

Where Have All the Houses Gone? Private Equity, Single Family Rentals, and America's
Neighborhoods
Subcommittee on Oversight & Investigations
House Financial Services Committee
June 28, 2022

Opening Statements

Chairman Green (D-TX) stated that today's hearing would examine troubling issues surrounding the mass predatory purchasing practices of private equity firms buying single family homes. He noted that these private equity (PE) firms put these homes on the rental market, and they offer purchase homes that would be purchased by first time buyers. Green said that they tend to outcompete individual buyers that need loans to buy homes, and this is further exacerbating issues for minorities in particular. He pointed to how these firms account for a higher number of evictions and these evictions continued through the pandemic despite federal protections against this. Green said that this happened more often to people of color. He noted that their investigation also looked into issue with repairs and how these firms often sell houses to other firms. Green said that this exacerbates the racial wealth gap, and these purchases must be addressed.

Ranking Member Emmer (R-MN) said that Americans are being punched in the face with inflation and the stark failure of Congress' spending policies starts to set in. Emmer said that PE only accounts for only 2% of the single-family home rental (SFR) market and he said that this hearing is an excuse to ignore the real problem at hand: inflation. He said that many Americans rent homes because they cannot afford to buy homes. Emmer noted that institutional homeowners invest about \$30,000 in homes before renting them out so this gives Americans better shelter. He noted that it gives access to yards, good neighborhoods, and safe schools and these firms should not be demonized for providing housing. Emmer said that most homes sold in 2021 went to an individual owner. He then went on to address the continuing inflation and how it is not transitory. Emmer closed by stating that this hearing is misdirected.

Chairwoman Waters (D-CA) said that Democrats did not cause inflation and that they do not want inflation. She said that Biden is working to address the problems that cause inflation and pointed to the issues in the supply chains. Waters said that institutional investors have bought up these homes and individuals would have bought these homes if they had not.

Vice Chair Williams (D-GA) discussed Forest Cove, a housing complex in Atlanta, and its substantial maintenance issues.

Witness Testimony

Jim Baker, *Executive Director, Private Equity Shareholder Project*, noted how rents have risen for single homes and many of the top firms operate and own almost 300,000 homes. Baker pointed to how these firms have aggressively competed with buyers and they expanded during the pandemic. He noted that Singapore's Sovereign Wealth Fund and other nation's investment vehicles have been investing in these firms that are buying homes. Baker said that these firms are expected to own a significant share of the market in the future. He noted that these firms evicted residents during the pandemic, despite CDC orders, and they did this more often in minority neighborhoods. Baker said that lawmakers should take steps to protect homebuyers from these predatory practices, including through more disclosure on evictions and rent increases, just cause eviction legislation, and more.

Shad Bogany, *Agent, Better Homes and Gardens*, briefly described his background and how the conversation around homeownership has changed due to institutional investors buying up houses. He pointed to how most buyers in Houston and Dallas are institutional investors which hurts people in those communities who want to buy homes. Bogany pointed to how this trend started when Congress lowered the tax benefits of homeownership. He said that institutional investors are creating modern day sharecropping. Bogany said that this reminded him of slavery, and he thought that we needed to learn from the past. He pointed to how credit scores must be higher for individuals to rent rather than buy. Bogany noted that this has led to modern day redlining and he advocated for tax incentives for sellers, changes to the 90 day flipping rule, use of Housing Choice Vouchers to move toward homeownership among other policy changes.

Sofia Lopez, *Deputy Campaign Director of Housing, Action Center on Race and the Economy*, told various stories about renters' experiences with institutional investors. Lopez said that it is clear that profit maximization has no place in our homes. She pointed to large rent increases and how fees are central to the PE model. Lopez noted inadequate maintenance of these homes and issues with pests, appliances, lead paint, and more. She discussed institutional investors' use of rent back securities and pointed to how homes are being bought up in specific areas. Lopez said that they are often buying homes in areas with a higher concentration of black residents. To address these issues, she thought there should be national rent protections on disclosure and evictions, a national federal registry regarding ownership, and national investment in affordable housing.

Elora Lee Raymond, *Assistant Professor, Georgia Institute of Technology*, said that we have learned a lot about the impact of institutional investors since the financial crisis. Raymond pointed to how they have bought up homes and their high eviction filing rates. She said that the eviction rate was due to the landlord and renting from investigational investors is the biggest predictor of evictions. Raymond noted that high eviction rates are devastating for tenants, neighborhoods, and schools. She noted that these institutional investors buying up homes leads to gentrification, and they crowd out homeownership at the neighborhood level. Raymond said that the decrease in homeownership is connected to the increase in institutional investors buying

up housing. She pointed to the ability of these investors to outbid buyers and charge high rents. Raymond noted that they particularly target neighborhoods of color, but entire communities are impacted. She said that the increased market power of these institutional investors is concerning because they may be able to set sale prices in neighborhoods. Raymond said that due to LLCs and other business set ups, it is impossible to understand the market share of these firms. She thought that policymakers should examine concentration and antitrust issues in this area.

