Nomination Hearing
Senate Committee on Banking, Housing, and Urban Affairs
May 19, 2022

Opening Statements

Sen. Tester (D-MT) filled in for Chair Brown. He noted that they were meeting today to consider the three nominees before them today and introduced each of them individually. Tester welcomed Speaker Pelosi to introduce Lizarraga and Sen. Peters and Stabenow to introduce Barr. He said these nominees would have a lasting impact on our economy and they will play an important role in supporting small businesses and families. Tester went on to introduce Barr and detailed his background. He then introduced Lizarraga and Uyeda and detailed their background as well. Tester said our economy is not where it should be in terms of recovery and this Committee has confirmed a host of people charged with bringing the economy back from the brink. He emphasized that these institutions must be fully staffed for them to do their jobs.

Ranking Member Toomey (R-PA) said that these nominations remind us of regulators who must stick to their statutory mandates. He said that important policy decisions must be made by elected officials. Toomey said that this includes issues like climate change, education and more. He noted that the Fed has been weighing in on these issues and it may be used to move capital away from certain industries. Toomey went on to discuss regional Fed banks that are getting involved in issues outside their mandates. He pointed to the hearing for Sarah Bloom Raskin and how that hearing was a referendum on the independence of the Fed. Toomey said that addressing global warming includes tradeoffs, like higher energy prices, and in a democratic society, those tradeoffs should be made by elected officials who are accountable to the US people. He said that the rejection of Sarah Bloom Raskin shows support for the continued independence of the Fed. Toomey hoped Barr would commit to bringing down inflation and he was concerned about Barr's comments on S. 2155 and climate change. He said that there is no systemic risk to the banking system from climate change and he was interested in Barr's take on addressing these risks. Toomey asked how his colleagues would feel about Republicans using the Fed to allocate capital to defense spending or oil. He said the possibility of abuse from both sides is limitless. Toomey thanked Lizarraga for his many years of public service and noted that he would soon introduce Uyeda.

Speaker Pelosi (D-CA) introduced Lizarraga and noted that he has served in her office for 15 years. She said his strategic mind and compassion have been central to the work of Congress. Pelosi said he would be very valuable at the SEC and how the SEC must protect consumers in their everyday lives. She went on about Lizarraga's leadership and intelligence and his work on Dodd Frank, Puerto Rican debt and many other packages. Pelosi pointed to his story and how it is the story of the American dream. She said that he would be a powerful voice for families like his own at the SEC.

Sen. Stabenow (D-MI) was honored to introduce Michael Barr, a fellow Michigander. She said that she has known Michael for years and he is exactly who they need at the Fed. Stabenow then detailed his academic and public service background.

Sen. Peters (D-MI) joined Stabenow in introducing Barr and noted their strong support for him. Peters said that the Fed Governors lead an important agency with nonpartisan decision making and they must be able to make decisions with the best interests of the American people in mind. He said that Barr has the experience to do this given his rich background. Peters noted Barr's work on Dodd Frank and how he played a central role in creating the CFPB.

Toomey further introduced Uyeda and said he is a dedicated public servant and securities lawyer. He noted his experience doing SEC filings and his prior work at the SEC as an attorney. Toomey said that Uyeda's expertise is unrivaled, and he has received multiple letters of support from former SEC commissioners and state securities commissioners. He noted Uyeda's work on diversity and how he will be the first Asian Pacific American to serve on the SEC Commission. Toomey hoped he would be swiftly confirmed.

Witness Testimony

Michael S. Barr, ***Member and Vice Chairman for Supervision Designate, Board of Governors of the Federal Reserve System,*** was grateful that President Biden nominated him to be VC for Supervision and briefly introduced his family. He said that he has been working to make the financial system better focused on families and households. Barr noted his work on predatory abuses and banking the unbanked. He then dove into his work in academics and in the public sector. Barr noted his work on Dodd Frank and how it has helped make the financial system stronger. He added that he also worked on CDFIs and international issues. Barr advocated for working in a bipartisan manner to get practical things done. He said he would ensure that the financial system is robust, resilient and operates fairly at the Fed.

Jaime E. Lizárraga, ***Member Designate, Securities and Exchange Commission,*** thanked President Biden for nominating him and Pelosi for introducing him. He stated that the SEC's mission is deeply personal to him and noted that his family immigrated to the US from Mexico. Lizarraga said he would approach the mission of the SEC with families like his in mind by focusing on capital formation, especially in underserved areas. He then briefly introduced his family and thanked them for the opportunity to speak with them today.

Mark Toshiro Uyeda, ***Member Designate, Securities and Exchange Commission,*** greatly appreciated Toomey's kind words and he was honored to serve at the SEC. Uyeda pointed to his grandfather's family business and how, to him, this represented the dignity of work. He noted his family's background and how the story of the immigrant family business has often been repeated in the Asian American community which is why he is focused on capital formation. Uyeda pointed to his work on various pieces of securities legislation and how he would be one of the few state securities regulators to serve at the SEC.

