



The Effects of Unconventional Monetary Policies on Mortgage Rates and the Housing Sector

Mortgage Contract Design Conference
Federal Reserve Bank of New York

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NOTE: The analysis and conclusions presented here are my own and do not indicate concurrence by The Board of Governors, the Federal Open Market Committee, or other members of their staffs.

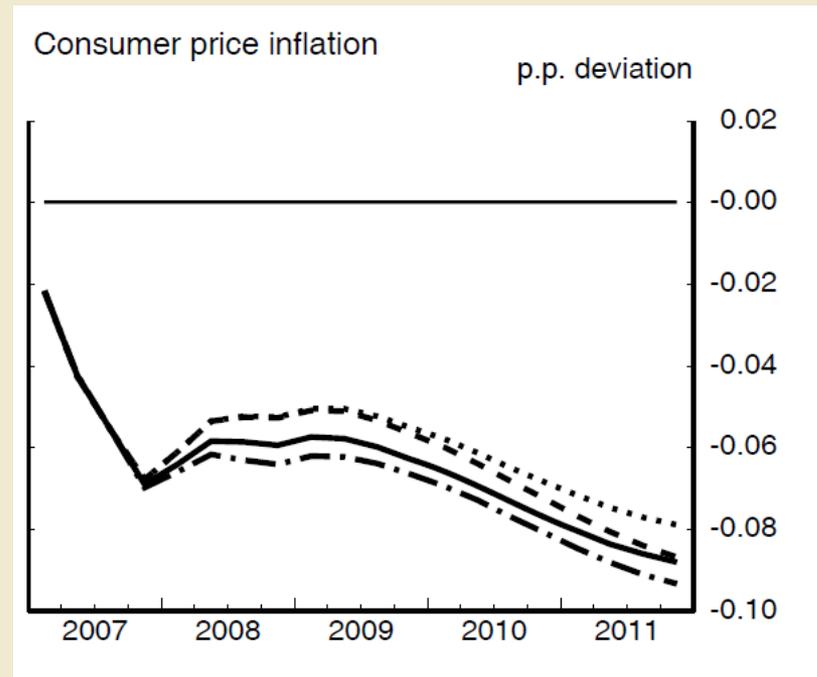
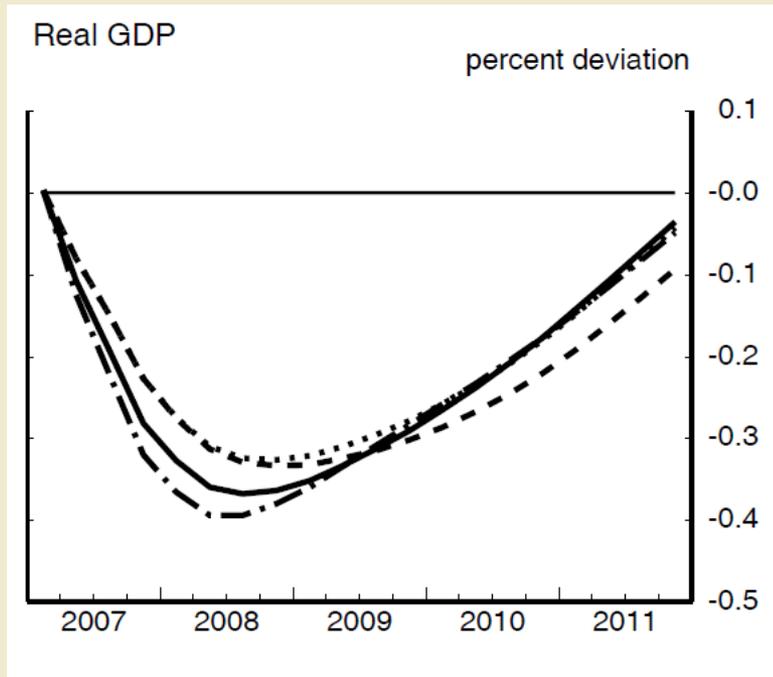


My Topic for Today: The role of mortgage finance and the housing sector in the transmission of monetary policy

- Because most mortgages are fixed-rate in the United States, much of the transmission of policy to the housing sector is through effects on longer-term rates.