Jenny Schuetz, *Senior Fellow, Brookings Institute*, noted that demand for housing has increased in the past decade, but there is not enough housing supply. Schuetz said that these institutional investors benefit from the tightness of housing supply. Schuetz said that the burden of housing costs is not shared across households and these costs have been rising for low- and moderate-income households. She pointed to the difference in homeownership among blacks and Hispanics versus whites and how minorities face disadvantages when competing with institutional investors. Schuetz noted concerns around maintenance and how it is difficult to tell from the data if this is just institutional investor landlords or a more widespread issue. She went on that Congress can work with state and local governments to increase the supply of housing, relieve financial stress on LMI households via things like the Child Tax Credit, provide more resources to state and local governments on housing quality, and collect better data to ensure housing quality.

Member Questions

Chairwoman Waters (D-CA) discussed how renters who rent single family homes from PE firms pay higher rents compared to renters not renting from PE firms. She pointed to the rapid rent increases and asked if Lopez has observed SFR companies taking advantage of renters by increasing rent and fees and how the securitization of rental income creates unique pressures to increase rent and fees each year. Lopez pointed to a couple examples in her testimony of some ways companies take advantage of their renters and named Invitation Homes specifically as well as American Homes for Rent. She added that fees and fines are a critical part of revenue for these companies. Lopez could not imagine her housing cost going up 30% from one year to the next or paying fees that amount to \$800-900 a month. Waters asked if this increase in rent is going to spur efforts by neighborhoods for rent control. Lopez wanted to consider every tool available to them and said that we need to find ways to cap rent and fees.

Ranking Member Emmer (R-MN) noted that inflation is at 8.6% and that we should be focused on coming up with solutions to fix inflation rather than address the 2% of institutional investors in the housing market. He continued that prospective homebuyers cannot pay a monthly mortgage right now and believed that institutional investors can provide affordable, comfortable housing. Emmer said that Democrats do not see how careless spending has made it difficult for Americans to save for a home and asked Schuetz how inflation impacts renters. Schuetz replied that the cost of housing has been outpacing the rise of wages for the past ten years and said that this is a long-term problem caused by the shortage of homes. Emmer asked if

SFR homes have addressed the increased demand for suburban and community living during the pandemic. Schuetz saw an increase in demand for all types of rental homes, including demand from high income and older renters, and said there is also demand for multifamily housing. She said that there is demand for more housing across the board. Emmer rejected the argument that institutional investors are preventing homeownership and pointed to how we are in need of over 6 million housing units. He asked if local regulatory barriers are partly to blame for the lack of housing stock. Schuetz replied yes and discussed how zoning rules, such as bans on apartments and lot size restrictions, and the discretionary process, where existing homeowners weigh in on new developments, slows down the building of new homes.

Rep. Cleaver (D-MO) thought this issue was critical and had not been discussed enough. He pointed to a land grab in Kansas City in a heavily minority area and asked if the federal government should pass legislation that prevents ‘vulture capitalists’ from purchasing land in historically poor areas. Lopez replied that federal housing policy is a patchwork of policies and supported a broad-reaching federal policy on this. She said that these companies engage in equity stripping, make the wealth gap worse, and transfer it to shareholders. Cleaver continued that the institutional purchase of homes in Kansas City, MO is at 16%.

Rep. Timmons (R-SC) discussed the blame game Democrats are playing to explain inflation and said that the American people know who is responsible for inflation. He noted that this hearing is just going after a new scapegoat and said that there are just over 5,100 homes owned by institutional investors in South Carolina which only accounts for .25% of housing. Timmons did not buy that this was increasing housing prices but agreed that we need policies that bring down the prices of homes and address inflation. He pointed to a statement on the website of Lopez’s organization and asked the witnesses if they agreed that all land and housing should be owned and operated by the government. Lopez agreed with the statement. Timmons pointed to a rent strike promoted by her organization and asked if she was involved. Lopez said yes, but their focus was on those who had lost their jobs, but they welcomed others in solidarity. Timmons thought most Americans would not agree with this and then asked Bogany about the impact on his business if the government took control of all private property and homes. Bogany said that would have a very negative impact.

