AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

THE ANNUAL REPORT OF THE FINANCIAL STABILITY OVERSIGHT COUNCIL

HYBRID HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED SEVENTEENTH CONGRESS

SECOND SESSION

MAY 12, 2022

Printed for the use of the Committee on Financial Services

Serial No. 117–84

U.S. GOVERNMENT PUBLISHING OFFICE
47–651 PDF WASHINGTON : 2022

HOUSE COMMITTEE ON FINANCIAL SERVICES

MAXINE WATERS, California, *Chairwoman*

CAROLYN B. MALONEY, New York
NYDIA M. VELÁZQUEZ, New York
BRAD SHERMAN, California
GREGORY W. MEEKS, New York
DAVID SCOTT, Georgia
AL GREEN, Texas
EMANUEL CLEAVER, Missouri
ED PERLMUTTER, Colorado
JIM A. HIMES, Connecticut
BILL FOSTER, Illinois
JOYCE BEATTY, Ohio
JUAN VARGAS, California
JOSH GOTTHEIMER, New Jersey
VICENTE GONZALEZ, Texas
AL LAWSON, Florida
MICHAEL SAN NICOLAS, Guam
CINDY AXNE, Iowa
SEAN CASTEN, Illinois
AYANNA PRESSLEY, Massachusetts
RITCHIE TORRES, New York
STEPHEN F. LYNCH, Massachusetts
ALMA ADAMS, North Carolina
RASHIDA TLAIB, Michigan
MADELEINE DEAN, Pennsylvania
ALEXANDRIA OCASIO-CORTEZ, New York
JESÚS "CHUY" GARCIA, Illinois
SYLVIA GARCIA, Texas
NIKEMA WILLIAMS, Georgia
JAKE AUCHINCLOSS, Massachusetts

PATRICK MCHENRY, North Carolina, *Ranking Member*
FRANK D. LUCAS, Oklahoma
BILL POSEY, Florida
BLAINE LUETKEMEYER, Missouri
BILL HUIZENGA, Michigan
ANN WAGNER, Missouri
ANDY BARR, Kentucky
ROGER WILLIAMS, Texas
FRENCH HILL, Arkansas
TOM EMMER, Minnesota
LEE M. ZELDIN, New York
BARRY LOUDERMILK, Georgia
ALEXANDER X. MOONEY, West Virginia
WARREN DAVIDSON, Ohio
TED BUDD, North Carolina
DAVID KUSTOFF, Tennessee
TREY HOLLINGSWORTH, Indiana
ANTHONY GONZALEZ, Ohio
JOHN ROSE, Tennessee
BRYAN STEIL, Wisconsin
LANCE GOODEN, Texas
WILLIAM TIMMONS, South Carolina
VAN TAYLOR, Texas
PETE SESSIONS, Texas

CHARLA OUERTATANI, *Staff Director*

CONTENTS

THE ANNUAL REPORT OF THE FINANCIAL STABILITY OVERSIGHT COUNCIL

Thursday, May 12, 2022

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

The committee met, pursuant to notice, at 10:02 a.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the committee] presiding.

Members present: Representatives Waters, Sherman, Green, Perlmutter, Himes, Beatty, Vargas, Gottheimer, Gonzalez of Texas, Casten, Torres, Lynch, Adams, Tlaib, Dean, Garcia of Illinois, Garcia of Texas, Williams of Georgia, Auchincloss; McHenry, Lucas, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Emmer, Zeldin, Loudermilk, Mooney, Davidson, Kustoff, Hollingsworth, Gonzalez of Ohio, Rose, Steil, Timmons, Taylor, and Sessions.

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

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

I would like to start by letting our Members know that although we had previously had an agreement with Secretary Yellen to have a hard stop of 1:30 p.m. for this hearing, which is consistent with committee precedent, she has since informed us that she has a meeting at the White House that she needs to get to, so the hard stop will now be at 12:30. Democratic Members who were unable to ask their questions of Secretary Yellen at the last hearing that she testified at will get priority today in the question order, and I hope that we can get to everyone, even with the truncated hard stop for today's hearing.

Today's hearing is entitled, "The Annual Report of the Financial Stability Oversight Council." I now recognize myself for 4 minutes to give an opening statement.

Good morning, and welcome, Secretary Yellen. Thank you for testifying today on the annual report of the Financial Stability Oversight Council, or FSOC.

Before the 2008 financial crisis, no governmental body was so irresponsible in identifying and mitigating systemic risk across our financial system. As a result, our economy was unprepared for a near collapse of the financial system, which resulted in 8 million foreclosures, 9 million people unemployed, and the loss of $19 trillion in household wealth. In response, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2020 and established FSOC to identify emerging vulnerabilities and mitigate threats to our financial stability. And for a few years, FSOC took important steps to address turmoil in our financial system, including subjecting massive insurance companies, like AIG, to stricter oversight. Unfortunately, the Trump Administration undermined FSOC by cutting staff, conducting fewer and shorter meetings, and removing regulatory safeguards on risky mega financial institutions. The good news is that Secretary Yellen and FSOC are taking steps to repair the damage that was done by Trump and to focus on clear threats to our economy, including finally labeling climate change as a systemic risk. I urge the Secretary to also restore FSOC's ability to guard against the threat of systemically important financial institutions.

Big Tech, crypto, and so-called shadow banks are causing significant and fast changes in our economy, so FSOC must remain vigilant in its ever-changing environment. Maintaining a strong economy has been a key goal of my committee, particularly for communities of color. The 2008 foreclosure crisis was caused by banks steering borrowers, who were disproportionately people of color, into predatory mortgage products. History almost repeated itself during the pandemic as millions of families almost lost their homes to evictions through no fault of their own. I am proud to have fought hard with my colleagues to secure $46.6 billion in emergency rental assistance. And I am proud that by June, Treasury estimates that States and localities will have successfully spent or obligated all of those funds, all across America.

But the housing market needs more support. Home prices rose nearly 19 percent in 2021, and despite the recent interest rate increases, prices remain high. Housing now accounts for a core part of inflation. It is clear that we must do more to increase our nation's supply of affordable housing. This is why I drafted and continue to advocate for the historic housing provisions of the Build Back Better Act.

Finally, our economy can only be strong if everyone can participate, and that includes America's women. The Supreme Court's forthcoming decision to overturn *Roe* v. *Wade* would threaten the financial security of women and our nation's economic stability. I applaud Secretary Yellen's leadership thus far and look forward to her testimony.

I now recognize the ranking member of the committee, the gentleman from North Carolina, Mr. McHenry, for 5 minutes.

Mr. MCHENRY. Madam Chairwoman, let me begin by saying, welcome back. We are glad you recovered and recovered so well. We're glad to have you back in health and to welcome you back, and also grateful that our vice ranking member is healthy as well. We know that COVID is still very real, but I'm very grateful that both of my friends on either side of me are healthy. And, Secretary Yellen, welcome, and thank you for being here.

The Financial Stability Oversight Council, or FSOC, is charged with identifying and responding to emerging risk to our financial system. That was the design of it. FSOC does not and should not impose partisan policies. Today, Secretary Yellen, I think we should be focused on the challenges posed by Russia's invasion and the consequences to the global economy, the impact that China's lockdowns and economic issues will have on the financial system in the broader economy, the importance of protecting the financial system from bad actors and foreign adversaries, including cyber threats, and the performance of domestic financial markets over the last several years. That should be the FSOC's agenda, but it isn't the FSOC's agenda.

It seems that FSOC has become an arm of the Administration's policy agenda rather than an objective body evaluating real risk to the financial system. In fact, much of what the FSOC has proposed to examine and what the Democrats will discuss today is part of the left's political agenda.

Secretary Yellen, the economy is at a crossroads. A Democrat-led Washington, Democrat regulators, and Democrat policies are failing the American people. In the first quarter, our economy shrank. The GDP came in at a negative 1.4 percent. Democrat policies have helped fuel a surge of imports and a decline in business inventories, both of which detract and reduce the economy. Adding to the problem is a record 11 million jobs available, yet workers are still on the sidelines because inflated wages are eroding the ability of the private sector to hire employees to match production demands.

The root of the problem is out-of-control Democrat spending, which has created persistent inflation. In fact, just yesterday, the Bureau of Labor Statistics announced that inflation rose again in April. It is now 8.3 percent over the past year, remaining near a 40-year high. Inflation is killing American consumers' household budgets. Wages are not keeping up with inflation and the rising cost of things that families buy. Instead of addressing the issue of rising prices and what problems that is creating for the economy and American families' financial well-being, Democrats will focus elsewhere. Deep down, they know that their spending spree is hurting America, but pulling back all that free money isn't popular, and the midterms are looming, so they don't want to do that.

You would think that my colleagues across the aisle would take this moment and reflect on their agenda and its effectiveness or lack of effectiveness. Instead, they are doubling down and using the FSOC to advance their radical policies. So if you don't like something, well, let's just have the FSOC label it as risky and regulate it away. And before you know it, progressive policies will force lending decisions in favor of those customers who are activists that progressives support, while law-abiding American businesses will be forced to close to appease the radical left.

Let's turn now, though, to an issue that is of consequence to the stability of our economy. Let's turn to digital assets and stablecoins for a moment. This week, we have seen dramatic volatility within a particular algorithmic stablecoin. And by its nature, it is not stable when it doesn't have backing by something real and of substance. I want to be clear that not all stablecoins and not all digital assets are the same. The example this week is a clear sign to the broader world that that is true. Not all of these assets are the same, nor should they be regulated the same. And, in fact, we have no regulatory sphere or recognition of digital assets. We don't have a Federal regulatory regime for stablecoins, and we need it, and I think there is bipartisan understanding of that.

At the beginning of last year, I made clear to this committee that we need to come together to establish a clear regulatory framework for stablecoins in the broader digital asset ecosystem. It is time for Congress to act on these important markets and provide stability. It is very important in the short term and long term, and these technologies deserve time to be understood before they are labeled as risks.

Madam Chairwoman, thank you, and I yield back.

Chairwoman WATERS. Thank you very much, Ranking Member McHenry.

I now recognize the gentleman from Colorado, Mr. Perlmutter, who is also the Chair of our Subcommittee on Consumer Protection and Financial Institutions, for 1 minute.

Mr. PERLMUTTER. Thank you, Madam Chairwoman. Madam Secretary, it's good to see you. I want to highlight one of the issues raised in the Financial Stability Oversight Council's annual report.

Colorado continues to see increased climate-related risk in the form of more wildfires. In December, the Marshall Fire burned nearly 1,100 homes, businesses, and other structures, making it the most destructive fire in Colorado history in terms of property destroyed. The cost to rebuild our communities is daunting, and nearly every homeowner was underinsured. When it comes to climate risk, you can already see the effect on the insurance market in the State of Colorado. On Monday, I held a telephone town hall with almost 7,000 people on the line. We conducted a poll question—how concerned are you about wildfire risk on a scale of 1 to 5—and every single respondent answered with the highest level of concern. We must ensure that our financial system serves as a source of strength as we seek to address climate change.

And with that, I yield back.

Chairwoman WATERS. Thank you very much. I want to welcome today's distinguished witness, the Honorable Janet Yellen, Secretary of the Department of the Treasury, and Chair of the Financial Stability Oversight Council.

You will have 5 minutes to summarize your testimony. You should be able to see a timer that will indicate how much time you have left. I would ask you to be mindful of the timer and quickly wrap up your testimony.

And without objection, your written statement will be made a part of the record.

Secretary Yellen, you are now recognized for 5 minutes to present your testimony.

STATEMENT OF THE HONORABLE JANET L. YELLEN, SECRETARY, U.S. DEPARTMENT OF THE TREASURY, AND CHAIR, FINANCIAL STABILITY OVERSIGHT COUNCIL (FSOC)

Secretary YELLEN. Thank you, Chairwoman Waters, Ranking Member McHenry, and members of the committee. I am pleased to speak with you today about the Financial Stability Oversight Council's 2021 annual report. The report is a collaborative effort for Council member agencies. It is a vehicle for providing Congress and the public with the Council's collective assessment of potential risks to U.S. financial stability. And today, I will highlight a few topics in the report and provide an update on the Council's activities since the report's publication.

First, the report discusses vulnerabilities in the non-banked financial sector, which were highlighted by the turmoil in financial markets in March 2020. While the Dodd-Frank Act reforms increased the resiliency of the U.S. financial system, the market turmoil in March 2020 demonstrated that the liquidity mismatch and use of leverage by some non-bank financial institutions can make them vulnerable to acute financial stresses, and these stresses can be transmitted and amplified to the broader financial system.

The Council has taken steps to examine these risks, including reestablishing its Hedge Fund Working Group to develop an interagency risk monitoring system and to propose options to mitigate identified risks. And earlier this year, the Council issued a statement to express support for the Securities and Exchange Commission's efforts to reform money market funds, and their work to consider potential reforms of open-end funds. The Council is also working to support improving the resilience of the Treasury market and is coordinating with the Inter-Agency Working Group on Treasury Market Surveillance. Potential steps to be taken include improving data quality and availability, evaluating expanded central clearing, and enhancing trading venue transparency and oversight.

The SEC has proposed certain reforms to enhance transparency and oversight over alternative trading systems to trade government securities. The SEC has also proposed updating the definition of a government securities dealer to include market participants that play an increasingly significant liquidity-providing role in overall trading and market activity. Additionally, the Office of Financial Research is working to fill identified data gaps for uncleared bilateral repurchase agreements through a pilot data collection, which should improve visibility into a major source of financing for non-banked financial institutions and Treasury markets.

Additionally, the Council is working to ensure that financial institutions better understand their climate-related financial risks. In its October 2021 report on climate-related financial risk, the Council outlined how climate change can be a source of shocks to the financial system and can increase risks to financial stability. To address these risks, the Council recommended that regulators build their capacity and expand their efforts to address climate-related risks, improve the availability of data, enhance and standardize disclosures, and assess and mitigate risks to financial stability.

The Council has also formed its staff-level Climate-related Financial Risk Committee, which will serve as a coordinating body for the Council to share information, facilitate the development of common approaches and standards, and foster communication across FSOC members. In addition, the Council is establishing the Climate-related Financial Risk Advisory Committee. This advisory body, which will include a broad array of external stakeholders, will help the Council gather information and analysis on climate-related financial risks.

With respect to digital assets, new products and technologies may present opportunities to promote innovation and increase efficiencies. However, digital assets may pose risk to the financial system, and increased and coordinated regulatory attention is necessary. On March 9th, President Biden signed an Executive Order calling for a comprehensive approach to digital asset policy, and the Council is drafting a report that will identify financial stability risks and regulatory gaps. I look forward to working with you on the issues and opportunities posed by digital assets, and we are also eager to work with you to ensure that payment-stablecoins and their arrangements are subject to a Federal prudential framework on a consistent and comprehensive basis.

Finally, there is the potential for continued volatility and unevenness of global growth as countries continue to grapple with the pandemic. Russia's unprovoked invasion of Ukraine has further increased economic uncertainty. The U.S. financial system has continued to function in an orderly matter, although valuations of some assets remain high compared with historical values. We stand firmly with the people of Ukraine and have implemented an unprecedented sweep of sanctions on Russia that have been implemented by financial institutions. On February 28th, I convened the Council in the wake of the invasion, and we will continue to monitor developments and coordinate actions as the risk and threats evolve.

The Council's report also discusses other potential emerging threats and vulnerabilities that the Council continues to monitor, including short-term wholesale funding markets, central counterparties, alternative reference rates, cybersecurity corporate credit markets, and real estate markets. The Council remains committed to its mission of identifying and responding to risks to U.S. financial stability, and I look forward to working with this committee to promote a more robust and resilient financial system.

Thank you.

[The prepared statement of Secretary Yellen can be found on page 46 of the appendix.]

Chairwoman WATERS. Thank you very much, Secretary Yellen.

I now recognize myself for 5 minutes.

Secretary Yellen, according to a recent study by the Gates Foundation, family planning increases a woman's earnings and control over their own assets. As you know, we recently became aware of an imminent decision regarding the landmark case of *Roe* v. *Wade*. Arguably the most important decision regarding a woman's economic sovereignty is in jeopardy. A study from the University of California-San Francisco found that women who were unable to get an abortion were more likely to have more debt and to suffer crippling financial events, like eviction or bankruptcy.

Secretary Yellen, how might the Supreme Court's reversal of *Roe* v. *Wade* impact our nation's financial stability and the economic opportunities available to women?

Secretary YELLEN. Thank you for that question, Madam Chairwoman. I believe that decades of research have established that there is a causal link between access to abortion and the quality of women's lives. It affects their education, their earnings, their careers, and the subsequent life outcomes of their children, and I believe that overturning *Roe* would prevent large numbers of women from managing their reproductive lives, particularly many low-income and financially-vulnerable individuals. The inability to access abortion would have a profound impact on their personal and economic lives. There have been studies which show that denying women access to abortion increases their odds of living in poverty or their need for public assistance. And in the recent Supreme Court case, there was a group of economists who submitted an amicus brief which summarizes the economic research that establishes the relationship between legalization of abortion, birth rates, women's educational attainment, and job opportunities, which found very significant impacts.

Chairwoman WATERS. Thank you very much. Secretary Yellen, in FSOC's most recent annual report, FSOC noted that financial innovation has the potential to bring benefits to the public, but it can also create new risk. The report noted that many digital assets are speculative and volatile, creating risks related to illicit finance, cybersecurity, and privacy. Further, the report noted that stablecoins, in particular, may pose systemic risk if the stablecoin is not adequately backed and there is a run on that stablecoin by investors, resulting in a fire sale of reserve assets and similar runs on other stablecoins. While I appreciate that the President's Working Group has called on Congress to pass legislation focused on stablecoins, we are exploring various ideas. FSOC has tools at its disposal to address some of the systemic risk concerns relating to digital assets. What is FSOC doing with its existing authorities to ensure that cryptocurrencies, including stablecoins, do not pose a threat to our financial system?

Secretary YELLEN. The Financial Stability Oversight Council has been tasked by President Biden in an Executive Order to ensure responsible development of digital assets. It calls for a number of reports by Treasury, but FSOC is charged with producing a report that looks at financial stability risks particularly, and we are working very hard on that. It will address the risks that these assets pose. The Treasury report will address many of the risks that you identified in your question. But on the issue of stablecoins, which is a kind of digital asset that is intended to have a one-to-one relationship with the dollar, the President's Working Group on Financial Markets regarded it as, frankly, urgent to push ahead to write a report making recommendations to Congress. We have called for Congress—and I would hope this would be a bipartisan effort—to produce a comprehensive framework for the regulation of these assets.

There are potentially useful innovations that could make the payment system faster and more efficient, but we really need a regulatory framework to guard against the risks. And just this week, in the last couple of days, we have had a real-life demonstration of the risks. A so-called algorithmic stablecoin, known as a Terra, broke the buck. And this morning and yesterday, the largest stablecoin, Tether, also briefly broke the buck.

Chairwoman WATERS. Thank you very much.

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

Mr. MCHENRY. Let's continue with that theme. We saw one stablecoin is purported to be backed with assets that broke the buck, and we have one algorithmic stablecoin that broke the buck. Do you make a distinction between an asset-backed stablecoin and an algorithmic stablecoin?

Secretary YELLEN. Of course, there are significant differences between these two.

Mr. MCHENRY. Yes. I welcome the President's Working Group report that your group put forward to Congress and to the public about recognizing stablecoins. And I think it is important that we have a Federal framework and Federal law around something which purports to be a U.S. dollar. That is a proper remit for the Federal Reserve and for Treasury. Your opinions matter significantly as we legislate here. And as I said in my opening statement, I called for us to get on with this question a year-and-a-half ago, and so I welcome the report, and I think we should get to work here. But along those lines, in your mind, how does limiting stablecoin issuances to only banks promote innovation?

Secretary YELLEN. I think that creating a framework which is appropriate to the risks that stablecoins present really provides the kind of certainty about the regulatory environment that issuers of stablecoins need to thrive and to innovate. In our discussions with the industry, one of the complaints that we typically heard was that there is regulatory uncertainty, and if we were to establish, if Congress were to establish a framework, it would make it easier for the issuers of these assets to know what the regulatory environment would be.

Mr. MCHENRY. The President's Working Group contemplates that these would be issued only by banks. Is that your view, and if these are risky assets, why does putting them in a bank de-risk them?

Secretary YELLEN. One of the key financial stability risks associated with stablecoins is that they can experience runs, and we have seen that—

Mr. MCHENRY. But if they are one-to-one backed, as the President's Working Group says, with high-quality liquid assets, high-quality bank assets, in essence, you don't have runs if you have one-to-one backing with cash equivalents.

Secretary YELLEN. We have money market funds, and money market funds are very similar in many ways to stablecoins, and they have been a source of instability in the financial system.

Mr. MCHENRY. And there has been 42 years of regulatory fights over money markets. What we are trying to do here is make this a very straightforward stable product.

Secretary YELLEN. And that is what bank regulation has accomplished, I believe, in the United States.

Mr. MCHENRY. But Dodd-Frank was about de-risking the big banks, and now the President's Working Group contemplates that we are going to add more risk to these institutions. So my question is, is it a viable path for us to have a one-to-one backing here of a stablecoin and not have it be domiciled within a bank?

Secretary YELLEN. The President's Working Group contemplated different alternatives and unanimously recommended the establishment of a bank framework for recognizing stablecoins.

Mr. MCHENRY. A bank framework.

Secretary YELLEN. It is a flexible framework. It involves appropriate capital and liquidity requirements, which I think are important, and is a framework in which payment system risks can be addressed. I think this is something that we would be—

Mr. McHENRY. Yes, and we welcome that.

Secretary YELLEN. —working on, on a bipartisan basis to discuss alternatives and evaluate them as something that I think would be very worthwhile. And I would urge this committee to engage, and we would be very glad to work with you.

Mr. McHENRY. We welcome that. Now, one larger question here, because we are talking about the Financial Stability Oversight Council and the view. Inflation is raging. We have growth that is stagnant right now with the latest numbers and rising gas prices. What is your Administration doing to take on these challenges the American people are feeling and what my constituents are talking to me about?

Secretary YELLEN. Clearly, inflation is a very substantial issue, and I agree with the President's assessment that it is really the number-one economic issue that faces the Administration and the nation. It is having a substantial adverse impact on many vulnerable households, and we are laser-focused on addressing inflation. As you know, the Federal Reserve plays an important role. They are charged with price stability and full employment, and I would say, first and foremost, it is the Fed's responsibility, and we support an independent Fed making the judgements that they think are appropriate.

For our own part, the Administration is taking a wide range of steps to do what we can to address inflation, and that ranges from things like releases from the Strategic Petroleum Reserves that are substantial, that are intended to bring down energy prices, and working on supply chain issues that are contributing.

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

Mr. HIMES. Thank you, Madam Chairwoman, and thank you, Madam Secretary, for being with us. I want to continue this conversation on stablecoins because, obviously, the activity and the volatility of the last couple of weeks has been interesting and concerning to watch. But since this is the first time we have had you here since we have had really a pretty substantial and robust recovery from the economic devastation of COVID, I do want to take just 30 seconds to reflect on Dodd-Frank and what it meant.

I am in the minority of panel members who were here when that legislation was crafted, and I very much remember how it was sort of the ugly stepchild legislation coming out of 2009. We were assured by my Republican friends that it was going to end capital markets in this country, liquidity was going to dry up, credit availability was going to be gone, and the entire capital market of the United States was going to migrate to Europe and Asia. Of course, none of that happened. The banks are much more profitable and larger today than they were at the time. We have seen innovation.

To be fair, on the other side of the aisle, there were people who were concerned that at the first sign of trouble, the financial sector was going to crumble. That didn't happen either. In fact, we just went through the mother of all stress tests. We saw economic stress unlike what we saw back in 2007 and 2008, and what didn't happen? The sector did not come down. I just wanted to take a minute to offer an encomium to the hard work that was done back when Dodd-Frank was being crafted.

Let me turn, though, back to this really interesting conversation. Some people estimate that there has been as much as $1 trillion in value lost in a variety of different stablecoins and other coins, other cryptocurrencies. I feel the pain of those who lost money, but this is also an education for people who thought that Bitcoin grew to the sky. I am not sure there is any regulation we can pass that is quite as much of an education for investors as seeing what volatility and risk look like.

My question, Madam Secretary, and what does worry me as a veteran of Dodd-Frank, is at what point do we see systemic risk developing in this sector, and what does that look like? I don't think that at $2 trillion in market cap, we are talking about systemic risk, but I could be wrong. Where do you see the possibility for systemic risk developing in the broader cryptocurrency realm?

Secretary YELLEN. Thank you. The Financial Stability Oversight Council is analyzing right now, in response to the President's Executive Order, potential financial stability risks from digital assets writ large. But we have already issued a report, the President's Working Group, which is a subset of the FSOC unstable coins, because although I can't say that they have reached the scale right now where there are financial stability concerns, and we are seeing Terra having broken the buck and Tether under some pressure as well, which is the largest one. I wouldn't characterize it at this scale as a real threat to financial stability, but they are growing very rapidly, and they present the same kind of risks that we have known for centuries in connection with bank runs. There are assets that purport to guarantee conversion at will to the dollar on a one-for-one basis, and—

Mr. HIMES. Let me interrupt you. Thank you. I was looking for validation that at $2 trillion in overall market cap, we are not talking about systemic risk, so let me just ask you, again, being a veteran of the meltdown of 2008 and Dodd-Frank, I get very, very itchy around systemic risk. And actually, of course, that market cap has decreased dramatically in the last couple of months. At what point should this committee get focused on the possibility of systemic risk? Are we talking $5 trillion in market cap, $10 trillion? At what point should the red flag start to rise?

Secretary YELLEN. I can't give you a numerical cutoff, but what I do see is that the use of digital assets is rising very rapidly, that they present the same kinds of run risks and other risks, payment system risks, and, really, we need a comprehensive framework so that there are no gaps in the regulation.

Mr. HIMES. Agreed. Thank you. I want to leave you 30 seconds. I have been doing a lot of work on a central bank digital currency, which, as you know, the Federal Reserve has opined on in a general way. In my remaining time, a central bank digital currency, inasmuch as it was a liability—the Federal Reserve would do away with a lot of the concerns that we are talking about here with stablecoins, correct?

Secretary YELLEN. I agree with that. That is the reason to want to have the central bank digital currency, but there are also concerns because it could have, depending on how it is designed, a very significant impact on the structure of financial intermediation. So, there are some tradeoffs here. We will address this in the Treasury report that we will be issuing.

Mr. HIMES. Thank you. Thank you very much.

Chairwoman WATERS. Excuse me. Members, I am going to ask you to keep your questions within your 5 minutes, and I am going to ask the Secretary, based on the fact that you have to get out of here, and I am trying to accommodate all of our Members—

Secretary YELLEN. Thank you.

Chairwoman WATERS. —who were not accommodated before, let's keep within the 5 minutes. Thank you very much.

The gentlewoman from Missouri, Mrs. Wagner, is now recognized for 5 minutes.

Mrs. WAGNER. Thank you, Madam Chairwoman. Secretary Yellen, thank you for joining us today.

During a public address on Tuesday, President Biden attempted to once again blame record high inflation on the pandemic and on Putin. Secretary Yellen, is it still your belief that excessive government spending, trillions of taxpayer dollars, is not a root cause of the rising prices that my constituents in Missouri's 2nd Congressional District are seeing every single day on gas, goods, groceries, and I could go on and on? Is it not a root cause?

Secretary YELLEN. There are many contributors to the exceptionally high inflation that we are experiencing, and certainly—

Mrs. WAGNER. Is excessive government spending a root cause?

Secretary YELLEN. Look, we had substantial programs to address what I believe was the most significant risk we faced as an economy at the time. Unemployment was extremely high.

Mrs. WAGNER. It has now spun us into an inflation that is at a 40-year high, and goods and services that are not affordable in any way, shape, or form. We have literally had CPI down for one quarter. God help us if it is down for a second one; it would toss us into a recession. Supply chain issues. I could go on and on. We have spent trillions and trillions of dollars, and the Fed has been too late to get here to help. Is the excessive spending a root cause?

