

Washington, DC (Dec. 16, 2011)—The President of the New York Federal Reserve Bank today called for much more aggressive action to address the nation's housing crisis, including a targeted program to reduce the principal of certain mortgages in order to bolster the nation's economic recovery and serve the long-term interests of U.S. taxpayers.

Testifying in response to questions by Rep. Elijah E. Cummings, Ranking Member of the House Committee on Oversight and Government Reform, William C. Dudley, the President of the Federal Reserve Bank of New York, explained why more aggressive measures to address the current housing crisis are so critical to furthering the nation's economic recovery:

If you took these steps, I think you could stabilize housing prices. And if you stabilize housing prices, I think you'd actually start to see more demand for housing. And if you saw more demand for housing, then housing prices would start to go up. And that would actually bolster household confidence because houses are a very large component of the household balance sheet. So if home prices are stable or rising, people are going to feel a little bit better about the outlook, not just for housing, but also about their own willingness to go out and spend and consume. So we think this would be very favorable for the housing sector.

President Dudley then explained that targeted programs to reduce mortgage principal would serve the interests of American homeowners and taxpayers alike:

We think that you can devise a program that, for home buyers that have mortgages that are under water, to incent them to continue to pay on those mortgages by giving them some program of principal reduction. Obviously the devil's in the details, so you have to have good program design. But we are confident that one can design a program, which would be net beneficial—net positive—to the taxpayer.

At a previous hearing before the Oversight Committee on Nov. 16, Edward DeMarco, the Acting Director of the Federal Housing Finance Agency (FHFA), testified that he had analyzed these issues and concluded that principal reduction programs would not serve taxpayer interests. Cummings [sent a letter](#) to DeMarco requesting the analysis supporting his assertion, but to date DeMarco has failed to provide the requested analysis.

In response to today's testimony, Cummings said: "Today's call for action by President Dudley underscores the urgency of addressing the housing crisis in order to bolster the entire nation's economic recovery. Yet, FHFA stubbornly refuses to follow its statutory mandate to maximize aid to homeowners and conserve taxpayer resources invested in Fannie and Freddie. We need strong action, and we need it immediately."

President Dudley's testimony today follows increasingly urgent calls for action by other Fed officials. In September, for example, [Elizabeth Duke](#), a Governor of the Federal Reserve System, stated: "Regardless of how we got here, we as a nation currently have a housing market that is so severely out of balance that it is hampering our economic recovery."

Similarly, in November, [Janet Yellin](#), the Fed's Vice Chairman, stated: "Monetary policy is not a panacea, and it is essential for other policy makers to also do their part. In particular, there is a strong case for additional measures to address the dysfunctional housing market."

President Dudley's testimony today before the Oversight Committee follows a [speech](#) he gave at West Point on Nov. 17 recommending measures to "enable borrowers who are 'underwater' on their loans, but continue to make their monthly payments, to earn accelerated principal reduction over time."

More and more economists also [agree](#) that principal reduction is necessary to address the housing crisis.

Click [HERE](#) to see video of President Dudley's testimony.