Rep. Adams (D-NC) discussed the housing shortage in Charlotte and how SFR conglomerates have built portfolios of homes concentrated in the starter home market where mainly minorities live. She then asked Lopez how this trend of institutional investors buying up homes exacerbates the affordable housing crisis and hurts minorities and low-income individuals. Lopez replied that she was not surprised that institutional landlords focus purchases in minority and low-income areas and said these investors have algorithms to target certain areas. She continued that people feel stuck in their SFRs with institutional landlords and they do not have other options. Adams turned to Schuetz and asked how increasing the housing supply could blunt the current negative

impacts on renters. Schuetz thought that it is important to build more housing across the spectrum, to absorb both high- and low-income households, and said that the question is how to most effectively help households that need subsidies to obtain housing. She said that the Affordable Housing Trust Fund could be used to build more housing faster and added that institutional investors are also buying older multifamily rental buildings and renovating them for rent. Schuetz said that if public entities or nonprofits were to acquire those buildings and put them under long-term affordability, that would increase the affordable stock and do so very quickly.

Rep. Norman (R-SC) discussed increased gas prices and how this impacts hundreds of trades and thought it was no wonder people cannot afford homes. Norman asked Raymond to explain her statement on how institutional investors are using evictions to boost profits. Raymond replied that there are many studies that show how landlords can use the threat of eviction to pressure tenants to accept higher rents. Norman asked if Raymond realized how hard it is to evict someone. Raymond replied that it is easy to evict someone in Georgia. Norman rejected this and said that there are leases for a reason and evictions are costly for these investors. He turned to Lopez and asked about her objection to pet fees and other fees. Lopez said that these fees can be concerning when they are required of tenants. Norman countered that pet fees are necessary and said that tenants are aware of the fees prior to signing the lease. Norman asked Lopez about how she thought rent controls were a good thing. Lopez thought that rent controls are necessary when rents are being raised 30% in one year. Norman thought this would stop construction and investment in this space.

Rep. Tlaib (D-MI) asked if the housing crisis existed prior to the pandemic and inflation. Raymond replied that the housing crisis occurred long before the pandemic or inflation and that this hearing is about institutional investors, not inflation. Bogany added that we have a shortage and part of that is due to investors buying up the housing stock. He said that investors buying up housing is just making the rich richer and money is not going back into the economy. Tlaib asked if investing in neighborhoods through non-profit partners would be an effective alternative solution to institutional investors. Baker replied that an alternative that avoids this incentive to generate high returns would be helpful.

Rep. Garcia (D-TX) told Lopez that she has heard of all the examples Lopez has used and that none of those examples are new which is sad. She believed that what is at stake is greater and referred to Lopez's testimony that we need 'true' affordable housing and asked Lopez to elaborate on what that means. Lopez explained that there are so many people that live in what is deemed affordable housing but use more than 30% of their income for rent and thought that even the national standard of 30% is still a massive share of income if you are low income. She said that 'true' affordable housing would be 30% of one's income or less going to housing. Garcia asked about the impact of institutional investors on the housing market in Houston, Texas. She

said that she has heard of investors buying homes specifically for the purpose of putting them on Airbnb and these networks. Bogany replied that you see Airbnb in any tourist area and that when an affordable house is up for sale, the institutional investor always outbids the average American. He added that there is not a lack of buyers in Houston but said that these people are forced to rent because of institutional investors buying up homes.

Rep. Williams (D-GA) said that one of the greatest issues is how difficult it is for renters to hold their landlords accountable. She pointed to poor maintenance, hidden fees, and more. She asked what the value would be of the federal government providing more protection for these tenants. Raymond said that the playing field between landlords and tenants needs to be balanced and they need to think about how homeownership is being eroded. She pointed to the decline in homeownership in Atlanta and how this is not a place that is supply constrained, so it is not a housing construction issue. Raymond thought something needed to be done about these high eviction rates as well. Williams then asked how the high eviction rates from these institutional investors affects broader housing insecurity trends. Raymond said that they have an overall high eviction rate in Georgia. She pointed to Fulton County and how the eviction filing rate is about 20%. Williams discussed the importance of homeownership and asked what Congress should do to put individual homeowners on more equal footing with institutional investors and what impact successful policy here would have on closing the racial wealth gap. Bogany pointed to waiving the 90-day flip rule to incentivize selling to first time homebuyers and increasing the acceptance of housing vouchers.

Chairman Green (D-TX) remembered what it was like during the Great Recession and how people of color lost a generation of wealth. He said now instead of predatory lending, we have predatory purchasing. Green asked how this behavior is predatory. Bogany said that we have predatory lending in black and brown neighborhoods, so minorities are far behind due to this and other housing discrimination issues. He noted that housing discrimination laws are not being enforced and how we need to do a better job with mortgage credit certificate programs and down payment assistance programs. He said that we need to think of affordable housing beyond single family housing and can use multifamily housing as well. Green then asked Lopez to respond on whether this is predatory purchasing when these investors purchase in some areas but not in others. Lopez said absolutely and noted that the heads of these companies have noted the incredible opportunity in locking these people out of homeownership. She said that they are banking on revenue from these assets. Green turned to the wealth gap and asked if these predatory purchases would close the wealth gap. Schuetz said that homeownership is the single biggest contributor to the wealth gap, and it is important to remember that you build wealth in homeownership overtime. Green asked if these institutional investors buying up homes in certain areas is helping people of color. Schuetz said we cannot get enough individuals into homeownership if there are not enough homes to buy.