<u>Member Questions</u>

Sen. Tester (D-MT) asked why the Fed's independence is so important. Barr responded that the Fed's independence is long standing and is critical to its effectiveness as a nonpartisan institution. He said that the market and American public need to have confidence that the Federal Reserve's decisions are made solely on the evidence before it. Tester asked why it would be a mistake to allow politics to influence monetary policy. Barr said that this would reduce the effectiveness of what the Federal Reserve does and says. He said it could lead to wild swings in policy based on politics instead of what is in front of it. Barr added that people would lose confidence that decisions were being made based on the evidence in front of them. He was firmly committed to the independence of the Fed. Tester asked what Barr would do if the President tried to influence the Fed, saying that in the last Administration, the President got on TV and tried to influence the Fed. Barr said he would ignore that. Tester turned to S. 2155 and thought that it struck the right balance. He asked about Barr's view on the impact of S. 2155 on the financial system. Barr said he supported aspects of the legislation and the community bank provisions were quite good and strong. He thought other protections added on veterans and service members were spot on as well. Barr pointed to his concerns about some aspects of the bill weakening capital and liquidity requirements for larger firms, like credit card banks and large US operations of foreign firms. He noted that many concerns were addressed by a Manager's Amendment on foreign firms and said overall S. 2155 was quite admirable in how it was bipartisan and if you look at the capital and liquidity in the financial system today, it is quite strong.

Ranking Member Toomey (R-PA) appreciated Barr's recognition of inflation being too high. He continued that during his discussion with Barr on inflation persisting, Barr said that he would do 'whatever it takes' to get inflation under control even if it were to trigger recession. Toomey asked if that was a fair characteristic of Barr's view on fighting inflation. Barr said yes, inflation was too high, and he's committed to bringing it down to 2%. Toomey turned to climate change and asked if the Fed's mandate permits the Fed to use its power to transition to a lower carbon economy. Barr said that the Fed's authorities were quite narrow, to assess risks to the financial system from all sources. Toomey again asked the same question. Barr said no, the Federal Reserve is not able to allocate credit and should not be in the business of telling financial institutions which sectors to lend to. Toomey asked if that relates to the using climate related stress tests for the purpose of penalizing banks for lending to energy companies, for instance. Barr said that the Fed is focused on working with financial institutions to manage risk. Toomey turned to bank mergers and asked if the Fed had the ability to impose a blank moratorium on M&A. Barr was not aware of this authority. Toomey said that there is no such authority and turned to Hsu's suggestion regarding M&A and asked if he agreed that regional bank mergers can increase competition in the banking industry by allowing them to compete with larger banks.

Barr said that bank mergers can have negative and positive effects and he did not have an a priori view and the merger should be conducted based on the evidence. Toomey turned to the Supplementary Leverage Ratio (SLR) and possible modifications to the SLR. He asked if Barr would commit to expeditiously issuing a proposal to ensure that banks are not penalized for holding risk-free assets like deposits at central banks. Barr said he would come into the Fed and look at capital and liquidity in the system and the end game rules that need to be proposed instead of looking piece by piece.

Sen. Menendez (D-NJ) turned to the diversity issues at the Fed and how he has raised this issue many times. He said that Hispanics deserve a spot at the table, and this is why he voted against Powell. Menendez asked what Barr would do to improve representation of minorities at the Fed. Barr thought diversity, equity, and inclusion were important goals to pursue and how he has been trying to build a pipeline of people that can get increasingly senior jobs and positions. He pointed out how they go to high schools to educate them on the opportunities in public policy. Menendez said there are already qualified individuals who can enter the Fed system and asked if he would commit to working with his office to increase Latino representation at the Fed. Barr committed to work with him. Menendez asked if he would commit to ensuring diverse candidates are considered for the Fed regional banks. Barr committed to this. Menendez turned to Lizarraga and Uyeda and how the investment adviser and asset management industries are increasingly white and noted how the SEC AMAC recommended that the SEC take concrete efforts to bring diversity to the asset management industry. He asked if they would commit to bringing these recommendations before the Commission for a vote so that transparency and diversity can be brought to the industry and ultimately bring better outcomes for investors. Lizarraga said he embraced DEI issues and noted that he would take up these issues. Menendez wanted them to commit to having a vote on the recommendations. Lizarraga looked forward to exploring that possibility, but he would have to look into the process. Uyeda said that he helped set up the AMAC at the SEC and how the recommendations need to be taken seriously at the Commission. He committed to taking up any proposals from these committees and discussing this with Gensler. Menendez said that they can advocate that Gensler put this up and noted how careful they were about committing to this.

