Tim:

... that we have. I would like to get right into our program because we have two very dynamic and important speakers. We have a house on fire housing crisis. Several commissioners, former commissioners of the housing agency wrote an editorial to that point last December. The good news is because of the leadership of our current housing commissioner, we are making progress on a 1 billion dollar investment in housing. That is a really good start, isn't it? We have much more to do for a much longer period of time, but due to your advocacy, which must continue and the commissioners and others, great work, we are making progress and run the cusp of a great legislative session. We're going to hear first from Commissioner Ho after Commissioner Ho. We're going to have a panel with Anne Mavity, who is the President and CEO of MHP and Neel Kashkari, who is the president of the Minneapolis Federal Reserve Bank and also importantly, serves on the Federal Open Market Committee, which sets interest rates and the materials of their bios are in the agenda in your materials.

I had the opportunity to ask Neel a question in a recent gathering last fall and said, "Here's a challenge when the FOMC and the Fed raises interest rates, that affects the ability of people in this room and our many colleagues to build and finance housing in an efficient and cost-effective way, it's going to slow down the housing market and we haven't caught up since the last great recession. So what can the Fed do about that as it tries to control inflation?" I will let him repeat the answer. I won't steal away that thunder. So without further ado, I give you our Commissioner of Minnesota Housing, Jennifer Ho. Thank you, Jennifer.

Jennifer Ho:

Thanks, Tim. It's fun to be here with Tim and with Mary. It's amazing to me to be here at a moment in March where we know how the legislative session is going to end, at least in terms of what the bottom line is going to say to know already that we're going to end the session on May 22nd with a billion dollars is I don't even know that we need to bother going through the history books. Certainly in our lifetimes. I can't imagine that this has happened and it's extraordinary. The fact that we're talking about a billion dollars, I think is a tribute to the fact that not only do people know that the need is there, but they actually know that people like you are capable of delivering on that need. One of the things that I love about a billion dollars is that it allows us to think about the whole housing continuum because the whole housing continuum needs attention from single family homeownership, through rental, NOAH preservation, manufactured home communities, our public housing, solutions to homelessness and preventing it in the first place.

So up at the Capitol, we call this an, "And, and, and, and the budget," which is pretty fun. Just to put it in context for folks who aren't Minnesota Housing policy walks at the Capitol, a good year used to be about 10 million in one time money and a hundred million of bonding authorization. We got 50 million for family homeless prevention assistance fast track passed off the House Senate floor as of Monday. So we have already done better on appropriations than a really good session in times passed. But I think we also have a message to convey, which is that this isn't a problem with a one time solution that we need to set the bar that it's not a billion once. We need to do this by annum after by annum after by annum, if we're going to really resolve the housing challenges, really make it possible for people to afford the place that they live, really close the racial disparity in homeownership and really make sure that Minnesota has a housing infrastructure that's capable of sustaining an economy.

That is something that we really want to be a hallmark of the state. We want to make sure that we have a housing infrastructure that makes it the best place to raise a kid. So I agree wholeheartedly with Tim as per usual, not always. As per usual that we know how it's going to end, but what happens between now and May 22nd is also really, really important. So here's my ask of you, is that at the end of this session, let's view it as a win, win, win for housing. I'm not going to get everything I want. Not everybody's going to get everything they want, but what we're going to get is going to add up to a billion dollars, plus there's going to be an opportunity to do some other policy things, some other opportunities. There might be some things in the tax bill.

I honestly have been focused on the housing bill, but make sure that at the end of the session, I always realized in July, well, that the end of session felt good, but there's an opportunity for us to really make sure that the folks who are fighting hard for housing at the Capitol understand that what they're doing right now is important and that we can make this a win, win, win. I just want to give a shout-out quickly. Rachel Robinson and Mike Solomon. Mike? Behind Rachel, Ryan Baumtrag. Oh, I guess ... Yeah, we got the back row. Are here today. Ryan and I are going to run because the Senate's actually going through their budget, so I don't get to stay with you today, but I just want to say thank you. Thank you for your advocacy. Thank you for the work that you do every day to get more units in the ground to preserve housing, and thank you for just helping our neighborhoods, our communities, families, policy makers, move housing to become a top shelf issue at the Capitol this year. Let's keep it there. Thank you.

Speaker 3:

Okay. Are our mics on? You can hear me? Great. Well, thank you all for coming. Thank you to our commissioner and our former commissioner for getting us started today for this discussion with President of the Federal Reserve here, Neel Kashkari. So we are delighted. We're going to start our conversation with a couple remarks that you're going to set, what the Fed does and how you engage in the community, and then I'll ask some questions. But you all can start thinking of questions because we'll have some microphones going around the room as well towards the end. No speeches, just questions. Okay? With that, thank you so much for joining us today to talk about housing. I know it's a big component of the economy. It's not the whole thing, but it's a awful big part of it.

Neel Kashkari:

It is. Well, thank you.

Speaker 3:

We're delighted you're here.

