William C Dudley: Transcript of Fireside Chat at York College in Queens

Transcript of a discussion between Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, and Dr Olajide Oladipo, Professor and Chair of the Business and Economics Department, during the Fireside Chat at York College in Queens, New York City, 24 March 2017.

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Dr. Olajide Oladipo:

President Dudley, can you please share with us the purpose of your trip here today to Queens?

President Dudley:

So, there are 12 Federal Reserve Banks around the United States, and one of them is the Federal Reserve Bank in New York that sits downtown in Manhattan, and near Wall Street. Our Second District consists of New York, Northern New Jersey, Fairfield County, Connecticut, Puerto Rico, and the Virgin Islands. Haven't gotten to the Virgin Islands yet.

As part of our Mission, we want to represent the communities in our District, and so four times a year, I get on the road, and I go out to visit people, to find out what's really happening on the ground. It's meeting with businesses, meeting with people from educational institutions, going to visit manufacturing facilities, community development organizations.

It's really designed to do two things. One, explain sort of a little bit of what we do – like for example there, in the introduction, talking about this BIS. What the heck is the BIS? Well, BIS is a bank for central banks that sits in Basel, Switzerland. In fact, what did I do last weekend? Well, I was in Basel, Switzerland, at the BIS. This is where central bankers get together from across the world, exchange information with one another.

So, the first thing is to explain ourselves to people in the community. Because the Federal Reserve is pretty mysterious in terms of – when I went to grad school even, I wasn't really sure again what the Federal Reserve was. Had to be explained to me.

The second thing we do in the community, and this is the more important piece, is to really learn what's going on, on the ground, in the community. What's happening in terms of businesses – are they successful? If they're having trouble, what are the reasons for the trouble? Do they have access to the credit? Can they find people with the job skills they need to support their businesses? What are the challenges in the community, in terms of education, in terms of transportation?

Queens, one of the issues is that if you're not located near a subway line, it's pretty hard to get around in Queens, and that has pretty significant implications for people's ability to get to and from work, which is important in terms of economic development.

Another issue is the affordability of housing. Queens is actually doing quite well. If you look at the employment growth in Queens over the last few years, it's been very strong. Just like New York City as a whole. But one of the consequences of economic development can be gentrification, where richer people move in and they make housing less affordable for people who have been living here for a much longer period of time.

So, all these type of issues that we talk about when we visit. And oftentimes I get some personal stories and anecdotes that are actually pretty valuable to me in terms of how I think about how the economy is operating and what we need to do as the Federal Reserve in terms of how we set monetary policy.

Dr. Olajide Oladipo:

Thank you. The economy is coming out of a serious crisis that started in 2008. From your perspective, where do you see the greatest growth in the economy right now?

President Dudley:

Well, the good news is the economy is actually in a pretty good place right now. Not for everybody, but if you think about the unemployment rate today, it's 4.7%, which is pretty close to what we think is full employment. You could probably push that unemployment rate even lower, but if you did, you'd probably start to have an inflation problem. So, that would not be something that you could sustain over the longer term. The Federal Reserve has two missions: maximum sustainable employment and price stability. And so we're trying to find that balance. Right now we're doing pretty well. We're pretty close to both our objectives. In fact, if you could tell me that we could just stay here for the next 20 or 30 years, I would be very happy with that.

So, things are going pretty well. What's driving the economy? I think in the local economy in Queens, it's very dependent on transportation, very high level of transportation employment, in part because of La Guardia and JFK. Those industries are doing quite well.

Tourism is important to this region, so New York City has really benefited from tourism. And the fact that people want to live in cities now as opposed to live in suburbs or more rural areas is also helping a lot.

In terms of actual employment in this area, you have the transportation component. Healthcare is also very, very important. A lot of uncertainties on that front. Maybe we'll get some resolution of some of those uncertainties today. Also business and professional services is a very important driver of growth in this area.

Dr. Olajide Oladipo:

Thank you. From your perspective, which sector do you think is actually propelling the growth?

President Dudley:

Well, I think – one thing that's been really good for New York City over the last few years, it's become much more diversified as an economy. In the old days, New York City was sort of rise and fall, depending on how the financial services industry was doing, especially the securities industry. And what's happened in the last few years is the securities industry employment has been pretty flat. And the securities industry, while they're making some money, it's not at all as profitable as it was back in the days of 2005, 2006, before the great financial crisis. Now that profitability was a little bit ephemeral because it was not built on a strong foundation.

Since then, the city I think has become a lot more diversified. Tourism has become more important. Technology – the technology sector really is about the same size now as the financial services sector. We still see pretty good manufacturing. The hollowing out of the city in terms of manufacturing seems to be over. In fact, manufacturing employment is actually doing pretty well in the city, in certain parts of Queens. It's actually quite supportive.