Secretary YELLEN. Look, inflation is a matter of demand and supply, and it is certainly true—

Mrs. WAGNER. Okay. Let me—

Secretary YELLEN. —that government programs supported demand.

Mrs. WAGNER. Let me just reclaim my time.

Secretary YELLEN. But the pandemic—

Mrs. WAGNER. Let me just reclaim my time here, please, and we will move on since you won't answer the question. The ranking member also asked about inflation and asked what you and the Administration are doing about it, and you assured us it is all hands on deck and you are doing all sorts of things. You identified that, in fact, there is a problem with inflation, but what are you doing? What are you and the President specifically doing? All you said was you were releasing oil from the Strategic Petroleum Reserve, which does nothing to help and actually jeopardizes our future petroleum needs when there really is an emergency. What are you doing specifically?

Secretary YELLEN. The release from the Strategic Petroleum Reserve has served to hold down oil prices—

Mrs. WAGNER. No, it hasn't.

Secretary YELLEN. I'm sorry, but it has.

Mrs. WAGNER. It is $4.50 a gallon, and diesel is well over $5. It is a drop in the bucket. What are you doing specifically? You said it is all hands on deck.

Secretary YELLEN. Russia's unprovoked attack on Ukraine has had a substantial impact on global energy and crude markets.

Mrs. WAGNER. Oh, for heaven's sakes. We have been at this for 16 months, Madam Secretary. With all due respect, I can't disagree more. You won't even admit that the root cause of this is the spending and spending and spending. The Fed just got on the job last month in terms of raising interest rates by 50 basis points, and they will do it again next month and perhaps the month after, and the month after that. We are in a spiral. The moms in my district can't find baby formula, okay? They can't afford to fill up their cars with gas.

Secretary YELLEN. We have to—

Mrs. WAGNER. This is a serious situation, and making—

Secretary YELLEN. Well—

Mrs. WAGNER. What else are you doing besides the Strategic Petroleum Reserve, ma'am?

Secretary YELLEN. We are trying to unblock supply chains that have become very clogged. We have put in place changes, for example, at the ports of Los Angles and Long Beach that have substantially diminished backlogs there that have been raising prices and taken steps to—

Mrs. WAGNER. How about energy independence? Let's open up Keystone. Let's get some of these oil and natural gas leases through so we can be once again energy-independent, not only take care of our own energy supply and needs, but also maybe provide that to Europe so they are not so dependent upon Russia, and Iran, and other dictators. There are so many things, ma'am, that we should be doing. And the problem with unclogging the ports is that now they are paying $4.50 to $6 to move that diesel to St. Louis, Missouri, in the middle of the United States. It is untenable, it is unacceptable, and it is unbelievable to me that we can't even get the Secretary of the Treasury to admit that overspending by this Administration is the root cause.

I yield back, sadly.

Chairwoman WATERS. Thank you. The gentleman from Massachusetts, Mr. Lynch, who is also the Chair of our Task Force on Financial Technology, is now recognized for 5 minutes.

Mr. LYNCH. Thank you, Madam Chairwoman. Madam Secretary, thank you for being here. We really appreciate all of your good work.

I want to follow up on Mr. Himes' question, and I know he ran out of time sort of at the end, but I can't help but make a comparison to what we are seeing in the stablecoin area with an earlier part of our history when individual companies—coal companies, railroads, lumber companies—were issuing their own script. And what happened with all those privately-issued currencies was that when the greenback came out, consumers and businesses recognized the stability in the greenback, and all of those script currencies went away. Some of them were banned by the Fair Labor Standards Act and other pieces of legislation, but some went out due to disuse. Right now, there are 200 stablecoins in circulation. What are your expectations that 200 stablecoins are going to survive the emergence of a CBDC issued by the Fed?

Secretary YELLEN. I think you have described the risks associated with the proliferation of private stablecoins extremely well, and I agree with it. And I think a benefit of issuing a central bank digital currency would be that it might diminish the proliferation of these stablecoins, but it depends on the design of exactly how the central bank digital currency is introduced. There are a variety of design choices there, and there are issues around that. Privacy is an issue if a central bank were to issue it directly to consumers in order to protect against illicit finance, against account CFT/AML-type considerations.

Mr. LYNCH. Right.

Secretary YELLEN. There would be privacy concerns for the Fed amassing that data. An alternative that would seem more likely to me would be relying on financial institutions to play a role in dealing with customers. All of that would affect stablecoins, but there could continue to be stablecoins that coexist with the central bank digital currency. They may offer some benefits in terms of faster, more efficient, and cheaper payments. I think we should be open to innovation, but it is an argument for a CBDC.

Mr. LYNCH. I agree. The one aspect that you alluded to was the disintermediation of the commercial banks. If the Fed was going directly to the consumer, we don't need commercial banks, and they wouldn't have a role here.

Secretary YELLEN. It could draw a lot of funding away from the banking sector—

Mr. LYNCH. Right.

Secretary YELLEN. —if it is a very attractive asset.

Mr. LYNCH. Right.

Secretary YELLEN. And, this is something under consideration in many countries around the world.

Mr. LYNCH. I do want to go on to one other thing, and I appreciate the thoroughness of your answer. One of the things I worry about is that many of these stablecoins being issued are issued with nothing more than a White Paper, and trying to go through that, even with an engineering degree, is extremely difficult. And I go back to the mission of your Agency and of FSOC, and the asymmetry between the issuer of the stablecoin and the customer. Is there not some way that the regulators can intervene to make sure that at least when they issue a currency, there is some basis of judgment on the part of an educated consumer on the viability of that individual instrument?

Secretary YELLEN. We would like to see a comprehensive Federal regulatory framework which could ensure that information is available and there is a regulatory framework that would be in place. I really urge bipartisan action on this. At present, there are some agencies that have some authorities here. I don't want to opine on whether or not, say, the CFTC and the SEC may have some regulatory authority here.

Mr. LYNCH. Okay.

Secretary YELLEN. We would like to see a comprehensive framework.

Mr. LYNCH. So would I. I just want to say that I am aware that the Boston Federal Reserve is working with MIT on that Hamilton Project, which is also one of the—

Secretary YELLEN. Yes, on the technical—it would be a long time before it could be introduced in that work.

Mr. LYNCH. I yield back, Madam Chairwoman. Thank you.

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

Mr. SESSIONS. Madam Chairwoman, thank you very much. And Madam Secretary, thank you for taking time to come up to us on the Hill. You are going to be my reality up at this committee, and the reality is, the way I see it is things are not working. I will go back to President Clinton, who admitted before a Joint Session of Congress that the era of Big Government is over. President Clinton came in, tried to do exactly these same things, and then found out it didn't work. President Obama stated it is just not working in the way that we wanted. And I would say to you, and it is a question, is the economy and the success of an economy an art or a science?

Secretary YELLEN. It is an art and a science, but I would say to you that from the point of view of the ability of our economy to produce goods and services and promote the well-being of Americans requires—

Mr. SESSIONS. Then that is your science, because you understand education, you can see what is good in education, and you can see when somebody is headed for trouble. What you are talking about art to me is politics, and today this committee and you began going into art, not science. You went into abortion. You went into stablecoin rather than the general market, rather than the things which you are responsible for, which is science, which is policy, which is those things that make sense and are well-worn ways in a free enterprise system. I think that what you have to do is have a dose of reality, Madam Secretary. You are bound to have somebody in this Council who can offer some advice that what we are doing, going back to President Obama, and President Clinton, is not working. What works is getting people in a free enterprise system to go to work.

OPM has yet, if you look at their website, to give instructions for the government workers to go back to work. If you do not have the government working and you are leading the way, how can you expect others to go to work? Now, it is true, I am from Texas, and in Texas, we are working. We are doing those things. We had an equal amount of COVID issues and problems as the rest of the United States. But my point would be that I think in your own opportunity to look at the San Francisco Fed, they directly pointed to the $1.9 trillion rescue plan as causing inflation. I openly say it, and I will say it again. I think this Administration, I think this Congress is making friends with inflation. I think they are doing the things that caused it, and that it is a science, but it is being treated as an art. Please defend that issue yourself.

Secretary YELLEN. I think that the American Rescue Plan (ARP) played a hugely important role in putting people back to work and ensuring that people throughout the pandemic were able to keep roofs over their heads and food on the table. And think about the set of problems we do not have because of the ARP. We do not have starving families and children.

Mr. SESSIONS. How many jobs are available in the market today that are unfilled?

Secretary YELLEN. We have an extremely strong job market, and we owe that to the ARP. If you remember the recovery from the—

Mr. SESSIONS. But the question is, how many jobs are going begging, and your statement seems to imply—

Secretary YELLEN. We have a huge—

Mr. SESSIONS. —that jobs aren't available, and so the government has to do it. The government has to pay the money because people need it. How about jobs? How about free enterprise? How about people paying into the Treasury as opposed to taking out a loan? This is that art versus science that I am talking about, and I would suggest that you invite a couple members of the committee who are on this side to come meet with the Council if they can't hear this. They need to face reality. President Clinton had it right. The era of Big Government was supposed to be over. President Obama: It is just working the way we thought. This is a science not an art. I thank you for being here. I am available to meet with them also, and I yield back my time.

Chairwoman WATERS. Thank you very much, and this committee is not making friends with inflation.

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

Mr. TORRES. Thank you, Madam Chairwoman. Madam Treasury Secretary, a few months ago I asked the Chair of the Federal Reserve about the risk of stagflation, and since then, in the first quarter of 2021, the economy shrank by 1.4 percent, and last month, inflation rose by 8.3 percent. Given these two developments, how high, in your view, is the risk of stagflation?

Secretary YELLEN. I'm sorry. Could you repeat that? I didn't—

Mr. TORRES. How high, in your view, is the risk of stagflation?

Secretary YELLEN. We clearly have high inflation, and the Federal Reserve has a critical role to play in bringing that down. They are in the process, using their own independent judgment, of tightening monetary policy to do so, and the Administration is doing what we can to also address supply chain issues and other contributors to inflation. We have a really good, strong labor market. We have household balance sheets that are in good shape. We have companies that, although, as we note in our annual report, have a lot of debt, the interest costs on that debt, it is very able to service it, and we have a very strong banking sector. And all of those things suggest that the Fed has a path to bring down inflation without causing a recession, and I know it will be their objective to try to accomplish that.

Mr. TORRES. I have a question about improper payments. The rate of improper payments in the Federal Government has risen to levels never seen before. According to OMB, the improper payment rate for unemployment insurance in Fiscal Year 2021 rose to 8.7 percent, and there have been reports that the percentage could be even higher in June of 2021. Axios had an alarming headline, "Half of the Pandemic Employment Money Might Have Been Stolen." I know the Treasury has the Payment Integrity Center of Excellence. Does the Center have the authorities, capabilities, and funding it needs to confront the growing crisis of improper payments?

Secretary YELLEN. I think that different agencies have different authorities in terms of looking into that and trying to address improper payments. Some of that authority for some programs resides with the Treasury, and we are doing everything that we can to make sure that the payments that we are making under the programs that are our responsibilities are not characterized by fraud. We have inspectors general, and fraud prevention programs, and controls in place to address—

Mr. TORRES. I just want to quickly interject. The Payment Integrity Center of Excellence, is its authority restricted to the Treasury or is it government-wide?

Secretary YELLEN. I believe a number of different agencies and, of course, DOJ plays an important role there as well.

Mr. TORRES. The supply chain disruptions have been so severe that parents are desperately searching for baby formula, which is in dangerously short supply. As you know, some parents have had to travel long distances to purchase baby formula. Other parents have had to ration formula, water it down, and still others have fallen victim to price gouging or panic buying, and according to The New York Times, the out-of-stock rate for baby formula has risen to 43 percent, up 10 percent from just a month ago. What can be done in the short term to alleviate the shortage of baby formula?

Secretary YELLEN. I wish I had a good answer for you, but what I can promise you is that the Administration is carefully looking into this and will certainly do what they can to address what is a very disturbing finding that you described.

Mr. TORRES. A quick question about stablecoin. Suppose for a moment there is a stablecoin issuer whose reserves are verifiably backed by the dollar on a one-to-one basis, and whose reserves can be immediately redeemed for a dollar on a one-to-one basis. If the stablecoin issuer has no fractionalization of reserves and has no lending, it would seem to me that the stablecoin issuer is operating differently from a bank and, therefore, should be regulated differently from a bank. Is that a fair assessment, or what is your view on that?

Secretary YELLEN. Certainly, there are differences, and different banks operate differently and present different risks.

Mr. TORRES. But a bank, by definition, has fractional reserves and a lending function, which are lacking in the case of stablecoin issuers.

Secretary YELLEN. That suggests that a slightly different model should apply in regulating them. A bank framework has the possibility of flexibility to address the differences.

Chairwoman WATERS. Thank you very much. The gentleman from Florida, Mr. Posey, is now recognized for 5 minutes.

Mr. POSEY. Thank you, Chairwoman Waters.

With the Federal Reserve embarking upon their fight against inflation it appears we are entering a period of increasing interest rates. How much will a 1, 2, or 3 percentage point increase in our interest rates end up increasing the interest on the national debt and what actions are you planning to take in that regard?

Secretary YELLEN. At the moment, the real interest on the national debt over the last couple of years has been negative because nominal interest rates have been so low. In our own projections of the interest burden of the debt in the years ahead, we have assumed that interest rates would not stay at that low level, and we have projected increases. Even so, you can see that in our mid-session review, and we will be producing another mid-session review, where we will update our forecast interest rate path.

The real interest burden of the debt remains below 2 percent, which is a level that many economists regard as safe and consistent with solid government finances.

Mr. POSEY. Last October, the Financial Stability Oversight Council issued a report on climate change. The consistent position came through that the FSOC wants to rely on scenario analyses to assess climate risk. I believe we must also recognize that regulators and forecasters oftentimes make errors as well.

Will your scenarios provide for assessing the potential adverse impacts of regulatory decisions if they turn out to be ill-advised or based on overly-pessimistic climate scenarios?

Secretary YELLEN. I think it is important for financial institutions to be prepared to have adequate capital liquidity to address a variety of risks and shocks that can hit the economy. No one ever expected a pandemic, but the Dodd-Frank rules that were put in place ensured the resilience of the financial sector, of the banking sector to be able to survive shocks and meet the credit needs of the economy.

And similarly with climate change, we do not know exactly how things will transpire, but we want to make sure that with adverse scenarios remaining possible, that banks operate in a way that is safe and sound.

Scenarios are widely used around the world in evaluating the vulnerability of banking organizations to the risk from climate change, and we are learning from what other regulators do, and regulators of banking organizations are looking to such scenarios to evaluate the range of risks that we could face.

Mr. POSEY. Could you tell us who some of these foreign regulator experts are that we are relying on, that we are learning from?

Secretary YELLEN. I would say the Bank of England is the most advanced in devising scenarios and using them to evaluate the safety and soundness of their banking organizations, and there is a network of central banks that have worked on designing scenario analysis for use of this sort, and this is certainly a resource to us in the United States as we work on a system for regulators to evaluate these risks.

Mr. POSEY. I see my time is about up, Madam Chairwoman, so I will yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Texas, Mr. Gonzalez, is now recognized for 5 minutes.

Mr. GONZALEZ OF TEXAS. Thank you, Madam Chairwoman, and thank you, Madam Secretary, for being here to testify before us. I have, actually, a follow-up to some of the issues that you just addressed. The devastating war in Ukraine and the ensuing energy crisis in Europe have severely impacted economic productivity echoing throughout the global economy. One of the ways to fight against this would to be expand exports of our liquefied natural gas (LNG) here in the United States. However, the United States is at an effective export capacity, meaning additional pipeline infrastructure and export terminals would have to be built to expand the volume of LNG exports to our allies in Europe and around the world.

The private sector faces challenges accessing capital to invest in these projects, due in part to the regulatory landscape that we have today that keeps investors away. How does the FSOC's October 2021 report weigh this challenge and potential risk to the global financial system?

Secretary YELLEN. The issue that you are pointing to with the necessity of helping our European allies, particularly, reduce their dependence on Russia for a supply of natural gas is a critically-important priority, and I know the Department of Energy and the White House are looking at what we need to do in the United States to facilitate that. I am not an expert on the details about terminals, but I would be glad to get back to you on that.

This is not really, I would say, a financial stability risk that the FSOC has looked into or addressed in its report. It is certainly an important economic issue.

With respect to the war in Ukraine, the Financial Stability Oversight Council and the staffs of the agencies involved meet on a regular basis to attempt to identify spillovers to the financial system that are of concern. Frankly, the financial system has functioned very well in the face of this unexpected shock. But the issue that you mentioned is very important.

Mr. GONZALEZ OF TEXAS. Yes, it is a concern, because today it is Europe, and maybe another part of the world at some point in the future, and I think we should be prepared for something like that.

Secretary YELLEN. Yes, sure.

Mr. GONZALEZ OF TEXAS. Thank you, and I yield back.

Chairwoman WATERS. Thank you very much.

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

Mr. LUETKEMEYER. Thank you, Madam Chairwoman. Good morning, Secretary Yellen.

Secretary Yellen, Director Chopra of the Consumer Financial Protection Bureau (CFPB) is a member of FSOC, is he not?

Secretary YELLEN. Yes, he is.

Mr. LUETKEMEYER. He has recently recommending removing deposit insurance from financial institutions as an enforcement action. In his proposal, Director Chopra specifically named financial institutions that have 27 percent of the U.S. deposits combined, and he proposed that these institutions should have harsher enforcement actions placed upon them, such as revoking their FDIC insurance or placing them into receivership.

Do you agree with removing deposit insurance as an enforcement action against depository institutions?

Secretary YELLEN. I'm sorry. I have not had a chance to review his comments or proposals on this. I would say that deposit insurance plays a critical role in the banking system and it is something that has promoted financial stability.

Mr. LUETKEMEYER. From that comment, I would assume that you believe that deposit insurance is important to financial stability in the United States.

Secretary YELLEN. I agree with that.

Mr. LUETKEMEYER. Okay.

Secretary YELLEN. I am not knowledgeable about the details of his proposal.

Mr. LUETKEMEYER. So if you are concerned, if you believe that the FDIC insurance is a key factor in continuing to have stability in the banking area, especially when you have these big banks just talking about perhaps a quarter of all U.S. deposits not being insured, that would affect the stability of the economy. And you sit on FSOC and he sits on FSOC, the entity which is for looking at financial stability risks, as you just stated a minute ago.

Do you think Mr. Chopra is a worthwhile member to have on there, and should some actions be taken against him for making a statement like that, that could endanger the stability of financial markets?

Secretary YELLEN. Look, I am not prepared to weigh in on his proposals. I do not know the details of it. I agree with you that deposit insurance is important. But it not automatic that every institution is granted deposit insurance. That is something that the FDIC reviews how banks are operating and whether or not they—

Mr. LUETKEMEYER. Madam Secretary.

Secretary YELLEN. —deserve to have deposit insurance.

Mr. LUETKEMEYER. Madam Secretary, when you have a member of FSOC make that sort of inflammatory remark that could affect the stability of the financial markets by saying these institutions could have the FDIC insurance taken away from them, that sent shockwaves from my position about what is going on. To me, it is unacceptable. If I was in your position as the head of FSOC, I would certainly have a little discussion with Mr. Chopra and say, "You cannot go out here and make those kinds of wild accusations, and you cannot have those kinds of enforcement actions that would destabilize the markets."

But we will write you a letter and hope you respond to that with regards to this situation, because I think it is paramount that the Council be sure that they have members on there who understand that their remarks could be inflammatory in a situation like this. So, I thank you for that.

Next, on December 27, 2020, Congress passed the Consolidated Appropriations Act of 2021, which funded the government and also included additional stimulus related to the pandemic, including another round of Paycheck Protection Program (PPP) loans. Title III of that section established the second round of PPP, and that Section 321 was entitled, "Oversight." And it states that not later than the date that is 120 days after the date of enactment of this Act, the Administrator and the Secretary of the Treasury—that is you—shall testify before the Committee on Small Business and Entrepreneurship of the Senate and the Committee on Small Business of the House of Representatives regarding implementation of this Act and amendments made by this Act.

That means you were due, Madam Secretary, to appear before the House Small Business Committee 381 days ago, and you still have not shown up. I have sent you letters about this testimony in May of 2021, June of 2021, July of 2021, and March of 2022, and still have not received a response.

As someone who is head of FSOC, and someone who looks at the stability of our economy, and someone who should want to lend the support and stop some inflammatory discussions and actions and allay fears, your lack of being able to appear before us is very concerning. Do you any plans whatsoever to appear before our committee, Madam Secretary, the Small Business Committee?

Secretary YELLEN. I appreciate very much the role that Congress plays in oversight, and I come regularly to the Hill and to this committee to testify. In the situation you are referring to, Congress has expressly authorized me to delegate duties and powers of the Secretary to another officer or employee, and that includes the Deputy Secretary. And he has offered to testify multiple times in front of the Small Business Committee. I hope that you will agree to allow him to come and do so.

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

Ms. ADAMS. Thank you. Thank you, Madam Chairwoman, and Mr. Ranking Member, for hosting the hearing today. Secretary Yellen, it's good to see you again. Thank you for being here.

Madam Secretary, FSOC's annual report notes the significant increase in home prices between 2016 and 2019, that the average annual increase was only 6 percent, but from March 2021 to March 2022, home prices rose 22 percent. Would you very briefly agree that the rapid increase in housing and rental costs presents a significant problem for those who are already home-insecure? Would you agree to that?

Secretary YELLEN. Yes, I definitely agree. I think the supply of housing, particularly affordable housing, in this country is a huge problem. We have had low construction really, ever since 2008, and I believe we have a huge shortage of affordable housing in this country. Of course, rising home prices and rental prices are an enormous issue.

Ms. ADAMS. Yes, ma'am. In my district of Charlotte-Mecklenburg, private equity firms have been snapping up single-family homes and converting them to rental properties. Last week, the Charlotte Observer, our local paper of record, reported in their Security for Sale series that in North Carolina, institutional investors have purchased over 40,000 homes in the past decade. The UNC Urban Institute reported that over 10,000 of those are in Mecklenburg County and that the average value of those properties is only two-thirds of the average single-family home, which means that private equity firms are squeezing the less-affluent out of the home-buying market but depleting the supply.

Madam Chairwoman, I would like to, without objection, submit the articles that I mentioned for the record, including two others that touch on Charlotte's housing crisis, from The New York Times and The Washington Post.

Chairwoman WATERS. Without objection, it is so ordered.

Ms. ADAMS. Thank you.

Secretary Yellen, can you describe why it might be dangerous for the housing market at large for private equity firms to purchase and convert homes at the lower end of the price range spectrum?

Secretary YELLEN. I would simply say that we have a shortage of housing and it is critically important that we do everything in our power to increase the supply of housing. We have to use the tools that we have. The President's Build Back Better plan would have dedicated $150 billion to housing, including making major investments in public housing and homebuyer assistance. But we certainly have to use all of the tools that are available to us now to address the housing crisis.

Ms. ADAMS. Thank you. We should have passed the President's Build Back Better agenda. It would have dedicated $150 billion to housing, including making major investments. I am proud to have worked with Senator Collins and Representative Rouzer to introduce our bipartisan, bicameral LIFELINE Act, which would allow cities and States to use a lot of the fiscal relief funds to help with housing development. So, I encourage all of my colleagues sitting here today to co-sponsor that legislation.

Madam Secretary, with the time we have left, would you tell me how important it is to maintain a robust supply of affordable housing during this time?

Secretary YELLEN. I think it is critically important. We are seeing huge shortages in affordable housing, especially in high-priced areas of the country, and I think we need to do everything we can to address the shortage. I think that States and localities also have in place restrictions, zoning restrictions that make it difficult to build affordable housing, so I think action at that level is also important.

You mentioned fiscal relief funds, and we have certainly urged State and local governments to use these funds to expand affordable housing. It was an important issue in the pandemic.

Ms. ADAMS. Great. Thank you, Madam Secretary, for being here. And Madam Chairwoman, I yield back.

Chairwoman WATERS. Thank you very much.

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

Mr. HUIZENGA. Thank you, Madam Chairwoman.

Secretary Yellen, I wanted to call you, "Chair Yellen." You are still sort of Chair Yellen to me. That was how we interacted for many years. But Secretary Yellen, just last month when you were here, we talked a little bit—and I know this is a little off-topic from FSOC, but we talked about Iranian sanctions. And there had been a report in The Washington Post about Iran demanding that they be taken off of some of the designations as foreign terrorist lists.

You had said at the time that—and I have the transcript from that interaction right here—"I am not deeply involved in the detail of these negotiations." My question then, was, "Have you or anyone else at Treasury been directed to reduce Iranian sanctions enforcement so as not to interfere with those Vienna talks?" You replied, "We have not changed our sanctions on Iran." I said, "That was not my question. Have you been instructed to or requested to do anything?" You said, "There has been no change in the Administration policy, to the best of my knowledge."

What I am really concerned about, I guess, is the Secretary of the Treasury not being read-in on those. Treasury is the main source of sanctions. Is that still the case? Are you read-in on these negotiations or not?

Secretary YELLEN. Treasury is regularly updated about the negotiations.

Mr. HUIZENGA. And you personally?

Secretary YELLEN. I have been periodically updated on this situation with the Iranians.

Mr. HUIZENGA. Then, I guess I will go back to my original question. Have you or anyone else at Treasury been instructed to back off on any of those sanctions, vis-a-vis Treasury sanctions on Iran?

Secretary YELLEN. No, not to my knowledge.

Mr. HUIZENGA. Okay. That is the kind of thing that makes us very nervous, when you say, "Not to my knowledge." So, will you please go and investigate that, and I would like to find out so that we can have assurances that Treasury, with your knowledge or against your knowledge, has not been instructed by this White House to back off on those sanctions?

Secretary YELLEN. Nothing has changed with respect to Iranian sanctions.

Mr. HUIZENGA. Okay. I still request that.

Here is the other question I wanted to really get at, FSOC and its functions, talking about digital assets. Recently, the SEC released a Staff Accounting Bulletin Number 121 related to custody of digital assets for its platform user. Given FSOC's focus on digital assets, was there any coordination with other members, agencies, in those efforts from the SEC?

Secretary YELLEN. I am not deeply knowledgeable about this regulation. I need to look into it and get back to you.

Mr. HUIZENGA. I guess, if you would, that would be extremely helpful. This is a sweet spot for this committee. The SEC, in my opinion, should not be issuing one-off staff bulletins and guidance on digital assets instead of following the proper rulemaking process and coordinating with other agencies. It seems to me as Chair of FSOC, that is a vital part as we are dealing with these digital assets.

I have a minute and 40—

Secretary YELLEN. The SEC and the CFTC certainly have authorities—not comprehensive authorities over digital assets but they certainly do have authorities and can act on their own within those.

Mr. HUIZENGA. And I guess I want to know whether there is coordination within the agencies of FSOC. So, we can continue that.

In my last minute here, I want to talk a little bit about the effects of spending on the economy, and I know Mrs. Wagner from Missouri was talking about that, and ironically she is at a press conference right now dealing with the lack of baby formula and the inflationary prices and the supply chain there.

Let us just put it this way. Spending plus easy money equals inflation, and that seems to be playing out. And I am curious if you would prognosticate here a little bit on soft landing versus hard landing versus very hard landing—what are your expectations of what is going to be happening in the economy?

Secretary YELLEN. Inflation is a serious concern. Look, we are not the only country experiencing inflation. Most advanced countries—

Mr. HUIZENGA. But no other country is at this level.

Secretary YELLEN. But it does show that there are factors beyond spending in the United States that are critical to inflation. We are seeing, because of the pandemic, supply chain problems develop—

Mr. HUIZENGA. In my last 5 seconds, Fed Chair Powell agreed with this: about 20 percent of inflation is due to energy; 20 percent to labor; 20 percent to supply chain; and 40 percent to monetary policy and spending.

I yield back.

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

Ms. DEAN. Good morning, Secretary Yellen. I am delighted that you are here again before us. Thank you, Madam Chairwoman, for recognizing me. And I thank you for not minimizing the risks and the realities of inflation and what it means to all of our constituents. Clearly, the Fed has its work cut out for it, and is stepping up to do just that.

