



Statement before the House Committee on Ways and Means

Nowhere to Live: Profits, Disinvestment, and the American Housing Crisis

Government Policies Are Responsible for the American Housing Crisis that is Crowding Lower Income Households Out of the Housing Market

And why the Building Back Better Act's housing funding proposals will double down on past failed policies, fuel inflation, and once again place low-income and minority households in harm's way.

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Chairman Neal and Ranking Member Brady, and distinguished Members of the Committee, thank you for the opportunity to testify today.

Executive Summary:

The housing market is changing and the real culprit is a massive house price boom fueled by federal housing and monetary policies, which is increasingly crowding out lower-income Americans out of the housing market.

The current single-family housing boom, which began in 2012, was entirely foreseeable and was first noted by the AEI Housing Center in 2013. Since then, the housing market has been marked by too much demand chasing too little supply. Yet the policy response has been to boost demand even more: Federal housing agencies have loosened underwriting and the Fed has pursued zero interest rates and multiple rounds of quantitative easing, continuing even when the housing market began to appreciate at 16% in July 2021. In May 2022, home price gains were 17% and are only now expected to slow down as the Fed reverses these policies.

As a result, homeownership has gotten further out of reach for many lower-income and minority Americans. Consider that since 2012 wages have grown by 38%, but entry-level home prices have increased about 160%.¹

This out-of-control price spiral means increased competition for fewer and fewer affordable homes. Potential entry-level buyers are increasingly pushed to the sidelines as they cannot afford to compete with more deep pocketed individuals, who experience the same competition, but higher up the price spectrum.

This is creating knock-off effects for people downstream. Left unable to buy a home, they remain in the rental pool, helping to drive up rents, which are now increasing at 16% nationwide. Many who cannot afford these rent hikes will be pushed into homelessness.

If that were not enough, inflation is now running between 8% and 9% and a Gallup survey from Jun. 1-20, 2022 finds that the Gallup Economic Confidence Index is now at its lowest level since 2009²

Inflation is a regressive tax and getting by – not to mention building savings to buy a home – is becoming increasingly difficult. Thus, misguided policies have severely hamstrung lower-income Americans, in particular minorities, who severely lag White Americans in homeownership and intergenerational wealth. If they can no longer reach the first rung of the housing ladder, how will they ever catch up?

The solutions are straightforward.

First, do not repeat the mistakes of the past.

Congress has undertaken 70 years of efforts involving many trillions of dollars in program expenditures, tax benefits, and government guaranteed financing. Yet neither the goal of making owner-occupied and

¹ <https://www.epi.org/nominal-wage-tracker/> and <https://www.aei.org/housing>

² <https://news.gallup.com/poll/148613/economic-confidence-sinks-lowest-level-march.aspx>

rental homes affordable for low-income households, nor the goal of achieving generational wealth for low-income homeowners have been met.

The Build Back Better Act (BBBA) provides \$184 billion in new housing related program expenditures, confirming that we have not learned from these failures.

As a cautionary tale, let's examine the Housing and Community Development Act of 1968 and its aftermath. By 1975 its devastating inflationary impact and ineffectiveness were clear as these two books so forcefully document.

The first, "Cities Destroyed for Cash: The FHA Scandal at HUD", was written by a reporter at the *Detroit Free Press* in 1973. As the title indicates, in the aftermath of the 1968 act, neighborhood after neighborhood was ruined as they were "FHA'd". Many of these neighborhoods have yet to recover.

The second, "Housing Markets and Congressional Goals" (1975), was written by Ernest Fisher, one of the nation's leading housing economists for 50 years. Fisher noted that the 1968 act and its goals "were unrealistic as a quota of production, and...were inappropriate and would probably prove as disappointing as had many of the programs presented to and adopted by Congress over the past two and a half decades."

He observed:

[f]rom 1967 to 1971...the Boeckh index of cost of residential construction rose by nearly 33%, and the average sales price of new houses purchased with the assistance of FHA mortgage insurance rose by 28%, from \$18,611 in 1967 to \$23,835 in 1971.

[Expanding leverage] so as to make home purchase "possible for lower income prospective purchasers" may bring greater profits and wages to builders, building suppliers, and building labor rather than assisting lower-income households compete in the market.

There you have it: the 1968 act led to neighborhood ruination, scandal, housing inflation, and government profit seeking.

In my view, BBBA would have the same unrealistic and disappointing results.

Next, with regard to zoning, the federal government has again had a sordid past. The federal government back in 1921 led a national effort to implement exclusionary zoning and land use policies designed to make newly built homes too expensive for racial and ethnic groups to afford and we are still living with the consequences.

There is no denying that we need more market rate supply. But subsidies and easy credit are not the solutions. There is a growing consensus that to make housing more affordable we must increase supply, not ease credit or increase government subsidies or suppress interest rates. In order to stop the price spiral that is pricing lower-income Americans out of the housing market and driving up rents we need more market-rate supply. Let me add, zoning and land use policies are fundamentally a state and local issue and should be addressed at those levels. We are already seeing promise across the country, even in California, where the legislature has recently passed laws, which could meaningfully encourage new construction activity.

Next, federal policies to boost demand have been shown to be counterproductive. The Fed has belatedly realized that it needs to tighten the monetary spigot. But its policies have already done a lot of damage and will continue to haunt lower income Americans in the form of higher home prices, inflation, and rents for years to come.

The compounding effect of these changes will mean less resiliency for borrowers and neighborhoods, many of which are lower-income and minority, to withstand an economic stress event. With many economic dangers from rising interest rates, inflation, and sky-high home prices, lurking, regulators should do more to protect borrowers and taxpayers, rather than lowering lending standards. We have seen this movie before and we should not allow it to happen again.

What should be done beyond state and local actions to add to supply? Congress should set a policy goal of reliably building sustainable generational wealth for lower-income and minority Americans. Build intergenerational wealth and neighborhood and borrower resiliency by reducing the loan term on high-risk loans to 20- or 15-years on high-risk loans (*Low-Income First Time Homebuyers (LIFT Home)*):³

- The FHA should implement Low-Income First Time Homebuyers (LIFT Home) for low-income, first-time, first-generation home buyers.⁴
- The GSEs should implement the Wealth Building Home Loan to reduce risk to taxpayers and to encourage borrowers to build equity.⁵
- Congress should consider funding the Low-Income First-Time Homebuyer tax credit (LIFT Home).⁶ U.S. Senator Mark R. Warner (D-VA) and colleagues in 2021 introduced the *Low-Income First Time Homebuyers (LIFT) Act* to establish a new program to help first-time, first-generation homebuyers – predominately Americans of color – build wealth much more rapidly. By offering new homeowners a 20-year mortgage for roughly the same monthly payment as a traditional 30-year loan, LIFT will allow them to grow equity twice as fast.⁷

Testimony:

This hearing could not be timelier, as today's environment presents many challenges:

- Burgeoning home prices driven to record levels by the Fed's easy money policies, supply constraints, wide home price disparities across the nation, and demographics.
- The combination of record home prices and a near doubling of mortgage rates from recent record lows has caused [housing affordability](#) to drop to the lowest level since 2006.
- Home supply remains near the lowest level on record, and is even lower for lower priced entry-level homes.

³ [Wealth Building Home Loan and LIFT Home](#)

⁴ LIFT loans should be structured as an interest rate buy down on a 20-year loan made to first-generation homebuyers, rather than down payment assistance. The rate buy down, combined with a slightly lower rate due to the shorter term, along with a lower mortgage insurance cost, allows LIFT Home to have the same buying power as a 30-year loan. For the rate buy down, assistance should be provided as compensation to HUD/Rural Housing/Treasury for buying a below market yield Ginnie MBS.

⁵ Applies the same concepts as LIFT Home, but runs through conventional loans and without federal subsidy.

⁶ BBBA provided \$5 billion for Lift Home.

⁷ <https://www.warner.senate.gov/public/index.cfm/2021/9/warner-colleagues-introduce-legislation-to-assist-first>

- Overly restrictive zoning and other land use regulations are largely responsible for the supply shortfall.
- Work from Home (WFH) households are taking advantage of the arbitrage opportunity presented by price distortions across geographies, largely created by zoning and land use restrictions.
- The result has been an overheated market with home prices up by 17% on a year-over-year basis for May 2022.
- With the Fed reversing course on monetary policy, mortgage rates are now about 6% and, as a result, projected home price appreciation for July has slowed to 10%, with a further slowdown to 6% expected by December 2022.
- For 70 years our nation’s low-income housing policy has equated high leverage and resulting elevated default risk with affordability.
- As a result, for many of low-income buyers, homeownership has not been effective in building inter-generational wealth.

Today this committee finds itself having to deal with the aftermath of twin housing policy failures inflicted by the federal government on the nation.

First, notwithstanding 70 years of federal efforts involving many trillions of dollars in program expenditures, tax benefits, and government guaranteed financing, neither the goal of making owner occupied and rental homes affordable for low-income households nor the goal of achieving generational wealth for low-income homeowners have been met. What has been achieved is the highest level of foreclosures by far of any developed country in the world.

And we clearly have not learned from these failures as the Build Back Better Act (BBBA) would provide \$184 billion in new housing related program expenditures.

Second, back in 1921 the federal government began a national effort to implement exclusionary zoning and land use policies designed to make newly built homes too expensive for racial and ethnic groups to afford.⁸

We are still living with the zoning and land use policies developed and rigorously promoted by the federal government. This effort was spearheaded by the U.S. Department of Commerce (hereafter “Commerce Department”), the Division of Building and Housing. The goal was to keep Blacks and immigrants from southern and central Europe in zoning districts segregated from whites. Zoning was used to create geographically separate districts where one-unit single-family detached housing was excluded or segregated from multifamily housing, even 2-family homes. Beginning in 1934 the newly formed Federal Housing Administration took over from the Commerce Department and went on to play a pivotal role in continuing the use of zoning to keep Blacks and immigrant groups in zoning districts

⁸ Pinto, et al., Chapter 1, <https://www.aei.org/light-touch-density/>, January 2022

segregated from Whites. The lasting impact of the Commerce Department's and FHA's actions is clear. To this day the vast majority of residential land in major American cities is zoned exclusively for single-unit detached homes. These zoning and land use policies had at their core the driving up of the cost of building new homes in a determined and successful effort to price racial and ethnic groups out of newly built neighborhoods. These same policies were designed to keep multifamily housing (including 2-4 unit homes and townhouses) in zones away from neighborhoods consisting of 1-unit, single-family detached structures.⁹

Given the federal government's history in constraining supply and raising costs along with its penchant for complicated, one size fits all policy solutions, the resolution of zoning and land use issues must be left to the states and local jurisdictions to address.