Figure 1: Pre-crisis Estimates of the Effects of Conventional Monetary Policy



Source: Mishkin (2007)

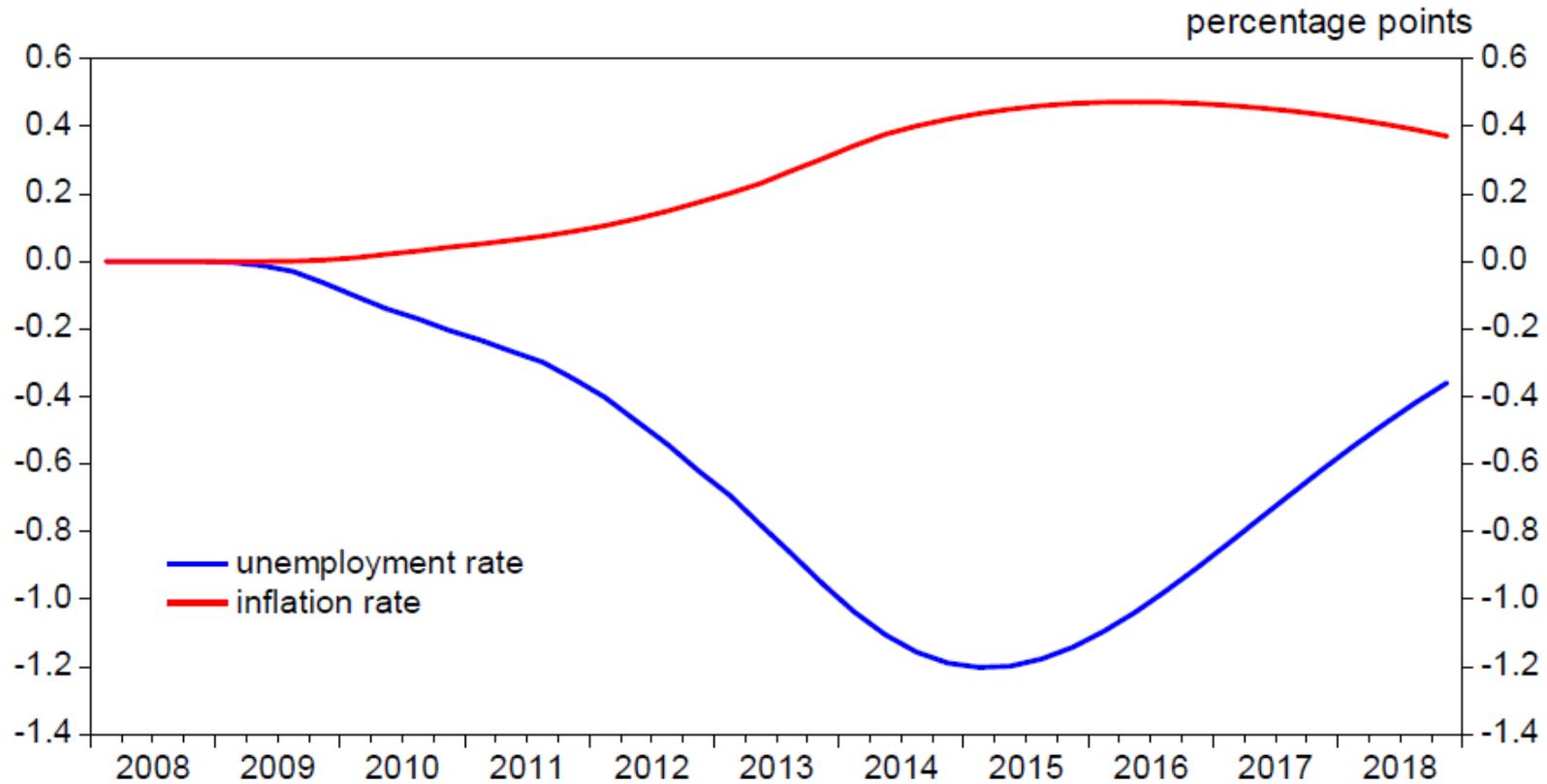


Unconventional Policy

- Forward guidance
 - Affects expected future short-term rates
- Asset purchases
 - Affects term premiums
- The two can be reinforcing



Figure 2 : E s t i m a t e d E f f e c t s of Unconventional Policy on Unemployment and Inflation



Source: Engen, Laubach, and Reifschneider (2015)

