



Housing and Mortgage Market Update

Interagency Community Development Conference
“Banks & the Outlook for Residential Lending”
Federal Reserve Bank of Minneapolis
McLean, VA
October 15, 2009

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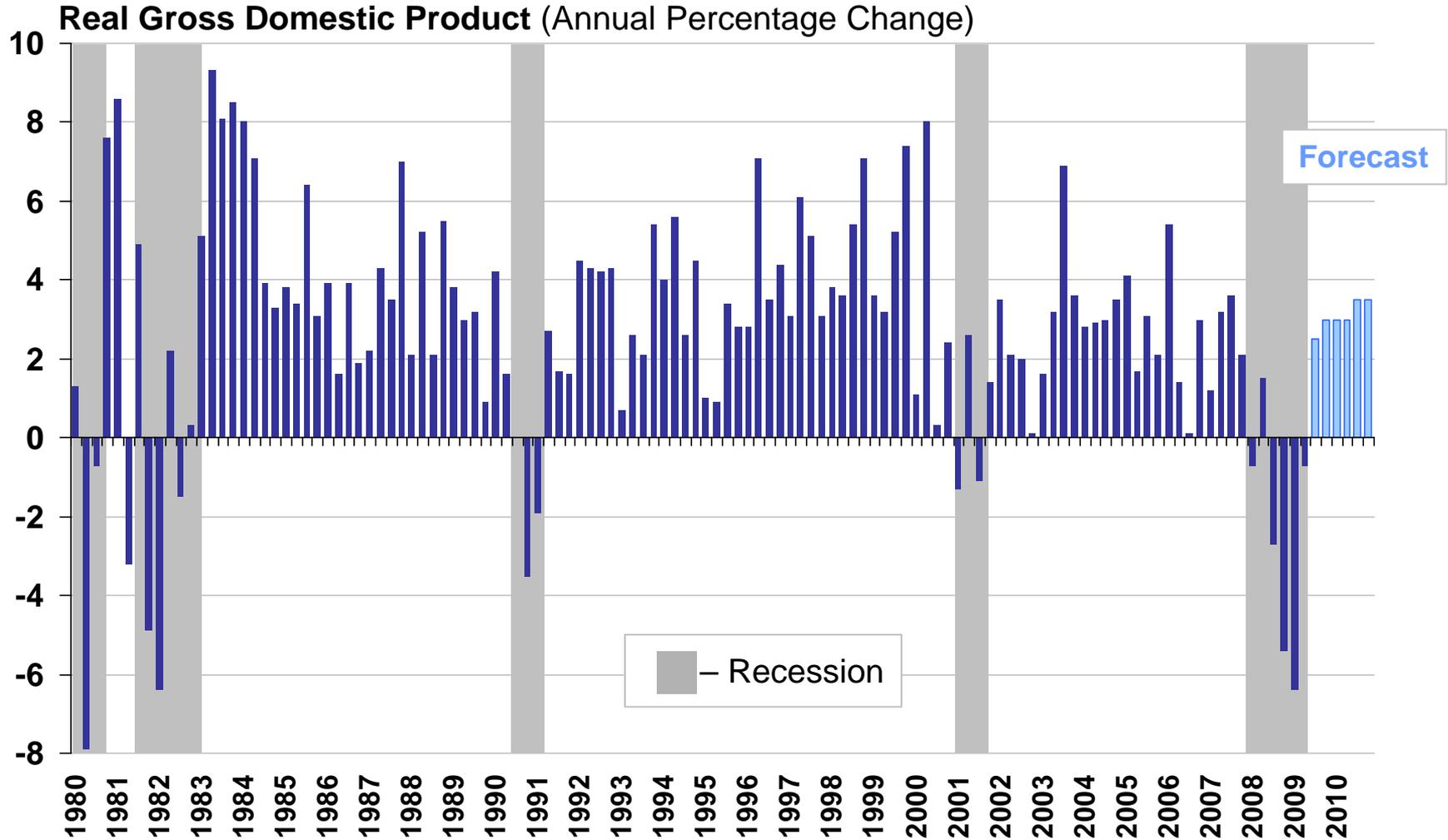
- **Economy Still In Recession...**
 - Real GDP fell only 0.7% in 2Q 2009, expected to be positive in 3Q
 - Unemployment rate still rising – expected to hit 10% by year end
 - Consumer confidence hit lowest level since measurement began (1969) in February & March, but is up since then
 - Current inflation risk is low, except for energy prices; could be more problematic in the future, but we will deal with it then

- **But Positive Signs Are Appearing**
 - Financial market indicators show some improvement – but not yet normal
 - Home sales are at or near bottom; about a third are foreclosure sales
 - Single-family construction is lowest since 1945, small positive signs
 - Rate of decline in home prices appears to be slowing (?)

