The Mortgage Lock-In Puzzle: Can We Unfreeze the Housing Market?

00:00:00,360
Alex Miller
What if the biggest problem in housing right now isn't high prices per se, but the fact that few people can feel that they can move house?

00:00:07,440
Paul Goody
The truth is the mortgage market is complicated.

00:00:09,870
Karen Dynan
In a direct sense, it constrains geographic mobility, people can't relocate if they get a better job in a different area.

00:00:17,130
Paul Goody
We think there is a sweet spot in the middle where both sides can economically gain.

00:00:21,300
Karen Dynan
We have social dysfunction in this economy. It stands in the way of the economy working well. It certainly stands in the way of making good economic policy.

00:00:31,500
Alex Miller
I'm delighted to be joined by two distinguished guests. First, we have Paul Goody, Citi's Head of Balance Sheet Strategy. Paul is one of the authors of the Citi Institute report that we're going to be discussing today. 00:00:42,150 And second, we welcome Karen Dynan, Professor of the Practice of Economics at Harvard University and a non-resident Senior Fellow at the Peterson Institute for International Economics.
Karen was previously the chief economist at the US Department of the Treasury and a Senior Economist at the White House Counsel of Economic Advisors. Providing a wealth of experience in economic policy and household finance.
00:01:05,370
In today's episode, we're going to be exploring the concept of the mortgage lock in effect and beyond, a powerful force tethering millions of Americans to their homes.
And we're going to discuss a potential new strategy that could unlock housing inventory, improves workforce mobility, and help restore the promise of the American dream.
00:01:23,460
This is all based on that Citi Institute report titled Moving America. For decades, the 30 year fixed mortgage has been one of the cornerstones of the American Dream. It brought stability, certainty and access to homeownership for millions of households.
00:01:37,530
But today, that same structure may be quietly working against us. What if the biggest problem in housing right now isn't high prices per se, but the fact that few people feel they can move? Millions of homeowners locked into ultra-low mortgage rates from years ago, with today's rates double often those, selling up means taking on dramatically higher monthly payments or not moving at all.
00:02:01,680
So without further ado, let's jump into the topic.

00:02:04,680
Alex Miller
Okay, Paul. So let's dig into this. So firstly, maybe I could ask you to introduce yourself, your role here at Citi, and then perhaps once we've done that, you could walk us through what the Citi Institute Moving America Report is all about. I know it touches on this thing called the mortgage lock-in effect, but what is that? And
why is this as it seems to be a significant drag on the US economy? So maybe Paul, a little bit about yourself, your role, and then we could ask you to dive in.

00:02:32,700
Paul Goody
Sure. So I work in Citi's treasury team. So in that role, I look after Citigroup's balance sheet strategy. What that means is we think about how the whole firm's business profile comes together, how it uses balance sheet, how the assets and liabilities, the deposits and the loans all come together to create the economics of the firm, and how we balance those as we look forward in time to really run an efficient and safe firm.
00:03:00,540
And that's really where this whole project started. As you looked at the changing mortgage portfolios, particularly as interest rates came up and the changes in behavior, we noticed that very few people were moving home. And ultimately, therefore, that these mortgages were extending on our balance sheet. They're relatively low coupon loans. And from a balance of strategy point of view, that interested me and I was wondering whether or not there was something we should be able to do about that. And it's interesting because as you start thinking about it, ordinarily you're like, "Well, this is fantastic.
00:03:33,990
The borrowers have made a great choice. They've borrowed this money for a very long period of time at a very low rate. Isn't that great for them?" And you're like, "But don't they want to move?" And if they do want to move, then maybe there's some value to them in being able to move. And actually because of this benefit, they've created almost like a set of golden handcuffs where it's difficult for them to move, particularly in a mortgage environment where interest rates are now maybe more than double the interest rate that they enjoy on their current lot.
00:04:04,170
And as you start to think about that, you think about the normal life cycle of a family, of a borrower, they may be having children, they may need a bigger property for a variety of reasons. They may need to move because they're looking to seek a new job opportunity somewhere else. They may have schools and all the other sort of things that people move for. So they actually need to move. But they're left in this challenge of, but my mortgage payment could double even for a fairly similar sized property, just because of this giving up of this rate.
00:04:38,777
On the other hand, I'm a bank and I'm sitting there going like, "I really would like them to move. It would be helpful if they continued to behave that they had before interest rates suddenly moved up a lot. Because all of our predictions on their behavior, our understanding of those mortgage loan portfolios were all predicated on a certain rate environment.
00:04:58,830
And you sit there and you're like, "Well, we would like them to move." They would like to move, but with these kind of rate environments, they're not likely to move. So it really is just a simple idea of, well, isn't there somewhere we could, in essence, meet in the middle and find a rate where it's attractive still for them to move, but it's still attractive for the banks such that it's getting a better rate than the current gets on a new loan, albeit not maybe the full market rate?
00:05:26,100
And literally is nothing more complex than that.

