

# United States Senate

WASHINGTON, DC 20510

January 28, 2024

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Dear Chair Powell,

We write regarding the current state of the housing market and ongoing concerns that high interest rates have aggravated the country's persistent crisis of housing access and affordability. Mortgage rates have risen to 20-year highs in the past year—a direct result of the Federal Reserve's (Fed) campaign of aggressive hikes to the federal funds rate.<sup>1</sup> While the decision of the Federal Open Market Committee (FOMC) to pause rate hikes in September and December 2023 was a welcome first step,<sup>2</sup> and the recent modest decline in rates provided some welcome relief, interest rates are still too high for many American families, who already cannot afford to pay rent or buy their first homes.<sup>3</sup> As the Fed weighs its next steps in the new year, we urge you to consider the effects of your interest rate decisions on the housing market and to reverse the troubling rate hikes that have put affordable housing out of reach for too many.

The Fed's decision to raise interest rates rapidly, and keep them high, has resulted in higher costs for home purchasers, higher rents, and reductions in new home and apartment building—and the job growth that comes with these investments.

Over the past year, as a result of the Fed's aggressive rate hikes, mortgage rates have risen to the highest levels seen in our country in 23 years.<sup>4</sup> The average rate on the 30-year fixed-rate mortgage rose to *eight* percent in mid-October, a drastic change from rates as low as *three* percent in 2021.<sup>5</sup> Mortgage rates have declined since and now sit at approximately 7.33%—still

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<sup>1</sup> Reuters, "U.S. Mortgage Rates Spike to Highest Since November, Approach 22-Year High," Safiyah Riddle, August 9, 2023, <https://www.reuters.com/markets/us/us-mortgage-rates-spike-highest-since-november-approach-22-year-high-2023-08-09/>; New York Times, "What Fed Rate Moves Mean for Mortgages, Credit Cards and More," Tara Siegel Bernard, September 20, 2023, <https://www.nytimes.com/2023/09/20/business/fed-interest-rates-mortgage-loans-credit-cards.html?searchResultPosition=9>.

<sup>2</sup> Federal Reserve, "Federal Reserve Issues FOMC Statement," press release, September 20, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20230920a.htm>; Federal Reserve, "Federal Reserve Issues FOMC Statement," press release, December 13, 2023, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20231213a.htm>.

<sup>3</sup> Reuters, "U.S mortgage rates soar to highest in more than 23 years," Ann Saphir, October 25, 2023, <https://www.reuters.com/markets/us/us-mortgage-rates-soar-highest-more-than-23-years-2023-10-25/>.

<sup>4</sup> CNBC, "The 30-Year Fixed Mortgage Rate Just Hit 8% For the First Time Since 2000 as Treasury Yields Soar," Diana Olick, October 18, 2023, <https://www.cnbc.com/2023/10/18/30-year-fixed-mortgage-rate-just-hit-8percent-for-the-first-time-since-2000.html>.

<sup>5</sup> *Id.*

well above rates paid by homeowners over the last decade-plus.<sup>6</sup> The direct effect of these astronomical rates has been a significant increase in the overall home purchasing cost to the average consumer. From December 2021 to December 2022, average monthly payments on 30-year fixed-rate mortgages rose from \$1,400 to \$2,045, a staggering 46% increase.<sup>7</sup> Today, those payments have skyrocketed to \$2,883, even with the recent downturn in mortgage rates.<sup>8</sup>

High interest rates have also worsened our nation's housing supply crisis. As mortgage rates have gone up, the price of home listings has not significantly dampened. Rather, a decade-long dearth of supply (exacerbated by a complete suppression of home building at the onset of the COVID-19 pandemic) has kept costs high on homes across the country.<sup>9</sup> In response to high interest rates and higher construction costs, developers have opted either to pivot to developing smaller properties or have chosen to pull back on construction.<sup>10</sup> Additionally, the existing supply of homes has become less available to new buyers, as current homeowners are reticent to move and trade in their lower rates for a higher rate on the mortgage needed to purchase a new home.<sup>11</sup>