Sen. Rounds (R-SD) asked Barr when we could see action on the SLR and noted how it is important that we address this. Barr responded that he would like to come in and wrap his arms around the whole capital and liquidity picture, Basel III, and stress testing, and how institutions are doing with respect to emerging risk. Rounds noted the Fed's recent Supervision Report and how this points to how the system is working and how modifications to the SLR would be appropriate. He asked if he would move quickly to address the SLR issue. Barr agreed that capital and liquidity is strong right now, but it should not be understood in piecemeal. He could not commit to a timeframe, but he is focused on addressing these issues in a serious way. Rounds turned to S. 2155 and tailoring for different banks. He said that it sounds like tailoring based on size and risk profile is good and asked if this is not also good for regional banks if it is good for community banks. Barr agreed that tiered rules made sense in the financial system. Rounds asked about banks $50 billion and over. Barr said that a tiered approach makes sense at each size level, but he disagreed on the approach for each level in S. 2155. Rounds stated that he has long advocated for the aggregation method to U.S representatives in the International Association of Insurance Supervisors as an alternative method to the ICS. Rounds went on saying that before her confirmation, Governor Brainard gave unequivocal support for this position and noted that the Fed continues to advocate for the aggregation method internationally. Rounds then asked if Barr would commit to defending the aggregation method and state-based insurance system. Barr agreed with this approach.

Sen. Warner (D-VA) turned to the Community Reinvestment Act (CRA) and asked how it will stand the test of time and if there were areas that he would like to see moving further on in the draft. Barr thought that the draft proposal is a good one and that an enormous amount of work has been put into that. He said that there were a few areas that he wanted to review and that he wanted to look at public comment as well. Barr wanted to make sure financial inclusion was addressed along with tiering for financial institutions, but he was happy with what he has seen in the draft so far. Warner said that CRA fits in with the racial wealth gap and engagement with CDFIs and MDIs. He said that there's been a lot of talk, but not a lot of action on this at the Fed. Warner thought that the Fed needed to lean in on this and noted how examiners are still dinging institutions that do not dot every 'i' and 't'. He asked what Barr would do to increase access to capital for minority communities and work with CDFIs and MDIs. Barr said that the Fed can play an important role in supervision and noted that he would be attentive to the disconnect between Washington and the field.

Sen. Moran (R-KS) asked Lizarraga and Uyeda if they agreed that any change to the disclosure rules, which would more than double the cost of disclosure, should be subject to robust public debate, including before this Committee, before they are finalized. Lizarraga and Uyeda said yes. Moran asked Lizarraga if asset managers and investment firms should compete to manage investors' money. Lizarraga believed in competition in all segments of our markets. Moran asked if smaller firms with less than $500 billion in assets should have the same opportunities as multi trillion-dollar firms to list ETFs in order to compete and serve investors. Lizarraga said small firms and issuers should be treated fairly like all market participants. Moran said that small firms have been excluded due to decisions made by regulators and he wanted to be certain that they had an appreciation for these smaller firms and that they will not do anything to disadvantage them and their capability to attract and manage funds for clients compared to those larger firms. Lizarraga agreed with this principle. Uyeda said yes and that consideration of competition is statutorily mandated by Congress for the SEC to consider. He added that they must look at the impact of regulation on small entities and how they may want to look at changing the threshold for the small entity definition. Moran then asked them to commit to working with his Committee to allow these firms to compete by allowing them to list ETFs. They both committed to working on issues of concern to the Committee. Moran said that capital liquidity levels have been a key strength for our economy and asked if it shows that banks are adequately prepared for the next recession. Barr said that his comments were before intervention from the Fed, and he agreed that capital and liquidity today is quite strong.

Sen. Cortez Masto (D-NV) turned to the growing role of social media in market manipulation and asked about their thoughts and what role the SEC should take to curb this practice. Uyeda said that the SEC has long had the authority to go after manipulation in the securities markets and social media is definitely one avenue. He said that pump and dump schemes are nothing new. Uyeda said that there is an ever-expanding set of technological tools to examine manipulative behavior and he would work to ensure staff have all the tools they need. Lizarraga said that robust enforcement of our securities laws lowers the risks in our capital markets and lowers the cost of capital. He said that the SEC has an obligation to pursue these issues and the SEC has a responsibility to pursue these violations of law. Lizarraga noted how Gensler added resources to the enforcement divisions in this space. Cortez Masto turned to how banks are on the frontlines of the rise in cyberattacks and asked Barr to explain his background in cyber and what role it plays in ensuring stability and security of our economy. Barr answered that it is critical that the Fed, other federal regulatory agencies, and the financial sector itself continue to invest and stay ahead of the curve. Barr pointed to how he was head of critical infrastructure policy at the Treasury and how he had written about the need for international coordination on cyber risk. He said he would be focused on this at the Fed.

Sen. Daines (R-MT) turned to S. 2155 and how Barr thought passing the bill would be a significant mistake. He asked if he still thought this. Barr responded that a number of his concerns were addressed by the Manager's Amendment, and he would have chosen a different balance, but he was committed to implementing the law as written. He added that capital and liquidity is strong in the system. Daines asked about his views on the regulatory tailoring provisions and how he would view implementation at the Fed. Barr said a tiered approach makes a lot of sense and the strictest rules should apply to the biggest banks. Daines turned to the CFPB and how Barr said that attacks on structure, budget, and authority is pretext for weakening consumer protection in general. He asked if he stood by those remarks. Barr regretted these comments and did not think it was a good way to engage in dialogue. Daines asked if Republican concerns about the CFPB's constitutionality had merit. Barr said it was his strong opinion that Congress should be given deference in determining the setup of agencies. Daines asked if climate is one of the top three threats to financial stability. Barr said it is a long-term issue and they need to wrap their arms around it. He had not thought of a priority list and that he will look at the broad range of threats to have a consistent risk management framework. Barr noted how the pandemic was unexpected and how they have to be humble about these issues.