At the same time, I want to make sure we balance the conversation about the overall health of the economy. We can all beat the drum about inflation because it is painful, but let us talk about the underlying health of the economy following a pandemic and a global economic closure.

Unemployment has fallen to 3.6 percent, down from a pandemic high of nearly 15 percent in April of 2020. If you compare that to 2008, the financial crisis, unemployment peaked at about 10 percent in 2009, and did not fall to below 4 percent for nearly a decade.

Secretary Yellen, can you speak to how different this recovery has been compared to the recovery from the financial crisis? How have the steps taken by Congress, including the American Rescue Plan—which you have spoken about several times today, and my constituents appreciate—contributed to this extraordinary recovery?

Secretary YELLEN. I appreciate you making this point. It is a critically important one. The American Rescue Plan deserves substantial credit for the fact that the unemployment rate is very low, that Americans have confidence in the job market. We are seeing the quit rate rise to levels we have never seen in the United States, and what that means is that individuals are seeing huge opportunities in the job market. They are receiving outside offers that let people move to better jobs and advance in the jobs that they have and see wage increases.

The eviction rate in the United States is below pre-pandemic levels. We had a year last year in which child poverty dropped very substantially. For Americans, on average, their household balance sheets are very strong. That is, in part, because of the support provided by the American Rescue Plan, and businesses are doing well. While some built up debt during the pandemic, they are now finding it possible to pay it down.

We have a good, strong labor market. I spent that decade following the financial crisis at the Fed, and I can tell you how concerned we were that using every tool at our disposal, it still took a decade to recover. And I can also tell you that when President Biden was elected, the projections as to where the economy might go were dire.

Ms. DEAN. Exactly.

Secretary YELLEN. The CBO projected high unemployment. The American Rescue Plan addressed that. And the strong state of our labor market and of household balance sheets, this is the dog that has not barked in the night. That is the credit that goes to the American Rescue Plan. Of course, we have to address inflation.

Ms. DEAN. I thank you for your legacy of dealing with these issues and recognizing what the American Rescue Plan has done. I had a father thank me for the American Rescue Plan because he and his wife have two little children, and what it did in terms of the child tax credit was meaningful to them. Sadly, not a single Republican could bring himself or herself to vote for the American Rescue Plan, and sadly, while we made a big difference on child poverty and hunger, by not renewing the increased child tax credit, of course, we send those families back into poverty.

Just quickly, in the time I have left, when you were last here you talked about the Russian economy reeling as a result of the sanctions. Can you give us an update?

Secretary YELLEN. It is absolutely reeling. By their own estimation, the Russian economy looks set to contract at least 10 percent or more this year, inflation is expected to reach double-digit levels, perhaps 20 percent, and there is an enormous, because of our sanctions, shortage of goods and services that Russia needs to replenish the munitions that it is using in the war. Its high technology and defense industries will be damaged for decades to come.

Ms. DEAN. I yield back, and I thank you.

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

Mr. BARR. Thank you. Madam Secretary, I want to focus on your 2021 report on climate-related financial risk. I have expressed in this committee before that it is implausible, if not far-fetched, to suggest that climate change, a phenomenon that occurs over decades, could somehow suddenly overwhelm the banking system, the insurance sector, or the reinsurance sector.

What evidence has FSOC found that banks, lenders, or insurers have ever mispriced weather risks so substantially that it would result in systemic risk?

Secretary YELLEN. It is not just a matter of weather risks, which are clearly rising in severity and could have a significant impact on banking organizations, but there are also so-called transition risks that—

Mr. BARR. So regulatory risks, risks that the government could redirect capital away from fossil energy and increase inflation. Is that what you are referring to, transition risks?

Secretary YELLEN. It is an existential threat with respect to climate change, leaving our children and grandchildren with a planet that is all but uninhabitable—

Mr. BARR. Let's drill down on that—reclaiming my time. In FSOC's report on climate-related financial risk, did FSOC consider the risk of overinvestment in novel, unproven, and highly risky, speculative green assets, and then the risk of diverting investment away from stable, proven, and low-risk brown assets?

Secretary YELLEN. The FSOC and individual regulators are not telling banks what they should or should not do.

Mr. BARR. I think FSOC should consider overinvestment in risky assets. In FSOC's consideration of climate-related financial risk, did FSOC consider the substantial risk that has actually now materialized, that overregulation of the fossil energy sector, ending Keystone, blocking lease sales on Federal lands, constraining supply of energy, has actually undermined financial stability, specifically historic inflation and $4.37-a-gallon gas?

Secretary YELLEN. I think we owe that to the failure of our domestic industry to ramp up production to—

Mr. BARR. I do not think that is what they said. They say they cannot get approval, and when they cannot ship through the Keystone Pipeline, and when they cannot access capital because of ESG disclosure mandates, that is why we have a shortage of energy.

Did FSOC consider that the SEC's ESG disclosure proposal, designed to redirect capital away from fossil energy, will increase the cost of energy, creating a greater risk to economic stability?

Secretary YELLEN. Look, investors with over $100 trillion worth of assets have said that in order to properly evaluate investments, they need disclosures about the risks that individual firms have with respect to climate, and regulators all around the world are acting to—

Mr. BARR. I understand that but—

Secretary YELLEN. —provide that information.

Mr. BARR. —will you commit to engaging Chairman Gensler in FSOC to assess the risk to our energy markets and exacerbating the inflation crisis posed by politicizing the allocation of capital through ESG regulation, and will the FSOC consider the risk of steering investors toward green or ESG firms that could make them riskier, not safer, by inflating their asset values?

Secretary YELLEN. I think you should note that the largest banks in the United States and around the world voluntarily joined an alliance this past year to commit—

Mr. BARR. I know what they did.

Secretary YELLEN. —to reporting their portfolios—

Mr. BARR. I am asking you about—

Secretary YELLEN. —and that is not—

Mr. BARR. —financial risk.

Secretary YELLEN. —the reason—

Mr. BARR. I am asking you, Madam Secretary, about your job as Chair of the FSOC to evaluate all financial risks. And I want to know whether you acknowledge that stocks in many ESG-related ETFs and investments trade at elevated priced earnings, ratios, and multiples because investment returns are sacrificed for non-pecuniary factors. Are you evaluating that risk to the financial system, because returns are sacrificed?

Secretary YELLEN. We do look at asset valuation and recognize that significant shifts in them can be a risk to financial stability.

Mr. BARR. Finally, will you commit to never, as long as you are the Treasury Secretary and Chair of FSOC, to allow a single minute of time, during any meeting of FSOC, to be devoted to the topic of abortion?

Secretary YELLEN. Abortion is not a topic—

Mr. BARR. Thank you.

Secretary YELLEN. —that FSOC has looked at or that I—

Mr. BARR. I think the fact that there is a focus away from actual financial stability risks and towards things like abortion and meteorology means that we have our eye off the ball at FSOC. And I yield back.

Secretary YELLEN. FSOC has nothing to do with abortion.

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

Ms. TLAIB. Thank you for being here, Madam Secretary.

I want to talk about something that is really important to my district, but I want to start with a few questions. When defining financial stability risks from a climate crisis, do you think we should be defining the risk as only government policy change that would happen only with, potentially, that is the only way that would create disruption? Do you think the government policy is the only form of transition risk regarding the climate crisis?

Secretary YELLEN. The underlying risk is that we have a process of climate change taking place which threatens the viability of life on Earth and poses enormous risks to our children and our grandchildren. I believe this risk is becoming clearer from what all of us see happening around us every day, and if that is not the case for some people, it will become clear in the decades ahead and there will be adjustments and they can contribute—

Ms. TLAIB. I am with you, and this is why I am asking. In defining financial stability risks from a climate crisis—during the Senate confirmation for Federal Reserve Chair Powell, he defined transition risk as government policy change that happens, which could potentially create disruption. But what about rapid changes in technology or major shifts in consumer consumption? Right now, are we considering the supply chain impact due to rising sea levels or other climate-related effects?

Secretary YELLEN. I would agree with your statement that these risks do not have to relate to government relation. They could certainly relate to technological changes—

Ms. TLAIB. I am so glad to hear you say that.

Secretary YELLEN. —or rapid shifts in consumer preferences or other sources.

Ms. TLAIB. It is a huge economic risk, and we really need to be looking at it.

G20 financial institutions currently have nearly $22 trillion of exposure to carbon-intensive sectors, and last year the world's largest financial institutions, Madam Secretary, pumped $742 billion into the fossil fuel industry. Secretary Yellen, we actually saw more fossil fuel financing last year than we did in 2015, the year the Paris Agreement was signed. We are going in the wrong direction.

As the world's largest financial institutions continue to grow their positions in carbon-intensive markets, will this make our global transition from fossil fuels to clean energy slower and more dangerous to our economy?

Secretary YELLEN. I guess what I see is that the world's largest institutions recognize the importance of shifting their lending in ways that will help us, the globe, the U.S. and other countries, achieve net zero by 2050, and are voluntarily making—

Ms. TLAIB. They are saying that but they are not doing it, Secretary.

Secretary YELLEN. I think it is important for groups to monitor those financial institutions and see that they—

Ms. TLAIB. I really think we need to—in FSOC's report on risks posed by climate change last year, the Council outlined several recommendations as first steps in addressing the climate crisis, including increased scenario analysis, and climate risk disclosures, and I applaud the report. I think their recommendations were very clear.

However, I am really perplexed because as you were talking about that, many of these financial institutions that are financing fossil fuel projects have continued to say this thing about net zero, public comments, and pledge to align with the Paris Agreement but they are not. They are completely contradictive.

Secretary Yellen, you saw the record flooding, everything. How will better risk modeling and climate disclosures change the behavior of these financial institutions?

Secretary YELLEN. It will allow their supervisors to form a clearer view of the risks that these institutions are taking and then ensure that they are managing them properly, and it will help the institutions themselves better appreciate the risks that they are undertaking. They are probably not doing that kind of analysis now, and want to promote that understanding.

Ms. TLAIB. Yes, and just to be clear, I am for that, but I think the result needs to be actual reduction, and to really look at this in a very clear way. I do not think we are in line with what Chairman Powell is talking about, and the fact that a lot of other countries are looking at this as a risk very clearly, an economic risk, I think is very telling.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you. The gentleman from Texas, Mr. Williams, is now recognized for 5 minutes.

Mr. WILLIAMS OF TEXAS. Thank you, Madam Chairwoman. Madam Secretary, thank you for being here.

I am a small business owner back in Texas, not, "was," but, "am." And I meet with families, businesses, ranchers, and car dealers in my district all the time, and inflation is one of the first things they bring up. And yesterday, CPI data showed this phenomenon is not slowing down. Year over year, gasoline is up 43 percent—you know these numbers—electricity up 11, meat, fish, and eggs up 14 percent, and even used cars are up 22 percent.

You are one of the top voices in the Administration claiming inflation was transitory. Well, that has obviously proven to be extremely wrong. And yesterday, the Wall Street Editorial Board chided the President for lying to the American people and blaming everything except for his own party's policies as a contributing factor to these price increases.

Just a simple question. Keep it short. Very simple. Will you admit that government spending is a contributing factor to inflation?

Secretary YELLEN. There are many factors that are responsible for inflation. You can see inflation at unacceptable levels in all advanced countries around the world.

Mr. WILLIAMS OF TEXAS. I know. We have talked about that—to get my time back—but we are just saying government spending is a big cause, isn't it?

Secretary YELLEN. We supported spending, it contributed to demand, and it had a very favorable effect on most Americans' well-being. We do have to deal with inflation.

Mr. WILLIAMS OF TEXAS. Okay. The energy sector is an important industry in my home State of Texas, and I keep hearing from this Administration that it is the private sector's fault that they are not producing more and have not invested in any new capabilities to expand production. And quite frankly, that is an insult. This is such a ridiculous excuse to once again deflect blame away from their own misguided policy decisions that are having a material impact on American lives. It is just deflect all the time.

As a business owner, as a current business owner, certainty is key before you deploy capital. Since President Biden's first day in office, he made it abundantly clear that he is going to be hostile towards this energy industry, and a few of these actions were immediately canceling the Keystone Pipeline permit when he came into office, and instituting a leasing moratorium for onshore and offshore energy production, while threatening to raise royalty rates, and pushing his climate agenda through financial regulators to make people think twice before providing financing.

Just today, this morning, the Interior Department cancelled a 1-million-acre oil and gas lease in Alaska that could have brought some relief to the American people when we are sky-high in gas prices.

Madam Secretary, why would any domestic energy company want to invest in new production capabilities when all this Administration does is project uncertainty, they want to raise taxes, they want to raise regulations, and they are just frankly hostile, just mean and hostile towards this industry. Why would anybody want to come here?

Secretary YELLEN. I think when the pandemic struck, and gas prices fell, a lot of oil companies and energy companies in the United States suffered hard times and losses, and it was natural for them to diminish production and reduce investments in drilling. They probably did not expect such a rapid recovery as we saw from the pandemic, and as demand increased, it drove oil prices up.

I think this gives a good deal of impetus to domestic energy companies to raise production in the short term. Over the longer term, climate change remains critical, and I think what we have seen happen with energy prices rising because of Russia's invasion of Ukraine, it tells us that we need to move to renewable energy sources where our supplies and well-being and prices are not so vulnerable—

Mr. WILLIAMS OF TEXAS. I might have a better idea. Maybe incentivize the private sector and let the private sector compete and help drive prices down. The government never gets that done. The government creates the problems that we are in today. So, I would say you might want to try incentivizing these people.

In closing, as a result of foreign tax credit regulations finalized by Treasury late last year, income and withholding taxes that have been credible for decades are no longer eligible for foreign tax credits. This could have an effect, again, of incentivizing U.S.-based companies to move more of their operations overseas.

Quickly, are you willing to reopen this rulemaking to ensure that American businesses are not being put at a competitive disadvantage, so they do not leave and cost us more jobs? Because this is America, the greatest country in the world. Would you be willing to do that?

Secretary YELLEN. I'm sorry. What rulemaking are you referring to?

Mr. WILLIAMS OF TEXAS. Okay, my time is up. Thank you.

Chairwoman WATERS. Thank you. The gentleman from Illinois, Mr. Garcia, is now recognized for 5 minutes.

[Pause.]

Chairwoman WATERS. Mr. Garcia? Are you unmuted? We will wait for Mr. Garcia.

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

Ms. GARCIA OF TEXAS. Thank you, Chairwoman Waters, and thank you, Secretary Yellen, for joining us again today with this important annual report.

First, I would like to applaud you, Madam Secretary, for the Treasury's handling of the financial stresses we have experienced recently. COVID-19 has caused much social and financial hardships to our community. Putin's unprovoked invasion of Ukraine has only exacerbated these problems. I commend Treasury's implementation of historic multilateral sanctions against Russia, punishing them economically, and isolating them politically.

You, this Congress, and the President have constructed a broad and effective international coalition. We hear good news of others that may be joining. Now, we must continue this effort to maintain and expand help to Ukraine and turn up the pressure on Putin. Congress' oversight counsel through this is really, really important. This stability allows Americans to trust their that hard-earned paychecks will be safe from predatory bad actors.

I want to focus today on a couple of things that have perhaps been talked about, and just to be clear, government spending is not the only factor in inflation, is it not?

Secretary YELLEN. There are supply chain bottlenecks. Look at what is happening in China. The lockdowns that they are using to handle the pandemic are disrupting supplies to our economy. The war in Ukraine that Russia has launched is impacting food prices. We have seen more than a doubling of wheat prices. Not only is that impacting American food prices, it is threatening starvation in many parts of the world where there is already food insecurity. It is affecting energy. None of this has anything to do with government spending.

Ms. GARCIA OF TEXAS. Right. In fact, the food shortage may cause a bigger crisis than even the gas shortage, I understand.

Secretary YELLEN. The food crisis is terribly worrisome. With respect to wheat, both Russia and Ukraine are tremendously important sources of exports, the bread baskets of the world. And at the moment, Ukraine is really unable to ship wheat out of the country. That is part of why wheat prices have risen so much. There have also been droughts in many parts of the world, and we are terribly concerned and are very focused on rising food prices, and the impact that will have in many parts of the world, including Africa.

Ms. GARCIA OF TEXAS. I want to focus on a couple of things that have already been said, but just probe a little more. In response to a question from one of my colleagues, you mentioned the decrease in child poverty as a result of the child tax credit and some of the steps that Congress has taken to help the average working family.

Do you know exactly what percent of reduction has resulted from all of the investment in the child tax credit?

Secretary YELLEN. I do not have the exact figure but I do know it was a substantial reduction in child poverty.

Ms. GARCIA OF TEXAS. I thought I heard 40 percent.

Secretary YELLEN. That is the type of number I have in mind, but I can get back to you. It was a very substantial impact.

Ms. GARCIA OF TEXAS. Right. And I know that you received a letter from some Texas Democrats asking your Inspector General to look at what our governor is doing with perhaps misuse of some of the—

[Audio malfunction.]

Ms. GARCIA OF TEXAS. Madam Chairwoman, I paused. Can I get some of my seconds back?

But we sent care packages. We sent COVID dollars. We sent them the dollars we sent them to recover from their loss of revenues during the pandemic. And there is concern that some States did not use the dollars as Congress intended. In fact, a Washington Post article recently, I think it was last week or yesterday, said that from refurbishing prisons to constructing new golf courses, one State, Arizona, even used the money to discourage schools from requiring students to wear masks, prompting the Treasury Department to threaten to claw back the aid.

What are we doing to claw back the aid? I know we sent a letter, several Members from Texas, concerned about our governor using those dollars for what he calls Operation Lone Star, which is his attempt to control the border.

Secretary YELLEN. We have clear guidelines in place about permitted uses of that money and not permitted uses, and we are monitoring and have a reporting system that will let us review how States and localities are using that money. And I promise you that if the funds are used in ways that are inappropriate, we will claw it back.

Ms. GARCIA OF TEXAS. You will claw it back. And how much time do you think that would take? I know what our governor is doing, but I did not realize, until this article, that this was happening in many other States.

Chairwoman WATERS. The gentlewoman's time has expired.

Ms. GARCIA OF TEXAS. Madam Chairwoman, before you leave me, I ask for unanimous consent to submit for the record an article from The Washington Post, "Federal watchdog opens 'review' of Tex. use of covid aid on border crackdown."

Chairwoman WATERS. Without objection, it is so ordered.

Ms. GARCIA OF TEXAS. Thank you.

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

Mr. HILL. Thank you, Chairwoman Waters. And Madam Secretary, it is so great to have you back before the committee, and thanks for being responsive to our questions, and thanks for the incredibly challenging times you are in, in trying to guide our financial response to Ukraine's tragedy of being invaded by Putin.

I want to start there, quickly, because I was looking back at the FSOC meetings—and I am actually going to talk about FSOC—and FSOC has met nine times since you have been confirmed at the Treasury, and in only two of those meetings did you talk about cyber concerns to our financial institutions. One of those was just because of the invasion. And, of course, we have been briefed up here on the cyber risks potentially posed by Russia.

In contrast, the FSOC spent a lot of time on climate. So my question to you is, do you think that cybersecurity incidents due to the Russia conflict are a risk to the financial system here in the United States?

Secretary YELLEN. Cybersecurity is one of the key threats to the financial sector, and FSOC has consistently identified it, including in this report, as a serious concern. The Treasury also has responsibilities in this regard and is very focused on, especially with the Russia-Ukraine situation, we are working very closely with financial institutions to make sure that they have the information—

[Audio interruption.]

Mr. HILL. I tell you, those robocalls are a real problem in our political—

Chairwoman WATERS. Sorry for the interruption. We will make up for the time. Go right ahead.

Mr. HILL. No worries. Thank you, Madam Chairwoman.

Let me stop you there just a for a second and say, since you, in those nine FSOC meetings, you talked in seven of them about climate change, and in only two about cyber, would you say that at this time, in war, the global war in Ukraine—

Secretary YELLEN. We have an ongoing and robust program to deal with cybersecurity—

Mr. HILL. Ma'am, ma'am—

Secretary YELLEN. —and have long recognized it is a critical threat.

Climate change is something new that the Council has not previously addressed, and the reason we have discussed it in so many meetings is because it is a new initiative, it is a complicated one, it is one that requires agencies to work together, and it is a substantial, long-term threat. Both things are important. One is not more important than the other.

Mr. HILL. But you would say that cyber resiliency right now is a much more critical concern to the financial sector than long-term talking and planning and thinking about climate change, yes or no?

Secretary YELLEN. Climate change is a substantial long-term threat and cybersecurity is a long- and a short-term threat we are very focused on.

Mr. HILL. Let me change subjects and talk about the reverse repurchase market that your former organization, the Federal Reserve, runs. Over the last couple of years, we have about $1.9 trillion in an overnight repurchase agreement, showing just how much liquidity is out in our system that is not being able to be used. It cannot be used for productive lending purposes. The banks have effectively too much stimulus from fiscal contributions to the economy as well as the laxity of our monetary policy recently.

Do you think that the reverse repurchase agreement balance is a challenge to financial stability as we go through a tightening phase at the Federal Reserve?

Secretary YELLEN. I really do not want to comment on issues that are in the domain of the Fed. It is the Fed's program and I am going to refrain from commenting on it. But I will say that FSOC is concerned about the functioning of the Treasury market. We have had episodes in which liquidity has dried up, and we are working very hard coordinating with the interagency Treasury working group to look at reforms, to make sure this critically important market for the United States and the globe functions well, and has the liquidity that it needs.

Mr. HILL. Good. I would invite you to look very closely at what Gary Gensler has said about the primary dealer market and urge him to be very cautious about injecting any uncertainty in our primarily Treasury dealers at this time of tough conditions as we tighten and want to maintain that liquidity.

Thank you, Madam Chairwoman, and I yield back.

Chairwoman WATERS. Thank you very much. The gentleman from Massachusetts, Mr. Auchincloss, who is also the Vice Chair of the committee, is now recognized for 5 minutes.

Mr. AUCHINCLOSS. Thank you, Madam Chairwoman. Madam Secretary, welcome.

I would like to discuss in these 5 minutes what more the United States Treasury can do to defeat Russia in Ukraine. The central bank sanctions crafted by you and Deputy Secretary Adeyemo have been the brass knuckles of NATO's one-two punch of sanctions on Russia, plus support for Ukraine. They were unexpected, they hurt bad, and you and the Deputy Secretary deserve a lot of credit for crafting those.

Secretary YELLEN. Thank you.

Mr. AUCHINCLOSS. I am concerned, though, that Russia's continued exportation of almost eight million barrels per day of oil continues to fund their barbaric war machine. The United States and Canada, as you obviously know, have barred Russian oil. The European Union is trying to, but Hungary is exercising a veto on that effort.

First, what carrots and sticks do we have to compel Hungary to support an EU blockade of Russian oil?

Secretary YELLEN. We are working very closely with our European allies. I am actually traveling to Europe next week and will have discussions with them. Most of them were in Washington—

Mr. AUCHINCLOSS. With Hungary, in particular, though.

Secretary YELLEN. Ah, with Hungary. I have not had conversations with Hungary. My NSC colleagues may have. The European Union, the European Commission is working with all of its members to—

Mr. AUCHINCLOSS. All of the members agree except for Hungary. This is a monumental step, and I would encourage you and the Administration to do your utmost to use carrots and sticks with Hungary to get them on board here with the European Union's approach. And that is because if the EU does blockade Russian oil, that could force Russia to redirect up to 5 million barrels out of their 8 million total every day, and they cannot. It seems very unlikely that they could actually redirect that 5 million barrels per day going to Europe. Only China and India have enough demand to even take it, and neither seems willing to concentrate their supplier risk to that degree, especially with the potential of secondary sanctions. And furthermore, there is not even the pipeline or the shipping capacity, really, to redirect that full 5 million, even if there were a demand from China or India.

In short, what that means to me is that if and when Europe does join our blockade—and again, I encourage you to do everything you can to get Hungary and the EU on board—the West is going to have a tremendous amount of leverage over Russian oil production, more than I think we appreciate right now. Keeping 5 million barrels a day in the ground in Russia is going to be devastating to its oil production. They cannot do it. They cannot do it for their upstream services. They cannot do it for maintaining their oilfields.

Have you examined any potential effort with our NATO allies to take advantage of that leverage that we would have?

Secretary YELLEN. We have had many, many discussions with them about energy and Russian oil. Let me just say, our objective since day one has been to have as large a negative impact as we possibly can on Russia, while, to the best of our ability, protecting the rest of the world. And when it comes to oil and energy and shutting it in, we do have to remember that shutting in that Russian oil is likely to boost global energy prices, which can have a very damaging effect and is, in the rest of the world and also can counterintuitively, perhaps, raise Russia's revenue in spite of the fact that it is producing less oil

Mr. AUCHINCLOSS. To that point, Madam Secretary—

Secretary YELLEN. At the same time we are working with them, we are also considering possible things we could do that would lower Russia's oil revenues while protecting the rest of us.

Mr. AUCHINCLOSS. And I think we may be thinking of the same lines of effort here, but would those other things that you could do include a special payments authority where we could be with our NATO allies actually purchasing Russian oil but only remitting to Russia the cost of production, $20 to $25 per barrel, but taking the excess, which would normally go to the Kremlin as taxes, and instead directing that towards Ukrainian reparations? This has been proposed by experts. I am sure you are looking at it. And would you be willing, and your Deputy Secretary, maybe, in particular, be willing to engage with me on what that might look like and to what degree you have been planning for it?

Secretary YELLEN. We would be glad to engage with you on that, and that is the kind of alternative that we have been examining and discussing with our allies.

Mr. AUCHINCLOSS. I appreciate that. In my final 20 seconds, Secretary, have we explored sanctions on oilfield services providers who enable Russian oil production upstream of the actual distribution of that oil? Those companies have escaped sanctions, and they provided much-needed technical expertise that Russia has not developed organically.

Secretary YELLEN. The withdrawal of foreign oil companies from Russia is really hurting their ability to extract oil now and in the future. And we have put in place some sanctions—

Mr. GREEN. [presiding]. Madam Secretary, the gentleman's time has expired. You may submit your response for the record.

Madam Secretary, welcome again, and thank you for your many years of public service. The gentleman from Minnesota, Mr. Emmer, is now recognized for 5 minutes.

Mr. EMMER. Thank you, Mr. Chairman, and thank you, Madam Secretary, for appearing before the committee today.

The Democrat-created Financial Stability Oversight Council, better known as the FSOC, as you have been referring to it, has found itself in a unique regulatory position recently. Secretary Yellen, as the Chair of the FSOC, you know better than anyone that the FSOC operates independently and it is not directed by an Administration to make and implement policy decisions.

Historically, Madam Secretary, does the FSOC take direction from the White House on activities and institutions in which to investigate, and if appropriate, designate those activities or institutions as systemic risks?

Secretary YELLEN. The FSOC, as you said, is a group of independent regulators—

Mr. EMMER. My question is a yes-or-no question. Does the FSOC take direction from the White House?

Secretary YELLEN. No, it does not.

Mr. EMMER. Thank you. That is what I thought. The FSOC exists to independently identify emerging threats to our financial stability and align regulatory frameworks around those risks.

Secretary Yellen, by Executive Order, you convened the President's Working Group on Financial Markets in July of 2021, and you played a key role in the delivery of its November 2021 stablecoin report. The report recommends that Congress enact legislation to limit stablecoin issuance to insured depository institutions, banks. For the record, this is a recommendation that does not have consensus in Congress, not even amongst committee Democrats.

The report also states that in the absence of urgent congressional action to enact this legislative recommendation, the FSOC should step in to designate various stablecoin activities as systemic risks, which would jump-start Administration-wide regulatory rulemaking.

Secretary Yellen, has the FSOC officially designated digital asset or stablecoin activities as systemic risks?

Secretary YELLEN. No, it has not done so.

Mr. EMMER. Thank you. Digital asset and stablecoin activities have not been officially designated as systemic risks from the FSOC. Do you believe the FSOC should take action if Congress does not urgently enact comprehensive crypto legislation?

Secretary YELLEN. We would very much like to see Congress adopt a coherent—

Mr. EMMER. I will ask it again—

Secretary YELLEN. —framework—

Mr. EMMER. I am asking you—

Secretary YELLEN. —something we would look at.

