompson has refused to finalize a proposed rule that would have subjected these concerning changes to review in public comment. This Administration, frankly, has a habit of circumventing the traditional rulemaking process, from the Consumer Financial Protection Bureau (CFPB) making substantial changes to its examination manual, to the Department of Veterans Affairs issuing an interim final rule allowing for taxpayer-funded abortions in violation of Federal law.

So, Mr. Holtz-Eakin, can you explain the dangers of the GSEs' equitable housing finance plans and why changes of this significance should be subject to public scrutiny?

Mr. HOLTZ-EAKIN. I mentioned the rule that you brought up in my written testimony. It is important that if the GSEs are going to roll out new products, they be subject to review, and I think it would be good to finalize that rule. Historically, this is the kind of slippery slope that got the GSEs in trouble and ultimately put them in the conservatorship and put the taxpayers at such risk.

These are highly-risky loans. They are riskier than they otherwise would be because they couldn't get the conventional treatment, so they need special treatment to get them a loan, and they are more likely, as a result, to have financial problems down the line and for the taxpayer to be on the hook for the cost.

And tragically, we have, in fact, seen the disproportional impact on minority communities that these efforts had. I was in the Bush Administration in the early 2000s when there was an enormous push for minority homeownership. And with the benefit of hindsight, all we did was wipe out the net worth of millions of families, and that was not a wise thing to do.

So I am concerned about this initiative, not because it is, in and of itself, so large, but because it is indicative of the kinds of things that might be pursued going forward.

Mr. MOONEY. Thank you.

And, again, I really worry this will harm the minority homeowners that it is intended to help. And I know my friends on the other side of the aisle are trying to help. I am trying to help. We all have good intentions, but it is not the intentions; it is the policies and the effects that we need to look at. And you don't want to do something, however well-intended it may be, that has the opposite effect, which is what seems to be happening with a lot of these policies.

What we should do is encourage savings and living within your means, both as a country, the United States of America, and as individuals and families. We already know how reckless spending policies were a leading cause of this inflation crisis we are in now.

I can tell you as a Cuban American myself, I believe that increasing minority homeownership is a worthwhile goal. My mother fled Communist Cuba, where the government offers no freedoms and dictates every aspect of people's lives. The United States, a free market economy, welcomed her with open arms, as they do other immigrants.

The solution to America's housing affordability challenges is to reduce government spending and regulation in the housing market. We should, instead, advance free market policies that increase opportunities for all Americans, regardless of race, ethnicity, or religion.

I thank you, Mr. Chairman, and I yield back the balance of my time.

Mr. GREEN. The gentleman yields back.

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

Mr. LAWSON. Thank you, Mr. Chairman, and a special thanks to Chairwoman Waters and Ranking Member McHenry for having this hearing today.

Before I get started on my questions, I would just like to say I really appreciate Ms. Eaddy's testimony, which exemplifies the problem that we have in America. And if I had a magic wand, I would wave it and see if we could solve some of the problems. I would hope that all of us can come together, Democrats and Republicans, and do something to solve this housing issue.

I was homeless, once. We lost everything in a fire, and had to move from time to time, and I know how difficult that is while raising a family. And I really applaud my father. I don't know how he got out of it over the years, but we made it every time some relatives would put us out. So, I know what that is like, and I know that we are fortunate today to have the opportunities that we have.

But to Ms. Bailey, my home State of Florida has the largest homeless population in the United States, and we know homelessness has an adverse impact on people of color and lower-income communities. In your testimony, you discuss how the COVID-19 pandemic exacerbated the housing discrimination and the wealth gap. What are some considerations Congress should keep in mind to ensure that there is an equitable solution to address these issues?

Ms. BAILEY. Thank you so much for the question.

As the descendent of formerly enslaved Africans, I have to say our nation's mortgage market was built on the bodies of enslaved Africans. The fact that we are here today talking about the housing system means we are talking about our ancestors. So, let me start there.

We have to make sure we have equitable policies because for the entirety of our nation's history, our housing policies, Federal, State, and local, have been implemented in a way that cements and perpetuates residential segregation. There is an unfounded association between race and risk because of enslavement in these United States. It is not that we don't want Black people, Latino people, Asian American and Pacific Islander people, and Native communities from whom the land was forcefully dispossessed to have opportunity. We don't want the people—and we have to talk about this—in our communities. In our zoning ordinances, we are saying we don't want integration, when in fact, today in America we actually are seeing integrated communities. We have actually seen the Black homeownership rate go up, the Latino homeownership rate go up, and the Asian American homeownership rate go up because of inclusive policies.

This committee's work on the American Rescue Plan Act to preserve homeownership with the Homeowner Assistance Fund and the Emergency Rental Assistance meant that we kept families housed during the time of a great COVID pandemic which disproportionately impacted the very same people that the Great Recession decimated.

You want to talk about responsibility and personal opportunity? Let's talk about it. The Homestead Act created 20 percent of the wealth that White Americans and families who got that benefit can point to. People of color were intentionally locked out of opportunity. We know inclusive policies work. Why in the world would we want to go back?

Mr. LAWSON. Thank you.

Quickly, Dr. Zandi, you mentioned during Congressman Williams' testimony, I think, that one way to help the housing market is to increase the rental assistance program other than affordable housing.

Can you comment on that, please?

Mr. ZANDI. Yes. Clearly, many households are unable to afford the current high rent, and so, we are seeing, obviously, higher homelessness and very fragile housing tenure.

So I think, particularly at this point in time when rents are so high and are unlikely to come down in a meaningful way anytime soon until we can get more supply into the market, it is important to provide assistance for rent. So rental assistance is, I think, at this point particularly important for people who are really under a lot of stress.

Mr. LAWSON. Okay. Thank you.

With that, Mr. Chairman, I yield back.

Mr. GREEN. The gentleman yields back.

The gentleman from Ohio, Mr. Davidson, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman.

And thank you to our witnesses. I appreciate you being here, and I appreciate the committee's emphasis on affordable housing.

Frankly, compared to Washington, D.C., or California, or New York, pretty much everything in Ohio is affordable. But for people who live there, their income is based on Ohio, not on D.C., so, we all have our different challenges around the country, and we have a lot of Federal policies.

Mr. Holtz-Eakin, I kind of want to explore some of the conversation that you have had about how the Federal Reserve has engaged in activities that have distorted the market.

First and foremost, in 2020, it did provide essential stability in March and April when our markets were in freefall. We can only have a functioning market if there is eventually a buy side. There was no buy side. So, they intervened. They created some stability. They did some heroic stuff. But then almost right after that, they started doing truly market-distorting stuff.

One of the worst things related to this hearing is they were buying, for months and months and months, $40-billion worth of mortgage-backed securities and holding rates really low. That created an asset bubble, potentially. And you have emphasized that they needed to cool off demand.

But people are going to need to live somewhere. So when you talk about demand, is that somehow that people start demanding a house? How does that play out for the average family in western Ohio when you have a Federal Reserve setting a price, now rates start going up, and you said cooling demand. How does that play out?

Mr. HOLTZ-EAKIN. First of all, I think it is a very good point that the Fed did a tremendous job in 2020 of stepping in and providing enormous amounts of liquidity and having financial markets stabilize fast. We don't think of 2020 as a year of a banking crisis or financial crisis. We had the pandemic.

So they did a great job, but as part of that, they made a decision to buy the $30-billion worth of MBS, which is a clear subsidy to the mortgage market, without great discussion. And now that they are taking it back at an even greater amount, it is having an enormous impact on housing markets.

So, their very blunt tools, raising rates across the economy on every class of credit, every maturity, and pulling back on this liquidity, are having a disproportionate impact on housing at a time when people need housing.

And that, to me, says, number one, the Fed doesn't have fine tools that can target different sectors. It doesn't. And, number two, don't get yourself in the position where you have to fight inflation like this. Once you do, you have nothing but bad choices. You need to slow down the labor market, which means fewer jobs. You need to slow down retail sales, which means fewer sales. None of that is good news. And that is the position we now find ourselves in.

Mr. DAVIDSON. Yes. People sometimes say, don't fight the Fed, right? The Fed is moving things one way or the other. When you think about households, they have to find a place to live. Rates are going up. So fundamentally, that means what? They are not going to buy? That means somehow rents aren't going to go up? The people who own the property are going to have to have rents move where rates move, or where inflation moves.

Can you highlight the dangers of this overzealous activity that the Federal Reserve has gotten themselves in? Because it really does limit their options without affecting the average American, doesn't it?

Mr. HOLTZ-EAKIN. I think the activities, again, are attributed to the earlier policy errors. There is no question they were excessively loose, and now they are trying to take it back as fast as possible. It is having, as I said, a really bad impact on the housing market, much stronger than, for example, the labor market, which continues to produce 100,000 jobs a month. It will show up in building, so home builders are clearly looking at a poor outlook. As a result, we will have fewer single-family homes, and the rental market will become much more heavily-contested, and rents are going to go up. I think that's where the rubber hits the road. And it is going to be a tough housing market for the foreseeable future.

Mr. DAVIDSON. Right. I just think there are a lot of consequences for the Fed's actions, and they can't take it back. They might feel bad—they don't really express it very well if they do—but there are big consequences for this.

And I think the last thing I would say is, the reaction is to say, let's subsidize all of it. Well, what does that do? It increases government spending, and it pushes the Fed to print more money, which drives more inflation, which is why we have the problem that we have today.

So, we should be careful about our own policy tools here in Congress.

My time has expired, and I yield back.

Mr. GREEN. The gentleman yields back.

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, Mr. Chairman. And I thank our chairwoman for holding this critical hearing and consistently highlighting the urgent need in our country for fair and affordable housing.

In my district, the Massachusetts 7th, housing is in devastatingly-short supply. My constituents, particularly those who are Black, Brown, and low income, are being priced out of their homes due to skyrocketing rent.

And I want to highlight today just how urgent the need is for investments and policy solutions that meet the moment to address this housing crisis, especially for renters in districts like my own.

Across Massachusetts, a quarter of all residents spend half their income or more on housing. Boston is now the second-most expensive city in the country to rent in, where the median rent for a one-bedroom apartment is just over $3,000.

This is a crisis, and we must act swiftly. Housing is at the intersection of everything. We will never actualize economic justice, close the racial wealth gap, improve public health outcomes, recognizing that housing is a critical determinant of health, or meet our climate goals without addressing this affordable housing crisis.

So, Congress must act simultaneously by investing in affordable housing supply as a long-term solution while also enacting policies in the immediate term to reduce costs in the here and now.

Mr. Mitchell, experts agree the limited supply of affordable housing is the root cause of housing inflation. Can you explain why we must address it?

Mr. MITCHELL. Absolutely, Congresswoman.

To your point, exactly what you said, many folks in the housing advocacy space say, "The rent eats first." And what this means is that housing is the single-largest budget item for households, and for low-income families, it accounts for almost half of their budgets, which means that they have that much harder of a time when rents increase of making ends meet, and become that much closer to eviction and homelessness. And this is especially true for Black and Brown renters; last month, roughly one in five Black renters reported that their household was behind on rent payments.

So, it is absolutely imperative that we address the housing affordability crisis.

Ms. PRESSLEY. Thank you. I certainly agree.

And this committee, under Democratic leadership, has long supported bold investments in our housing supply, but even so, working families across our nation are struggling right now, and they cannot afford to wait years for housing supply to be built.

There are 7 days in a week, and not one of them is called, "someday." We have to act now. We need to pair these longer-term investments with short-term solutions that alleviate the financial pain that families are facing today.

In past moments of crisis, when prices previously spiraled out of control, our country enacted price controls in housing to maintain stability.

Mr. Mitchell, how would rent stabilization be effective in ensuring that folks are housed in the short term, helping working families across the country, while also avoiding homelessness?

Mr. MITCHELL. Again, given the immediate needs of renters and the outsized power of the landlords to significantly raise rents in this moment, rent stabilization policies offer a near-term pathway of providing relief to renters and addressing the fundamental power imbalance that we are seeing right now.

And we should note that rent control policies have evolved tremendously over time. Most modern rent stabilization efforts target specific property types within a city or locality, and they allow for more-controlled rent increases, which mitigates a lot of the negative concerns that people often associate with rent control policies.

The research here is very clear: Rent control policies reduce rents for the tenants at whom they are targeted. They increase residential stability. They protect tenants from eviction. And more recent research suggests that these modest rent stabilization policies also do not deter new construction.

So in some ways, you can see that pairing these rent stabilization policies then with the investments in putting new supply online can work well and work hand-in-hand together.

Ms. PRESSLEY. Thank you, Mr. Mitchell. I certainly agree.

Housing is a human right. We have to be responsive to the pain that families are currently experiencing with a two-prong solution that pairs long-term investments in housing supply with immediate policy changes that ensure access to affordable housing. Everyone deserves more than shelter; they deserve to have a home.

Thank you. And I yield back.

Mr. GREEN. The gentlelady yields back.

The gentleman from North Carolina, Mr. Budd, is now recognized for 5 minutes.

Mr. BUDD. Thank you, Mr. Chairman.

I just want to begin with a couple of facts, a bit of a review.

In 2021, we saw the average home price rise almost 20 percent, which was the largest increase in the 34-year history of the Case-Shiller Index, which tracks average home prices. And when you couple that with historically-high inflation, you can see that we really have a recipe for economic pain.

The average rate for a 30-year fixed-rate mortgage has doubled over the last year alone. It was at about the 3-percent range in March, and was over 7 percent in October.

So, let's break that down. We take the average homebuyer looking for a basic FHFA-backed loan for a median-priced $430,000 home, and then you factor in national averages for property tax, home insurance, and a 20 percent down payment, at a 7 percent interest rate, that homebuyer's average monthly payment is going to be about $2,900.

Now, compare that to a year ago when the rates were closer to 3 percent. That is about an $850 increase every single month. I don't think that working families have an extra 10,000 bucks laying around.

So, instead of addressing the root causes of high inflation, things like reckless runaway spending, we have seen the Democrats focus on the same old failed progressive policies. According to the National Association of Home Builders, 25 percent of all costs associated with a single-family home and developments are directly attributed to regulations. That is a 25 percent tax that gets passed onto these homebuyers.

So tell me, how is more spending and more regulation going to fix that problem? It is not.

I think we would be a lot better off to find a better solution to address domestic supply-chain issues, and ease regulations, especially on the local level, not here in Washington, D.C. And we need to encourage reducing regulations here in Washington as well, but especially on the local level where most of those costs are incurred. We also need to encourage work. We need to cut runaway government spending. We need to support innovative free-market solutions to increase the housing supply in this country, which right now just can't keep up with demand.

The hard truth is that the liberal ideology of the Biden Administration and Congressional Democrats and what they are doing just prevents them from solving this issue. They talk a good game, but in reality, their failed policies have made it worse for working families.

So until we change course away from failed progressivism, which is really regressive, working families will find it harder and harder to afford their daily lives and it will keep them from becoming homeowners.

I yield back.

Mr. GREEN. The gentleman yields back.

The gentleman from New York, Mr. Torres, is now recognized for 5 minutes.

Mr. TORRES. Thank you, Mr. Chairman.

We are increasingly phasing out single-family-only zoning, which, to me, is a policy shift in the right direction, but as we reform zoning codes across America, we have to grapple with the following quandary: How do we reap the benefit of housing development without the cost of housing displacement? Land use reform is a necessary but insufficient condition for affordability.

Ms. Bailey, what else can be done to ensure deep affordability in the new housing supply that land use reform would unlock?

Ms. BAILEY. Thank you for the question.

We can create programs that are equitable for the frontline workers who actually risked their very lives to save the economy during COVID-19, families who, through no fault of their own, have been the hardest hit by COVID. So, things like first-generation down payment assistance that has already been discussed; support for voucher holders; support for people with disabilities; but also the Neighborhood Homes Investment Act. We could actually build 100,000 new units to help these homeowners who have been hardest hit by the Great Recession that robbed $1 trillion from Black and Latino communities.

This is a tax credit subsidy. But what we have to do is make sure fair housing is embedded in it. For the entirety of these United States, what we have done is try to create affordable housing without censoring it in fairness. When we censor it in fairness, like we did with the American Rescue Plan Act's resources, we actually help the families who need the help the most, and who have been the most harmfully impacted by this crisis.

Going into this crisis, our families were already struggling because of the devastating impact from the Great Recession. They are not equitably sharing in the recovery, and the Fed's efforts have exacerbated inequality to the point that the Black-White wealth gap right now is by $20 trillion added.

Mr. TORRES. To your point, homeownership is the foundation for wealth in our society. And contrary to popular opinion, the largest housing program is not LIHTC. It is not Section 8. It is not Section 9 public housing. It is the mortgage interest deduction by far, which disproportionately benefits wealthier, Whiter households.

I have a question about homelessness. The size of the homeless population depends on the definition of homelessness that one adopts. Take New York City as an example. If you define the homeless population as those living on the streets or in a shelter, there are more than 60,000 homeless people in New York City. But if I define it more broadly to those doubling up and tripling up, there are more than 100,000 homeless students in the New York City public school system, not to mention hundreds of thousands more who belong to the rest of the household.

How should we define homelessness federally? And do you have a sense of how much larger the homeless population would be if we were to factor in those who are temporarily and unstably-housed?

Anyone can answer that question.

Ms. BAILEY. I think we have to absolutely expand the definition, and we actually have to think about some of the solutions that worked and the policies that we created for homeless veterans, because we made a tremendous advancement in helping homeless veterans. And if we provided some of those same innovative approaches for families with children, we could actually increase resources and support to help those children and those families have more sustainability.

Mr. TORRES. And again, Mr. Zandi, I have colleagues who romanticize the free market. And the market has its place. The market is a powerful tool. But there are market failures. In your opinion, do you think that the free market is sufficient to create the affordable housing we need, at the level of affordability that we need, on the scale that we need?

Mr. ZANDI. No, I don't. I think that the market was significantly impaired in the wake of the housing bust and great financial crisis, and it struggled to get it back together to produce the kind of housing that we need as quickly as we need it.

I do think it is important for lawmakers to focus on ways to try to help address the shortfalls and, thus, these ideas around tax credits and also on grants and other forms of subsidy to try to make it less expensive and cheaper for builders to put up more affordable—particularly affordable rental housing units.

So, no, I don't think we should rely on the market by itself to be able to get us to where we need to go as quickly as we need to get there. This is a problem that has been in the making for over a decade. If we do nothing, it is going to be a problem that we are going to be grappling with for at least another decade, or perhaps a generation.

So, I do think it is really important that lawmakers focus on this and try and address these market failures.

Mr. TORRES. And I will quickly note, anyone who is saying we can resolve the affordability crisis without Federal investment is living on a different planet.

And I will leave it at that.

Mr. GREEN. The gentleman yields back.

The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman Green. And thanks to Chairwoman Waters and Ranking Member McHenry for holding the hearing today. Thank you to all of our witnesses for being here and taking time to share your expertise with us.

I was glad to see that the Majority has invited CFPB Director Chopra to testify later this month, and I would hope that the chairwoman would also invite SEC Chair Gensler to testify, perhaps in support of the upcoming FTX hearing.

In the last 133 days, we have had only one hearing that included witnesses from the Biden Administration, which I believe is a dereliction of our duty as Members of Congress to conduct oversight. I hope that changes in a few weeks, and I am confident that it will and that we will be seeing a lot more government officials as witnesses before this committee.

Since my time is limited, I want to dive straight into my questions.

Dr. Holtz-Eakin, earlier this year we held a hearing on the Biden Administration's PAVE Task Force which was created based on anecdotal evidence to address discrimination in home appraisals. The task force did not conduct any new research. It also failed to include dissenting opinions on the subject about the contested and limited body of work on appraisal bias.

Setting aside whether or not it is wise to make policy decisions based on anecdotal evidence, I am curious about your thoughts on one of the task force's recommendations, which is to require FHA lenders to track usage and outcomes of reconsiderations of value, and report it to the FHA so that HUD can evaluate the impact that reconsiderations of value might have on possible discrimination.

Dr. Holtz-Eakin, would the costs of increased reporting requirements like this impact the cost of buying a new home?

Mr. HOLTZ-EAKIN. Certainly, those costs will get passed along. There is no question about that.

Mr. ROSE. Dr. Holtz-Eakin, the task force also wants to increase requirements for anti-bias fair housing and fair lending training for all appraisers. The industry itself has been exploring ways to improve diversity among the profession, but one of the barriers to entry as an appraiser that is commonly cited is the strict training requirements and long hours that it takes to become an appraiser.

So, Dr. Holtz-Eakin, does increased training requirements make the profession more attractive to prospective appraisers?

Mr. HOLTZ-EAKIN. I will have to get back to you on that with a better answer. I don't really know that industry very well.

Mr. ROSE. Thank you. If you would, I would appreciate it and I would welcome your insights there.

Dr. Holtz-Eakin, earlier this year, every single Democrat on this committee voted for a bill entitled, the Downpayment Toward Equity Act, which would allow even people who make more than $200,000 per year to receive government grants of nearly $100,000 to purchase a home.

Setting aside the absurdity of giving individuals who make more than $200,000 in income, a six-figure government assistance check, and setting aside the $100-billion price tag of this legislation, Dr. Holtz-Eakin, does increasing the demand for something such as housing, leaving supply constant, reduce costs?

Mr. HOLTZ-EAKIN. No. It will just exacerbate the pricing problem we see already.

Mr. ROSE. I think so.

