CFI in Focus

A Guide to the Philadelphia Fed's Multifaceted Contributions to Housing and Mortgage Research and Policy

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Housing is critical to economic well-being, from the national perspective to the household level. It's the largest cost in most household budgets and a key component of how we measure price growth and inflation. Whether a community has enough quality, affordable housing to rent or buy is a major component of quality of life and determines firms' ability to attract workers. How easily and equitably home *buyers* can finance purchases affects who can buy a home. How easily home*owners* can borrow against their home equity greatly influences the improvements they make to their homes, the vacations they take, how they pay for their children's education, or even how long they live in their homes after they retire. It's impossible to overstate the impact that housing has on our lives and our economy.

As an employee of the Philadelphia Fed, I speak to groups of students and professors, policymakers, or fellow researchers from time to time about the work we do that's related to housing and mortgage markets. Each time, people are surprised at the breadth of the Fed's responsibilities and impact in this space: "The Fed does *all of that*?" Many know about our role in monetary policy and realize how that influences mortgage interest rates, but much of the rest of what we do isn't routinely covered by the media or in classes about economics taught in high school and college.

Although each of the 12 Reserve Banks in the Federal Reserve System monitors current housing conditions and conducts research and outreach, ours has one of the largest concentrations of experts in housing and mortgages. And, while these experts may work in different areas of the Bank, [the Consumer Finance Institute] (CFI) was established in 2017 to help coordinate how we share household finance-related research and policy analyses by Bank experts with the public, including but not limited to our

[1] The views expressed here are those of the author and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System. No statements here should be treated as legal advice.

work on housing and mortgage markets. Moreover, CFI supports research collaborations within our Bank as well as with visiting scholars, academic advisors, and, as appropriate, industry practitioners.

In this *CFI in Focus* article, I want to share an inside look at our Bank's role, which falls into four main types of activities: monetary policy, bank supervision, public outreach and convenings, and in producing research and data resources. Of course, there's no way for me to do justice to all my colleagues' work in this brief article, but I've provided links to resources where you can learn more about the Reserve Bank's work in housing and mortgages. And for more information on the Federal Reserve's work more generally, see "The Fed Explained: What the Central Bank Does."

Monetary Policy: Maintaining a Strong Economy and Price Stability

The Fed's mandate is to promote the goals of maximum employment and stable prices. Perhaps nowhere is this clearer than in our monetary policy work. Eight times a year (and additionally as needed), the Federal Open Market Committee (FOMC)[2] meets in Washington, D.C., to discuss current economic conditions and forecasts, and then to make decisions about U.S. monetary policy. The FOMC consists of 12 members — the seven members of the Board of Governors of the Federal Reserve System, the president of the New York Fed, and a rotating set of four of the remaining 11 Reserve Bank presidents. Whether or not they are currently a voting member of the FOMC, each Reserve Bank's president attends these meetings, participates in the discussions, and contributes to the Committee's assessment of the economy and policy options.

Before each FOMC meeting, Philadelphia Fed staff members brief our Reserve Bank president on current economic and financial conditions in the region and the nation, as well as the outlook for the future path of the economy and the appropriate path of policy. Because housing is such a large part of the economy (and a potential channel through which monetary policy affects economic conditions), each FOMC cycle's briefings include information on how housing and mortgage markets are functioning, which we collect using publicly available data, data provided by lenders, data collected through regulatory processes, and information from industry contacts, such as that reported in the Beige Book.[3] We examine topics such as new housing construction, home sales, the volume and interest rates of new mortgages being taken out,

[2] The Board of Governors gives a fuller description of the FOMC and its activities in this summary.

[3] Each Reserve Bank contributes to the Beige Book, collecting and analyzing information from businesspeople working in their Districts. The Beige Books are public and can be found on the Federal Reserve Board's website.

and how many mortgage borrowers are past due on their payments. When mortgage interest rates change, we consider questions such as how many borrowers refinance, whether they take out cash when they do, and how much of that cash might fuel GDP growth through increased consumption.

Bank Supervision: Understanding and Safeguarding the Nation's Financial System and Promoting Fair and Impartial Access to Credit

Our bank supervision function impacts housing primarily through its oversight of residential mortgage lending. Bank examiners, lawyers, analysts, and economists team up to promote the safety and soundness of the financial institutions we regulate, to ensure the customers of these institutions are treated fairly, and to serve as a center of knowledge and resources for our District. Our Reserve Bank's experts also play a significant role in national supervision efforts.

