

SPEECH

Opening Remarks at the Distressed Residential Real Estate: Dimensions, Impacts, and Remedies Conference

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As prepared for delivery

Good morning. I am Bill Dudley, president and CEO of the Federal Reserve Bank of New York. I would like to welcome you to today's conference titled "Distressed Residential Real Estate: Dimensions, Impacts, and Remedies," which we are co-sponsoring with the Rockefeller Institute of Government.

In addition to my role at this institution, I serve as vice chair of the Federal Open Market Committee (FOMC), which is charged with conducting the monetary policy for the United States. As I am sure you are aware, the FOMC has taken some extraordinary measures over the past few years to ease financial conditions and thereby improve the pace of economic recovery. While those measures have certainly helped to make the economy stronger than it otherwise would have been, nonetheless, the pace of the recovery to date has been disappointing. Over the three year period from mid-2009 to mid-2012, the real output of the U.S. economy has grown at a compound annual rate of just over 2 percent. As a result, employment gains have been modest, only matching the growth in the population, and the unemployment rate remains unacceptably high.

While there are several headwinds that have been restraining economic growth, a key impediment is that the housing market has failed to respond fully to the significant easing of monetary policy. Now it is true that various housing market indicators have looked somewhat better of late. Housing starts and sales of new and existing single-family homes are trending up gradually. Nationally, home prices have stabilized and begun to rise modestly after falling roughly 30 percent from their 2006 peak. However, the absolute level of starts and sales remain quite low, particularly when viewed on a per capita basis. Moreover, housing market conditions still vary significantly across the country, with the worst performing counties still experiencing high volumes of distressed sales and annual house price declines of around 5 percent. The net result is that while housing's contribution to growth has finally turned positive, its magnitude is far below that experienced in previous recoveries.

There are several factors behind the relative sluggishness of housing market activity. Although mortgage credit availability is slowly improving, it remains impaired, especially for households with less-than-sterling credit histories. Moreover, we are still dealing with the legacy of the housing boom and bust. According to CoreLogic, more than one out of four homeowners with a mortgage are "underwater," making it difficult for the borrowers to either refinance or sell. In addition, as the conference speakers who follow me will make clear, there continue to be large volumes of properties for which the homeowner is either seriously delinquent or already in the foreclosure process. It is quite likely that most of these properties will eventually end up on lenders' balance sheets and then be offered for sale.

As I discussed in a speech given earlier this year in New Jersey, the New York Fed is deeply committed to contributing to efforts to resolve the housing crisis that continues to impede our economic performance. Our economists monitor the housing market and analyze its impact on the national economy. My outreach staff works with community groups and housing practitioners to support local programs that aid distressed homeowners. Our lawyers perform pro bono work for homeowners facing foreclosure and advise on legal reforms, while our researchers and market analysts have developed proposals to mitigate current problems and improve the future structure of housing finance. Indeed, today's conference is an outgrowth of these efforts, and many of these ideas will be presented in today's various panels.

Thank you for your attention. I hope today's conference proves both stimulating and useful for you. I'll now turn the mic over to Thomas Gais, director of the Nelson A. Rockefeller Institute of Government and our co-sponsor of this conference.