Sen. Reed (D-RI) turned to mandating cybersecurity expertise on company boards and asked Lizarraga if that is critical and should be implemented quickly. Lizarraga said it is essential to bolster cybersecurity at the SEC and regulated entities. Uyeda responded that without prejudging the proposal out for comment, cyberattacks are a critical threat and the SEC must ensure that brokers dealers and others have put up efforts to protect investors and that the SEC must put up proper cybersecurity as well. Reed turned to cryptocurrencies and asked Barr if he had concerns that they are inherently vulnerable given the crisis that we are seeing right now. Barr responded that advances in technology, including crypto, have potential for benefits and risks. He said that he thought of these risks in terms of functional terms and what it is being used for. Barr pointed to how stablecoins might present a financial stability risk and how Congress must wrap their arms around this. Reed noted how the Fed is considering a CBDC and asked if Barr had given thought to this. Barr said that this requires more thought and study, and he thought the CDBC discussion paper from the Fed is a good starting point. He pointed to Powell’s comments on how Congress and the executive branch must be behind this as well.

Sen. Tillis (R-NC) turned to Barr on S. 2155 and asked what aspects of the bill were areas of concern for him. Barr said he would like to look at capital and liquidity in the system as a whole and that it did not make sense to be backward looking. He said capital and liquidity in the system today is quite strong. Tillis asked if Barr was aware of the New York Fed research paper on weather disasters and banks. Barr was familiar with it and thought the main takeaway was that in the last couple decades there were no weather-related events that led to the failure of the banks. Tillis said that these events did not threaten bank solvency and banks actually saw an increase in loan demand. He said that banks seem to be safe according to this story. Tillis then turned to the SEC and the quick pace of rulemakings. He asked how the SEC would have the bandwidth to get the proposals done right and how we can make sure that the smaller entities who want to weigh in get to when there are short comment periods. Lizarraga was not in a position to comment on internal issues at the SEC, but he thought it was important that stakeholders have the ability to comment on proposals. Uyeda said that the ability to comment is critical in order to make informed decisions.

Sen. Warren (D-MA) wanted to briefly discuss ethical standards and divesting in stocks and holdings. She asked Barr if he would commit to not seek compensation from any board who has an issue before the Fed or financial services company for four years after government service. Barr committed to this. Warren noted the crash in the crypto market and the crash of Terra. She said it turns out that stablecoin is not so stable and how the average investors who put money in these markets are now underwater. Warren said ordinary investors lost out and how online investor forums have been flooded with people who have had their savings wiped out. She wanted to run through protections for ordinary investors in the crypto market and how they compare to protection in other financial markets. Warren started with Barr and asked if she could be reasonably competent that the company was following basic rules that protect against fraud, insider trading, and sloppy cyber security protocols if she bought a company's stock even the most hyped up, junkiest one listed on the NYSE. Barr said that these issues are within the realm of the SEC. Warren said that crypto users are not getting these same protections. She noted that Tether broke its dollar peg, which was scary. Warren then asked if you invested in a MMF, could you have confidence that it was backed by liquid assets. Lizarraga said yes, this is required by the SEC. Warren compared this to stablecoins and asked if there is proof that they are asset backed. Lizarraga did not think so. Warren said that Tether's Executive said they do not want disclosure because they do not want to 'spill the secret sauce.' She turned to Uyeda and asked if you could be confident that the exchange was not trading against you or other conflicts of interest if you bought stock on NYSE. Uyeda said yes. Warren said that a market without rules is theft and crypto and stablecoin investors are not getting the baseline protections when it comes to cyber, conflicts of interests, market manipulation and more. She said that there is not guarantee that the person on the other end is not a terrorist or a Russian oligarch. Warren urged them to use their tools to protect the system in this area.

Sen. Kennedy (R-LA) asked Barr if it was fair to say that he and Geithner and others rewrote the rules for Wall Street after the crisis. Barr said that Congress rewrote the rules for Wall Street. Kennedy asked if they provided the roadmap. Barr said that the Treasury issued a white paper in 2009 and that road map was translated into draft legislation. Kennedy asked where Geithner went. Barr believed he went to work for private equity. Kennedy said he is at Wall Street and noted how Barr just committed to not do that. Barr said he plans to return to academics. Kennedy asked if we still have banks that are too big to fail. Barr said that this is a working question, and they must ensure proper capital and liquidity. Kennedy asked what Barr would do if JP Morgan was going down and if they would bail them out. Barr said that is not an option and they would be put into orderly liquidation. Kennedy asked if Barr was a Keynesian. Barr said he is not an expert, but he followed normal, modern rules of macroeconomics including the teachings of Keynes. Kennedy pointed to how Keynes supports government spending deficits and how once the economy recovers, you stop this spending. Barr said yes. Kennedy said we have not done so. Barr said it was a long time since we reduced government spending. Kennedy said that Keynes recommended paying the money back too. Barr was not sure he could go page by page on Keynes. He said in good times you should be paying things down. Kennedy said that we do not do this either. He went on that we have a $250 billion bill to subsidize big tech and asked what the community banks did wrong in the meltdown. Barr was not aware of them doing anything wrong. Kennedy asked why they heightened regulation so much if they did nothing wrong. Barr said he was always a strong proponent of protecting community banks.