The effects of the Fed's monetary policy also extend to the rental market. As high costs and interest rates deter prospective first-time home buyers, many families and individuals choose to stay in the rental market.<sup>12</sup> However, these households are not guaranteed to find more affordable conditions awaiting them. While market-rate rents have seen a slight decrease over the past few months, the price of rent is still astonishingly high compared to pre-pandemic levels.<sup>13</sup> High interest rates contribute to higher rent costs in several ways: in addition to keeping renters in their units and constricting the supply of new rental units by making construction more expensive, high interest rates mean higher mortgage rates for landlords, who may pass off these costs in the form of rent hikes for their tenants.<sup>14</sup> And although rental supply has increased

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<sup>6</sup> CNN, "The best mortgage interest rates today: January 24, 2024," Andrew Pentis and Emily McNutt, January 24, 2024, <https://www.cnn.com/cnn-underscored/money/mortgage-interest-rates-today-01-24-2024>.

<sup>7</sup> Consumer Financial Protection Bureau, "Data Point: 2022 Mortgage Market Activity and Trends," September 2023, [https://files.consumerfinance.gov/f/documents/cfpb\\_data-point-mortgage-market-activity-trends\\_report\\_2023-09.pdf](https://files.consumerfinance.gov/f/documents/cfpb_data-point-mortgage-market-activity-trends_report_2023-09.pdf).

<sup>8</sup> Business Insider, "Average Mortgage Payment by State, City, and Year," Liz Knueven and Molly Grace, January 2, 2024, <https://www.businessinsider.com/personal-finance/average-mortgage-payment>.

<sup>9</sup> Harvard Joint Center for Housing Studies, "The Extraordinary and Unexpected Pandemic Increase in House Prices: Causes and Implications," Don Layton, January 7, 2021, <https://www.jchs.harvard.edu/blog/extraordinary-and-unexpected-pandemic-increase-house-prices-causes-and-implications>.

<sup>10</sup> *Id.*

<sup>11</sup> CNBC, "As Mortgage Rates Hit 8%, Home 'Affordability Is Incredibly Difficult,' Economist Says," Ana Teresa Solá, October 20, 2023, <https://www.cnbc.com/2023/10/20/what-8percent-mortgage-rates-mean-for-home-affordability.html>.

<sup>12</sup> Harvard Joint Center for Housing Studies, "Home Prices and Interest Rates Still Rising, Shutting Out More Potential Homebuyers," Daniel McCue, September 28, 2023, <https://www.jchs.harvard.edu/blog/home-prices-and-interest-rates-still-rising-shutting-out-more-potential-homebuyers>.

<sup>13</sup> REALTOR, "September 2023 Rental Report: Rent Prices Fall for Fifth Consecutive Month Amid Strong Demand for Affordable Units," Jiayi Xu & Danielle Hale, October 23, 2023 <https://www.realtor.com/research/september-2023-rent/>.

<sup>14</sup> Marketplace, "What High Mortgage Rates Have To Do With Your Rent," Sabri Ben-Achour, April 11, 2023, <https://www.marketplace.org/2023/04/11/what-high-mortgage-rates-have-to-do-with-your-rent/>; Sen. Elizabeth Warren, "Remarks - New England Council: 'Tackling New England's Affordable Housing Challenges,'" December 18, 2023, <https://www.warren.senate.gov/newsroom/press-releases/icymi-warren-calls-for-big-national-investment->

somewhat recently, low-rent housing stock still lags, as the supply of low-rent units has fallen by 3.9 million units over the past decade.<sup>15</sup>

The ever-growing affordability crisis places a disparate burden on the shoulders of Black and Hispanic households, who own homes at rates 28.6 percentage points and 25.8 percentage points below white households respectively—disparities rivaling the racial homeownership gaps of the Jim Crow era.<sup>16</sup> Over the course of the past year, Black and Hispanic homeowners have been denied loans at higher rates and have received smaller loan amounts than white homeowners.<sup>17</sup> They have also paid more on average in upfront fees, taking on more of a financial hit at the outset of a home purchase while also balancing the longstanding costs of a mortgage and utilities.<sup>18</sup>

Critically, this is not simply an issue of disparate housing access. Home-ownership is a well-documented means of wealth creation,<sup>19</sup> and the further exclusion of historically disenfranchised groups from home-ownership will only widen our country’s pronounced racial wealth gap.<sup>20</sup> Compounding these disparities in the housing market is unacceptable and directly contradicts the Fed’s stated goal of “foster[ing] and maintain[ing] the conditions in which the economy and all its participants can thrive.”<sup>21</sup>