Earlier, Representative Barr mentioned the conundrum of lowering the cost of regulatory assistance. And you said that is a pretty big task, and you weren't necessarily sure how we go about that. But if you might expand on that a little, I would appreciate it.

Mr. HOLTZ-EAKIN. I think this has come up a number of times, and localities have these land use restrictions and construction requirements for a reason. They value them for reasons both noble and not noble. And you are now going to have to have some appropriate Federal intervention into local decision-making in order to change that. How do you do that? You can try to do it by fiat, but it is awfully hard to tailor that to the circumstances across the country. You can make it a condition of financial assistance and have it as a carrot that they do that. But they could ignore that carrot and continue.

I think it is a really difficult policy problem to have, the Federal Government trying to influence the decisions being made at local levels across the country.

Mr. ROSE. And is it futile, or do you think it is essential that we try to figure out how to influence those local decisions?

Mr. HOLTZ-EAKIN. All of the numbers that you have heard today are that this is one of the most-significant reasons to have an affordable housing problem in America. So, yes, it ought to be looked at.

Mr. ROSE. Thank you. I appreciate it.

And I see my time has expired, so I yield back.

Mr. GREEN. The gentleman yields back.

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, Mr. Chairman. And I want to thank all of the witnesses who are here today. Thank you very much, and the ones joining us online as well.

I share the representation of the City of Boston, so my situation is quite similar—the same actually as Ms. Pressley outlined, where the median rent now is around $3,000 a month for a one-bedroom. I think the average housing cost right now for a single-family home is somewhere around $770,000, far above the national average.

My own background is, I grew up in the Old Colony Housing Project in South Boston. At the time, it was among the poorest, predominantly-White Census tracts in the United States. So, we struggled. And my views on housing policy necessarily are shaped by that experience. I saw how my mom and dad struggled. I saw how they had a really hard time raising me and my five sisters, just trying to provide a safe place for all of us and a stable environment.

And it seems like things have gotten worse. We were at the very bottom of the economic ladder, and we struggled for housing. But now, I see people who are working who would, I think, commonly be referred to as middle class, yet, because of the exorbitant prices of housing, they are being forced out.

I think we had a good start with HOPE VI, and I know that Jack Kemp, a Republican, was one of the early architects of that program. Now, we have one program that was started by the Obama Administration called the Choice Neighborhoods Program that actually tries to build mixed-income housing. One of the problems that I have—and I represent a lot of people in public housing, including that same housing projects; it has been renamed The Anne M. Lynch Homes at Old Colony in memory of my mom. But we still have the same problem. People are struggling. And the new model tries to bring in private money to partner this Choice Neighborhood Program to build mixed income, so middle income or so-called workforce housing.

And I am just wondering, Mr. Holtz-Eakin, we are struggling with this idea of rent control again. The mayor of Boston is looking at it because she doesn't have many options, and I understand that. But I am old enough to remember the previous iteration of rent control that was a disaster. It caused disinvestment and the lack of development of housing.

I just wonder, Mr. Holtz-Eakin and Mr. Zandi, from an economic standpoint, is that the type of model that will succeed? If we can sort of get buy-in from middle-income people as well as those who want to help people at the bottom of the ladder, is that the model that will succeed in generating the 4 million units of housing that we need to create?

Mr. HOLTZ-EAKIN. I feel pretty confident that a rent control approach won't solve the problem. I say that respectful of the testimony of Mr. Mitchell. You can probably write down on a blackboard a price stabilization approach that works, but I would be skeptical that we could make it work in every community in America.

So, I would prefer to find ways to get private capital in to increase the access of that cheap capital. I will let Mark speak for himself, but he has talked about that on a number of occasions. And whether it is tax-based incentives that draw that capital in or others, I don't have an attachment to any of them. We need to get greater capital in to provide affordable housing. That is the key, yes.

Mr. LYNCH. Mr. Zandi?

Mr. ZANDI. Yes. In the long list of things that we can and should do to help these low-income households be able to afford a home, rent stabilization, rent control would be all the way at the bottom of the list. I would be very, very cautious about going down that path. It is very, very difficult to implement in a way that will end up resulting in more supply. And we need to be focused very carefully on increasing the supply of housing as fast as possible. And rent control, rent stabilization is pretty difficult to implement to make that effective.

The other thing I would say is, there are a lot of landlords out there. There are the institutional landlords. But in many cases, the landlords we are talking about here for these kinds of kind of lower-income households in these communities we are trying to help are mom-and-pop landlords. They are middle-class households as well. You need to keep that in mind.

So, I don't know that I would go down that path. I would go down these other paths before I went down the rent stabilization or rent control path.

Mr. GREEN. The gentleman's time has expired.

The gentleman from South Carolina, Mr. Timmons, is now recognized for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman. I appreciate you having this hearing.

I live in Greenville, South Carolina. I represent Greenville and Spartanburg. We have a major challenge with affordable housing. The city has grown so much. There have been so many people moving into the district, and rents have gone through the roof. The same problem is happening all over the country, but we have it twice as bad because we also have very poor public transportation.

So, it really has become a major issue in my district. And I, like all of you, agree that market forces are not going to solve this problem. The government has to do something. The question then becomes, what? Is it to somehow incentivize the developers to invest in affordable units, or is it requiring them, as some cities have done? Is it creating a fund that will subsidize across-the-board using General Fund tax dollars? Is it de-restricting land to force developers to do it? There are all of these different tools in our toolbox, and the question is, how?

And I think my view on this is that it is a problem when in one building, different units are subsidizing others. So if this is important to us—and it is important to us—it should be General Fund dollars. It should be money that the entire citizenry pays to facilitate affordable options in urban areas.

But then, the other thing is public transportation. There are certain parts of our country that have grown so expensive that it is just not economical to even make the attempt. The question is, how do you allow people to move in and out, to have access to areas to work and enjoy that community?

Those are the two kinds of variables that I see: government intervention to facilitate affordable housing; but also, public transportation.

Mr. Holtz-Eakin, do you agree that those are two of the biggest kind of levers in this conversation?

Mr. HOLTZ-EAKIN. Yes. Those are central to this.

I would really put the relentless focus on supply of affordable housing that Mark Zandi just mentioned at the forefront, because that will dictate the residential patterns that will be viable over the long term and, thus, dictate the transportation networks that you need to have to support those residential patterns.

So, I think you have to get the housing piece right first before you start thinking about getting the transportation piece.

Mr. TIMMONS. Do you think it is reasonable that the government should create incentives as opposed to requirements to essentially tell developers that we will make it easier for you to develop, whether it is putting your permit in the front of the line—right now, permitting is incredibly backed up in South Carolina, because we have so much development. That is going to slow with interest rates increasing. But there are all of these different tools. It is not a one-size-fits-all model, and every city is different.

We can all agree that we need to have affordable housing. I guess the question becomes, what tool in the toolbox is the right tool to use to achieve that objective? And I guess it is very situation-specific. What works in Greenville, South Carolina, does not work in New York City.

Mr. HOLTZ-EAKIN. I think that is the right bottom line, that we shouldn't presume, sitting here in Washington, D.C., to understand the local conditions all around, and we should permit the flexible use of local tools to get to the objectives. But you do have, at the Federal level, the power to set the objectives and set the targets and try to make sure that we get the outcomes we want.

Mr. TIMMONS. And I think there is a bigger question of rent versus own. D.C. has a very complicated system through which you get into the lottery, and then you purchase something, and you live there, and then you only get the benefit of the—I have looked at it extensively, and I promise you, I have no idea how it works, but it theoretically works.

I think the other challenge is that everybody does it differently, and there is no best practice. Is that fair?

Mr. HOLTZ-EAKIN. In my opinion, I have never been able to get excited about rent versus own, and that somehow, we should get everybody into an owner-occupied home and—

Mr. TIMMONS. We know how that went last time.

Mr. HOLTZ-EAKIN. We need more affordable housing, rental housing, owner-occupied housing, and people are going to decide whether they want to rent or own.

I have both rented and owned in my life. I didn't think I was a worse citizen when I was a renter. I actually thought I continued to uphold my civic duties. I have never understood the magic whereby we want to pick one over the other, so I would like to just focus on the supply of affordable housing.

Mr. TIMMONS. Sure. In the area that I live, we are having a challenge because the city is growing into an area that was low income, and they were all renters. And so the challenge becomes, is it reasonable to ask them to move? And I would say it is not. If they have been living somewhere for 20, 30 years, they have a right to continue to live there. It is a very complicated situation.

I don't want to go over my time. Thank you so much.

I yield back, Mr. Chairman.

Mr. GREEN. The gentleman's time has expired.

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

Ms. ADAMS. Thank you, Mr. Chairman. And I want to thank you for hosting today's hearing, and Chairwoman Waters. And to our witnesses, thank you as well.

Ms. Bailey, this question is for you. In your testimony, one of the key points you make is that GSEs aren't meeting the expectations of their mandate to support affordable housing initiatives.

First, can you specifically tell us more about how the GSEs could be doing better? And second, can you discuss what Congress can do to leverage the GSEs and the Federal Home Loan Banks to close the racial homeownership gap and the affordable housing crisis?

Ms. BAILEY. Thank you for the question.

Absolutely, the GSEs continue to underserve all communities, despite a public interest mission to making sure that there is broad credit liquidity in every community at the same time.

We support and are pleased with the Federal Housing Finance Agency's recent release of the GSEs' equitable housing finance codes. We have needed things like this for a very long time, because of our nation's history of housing discrimination, where we have created equitable opportunities, and in the first 35 years of the FHA-insured program, $120 billion of that program mostly went to White Americans. Less than 2 percent of those FHA-insured mortgage loans went to families of color. So, White families had a head start.

We need equitable programs because families of color don't have the resources built up from long-term homeownership that can be passed forward to successive generations. The equitable housing finance plans actually implement part of the Equal Credit Opportunity Act's—which has been in place for over 40 years—special purpose credit programs. These are simply programs that allow for lenders to look at their own individual borrowing, and to see whom is it that they are underserving and then to just create a targeted plan to bring in those consumers, to make sure they have a fair chance because of the history of discrimination that those communities have faced.

We also want to make sure that they affirmatively further fair housing, because we have never fully enforced our fair lending laws, and they have an explicit responsibility to affirmatively further fair housing.

Ms. ADAMS. Okay. Great. Thank you so much.

Ms. Bailey, can you briefly discuss how corporate ownership of housing units at this scale prevents first-time homebuyers from finding housing, and what Congress can do about this? In my community, the UNC Charlotte Urban Institute found that corporate landlords own over 11,000 housing units.

Can you speak to this?

Ms. BAILEY. Sure. One out of seven homes is actually being purchased by investors in the communities hardest hit by the recession in the South and in the Midwest. So, we need things like targeted first-generation down payment assistance, which is so different from first-time down payment assistance. This down payment assistance actually targets the families that our former housing policies have kept out. Current first-time homebuyer programs are open and available to everyone, so even wealthier people in high-resource communities could have access to them.

By targeting down payment assistance by first generation, we go to those communities that we have left behind, communities all across our country: 1.7 million of those borrowers would be Black; 1.32 million, Latino; and 1.4 million would be White, because, again, these are the very communities and rural communities that have been locked out of opportunity for some of the same reasons. And many of these borrowers, up to 88,000, would also be Asian American and from Pacific Islander and Native communities.

So, equitable policies are good for our economy because they help us to bring in the very communities we left out, but they also help to create jobs. A targeted down payment assistance by first generation would help us to generate billions of dollars in both local revenues and thousands of jobs.

Ms. ADAMS. Yes, ma'am. Thank you.

Mr. Zandi, can you discuss why the investment in LIHTC is needed now more than ever before, because the funding in Build Back Better would have provided a lot of relief?

Mr. ZANDI. Yes, it would. And I know you have also worked very diligently on this in trying to make some changes in the funding related to the American Rescue Plan money to allow more LIHTC development. And I think that is the kind of thing we should be doing.

The Federal Government is the single-largest funding source for affordable rental housing. That is the largest program that the Federal Government operates. It is very efficient. It is well-understood, and tried and true. And I think that is what we should be focused on.

Ms. ADAMS. Thank you so much. I am out of time.

Mr. Chairman, I yield back.

Mr. GREEN. The gentlewoman's time has expired.

The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Mr. Chairman. And thank you all for being here for another hearing on housing.

Mr. Holtz-Eakin, the Federal Housing Finance Authority (FHFA) announced this week that it is going to increase the maximum conforming loan limit to more than $1 million in high-cost areas, and $726,000 in other parts of the country. In other words, the Federal Government is going to subsidize high-cost, million-dollar home purchases.

Can you kind of walk us through what impact expanding Federal support for jumbo mortgages might have, in particular on inflation?

Mr. HOLTZ-EAKIN. Certainly at this point, as we have discussed extensively, housing is a big part of the inflation story. And it will increase the demand for housing and especially expensive housing, jumbo mortgage-financed housing. And other things being the same, those increases in demand can exacerbate the inflation problem.

My deep belief is that the Federal Reserve will simply undo it. And so, this will be an incredibly ineffective subsidy which will probably allow these fairly affluent borrowers to get financing, and someone else will get crowded out, because the Fed really can't allow the aggregate to increase.

Mr. STEIL. Let's follow up there. Somebody else is going to get crowded out.

Mr. HOLTZ-EAKIN. Yes.

Mr. STEIL. Who gets crowded out? Other rich people or lower-income people who are trying to buy a home?

Mr. HOLTZ-EAKIN. Probably the lower income. It will just move down the ladder, and they'll get credit out at the bottom.

Mr. STEIL. So, the policies put forward where the government comes in and intervenes actually hurt the lower-income homebuyers buying homes, not at a $1-million price point, but the lower price point. That gives me a lot of pause.

Let me ask you a follow-up question to that. Do you view that this move could increase the risk to the Federal Government, ultimately being the taxpayers?

Mr. HOLTZ-EAKIN. Oh, yes. I am deeply concerned that the GSEs, which were fundamentally involved in the last housing bubble and the financial crisis, remain unaltered to this day. They have been in conservatorship ever since the crisis. They are undercapitalized by their own assessments. And now, on a regular basis, they are expanding the credit box to allow riskier and riskier mortgages, which is simply a recipe for those mortgages to eventually fail, and for the taxpayer to have to step in on a large scale.

Mr. STEIL. Let's dig in on that deeper, because what we have seen over the past 2 years in the one-party Democratic control is aggressive new government spending, $6.8 trillion in new government spending on top of the current operations of the Federal Government. This reckless spending is, I think, one of the key drivers of the inflation we see. We also have a war on energy. We have labor policies that need to be reformed.

But all of that piling in together is, at the same time, the Federal Reserve with blunt instruments of raising interest rates is trying to hit the brakes, while the fiscal policy coming out of Congress is exacerbating a problem that we are facing right now. On top of that, the Federal Reserve is engaged in quantitative tightening, pulling liquidity out of the market.

How do you think that the quantitative tightening policies that the Fed has indicated they are planning to continue are going to have in particular as it relates to the housing market?

Mr. HOLTZ-EAKIN. I don't think we know the magnitude. We have never done quantitative tightening, so this is unprecedented, and I can't give you an interest rate equivalent.

Mr. STEIL. Right.

Mr. HOLTZ-EAKIN. But directionally, it is pretty clear that there will be other things the same, not as much mortgage capital available. To get that capital to have to offer higher returns means higher mortgages rights for everyone else. So, this will disproportionately hit the housing sector compared to the overall rate increases.

Mr. STEIL. At what point do you think we will have additional clarity as to the impact that these quantitative tightening policies are going to have? I agree with you, we saw quantitative easing one time in history. Now, we are unwinding this. The Ph.D. economists will say, "Is it the reverse of quantitative easing?" It seems like that is a rational analysis. We are seeing some directional indications here.

What should policymakers be looking at as it relates to the interest rates, as it relates to housing as this quantitative tightening process continues down the road?

Mr. HOLTZ-EAKIN. Roughly speaking, you do rate increases, and you try to look at the impact on real economic activity, particularly business spending, Capital Expenditure (CapEx), things that would be indicators of a potential for a downturn. That is a general phenomenon. Compare that to the impact on the real economic activity, the home building and apartment building that goes on in the housing sector, and how quickly the ladder goes down and how much more deeply it goes down tells you the QT impact.

Mr. STEIL. Thank you very much. I appreciate your testimony here today.

I look forward to 1 month and 2 days from today when we are going to be able to put a check on some of the reckless spending.

Mr. Chairman, I yield back.

Mr. GREEN. The gentleman yields back.

The gentlewoman from Pennsylvania, Ms. Dean, is now recognized for 5 minutes.

Ms. DEAN. Thank you, Mr. Chairman. And I thank all of our witnesses for being here today. I hope you will excuse my absence. I think you know that we are involved in a reorganizational set of meetings as well, but I wanted to be sure to get here.

I especially want to thank you, Mrs. Eaddy, for sharing your personal story with us today. I am sorry for what you and your husband have been through, but that is kind of hollow words. It is up to us to do better and to do more. And that is why I am so glad that our chairwoman focuses on affordable housing and homelessness as much as she does.

It matters in my district. I have a district—from suburban Philadelphia out into rural Pennsylvania—where we struggle with homelessness and affordable housing. And so, I am very sad but pleased to have read your testimony.

I want to follow up on something that Mr. Barr asked you earlier, and that it is the benefit of supportive services for people suffering from homelessness. You indicated that supportive services would be helpful for many, and I agree. But I want to follow up on a point that you alluded to in your testimony.

Can you explain the importance of having stable, safe housing first as the foundation for your life, in order to make other improvements in your life? That is, can you talk about how harmful it can be to couple a demand for supportive services at the same time as trying to simply get safe housing? Why is it for you that it is foundational that first, you have to get in a safe place?

Ms. EADDY. Thank you for the question. To me, it brings stability for us. Just having a safe place to go to every single day without being worried about being harmed while we are homeless is something that I really just—it bothers me every single second of the day. The stability to me in having safe affordable housing, being able to be inside and know that we are safe, and that will give us more time.

Because in the midst of all of this, my husband had a mental breakdown. To me, right there, him worrying that he has to progressively all the time go to work, go to work, but it is not enough money. Go to work, go to work, and maybe we will make enough to be able to afford the rent. So just being his back to try to make—not push him to, work harder, husband, you know what I am saying? But maybe we can do a little bit more. Maybe you can work a couple more hours, and then we can put the money towards this, to make us be more stable to get a place.

To me, that is stability. Just having somewhere to live will make us be more stable, to make us be able to wake up every day and feel safe, and not have to worry about being outside. Now, we can get back into the life of things because we have a little bit of stability.

Ms. DEAN. Thank you for that real clarity. And you are absolutely right, it is not just a tax on your physical health, but what a challenge to mental health for any one of us. As you said, you don't know how good it is to have a knob to turn every evening to enter a space where you are safe and not in danger until it is taken away from you. You are absolutely right.

You also said being homeless steals your identity. Well, it hasn't stolen yours, nor your husband's. So, I thank you for being here today.

I wanted to use that point to pivot to monetary policy. I just have a quick question for two of our economists, and it is really about the Fed and overcorrection for inflation.

I wonder, Dr. Zandi and Mr. Mitchell, could you just comment on where you think the Fed should go this month and moving forward in terms of interest rates as it impacts people who are struggling to find housing?

Mr. MITCHELL. Absolutely. I would actually say that the Fed should put a pause to interest rate hikes immediately. And I would say that in part because, as we talk about the underlying factors of inflation right now, none of those things are the things that the Fed can address by raising interest rates. As other people have mentioned, it is a blunt tool. And at this moment, it does more harm than good.

Ms. DEAN. I agree with you there, Mr. Mitchell.

And quickly, Dr. Zandi?

Mr. ZANDI. I think the Federal Reserve has to lay out a path for another percentage point of rate increases. We are close to 4 percent on the funds rate, and we will be close to 5 by the spring. That is what is embedded in stock prices. That is what is embedded in the current mortgage rate. That is what is embedded in the value of the dollar. They need to execute on that, and then they need to stop and take a look around and make sure that inflation is coming in and that everything is sticking to the script. But I think they need to follow through on the rate increases that they articulated they will do. If they don't, then we do run the risk of seeing inflation become more entrenched, embedded, and more of a problem.

Ms. DEAN. Thank you. And I know my time has expired.

Mr. GREEN. The gentlelady's time has expired.

The gentleman from Illinois, Mr. Garcia, is now recognized for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman. And, of course, I thank all of the witnesses for joining us today to discuss this crucial and timely topic.

I represent a working-class district, a majority Latino community in Chicagoland. Most of my constituents are renters who have been suffering from rising rent costs over the last 5 years. Rents have increased by almost 40 percent nationally, outpacing wage increases. Nearly half of renters, and over 80 percent of extremely low-income renters pay more than 30 percent of their income toward rent. And this crisis will only get worse if Congress does not act to address it.

There are many reasons for the housing affordability crisis. I want to zoom in on one big one that doesn't get enough attention: Corporate greed. I recently led a letter asking the FTC and the DOJ to investigate RealPage for anticompetitive practices. RealPage is a multinational company that provides landlords with rent-setting software. It advertises that its customers, "outperform the market by 3 to 7 percent." And in some cases, recommends its clients accept lower occupancy rates in order to raise rents and make more money.

Mr. Mitchell, can you tell us a bit about RealPage and its rent-setting software, YieldStar?

Mr. MITCHELL. Absolutely. As you mentioned, this is a real estate tech company that created a proprietary software called YieldStar. It takes rental market data from various firms, inputs it into this model, and then it spits out pricing strategies.