So, in general, it's a pretty positive story. The city still faces challenges. I think one of the most significant ones is going to be: how does the change in the conversation about trade and immigration affect people's willingness to visit New York City?

I think there is some prospect that international tourism to New York could decline over the next few years, and that would be something that would hurt the hospitality industry in New York City.

So, that's something that we're going to have to keep a close eye on.

Dr. Olajide Oladipo:

Thank you. The Dodd-Frank Act, which is often referred to as the Dodd-Frank Wall Street Reform and Consumer Protection Act, placed regulations on the financial industry. I wanted to ask you, do you think the removal of the Dodd-Frank Act would be productive for the economy? And if so, why?

President Dudley:

So removal of the Dodd-Frank Act be productive for the economy? I'm going to give you a little bit more nuanced answer. I don't think it's a question of either the Dodd-Frank Act or no Dodd-Frank Act. I certainly wouldn't want to go back to the world we were in 2006, 2007, because that financial system led to the worst financial crisis that we've had since the Great Depression, and as you know the economy suffered greatly. The unemployment rate climbed over 10%. So clearly, we don't want to go back to that.

But at the same time, is the Dodd-Frank Act as it exists today perfect? I doubt it. What I tell people is we really want to be careful not to throw the baby out with the bathwater. What we want is a system where we have banks with adequate capital, adequate liquidity – number one – so the probability of a large bank failing is a lot lower today than it was back in 2006 and 2007.

Number two, we want a system where if a large bank were to get into difficulty, we have the ability to resolve it in a way that it doesn't threaten to take down the rest of the financial system.

The Federal Reserve intervened in a very unusual and aggressive way in 2008 because the failure of a large financial institution was threatening to basically push the U.S. economy into a Great Depression. We didn't do it because we wanted to save the institution. We did it because we wanted to save the economy. We don't want to be in that situation again. So we need to have a regime in place, so if a large institution were to fail, it doesn't threaten to take down the rest of the financial system.

And the third thing we need is we need to a financial system that's robust and resilient to bad economies, to financial stress. One of the things that the Dodd-Frank Act does that I think is important is it mandates central clearing of derivatives activity. Now derivatives activities are things where corporations exchange interest rate payments, fixed income interest rate payments for floating interest rate payments, et cetera. During the pre-Dodd-Frank era, most of these were firm-to-firm. Financial institution to financial institution. Now they're all cleared centrally. This is a tremendous innovation because it reduces the amount of risk in the financial system. The Dodd-Frank Act has one of its chapters or titles all dedicated to the clearing of over-the-counter derivatives.

And finally, we have some entities called financial market infrastructures. What is a financial market infrastructure? So, let's say I buy a stock, and then that stock has to be transferred to me through some entity that actually clears and settles that stock transaction. The entity that actually manages that stock transaction – you selling stock to me, or me selling stock to you – that's a financial market utility. They have to be robust as well. And one of the things the Dodd-Frank Act does is it allows the Federal Reserve to have some oversight capacity to make sure that those financial market utilities are sound.

So, there are definitely things that could be changed. I think you could definitely relax the regulatory burden on smaller banking organizations because I don't think they pose a systemic threat to the U.S. financial system. I think you could take a look at certain regulations like the Volcker Rule to see if they could be administered in a less aggressive way.

So, it's not in my mind a question of Dodd-Frank or no-Dodd-Frank. I think it's a question of better financial reform legislation.

Dr. Olajide Oladipo:

Thank you. Just like you said, the economy is picking up now, and at the same time, we are experiencing a kind of upward trend in interest rates. I wanted to ask you, do you think the current movement in interest rates is politically-driven? If not, what is the business reason for the upward movement?

President Dudley:

Well, if I said it was politically-driven, that would be an unbelievable news story. Because we try to stay as apolitical as possible and set monetary policy, not based on the political winds and fortunes of the different political parties, but what we think is appropriate to keep the economy on an even-keel and to achieve our goals of maximum sustainable employment in the context of price stability. So, we're basically trying to set the level of interest rates in a way that will keep the economy close to our objective of full employment, with relatively stable price. It's 2% inflation.

That's sort of where we are right now. So, why are we raising interest rates a little bit? First of all, I would point out that the interest rate rise that we've had in place has been extraordinarily gradual. The short-term interest rates that the Federal Reserve sets, the federal funds rate, that range is three-quarters of a percent to 1%. If you lived like I did through the 1970s and '80s, you realize that that's an extraordinarily low level of interest rates.

Monetary policy over the last few years has been what we think is accommodative. In other words, it's been supporting economic activity. As we get closer to full employment, we want to make monetary policy a little bit less accommodative because if monetary policy were too accommodative, we would actually get an inflation problem over time. Then the Federal Reserve would have to slam on the brakes, we'd have a recession, people would be thrown out of work. Not a good situation.