Neel Kashkari:

Thank you. Thank you for having me. It's great to be with all of you. Great to see such a nice turnout. I'm going to speak just a moment about the Minneapolis Fed. Then I do want to talk about housing because that's why we're here. So the Minneapolis Fed is one of 12 Federal Reserve banks around the country. Congress created the Federal Reserve, our nation Central Bank in 1913, and they did something unique. They wanted all the different regions of the country to have a voice in the policy process. That's why they created these 12 distinct Federal Reserve banks, the ninth of which is here, the Minneapolis Fed.

Our job is to represent this region. This region it's defined in statute is Minnesota, North and South Dakota, Montana, the upper peninsula of Michigan, and Northwestern Wisconsin. It's actually a huge geography, very diverse economy. So a lot of my colleagues and I spend a lot of time traveling around the district making sure that we know what's happening in our regional economy. Then I go back to Washington, DC every six weeks and we have Federal Open Market Committee meetings, FOMC meetings where we set interest rates for the nation. Part of what I'm doing in those meetings is talking about what's happening here in our regional economy. Now, we cannot set a different interest rate for Minnesota and for California.

It's the same dollar. So it's one interest rate policy for the country, but we want to make sure that our region is part of that deliberative process. We also have, I want to acknowledge a board of directors that oversees each of the 12 reserve banks. We have a ninth district board of directors, and it's made up of local business community, civic leaders from around the region. So Paul Williams is on our board, thrilled to have Paul on our board. Kate Kelly for PNC Bank is a former board member, Harry Melander, former board member way in the back. We're able to recruit really high quality people who, as you can see, also happen to know something about housing because housing is such an important part of our economy. So thank you to Harry, Kate, and Paul for your service and thank you all for being here. If we have other board members that I'm missing, I apologize. That's just who I bumped into.

Now, let me talk about housing a little bit. I've been in my role for more than seven years now, and everywhere I go in our region, affordable housing or unaffordable housing is a top topic of conversation. It doesn't matter if you are in a red state or blue state, big city, small city, everywhere you go around our region, this is one of the top topics that people want to talk about. So I've spent a lot of time with our economists at the Minneapolis Fed with our board members like Harry and Paul and Kate and others to really try to understand what is at the root of this? Why is this such a widespread challenge across our region and across our country? I've drawn some conclusions. Number one, we segment this into two types of problems. Number one, there are people who have jobs, but they're at the lower end of the income distribution and they have an income problem. There's no apartment that they're going to afford that's reasonable. There's no house that they're going to afford. They fundamentally have an income problem.

There are fiscal policy solutions that are out there that can help them. Everything from housing vouchers can help them afford a place. There are things like earned income tax credits that boost people's income if they already have a job to give them some help. So one category are people who have an income problem. They need an income solution. But the problem is much bigger than that. You walk across this region and you meet not just low income families, middle class families who struggle to find that starter home to be able to afford a decent place for their kids to raise a family. It's much, much broader than just for lower income families. This, as we've studied it, is really a supply problem. We go around and we are simply not producing enough units of all types to meet the needs of families all across our region. It is fundamentally a supply problem. To me, I look at this as two different problems requiring different solutions. One is income for those folks who have an income problem, and then how do we mobilize the private sector to solve the supply problem?

The Minneapolis Fed with the Itasca Group did some analysis, and I think it says that we need to produce 18,000 units a year at least through 2030, which is an increase of about 30% overrun rate. That's a big boost. So how do we mobilize the private sector to be able to come in here and meet that need? Now, when I talk to real estate developers, this is not a criticism. Real estate developers are in the business of developing real estate and doing so profitably. That's what you're supposed to do. Well, why aren't they able to come in and meet the needs of customers who have good jobs? Why is there some kind of a disconnect? What I've found is there are extraordinary barriers that we erect to prevent people from building, and we never tell each other that's what we're doing. But that is what we're doing.

I'm going to give you some examples. When I go to Montana and get off the plane and people say, "Oh, my gosh. It's so expensive to live in Montana. Can't believe how unaffordable it is." I look around and I say, "Wow, I see a lot of vacant land. Why don't you build some homes over there?" "Oh, no, no, no, no. Those are great views. We don't want to disrupt those views." "Well, why don't you build some homes over there?" "Oh, no, no, no, no. That's near the river. We want to protect river access." When I really dig into it, and this is not all Montanans, but there's an undercurrent of we don't want more people to move here. Seriously. We like it. The show Yellowstone is very controversial because it's encouraged a lot of people to move to Montana. There are a lot of people in Montana who do not want more people to move to Montana.

So you can't say, "Well, you're from California. You're not allowed to buy this house." You can't do that, right? In our constitution, you can't do that. So you make it unaffordable. So people don't want to move here. Now, I'm not just picking on Montana. If you come to my city, I live in Orono, West suburbs, we have large lot sizes. If you wanted to build an affordable housing unit of complex in Orono or even a smaller lots in Orono, I'd expect my neighbors would be up in arms because they like their neighborhood the way it is, and they don't want more people to move there. So who's at the root of unaffordable housing? You and me. Those of us who own our homes, like our neighborhoods the way they are, and we don't want more people moving into our neighborhoods. So we erect all sorts of barriers to make it more expensive and more difficult to increase supply.