Mr. EMMER. ho convenes the FSOC, do you believe that the FSOC should take action if Congress does not urgently enact comprehensive crypto legislation?

Secretary YELLEN. It is something that I think FSOC should look at—

Mr. EMMER. So, the answer is yes?

Secretary YELLEN. I do not know that it is appropriate but it is something that bears examination.

Mr. EMMER. Thank you. You previously explained to us that the FSOC operates independently and does not take direction from the White House on labeling systemic risks. However, it seems pretty clear that absent urgent action by Congress, the FSOC, under your leadership, is perhaps prepared—even though you said that may not be appropriate, in your words—to designate certain stablecoin activities as systemically risky in response to the White House's digital asset agenda.

Now as everyone in this room is aware, Madam Secretary, legislating takes time, and there is nothing more dangerous to innovation and opportunity than when the Federal Government rushes to legislate, or regulate, for that matter. The Biden Administration knows this as well as any of us, but the President's Working Group and President Biden's crypto Executive Order still threaten to ignite the FSOC if Congress does not do what the Biden Administration requests.

Secretary YELLEN. The President—

Mr. EMMER. Put simply, Madam Secretary, the Administration intends to weaponize the FSOC to circumvent Congress and the American people on digital asset policy.

Secretary YELLEN. I'm sorry—

Mr. EMMER. This recent history of activity demonstrates to me that the FSOC is no longer independent of partisan pressures and should be brought under congressional appropriations supervision so elected officials can make sure the voices of the voters are represented in the decisions of the FSOC. And for that reason I introduced the FSOC Reform Act, which brings the FSOC under congressional oversight and increases the transparency of the Council. The future of crypto Web3 and the ownership economy cannot and must not be dictated by any entity that is supposed to be independent but instead takes its cues from a political agenda.

Thank you, and I yield—

Secretary YELLEN. I'm sorry. The FSOC is—

Mr. EMMER. —back the balance of my time.

Mr. GREEN. The gentleman yields back. The Chair now recognizes the gentleman from Illinois, Mr. Garcia, for 5 minutes.

Mr. GARCIA OF ILLINOIS. Thank you, Mr. Chairman. I made it in the nick of time. Good afternoon, Secretary Yellen. Thank you for being here. And thank you, Mr. Chairman, for hosting this important hearing.

Secretary Yellen, you were the Chair of the Federal Reserve in 2016, when FSOC finalized a study examining State and Federal banking laws that could have a negative effect on the safety and the soundness of the financial system. One of the recommendations that the Federal Reserve made in that report was to close a loophole known as the industrial loan company, or ILC, loophole. The ILC loophole allows commercial companies to operate banks that are not regulated like banks, and it has caused financial stability problems in the past. As the Fed wrote in that report to FSOC, "It must also be noted that the companies that failed the required assistance at the outset of the 2008 financial crisis included a number of companies that owned and controlled ILCs."

Secretary Yellen, my question is this: In light of the financial stability risks that we are discussing today, including digital assets, shadow banks, and Big Tech entering the financial services space, do you still agree with the past recommendation by the Fed to close the ILC loophole?

Secretary YELLEN. It is an issue I have not looked at recently, but I have no reason to think that my view would change on this. The Fed felt, at the time that report was written, that there are great dangers in connection with ILCs, and has long been opposed to mixing banking and commerce, for reasons I think, if anything, are probably stronger now rather than weaker than they were then. And I continue to believe that it is likely to be appropriate.

Mr. GARCIA OF ILLINOIS. Thank you, Secretary, and as I mentioned before, the ILC loophole allows commercial and technology firms like Amazon, Facebook, and Walmart to acquire a full-service, FDIC-insured bank. Can you share why it is important to maintain that separation of banking and commerce, and please describe what systemic risks can come from allowing non-financial companies, such as tech companies, to enter the banking service space?

Secretary YELLEN. There are a number of reasons why this seems to be dangerous. One reason that the Fed always worried about is that when a commercial company owns a bank, credit decisions can be influenced by issues other than banking and safety and soundness considerations, because of incentives that come from the other part of the business, the commercial part of the business.

In addition, this tends to diminish competition and to promote monopoly and market power, and that is probably more important than it ever was before. And if a sufficiently large commercial company were to become dominant in the payment system, I think there could certainly be financial stability risks.

Mr. GARCIA OF ILLINOIS. Thank you for that, Secretary.

Another question. I introduced the Bank Merger Review Modernization Act of 2021, to ensure that bank mergers are in the public interest by clarifying and strengthening the public interest aspect of the merger review and require regulators to use a quantifiable metric to evaluate systemic risk. Do you support that bill?

Secretary YELLEN. I would be glad to take a look at the details and work with you on it. I think that is an important area.

Mr. GARCIA OF ILLINOIS. Okay. Thank you. And are there other reforms that Congress can enact into law that would promote competition and financial stability in consideration of bank mergers?

Secretary YELLEN. I will take a look at it. I certainly believe it is important to have competition in banking and appropriate regulation there.

Mr. GARCIA OF ILLINOIS. And if I could just switch gears, very quickly, since my time is running out, today, FSOC can only make non-binding recommendations to financial regulators to take actions to address systemically risky activities. The Systemic Risk Mitigation Act, which I have previously introduced, would give FSOC rulemaking authority to better address systemically risky activities. Would you support giving FSOC that authority?

Secretary YELLEN. It is an area that I think is certainly worth looking at, and I would like to have the opportunity to work with you on that.

Mr. GARCIA OF ILLINOIS. Thank you, Madam Secretary. I yield back.

Mr. GREEN. The gentleman's time has expired. The Chair now recognizes Mr. Loudermilk for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman. Secretary Yellen, welcome. Thank you for being here.

I want to start off a little bit on some of the issues that Mr. Hill started off with, talking about cybersecurity. Personally, I was alarmed to see the FDIC's Chief Innovation Officer's resignation in February. He had lamented that the FDIC has outdated technology and has a tendency to resist change. I believe that type of culture will not help the financial regulatory agencies stay ahead of cyber threats, and as someone who spent most of his work in the private industry in the IT business, I know how significant these threats are.

Do you feel that the FSOC member agencies are open to innovation, and if so, what are you doing to foster that relationship or that willingness to bring in new technologies, especially for cybersecurity?

Secretary YELLEN. I absolutely believe that innovation is important. It is a benefit to the U.S. economy, and in the long run, it is probably the most significant source of growth and well-being, so we should want to promote innovation. But we need to have an appropriate regulatory framework so that the innovations produce net benefits to society and we make sure that they do not cause harm.

Mr. LOUDERMILK. Thank you, and I see a lot of resistance to innovation, not only in regulatory agencies but even within Congress. The only way that you are going to stay secure is to stay ahead of the bad guy, and the bad guy is continually innovating and bringing in new technologies. And if we lag behind, we put the entire financial system at risk. We put every American citizen who participates in our financial system at risk. So, I highly encourage you to look at innovation as friend, not as a foe, but quite often, regulatory agencies take the other approach.

Another topic. In your confirmation hearing last year, you said that designating non-bank companies as systemically important may not be the right approach to addressing risks in the financial system, and that an activities-based approach would be more appropriate. And I appreciate that.

Do you still stand by those comments you made to the Senate?

Secretary YELLEN. Let me clarify. There are two different tools—designation and an activities-based approach—and I believe that in different circumstances, each can be appropriate. It should not be one or the other.

Designation was meant for non-bank financial companies whose material distress or failure would cause material risk to the financial system. We are focused on non-bank. The FSOC is focused right now on non-bank financial risks coming from money market funds, from open-end mutual funds, and from hedge funds. But the approach that we think is appropriate is not designation. It is an activities-based approach.

Mr. LOUDERMILK. Thank you.

Secretary YELLEN. And so, certainly that is an appropriate approach. I would not say, though, there could be circumstances in the future where designation is the right tool.

Mr. LOUDERMILK. I do not mean to cut you off, but I am running short on time, and I have a couple other questions. Unfortunately, one of the bills included for discussion in this hearing ignores the very statement that you had made to the Senate. In 2018, when a strong bipartisan group of lawmakers reformed Dodd-Frank, we recognized that designating companies as systemically risk-based on an arbitrary threshold is unworkable. So, I hope my colleagues will remember those lessons.

Moving on to another topic, one that Mr. Emmer touched on a little bit, which is the President's Working Group on Financial Markets and his recommendation that Congress pass legislation to apply bank regulatory regimes to stablecoins. As everyone understands, stablecoins are primarily used for trading crypto and payments, and there are many significant differences between stablecoin issuers and banks. For example, stablecoins are not used for lending, so it would not make sense to apply lending laws and regulations to stablecoins.

Do you agree that it would not make sense to apply the full banking regulatory regime to stablecoins, and that a more nuanced approach would be appropriate should you do, as Mr. Emmer indicated, and regulate?

Secretary YELLEN. There are certainly—

Mr. GREEN. The gentleman's time—excuse me, Madam Secretary—

Secretary YELLEN. —differences—

Mr. GREEN. The gentleman's time has expired. I am going to ask that he submit the question for the record. We have many Members who are waiting, and we will now move on to the gentleman from California, Mr. Sherman, who is also the Chair of our Subcommittee on Investor Protection, Entrepreneurship, and Capital Markets. You are now recognized for 5 minutes.

Mr. SHERMAN. Some of my Republican colleagues seem to believe we should be in an economic nirvana. That COVID killed a million Americans, of course, is no laughing matter, and it would have killed millions more if we had not taken action. They somehow believe that there was some way that we were going to get through COVID without any economic dislocation and that the American Rescue Plan was a giant mistake.

Just for the record, wouldn't we have had millions more Americans in poverty, hunger, evictions, homelessness, and foreclosures had we not passed the American Rescue Plan?

Secretary YELLEN. Absolutely. We can thank the American Rescue Plan for the strong labor market we have now and the strong financial position of most households.

Mr. SHERMAN. The greatest pandemic in history and economic nirvana have not gone together, coincidentally, in any country in the world. There was no perfect way to get through this.

I want to thank you, Secretary Yellen, for all the help that Treasury provided in creating the Adjustable Interest Rate (LIBOR) Act. Congress, much of out character, perhaps, solved the problem a year and a half before the LIBOR hit the fan. It is now up to the Fed to write the regulations, and I hope you can inspire them to do so expeditiously because you have testified that the whole LIBOR issue is one of systemic risk. I see you nodding, so I assume you will be doing that.

Secretary YELLEN. I appreciate Congress passing that law. I think it is very helpful in dealing with legacy contracts.

Mr. SHERMAN. Some of my colleagues have put forward the idea that gas prices are entirely a matter of U.S. oil production, and that somehow a speech saying that we have to move to a carbon-free future leads to higher prices in one country, the United States. And they somehow say that the Biden Administration has constrained oil production, and if it was not for low oil production, we would have low gas prices.

Here are the facts. In 2021, America produced more oil than we did in 2020, the last year of the Trump Administration, and next year, we are going to produce more oil than we ever had in history. Unfortunately, oil is a worldwide commodity, and while we will produce more oil next year than at any time in history, we will not have the lowest oil prices at any time in history.

If you open the dictionary to, "oxymoron," it will say, "see stablecoin." The coin says it is stable; it is not stable. We have seen Terra drop from $18 billion of investment down to, I think a value today of about $1 billion, maybe a bit less. It is not Terra firma. It is Terra incognita. Tether is much larger.

Tether has an $83 billion cap. It claims to be tied to the dollar. But I am told that they have not issued any audited financial statements, although they keep promising them, so I have no idea whether their statements of what reserves they have are accurate or not. But they apparently have invested substantially in Chinese commercial paper, which may or may not have value at various times, and they have invested in cryptocurrencies, which have lost over half their value in just the last few months. This does not look like my father's money market fund or my grandfather's bank. Their assets do not appear to be very liquid.

What are the implications for our economy if Tether, which just broke the buck, goes all the way to Terra incognita?

Secretary YELLEN. I think you have just illustrated, and we have just had, over this last week with Terra and with Tether, an illustration of the risks associated with stablecoins, that there can be runs, and we have seen this historically with private monies. We invented a good regulatory framework, I think, for dealing with this—

Mr. SHERMAN. I am going to try to—

Secretary YELLEN. —for a depository institution.

Mr. SHERMAN. —sneak in one more concept. Through our tax system, we provide tens of billions of dollars of subsidies for those who have pensions and 401(k)s. We do so so that they will have a stable retirement and invest their money in operating companies that provide jobs. I would say—

Mr. GREEN. The gentleman's time has expired. Please submit your question to the Secretary in writing.

Mr. SHERMAN. —investments in cryptocurrencies do neither.

Mr. GREEN. The Chair will now recognize the gentleman from Ohio, Mr. Davidson, for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman. Madam Secretary, thank you for your time here today. I wish we all had a little more of it. But yesterday, when you were at the Senate Banking Committee, you stated that student loan forgiveness could be good for the economy, and that you will, "support anything that President Biden decides as a part of his policy on the issue." Do you really believe that?

Secretary YELLEN. I'm sorry, on what issue?

Mr. DAVIDSON. Student loan forgiveness. Whatever Joe Biden says, you are good with?

Secretary YELLEN. I believe all I have said on student loans is that they can be extremely burdensome and make it difficult for individuals to begin to buy a house or to save for retirement.

Mr. DAVIDSON. Of course, all debt has that effect. The principle of compounding interest should be taught earlier and often. As a consequence of the Federal takeover of the student loan industry we are looking at, according to the Department of Education's estimate, over $400 billion at risk of default because students cannot repay them. There are complications in the program, and yet no one who talks about canceling student debt talks about stopping the problem, which is highly correlated to the Federal Government's takeover of it.

I was just concerned by your response at the Senate Banking Committee, about student loan forgiveness, and kind of an unconditional support for whatever President Biden decides.

Secretary YELLEN. All I said is that the President is currently considering the options and trying to formulate his position on this matter.

Mr. DAVIDSON. Let us hope he sees the moral hazard of doing that. And frankly, the people best equipped to pay back loans sometimes would be the biggest beneficiaries, and so the biggest debts are borne by people who are overwhelmingly, thankfully, in a position to repay their loans.

Secretary YELLEN. Many are.

Mr. DAVIDSON. And lots of people have debts that could be forgiven and have big impacts on the economy and they did not have the same kind of challenges.

That aside, we were just talking about the crypto markets, and obviously, everything in the news over the past couple of days is related to the markets being down, but overwhelmingly, crypto being down at an alarming rate. And just a bit ago you said, we are so concerned about runs on stablecoins and the hazard of stablecoins to the market. But my colleague, Mr. McHenry, started off by making it clear that algorithmic stablecoins have a different risk than a one-to-one fiat or a one-to-one commodity-backed, because there is not even fractional reserve banking there. There is 100 percent of the assets liquid and available.

Would you like to qualify your distinction in terms of fear of a run?

Secretary YELLEN. It depends on the backing of a stablecoin. Terra is algorithmic and does not really have a backing as such. Tether is—

Mr. DAVIDSON. Tether is a time bomb and it operates completely outside U.S. markets. And it is maybe fair to say that they are more like a money market fund, but an unregulated one, because we do not really see the transparency in disclosures. But others are regulated, as New York Trust. Most of the stablecoins in the United States are well-regulated as New York Trust. Do you see those as the same kind of risk and the same regulatory approach?

Secretary YELLEN. I just think there needs to be a comprehensive and consistent regulatory approach for stablecoins because of the risks they can pose to the financial system. And I think that on a bipartisan basis, we ought to work together to make sure stablecoins that are introduced have such a regulatory framework.

Mr. DAVIDSON. Yes, I think you cannot treat algorithmic stablecoins the same as something that is—

Secretary YELLEN. We have not proposed to do that.

Mr. DAVIDSON. Okay. So, just common framework but not common for algorithmic.

Secretary Yellen, I, and a number of Members wrote to you earlier about the Section 6050I provision, and it was a rulemaking for 8603 of the Infrastructure Act. And this was a requirement, a reporting requirement to the IRS on transactions in crypto that were supposed to mimic things that are cash transactions. So it is a very complicated ruling, and it is also not entirely technologically feasible for digital assets.

Treasury issued some opinion about it. What is the process of the rulemaking right now?

Secretary YELLEN. I'm sorry. I am going to have to look into that and get back to you.

Mr. DAVIDSON. Thank you. My time has expired, and I yield back.

Mr. GREEN. The gentleman's time has expired. I now recognize myself for 5 minutes.

Madam Secretary, there are those who believe that if you do not vote for legislation, you have to denounce it as ineffective. The American Rescue Plan was effective legislation, and here is what my colleagues did not vote for. They did not vote to help those who were unemployed during a pandemic. They did not vote to save small businesses during a pandemic. They did not vote to provide vaccines and to distribute that vaccine to those who needed it during a pandemic. They did not vote to help children and schools during a pandemic. They did not vote for food for children during a pandemic. And they did not vote to provide for working families during a pandemic.

They would call all of that inflation, but I believe that at some point the American people will understand that there were many of us who were trying to save the economy and prevent it from sliding into a deep, deep recession, and to help persons who are suffering during a pandemic.

Madam Secretary, you have spoken quite well on this topic today. I do not want you to entirely repeat yourself, but there was a pandemic, and the American Rescue Plan was there to do what the government should do during a pandemic. Would you kindly give us additional thoughts on how the American Rescue Plan prevented us from sliding into a deep, deep recession or possibly something worse?

Secretary YELLEN. We saw unemployment rise after the pandemic struck to double-digit levels, something we had not seen in the United States in decades, and there was immerse suffering. The pandemic unfairly struck those low-income, minority workers, those least able to bear its consequences.

Mr. GREEN. Who went to work every day, many of them, Madam Secretary, and risked their lives to make sure that there was food available for those of us who could stay at home and work from home, during a pandemic.

Secretary YELLEN. And we saw cars lining up in parking lots to get food at food banks.

Mr. GREEN. And Madam Secretary, many of them, while in line, their cars ran out of gas during a pandemic. Please continue.

Secretary YELLEN. And we worried that many people would lose the roofs over their heads, and—

Mr. GREEN. It kept people from being thrown out on the streets. That is what the American Rescue Plan did, during a pandemic. Please continue.

Secretary YELLEN. And we worried that children would suffer and experience homelessness or loss of access to education, that families and workers would be permanently scarred and never really be able to get their lives back on track. And we looked at forecasts—

Mr. GREEN. Madam Secretary, let me just say this, because I am going to end this with my 5 minutes. But I want you to know this: I appreciate what you did. Pandemics are not things that you can predict, and we did not know what the actual solutions were. But we saved a lot of lives. We helped a lot of people who were suffering during a pandemic. And when we hear people say, "Oh, you spent too much," well, we spent too much on unemployment during a pandemic. We spent too much to save small businesses during a pandemic. We spent too much to provide vaccines and to distribute that to people during a pandemic, to help schools and schoolchildren, to keep people from being thrown out on the street, to provide for childcare, as parents have to work. It was a pandemic, and it was more than inflation at risk. Lives were at risk and many were saved.

I thank you for your service, Madam Secretary, and I yield back the balance of my time.

And with that said, Madam Secretary, your testimony has been very valuable to us today.

The Chair notes that some Members may have additional questions for this witness, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to this witness and to place her responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

The hearing is adjourned.

[Whereupon, at 12:34 p.m., the hearing was adjourned.]

A P P E N D I X

May 12, 2022

Statement by

Janet L. Yellen

Secretary

United States Department of the Treasury

before the

Committee on Financial Services

U.S. House of Representatives

May 12, 2022

Thank you, Chairwoman Waters, Ranking Member McHenry, and Members of the Committee. I am pleased to speak with you today about the Financial Stability Oversight Council's (Council) 2021 annual report. The report is a collaborative effort of the Council member agencies. It is a vehicle for providing Congress and the public with the Council's collective assessments of potential risks to U.S. financial stability. Today, I will highlight a few topics in the report and provide an update on the Council's activities since the report's publication.

First, the report discusses vulnerabilities in the nonbank financial sector, which were highlighted by the turmoil in financial markets in March 2020. While the Dodd-Frank Act reforms increased the resiliency of the U.S. financial system, the market turmoil in March 2020 demonstrated that the liquidity mismatch and use of leverage by some nonbank financial institutions can make them vulnerable to acute financial stresses, and these stresses can be transmitted and amplified to the broader financial system. The Council has taken steps to examine these risks, including re-establishing its Hedge Fund Working Group to develop an interagency risk-monitoring system and to propose options to mitigate identified risks. And earlier this year, the Council issued a statement to express support for the Securities and Exchange Commission's (SEC) efforts to reform money market funds and their work to consider potential reforms of open-end funds.

The Council is also working to support improving the resilience of the Treasury market and is coordinating with the Interagency Working Group on Treasury Market Surveillance (IAWG). Potential steps to be taken include improving data quality and availability, evaluating expanded central clearing, and enhancing trading venue transparency and oversight. The SEC has proposed certain reforms to enhance transparency and oversight over alternative trading systems that trade government securities. The SEC has also proposed updating the definition of a government securities dealer to include market participants that play an increasingly significant liquidity providing role in overall trading and market activity. Additionally, the Office of Financial Research is working to fill identified data gaps for uncleared bilateral repurchase agreements through a pilot data collection, which should improve visibility into a major source of financing for non-bank financial institutions in Treasury markets.

Additionally, the Council is working to ensure that financial institutions better understand their climate-related financial risks. In its October 2021 *Report on Climate-Related Financial Risk*, the Council outlined how climate change can be a source of shocks to the financial system and increase risks to financial stability. To address these risks, the Council recommended that regulators build their capacity and expand their efforts to address climate-related risks, improve the availability of data, enhance and standardize disclosures, and assess and mitigate risks to financial stability. The Council has also formed its staff-level Climate-related Financial Risk Committee, which will serve as a coordinating body for the Council to share information, facilitate the development of common approaches and standards, and foster communication across FSOC members. In addition, the Council is establishing the Climate-related Financial Risk Advisory Committee. This advisory body, which will include a broad array of external stakeholders, will help the Council gather information and analysis on climate-related financial risks.

With respect to digital assets, new products and technologies may present opportunities to promote innovation and increase efficiencies. However, digital assets may pose risks to the financial system, and increased and coordinated regulatory attention is necessary. On March 9, 2022, President Biden signed an Executive Order calling for comprehensive approach to digital asset policy. The Council is drafting a report that will identify financial stability risks and regulatory gaps. I look forward to working with you on the issues and opportunities posed by digital assets. We are also eager to work with you to ensure that payment stablecoins and their arrangements are subject to a federal prudential framework on a consistent and comprehensive basis.

Finally, there is the potential for continued volatility and unevenness of global growth as countries continue to grapple with the pandemic. Russia's unprovoked invasion of Ukraine has further increased economic uncertainty. The U.S. financial system has continued to function in an orderly manner, though valuations of some assets remain high compared with historical values. We stand firmly with the people of Ukraine and have implemented an unprecedented suite of sanctions on Russia that have been implemented by financial institutions. On February 28, I convened the Council in the wake of the invasion, and we will continue to monitor developments and coordinate actions as the risks and threats evolve.

The Council's report also discusses other potential emerging threats and vulnerabilities that the Council continues to monitor, including short-term wholesale funding markets, central counterparties, alternative reference rates, cybersecurity, corporate credit markets, and real estate markets.

The Council remains committed to its mission of identifying and responding to risks to U.S. financial stability, and I look forward to working with this Committee to promote a more robust and resilient financial system. Thank you.

SUBSCRIBER EDITION

NORTH CAROLINA

Security for Sale: How we made the best count of NC corporate-owned rental homes

BY TYLER DUKES

UPDATED MAY 05, 2022 6:04 PM

Tricon Residential, a publicly traded company, owns thousands of houses for rent across North Carolina, including this one in Raleigh. JULIA WALL *jwall@newsobserver.com*

Only have a minute? Listen instead
Powered by **Trinity Audio**
00:00 04:10 1.0x

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

RALEIGH

Following the collapse of the housing market in the Great Recession, a small contingent of hedge funds and private equity firms bought up scores of single-family homes as part of a new real estate investment strategy.

Instead of flipping these properties, investors held onto them, making money from rental payments and fees and growing equity as the value of the properties recovered. They also created rental-backed securities, a new financial instrument that sell bond holders the promise of future rental income.

But tracking the companies and their purchases is tricky.

TOP VIDEOS

"Let's Go Brandon" - Brandon Brundidge

Although there are just a handful of national corporations buying on a large scale in Charlotte and the Triangle, they use myriad subsidiaries and holding companies to conduct their business. There's also variation — misspellings, mixed punctuation and the like — in how these subsidiaries are recorded in property records managed by each of the state's 100 counties.

"This has been such an opaque issue for decades now that we have really, really bad data flowing around in the public sphere about how active these types of investment funds are," David Szakonyi, an assistant professor of political science at George Washington University and co-founder of the Anti-Corruption Data Collective.

'Like NASCAR on the road'

Extreme speeding increasingly brings death to NC highways

READ MORE

So in the winter of 2021, reporters at The News & Observer and The Charlotte Observer set about creating the most authoritative dataset possible of investment buyers across the state — particularly the single-family homes that have long been key to middle-class American wealth.

Reporters first manually scoured property records in Wake and Mecklenburg counties to create a database of parent companies and their most common subsidiaries, which can often be linked by naming convention, corporate mailing address and company officials. They used that list to create a machine learning model to find other name variations.

Data from other researchers examining the growth of the single-family rental industry, including the UNC Charlotte Urban Institute and Massachusetts Institute of Technology researcher Maya Abood, was used to add more names. North Carolina court data on eviction proceedings, state utility data and corporate registration data from the nonprofit OpenCorporates helped, too. The Anti-Corruption Data Collective supplied additional property transaction data through a research agreement with the real estate tech firm Zillow.

Almost all subsidiaries identified by the N&O and Observer's reporting were matched — either with statistical software or manually — to corporate registrations filed with the N.C. Secretary of State's Office to verify connections with their parent companies.

The list of investor subsidiaries was then matched using statistical software with property owner names recorded by the North Carolina OneMap, a state project through the N.C. Geographic Information Coordinating Council to collect and publish property parcel information from all 100 counties.

Thank you for supporting local journalism

Your subscription allows us to provide our readers with quality, relevant journalism that makes a difference. We believe a platform for sharing local news is critical to our community – and we're glad you think so, too.

Have questions about your subscription? We're happy to help. Contact us

Properties were removed from the count if their zoning, land use or building description did not align with the U.S. Census Bureau definition of a single-family home. Companies with fewer than 100 properties in their portfolios were not included in the analysis.

The OneMap data was last accessed on April 20, although the property records may lag by several months depending on the county.

The reporting identified nearly 40,000 individual properties owned by subsidiaries of about 20 parent companies.

Szakonyi, who reviewed the N&O and Observer's analysis, called it the "best exercise I've ever seen trying to identify properties owned by large institutional investments."

The N&O and the Observer are making the investor subsidiary list and the database of corporate investor-owned properties available publicly for all uses.

TOP WORKPLACES


Conservative lea reconsider disqu


How to Av (Without I


Workplace 'b problematic

Read more about our methodology and download our data here.

Spot an error in our data? Contact Tyler Dukes at mtdukes@newsobserver.com.

This story was originally published May 1, 2022 6:00 AM.


TYLER DUKES
919-696-1935

Tyler Dukes is an investigative reporter for The News & Observer who specializes in data and public records. He attended North Carolina State University and grew up in Elizabeth City.

Conversation

Your voice matters. Discussions are moderated for civility. Read our guidelines here

Commenting as **Guest**

Log in Sign up

Be the first to comment...

Powered by OpenWeb

Terms | Privacy | Feedback

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING →

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

North Carolina man gets 10 months for sex assault on flight

MAY 12, 2022 8:29 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 8:27 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Officials: 17 hurt in crash involving school bus, dump truck

MAY 12, 2022 8:26 AM

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

NORTH CAROLINA

5 things we learned investigating the rise of corporate landlords in North Carolina

BY TYLER DUKES AND PAYTON GUION

UPDATED MAY 04, 2022 4:25 PM

Charlotte Realtor, Jonathan Osman, talks about how neighborhoods are affected by institutional investors.
BY KHADEJEH NIKOUYEH

Only have a minute? Listen instead
Powered by **Trinity Audio**
00:00 10:06 1.0x

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

RALEIGH

In a months-long investigation, reporters with The Charlotte Observer and The News & Observer laid bare the complex network of subsidiaries tied to major, national corporations that have been scooping up single-family homes across the state for the last decade.