So, the idea is to have an economy that moves in a smooth way. And so by taking out a little bit of that accommodation, moving up interest rates just a little bit, we think it's more likely that we'll achieve a soft landing and keep the economy about where it is today in terms of employment. So, it's a delicate adjustment. It's not something that's very harsh. We think it's appropriate and necessary. But I think the economy will be able to adjust to this just fine.

Dr. Olajide Oladipo:

Thank you. Sometime ago, I think that was 2012, 2013, I took some students to the Federal Reserve Bank. And you do have annual events at the Fed which I attend every year, often in March. A question that came to mind is that the students were very excited when they went to the Federal Reserve Bank. The question I wanted to ask you is what are the skills required to work at the Fed?

President Dudley:

Well, there's lots of different parts of the Federal Reserve. There isn't one particular skill. There's a lot of economists because we think about how the economy is working and operating and the conduct of monetary policy. There's a lot of people that work on overseeing banks. Supervision is one of our biggest groups. We have a lot of bank supervisors who typically get degrees in public policy or business, and come and work at the Federal Reserve and become bank examiners.

We have a lot of people in the Markets Group, which I ran prior to becoming President of the Bank. We monitor the markets. We talk to market participants to understand what's going on.

We execute monetary policy on behalf of the Federal Reserve System. We have people that are in Operational Risk, who assess risk. We have people who manage custody accounts for foreign and central banks. We have about $3 trillion of foreign central bank assets in custody at the New York Fed.

We have the largest holdings of gold in the world in the vault of the New York Fed, so someone has to protect that. We have a number of people in the Protection and Law Enforcement Services that make sure that the gold is safe regardless of what one of the Die Hard movies implied, that it could be robbed pretty easily. That's not the case.

When I became the President of the Bank, I actually rented out the Die Hard movie because I wanted to see if it was plausible – the way they stole the gold from the New York Fed, and it turned out that they sort of glossed over that. There was apparently supposedly a subway line that was really close to the gold vault, and so they just had to punch a little hole in the subway tunnel and the gold vault was right there. But it doesn't really actually work that way. So sorry.

My point is, there's a lot of different activities that we do. Obviously in education, Bachelor's or Master's, is sort of I think probably a good place to start. The more analytical skills you can get in terms of math and economics and business – those are the skills that are very attractive to us. Training and public policy because that's what we do, is very important.

It's a great place to work. The typical New York Fed employee joins the Bank and says I'm going to be here two, three years. And then the next stop I ask them how long have you been here? "25, 30 years." Which I think means that it has – it's a good place to work. Reasonable pay, good benefits But mainly, a great culture. People are very committed to what we do. People have a strong sense of mission and integrity.

I tell people that one of the great things about working at the New York Fed is there's no moral ambiguity at any day about why I'm going to work. We're there to serve the public interest, and that's a nice thing to think about every day when you go to the office. You don't have to think about, well, why am I doing this exactly? Well, we're trying to serve the public interest, keep the economy on an even-keel, and execute on our mission as the New York Fed.

The New York Fed is a little different than the other Reserve Banks because we're really the operational arm of the Federal Reserve System for many, many different things. So, it's sort of interesting. We do policy, and we do operations. Very unlike most central banks around the world, where the policy and operations are all in headquarters down in Washington. In the Federal Reserve it's split, with the New York Fed doing a lot of the operational activities of the Federal Reserve System. It's a pretty cool place. Check us out!

Dr. Olajide Oladipo:

I will surely do. The Federal Reserve has been around since 1913. How would you compare the 1929 Depression to that of 2008?

President Dudley:

Well, very different outcome. In 1929, the stock market crash led to a widespread banking panic, where people basically tried to get their money out of banks because they were afraid the banks were going to fail. And of course in the process of trying to pull all those deposits out of the banks, the banks didn't have enough money, so a lot of banks actually did fail. And in fact, in 1933, FDR declared a national banking holiday where all the banks were closed for a period of time.

Fortunately, we didn't get to that point during this crisis. The Federal Reserve, and many other people around the world, pulled out all the stops to avoid the collapse of the banking system, of the financial system, and as a consequence, we had a bad recession – worst recession that we've had since in the post-WWII period, but far short of what happened in the Great Depression.

The Great Depression, the unemployment rate I think climbed above 20%. The price level, the level of prices dropped by about I think a third. So it was a really absolutely horrendous experience. If you talk to someone like my mother, my mom's 94 years old, she was a relatively young girl during the Depression. She still remembers and talks about it, just incredibly searing. People were out of work for really until WWII. The Crash started in 1929, the U.S. economy really didn't get back to close to full employment, only in the 1940s, and because of WWII.

Dr. Olajide Oladipo:

Thank you.

President Dudley:

So this time was quite a bit different, thank God.