When I do it in my neighborhood and you do it in your neighborhood and you do it in your neighborhood, it raises costs for everybody. That's why we have such a widespread affordable housing problem. So I look at this and I think unaffordable housing is a choice that societies make, and we have to confront this head on if we are actually going to address this at scale, and we need to be able to address this at scale. I could go on and on. I want to show you some data, and then I want to open up the question. So this is a chart I had our economists pull together. Probably hard to see in the back. I apologize. The X axis is building permits per thousand housing units. So think about it. It's like how much construction. There is not absolute values relative to the size of the city on the X axis and the Y axis is cost, how expensive it is.

So you can see dots scattered up to the left and bottom of the right. Let's go to the next chart. So this are some of the cities. So up left, top left, San Francisco. They build very, very, very few units and it's very, very, very, very expensive. Bottom right, far on the right, it's relatively much cheaper than San Francisco. They build a ton in Austin and it's much lower expense. Then you've got Minneapolis. Actually, Minneapolis doesn't look that bad. We're bottom left. We don't build very much. We're not that expensive relative to other cities. Now, if we had shown this over time, you'll show Minneapolis going up in the chart. We used to be a much, much less expensive place to live, and we're heading towards San Francisco instead of heading towards Austin.

Next chart. What does the chart basically look like? Cities that don't build very much cost a lot more than cities that do build enough. That's the headline. So if we actually want to move the needle to make this place an affordable place to live, we got to build a lot more supply. So we got to figure out what are all the barriers? I talked about land use barriers, those are there. Other regulatory barriers, minimum lot sizes, minimum number of bedrooms. You all know this. You're all in the housing business. You know ahat all of these little micro regulations are, each micro regulation is well-intentioned on its own, but when you layer it together into this giant ball of yarn, it is a big inhibitor to bringing more supply online. One more chart. So the yellow dots here, again, I don't know if you can see it. These are cities that have adopted rent control. So now what comes first? High prices are rent control. I think high prices come first and then people get upset about it and they say, "Well, we need a rent control to stop them from going higher."

So I look at rent control cities, San Francisco, Boston, Portland, they're all scattered to the left. It's a trap. You get high prices. You say, "Well, we're going to adopt rent control to try to put a lid on it." Then you're stuck because you can never get down into the right because it's such an inhibitor to new supply coming online. So I'm not here to tell you what we should do. I'm just here to tell you, if we actually want to move the needle for working class families across Minnesota, we need to unleash a lot more supply. Every policy that I would look at, I would judge on, is this going to help supply or not? If it's going to help supply, I'd give it serious consideration. If it's going to be a barrier to supply, I'd be more cautious about that. So anyway, I hope that that was helpful. I'm sure there are a lot of strong opinions in the room, and I look forward to learning from you. So thank you.

Speaker 3:

Thank you.

Neel Kashkari:

You can take that down.

Speaker 3:

It's helpful to sort of set the context for some of the work that you're doing, not the Economist, but wanted to better understand. You mentioned, I want to delve deep into supply in a minute.

Neel Kashkari:

Sure.

Speaker 3:

But you mentioned the other half of this was the income problem. It feels like the Federal Reserve has this big tool, which is interest rates, right? It feels like for a very complex economy and a very complex housing system that it's a single tool that is influencing what happens, but the levels of complexity we know that need to go into the fix to this broken housing system, go well past that. One of the things I wanted to understand was on wage growth particularly, right? We know that we track the top in-demand jobs that deed reports for Minnesota each year.

Of those, nearly all of them are jobs that make so little money that they can't afford to actually rent an average two bedroom apartment. So they can be working full-time at all these top in demand jobs and they can't afford a home. Nursing is the one exception to that, but the folks that are taking care of my mom right now may be taking care of your kids, literally can't make enough to do that. But when wages go up, you all are looking at, "Well, it's heated. So bringing it down," how does that impact as a single tool across all these wage, our hardest, lowest income families that are struggling to actually do more on that side of the equation?

Neel Kashkari:

Yeah, it's a great question and it's a tough challenge. So we always talk about, we have a dual mandate. One of our mandates is stable prices, which we defined as 2% inflation. Before the pandemic for a decade, we actually had inflation a little bit below 2% and maximum employment as many Americans as possible working and contributing to our economy. Typically, you think of these two things as like a seesaw. As the economy heats up and unemployment falls and wages go up, that leads to more cost for businesses, that leads to high inflation. Then in that situation, we would raise interest rates to bring things back into balance. Right now we have a situation with very high inflation.

Obviously you all are experiencing it firsthand, driven by things like the COVID shutdown, the fiscal response to COVID, the war in Ukraine, supply chains that are gummed up, workers that have left the labor force. So prices are taking off, have taken off, wages are climbing, but on average wages are not keeping up with inflation. So what's curious about this and what's complicated about this is not wage driven inflation. This is a bunch of other stuff that has been driving inflation. Nonetheless, demand is outstripping supply. So we have tools to bring demand down by raising interest rates to bring the economy back into balance. So we have to do that because if we were to lose control of inflation and people would lose confidence that inflation was going to return, it actually ends up leading to much worse economic outcomes that some people might recall from the 1970s.

