



Housing and Economic Recovery

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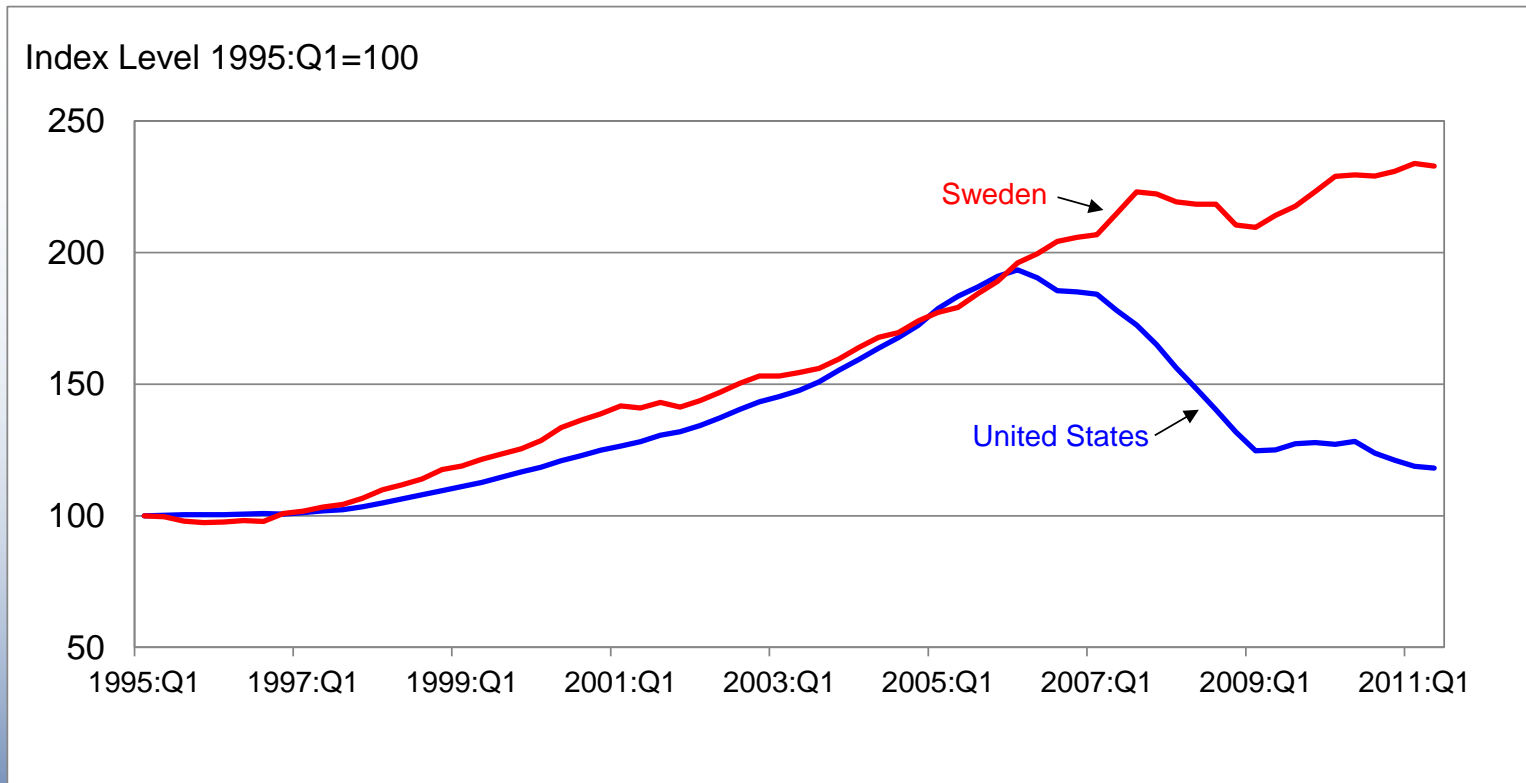
Stockholm, Sweden
September 28, 2011

Figure 1

Real House Prices

in the United States and Sweden

1995:Q1 - 2011:Q2



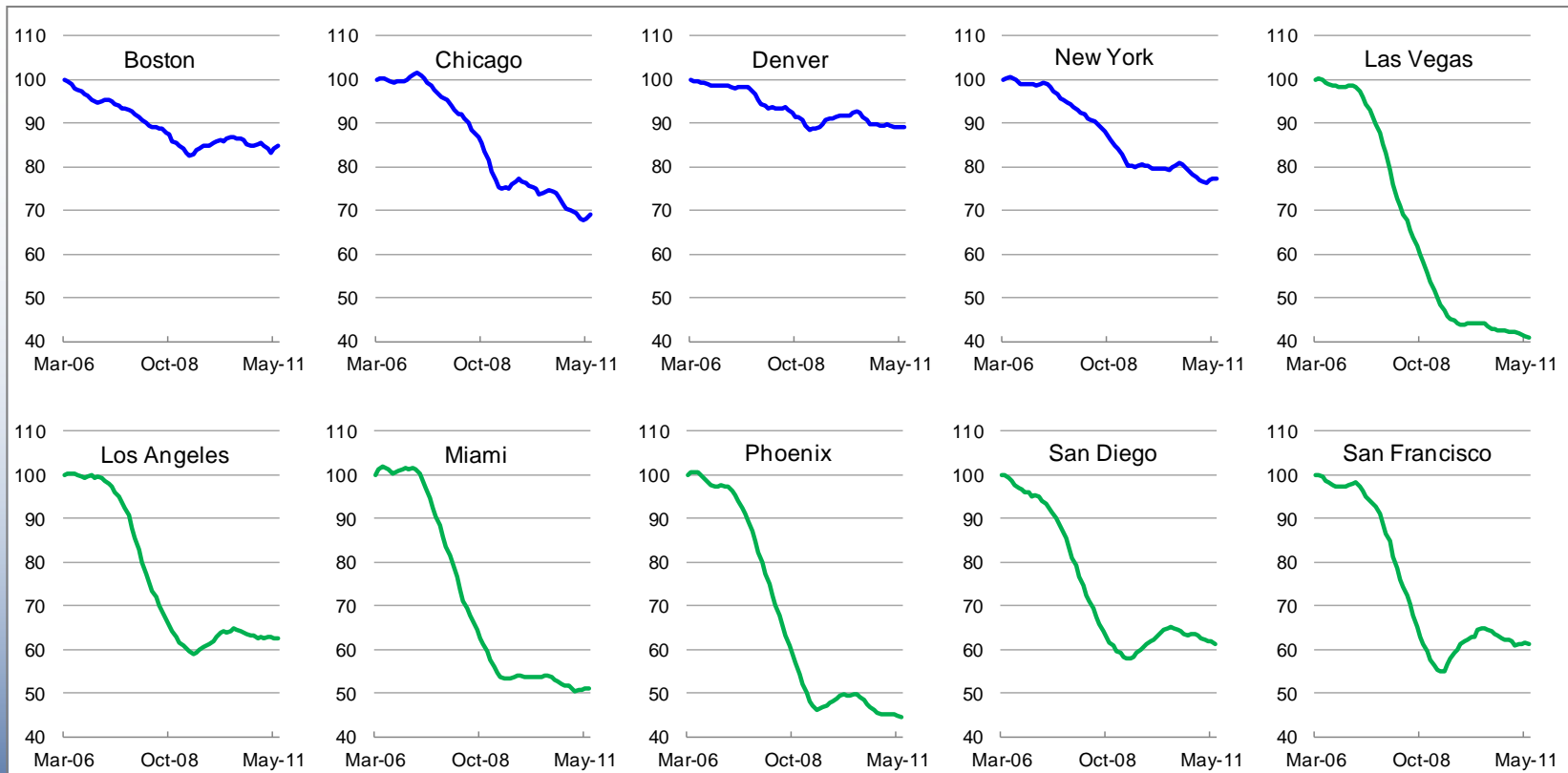
Source: OECD, Statistics Sweden, S&P/Case-Shiller, BEA / Haver Analytics