00:05:29,160
Alex Miller
And this is not a narrow phenomena, is it? This is quite a widespread phenomenon.

00:05:33,360
Paul Goody
It is huge. And it's one of those odd things. This is why we're actually talking about this because this isn't also just us, it's the entire industry and it's the entire economy. So we see this going on all over the place. And the dynamics of the mortgage market in the US are somewhat unique. They're actually one of the very few markets in the world where long-dated fixed rate mortgages are available.
00:05:58,230
And also, it's been a long time since interest rates moved up this much. So I don't think the muscle memory of what to do about it when you see the sort of phenomena is out there in the marketplace. So we've become used to idea of mortgage refinancing is when interest rates go down and then borrowers have the right to seek a lower rate mortgage, which is great for them. But now only again, one considered the problem of what happens if mortgage rates go up suddenly in a large way and what to do about it.

00:06:25,290
Alex Miller
And what you're saying is there isn't really a current solution either.

00:06:28,920
Paul Goody
That's right. And actually, when I've read a lot of the pieces that are out there about the solutions that people offer, they tend to be one side or the other, i.e. wouldn't it be great for mortgage program if they could just move their current loan to a new house?
00:06:28,920
Well, I understand that, but the original mortgage loan was based on the idea of there's a certain amount of time you're likely to stay in that house. If you get a new house that extends, and therefore it's not very good for the banks or the lenders that will continue to see these mortgage loans stay outstanding for a lot longer.
00:06:58,560
Or indeed, is the banks going like, "Wouldn't it be good if people just moved and I can't understand why they don’t just move and give us a higher rate?" Is that everyone trying to capture all of the value one side or the other. It’s the realization that there's an economic point in the middle where actually it's better for both parties to engage in it than if you go and seek out those economics in that price.

00:07:18,120
Alex Miller
That's a great moment I think to ask, Karen, you to firstly just introduce yourself, your role in the system, you've got an incredible experience. And then perhaps as Paul's introduced this concept of the lock-in, perhaps you could broaden the aperture a bit from your understanding, your work and how perhaps an opportunity lost, if we can use that phrase and housing and jobs affects intergenerational wealth, which of course an intergenerational opportunity, which is a hot topic, isn't it?

00:07:47,070
Karen Dynan
Sure. First of all, it's great to be here with you, Alex, and with , of course. Yeah, so I am currently a Professor of the Practice at Harvard University, but I spent most of my career in Washington DC in various policy related jobs.
00:08:02,880
I worked for a long time at the Fed. I worked for a while at the Brookings Institution, and then my last gig there was at the US Treasury Department as an assistant secretary in the mid 2010s.
00:08:18,570
But if there's one through line to all of those jobs, I was thinking a lot about household economic security, and particularly as the financial crisis that pulled a lot about mortgages and their relationship to household financial security.
00:08:34,950
So going back to the lock-in, had it right. It's a big deal in terms of economic opportunity. In a direct sense, it constrains geographic mobility, which means that people can't relocate if they get a better job in a different area or their partner gets a better job.
00:08:53,430
That's a big deal and it could become a bigger deal if the economy is disrupted by technology in a way that creates a lot of churn in the labor market. Likewise, people, they may have children, they may have planned to move at some point as their kids reached a certain age and they wanted to get them into a better public school.
00:09:16,080
So these barriers to geographic mobility, they're a big deal. But I should say more broadly is the indirect effect of the lock-in on housing prices. So nationwide, home prices are up more than 50% since the start of the pandemic, and there are a lot of factors that contribute to that. But one of them is thought to be this lock-in creating kind of a thin housing market, and that's contributed to the rise in prices. And it's really exacerbating an affordability problem we already had.
00:09:47,910
But the issue is that it really has stood in the way of younger households and less affluent households becoming homeowners. And you can see this in the data. The National Association of Realtors released a report last year where they showed that the share of home buyers who are first time home buyers is at the lowest level in decades.
00:10:09,690
But this is a big deal because homeownership needs to be approached cautiously, of course, but it can unlock a lot of opportunity for households. It can get them living in a neighborhood where there are better public schools. It can serve as a savings commitment device. And that's important in a country where a meaningful share of our population doesn't have access to that sort of commitment device through their workplace. So the lock-in, it's a big deal in terms of economic opportunity.