Dr. Olajide Oladipo:

I'm sure that everybody here invests. And they are ... students in economics and finance. We talk about investment. I wanted to shed light or your perspective on how the fixed income investor performed in the last eight years, please.

President Dudley:

Well, the fixed income market has been a good place to be because, basically, interest rates have been generally coming down, if you look at long-term bond yields. So, we would like to look at the government debt issue by the U.S. Treasury. Ten-year government debt is trading today about 2.4% which is pretty low, and credit spreads have narrowed over that period. So, fixed income has been a pretty good place to be invested in over the last 8 years.

Same thing with U.S. equity market, though, for that matter. If you bought the U.S. equity market at the very bottom in 2009, it's more than tripled in price since then. As an investor, you've done pretty well if you've stayed invested through that entire period.

Now, I would expect that fixed income investing is going to be less attractive going forward because interest rates still are at a very, very low level. So, some of the gains that people have seen in fixed income have been really prices going up because interest rates were declining. And I think that you're probably not going to see prices going up a lot because interest rates are declining going forward.

So I would guess most likely, most people think that short-term interest rates will gradually rise over the next couple of years. That certainly is what the Federal Open Market Committee expects, and as that happens people generally expect that longer-term interest rates will eventually rise. And so that means that there will probably be a little bit less good returns in the fixed income market compared to the last 8 years.

We've had a bull market in fixed income really going back to 1982. My first house I ever bought, mortgage rates at the time were 17%. They're now around 4%. I got financing from the seller. I got a 12% mortgage. I thought it was a really good deal. So now mortgage rates are around 4%. We've had a very, very long bull market in fixed income. People are debating now whether this is the end of that bull market or it's going to go on for a little bit further. So, we'll see.

Dr. Olajide Oladipo:

Thank you. If you look at the global economy, it's looking buoyant now. Also the national economy, which is the United States economy, is looking buoyant now. I wanted to ask you, looking at the United States, which region do you think is growing at the moment?

President Dudley:

I would answer that question, which region is growing at the moment, in two ways. Regionally, in terms of the geography of the United States, it's really the South and West, and this has been a pattern for a long time, that there has been sort of a migration to – when they invented airlconditioning, they made the South a lot more attractive to people. And so the South and West have been growing faster than the country as a whole for a very long time.

Now there are some pockets of weakness there because we had a big collapse in energy prices, so some of the areas in the South and West that are very dependent on the energy sector are probably a little bit less robust. So, that's the first way I would describe it.

The second way I would describe it is rural/suburban/urban. There's been a tremendous shift in people's enthusiasm for living in big cities, and that's really one reason why New York City is doing so well because people basically want to live in the big cities, especially younger people. And so you're seeing the cities, especially the big cities, outperform the smaller cities and outperform the rural areas. New York City has actually been very much a beneficiary of this, relative to many other parts of the country.

Dr. Olajide Oladipo:

Thank you. I'm sure now that we may have questions from the audience. To my right we have – a stand there. And to my left, we have another. If you have questions, please, students, colleagues? It's time for Q&A. If you have any questions, please.

Audience Member:

Good morning, and welcome to your college. Although the Die Hard scenario may not work in reality, cybercrime has been a greater threat to the financial system. And recently, it was reported that North Korea was able to illegally transfer monies from a Bangladesh account at the Fed to an account at the Philippines. What's being done to protect funds that are held not only at the Fed but also at other financial institutions?

President Dudley:

Well, that's a good question. Cybersecurity is a really important activity for us at the Fed. We want to make sure that not only is the Federal Reserve well-protected but also the banks that we supervise are also well-protected against cyber-risk.

This is a particularly hard risk to evaluate on any given day because we're trying to improve our defenses, but the bad guys are also improving their capabilities. So, we do a lot of different activities within the bank to make sure that we're secure from a cyber-perspective. For example, we phish our employees, and we send them emails that sort of suggest that if you'll click on this, and if you click on this you get a message from our Information Technology Department that you've been phished and you learn that you have to be a lot more careful about what you actually click on. That's important because a threat can both come from outside, but it can also come from within.

The other thing we've done is we're spending a lot of time internationally to try to make the financial system safer by making sure that the payment executer, their systems are secure. So, think of that as Bangladesh. That the messenger, who the person is who's transmitting the payment, this is SWIFT, is secure. And the receiver. So in this case, the New York Fed is secure. That goes for anybody who is executing payments. It doesn't have to be Bangladesh, through the SWIFT, to the New York Fed. It's anybody executing a payment through any payment medium to any receiver.

The thing that we're trying to work on internationally is to try to make sure that everyone understands their responsibilities in that chain. So, it's really important that the person executing the payment, that their facilities are secured.

What seemed to be the case in the Bangladesh situation was their facilities were not secured, so someone executed a payment that looked completely authentic through the SWIFT pipes to the New York Fed. It was an authentic payment – it looked like an authentic payment when we executed on some of those payments – not all of those payments.