Boom and Bust:
Inequality, Homeownership, and the Long-Term Impacts of the Hot Housing Market
House Financial Services Committee
June 29, 2022

Opening Statements

Chairwoman Waters (D-CA) recognized that homeownership is the primary source of wealth for Americans families and said that not everyone has been able to achieve the dream of homeownership. She discussed the skyrocketing home prices and other challenges that have made it harder for millennials, Gen X, minorities, and low-income individuals to buy a home. Waters went on that there are many qualified homeowners who have not been able to buy a home due to the hot housing market and said that black borrowers have experienced a decline in mortgage lending compared to everyone else. She discussed appraisal bias and other discrimination that black homeowners have encountered. Waters referred to yesterday's Subcommittee hearing and said that inflation is directly contributing to the increased price of homes and urged the passage of the housing title included in the Build Back Better Act (BBBA).

Ranking Member McHenry (R-NC) referred to the marking-up of the *Downpayment Toward Equity Act*, and said it is spending like this and other Democratic spending that is clobbering people's savings for a home. He continued that potential homebuyers are being forced out of the market due to Democratic spending and the President's lack of accountability on inflation. McHenry stated that we need to be serious about creating a sustainable housing system, restoring proper oversight over FHA and FHFA, and creating more affordable housing. He stated that today would have been the perfect day for FHFA Director Thompson to appear before the Committee, but all they are getting is pleas for more reckless spending.

Rep. Cleaver (D-MO) stated that homeownership promotes wealth building and allows families to benefit from the appreciation of their home's value. He added that there are some Americans and institutional investors who benefited from the hot housing market but said that this is not equal among all Americans. Cleaver believed that the loss of wealth from this will have a negative impact on communities of color.

Rep. Hill (R-AR) acknowledged the challenge of housing affordability across the country and wanted to hear about supply side solutions.

Witness Testimony

Michael Calhoun, *President, Center for Responsible Lending*, positively assessed the housing policy response to COVID, noting that the government's fast and systemic response through packages like the CARES Act prevented mass foreclosure and it protected families, the housing and housing finance market, and the economy more broadly. He then described the state of housing affordability and ownership, including the major challenges we face like the racial wealth gap. Calhoun was concerned that the major risk going forward is homeowners being pressured into very expensive cash-out refinance loans. He was also worried about the lack of housing supply and the rise in mortgage interest rates combined with increased housing prices. Lastly, Calhoun set out critical reforms required to advance equitable homeownership opportunities and housing security, including addressing the government housing agencies' loss mitigation programs and making streamline refinance programs effective.

Sam Chandan, Professor of Finance & Director of Stern School of Business, New York University, discussed how home prices in the US have been rising for the past decade and how the underlying drivers are the fact that stronger demand has coincided with a national housing supply shortage that is estimated to be between 3.8-6.8 million units. He then pointed to how the mortgage rates have increased significantly which has led to a rapid deterioration in housing affordability and this is not expected to improve any time soon. Chandan said that the combination of higher prices, higher mortgage rates, and limited entry level single family home construction has been felt disproportionately by households of color. He did not see any viable policy solution that would address this immediately but applauded the affordability and housing equity initiatives announced by the Biden Administration and housing agencies. He also emphasized the importance of investing in additional housing supply, not just demand side policies. Lastly, Chandan addressed how institutional investors buying homes does not seem to materially contribute to national housing supply shortages but did express concern that rising rents will impact people's ability to save toward a down payment.

Jung Hyun Choi, Senior Research Associate for Housing Finance Policy Center, Urban Institute, focused her testimony on how long-standing racial and ethnic disparities in the housing market have worsened during the COVID-19 pandemic. Additionally, recent changes in the housing market environment—including rising interest rates, increasing home prices and rents, and tighter lending standards—are making it more difficult for households of color to obtain and sustain homeownership and are widening the racial wealth gap. Choi explained that two promising demand-side strategies—better targeting down payment assistance and incorporating rental payment history into mortgage underwriting—could help the federal government address these disparities.

