

United States House of Representatives  
Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, D.C. 20515

November 4, 2022

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

Dear Chair Powell,

I am deeply troubled by the Federal Reserve's (Fed's) rapid series of super-sized interest rate hikes, which may inflict unnecessary pain on millions of individuals and families while sending the economy into a devastating recession. This week's Federal Open Market Committee (FOMC) decision marks the fourth consecutive mega rate hike by the Fed, resulting in the highest federal funds rate since before the 2008 global financial crisis and the fastest set of rate hikes by the Fed in four decades. Enough is enough. Instead of promoting price stability, experts are increasingly alarmed that the Fed may be over-correcting for inflation without properly considering the limits of its tools or the impacts of its decisions.<sup>1</sup> The Fed itself has acknowledged that it can take time for an interest rate increase to fully take hold on the economy,<sup>2</sup> so I implore the Fed to heed these dynamics and warnings before moving forward with additional rate hikes.

This Congress, my Committee has been sounding the alarm on the need to address our nation's worsening housing crisis and the effects it has on rising inflation.<sup>3</sup> It is abundantly clear that we do not know the full impact of your recent rate hikes, but it seems counterproductive that they appear to be worsening, not alleviating, a primary driver of core inflation—housing costs. In fact, the average rate on a 30-year mortgage is above 7%—the highest rate seen in two decades.<sup>4</sup> These high interest rates are increasing the cost of homeownership by more than \$1,000 per month as home prices have continued to rise year-over-year.<sup>5</sup> This steep increase in owning a home disincentivizes current homeowners to move, exacerbating affordability and supply constraints. In fact, the portion of first-time homebuyers plummeted to 26 percent, the lowest level in more than four decades when the National Association of Realtors began collecting this data.<sup>6</sup> Rate hikes are also affecting renters across the country. As interest rates increase, so

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<sup>1</sup> Groundwork Collaborative, [Experts Agree: Fed Should Think Twice Before Raising Interest Rates Again](#) (Oct. 18, 2022); and Rachel Siegel, [As the Fed fights inflation, worries rise that it's overcorrecting](#) (Oct. 11, 2022).

<sup>2</sup> FOMC, [Statement on Longer-Run Goals and Monetary Policy Strategy](#) (Adopted effective January 24, 2012; as reaffirmed effective January 25, 2022) (“Monetary policy actions tend to influence economic activity, employment, and prices with a lag.”). In addition, one study showed the average monetary policy transmission lag in the United States has been about 42 months. See Tomas Havranek & Marek Rusnak, [Transmission Lags of Monetary Policy: A Meta-Analysis](#) (Dec. 2013).

<sup>3</sup> Financial Services Committee (FSC), [A Strong Foundation: How Housing is the Key to Building Back a Better America](#) (Oct. 21, 2021); FSC, [Oversight of the Treasury Department's and Federal Reserve's Pandemic Response](#) (Dec. 1, 2021); FSC, [Monetary Policy and the State of the Economy](#) (Mar. 2, 2022); FSC, [The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19](#) (Mar. 8, 2022); and FSC, [Monetary Policy and the State of the Economy](#) (Jun. 23, 2022).

<sup>4</sup> Tara Siegel Bernard, [U.S. Mortgage Rates Rise Past 7%](#), New York Times (Oct. 27, 2022).

<sup>5</sup> Nadia Evangelou, [Instant Reaction: Mortgage Rates, October 27, 2022](#), National Association of Realtors (Oct. 27, 2022); FHFA, [FHFA House Price Index Down 0.7 Percent in August; Up 11.9 Percent from Last Year](#) (Oct. 25, 2022).

<sup>6</sup> Ronda Kaysen, [Older, White and Wealthy Home Buyers Are Pushing Others Out of the Market](#), New York Times (Nov. 3, 2022).

too does the cost of construction and homebuying, which in turn constrains housing construction and supply, and increases the demand for rental housing.<sup>7</sup> Indeed, rent prices have risen nationwide by 18% during the pandemic, with some communities like New York City experiencing more than 40% rent increases.<sup>8</sup>

Although you indicated that there may be smaller rate increases to come, it is essential that the Fed take into consideration the consequences of previous and future rate hikes, including the now heightened risk of a recession. As I highlighted the last time you testified before my Committee in March of this year, as well as in a hearing on inflation, higher prices due to inflation were created by pandemic-related supply chain problems as well as large corporations taking advantage of economic conditions to pass on higher prices to consumers, spurred in part by a lack of competition. Russia's invasion of Ukraine only made these conditions worse. You agreed that supply chain bottlenecks caused by the pandemic were one of the main drivers of inflation, and that the Fed's tools were a blunt instrument that target aggregate demand, not supply. Congress has passed a number of bills—such as the Inflation Reduction Act, the CHIPS and Science Act, and the Ocean Shipping Reform Act—that are being implemented that should help address some of these challenges, and I strongly believe there is more for Congress to do, especially with respect to addressing one of the primary drivers of inflation today: housing.

In closing, I am concerned that rapid and continued interest rate hikes may only serve in the long run to be an over-correction that results in recession rather than help solve these root causes of inflation. I urge you to take into account these issues and exercise extreme caution going forward.

Sincerely,



MAXINE WATERS  
Chairwoman

cc: The Honorable Patrick McHenry, Ranking Member

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<sup>7</sup> Tobias Burns & Adam Barnes, [Fed's latest hike will push up mortgage rates](#), The Hill (Nov. 2, 2022); Justin Ho, [Homebuilder confidence continues to slide as interest rates continue to rise](#), Marketplace (Sep. 19, 2022).

<sup>8</sup> Lily Katz, [Rental Market Tracker: Rents Are Growing Half as Fast as They Were Six Months Ago](#), Redfin (Oct. 21, 2022); Ronda Kaysen, [New York Renters Are Now Paying the Price for the 'Covid Discount'](#), New York Times (Jul. 28, 2022).