00:10:44,460
Alex Miller
That statistic you mentioned there about the percentage of first time buyers now being at an all time or historic low really resonates. And I think many of our listeners will feel... Without the bank of mom and dad, it's difficult for many. And even if you do have it, if you're locked into these lower rates, previous era kind of rates-

00:11:05,580
Karen Dynan
I think that bank of mom and dad point is a really important one because we do worry about intergenerational mobility. And if you have to depend on having parents who are able to provide you with some money to buy a home for the first time, then that's going to block a whole portion of our population for buying a home.

00:11:28,010
Alex Miller
It really narrows things down, doesn't it?

00:11:29,430
Karen Dynan
Yeah. Yeah.

Alex Miller
So this is really a topic you've thought about in its many different manifestations for many years by the sounds of it, Karen.

Karen Dynan
Yeah.

00:11:37,973
Alex Miller
Fascinating. Well, Paul, let's walk to it. So the report, the [inaudible 00:14:00] report talks about this notion of a whole loan portfolio strategy. Can you walk us through the mechanics of that and keep it simple, certainly for me and maybe for some of our listeners, certainly. How does a lender and a borrower share that economic benefit of an old low rate loan to make these things possible?

00:12:00,780
Paul Goody
Sure. So the best way of boiling this down is that there is a transfer between the existing mortgage loan and the new mortgage loan of value. So much as a bank may see this as a loan that's below market rate, that is actually an asset to the borrower.
00:12:17,940
They have the right to continue to borrow that money for whatever it is the next 20 years at the below market rate. And what we're trying to do is transfer some of that value, some of that lower coupon, some of that lower rate to the new mortgage, which is why it's relatively simple to do if the new lender is the same as the old lender, because then the new lender can simply look at the old loan, the benefit to them of not having that low coupon loan on their balance sheet, and they get this new higher rate loan on their balance sheet, and they can in their own head do the mental gymnastics to say, "Okay, I'm better off."
00:12:51,330
So it's relatively straightforward in that narrow situation where you're dealing with the same bank that made the original loan to you, and that bank hasn't then gone and sold that loan into a securitization program or something else. So it's the easiest form of this idea. It is substantial and size is an opportunity, but it is still a fraction of the overall market because the US mortgage market is dominated by the agencies and the agency securitizations, which make some of this quite a lot harder.

00:13:21,480
Alex Miller
Well, I guess we'll come to them in due course. Karen, again, maybe with your vantage point, often economists will talk about discussing solutions for market frictions. In this case, Paul's highlighting a potential strategy to alleviate or mitigate some of this mortgage lock-in phenomena. But from your perspective, what are the trade offs perhaps over

time or perhaps even the unintended consequences that policymakers would be looking out for if you think back to the various seats you've sat in?