Policy effects

The above-mentioned federal policies have:

- Subjected low-income (LI) homebuyers to higher leverage, looser lending standards, unsustainable price boosts, greater home price volatility, and unknowing land speculation. When combined with limited generational wealth-building opportunities, LI households are ill equipped to handle these risks.
- Constrained lower cost supply by making it illegal in most cities to build more affordable 1-, 2-, 3-, 4-unit, and single-family attached homes (Light Touch Density) in 1-unit single-family detached neighborhoods. Since 1940 this has prohibited the construction of an estimated 8 million 2-, 3-, 4-unit, and single-family attached homes and has kept housing markets from responding to demand by adding new supply.

Given these twin policy failures, it comes as no surprise that we have a broken housing ladder—the result of home prices rising much faster than incomes, which makes it harder and harder for aspiring homebuyers to climb onto the first rungs.

What I call the “Paradox of Accessible Lending” explains this result:

When supply is constrained, credit easing and easy money are capitalized into higher home prices, thereby making entry level homes less affordable.

Let us be clear, the housing market is becoming less affordable, not because of institutional landlords or other private sector actors, but due to misguided federal policies.

⁹ A similar instance to zoning exists in the job market. In 1931 the Davis-Bacon Act was passed. It had as its purpose to keep Blacks from competing successfully for jobs that Whites wanted. The Davis-Bacon congressional debate was replete with references to "itinerant labor" or "cheap bootleg labor" or "labor lured from distant places" for "competition with white labor throughout the country."

<https://www.washingtonpost.com/archive/opinions/1995/02/05/davis-bacon-and-the-wages-of-racism/d63f9cc5-8c35-4033-b68a-992f015644e2/>

Simply spending more has not worked in the past and has had unintended consequences, largely inflicted on low-income and minority households. If government spending were able to assure affordability, hearings such as this would be superfluous. While plenty of programs already exist, they are just ill-conceived, ineffective, or make the problem worse by driving up home prices, rents, general inflation, and foreclosures.

The [Build Back Better Act \(BBBA\) as passed by the House](#) in November 2021 would repeat and expand upon past policy mistakes. BBBA contained about \$184 billion in housing related funding. The president in May 2022 continued to push for many of its provisions.¹⁰

The last time Congress provided subsidies to build or rehabilitate millions of homes was with the passage of the Housing and Community Development Act of 1968. This 1973 book's title sums up devastation that followed: *Cities Destroyed for Cash: The FHA Scandal at HUD*. The 1968 Act contributed to unprecedented levels of FHA foreclosures and many neighborhoods have yet to recover.¹¹

The impact of the 1968 Act was summed up in 1975 by Ernest Fisher, after having spent 50 years studying housing policy:¹²

It might not be inappropriate here to call attention to the fact that in contemplation of and following the passage of the Act of 1968, mandating the most colossal volume of construction ever contemplated and at least implying that funds would be made available to enable subsidization of the portion of that volume that was necessary to secure its realization, from 1967 to 1971—in four years the Boeckh index of cost of residential construction rose by nearly **33%**, and the **average sales price of new houses purchased with the assistance of FHA mortgage insurance rose by 28%**, from \$18,611 in 1967 to \$23,835 in 1971 (emphasis added).

[T]he tendency for costs and prices to absorb the amounts made available to prospective purchasers or renters has plagued government programs since the introducing the Federal government into direct participation in the construction and rental markets was launched in 1934. Close examination of these tendencies indicates that promises of extending the loan-to-

¹⁰ <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/16/president-biden-announces-new-actions-to-ease-the-burden-of-housing-costs/>

¹¹ Pinto and Pollock document this in detail: "The first time began in 1968 when HUD developed a "10-year housing program to eliminate all substandard housing." Since there were then, like now, very large budget deficits, this program was implemented off-budget. The answer was the 1968 Housing and Urban Development Act, which had FHA insuring the 10-year plans' subsidized single- and multifamily loans and Fannie funding them. Fannie was up to then a government agency with its debt on-budget. The 1968 Act converted it to an off-budget GSE. Now it was in a position to fund the largest expansion of newly built and rehabilitated subsidized housing in the nation's history with up to 40-year fixed-rate loans. There have been only two years where privately owned single- and multifamily housing completions exceeded 2 million: 1972 (2.00 million) and 1973 (2.10 million)—when the population was 210 million and the number of households was 67 million, 36% and 48% respectively and smaller than today. As a reference, in 2006, at the peak of the Housing Bubble, there were 1.98 million completions. In just a few years, HUD's program turned into a disaster for cities and their residents, as described in the book *Cities Destroyed for Cash: The FHA Scandal at HUD* written in 1973. Detroit, Chicago, Cleveland, and many other cities never fully recovered from the effects of HUD's scheme. By the early 1980s, Fannie's investment in these loans had suffered huge interest rate risk losses that left it effectively insolvent. It was only able to continue in business given its GSE status and backing by the Treasury." <https://lawliberty.org/the-next-housing-bust/>.

¹² Fisher, *Housing Markets and Congressional Goals*, 1975

value ratio of the mortgage and extending its term so as to make home purchase “possible for lower income prospective purchasers” may **bring greater profits and wages to builders, building suppliers, and building labor rather than assisting lower-income households compete in the market** (emphasis added). Similarly, maximum costs, rents, and prices set by law or by regulation very promptly have become minima as well as maxima.

There you have it, a succinct explanation as to why enacting the Build Back Better Act (BBBA) would be a disaster for housing markets, markets that are already reeling from past policy mistakes.¹³ (see appendix 2 for a list of many other congressional enactments going back to 1931).

Let me be more specific:

On the supply side, Congress should avoid funding programs that have a poor track record:

- Stop pouring tens of billions of dollars into public housing, in a futile effort to get public housing right.
- Stop providing tens of billions in subsidies to build or rehabilitate millions of homes, in a futile effort to subsidize our way out of our housing supply problems.
- Stop expanding the LIHTC program which has worked to reinforce racial discrimination and crowd out naturally affordable housing that could be built by the private sector.

On the demand side, programs currently debated will similarly fail unless the supply shortage is addressed first:

- Refrain from Build Back Better’s many demand-side subsidies (e.g., BBB’s down payment assistance and rental assistance). Providing first-time buyer down payment assistance in a tight housing market would be like pouring gasoline on a fire.
- Refrain from other seemingly quick fixes like reducing the FHA mortgage insurance premium. The extra buying power provided will, in a seller’s market’ merely be capitalized into higher entry level home prices.
- Refrain from forgiving student loan debt during an overheated housing market, which would increase first-time buyer buying power and increase demand, which would again result in higher home prices.

The [Build Back Better Act as passed by the House](#) contained about \$184 billion in housing related funding (including additional funding of [\\$10 billion](#) for the Low Income Housing Tax Credit). These appropriations would largely go to fund either programs that have a troubling history of scandal and failure or to support programs that will promote higher construction costs and fuel house price and rent inflation. It will also feed consumer inflation.

- Public Housing Investments: \$65 billion (see [NYT: The Rise and Fall of New York Public Housing: An Oral History](#))

¹³ Similarly, thirty-five years ago, Congress established the Low-Income Housing Tax Credit (LIHTC). Yet the LIHTC program has worked to reinforce racial discrimination. Just last month the City of Chicago reported that “since 2000, the majority of Chicago’s LIHTC developments have been new construction located in high-poverty, majority Black areas, with a quarter located in higher-income “opportunity” areas.”

- Investments in Affordable and Accessible Housing Production: \$10 billion (see [Washington Post: They found dream homes through D.C.'s first-time homeowners' program. Now they have to evacuate](#))
- Housing Vouchers and Project-Based Rental Assistance: \$25 billion (see [City Journal – Glaser: Don't Universalize Housing Vouchers; Subsidizing demand in America's constrained housing markets will further increase rents.](#))
- Low Income Housing Tax Credit (LIHTC): \$10 billion (see [ProPublica: Separated by Design: Why \[LIHTC-Supported\] Affordable Housing Is Built in Areas With High Crime, Few Jobs and Struggling Schools](#) and [NPR: Affordable Housing Program Costs More, Shelters Fewer](#))
- Community Development Block Grant Funding: \$3.05 billion (see [Urban Institute: Community Development Block Grant \(CDBG\) is an important potential source of LIHTC funding](#))
- National Flood Insurance Program Forgiveness: \$20.5 billion (see R Street: [Risky business, reforming America's flood insurance model](#))
- First-Generation Down payment Assistance: \$10 billion (see: [Higher demand could lead to higher home prices throughout the market. If you are already dealing with a hot market in your area, the competition could increase even further](#))
- Miscellaneous other programs: Community Restoration and Revitalization Fund: \$3 billion, Housing investment Fund: \$750 million, Section 811 Supportive Housing for People with Disabilities and Section 202 Supportive Housing for People with Disabilities: \$500 million for each, Improving Energy or Water Efficiency or Climate Resiliency: \$2 billion, Revitalization of Distressed Multifamily Properties: \$1.6 billion, Investments in Rural Rental Housing: \$2 billion, Investments in Native American Communities: \$1 billion, Unlocking Possibilities Program: \$1.75 billion

Lower income Americans are getting crowded out of the housing market

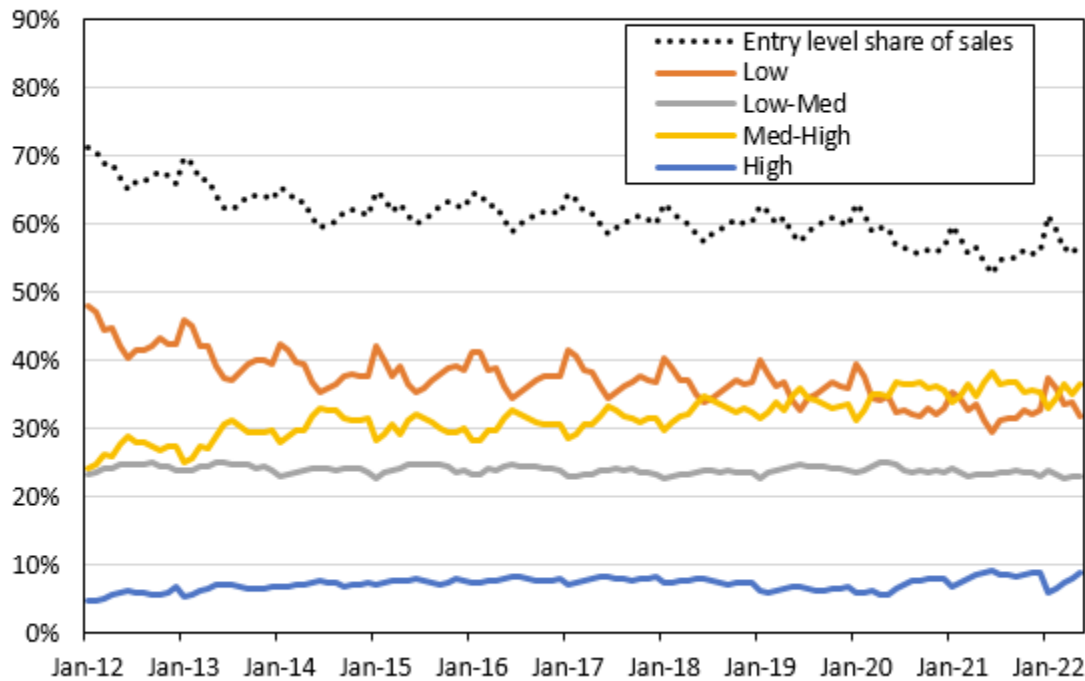
Due to the rapid home price appreciation, potential buyers that otherwise would have been able to buy a home are getting crowded out of the market. Due to the combination of record home prices along with mortgage rates nearly doubling from their Fed-induced record low, just last week the Wall Street Journal reported that housing affordability had hit the lowest level since 2006. Even while the middle class is getting priced out of the housing market. Many low-income and minority Americans may be squeezed out of the market entirely.¹⁴

Example 1:

- The entry-level share of home sales has been declining from 71% in Jan. 2012 to 55% in May. 2022.