So, we need to make sure that that first leg is buttoned up, and also we need to make sure that everyone understands their responsibility along that chain.

So, this is something that we take very seriously. We're working also with the institutions that we interact with. One of the things that the Federal Reserve runs – the New York Fed runs – is called FedWire, so if you have to wire money, if someone needs the money immediately, you can wire that through a New York clearinghouse in the CHIPS system, or you can wire that through FedWire. It's really important that – and FedWire interacts with lots of institutions around the country. We need to make sure that all those institutions that interact with FedWire also have their systems secured.

So, it's a big issue. We spend a lot of resources on it. We're going to continue to spend a lot of resources on it. We take it very seriously.

Audience Member:

We welcome you to Jamaica. I'd just like to ask, there have been some other regulatory measures taken over the past couple of decades. As I understand it, they repealed the Glass-Steagall Act and also passed the Sarbanes-Oxley laws. Would you say that these things had any effect on the 2008 recession, or has Congress been more responsible than not for the recession?

President Dudley:

I think that – well, I think Sarbanes-Oxley is actually – was basically about good financial reporting, good financial accounting. Accountability of the people at the top of the house for all the financial records and statements. The Federal Reserve is not subject by law to Sarbanes-Oxley, but we actually follow Sarbanes-Oxley nevertheless. We think it's good governance. So, I would say Sarbanes-Oxley generally makes the system safer because it makes it much harder for people to – it really deters fraud and manipulation of financial accounts in a way that I think is very, very positive.

The second part was?

Audience Member:

Glass-Steagall?

President Dudley:

Glass-Steagall. Well, I think that – the Glass-Steagall Act was an act that was passed in the 1930s that basically said that you could either be in commercial banking or you could be in investment banking. You couldn't be in both. And so this is an act that basically forced the Morgan Company to separate into Morgan Stanley and J.P. Morgan. Now what happened was many years later in the 1980s, I actually was involved with this because I was working at J.P. Morgan at the time, people started to say, "Look, if I'm a big commercial bank like J.P. Morgan, I'm losing all my customers who are going to the securities market. I need to follow my customers, but I can't because of Glass-Steagall." And they found that there was a loophole, Section 20 of the Glass-Steagall Act basically said that you can't be principally-engaged in securities activities. So, it meant that you could be engaged but just as long as it wasn't principally-engaged. And so this is a little loophole that a number of firms managed to exploit. And so they actually found a way to get into some securities activities, and then Glass-Steagall Act a number of years later was actually formally repealed because the firms were already, essentially, in the business.

Now my own personal view is that I don't think the Glass-Steagall Act had much to do with the great financial crisis. If you look at the firms that got into great difficulty, at the earliest stages – Bear Stearns and Lehman Brothers, AIG – they really had nothing to do with Glass-Steagall because they really weren't banks and securities firms. They were securities firms and insurance companies. My own view is that the Glass-Steagall Act was not a major – the repeal of the Glass-Steagall Act was not a major factor behind the Great Recession and the financial crisis.

Now this is something that people probably would debate. Other people might have somewhat different views. You could repeal the Glass-Steagall Act again. I think it would obviously require a lot of financial corporate restructuring because there are a lot of firms in the U.S. that are in both the securities business and the commercial banking business today. I think that there are links between those two businesses. It probably helps those firms, satisfy the demands of their large corporate clients more easily than if you had to separate them into separate entities. But you could do it.

One thing I would say if you do do it, you better have a mechanism in place to make sure that those large securities firms that are left actually are well-regulated, well-capitalized, have enough liquidity, and have access to a lender of last-resort.

One of the problems that we had in the financial crisis is there wasn't a good method to lend to securities firms. By law, the Federal Reserve discount window – this is the facility that we have open to commercial banks – were not allowed to have that discount window open to securities firms.

So, in the crisis, we had to do extraordinary lending activities to securities firms. We need a better lender of last resort backstop for securities firms.

If you decide to repeal Glass-Steagall and separate commercial banks from securities firms, that's not something that I would recommend, but if you were to do that, make sure you have a way of backstopping the securities industry, too, so if a big securities firm gets in trouble it doesn't threaten the entire financial system.

Dr. Olajide Oladipo:

Thank you. I'll be expecting questions from students, too.

Audience Member:

Not a student.

President Dudley:

But you're a student of something, right?

Audience Member:

My concern is MWBEs. I feel that the racist element within our capitalization has not allowed us to participate in the economy on an equal level by having access to capital. The government's asking for 30% on major projects. For example, at LaGuardia, we have a $5 billion project. Contracts to facilitate that will probably be too high for many minority and women-owned businesses. Therefore, if we don't have access to capital, we won't even be allowed to bid on that work. And that's when fraud comes in, when a major contractor proposes to a small contractor, "I'll help you out if you bid, give you give me a number on this contract."