00:13:51,710
Karen Dynan
Yeah. I think it's something you want to think carefully about. In my own experience as a policymaker, I always thought about whether an innovation was going to be good, not only for the American economy as a whole, but for American households.
00:14:06,750
I think that's especially important in the current environment where public trust in the government is so low. There are a lot of people who don't think the leaders of this country are serving them well, so you want to make sure that the innovation is actually going to be good for households. And with a complex financial product like mortgages, you have to think carefully about how it's going to play out over time. We've seen this before, right?
00:14:31,620
We saw this in the early 2000s. There were a lot of people who were arguing that the new mortgages, they were calling them affordable mortgages. And the sense in which they were affordable was they were allowing households to own a house or to own a larger house than they otherwise would.
00:14:51,540
And that's correct in terms of the short run, but over the longer run, it did not play out well for a lot of households and there were poor outcomes. So this is the sort of thing you have to think carefully about. Paul's already highlighted that this is not a simple, easy to understand arrangement.
00:15:10,170
I think there are a lot of issues to be worked out. So for example, you'd want to think carefully about how the benefit is shared. You'd want to share it in a way that's fair and appropriate for households, but at the same time, you got to make sure that it is a viable opportunity on the lender side. And it's going to actually be embraced or else the product's not going to be offered. So there’s just a lot of complications to work out when it comes to a product like this.

00:15:43,077
Alex Miller
And of course, innovation benefits and scrutiny. That's the whole point, innovation should welcome scrutiny because it gives confidence as well if it-

Karen Dynan
Absolutely.

00:15:52,680
Alex Miller
Maybe on that point, Paul, it's not just a win-win simplistically that there's variables and calculations that on the lender side you need to think about and presumably there's an educational knowledge and understanding side on the borrower side that has to be sure to be reached. How do you think about that? And why hasn't this happened before if it's as obvious as it seems? It seems obvious, doesn't it?

00:16:19,440
Paul Goody
Yes, it does seem obvious. The truth is the mortgage market, as Karen was saying, is complicated. So it's relatively easy when we just talk about the same loan at the same rate. But what we're doing at banks is trying to think about the likely time that a person is going to have that mortgage outstanding.
00:16:37,320
And although these are often 30-year mortgages, the truth is most people move more frequently than that, or they repay the mortgage earlier than that. There's a tremendous amount of mathematics involved in figuring out exactly how long we expect a statistical pool of mortgages to survive for. And so when you're dealing with something that's below market rate, that kind of time that mortgage portfolio is outstanding versus the rate at which it's paying together create the kind of, I guess, the opportunity cost for not having a current mortgage rate in the portfolio.
00:17:09,150
As we change that portfolio, as we get a new loan, that borrower's now got a different propensity to stay in that next loan for a different period of time. So there are some fairly complex pieces of mathematics involved. I don’t want to get into all of it, because not least, most people have PhDs and mathematics that go after this topic.
00:17:26,610

But the thing that's interesting about this market is that rates have moved so far that we think there is a sweet spot in the middle where both sides can economically gain. And certainly when we've looked at it, it appears there is. Obviously every lender and every borrower would need to make their own decision.
00:17:41,940
But then the second thing is really this environment, one is relatively rare and we don't see 4 or 5% raises in interest rates in a fairly short period of time often in history. So people haven't designed the products and designing a new product and designing a new marketing strategy, updating systems and accounting and everything else and going through all the regulatory hoops necessary to go and offer that product, that's quite a lot of friction to go and move the marketplace.
00:18:09,450
And then there's this sort of like, "We haven't seen anyone else do it, so should we do it?" And everything else. So it's what I call just general friction. Most people weren't looking out for it because if mortgage market's old, it’s been around a long time. People thought they kind of pretty much designed those products.
And when you come up with an idea like this, there's a lot of new things that need to get done to get it over the hill to push it out for customers who want.

Alex Miller
Fascinating.
00:18:32,822
Of course, the more eyes, the better. Maybe, Karen, to that point partially, from a policy perspective, for many, the US housing system is quite unique compared to other countries and most of us won't be sort of deep in the weeds of comparisons.
00:18:48,360
But what role do government backed institutions play in the US mortgage market? And I guess, are there risks when the system becomes a bit too rigid or unresponsive to changes in economic conditions? And how would policymakers think about that?

00:19:04,470
Karen Dynan
Sure. That's an important question. I was sort of chuckling as Paul was laying out all the complexities because it took me back to the many hours I spent in conference rooms as we worked on a potential GSE reform package that…

Alex Miller
Yes, you could see yourself back there. Yes.