I think what is most alarming here, and what is the reason that RealPage is now under a DOJ investigation, is that the software is possibly facilitating collusion in the rental market amongst landlords who, in theory, are supposed to be competitors. And this only exacerbates what is already a gross imbalance of power between landlords and renters.

And I think the other important thing here to know about RealPage is that it acquired its own major competitor back in 2017 in the space, giving it a lot of market concentration and further exacerbating the range of landlords that are using this software in any given locality.

Mr. GARCIA OF ILLINOIS. Yes. Thank you. And what impact do you think RealPage is having on the rental market, and what do you believe that lawmakers should do in response, if anything?

Mr. MITCHELL. I think you have lifted up some of the important things here. It eliminates the interaction between landlord and tenant. It takes, so to speak, the pricing decision offsite. It encourages landlords to prioritize high rents and profits over, say, reduced turnover or renter stability. And in certain instances, as you mentioned, it is taking unit stock offline to achieve higher profits. And in these instances, I think it is absolutely imperative that the relevant regulatory bodies are investigating to make sure that antitrust laws, profiteering laws are being adhered to, and that renters aren't at the mercy of colluding landlords.

Mr. GARCIA OF ILLINOIS. RealPage, I want to add, is owned by a private equity firm. And many of RealPage's clients are backed by private equity firms.

What impact is private equity having on housing affordability, and what could Congress do about it?

Mr. MITCHELL. I think there are a few directions we can go here. First and foremost, when we talk about who owns rental property in this country, we oftentimes think of mom-and-pop landlords. And while that is true—and when we think of the actual properties, we think about units, we are seeing that institutional investors own a growing and now a majority share.

In 2015, it was about 50/50 in terms of units between individual investors and institutional investors. In 2021, the latest data that we have, it is actually about two-thirds now institutional investors. And as that becomes the case, I think the super-charges trends that we have seen over the last few years in terms of the continued shift and the heightened prioritization of profits and shareholder return, and we can see this dynamic the earnings calls where large corporate landlords, many of them backed by private equity, are laser-focused on taking every penny possible from renters and driving returns with no regard for the broader health or the stability in the broader rental market. So, I think that is really important to focus and understand.

Mr. GARCIA OF ILLINOIS. Thank you so much.

I wanted to just acknowledge the presence of Ms. Eaddy. Thank you for your powerful testimony and for being with us today. Homeless service providers are on the front lines of ensuring that people receive support when they need it. These providers are often overworked, underpaid, and understaffed, which means that sometimes people don't get the help that they need. And your testimony here compels us to really think about what kind of services should be provided and funded. Thank you.

Mr. Chairman, I yield back.

Mr. GREEN. The gentleman's time has expired.

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

Ms. TLAIB. Thank you so much, Mr. Chairman. And thank you to Ms. Margaret Eaddy for telling us what needs to be said, which is we need to move with the urgency that is needed for this crisis.

I am also incredibly grateful—and Mr. Chairman knows this—that Chairwoman Waters from day one, from the first day I entered into Congress, has said that housing is infrastructure. And she reminds us of that every single day. So, I am really grateful for this hearing.

I represent Michigan's 13th Congressional District. More than half of the owner-occupied single-family homes in my community are valued at less than $100,000. Our State lost more Black homeownership than any other State in the country over the last 2 decades.

I know 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.

Meanwhile, the Urban Institute has also found that 3 in 4 homes priced at or below $100,000 are purchased by all-cash buyers and investors. So countless homebuyers, particularly first-time homebuyers, are being locked out of homeownership in the middle class. And this is hardly a problem exclusive to urban communities like the City of Detroit; the southeast, Texas, and the Great Plains are also seeing a huge impact.

I worked with Chairwoman Waters and, of course, my amazing colleague, Representative Kaptur, on creating the Community Restoration and Revitalization Fund and the Build Back Better Act that directed Federal funds towards reinvestment in old or abandoned housing stock across the country and rehabbing them into affordable rental units.

Ms. Bailey, can you talk a little bit about how the Federal down payment assistance or the creation of a Community Restoration and Revitalization Fund helps bridge the homeownership gap and reverse these trends?

Ms. BAILEY. Thank you for the question. Indeed, the program would establish a competitive grant program at HUD to support the creation of affordable housing and community redevelopment in neighborhoods that are experiencing blight.

We talked earlier about how our communities, including communities like yours in Detroit, have not recovered from the Great Recession. This is why the GSE's Equitable Housing Finance Plans are critically important, because what they are doing is providing liquidity for small-dollar mortgage programs, those pilots that would allow people in your communities to get access to mortgage loans that are less than $100,000, the loans that our large-scale lenders are refusing to make despite getting deposits for reinsurance.

We need these Equitable Housing Finance programs because whole regions of the country are credit-starved. We need to do everything that we can to make sure those Equitable Housing Finance Plans pass. But we also need the Build Back Better Act. It is a compromise; $150 billion of targeted assistance, including the Community Restoration and Revitalization Fund, would bring much-needed resources into communities all over the country that want to have a stake in an equitable recovery and for whom housing continues to be a challenge. It would generate thousands of jobs. So, marrying supply and demand together is the solution.

Ms. TLAIB. Ms. Bailey, Mr. Mitchell, Mr. Zandi, do you have any other recommendations in regards to how I can help so many of my families—we are talking about particularly, homes valued less than $100,000. What are some policy recommendations that you may have for me, my colleagues, and the Administration?

Ms. BAILEY. First, continuing to make sure the Equitable Housing and Finance programs are implemented. The GSEs have to do them every 3 years. There needs to be accountability for those plans. We need to know how they are actually delivering. They have broad public interest mandates for the protections that they get to make sure credit availability is available in every market, not only Fannie Mae and Freddie Mac, but also the Federal Home Loan Banks.

Ms. TLAIB. Yes, great. Mr. Zandi, really quickly, are you concerned about the possibility that the Fed's monetary policy will lead to an even larger homebuilding gap, increasing our shortage of housing and worsening some of the issues and crises that my families are going through in the 13th District?

Mr. ZANDI. Yes, it will. The higher rates obviously push people into—they can't buy a home because they can't afford it. So, they go into a rental property, which jacks up rents, all else being equal. It also affects lending rates for construction and development. And that affects the ability of multifamily developers to put up property. You have more demand, and you have less supply, so that pushes up rents, and, of course, that hurts everybody. It hurts the renters. They can't—

Ms. TLAIB. Absolutely. I really think the Fed is taking, literally, a sledgehammer to the demand with so many sectors working on this issue, sectors of our economy, but especially housing.

I really appreciate this hearing, and I yield back.

Chairwoman WATERS. Thank you very much.

The gentlewoman from Texas, Ms. Garcia, who is also the Vice Chair of our Subcommittee on Diversity and Inclusion, is now recognized for 5 minutes.

Ms. GARCIA OF TEXAS. Thank you, Madam Chairwoman. And to all of the witnesses, I apologize that I was not here to hear your testimony. But like Ms. Dean mentioned earlier, we were all involved in some organizational leadership elections this morning and were called away.

But I am just so glad we are doing this hearing because I, frankly, think that we can't really talk enough about the need for affordable housing, not just in the cities that you have mentioned, but really across America.

And I want to first start by thanking you, Ms. Eaddy, for being here today, for having the courage, having the activism, and for having the voice that you have to speak up and work on these issues for so many people across America.

I can tell you that I have been working on this issue since I was a young legal aid lawyer. I represented the Houston Welfare Rights Organization. And one of the planks we had then, and it continues today, is getting more affordable public housing. We focused a lot on that. And it was always helpful when we had clients like you who were active and engaged and could speak for others. So, thank you for being that voice. And please know that there are many of us in this room and others who support you and hear you and will continue our fight. And, of course, you can't find a better champion for all of that than our chairwoman, who has pushed and pushed on this issue for years. And the fight will continue, I am sure.

I want to start with you, Ms. Bailey. I am from a Latino district, 77-percent Latino. And Latinos were probably the only ethnic sector that had an increased homeownership rate this last year, but it doesn't mean we are there yet either. And I think some of the issues for us are compounded when you include the unauthorized immigrant in the mix of Latino, which adds a different subset of issues, with some providers and landlords not wanting to lease or rent to people who are unauthorized in this country.

Given that Latinos are positioned to be the largest group of homebuyers in the nation, I am concerned about a lot of the barriers to housing affordability that will block their process. Because we will continue to grow, we are here to stay. Please share your perspective on the potential that interest hikes that will hinder the progress for homebuyers of color, and particularly the Latino community, and how can affordability challenges widen the racial gap?

Ms. BAILEY. Thank you much so much for the question. As you said, Latinos are going to play a major role in the mortgage market. Seven out of ten future buyers are going to be people of color, with Latinos accounting for a large majority of those buyers, along with African Americans and Asian Americans and Native communities.

One of the things that we need to do is to make sure the very buyers that the future system depends on have access to targeted first-generation down payment assistance as provided in the Downpayment Toward Equity Act that has been a part of the House-passed Build Back Better Act.

That targeting of down payment assistance helps to overcome one of the biggest barriers, which is the lack of down payment because families have not had equitable opportunities to build homeownership over intergenerational times.

I like to say that today's renters are tomorrow's homeowners. So, we have to do everything for homeowners to make sure they have equitable housing opportunities, including making sure there is real support for an increase in vouchers, and that HUD gets the resources that it needs to effectively implement its programs, because HUD has been gutted and doesn't have proper staffing to do the fair housing—

Ms. GARCIA OF TEXAS. Right. Particularly the last Administration.

Ms. BAILEY. Yes.

Ms. GARCIA OF TEXAS. Recently, our only newspaper in Houston, the Houston Chronicle, published an article in September highlighting the impacts of inflation on rent prices, demonstrating that prices in Houston are becoming troublingly-unaffordable. The average apartment rents in the City have increased by 12 percent since 2019, to an average of $1,300 per month.

Can you speak about the ways that high rent cost can hinder homeownership, and what is an important tool for building wealth, especially for low-income renters?

Ms. BAILEY. They actually stop families from being able to save. But another thing that happens is that, in credit scoring, which is typically one of the underwriting criterias, our current credit score models don't even factor in positive rental payment history.

What we need to do is to make sure those credit score models actually become more inclusive and factor in that positive history. Because when we look at things like positive rental payment history, we actually see that we can expand the credit box for the more than 8 million mortgage-ready Latino and African-American consumers who are ready to enter into the homeownership space.

Ms. GARCIA OF TEXAS. Thank you. Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you.

The gentleman from Massachusetts, Mr. Auchincloss, who is also the Vice Chair of the committee, is now recognized for 5 minutes.

Mr. AUCHINCLOSS. Thank you, Madam Chairwoman, for this hearing, and also for your commitment to affordable housing.

Mrs. Eaddy, let me begin by applauding your testimony and thanking you for humanizing this issue. In your words, I hear echoes of the thousands of constituents in the Massachusetts Fourth District, southeastern Massachusetts and Greater Boston who are in panic mode on a daily basis. Our office is inundated with phone calls—from senior citizens, young families, and everyone in between—because we are in a crisis right now in Massachusetts. The cost of housing is our biggest problem. And safe and affordable and dignified housing is a human right.

Ms. Bailey and Mr. Mitchell, I want to ask you both a question, a deliberately-challenging question. We have two different threads in our housing policy debate in this country. One thread is housing as investment, and a means of building wealth, and transferring wealth across generations. The other is housing as affordability. We want housing to be cheaper. The challenge is a good investment goes up in price over time, and an affordable product goes down in price over time.

Can we have both of these conversations at the same time? Can we talk about housing as an investment, and can we talk about affordable housing and be talking about the same thing, or are they inherently intentioned?

Ms. BAILEY. Thank you for the question. We can walk and chew gum at the exact same time. We need to do both here. This is an opportunity to use housing as a fundamental right to really stimulate economic growth and grow the economy for everyone.

Targeted investments like the Neighborhood Homes Investment Act, with inclusion of fair housing protections and oversight, will help us to build those 100,000 affordable units in the communities that we have left behind.

Mr. AUCHINCLOSS. But let me challenge you on that. And, Mr. Mitchell, you can jump in here too. If we add a lot more supply to the market, which I think everybody on this panel agrees that we need to do, wouldn't you expect that the aggregate price of the product is going to go down, or at the very least not go up as much as it has previously and, hence, make it a worse investment for wealth-building and intergenerational wealth transfer?

Ms. BAILEY. If I may just say one thing, homeownership is important because it allows families to lock in their monthly housing expenses. That is something that we are not talking about.

Mr. AUCHINCLOSS. Okay.

Ms. BAILEY. It means that your landlord can't, in the next year, cause your rent to increase. So, that is one of the things that we have to factor in and pull people in for.

Mr. MITCHELL. I think more broadly, when we talk about these sorts of investments, what it allows for is for broader economic growth. So, if we look at the kind of investments that were made over the course of the pandemic and the ensuing recovery, we have seen as a result one of the strongest economic recoveries at post-recession in modern history.

Because of those investments, we are seeing jobs growing back, and wage growth for the first time for a lot of folks in many decades. And that enables us to then focus on increasing capacity and productive capacity moving into the future.

Mr. AUCHINCLOSS. I want to add another dimension here. Maybe, it is not so much clearly about return on investment (ROI), it is about the inclusivity of economic growth, and the stability, to your point, Ms. Bailey, as well. I appreciate those answers. Thank you.

Mr. Holtz-Eakin, let me close with you. I have here a quotation from one of my favorite publications, Strong Towns. And it says, "What we need to do is to improve affordability as something dramatically different. We need to allow the next increment of housing as a right, everywhere. We need to remove barriers to doing small-scale in-fills that we can get a thousand small projects from incremental neighborhood-based developers that proceed with very little fuss and with no organized, mobilized opposition. We need to invite a different kind of developer into the game."

That sounds like organic, bottoms-up community-driven development with the next increment, not these mega, mixed-use projects but ones that are more entrepreneurial and more incremental.

You had mentioned carrots and sticks that the Federal Government might be able to use to incent this kind of development. Say more about those in our final minute, and if you could, add a little bit about parking regulations too, which to me are the antithesis of housing affordability, because we subsidize places for cars while making places for humans more expensive?

Mr. HOLTZ-EAKIN. That is broadly another strategy on increasing supply. And it is a dramatically different strategy. And I don't see any reason why we should limit the strategies we contemplate. The question is, how do you get there? And there is no reason why any city or locality couldn't just do that.

Mr. AUCHINCLOSS. Yes, there is. Because people like talking about more housing in abstract, and don't like talking about more housing next to them. I was a city councilor for 5 years. I have seen it.

Mr. HOLTZ-EAKIN. I am going to agree with you. I am just saying that either the community is going to agree somehow that we are going to take this different strategy, our reservations notwithstanding, and then pursue it. Or when we have the conversation on this, the Federal Government is somehow going to provide a carrot or a stick and say, you have to do it.

Mr. AUCHINCLOSS. We are out of time here. I want to invite you but also everybody else on the panel who may be interested in responding in writing to what specific carrots and sticks the Federal Government might be able to use to incent the kind of development I described.

And I yield back, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

Without objection, I ask unanimous consent to introduce the following letters for the record: A coalition letter from 12 real estate industry organizations, including the National Association of Home Builders, and the National Association of REALTORS; a letter from the National Low-Income Housing Coalition; and a letter from the National Community Reinvestment Coalition, all in support of today's hearing and the need for robust, affordable housing investments.

I would like to thank our distinguished witnesses for their testimony here today. And let me just include in this closing that I am so thankful that all of you are here today, and for the time that you have spent with us helping this Congress to understand the need for housing.

And, Ms. Eaddy, I want to thank you for sharing with us what has been happening to you and your family. And even though we will not be in charge of this committee—I will be the ranking member, I do believe—we will not forget that you came here today. And we are going to have a budget. And we are going to be traveling, and I hope that we will get to see you, maybe in your hometown. I don't know. But I thank you so very much.

And I thank all of our expert witnesses who are here today. This has been very important. This is the last housing hearing that I will be holding. And, the Members on the opposite side of the aisle have indicated interest. One said, "I see you, I hear you." Well, we are going to see if that is really what was meant.

And so again, I can't tell you how much I appreciate everyone who was here 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.

With that, this hearing is adjourned.

[Whereupon, at 1:41 p.m., the hearing was adjourned.]

A P P E N D I X

December 1, 2022

NATIONAL FAIR HOUSING ALLIANCE

Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation

Testimony of Nikitra Bailey

Executive Vice President, National Fair Housing Alliance

Before the United States House of Representatives

Committee on Financial Services

December 1, 2022

I. Introduction

Good morning, Chairwoman Waters, Ranking Member McHenry, and other distinguished members of the Committee. Thank you for the opportunity to testify during today's hearing entitled, *Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation*. I am Nikitra Bailey, Executive Vice President of the National Fair Housing Alliance.[1] Today, housing is a leading driver of inflation. The Federal Reserve Board's anti-inflationary policies must be met with action from Congress and the Biden Administration on housing to help keep the economy stable. Equitable housing investments are necessary to ensure an inclusive recovery and stimulate economic growth that benefits everyone. We thank the Committee, under Chairwoman Waters' leadership, and Speaker Pelosi for their tireless work to form and pass the housing provisions of the Build Back Better Act.

My testimony today:

- Briefly discusses the role of housing discrimination and residential segregation in today's housing and wealth disparities.
- Outlines how housing continues as a core driver of inflation.
- Explains how housing inequality and lack of fair housing enforcement are contributing to today's housing crisis.
- Demonstrates voters support for fair and equitable housing solutions.
- Advances equity-based housing provisions from the House-passed Build Back Better Act.

II. Housing Discrimination and Residential Segregation Created Today's Housing and Wealth Disparities

The roots of discrimination in housing are deep, pernicious, and persistent.[2] Thousands of race-conscious housing, banking, and other policies created systems and structures that were highly inequitable. Unfair laws and policies also produced a dual market—a separate and unequal housing system that rewarded White households while simultaneously debilitating Black, Latino, Asian American/Pacific Islander ("AAPI"), and Native American households.

Even laws that appeared to be racially neutral were implemented with racialized policies. For example, in the 1930s, the New Deal's federal Home Owners' Loan Corporation ("HOLC") developed one of the most harmful policy decisions in the housing and financial services markets by creating a system that included race as a fundamental factor in determining the desirability and value of neighborhoods.[2] The HOLC also created maps that were color-coded to indicate the desirability of neighborhoods. Communities of color were coded as "hazardous" as signified by red shading on the map and were assigned a lower value--even when the residents could afford mortgage loans. Areas that contained even small numbers of Black residents were coded as "hazardous" and shaded red. This approach led to the modern-day term "redlining," which refers to restricting access to credit in communities of color.

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[1] The National Fair Housing Alliance ("NFHA") leads the fair housing movement. NFHA works to eliminate housing discrimination and ensure equitable housing opportunities for all people and communities through its education and outreach, member services, public policy, advocacy, housing and community development, tech equity, enforcement, and consulting and compliance programs. NFHA represents over 170 local fair housing enforcement agencies across the U.S.

[2] A more robust explanation of housing discrimination and residential segregation can be found at https://docs.house.gov/meetings/EF/EF00/20220301/114459/HHRG-117-EF00-Wstate-BaileyN-20220301.pdf.

The federal government developed other explicitly discriminatory policies that perpetuated the unfounded association between race and risk into the nation's housing and financial markets. For example, the Federal Housing Administration ("FHA") encouraged the use of racially restrictive covenants and required them in exchange for supporting the new housing developments built throughout the nation's suburban communities. Even after the Supreme Court declared in 1948 that racially restrictive covenants were not enforceable,[3] the FHA gave preferential treatment to developers that adopted them. From 1934 to 1962, the federal government backed over $120 billion in mortgages, but the FHA's race-based policies meant that less than 2 percent of loans went to Black, Latino, AAPI, and Native American individuals. Similarly, the U.S. Department of Veterans Affairs ("VA") also instituted the use of discrimination in the administration of the GI Bill loan programs enacted by Congress in 1944.[3] In the state of Mississippi alone, just two out of 3,229 VA-insured mortgages went to Black servicemembers seeking to finance a home, business, or farm in the first three years of the program.[4]

Even after passage of the Fair Housing Act in 1968 and Equal Credit Opportunity Act in 1974, policies of the federal government and private actors continued to perpetuate segregation and discrimination. Explicitly race-based policies were replaced by subtler "race-neutral" methods of excluding people of color. For example, in the 1960s and 1970s, the federal government began the urban renewal program and transportation projects in which cities often used eminent domain to condemn and raze housing, businesses, and churches and displace residents of Black communities.[4] In addition, exclusionary zoning policies have made it difficult for low- and even moderate-income households to live in many well-resourced communities.[5] Finally, technology can often be used to perpetuate discrimination instead of preventing it, for example, by using tenant screening or lending algorithms with built-in biases.