If we had access to capital, we then bid. I'd like you to take a look at what the New York State Department of School Construction Authorities are doing. They worked out a system that allows us to bid on major contracts. If you took a look at that, because we need some ingenious new ways of financing. We don't have a black bank per se. There were 94 black banks across this country, now there's only 23. Some of the banks that's going out of business, I don't think is kosher, but something has to be done to allow us to participate in the marketplace.

On your material, you have listed some organizations within the minority community that you deal with. I'd like to recommend some additional organizations. For example, the ones that are primarily interested in the flow of contracts and development. I'm not in a prime area of what's going on today. In addition, for example, we have here at York College one of the best small business development sectors. They're number one in the state a couple of times.

President Dudley:

I agree with your concern. Is there a question?

Audience Member:

Yes, what can you do to set up financial resources for minority and women-owned businesses to become involved in the economy? Whether that's establishing a bank – we've asked the controller to control this, let him set up a funding source for us using pension funds, and there's a way to do that, if you look at it. But we need you to be an advocate for us in that area, but help us come up with an ingenious idea for how we can develop access to capital.

President Dudley:

Well, I certainly agree with the importance of access to capital, and I certainly agree with you in the importance of having minority work enterprises have the ability to participate in economic development and bidding on contracts. We don't have the legal authority to do anything direct, but we have a lot of convening authority. One thing that we do do is we do continuing workshops, conferences, symposiums. We've had a number of things with small businesses on how small businesses can get access to credit, how small businesses can figure out how to export their goods and services.

And so this is something that for you to talk to our regional development people on how we could be helpful. Because we definitely think this is an important issue, and we definitely want to be helpful and use the resources we have, both in terms of research and our convening power, to try to take this forward. So, let's have a conversation.

Dr. Olajide Oladipo:

Next question please. I'm still expecting a student.

President Dudley:

Good morning. My question will be in the form of appeal. This is for small homeowners. Recently, the Fed announced about increasing the interest rate. But I don't know how long the Federal Open Markets Operations committee will actually sit for that. But what I'm appealing for is for that period to be extended. We just came out from an economic recession. Thank God we didn't get to the depression part of that business cycle. Many homeowners basically, particularly small homeowners, they are struggling to fix their credits. And because their credit scores are so terrible, they cannot refinance, and therefore they are locked in with high interest rates – we are talking about thousands and thousands of dollars. Banks are making money off them because they cannot refinance.

If you go ahead and increase that interest rates when they are still struggling to pay what they have now, I think many will lose their homes. So, my appeal is for the Fed to please, let the current interest rates stay – give a little bit more room for small homeowners to fix their credit scores so that they can refinance. Thank you.

President Dudley:

Well, first thing I would say is the level of interest rates are still pretty darn low. The federal fund rate, that's the rate we target, is three-quarters of a percent to 1%. And we've only raised interest rates twice since the end of the Recession eight years ago. It's important to recognize that the trajectory has been very, very shallow because we are aware of some of the issues that you're raising and we're trying to get the balance right.

End of the day, what are we trying to accomplish? We want to have an economy that can grow for a long time. So, we want to keep the economy in balance growing at a rate that is sustainable over the medium- to longer-run. What we're trying to do is find that level of interest rates that's just right. Now we recognize that anytime that we change interest rates, it's going to help some people, and it's going to hurt other people. So, on the other side of the story are all the people, like my mom, who are savers and they're unhappy. They've been unhappy for the last eight years because interest rates have been so low. So, we're trying to get that balance right.

I think we've been pretty cautious in terms of how we've been raising interest rates because of some of the concerns that you raise. Janet Yellen, who's the Chair of the Federal Reserve, has talked about the headwinds that have been slowing down the U.S. economy.

One of those headwinds is exactly what you're talking about, the fact that people are locked into homes because their homes are either underwater, the value of the homes are less than the value of their mortgages, or because their credit-rating was damaged during the Financial Crisis because people lost their jobs, and so their credit-rating was impaired. And so that's really the reason why we've been so delicate and so slow in actually raising interest rates. It's partly exactly what you're talking about.

Dr. Olajide Oladipo:

Thank you.

Audience Member:

Good morning. Thank you for being here. One of the things that we've been looking at here in Southeast Queens is the establishment of CDFIs, additional CDFIs to support the growth and the access to capital of small businesses. Would you comment a little bit about what do you see as the future of CDFIs going forward in this economic climate, and any suggestions that you would have to support us in doing that? Thank you.

President Dudley:

Well, I guess I sort of think of CDFIs as doing God's work in some ways because the hardest thing for someone with a really good idea and starting a small business is to get that initial bit of capital to establish a track record. Banks, as you know, are reluctant to lend to startlup businesses because the firms don't have collateral to pledge against the loans, and they don't have a track record of experience. So CDFIs are really the group that can provide that lifeblood to small business enterprises at the start-up stage.