Sen. Ossoff (D-GA) asked if Barr had given consideration to the distributional effects of monetary policy decisions. Barr thought that the Fed's tools were simple ones, and they operate in simple ways broadly in the economy. He said that when the Fed does its job right, the economy is working for everyone. Barr said that when inflation starts to erode wage gain, that is harmful. Ossoff asked about the impact on asset valuations when the Fed is dovish. Barr said asset prices tend to rise and those with more assets have a greater ability to take advantage of that opportunity. Ossoff asked why the Fed and other central banks have pursued low rates and extraordinary bond buying since the recession of 2007/08. Barr said it is to mitigate financial stability risks facing the economy and effectuate an accommodative monetary policy. Ossoff asked why this has been the case and what has changed in the economy to allow the Fed to change their historical norms. Barr responded that when rates were low and bond buying was important, it was due to financial stability concerns or the need for monetary policy accommodation due to the weakness of the economies. Ossoff asked what has changed structurally in our economy for this to be the Fed's approach. Barr said that there is debate about this and some of it has to do with changing demographics, perceived lower investment returns, and high savings rate in most advanced industrial economies. Ossoff asked how or should Barr on the FOMC consider the market effects and the impact of asset valuations of his decisions and Ossoff thought that the answer cannot be not at all because it is at least a mechanism of action for monetary policy. Ossoff asked to what extent the Fed should consider whether, for example, violating forward guidance would have effects on volatility and if that should be part of Barr's decision-making calculus. Barr said that the tools of monetary policy affect the economy through the Fed's targeting of the federal funds rate and the expression of forward guidance. He said that the goal of these is to bring inflation down to 2% and being clear about this objective is important.

Sen. Hagerty (R-TN) turned to Lizarraga on SEC rulemakings on how many of the proposed rules impact similar markets and asked if it was important to consider how these rules interact with each other. Lizarraga said it is important to assess overlap in rulemaking and he looked forward to assessing the overall makeup of overall rulemakings. Hagerty urged proper due diligence here. He then turned to Barr to talk about bank capital and how the banking industry weathered the pandemic well. Hagerty asked Barr if he would commit to relying on data, not ideology, when considering capital and liquidity requirements. Barr said yes. Hagerty thought this was essential for certainty. He then turned to the CFPB and how Barr designed it in a way that made it unaccountable. Hagerty thought the CFPB was a politically polarizing body and asked why it should be exempt from the appropriations process. Barr said that there is always a balance in fostering independence and accountability, and it is up to Congress to make this decision. He pointed to how the FDIC is outside of the appropriations process. Hagerty said that they play different roles and he looked forward to addressing this.

Sen. Smith (D-MN) turned to Barr on the conversations they had on the CRA and asked what his focus and priorities would be with regard to CRA implementation. Barr said that the CRA has played an important role in serving these underserved communities and he was pleased with the draft rule. He said that he would work with the other agencies and colleagues at the Fed to evaluate all the public comments received in order to understand the impact on banks and communities. Barr wanted to get this rule in place expeditiously. Smith asked if the needs of communities and economic uncertainty makes this more urgent. Barr said yes.

Sen. Lummis (R-WY) turned to Uyeda and noted the SEC's recent release of Staff Accounting Bulletin 121 and specified that this is the SEC staff's release. Lummis went on saying that this bulletin stated that reporting companies and, most importantly, their custodians should hold digital assets as an on-balance sheet liability. Lummis was concerned that this bulletin weakened investor protections because in the event of insolvency, customer assets are safer from creditors being held off balance sheet and further segregated from the company's assets. She asked for his thoughts on this. Uyeda said he was familiar with this accounting bulletin, but he was not well versed in the details. He noted that this was a staff position, it was not approved by the Commission, and there has been a lot of concern raised about this. Uyeda said this is something he would want to raise with the staff at the SEC and he had questions about it not having gone through a rulemaking process given the requirements in APA. He noted that the bulletin states it is not a rule of the Commission and again noted that it is from staff. Lummis pointed to concern from BPI and FINRA on the lack of public comment on this and submitted letters to the record. She then asked Barr if the Basel III Capital Standards establish a separate prudential capital treatment relating to on balance sheet custody accounts. Barr said that yes, capital treatments are different for customer accounts in general. Lummis understood that they are not treated differently according to Basel III because custody accounts are often off-balance sheet. Barr agreed. Lummis asked if Barr was aware of the BIS proposed prudential treatment of crypto asset exposures. Barr had not read this. Lummis said that this proposed capital framework explicitly declined to create prudential requirements for custody of digital assets. She asked Barr to commit to discussing this further with her as she was concerned about differing international and US standards making banks uncompetitive.