Lydia Pope, President, National Association of Real Estate Brokers, explained that she is the President of the largest and oldest minority real estate trade association in America, referred to as NAREB. Pope pointed to how Black homeownership is nearly 30 percentage points behind those of White America and is lower today than when Congress first passed Fair Housing antidiscrimination laws. She noted that the pandemic brought major shifts to the housing market and cash buyers now dominate the market which has driven up prices and swallowed up properties at every price range. Pope went on to say that the increasing interest rates and home price market is widening the racial wealth gap and Blacks continue to experience predatory lending practices. She then pointed to the emergence of lightly regulated nonbanks as primary lenders and the narrative that technology firms and FinTechs can replace the need for real estate practitioners and professionals. Pope questioned who would ensure consumers are not taken advantage of with the increased use of algorithms in real estate transactions. She then pointed to the challenges of black homeownership and advocated for the Down Payment Assistance program, the elimination of all Loan Level Price Adjustments, and the creation of low-balance mortgages in the secondary market among other policy solutions.

Norbert Michel, Vice President and Director of the Center for Monetary and Financial Alternatives, Cato Institute, pointed to recent fears that large institutional investors, or private equity firms, are causing rapid price increases in single family housing markets and argued that these investors play a very small role in the SFR market. He noted that there's also evidence that

these investors contribute to the local housing market by reducing vacancy rates and shortening the time that distressed properties stay in REO. Michel explained that, in contrast, the federal government is heavily involved in the single-family home market, particularly in ways that increase demand by making it easier to obtain home mortgages including the Fed's MBS purchase policy. He went on to say that given that housing markets are consistently supply constrained, there is little doubt that federal housing finance policies contribute greatly to higher home prices. Michel then pointed to several new Biden Administration policies, as well as multiple proposals being considered in Congress, that will implement the same types of failed housing policies of the past.

Member Questions

Chairwoman Waters (D-CA) discussed increased competition for homes during the pandemic and referred to a recent NAREB study on the decreased black homeownership rate. She referred to her legislation the *Downpayment Assistance Act* and asked about the impact of this legislation. Pope replied that her legislation would be a big help for black homebuyers and would allow for more generational wealth growth. Waters wanted to know what is happening with the evaluation of homes in the black community and what is happening with discrimination in appraisals. Pope answered that home values in the black community have diminished because of these appraisals and she supported the PAVE Task Force's efforts to address this. Waters turned to Chandan on the skyrocketing price of homes and said that one driver of this is the lack of housing supply. She discussed the \$150 billion in investments included in the BBBA and asked him to talk about the importance of the housing and community development investments in the BBBA. Chandan agreed with the dire need for housing and said that programs that encourage supply directly aimed towards income constrained families will be most effective in alleviating supply and price challenges.

Ranking Member McHenry (R-NC) discussed massive Democratic spending and asked Michel to explain the observed and expected effects of the spending on the economy and its connection to inflation. Michel explained that there is no way that the spending would not have led to inflation and was not surprised that we are experiencing inflation today. He said that this is especially bad for people who are constrained by fixed incomes. McHenry referred to the *Downpayment Assistance Act* and asked what the subsidy included in this bill would do to the marketplace. Michel said that the policy is terrible and would only result in higher home prices.

Rep. Sherman (D-CA) noted how the Ways and Means Committee removed important property tax deductions and put limits on home mortgage deductions which makes housing more expensive but said that the biggest impact is local government. He said that the NIMBYs control housing and that the cost of providing a new house is double or triple what it would be in many areas due to the cost of zoning, fees, and requirements. He talked about institutional investors buying up single-family homes to rent out and thought that not everyone is looking to buy a home, so this is reasonable. Sherman turned to Calhoun on FHA borrowers struggling to compete with conventional mortgages and referred to his legislation the *Homebuyers Assistance Act* which broadens the types of appraisers that can do appraisals for the GSEs. He asked if there are other policies Congress can take up so FHA borrowers are on equal footing. Calhoun agreed that the lack of qualified appraisers is an issue and said that the FHA is doing a number of things

to provide more clarity to lenders to make it easier for borrowers to qualify. Sherman urged the passage of Waters' legislation.

Rep. Wagner (R-MO) noted that this is the 20th hearing on housing this Committee has held this year, yet they have not addressed any housing issues, and said that Democratic spending has actually increased the cost of housing. She turned to Michel and asked if Democratic policies address supply chain issues. Michel replied that while Democrats are well-intentioned and give out money, it still takes a long time to build a house and pouring more money in just increases demand. Wagner asked how supply chain issues will continue to drive up prices if left unaddressed. Michel answered that we will not have enough supply accessible and if the market is going to correct itself, the demand side cannot be subsidized. Wagner discussed the increased federal role in housing finance and asked if the entrenched role of the federal government has impacted the housing market. Michel stated that helping people does not mean that we give people low equity, long term fixed loans they cannot afford and believed that we need to address the underlying problems. Wagner asked Michel to name Democratic policies that are the most harmful. Michel said that the GSEs and the FHA are essentially the entire market, and this was a federal takeover.