Figure 2

U.S. Regional Home Price Declines: S&P/Case-Shiller Metro Area Indexes

March 2006 - June 2011

Index Level March 2006 = 100

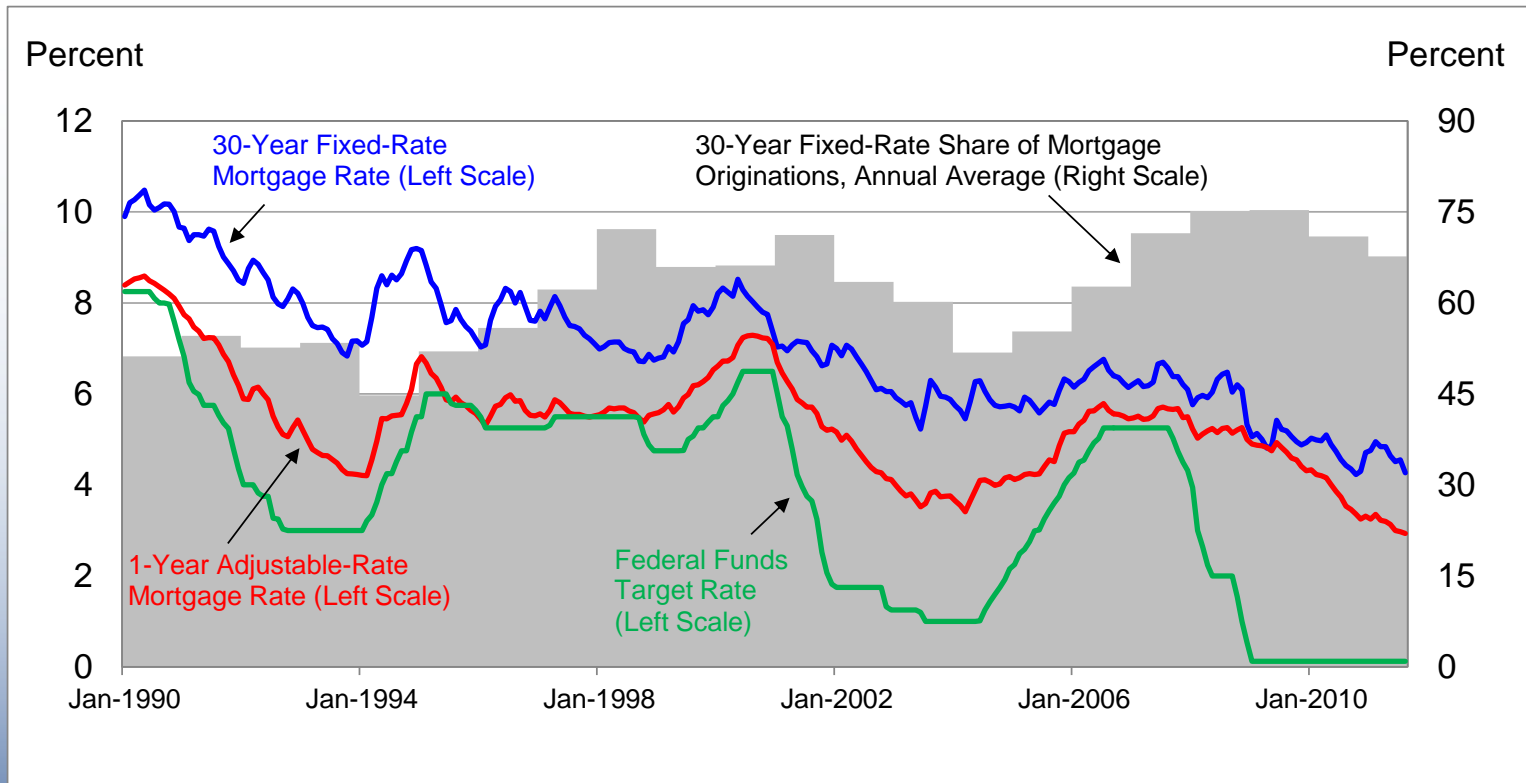


Source: S&P/Case-Shiller / Haver Analytics

Figure 3

30-Year Fixed-Rate Share of Mortgage Originations and Selected Interest Rates

January 1990 - August 2011



Source: FHLMC, FHFA, Federal Reserve Board / Haver Analytics

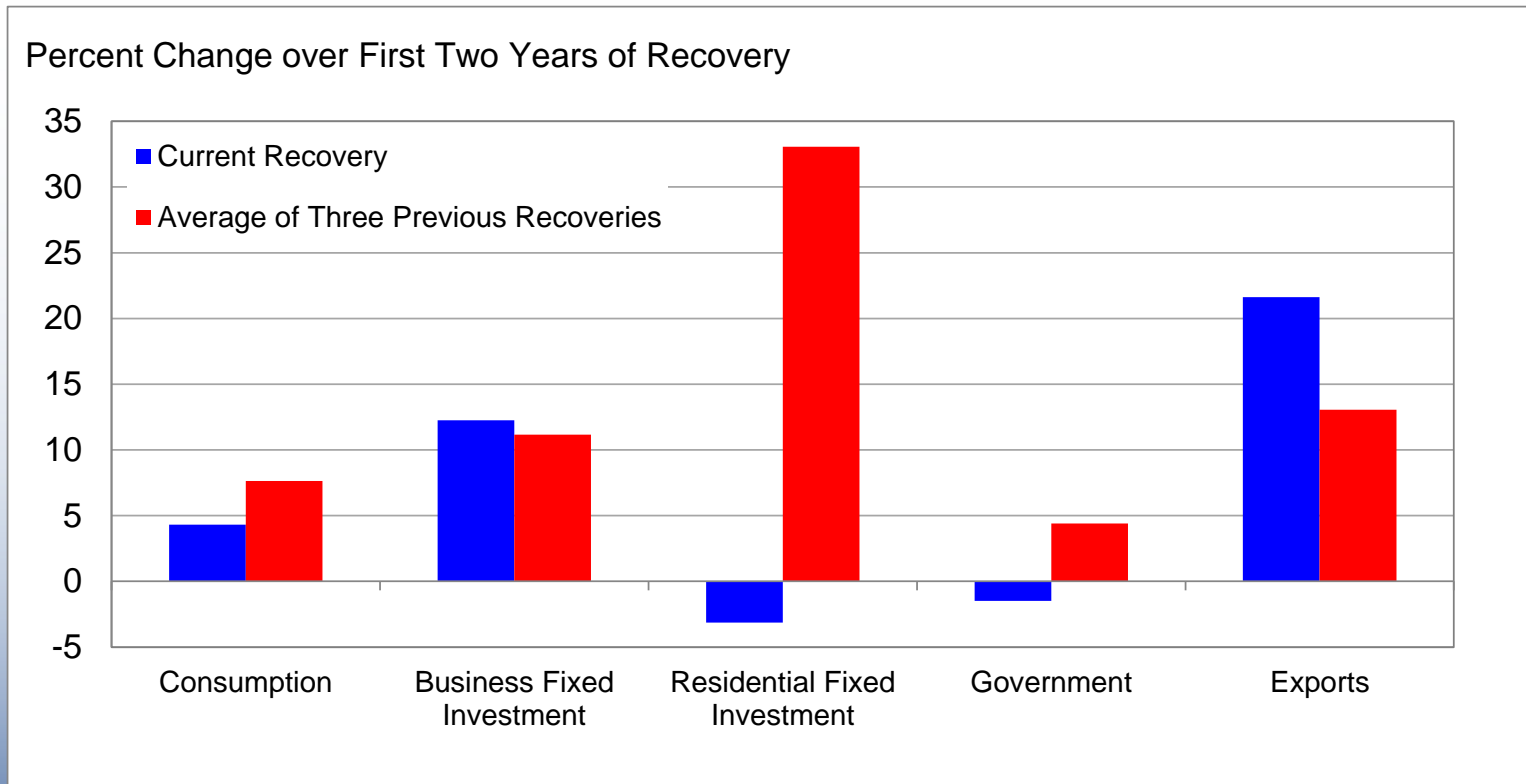
Preview of Comments

- Housing is a small (2.2%) but volatile component of U.S. GDP
- Housing is generally responsive to monetary policy but reliance on long-term financing, and falling house prices, make it less responsive in the U.S. than in many other countries
- Impaired housing loans and securities had a big impact on U.S. financial institutions
- Housing policies could make it less difficult for monetary policy to affect the economy