America's long history of discriminatory housing policies has created distinct advantages for White families, leading to massive homeownership, credit, and wealth gaps that persist today. The homeownership rate for Black Americans is still where it was when the Fair Housing Act was passed in 1968: White homeownership is 73.4%; Latino homeownership is 47.8%; and Black homeownership is 42.7%. This translates to a homeownership rate gap between Blacks and Whites of about 30 percentage points, which is the largest gap since 1890.[15] Similarly, White wealth has soared while Black wealth has remained stagnant. In 2019, before the onset of COVID-19, White median family wealth was valued at $188,200 while Black families' median net worth was only $24,100.[16]

[3] *See, e.g.,* Alex Horton, *Racial Discrimination by Veterans Affairs Spans Decades*, *Lawsuit Says,* Washington Post (Nov. 28, 2022), https://www.washingtonpost.com/national-security/2022/11/28/veterans-affairs-lawsuit-racial-discrimination/.
[4] *See* Troy McMullen, *More Cities Seek to Redress Widespread 20th-century Destruction of Black Neighborhoods,* Washington Post (Feb. 10, 2022), https://www.washingtonpost.com/business/2022/02/10/more-cities-seek-redress-widespread-20th-century-destruction-black-neighborhoods/.
[5] *See* Margery Austin Turner and Solomon Greene, *Causes and Consequences of Separate and Unequal Neighborhoods*, Urban Institute, https://www.urban.org/racial-equity-analytics-lab/structural-racism-explainer-collection/causes-and-consequences-separate-and-unequal-neighborhoods.

III. Housing is a Core Driver of Inflation

A. Housing is A Key Component of Inflation

Rising housing, gas, and food costs are the main drivers of inflation. But housing costs are the key driver. According to the S&P/CoreLogic Case-Shiller US National Home Price Index, home prices rose 10.4% in 2020 and another 18.8% in 2021.[6] Rental housing prices rose 17.6% in 2021, far out-pacing income increases. The Consumer Price Index ("CPI") rose 7.9% in the last year, the highest increase since 1982. Housing costs accounted for more than 40% of the increase in core inflation rate.

Recent trends continue to illustrate housing's outsized role in driving inflation. Housing continues to be the single largest expense for the average consumer with shelter accounting for 33% of the CPI.[7] In October 2022, the cost of shelter rose by .08 reflecting the largest increase since 1990.[8] During the same period, the CPI rose by 7.7% from a year ago with the shelter category increasing 6.9% in the last year.[9] While rental inflation is lessening, as of October 31, 2022, Americans paid an average $2,040 market rent.[10] Experts predict that consumers will not feel an easing in the housing market anytime soon, and it could take as long as 2023 for housing changes to be felt by consumers because of the lagging effect of leases.[11] Further, the President of the New York Federal Reserve predicts that it will take the Federal Reserve at least until 2024 to curb overall inflation.[12]

B. The Federal Reserve Lacks the Tools to Address Housing's Inflationary Impact

Low housing inventory, record competition from corporate investors, restrictive zoning ordinances, supply chain disruptions, rising lumber costs, and labor shortages are all driving prices higher. The Federal Reserve does not have the tools to address these challenges. The Board is grappling with carefully weighing its deflationary efforts to avoid sending the economy into a recession.

Despite the Board's caution, its actions did not prevent the housing market from entering into a recession, which started in June 2022.[13] According to the National Association of Realtors, as of September 2022, pending home sales were down 10.2% month-over-month with the decline the most acute in the Northeast.[14] Mortgage rates returned to well over 7%, which is more than double the rates at the start of the pandemic, and which has dampened home sales. The Federal Housing Finance Agency

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[6] S&P Dow Jones Indices, *S&P CoreLogic Case-Shiller Index Reports 18.8% Annual Home Price Gain for Calendar 2021* (Feb. 22, 2022) https://www.spglobal.com/spdji/en/documents/indexnews/announcements/20220222-1450062/1450062_cshomeprice-release-0222.pdf.

[7] Greg Iacurci, *Here's Why It May Take A While for Housing Inflation to Cool Off*, CNBC (Nov. 14 2022), https://www.cnbc.com/2022/11/14/heres-why-it-may-take-a-while-for-housing-inflation-to-cool-off.html.

[8] Ibid.

[9] Ibid.

[10] Ibid. There is no city in our nation where someone making the current minimum wage can afford to live in a two-bedroom apartment.

[11] Ibid.

[12] Nick Timiraos, *Fed's Williams Says Inflation Fight Could Last Into 2024*, The Wall Street Journal (Nov. 28, 2022), https://www.wsj.com/articles/fed-officials-discuss-outlook-for-inflation-interest-rates-11669654763.

[13] Logan Mohtashami, *Can We Still Avoid a Recession?*, Housing Wire (Nov. 28, 2022), https://www.housingwire.com/articles/can-we-still-avoid-a-recession/.

[14] National Association of Realtors, *Pending Home Sales Snapshot* (Sept. 2022), https://www.nar.realtor/infographics/pending-home-sales-snapshot.

("FHFA") House Price Index for Q3 2022 shows home prices rose by 12.4% from Q3 2021.[15] In September 2022, the S&P/CoreLogic Case-Shiller Index posted only a 10.6% year-over-year increase, which is down from a 13% gain just one month earlier in August 2022.[16] This is the sixth straight month of declines in annual home appreciation.[17] CoreLogic estimates annual growth will slow by 8%.[18] Moreover, there is a shortfall of 3.8 million housing units as of the 4th quarter of 2020.[19] Further, according to the National Low Income Housing Coalition, there is "a shortage of 7 million rental homes affordable and available to extremely low-income renters, whose household incomes are at or below the poverty guideline or 30% of their area median income."[20]

C. Congress and the Biden Administration Are Equipped to Mitigate Housing's Outsized Role in Inflation

Congress and the Biden Administration have the tools to help drive down housing's significant role in inflation and must act to prevent the economy from tumbling into a recession. A recession will further devastate the frontline workers who were essential to keeping the economy afloat during the pandemic, often risking their very lives to do so. Frontline workers, their families, and communities continue to experience an uneven recovery. Accordingly, more must be done to ensure a more equitable recovery from COVID-19.

IV. Housing Inequality and A Lack of Fair Housing Enforcement Are Exacerbating the Housing Crisis

A. NFHA's Trends Report Shows Housing Discrimination is on the Rise

Every year there are more than 4 million incidents of housing discrimination, with most going unreported. The National Fair Housing Alliance's ("NFHA") newly released Fair Housing Trends Report shows a record number of fair housing complaints reported, which is the highest since the data has been tracked and an 8.7% increase over the previous year.[21] Cases in the United States rose substantially in 2021, even though fewer agencies reported complaint data.[22] This is a sign that the agencies investigating housing discrimination cases need more resources to address these critical problems. NFHA began collecting data about fair housing complaints that consumers file with private fair housing groups, the Department of Housing and Urban Development (HUD), the Department of Justice (DOJ), and state and local government agencies 25 years ago. Although seven fewer agencies reported housing

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[15] FHFA, *House Price Index (HPI) Quarterly Report 2022Q3 & September 2022* (Nov. 29, 2022), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/HPI_2022Q3.pdf.
[16] Selma Hepp, *US CoreLogic S&P Case-Shiller Index Growth Rate Approaches Single Digits, Up by 10.6% in September*, CoreLogic (Nov. 29, 2022), https://www.corelogic.com/intelligence/reports/us-corelogic-sp-case-shiller-index-growth-rate-approaches-single-digits-up-by-10-6-in-september/.
[17] Ibid.
[18] Ibid.
[19] Sam Khater, *One of the Most Important Challenges Our Industry Will Face: The Significant Shortage of Starter Homes*, Freddie Mac (April 15, 2021), https://www.freddiemac.com/perspectives/sam-khater/20210415-single-family-shortage.
[20] Andrew Aurand, Dan Emmanuel, Matthew Clark, et.al., *The Gap: A Shortage Of Affordable Homes*, The National Low Income Housing Coalition (April 2022), https://nlihc.org/gap.
[21] *2022 Fair Housing Trends Report*, National Fair Housing Alliance (Nov. 30, 2022), https://nationalfairhousing.org/resource/2022-fair-housing-trends-report/.
[22] Ibid.

discrimination data to NFHA in 2021 than the previous year, there were 2,504 more housing discrimination complaints filed by consumers.[23] The unprecedented number of 31,216 complaints represents an 8.7 percent increase as compared to 2020 when 28,712 fair housing complaints were filed.[24] The unprecedented number of housing discrimination complaints follows four years of unprecedented attacks on fair housing by the prior administration, despite fair housing always enjoying bipartisan support. There was also an increase in hate crimes against Black, Latino, Asian Americans, and other groups. Housing discrimination contributes to the racial homeownership and wealth gaps and can lead to homelessness, economic loss, physical harm and distress, trauma, deteriorated health, and other harms. In fact, housing discrimination and residential segregation are partly why so many people of color, including older Americans, lost their lives and suffered higher rates of COVID-19.[25]

B. COVID-19 Created a More Dangerous Housing Market and Exacerbated Racial Inequality

Because of the link between COVID-19 and residential segregation, today we face a new, more dangerous housing crisis. This one is not caused by unsafe mortgages and excess leverage in the capital markets. Rather, the COVID-19 pandemic is wreaking havoc on employment and quite literally killing hundreds of thousands of Americans, disproportionately those who are people of color. Yet, like the Great Recession, this crisis has a high potential to damage families and neighborhoods and diminish homeownership opportunities, both now and after the pandemic. Predictably, this crisis is impacting households and communities of color the hardest. This could lead to a widening of the racial wealth and homeownership gaps, further entrenching inequities that threaten our nation's prosperity.

Federal responses to the pandemic exacerbated racial wealth gaps and produced inequitable refinancing opportunities. Since the start of the COVID-19 pandemic, the Federal Reserve Board's $120 billion in monthly bond purchases, including $40 billion per month in agency mortgage-backed securities, has allowed current homeowners to see their home equity grow by more than $2.9 trillion since the second quarter of 2020.[26] Additionally, the Federal Reserve's actions to mitigate the economic impacts of COVID-19 resulted in lowering the federal funds rate, which helped mortgage interest rates remain at historic lows and stimulated home purchasing and refinancing. However, Federal Reserve researchers found that these benefits did not assist the whole housing market equally.[27] The analysis showed that the median Black and Latino mortgage borrowers accumulated significantly less equity. Moreover, only 6 percent of Black borrowers and 9 percent of Latino borrowers refinanced, as compared to 12 percent of White borrowers.

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[23] Ibid.

[24] Ibid.

[25] Julia Gordon, David Sanchez, Lindsay Augustine, Diane Cipollone, Debby Goldberg, and Lisa Rice, *Protecting Homeownership From the Impact of COVID-19*, NFHA and National Community Stabilization Trust (May 2021), https://nationalfairhousing.org/wp-content/uploads/2021/10/20210504_Protecting_Homeownership_from_the_Impact_of_COVID-19.pdf.

[26] See CoreLogic, *Homeowners Gained $2.9 Trillion in Equity in Q2 2021*, CoreLogic Reports (Sept. 23, 2021) https://www.corelogic.com/press-releases/homeowners-gained-2-9-trillion-in-equity-in-q2-2021-corelogicreports.

[27] Kristopher Gerardi, Lauren Lambie-Hanson, and Paul Willen, *Racial Differences in Mortgage Refinancing, Distress, and Housing Wealth Accumulation during COVID-19*, Federal Reserve Banks of Atlanta, Philadelphia, and Boston (June 2021), https://www.bostonfed.org/publications/current-policy-perspectives/2021/racial-differencesin-mortgage-refinancing-distress-and-housing-wealth-accumulation-during-covid-19.aspx.

The COVID-19 infused housing boom led to a widening of racial wealth gaps. White homeowners were able to net a savings of $3.8 billion dollars from loan refinances compared to just $198 million for Black homeowners since 2020, which was less than 4% of overall savings.[28] As a result of this disparity, Federal Reserve data showed the Black/White wealth gap widened by $20 trillion by the end of September 2021.[29]

The Federal Reserve's policies have staved off a foreclosure-fueled recession but exacerbated wealth disparities for Black households and other communities of color. The same Federal Reserve study found the typical refinance reduced a borrowers' monthly payment by $279, resulting in $5.3 billion in savings each year for households that refinanced.[30] When the authors of the report controlled for lower credit scores and higher Loan-to-Value ("LTV") ratios, they found that before the pandemic Black and White borrowers were equally likely to refinance, but after the pandemic Black homeowners were 40% less likely than White homeowners to refinance at the new historically low rates.[31] The report also noted that because Black homeowners on average have less home equity than White borrowers, they are at higher risk of foreclosure when forbearance plans expire and foreclosure proceedings begin.[32]

C. The GSEs Continue to Fail Their Mission Mandates

Further, discrimination in the mortgage market is by no means a relic of the past and continues to manifest in multiple ways. Data from the Home Mortgage Disclosure Act and the Government-Sponsored Enterprises ("GSEs") themselves continue to demonstrate low levels of conventional mortgage loans to Black and Latino families. For example, in 2020, only 4 percent of Fannie Mae and 3.4 percent of Freddie Mac home purchase loans were from Black borrowers. Moreover, only 2.6 percent and 2.5 percent of Fannie Mae and Freddie Mac's purchases of refinance loans, respectively, were from Black borrowers.[33] Similarly, only 10.9 percent of Fannie Mae and 8.4 percent of Freddie Mac home purchase loans, and only 8 percent and 7 percent of refinance loans, respectively were from Latino borrowers.[34]

NFHA is pleased the FHFA released the GSEs' Equitable Housing Finance Plans[35], which can help return the GSEs to former periods when their purchases were much stronger. A key priority for the GSEs, including the Federal Home Loan Banks, must be to help build toward more racial equity in homeownership. The GSEs should focus explicitly on addressing racial homeownership gaps; marginal improvements are insufficient given the GSEs' obligation to affirmatively further fair housing and support affordable housing efforts. Fannie Mae's and Freddie Mac's charters expressly mandate they provide support for mortgage loans and access to credit for low- and moderate-income households as well as consumers living in central cities, rural, and underserved areas even if they reap a lower rate of

[28] Shawn Donnan, Ann Choi, Hannah Levitt, and Christopher Cannon, *Wells Fargo Rejected Half Its Black Applicants in Mortgage Refinancing Boom*, Bloomberg, (March 11, 2022), https://www.bloomberg.com/graphics/2022-wellsfargo-black-home-loan-refinancing/.
[29] Ibid.
[30] Ibid.
[31] Ibid.
[32] Ibid.
[33] FHFA, *Annual Housing Report 2021 at 68*, Appendix E (October 2021), https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/Annual-Housing-Report-2021.pdf.
[34] Ibid.
[35] FHFA, *FHFA Announces Equitable Housing Finance Plans for Fannie Mae and Freddie Mac* (June 8, 2022), https://nationalfairhousing.org/resource/2022-fair-housing-trends-report/.

return on their investments.[36] The GSEs' Equitable Housing Finance Plans must address barriers such as Loan Level Pricing Adjustments ("LLPAs"), credit scoring, lack of collateral and appraisal issues, and discrimination which can all restrict access to credit for underserved groups.[37] The GSEs should also be required to insert fair housing protections into the eligibility guidelines of all their affordable housing programs including the Low-Income Housing Tax Credit, State Housing Finance Agency, and other programs. This would include an affirmative obligation to build housing in accordance with the accessibility requirements mandated by fair housing laws as well as an affirmative obligation to further fair housing. Both Fannie Mae's and Freddie Mac's plans state intentions related to the use of Special Purpose Credit Programs.[38] These are positive developments that must be supported with more robust action.

D. Investors Outbid Owner Occupants Locking Out First Time Homebuyers

In today's COVID-19 mortgage market, investors are pricing out first-time homebuyers, especially in Black neighborhoods. In 2021, 1 in 7 homes sold in 40 major metropolitan areas[39] were bought by investors, driving up purchase prices by record highs of up to 32% in some cities.[40] These investor purchases put homeownership further out of reach for new households and prevented families from generating wealth that could be invested in education, small businesses, or passed on to the next generation. Most of the homes were in Black neighborhoods ravaged by the previous foreclosure crisis in southern and post-industrial Midwest cities.

Not only do investor purchases of single-family homes extract wealth-building opportunity in communities of color, but they also perpetuate our nation's history of relegating people of color to subpar housing conditions in rental units across the nation. By March 2021, nearly 40% of rental units throughout the nation were owned by anonymous shell entities.[41] The experiences of renters in rental properties in the Twin Cities, Minnesota – which has the nation's largest racial homeownership gap[42] --

[36] *See, e.g.,* the Federal National Mortgage Association Charter Act, Title III of National Housing Act, 12 U.S.C. 1716 et seq. https://www.fhfa.gov/SupervisionRegulation/FannieMaeandFreddieMac/Documents/Fannie_Mae_charter_Act_N508.pdf

[37] A fuller discussion of NFHA's priorities for the GSEs' Equitable Housing Finance Plans can be found here: https://nationalfairhousing.org/wp-content/uploads/2021/10/FHFA-Equitable-Housing-Finance-Plans_NFHA-etal_FINAL2_2021-10-25.pdf.

[38] For more information on the importance of Special Purpose Credit Programs, *see* NFHA, *Using Special Purpose Credit Programs to Expand Equality*, https://nationalfairhousing.org/using-special-purpose-credit-programs-to-expand-equality/.

[39] Kevin Schaul and Jonathan O'Connell*, Investors Bought a Record Share of Homes in 2021, See Where*, Washington Post, (Feb. 16, 2022), https://www.washingtonpost.com/business/interactive/2022/housing-marketinvestors/?itid=hp-top-table-main.

[40] Chris Arnold, Ari Shapiro*, U.S. Home Prices Went through the Roof in 2021*, All Things Considered, National Public Radio WAMU 88.5, (Dec. 28, 2021), available at https://www.npr.org/2021/12/28/1068587824/u-s-homeprices-went-through-the-roof-in-2021.

[41] D. Victoria Baranetsky, *You Should Have the Right to Know Your Landlord's Name*, Star Tribune, (March 2, 2021), available at https://www.startribune.com/you-should-have-the-right-to-know-your-landlordsname/600029330/?refresh=true.

[42] Jung Hyun Choi, et al., *Explaining the Black-White Homeownership Gap: A Closer Look at Disparities across Local Markets*, Urban Institute, (Oct. 2019), https://www.urban.org/sites/default/files/publication/101160/explaining_the_blackwhite_homeownership_gap_2.pdf.

offer a glimpse into the failures of investors as landlords. The Urban Institute conducted an analysis of the increases in investor-owned single-family rental properties in the Twin Cities and noted that many renters living in investor-owned properties have reported subpar housing conditions, unexpected fees, and unresponsive management staff.[43]

E. Equitable Solutions Are Needed to Root Out Housing Discrimination

Research has shown that homeownership overall is likely to drop in the next two decades. This drop will be more pronounced for Black Americans unless actions are taken to ensure that they have equitable access. In other words, future housing demand will be driven by people of color. A robust housing market, both for new homebuyers seeking to purchase homes and for existing homeowners seeking to refinance or sell their homes, cannot exist in the absence of access to homeownership and mortgage credit on fair and equal terms for all creditworthy borrowers.

The safety and soundness of the future mortgage market depends on there being consumers who can access safe and responsible loans. Acting now to increase homeownership among underserved communities is a cost-effective solution to strengthen the middle class and grow the economy.[44] Increasing homeownership opportunities helps strengthen family wealth, spurs economic growth, improves health and educational opportunities for children, and promotes racial justice.

While we have passed civil rights statutes designed to stop discrimination, we have not designed laws to dismantle the systems of inequality that are still producing biased impacts. Laws like the Fair Housing Act of 1968 or the Equal Credit Opportunity Act of 1974 prohibit housing and financial services providers from considering race, national origin, or gender when making a housing-related decision, and can be effective, when enforced. But we have done little to nothing to remedy or rectify the discriminatory structures that were created from centuries of discriminatory laws. For example, although the Fair Housing Act does contain a provision for dismantling systemic inequality — the Affirmatively Furthering Fair Housing mandate — it has never been enforced.

V. Americans Across the Political Spectrum Demand Help with Skyrocketing Housing Costs

Polling conducted in 2021 and 2022 shows that voters expect Congress to take bold action to address the nation's fair and affordable housing crisis. Polling conducted by the National Low Income Housing Coalition and Opportunity Starts at Home campaign in 2021 found that the public supports major investments to provide safe and affordable housing, even if it would grow the national debt. Moreover, 59% of respondents believed that investing in federal housing programs warranted consideration of

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[43] Urban Institute, *How We Used Open Data to Identify Investor-Owned Single-Family Rental Properties*, (July 1, 2021), https://urban-institute.medium.com/how-we-used-open-data-to-identify-investor-owned-single-family-rental-properties-lessons-learned-6b452a950ad3.

[44] Nick Noel, Duwain Pinder, Shelley Stewart, and Jason Wright, *The Economic Impact of Closing the Racial Wealth Gap*, McKinsey & Company (Aug. 13, 2020), https://www.mckinsey.com/industries/public-and-social-sector/ourinsights/the-economic-impact-of-closing-the-racial-wealth-gap; Dana M. Peterson and Catherin L. Mann, *Closing The Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.*, Citi Global Perspectives & Solutions (Sept. 20, 2020), https://www.citivelocity.com/citigps/closing-the-racial-inequality-gaps/; Jeff Cox, *Morgan Stanley Says Housing Discrimination Has Taken a Huge Toll on The Economy*, CNBC (Nov. 13, 2020), https://www.cnbc.com/2020/11/13/morgan-stanley-says-housing-discrimination-has-taken-a-huge-toll-on-the-economy.html.

raising taxes on corporations and the wealthy or cutting spending in other areas to pay for it.[45] Also, in October 2022, a Bipartisan Policy Center/Morning Consult poll on housing issues revealed that 88% of Democrats and 77% of Republicans agreed it is important that the federal government address high housing costs that are contributing to inflation.[46] The same poll showed that most respondents across the political spectrum support bipartisan legislative initiatives that grow the supply of homes, improve housing affordability, and provide rental and downpayment assistance.

