

Innovative Responses to the Financial Crisis

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On behalf of the Federal Reserve Bank of Kansas City, along with our planning partners at the Federal Reserve Banks of Philadelphia and San Francisco, and the Federal Reserve Board of Governors, I would like to welcome you to the second day of this conference and thank you for your participation.

Although the topics to be discussed here are always of extreme importance, the current environment gives our discussion added urgency. Though we are all being affected by the turmoil in our economy, the underserved are especially vulnerable. Their safety net may be extremely limited, if it exists at all. Meanwhile, they are often the first to suffer during an economic downturn and the last to recover.

As you all know, there are many reasons why it is important that consumers have access to financial products and the knowledge to use them safely. In addition to what it does for the individual or family, it is also important for the nation's collective well-being that consumers at all levels are able to make wise decisions with their finances in a manner that best suits their needs.

With this in mind, the regional Federal Reserve Banks have taken a number of steps focused on these issues within the communities they serve. It is well-known that the 12 Reserve Banks, along with their branches, play an important role in giving the Federal Reserve a truly national perspective on issues related to monetary policy and banking. But they also conduct important research to help the Federal Reserve and others understand the underlying issues for those with low incomes and those who are underserved in the area of financial services. In December of 2007, the Fed convened staff from its research, supervision and community affairs areas to identify the state of knowledge concerning mortgage markets in the current environment. This effort identified knowledge gaps to be addressed through research and outlined strategies to help individuals and communities respond to the financial crisis.

We have integrated the research with public programs where our regional Reserve Banks are taking on an increasingly prominent role. Where once our public programs were focused primarily on providing information to broad groups of constituencies, we are now engaged largely in technical and capacity building efforts with defined stakeholders.

Throughout the System, each Bank has developed unique programs to meet the identified needs within its District, and by doing so has strengthened the learning, innovation and effectiveness of the System's overall response. This is one of the real strengths of our System. Because the Reserve Banks are regional institutions, we are able to foster local partnerships and offer local expertise to the communities of our respective Districts.

Although these programs are created at the individual Bank level to serve a local need, in almost all instances they provide a template that can be, and often is, replicated by the other Banks, expanding the reach and success rate of our best and most beneficial programs. These efforts allow us to be more nimble and proactive in responding to common problems.

With my remaining time I would like to highlight and recognize some of our more innovative responses to the financial crisis.

Foreclosure mitigation/housing

Understandably, our programs related to foreclosures and foreclosure mitigation have expanded significantly and are our primary focus. In 2008, the Community Affairs functions across the System sponsored three times as many events related to foreclosure as a year earlier. We have brought together diverse groups such as developers, realtors, lenders and servicers to foster a common understanding and common approaches. We have made numerous presentations to public officials and policymakers at all levels.

Several Federal Reserve Banks have worked with alliances, including HOPE NOW Alliance and NeighborWorks America, to present foreclosure prevention workshops that bring

together borrowers, counselors and servicers to directly identify and address individual consumer problems. Without a doubt, the most notable of these events was coordinated by the Boston Fed and held at Gillette Stadium, the home of the New England Patriots. That event, which involved numerous partners including the Patriots' charitable foundation, brought more than 2,000 homeowners facing foreclosure together with mortgage servicers. In Kansas City, where the impact of the crisis has been slightly different, a similar event where organizers expected to help 350 troubled borrowers ended up providing assistance to more than twice that number.

As we have seen a rise in foreclosure-related scams, the Fed has been active, working with NeighborWorks America on a public service campaign to raise awareness about the issue. We have also created an innovative series of ads developed by the Board of Governors that will be shown in movie theaters, much like motion-picture trailers, in targeted communities where we are finding the problem is prevalent.

We have established Web-based Foreclosure Resource Centers on each of the 12 Federal Reserve Banks' websites to help address local and regional challenges in mortgage markets and local communities. The Foreclosure Resource Centers are customized by each Bank, based on the region-specific conditions. The Board's public site includes a map linking to each of the regional foreclosure centers. For homeowners and homebuyers, the centers provide contact information for agencies that can help those in financial trouble or provide counsel for those who want to buy their first home. For community leaders and local municipalities, the centers offer information on preserving and protecting the neighborhoods where foreclosures have occurred. The centers also provide access to Federal Reserve research and notices of upcoming events.