Figure 4

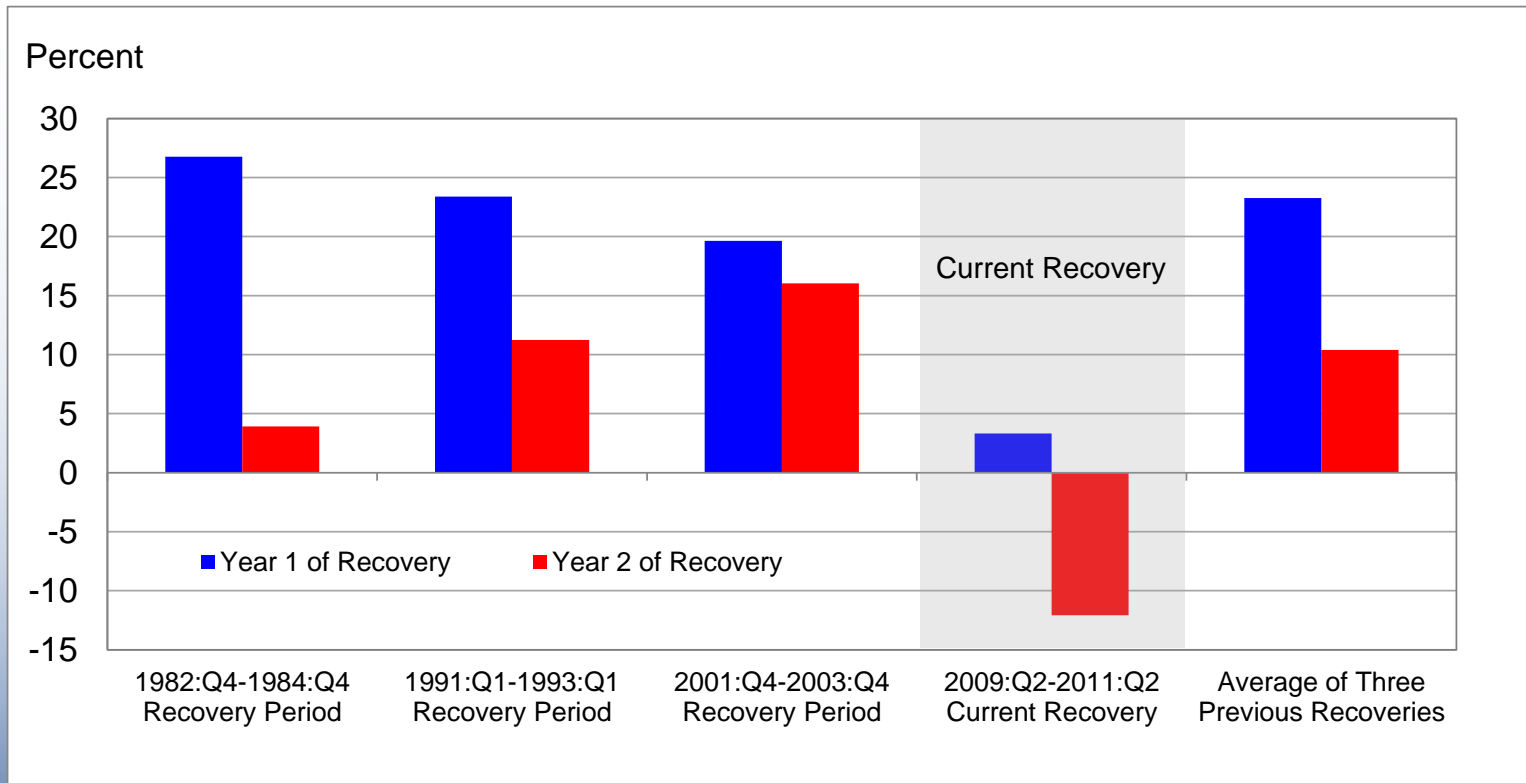
Growth in Real GDP Components: Current and Three Previous Recoveries



Source: BEA, NBER / Haver Analytics

Figure 5

Residential Investment Share of GDP Growth: Current and Three Previous Recoveries

