

OVERNIGHT FINANCE: Fed minutes show housing worries

By Kevin Cirilli - 05/21/14 05:44 PM EDT

TOMORROW STARTS TONIGHT: The Fed's April FOMC meeting minutes were released today and will drive tomorrow morning's financial discussions. The hot-topic will be the pace of the housing recovery, as the housing sector awaits the first of two key reports to be released tomorrow and Friday.

THIS IS OVERNIGHT FINANCE, where we're now in Day 3 of our re-launch. What do you like? What don't you like? Tweet: [@kevcirilli](#). Email: kcirilli@thehill.com. Busy day today, huh? Back to work...

THREE TAKEAWAYS:

1.) The Fed revealed little on pace of tapering. Most Fed-watchers think the central bank will continue easing off its monthly purchases of Treasury and mortgage bonds as soon as this fall, but the minutes provided no new details.

FOMC members heard reports about how to raise interest rates "when it becomes appropriate to do so," according to the minutes, but they didn't decide on an official course of action.

"We learned next to nothing about the pace of tapering," Michael Feroli, JP Morgan chief U.S. economist, tells OVERNIGHT FINANCE. "Numerous Fed speakers have said that barring any major surprises we are more or less on auto-pilot."

2.) FOMC members are uneasy about Russia, Ukraine tensions. Some members cited concerns about how geopolitical tensions involving Russia and Ukraine might impact global markets.

But despite the U.S. imposing sanctions against Moscow and Standard & Poor's lowering Russia's sovereign debt rating, most members didn't think it would impact the U.S. economy. "Outside of that region... these building tensions left little imprint on global financial markets," the minutes said.

3.) The U.S. housing recovery continues to concern the Fed. Most FOMC members "commented on the continuing weakness in housing activity." And while long-term economic growth looks promising, housing is still a concern to the central bank.

"[A] number of participants pointed to possible sources of downside risk to growth, including a persistent slowdown in the housing sector," the minutes said.

The housing finance world awaits two key reports later this week, but already the concern is mounting.

"It appears we're in a mini-reflation of the housing bubble, again caused by loose monetary policy," Michael Chadwick, CEO of Chadwick Financial Advisers, tells OVERNIGHT FINANCE. "Many homes being built and permits being pulled are for multi-family dwellings as the average person either cannot afford or does not want to own a home after the last meltdown."

More housing in a minute. But first...

-- **HOW IT PLAYED:** WSJ: "Fed minutes: Lots of talk, no action." ... Reuters: "Fed mulls easy money exit." ... MoneyBeat: "Stocks defy trend, jump after Fed minutes." ... CNBC.com: "Fed minutes: Fed discussed rate hike procedures, but discussion does not signal action soon."

-- **NOT MENTIONED:** Congress. Six months after the government shutdown, FOMC members didn't mention Washington D.C. as a hindrance to economic growth or economic uncertainty.

-- **MARKET REACTION:** Dow +158.75 points; S&P 500 +15.2 points; NASDAQ +34.65 points.

HOUSE GOPers TO KEEP CFPB IN HILL HOT SEAT. The Hill's Peter Schroeder reports: "House Republicans will continue digging into claims of discrimination at the Consumer Financial Protection Bureau.

"Rep. Patrick McHenry (R-N.C.), who chaired Wednesday's subcommittee hearing, accused a CFPB witness of being evasive and unhelpful, after being subpoenaed to testify by the panel.

"In particular, Republicans were incensed that the CFPB employee brought in to testify avowed no knowledge of an outside report completed in September that showed discrimination issues at the bureau.

"Liza Strong, the CFPB's lead of labor and employee relations, said she was unaware of that report from the consulting firm Deloitte until recently, and had not read it yet."

SENATE CONFIRMS STANLEY FISCHER -- SORTA. The Senate voted 68-27 to confirm Fischer to the Federal Reserve Board of Governors, with all opposition coming from Republicans.

Thanks to Sen. Rand Paul's (R-Ky.) tinkering, the Senate will need to vote *again* to confirm Fischer as the Board's vice chairman, which now won't come until next week.

Fischer is the former head of the central bank of Israel (he's got dual U.S. citizenship) and served as vice chairman of Citigroup between 2002 and 2005.

