

Ben S Bernanke: Policy-oriented research on U.S. housing and mortgage markets

Welcoming remarks by Mr Ben S Bernanke, Chairman of the Board of Governors of the Federal Reserve System, at the Federal Reserve System and Federal Deposit Insurance Corporation conference on Mortgage Foreclosures and the Future of Housing, Arlington, Virginia, 25 October 2010.

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Good morning. It's my pleasure to welcome you to this joint conference of the Federal Reserve System and the Federal Deposit Insurance Corporation (FDIC). Our program over the next two days will highlight policy-oriented research on U.S. housing and mortgage markets. I would like to thank the many talented people throughout the Federal Reserve System and at the FDIC who have worked together to make this conference a reality.

Before I address the specific topics of this conference, I would like to note that we have been concerned about reported irregularities in foreclosure practices at a number of large financial institutions. The federal banking agencies are working together to complete an in-depth review of practices at the largest mortgage servicing operations. We are looking intensively at the firms' policies, procedures, and internal controls related to foreclosures and seeking to determine whether systematic weaknesses are leading to improper foreclosures. We take violations of proper procedures seriously. We anticipate preliminary results of the review next month. In addition, Federal Reserve staff members and their counterparts at other federal agencies are evaluating the potential effects of these problems on the real estate market and financial institutions.

Any discussion of housing policy in this country must begin with some recognition of the importance Americans attach to homeownership. For many of us, owning a home signaled a passage into adulthood that coincided with the start of a career and family. High levels of homeownership have been shown to foster greater involvement in school and civic organizations, higher graduation rates, and greater neighborhood stability.

Recognizing these benefits, our society has taken steps to encourage homeownership. Tax incentives, mortgage insurance from the Federal Housing Administration, and other government policies all contributed to a long rise in the U.S. homeownership rate – from 45 percent in 1940 to a peak of 69 percent in 2004. But, as recent events have demonstrated, homeownership is only good for families and communities if it can be sustained. Home purchases that are very highly leveraged or unaffordable subject the borrower and lender to a great deal of risk. Moreover, even in a strong economy, unforeseen life events and risks in local real estate markets make highly leveraged borrowers vulnerable.

It was ultimately very destructive when, in the early part of this decade, dubious underwriting practices and mortgage products inappropriate for many borrowers became more common. In time, these practices and products contributed to problems in the broader financial services industry and helped spark a foreclosure crisis marked by a tremendous upheaval in housing markets. Now, more than 20 percent of borrowers owe more than their home is worth and an additional 33 percent have equity cushions of 10 percent or less, putting them at risk should house prices decline much further. With housing markets still weak, high levels of mortgage distress may well persist for some time to come.

In response to the fallout from the financial crisis, the Fed has helped stabilize the mortgage market and improve financial conditions more broadly, thus promoting economic recovery. What may be less well known, however, is what the Fed has been doing at the local level. As the foreclosure crisis has intensified, Federal Reserve staff in our research, community development, and supervision and regulation divisions have actively collaborated to support foreclosure prevention at the local level and promote neighborhood stabilization initiatives.

A key initiative developed under the leadership of Federal Reserve Bank of Chicago President Charles Evans has been the Mortgage Outreach and Research Effort, known as MORE. MORE involves all 12 Federal Reserve Banks and the Board of Governors in a collaboration that pools resources and combines expertise to inform and engage policymakers, community organizations, financial institutions, and the public at large.

The Fed is particularly well suited to such an effort. Our community development experts are working on the ground to promote fair and equal access to banking services and improve communities. Further, Federal Reserve staff members are conducting empirical research on mortgage- and foreclosure-related topics, and are reaching out to industry experts as well. We are focusing on the hardest-hit cities and regions of the country.

A new publication released this week offers details about the MORE effort. Copies are available here today, and it is available online at the website of the Federal Reserve Bank of Chicago.¹ The report identifies approaches the Fed has taken to mitigate the foreclosure crisis, and I'd like to share some highlights of that work.

We have helped many of our community development partners organize day-long "mega events" that have served thousands of troubled borrowers. Moreover, we've brought together housing advocates, lenders, academics, and key government officials to discuss foreclosure issues and develop solutions. In some cases, alliances have been formed right on the spot to create and implement programs to keep people in their homes.

We have also partnered with the U.S. departments of Labor and Treasury and with the HOPE NOW Unemployment Taskforce to help unemployed homeowners avoid losing their homes. This collaboration led to the creation of an online tool that allows homeowners and servicers to document unemployment insurance benefits as income in order to qualify for federally sponsored mortgage modification programs.

Each Federal Reserve Bank has an online Foreclosure Resource Center with information on foreclosure-related resources, including an enhanced Foreclosure Mitigation Toolkit, which provides detailed steps and information for localities seeking to develop foreclosure prevention activities. The toolkit also includes a new Foreclosure Recovery Resource Guide, which helps consumers recover from the foreclosure process.

A number of Federal Reserve research projects also have been initiated as part of the MORE program. They include studies focusing on foreclosure prevention, financial education, and adverse neighborhood effects resulting from foreclosures. You will hear more about that research over the next two days. Community development researchers across the Federal Reserve System launched a study in 2009 of the planning and early implementation stages of the federal Neighborhood Stabilization Program (NSP). Researchers interviewed more than 90 recipients of the Department of Housing and Urban Development's NSP funds in the fall of 2009. These interviews and other data gathered during this study provide the first nationwide examination of the effect of the NSP and served as the basis for a number of Federal Reserve System reports currently in progress.

Under the auspices of the MORE initiative, the Federal Reserve sponsored conferences such as this one, and the summit held last month on Real Estate Owned and Vacant Property Strategies for Neighborhood Stabilization. Participants at that meeting examined the community effects of foreclosed and vacant properties with the goals of helping practitioners better understand barriers to stabilizing neighborhoods, sharing practices that show promise, and discussing regional differences. As part of that summit, the Federal Reserve released 17 papers analyzing trends, challenges, and possible solutions for addressing foreclosures

¹ See Federal Reserve System, Mortgage Outreach and Research Efforts (MORE) Initiative (2010), *Addressing the Impact of the Foreclosure Crisis: Federal Reserve Mortgage Outreach and Research Efforts* (Chicago: Federal Reserve Bank of Chicago).

and promoting neighborhood stabilization. A few of the emerging solutions highlighted at the event were: a national “first-look” property program, which gives nonprofits and municipalities the right of first refusal on repossessed properties to facilitate neighborhood stabilization; new methods of municipal code enforcement; and innovative land-banking strategies. We will be using these ideas and others to inform our community development efforts over the coming year.

To ensure that we have access to more detailed data on mortgage and credit markets, the Federal Reserve System has created the Risk Assessment, Data Analysis, and Research, or RADAR, data warehouse. This new platform will help inform our monetary policy, bank supervision and regulation, and community development.

Over the next two days, I understand that you will be hearing about policy-oriented research on the U.S. housing and mortgage markets – an area of first-order importance to policymakers. You will have the opportunity to discuss the current situation and the outlook for mortgage foreclosures, consider their consequences for neighborhoods, and evaluate efforts to mitigate foreclosures. Also, you will learn results from various studies that have examined mortgage modifications and factors that have led to defaults. Finally, you will consider the future of housing finance.

All the papers on the conference program are of direct interest to policymakers and should lead to better-informed policy. I hope we can draw upon this information and the success of the MORE program to explore new and creative ways to address the foreclosure crisis. At the Fed, we will continue to encourage further research, participate in discussions, and coordinate work among groups striving for sustainable homeownership and the recovery of housing markets.