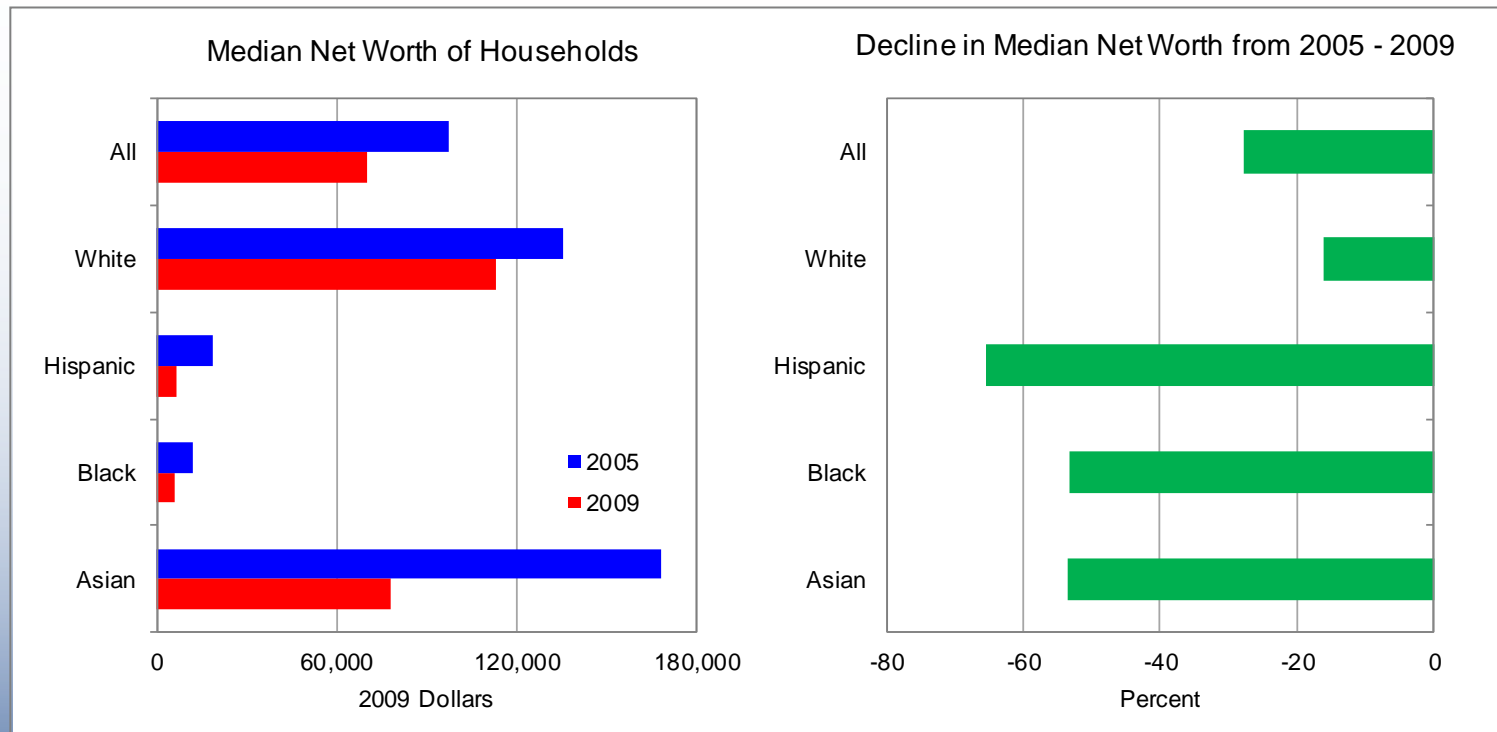


Source: BEA, NBER / Haver Analytics

Figure 6

Median Net Worth of Households by Race and Ethnicity

2005 - 2009

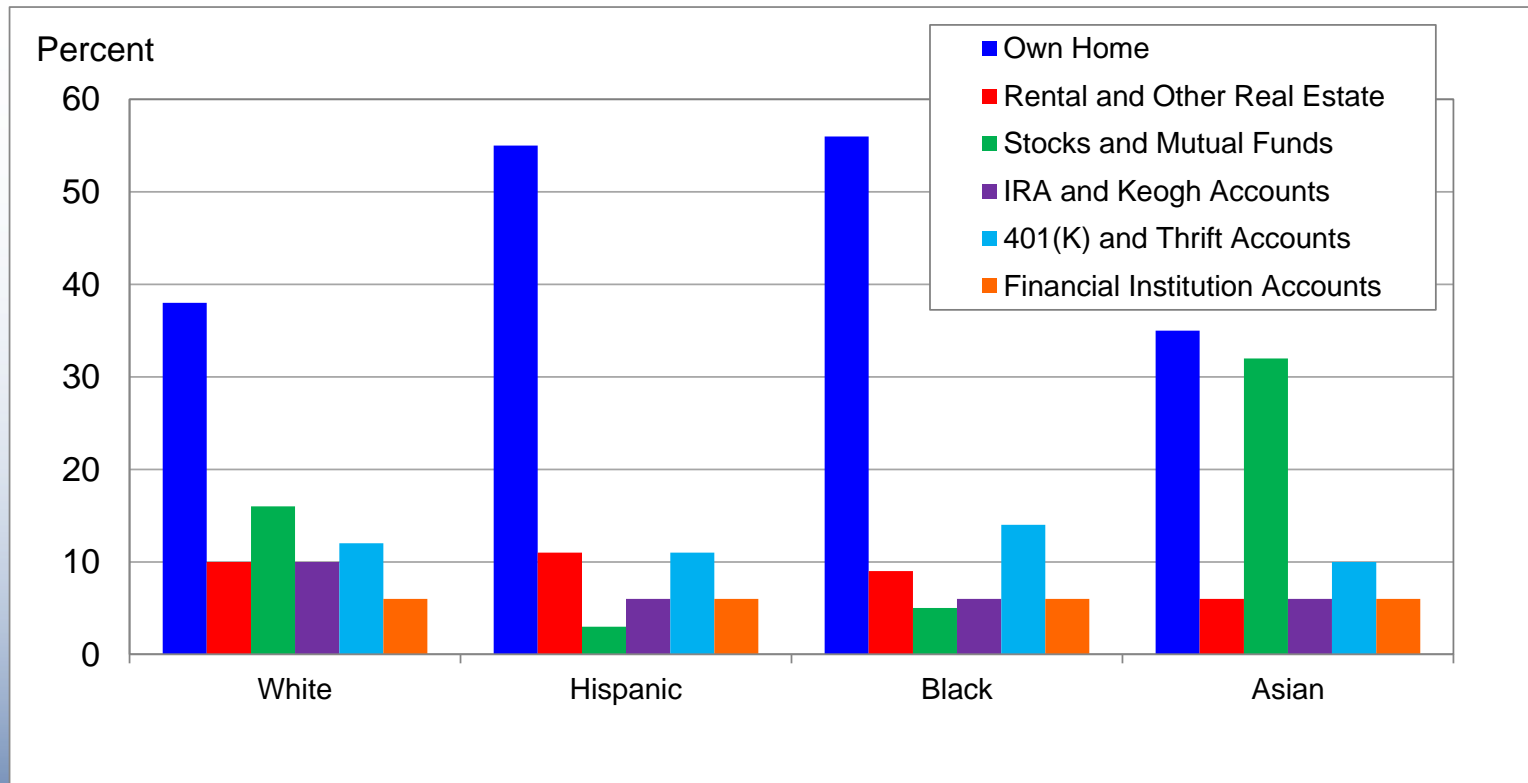


Source: Pew Research Center tabulations of the Census Bureau's Survey of Income and Program Participation Data

Figure 7

Composition of Household Net Worth: Selected Components

2009

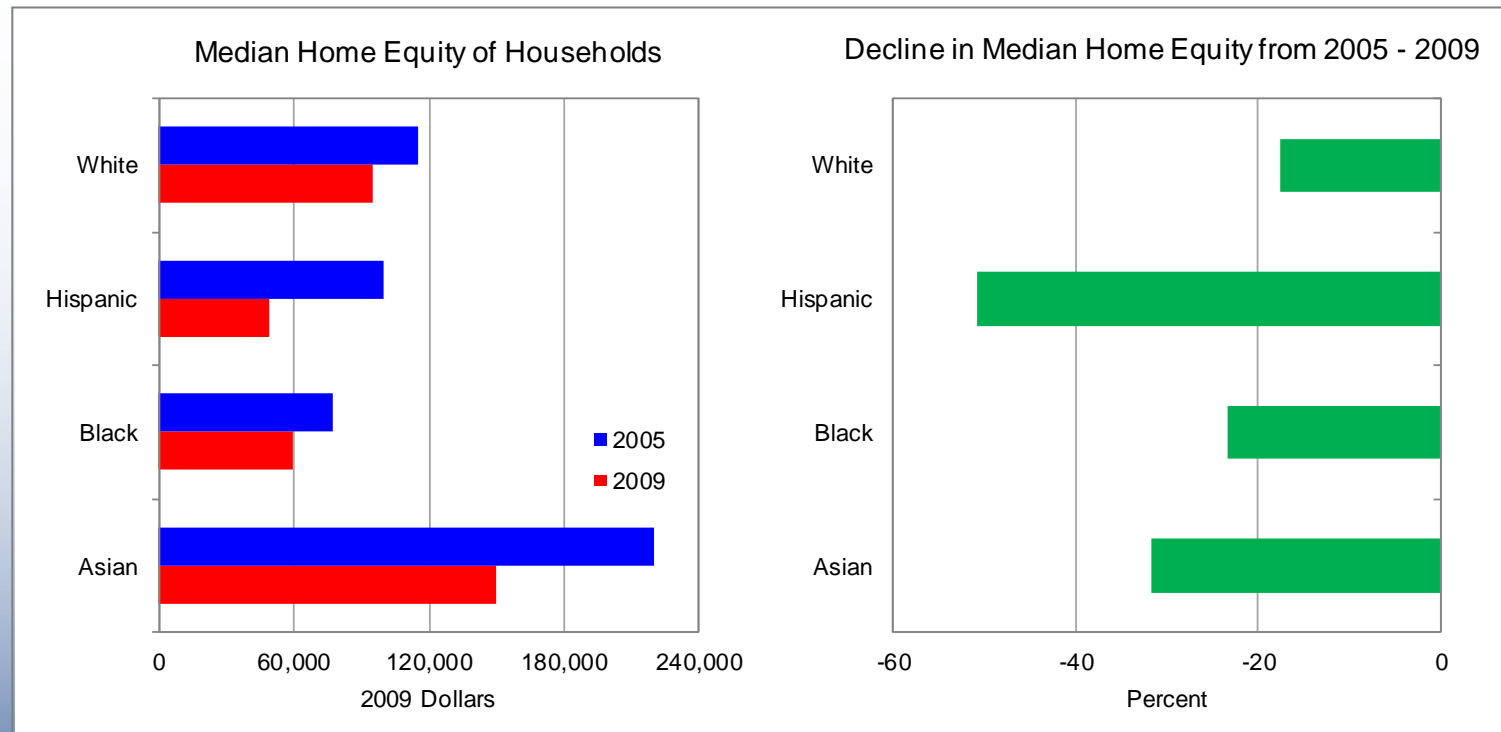


Source: Pew Research Center tabulations of the Census Bureau's Survey of Income and Program Participation Data