¹⁴ <https://www.wsj.com/articles/housing-affordability-index-drops-to-lowest-level-since-2006-1165728800>

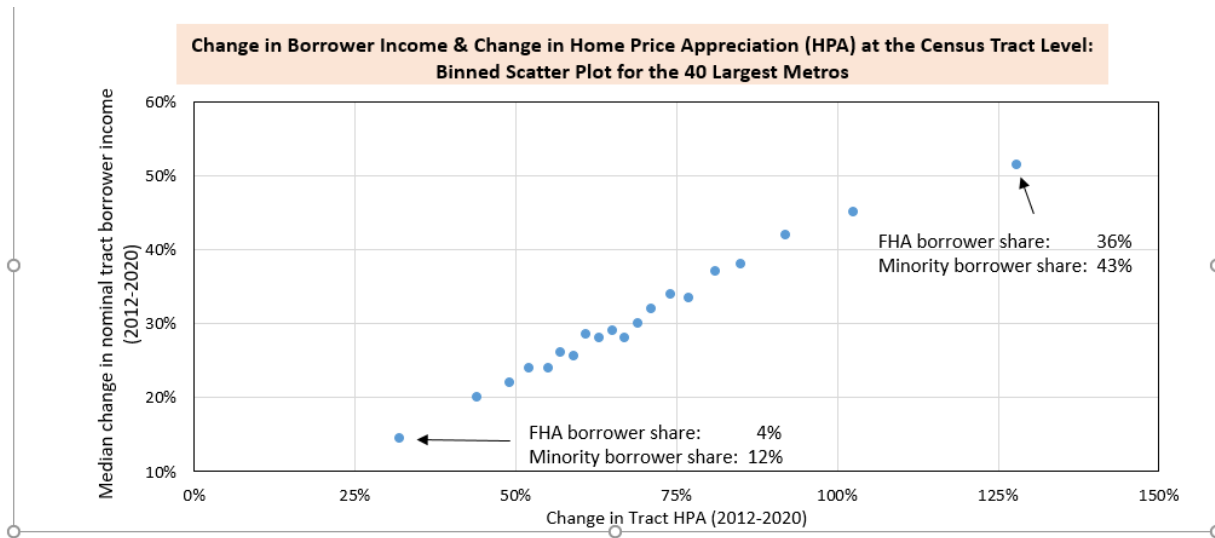
Share of All Sales



Source: AEI Housing Center.

Example 2:

- Given the tight supply, rapid price appreciation, and declining share for entry level homes, a natural consequence would be the crowding out of lower income home buyers.
- We were able to confirm this by examining census tracts with the fastest HPA (+125% since 2012) and we observed borrower income growth (+50%) twice the rate of the national income growth (~27%).
 - Unfortunately, it is highly implausible that the incomes for this group of borrowers have gone up that fast.
 - It is much more probable, that due to the rapid price spiral, a different mix of buyers is buying the limited supply of homes in these neighborhoods.
 - For example:
 - In 2012, the borrowers purchasing in census tract A had a median income of \$40,000.
 - By 2020, these borrowers should be making \$51,000 according to wage statistics from the Atlanta Fed.
 - However, in 2020, we observe that the borrowers now purchasing in census tract A have a median income of \$61,000.
 - Had the borrowers from 2012 not purchased in 2012, but rather tried to purchase in 2020, their income would not have sufficed to compete with the higher income borrowers that actually purchased in 2020.
- The census tracts with the fastest HPA also had the highest share of FHA purchase loans (an indicator for lower-income) and minority borrowers.

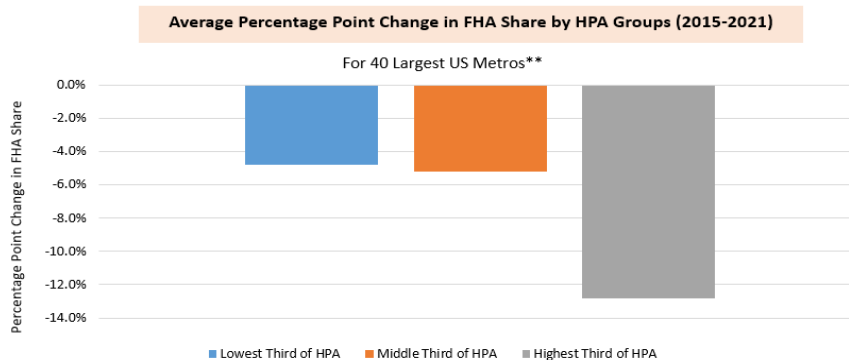


Note: Tracts are weighted by their respective loan counts. Binned scatter plot accounts for differences in metros. FHA and minority borrower shares are for 2020. HPA stands for constant-quality home price appreciation
 Source: HMDA and AEI Housing Center, www.AEI.org/housing.

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Example 3:

- The top one-third of large metros with the highest growth in HPA have seen a 13-percentage point reduction in FHA purchase loan share compared to a 6-percentage point reduction for the two-thirds of metros with lower levels of HPA.
- Since FHA is a proxy for lower-income and minority borrowers, this trend is indicative of substantial crowding out of low income and minority potential home buyers.



* FHA purchase share is used as a proxy for lower income, minority, first-time, and first-generation borrowers
 **Metro Cities in Lowest Third HPA Category: Baltimore, MD; Chicago, IL; Cincinnati, OH; Cleveland, OH; Houston, TX; Kansas City, MO; New York, NY; Philadelphia, PA; Pittsburgh, PA; Raleigh, NC; San Antonio, TX; St. Louis, MO; Virginia Beach, VA; Washington, DC.
 Metro Cities in the Middle Third HPA Category: Austin, TX; Boston, MA; Cape Coral, FL; Charlotte, NC; Columbus, OH; Dallas, TX; Detroit, MI; Indianapolis, IN; Jacksonville, FL; Los Angeles, CA; Miami, FL; Minneapolis, MN; North Port, FL.
 Metro Cities in Highest Third HPA Category: Atlanta, GA; Denver, CO; Las Vegas, NV; Nashville, TN; Orlando, FL; Phoenix, AZ; Portland, OR; Riverside, CA; Sacramento, CA; San Diego, CA; San Francisco, CA; Seattle, WA; Tampa, FL.

Source: American Community Survey, Public Records, and AEI Housing Center, www.AEI.org/housing.

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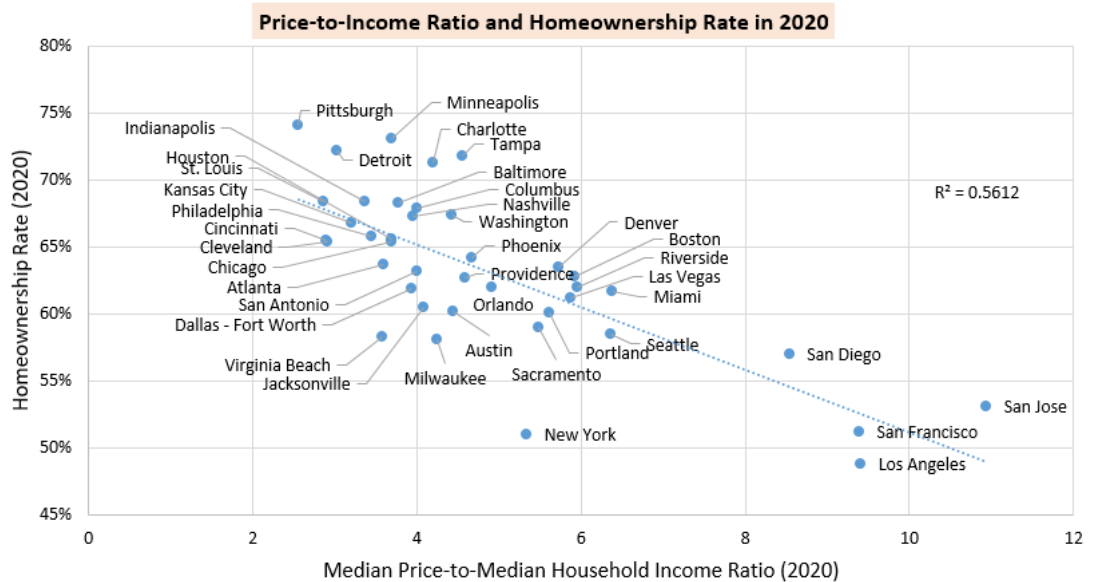
The rapid home price appreciation, which is beyond market fundamentals, is primarily affecting lower income, first-time, and first-generation home buyers.

The conclusion is that because of an out-of-control price spiral there is increased competition for fewer and fewer affordable homes. Potential entry-level buyers are increasingly pushed to the sidelines as

they cannot compete with more deep pocketed individuals, who experience the same competition only higher up the price spectrum, and so on. These trends are indicative of the crowding out of low income and minority potential home buyers, which results from the house price boom due to federal monetary and housing policies. It is a violation of the Fair Housing Act. This includes the actions of HUD, FHA, FHFA, CFPB, and the Fed.

When would be buyers are being crowded out of the market, it creates problems downstream:

- If potential buyers can no longer afford homeownership, they continue to rent, which lowers the homeownership rate.
 - There is already a noticeable correlation between home prices and the homeownership rate for the largest metros. The higher prices are, the lower the resulting homeownership rate.



Note: Data are for the largest 40 metros based on the number of households.
 Source: Harvard Joint Center for Housing Studies, Census Bureau, and AEI Housing Center, www.AEI.org/housing.