It's also very resource-intensive to lend to small businesses, so the economics don't work very well for a for-profit company. So, I'm a big fan of CDFIs. We think it's really an important avenue, especially in less developed areas where getting a small business well-established can create local jobs which can create a virtuous circle in terms of economic development. So, this is something that we definitely want to encourage over time, and anything that we can do to be helpful – we try to partner with the CFI community to be helpful, in terms of providing data, information. We have a lot of very detailed information about the local economies and we can be, I think, helpful in actually providing some information and support to the CDFIs.

Audience Member:

Good morning. I want to thank you for coming here and sharing some information with us. I have two specific questions I wanted to ask. A lot of us, we've already talked about access to capital, which is a huge thing. For those who don't know, Sen. Sanders is the ranking Democrat on the Banking Committee for New York State. My first question is how do we establish a better relationship with your organization in an effort to – we can get this information that you have and its resources on the grassroot level? And my second question is –

President Dudley:

All you have to do is give me your card afterwards.

Audience Member:

Oh, okay. My second question is we've done an assessment of the economic state of Southeast Queens, Sen. Sanders' office, and a majority of our residents here are considered banked and under-banked. My question to you is a lot of ... especially for – we have a huge population of Millennials, we're looking to purchase homes in our area. A lot of us make under $50,000 and probably have some problems with credit.

But my question with the home buyers programs is there a way, or how can we have a conversation about increasing the matching funds because the highest that the rates for the federal home buyers program is 4:1. And we want to talk about how we can get that to 10:1 so it can help, it can match the demographics, economic demographics, of our community, so people can start receiving in tangible resources like purchasing a home with the resources that they have.

President Dudley:

I'm not an expert in the issue of how much money you need to match. I don't think I can speak to that directly. But clearly getting people the resources so that they can become homeowners in a prudent way is a good thing. And what we saw in the financial crisis, in the run-up to the financial crisis, is that we were giving credit to people in an imprudent way. I think as long as it can be done in a prudent way, where people understand the responsibilities, have the income to pay on their mortgages, I think it's something that we definitely want to encourage.

So, what I would suggest is give me your card, and I'll give it to the right people in the Federal Reserve Bank of New York, and we'll have a conversation and see what we can do. This is not something that we could probably be involved in directly, as a funding provider. Legally, we don't have the authority.

The Federal Reserve is pretty powerful in terms of monetary policy. But our mandate is also pretty narrow in terms of what we're allowed to do.

I remember during the financial crisis, people were coming in and saying, "you should do this, you should do that, you should do that." And most of the things that they were suggesting that we do were some things that were not actually allowed by the Federal Reserve Act that was passed back in 1913. Come talk to us and we will see what we can do.

Audience Member:

Greetings, good morning to – or good afternoon to you and your guest. Now while it would be interesting to speak of why the New York Fed and the Atlanta Fed are differing on their economic forecasts, that might be interesting, but I want to speak to something far more local. Far more local.

This community, and communities like this, were devastated, were ravaged – and I could use a stronger word – during the financial crisis of 2008. We've never recovered from this. The black community lost approximately 50% of its wealth in four years. 50% of the wealth accumulated from slavery till today lost in four years. No one, of course, was ever jailed for these things, no one was ever – very little punishment, if anything, was done. I understand that while you may want to do or feel strongly it's not the purview of the Federal Reserve – I understand that.

Using your researchers at Liberty and other parts of your organization, I need to know what laws that I can put on the books to protect communities like this. We're about to go back into another phase of exotic mortgage-lending, and I will humbly differ with you on Glass-Steagall, of course.

We're about to go into another phase of exotic lending. They call it exotic lending. We call it predatory lending, and we pay for it. We can expect that again. What laws can I – what do we need to put on the books to protect communities like this? Liberty and other organizations, research organizations, that you guys have can come up with some of these things. I look forward to speaking with you later today.

President Dudley:

Okay. On this issue of predatory lending, I mean this is – I think you raised a very good point, and this is something that we actually heard about small business lending when we were up I think in the Bronx awhile back, where, basically, people have these come-ons to lend money to small business, and it seems attractive on the surface, but it turns out that the actual rate of interest that people are paying is prohibitive to be able to run a successful business. So, I think the predatory lending thing is a completely important issue that we do need to address. Obviously, the Small Business Administration can play a role in this. I think we would certainly be interested in having a conversation about it, because I think it is a really serious issue.

I mean one of the problems, just more broadly, is financial literacy in the United States. Part of the reason that predatory lending can work is because people don't really have a good idea –they don't know enough about the financial system, about the economy, about what's a good value or not. They just say, "What's my payment going to be next month?" And if the payment is low, they don't look at the fine print about what the payment is going to be not next month, but a year from now, or two years from now. And that's how they get into a great deal of difficulty. So, I think not just working on the predatory loans writ narrow, but also on the issue of financial literacy writ large, I think colleges like this one can do a lot in making sure that when people graduate, they have a level of financial literacy that can help them navigate through the world.