So that's what we have to avoid. So there's a transition period that we're going through right now. Once we get through that transition period and get inflation back down to 2%, I'm confident we can get back to an economy that we had before the pandemic with low inflation, low unemployment, decent wage growth. That doesn't change. The housing challenge that we were just talking about. The housing challenge that we've been talking about that you all know so well is decades in the making. So our tools at the Federal Reserve can affect the economy in the cycle of the economy, short-term ups and downs. But these long-term structural changes really require fiscal reform, regulatory reform to try to address.

Speaker 3:

So of the tools that you have, talk a little bit more about other tools, whether it's the tools of influence and research and other things beyond interest rates that you have and any ones that you wish you had.

Neel Kashkari:

Well, we do a lot of economic research because so many things, housing is such a big share of the economy. Education, important to the economy. We do a lot of research on a wide range of topics that are important for the economy. So even if we don't set those policies, if we can do the research in an honest way, intellectually rigorous, present the findings to the public, to elected officials, then they might choose to take that up and implement it. I'll give you a specific example. For decades, the Minneapolis Fed has done really important research on the value of investing in early childhood development. A lot of Minnesota people saw that. So this is really persuasive. Then elected leaders of both sides of the aisle got behind it and implemented a lot of it. We're really proud of that work. That's an example where our research can help other policy makers take things forward. So we're going to continue to research across a wide range of topics in that regard.

Speaker 3:

We know when we talk about housing, increasingly we've learned of course in our faces in recent years, but just you can't talk about housing without talking about the discriminatory and racist policies and systems that for centuries have really informed where we are today with our outcomes in housing who has access, those kinds of things. I think the economists talk about housing as being sticky that neighborhoods grow up and people are in these neighborhoods for generations often. Talk a little bit about ... Of course, economics is not just math.

Neel Kashkari:

It's people.

Speaker 3:

It's people.

Neel Kashkari:

Yeah, for sure.

Speaker 3:

It's people. So talk a little bit about how you see some of the strategies, some of the intentional ways that broadly we all need to be acting on and thinking about in order to not just stop doing the bad policies, but actually try to repair the harm that's been done for generations as a result of those?

Neel Kashkari:

Yeah. There's a lot there. I'll give you a specific example. Some of our researchers have been looking at ... You all know this intuitively, there are disparities in mortgage approvals based on race, potential borrowers, applicants of color, Black and brown applicants tend to have higher denial rates than white applicants. Historically what banks would say is, "Well, there's income differences and there's credit score differences, and these studies don't adjust for those factors." Okay, fair enough. Well, turns out we, the Federal Reserve have access to that data, so let's go look at it. So we went and examined the same data, but we actually were able to put credit scores in and income history, et cetera. Guess what? There's still big disparities.

So then we presented this data to banks and we said, "Hey, what do you make of this?" We've presented to banks CEOs, and they were shocked by the findings and they were unhappy about the findings, and they basically said, "Look, we're in the business of making loans to credit worthy borrowers. We don't want to turn away credit worthy borrowers because we're turning away good business. So we need to get to the bottom of this." So we have not completely figured out what's going on. I'll give you an example of what I think is partially going on. When my wife and I moved to Minnesota seven years ago, we bought a house and I applied for a mortgage with a big bank that I've been a customer of for 15 or 20 years. I could not believe in 2015 or 2016 how excruciating the mortgage application process was for me. There were so many points of discouragement where I was ready.

I thought that they were going to blow it, and I was going to lose the house just because they were screwing around with asking me for one more form, one more document, one more piece of paperwork. I finally got through it, but it occurred to me that I am about as financially sophisticated a borrower as there is in this country. If it was that infuriating for me, what would it be like if English was your second language? What would it be like if you'd never applied for a loan before? How many people would be able to get through that process? If they gave up just because they're like, "Well ..." If they keep asking you over and over for more and more and more, you finally give up. That shows up as a denial.

So is it possible that part of the systemic nature of our barriers, it's not that somebody's intentionally saying, "I want to exclude you because you're Black or brown," but the systems are not set up to serve people who are not born in that system. So that's one example of it is the types of things that we're trying to learn about. I don't want to suggest to you that we have all the answers. It's complicated. But unless we're intentional about understanding what's going on, and unless we're intentional about overcoming these obstacles, we're not going to make progress.

Speaker 3:

Just to take that a step further, as I understand you've looked into this phenomena that higher income folks might be more familiar with the banking system, whereas lower income folks have more access to banking services that aren't really banking services that are much more predatory and really much more expensive.

Neel Kashkari:

For sure. I'll give you an example. So we had a series, conference series examining racism in different elements of our economy, one of which was financial services, and I learned a lot. So one other thing, and I will confess to you, I have never been to a payday lender. When I was a kid, my parents had bank accounts and I would accompany my parents when they'd go to cash a check, they'd stand in line at the teller, they'd cash a check, they'd make a withdrawal, whatnot. I think I sat with my parents when they applied for a car loan. So I was familiar with what happens in a bank. Well, it dawned on me through some presenters, if you've never been to a bank before and you walk into a bank, what do you see? Number one, it's silent. Nobody's talking, everybody's whispering. Number two, there are no signs anywhere.