Indeed, voters were heard loud and clear during the 2022 midterm elections that elected officials must do more to make housing more affordable. Voters approved capping rent increases in Portland, Maine; and Richmond, Santa Monica, and Pasadena, California.[47] These measures, combined with dozens of ballot proposals to fund and authorize affordable housing construction across the country make clear that the public demands action.

VI. Making Key, Impactful Housing Investments Will Help Drive Down Housing Costs and Grow the Economy

A. The Build Back Better Act's Housing Provisions Are Needed to Create Equitable Housing Opportunities

Despite voters' demand for political leaders to advance equitable housing opportunities, passage of the Inflation Reduction Act[48] without fair and affordable housing provisions was a missed opportunity to tackle inflation and ensure all communities participate in the recovery from the health pandemic. Congress and the Biden Administration must act now to advance on key policies. While there is so much more work we must do, demand-side solutions must be prioritized along with supply-side subsidies to help advance equity. Critically, fair housing must be embedded in all aspects of future legislation to ensure that underserved communities are not further marginalized.

The House-passed Build Back Better Act offers a perfect compromise of civil rights and affordable housing advocates and industry. The legislation provides critical resources for housing that can aid more families in achieving their housing goals while also stimulating the economy. It includes critical equity-based provisions that served as an antidote to discriminatory practices, housing unaffordability, displacement, and existing racial homeownership and wealth gaps that continue to persist today. Among those investments are:

<u>$800 Million for Local Fair Housing Enforcement</u>: including $700 million for the Fair Housing Initiatives Program ("FHIP") to ensure that grassroots private fair housing enforcement organizations can better address ongoing and increasing housing and lending discrimination in the housing market; and $100

[45] National Low Income Housing Coalition, *Fact Sheet: Public Opinion Polling on Housing Affordability and Policy in June/July 2021* (2021), https://www.opportunityhome.org/wp-content/uploads/2021/09/Tarrance-NLIHC-Poll-Fact-Sheet.pdf.
[46] Andrea Lau, *BPC/Morning Consult Poll on Recent Housing Issues- 2022*, Bipartisan Policy Center, Morning Consult (Oct. 3, 2022) https://bipartisanpolicy.org/blog/bpc-morning-consult-poll-housing-issues/.
[47] Janie Har, *Rent Stabilization Measures Win in US Midterm Election*, AP News (Nov. 16, 2022) https://apnews.com/article/2022-midterm-elections-inflation-florida-california-ef325d98687bbc08f2900b230a155852.
[48] Inflation Reduction Act, Public Law 117-169, August 16, 2022.

million for the Fair Housing Assistance Program ("FHAP") to ensure local and state civil and human rights government agencies can better assist HUD in handling filed complaints of housing and lending discrimination.

<u>$10 Billion for Targeted First-Generation Downpayment Assistance (DPA):</u> $10 billion for first generation downpayment assistance to homebuyers modeled after a proposal[49] from NFHA and the Center for Responsible Lending, which aims to take initial steps to close the racial homeownership and wealth gaps, and Chairwoman Waters' Downpayment Toward Equity Act (H.R. 4495). This provision would enable over 96,000 Black, nearly 75,000 Latino, and 29,000 Asian American, Pacific Islander, or Native American consumers to become new homebuyers and build wealth. This is because the lack of access to home equity is the most significant driver of wealth inequality. For example, in 2019, Latino homeowners had an average net worth 40 times higher than Latino renters.[50] Many Black and Brown consumers have sufficient income to pay a monthly mortgage obligation, but exclusionary federal housing policies denied their families the intergenerational wealth to buy a home or gift a down payment to successive generations. Because of the lack of intergenerational wealth, Black and Latino families are far less likely to receive down payment assistance from their family,[51] delaying transitions into homeownership. In fact, more than one-third of Latinos indicated in 2020 that the biggest hurdle to buying a home was insufficient funds for a down payment.

<u>$5 billion for the Neighborhood Homes Investment Act</u>: This provision of the House version of the Build Back Better Act would create a tax credit to close the gap between development costs and sale prices for properties in need of rehabilitation in distressed neighborhoods and make affordable homes available to owner-occupants resulting in the building or renovating of 125,000 affordable homes.[52] By providing this important provision, the House bill aims to ensure that distressed homes sitting vacant in neighborhoods across the nation have a chance to be returned to owner-occupants who can plant roots and invest in their communities.

<u>$24 billion for Housing Choice Vouchers</u>: The House bill includes significant increases to voucher availability, bringing the program closer to serving the full eligible pool of households in need. This provision also includes important set-asides for people at heightened risk of or experiencing homelessness, including survivors of domestic violence, sexual assault, and human trafficking.

<u>$500 million for Section 811 Project-Based Rental Assistance for people with disabilities</u>: $500 million for the Section 811 program would help create 5,000 rental housing units with supportive services for people with disabilities. This critical investment would take an important step in filling the gap of affordable housing units accessible to people with disabilities.

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[49] NFHA and Center for Responsible Lending, *First Generation: Criteria for a Targeted Down Payment Assistance Program* (May 21, 2021) https://www.responsiblelending.org/research-publication/first-generation-criteria-targeted-down-payment-assistance-program.

[50] NAHREP, *2020: State of Hispanic Homeownership Report* (2020) https://nahrep.org/downloads/2020-state-of-hispanic-homeownership-report.pdf.

[51] Kerwin Kofi Charles and Erik Hurst, *The Transition to Home Ownership and the Black-White Wealth Gap*, The Review of Economics and Statistics (2002) https://direct.mit.edu/rest/article-abstract/84/2/281/57324/The-Transition-to-Home-Ownership-and-the-Black?redirectedFrom=fulltext.

[52] *See* Neighborhood Homes Investment Act: Investing in America's Neighborhoods, at https://neighborhoodhomesinvestmentact.org/.

$3 billion for a Community Restoration and Revitalization Fund: This would establish a competitive grant program at HUD to support the creation of affordable housing and community redevelopment for neighborhoods experiencing blight and abandonment.

VII. Conclusion

Race-conscious affordable housing policies created and cemented today's housing inequities and are now needed to rectify the problem. Housing discrimination and residential segregation are underlying factors in today's housing crisis and inflaming inflation. The inability to stop discrimination and overhaul unfair systems is stifling this nation. Creating a fair, just, and equitable society is critical for the millions of people who lack access to viable financial services and opportunities to lead successful lives. But it is also imperative for our collective progress as a nation. Groundbreaking research has revealed that if we eliminated racial inequality, the U.S. GDP would increase by $5 trillion over a 5-year period. Thanks to inclusive policies like the American Rescue Plan Act's Homeowner Assistance Fund and Emergency Rental Assistance Program,[53] millions of families remained housed during the global pandemic and homeownership rates for Black, Latino, and Asian Americans are on an upward trend. Equity-based policies like these helped to prevent the same level of catastrophic losses of the Great Recession, but we need Congress and the Biden Administration to join the Federal Reserve in taming inflation through critical equitable investments in housing opportunity. Since housing accounts for nearly 20% of the U.S. GDP, failing to act puts the economy and American's economic stability at risk.

[53] Pub. L. No. 117-2 (2021).

Testimony of Margaret Eaddy, Activist and Housing Seeker

My name is Margaret Eaddy. I am from Hampton, Virginia.

I am grateful to the office of Representative Maxine Waters for providing me an opportunity to speak to you today.

The topic of this hearing—fair and affordable housing—is personal for me. And that's because I and my husband John currently live in our car.

There are so many other things about me I'd rather be sharing with you today.

I am a visual artist who paints beautiful abstract paintings. I am a former librarian. I'm an advocate for other parents, like me, who have been impacted by gun violence.

But being homeless steals your identity. People like my husband and I need stable housing before we can accomplish our full potential.

So today, I wanted briefly to share our housing story with you. Our experience has also brought us into contact with other families who are facing similar challenges, and I hope to speak up for them as well.

When the pandemic hit in 2020, my husband saw his hours cut in his job hauling trash to the landfill. We fell about $150 short on our rent. Instead of working with us, the landlord evicted us.

My husband and I decided to move into our vehicle while we searched for other places. But we soon found that the barriers to finding a home were very steep. Whenever my husband and I would speak with rental offices, I would give them my name. They would type my name into some sort of data system, and then tell me: "We see an eviction on your public record, and we cannot help you."

My husband and I were able briefly to find a place to live after our story received news coverage. We received support from kind individuals on GoFundMe. But this year, after that attention faded, our landlord chose to do what many landlords have done recently. They failed to renew our lease after it expired, and they increased our apartment's rent beyond what we could pay. So for the last four months, my husband and I have been living in our car again.

In the parking lots where we sleep and in the homeless agencies we visit, I have met many other homeless families. It hurts so bad to see moms and dads out there with their kids. The dads look like their pride was sold away from them. And when they tell you their stories, they will tell you that their world was turned upside down because their rent went up by even just fifty or sixty more dollars, and that they couldn't afford that.

Even if an apartment were to be offered to us, the deposit and income requirements are so high. A landlord typically asks for three times the rent upfront—$3,000, for example, for a place that rents for $1,000. We don't have that. Landlords also can require you to show that you make three times the monthly rent just to qualify. We can't show that.

All of this makes people in our situation more vulnerable to any landlord who *will* accept you, even if they overcharge you and provide unsafe conditions.

When people have stable housing, it allows them to do so much more in life.

I know that it is hard for a member of Congress to imagine yourself living in your car. It was hard for my husband and I to imagine ourselves in this situation. But I am asking you, today, to imagine yourself in our situation.

You don't know how good it is to have a knob to turn every evening—to enter a space where you're safe, and not in danger—until that's taken away from you.

There are a lot of people out here that if they had safe, affordable housing—and if they could stay in it until the day they died—that would be something they really do desire. Anything you can do to help make that a reality would mean a lot to many people.

Thank you.

Douglas Holtz-Eakin
November 29, 2022

The Economic and Housing Markets Outlook

Testimony to the U.S. Houses of Representatives, Committee on Financial Services

Douglas Holtz-Eakin
President, American Action Forum*

December 1, 2022

*The views expressed here are my own and do not represent the position of the American Action Forum. I thank Thomas Wade for his assistance.

Chairwoman Waters, Ranking Member McHenry, and members of the Committee, thank you for the privilege of appearing today. In this short testimony, I want to make three key points:

- The dominant feature of the economic landscape is consumer price inflation. Housing has a central role in the emergence and control of that inflation.

- Owner-occupied and rental housing markets have displayed high and rising prices, despite a recent construction boom. This suggests that the primary underlying cause of stress is demand stimulus from federal subsidies, especially those from the housing government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac.

- Before looking to new initiatives, Congress would be better served by a more complete understanding of the current state of existing subsidies, both from existing Housing and Urban Development initiatives and COVID-19 grants, from which a significant amount of funding remains unspent.

Let me discuss each in turn.

Consumer Price Inflation and Housing

Inflation is at levels not seen in four decades. Despite some recent respites, year-over-year growth in the Consumer Price Index (CPI) was 7.7 percent in October. Stripping out the volatile food and energy categories yields "core" inflation at a 6.3 percent rate. More important to families is the reality that the essentials of food, energy, and shelter – which constitute roughly half of the CPI – are rising at a 9.5 percent rate over the past year.

For the purposes of this hearing, however, the striking fact is that shelter inflation – which by itself makes up one-third of the CPI – rose 6.9 percent between October 2021 and October 2022. Year-over-year shelter inflation was 1.5 percent in February 2021, has risen every month since, and shows no sign yet of reaching its peak.

Shelter inflation is the biggest inflation problem. Clearly, if one-third of the CPI is rising at a nearly 7 percent rate, it will not be possible for overall inflation to hit the target rate of 2 percent unless there is deflation in prices of all other categories of spending. As a matter of arithmetic, it will be necessary to cool shelter inflation.

This leads to three observations: (1) As noted above, the Federal Reserve (Fed) will have to take aim at housing inflation just as a matter of fighting inflation, (2) it will take aim at housing as a way of broadly slowing the economy, and (3) the stated plan by the Fed cannot avoid affecting housing disproportionately.

Regarding the second point, notice that as residential construction declines, so does the demand for all sorts of goods and services associated with houses and apartments –

durable goods such as furnaces, air conditioners, stoves, ovens, and the like; household items such as carpeting and rugs, curtains, furniture, and so forth; and services such as inspections, landscaping, and others. Housing has always been an important channel for the transmission of monetary policy and slowing the housing market reduces demand in a broad swath of the economy.

Finally, the Fed's plan cannot avoid affecting housing especially strongly. As the Fed raises the federal funds rate, all interest rates will rise. Credit cards and auto loans will go up, and so will mortgage interest rates. (Indeed, mortgage rates have already risen sharply.) But there is a second channel of impact. As part of its monetary stimulus, the Fed purchased $30 billion monthly in mortgage-backed securities (MBS), pumping $30 billion in capital into the mortgage market each month. As part of tightening financial conditions, this will no longer occur. That means to get the same total amount of funds into the mortgage market, rates will have to rise even further to attract the $30 billion in capital. But it doesn't end there. The Fed intends to draw down its holdings of MBS by $35 billion a month, essentially pulling $35 billion in capital out of the market. The upshot is that rates must rise even a bit more to completely offset the $65 billion (roughly 20 percent of mortgage funds at 2021 rates) net swing in mortgage funds.

To summarize: The Fed must slow housing demand to get housing inflation down and slow housing supply to get overall inflation down, and its plan will inevitably impact the housing sector harder than other parts of the economy. The unfortunate irony is that this is happening at a time when housing supply is at record lows.

The State of Housing Markets

House prices and rents rose rapidly in 2021. These price increases reflect some combination of the long-term, slow expansion in the supply of units and rapid expansion in the demand for units. Supply has been at the center of attention. The total inventory of homes available for sale fell 26 percent in January 2021 year-over-year. At its lowest point, the Federal Reserve Bank of St. Louis estimated that there remained only three and a half months of total housing inventory – in other words, there would be only three and a half months without construction until there would be no homes available in the United States. Nevertheless, in the main, U.S. price pressures seemingly reflect growth in demand. According to the Joint Center for Housing Studies: "Single-family starts hit 1.1 million in 2021, exceeding the million-unit mark for the first time in 13 years. Multifamily starts were also at a 30-year high of 470,000 units."

So, the main reason for high housing prices is demand. Unfortunately, there appears to be rising sentiment to create even more demand. As detailed in a recent *Politico* article: "The housing slump is the economy's biggest casualty so far from a series of Federal Reserve rate hikes designed to tame inflation....Groups representing builders, realtors and lenders are urging Congress and the White House to intervene to spur more home construction and boost affordability. It's an increasingly urgent plea, with mortgage demand down more than 40 percent from a year ago and rates topping 7 percent for the first time in two decades."

To make a dent in the supply of owner-occupied homes and apartments would require a *lot* of money – certainly north of $200 billion – and quickly. These advocates (correctly) point out that if one could snap one's fingers and create a substantial increase in the supply of houses and rental units, shelter inflation would come down. But such a program would be unwise.

As noted earlier, when the Fed raises rates, mortgage rates rise, the demand for mortgages and homes falls, and the construction of houses and apartments decreases. But importantly, the impacts do not stop there. When fewer units of all types are built, no furnaces are put in them, no refrigerators are installed, no carpeting is laid, no furniture is purchased, and generally demand is dented across the economy. That is one element of reducing inflation in the two-thirds of the CPI that is not shelter.

The housing advocates are essentially arguing to undo this or worse by boosting housing construction and stimulating demand across the economy. Even if shelter inflation went away magically, inflation elsewhere in the CPI must fall to 3 percent to hit the inflation target. The Fed will not be able to tolerate this large spillover demand stimulus. It will be forced to raise rates even higher to offset the housing program and reduce both shelter and non-shelter inflation.

The proposed strategy by housing advocates will accomplish nothing but slowing and making more painful the Fed's fight against inflation. Admittedly, none of this analysis is good news. But it is a reminder that once inflation is embedded in the economy, there are no good, easy choices. Either live with the inflation or accept the consequences of the steps needed to fight inflation.

Government Intervention in Housing Has Frequently Done More Harm Than Good

Housing finance was at the center of the 2008 financial crisis that visited substantial economic stress on Americans and spawned dramatic government intervention. Yet more than a decade later, the central actors in the crisis and response – Fannie Mae, Freddie Mac, and the Federal Housing Finance Administration (FHFA) – remain essentially unchanged.

Fannie Mae and Freddie Mac need to be wound down and closed as a matter of both policy and politics. From a policy perspective, the GSEs were central elements of the 2008 crisis. First, they were part of the securitization process that lowered mortgage credit quality standards. Second, as large financial institutions whose failures risked contagion, they were massive and multidimensional cases of the too-big-to-fail problem. Policymakers were unwilling to let them fail because financial institutions around the world bore significant counterparty risk to them through holdings of GSE debt, certain funding markets depended on the value of their debt, and ongoing mortgage market operation depended on their continued existence. They were by far the most expensive institutional failures to the taxpayer and are an ongoing cost.

Moreover, despite 14 years under the conservatorship of the FHFA, "each Enterprise remains undercapitalized." Nevertheless, the FHFA just moved to relax the capital requirements. Worse, the FHFA announced it would require Fannie and Freddie to put in place Equitable Housing Finance Plans that would deploy a number of "special purpose credit program" that would assist racial minorities and particularly African American borrowers with home buying costs such as title insurance, appraisals, and down payments. Typically, these costs are the responsibility of the homebuyer and in the case of down payments, some of the capital risk is taken by private mortgage insurance for borrowers who do not provide 20 percent down. This approach takes capital that is supposed to protect taxpayers to subsidize home purchases by borrowers who simply don't have the financial preparation to do so.

This strategy seems destined to repeat the errors of the past that yielded a wave of foreclosures that wiped out millions of homeowners, hurting many minority families that were beginning to accrue generational wealth. Congress should urge the FHFA to reconsider these housing subsidy plans. It risks setting up another generation of minority borrowers for failure.

These plans also suggest a return to GSE mission creep. Instead, the FHFA should finalize the rulemaking on Prior Approval of Enterprise Products, which was proposed in October 2020 and would ensure there is adequate oversight and transparency around new products and activities the GSEs bring to the market.

Efforts such as the Equitable Housing Finance Plans are simply demand subsidies by another name. They build upon the questionable track record of the housing trust fund, the HOME program, and Community Development Block Grants and will not serve to alleviate house price pressures. Instead, they will simply exacerbate the problem. Similarly, the Biden Administration's Housing Supply Action Plan contains as many demand subsidies as ideas to expand housing supply. These are steps in the wrong direction.

Multiple Avenues for Congressional Support Already Exist

The federal government already provides multiple avenues of support for the construction of affordable housing and assistance for low-income renters and homebuyers, including seniors. The most prominent of these is the Low-Income Housing Tax Credit (LIHTC). Unfortunately, a recent review by Desai, Dharmapala, and Singhal casts considerable doubt on the efficacy of this program. In addition, the federal government provides appropriated funding through more than 30 programs within the Department of Housing and Urban Development, tax credits and deductions for both corporations and individuals, housing programs for veterans through the Department of Veterans' Affairs, rural housing programs through the Department of Agriculture, and mortgage insurance programs through the Federal Housing Administration and government corporation Ginnie Mae.

The failures of this overly complex constellation of programs not performing as designed are clear. House price indices are at record highs, housing affordability indices are declining, and homeownership rates have barely changed since the 1970s. The housing market is under considerable stress, further impacted by the challenges of the recent pandemic. It is difficult, however, to point to stressed markets as a justification for further government intervention if the government itself is responsible for significant portions of that stress.

There is less evidence of market failure than there is of government failure.

Thank you and I look forward to your questions.

CONGRESSIONAL TESTIMONY

"Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation"

House Committee on Financial Services

Washington, D.C.
December 1, 2022
10:00am ET

Michael Mitchell
Director of Policy and Research
Groundwork Collaborative

I. Introduction

Chairwoman Waters, and Ranking Member McHenry, thank you for inviting me to testify today. My name is Michael Mitchell, and I am the Director of Policy and Research at the Groundwork Collaborative.

Groundwork is an economic policy think tank based in Washington, D.C. dedicated to advancing a coherent, economic worldview that produces broadly shared prosperity and abundance for all.

My testimony today will focus on three key points:

1) The Federal Reserve's actions to combat inflation are driving up rents as high interest rates increasingly price people out of the home-buying market and further crowd the rental market. They are also exacerbating the longstanding housing crisis by dampening sorely needed investment in new construction.

2) The Federal Reserve's aggressive interest rate hikes risk undermining a strong labor market, debilitating our housing market, and pushing our economy toward a recession. These actions are coming at great cost to workers and families across the country, particularly the most vulnerable.

3) Policymakers have the tools at their disposal to build a more resilient and equitable housing sector. In the short term, they can address rental inflation by pursuing rent stabilization policies, aiding families through fully funding rental assistance programs, and cracking down on landlords engaging in profiteering during these tumultuous times. In the long run, Congress should make strategic investments to increase the housing supply and work with municipalities to update zoning regulations.

II. The Federal Reserve's actions to combat inflation are driving up rents as high interest rates increasingly price people out of the mortgage market, further crowding the rental market. Additionally, higher interest rates are dampening sorely needed investment in new housing construction.