Safety and Soundness: Financial institutions that originate, service, or hold mortgages on their books have to assess and understand the risk and value of those loans. Our supervision staff members surveil and evaluate banks' holdings to ensure they comply with current supervisory guidelines. In addition, our staff members create statistical models that forecast the losses a bank's portfolio of mortgages (or mortgage-backed securities) may experience under scenarios in which the economy suffers (e.g., unemployment rises and house price declines). The Philadelphia Fed's expert modelers play an integral role in creating and executing the mortgage components of the Federal Reserve System's large bank stress tests required by the Dodd–Frank Wall Street Reform and Consumer Protection Act. Our staff members also help oversee the collection of mortgage account data by lenders subject to stress testing, and we warehouse that confidential data for use by regulators. In 2022, Philadelphia staff began releasing key data points from these mortgage data, aggregated across firms, known as the Large Bank Credit Card and Mortgage Data. These data, updated quarterly, include facts such as median credit scores, loan-to-value ratios, and dollar volumes of newly originated loans and the portfolio of active loans held by large banks.

Consumer Compliance: Our compliance examiners ensure state member lending institutions (that is, those banks under Philadelphia Fed oversight) comply with consumer protection laws such as the Community Reinvestment Act, the Equal Credit Opportunity Act, and the Fair Housing Act. More information about these laws and the work the examiners do to enforce them can be found in the

Consumer Compliance Handbook, published by the Federal Reserve Board's Division of Consumer and Community Affairs.

Community Outreach and Convening Stakeholders and Subject Matter Experts

At the Philadelphia Fed, we work to build connections with stakeholders in our communities and subject matter experts at colleges and universities, other government and regulatory agencies, nonprofit organizations, and in the industry. We host conferences, workshops, and roundtables on housing- and mortgage-related topics, where we convene these groups to share information through presentations and discussions. One example is our 2022 Mortgage Market Research Conference, which featured eight cutting-edge research papers and two panels of mortgage experts discussing emerging methods, data, and mortgage market conditions in the wake of the COVID-19 pandemic. The hybrid (in-person/virtual) conference attracted more than 100 participants from around the world.

Also in 2022, our staff organized "Advancing Homeownership Opportunity to Narrow Racial Disparities," a two-part series of online panels in which experts discussed barriers to minority homeownership and examples of policy best practices to expand sustainable homeownership. Recordings of the events are available on the event web page. In September 2023, staff members reconvened the series with additional guest speakers to discuss innovations in mortgage underwriting and other programs, including down-payment assistance, lease-to-purchase, community land trust, and special purpose credit programs.

The Bank's Supervisory Research Forum (SURF) regularly organizes seminars, workshops, and conferences on mortgage-related topics for regulators, policymakers, and subject matter experts in the risk management, supervision, and regulation of financial institutions. Recordings of many of its past events, including its annual fintech conference, can be accessed on SURF's YouTube playlist.

Conducting Rigorous, Independent Research and Creating New Data Resources on Mortgage Markets and Housing

Our experts undertake original, objective research to further our understanding of housing and mortgage issues. Most of this research is shared with the public in the form of working papers, research briefs, or other articles that we provide at no cost to readers via our website. Much of this output is ultimately published in peer-reviewed academic journals. Often we distill lengthier research projects into shorter, nontechnical *Economic Insights* articles, which are written for a wide audience. Sometimes our research is meant for an internal audience, at least initially, and is used to support confidential responsibilities such as our preparations for FOMC meetings or to enhance bank supervision efforts, including stress test model development research.

We undertake research to further our mission of creating the conditions that generate jobs, promote price stability, and foster economic growth, so we produce work on a variety of housing- and mortgage-related topics, from issues like the estimated cost of necessary home repairs and weatherization to studying owner-occupancy fraud in mortgage lending and performance. We believe the best public policy is informed by the very best research and that in order to contribute we must be working at the frontiers of economic analysis.

Our Philadelphia Fed experts contribute to this mission in different ways, and so often our researchers also confront these topics from different perspectives. For example, economists in our Research Department often take a macroeconomic perspective, focused on how housing conditions may impact the broader economy, while researchers in our Supervision, Regulation, and Credit Department are often focused on lending risks and financial institutions because of the nature of their supervisory work. Experts in our Consumer Finance Institute tend to focus on the perspective of household financial well-being, and those in our Community Development and Regional Outreach Department often further focus on the economic health of households and communities in the Federal Reserve's Third District (the area the Philadelphia Fed serves, including Delaware, eastern and central Pennsylvania, and southern New Jersey).