These corporate landlords are well positioned for continued growth — especially in hot housing markets like Charlotte, the Triangle and the Triad.

Their practices can put them at odds with prospective homebuyers, neighbors and their tenants.

TOP VIDEOS

"Let's Go Brandon" -
Brandon Brundidge

The single-family rental industry, however, contends that its growth is a reflection of housing demand, and that they are making good neighborhoods more accessible to renters who can't afford to buy.

Here's a look at five major things we learned over the last five months spent reporting this series.

'Like NASCAR on the road'

Extreme speeding increasingly brings death to NC highways

READ MORE

1. THEIR HOLDINGS? MUCH LARGER THAN WE THOUGHT

Given the fast pace of growth and relative newness of the industry — it's only about 10 years old, after all — there had never been a comprehensive count of corporate homeownership across the state.

Researchers at the UNC Charlotte Urban Institute did the first local count in June 2021, putting the number at about 11,000. The National Rental Home Council, the trade group that represents some of the largest corporate landlords, says its most recent estimate is about 25,000 for North Carolina among its members.

But the N&O and Observer's analysis puts the actual figure, as of mid-April 2022, at more than 40,000. And that tally only includes large firms with more than 100 properties — not all of them National Rental Home Council members.

It's true, as the industry points out, that this represents a small percentage of the number of single-family homes across all of North Carolina.

Thank you for supporting local journalism

Your subscription allows us to provide our readers with quality, relevant journalism that makes a difference. We believe a platform for sharing local news is critical to our community – and we're glad you think so, too.

Have questions about your subscription? We're happy to help. Contact us

But the concentration of their rental homes isn't uniform.

In Charlotte, our reporting found, these companies own one-quarter of all rental homes. And in at least one neighborhood off Peachtree Road, corporate landlords own 1 of every 5 single-family homes — rentals or not.

TRICON RESIDENTIAL, A PUBLICLY TRADED COMPANY THAT OWNS THOUSANDS OF HOUSES ACROSS NORTH CAROLINA, ADVERTISES A HOME FOR RENT ON THE CORNER OF HORSEBACK LANE AND OFFSHORE DRIVE IN RALEIGH. JULIA WALL *JWALL@NEWSOBSERVER.COM*

2. RENTAL-BACKED SECURITIES FUEL GROWTH

The industry got its start right after the foreclosure crisis that sparked the Great Recession, when a government-backed program allowed companies to buy pools of distressed properties in some of the country's hardest-hit areas.

But once in hand, that housing portfolio allowed firms to create a wholly new financial instrument — the rental-backed security.

The first rental-backed security went on the market in 2013, and promised investors the collective future rent checks from a bundle of homes. These bonds offer investors — like the North Carolina pension fund — a steady and reliable return, while the corporation gets a payout of hundreds of millions of dollars all at once.

With that extra cash in their war chests, companies have capital they need to gobble up additional homes. But they're not just buying — they're building too.

Several neighborhoods in Charlotte are now entirely rental communities after companies purchased directly from homebuilders. American Homes 4 Rent, the company with the most rental houses in North Carolina, says it is now primarily focused on building rentals.

"As one of the top homebuilders in the country, we are doing our own small part to alleviate the nationwide housing crisis by building new home communities designed for durability and efficiency," American Homes 4 Rent spokeswoman Megan Grabos said in an emailed statement.

JONATHAN OSMAN, A LONGTIME CHARLOTTE REALTOR, LOOKS UP INFORMATION ABOUT A HOME IN NORTHWEST CHARLOTTE THAT'S OWNED BY PROGRESS RESIDENTIAL. SIGNS ON THE WALLS TELL PROSPECTIVE TENANTS HOW TO APPLY, A PHONE NUMBER TO CALL WITH QUESTIONS AND EVEN A "MAKE YOU FEEL AT HOME" PLAYLIST FOR YOUR TOUR. KHADEJEH NIKOUYEH *KNIKOUYEH@CHARLOTTEOBSERVER.COM*

3. CLAIM THERE IS NO HOMEOWNERSHIP LOSS IS UNCERTAIN

The industry says its corporate house buying spree hasn't adversely impacted homeownership rates — including in hotspots like Charlotte.

The National Rental Home Council points to data showing homeownership in Charlotte actually increased from 66% to 73% from 2016 to 2020.

"The evidence is not clear at all that the presence of single-family rental home companies has any kind of a negative impact on homeownership," said David Howard, the council's executive director. "As a matter of fact, the data shows just the opposite."

The reality is a lot more murky.

At first glance, the U.S. Census Bureau's Housing Vacancies and Homeownership survey shows homeownership in the Queen City on the rise. But because the sample size is relatively small, that data also has a very high margin of error — so high that it's hard to say with confidence whether homeownership has changed much at all.

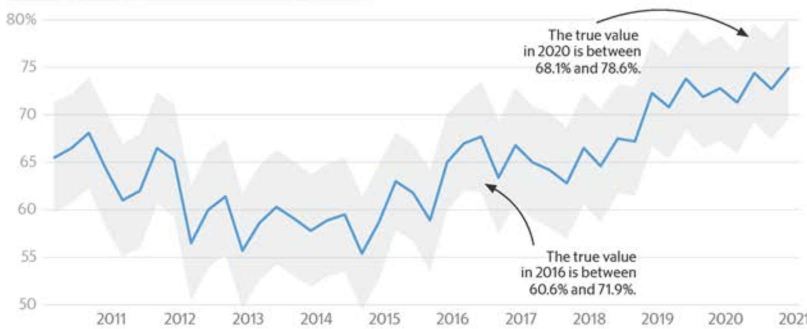
The census bureau's American Community Survey, on the other hand, is a little more definitive. The ACS provides the percentage of housing units that are occupied by owners. And it has a much smaller margin of error.

MEASURING CHARLOTTE HOMEOWNERSHIP

In this measure of homeownership of the Charlotte Metropolitan Statistical Area – using the Housing Vacancies and Homeownership survey – the margin of error is so wide that's its hard to tell whether the rate from 2016 to 2020 actually changed.

Click on the buttons below to see how the measurement changes with a different survey.

Housing survey American Community Survey



Note: The vertical axis on this chart is zoomed in to better show variation in the data.

Chart: Tyler Dukes, The News & Observer • Source: U.S. Census Housing Vacancies and Homeownership survey • Get the data

By this metric, homeownership is effectively flat from 2016 to 2020. But it's still down from the pre-recession period.

The American Community Survey data, it should be noted, never had homeownership as high as 73% in Charlotte over the last decade.

4. BUYERS AND TENANTS FEEL THE GROWTH

Reporters at the Observer and the N&O knocked on dozens of doors to talk to tenants of some of these large corporations. And we spoke to multiple real estate agents and prospective homebuyers in Raleigh and Charlotte.

Many of them expressed concern about the growth of corporate landlords, which have sparked more than 80 renter complaints to the NC attorney general and the Real Estate Commission. Their buying practices, including cash offers above the asking price, can make it hard for locals to compete for homes, some Realtors say.

Companies insist they're one piece of a much larger market and that they're committed to providing safe, high-quality homes, which they work to repair as promptly as possible. They also emphasize that their presence in Raleigh in Charlotte is a function of rental demand — National Rental Home Council data shows occupancy rates for its members' properties in the two cities is the highest in the country at 98%.

But demand to buy? That's been complicated by investors large and small looking for places to grow their cash, says Shamus Roller, executive director of the National Housing Law Project.

"What you have is a lot of dollars that are chasing the housing market that are not necessarily people looking for a place to live," Roller said.

HOMEOWNER THOMAS MCGRATH SPEAKS WITH JESSICA MORENO, RIGHT, HOUSING JUSTICE ORGANIZER, ACTION NC, AND VOLUNTEER PATTACHE ROPER, LEFT, WHILE THE TWO WERE CANVASSING A NEIGHBORHOOD IN CHARLOTTE ON SATURDAY APRIL 23, 2022. THE' N. PHAM *TPHAM@CHARLOTTTEOBSERVER.COM*

5. NO ACTION FROM LOCAL OFFICIALS — YET

Despite dozens of formal complaints filed against corporate landlords at the state level — and calls for action from constituents — Charlotte and Mecklenburg County leaders have so far not taken concrete steps to address the industry, which has amassed more than 25,000 single-family homes in the area. It's a similar story across the country.

At an April presentation for the Mecklenburg Board of County Commissioners, Monica Allen, the county's director of strategic planning and evaluation, told commissioners that she hadn't found many solutions in other places dealing with a large presence of corporation landlords.

"Sadly, when we scanned the nation, we didn't really find, especially in larger markets, we didn't find that these communities are doing anything," Allen said.

County commissioners have instructed staff to keep researching potential solutions. The Charlotte City Council has also not taken any specific action aimed at corporate landlords, instead focusing more broadly on the city's significant affordable housing shortage.

In Raleigh, Mayor Pro Tem Nicole Stewart cited the Observer/N&O investigation in a call Tuesday for the city council to take on this issue.

"In our role as policymakers and as this community's authority on land use, this City Council has taken every imaginable and legal approach to tackling the housing crisis that faces our community," Stewart said in a statement to the council. "This issue of homes being removed from our available housing supply has to be a part of our overall efforts to address the housing crisis that is happening across the country, but particularly across our state and here in Raleigh."

Still, the only barriers to continued growth for corporate landlords have come from grassroots efforts. Several local homeowners associations have voted to restrict rentals in their communities, while activists have been working to organize tenants to push back against rent raises and other industry practices.

JOIN US: SECURITY FOR SALE GOES LIVE ON MAY 11

Join our virtual live event next week to hear more about our Security for Sale investigation. Journalists leading the project will describe what they discovered about the methods and impacts of corporate landlords. They will field participant questions, too, about the companies that own at least 40,000 rental homes and counting in our state.

Rise of Wall Street Landlords: Hear from the journalists who reported on big investors buying up 40,000 NC homes

When: Wednesday, May 11

Time: 7 p.m.

Where: https://bit.ly/securityforsaleevent

Register and submit questions for our journalists in advance of the event at the link above.

This story was originally published May 4, 2022 6:00 AM.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING ➔

double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 6:42 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 6:42 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 6:42 AM

NORTH CAROLINA

Police: Shots fired at church, in front of police station

MAY 12, 2022 6:42 AM

NORTH CAROLINA

North Carolina man gets 10 months for sex assault on flight

SPONSORED CONTENT

When Money is Tight, These 7 Resources Will Help Nearly Everyone

MAY 12, 2022 6:42 AM

BY THE PENNY HOARDER

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP ➔

VIEW NEWSLETTERS ➔

SUBSCRIPTIONS

Start a Subscription

Customer Service

eEdition

Vacation Hold

Pay Your Bill

LEARN MORE

About Us

Contact Us

Newsletters

Archives

Sports Betting

Personal Finance

ADVERTISING

Information

Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

TERMS OF SERVICE

SUBSCRIBER EDITION

NORTH CAROLINA

HOAs limit corporate landlords in Charlotte. What about neighborhoods without them?

BY PAYTON GUION

UPDATED MAY 04, 2022 3:37 AM

Homeowners Susan van Soestbergen, left, George Martin, Steve Martin and Sue DuChanois live in McClintock Woods, where owners are growing concerned about an influx of investor homebuyers. KHADEJEH NIKOUYEH *Knikouyeh@charlotteobserver.com*

Only have a minute? Listen instead
Powered by Trinity Audio
00:00 05:40 1.0x

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

CHARLOTTE

As the scale and impact of corporate landlords becomes more evident in Charlotte, local leaders and those affected are seeking solutions.

One of the most commonly discussed tactics is using the power of homeowners associations to limit rentals in neighborhoods.

Charlotte and Mecklenburg County officials have said they plan to support HOAs that wish to take such action, so far without any other concrete policy aimed at corporate landlords. The city has a map on its website showing roughly 400 HOAs in Charlotte.

TOP VIDEOS

AD

But what about the neighborhoods that don't have HOAs?

An investigation by The Charlotte Observer and The News & Observer found that corporate landlords own more than 40,000 homes in North Carolina, including 25,000 in the Charlotte area. In Mecklenburg County alone, institutional investors own a quarter of all rental houses.

The investigation found dozens of complaints filed with the North Carolina attorney general claiming some of these landlords don't respond to maintenance issues and charge excessive feeds, among other issues. Similar complaints emerged in interviews with tenants and neighbors.

Potters Glen in north Charlotte and Highland Creek, one of the largest subdivisions in the state, are among those communities whose HOAs have moved to restrict rentals for limited periods. To change bylaws, communities need approval of at least a majority of HOA members. Once the policies go into effect, new buyers in the neighborhood have to wait a year or two before renting, depending on the bylaws.

Another HOA tactic has been to restrict the percentage of homes in a neighborhood that can be rentals, said Tim Sellers, a Charlotte-area attorney whose firm works with HOAs. Sellers added that this restriction is more difficult to manage and is being used less often.

WHEN THERE IS NO HOA

But many neighborhoods in North Carolina where institutional investors have converted homes into rentals are not protected by the covenants and bylaws of an HOA.

McClintock Woods is one of those.

Charlotte, N.C., on Wednesday, April 28, 2022. Khadejeh Nikouyeh *Knikouyeh@charlotteobserver.com*

The neighborhood, its leafy streets winding behind East Mecklenburg High School near Monroe and Rama roads, is consistent with the subdivisions built in Charlotte in the late 1960s and '70s.

It doesn't look like the type of communities institutional investors have tended to prefer in the Charlotte area: vinyl-sided homes on smaller plots of land built after 1980, and many built in the 2000s.

Maybe for that reason, corporate landlords owned only five houses in McClintock Woods. Until recently.

On a chunk of land at the end of Coatbridge Lane, builder Kinger Homes is putting up houses on 14 sites, according to Mecklenburg County property records. Seven homes already have been sold. But instead of Kinger selling those homes to individuals who could become long-term residents, the houses went to a company called SFR XII Charlotte Owner 2 LP.

The Observer investigation found that the company is a subsidiary of Starwood Property Trust, an institutional investor that owns around 700 rental homes in North Carolina. On April 30, two of its houses on Coatbridge Lane were listed for rent for $2,795 per month.

Starwood buying rental homes in the neighborhood worries Steve Martin, who's lived on Coatbridge Lane since the 1980s. Martin and some of his neighbors fear institutional landlords getting a foothold in the neighborhood and changing its character.

"I don't have an issue with the folks moving in," Martin said, adding he wants neighbors committed to the community. "We're welcoming folks. What we like is people who want to live here and are going to be here for a while."

Charlotte, N.C., on Wednesday, April 28, 2022. Khadejeh Nikouyeh *Knikouyeh@charlotteobserver.com*

But the many Charlotte neighborhoods without an HOA have little ability to take action if they decide they want to slow corporate landlords, who now own one in 20 houses in Mecklenburg County.

"In many of those instances we're going to find that they're out of luck," Sellers said. "Under the law in the state of North Carolina, it favors everybody having free use of their property.

"Do what you want to do with it. Tires in the front yard, flamingos in the front yard, paint the door chartreuse, do what you want to do."

Sellers said he's worked with 20 to 25 area HOAs in the past couple of years that have voted to restrict rentals.

The single-family rental industry opposes HOAs taking such actions.

"I don't think a homeowners association should be able to say you as a homeowner cannot rent," said David Howard, executive director of the National Rental Home Council, a trade group that represents many of the largest corporate landlords. "I think that's a slippery slope. And I think it's not fair to helping consumers."

Martin and his neighbors are less concerned about lawn flamingos and highlighter-tone paint than they are about local leaders having few policy proposals related to institutional investors, aside from encouraging HOAs to take action.

City and county officials have recently said they plan to offer support to associations that want to ban rentals. But that does little good for people, like those in McClintock Woods, without any such association to act.

Sue DuChanois, who also lives on Coatbridge Lane, said she worries that Starwood and other corporate landlords will use the increased presence in the neighborhood as a foothold to keep buying.

"My fear is that once they're here that they'll come for my house or my neighbor's house," she said.

This story was originally published May 3, 2022 6:00 AM.

PAYTON GUION

704-651-4667

Payton Guion is an award-winning investigative reporter for the Charlotte Observer. Prior to returning to his hometown paper, Payton reported for the Star-Ledger and the Asbury Park Press in New Jersey, and The Independent and VICE News in New York. He is a graduate of Appalachian State University with a master's degree from Columbia University.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte
UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station
UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say
MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest
UPDATED MAY 11, 2022 4:10 PM

Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING ➔

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

North Carolina man gets 10 months for sex assault on flight

MAY 12, 2022 8:29 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 8:27 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 8:26 AM

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP ➔

VIEW NEWSLETTERS ➔

SUBSCRIPTIONS

Start a Subscription

Customer Service

eEdition

Vacation Hold

Pay Your Bill

LEARN MORE

About Us

Contact Us

Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

NORTH CAROLINA

Confused by corporate landlord lingo? Our glossary translates jargon into plain English

BY STAFF REPORTS

UPDATED MAY 04, 2022 3:37 AM

A row of houses in a neighborhood that has been affected by institutional investors in Charlotte. KHADEJEH NIKOUYEH
Knikouyeh@charlotteobserver.com

Only have a minute? Listen instead
Powered by Trinity Audio
00:00 1.0x 01:20

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

Every industry brings its own jargon. Here are some terms thrown around when describing the world of corporate landlords buying up homes in North Carolina, especially in and near Charlotte.

Asset-backed securities: These are investments that promise profits from revenue that's on the way. That can be expected payments on a loan or lease.

Rental-backed security: In the corporate, single-family home rental industry, it's future rent revenue that brings value, with home deeds offered as collateral.

Foreclosure: When a lender moves to collect money owned on a loan that a borrower fails to pay off. That can include seizing a mortgaged property and selling it to collect some value.

TOP VIDEOS

"Let's Go Brandon" -
Brandon Brundidge

Institutional investors: Organizations, including companies, that invest money on behalf of others. That can include hedge funds, endowments, mutual funds and others.

Corporate landlords: For-profit organizations with diverse structures that buy or manage portfolios of single-family homes that they put on the market as rentals. Observers of the growing single-family home rental business sometimes use the term institutional investors and corporate landlords interchangeably.

Sources: Investopedia.com; office of US Rep. Mark Takano, D-Calif., Urban Democracy Lab, New York University

'Like NASCAR on the road'

Extreme speeding increasingly brings death to NC highways

READ MORE

This story was originally published May 1, 2022 6:00 AM.

CATHY CLABBY
919-423-6163

Cathy Clabby leads a investigative / high-impact team of McClatchy journalists based at The News & Observer and the Charlotte Observer.

Conversation

Your voice matters. Discussions are moderated for civility. Read our guidelines here

Commenting as **Guest** Log in Sign up

Be the first to comment...

Powered by OpenWeb Terms | Privacy | Feedback

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING ➔

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte
UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station
UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say
MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest
UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement
UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

North Carolina man

NEWS

North Carolina sees

NORTH CAROLINA

Editorial Roundup:

gets 10 months for sex assault on flight

MAY 12, 2022 8:29 AM

increase in child homicides, suicides

MAY 12, 2022 8:26 AM

North Carolina

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 8:27 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 8:26 AM

SPONSORED CONTENT

When Money is Tight, These 7 Resources Will Help Nearly Everyone

BY THE PENNY HOARDER

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

OPINION AND COMMENTARY

Editorials and other Opinion content offer perspectives on issues important to our community and are independent from the work of our newsroom reporters.

OPINION

Longtime Realtor: Here's what Charlotte sellers must do to thwart corporate landlords

BY JONATHAN OSMAN

MAY 10, 2022 4:30 AM

Charlotte Realtor Jonathan Osman takes a photo of a house in a neighborhood where institutional investors have bought a large number of properties. These corporations then convert the homes into rentals. KHADEJEH NIKOUYEH *Knikouyeh@charlotteobserver.com*

Only have a minute? Listen instead
Powered by Trinity Audio
00:00 1.0x 03:43

Earlier this year, I made the decision to say good-bye to real estate sales. After 19 long years, which included the Great Recession and housing crisis, I reached the conclusion that the current housing mess will not be correcting itself any time soon and it was time to see myself out.

In fact, I fear that — if left to itself — a correction may never happen.

The reality is that what we used to refer to as "The American Dream" is becoming a possibility for far too few of us. Owning a home provides a sense of permanence — a shared investment in our community, as well as a means of inter-generational wealth transfer from grandparents to parents to children and beyond.

TOP VIDEOS
AD

Continue watching
Bob Lacey and Sheri Lynch hosts of the 'Bob & Sheri' o...
after the ad

Being a Realtor meant so much more to me than just opening a door or writing a contract. I genuinely loved being an advocate for my clients and my community, promoting the good of homeownership while sounding the alarm when problems arose.

During the Great Recession (2008 through 2012), I worked mostly with distressed homeowners who faced with the unenviable task of what to do with a house they could no longer afford. When I wasn't spending late nights alone at my office working on files, I was traveling the country teaching other Realtors how to help owners in their communities — often for free. I thought I was doing good for our country.

'Like NASCAR on the road'

Extreme speeding increasingly brings death to NC highways

READ MORE

Then, around 2012, the institutional investors started appearing in Charlotte, Raleigh and other parts of the state. To their credit, they helped provide a floor to our housing market — often purchasing homes at market value and rarely negotiating. The real estate community saw them as a godsend, as homes that once took six months to sell could now close for cash in less than a month.

We didn't question where they came from or who they were, and speculation at the time was that they would hold the homes for a few years and then sell once the market turned.

Hindsight is always 20/20. Thanks to books like "Homewreckers," by Aaron Glantz, "The Color of Law" by Richard Rothstein, and groundbreaking journalism by The New York Times, Washington Post, and The Charlotte Observer, we know that much of the predatory behavior that was pervasive before and during the Great Recession continues today. It manifests in institutional investors coming into communities of color and buying up large pockets of affordable homes.

Even as I look at my own neighborhood, many of our neighbors are forced to pay rent that is substantially higher than an equivalent mortgage because institutional investors have driven up rental rates faster than their incomes are able to keep up.

It is so disheartening to talk to neighbors who are renting. Some say they've given up on the prospect of ever owning a home because they find it difficult to compete against the corporations.

Thank you for supporting local journalism

Your subscription allows us to provide our readers with quality, relevant journalism that makes a difference. We believe a platform for sharing local news is critical to our community – and we're glad you think so, too.

Have questions about your subscription? We're happy to help.
Contact us

Are institutional investors solely to blame for our current housing shortage? Of course not.

What we are experiencing is a perfect storm of many factors: millennials desiring homeownership, not enough construction, as well as corporate investors seizing on the opportunity to lock tenants into renting for as long as possible. It has become clear to me that homeownership by individuals has become the biggest adversary to institutional investors.

For the last few years, my rallying cry to my fellow Realtors has been to encourage their sellers to sell their homes to people and not corporations. Our housing market is healthiest when humans own homes and not corporations that are actively seeking to intermediate would-be owners from the goal of homeownership.

Jonathan Osman was a real estate agent in Charlotte from 2006 until February 2022. He opened his own agency in 2016, Tryon Realty Partners.

Conversation 1 Comment

Your voice matters. Discussions are moderated for civility. Read our guidelines here

Commenting as **Guest** Log in Sign up

What do you think?

Sort by Best

G **Guest** · 1 day ago

The love of money is the root of all evil.
Greed and selfishness now defines our society.
People are willing to do anything for money.
The worst part is nobody cares because everyone is out for themselves

Reply

Powered by OpenWeb Terms | Privacy | Feedback

READ NEXT

OPINION

Trying to make sense of so many suicides among young adults like me

BY WESLEY B. JONES

UPDATED MAY 12, 2022 9:42 AM

Recent deaths by suicide: Our culture has stripped millennials of purpose and left them with a perversion of the American Dream | Opinion

KEEP READING →

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

OPINION

Kevin Siers cartoon: Another scandalous Cawthorn video

MAY 11, 2022 2:38 PM

OPINION

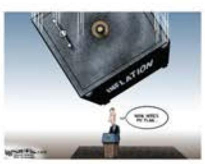
NC Supreme Court justice criticizes a fellow GOP judge for not weighing party in hiring

UPDATED MAY 11, 2022 12:25 PM

OPINION

Why I opened up about my mental illness at work, and why others should too

MAY 11, 2022 4:30 AM



OPINION
Kevin Siers cartoon: Man with a plan

MAY 10, 2022 4:00 PM

OPINION
I'm waiting for the worst from my COVID booster

UPDATED MAY 10, 2022 1:15 PM

SPONSORED CONTENT
When Money is Tight, These 7 Resources Will Help Nearly Everyone

BY THE PENNY HOARDER

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

NORTH CAROLINA

After foreclosures, NC neighborhood is transformed again, by corporate landlords

BY PAYTON GUION AND GORDON RAGO

UPDATED MAY 04, 2022 3:37 AM

This house in Concord's Southern Chase subdivision was up for lease in April by Main Street Renewal, property management arm of Amherst Residential. Amherst is one of about 20 companies that collectively own tens of thousands of NC homes. KHADEJEH NIKOUYEH *Knikouyeh@charlotteobserver.com*

Only have a minute? Listen instead
Powered by **Trinity Audio**
00:00 1.0x 09:50

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

CONCORD

Todd Tarlton watched another longtime neighbor on his cul-de-sac pack up and move out late last year.

In her place came a new neighbor, one that's become increasingly common in the Southern Chase neighborhood of Concord, but one that will never live in the house.

This story is a subscriber exclusive

TOP VIDEOS

"Let's Go Brandon" -
Brandon Brundidge

A few days before Christmas, the investment company Amherst Residential bought the four-bedroom, two-story house next door to Tarlton's for $307,500. Soon after the purchase, Tarlton watched work crews fix the vinyl siding and work on the roof, he said.

The house is now among the best-looking on Winners Circle SW — named, like most of the streets in Southern Chase, after Concord's most famous export, racin' — and it's priced like it, too.

But Tarlton worries the veneer next door won't last and the house will end up like the dozens of other houses in the neighborhood owned by investment companies.

"This area, it looks pretty decent now," Tarlton said during a March interview from his front porch. But in the next 10 years, he predicted, the community will continue to stray from what it once was: full of familiar faces and quiet, relatively well-maintained streets and yards.

Of the 416 houses in Southern Chase, 96 of them are owned by institutional investors, or 23%. On Tarlton's street alone, these corporations own six houses.

Investors haven't come to Southern Chase by accident. The neighborhood's current predicament was seeded in the foreclosure crisis more than a decade ago. This buying spree helps explain how corporate landlords came to own chunks of dozens of neighborhoods in and around Charlotte.

As people lost homes to foreclosure, institutional investors were invited in to buy them up. With that foothold, they kept buying in and around Charlotte, other North Carolina cities and across much of this country's Sun Belt.

In the past decade, about 20 companies have assembled a portfolio of at least 40,000 single-family homes in North Carolina, 25,000 of which are in the Charlotte area.

Main Street Renewal, the property management arm of Amherst, listed the house next door to Tarlton for $1,895 per month. That's well above Concord's median rent, which is $1,011 for apartments and homes, according to Census Bureau data.

Nearly 100 of the 416 houses in the Southern Chase subdivision are owned by institutional investors. That's nearly every fourth house in this Concord community. Khadejeh Nikouyeh *Knikouyeh@charlotteobserver.com*

A NEIGHBORHOOD WITH HISTORY

Southern Chase was never intended to become a cluster of high-priced rentals. Quite the opposite.

In the late 1990s, Beazer Homes USA began selling in Southern Chase, affordable houses aimed at lower-income families. The basic, vinyl-sided homes popped up on a swath of land just across N.C. 49 from Central Cabarrus High School.

Beazer, armed with federal government financial backing, began writing mortgages for people who had previously been unable to afford a house. Often, the mortgages came with low or no down payments. Beazer even offered to help with the mortgage for a few years.