00:19:23,373
Karen Dynan
But there's just so many things you need to consider. But anyway, yes, the agencies, as Paul called them, the government-sponsored enterprises, the GSEs, they play a central role in mortgage finance in the United States.
00:19:37,470
As Paul mentioned, most experts would agree that Americans probably wouldn't have access to their beloved 30-year fixed rate mortgage rates anywhere near where they are today without the GSEs purchasing and securitizing these loans.
00:19:52,770
So any innovation, especially one as complicated as this, is almost certainly going to involve them. I think you’re absolutely right that the system can't be static. It needs to change as the economic and financial environment is changing. To be fair to the GSEs, they have adapted some over time.
00:20:13,500
For example, since the conservatorship began at the beginning of the financial crisis, they have actually found ways to sell off more credit risk of mortgages to private investors. But we're talking about a big change when you're talking about kind of the mortgage product itself, and it's a complicated system. And so I think there would be just a lot of work to be done to figure out the specifics about how this is all going to work.

00:20:44,130
Alex Miller
Yeah. I can imagine the devil as always is in the detail, isn't it? And I'm sure you've seen that, both of you, in prior guises. Maybe, Paul, we heard a bit about the GSEs, but one of the challenges that you write about in the report is mortgage securitization, where the loans owner is ultimately disconnected from the borrower. From a banking

perspective, let's keep this simple. How significant is that as a barrier? And why can't the investors who own that securitized loan simply just say, "Yeah, this all sounds good."

00:21:13,770
Paul Goody
Well, the first thing is the securitization market is actually very complicated. So even beyond the complications we talked about on mortgages themselves, the end invest is actually slice and dice the cash flows of these loans in many different ways. So there are people that are actually incentivized and they want these loans to stay outstanding for as long as possible.
00:21:34,650
Technically they own the interest payments only of these transactions. There are other people that only own the principal payments and they have a different set of incentives.
00:21:44,040
There's a lot of different kind of viewpoints out there. Secondly, there's no provision for them to make that kind of assertion and say, "We as a securitization, we like this, we'd like to accept it."
00:21:57,000
And thirdly, they're still not the new lender. They're not in the business of making new loans. Each securitization in essence takes a pool of loans and waits for them to repay over a long period of time. They don't make new loans into those securitizations.
00:22:09,930
That idea of that transfer of value between the existing loan that's being repaid and the new loan, there's no provision for that kind of bridge, which is why we got onto talking about other aspects of how would you capture that value pickup of repaying the old loan earlier than it might otherwise have been repaid, and create some mechanism of transfer from that to a new loan when that new lender might not be the same person. So quite a few things where the securitization market just makes it quite a lot harder.

00:22:39,510
Alex Miller
So, again, the mechanics of the process are not something one can simply sort of wave a magic wand over. Maybe to that point, I mean, Karen, you've firsthand been at that literal and proverbial sort of table as economic policy has been made, and most of us will never be at that table. Some would argue that something complex like the mortgage market is not going to become a priority until there's a problem.
00:23:04,860
What's your view in terms of whether or not this lock-in challenge is significant enough to command legislative or policymaker attention or what would be required for action to be forced?

00:23:19,050
Karen Dynan
Yeah. It's interesting because when we teach our public policy students, we say a policy, [inaudible 00:25:43] three features. And the first one is whether it's technically correct and the second is whether it's administratively feasible. And I think, as you can tell from what Paul is saying, you all have thought very carefully about those aspects.
00:23:39,030
But the third trait that a policy needs to have is it needs to be politically viable. And I have to say, I'm not in a position to predict whether this will get legislative attention, particularly when
Congress has so much already on its to-do list. But I would say that it is well understood that housing affordability is a problem in our country.
00:24:05,760
And I think it's also well understood. I mean, we can have a debate about whether homeownership really is the American dream, but for what it's worth, Americans believe that homeownership is the dream goal.
So I think the situation is primed to have a serious discussion about options here.
00:24:28,800
I will say that in my experience, sometimes it does take a while to socialize a policy idea. It can take certainly months, but often it can take years for Congress, really, to embrace it. So I think this is just a really important thing that you all are doing, which is you are bringing this idea out there. You are encouraging, as you said, Alex, you're encouraging scrutiny, you're encouraging discussion. And I just think that's a really constructive first step.

