Fed offers housing help

Bernanke seeks to spur growth in market

By Joshua Zumbrun
Bloomberg News

WASHINGTON — Federal Reserve Chairman Ben Bernanke said Thursday that the Fed will take action to speed growth and a rebound in a housing market facing obstacles ranging from too-tight lending rules to racial discrimination.

"We will continue to use the policy tools that we have to help support economic recovery," Bernanke said in a speech in Atlanta.

Bernanke is pressing on with record easing including a plan to buy $40 billion a month of mortgage-backed securities, aiming to spur growth and reduce a 7.9 percent unemployment rate. He has resorted to unorthodox policies six years after home prices started a plunge that knocked the economy into the longest recession since the Great Depression.

Bernanke said while tighter credit standards after a collapse in the subprime mortgage market were appropriate, "it seems likely at this point that the pendulum has swung too far the other way, and that overly tight lending standards may now be preventing creditworthy borrowers from buying homes, thereby slowing the revival in housing and impeding the economic recovery."

Some members of the Federal Open Market Committee said monthly mortgage bond purchases by the Fed are "likely to reinforce the nascent recovery

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in the housing market," according to minutes of their Oct. 23-24 meeting released Wednesday. FOMC members "generally agreed" that a housing recovery is at last under way.

Bernanke endorsed that view in today's remarks at the Operation Hope Global Financial Dignity Summit, saying an industry that was holding the economy back has turned a corner.

"Continued weakness in housing — reflected in falling prices, low rates of new construction, and historic levels of foreclosure — has proved a powerful headwind to recovery," Bernanke said. "It is encouraging, therefore, that we are seeing signs of improvement in the housing market in most parts of the country."

Bernanke said housing-finance authorities have taken steps to "remove barriers to the flow of mortgage credit" and referred to efforts by the Federal Housing Finance Agency and by Fannie Mae and Freddie Mac to clarify rules surrounding mortgages that go into default.

These steps, the 58-year-old Fed chief said, should "increase the willingness of lenders to make new loans."

While regulatory policy "will be important for restoring a fully functioning housing and mortgage market, the strength of the overall economic recovery is crucial as well," Bernanke said.

A number of FOMC officials believe the central bank may need to expand its monthly purchases of bonds next year after the expiration of a program to extend the maturities of assets on its balance sheet known as Operation Twist, according to the minutes released Wednesday.

The Fed's actions have helped push mortgage rates to historic lows. The average fixed rate on a 30-year mortgage fell to 3.34 percent today, according to a Freddie Mac index, the lowest on record.

Those rates have increased affordability and helped bolster home price. The S&P/Case-Shiller index of property values in 20 cities rose 2 percent in the year beginning in August 2011, the biggest annual gain since July 2010.

Increasing home prices are rippling through the economy, supporting gains in consumer confidence and spending and benefiting companies such as Home Depot Inc. and Whirlpool Corp.

Home Depot, the largest U.S. home-improvement retailer, posted third-quarter profit this week that topped analysts' estimates as the recovering housing market prompted customers to spend more on home repairs.

"Homebuilder sentiment has improved considerably over the past year, and real estate agents report a substantial rise in homebuyer traffic," Bernanke said.

The S&P Supercomposite Homebuilding Index, which consists of 11 home building companies, climbed 65 percent this year as of yesterday, compared to 7.7 percent for the S&P 500 Index.

Americans bought new homes in September at the fastest pace in two years, the Commerce Department reported last month, with demand ↓ 27.1 percent from a year earlier.

The economy grew 2 percent in the third quarter, propelled by gains in consumer spending, defense outlays and homebuilding. That was a quickening from the 1.3 percent pace the Commerce Department reported for the second quarter.

Equities reached a high for the year on Sept. 14 and have since tumbled 7.5 percent as lawmakers have yet to resolve the so-called fiscal cliff, a combined $607 billion in automatic spending cuts and tax increases. The Congressional Budget Office said that failure to address the cliff could nudge the economy into a recession.

President Barack Obama said in a press conference Wednesday that voters sent a "very clear message" on election day this month that they want both parties to work together to cut the budget deficit with a mix of tax increases for the wealthy and cuts in spending.