The Charlotte Observer's 2007 investigation, "Sold A Nightmare," found that in some cases Beazer had falsified mortgage documents to get people in homes they would not be able to afford. As the Beazer mortgage subsidies expired, people increasingly fell behind on monthly payments.

By that year, 77 homeowners in Southern Chase lost their homes to foreclosure, nearly 20% of the neighborhood, according to the Observer investigation. Similar stories were unfolding in neighborhoods across the Charlotte area and nationwide.

In the mid-2000s, lenders all over the U.S. aggressively hawked subprime mortgages to people unable to pay back the loans. Investment bankers bundled those loans into increasingly complex bonds and sold them as sound investments. When housing prices stalled, people began defaulting on their bad mortgages en masse, helping bring the global economy to its knees.

Between 2007 and 2012, more than 5.6 million American homes were foreclosed on, according to data from CoreLogic.

From this pile of distressed properties emerged a new industry: investor-owned single-family rentals. In 2012, the Federal Housing Finance Agency launched a program that allowed investors to buy large packages of properties at steep discounts as long as they rented them out. Investment firms started snatching them up by the fistful.

By 2016, the federal government had sold more than 100,000 mortgage loans, with 98% going to institutional investors, according to the U.S. Department of Housing and Urban Development.

"While real estate investors had long considered bulk purchases of distressed real estate, the REO Pilot Program signaled to large players that the state welcomed their role as landlords," Desiree Fields, a University of California, Berkeley, professor and a leading expert on the SFR industry, said in testimony last year before the Senate Banking Committee.

With millions of houses available, the industry ramped up quickly. By fall 2012, Invitation Homes, founded by the private-equity firm Blackstone, was spending $100 million per week on single-family homes across the country, Blackstone CEO Stephen Schwartzman said on an earnings call that year.

Invitation also pioneered a way, in 2013, to make even more money off its rental houses: Bundling the properties into bonds — backed by the houses themselves — and selling the future rent checks, plus interest, in exchange for hundreds of millions of dollars. Several other corporate landlords followed suit.

By the end of 2014, institutional investors owned more than 173,000 single-family homes, with at least 1,000 homes in 30 different markets, according to a 2021 report from Amherst Capital, part of the same company that bought the house next door to Tarlton.

These corporate owners have continued buying in their preferred markets — both Charlotte and Raleigh are among their top-20 markets — well after the foreclosure crisis came to an end.

"The rise in the single-family rental market, both in supply and demand, is a direct result of the foreclosure crisis," housing researcher Maya Abood wrote in a 2017 paper.

WATCHING A NEIGHBORHOOD CHANGE

In Southern Chase, you can trace how this story unfolded one house deed at a time.

One home investors bought in the aftermath of the Great Recession is a 1,254-square-foot, two-story house that sits on the cul-de-sac where Trestle Court SW dead-ends.

Elizabeth Hilton and Duane Beecher bought it brand new from Beazer Homes in October 2001, deed records show, for $119,000.

Over the next several years, as their neighbors were unable to make rising mortgage payments and faced foreclosure, Hilton and Beecher managed to keep their house afloat.

Hilton and Beecher sold their home to Edwin Bonilla and his wife Zonia in November 2008. Improbably, as many homes in Southern Chase were underwater, they sold it for about $7,500 more than they paid, according to Cabarrus County deed records.

Even though the house on Trestle Court managed to remain in local hands through the first wave of foreclosures in Southern Chase, that didn't last. In October 2012, the Bonillas were foreclosed on, with Bank of America buying the house at auction.

Not even a year later, Invitation Homes paid $60,000 for the house, less than half what the Bonillas paid in 2008, property records show.

Its value to Invitation extends beyond any rent collected. While it's still on Invitation Homes' books, the house is now part of a security that Invitation sold to investors in 2018 to pay back a $1.3 billion loan.

That bond, called IH 2018-3, comprises 6,662 homes, including 2845 Trestle Court SW, along with two additional houses in Southern Chase, and 37 others homes in Cabarrus County.

What was once locally owned is now bundled in a high-dollar security.

WATCHING IT UNFOLD

Tarlton picked Southern Chase because he wanted to live there. It was close to the rehabilitation center he worked at in Harrisburg.

He bought into the neighborhood in 2005 for about $80,000, right as prices in the subdivision were starting to drop and Beazer was no longer subsidizing many of the mortgages, the Observer's 2007 reporting shows.

He remembers how the foreclosure crisis left so many Southern Chase homes sitting vacant or quickly converted into rentals. And the rentals keep coming.

In the first four months of this year, institutional investors bought more than a dozen additional homes in the neighborhood.

Tarlton, now 56 and on disability, links the dwindling number of homeowners to unwelcome changes. He said he hears about break-ins or reports of gunshots more frequently now. "At one time you'd hardly ever see a cop," Tarlton said.

And the place isn't as well kept, Tarlton said.

On a warm early-March afternoon, Southern Chase showed signs of a typical suburban American neighborhood. A few bikes were scattered in one yard on Signal Court. Basketball hoops faced each other from either side of the street, creating a court of the asphalt in between.

But few kids were out playing. And plenty suggested the neighborhood had seen better days. Many homes badly needed a power-wash, while others were missing chunks of siding altogether.

Even the sign at the entrance of the neighborhood reveals the disparity between the onetime promise of Southern Chase and the decaying reality. It shows a family pushing a young child in a stroller, while another child flies a kite in front of a picket fence. But the sign is dirty and paint is flaking off. The white gazebo next to the sign is falling apart.

All of it might soon just lead Tarlton, a 17-year Southern Chase resident, to put his place up for sale too.

The Pulitzer Center contributed to this project by awarding The Charlotte Observer and The News & Observer a data journalism grant.

This story was originally published May 1, 2022 6:00 AM.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte
UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station
UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say
MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest
UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement
UPDATED MAY 11, 2022 6:01 PM

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING →

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 9:10 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 9:10 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 9:13 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 9:10 AM

NORTH CAROLINA

Officials: 17 hurt in crash involving school bus, dump truck

MAY 12, 2022 9:10 AM

NORTH CAROLINA

Police: Shots fired at church, in front of police station

MAY 12, 2022 9:10 AM

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

Coronavirus Local News Sports Arts/Culture Business Personal Finance 2022 Election

NORTH CAROLINA

Why is a Japanese conglomerate buying up Raleigh-area homes to rent them out?

BY MARY HELEN MOORE

UPDATED MAY 04, 2022 3:37 AM

A Raleigh home owned by Yamasa was advertised for rent at $1,885 a month by Progress Residential on April 23. The company paid $295,000 for the house, 7217 Ewing Place, two months earlier.

Only have a minute? Listen instead
Powered by Trinity Audio
00:00 1.0x 06:09

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

CORRECTION: A previous version of the story misidentified this home purchaser as a soy sauce manufacturer with a similar name. Yamasa Co., Ltd., which is buying homes across North Carolina, is a Japanese conglomerate with a wide portfolio of businesses.

As Raleigh and its suburbs explode with new residents, climbing home prices have pushed many families away from the dream of homeownership and into rentals.

A surprising new would-be landlord awaits them: Yamasa, a conglomerate from Japan, one more player in the growing investor-owned home rental business in North Carolina.

TOP VIDEOS
AD

Yamasa has scooped up 183 homes in single-family neighborhoods from Smithfield to Cary in the past four years, property records show, splashing nearly $49 million on the purchases. They've bought homes out of state too.

They work in familiar patterns, buying homes in exclusively residential areas. They tend to come in a few thousand dollars higher or lower than asking, according to purchasing data and sale prices published online, which averages out to about $267,000 per house. Nearly all their homes have either three or four bedrooms.

And every rental is managed by the same massive company: Progress Residential, a major player in the single-family home rental market.

Corporations are making similar bets in communities across North Carolina, an investigation by The News & Observer and The Charlotte Observer revealed. Investment companies have bought at least 40,000 single-family properties around the state, turning them into rentals that churn out reliable profits.

Yamasa, which is headquartered in Okayama, Japan, also owns hundreds more single-family properties in the Charlotte area and has been documented investing in Texas and Arizona. On their website, they report owning more than 6,000 single-family rentals in the U.S. and project they'll get to 18,000 by 2025.

In the Triangle area alone, the company is collecting more than $4 million a year in rent, according to a News & Observer analysis of data pulled from Zillow.

Yamasa has spent nearly $49 million on homes in the Triangle

They're paying an average of $267,413 per house.

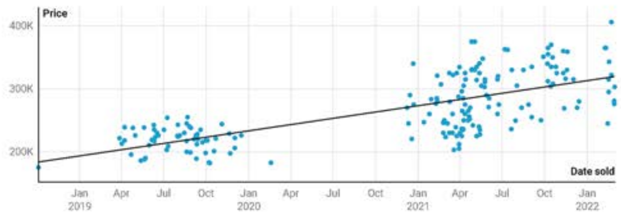


Chart: Mary Helen Moore • Source: Wake County Department of Tax Administration, Johnston County Tax Office • Created with Datawrapper

PET-FRIENDLY AND EASY TO RENT

When Kevin Sizer and his family decided in 2019 that they needed more space and would need to sell their home of two decades, they hired Mark Spain Real Estate, a brokerage whose billboards promise a "guaranteed offer on your home today."

"I knew it needed some kind of repair work. I didn't really want to go the traditional way and fix it up. I just kind of wanted to get out of it," Sizer told The News & Observer. "In less than a week, they said a rental company was interested in purchasing the home."

Yamasa has bought up four homes — including the Sizers' — on the quiet suburban street of Waterford Landing Court in east Raleigh.

"It was very easy and it helped us to be able to move quickly," Sizer said.

Yamasa got its start in the timber industry in the 1800s and has since added slot machine manufacturing, aircraft and ship leasing, solar power generation and real estate to its portfolio, according to its website.

The company, which The News & Observer has reached out to for comment, made its first home purchase in the Triangle in Clayton in late 2018.


SHOW YOURSELF IN
Progress
FOR RENT
RENTPROGRESS.COM
833.PRG.RESS

A Raleigh home owned by Yamasa was advertised for rent at $1,885 a month by Progress Residential on April 23. The company paid $295,000 for the house, 7217 Ewing Place, two months earlier.

Real estate records list Yamasa as the owner of 167 homes around Wake County, primarily in heavily residential areas of Raleigh, though it's also bought in Wake Forest, Fuquay Varina, Knightdale, Garner, Wendell, Cary and Apex.

They've got 16 homes in their name in Johnston County, though none in Durham or Orange counties.

According to the prices listed on Zillow, the homes are renting from $1,390 to $2,720 a month, averaging $1,863.

For just over $1,900 a month, Anthony Martin rents a four-bedroom home Yamasa bought the same month as the Sizers', just a few streets over.

"I like the area. It's diverse. It's tranquil," Martin said.

Martin, like all the tenants interviewed by The News & Observer, said they don't do business with Yamasa. Everything has been handled by Progress Residential.

"I never met anybody. I went through and did everything online and paid the money," Martin said.

Progress Residential, a major player in the single-family home rental market, declined to discuss their relationship with Yamasa.

Single-family homes purchased by Yamasa in the Triangle

The company has bought an average of 52 homes per year since entering the local market in 2018. Purchases slowed dramatically amid the COVID-19 pandemic.

Chart: Mary Helen Moore • Source: Wake County Department of Tax Administration, Johnston County Tax Office • Created with Datawrapper

'EVERYTHING GOES UP'

In early 2021, Michael Austin moved into one of Yamasa's homes with his girlfriend, child and dog.

The three-bedroom home, which Yamasa bought for $260,000 two months before the young family moved in, is at the end of a residential street on the northeastern outskirts of Raleigh. Austin spotted it on Zillow and put in an online application through Progress Residential.

"It was all online, all through either the app or emails. We were able to be given a key code to get in and everything," Austin said.

They pay $1,800 a month, money Austin said they hope to instead be spending on a mortgage before long. Austin said they wanted to get to know the area better and consider what they wanted in a home before taking the leap.

"You know, it's a long process, but we are looking to buy soon," he said from the porch.

Montserrat Rubio lives in a four-bedroom home in Raleigh's Hedingham neighborhood, where dozens of Yamasa's rentals are clustered.

Like most of the rental homes visited by The News & Observer, barks punctuated Rubio's walk to the door. Progress Residential's pet-friendly policies are the whole reason their family is paying $2,500 to rent there.

"We were trying to find a company that accepts different types of dog breeds. We have a pit bull and most renters don't accept that," Rubio said.

She, too, never met anyone from the company in real life.

"It was all online. It went pretty smoothly. You know, when we would email them, it would be a quick response," Rubio recounted.

That's by design, and it's become a lucrative, well-oiled machine for companies like Yamasa and Progress Residential.

Martin, whose home cost Yamasa $226,000, said he worries that corporations are pushing out locals, despite him enjoying his rental.

"They come in and they come with cash, so they can buy stuff and manipulate the market actually," he said. "It really hurts the local people that live here because everything goes up."

This story was originally published May 2, 2022 6:00 AM.

MARY HELEN MOORE

Mary Helen Moore covers real estate and business for The News & Observer. She grew up in Eastern North Carolina and attended UNC-Chapel Hill before spending several years working in newspapers in Florida. Outside of work, you might find her biking, reading, or fawning over plants.

READ NEXT

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING ➔

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

Officials: 17 hurt in crash involving school bus, dump truck

MAY 12, 2022 9:36 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 9:38 AM

NORTH CAROLINA

Report says dump truck driver shot in road-rage incident

MAY 12, 2022 9:38 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 9:35 AM

NORTH CAROLINA

NC governor reveals what he wants to do with $6.2B surplus

MAY 12, 2022 9:40 AM

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

SUBSCRIBER EDITION

NORTH CAROLINA

We had a lot of questions for corporate landlords. Here's what they had to say.

BY PAYTON GUION AND TYLER DUKES

UPDATED MAY 04, 2022 3:37 AM

Corporate landlords have bought 25,000 homes in the Charlotte area in the last 10 years, many of them in neighborhoods like this one in northwest Charlotte. KHADEJEH NIKOUYEH *Knikouyeh@charlotteobserver.com*

Only have a minute? Listen instead
Powered by **Trinity Audio**
00:00 06:09 1.0x

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

During the course of our investigation into the rise of institutional investors buying up tens of thousands of North Carolina homes and converting them into rentals, we consulted a bunch of sources.

We spent months digging into property records, academic research and complex financial documents, on top of meeting with tenants, neighbors, industry groups, Realtors, activists and government officials.

But we also wanted to hear from the companies themselves. We wanted to know how they operate in North Carolina and why they were making certain business decisions we were hearing about from tenants and researchers.

TOP VIDEOS

AD

We decided to focus on six of the largest corporate landlords in North Carolina: American Homes 4 Rent, Amherst Residential, FirstKey Homes, Invitation Homes, Progress Residential and Tricon Residential. These aren't the only institutional investors buying and renting homes in the state, but they're the ones that figured most prominently in our reporting.

None of the companies granted us an interview, either in-person or over the phone, so we sent each of them a detailed list of questions. We asked if our data on how many homes they owned matched their records; if they had specific responses to tenant claims or to the complaints filed against them with the North Carolina attorney general; and about their business practices.

No company answered all of our questions. Some responded to a portion of them and sent more general statements. Other companies responded only with talking points all their own.

Here are relevant excerpts from each company's response:

American Homes 4 Rent

"At American Homes 4 Rent, we acquire and build homes in places where people want to live," Megan Grabos, spokeswoman for the company, wrote in an emailed statement. "As one of the top homebuilders in the country, we are doing our own small part to alleviate the nationwide housing crisis by building new home communities designed for durability and efficiency.

"We are taking this purpose-driven approach to growing our footprint in the greater Charlotte area by building homes for the modern lifestyle and offering residents an excellent experience to expand the region's supply of high-quality housing and help our communities thrive."

Amherst Residential

"We invest an average of $40,000 renovating, repairing and improving each home we acquire as we make long-term investments in all of our communities," spokesman Dan Scorpio wrote in a statement. "We serve consumers by providing quality, accessible and affordable housing to those who are ready to move on from multi-family living, have a need for more space, a more private environment or because their families are growing.

"Consumers often rent because tightened credit standards and high student debt burdens have made home ownership currently out of reach. We invest heavily to provide around-the-clock service and responsive maintenance support for our residents, and our consistently high annual renewal rate shows that our residents overwhelmingly enjoy their experience living in our homes."

FirstKey Homes

"We believe in reliable resident service as a top priority, and if we miss our high-quality standard, we make it right and learn from it," Cashona Rinehart, regional vice president of FirstKey, wrote in a statement. "It's why we have locally staffed offices with licensed maintenance technicians, invested in a mix of high-quality maintenance programs, including a dedicated call center and new online resident service program, and spent roughly $150 million on the care of our homes."

Rinehart wrote that the company responded to tenant complaints and maintenance requests to the best of its ability. Rinehart also pointed to FirstKey's top rating with the Better Business Bureau.

Invitation Homes

"Invitation Homes is proud to provide high quality homes to the growing number of Americans who choose to rent versus own," Invitation spokeswoman Kristi DesJarlais wrote. "Our associates genuinely care about ensuring we provide an exceptional experience for our residents, and our teams work hard every day to honor the trust that 80,000+ families and individuals have placed in us to provide them a safe and secure home.

"We offer multiple channels through which residents can communicate with our team regarding the status of their home, lease, or other issues that may arise. We respond as quickly as we can to residents' requests and work diligently to address issues in a timely and efficient manner. Invitation Homes is aware of the complaints filed in North Carolina and has worked with residents to resolve each of them."

Progress Residential

Kate Thompson, a spokeswoman working with Progress, noted that Progress had worked with its tenants to close all the complaints that had been filed against them with the North Carolina attorney general.

Tricon Residential

"At Tricon, we feel honored to be able to provide people with a place to call home, and we take that responsibility seriously," Kevin Baldridge, Tricon's chief operating officer, wrote in a statement. "We have invested over $134 million in the renovation of newly acquired single-family homes so we may improve our residents' living experiences. Every day Tricon team members work hard to provide our residents with genuine caring service, which is why we have average resident tenures of three to five years and longer.

Baldrige also said Tricon has hired hundreds of new maintenance technicians to help keep its homes in good shape.

"We have a long-standing practice of limiting annual rent increases for existing residents at rates well below industry averages. We also have programs that help our residents achieve home ownership if that is their goal. We believe when families have the stability necessary to build pathways to their own financial freedom, entire communities can prosper."

This story was originally published May 3, 2022 6:00 AM.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the

by the Grandfather Mountain Stewardship Foundation.
KEEP READING ➔

speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

North Carolina man gets 10 months for sex assault on flight

MAY 12, 2022 8:29 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 8:27 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 8:26 AM

NO HASSLE RENT RECOVERY
RDAC Can Deliver Quality Services and Unmatched Results.

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP ➔

VIEW NEWSLETTERS ➔

SUBSCRIPTIONS

Start a Subscription

Customer Service

eEdition

Vacation Hold

Pay Your Bill

LEARN MORE

About Us

Contact Us

Newsletters

Archives

Sports Betting

Personal Finance

ADVERTISING

Information

Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

The Charlotte Observer The News&Observer

Credit: Rachel Handley

STORY 1 STORY 2 STORY 3

As corporate landlords rise in Charlotte, officials are watching, not acting — for now.

BY PAYTON GUION, TYLER DUKES & GORDON RAGO MAY 3, 2022

Jessica Moreno walked up the short concrete driveway, a small group of canvassers close behind, and rang the smart doorbell at 8237 Ainsworth St. in a neighborhood near Northlake Mall.

This story is a subscriber exclusive

"Ding-ding-dong."

She'd had no luck at the first two houses she tried. But at the tidy two-story home, Bekai Cole came to the door willing to chat.

TOP VIDEOS

AD

Moreno, a housing justice organizer with Action NC, asked Cole if he'd been having problems with his landlord, Progress Residential.

Cole, who said he'd lived in the north Charlotte house for a few years, mentioned that his rent had been steadily increasing, about $150 per month each year.

Rising rent is the most common complaint she hears from tenants of corporate landlords, like Progress Residential, Moreno said. That and them not responding to maintenance requests.

Cole said he'd found Progress to be "pretty fair" when it came to addressing any maintenance issues he's had, but the rising rent has left him concerned enough that he agreed to join an upcoming Zoom meeting to hear about joining a tenants union.

Action NC has been canvassing neighborhoods like this for about a year, steadily signing people up for a national tenants union to challenge institutional-investor landlords. In the space of a decade, the biggest of these companies have gone from owning few homes to being the largest single-family landlords in North Carolina, based on an analysis by The Charlotte Observer and The News & Observer.

Action NC has so far signed up around 200 tenants in North Carolina to the national union, which has about 2,000 members, Moreno said. Once organized, tenants can collectively fight rent increases and maintenance issues, she said.

"These companies are gobbling up these houses and not giving first-time homebuyers a chance," Moreno said. "People are upset and they don't know there's a group fighting."

The investigation found that about 20 corporate landlords have scooped up more than 40,000 single-family homes in North Carolina. That includes 25,000 homes just in the Charlotte area, which has become one of the national hot spots for the industry. On Ainsworth Street alone, these companies own at least 24 houses.

Institutional investors achieved this scale — they now own a quarter of rental homes and 5% of all homes in Mecklenburg County — by buying houses for depressed prices in the wake of the Great Recession then leveraging those portfolios in recent years to outcompete traditional homebuyers. This investigation also found that they have created systems to maximize profits from tenants and are altering some neighborhoods in North Carolina.

In the 10 years that institutional investors started buying in Charlotte, they've met little resistance from local leaders, who say they remain at a loss for how to check the growth of the industry.

So far, the only action in North Carolina has come from grassroots efforts.

Action NC's canvassers knock on the doors of tenants that rent from corporate landlords to hear their concerns. BY MELISSA RODRIGUEZ

HOAs push back

A few doors down on Ainsworth Street, Moreno and a canvasser knocked on Thomas McGrath's door.

McGrath is becoming a rarer specimen on the block: a homeowner. He told Moreno that he's lived at 8332 Ainsworth for 18 years. Recently, it's been impossible not to notice the corporate landlords coming in, he said.

"That's horrible," McGrath said about these large companies buying up homes on his street. "I know there's a situation with affordable housing" in Charlotte.

Despite not being a renter, McGrath readily signed up to get more information about the tenants union. He also told Moreno that he'd find out if she could come to the next homeowners association meeting.

A tenant organizer attending an HOA meeting might sound like a waste of time. But in Charlotte, HOAs have been just about the only ones able to slow the encroachment of institutional investors.

The Observer reported in October that several communities in north Charlotte — a part of town where large investors have been especially active — have used their HOAs to discourage corporate landlords from buying in.

Homeowners in the Potters Glen neighborhood, a community of 278 single-family homes off West Sugar Creek Road in north Charlotte, tweaked their bylaws in 2019 to require that new buyers live in their homes for two years before renting them out.

Vincent Evans, president of the Potters Glen Community HOA, told the Observer that most complaints in the neighborhood, like excessive noise, neglected property repairs or criminal activity, were coming from rental houses.

Other HOAs have taken similar steps to discourage investors, including Avalon at Mallard Creek Townhomes and Highland Creek, one of the largest subdivisions in the entire state.

"A corporation won't live here for a year before renting," said Apryl Lewis, a housing justice organizer who works with Moreno at Action NC, about these policies.

Tim Sellers, a longtime Charlotte attorney whose firm works with HOAs, said the rise of corporate landlords in the state has led many community organizations to reconsider their bylaws.

Some HOAs have set a cap on the percentage of houses that can be rented within a neighborhood at any given time, but Sellers said that restriction is often difficult to manage. So many HOAs have turned to preventing new buyers from renting their homes for a year or two.

"That makes it completely unappealing to an institutional investor," Sellers said. "Because why would you acquire a housing unit where you can't do with it what you want to do?"

Sellers said his law firm has worked with 20 to 25 HOAs that have passed some sort of policy to curb rentals.

Corporate landlords oppose HOAs taking action to restrict rentals in their neighborhoods.

"I don't think a homeowners association should be able to say you as a homeowner cannot rent," said David Howard, executive director of the National Rental Home Council, a trade group that represents many of the largest corporate landlords. "I think that's a slippery slope. And I think it's not fair to helping consumers."

Howard said his organization has been successful in passing legislation in Florida, Georgia and Tennessee that bars HOAs from restricting homeowners from renting out their houses.

Sellers, a Charlotte city councilman in the 1990s, said he's opposed similar legislation in North Carolina, which has yet to pass.

But HOAs alone won't be able to make a real dent in the growth of the corporate landlords. They're hyperlocal and many neighborhoods don't have them.

And with institutional investors continuing to buy across North Carolina, some are calling on lawmakers to step up.

Home owner Thomas McGrath speaks with Jessica Moreno, right, Housing Justice Organizer, Action NC, and volunteer Pattache Roper, left, during the canvasing of a neighborhood in Charlotte on Saturday April 23, 2022. Action NC is working to add tenants of corporate landlords to a national tenants union. The' N. Pham *tpham@charlottteobserver.com*

Complaints to the city

Corey Sefers, who's been a Realtor in Charlotte for close to six years, decided it was time to stop complaining to those close to him about the housing market changing before his eyes. He had to inform the people who could presumably do something about it.

So a little before 8:15 on a February morning, Sefers began typing a message to Charlotte Mayor Vi Lyles, city council members, county commissioners, Gov. Roy Cooper and others. He even included the county sheriff.

The email subject got right to the point, "Hedge Funds/LLC's Purchasing Residential Real Estate is Killing the American Dream."

In his email, Sefers laid out an issue he had seen unfolding before him: That large institutional investors like American Homes 4 Rent and Invitation Homes were buying up homes by the thousands and turning them into rentals. Investors were typically buying homes in the $200,000 to $400,000 range, where first-time home buyers typically look, he wrote.

Those buyers were being pushed out of the market as they couldn't compete with all-cash offers well above the listing price, Sefers warned. Many homebuyers who don't have the means to put down loads of cash can feel at risk, especially during the appraisal process. If a home doesn't appraise to what the offer is, the buyer can risk losing thousands of dollars in what's known as due diligence fees.

In most cases, there is no appraisal when an all-cash buyer is involved so a seller could be more inclined to go that route, Sefers told the Observer in an interview. He views the appraisal process as "backward" as it can take two weeks after an offer is made to find out whether the home was appraised or not.

"Either the appraisal process needs to change so these owner-occupant buyers can be more competitive or legislation needs to be drawn to limit this or end these corporate buyers from playing with residential real estate," Sefers wrote.

He ended the email this way: "I may be just one voice but I have heard much concern throughout peers in my industry, along with buyers themselves."

Sefers does not believe these large, corporate investors have a place in residential real estate, he told the Observer.

"If you've got billions of dollars backing you, go buy commercial real estate," Sefers said. "Not homes the average person needs to live in."

Mecklenburg County Commissioners discussed homes for rent by corporate landlords at an April meeting. Khadejeh Nikouyeh *Knikouyeh@charlotteobserver.com*

Concern, but little action

Sefers did get responses, but no solutions.

Lyles replied via email that morning, saying she had recently heard similar impacts to first-time homeowners during a meeting with a panel of housing advocates. She said the city council was committed to supporting home ownership and that she would forward his email to a committee that deals with displacement and gentrification.

"There are existing ways to address this, unfortunately, those put the burden on neighborhood organizations," Lyles wrote to Sefers. "And the major obstacles noted by the housing panelists are regulatory hurdles."

Sefers also got a voicemail from the office of Republican U.S. Sen. Thom Tillis.

A staffer, who didn't leave a name, explained that Tillis has heard the issue from constituents. There have been some hearings on the topic as well as proposed legislation, the message said.

"We're certainly taking a hard look at that and recognize that the incredibly hot market right now and institutional investment may prevent... homebuyers from being able to access a home," the staffer said in the voicemail.

These responses are representative of the reaction from local officials when pressed about corporate landlords: Plenty of concern to go around, but no concrete proposals.

At a meeting in April, the Mecklenburg Board of County Commissioners began discussing how to mitigate the impact of institutional investors on local communities. Many commissioners acknowledged a problem and said they're getting more and more complaints on the issue from constituents.