00:25:01,260
Alex Miller
Well, look, it's fantastic to be able to convene this conversation, obviously get the feedback as well. And obviously we sit today in a world of emerging technologies, the mortgage market is not the market it was 30 years ago. And one of the things, Paul, I know you touched upon and have thought about is how perhaps emerging technologies like blockchain, tokenization might have a way to bring some efficiency, bring some scale.
00:25:26,070
Can you sort of demystify this a bit for us? There's a lot of jargon thrown around in this space, but what would apply here in terms of blockchain technology?

00:25:35,580
Paul Goody
So, the interesting thing about blockchain is you don't... Sorry, the two sides of a transaction don't necessarily need to be related. So this transfer of value like you're talking about, you've got a borrower and you've got a lender.
00:25:48,180
They may not even be... Sorry, you've got two lenders, a new lender and an old lender.
They may not even be executing a transaction at the same time. There needs to be some bridge that takes the value from one loan into the new loan.
00:26:02,700
So we talked about some ways we can capture that value, but having captured that value, how do you sort of, in essence, create a credit chip that can go from one lender to a new lender?
00:26:15,090
So the idea was that maybe you could use blockchain as a technology where if you repay your existing mortgage early, you would get a, for want of a word, a coin, and that coin could then be cashed in a new lender and when that new loan is made, new lender in essence has a claim on the old lender to transfer some value to them for being able to make a loan below market rate.

00:26:38,250
Alex Miller
And you can sort of time-limit that, so it wasn't something that sort of sat stagnant, so to speak. Interesting. So there's real innovation potentially in the spheres beyond the structure, but in terms of also the enablement side. That's fascinating.

Paul Goody
Right.

00:26:52,671
Alex Miller
So Karen, let's look at the flip side of this. Beyond the financial mechanics, which we dwelt on a bit here, in a world in the US where many, and not obviously just in the US, but we're talking here about the US market, many people live with their parents well into their 30s. Affordability is the challenge that you've touched upon into your 30s and 40s, indeed.
00:27:10,890
How do you think about those societal benefits of uncracking this, or sort of piercing this Gordian knot? Is it labor mobility? Is it something else? And what's the prize on offer beyond what the banks and the individual borrower may be thinking about?

00:27:28,020
Karen Dynan
Yeah, sure. I mean, so we talked about the individual borrower and the benefits in terms of economic mobility. For the broader economy, having people kind of well-matched to the jobs that they have. That's important because that makes productivity growth higher. So that will be good for us.
00:27:56,070
But I would also just say, in terms of broader society, I think we have social dysfunction in this economy. It stands in the way of the economy working well. It certainly stands in the way of making good economic policy. And I think housing affordability is central there.
00:28:10,350
I think housing is just viewed as a very basic need that people have. It's something that every single day, they probably think about if you're not where you would like to be in terms of housing. So I do think that just trying to do... We

already have a longer run housing affordability problem, and that’s something for your next podcast, Alex. That's my suggestion-

00:28:36,873
Alex Miller
Thank you.

00:28:38,910
Karen Dynan
But I think anything we can do on this front is important to creating a stronger social fabric and supporting just a better functioning society and government.

00:28:51,180
Alex Miller
And as you point out, that sort of trust breakdown that's common across many countries, not just the US where the younger people in particular feel the system isn't really doing quite what it needs to for them. 00:29:04,710
Housing is front and centers that, and the ability to be on that path or even to get onto that path, which is obviously a…

00:29:10,493
Karen Dynan
Yeah, I think that's right. And we need to remember that we may be leaving them a world where they have lots of cool AI tools to use. But on the other hand, we're leaving them a lot of government debt.
00:29:23,340
We're leaving them other kind of problems or we're leaving them kind of a world with more geopolitical risk. We're leaving them a world with climate challenges. So you put all those things together, and you can see why young people are not as hopeful about the future as they should be.