Maybe there's a bank logo, maybe there's an FDIC logo, and you're just supposed to know what to do. You're supposed to know to line up. You're supposed to know to go up to that teller. You're supposed to know what to ask for. In contrast, apparently if you go to a payday lender, it looks like McDonald's. There's signs everywhere. You want this? This is what it costs. You want that? Do you want Chicken McNuggets? Do you want a cheeseburger? You want french fries? It's all self-explanatory. That never even occurred to me. But if you've never been to a bank before, if your parents never banked before, this is actually a barrier. So I needed to open my eyes to these little subtle things that are actually real for people who've never been through it before. So these are two examples, the application process, what it's like to walk into a bank. There's probably a hundred other examples.

Speaker 4:

I have one more question, then I'm going to open it up. So get ready for whatever questions you have. So when we invited you here, we didn't know that Silicon Valley Bank would be in the news. We didn't know all these looming banking stresses that are happening right now in terms of ... Of course that has huge implications for the housing market and equity available in all of that. So the question is, what can you tell us about what's happening and what we can expect? This June 5th cliff where congress may or may not act on extending the debt ceiling, again, I listen to the news and I hear these things that are happening. When you're listening to that, what are you thinking and what should we know about what's to come?

Neel Kashkari:

Well, big picture. So obviously the Federal Reserve has been raising interest rates aggressively over the last year or, and we've been forecasting interest rates who go up for the last year and a half. What's happened is some banks bought a lot of what we call long duration. They bought long-term bonds and bond prices go down when interest rates go up. So some banks, Silicon Valley Bank being the most extreme of the examples, have not done a good job managing the interest rate risk that's embedded in their bond portfolios. So in Silicon Valley Bank's case, they had a lot of these long-term bonds that were exposed to interest rates going up. They did not hedge that risk. Then they had depositors who were very concentrated in the Silicon Valley sector. So that mismatch ended up causing a run, and then that destabilized the bank, and then the bank ultimately failed and had to be taken over.

Our bank supervisors at the Minneapolis Fed and across the system have been supervising banks for years, but for the last couple of years, really focused on making sure that they understood their interest rate, risk exposure, making sure that they were taking appropriate steps. So my experience, I was in the front line of the 2008 financial crisis. Banking panics and banking stresses tend to take longer than you think until in the '08 eight. It took a couple of years. I'm not forecasting that. I don't think we have that situation here, but every time in '08, we thought, "Okay, we're through it. There was another shoe yet to drop." So I'm prepared that this could take a little longer than we expect until we fully get behind it, but the banking supervisors are very focused on it, and the vast majority of banks have taken potential interest rate risk seriously and have positioned themselves for that.

So the banking system is sound, banks on average have a lot of capital. The Federal Reserve and the other banking regulators are standing behind the banking system. So that should give us all confidence, but it's going to probably take us a while till we fully understand, are there more losses out there? The other thing is, what's unclear right now is how much of this of the banking stresses of the past few weeks is leading to a sustained credit crunch, which would then slow down the US economy. Those second and third steps are still unclear for us right now, but we're watching very, very closely in terms of the debt ceiling. The debt ceiling needs to be raised. The US government has to pay its bills, treasury has to service the treasury debt. The treasury market is the foundation of the global economy. It's that important. So I am hopeful that both parties will come together and make sure that the US government can pay its bills.

Speaker 3:

As we open up for questions. I didn't know if I heard you say this at the beginning, but do you want to mention about the Fed's commitment to transparency and that this is livestream?

Neel Kashkari:

Oh, yeah. Sure.

Speaker 3:

Yes.

Neel Kashkari:

There are many dimensions of our commitment to transparency. Yes, we are live-streaming this. So when you ask a question, if you could do us a favor and just introduce yourself, I'd appreciate that. I like to livestream as many of these events as I possibly can just to let people know what I'm talking about. Also, to make it clear that I'm not like coming in here and sharing secrets or anything like that.

Speaker 3:

That's great. So are there questions that folks have bubbling up in particularly, of course, related to our housing market? I see Jamie over there. Jamie, why don't you start?

Jamie:

Hi, Jamie Stoplested. What is the magic of 2% versus 3% versus some other number as the inflation target?

Neel Kashkari:

Yeah. So 2% is a number that most advanced economy central banks have coalesced around. The basic idea is you want a low inflation rate, so people don't really have to think about inflation, but something a little bit above zero. The reason why it's a little bit above zero, a lot of people say, "Well, why don't you want zero inflation?" My explanation is simple. We came up short. We had about one and a half percent inflation for the 10 years before the pandemic when we were aiming for two. If we'd been aiming for zero and we came up a little bit short, we'd be in deflation. Those of you in the real estate markets know deflation is really bad because your debts are fixed if your asset prices are going down. So we need a low inflation rate, but a little bit above zero.

Now, some people have said, "Well, why don't you increase it now?" If you move the goal post while you're behind, you lose all credibility. We've said, we're going to deliver 2%. If we now said not, "Well, you know what? Let's take 3%." Then next time maybe you'll just say, "Well, let's take 4%," and every time it gets hard, "Let's just take 5%." We've said 2%. We've committed to 2%, we're going to deliver 2%. We are not going to change move the goal post when inflation is so high because it would cause irreparable harm to the credibility of the Federal Reserve. That credibility is very important.