Figure 8

Erosion of Home Equity of Households by Race and Ethnicity

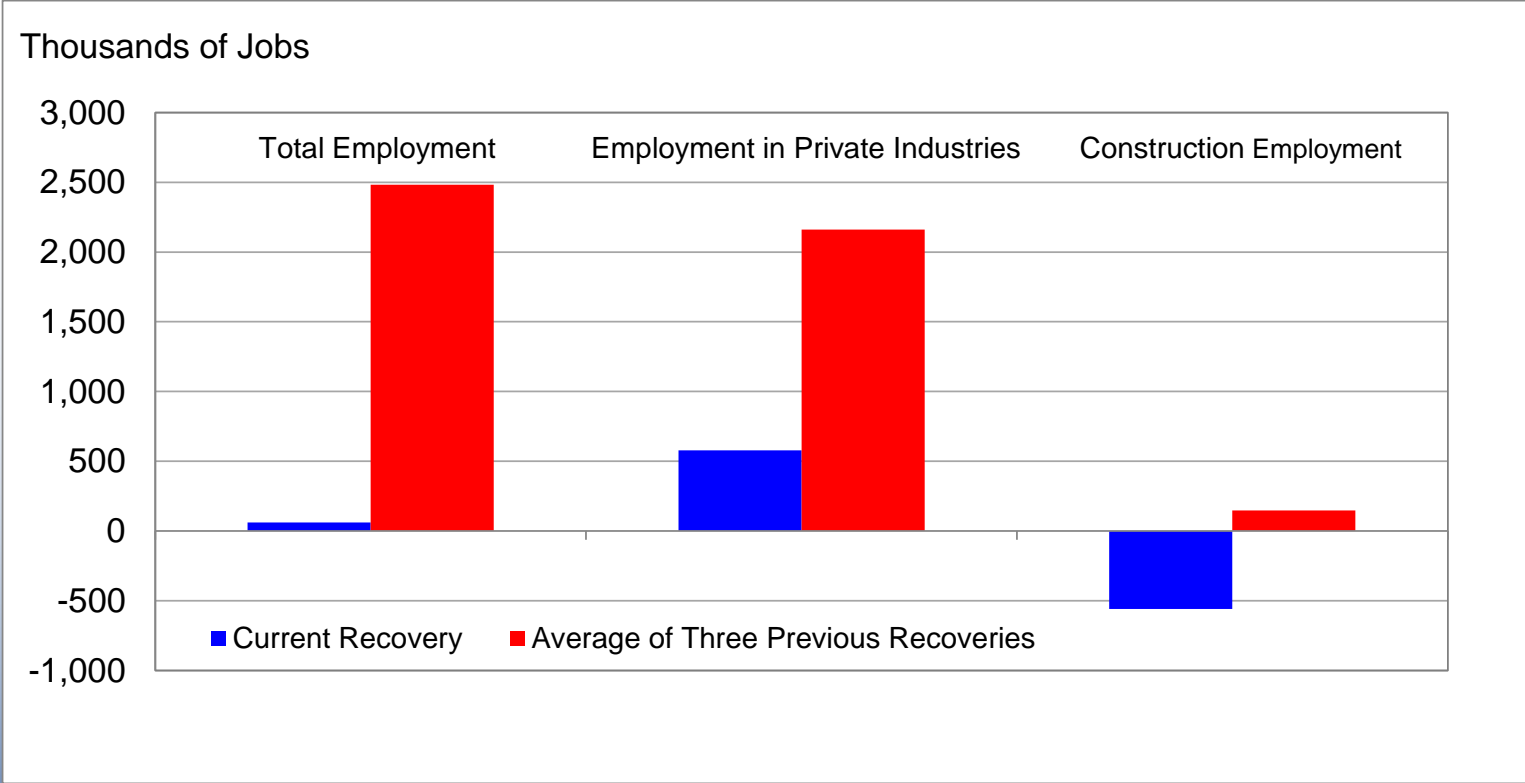
2005 - 2009



Source: Pew Research Center tabulations of the Census Bureau's Survey of Income and Program Participation Data

Figure 9

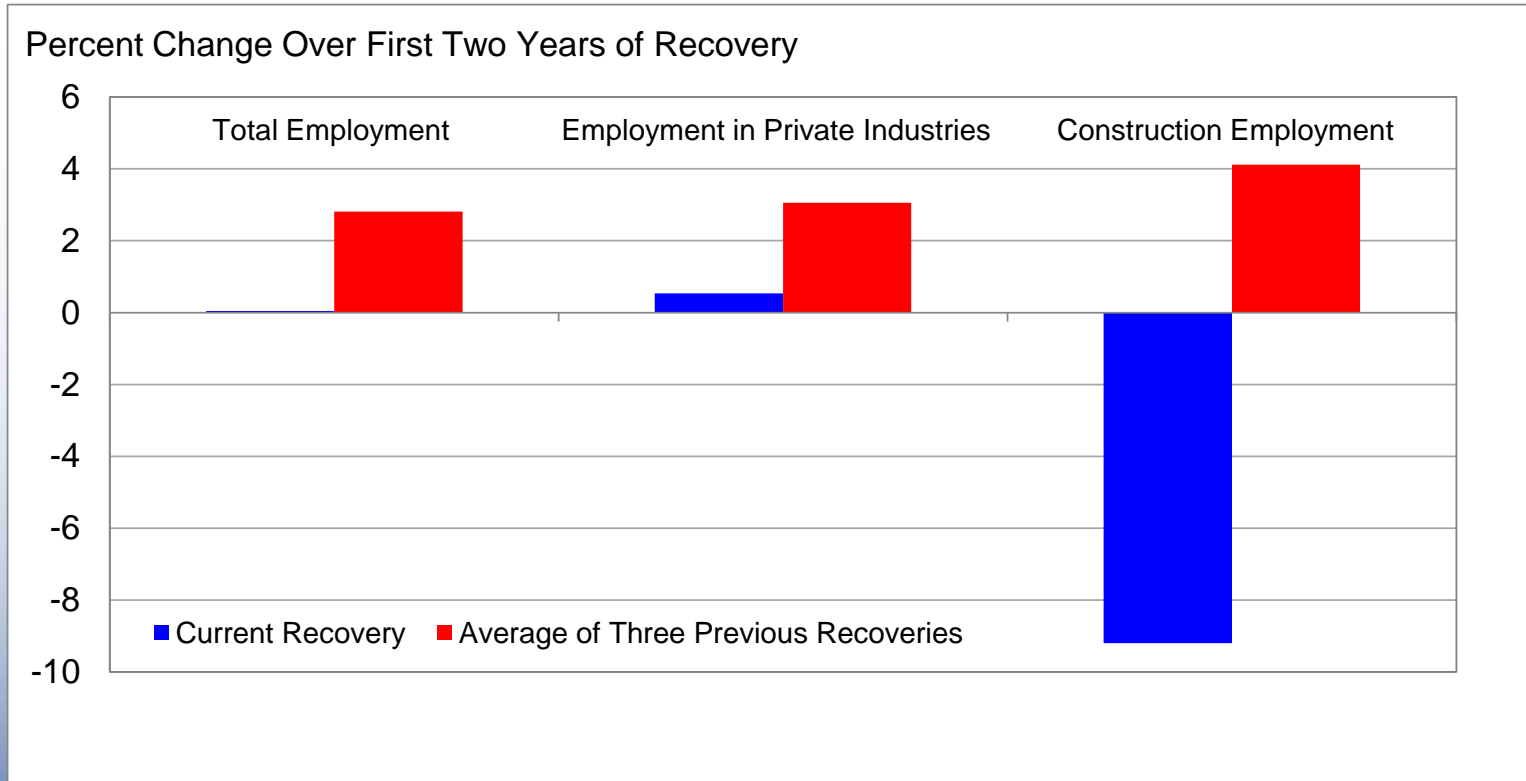
Job Growth: Current and Three Previous Recoveries