- With more borrowers being crowded out, there is additional demand for rentals, which increases rents.
 - Rents are now going up at 15.9% nationally and are expected to remain elevated for the foreseeable future.¹⁵
- Higher rents mean potentially higher rates of homelessness.
- Higher inflation, now running in the 8-9% range, further threatens people’s paychecks, especially lower income ones.
 - A Gallup survey for the week ending July 17 finds that the Gallup Economic Confidence Index is now at its lowest level since 2009.¹⁶

¹⁵ See <https://www.calculatedriskblog.com/2022/07/rent-increases-up-sharply-year-over.html>

¹⁶ <https://news.gallup.com/poll/148613/economic-confidence-sinks-lowest-level-march.aspx>

- “Fifty percent of Americans now rate current economic conditions ‘poor’ -- the worst reading on the metric since August 2010.”¹⁷

Policies by the federal government and Federal Reserve have been the culprit for crowding lower-income Americans out of the housing market

Economics 101 teaches that more demand against a limited supply will drive up prices.

In housing, when supply is constrained (as it has been since 2012), credit easing will make entry-level homes less affordable. This is the paradox of accessible lending.

Yet there have been plenty of demand boosters, which have powered the current housing boom are crowding out lower-income and minority Americans:

- Federal Reserve – Easy monetary policy during a seller’s market has contributed to rapidly rising home prices and also, more recently, inflation.
 - Quantitative Easing (QE) 3 announced in September 2012: coincides with the start of the current housing boom.
 - QE4 announced in March 2020: While justified at the beginning of the pandemic, it became quickly clear that the housing and labor markets did not need the massive support. The Fed is finally, albeit belatedly and slowly, unwinding the GSE asset purchases.
 - Artificially low interest rates: All else equal a 1 ppt. drop in the mortgage rates translate into a 9% increase in buying power. Since all borrowers, as well as anyone shopping in the market benefits from it, most of the benefit gets capitalized into higher home prices, thus benefitting the home seller, not the buyer. In addition, lower rates attract new buyers into the market (second or investment home buyers, renters, etc.), thus also increasing the pool of potential buyers.
- Agencies (primarily GSEs and FHA) – Loose government underwriting policies for first-time buyers during a seller’s market have contributed to increasing house prices, not to better housing outcomes.
 - Leverage, albeit lower than during the 2000s, has been increasing.¹⁸ The AEI National Mortgage Default Rate (NMDR) -- which measures underwriting standards or leverage—increased from 2012 until efforts by FHFA Director Mark Calabria and FHA leadership started to rein it in starting around mid-2019.¹⁹ The pandemic has further contributed to a tightening of underwriting, however, there are worrying signs again:
 - FHA’s NMDR is close to matching its series’ high, concerning since FHA loans are highly concentrated in lower income and minority neighborhoods.
 - The NMDR is likely lower than it would otherwise be due to the crowding out of the riskiest borrowers. However, there are concerted efforts under way to bring them back into the market. The proposals brought forth have focused on further credit easing (discussed below).

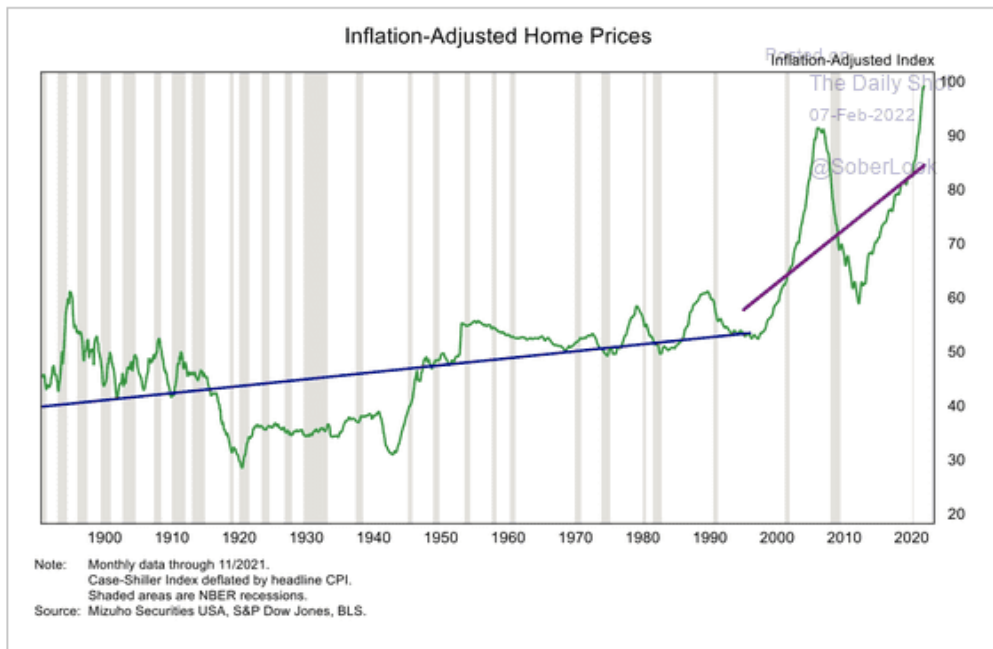
¹⁷ Ibid.

¹⁸ Davis, M.A., Larson, W.D., Oliner, S.D. and Smith, B.R., 2019. A Quarter Century of Mortgage Risk. American Enterprise Institute, working paper, 4.

¹⁹ <https://www.aei.org/housing/mortgage-risk-index/>

- Because supply remains near all-time lows, any increases in leverage will likely push home prices even higher, thus extending the current housing boom and further worsening affordability. For example, lowering the FHA mortgage insurance premium, which is being [considered by the Biden administration](#), and BBBA's down payment assistance would be quickly capitalized into higher home prices.
 - A California government report recently noted: "California's primary method of helping homebuyers is with down payment assistance. Without more homes, this simply results in buyers bidding up housing costs with the state's backing as they compete for the same homes."²⁰

The confluence of monetary and government policies over the last 25 years has contributed greatly to rapidly increasing home prices, which – by historical standards – is highly unusual. In addition, the increase in housing wealth has furthered inequality.



Source: [Mizuho Securities USA](#)

Reliably building sustainable generational wealth for lower-income and minority Americans should be the goal

There is a growing consensus that to make housing more affordable we must increase supply, not ease credit or increase government subsidies or suppress interest rates. Even a few progressive think tanks

²⁰ <https://lhc.ca.gov/report/california-housing-building-more-affordable-future>

and cities have come around to this view.²¹ In order to stop the price spiral that is pricing lower-income Americans out of the housing market and driving up rents, we need to address the following issues:

- More supply:
 - Federal mandates and subsidies are not the answer. They have crashed and burned every time.
 - Zoning and land use policies are fundamentally a state and local issue and should be addressed at those levels. Fortunately, many cities and states are already experimenting with increasing housing supply. California’s ADUs law and SB-9, for example, relax single-family zoning by restoring property rights and relying on private enterprise. If California can pass these laws, then this should be the blueprint for others too.
 - One needs to be both patient and careful, reversing the effects of the federal government’s 100-year-old exclusionary zoning policies will take decades.
- Eliminate demand boosters as they create unaffordability until balance between supply and demand has been restored:
 - Congress should task FHA, not the GSEs, with guaranteeing loans for high-risk, low-income borrowers.
 - FHA should limit mortgage default risk at loan origination through the use of shorter loan terms.
 - HUD should study how to increase borrower resiliency by examining the effectiveness of the residual income test, month’s reserves at closing, the Massachusetts Housing Finance Agency unemployment program, and a loan with a reserve accumulation component. In all cases, the data should be made available to private researchers for independent study and evaluation.
 - FHFA should set a limit on mortgage default risk at loan origination.
 - The MDR is a comprehensive stressed default rate, which represents the worst-case scenario stress test similar to a car crash test or a hurricane safety rating. The NMDR has shown to be incredible predictive of loan defaults during the COVID- 19 pandemic.²²
 - The MDR would also help end policies, especially risk layering, that have had a disparate impact on low-income households, especially ones of color, and would therefore affirmatively further fair housing under the Fair Housing Act.
- Build intergenerational wealth and neighborhood and borrower resiliency by reducing the loan term on high-risk loans to 20- or 15-years on high-risk loans:²³

²¹ Sightline Institute has tackled that notion directly. Not only can you build your way to affordable housing, in fact, building more supply may be the only effective way to reduce the pressure that is driving up rents and producing displacement. There’s ample evidence for this position, but there’s still the strong sense that addressing our housing problem by building more high-end housing is a cynical and ineffective kind of “trickle down” economics. “The battle cry of the low income housing advocates is “you can’t build your way to affordability.”” See for example <https://cityobservatory.org/the-end-of-the-housing-supply-debate-maybe/> and <https://www.sightline.org/2017/09/21/yes-you-can-build-your-way-to-affordable-housing/>.

²² <https://www.aei.org/housing/mortgage-risk-index/>

²³ [Wealth Building Home Loan and LIFT Home](#)

- The FHA should implement LIFT Home for low-income, first-time, first-generation home buyers.²⁴
- The GSEs should implement the Wealth Building Home Loan to reduce risk to taxpayers and to encourage borrowers to build equity.²⁵
- Congress should consider funding the Low-Income First-Time Homebuyer tax credit (LIFT Home).²⁶ U.S. Senator Mark R. Warner (D-VA) and colleagues in 2021 introduced the *Low-Income First Time Homebuyers (LIFT) Act* to establish a new program to help first-time, first-generation homebuyers – predominately Americans of color – build wealth much more rapidly. By offering new homeowners a 20-year mortgage for roughly the same monthly payment as a traditional 30-year loan, LIFT will allow them to grow equity twice as fast.²⁷
- The advantages are:
 - A shorter-term loan builds equity much faster than a traditional 30- year loan.
 - The earlier pay-off date provides access to additional cash flow to pay children’s post-high school education, and fund retirement.
 - The 20-year term reduces default risk by about 50%, which allows for lower FICO score loans to be made more safely.
 - This is a big boost to expanding Black and Hispanic home ownership, as a low credit score is a major impediment.
 - The 20-year term has better default mitigation and remediation options compared to 30-year.
 - The rate buy down limits the subsidy from being capitalized into higher prices, thus limiting the potential for crowding out.
- Shrink the government’s footprint in the housing market:
 - The rationale for doing so is that
 - Despite the government’s efforts over the last 60 years, homeownership today stands at about the same level as in 1964.
 - The GSEs continue to dominate lending with about 50% market share, with total government involvement at about 80%. This is not allowing the private sector to gain more than a foothold, much less grow.
 - GSE subsidies are not well targeted to helping low- and moderate-income, first-time buyers. The lion’s share of the benefit is going to existing middle- and increasingly upper income homeowners, as evidenced by high-cost conforming loan limits of almost \$1 million used by the GSEs.
 - Housing finance policy is on autopilot, creating harmful market distortions while failing to deliver meaningful results.

²⁴ LIFT loans should be structured as an interest rate buy down on a 20-year loan made to first-generation homebuyers, rather than down payment assistance. The rate buy down, combined with a slightly lower rate due to the shorter term, along with a lower mortgage insurance cost, allows LIFT Home to have the same buying power as a 30-year loan. For the rate buy down, assistance should be provided as compensation to HUD/Rural Housing/Treasury for buying a below market yield Ginnie MBS.

