Testimony of

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Promoting Housing Affordability

Mr. Chairman, Ranking Member Waters, and Members of the Committee, thank you for the opportunity to be here today. I am Alex Pollock, a senior fellow at the Mises Institute, and these are my personal views. My more than five decades of work in banking and on financial policy issues have included many years of involvement in the practice and the policy issues of housing finance, as well as in the related studies of the evolution of financial systems, central banking, cycles of booms and busts, risk and uncertainty, and the interaction of banking and politics. I previously served as the Principal Deputy Director of the Office of Financial Research of the U.S. Treasury, a fellow of the American Enterprise Institute, and president and CEO of the Federal Home Loan Bank of Chicago, and am the author of three books in the field, with a new one, *Adventures in Political Finance*, forthcoming.

The 21st Century ROAD to Housing Act is a truly bipartisan combination of actions reflecting "years of bipartisan, bicameral collaboration," as Chairman Hill has said—not to mention the art of compromise. This is manifest in the impressive voting majorities it garnered in the House and Senate (358-32 and 85-5). I think it is a fair summary to say that the Congress heard the American people's unhappiness with the unaffordability of housing and responded in this act with multiple reforms to reduce regulatory costs and increase the supply of housing. This strategy favorably contrasts with many past efforts to expand the subsidized financing of houses to increase demand, for example by expanding Fannie Mae and Freddie Mac or the Federal Reserve's purchases of mortgage-backed securities, which efforts get capitalized in sellers' markets into house prices, pushing the prices ever higher.

Regulatory Reform

Among the act's reforms, especially notable is the reduction of burdensome, costly or outmoded regulations. As the AEI Housing Center writes, the act "eliminates an expensive requirement to build manufactured housing on permanent steel frames, streamlines environmental reviews, and incentivizes cities to provide preapproved home designs, which will simplify things for governments, regulators and builders;" and as Pew Charitable Trusts says, the legislation "contains dozens of provisions designed to speed up housing production and lower costs." I believe the manufactured housing provisions in particular offer the possibility of materially improved affordability.

The most-strongly expressed conclusion on this aspect of the act is provided by Jared Bernstein, chairman of the Council of Economic Advisors under President Biden, and Jim Parrott, a senior housing advisor in the Obama administration. "The law will break through," they write, "a lot of the regulatory sludge holding back the construction industry." The "sludge," to use their term, originated with good intentions and grew more complex and costly over time through natural bureaucratic evolution. This emphasizes the necessity for Congress regularly to review and update, as the act does, regulation that results in reducing affordability.

Community Banks

I was glad to see the community bank provisions of the act, which were added by the House and this Committee. The community banking sector is one of the distinguishing characteristics the American financial system, giving it a local presence and dispersed credit decision-making, and therefore a systemic role in promoting opportunity.

There are by the FDIC's count, now 3,818 community banks, or approximately 90% of all U.S. insured banks and savings institutions. The number of community banks has dramatically fallen in recent decades; it is down by more than half from the 8,315 in the year 2000, for example. Helping maintain the vitality of this sector is a key goal.

An important provision of this title of the act is encouraging the chartering of new banks. While new entry is always desirable, I believe this is especially relevant in times of banking system troubles, when the system needs new capacity and new capital, unencumbered by past cyclical mistakes.

The act also mandates studies to improve the availability small residential mortgages of under $100,000 (although previous generations would certainly have been surprised that we think a $100,000 mortgage is small), and whether federal regulations unintentionally inhibit these mortgages. In my view, these studies complement the community banking provisions.

I suggest that the reviews of small mortgages should consider what we discovered while I was at the Federal Home Loan Bank of Chicago: namely that the credit quality of residential mortgages made by local community banks and savings institutions was systematically better than the market averages, reflecting their local market and credit knowledge.

So why, Congress might ask, should these community mortgage lenders divest the credit risk of their own customers and their own loans to Fannie Mae and Freddie Mac, while paying a significant fee for doing so? My view is that it would be better for the housing finance system to have the holding of mortgage credit risk widely diversified among many lenders across the country than to have it concentrated in two giants on the banks of the Potomac. I believe this would be especially advantageous for community lenders, who know their own borrowing customers well.

Providing Houses for Rental

Title X, prohibiting purchases of houses by large institutional investors, is certainly the most controversial part of the act. The House and this Committee made it significantly less controversial, however, by making clear the continuing role of institutional investors in the provision of houses for rental markets through such programs as build-to-rent, renovate-to-rent, boosting homeownership through positive reporting of rental payments, and development of senior housing.