Our housing affordability crisis long predates today's inflation. Between 2011-2019, growth in median rent outpaced growth in median renters' income in nearly every state.[1] And in 2019, about 23 million low-income renters paid more than half of their income for housing.[2] All of these pressures on renters were made worse by a massive undersupply of new homes. Housing starts in the decade between 2010-2020 were at their lowest levels in six decades and experts suggest

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[1] Alicia Mazzara, "Rents Have Risen More Than Incomes in Nearly Every State Since 2001," *Center on Budget and Policy Priorities*, December 10 2019, https://www.cbpp.org/blog/rents-have-risen-more-than-incomes-in-nearly-every-state-since-2001

[2] Peggy Bailey, "Priced Out: The State of Housing in America," *Center on Budget and Policy Priorities,* July 21 2022, https://www.cbpp.org/research/housing/priced-out-the-state-of-housing-in-america#:~:text=Even%20before%20the%20pandemic%20and,of%20their%20income%20for%20rent .

we are more than 4 million units short of what we need to meet the demand from the growing number of households.[3]

The pandemic put renters, who were already struggling to get by in a precarious housing market, at even more risk. The economic fallout from the COVID-19 pandemic caused millions of households to fall behind on rent. By September 2020, 55% of adult renters reported a loss of income due to COVID-19, and researchers estimated that between 30-40 million people were at risk of being evicted and becoming homeless as a result. In response, lawmakers took bold actions to keep renters in their homes.[4][5] This included an eviction moratorium put in place by the CDC and nearly $50 billion in emergency rental assistance across various relief packages. These actions prevented evictions and helped families make ends meet during a difficult period.

But as these emergency measures have been wound down, and the cost of housing continues to rise—indeed, housing has been a key contributor to inflation— the pressure is mounting on individual and family budgets across the country.[6]

By design, the Federal Reserve's aggressive rate hikes are exacerbating this problem. The Federal Reserve has raised interest rates six times so far in 2022, including four interest rate hikes of 75 basis points. The Federal Reserve has not engaged in such aggressive rate hikes since 1994, but even then the Federal Reserve only increased interest rates by a total of 250 basis points – already this year they have increased interest rates by 375 basis points with another rate hike likely before the year's end.

As the Federal Reserve raises interest rates – other rates, such as mortgage rates, follow suit. The average rate for a 30-year fixed rate mortgage across the US is currently 6.58% – the highest it's been since 2007.[7] Such an increase in mortgage rates makes affording a home much more difficult. The median home sales price in the third quarter of 2022 was roughly $455,000.[8] If interest rates were still consistent with their average across the 2010s, roughly 4.09%, a potential homebuyer would pay approximately $1,976 a month in principal and interest. At the current 30-year mortgage rate, the monthly principal and interest payment would jump by nearly a third – more than $630 – to $2,610 a month.[9]

As the cost of buying a house becomes more expensive, potential homebuyers are forced to remain in the rental market where there are already too few rental units to meet demand –

[3] Ibid.
[4] Erik Gartland, "Relief Measures Reduced Hardship for Renters During Pandemic, but Many Still Struggle to Pay Rent in Every State," *Center on Budget and Policy Priorities,* June 17 2022, https://www.cbpp.org/research/housing/relief-measures-reduced-hardship-for-renters-during-pandemic-but-many-still#scene-0
[5] Emily Benfer *et al.*, "The Covid-19 Eviction Crisis: An Estimated 30-40 Million People In America are at Risk," August 7 2020, https://nlihc.org/sites/default/files/The_Eviction_Crisis_080720.pdf
[6] Patrick T. Harker, "Unpacking Shelter Inflation," *Federal Reserve Bank of Philadelphia*, September 27 2022, https://www.philadelphiafed.org/the-economy/macroeconomics/unpacking-shelter-inflation
[7] "30-Year Fixed Rate Mortgage Average in the United States," *FRED*, https://fred.stlouisfed.org/graph/?g=Ujgb
[8] "Median Sales Price of Houses Sold for the United States," *FRED*, https://fred.stlouisfed.org/graph/?g=VjOs
[9] Groundwork Collaborative calculations. Analysis assumes a ten percent down payment.

putting even more upward pressure on rent prices.[10] This also adds to the market power benefiting landlords, as they are able to continue hiking rents at alarming rates while virtually ensuring they will find a willing tenant.

The most recent Consumer Price Index (CPI) report in October revealed that rent prices went up 7.5% year over year, the highest increase in over 40 years.[11] Looking more broadly at shelter, which includes both rents and homeowner rent equivalent, this figure rose 0.8% in October, the largest monthly increase since August 1990. The rising cost of shelter is also a major driver of inflation, contributing over half of the monthly CPI increase in October.

Federal Reserve action also undermines private sector investment in housing construction as the rising cost of borrowing for capital-intensive projects – such as housing – makes such construction more costly and less profitable.[12] As the cost of borrowing increases, homebuilders are putting new construction on hold – and the housing market has slowed dramatically. Recent months have produced declines in permits for single-family homes as well as single-family starts.[13] And in September, the rate of construction sector layoffs increased to 2.3% up significantly from 12 months ago when the layoff rate was 1.5%.[14] This is coming on the heels of a 4 million unit deficit in housing that predates this inflationary period.[15]

III. Millions of Americans are facing housing insecurity – and even homelessness – but that pain isn't evenly distributed. Race, gender, and location are all playing a role in how people are experiencing the housing market.

The repercussions of an ever more precarious housing market will be borne by those who are economically vulnerable already.

The pain of rising rents is felt particularly by Black, and Latino households – who due to discrimination in the labor and housing markets are reporting higher levels of difficulty in meeting monthly rent payments as compared to white renters. Between November 2 and November 14, 22% of Black renters and 15% of Hispanic renters reported that their households were behind on rent payments, while only 7% of white renters were behind on their payments.[16] Women –

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[10] Angie Basiouny, "When Will Housing Prices Fall?" *Wharton Business Daily*, October 4 2022, https://knowledge.wharton.upenn.edu/article/when-will-housing-prices-fall/

[11] "Median Sales Price of Houses Sold for the United States" *FRED*, https://fred.stlouisfed.org/graph/?g=VjOs

[12] Skanda Amarnath, "The Supply-Side Damage Has Begun: The Dark Side Of Fed Tightening," *Employ America*, June 1, 2022, https://www.employamerica.org/blog/the-first-dose-of-supply-side-damage-is-here-the-dark-side-of-fed-and-financial-conditions-tightening/

[13] Robert Dietz, "An End to Large Rate Hikes from the Fed?" National Association of Homebuilders, November 2, 2022, https://eyeonhousing.org/2022/11/an-end-to-large-rate-hikes-from-the-fed/

[14] "Layoffs and discharges levels and rates by industry and region, seasonally adjusted" BLS, Job Opening and Labor Turnover, Table 5, https://www.bls.gov/news.release/jolts.t05.htm

[15] Sam Khater, Len Kiefer, & Venkataramana Yanamandra, "Housing Supply: A Growing Deficit," *FreddieMac*, May 7 2021, https://www.freddiemac.com/research/insight/20210507-housing-supply

[16] "Week 51 Household Pulse Survey: November 2 - November 14," *US Census,* https://www.census.gov/data/tables/2022/demo/hhp/hhp51.html

especially women of color – are also struggling with rising rents: nearly 8 million women reported being behind on rent or mortgage payments in 2021.[17]

And many of these same households are doubly hit by the Federal Reserve's actions. Because rate hikes by the Federal Reserve also affect borrowing rates broadly, it is more expensive for households to use credit to help with affording basics such as housing, food, and gas.

While families can cut back on some expenses, cutting back on housing is not an option. With a shortage of truly affordable housing, moving or downsizing are often not possible. The alternative is homelessness.

IV. The Federal Reserve's aggressive approach to interest rate hikes risks undermining a strong labor market, debilitating our housing market, and pushing our economy toward a recession. These actions are coming at great cost to workers and families across the country, particularly the most vulnerable.

Thanks to timely actions taken by the Biden administration and Congress in the last two years, we have experienced one of the strongest post-recession recoveries on record. The labor market recovered all the jobs lost in the pandemic recession, 22.2 million jobs, in a mere 28 months. By comparison, it took 75 months – more than 6 years – to climb out of the Great Recession.[18] Workers, especially those at the bottom of the income spectrum, have also experienced strong wage growth during this recovery. This tight labor market has allowed workers to "upgrade" from unsafe, poorly paid work to better-paying jobs with greater upside.[19]

However, the recovery is in jeopardy because of the Federal Reserve's aggressive interest rate hikes. Between 2021 and the first half of 2022 the labor market added more than half a million jobs a month, but job growth has slowed dramatically in the latter half of 2022 and wage increases have also tempered as of late.[20] Most recently, the US economy added 261,000 jobs in October, a high number during normal economic times, but far below the average, we've been seeing since the pandemic. As for wages, the Employment Cost Index showed that the rate of wage increases has stagnated in the past quarter after rising for two years.[21] The labor market is cooling because of the Federal Reserve's tight monetary policy, and the situation could get worse if the Federal Reserve continues to raise interest rates.

[17] Jaboa Lake, "The Pandemic Has Exacerbated Housing Instability for Renters of Color," *Center for American Progress*, October 30 2020, https://www.americanprogress.org/article/pandemic-exacerbated-housing-instability-renters-color/
[18] Groundwork Collaborative analysis of *FRED* data
[19] Richard McGahey, "A 'Great Upgrade,' Not A 'Great Resignation'— Workers Quit For New And Often Better Jobs," *Forbes,* January 20 2022, https://www.forbes.com/sites/richardmcgahey/2022/01/20/a-great-upgrade-not-a-great-resignation--workers-quit-for-new-and-often-better-jobs/?sh=5fb48e686eac
[20] "All Employees, Total Nonfarm," *FRED*, https://fred.stlouisfed.org/graph/?g=WqLr
[21] "Employment Cost Index: Total compensation: All Civilian" *FRED*, https://fred.stlouisfed.org/graph/?g=Vm9l

Experts, from Nobel Prize-winning economists to financial analysts paying close attention to markets, have started to sound the alarm about how the Federal Reserve's interest rate hikes could throw us into a devastating – and totally avoidable – recession.[22]

For example, Ellen Meade, a Special Adviser to the Federal Reserve Board of Governors until 2021, recently stated: "Every additional 75 [basis point increase] makes me feel like the plane is going to crash rather than land smoothly"... "There's a reason for going a little bit more slowly, and that's to watch and to react to the effects your policy is having. At this rapid clip, they aren't doing themselves any favours."[23]

A recession would be particularly damaging to marginalized workers – workers of color, women, and workers with disabilities – as discrimination in the labor market means these workers are last to benefit from a strong labor market and the first to suffer. Even during a "mild" recession such as the dotcom recession of the early 2000s, while White unemployment peaked at 5.5%, Black unemployment was more than double that at 11.5%.[24]

The impacts of aggressive rate hikes are even more alarming given the fact that, by the Federal Reserve's own admission, they can not address the underlying factors driving current inflation — namely supply chain constraints, elevated oil and grain prices driven by the war in Ukraine, and corporate profiteering. In front of this very committee, Federal Reserve Chairman Jerome Powell himself acknowledged, "our policies cannot affect supply-side conditions."[25]

This statement, however, is not true. Higher interest rates *can* harm supply-side conditions, by reducing private investment. At a time when we would want to increase productive capacity, not reduce it, to meet strong demand, Federal Reserve actions push in the exact opposite direction, undermining long-term capacity. This is especially true in sectors sensitive to interest rate hikes such as the housing sector where we need more supply long-term to meet growing demand.

Given the tremendous consequences for workers, families, and our economy of a recession, the Federal Reserve must pause further interest rate hikes before doing any further damage.

V. Despite the significant threats that the Federal Reserve's interest rate hikes pose to the economic security of millions of tenants, large landlords have found this period extremely profitable – and they have not been shy about sharing their glee on their earnings calls.

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[22] "Federal Reserve Members Threaten More "'Pain'" For Working Families As Top Economic Experts And Other Prominent Voices Warn Interest Rate Hikes Could Backfire," *Accountable. US,* November 10, 2022, https://accountable.us/research/federal-reserve-members-threaten-more-pain-for-working-families-as-top-economic-experts-and-other-prominent-voices-warn-interest-rate-hikes-could-backfire/

[23] Colby Smith, "The Fed's dilemma: how long to 'keep at it' on inflation," *Financial Times*, October 28 2022, https://www.ft.com/content/55a8b198-4f48-4eb4-b446-0e6166608e4a?accessToken=zwAAAYQvCWA3kc9VgLGYT0hOtNO0Rg5hZmCOSg.MEYCIQCZYYZdpy4ReWK3VC_5DqomcLeaKhxY7cw52diTVJ01rQIhAMFCWM7nLSODvwu31ExUA0Y5H8egonfLwWXGZx3B3yOx&sharetype=gift&token=78825823-83e8-4f00-8cdf-99a919d97bfc

[24] "Unemployment Rate" FRED, https://fred.stlouisfed.org/graph/?g=X002

[25] "Fed chair Powell on inflation: Our policies cannot affect supply-side conditions," *CNBC,* March 2 2022, https://www.msn.com/en-us/lifestyle/lifestyle-buzz/fed-chair-powell-on-inflation-our-policies-cannot-affect-supply-side-conditions/vp-AAUwhZ4?category=foryou

Corporate landlords, who own a large and rapidly growing share of all rental units, have been very explicit about the fact that the Fed's actions have given them cover to raise rent more than overall inflation in order to pad their own pockets and those of their shareholders. The 10 largest publicly traded apartment companies saw their profits soar by 57% to nearly $5 billion in 2021.[26] [27]

On earnings calls with shareholders, corporate landlords have been forthright with shareholders about their ability to raise rents with zero concerns for tenants.

- Starwood Capital's CEO, for example, boasted on an earnings call this February that "tenants are capable and willing to pay rent increases" and called inflation "an extraordinary gift that keeps on giving."[28] Last year, it boasted about record profits and saw its net income rise by one-third to $492 million.[29]

- The CEO of American Homes 4 Rent stated last year, "We're really excited and optimistic about the ability to push rents next year." And sure enough, in June 2022 they saw a 96% increase in their profits compared to the previous quarter.

- On their 2021 Q3 earnings call, corporate landlord giant Invitation Homes noted it had raised rents by 29% in Las Vegas, 30% in Phoenix, 21% in Tampa, 20% in Atlanta, and 19% in Jacksonville. At the end of last year, they reported a 33%, or $65 million increase, in profits compared to 2020.

VI. Policymakers have an opportunity to bring down rental inflation in the short term and build a more resilient and equitable housing market for the long term by making different policy choices.

The good news is there are a number of actions that Congress can take to address the growing cost of rent in the short term while also tackling key underlying factors to ensure adequate affordable housing over the long term.

In the short term Congress can:

- **Protect renters from burdensome rent increases in homes with federally backed mortgages.** For example, Congress should press the Federal Housing Finance Agency (FHFA) to exercise its ability to impose rent controls on borrowers of federally-backed

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[26] Lydia DePillis, "Inflation Has Hit Tenants Hard. What About Their Landlords?," *The New York Times,* September 27 2022, https://www.nytimes.com/2022/09/27/business/economy/landlords-rent-inflation.html
[27] "REPORT: Top Rental Companies' Net Income Jumps 57% After Raising Rent on Vulnerable Consumer," *Accountable.US*, April 28 2022, https://accountable.us/report-top-rental-companies-net-income-jumps-57-percent-after-raising-rent-on-vulnerable-consumers/#:~:text=Washington%20D.C.%20%E2%80%93%20Government%20watchdog%20Accountable,57%25%20to%20nearly%20%245%20billion
[28] "CBS News: 'Corporate landlords' profits have surged despite eviction ban fears'," *Accountable.US*, June 8 2022.
[29] Irina Ivanova, "Corporate landlords' profits have surged despite eviction ban fears," *CBS*, June 7 2022, https://www.cbsnews.com/news/rent-apartment-housing-price-landlords-profits-eviction/

mortgages, which would apply to approximately 43.8 million rental units – immediately slowing down rental inflation.[30]

- **Tackle corporate profiteering in the housing sector.** This committee can continue to urge regulatory agencies including the Department of Justice and the Federal Trade Commission to use their existing authority to crack down on extractive and exploitative business practices, including collusion in the rental market. Recent action by the Department of Justice to investigate real estate software company RealPage, and its possible facilitation of collusion by landlords is encouraging.[31]

- **Make investments in helping families afford housing:** As an important start, the House-passed Build Back Better legislation contains over $20 billion in funding for new housing vouchers. Currently, due to inadequate funding, just 1 in 4 eligible households receives rental assistance.[32]

And in the long-term:

- **Make public investments geared toward boosting the supply of affordable housing.** As an important start, the House-passed Build Back Better legislation contains more than $100 billion over a ten-year window to increase the housing supply. The legislation includes funds for the development of affordable housing via the national Housing Trust Fund and resources to renovate the nation's public housing stock. These investments would help alleviate supply constraints that have been at the center of increasing rents but much more investment will be necessary to adequately address the long-term housing crisis.

- **Work with municipalities to adopt new forms of zoning regulation that would enable an increase in the supply of affordable housing.** The federal government can act by requiring changes in land use policy as a condition of federal grants. Such policies can be coupled with robust protections for existing residents in those communities, such as rent control and collective ownership models, as well as targeting upzoning to higher-income, whiter neighborhoods, and suburban areas.

The Federal Reserve's actions to combat inflation are driving up rents and exacerbating a housing crisis that threatens the well-being of millions of families across the country. Congress will need to act to ensure that struggling families have access to quality and affordable housing. In the long-run, public investment in boosting housing supply will be critical to building a housing sector capable of meeting our country's housing needs.

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[30] Meir Rinde, "Biden Has Power to Impose Rent Control, Say Housing Advocates," Shelterforce, September 1, 2022, https://shelterforce.org/2022/09/01/biden-has-power-to-impose-rent-control-say-housing-advocates/

[31] Emma Roth, "The DOJ is reportedly investigating rent-setting software company RealPage," The Verge, November 26, 2022, https://www.theverge.com/2022/11/26/23479034/doj-investigating-rent-setting-software-company-realpage

[32] "House Build Back Better Legislation Advances Racial Equity" Center on Budget and Policy Priorities, September 27, 2021 https://www.cbpp.org/research/poverty-and-inequality/house-build-back-better-legislation-advances-racial-equity

Written Testimony of Mark Zandi

Chief Economist of Moody's Analytics

Before the House Financial Services Committee

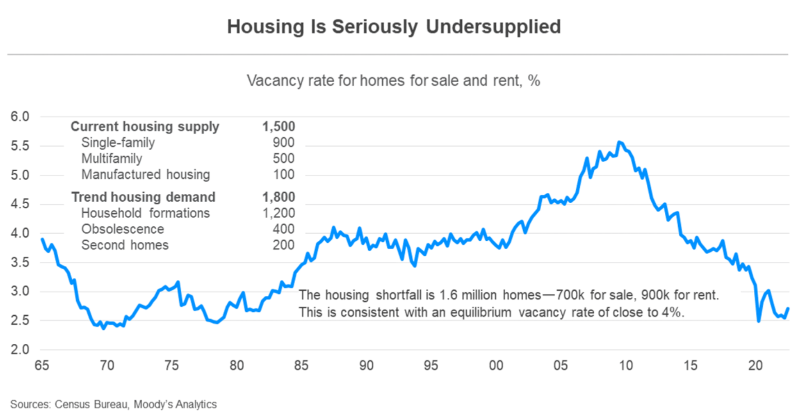
"Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation"

December 1, 2022

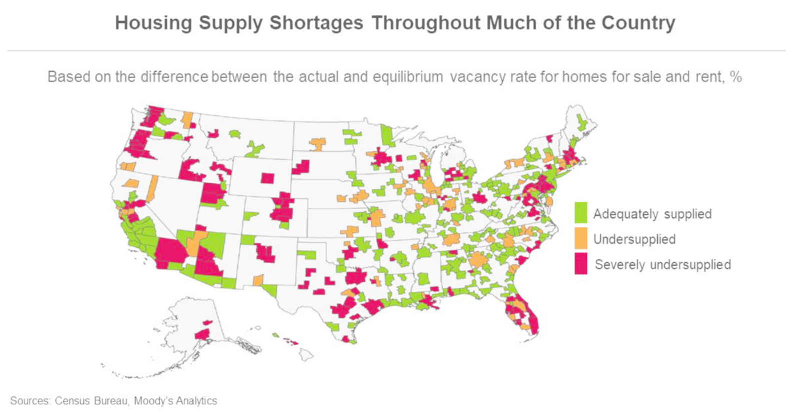
American households are struggling with the hit to their purchasing power from painfully high inflation. Prices are increasingly strongly for most goods and services—from gasoline and food to new vehicles and housing. Driving the high inflation are a number of factors including the economic fallout from the Russian invasion of Ukraine, ongoing disruptions to global supply chains and labor markets due to the COVID-19 pandemic, and a severe shortage of affordable housing. The housing shortfall has been in the making since the global financial crisis more than a decade ago and has been exacerbated by the pandemic. It is behind the extraordinarily high house prices and rents and is a key contributor to the rapid growth in the cost of housing services and overall inflation. Lawmakers should consider adopting policies to alleviate the housing shortfall and thus improve affordability to help rein in the high inflation.