²⁵ Applies the same concepts as LIFT Home, but runs through conventional loans and without federal subsidy.

²⁶ BBBA provided \$5 billion for Lift Home.

²⁷ <https://www.warner.senate.gov/public/index.cfm/2021/9/warner-colleagues-introduce-legislation-to-assist-first>

- Communicate to the market place that the following changes will arrive sequentially and according to a fixed timetable.
- Remove high-cost loan limits, which are now approaching \$1 million. These limits were intended to be temporary.
- Reduce or cap national loan limits.
- Eliminate GSE loans for second and investor homes, which do not increase homeownership.
- Eliminate Cash-out refinances, which do not promote homeownership.
 - The gradual nature of this plan ensures that it can easily be paused and reversed, if the private sector fails to step in.
 - One should also consider that the current system has not materially increased the homeownership, not to mention, closed the racial homeownership gap.

Avoiding unintended consequences

Relaxing underwriting requirements in an overheated housing market has been tried many times since 1954 and has only reduced affordability.

There is a growing consensus that the way to make housing more affordable is to increase supply, not to ease credit, increase government subsidies, or suppress interest rates.

Yet, rather than shrinking the government’s footprint or reducing risk, Fannie has already increased risk layering and FHFA has recently made policy changes that increases GSE competition with the private sector and will lead to greater risk-layering. Many other changes are being discussed.

The most significant policy and regulatory changes are listed below:

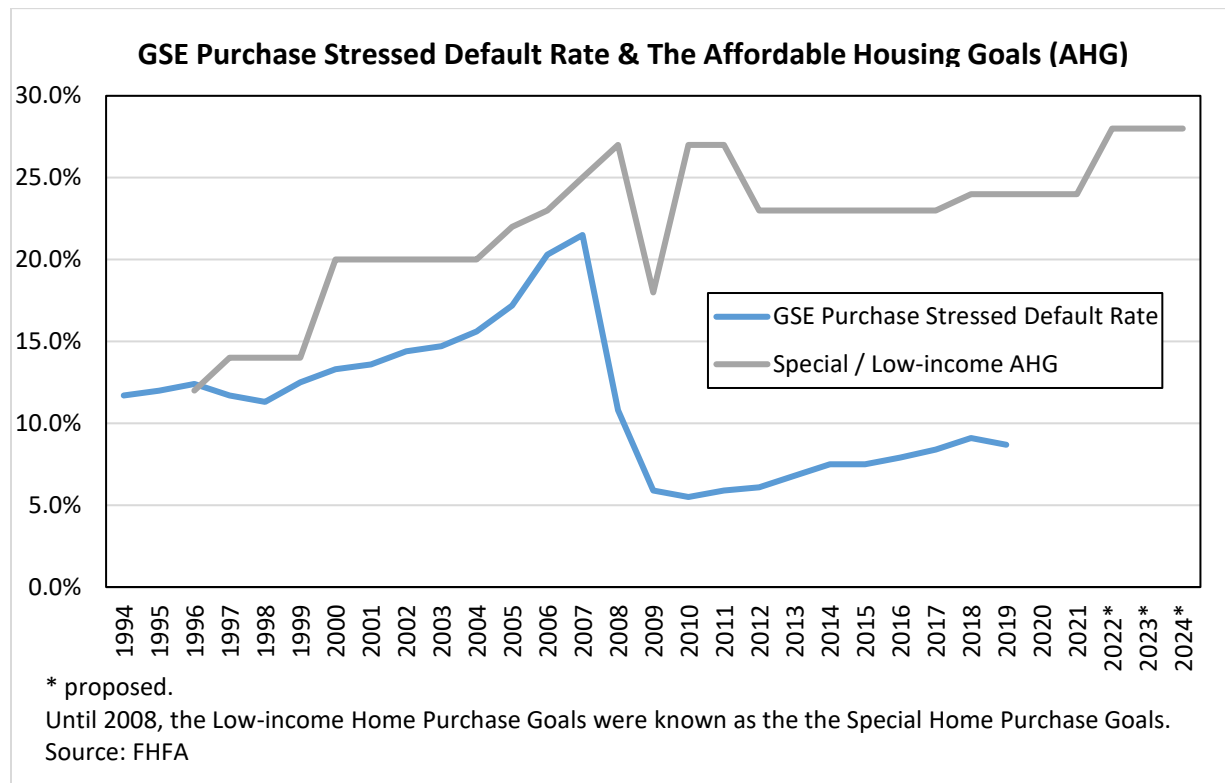
- June 2021: CFPB delayed the mandatory compliance data of the QM rule until Oct 1, 2022. The CFPB’s 2020 replacement of the QM rule with a new standard based on the Average Prime Offer Rate) would similarly relax underwriting requirements and thus promote higher risk loans and unsustainable home price appreciation. The same applies to an expansive stand-alone DTI limit.
- August 2021: FHA updated its student loan monthly payment calculations.
- August 2021: FHFA proposed new benchmark level for minority & low-income tracts home purchase in 2022-24.

FHFA proposed to raise the Low-Income Home Purchase Goals affordable housing goals for low-income 2022-2024 to 28%, up from the current 24% level. The risk of this approach becomes obvious when compared to the period before the last financial crisis when the affordable housing goals were last raised.

From 1996 to 2008, the Special Affordable Housing Goals for purchase loans were raised from 12% to 27%. At the same time, the GSE purchase stressed default rate increased from 11.7% to 21.5% in 2007, before lending standards were significantly tightened. The tight correlation between both lines becomes evident in the chart below.

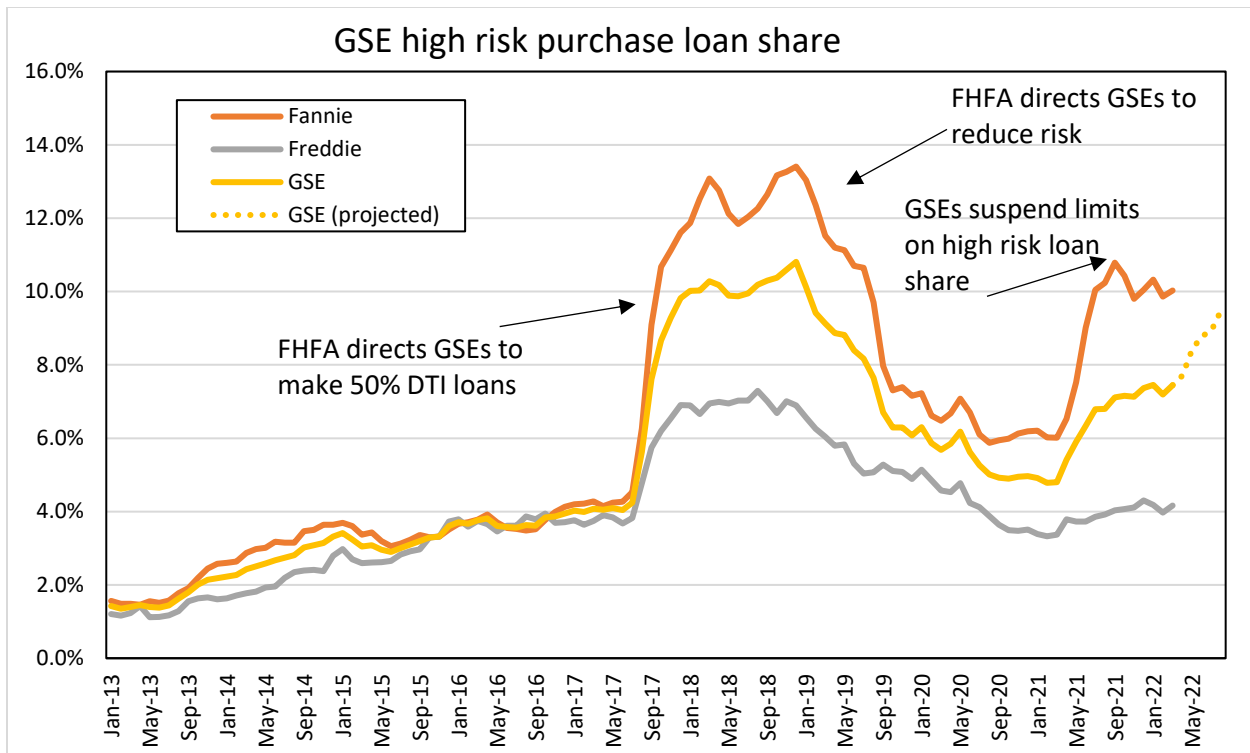
Due to the ever-increasing Housing Goals, the GSEs were forced to lower their underwriting criteria in order to fulfill those goals. The result, of course, was a massive build-up of risk, which eventually ended in 8.6 million foreclosures and other forced dispositions, which were proportionally higher in low-income and minority neighborhoods.

By historical standards today’s GSE mortgage risk looks fairly benign, but FHA’s mortgage risk is about at the same level as in 2006. These loans are highly geographically concentrated and the GSEs will be forced to compete with FHA when the goals are raised.



- September 2021: Fannie and Freddie suspended limits on second homes and investment properties, and high risk loans with higher risk characteristics

There has already been a troubling increase in the share of GSE purchase loans that are high risk, which may have been anticipated by Fannie or been connected to a change in its Desktop Underwriting (DU) system.



Note: a loan is high-risk if it has two or more of these higher risk characteristics at origination: combined loan-to-value (LTV) greater than 90%; debt-to-income ratio greater than 45%; and FICO (or equivalent credit score) less than 680.

- September 2021: Fannie started to include rental payment history in its risk assessment processes.
- Possible for 2022:
 - Pressures on FHA are building to lower FHA’s current level of mortgage insurance premiums (MIP). Secretary Fudge has for the moment ruled out a cut to the MIP, but if a cut were to be implemented during an overheated housing market, it would have similar consequences as the 2015 MIP cut, which drove up prices and did not materially expand homeownership.³⁰ A move such as this would restart a dangerous bidding war

³⁰ At the time, the FHA claimed that the premium drop would result in 250,000 new first-time buyers over the next three years, and save each FHA buyer \$900 annually. Our research found that home prices went up by about 2.5% for FHA borrowers. These borrowers had to use part their new found “wealth” — obtained by paying lower FHA insurance premiums — to pay for the higher house price. Prices also went up for non-FHA buyers in neighborhoods with FHA insured sales. After all, it is one housing market, where borrowers, no matter the financing, compete for houses. This caused the non-FHA buyers, who did not receive the benefit of lower premiums, to largely offset the price increase by buying a home of lesser quality (perhaps a smaller home, a smaller lot, or in a different location) — they were the clear losers. We estimate that about 500,000 of these non-FHA borrowers were first-time homebuyers. Each of these non-FHA homebuyers paid approximately \$6,200 extra per house, a total extra payment of about \$3.1 billion. From a cost-benefit perspective, this averages to an incredible \$180,000 for each of the roughly 17,000 new FHA first-time buyers! The big winners were the realtors who received hundreds of millions of dollars in higher commissions from higher prices. For more, see Davis, Oliner, Peter, and Pinto, The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment, <http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208>

between FHA and the GSEs, who would be facing higher affordable housing goals for low-income and minority borrowers, which leads a race to the bottom in terms of lending standards.