Speaker 3:

I'm hearing over there. Yes, Jeff? Jeff?

Jeff:

Oh, sure. Jeff Hugget. First of all, I think I agree with practically everything that you've said. So thank you for being here. What I thought I understood from this is really, you're talking about a three-legged stool. You got monetary policy, fiscal policy, and regulatory. So I have questions on two of those legs. So on the fiscal policy, I'm curious as to both what the Fed can do and also what you would recommend that we can do to encourage a fiscal policy that helps our housing industry as a whole. On the regulatory side of things, I'm curious what the Fed is doing, and I think we fight that fight all the time, but I'm very curious as to what you guys are doing. Thank you.

Neel Kashkari:

Well, on the fiscal policy, we have a agreement. When Congress created the Federal Reserve, they said, "You all stick to monetary policy. We'll stick to fiscal policy." So we try not to give it fiscal policy advice to our elected branches, our government, I think you all know much better than I do, frankly, what would be Commissioner Ho talked about having a billion dollars to spend on housing. That sounds to me like a lot of money, which is great. I would defer to all of you on what would be the best way to spend that money to move the needle. My guess is she talked about for every element of the housing problem, that sounds reasonable to me, but I would really have to defer to all of you and to her on where that money would be best spent. In terms of regulatory policy, some states have taken very bold measures to try to overcome the NIMBYISM that is pervasive in our society.

So I talked about Orono, my city, again, if you tried to go and divide up our lot, people would be up in arms, or if you tried to build an apartment building, people would be up in arms. So some states have adopted statewide rezoning policies to say, "We can't leave it to cities anymore. You had your chance. You've put up too many barriers." Oh, well, I learned recently that some cities require, what is it? PVC pipes and others require iron pipe. There are all sorts of little micro regulations that you all know much better than me. There could be statewide policies that say, "Hey, if you're near a transit corridor, you get fast tracked for an apartment building or triplexes or fourplexes or et cetera, et cetera." Those are types of regulatory policies that I think could move the needle. I would just say whatever you all are considering, think about, does it move at scale? Unless you can unleash the private sector at scale, we're not going to address the widespread housing challenge that so many of our neighbors feel.

Speaker 3:

If I can follow up on that, and then we can go to John. As you were looking at the results like in Los Angeles where they have generated hundreds of millions of dollars, maybe over a billion dollars for new development and keep running into what in many ways are these liberal enclaves that are using environmental reviews and other kinds of things to really slow down, add costs, add time, and prevent developments like you were indicating earlier?

Neel Kashkari:

Well, think of it this way. That's a good point. If you combine a huge amount of money, fiscal money going in, and you don't alleviate the supply barriers, the prices just skyrocket. It's like a windfall for people who already own their properties. Is that the intention or windfall to property owners? That's what you do if you don't remove the supply barriers.

Speaker 3:

I will note too, on the fiscal side, just a little advertisement there, that we are working with many of you, most of you here, to really ensure that we have permanent dedicated revenue for housing. Because all of our housing developments, they take multiple years. You need to know at the end of that that there's going to be funding available to ensure those affordabilities, especially where the market doesn't work well to serve our lowest income households as well. John?

John:

Hi, John Oli from Winthrop & Weinstine. Thank you for being here today. My question is dealing with the lag in your monetary policy, what tools does the Fed have to monitor that lag to make sure you don't go too far or you don't stop too quickly?

Neel Kashkari:

Yeah, it's tough. There are lags. Some very famous economist whose name is escaping me, coined it long and variable lags. Estimates are from six months to a year to two years before the full effects of our interest rate increases, work their way through the broader economy. Some areas we know get affected right away. We know housing is the most sensitive to our interest rate increases because you can see it in mortgage rates, and that directly affects affordability for families and for developers and whatnot. So housing gets affected right away. Other sectors, it takes longer. So we've got lots of estimates. The interesting thing about mortgage rates, we didn't start raising our federal funds rate until March of last year, but in November of the prior year, we indicated that interest rate increases were coming. So mortgage rates responded right away. So in that sense, mortgage rates moved in advance of us actually changing interest rates, which is the power of what we call our forward guidance, telling the markets where we're going.

So we study this every way we can think of to try to get a sense of how much effect is it having. We've seen some real progress. So we know that housing is slowing, which from your perspective is not good news. But from our perspective, we want to see that happen because that shows that our monetary policies working to bring down demand. We know that goods prices have fallen, they skyrocketed in the pandemic, they've fallen quite a bit. We know that new leases are coming down, and then that works its way through inflation as leases turn over. So we can monitor that as it works its way through the economy. The one area that is particularly concerning right now is that the services economy, outside of housing has not showed any sign of slowing down. That's a big chunk of what Americans spend on.

So whether it's travel or it's getting your haircut, whatever it is, the services part of the economy has not yet slowed down. Wage growth is we want higher wages, but wage growth is still growing faster than what is consistent with our 2% inflation target. That tells me we still have more work to do to bring the services side of the economy back into balance. So we measure this every way you can think of to try to get a sign of, do we need to do more or less? It is an imperfect calculus, but we know we have to get inflation down and we will.