-- **KEY TAKEAWAY** from Howard Schnieder and Richard Cowan for Reuters: "[The] vote on Wednesday ensures Fischer... will attend the Fed's next policy-setting meeting in mid-June, whether as the No. 2 official or not."

ON-TAP FOR TOMORROW: 8:30 a.m. jobless claims released; 10 a.m. existing home sales report released.

DID MEL WATT HELP HOUSING? Mel Watt, director of the Federal Housing Finance Agency (FHFA), raised eyebrows last week when he said he'd expand access to home loans. It was a marked departure from his predecessor Edward DeMarco, who looked to shrink taxpayer-backed mortgage giants Fannie Mae and Freddie Mac's market footprint.

Watt said it was necessary to help spur economic growth, and it looks like the Fed agreed with him.

According to the FOMC minutes: "A couple of participants noted that mortgage credit availability remained constrained and lending standards were tight compared with historical norms, especially for purchase mortgages."

Center for American Progress housing finance director Julia Gordon tells OVERNIGHT FINANCE: "Did Mel Watt help the economy? I think he's going in the right direction. And it looks like the Fed agrees with him."

MESSER TO HOUSE FINSERV COMMITTEE. Rep. Luke Messer (R-Ind.) announced today he's filling the spot vacated by Rep. Michael Grimm (R-N.Y.) on the House Financial Services Committee.

DEM TRIES TO SNEAK A MINIMUM WAGE VOTE. Erik Wasson reports: "House Appropriations Chairman Hal Rogers (R-Ky.) and panel member Rep. Rosa DeLauro (D-Conn.) got into an ugly fight over the federal minimum wage at the end of an otherwise sedate markup of the 2015 transportation and housing spending bill on Wednesday.

"The end result: the panel's Republicans rejected DeLauro's amendment to raise the wage to \$10.10 per hour and then voted to approve the \$52 billion transportation, housing and urban development bill, clearing it for floor action likely next month."

--KEY QUOTE: "To offer this amendment at this last minute without notice to anybody is abhorrent," Rogers thundered.

YELLEN TO GRADS: BE LIKE BERNANKE. Fed Chairwoman Janet Yellen spoke at NYU's graduation earlier today in Yankee Stadium. She urged graduates to have "grit."

Then she praised Bernanke...

"Ben Bernanke, demonstrated such courage, especially in his response to the threat of the financial crisis... Bernanke's intelligence and knowledge served him well as chairman. But his grit and willingness to take a stand were just as important..."

"Having dwelt for a moment on failure and grit, let me turn to the deeper meaning that underpins grit and can carry us beyond failure. The hard work of building a life that makes a difference is much easier to sustain when you are passionate about what you pursue."

"If there is a job that you feel passionate about, do what you can to pursue that job; if there is a purpose about which you are passionate, dedicate yourself to that purpose."

Speaking of Big Ben...

ARE BERNANKE'S SPEECHES TINKERING WITH BOND YIELDS? Ben Eisen writes for MarketWatch that Bernanke's \$250K+ paid speeches to hedge-funders about the Fed's easy money policies have begun to influence bond yields.

Eisen cites a Tuesday note from TD Securities' Richard Gilhooly, who wrote: "The front-end remains close to new lows in yield reached [Monday] and linked to Bernanke comments."

"The curve steepened significantly yesterday as the remarks attributed to Bernanke added to the perception that Yellen and the FOMC more generally were back-tracking from tightening views they allowed to be priced into the curve for many months." Eisen's report:

QUOTABLE, Larry Summers in a conference call with Senate Democrats on student loan debt: "[Now some experts note that] the dumbest rich kids are more likely to go to college than the smartest poor kids."

NOTABLE, Summers was joined on the conference call by Sens. Jeff Merkley (D-Ore.) and Al Franken (D-Minn.), two senators who helped tank his bid to be Fed chairman.

MISSING – Summers' critic-in-chief Sen. Elizabeth Warren (D-Mass.), whose largely led Democratic efforts on student loan reform.

TAX PREPARERS: IRS EDUCATION STANDARDS DON'T MAKE THE GRADE. The Hill's regulation team reports: "The nation's accountants are staging a pre-emptive strike against an expected move by the Internal Revenue Service to impose voluntary education standards for tax preparers.

"The American Institute of Certified Public Accountants (AICPA) sent a letter Wednesday urging IRS Commissioner John Koskinen to abandon the rumored plan."