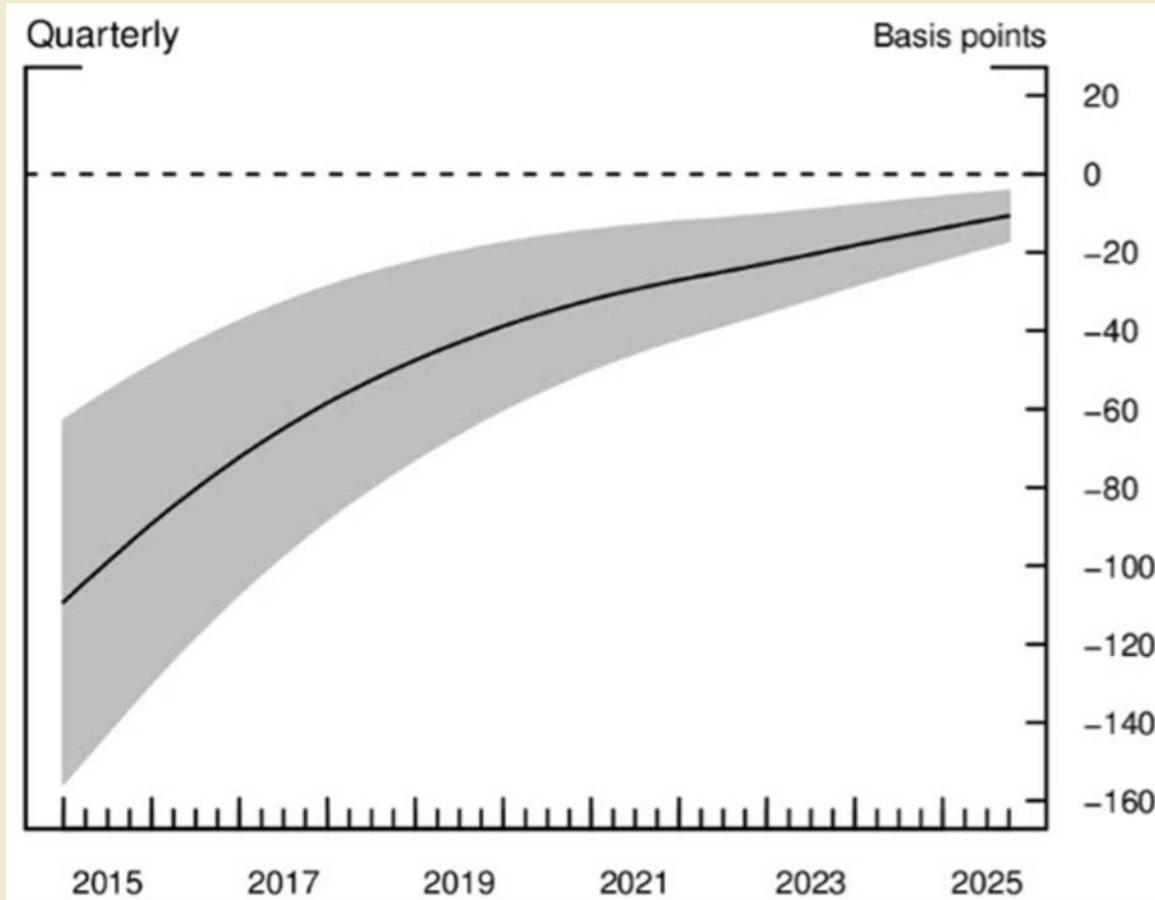


Table 1
 Combined Effect of Forward Guidance and Large-Scale Asset Purchases
 on Mortgage Rates (basis points)

	Total Change in Mortgage Rate	Expected Funds Rate Component	Term Premium Component	Mortgage Rate Spread Component
2009Q1	-55	2	-7	-50
2009Q3	-110	-24	-36	-50
2010Q1	-73	-18	-30	-25
2010Q3	-66	-34	-32	0
2011Q1	-76	-36	-40	0
2011Q3	-121	-77	-44	0
2012Q1	-132	-75	-57	0
2012Q3	-138	-77	-61	0
2013Q1	-171	-69	-102	0
2013Q3	-164	-51	-113	0
	————— expected effect as 2013Q3 —————			
2014Q1	-153	-50	-103	0
2014Q3	-128	-42	-86	0
2015Q1	-113	-33	-80	0