"They're not people who are going to be involved in the community," Commissioner Pat Cotham said about corporate landlords during the meeting. "They're not going to see the problems or even care about the problems. It tends to hurt the competition (for buying homes) because these are cash offers and it doesn't involve building wealth."

George Dunlap, chairman of the board, said he wasn't convinced the county had the authority to do much of anything about corporate landlords, other than work with the city to support HOAs and educate the public about the industry.

"I know you guys want to do what the community wants you to do," Dunlap said. "They are raising Cain. The reality is, you can't do it."

At the end of the meeting, all commissioners could do was ask county staff to continue researching the problem and report back with findings. Not all commissioners were pleased.

"It's unacceptable to our constituents and the residents of Mecklenburg to say we can't do anything about it," Commissioner Mark Jerrell said. "Frankly, this is disgusting.

The city has been similarly heavy on interest, yet light on action.

"It's very concerning, simply because we're dealing with this whole affordable housing crisis," Councilman Malcolm Graham told the Observer about the growth of corporate landlords. "And this adds to that because it takes away homes from the market, from that individual in the market who is looking for that first home.

"The question for government is: Is this in the best interest of neighborhoods? And I would probably say no. The question is then what can we do?"

So far, it's a question with no answer.

Mayor Lyles did not answer questions for this story, despite multiple attempts to reach her through her spokesman, Jeremy Mills, who pointed reporters to the city's housing department.

Shawn Heath, Charlotte's interim director of Housing and Neighborhood Services, said the city views corporate landlords as part of a bigger problem around affordable housing.

"I think the emergence of these corporate investors are a contributing factor to the problems we've been seeing," Heath said. "Clearly it's something that's on the radar for us as a department. It's something we've talked about considerably over the past few months."

But the city's proposed solutions to its affordable housing woes — construction of additional affordable units and increased down payment assistance, among other measures — aren't exclusively aimed at addressing corporate landlords, he said.

As long as institutional investors are buying houses with cash, and willing to pay more than the asking price, additional down payment assistance won't erase the competitive disadvantage most homebuyers face. And the affordable housing units the city wants to see more of are aimed at people making less than 80% of the area median income, while corporate landlords offer houses at higher rents.

Heath said so far the housing department has not received any mandate from city council to focus on institutional investors, though he added that he believes the city is committed to tackling the issue. Like county officials, Heath mentioned the city is interested in working with HOAs and educating the public about corporate landlords.

“We, the city, are very much leaning into housing as an area of great emphasis,” he said. “If we can get it right, it will level the playing field. These are huge challenges created over multiple generations.”

Volenteer Pattache Roper makes her way to renters who live in a neighborhood during the canvassing in Charlotte on Saturday, April 23, 2022. Action NC is working to add tenants of corporate landlords to a national tenants union. The' N. Pham *tpham@charlottteobserver.com*

‘People are trying’

Charlotte is far from alone in being unprepared to deal with the rise of institutional investors.

Aside from a couple of anomalies that are unlikely in a state with less regulation like North Carolina — like rent control laws — no state or local government has devised a way to regulate corporate landlords.

In the April presentation, Monica Allen, Mecklenburg County's director of strategic planning and evaluation, told county commissioners that she had gone looking for solutions across the country and returned with few.

"Sadly, when we scanned the nation, we didn't really find, especially in larger markets, we didn't find that these communities are doing anything," Allen said.

Researchers and experts are also unsure of the best way to regulate an industry that's still relatively new in the single-family home rental business.

Most agree that it's unlikely in the United States you could prevent a willing buyer from purchasing a house from a willing seller. Housing researchers also agree that some regulation is necessary.

"It doesn't feel particularly sustainable," said Desiree Fields, a professor at the University of California, Berkeley, who has studied the industry for a decade. "The inequalities of the landlord-tenant relations taken to next levels are frightening.

"It's very difficult for the tenants themselves to reach back to the landlord. I think there's just a way that it magnifies these power imbalances."

But until some sort of check is put in place, the fight is left to HOAs and activists.

On that warm and sunny Saturday last month, Moreno and Lewis — and their team of four canvassers — spoke to more than a dozen renters on Ainsworth Street in north Charlotte.

Door-by-door, they signed up three people to come to a meeting to hear more about joining the union of tenants pushing back against institutional investors.

After that meeting there will be more doors to knock, especially as corporate landlords continue buying.

"The hardest part is what we're doing," Lewis said, carrying a grocery bag full of bottled water and cups with ice for her colleagues.

"You gotta knock on doors and let people know that people are trying."

Security For Sale

Jessica Moreno, Housing Justice Organizer, Action NC, second from right, and her team knock on doors of tenants that rent from corporate landlords to hear their concerns in Charlotte on Saturday April 23, 2022. In the picture are Canvasser Christina Martin del Campo, the canvasser, right, volunteer Azma Shahid, left front, and volunteer Pattache Roper, back left. THE' N. PHAM *tpham@charlottteobserver.com*

ACKNOWLEDGMENTS Security for Sale was reported and written by investigative reporters Payton Guion of The Charlotte Observer and Tyler Dukes of The News & Observer, with significant contributions from Observer growth reporter Gordon Rago. Additional reporting by News & Observer real estate reporter Mary Helen Moore. | Art direction and animation by Sohail Al-Jamea | Illustrations by Rachel Handley | Design, development & interactive maps by David Newcomb | Photos, drone footage and videos by McClatchy visual journalists Jeff Siner, Khadejeh Nikouye, Melissa Rodriquez, Travis Long, Julia Wall, Alex Slitz, Loumay Alesali, The' Pham and Scott Sharpe. | Edited by Cathy Clabby, McClatchy Southeast investigations editor, and Adam Bell, Observer business and arts editor. | A special thanks to the Pulitzer Center, which supported this project with a data journalism grant.

Security for Sale

How corporate landlords used piles of cash to become North Carolina's biggest homeowners.

Cogs in the Machine

Wall Street landlords are finely tuned to make profits. That can squeeze tenants.

READ STORY 1 >

READ STORY 2 >

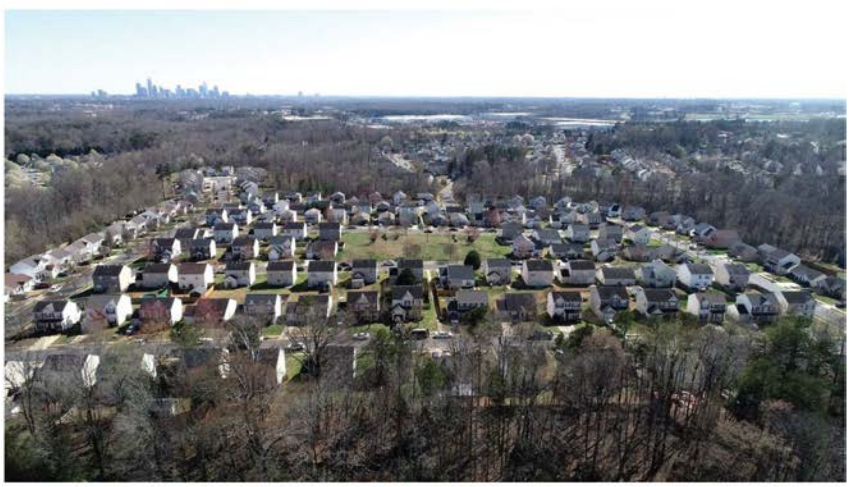
SUBSCRIBER EDITION

NORTH CAROLINA

How to tell if a corporate investor owns the North Carolina rental house you like

BY GORDON RAGO

UPDATED MAY 04, 2022 3:37 AM



Institutional investors have been buying home in the Charlotte region for years, including in subdivisions like this one in the Crandon Drive and Peachwood Drive area. But there are a few ways you can tell if you're renting from one of these large corporate companies. JEFF SINER *jsiner@charlotteobserver.com*

Only have a minute? Listen instead
Powered by Trinity Audio
00:00 1.0x 02:42

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

If you're new to North Carolina, or are just looking for another place to live in the state, the housing market can be daunting to navigate.

If you're planning on renting instead of buying a home, there are a few important things to consider, like the quality of local schools, access to transportation and overall quality of life. Also vital is the condition of the property and who your landlord would be.

Institutional investors have been purchasing homes across the country for years and converting them into rentals.

TOP VIDEOS

"Let's Go Brandon" - Brandon Brundidge

In North Carolina, about 20 corporate landlords now own tens of thousands of single-family properties. In Charlotte, that amounts to one-quarter of all the rental homes in Mecklenburg County.

Here are three tell-tale signs that you're dealing with one of those investors.

ON THE LIST

Let's say you found a rental home in a neighborhood you like. You notice a company's name on the property listing but don't immediately recognize it. It could be one of the big players in the state when it comes to investor-owned homes.

Take a look at our chart below to see if the name pops up there.

CORPORATE CONTROL

Companies like American Homes 4 Rent and Progress Residential have become well-known players in the single-family rental market across the country, but they're not alone. An analysis by The News & Observer and The Charlotte Observer shows about 20 companies own tens of thousands of homes across the state.

Search in table

Page 1 of 3 >

Company name
AMERICAN HOMES 4 RENT
PROGRESS RESIDENTIAL
INVITATION HOMES
AMHERST RESIDENTIAL
FIRSTKEY
TRICON RESIDENTIAL
AVENUE ONE
MY COMMUNITY HOMES
AALTO INVEST UK
BROOKFIELD ASSET MANAGEMENT

Companies with portfolios of less than 100 homes were excluded from the N&O and Observer analysis.

Table: Tyler Dukes, The News & Observer • Source: State OneMap parcel data, N&O/Observer analysis • Get the data

ALPHABET SOUP

Oftentimes, these big companies purchase homes under various LLCs.

While there's a chance companies like Invitation Homes and Tricon Residential will put their company name on an online listing, it's important to be aware of these LLC names.

For example, American Homes 4 Rent owns some homes under the name AMH 2015-2 Borrower LLC. Tricon owns some properties under SFR JV-1 2021-1 Borrower LLC. One LLC used by Invitation Homes is IH6 Property North Carolina LP.

One other tell-tale sign of an investor-owned home? An out-of-state mailing address.

A VIRTUAL PROCESS

If you've ever rented, you probably remember sitting down with a property manager or landlord at some point to go over one of the most important documents: the lease.

You might, for example, meet at the property manager's local office to have them answer any questions and, once it's time, sign the document in person.

It's more likely with investor landlords that you get through the entire renting process and sign a lease without ever meeting anyone in person.

The larger companies rely on technology to allow prospective tenants to view properties on their own and then sign a lease.

Invitation Homes, for example, has a process where people can apply for a rental home, pay the security deposit, sign the lease and make arrangements to move in within two weeks of the application date — all online.

This story was originally published May 1, 2022 6:00 AM.

GORDON RAGO

704-358-5107

Gordon Rago covers growth and development for The Charlotte Observer. He previously was a reporter at The Virginian-Pilot in Norfolk, Virginia and began his journalism career in 2013 at the Shoshone News-Press in Idaho.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

KEEP READING →

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte
UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station
UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say
MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest
UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement
UPDATED MAY 11, 2022 6:01 PM

NORTH CAROLINA

North Carolina man gets 10 months for sex assault on flight

MAY 12, 2022 8:29 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Wounded dump truck driver arrested in road-rage shootout

MAY 12, 2022 8:27 AM

NORTH CAROLINA

Editorial Roundup: North Carolina

MAY 12, 2022 8:26 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 8:26 AM

SPONSORED CONTENT

Find Your Relief for Dry, Sensitive Eyes.

BY ALLERGAN, AN ABBVIE COMPANY

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP →

VIEW NEWSLETTERS →

SUBSCRIPTIONS

Start a Subscription

Customer Service

eEdition

Vacation Hold

Pay Your Bill

LEARN MORE

About Us

Contact Us

Newsletters

Archives

Sports Betting

Personal Finance

ADVERTISING

Information

Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

READ MORE

Security For Sale: Converting NC homes to rentals

EXPAND ALL

The Charlotte Observer The News&Observer

Credit: Rachel Handley

STORY 1 STORY 2 STORY 3

Wall Street landlords are finely tuned to make profits. That can squeeze tenants.

BY PAYTON GUION, TYLER DUKES & GORDON RAGO MAY 2, 2022

The plans had been set for months. Rasheedah Harrison would host the family reunion in her suburban backyard over Labor Day weekend last year.

This story is a subscriber exclusive

She was looking forward to cooking out with relatives on her patio in northwest Charlotte, catching up on time lost to the pandemic, while the kids played in the yard.

But in the weeks leading up to the party, Harrison's rental house, two stories of white vinyl with a small garage, began to object. First the toilet downstairs began backing up. Then upstairs. Harrison and her 11-year-old daughter couldn't flush the toilets, couldn't turn on the faucets. If they did, brown water would ooze out.

So Harrison did what her landlord, Progress Residential, advises when major problems emerge. She submitted a maintenance request. A crew came out and determined something was wrong with the sewer line, but said they needed permission from Progress before doing further repairs.

"That's when everything went straight to hell," Harrison said.

Rasheedah Harrison discusses her ongoing struggle with Progress Residential even after moving out.
BY RASHEEDAH HARRISON CONTINUES TO BATTLE WITH PROGRESS RESIDENTIAL AFTER MOVING OUT

Tainted water began rising in the backyard, she said, as the plumbing problems continued inside the house. Sewage creeped up high enough to ruin her grill, patio furniture and some of her grandkids' toys that were out back of the house, she said. Harrison has pictures showing the mess.

"We were basically living in feces all around us," Harrison said. "You could not go in the backyard.

"They kept giving me the runaround about when someone was going to come back out."

Just as Labor Day was approaching, with a backyard dripping in sewage and no clarity on when it might get resolved, Harrison had to call off the family reunion.

Then she complained to the North Carolina attorney general.

Progress Residential is one of about 20 institutional investors that have bought tens of thousands of single-family homes across North Carolina in the past decade and now rent them out. In Mecklenburg County, these large corporate landlords own one-quarter of all rental houses.

The industry says it has improved the home rental experience, providing safe, affordable houses that were previously inaccessible to renters. But an investigation by The Charlotte Observer and News & Observer found that the business model of these companies is finely tuned to squeeze profit out of their homes, often to the detriment of renters, neighbors or other would-be home buyers.

In the past several years, as institutional investors have continued buying up properties across the state and renting them out, formal and informal tenant complaints have begun to stack up.

Since 2017, the state attorney general and the Real Estate Commission have received at least 80 consumer complaints against large corporate landlords in the state, including Harrison's, according to documents obtained through public records requests.

Of those, 29 complaints were made against American Homes 4 Rent, 23 against Progress Residential, 15 against Invitation Homes, seven against Conrex Property Management and six against FirstKey Homes.

Progress responded to questions for this story by saying that all the attorney general complaints against the company had been closed.

"After Ms. Harrison brought this matter to our attention, we promptly responded to and resolved the maintenance issue, and also offered a credit to Ms. Harrison, which she accepted, to compensate her for the inconvenience," said Kate Thompson, a spokeswoman working with Progress, about Harrison's sewer problems. "This matter has since been closed."

While the complaints document myriad landlord-tenant disputes, a few common problems emerged: busted plumbing, broken heating and air conditioning, the near impossibility of getting in touch with the companies when things went awry at their houses and a reluctance to refund security deposits.

Frustrated Tenants

Luke Martin said he had few problems with the Raleigh four-bedroom he rented from American Homes 4 Rent in the three years he lived there. But when he moved out, the company balked at returning half of his $1,500 security deposit.

He had paid almost $300 to get the carpets professionally cleaned. But the company told him they would dock his deposit for an overgrown tree, untrimmed hedges and a garage door he had already reported as broken.

These and other potential charges were laid out in an American Homes 4 Rent document obtained in a public records request. The document shows a litany of items the company looks to charge tenants for upon move-out. Replacing light bulbs? $30. Worn paint? $10 for each spot that needs a touch-up. Six dollars to replace doorstops; $1.50 to replace a light switch dial.

Wood/metal fencing	Broken slats	Replace fence slat	$15.00	$0.00	
Tree(s)	Sick/dead	Remove a tree	$75.00	$0.00	
Light bulbs	Dead/missing	Replace bulb	$3.00	$3.00	
Solid door surface	Cracked/damaged/dented	Cosmetic issue - no vendor action	$0.00	$0.00	
Switches and cover plates	Dial missing/damaged	Install switch dial	$1.50	$1.50	
Vents	Clogged/dirty	Wipe vent clean	$10.00	$0.00	

In this document provided to the N.C. Attorney General's Office and obtained via a records request, American Homes 4 Rent lays out a list of charges that would have prevented Luke Martin from getting his security deposit back.

When he complained to the attorney general, the company quickly relented, calling it a "mix-up," Martin said. He got the sense that the company expected him not to fight back, especially when he was juggling so much during a move elsewhere.

In a response to Martin's complaint to the attorney general, American Homes 4 Rent acknowledged that the garage charge was a mistake. The company also said it takes care to properly charge tenants when they move out.

"Great efforts are made during the move-out inspection process to ensure that charges assessed as move-out damages are for damages that did not pre-exist the tenancy of that particular tenant," wrote Raya Swift, an attorney for the company. "Upon review, the property management team determined that the garage door charge was erroneously charged back to Resident, and therefore it was included in the reversal and refund provided to the Resident. The additional disputed charges were reversed as a matter of caution."

A similar thing happened to Joe Marino in January 2021 when he and his wife moved out of the Charlotte house off South Boulevard they rented from Invitation Homes. They'd reported plumbing problems to the attorney general's consumer protection office after going more than six days without a working shower around Christmas 2020 with no remedy from their landlord.

Soured on Invitation Homes, they decided to move.

"We were like, 'We can't do it anymore,'" Marino said. There were issues from the beginning, he said. He and his wife had to clean the floors when they moved in, for one. But before leaving they tended to all they were responsible for, expecting to get their security deposit back after they left.

"We did the whole thing, we cleaned the whole house. We replaced the blinds," he said.

But Invitation Homes billed them for multiple charges. One was a carpet-cleaning fee, which was both surprising and insulting, Marino said. The house did not have any carpet, he said.

"This doesn't even make sense, why did you charge us?" he said, recalling his conversations with the landlord. "We had to fight. We said, 'You guys kinda screwed us.'

"They really did do the bare minimum."

An aerial view of the Barrington Village subdivision southeast of downtown Raleigh. Single-family properties are especially lucrative for investment companies that buy such homes, rent them out and turn them into profit generators. Travis Long *tlong@newsobserver.com*

These stories and dozens of others in complaints filed with the attorney general or spelled out in interviews with tenants are more than just examples of poor customer service from corporate landlords. They fit with a profit-making strategy, according to those who study this industry.

“In addition to increasing rents, (corporate landlords) are increasing profits by creating new fees and ancillary services charged in addition to monthly rent payments,” Desiree Fields, a professor at the University of California, Berkeley, who has studied the industry since 2013, said in testimony before the Senate Banking Committee last year.

“Invitation Homes and American Homes 4 Rent are particularly vocal about the use of extraneous fees to increase total revenue.”

Delaying or neglecting maintenance and nickel-and-diming tenants isn’t a bug of the business model, it’s a feature. And you can read about it in their financial documents.

While companies like Progress and FirstKey are privately held, both Invitation Homes and American Homes 4 Rent are publicly traded. In SEC filings and communications with shareholders, the publicly traded companies stress the importance of growing revenues from tenants unrelated to rents, mainly through fees and fines.

Corporate landlords charge fees for all sorts of things, including smart locks, pets — both a one-time fee and monthly pet rent — utilities, maintenance, late fees and paying rent online, based on financial filings, corporate documents, academic research and interviews with tenants. As mentioned above, landlords also often try to hold onto as much of a tenant’s security deposit as possible.

These efforts have resulted in fee revenue vastly outpacing rental growth and the increase in the number of homes owned, according to financial documents.

From 2019 to 2021, the number of houses owned by American Homes 4 Rent nationwide increased about 8.5%, from 52,552 to 57,024. Over the same period, rental revenue was up 16.4%. Fee revenue jumped 63.8%, according to the company's SEC filings.

In its 2021 annual report, the company acknowledged charging tenants higher fees to boost revenue. Often, the companies use terms like "other income" or "ancillary revenue" to talk about money they're charging tenants outside of rent.

"We're really pleased you've seen some really nice increases in contribution from other income this year," Bryan Smith, chief operating officer of American Homes 4 Rent, said on an earnings call last year. "We put a pet program in place as one example, and we're continuing to roll that out through the program. I think if you look at it from a long-term perspective, we're very excited about the opportunities we're going to have for ancillary revenue on the communities."

Corporate landlords have bought 25,000 homes in the Charlotte area in the last 10 years, many of them in neighborhoods like this one in northwest Charlotte. Khadejeh Nikouyeh *Knikouyeh@charlotteobserver.com*

David Howard, executive director of the National Rental Home Council, the trade group representing many of the biggest corporate landlords, said fees are often charged for extras provided by landlords.

"Maybe the fees are for services, again, that optionally offered to the residents to make living there easier," he said.

Another way experts say the corporate landlords reduce costs and save money is by passing maintenance responsibilities to their tenants.

"They end up displacing a lot of costs of maintenance onto tenants," Fields said in an interview with the Observer.

Reporters obtained a 2020 lease from Invitation Homes for a house in Charlotte that helps tell that story.

The contract says Invitation Homes would be responsible for anything deemed a "major repair," including repairs to heating or air conditioning systems, roofing, mechanical, electrical and defective plumbing systems. According to the lease, all other maintenance and repairs are the responsibility of the tenant.

Compare that with the language in lease agreements used by T.R. Lawing Realty Inc., one of the biggest local Charlotte landlords.

In that document, which is almost identical to the standard lease recommended by the North Carolina Association of Realtors, the tenant is responsible only for repairs caused by "the resident's or his guests' deliberate or negligent misuse or improper operation" of appliances or systems.

In Invitation Homes' most recent annual report, total operating expenses jumped about 3.8%, up to $706.2 million in 2021 from $680.5 million in 2020. Invitation notes that the increased expenses are due to owning more homes, higher property taxes and increased utility costs. But the company offset those costs by decreasing repair and maintenance expenses, the filing states.

American Homes 4 Rent did not respond directly to questions about charging fees and fines to tenants, or about the complaints to the state attorney general. Instead, the company issued a blanket statement saying it's focused on "growing our footprint in the greater Charlotte area by building homes for the modern lifestyle and offering residents an excellent experience to expand the region's supply of high-quality housing."

Invitation also issued a statement.

"We offer multiple channels through which residents can communicate with our team regarding the status of their home, lease, or other issues that may arise," said Kristi DesJarlais, Invitation spokeswoman. "We respond as quickly as we can to residents' requests and work diligently to address issues in a timely and efficient manner. Invitation Homes is aware of the complaints filed in North Carolina and has worked with residents to resolve each of them."

'Throwing away money'

Some steps taken by institutional investors to save money appeal to potential renters, at least at first.

When Crystal Howard and her husband were looking for a new place in Raleigh in 2019, they didn't have a lot of time to tour rentals during work hours. He worked a day job, and she was busy wrangling the schedules of their three young children.

Crystal Howard stands outside the home she and her husband rent from Progress Residential on Cane Garden Drive in Raleigh. The company is one of a handful of about 20 firms that have bought up tens of thousands of homes across the state. Julia Wall *jwall@newsobserver.com*

That's what made Progress Residential so attractive.

At night, with her husband off work and the kids fast asleep at her parents' house in Henderson, they could go rental shopping in Raleigh. After texting a few details about themselves to the rental company, they got remote access to available properties on their own time.

"We didn't need to meet with people," Howard said. "We could see as many houses as we wanted."

But three years later, that hands-off approach has become problematic.

Howard has had trouble getting the company to respond quickly to repair requests at their rental on Cane Garden Drive in southeast Raleigh. After an initial call about a broken air conditioner, she said the company told her a fix would take weeks. When she stressed it was summer and she had an infant at home, a technician got it working the same day.

At her home in April, she told reporters she waited months for the company to fix her damaged mailbox and the garage door that wouldn't open.

"At first it was okay. It was fine," Howard said. "But now, I'm not gonna lie to you: I hate them. I hate them with a passion."

And while repairs take so long, the company is quicker to pick up the phone when the rent is late.

"You could be one day past the grace period and they'll add all types of crazy fees on top of that — which I get. They gotta get their money," Howard said. "But if you're gonna do that, they need to be just as diligent when I need you to come put my mailbox door back on because my mail is getting wet in the rain."

Progress finally fixed both issues — after multiple calls and requests through the company's maintenance website — in mid-April, telling Howard they didn't have records of her repair requests.

Although the couple just signed a new two-year lease to lock their rent in at about $1,800 a month plus fees, Howard said she's ready for a change.

They're planning to buy if they can save enough and find a house they can afford.

"You're throwing away money," Howard said. "I mean, we could be paying half of this for the mortgage."

Not all tenants living in institutionally owned homes share these complaints.

Just around the corner from Crystal Howard, Progress tenant Donnella Williams said she's also looking to buy. New construction is the goal — her "forever home."

In the meantime, she's been pretty happy with Progress. She found her 1,800-square-foot rental online when she sold her townhome in late 2019. The company has been quick to answer maintenance requests, although she noted the house, built in 2014, hasn't needed any major repairs.

The rent has gone up, from $1,515 when she first moved in to $1,740 now. And she expects it will go up again when it's time to renew.

"The plan is definitely to go back into homeownership," Williams said. "A $1,740 mortgage would give me more than I have now."

Rising Rents

Williams' concern about the cost of rent in corporate-owned houses is shared by tenants across North Carolina and in other markets where these companies are active nationwide.

Data shows that rental prices continue rising in Charlotte. In January, rental rates of single-family homes in Charlotte were up 11.5% from the year before, increasing to a median rent of $1,716 per month, according to CoreLogic. Apartment rents are on a similar trajectory in Charlotte, also jumping 11.5% in January from the year before on average, according to Redfin.

That median single-family rent figure is well above the median rents reported to the Census Bureau, which says 2020 median rent for all housing types in Charlotte and Raleigh is $1,185 and $1,175, respectively.

The National Rental Home Council, a trade group that represents many of the largest institutional landlords, says one of the main goals of the industry is to keep housing affordable. But a recent analysis by Observer and N&O reporters of homes listed for rent by some of the largest landlords suggests they aren't offering housing that's affordable to North Carolina renters.

On April 28, five corporate landlords — American Homes 4 Rent, Invitation Homes, Progress Residential, Main Street Renewal and Tricon Residential — were listing 1,983 homes for rent in North Carolina, primarily in the Charlotte and Raleigh areas.

But of the 1,983 homes for rent from the institutional investors, only 33 houses were listed for less than $1,500, less than 2% of the total. More than one-third of available homes were listed for more than $2,000 per month.

The established definition of "rent burdened" is spending more than 30% of gross income on housing. With a median income in Charlotte of $65,359, according to the census, the median household would need to pay less than $1,634 per month to not be burdened by housing costs. Between five of the largest single-family landlords in the country, only 16 Charlotte homes were available at less than that amount.

David Howard, of the National Rental Home Council, maintains that his members are providing homes for affordable prices, considering they're offering something apartments can't.

"You have the ability to have a yard, a garage, a third bedroom, maybe a home office — that's very appealing for a lot of people," Howard said.

Elora Raymond, a Georgia Tech professor who has studied the impact of institutional investors in Atlanta, said the scale of the industry has had a negative impact on housing across the board.

"They haven't created affordable housing," she said. "These guys are trying to make as much profit as they can. If they didn't do that... if they didn't ignore maintenance. Then they'd be good landlords."

Rasheedah Harrison at her new hom[redacted]ously rented a home from Progress Residential, and filed a complaint with the NC attorney general over problems she said she had with the company. Alex Slitz *alslitz@charlotteobserver.com*

Time to move on

The sewer problems made the inside of Rasheedah Harrison's house damp. She started noticing some type of growth on the walls. Fearing mold, she reached out to Progress.

The company advised her to pay for mold testing, Harrison said. There went $600 more out of her pocketbook.

The test didn't reveal mold, but the person who came out noted "extreme moisture" in the home. But because there was no mold detected, Progress wouldn't pay Harrison back for the test, she said.