Addressing Climate Change with Energy-Efficient and Resilient Housing
Senate Banking, Housing, and Urban Affairs Committee
May 18, 2022

Opening Statements

Chair Brown (D-OH) wished a speedy recovery to Senator Van Hollen. Brown then commented that outdated HVACs, home appliances and poor insulation, cost Americans money on gas and electric bills and also harm the overall economy. He emphasized the need to create homes that are more energy efficient, and to create more homes to meet the housing needs of Americans. He discussed how Secretary Fudge joined him and Rep. Beatty in Ohio last week to discuss the need for affordable housing. Building off the need for affordable housing, Brown cited statistics showing that federal housing assistance reaches only one-fourth of the renters and that the Wall Street business model funnels more money away from individual workers. Not only is there a lack of access to housing, but Brown noted that rents rose 11 percent on average and home prices rose 18%. Brown concluded by saying the purpose of the hearing was to discuss ways to build housing that will be more protected from fires and floods, more energy efficient and more suitable for Americans.

Ranking Member Toomey (R-PA) agreed with Brown that Americans are facing record high housing costs and first-time buyers and renters are being priced out of the market. Toomey commented on the Biden Administration's housing affordability plan, saying it doubled down on failed housing policies, including the House passed reconciliation bill. He furthered that the Biden administration is also considering pushing Fannie and Freddie into riskier activities which will hurt homeowners. He was grateful that the administration had not cut mortgage insurance premiums. Toomey thought that to increase access to affordable housing, the administration should remove the trade barriers, remove tariffs on lumber, steel and aluminum. He noted that consumers paid 13 billion more on steel and aluminum imports. Turning to energy and efficiency, Toomey anticipated hearing arguments that homes need to be more efficient to lower costs and help the environment. However, efficiency mandates are not the answer. He cautioned that adding solar panels and batteries to a new home will raise costs and that the government should not raise costs to consumers through regulations when markets already have incentives to create more energy efficient products. Regulations that mandate and limit consumer choice end up hurting the economy. Toomey said that the regulations also serve to mask the administration's other policies, like limiting pipeline developments. Workers in the Biden economy are falling further and further behind with rising gas prices. Toomey pointed to Katie Tubb's testimony and said that she testifies that onerous regulations end up hurting everyday Americans. He urged the government to focus on inflation and to create policies that restore American energy independence.

<u>Witness Testimony</u>

Ms. Ruth Ann Norton, *President & CEO, Green & Healthy Homes Initiative*: testified that low-income individuals have suffered the most from unhealthy homes that are susceptible to climate related events. By optimizing climate efficiencies. Ms. Norton believed Americans would benefit. She advocated aligning health and safety measures with climate efficiency measures. There are savings associated with having a healthier home, including by eliminating lead in homes. She noted that having healthier living conditions leads to children performing better in schools and households having lower medical costs. It also increases housing stability and lowers Medicaid costs. She highlighted her organization's work that proves that providing flexible home repair dollars help to increase housing stability. She advocated for building on this success through a $5 billion national Lead and Healthy Home Repair Fund and integrated funding models that more effectively leverage the substantial climate funding. By scaling the HOME funds to the Build Back Better levels of $25 Billion and providing $3 billion for CDBG, this would total $33 billion in investment that not only would transform lives around the country and create hundreds of thousands of jobs, but also save the federal government billions from avoiding the high cost of substandard housing. She mentioned a number of states that are working on these important issues. In places like Rhode Island, Tennessee, Pennsylvania, and Maryland her group demonstrated a comprehensive whole house approach with flexible home repair dollars and showed government cost savings and improved health outcomes such as a 70% reduction in asthma related hospitalizations and emergency room visits.

Ms. Katie Tubb, *Research Fellow, Center for Energy, Climate, and Environment, The Heritage Foundation*: testified that Americans choose energy efficiency products, but problems arise when federal subsidies and regulations enter into the conversation. She noted that weatherization programs have a history of waste, fraud and abuse. The Department of Energy (DOE) Inspector General recently published a special report reviewing implementation of the Weatherization Assistance Program in preparation for the significant influx of taxpayer spending from the Infrastructure Investment and Jobs Act. She noted that regardless of one’s opinion of the nature and pace of global warming, house weatherization programs and efficiency regulations are costly and ineffective ways to reduce emissions. Ms. Tubb expressed concerns about the increasing number of funds dedicated to weatherization programs. The Infrastructure Investment and Jobs Act which Congress passed last November includes an additional $3.5 billion over the next five years to the Weatherization Assistance Program, or roughly $700 million per year. This could easily put the program budget over $1 billion per year. She was also wary of the Office of Energy Efficiency and Renewable Energy releasing scores of regulatory reviews for common household products, including manufactured housing. These standards directly impact the daily lives of Americans. Ms. Tubb did believe that Congress and the administration must devote attention to those policies that are driving up housing costs.