- FHFA Director Thompson announced in September 2021 that “the agency is weighing changes to the loan-level price adjustments enacted in 2008 to help the government-sponsored enterprises manage risk.”³¹
- Expanding the Community Reinvestment Act (CRA) to non-depository institutions. Due to its opaqueness, CRA lending has not properly been evaluated, however, it will likely lead to an expansion of credit as non-depositories with less reputational risk “sell what they originate and originate what they can sell.” Such proposals have already been implemented in New York and are being discussed by Fed Governor Lael Brainard.³²
- Research from at least one think tank is pushing for looser underwriting relating to the Three Cs of Mortgage Credit (Credit, Capacity, and Collateral) under the guise of “closing the homeownership gap” and “rooting systemic racism out of mortgage underwriting”. The proposed policies largely mirror similar 1999 research by the same think tank to loosen the Three Cs lending standards. That research was funded by HUD and had devastating results.³³
- Others, like the Underserved Mortgage Markets Coalition would push the GSEs into riskier loan types, and looser underwriting.³⁴

Each one of these proposals on its own seems innocuous. However, the accumulation and combination of them should raise alarms.

With new leadership at federal agencies and regulators, a concerted effort to lower underwriting standards again – as happened during the 1990s and 2000s – seems to be underway.

³¹ <https://www.americanbanker.com/news/fhfa-weighs-cutting-price-adjustment-fees-on-fannie-and-freddie-loans>

³² See <https://www.governor.ny.gov/news/governor-hochul-signs-legislation-expanding-new-york-community-reinvestment-act-non-depository> and <https://www.federalreserve.gov/newsevents/speech/brainard20200921a.htm>.

³³ For 2022, see” <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting>. In April 1999 the Urban Institute released a report commissioned by HUD two years earlier. The report, entitled “A Study of the GSEs' Single-Family Underwriting Guidelines”[1] advised: “Almost all the informants said their opinion of the GSEs has changed for the better since both Fannie Mae and Freddie Mac made substantive alterations to their guidelines and developed new affordable loan products with more flexible underwriting guidelines.” ... “Informants did express concerns about some of the GSEs' practices. The GSEs' guidelines, designed to identify creditworthy applicants, are more likely to disqualify borrowers with low incomes, limited wealth, and poor credit histories; applicants with these characteristics are disproportionately minorities.” By 2000, the GSEs had largely done away with down payments, raised debt ratios, entered the “A-minus” and “B” subprime market and re-entered the low doc/no doc market. <http://www.urban.org/publications/1000205.html>

³⁴ Policies advocated include a “substantially increase the number of purchased mortgage loans secured by manufactured real property,” that “Fannie and Freddie should revive their plans to begin to purchase chattel loans”, “offering exceptions for the income limits in the HNRRs,” “targeted use of credit exceptions,” “instituting a 4% deferred second mortgage to cover closing costs and boosting the seller concession from 3% to 6%,” or that the “GSEs eliminate their loan-to-value limits to better align with FHA rules.” See <https://www.insidemortgagefinance.com/articles/223669-nonprofit-coalition-offers-blueprint-to-improve-fanniefreddie-dts-plans?v=preview>.

Raising the Affordable Housing Goals requires lessening criteria on risk layering, otherwise the goals could not achieve much. At the same time, the effort to bring in higher-risk borrowers requires larger cross-subsidies, which requires lower changes to the LLPAs.

While lower-income Americans are being crowded out of the housing market, bringing them back by lowering underwriting standards through a concerted efforts by federal agencies and regulators is a recipe for disaster and risks creating more housing risk. This will put the exact people the policies are intended to help into harm's way.

Vilifying institutional landlords distracts from the underlying issues facing the housing market.

These landlords are a symptom of the housing boom and bust cycle created by the government, rather than the cause for today's unaffordability.

Institutional landlords, particularly on the multifamily side, are taking advantage of more liberal credit terms provided by Fannie Mae and Freddie Mac (the GSEs) than the private sector, which is a violation of their Charters, which stipulate that they shall adhere to the same lending standards as imposed by the private sector with the objective of purchasing loans "at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities."³⁵ They use their taxpayer guarantee and other advantages to greatly expand their business, while crowding out multifamily private investors. Since 2014 outstanding multifamily mortgage debt has doubled, with the GSEs accounting for most of the growth. At the same-time they tout that they are supporting affordable rental housing, but in reality they create government profit seeking.

On the single-family side, they account for too small a share of purchases and of the housing stock nationally. Even in the few metros where their share is higher, it is not enough to move the price needle, especially at the low end of the market.

An overly narrow focus on racial equity is not based on the data and such a focus in federal housing policies could do lasting harm to minority borrowers

³⁵ For example, Fannie Mae charter stipulates that "... the operations of the corporation under this section shall be confined so far as practicable, to mortgages which are deemed by the corporation to be of such quality, type, and class as to meet, generally, the purchase standards imposed by private institutional mortgage investors. In the interest of assuring sound operation, the prices to be paid by the corporation for mortgages purchased in its secondary market operations under this section, should be established, from time to time, within the range of market prices for the particular class of mortgages involved, as determined by the corporation. The volume of the corporation's purchases and sales, and the establishment of the purchase prices, sale prices, and charges or fees, in its secondary market operations under this section, should be determined by the corporation from time to time, and such determinations should be consistent with the objectives that such purchases and sales should be effected only at such prices and on such terms as will reasonably prevent excessive use of the corporation's facilities,..." (Fannie Mae's Charter (12 U.S.C. 1719)).

The Biden administration and the media have concluded that there is racial discrimination in the housing market, including systemic racism and bias in housing valuations and property appraisals.

On June 1, 2021 President Biden established the Property Appraisal and Valuation Equity (PAVE) Task Force to be directed by HUD Secretary Marcia Fudge:

“The Administration will take action to address racial discrimination in the housing market, including by launching a first-of-its-kind interagency effort to address inequity in home appraisals, and conducting rulemaking to aggressively combat housing discrimination...”³⁶

In March 2022 PAVE’s report alleged “inequities within current home lending and appraisal processes” for communities of color. The work cited by PAVE contained serious red flags that were obvious from a cursory look. The work of the AEI Housing Center has also debunked the Brookings study and Freddie Mac exploratory note, which both heavily relied on in the PAVE report. Most importantly, these studies conflate race with socio-economic status (SES), i.e. income, buying power, marriage rates, credit scores, etc. Once adjusted for differences in SES, race-based gaps found in these studies either entirely or substantially disappear, which raises serious questions regarding a race-based explanation.³⁷

While individual appraiser bias certainly exists, the PAVE report admits that “the exact number of instances of valuation bias is difficult to assess.” We have undertaken a study with over 240,000 loans for which we knew the race of the borrowers. Our statistical analysis found that racial bias by appraisers on refinance loans is uncommon and not systemic. This work was ignored by PAVE. Further, research by Fannie Mae, which directly contradicted Freddie Mac’s preliminary findings, was so selectively cited this point was lost.

Rather than systemic racism and bias, the issue is about systemic disadvantage. As work by the AEI Housing Center has shown, studies relied on by PAVE conflate race with socio-economic status (SES), i.e. income, buying power, marriage rates, credit scores, etc.

- Race-based gaps found in the Brookings and Freddie Mac studies either entirely or substantially disappear when adjusting for differences in SES.
- Furthermore, our analyses show that similar gaps are present in majority White or White-only tracts when across different SES levels, raising serious questions regarding a race-based explanation.

Thus, systemic disadvantage has more explanatory power than systemic racism and bias.

- We are mindful that lower SES certainly reflects a legacy of past racism and lingering racial bias, leaving Blacks at a large income and wealth disadvantage relative to most Whites.
- Recognizing the importance of SES factors is key to fashioning appropriate public and private responses.
- The overarching policy goal should be to promote sustainable access to housing finance and support opportunities for income and wealth growth among lower income households.

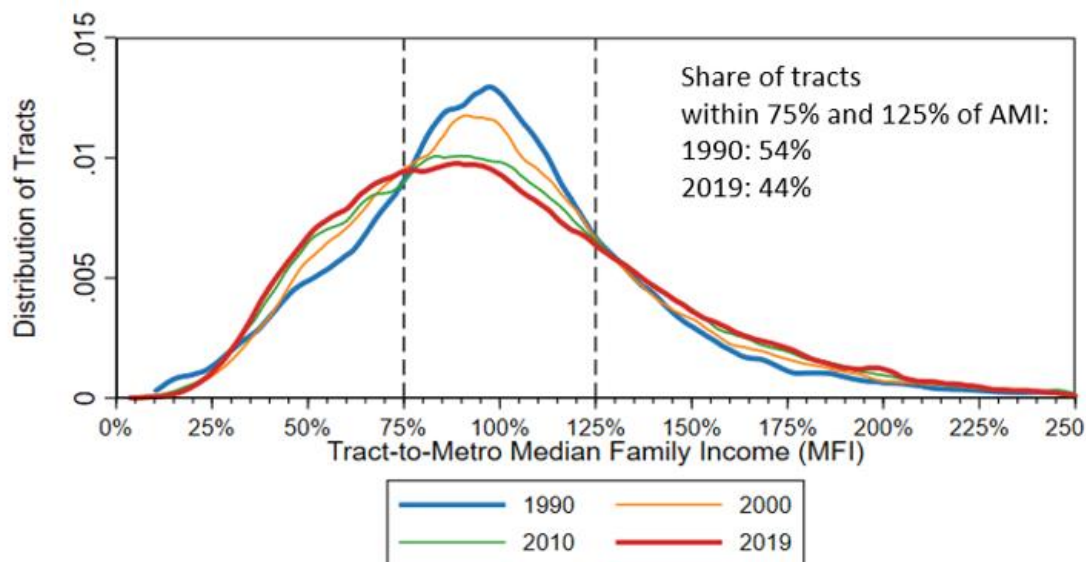
³⁶ <https://www.whitehouse.gov/briefing-room/statements-releases/2021/06/01/fact-sheet-biden-harris-administration-announces-new-actions-to-build-black-wealth-and-narrow-the-racial-wealth-gap/>

³⁷ The same critique of the Brookings paper also applies to research by Howell and Korver-Glenn (2021) or a recent Redfin on the same topic.