Rep. Meeks (D-NY) defended the necessary investments Democrats made during the pandemic and turned to Pope on black homeownership. He discussed home appraisal practices and asked the role of AVMs and what more needs to be done to ensure that bias is not in the algorithms. Pope replied, with regard to appraisals, that there are not enough African Americans in the industry and said that the PAVE Task Force is important to discuss the training needed to be done in the industry as well as employing more black appraisers. She continued that racial discrimination has not changed and said that it is important to change the appraisal industry. Meeks turned to Choi on the role of student debt as a barrier to homeownership. Choi thought that student loan debt does impact homeownership and saw that black young adults have more student debt which also has a negative impact on access to homeownership.

Rep. Posey (R-FL) asked Michel what economic research suggests about reduced wealth gap as an objective for homeownership policy. Michel disagreed that homeownership itself should be a policy and believed the decision to buy a home is up to the individual or family. He said that there is nothing wrong with renting and that the federal government should not favor renting or owning a home. Posey asked what happens to housing prices and affordability when we expand housing demand subsidies without addressing the conditions of housing supply. Michel replied that prices go up and when they go up there are more low equity loans through the FHA or GSEs, so you have pockets throughout the US that are more or less constrained than others. He was not surprised with the current result of more consumer debt and increased home prices. Posey asked what Congress should do to decrease the cost of new housing and increase the supply. Michel replied that we need to pare back on the increase of demand and said that supply is locally driven and suggested that the federal government back off. Posey asked Michel to comment on the pros and cons of the approach of the down payment assistance legislation. Michel replied that it is good for the homebuyer who gets the down payment assistance but said that the money does not fix any underlying issues with housing stock. He said that this assistance takes out the need to save money for a home and said that there is a difference between

advancing economic opportunity and just giving people money. Posey stated that realtors all agree that discrimination does not have a place in housing.

Rep. Scott (D-GA) discussed institutional investors buying up single-family homes in Atlanta and asked how this activity impacts individual buyers. Pope replied that when buyers cannot purchase, it opens the doors for investors to pay in cash and said that these investors are buying homes in stock which decreases housing stock and increases rent. She continued that a typical home buyer cannot buy in cash. Pope discussed that when an investor buys and then flips the homes, this increases the sales price which makes it harder for anyone to buy a home in that area due to the increased appraisal values or price of the homes. Scott asked how these firms are able to track what neighborhoods will see future high paying jobs and good schools which tend to increase home prices. Pope replied that when an investor buys a property, it strips away homeownership and the sustainability that this homeownership creates in the community. She added that this decreases the housing market and increases the rental market. Scott asked if it is fair to say that PE firms will target single-family homes in majority black neighborhoods more compared to majority white neighborhoods. Pope said yes.

Rep. Williams (R-TX) discussed the negative impact on the housing market as a result of supply chain issues and said that the Biden economy is just not working. He asked Michel his opinion of how we got here and how to get the economy back on track. Michel pointed to massive fiscal spending, increased demand, and supply chain issues due to pandemic shutdowns. He said that the Fed should be tightening, and that monetary policy is the only tool that will help long-term, but he thought the Fed was on the right track. Williams said that we need to keep taxes where they are and discussed excessive regulations and compliance burdens dragging on the economy and the private sector. He asked Michel to discuss aspects of Dodd-Frank that are holding back the economy and should be reexamined by the Committee. Michel named Title 1 on systemic risk and financial stability, saying that this has given the Treasury and Fed a blank check for guarding against potential systemic risk and failure. He noted that this is showing up in crypto and fintech markets right now.

Rep. Cleaver (D-MO) asked if a \$2 trillion drop in US tax revenue contributes to inflation. Michel replied no. Cleaver stated that the tax cuts hurt the economy and believed that the bipartisan infrastructure legislation was necessary to address our deteriorating infrastructure.

Rep. Hill (R-AR) stated that we are earning more corporate tax revenue in history right now even at a lower rate and thought that Cleaver's notion of revenue loss is exaggerated. He turned to Chandan on a Freddie Mac study and asked if there is evidence that institutional investors are only buying properties in low-income areas or across all growing metropolitan areas. Chandan replied that, nationally, investors buying single-family homes with the intention of repurposing them includes a wide range of investors and warned against inflating large investors with that entire pool of investors. Hill had not seen any data on this particularly being in low-income neighborhoods. He then stated that a lot of families have children and many families rent apartments that are not multi-room and asked if renting a home would be better for a family with children. Chandan replied that they have observed that as households age, the set of amenities (playgrounds, schools, etc.) they look for expands and these amenities are improved when you

have a home due to the location. Hill stated that minority homeownership skyrocketed under the Trump Administration.