Ms. Krista Egger, *Vice President, Building Resilient Futures, Enterprise Community Partners*: testified that her organization builds and preserves affordable homes and invests money across all 50 states. She noted that scientists have stressed the importance of limiting greenhouse gas emissions and that as a result of climate change, one in three Americans have faced an extreme weather event in the last year. By electrifying homes, she argued the United States can lower emissions and improve the health of Americans. Ms. Egger advocated for federal funding for green and energy efficient homes, noting that each year certified developments are reducing costs and carbon emissions. Her organization recommended that Congress incentivize a transition away from fossil fuels and set resilient building standards for new construction used with federal funding dollars.

Member Questions

Chair Brown (D-OH) focused on lead paint and said that the Lead Safe Cleveland Coalition was created to address concerns around lead paint and asked how the coalition's work helps protect Cleveland's children from lead and makes housing safer. Ms. Norton commended the Cleveland coalition, it raised over 100 million dollars to address lead in housing which has a damaging impact on children. Ms. Norton cited that 1.1 million homes have lead paint and to address this, it would cost $170 billion dollars. In Cleveland, the work they have done was benefited by investments from Cleveland Clinic to link lead poisoning prevention to other programs. This also needs to be addressed with the workforce and with buildings. She noted that these efforts will lead to a stronger housing market and will build a better community-based workforce. Brown then turned to Ms. Eggar and asked her about the savings for energy efficient homes. Ms. Egger said that green buildings are healthy, efficient and environmentally responsible and provide safe housing to those who need it most. She noted that her organization's work has led to more efficient housing costs and stressed that the incremental costs of building green pay back over the long run. Lastly, Brown asked what happens when a person wants to use the weatherization program but also has a lead paint issue. Ms. Norton said this issue highlights the need to align these programs, which would also save the government 20% by aligning and linking these programs through flexible funding. It also increases housing stability. She noted that if we are fracturing the system, we have long delays, and it hurts the long-term goals of housing and energy efficiency. Brown said that home repair dollars are needed with weatherization apps.

Ranking Member Toomey (R-PA) was concerned about adding more energy efficiency subsidies and regulations. He asked if there was a marketplace for construction techniques and products that are more energy efficient, in the absence of government regulations and subsidies. Ms. Tubb said that consumers reiterate that with their choices in the market. Toomey then moved on, saying that energy efficiency has tradeoffs and asked if the government should decide which products should be used. Ms. Tubb said that Americans have different needs, and the government should not mandate one product. Toomey then moved on to oil and gas and wondered how much variability people have in their consumption of energy. Ms. Tubb said it is not elastic in housing, when people cannot afford heating that is a matter of life and death, and 80 percent of Americans use coal, oil and natural gas to heat their homes and drive. Toomey reiterated that many Americans do not have a choice and when the government drives up those costs, the standard of living goes down. Toomey did believe there was a role for state and local governments to have different building codes to help protect against natural disasters. He specifically pointed out the flood insurance program and said that this program charges the riskiest homeowners. Ms. Tubb said that a climate ready home is not one we are constantly bailing out and that we should stop encouraging risky development in flood plains. It makes no sense to have a "climate ready home" in these danger zones.

Senator Reed (D-RI) mentioned his legislation, S. 2361, the Green Retrofits Act, to boost energy efficiency in thousands of multi-family residential homes nationwide. Ms. Egger said there was a need for green retrofits for HUD assisted housing. Building retrofits help homes and makes it so fewer disasters hurt these homes. Reed said there are long term savings that must be included in the cost benefit analysis. Ms. Egger said that the life cycle costs must be considered and looking at the one-time costs is not focusing on the benefit. Reed commented that the tenants do not make decisions about what type of utilities they buy or what they use and there is an incentive for the landlord to implement the cheaper products. Ms. Egger responded that it is harder to address the rental sector than the home ownership sector. Reed then moved on to discuss his legislation S. 3769, the Weatherization Assistance Program Improvements Act, and asked about the benefits of weatherization. Ms. Norton said that the reason their organization took on the green and healthy homes initiatives was because without alignment the costs of weatherization and lead prevention, families were having costs driven up. Additionally, Ms. Norton noted that by doing a weatherization assistance program, they have helped to lower rates of asthma. Weatherization also improves housing stability, cardiac health and community-based jobs. This also leads to intergenerational wealth transfer; it improves the value of homes and enables individuals to be more successful in the workforce.