- In so doing, we must be mindful that many public policies aimed at addressing racial discrimination have had unintended consequences that have done substantial harm to low-income households generally, and minority households in particular.
 - At least one think tank is pushing for looser underwriting under the guise of “rooting systemic racism out to mortgage underwriting”, which risks a repeat of the failed policies that produced the last financial crisis.³⁸

Public policy should focus on SES rather than race. Income stratification has been increasing. The next chart measures the share of tracts within 75% and 125% of area median income, which is a proxy for the middle class. By this simple measure we can see that 54% of tracts in 1990 were within this range, compared to 44% in 2019. Income stratification has grown in virtually all of the largest 100 metros and does not appear to be correlated with a metro’s minority share.

Chart: Distribution of Census Tracts by Income Level and Year (Largest 100 Metros)



Notes: Largest 100 metros are determined by total sales over 2012-2019 from public records. Sample of tracts is limited to tracts with nonmissing income data and below 250% of the area MFI. Dashed lines indicate income levels at 75% and 125% of the area MFI. Kernel bandwidth is 2.5%.

Note: MFI stands for Median Family Income and AMI stands for Area Median Income.

Source: Census, FFIEC, and AEI Housing Center, www.AEI.org/housing.

Increasing income stratification by geography is a poor policy outcome and threatens the ability of low-income households to build wealth. As home prices rise faster than incomes, it will permanently price low-income and minority households out of areas of opportunity.

³⁸ See <https://www.urban.org/urban-wire/closing-homeownership-gap-will-require-rooting-systemic-racism-out-mortgage-underwriting>.

Appendix 1:

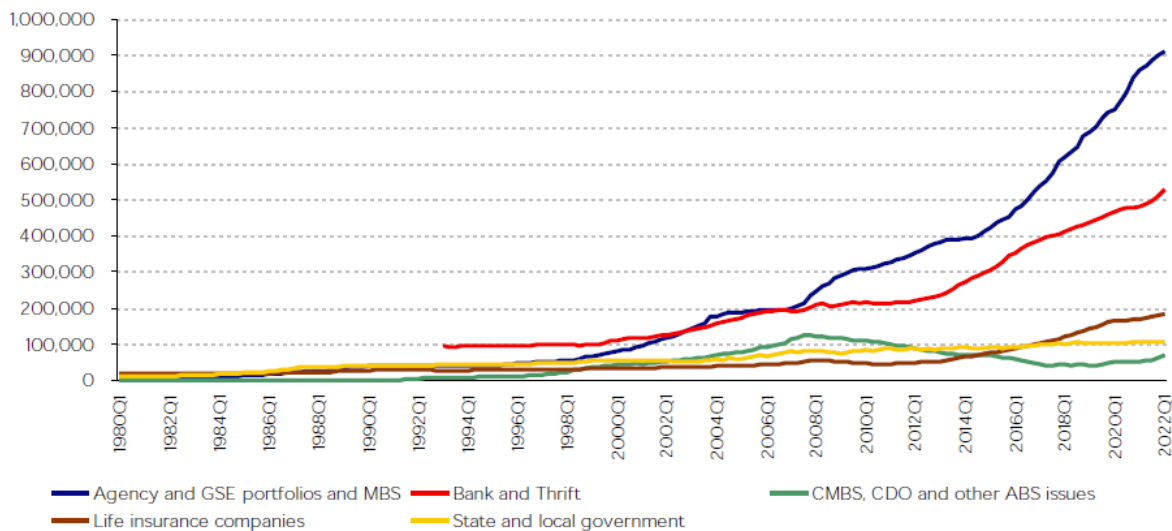
The Negative Consequences of Federal Housing Policy:

Multi-family

The GSEs have seen an explosion of multifamily mortgage debt outstanding. According to the MBA, the GSE's multifamily debt outstanding has grown from \$50 billion before 2000, to \$400 billion in 2013, before taking off again in 2014.³⁹ As of 2022:Q1, it stands at over \$900 billion. This growth has far outpaced other market participants, such as banks and thrifts or life insurance companies (see chart). At the same time, the GSEs market share now stands at around 50%, up from around 38% in 2013 and around 20% before 2000.

MULTIFAMILY MORTGAGE DEBT OUTSTANDING

Total Multifamily Mortgage Debt Outstanding, by Selected Sector by Quarter
(Millions)



Source: MBA, Federal Reserve Board of Governors, Trepp LLC, Wells Fargo Securities, LLC, Intex Solutions, Inc. and FDIC

We found this case in Florida where Freddie touted its preservation of low income rentals, while the property owner bragged about the ability to raise rents:

- The buyer/investor finds a property that already provides work force/low-income housing at well below 80% of area median income (AMI).
- The GSEs requires that tenants earn below <80% of AMI.

³⁹ MBA "Commercial / multifamily mortgage debt outstanding" Q1 2022. <https://www.mba.org/news-and-research/newsroom/news/2022/06/16/commercial-and-multifamily-mortgage-delinquency-rates-remain-low-in-first-quarter-2022>

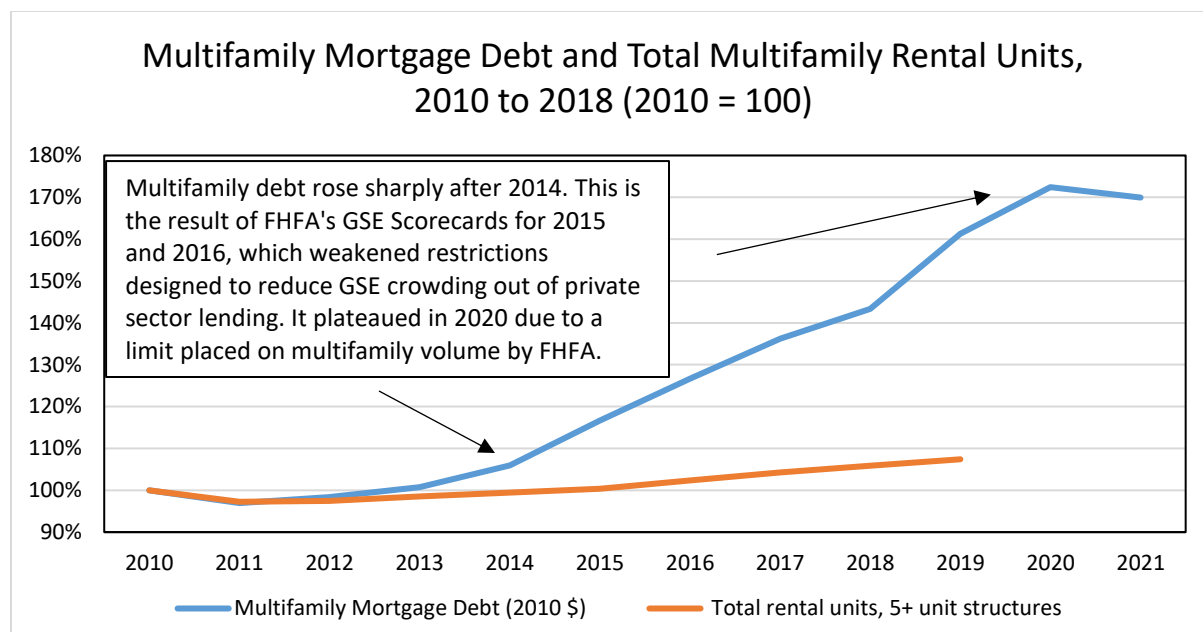
- Due to liberal GSE lending terms, the buyer/investor is able to load up the property with debt.
- The buyer/investor then makes renovations to take advantage of an "extraordinary value-add opportunity" to "significantly enhance revenue". This allows a repositioning to a higher income tenants.
- Occupants are still generally below 80% AMI so Freddie gets to tout its "preservation success," while the owner brags about its financial acumen.⁴⁰
- Of the seven institutional landlords mentioned during the Senate Banking Committee Member and Staff Listening Session on "Renters Who Live in Housing Owned by Corporate Owners" from February 8, 2022, four received financing through either Fannie Mae or Freddie Mac.⁴¹

This system is putting taxpayers at risk under the guise of "affordable" lending without delivering meaningful results. The next chart shows the growth in GSE multifamily mortgage debt and the growth in total rental multifamily units from 2010 to 2021. While debt had grown over 60% by 2019 compared to 2010, rental units have only grown around 10% over the same time.

Since the GSEs activities in the multifamily sphere crowd out private business without delivering any meaningful supply addition, it would best to end GSEs financing of multifamily homes.

⁴⁰ For example, according to a Wall Street Journal article on a 352-unit complex in the Tampa area that was purchased in the spring of 2018 by Bridge Investment Group. The development is named Plantation at Walden Lake, in Plant City, FL, "Freddie Mac, the country's largest backer of apartment loans, will offer low-cost loans to real-estate owners willing to keep their buildings affordable to middle-class families for years to come." Bridge Investment Group, the investor, said about its plans for this development that was 95% leased back in the spring of 2018: "Over the last three years, Mercury Investment implemented a multimillion dollar capital improvement program that included enhancements to the community's pool and other shared amenities, as well interior upgrades. The remaining renovated units present a significant value-add opportunity for the buyer. 'Plantation at Walden Lake's strong occupancy and potential for further renovation make it an extraordinary value-add opportunity,' said Elorza. 'Renovating the remaining units will help the property compete with newer communities nearby, and will significantly enhance revenue.'" <https://www.tampabaynewswire.com/2018/04/26/cushman-wakefield-negotiates-35-7m-sale-of-tampa-area-apartment-community-for-mercury-investment-67396>

⁴¹ A number of institutional investors buying single and multifamily homes have agreements with the GSEs. Invitation Homes, the largest institutional investor in single family housing, signed an agreement that Fannie Mae would guarantee up to 1\$ billion in debt. Other major players in the single-family rental market, saw this is as a green-light to the institutional rental-home business: the CEO of progress residential stated in the WSJ "This is a great outcome not just because it obviously will reduce the cost of our financing, but it puts a further stamp of approval on this industry." Front Yard Residential, another large player in the single-family rental business, acquired HavenBrook partners as part of a \$508.7 10-year loan backed by Freddie Mac through their affordable single-family rental pilot program. Havenpark capital, which has been cited for buying mobile home parks and hiking rents, use loans guaranteed by Fannie and Freddie.



Source: ACS, Federal Reserve Flow of Funds Data, and AEI Housing Center.

