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Subcommittee on Health Care and Financial Services
Hearing on "Health of the Commercial Real Estate Markets and Removing Regulatory Hurdles to Ensure Continued Strength"
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The "calm before the storm" is where everything gets very peaceful before a big disruption.

Congress gets this phenomenon—it's like last week's calm district work period before now facing a month of unpredictable governance in the Republican-controlled House.

While it's easy these days to predict chaos in our politics, Congress also needs to spot other incoming disasters while we are in a calm period.

Too many of us get lulled into a false sense of security. Nowhere is that truer than with financial crises. Over and over again, when the economy is strong, politicians are so busy taking credit, they fail to see storms on the horizon.

Last spring, government leaders were shocked when Silicon Valley Bank, Signature Bank, and First Republic all collapsed. Most folks hadn't thought about bank failures since the financial crisis of 2008. But all of a sudden, those banks failed. Businesses were at risk of not making payroll or failing, deepening the storm.

Even though we weathered that storm, the government should have seen it coming. Why didn't we? Maybe because Congress was negligent during the calm.

In 2018, Republicans were joined by over four dozen Democratic lawmakers to greenlight a bill that made it easier for banks to legally take a position where the bank wouldn't be able to pay their depositors when they wanted their money back. That law increased the risk of a storm. But Washington was too busy enjoying the calm to stop the storm or even prepare for it.

The 2008 financial crisis is the same story. Washington thought that the mortgage markets would be okay. Mortgages where you can choose your payment? Lending 110% of a home's value? What could go wrong besides everything? Yet, the Federal Reserve itself insisted the risk was under control, with Chairman Greenspan saying in 2006 that "there is no evidence that home prices will collapse" and later admitting that "he didn't see it coming." Why? Because he didn't look—and neither did Congress, which praised Greenspan right up until they blamed him.

It really makes you wonder: what financial system warning signs are we ignoring right now during this period of calm?

Look no further than commercial real estate.

This year, commercial property owners across this country are due to repay $929 billion in debt. That debt is held by banks, hedge funds, investment vehicles, pension funds, and others. If we don't want a major financial meltdown, the debt needs to get paid back.

But commercial property owners are having a hard time doing that. Property owners aren't making the same money they did before the pandemic – the businesses who were their tenants canceled or didn't renew leases. Many cannot make payments, especially with rising interest rates. And those interest rates make it harder to sell their properties and pay off their mortgages.

And to make it even worse, some local governments are doubling down on the commercial real estate crisis.

Today, any property transfer in Los Angeles County worth more than $10 million gets taxed at a whopping six percent. This kind of big tax change adds huge risk to the commercial real estate market at the worst possible time—and compounds the risk of a major collapse that all levels of government should be working together to prevent.

Look, commercial property owners take risks, and losing money is one of them. But if the whole market crashes, that causes a problem that hurts ALL of us as Americans. It could mean widespread unemployment, bank failures, and slow economic growth.

So what do the banks and other lenders do? They keep extending due dates for loans hoping commercial property owners will eventually get into a better place to pay them back. But that hasn't happened even after a few years of extensions.

Ultimately, property owners will need to pay back the loans or default on them. The longer we postpone the outcome, the bigger the balance grows—and the bigger the economic risk becomes.

Problems never get smaller when you push them into the future—and this one will get bigger. Let's try to prevent or minimize a future storm for our economy while we're still in the calm.

I yield back.

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