Source: BLS, NBER / Haver Analytics

Figure 10

Employment Growth: Current and Three Previous Recoveries

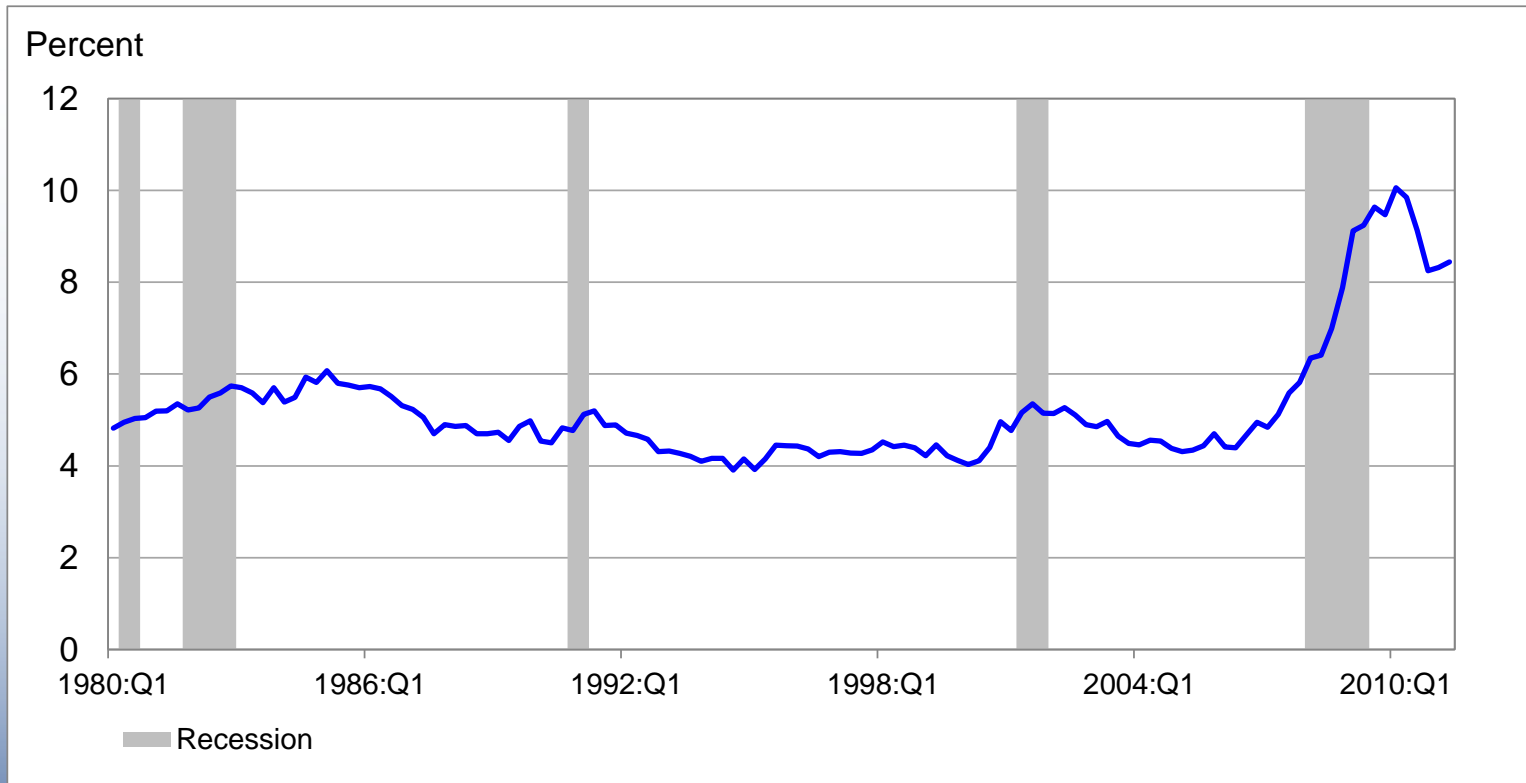


Source: BLS, NBER / Haver Analytics

Figure 11

Delinquency Rate: 1-4 Family Mortgage Loans 30 or More Days Past Due

1980:Q1 - 2011:Q2

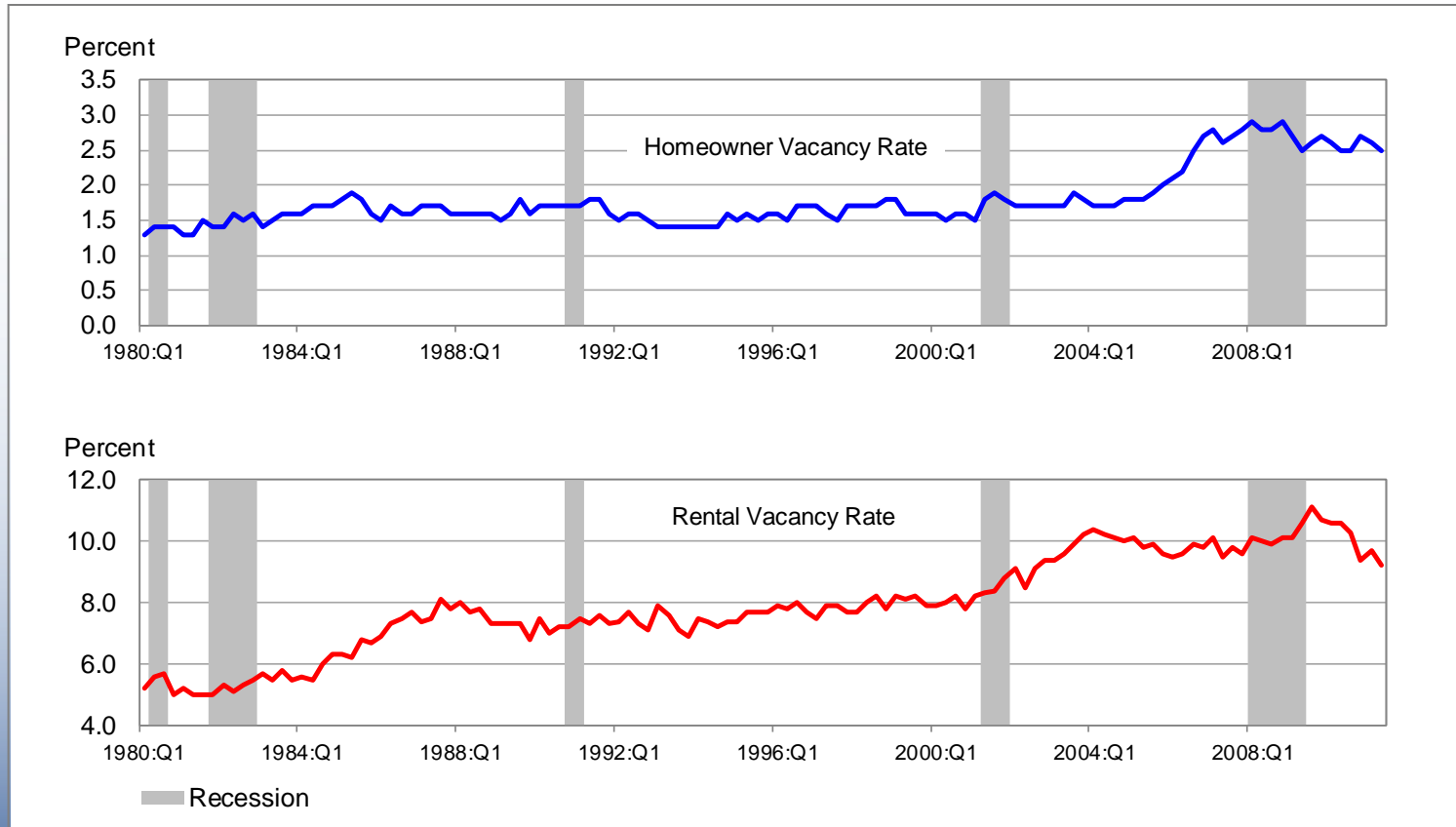


Source: Mortgage Bankers Association, NBER / Haver Analytics

Figure 12

Homeowner and Rental Vacancy Rates

1980:Q1 - 2011:Q2



Source: Census Bureau, NBER / Haver Analytics

Housing has been a Major Impediment to Stronger Growth

- Problems in housing have greatly complicated the U.S. recovery
- Residential investment has been unusually weak relative to previous recoveries
- Consumption, business formation, and employment have also been affected by problems in the housing sector