The number of scams that are out there now are just extraordinary. Sometimes people will pretend that they're me and they send letterhead out supposedly from me telling people that if they were to send a bunch of money to someone, the New York Fed would release a check for a large amount of money, and people actually believe this. Now, my advice to people always is if something seems too good to be true, it probably is. But unfortunately people offer these things, and it's really quite tragic, because the people who fall for these things often are people that are not so sophisticated, of not so large means, and they can't afford to be sending money to fraudsters hoping that there might be a big prize from the Federal Reserve Bank in New York or somewhere else down the road, which of course there's not.

Dr. Olajide Oladipo:

Thank you. I think we have – I just have time to take only one more question.

Audience Member:

Actually, the question I wanted to ask is for the students. Why do you refuse to ask questions?

Dr. Olajide Oladipo:

Somebody wants to ask now. Thank you.

Audience Member:

How are you, sir? My question for you today is what are, or were, your daily habits or rituals that helped you get to the level of success that you have today?

President Dudley:

Oooh, I can't think of any rituals. Habits. I guess what I would say is I've always just tried to learn more. So basically, it's always about trying to find opportunity to, what I call, grow my human capital. So, I think – my view of the way to success is find a job that's interesting to you, because you need that passion about what you do. If you don't have passion about what you do, it's not going to feel like a lot of fun and you're not going to do it with a great enthusiasm. So, if it's not fun and you're not enthusiastic, you're probably not going to do very well at it. So, the first thing is to find something that you're really liking, you're enthusiastic about.

And two, basically find something where you can continue to learn. If you get into a job and you've been in the job for a long time and you're doing the same thing, you've sort of mastered the job, then it's probably time to move on.

I was at a large investment bank for many years – 20 years to be exact – and I decided at the end of 2005 that I was going to retire because there was no job that they had that they would give me that I wanted. And vice versa. There was no job I wanted that they would give me. So it was sort of, I can keep doing my same job of being the Chief U.S. Economist and continue to do that for a great many, many years. But at that point I felt I was no longer learning so much. I was bringing in a little bit less enthusiasm to the job, and so, it was time for a change. I didn't know what that change was, and after I announced I was retiring, Tim Geithner, who was the President of the Federal Reserve Bank of New York at the time, called me up. First conversation was, he asked me if I'd be an advisor at the New York Fed. I said, "Tim, that's a great job. I really like you, I'd love to work with you, but what do I do the 39 other hours of the week besides advise you?" And then a couple of weeks or months later, I can't remember exactly how long it was, he called up again and said, "Well, how would you like to come to the New York Fed and run the Markets Group?" Markets Group at the time had about 230 employees. They executed monetary policy for the

Federal Reserve Bank of New York. I wasn't sure I was going to have any time to talk to Tim Geithner in that role. And so I said yes immediately.

Dr. Olajide Oladipo:

You have a question? Are you a student?

Audience Member:

Yes, I am.

Dr. Olajide Oladipo:

Thank you.

Audience Member:

I am a student. Thank you so much for taking the time and speaking to us. My question was, being from a younger generation, I'm definitely interested in investing, but what would be your biggest piece of advice. Especially for us, the younger generation, with a limited budget, what would you – how should we go about it?

President Dudley:

Well, I don't think I've ever been asked for investing advice before now. It's probably not appropriate for the Federal Reserve to give out investing advice. I think the first thing is you want to get knowledgeable. I think the first thing is you want to get some knowledge before you start to invest. And recognize that there are no quick, get-rich-quick schemes. If something seems to be too good to be true, it probably is.

I remember when I got out of college, back in 1974, a long time ago, I decided – I had this very small amount of money that my great-grandmother left to me, I think it was $2,000, and I decided I was going to go out and invest. And I have to say, at the beginning, I didn't really know what I was doing. But I read a lot of books and I got really pretty well educated. There's a lot of good books in the market, and I think you can actually educate yourself. And if you do that I think then you can start to gingerly start to invest. And you'll learn as you go. It's a long journey. I've learned things as I invested over the years. Now I don't do anything, but I'm sort of retired from investing in my current role. But part of that I found that I kept learning it over a very long period of time. So, it wasn't like the journey of knowledge was over at any point in time. But first thing is to find a really good book on investing, and read that. When I did it, I read probably five or ten different books, and that gave me a good sort of basis for thinking about investing. But before investing, make sure you have that $400 that you need in case an emergency comes up.

Audience Member:

Thank you.

President Dudley:

Thank you.

Dr. Olajide Oladipo:

With two good questions from our students, I think I'm comfortable now to bring the discussion to an end.