Rep. Perlmutter (D-CO) appreciated Pope's economic analysis and asked the panel if we have enough housing for our population and if the supply will keep up with demand in 10 years. Pope replied that demand is much higher than supply right now and when you look at buyers who cannot buy due to inventory, they are sitting ducks unless we build. She continued that there are just not enough properties right now. Perlmutter turned to Calhoun and asked if he had looked at national demographic trends and how he saw supply and demand on a general basis. Calhoun replied that we have an aging housing supply that is not keeping up and said that the big thing is that we are experiencing a shift that younger households are looking to buy homes and the trend toward families wanting to age in place for longer periods. He said that we need to remove barriers to construction for the entry level market. Perlmutter stated that interest rates have already impacted the housing market in the western states and asked for comments on this. (QFR)

Rep. Norman (R-SC) stated that the Biden Administration's war on oil and gas has been the main reason housing prices have gone up. He did not understand the logic behind algorithmic bias and said that the lenders, the banks, determine who the appraisers are and said that the appraisers do not know if a house is owned by a black or white or red person or family. Norman rejected that institutional buyers were driving up rent prices. He blamed inflation completely on the Biden Administration.

Rep. Foster (D-IL) was struck by the fact that we put effort into house construction but not necessarily the right houses, noting how a lot of empty nesters are in big mansions. He was a fan of the free market and was distressed by what is put into place to interfere in the free market. Foster asked about the most cost-effective interventions or returns to the free market that would help the supply and demand align for affordable housing. Calhoun pointed to reserve funds as well as loss of income protection insurance that helps people make up for the deficiencies in unemployment insurance. He said that thanks to Dodd-Frank, people have affordable mortgages right now and now we just need to make lending more sustainable and inclusive. Foster was still worried about the short-term problem of lumber and thought we should allocate the lumber toward building more smaller units. Chandan replied that the average square feet of homes being built right now is 2,500 square feet which is quite large and said that much of this issue lies at the local level, including issues like the availability of materials and local zoning. He also discussed the high cost of local transfer taxes which keeps people from moving into a home that better fits them.

Rep. Rose (R-TN) referred to a December ANPR from FinCEN on AML requirements and said that if this proposed rule is approved this would reach all non-financed real-estate transactions. He asked Michel if he saw any issues with expanding FinCEN's regulatory reach here. Michel believed that there was not a regulatory issue here, rather a supply and demand issue, and he would not be in support of that. Rose said that he has continually expressed concern that the federal government uses the BSA to deputize the private sector to collect personal data from American citizens. He asked Michel to elaborate on an approach to personal data that Michel previously proposed, namely that financial institutions should be required to keep customer

information and that law enforcement must abide by the 4th amendment to gain access to those records. Michel replied that that would be a way of upholding constitutional protections and privacy rights. Rose agreed and turned to the Fed's purchase of MBS and asked if that has put upward price pressure on housing prices. Michel replied that this is not the biggest component, but the direction has to be upward price pressure because it increases liquidity and makes it easier to get loans. Rose asked if Michel was worried about proposals to expand the Fed's mandate to things like racial equality and climate change and asked what impact this would have on housing policy. Michel replied that he was worried, and he thought the Fed's mandate should be narrower.

Rep. Lawson (D-FL) asked how sellers could be encouraged to conduct business with FHA buyers when cash buyers can pay in cash and make higher offers. Pope replied that sellers can take cash buyers and we cannot steer them but said that real estate agents need to educate buyers on financing options. Calhoun stated that FHA could be more user friendly and suggested that it needs to operate with the same resources as other options to ensure equal competition. Choi added that the only way to decrease the wealth gap is to lift people up who have previously been discriminated against in the market.

Rep. Timmons (R-SC) stated that subsidizing demand and the lack of supply has been driving the cost to rent or buy. He disagreed with the *Downpayment Toward Equity Act* and asked how the housing market would respond to this program. Michel expected sellers to recognize that buyers are coming to the table with \$50-100k extra so they can raise the price and believed this would become capitalized. He added that this program would only exacerbate inflation. Timmons said that we need more homes, not more subsidies.

Rep. Pressley (D-MA) stated that PE backed landlords are worsening the housing market across the country by gobbling up single-family homes in bulk by buying in cash and asked about the consequences of this. Pope replied that when lenders hesitate to loan to low-balanced mortgages, this opens up the doors for investors to pay in cash and buy in bulk. She continued that cash buyers displace homebuyers and push them out of the market and forces these potential homebuyers to rent. Pressley continued that most of the homes PE investors are buying are homes in black neighborhoods and asked if these investors are driving up rent and housing prices in these neighborhoods. Pope replied yes. Pressley asked if PE investors are accelerating gentrification and displacing low-income Americans. Pope said yes. Pressley said this was a major issue for her constituents and turned to Calhoun on student debt cancellation and asked what other policies would be helpful to Americans facing increased rent hikes. Calhoun discussed how the Child Tax Credit and expansion of Medicaid would give people more money to save for a home.