U.S. Monetary Policy Response to Weak Recovery

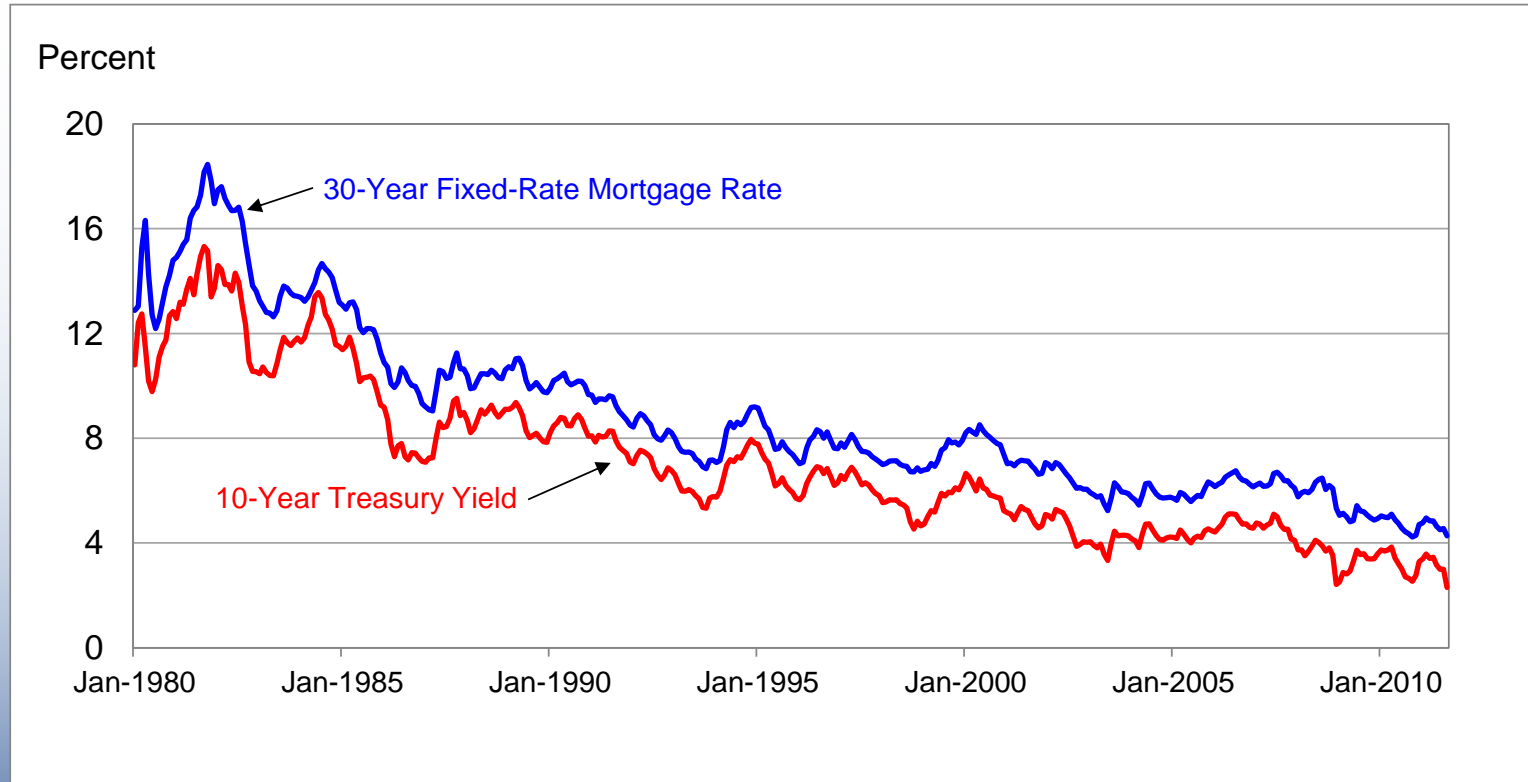
- Short-term interest rates at the zero bound
- Expanded Fed balance sheet, including mortgage securities
- Increased holdings of long-term securities
- Altered communications
- One motivation to push long-term rates down is to generate faster growth in interest-sensitive sectors like housing



Figure 13

30-Year Fixed-Rate Mortgage Rate and 10-Year Treasury Yield

January 1980 - August 2011

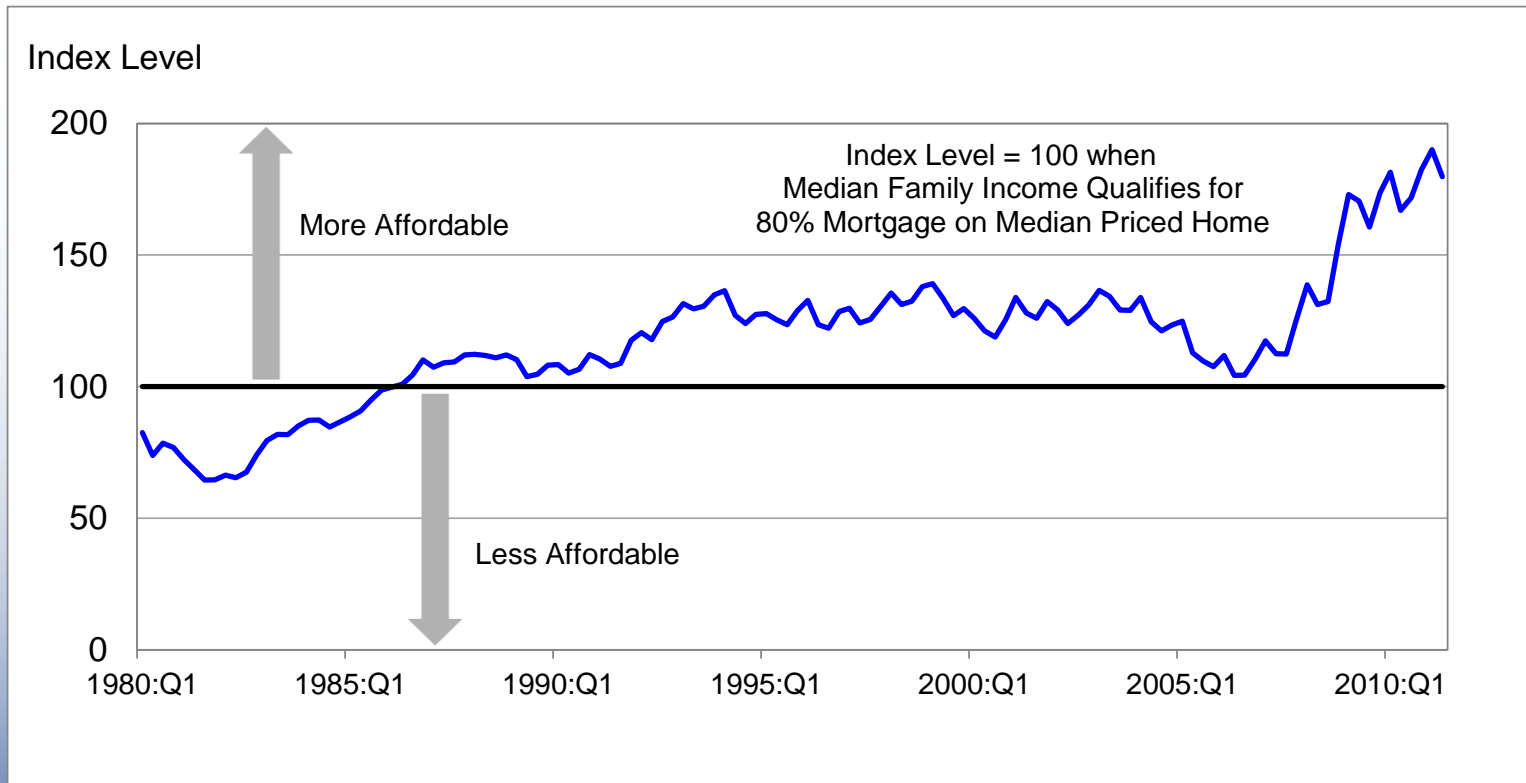


Source: FHLMC, Federal Reserve Board / Haver Analytics

Figure 14

Housing Affordability: Median Income Relative to Income Needed to Purchase Median Priced Home