Frequently, researchers across our departments use their different perspectives to study common themes. In particular, a number of our studies in recent years focused on the COVID-19 pandemic and housing-related economic inequality.

The COVID-19 Pandemic

Often our research is triggered by changes in the economy. For example, our researchers sprang into action in 2020, assessing how households and financial markets were coping with COVID-19 pandemic-related shutdowns and sudden increases in unemployment. With the Great Recession-era nationwide foreclosure crisis in recent memory, Fed researchers and economists were acutely concerned with understanding how pandemic-related economic challenges might impact households' ability to continue making their mortgage payments — and further, how those struggles might affect financial markets. Our supervision economists began producing regular public reports on how many borrowers were using mortgage forbearance, and later, how many distressed borrowers' loan terms had been modified (and how).

These researchers also released a working paper about the use of forbearance by borrowers of different racial and ethnic groups. Our Consumer Finance Institute developed a 12-wave *CFI COVID-19 Survey of Consumers*, which we used to dig deeper into who used forbearance and why some borrowers who were struggling to make payments had not enrolled in a forbearance plan. Researchers also used the survey to examine the difficulties faced by renters and gather timely information on missed rental payments and use of renter assistance programs. Other researchers at our Reserve Bank studied the impact of rental eviction moratoria on evictions and other measures of household well-being.

At the same time that many were struggling to make their housing payments, interest rates were falling, causing many mortgage borrowers to attempt to lower their mortgage payments by refinancing. Fed researchers have written about how this boom in refinancing affected the mortgage market during the pandemic, including how constraints faced by mortgage lenders impacted the pass-through of lower interest rates to borrowers on new mortgages. Our researchers also examined the extent to which refinancing behavior differed between racial and ethnic groups, both nationally and in our region.

Inequality in Housing

Fed researchers are committed to identifying and understanding the causes of disparities in access to mortgages and housing, which dovetails with our mission to promote fair and impartial access to credit and inclusive growth. Recent work has investigated racial as well as age disparities in the denial rates for home purchase, refinance, and home equity withdrawal loans. Our researchers argue that disparities in access to credit contributes to the racial homeownership gap in Philadelphia, and they have released research and data documenting how the use of racially restrictive deed covenants in the early 20th century systematically excluded minority groups from some Philadelphia neighborhoods.

Recent work has also focused on how housing wealth is taxed or treated as savings and how these current practices can disproportionately affect low-income and minority households. For instance, researchers have examined regressivity of property taxes, both nationally and in Philadelphia specifically, as well as how the U.S. college financial aid system's treatment of parental assets (including home equity) has a disparate impact on racial and ethnic minority groups' access to financial aid.

In conducting research projects, we often compile new data sources or construct innovative data visualization tools, and we try to share those resources with the public whenever possible so that other interested parties can make use of them, too. For example, our Home Mortgage Explorer visualizes recent Home Mortgage Disclosure Act data on mortgage applications and originations in the U.S., and the Large Bank Credit Card and Mortgage Data include characteristics of new and existing loans owned or serviced by large banks. Our Rental Housing Affordability Data Tool examines trends in rental housing affordability in Third District states.

While much of our work is focused on current and recent conditions, sometimes our researchers take a historical perspective. Our Center for the REstoration of Economic Data (CREED), launched in 2023, advances research in regional economics and consumer finance by converting information in books, images, and other formats into ready-to-use, publicly available digital data. The center hosts an interactive map of racially restrictive covenants in Philadelphia and is digitizing property directory and sales data from the 1930s and 1940s to examine the evolution of housing access, pricing, and demographic characteristics at the property level. CREED is also working to recover and harmonize 70 years of housing and demographic census data at the block level.

Conclusion

As part of the broader Federal Reserve System, the Philadelphia Fed shapes the nation's monetary policy, supervises and regulates financial institutions, and promotes fair and impartial access to credit and inclusive economic growth. Well-functioning housing and mortgage markets are critical to the health of our economy, our financial system, and our households. The Philadelphia Fed has one of the largest concentrations of housing and mortgage experts in the System, contributing to monetary policy, bank supervision, and research. Visit our website to learn more about our experts and their recent work.