Speaker 3:

Questions? If you could stand up. Mary?

Mary:

Good afternoon. Thanks for being here. Mary Tingerthal. Question for you, we've read and heard a lot about the impact that investments in long-term treasuries have had. Can you talk a little bit about how the Federal Reserve is thinking about the vast holdings of mortgage backed securities, which could be impacted with people not moving as quickly, not refinancing as quickly? How are you looking at that as a risk and how should we think about that?

Neel Kashkari:

Well, thanks, Mary, for the question. There are different types of mortgage backed securities, of course, which you know, big chunk of them are backed by Fannie and Freddie. Obviously, those are credit worthy. But because Fannie and Freddy are guaranteeing those in treasuries standing behind Fannie and Freddie, but there is still interest rate risk embedded in those securities. Of course, there's the repayment cycle. If mortgage rates go up, people then don't refinance their loans, and those mortgage bonds end up lasting a lot longer than maybe previously thought about. So making sure that banks, if you want to focus on banks, understand the duration risk, as you call it, embedded in their portfolios. That's a core part of bank supervision that we're undertaking every single day.

Other elements of this are things like commercial mortgages and the commercial sector, right? When the pandemic hit, people right away figured out, "Hey, this may not be good for commercial real estate, at least for office buildings if everybody's working remotely." The stresses of the office market, I think are only beginning to show up and what implications those end up having on whether they're end up being securitized or they end up being on bank balance sheets or in non-bank or insurance companies, et cetera. Those are things that we're also monitoring very closely. But I still think we're a ways way of knowing where ultimately the destination is going to be for some of those instruments.

Speaker 3:

Other question? Jean? No, please, Paul?

Paul:

Well, thank you. My name is Paul Berg. I'm with Sunrise Banks. I want to qualify my question with two things. This is not a shameless plug for my bank, and I am a loan officer, not a banker, so I don't have a complete grasp of this. But compared to Silicon Valley Bank, we're a tiny bank, but we offer a product that allows a sweep of dollars above the quarter million insured level so that those are insured over and above that. But it comes with a fee of course. So the Department of Treasury, the FDIC, and I think the FOMC have said, "Don't worry, those funds above a quarter million are insured or will take care of them." To what extent are those dollars that are being covered just a result of an entity not willing to pay a fee for that sweep?

Neel Kashkari:

I can't comment on the specifics of your situation, but I will say this, there is a very complicated policy question we are facing as a country about these uninsured deposits, because on one hand, the Silicon Valley Bank situation saw a lot of small and regional banks come under pressure because people said, "Oh, my gosh. I'm not sure if the government is going to fully stand behind all of my deposits above the 250,000 limit." So you saw money flowing into the giant banks because people say, "Well, I know those banks are too big to fail, so the government's going to protect me there." So right now, there's this uneven playing field that is causing all sorts of distortions and even risks in the market that we need to get our arms around. I don't know how to answer the specific question.

Maybe I'll follow up with you on the specifics of that question. I know that the FDIC, the treasurer and the Federal Reserve have said, "We're going to do what we need to do to make sure that the banking system is safe." But the implication, I think of your question is, "Well, wait a second. We're already making sure our customers are safe. What are you doing now for customers of other banks who are not taking the measures that we're taking?" You're asking a very fair question. We have to ensure the stability of our financial system to get through this stress period, but we still need to address the regulatory system longer term to make sure that we have a safe financial system, but also one that's fair, where banks are treated fairly, and we're not doing the latter right now.

Speaker 3:

Jean?

Jean:

Jean Lee with APAC and a number of community organizations. I wanted to know what tools do you have besides reverse mortgages to help seniors disabled another low income people age in place? Second part of the question is, do you have any advisory task force or committee that brings together a network of people to work on innovations and solutions?

Neel Kashkari:

Thanks for your question. The first question is, we don't. We think whether it's reverse mortgages or some other specific program that is really the domain of fiscal policy, whether it's local leaders, state leaders, or the federal elected leaders that could create specific programs for specific folks in need. We don't have any of those tools. We are not able to write checks, we don't make grants, anything like that. We set interest rate policy for the nation and we supervise banks. Then second question, we have a number of different advisory councils, community advisory boards and groups that give us advice on what's happening across our district, what's happening in different communities, what are potential innovative solutions that, for example, certain nonprofits are pioneering that we want to learn from. So those are bodies that exist today that we can meet regularly. My colleague, Alene Tchourumoff, who's sitting here in front of me, can come up and talk to you afterwards. She oversees quite a few of those groups for us.

Speaker 3:

As someone else is thinking about what question they want to ask. Let me ask this. So as we're talking about the different factors, economic indicators that you're tracking, one of the things, of course, we're looking at, we know we need more housing of every kind in every corner of the state. We know that every single county in Minnesota has cost burdened renters and home actually homeowners too, that are paying way too much than they can afford for their housing. When we look at vacancy rates broadly, they might say, "Oh, a 5% vacancy rate is a healthy balance." But you disaggregate that, and we know that that gap of housing supply for our lowest income folks at 30% of the area median income and below is at 0%. So again, you're coming in with sort of these broad levers. How are you making sure that section of folks that frankly are in utter misery in their housing challenges right now are also getting well served by these policies?