1980:Q1 - 2011:Q2

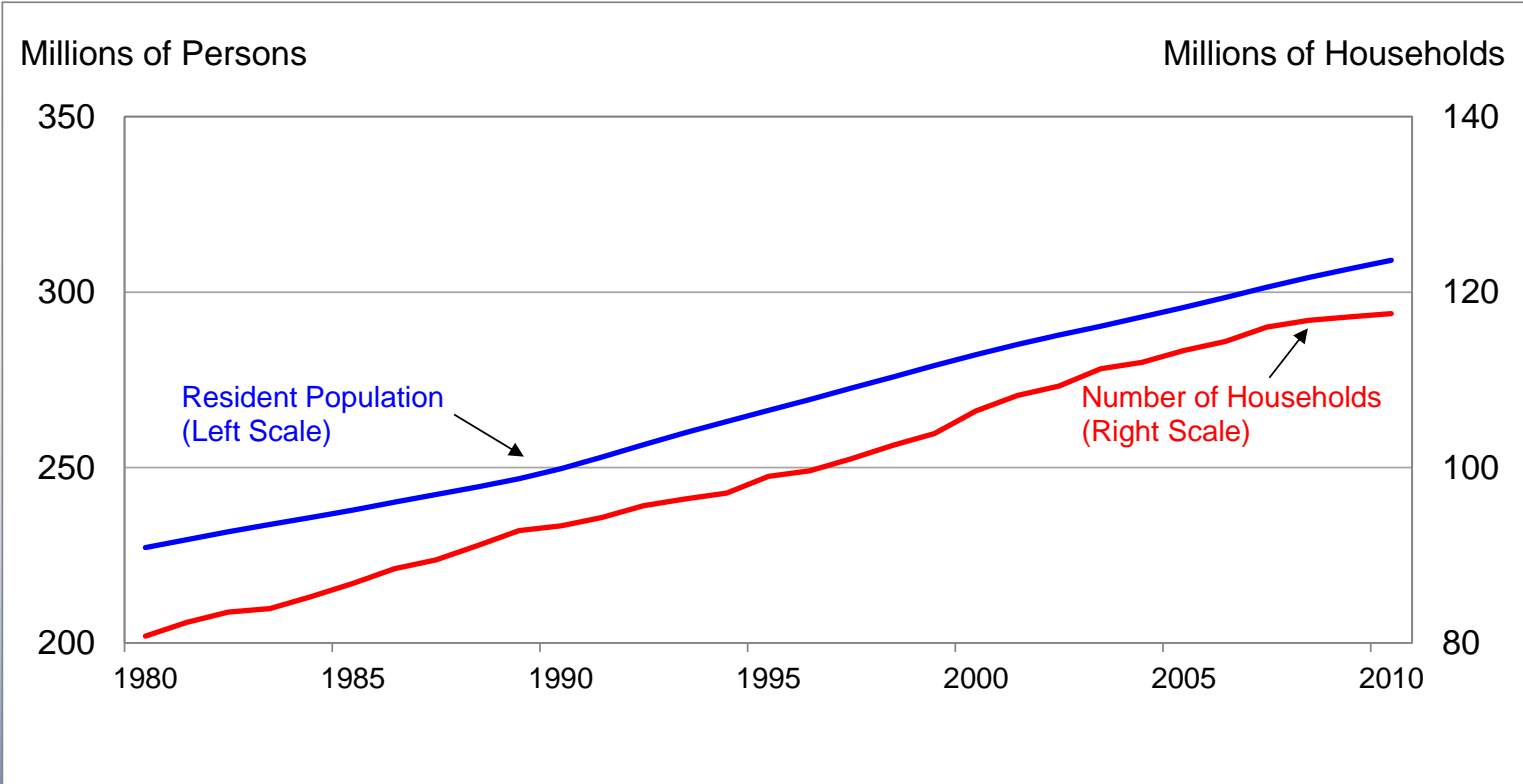


Source: National Association of Realtors / Haver Analytics

Figure 15

Population and Households

1980 - 2010



Source: Census Bureau / Haver Analytics

Housing Prices and Monetary Policy

- Falling prices discourage home purchases and many borrowers are unable to refinance
- This has impacted the ability of monetary policy to have its usual effect on an important interest-sensitive sector
- Monetary policy accommodation would have a greater impact if households were able to respond to the lower rates



CoreLogic Estimates:

- 10.9 million, or 22.5%, of all mortgaged residential properties had negative equity
- Three-quarters of owners with negative equity are paying "above-market" interest rates (above 5.1%)
- Slightly more than half of positive-equity owners are paying "above-market" rates
- All in all, about 28 million borrowers are paying "above-market" rates

Policies to Enable Refinancing

- Several proposals to facilitate refinancing
- Institutional impediments
 - Loan-level price adjustments and concern with “buybacks”
 - Junior liens and mortgage insurance
- Should be able to resolve impediments now that the government controls Freddie Mac and Fannie Mae



More Successful Refinancing would Enhance Monetary Policy Actions

- Getting money into the hands of homeowners who would spend it (fuel GDP growth)
- Reduce one of the impediments to a more significant effect from monetary policy



Facilitating the Reduction in the Number of Vacant Homes

- Help responsible investors purchase vacant homes; convert to rentals
- Room for improvement in the financing of investor properties
- New loan products



Also – Improving the Housing Market

- Freddie Mac and Fannie Mae should be more focused on addressing housing market problems
- Rethink the foreclosure process
- Encourage more non-foreclosure transfers



Concluding Observations

Problems in U.S. Housing Sector have been
a Major Impediment to Recovery

Last week's FOMC actions:

- Consistent with our dual mandate
- Downward pressure on longer-term interest rates
- Extending the average maturity of our holdings of securities
- To support conditions in mortgage markets, reinvest principal payments from holdings of agency debt and mortgage-backed securities in agency mortgage-backed securities

Concluding Observations

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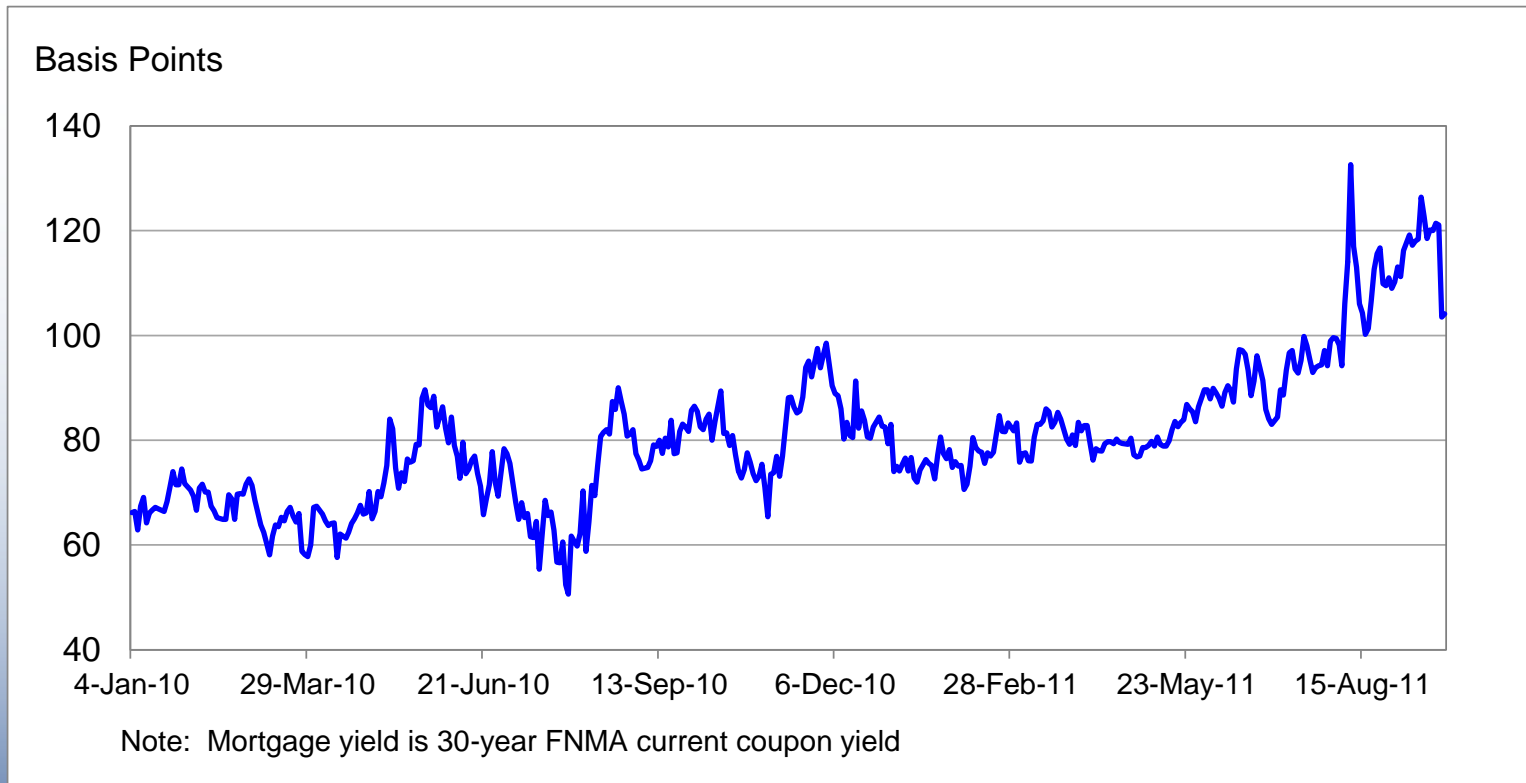
- There was a substantial market reaction to FOMC announcement: 30-year Treasury yields and 30-year mortgage rates
- Encouraging more refinancing and home purchases than would happen in the absence of action



Figure 16

Spread: 30-Year Mortgage Yield to 10-Year Treasury Yield

January 4, 2010 - September 22, 2011



Source: Bloomberg, Federal Reserve Board / Haver Analytics

Also – Important to Examine Housing Policies that Might be Changed to Help Facilitate Recovery

- Should be strong encouragement for GSEs to focus on the housing recovery
- Currently under conservatorship of the U.S. government
- Should play a larger role in achieving the public policy goals



Monetary Policy Cannot Fully Offset Problems, but Can Mitigate Some Effects

- Reducing unemployment by half a percent means 750,000 jobs
- Unemployment at 9.1% and medium term inflation restrained
- Important to see the urgency of the situation and the broader economic implications