Many American households need or prefer rental houses rather than apartments or purchased houses. Military families who must often move to new assignments are readily cited as an important and clear example. In my opinion, houses rented either by necessity or preference, should be an available competitive option in the housing market. This is consistent with the various permissible categories detailed in Section 1001(a)(2).

Central Bank Digital Currency

Title XI of the act prohibits the Federal Reserve from creating a central bank digital currency (CBDC) through 2030, adding that any decision to issue a CBDC would require "authorization by an Act of Congress."

In my opinion, this is an excellent provision. In 2018, I testified to the Subcommittee on Monetary Policy and Trade of this Committee that "to have a central bank create digital currency is a terrible idea—one of the worst financial ideas of recent times." This is still my opinion. Having a CBDC would make the Fed an overwhelming credit allocator for the economy, a power which would inevitably be politicized. Moreover, a CBDC would give the Fed and the government oppressive potential for spying on American citizens.

I believe that Title XI is an exemplary model of the Congress exercising its Constitutional Article I Money Power, carrying out proper oversight, and ensuring the accountability of the Federal Reserve to the elected representatives of the People.

In Sum

Considering the act overall, and the leadership displayed by this Committee, we have advanced toward greater housing affordability in numerous ways.

ADDENDUM

Further Context on Housing Affordability

In the wider context of the act, it goes without saying that house prices are key to affordability and housing opportunity.

As central to our perspective on housing policy, we should remember that the U.S. housing finance system has collapsed twice in living memory--once in the 1980s and again in the 2000s. It has also produced two massive house price bubbles. The first began inflating in 1999 and ended with the financial crisis of 2007-2009. We are still in the late stages of the second. This U.S. double bubble in 21st century house prices makes dramatic graphs, with house prices now far over the peak of the first bubble. The Case-Shiller National House Price Index peaked in mid-2006 at 184.6. Now it is at 336.7. In real terms, adjusted for ongoing general inflation for 20 years, house prices on this index are currently more than 10% over the *peak* of the first bubble. One estimate is that they are 30% over their long-term trend.

In my opinion, we can principally thank the Federal Reserve for these exaggerated house prices, brought on by its extreme suppression of 30-year mortgage interest rates to less than 3%, enforced by its unprecedented buying of $2.7 trillion of mortgage securities with newly-printed money. The Fed kept buying until March 2022, long after house prices were in an obvious bubble. Once mortgage interest rates went back to normal levels of 6% or so (the average rate being 6.66% at this point, according to Freddie Mac), the Fed had rendered houses unaffordable for a great many Americans. I believe this experience emphasizes the need for Federal Reserve accountability to Congress.

The median existing-home price for July 2026 was $431,400, according to the National Association of Realtors. In looking for historical contrast, I found this advertisement for a ranch house from 1955, which you may enjoy:

"3 BEDROOMS, ONE BATH, SCREENED PORCH: TOTAL PRICE $7,900. Monthly payments including principal, interest, taxes and insurance, $49.74."

An unavoidable result of the second house price bubble of the century, in my opinion, is that house prices must and will fall on a national average basis. The national house prices indexes of the AEI housing Center and of Case-Shiller are already falling in inflation-adjusted terms by about 2% a year, and I believe reductions in nominal terms will follow. Average prices for new houses are already down 14% from their peak in 2022, according to Census Bureau data, not including the cost of the mortgage-rate buydowns being provided.

Falling prices will improve affordability, though not without pain for some who bought at the top with high leverage.

<u>Residential Loan Defeasance</u>

Finally, an important and much-discussed affordability problem of the housing market of our time is the "lock in" effect, where because potential sellers don't want to give up their existing cheap mortgages, the supply of houses for sale is restricted, reducing affordability for others. Paul Kupiec of AEI and I early this year explored the possibility of applying a classic debt management tool, namely defeasance, to residential mortgages, to help address this widespread housing problem.

We were pleasantly surprised to discover recently that one company has developed a structure to implement the residential mortgage defeasance concept that has been introduced to the market to address “locked-in” mortgages and houses. It appears to work with lenders that hold the loans in portfolio. I believe this is quite an interesting housing finance development the Committee may wish to review.

Thank you again for the opportunity to share these views.