The Fed has published dynamic maps showing conditions and density of owner-occupied subprime mortgage loans at the state, county and zip code level. The maps are based on data for owner-occupied mortgage loans that have been securitized into a product that is categorized as subprime, based on the grade assigned to the security. State- and county-level maps and data with

TransUnion credit card and mortgage delinquency rates and changes have also been added to the site. The interactive maps provide a national source for information on foreclosure incidence with the ability to drill down further into conditions at the regional level.

Our Community Foreclosure Mitigation Toolkit assists community organizations and local governments in addressing the current turmoil in the housing market and minimizing the impact of foreclosures on neighborhoods. The resources in the Community Foreclosure Mitigation Toolkit are presented as a four-step process to: 1) assess the foreclosure situation; 2) reach troubled homeowners; 3) establish post-foreclosure support systems; and 4) stabilize neighborhoods. Community Affairs offices worked to develop best practices for creating, packaging and distributing foreclosure crisis toolkits for smaller municipalities.

The Federal Reserve convened the Recovery/Renewal/Rebuilding series of conferences and seminars throughout the summer and fall of 2008. Events hosted by the Federal Reserve Banks of Atlanta, San Francisco, Cleveland and St. Louis were designed both to investigate ways to address the negative spillover effects of foreclosures and to help the Federal Reserve gather insights on the many complex factors around foreclosure issues. After the series, a “capstone” event held at the Board of Governors explored a range of policy topics and focused on emerging themes.

These forums provided greater focus on the impact of the foreclosure crisis on different real estate markets; on strategies that address both the negative impact of foreclosures in high-cost markets and the challenge of strengthening neighborhoods in weak market communities; and on how recent research on foreclosure and vacancy and abandonment might be actualized as public policy. The series also clarified the challenges and the strategies for moving toward solutions.

Other efforts

The area of financial education has been a longtime area of emphasis for the Federal Reserve. We know there is a connection between making wise financial choices and problems such as foreclosure and other quality-of-life issues including the ability to gain additional education or retire.

At the Kansas City Fed, we have looked closely at the issue of financial education in the workplace. Not only is this an innovative way to potentially reach individuals who might otherwise go without assistance, there may also be benefits for the employer in addition to the employee.

Meanwhile, the Chicago Fed pioneered an innovative approach to cooperatively promoting financial education services through its Money Smart Week initiative. While this originated prior to the current crisis, it has provided an important tool in highlighting resources available for consumers to use in these difficult times. The Kansas City Fed has taken this model on as a tool for strengthening and expanding access to financial education services with similar programs throughout our District.

Although education is an important component, we also know that the complexities of our financial system can create questions for consumers who make even the wisest financial choices. Although the system has served the nation well, consumers can be uncertain about which regulatory agency can provide assistance for particular difficulties they may encounter. A partnership between the Minneapolis and Kansas City Feds addresses this problem, providing a hotline and an online resource to help consumers with their questions about specific financial products and institutions.

Consumers need not know which regulator is the appropriate source for assistance, but can turn to FederalReserveConsumerHelp.gov or the related toll-free telephone number (888-851-

1920) for a wide range of resources and assistance that can put them in touch with the appropriate regulatory authority. Call center staff members are available during extended hours to talk with individual consumers about specific problems and offer individualized assistance.

Conclusion

This is only a very small sampling of our Community Affairs programs. And while I am most familiar with the programs involving the Kansas City Fed, I know I speak for all of the Reserve Bank presidents when I say that we take much pride in the work being done by our staffs in this area.

I think it is important to note that many of these efforts have grown from the creativity of our local Community Affairs staffs located throughout the nation, and many of the most innovative ideas have emerged in recent months. I believe we can expect this trend to continue as we look to fully utilize the regional expertise, partnerships and programs to provide national solutions.

I hope this conference is beneficial to you. I know it is beneficial to us, the policymakers.

Thank you.