Neel Kashkari:

Well, to be honest with you, we're not. We don't have the tools to do it. All we can do is understand the issue, bring dispassionate analysis and inform the public of what we're finding, and hope that other policy makers pick it up and decide whether they choose to act on it or not. All we can do with the Federal Reserve, and it's frustrating for people when I tell them this, but it's true. All we can do ... What do we have direct control over? Monetary policy for the nation to try to get inflation in check, and we're going to do it. We have supervised banks, and we can make sure that banks are lending fairly to their customers, meaning the needs on a fair basis to their customers, but also not taking imprudent risks. That's what we're charged with. We're not perfect, as you know, but we have a group of people who are dedicated to the public policy mission and doing our very best to try to accomplish that mission.

Speaker 3:

Is that John? Stand up.

John:

Hi. My name is John Erago, I'm with Greater Minnesota Housing Fund. Thank you so much for being here today. You talked about the housing problem as both income and supply. I'd like you to talk a little bit about the impact of institutional investors in our housing market.

Speaker 3:

Excellent.

Neel Kashkari:

It's a good question, and I'm going to give you probably an unsatisfactory answer, which is I don't have a strong view because on one hand, I see the articles that get written up that, "Oh, my gosh. These institutions are buying up these homes." On the other hand, these institutions are bringing a lot of capital into the housing market, and I would rather make it easier for someone to buy their own home. I agree with that. I bought my own home. I like being a homeowner, but I also just want a lot more units to come online. If institutional investors can mobilize capital to bring a lot more units online, that's going to help make a dent in affordability. Everybody's going to have their own take on this. I don't have a strong view. I can see both sides of the argument, but right now, I'm just saying the biggest challenge we have is we need a lot more supply. If somebody can help us with supply, I say, "Hey, let's get them to the table."

Speaker 3:

I might suggest as a follow-up that there could be some research in the future that could look at the value of neighborhoods that have larger proportions of institutional investors to see how those impacts are actually-

Neel Kashkari:

Fair enough. Fair enough. Yeah.

Speaker 3:

Oh, you're already doing that?

Speaker 13:

It's underway.

Speaker 3:

Please, Terry.

Speaker 14:

Terry. Hey, Terry Troy. Real Estate Equities. Thank you. Happy to be able to see lots of people that I haven't seen for a while, and I got that it's monetary policy that you can act on. The rest of this may be advisory, but one of the things you said that I think isn't out there and would help us is given that you have the facts that rent control is restricting supply, and it would be nice if we could get that quote and make it available to ...

Neel Kashkari:

Well, we are live-streaming this. So no shortage of people will have heard it. Hear me say it or you repeat it.

Speaker 14:

Yeah, well, and might send you an email and it'd be nice to have it. That would be out there. It's really amazing that people don't think that. The other thing about being able to see people who've been around a while, 30 plus years ago, our hero, Ronald Reagan did an interesting thing in which he took depreciation on apartment buildings away from individual investors. One of the things that we know would reduce the cost of housing would be investors with a lower need for a return. Now it's all institutional and what you're doing, the blunt tool that you have to work with is as we're acknowledging reducing housing supply.

So this would be more advisory than the quote that we want you to give us. What if somebody was to try to tell the story that they should change a tax law and not have individual investors be able to get depreciation on commercial properties and other properties, but housing is a demand area? How might we proceed with such a strategy which might be able to be heard in this environment of, "Let's get affordable housing," reducing the investors' returns in this way could help us. Thank you.

Neel Kashkari:

Well, thanks for your comment. I think there are any number of ways of ... Commissioner Ho talked about having a billion dollars. There are a number of ways you could spend that billion dollars if you were to make some tax change that would make it more attractive for people to go build homes. You could say, "Okay, some of that billion dollars will get spent by lowering taxes in this way." I'm not here to tell you that's a smarter way or a less smart way of spending that money. That's purely for you and for elected leaders to decide. But I understand your point. If you lower the cost of something, generally speaking, you're going to get more of it. We need more supply.

Speaker 3:

I know we're getting towards the end of our time here. So here's a question for all of us to get an insight into how you're thinking. So what's the most recent book that you've finished, and what's the book on your bedside table you're waiting to start?

Neel Kashkari:

I'm a history junkie and I float around American history, but whenever I wander too far, I always end up coming back to the Civil War. So I just finished a biography of ... I finished Solomon Chase, Lincoln's Treasury Secretary, and then I finish finished Danton, his War Secretary. I think that's the last one I finished. Now I'm reading a book. It's a little bit earlier in time on three senators or three representatives, Henry Clay, Calhoun, and Webster. They keep popping in American history as very important figures. So I didn't want to read a one biography on each of them. So I found one biography that covers all three of them as a more efficient way, and I'm about halfway through that.

Speaker 3:

That's how nerds have fun. That's great. Okay. Well, thank you so much for taking the time to come here at Minnesota Housing Partnership. We really appreciate your time and your insights.

Neel Kashkari:

Thank you very much. Great to be with you today.