Rep. Steil (R-WI) emphasized unleashing American energy and discussed how Democratic policies are clobbering Americans. He asked Michel if the housing challenge is on the supply or demand side. Michel replied that we need to discuss supply relative to demand and with a constrained supply, the worst thing to do would be to increase demand which is what federal policy does. Steil continued asking what the economic impact of would be pumping another \$100 billion into the economy. Michel replied that inflation will increase without fixing the

supply problem. Steil said that pumping in more money will only increase prices and make it worse for Americans. Michel agreed.

Rep. Lynch (D-MA) discussed mortgage applications decreasing considerably and noticed that the number of people applying for an adjustable-rate mortgage (ARM) has doubled. He asked if there are any protections now that were not available in 2008 when it comes to ARMs resetting. Chandan replied that there are a number of changes and said that adjustable rates do not carry the same risk profile as they did in 2008. He added that ARMs do ultimately reset and said that aspirational borrowers should be mindful of this and the potential risks. Lynch had seen seven-year resets which gives the borrower some kind of timeframe. He turned to Calhoun asking if there should be concern about the increase of adjustable mortgages. Calhoun replied that there is reason to watch this carefully but said that we are in a different place than we were in 2008. He said that there is a heavy marketing of cash out refinancing right now which should be more of the concern. Calhoun referred to the CFPB's attention to ARMs and thought regulators should keep an eye on this. Pope added that her best advice to homebuyers or owners would be to look for a housing counselor to advise them.

Rep. Adams (D-NC) discussed institutional investors and was not surprised that these investors are buying up homes in majority black neighborhoods and asked why addressing the housing shortage is so imperative. Calhoun replied that in the starter home market, we are seeing the biggest crunch for supply and biggest activity with institutional investors. He thought that federal agencies should stop auction sales of distressed loans and REO properties because they mostly go to institutional investors. Calhoun said we should not siphon these homes out of the affordable housing market. Adams referred to the *Lifeline Act* which would appropriate dollars for affordable housing and urged support for her bill. She turned to Chandan and asked how increasing housing supply through programs like LIHTC, and others could blunt the negative impacts to renters. Calhoun replied that her legislation is a great way to leverage and expand one of the most successful programs, LIHTC, which has added to the availability of affordable rental properties. Chandan said that LIHTC is probably the most effective program we have to address the housing needs for the most income-restricted Americans so expanding this program would be critical.

Rep. Tlaib (D-MI) discussed institutional investors pushing buyers out of the market and asked how to make FHA financing more competitive. Calhoun replied that FHA cannot use premiums for operations which means that FHA is dependent on congressional appropriations and said that it is underfunded compared to its competitors. Tlaib pointed to her legislation, H.R. 1532, *the Improving FHA Support for Small-Dollar Mortgages Act of 2021*, and then asked what the federal government can do to ensure that homes go to individuals and not institutions. Chandan replied that we should not conflate large PE investors and smaller investors and suggested that when thinking about rental supply, we should have a diverse supply of rental opportunities like an apartment or a single-family home. He continued that we need to address challenges at the local level to ensure the building of smaller homes that are more within reach of low-income buyers.

Rep. Dean (D-PA) discussed the homeownership gap between black and white homeowners and said that we need to address this disparity. She supported HUD's down payment assistance

program and asked Choi to talk about how targeted down payment assistance, like H.R. 4495, would address the racial wealth gap. Choi replied that many programs have income only criteria and if we added generational criteria, it would expand access to more minority homebuyers. Dean turned to Pope and asked her to speak to what can be done to remedy the current housing market conditions for minority households. Pope replied that the down payment programs are important for black homebuyers and said that on appraisals, there is documentation of bias here. She pointed to how student loans are impacting black homeownership as well.

Rep. Williams (D-GA) discussed the link between homeownership and generational wealth and asked Choi about what specific investments would put individual homebuyers on a more equal playing field with institutional investors. Choi replied that institutional investors are having an increased impact in Atlanta and specifically on black renters. She discussed down payment assistance and how Special Purpose Credit Programs are another good program. Choi also thought that we could include rental payment data into mortgage underwriting which would help households of color. Williams agreed that adding rental history into credit scores would be beneficial. Choi added that the timing of when you buy your first home and at what age impacts your retirement. Williams asked Choi how government backed loans can be expanded to first time homebuyers, especially black homebuyers. Choi replied that she wanted to point out that every time there is an economic shock, minorities are harmed.