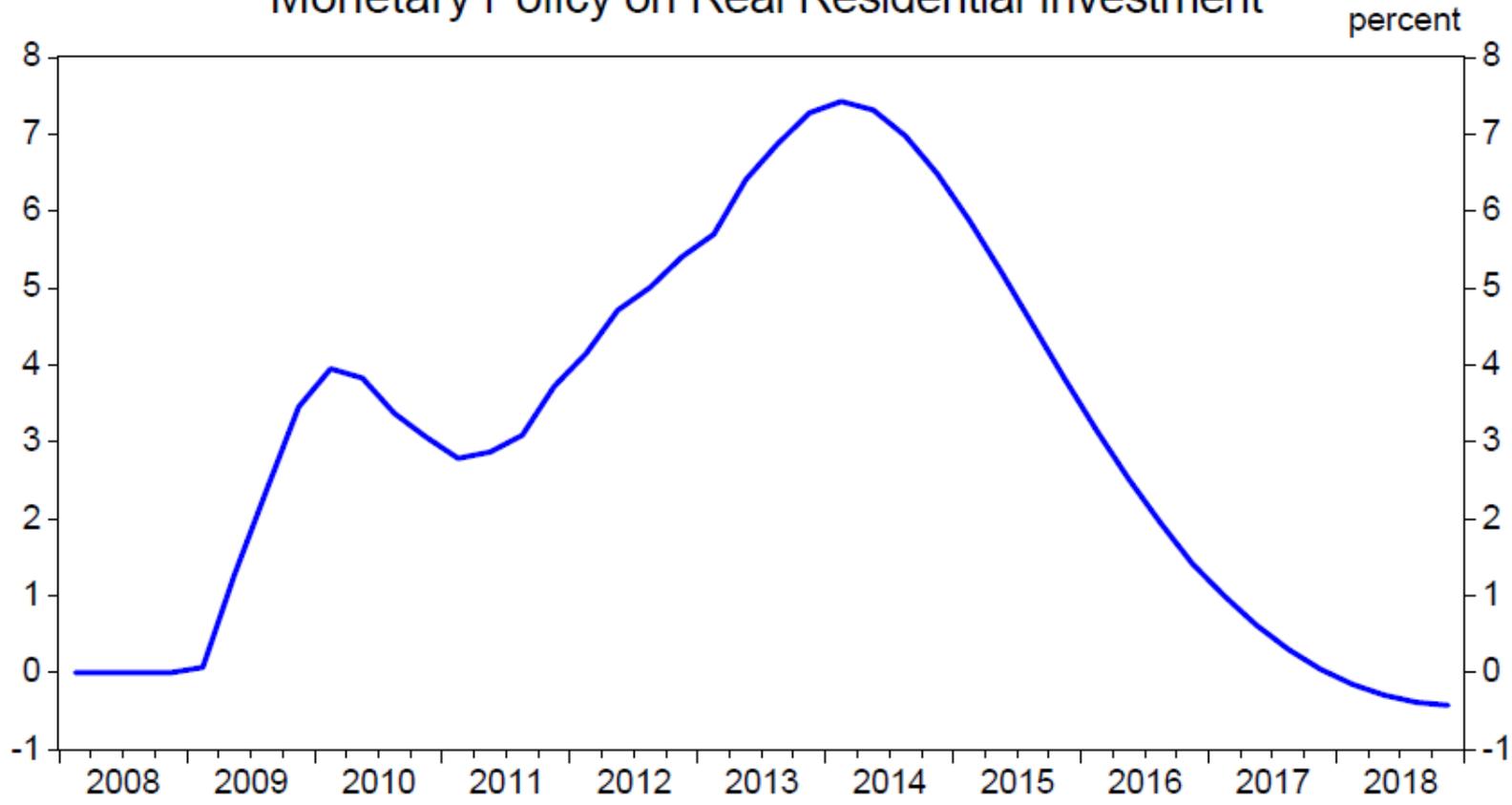
Figure 3: Effects of Asset Purchases on 10-year Treasury Yields



Source: Fischer (2015)



Figure 4: Estimated Effect of Unconventional Monetary Policy on Real Residential Investment



Source: Engen, Laubach, and Reifschneider (2015)



Effects of Unconventional Policy Through Residential Investment

- About an 8 percent boost to residential investment
 - About 5 percent of the peak effects on economic activity and inflation
- Smaller effect is not that surprising – the housing sector is considerably smaller than it was prior to the crisis
- Considerable uncertainty about the size of these effects
 - FRB/US does not capture effects through consumer sentiment or through housing prices
 - Ongoing tight mortgage conditions may be reducing the effects on housing



Possible Implications of Alternative Mortgage Design

- In theory, it may not matter much
- But, in practice, evidence suggests it does (e.g., Miles (2004), Calza et al (2013)).
- Unconventional policy should still be effective
 - Lower expected path for the federal funds rate
 - Effects of asset purchases on spreads
 - Effects on house prices



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