The extent of the housing shortfall

The scale of the shortfall in housing is extraordinary. There is less vacant housing available for rent and sale than at any time in 40 years, and the shortfall is set to get worse since underlying demand for new homes – the sum of household formations, obsolescence of the housing stock, and second and vacation homes – is outpacing housing supply – the sum of single and multifamily completions and manufactured housing. The current shortfall in homes is estimated at near 1.6 million units, equal to more than one year of new construction at its current pace.



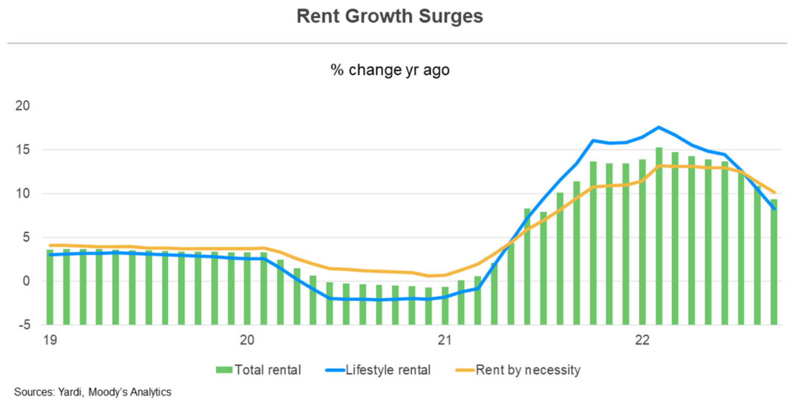
Housing is in short supply in most communities across the country, and it is especially acute in Texas, Florida, parts of the Northeast Corridor, big metropolitan areas in the Midwest, much of the Mountain West, and the big metro areas on the nation's West Coast. No significant part of the country can be characterized as oversupplied.



The shortfall has sent the cost of housing through the roof. Over the past decade, average annual growth in house prices has been close to 8% while the average for rents has been 5%, yet household incomes have seen yearly increases averaging only 4%. And these aggregate national numbers understate the severity of the problem. The lion's share of the undersupply is concentrated in the lower end of the market, particularly in areas that offer significant economic opportunity, driving up house prices and rents for low- and moderate-income families precisely where they want to live. Prices for homes sold in the bottom quartile of house prices are up nearly 10% per annum over the past decade, almost double that for homes in the top quartile.

The impact of the housing shortfall

This rise in the cost of housing has a wide range of negative economic consequences. Most clearly, it exacerbates the already-considerable economic divide between homeowners, who have seen their wealth rise, and renters, who are seeing their wealth erode while the possibility of homeownership drifts farther and farther away. Given the racial gap in homeownership—the homeownership rate for white households is close to 75% while it is less than 50% for Black and Hispanic households—this dynamic is in turn exacerbating the racial wealth gap.



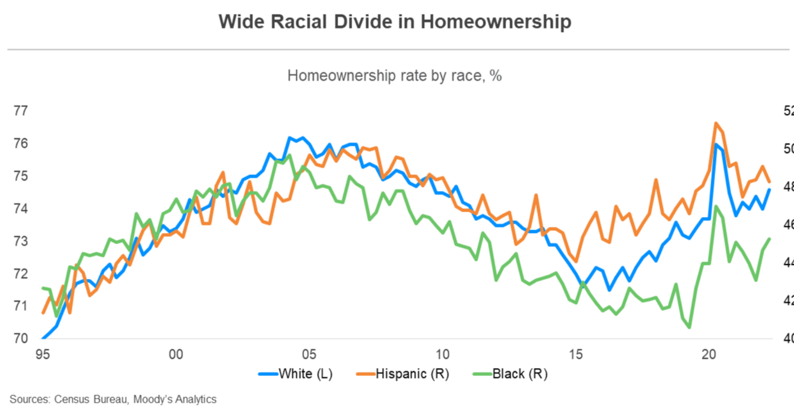
The high housing cost inflation is especially hard on renters. One in four renters pays more than half of their monthly income to the landlord, leaving barely enough to cover food, clothing and healthcare, much less save for emergencies or build wealth. The typical renter saves less than $500 a year, not enough to cover run-of-the-mill financial emergencies let alone save for a down payment on a home.

The housing shortfall is not just depressing savings and increasing the wealth gap. It is also forcing those at the bottom of the economic ladder to live farther away from those at the top and, more importantly, farther from economic opportunity. The most desirable cities are becoming affordable only to the wealthy, while many of those of more modest means are forced into longer commutes, creating more traffic, more environmental strain, and greater social division. The corollary of this is that unaffordable housing is making it harder for communities to expand economically, particularly in areas that offer significant economic opportunity. Companies are struggling to find a place where employees can afford to live. This makes it harder for firms to hire and retain workers, makes them less efficient to operate, and adds to their costs.

The severe lack of housing has also conflated with the impact of the pandemic on housing demand and supply to add significantly to the current high inflation. Housing costs alone account for one-third of the consumer price index, and the growth in housing costs added an estimated 1.2 percentage points to the year-over-year growth in the CPI through October. When the economy reopened with the introduction of COVID-19 vaccines in spring 2021 it caused already high rents to surge even higher. Demand for housing jumped as many who were living with housemates, their parents, or other family members out of financial necessity and for health reasons during the worst of the pandemic struck out on their own. The supply of housing has also been constrained by pandemic-related global supply-chain problems that limit the availability of necessary building materials and appliances and by labor shortages as the pandemic impeded foreign immigration, a critical source of workers in the construction trades. Since residential rental leases are generally for a year, it takes time for changes in rents on new leases to hit enough households and show up fully in inflation measures such as the consumer price index. But last year's big rent increases are now showing up and are adding significantly to the current high inflation.

It is encouraging that rent increases for new leases have moderated significantly in recent months, as housing demand has fallen off as the now high rents are unaffordable for many potential households and people are doubling up again. There is also more new housing supply due to the fading impact of the pandemic on supply chains and labor markets. The recent easing in the rental market should show up in slower housing cost inflation and thus overall inflation by this time next year.

But having said this, long after the impact of the pandemic on housing fades away, given the severe shortage of affordable housing, rent growth will remain persistently strong, putting consistent upward pressure on overall inflation.



What needs to be done

Issues with materials and labor, lending, and land have combined to undermine the economics of building housing at anywhere near the levels needed. These critical inputs into building a home have all been in short supply since the financial crisis, driving up their cost and reducing builders' margins and their incentive to put up more homes, particularly lower-priced housing with lower margins. To improve the situation, policymakers need to improve the economics of building, particularly at the lower end of the market.

If policymakers are serious about reining in inflation, then they have little choice but to take on the shortfall in housing supply. This means improving the economics of building enough to overcome the costs that have been holding builders back in recent years. This can be done in any number of ways, including tax breaks, grants, access to less expensive capital, and incentives to get local decision makers to ease zoning rules and restrictions on development. Grants tend to close the economic gap for local governments and philanthropies to build and renovate housing, and tax incentives tend to close the gap for private-market actors to do the same. The Build Back Better legislation passed in the House of Representatives last year included a mix of these two sources:

- $12 billion for Low-Income Housing Tax Credits (LIHTC), which provide credits to multifamily developers who commit a percentage of their units to affordable housing;
- $6 billion for the Neighborhood Homes Investment Act (NHIA), which provides tax credits to cover the cost of renovations where they exceed the resale value of a property, a problem that has kept capital out of hard-pressed urban and rural areas;
- $30 billion for HOME, the Housing Trust Fund (HTF), and the Housing Investment Fund, programs run through the Department of Housing and Urban Development that provide grants for philanthropies and local governments to build and renovate affordable housing for rent and to a lesser degree to own; and
- $10 billion for the Community Development Block Grant program (CDBG) and a new competitive grant program to reward inclusionary zoning; both programs would be run through HUD to provide communities with money to build out the infrastructure needed to create more supply.

There should be strong bipartisan support for a package along these lines. After all, the affordable housing shortage is a problem in every state and almost every congressional district. Whether lawmakers use this bill as its starting point or not, policymakers need to step up, and those worried about inflation should be first in line.

A Rare Alignment of Politics and Policy

In the next Congress, focusing on the tax-related policies will likely be more promising than grants. It is more promising economically because bringing private capital to bear to address the shortfall will be critical to addressing it at scale and over the long term, and tax incentives are typically better situated to do this than grants. And it is more promising politically because Republicans have historically been more sympathetic to expanding the incentives of private actors than increasing funding for local governments and nonprofits.

A particularly effective package of tax incentives to increase affordable housing supply could include LIHTC, the NHIA, and the New Market Tax Credit program (NMTC), the last of which would reinforce the impact of the two others with additional tax credits for equity investments in Community Development Financial Institutions (CDFI) to attract much-needed private capital to distressed communities. Each of these programs is described in more detail below.

To show the impact these tax credits could have, consider a package with funding levels that were included in BBB for LIHTC ($12 billion) and NHIA ($6 billion) and add a $7 billion increase in funding for NMTC, bringing the total 10-year static budget cost to $25 billion. This package would support the construction of an estimated 550,000 new homes over 10 years. If front-loaded over the first five years of the budget horizon, it would support more than 100,000 new homes per year through the mid-part of this decade. All told, this would reduce the existing shortfall in housing by nearly one-third over the period.

This package would have the potential for broad political support. Its impact on housing affordability should appeal to a wide range of progressives and moderates, its deflationary impact on inflation should appeal to moderates, and the tax relief should appeal to some conservatives. Each of the programs recommended already has a history of broad bipartisan support.

Increase in Housing Units Due to Proposed Housing Tax Policy

Provision	Outlays 2023-2032 $ bil	Additional housing units 2023-2032 Ths	Cost per unit 2023-2032 $ ths
Total	25	552	45.3
Low-Income Housing Tax Credit	12	369	19.5
Neighborhood Homes Tax Credit	6	75	52.9
New Market Tax Credit	7	108	55.2

Sources: Novogradac, HUD, Moody's Analytics

Conclusion

The shortage of affordable housing for rent and sale was acute prior to the pandemic, but it has been exacerbated by the pandemic. And due to the resulting increase in house prices and rents, the shortage is adding significantly to the high inflation plaguing American households.

The Federal Reserve is aggressively raising interest rates to quell inflation. While no doubt the right course for the moment, this effort is exacerbating the rise in the cost of housing. Coming on the heels of a run up in house prices, the surge in mortgage rates resulting from the Fed's actions has helped put homeownership out of reach for an enormous number of renters hoping to become first-time homebuyers. This has lifted demand for rental homes, thus boosting rents and inflation. Moreover, higher interest rates charged for residential housing construction lending only adds to supply headwinds, putting yet more upward pressure on rents and inflation.

Make no mistake, the housing shortage is a significant problem. It is driving up the cost of housing and homeownership and putting upward pressure on inflation that will be with us for long after the other pressures have receded. But there are solutions to this problem that make good economic and political sense.

Statement from Jeremie Greer

Co-Founder and Co-Executive Director
Liberation in a Generation

U.S. House Committee on Financial Services

Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation

Dec 1, 2022

We want to thank Chairwoman Waters, Ranking Member McHenry, and Members of the House Committee on Financial Services for holding this timely hearing. As a member of the Homes Guarantee campaign, Liberation in a Generation (LibGen) is proud to be part of a tenant-powered movement working to ensure that every tenant across the country has safe, accessible, fair, and permanently affordable housing. Our campaign brings together a stakeholder group of policy experts, tenant organizers, and other leaders of color from across the country.

Today, I write on behalf of our national movement to end the affordable housing crisis and create a *homes guarantee*. Our campaign affirms that fair and permanently affordable housing is at the foundation of our ability to build long-term financial security – and that it's possible to guarantee that everyone has a home. Yet, in the richest country in the world, there is no state, county, or city where a worker making minimum wage can afford a two-bedroom apartment. At the same time, only 1 in 4 eligible households can access housing assistance,[1] leaving millions on waiting lists – sometimes for years – while only 1 in 3 voucher households are protected by anti-discrimination laws.[2] Exacerbating these issues further, low-wealth households throughout the country currently face a shortage of 7.1 million affordable and available rental homes.[3] As a result of these and other issues, about 46 percent of renters are spending 30 percent or more of their income on rent.[4] Put simply, renters throughout the country are facing a crisis.

For Black, Indigenous, Latinx, and other marginalized communities, issues of affordability are far worse. According to data from Harvard's Joint Center for Housing Studies, in 2020 nearly 54 percent of Black renters were paying 30 percent or more of their income towards rent. Nearly a third of these households were spending over 50 percent of their income on housing. By comparison, about 42 percent of white households were spending 30 percent or more of their income on housing. Communities of color continue to face barriers to securing a safe and affordable home, due both to historical institutional bias and a lack of action to create affordable housing.

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[1] Will Fischer, Sonya Acosta and Erik Gartland, "More Housing Vouchers: Most Important Step to Help More People Afford Stable Homes," Center on Budget and Policy Priorities, May 2021.
[2] Alison Bell, Barbara Sard, and Becky Koepnick, "Prohibiting Discrimination Against Renters Using Housing Vouchers Improves Results," Center on Budget, May 2018.
[3] Andrew Aurand, Dan Emmanuel, Matthew Clarke, Ikra Rafi, Diane Yentel, "The Gap: A Shortage of Affordable Rental Homes," National Low Income Housing Coalition, April 2022.
[4] "The State of the Nation's Housing 2022," Joint Center for Housing Studies of Harvard University, June 2022.

By providing significant resources to create, preserve and upgrade over 1.3 million homes, H.R. 5376, the Build Back Better Act, represents the kind of bold, transformational investments needed to mitigate the affordable housing crisis so many renters face. Specifically, the committee's efforts to expand rental assistance to over 260,000 renters, to preserve over 140,000 affordable homes for the nation's lowest-income renters, and to revitalize nearly a half-million public housing units, among other investments, would have made significant strides in supporting our most marginalized tenants and the nation's affordable housing infrastructure.[5] However, as we continue to deal with rising inflation, far more needs to be done to deal with rapidly rising rents and unfair practices that are squeezing tenants, pushing affordable housing further away from reach for many, and leaving far too many more vulnerable to eviction and homelessness.

Rent Inflation and Its Impact

Rent inflation is one of the driving causes of overall inflation – and deserves a lot more attention. As it stands, housing costs make up about a third of the Consumer Price Index (CPI), and are the single highest monthly expense for American households. Increasing rents not only play a major role in driving inflation, but also deeply impact people's economic security.

According to an economic analysis produced by the Homes Guarantee and Groundwork Collaborative,[6] the latest CPI report from October showed that rents had risen by over seven percent from the same period last year – the highest single-month increase in 40 years.[7] Yet the CPI figures likely underestimate what families are actually spending on housing. By not accounting for rising rents in new homes, fully capturing differences in regional rent increases, or how rents have risen since the start of the pandemic, the CPI fails to capture the true costs renters are enduring day-to-day. For example, compared to the 7.2 percent year-over-year increase in rents noted in last month's report, some privately collected measures estimate that rents were up 7.5 percent in September. Overall, between January and November of this year, these same privately collected measures estimate that national median rents have increased by nearly five percent.[8]

Every rent increase is a threat to a tenant's ability to pay for medication, feed their children, and age with dignity. When families are forced to cut back on expenses, cutting back on housing is not an option – the only alternative is homelessness. This is particularly alarming considering that extremely-low, very-low, and low-income households make up over 90 percent of the nation's cost-burdened renters (30 percent or more of income spent on rent) and severely cost-burdened renters (50 percent or more of income spent on rent) who are spending a significant portion of their income on rent.[9] Beyond discrimination in the market and a lack of meaningful investments in our nation's fair and affordable housing infrastructure, the Federal

[5] "House Committee on Financial Services - Chairwoman Maxine WatersH.R. 5376, the "Build Back Better Act", House Financial Services Committee, 2021.
[6] "The Rent is (Still) Too Damn High." People's Action, October 2022.
[7] Ibid.
[8] "Apartment List National Rent Report," Apartment List, November 2022.
[9] Andrew Aurand, Dan Emmanuel, Matthew Clarke, Ikra Rafi, Diane Yentel, "The Gap: A Shortage of Affordable Rental Homes," National Low Income Housing Coalition, April 2022.

Reserve's aggressive interest rate hikes and increasing corporate involvement in the rental market have also contributed to rising rents. Higher rates from the Federal Reserve have crowded out investments in new housing and have pushed would-be homebuyers into an already tight rental market – both of which have created an opening for corporations and institutional investors to gouge tenants and extract outrageous profits at their expense.

Over the past several years, corporate landlords have seen record profits. Last year alone, Starwood Capital – whose CEO has noted[10] that "tenants seem capable and willing to pay these rent increases" and that inflation[11] was "an extraordinary gift that keeps on giving" – saw its net income increase by nearly a half-billion dollars. American Homes 4 Rent saw their profits increase by 96 percent between the first and second quarter of this year.[12] Overall, in 2021, ten of the largest publicly traded apartment companies in the country saw their profits soar by 57 percent, to nearly $5 billion.[13]

A range of policies, systems, and services contributes to corporate landlords' rent-gouging practices. A recent ProPublica investigation into Texas-based RealPage's YieldStar rent-setting software found that RealPage – the nation's most dominant provider of such software – was using its data and market power to help landlords raise rents to the highest level possible in ways that are potentially anticompetitive and unfair. According to ProPublica, the company claims that its YieldStar software can help landlords outperform the market by as much as seven percent. Such performance is partially possible because the software "pushes you to go places that you wouldn't have gone if you weren't using it," as one client claimed.

At a time when so many families are already paying a significant portion of their income on rent, when families are being priced out of their communities, when so many are just one financial emergency away from financial ruin, and when our affordable housing policies have not met the need that exists throughout the country, it is an outrage that landlords and corporations are allowed to gouge our tenants out of their limited resources.

In November, the Homes Guarantee campaign convened a group of 100 tenant leaders in DC with a simple message for Congress and the administration: *the rent is too (damn) high*. The delegation represented tenants from states like Pennsylvania, Nevada, Kentucky, Missouri, New York, South Carolina, Tennessee, Virginia, Arizona, California, New Hampshire, Texas, Maine, and Illinois. This action builds on efforts the campaign has made over the past year to engage over 100,000 tenants and over 50 tenant groups in conversation, along with a team of 75 impacted tenant leaders and national partners representing over 250 organizations, to push the federal government to address the current rent inflation crisis and to enshrine federal protections for tenants.

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[10] Irina Ivanova, "Corporate landlords' profits have surged despite eviction ban fears," CBS MoneyWatch, June 2022.
[11] Ibid.
[12] American Homes 4 Rent Cl A Income Statement, https://www.wsj.com/market-data/quotes/AMH/financials/annual/income-statement
[13] Irina Ivanova, "Corporate landlords' profits have surged despite eviction ban fears," CBS MoneyWatch, June 2022.

Policy Solutions and Recommendations

Solving the issue of rent inflation and creating more fair and permanently affordable housing is no small feat. It's going to take a whole of the government approach to reverse these dangerous trends which severely impact low-wealth and working-class families in America and constrain the growth and dynamism of our economy.

Liberation in a Generation and the Homes Guarantee campaign recommend that Congress do the following:

- **Push President Biden to Sign an Executive Order to Address the Housing Crisis and Rent Inflation**
    - The Biden-Harris Administration has an opportunity to seize on a critical political moment where advocates are calling for transformative change. After decades of failed and insufficient housing policy, swift action to regulate rents and enshrine federal protections for tenants must happen today. They can shift the imbalance of power between tenants and landlords and move us toward housing policy that puts people before profit.
    - A key component of any executive order signed by the president is that conditions must be added to government-backed mortgages and federal housing subsidies.
    - The order must direct agencies like the Federal Housing Finance Agency (FHFA) to regulate rents by limiting rent increases in federally-financed properties.
        - This regulation alone, applied to all Fannie Mae and Freddie Mac properties, would stabilize rents in over 12 million units nationwide.
- **Pass a National Tenants Bill of Rights**
    - We need a National Tenant Bill of Rights. For far too long, tenants across the country have had to endure rising housing costs, while their wages have been stagnant.
    - A sufficient National Tenants Bill of Rights must include universal rent control, *good cause* eviction protections, a ban on source-of-income discrimination, right of first refusal, and many other tenant-facing protections.
- **Take Legislative Steps to Create More Social Housing**
    - In order to eliminate market domination and make affordable housing a permanent institution in the US, we must establish a new form of affordable housing that, in partnership with local governments and non-profit organizations, is community-owned and -operated. Specifically, similar in style to models found throughout Europe,[14] legislative steps should be taken to both create 12 million

[14] "Social Housing in the UNECE Region: Models, Trends and Challenges," United Nations Economic Commission for Europe, 2015.

social housing units and the appropriate government infrastructure[15] that facilitates a competitive public option to enhance access, affordability, and quality of housing throughout the entire market.

Conclusion

It's imperative that Congress works with the Biden-Harris Administration to ease the burden tenants bear by paying excessively high rent prices – we are in crisis.

Chairwoman Waters, Ranking Member McHenry, and Members of the Committee, I appreciate your attention to the issue of rent inflation and fair and permanently affordable housing. LibGen and the Homes Guarantee campaign are asking that you use all the tools at your disposal in Congress, as well as working with the administration and with our campaign, to find a resolution to the housing crisis tenants across the country are experiencing. We look forward to continuing to work with this committee to close the year and in the 118th Congress.