00:29:40,590
Alex Miller
Okay. Well, maybe, if we can ground that, Paul. We're a bank. You have a significant role in terms of managing the balance sheet here. When banks generally are thinking strategically about this type of innovation, what's the primary motivation?
00:29:54,990
Is it just to improve the portfolio yield? Is it about the relationship with the underlying borrower? Is it something else? And how does this sort of innovation sit into a longer term vision, I guess, of this market?

00:30:07,620
Paul Goody
Well, to me at least, and I think you'll hear this echo by a lot of bank CEOs, we're primarily here to create products that our customers want. We're here to serve our customers. So trying to find ways in which we can create products where the customer sees value, we ultimately then can also make money by charging a fair fee on that is good business. And it's good sustainable business, but we need those customers to be successful. Our success is intrinsically linked to our customer success.
00:30:36,180
So that very kind of mobility of labor the economic growth, they're all intrinsically linked into the success of a banking system. Banks make money through financial transactions. And the more of them that occur, the more money banks make.
00:30:48,990
So anything that can help the economy, in general, should be in the interest, I think, of banks strategically, not just kind of locally, as long as we find that fair balance. I think Karen said earlier that from a regular point of view or from a policy point of view, what is fair is also very important.
00:31:08,400
So trying to make sure that there's a fair balance of any sort of economic transfer you see as you’re designing these things, particularly when there's so much government help in the system. The agencies, as Karen also pointed out, have been tremendously powerful in enabling home ownership in the US. They're an important part of the way this economy functions, and they need to be respected for that.

00:31:28,800
Alex Miller
So they're very much the beneficial hand of government being possibly used over many years. But I guess if you're advising other lenders or other industry bodies, perhaps, Paul, what's the first step you would advise them to do apart from listen to this podcast or read the Moving America report?

00:31:46,500
Paul Goody
Well, I'd encourage everybody to continue to try to innovate, to look for opportunities like this. Karen's highlighting a much wider issue. I think we can all observe the house price inflation that we've seen that is far exceeded, I think, wage inflation over a very long period of time.
00:32:03,000
I think we can see that across many asset classes in general, even beyond housing. So I think there are challenges. And so finding out ways to help. We were just talking about AI. I think there's some interesting new opportunities for offering customers products in that space. I would continue to innovate, I think is the most important thing.

00:32:21,900
Alex Miller
Yeah, that's true. And I guess Karen's sort of close to wrapping up here, but if you think about that sort of core part of the American dream, the economic narrative of the home is not just a place to live, but an engine for household wealth creation, it's important that that isn't something that people give up upon because that then is a pretty seismic change or shift in terms of the lives of American families and individuals.

00:32:51,630
Karen Dynan
Yeah, I think that's right. So I think housing home ownership is always going to be a central part of financial security for many households in this country. And we have an access issue and there are a lot of complicated things feeding into that. I think what's interesting with this particular problem is that we're seeing even within the group of homeowners, the people who are fortunate enough to be able to buy a home.
Now we're seeing kind of an unevenness where some homeowners are doing really well, but other homeowners are kind of stuck with those golden handcuffs on, as we said earlier.
00:33:34,260
And I think to the extent that we can kind of address this problem, I think it's an important thing to try to do.

00:33:41,850
Alex Miller
Well, look, Karen and Paul, this has been a fascinating conversation, and I think you've both done an amazing job to sort of demystify what is a... It's a complex topic, but one that I think is going to resonate with a lot of our listeners, both in the US and outside, whether the homeowners or policymakers or simply people who care about the health of the American economy.
00:34:01,140
The idea that something as structural as a mortgage rate could quietly constrain where people live, where they work, and the opportunities that they might be able to access. That's a powerful one. And you've given us, I think, a real cause for optimism. So thank you both very much for your time, for your insights. Thank you for our listeners for joining us. And, of course, if you'd like to read the full Moving America report from the Citi Institute, you can find it at citi.com/citiinstitute. So with that, Karen, Paul, thank you.

00:34:29,010
Karen Dynan
Thank you, Alex.

Paul Goody
Thank you.

00:34:32,052