Progress said it had taken care of the problems and closed the case.

Harrison's 11-year-old daughter has asthma, which was aggravated by the moisture in the home. There were certain parts of the house her daughter couldn't stay in for very long. And she was breaking out in rashes, which made Harrison skeptical of the testing she had paid for.

"I think there's mold in this house," she said in a December interview. "I just haven't called again because I don't have $600 to $700 to spend again."

Harrison decided she had to get her daughter out of the house. Even though her lease, $1,660 a month for the four-bedroom house, didn't end until May, she moved out in late March.

Harrison and her daughter now live in a brand new house in the Robinson Park neighborhood of Charlotte. Instead of an institutional investor, Harrison's name is on the deed.

As for her previous house? It's listed on Progress' website for $1,955 per month, almost $300 more than Harrison was paying.

The Pulitzer Center contributed to this project by awarding The Charlotte Observer and The News & Observer a data journalism grant.

Security for Sale

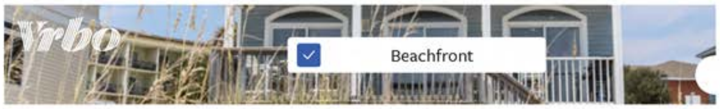
How corporate landlords used piles of cash to become North Carolina's biggest homeowners.

READ STORY 1 >

Greasing the Gears

As corporate landlords rise in Charlotte, officials are watching, not acting — for now.

READ STORY 3 >



SUBSCRIBER EDITION

NORTH CAROLINA

Here are some important things to know about your tenant rights in North Carolina

BY GORDON RAGO

UPDATED MAY 04, 2022 3:37 AM

North Carolina tenant and landlord laws provide certain protections and responsibilities for both parties. Canvassers with Action NC, pictured here, have gone around Charlotte to inform people who rent from corporate landlords about their rights. THE' N. PHAM *tpham@charlottteobserver.com*

Only have a minute? Listen instead
Powered by **Trinity Audio**
00:00 05:25 1.0x

READ MORE

Security For Sale: Converting NC homes to rentals

Institutional investors have bought at least 40,000 single-family homes across North Carolina in the past decade and now rent them out. The industry — primed for continued growth — says it improved the rental experience, providing safe, affordable houses that were previously inaccessible to renters. But owning a house traditionally offered financial security for most American families. And our investigation finds the business model of these companies is finely tuned to squeeze profit from the homes, often to the detriment of renters, neighbors or other would-be buyers.

EXPAND ALL

The new lease is signed. The keys are in your hands and you're ready to get the boxes unpacked.

While the stress of the move may be behind you, it's important to understand your rights as a tenant. That's especially true if you're new to North Carolina.

We have a breakdown of some important rights and responsibilities.

TOP VIDEOS

"Let's Go Brandon" -
Brandon Brundidge

In North Carolina, corporate investors like Invitation Homes and Tricon Residential have been purchasing thousands of homes and converting them into rentals. These rights apply to someone renting an apartment or a single-family home, regardless of who the landlord is.

THE BASIC RIGHTS

North Carolina's landlord and tenant laws are found in Chapter 42 of the state statute. The law requires landlords to provide "fit and habitable" conditions. This generally means the home must be safe and have adequate heat, water and plumbing, according to Legal Aid of North Carolina.

The landlord also must comply with applicable building and housing codes, make repairs, keep the building and common areas safe, and maintain things like electricity, ventilation and smoke alarms.

Tenants have to pay rent on time and in full, while also keeping the property clean and preventing damage. If any repairs are needed, the tenant must report them to the landlord immediately, preferably in writing.

Some responsibilities are mutual, according to Legal Aid. A tenant cannot refuse to pay rent because a landlord doesn't make repairs. The landlord, meanwhile, cannot refuse to make repairs because the tenant does not pay rent.

FOLLOW THE COURTS FOR EVICTIONS

In North Carolina, landlords must follow a court eviction process, said Bill Rowe, general counsel for the North Carolina Justice Center. Essentially, this means landlords can't take the eviction process into their own hands like using intimidation or other actions like cutting off utilities to get somebody to move out.

"If you want somebody removed from the property, you have to go through the court process," Rowe said.

If followed, this eviction process can happen quickly for tenants.

Most evictions happen from nonpayment of rent. A landlord can file a complaint in court and get a hearing in three days, Rowe said. Both the landlord and tenant have 10 days to appeal a magistrate judge's decision — a landlord can't remove the tenant from the home until the appeal period has ended, whether or not the tenant appeals the case.

After the 10-day period, a landlord can seek a "writ of possession," allowing the sheriff's office to padlock the home. The sheriff's office must then remove the tenant within five days.

NO RETALIATION EVICTIONS

North Carolina law protects tenants from retaliatory evictions. Landlords cannot evict as retribution for calling code enforcement, asking for repairs or organizing with other tenants.

LIMIT ON SECURITY DEPOSIT

If you've rented before, you probably know all about a security deposit. North Carolina law sets a limit on the amount a landlord can charge for one.

The law states that deposit limits are based on the term of the lease. If a tenant is month-to-month, the security deposit can't exceed 1 1/2 months' rent. Terms greater than month-to-month can't exceed two months' rent.

WHAT ELSE SHOULD YOU KNOW?

There are some rights and protections not baked into North Carolina law compared to other states:

- There is no rent control in North Carolina, Rowe said. That means there are no restrictions on a landlord's ability to increase rent prices.
- Tenants cannot unilaterally withhold rent without a judicial determination, according to Rowe. What this means is that tenants typically have to keep paying rent when a landlord isn't responding or making a repair. You generally will have to go to court to get that straightened out.
- Be aware of the term "hold overs." If you have a lease that runs year to year, a landlord can choose to terminate the lease at the end of the term if they give the tenant a one-month notice, according to the state statute. If the lease is month to month, only a seven-day notice to terminate is needed. No reason for lease termination is required in North Carolina, Rowe said. In these cases, tenants can be evicted if they remain in the property after the landlord has ended the lease. Some states have taken that ability to evict away from the landlord, Rowe said, meaning in most cases you need cause to remove someone.

HELPFUL RESOURCES FOR RENTERS

Legal Aid of North Carolina has a Charlotte office. The housing hotline is 704-594-8662, extension number 4. The Raleigh office number is 919-856-2564. The Durham office can be reached at 919-688-6396.

If you are looking to report code violations in Charlotte, you can call 311 or 704-336-7600. Tenants who believe minimum housing code violations exist should call 311. More information can be found on the city of Charlotte's website.

In Raleigh, a code enforcement request form can be found online. Or call 919-996-2444 to report any suspected code violation.

Complaints can also be filed with the North Carolina Attorney General's office. A general consumer complaint form is the best place to start. The form can be found online.

This story was originally published May 2, 2022 6:00 AM.

GORDON RAGO

704-358-5107

Gordon Rago covers growth and development for The Charlotte Observer. He previously was a reporter at The Virginian-Pilot in Norfolk, Virginia and began his journalism career in 2013 at the Shoshone News-Press in Idaho.

READ NEXT

THAT'S RACIN'

NASCAR driver saves Doc the elk, who was causing a ruckus at Grandfather Mountain

BY JOE MARUSAK

MAY 12, 2022 5:30 AM

Doc was the dominant of three elks at the park run by the Grandfather Mountain Stewardship Foundation.

TRENDING STORIES

CMS school bus in head-on crash with 2 other vehicles, injuring 17 in south Charlotte

UPDATED MAY 11, 2022 5:57 PM

Bob & Sheri reflect on first year at K 104.7 — and what they think of their old station

UPDATED MAY 11, 2022 7:22 AM

Driver going 110 mph as girlfriend breastfed baby said he needed restroom, TN cops say

MAY 11, 2022 3:41 PM

Major Atrium Health deal will double size of hospital system, as it expands to Midwest

UPDATED MAY 11, 2022 4:10 PM

As Duke investigates possibly plagiarized grad speech, the speaker issues a statement

UPDATED MAY 11, 2022 6:01 PM

KEEP READING ➔

NORTH CAROLINA

Officials: 17 hurt in crash involving school bus, dump truck

MAY 12, 2022 9:36 AM

NEWS

North Carolina sees increase in child homicides, suicides

MAY 12, 2022 9:38 AM

NORTH CAROLINA

Report says dump truck driver shot in road-rage incident

MAY 12, 2022 9:38 AM

NORTH CAROLINA

Man shot, killed while entering North Carolina store

MAY 12, 2022 9:35 AM

NORTH CAROLINA

NC governor reveals what he wants to do with $6.2B surplus

MAY 12, 2022 9:40 AM

SPONSORED CONTENT

Pocket $200 After Spending $1,000

BY WISE BREAD

Take Us With You

Real-time updates and all local stories you want right in the palm of your hand.

CHARLOTTE OBSERVER APP ➔

VIEW NEWSLETTERS →

SUBSCRIPTIONS
Start a Subscription
Customer Service
eEdition
Vacation Hold
Pay Your Bill

LEARN MORE
About Us
Contact Us
Newsletters
Archives
Sports Betting
Personal Finance

ADVERTISING
Information
Place a Classified

COPYRIGHT

PRIVACY POLICY

TERMS OF SERVICE

The Washington Post
Democracy Dies in Darkness

Federal watchdog opens 'review' of Tex. use of covid aid on border crackdown

The inquiry from the inspector general of the Treasury Department comes after Texas shifted roughly $1 billion to help pay for Operation Lone Star

By Tony Romm
May 9, 2022 | Updated May 10, 2022 at 5:07 p.m. EDT

A U.S. government watchdog is probing whether Texas misspent federal coronavirus aid, after Gov. Greg Abbott (R) and top state officials shifted roughly $1 billion in relief funds to help defray the costs of their crackdown on the U.S.-Mexico border.

The inquiry comes as Texas engaged in budgetary maneuvers to facilitate its campaign to arrest more migrants, known as Operation Lone Star. Essentially, state leaders rerouted public health and safety funds to their border operations, while relying on federal pandemic funds to replace some of the money, according to a Washington Post analysis of spending records.

On Tuesday, the inspector general for the Treasury Department said officials had opened a "review" into the way Texas has handled its federal allocation broadly. The aid was supposed to help local governments pay their front-line workers, purchase protective equipment and offset other public health costs.

Richard K. Delmar, the deputy inspector general, cited in a statement his office's mandate "for monitoring and oversight of the distribution" of the stimulus spending, which Texas received under a federal initiative known as the Coronavirus Relief Fund. He added that his agency — in cases of "unauthorized uses" — can also "direct recoupment of the money."

"In exercise of that responsibility," Delmar said, "we are currently conducting a review of Texas's uses of CRF monies."

Renae Eze, a spokeswoman for Abbott, defended how Texas had deployed its funds under the Cares Act.

"Here in Texas, we have worked with the legislature to allocate federal funds in a manner that adheres to federal guidance," she said in a statement Tuesday. "Rather than attacking Texas for responding to their border disaster that they have created and escalated in the last year, President Biden and Democrats in Congress need to stop playing politics and do their jobs to secure our border."

The new federal scrutiny highlights the steep task facing Washington as it struggles to keep close watch over the roughly $6 trillion in stimulus funds Congress has approved since the start of the pandemic. That includes about $500 billion in direct fiscal aid to cities, counties and states, a tranche of funds across two programs that carries few restrictions on how, exactly, it can be put to use.

In some cases, the flexibility has opened the door for states to pursue a host of seemingly wasteful pet projects, including refurbishing prisons and constructing new golf courses. One state, Arizona, even used the money to discourage schools from requiring students to wear masks, prompting the Treasury Department to threaten to claw back the aid.

The spending has taken on added significance as the Biden administration sounds new alarms about the need for billions of dollars in additional coronavirus aid. Congress has struggled for months to adopt even half as much as the White House initially requested, leaving some to fear that federal inaction — and poor spending decisions in the states — will leave the country unprepared if the pandemic worsens again.

"Without timely COVID funding, more Americans will die needlessly," Biden warned in a statement Monday as Congress returned to work. The president requested lawmakers adopt the money "in the next few days," separately from another spending package meant to deliver aid to Ukraine, which Congress aims to adopt this week.

The Texas controversy concerns federal dollars already in the state's possession. None of the aid it received under the Cares Act directly appears to have been used on Abbott's campaign to find, detain and deport migrants. But the governor's top advisers did appear to harness support from Washington to help rearrange their budget, funding their immigration program without cutting even deeper into their own cash reserves.

In January, for example, Texas leaders transferred roughly $480 million from key local agencies to funds that help the state administer Operation Lone Star, according to records reviewed by The Post. The "swaps," as state officials termed it, did not affect those agencies because they had been backfilled with Cares Act money.

In April, Texas then transferred another $495 million from state public safety and health agencies, largely "to support the deployment of the National Guard," as Abbott described it in a letter at the time. Budget experts who advise the Texas legislature later confirmed Abbott's office had additional funds "available to it through the Cares Act" that it "gave to the agencies for public safety and public health employee salaries."

The budget moves troubled Democratic lawmakers who represent Texas in Congress. On Monday, a group of nine led by Reps. Joaquin Castro and Veronica Escobar asked the Treasury Department to "review" the matter to determine if Abbott "is diverting pandemic relief funds to provide the additional support for Operation Lone Star."

"Texas has struggled immensely during the pandemic, and these funds are critical to help our state recover from the devastation of the past two years," the Democratic lawmakers wrote. "Governor Abbott must not be allowed to use federal coronavirus relief funds to further his political theater at the expense of Texas families."

The lawmakers added that their concerns also extend to the way Texas has committed roughly $16 billion awarded as part of the American Rescue Plan approved last year — aid they fear might also be "misappropriated to support the failed Operation Lone Star program."

"It is negligent and irresponsible for Governor Abbot to direct additional funding to Operation Lone Star, especially if the funding in question was intended to help Texans rebuild from the pandemic," the Democrats said.

Joining Castro and Escobar in signing the letter were fellow Texas Reps. Lloyd Doggett, Colin Allred, Sheila Jackson Lee, Al Green, Marc Veasey, Sylvia Garcia and Lizzie Fletcher.

Eze, the spokeswoman for Abbott, on Tuesday faulted Democrats in response for pursuing "reckless open border policies."

"If President Biden and Democrats spent half as much energy fighting to secure our nation's borders as they do fighting leaders like Governor Abbott who are trying to stem the historic flow of illegal immigrants, human trafficking, cartel profiteering, and enough fentanyl to kill every American, we might be able to end the humanitarian crisis of their own making," she said in a statement.

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Thursday, May 12, 2022

Responses from Secretary of the Treasury Janet Yellen

Rep. Josh Gottheimer (D-NJ)

1. Thank you Chairwoman Waters, and thank you Secretary Yellen for speaking to the Committee today. In your comments Tuesday, you discussed the recent volatility of the algorithmic stablecoin, Terra. I've spoken before on how I see a potential run on a stablecoin as a major concern facing the growing cryptocurrency economy, and potentially a systemic issue for the U.S. financial system in the future. Terra's performance over the last week has only reinforced my concerns.

   My draft legislation, the Stablecoin Innovation and Protection Act, would establish a definition and requirements for "qualified stablecoins." In the bill, "qualified stablecoins" are defined as cryptocurrencies redeemable 1 to 1 for U.S. dollars. This legislation would reduce financial instability in markets, protect consumers, and support innovation in American fintech. The volatility we are seeing with Terra is having real consequences for real Americans, when are we going to see some action from our federal agencies on stablecoins? Who do you believe should step in here - SEC, CFTC, the Treasury, the Fed?

   And do you think the approach in my bill, to create a qualified status for certain stablecoins, will be effective to protect consumers and promote innovation?

   - **Answer: Recent events underscore the need for comprehensive regulation and the profound consequences that runs can have for consumers. The PWG report recommended to the President that Congress enact legislation to ensure that stablecoins and stablecoin arrangements are subject to a federal prudential framework on a consistent and comprehensive basis.**

     While Congress considers how to address risks associated with stablecoin arrangements, regulatory agencies will continue to use their existing authorities to address these risks to the extent possible. As discussed in the PWG report, the federal financial agencies are committed to taking action to address risks within each agency's jurisdiction and to continued coordination and collaboration on issues of common interest.

2. In April, the White House said it is considering lowering tariffs on some non-strategic foreign goods. Some of these tariffs are clearly important, so that we can protect critical goods from Chinese dumping or undercutting. Those vital products, like semiconductors, hospital supplies and pharmaceutical components, must have protection, so that we can manufacture them in the United States and not be at the mercy of China or other nefarious actors when something like COVID strikes again. I think a review of these

tariffs has the potential to lower the cost of everyday items for Americans. As you know, the tariff exclusion application process was closed prior to the onset of the pandemic, and a lot has changed since then in our supply chains and overall economic situation. What is the status of the Administration's tariff review, and has there been any discussion about reopening applications or expanding the exclusion process for non-strategic products and components?

- **Answer: The Administration is reviewing the China section 301 tariffs and, subject to applicable legal requirements, is looking to reconfigure them in a way that would be more strategic. This includes considerations such as securing the resilience of our supply chains, sustaining our technological edge, and advancing our national security interests. The Office of the U.S. Trade Representative (USTR) manages exclusions and review processes, and we would refer to USTR for any additional details.**

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Rep. Nikema Williams (D-GA)

For years, we've heard that getting a college education is the key to unlocking the American Dream. Unfortunately, millions of people working for this American Dream have found themselves in a uniquely American nightmare.

Too many recent graduates have had to choose between paying off their massive student debt and doing things like buying a home or starting a family.

Too many parents like me have had to choose between paying off our persistent student debt and saving money to send our own kids to college.

And too many seniors still haven't paid off their student debt decades after attending college. They have had to choose between essentials and paying off their continued debt. And y'all, if they can't pay, they have even had the money taken out of their Social Security checks. It shouldn't be this way.

Let's face it. This is an economic shock waiting to happen. When times are hard, 47 million households must cut back on spending to make their student loan payments, stifling the growth and resiliency of our economy.

1. Secretary Yellen, how has the Biden Administration's pause on federal student loan payments mitigated household cutbacks during the pandemic and reduced the risk of further economic downturn?

    - **Answer: Despite the substantial job losses and reduction in economic activity during the pandemic, a robust fiscal response ensured that household income was stabilized. The pause on student loan repayments was part of that and likely contributed to reductions in poverty and financial stress over the course of the pandemic. By keeping household finances strong through the pandemic, we saw the strongest growth in 40 years in 2021 and a record decline in the unemployment rate.**

While the pause on federal student loan payments has been a lifeline for so many struggling borrowers and also a tool of economic stability, we need permanent relief. Even after the pandemic, households across our nation will continue to shoulder nearly $1.75 trillion in student debt.

2. Secretary Yellen, how would canceling student debt help reduce the risk of economic shocks and improve broader economic stability?

    - **Answer: A reduction in student loan debt would clearly benefit some households that struggle with the burden of high student debt. The Administration is currently considering various options for reducing student**

debt, and we look forward to working with Congress to take further actions in the future to address the high cost of higher education.

During the pandemic, federal student loan borrowers have been able to pause their payments and do so without hurting their credit score. Private student loan borrowers can't say the same.

That's why Congresswoman Adams and I teamed up earlier this Congress to pass an amendment that would remove credit penalties for private student loan borrowers who missed payments during the pandemic.

3. Secretary Yellen, what are the challenges in providing more equitable relief to private student loan borrowers? What would be the impact of more equitable relief on economic stability?

    - **Answer: Borrowers with private student loans have been disadvantaged relative to borrowers with public loans. We would be happy to work with your staff to examine the economic impacts of the legislation you propose.**

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Rep. Bill Posey (R-FL)

1. Secretary Yellen, I know that you're aware that U.S. multi-national corporations are voicing concern about the rule on Foreign Tax Credits that Treasury finalized late last year. Ten House members voiced concerns to you in a letter at the end of last month. What started as a rulemaking to deal with unilateral digital services taxes have imposed changes that eliminated income and withholding taxes that have been creditable for decades as a foreign tax credit. These changes are threatening U.S. competitiveness. These firms need relief. Are you willing to withdraw this rule and start over or at least delay the effective date until next year so your Department can make the fixes that are needed?"

    - **Answer: The regulations proposed by the prior Administration included rules of general applicability that allowed a credit to foreign taxes paid on income that the foreign jurisdiction has the primary right to tax, as determined under objective standards. The final regulations released in December 2021 took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process. Since the final regulations were released, my staff has engaged with numerous stakeholders and is considering whether any further changes or clarifications would be warranted. In the meantime, the final regulations protect the interests of the United States and allow a credit only when the foreign jurisdiction has the primary right to tax the underlying income.**

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Rep. Roger Williams (R-TX)

1. Secretary Yellen, I want to follow up on an issue I raised with you during last week's hearing regarding an issue related to foreign tax credit regulations finalized by the Treasury Department late last year. The way I understand it, this process began with the previous administration's proposed rule designed to help ensure foreign countries weren't unfairly targeting and taxing U.S. based digital service companies doing business overseas. The Biden administration then took this proposed rule and made significant changes and additions to it that undid fifty years of foreign tax credit precedent without soliciting any additional comments from the general public. This seems like an arbitrary and capricious violation of the Administrative Procedures Act and has a high likelihood of being struck down by any potential legal challenge.

   Secretary Yellen, are you worried about these new FTC Regulations being struck down because of the material changes your Department made to them without soliciting the appropriate public comment that is required by law? Further, on a policy front, aren't you concerned that your new rule would disadvantage U.S.-based companies and potentially cost thousands of American jobs that support these businesses?

   - **Answer: The regulations proposed by the prior Administration included rules of general applicability that applied to all foreign taxes and allowed a credit only when the foreign jurisdiction has the primary right to tax the underlying income, as determined under objective standards. The final regulations took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process. The IRS also conducted a public hearing on the proposed regulations, and the preamble to the final regulations include reasoned responses to significant comments. The final regulations are critical to protecting the interests of the United States and allow a credit only when the foreign jurisdiction has the primary right to tax the underlying income. Since the regulations were issued, my staff has engaged with numerous stakeholders and is considering whether any further changes or clarifications would be warranted.**

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Rep. Trey Hollingsworth (R-IN)

Secretary Yellen, last month, I wrote you a letter outlining our concerns about Tether stablecoin and their lack of transparency and potential to harm the soundness of our financial system. I appreciate you sending me a response but there are several outstanding questions I raised in the letter that were not addressed.

As highlighted in our letter, Tether claims on its website that it is "pegged 1:1 with a matching fiat currency" and we're strongly concerned that Tether's investors believe their coins are secured 1:1 with cash reserves that can be redeemed immediately. That is clearly not the case, as only 12.4% Tether's reserves are in cash, 52% are in commercial paper, and 16% are in cryptocurrencies, loans, bonds, and precious metals. These assets are not easily liquidated and could present a real problem for investors should there be a significant number of redemptions at once.

This issue is particularly pertinent given that last week, Terra stablecoin dropped below $1. The drop from Terra caused traders to panic and sell, which is exactly what we think will happen next with Tether. Terra was the third largest stablecoin with more than $18B invested. Tether, on the other hand, is the number one stablecoin with over $83B invested. We think Tether is a house of cards and poses a huge threat to consumer protection and confidence in our financial system.

1. What are the implications for consumers if a major stablecoin like Tether goes below $1 as we saw this week with Terra?

   - **Answer: Recent events underscore the need for comprehensive regulation and the profound consequences that runs can have for consumers.**

     The mere prospect of a stablecoin not performing as expected – including an inability to maintain a 1:1 peg – could result in a run on that stablecoin, a self-reinforcing cycle of redemptions and fire sales of reserve assets. This dynamic results in losses to the holders of the stablecoin.

     Fire sales of reserve assets also could potentially disrupt critical funding markets, depending on the type and volume of reserve assets involved. Runs could spread contagiously from one stablecoin to another, or to other types of financial institutions that are believed to have a similar risk profile. Risks to the broader financial system could rapidly increase as well, especially in the absence of prudential standards. The internal dynamics of a stablecoin run, as well as the potential implications of such a run for the financial system and broader economy, would likely depend on the volume and liquidity characteristics of reserve assets. Some stablecoin arrangements are already quite sizeable, and many stablecoins are growing.

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

---

2. As the chair of the FSOC overseeing our federal financial regulators, what specially can be done to address the threat caused by Tether?

    - **Answer: Last year, the President's Working Group on Financial Markets, along with the FDIC and OCC, published a report on stablecoins. The report made recommendations to address key prudential risks – specifically, the risk of stablecoin runs, payment system risks, and risks related to concentration of economic power. The main recommendation in the report for the President is for Congress to enact legislation to ensure that stablecoins and stablecoin arrangements are subject to a federal prudential framework on a consistent and comprehensive basis. The report states that, in the immediate term, the federal financial regulators will consider how their existing authorities can be used to address stablecoin risks. It also states that, in the absence of legislation, FSOC should consider how its authorities, including the authority to designate systemically important payment, clearing, and settlement activities, could be used in the context of stablecoins. The Council is prepared to consider steps available to it to address the risks outlined in the PWG report in the event comprehensive legislation is not enacted. Legislation is the most effective way to address the risks identified in the report.**

      President Biden signed an Executive Order on Ensuring Responsible Development of Digital Assets, which calls for several reports, including one from the Council outlining the financial stability risks and regulatory gaps posed by various types of digital assets and providing recommendations to address such risks. We look forward to conducting this important work.

3. What can Congress do about this?

    - **Answer: As noted above, last year the President's Working Group on Financial Markets, along with the FDIC and OCC, published a report on stablecoins. The report for the President recommended that Congress take action to address the risks associated with stablecoins, including to protect consumers and the financial system from risks of runs, by enacting legislation to ensure that stablecoins and stablecoin arrangements are subject to a federal prudential framework on a consistent and comprehensive basis.**

U.S. House of Representatives
Committee on Financial Services
Hearing on "The Annual Report of the Financial Stability Oversight Council"

Rep. William Timmons (R-SC)

1. In December of last year, your Department finalized an update of Foreign Tax Credit Regulations (FTC Regs). Ostensibly, the purpose of these regulatory changes was to ensure that any novel Digital Services Taxes (DST) imposed on U.S. tech companies by foreign countries are not creditable in the U.S. While this goal is laudable, the final FTC Regs morphed into a broad rewrite of FTC policy that upended eight decades of settled legal definitions and business practices. To borrow a well-worn phrase, your department appears to have used a sledgehammer when they should have used a scalpel.

   There are significant concerns within the U.S. business community that these regulatory changes greatly harm U.S. competitiveness in foreign markets and risk sending many high-paying U.S. jobs overseas. Specifically, one example is on the issue of withholding taxes. U.S. based companies that operate in foreign markets have historically employed many U.S. based employees to provide key services such as legal, Information Technology, and Human Resources among others; to help service their foreign subsidiaries. The subsidiary then pays for these services but the local country withholds taxes on these payments. Historically, these withholding taxes have always been creditable but the changes Treasury made in December end this longstanding practice. The real-world impact of this change will likely result in U.S companies sending these great, high-paying jobs overseas. Do you agree with the policy trade off made by these new FTC Regs to sacrifice high-paying U.S. jobs to foreign countries in order to more stringently crack down on the use of Foreign Tax Credits?

   - **Answer: The regulations proposed by the prior Administration included rules of general applicability that applied to all foreign taxes and allowed a credit only when the foreign jurisdiction has the primary right to tax the underlying income, as determined under objective standards. The scope of the final regulations took the same basic approach as the proposed rules, while incorporating changes made after careful consideration of the numerous comments submitted through a public process.**

     As it relates to foreign taxed imposed on services income, the final regulations allow a credit when the services are performed in the foreign jurisdiction, as that is when the foreign jurisdiction should have the primary right to tax the services income. When services are performed in the United States, the United States has the primary right to tax the services income and it is inappropriate to allow a credit for any foreign tax imposed on that income. This was the result under the proposed regulations, which was carried over in the final regulations. Further, this services rule provides an important backstop against digital services taxes, which, after all, are simply taxes levied on services income derived from activity located outside the foreign taxing jurisdiction (e.g., in the United States). The final regulations are critical to protecting the interests of the United States and allow a credit

only when the foreign jurisdiction has the primary right to tax the underlying income.