[15] Gianpaolo Baiocchi, Marnie Brady, H. Jacob Carlson, Ned Crowley, Sara Duvisac, "The New York City Social Housing Development Authority: A People First Housing Engine for New York City ," NYU Urban Democracy Lab, May 2022.

Statement for the Record

National NeighborWorks Association

Submitted to the United States House Committee on Financial Services

December 1, 2022

"Boom and Bust: The Need for Bold Investments in Fair and Affordable Housing to Combat Inflation"

Introduction

The National NeighborWorks Association (NNA) is the trade association representing NeighborWorks affiliate organizations. NNA members have a presence in all 50 states, the District of Columbia, and Puerto Rico, and have provided a combined $16 billion of affordable housing and community development in FY 2021. Each NNA member is a 501(c)(3) organization specializing in affordable housing and economic development. Like many housing stakeholders, the Network's efforts to provide holistic and lasting community resources have been severely disrupted by inflation and the housing affordability crisis.

This statement will highlight the impact of the nation's decades-high inflation on families served by NeighborWorks organizations (NWOs) and the work of the organizations themselves, how the NNA Network combats economic and community hardship, and the NNA's recommendations for enhanced investment in affordable housing.

Impact of Inflation on Communities Served by NWOs

According to the Joint Center for Housing Studies of Harvard University, before the COVID-19 outbreak, cost burdens were highest for low-income renters and quickly rose among middle-income renters as well. These cost pressures have only increased: renters making $30,000 to $45,000 annually experienced a 9 percent increase in cost burden rates in 2020, and renters making $45,000 to $75,000 experienced a 5 percent increase in that same period.[1] These pressures are still prevalent, constricting the economic freedom of low- and middle-income households, as rent and utility costs have risen sharply since the summer of 2021. While the stresses of rising prices are felt across income spectrums, higher-income households can absorb increases more easily than lower-income families lacking a financial cushion. Homeowners and prospective homeowners have also experienced costly demands with U.S. home prices having risen 12.4 percent from the third quarter of 2021 to the third quarter of 2022.[2] Household budgets have been stretched thin due to elevated consumer prices, with some residents served by NWOs often choosing between utility payments

[1] Joint Center for Housing Studies of Harvard University, *Affordability Gaps Widened for the Renters in the First Year of the Pandemic*. (Jul. 20, 2022).

[2] Federal Housing Finance Agency, *U.S. House Price Index Report – 3Q 2022*. Nov. 29, 2022.

and buying groceries. Residents who struggle to pay inflated housing costs often see a detrimental impact on their quality of life[3] as health expenses are often deferred and managing chronic conditions becomes more challenging. NWOs skillfully aid families living in economic instability, yet additional resources are required to support affordable housing practitioners to alleviate exorbitant financial stress on low- and middle-income communities.

Impact of Inflation on the NNA's Network

Mortgages, construction costs, and lending fees have all increased as a result of higher inflation. This phenomenon, which has slowed homebuilding, constrains NNA members' ability to address the country's affordable housing supply shortage. Many NWOs specifically express concern about price increases on homes and materials, for example, affordable housing bids coming in at 20 to 25 percent higher than pre-pandemic averages, and difficulties in securing contractors to complete key projects.[4] Increases in acquiring and operating affordable rental units have impeded new development, shrinking the availability of affordable dwellings, and undercutting the value of federal, philanthropic, and private dollars supporting the nonprofit organizations that make up the NNA Network.

Federal housing and community development programs have not kept pace with the rate of inflation for over a decade. Now, the current level of government funding available to conduct affordable housing work is insufficient to absorb this economic strain. NWOs go to great lengths to keep families in their homes, with some operating at a significant loss.

How NWOs Combat Economic and Community Hardship Amid the Affordable Housing Crisis

NWOs work tirelessly to preserve and construct affordable housing and help families secure financial stability. As such, their work continues to expand and adapt to serve the unique needs of their communities. The NNA Network expertly leverages resources to alleviate pressures on vulnerable households and meet the immediate and long-term needs of their communities. With many NNA members operating as certified housing counselors, families can enter stable housing by receiving financial counseling and accessing other available services through the guidance of organizations within the NeighborWorks Network. Homeowners can access crucial building upgrades and enroll in services to lower the cost burden on utilities due to rehabilitation, retrofitting, and utility bill assistance provided by NWOs.

With nearly 100 NNA members serving as Community Development Finance Institutions (CDFIs), NWOs can provide financing and lending opportunities for a home during the construction stage, or to a prospective homebuyer seeking loan options or down payment assistance. As rents continue to rise and households find themselves in dire need of economic relief, NWOs have been able to support residents facing additional financial difficulties; NNA members have experience mediating between landlords and tenants, advocating for the tenants who may have fallen behind on payments, and developing a plan to restabilize and remain in good standing, thereby preventing resident displacement and/or homelessness.

Although NWOs are not immune to the cost constraints that are impacting households and businesses across the country, they have successfully supported their target communities. In

[3] CNN Health, *'Living in despair and hopelessness': A lack of affordable housing can put people's health at risk*. (Nov 30, 2022).

[4] Shelterforce, *A New 'Normal': Nonprofits and the Next Phase of COVID*. (Jun. 22, 2022).

addition to the aforementioned affordable housing and community development work, emergency services such as food distribution and service referral have become a common activity for NNA members, particularly since the height of the pandemic. COVID-19 has laid bare many of the systemic issues causing low- and middle-income families to struggle amid economic and public health tumult. Policymakers must recognize that many communities are still in crisis and heavily depend on community-based organizations like NWOs to make ends meet. NNA members have been able to innovate based on the lessons learned during the onset of COVID-19, such as providing free community Wi-Fi for low-income households as launched by One Neighborhood Builders in Providence, RI,[5] or constructing a community food hall as initiated by Neighborhood Housing Services of Baltimore.[6]

Despite these programmatic innovations and the agility of the NNA Network, inflation levels continue to disastrously constrict the impact of NWOs' operations, with working families bearing the brunt of these harmful increases. Market forces reacting to the highest costs in decades are in turn making affordable housing less attainable. Depleting federal affordable housing resources, while low-income families are economically strained by cost increases, only worsens the state of affordable housing. Instead, funneling resources to communities by way of the existing community entities, such as NWOs – while prioritizing the flexible use of funds to maximize the return on investment – will ensure these entities can target the area's greatest needs.

Federal Resources Used by NWOs to Support Low- and Middle-Income Families

Like all community-based organizations, NWOs have limited resources at their disposal to address the wide variety of needs in their service area. The more flexible the funding at the Network's disposal, the easier it will be for NNA members to provide gap financing, complete community-led projects, preserve housing affordability, counter the shrinking housing stock, and empower residents to live and thrive within their rental or owner-occupied units. Oftentimes, closing funding gaps requires flexible funding to complete a project; the more flexible resources offered, the deeper impact NWOs have in areas and service lines critical to the people and communities they serve.

Therefore, the Neighborhood Reinvestment Corporation (dba NeighborWorks America) core grants, under this Committee's authorizing jurisdiction, are a critical resource to assist NNA members in supporting community development and affordable housing efforts. Together, with every $1 in NeighborWorks federal appropriation leveraging an additional $102 in community investment, NWOs have created and maintained over 49,000 jobs, helped 22,000 individuals and families secure homeownership, repaired over 79,000 homes, and provided over 470,000 housing counseling services across the U.S. in FY 2021 alone.[7] Community needs are ever-changing, and the flexibility of NeighborWorks America funding allows for NWOs to administer innovative and locally tailored programs to meet those needs.

NWOs are posed to nimbly layer other federal subsidies within Financial Services' jurisdiction as well as other Congressional committees. Under the Department of Housing and Urban Development (HUD), NNA members expertly weave in various programs to support their affordable housing and community development work, including the HOME Investment Partnership Program, Community Development Block Grants (CDBG), the Indian Housing Block Grant, Section 8 Housing Choice

[5] One Neighborhood Builders, *What is ONE|NB Connects?*.

[6] NHA Baltimore, *NHS of Baltimore Receives $800K in Funding to Support Walbrook Mill Project*. (Oct. 28, 2021).

[7] NeighborWorks America, *Annual Infographics*.

Voucher program, Section 202 Housing for the Elderly, Continuum of Care, Emergency Solutions Grants, HUD's Office of Housing Counseling, the Self-help Homeownership Opportunity Program, among others.

Many NNA members have expertise in community lending. NWOs operating as CDFIs, Native CDFIs, and emerging CDFIs aptly leverage the CDFI Fund as well as the Capital Magnet Fund to assist with their community lending efforts, empowering households to reach financial stability. Over 100 NNA members serve households in rural areas, therefore programs administered by the U.S. Department of Agriculture (USDA) including Section 515 Rural Rental Housing Loans, Section 502 Guaranteed Rural Housing Loans, Section 523 Mutual Self-Help Housing, Sections 514/ 516 Off-Farm Labor Housing Grants, and other Rural Housing Service resources are crucial subsidies. To assist communities with pandemic response, NNA members collaborate with state and local entities to implement the Emergency Rental Assistance Program, the Housing Assistance Fund, and the State and Local Fiscal Recovery Fund as provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act[8] and the American Rescue Plan (ARP) Act.[9] NWOs also use tax credits to support affordable housing initiatives through the Low-Income Housing Tax Credit and the New Markets Tax Credit.

These federal programs and many other non-defense discretionary programs are well-utilized and contribute to NWOs building up communities. According to the Center on Budget and Policy Priorities, overall non-defense discretionary funding in 2022 was still 4 percent below 2010 levels, adjusted for inflation and population growth.[10] Adequate funding for affordable housing and community development programs in annual appropriations, as well as the innovative authorizations passed out of the House Financial Services Committee, will ensure NWOs and other mission-driven entities can maximize their impact during a turbulent economic period. Investments in these important programs will support vulnerable populations hit hardest by inflation, including low-income families, seniors, persons with disabilities, veterans, communities of color, Native American tribes, people experiencing homelessness, and rural households.

Policy and Program Recommendations

The NNA network can provide practitioner-level perspectives on funding and policy needs that support their work in combatting the housing affordability crisis, as NWOs can expertly implement these federal programs in their communities. Regulatory easements, particularly in HUD's HOME program and the Department of Treasury's Capital Magnet Fund, paired with investments in flexible affordable housing resources, will simultaneously address barriers to affordable housing supply and allow NWOs to increase that supply in a manner that benefits the communities they serve. The NNA has joined with other national partners in calling on the Executive Branch to reform these and other housing and community development programs to reduce administrative burdens on grantees and subgrantees of these funds. The NNA calls on this Committee to assess the regulatory challenges that currently exist for local entities and nonprofit organizations, such as NWOs, and ways federal partners can implement those changes to maximize the efficiency of government dollars.

[8] Pub. L. 116-136

[9] Pub. L. 117-2

[10] Center on Budget and Policy Priorities, Congress Should Provide Non-Defense Appropriations Sufficient to Address Full Range of National Needs and Priorities. (Jun. 10, 2022).

Additionally, opportunities remain to invest in community-based organizations such as NWOs. The NNA urges Congress to pass the FY 2023 appropriations omnibus with sufficient funding for affordable housing programs to effectively combat the housing affordability crisis. This investment is needed to mitigate the effects of housing instability on low- and middle-income families. Enacting a full-year Continuing Resolution in place of an Omnibus would have a catastrophic effect on the NNA Network's operations, and in turn, struggling communities nationwide. Flat-funding federal programs at FY 2022 levels would actually cut program operations and the number of people served amid ongoing record-high inflation.

As authorizers of this Committee and other jurisdictions, please continue dialogue with House and Senate appropriators to determine the scope and scale of a year-end funding package. The NNA respectfully requests this body consider the following authorizations to be included in a must-pass vehicle:

Reauthorize the Native American Housing and Self-Determination Act (NAHASDA)

Nearly 180 NWOs actively conduct affordable housing and community development for Native American communities and households. Improving housing resource accessibility will advance the quality of life in Indian Country, whose residents depend on historically underfunded resources. According to HUD, at least 68,000 housing units are needed in Indian Country to address the overcrowding conditions experienced by many American Indian and Alaska Native families in tribal areas, as well as to replace the number of physically inadequate housing units[11]. A recent poll reports that 69 percent of Native American households are experiencing serious financial problems due to price increases, 58 percent do not have sufficient emergency savings to cover at least one month of their expenses, and 21 percent of Native American renters have been evicted or threatened with eviction in the past year.[12]

The Senate Transportation, Housing and Urban Development, and Related Agencies (THUD) Subcommittee on Appropriations included reauthorizing provisions for NAHASDA in their FY 2023 bill.[13] If enacted, these provisions would assist Native veterans at risk of homelessness, support student housing, streamline environmental reviews for projects using NAHASDA program funding, improve the operations of Native housing programs, and create an Assistant Secretary for Indian Housing position at HUD to oversee the execution of these reforms. Bipartisan support from this Committee to include the NAHASDA reauthorization text in an end-of-year appropriations package will empower Tribes and their community partners through the construction of affordable units paired with crucial wraparound services.

Neighborhood Homes Investment Act

The NNA Network would significantly benefit from additional homeownership subsidies, allowing NWOs to support minority, first-time homebuyers, and other low- and middle-income families navigating an unhealthy housing market. When median home prices rise, NWOs must provide greater subsidies to homebuyers through additional financing to preserve affordability. Additional

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[11] U.S. Department of Housing and Urban Development Office of Policy Development and Research, Housing Needs of American Indians and Alaska Native Tribal Areas: A Report From the Assessment of American Indian, Alaska Native, and Native Hawaiian Housing Needs. (Jan. 2017).

[12] NPR, Robert Wood Johnson Foundation, and Harvard T.H. Chan School of Public Health, Personal Experiences of U.S. Racial/ Ethnic Minorities in Today's Difficult Times. (Aug. 2022).

[13] United States Senate Committee on Appropriations, *Chairman Leahy Releases Fiscal Year 2023 Senate Appropriations Bills*. (Jul. 28, 2022).

homeowner unit subsidies could augment the NNA Network's homeownership support capabilities, building off the 22,000 new homeowners created by the NeighborWorks Network in FY 2021. NWOs are unique community anchors that increase homeownership opportunities, rectify the race-based homeownership gap, and meet the needs of the missing middle: middle-income households and neighborhoods that do not qualify for programs targeting individuals and families at or below 80 percent of the average median income. These populations face severe challenges with aging housing stock and an increasingly costly housing market. NNA members are working diligently to revitalize neighborhoods, develop owner-occupied units, and promote homeownership in these communities. A low supply of affordable homes combined with the challenges in accessing a manageable mortgage are two significant factors that prospective first-time homebuyers face. According to the National Association of Realtors[14], first-time homebuyers made up 26 percent of 2022 homebuyers, the lowest share of first-time buyers since this data series began in 1981. This is an 8 percent decrease from the 34 percent share of first-time homebuyers recorded in 2021. Many NWOs are experienced in constructing affordable for-sale homes and delivering down payment assistance programs. Additional federal subsidies encouraging these activities will expand the base of support available to first-time homebuyers.

In many communities throughout the country – both urban and rural – the absence of quality homes undermines both neighborhood stability and families' ability to build wealth through homeownership. Frequently, the major impediment to building new homes or rehabilitating abandoned or deteriorated properties in these communities is that the cost exceeds the homes' market value upon completion. The Neighborhood Homes Investment Act[15] would address this problem by providing a tax credit to cover a portion of the construction and rehabilitation costs of homes for owner-occupancy. According to estimates calculated by the Neighborhood Homes Coalition,[16] the passage of this legislation would support the development and rehabilitation of homes for 500,000 homebuyers over 10 years, many likely to be first-time homebuyers. This legislation is also estimated to generate $100 billion in new investment, create nearly 800,000 jobs and pay $43 billion in wages, raise nearby property values, and generate $29 billion in tax revenue. The NNA supports the inclusion of the bipartisan, bicameral Neighborhood Homes Investment Act in a year-end legislative package to bring more Americans closer to achieving the American Dream of homeownership.

Native American Rural Homeownership Improvement Act

Native American families are not immune to the rising homeownership prices or the lack of affordable units. USDA Rural Development offers the 502 Single-Family Direct program to borrowers in rural communities. Despite this program's availability on tribal land, only six of the 6,194 direct loans given nationally by Rural Development in FY 2019 were to borrowers on tribal land.

To address this disparity, the NNA supports the passage of the Native American Rural Homeownership Improvement Act,[17] a bill that authorizes the USDA Secretary to use $50 million of existing 502 single-family direct home loan appropriations for a national re-lending program so that Native CDFIs across the country can increase access to affordable home loans in rural Native

[14] National Association of Realtors, *2022 Profile of Home Buyers and Sellers*. (2022).

[15] *H.R. 2143*, *S. 98*

[16] Neighborhood Homes Coalition, *Neighborhood Homes Investment Act*.

[17] *H.R. 6331*, *S. 2092*

communities. This legislation would help the existing USDA 502 single-family direct home loan program work more efficiently in Indian Country. To align the program with other existing USDA programs, it authorizes an operating grant and technical assistance for Native CDFIs who re-lend under this program. Native CDFIs, some of which are also NWOs, uniquely understand local needs on Tribal and trust land. The Native American Rural Homeownership Improvement Act would streamline efforts in Indian Country by entrusting Native CDFIs to deliver the lending needs required for more Native Americans to access homeownership. The NNA requests that this Committee pass this legislation and push for its inclusion in end-of-year legislation.

Manufactured Housing (PRICE Program)

The NNA supports expanding federal opportunities to include affordable preservation and structural rehabilitation of manufactured housing units and manufactured housing communities. Nearly 40 NNA members conduct manufactured housing as a helpful alternative for site-built homes, decreasing the development costs slightly. NNA member Neighborhood Partnership Housing Services, Inc. (NPHS) has used this approach to continue the production of affordable housing in serving low- and middle-income families of color which makes up the majority of NPHS' service area. Their manufactured housing service, Homes by NPHS,[18] supplies and sells quality and affordable factory-built homes to non-profit developers and consumers, with affordability preservation as the key priority. Here, NPHS supports affordable housing production and neighborhood revitalization in Cucamonga, CA, by replacing dilapidated and vacant housing and building new affordable homes at quicker rates and lower development costs.

Congress can further support residents and efforts by manufactured housing providers like NPHS by including the Preservation and Reinvestment Initiative for Community Enhancement (PRICE) program, as included in the House-passed FY 2023 THUD Subcommittee bill,[19] in the final FY 2023 omnibus appropriations legislation. The PRICE program includes $500 million to support the resiliency and preservation of manufactured homes and manufactured housing communities, ensuring residents across the country receive the necessary repairs and infrastructure upgrades required to fortify safety and quality of life while maintaining affordability.

Community Development Block Grant Disaster Recovery Reauthorization

Affordable, resilient development of rental and owner-occupied units is vital for communities across the country, and this need has been accelerated due to the uptick in natural disasters. NWOs continue to address the pervasive threats of natural disasters to further support the construction of disaster-resistant housing. NNA member Gulf Coast Housing Partnership, Inc. uses innovative building and rehabilitation techniques to ensure their affordable housing is resilient and resistant to hurricane damage, which is a requirement for their disaster-prone service areas in the state of Louisiana.[20] Numerous NWOs across the NNA Network often serve as the first line of defense, providing recovery services in the wake of a natural disaster, as such occurrences are particularly debilitating for low-income communities.

[18] Homes by NPHS, LLC. *About Homes by NPHS*.

[19] *H.R. 8294*

[20] Gulf Coast Housing Partnership, *GCHP Storm Resilient Property in Lockport Louisiana Withstands Catastrophic Hurricane Ida*.

Unfortunately, the Community Development Block Grant – Disaster Recovery (CDBG-DR) program is in dire need of reform. The FY 2023 Senate THUD bill includes the Reforming Disaster Recovery Act,[21] which would reform the CDBG-DR program and streamline the use of these funds. Grantees and subgrantees, including NNA members, remain frustrated with the lack of clarity and urgency when CDBG-DR funds are disbursed, with dollars taking between eight months to multiple years to reach households impacted by a disaster. The NNA supports the passage of the Reforming Disaster Recovery Act, as included in the FY 2023 Senate THUD bill, to improve this program's administration.

Conclusion

The NNA Network recognizes that the solution to the affordable housing crisis does not solely rely on either federal resources or private dollars. Addressing the country's affordable housing challenges requires an ability to leverage funding and establish public-private partnerships to generate affordable units and provide community resources for residents in every state, Congressional district, and territory of the United States. The housing crisis is most severe in the marginalized communities where much of the NNA Network serves: tribal reservations, border towns, colonias, remote rural areas, urban areas impacted by decades of redlining and racially-restrictive covenants, and communities with high populations of immigrants and/or refugees.

An increase in housing supply is required to ease these economic pressures driven by an affordable housing shortfall and abnormally high costs to construct, rehabilitate, and maintain affordable units. Federal programs operate best when they are maximized by grantees and intermediaries that can quickly issue funds in accordance with Congressional intent, supporting the nation's communities and allowing them to thrive. Leaving marginalized communities with meager resources as the housing market constricts mobility, and reducing grantees' ability to assist by siphoning off federal resources, will drastically exacerbate the problem. Lowering the harmful impacts of inflation on low- and middle-income households should be the focus of this Committee's work in coordination with federal partners. Policymakers must make investments to mitigate economic hardship and counter the housing cost disparities facing this population. The NNA Network stands ready to put such investments to lasting use, as flexible program funding accessed by mission-driven community entities delivers results and relief to communities left behind.

[21] H.R. 4707, S. 2471