Given the impacts of the Fed’s monetary policy on our country’s housing ecosystem—and the ripple effects for health outcomes in communities, wealth creation, and access to job and educational opportunities<sup>22</sup>—we urge the Fed to reverse its aggressive hikes to the federal funds rate in 2024. The Fed has already signaled its willingness to cut rates, and the market has

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[to-lower-housing-costs-stronger-protections-for-renters-and-families.](#)

<sup>15</sup> Harvard Joint Center for Housing Studies, “Low-Cost Rentals Have Decreased in Every State,” Sophia Wedeen, July 6, 2023, <https://www.jchs.harvard.edu/blog/low-cost-rentals-have-decreased-every-state>.

<sup>16</sup> Harvard Joint Center for Housing Studies, “The State of the Nation’s Housing 2023,” June 2023, [https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_The\\_State\\_of\\_the\\_Nations\\_Housing\\_2023.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf); The Urban Institute, “Reducing the Racial Homeownership Gap,” <https://www.urban.org/policy-centers/housing-finance-policy-center/projects/reducing-racial-homeownership-gap>.

<sup>17</sup> Harvard Joint Center for Housing Studies, “The State of the Nation’s Housing 2023,” June 2023, [https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard\\_JCHS\\_The\\_State\\_of\\_the\\_Nations\\_Housing\\_2023.pdf](https://www.jchs.harvard.edu/sites/default/files/reports/files/Harvard_JCHS_The_State_of_the_Nations_Housing_2023.pdf).

<sup>18</sup> Consumer Financial Protection Bureau, “Data Point: 2022 Mortgage Market Activity and Trends,” September 2023, [https://files.consumerfinance.gov/f/documents/cfpb\\_data-point-mortgage-market-activity-trends\\_report\\_2023-09.pdf](https://files.consumerfinance.gov/f/documents/cfpb_data-point-mortgage-market-activity-trends_report_2023-09.pdf).

<sup>19</sup> Urban Institute, “Homeownership and the American Dream,” Laurie S. Goodman & Christopher Mayer, January 31, 2018, p. 32, [https://www.urban.org/sites/default/files/publication/96221/homeownership\\_and\\_the\\_american\\_dream\\_0.pdf](https://www.urban.org/sites/default/files/publication/96221/homeownership_and_the_american_dream_0.pdf).

<sup>20</sup> Federal Reserve Bank of St. Louis, “The State of U.S. Wealth Inequality,” Ana Hernández Kent and Lowell R. Ricketts, October 18, 2023, <https://www.stlouisfed.org/institute-for-economic-equity/the-state-of-us-wealth-inequality>.

<sup>21</sup> Federal Reserve Board of Governors, “Speech: Opportunity and Inclusive Economic Growth,” Governor Philip N. Jefferson, November 17, 2022, <https://www.federalreserve.gov/newsevents/speech/jefferson20221117a.htm>.

<sup>22</sup> U.S. Department of Health and Human Services, Office of Disease Prevention and Health Promotion, “Healthy People 2030: Housing Instability,” <https://health.gov/healthypeople/priority-areas/social-determinants-health/literature-summaries/housing-instability>; Federal Reserve Bank of Philadelphia, “Rental Housing Affordability Impacts Educational and Employment Opportunities,” Eileen Divringi, Spring 2017, <https://www.philadelphiafed.org/community-development/housing-and-neighborhoods/rental-housing-affordability-impacts-educational-and-employment-opportunities>.

responded accordingly.<sup>23</sup> Working families, already struggling with the cost of housing, need relief now.

Thank you for your attention to this matter.

Sincerely,



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Elizabeth Warren  
United States Senator



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John Hickenlooper  
United States Senator



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Jacky Rosen  
United States Senator



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Sheldon Whitehouse  
United States Senator

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<sup>23</sup> CNN, "Rate cuts and a soft landing: This will be a critical year for the Fed," Bryan Mena, January 2, 2024, <https://www.cnn.com/2024/01/02/economy/interest-rate-cuts-inflation-fed-2024/index.html>.