Senator Ossoff (D-GA) asked about his Clean Energy for All Homes Act, specifically wondering what the main barriers are to widespread adoption of energy efficiency measures in lower and middle income households. Ms. Norton said that even when investments pay off quickly, lower- and middle-income families often cannot afford the initial investment. She advocated for lowering the energy bills in the home and making it more affordable to make those initial changes. By implementing clean energy, they can focus on other products that have poisoning impacts on families. Ms. Norton reiterated that moving from gas to electric and to clean energy is a long-term solution for lowering costs, but it also helps individuals long term health and creates housing stability. Ossoff then asked about weatherization and asked Ms. Norton to comment on how improved weatherization helps save folks on their energy bills. Ms. Norton said that low-income families have an energy burden of 42% which is outsized. We need to lower those energy bills and align that with flexible home repairs to ensure that the investments of weatherization are sustained over time. Then that energy saving gets moved into wealth building. Finally, Mr. Ossoff asked about the increasing number of weather events that are harming homes. He asked about her recommendations for how they can help coastal communities become more resilient. Ms. Egger said that the issues of flooding will only be increasing, and climate change is a threat multiplier. She would recommend Congress provide more funding to elevate homes, to provide buyouts and authorize FEMA to slow the increase of flood insurance premiums for low- and moderate-income families.

Senator Smith (D-MN) said residential energy use accounts for 20 percent of all energy usage. Smith noted that in 2020 many households had a hard time paying their energy bills and it was worse for minority communities. However, energy efficient upgrades have an upfront cost and lower income households are often priced out. She asked about the value of addressing those upfront costs, so families are not boxed out. Ms. Egger said that affordable housing is not just about the cost of your mortgage but also your utility bill. Investments in energy efficiency support long term affordability. Smith asked if we let the market drive those decisions and have those high upfront costs, would it further the inequities in our communities. Ms. Egger said it would and that the people who need the investments most are the least likely to be able to pay for them. Smith mentioned a tax rebate to overcome the cost barrier and then the return on investment will be better. Smith turned to renters and noted that almost 40 percent are living in housing built before 1970 and will benefit the most from energy retrofits. However, she was concerned because a lot of those buildings are owned by smaller owners with one or two units who do not have a lot of capital. She wanted to know what could be done for sole proprietors. Ms. Egger said it would require a multi prong approach to ensure costs are low enough so renters can pay for them and then pair that with capital and technical improvements.

Chairman Brown emphasized that low-income families are more vulnerable to climate related disasters. Ms. Egger said there must be investment prior to disasters, and this could include requiring resilient building standards to have them withstand disasters. On the back end we need to ensure that assistance can get to the most needed communities. Brown said that the people most likely to be hurt are those that are not able to get the community to back them. Ms. Egger agreed and said that these types of assistance programs are needed. Brown then asked her to talk more about mitigation efforts that families can take. Ms. Egger said that there are different strategies depending on the hazards that are present. So, it starts with education on the hazards and then the greatest risks that those hazards pose. Then it is implementing solutions to address the risks.

Ranking Member Toomey asked about lower income people paying a huge portion of their income in energy. Toomey said that PA has a lot of natural gas and yet it cannot be accessed because we do not allow additional pipelines. He asked if they had looked into whether the refusal to build that infrastructure is affecting energy costs for consumers. Ms. Tubb said that there are studies on the northeast and how it has prohibited expansion to their pipeline infrastructure, so their costs are higher, and they rely on foreign oil and natural gas. Ms. Tubb said this is a root problem and Congress is uniquely situated to address this problem. Toomey asked her about the difference between environmental standards in the U.S. and Russia. Ms. Tubb said that there is almost nobody that does it better, in terms of labor and energy efficiency, than the United States. These energy resources are in demand globally and those are the realities and now the United States is reliant on foreign natural gas.

Senator Menendez (D-NJ) noted that our housing stock needs to be increased. He talked about his federal grant program to leverage transportation assets and also cut carbon emissions. He asked if we should be increasing housing near transportation hubs. Ms. Egger said that transportation is the largest expense after housing and utilities. It also has a climate impact. Her program requires that all new housing construction is located within half a mile of a transit hub. Menendez then turned to flooding and said that most assistance comes after the natural disaster. He said the government needs to reduce flood hazards before natural disasters occur. He asked if the federal government should have more pre-flooding mitigation. Ms. Egger said the preemptive investments are much less costly. Ms. Egger said that better underground drainage is important. Menendez then discussed his NFIP legislation that implements preemptive measures.

Summary: The Senate Banking, Housing, and Urban Affairs Committee held a full committee hearing entitled, “Addressing Climate Change with Energy-Efficient and Resilient Housing.” This hearing was lightly attended as it was only attended by six members and Ranking Member Toomey was the only Republican to attend. The conversation mostly focused on making housing more energy efficient and resilient to weather events caused by climate change.

Flood Mitigation

Ranking Member Toomey (R-PA) specifically pointed out the flood insurance program and said that this program charges the riskiest homeowners. Ms. Tubb said that a climate ready home is not one we are constantly bailing out and that we should stop encouraging risky development in flood plains. It makes no sense to have a “climate ready home” in these danger zones.

Senator Ossoff (D-GA) asked about the increasing number of weather events that are harming homes. He asked about her recommendations for how they can help coastal communities become more resilient. Ms. Egger said that the issues of flooding will only be increasing, and climate change is a threat multiplier. She would recommend Congress provide more funding to elevate homes, to provide buyouts and authorize FEMA to slow the increase of flood insurance premiums for low- and moderate-income families.

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Multifamily Housing

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