Single-Family

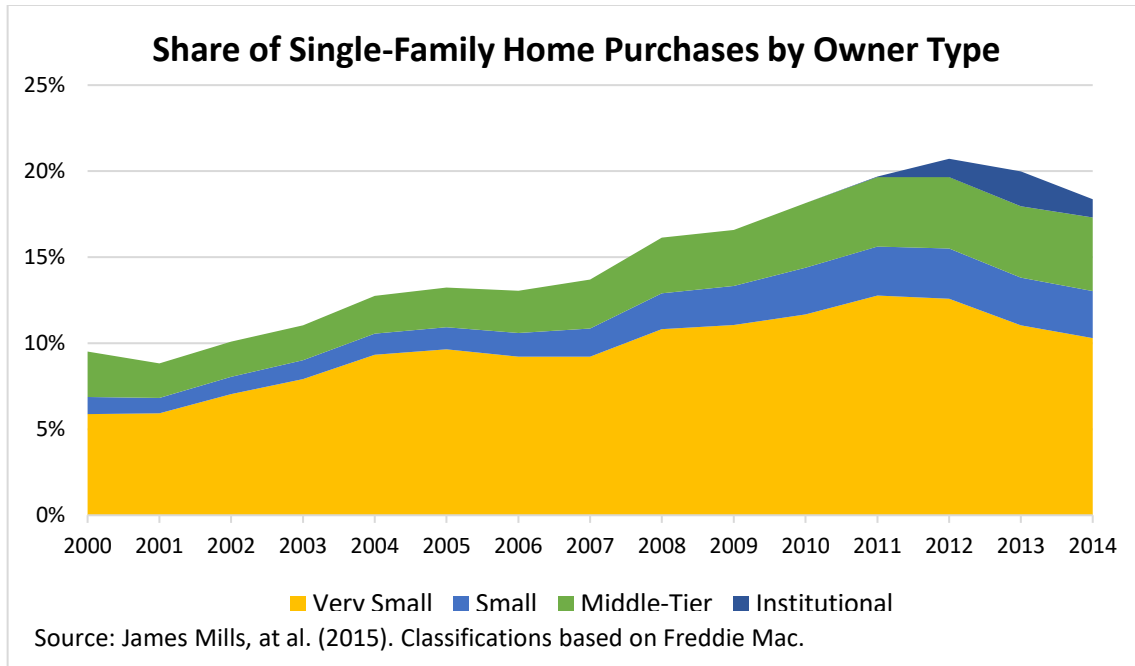
Single-family institutional landlords have received a lot of attention, yet a review of the data indicate there is little evidence that they are having a measurable impact on either rents or home prices. Here is a summary of key findings from various research studies:

- Institutional landlords accounted for around 1% of America’s single family rental homes.⁴²
- Lambie-Hansen et al. (2019) find that institutional landlords helped to stabilize the housing market during 2006-2014.⁴³
- Mills et. al. (2015) find that institutional landlords are a relatively recent phenomenon and account for a small share (~1%) of purchases over time (see next chart).⁴⁴

⁴² Freddie Mac Spotlight on Underserved Markets: Single-Family Rental, An Evolving Market. The data are most likely for 2016.

⁴³ Institutional Investors and the U.S. Housing Recovery

⁴⁴ James Mills, Raven S. Molloy, and Rebecca E. Zarutskie (2015). “Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?,” Finance and Economics Discussion Series 2015-084. Washington: Board of Governors of the Federal Reserve System, <http://dx.doi.org/10.17016/FEDS.2015.084>



- More recent data find that institutional landlords acquired about 4,000 homes in 2021 (through September) or about 0.1% of all sales.⁴⁵ According to industry figures, their stock of total U.S. housing units accounted for about 0.2%.⁴⁶
- Amherst Capital finds:
 - “Institutional purchases have been somewhat concentrated in a few geographies. ... the top 10 metro areas account for about 63% of all 2016 purchases by institutions. However, even in such higher ranking metro areas, institutional purchases only represented 1–3% of total annual homes sales.”
 - The report however cautions that parts of a metro could have higher shares.
 - And concludes that “given the generally small share in metro area sales, any broad-based narrative suggesting that institutions are driving up prices and crowding out retail buyers seems rather stretched, in our opinion.”⁴⁷

The recent emergence of institutional landlords in the single-family sphere begs the question why this is happening. The main reasons are:

⁴⁵ John Burns Single Family Rental Market Index 2021:Q4 cited in National Rental Housing Council Single-Family Rental Home Companies, iBuyers, and the Market for Home Purchases 2021:Q3.

⁴⁶ National Rental Home Council

⁴⁷ AMHERST CAPITAL MARKET UPDATE U.S. Single Family Rental—Institutional Activity in 2016/2017, | AUGUST 2017.

Particularly, the point about moving the market seems plausible to us given that our research on FHA’s mortgage insurance premium cut from 2015 found that in order to move the market, FHA’s concentration in a census tract needed to be around 20%. For more, see Davis, Oliner, Peter, and Pinto, The impact of federal housing policy on housing demand and homeownership: Evidence from a quasi-experiment, <http://www.aei.org/wp-content/uploads/2018/01/Oliner-homeownership-WP-Update.pdf?x91208>

- New opportunity created by the collapse in home prices after a government affordable housing policy-induced lending boom and subsequent price collapse.
 - Institutional landlords purchased mainly fixer-uppers or foreclosures at rock-bottom prices.⁴⁸
 - Analysis by Amherst Capital seems to support this: “institutional investors have tended to concentrate their investment in certain markets in Southeast Texas, and parts of the Midwest such as Atlanta; Dallas-Fort Worth, Texas; Chicago; and Indianapolis, particularly where there was a low price-to-rent ratio and where properties had experienced substantial declines in value during the Great Recession.”⁴⁹
- Search for yield due to central banks holding down interest rates.
 - Steady stream of income in a low interest rate environment.
 - Home price appreciation of over 100% since 2012 due to government policies (more below), which could be higher on foreclosures and fixer-uppers.
 - Stable demand from a growing population and would-be homebuyers getting priced out of the market.
- Investment diversification and safe haven due to impact of pandemic.
- More recently, hedge against COVID stimulus inflation risk from expansive monetary and fiscal policies.

Some of these reasons beg the question as to whether institutional landlords would be in existence today had government polices not created a housing crash and then engineered a subsequent house price boom.

⁴⁸ See <https://www.urban.org/urban-wire/institutional-investors-have-comparative-advantage-purchasing-homes-need-repair> or Institutional Investors and the U.S. Housing Recovery and James Mills, Raven S. Molloy, and Rebecca E. Zarutskie (2015). “Large-Scale Buy-to-Rent Investors in the Single-Family Housing Market: The Emergence of a New Asset Class?,” Finance and Economics Discussion Series 2015-084. Washington: Board of Governors of the Federal Reserve System, <http://dx.doi.org/10.17016/FEDS.2015.084>

⁴⁹ Freddie Mac Spotlight on Underserved Markets: Single-Family Rental, An Evolving Market

Appendix 2: Federal rental housing and community development programs enacted since 1932⁵⁰

1932: Emergency Relief and Construction Act - the government's first major involvement in the housing field,

1933: National Industrial Recovery Act - Section 202 established the Public Works Administration, which was authorized to build or finance public housing,

1934: National Housing Act established the FHA (including Section 207 Multifamily Insurance)

1934: National Housing Act authorized National Mortgage Associations (pursuant to this authority, the Federal National Mortgage Association was chartered on February 10, 1938, as a subsidiary of the Reconstruction Finance Corporation),

1937: United States Housing Act established Public Housing Authority,

1942: Section 608 authorized FHA mortgage insurance for rental housing for war workers,

1949: Housing Act – set national housing goal--realization as soon as feasible of the goal of a decent home and suitable living environment for every American family,

1949: Housing Act – Title I authorized Slum Clearance and Urban Redevelopment, also authorized a major expansion of public housing program including a shift to a focus on high-rise buildings,

1949: Housing Act – added Section 515 authorizing rural housing assistance,

1950: Housing Act amended Section 213 expanding cooperative housing mortgage insurance program, 1954: Housing Act added Section 220 for the prevention and rehabilitation of slums

1954: Housing Act added Section 221 to provide FHA mortgage insurance for low-cost housing for families displaced as the result of governmental action,

1959: Housing Act added Section 202 authorizing direct Federal loans for elderly rental housing,

1965: Housing and Urban Development Act added Section 23, a new program of rent supplement payments,

1966: Demonstration Cities and Metropolitan Development Act authorized Model Cities Program,

1968: Housing and Urban Development Act added Section 236 a new program of rental housing assistance for lower-income families,

1968: Housing and Urban Development Act created GNMA and FNMA as separate entities,

1968: Housing and Urban Development Act created Title IV--the New Communities Act,

1968: Housing and Urban Development Act created Title V which authorized the Urban Renewal Neighborhood Development Program,

⁵⁰ Sources: Edson, [Affordable Housing— An Intimate History](#), 2010 and the Congressional Research Service, A Chronology of Housing Legislation and Selected Executive Actions, 1892-2003, <https://www.gpo.gov/fdsys/pkg/CPRT-108HPRT92629/html/CPRT-108HPRT92629.htm>

1968: Housing and Urban Development Act created Title XVI--Housing Goals and Housing Reports (implementation of a 10-year plan for the elimination of all substandard housing and the realization of the 1949 national housing goal),

1968: Housing and Urban Development Act added new rural housing interest- reduction programs,

1969: Tax Reform Act added favored tax treatment for affordable housing projects,

1970: Emergency Home Finance Act authorized creation of Federal Home Loan Mortgage Corporation, 1970: Housing and Urban Development Act authorized Experimental Housing Allowance,

1970: Housing and Urban Development Act authorized Prevention of Housing Abandonment Programs,

1974: Housing and Community Development Act authorized Section 8 new construction and existing programs,

1974: Housing and Community Development Act created Community Development Block Grant program

1977: Housing and Community Development Act created Urban Development Action Grant Program,

1977: Housing and Community Development Act created Community Reinvestment Act,

1978: Housing and Community Development Amendments authorized Housing Assistance Programs providing further assistance (now known as the ``Flexible Subsidy" program) for financially-troubled rental projects assisted by Sections 221(d)(3) or Section 236 mortgage-interest reduction programs or Rent Supplement payments,

1980: Housing and Community Development Act added a new Section 14 to the United States Housing Act of 1937 to provide a Comprehensive Improvement Assistance Program for existing public housing, 1983: Housing and Urban-Rural Recovery Act authorized experimental rental assistance in the form of a voucher,

1983: Housing and Urban-Rural Recovery Act established Rental Housing Rehabilitation and Development Grant Program,

1983: Housing and Urban-Rural Recovery Act authorized Housing Development Action Grant Program,

1986: Tax Reform Act authorized the Low Income Housing Tax Credit Program,

1987: Stewart B. McKinney Homeless Assistance Act,

1987: Housing and Community Development Act included Emergency Low Income Preservation Act, 1989: Financial Institutions Reform, Recovery, and Enforcement Act authorized Federal Home Loan Bank System Community Investment and Affordable Housing Programs,

1990: Cranston-Gonzalez National Affordable Housing Act enacted HOME Investment Partnerships Act, 1992: Federal Housing Enterprises Financial Safety and Soundness Act established GSE Affordable Housing Goals,

1994: Riegle Community Development and Regulatory Improvement Act established the Community Development Financial Institutions Fund,

2008: Housing and Economic Recovery Act establishes the Housing Trust Fund.

2008: Housing and Economic Recovery Act establishes the Housing Trust Fund.