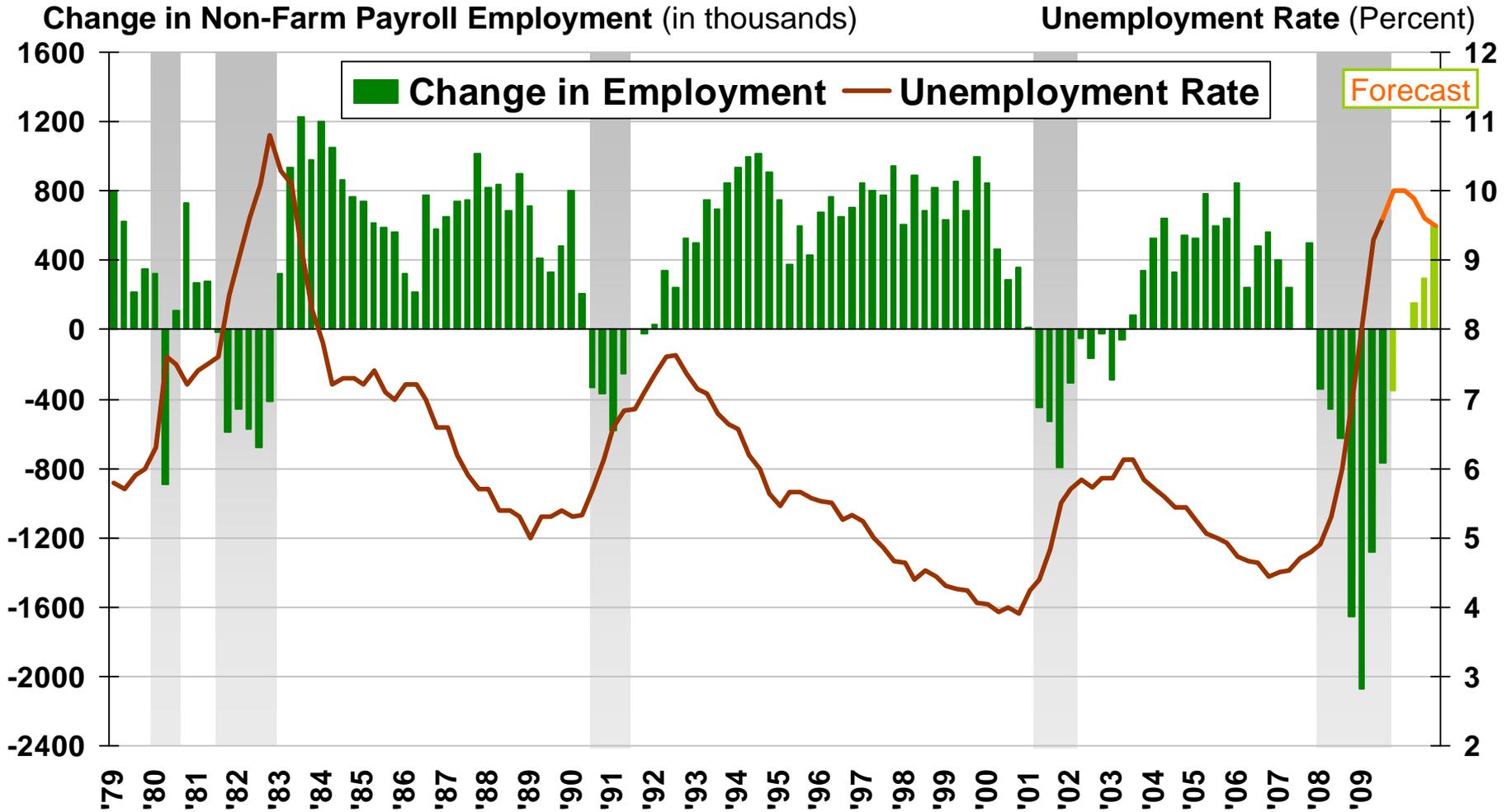
- **Risks to the outlook**
 - Are the signs of improvement real or just a temporary thing?
 - Commercial real estate credit market remains a concern

- Low mortgage rates promote demand
 - Fewer purchase-money mortgages because of fewer sales in '09 and still declining home values
 - High refinance volume pushes 2009 originations above 2008
 - GSE streamline refi programs add to refis in '09 – up to 125% LTV
 - Refis accounted for 78% of applications in 1Q, 70% in 2Q
 - But economic conditions mean fewer refi originations than in '03
 - FHA volume up sharply, but share is falling due to high conventional refi volumes
- Housing Market to be hit by recession problems in addition to mortgage market crisis problems leading to a rise in defaults
 - Unemployment main trigger event for delinquency among prime conventional borrowers
 - House price declines add to foreclosure risk
 - Serious delinquency rates likely to rise further in 2009
 - Coastal areas, Great Lakes region will be hit hardest

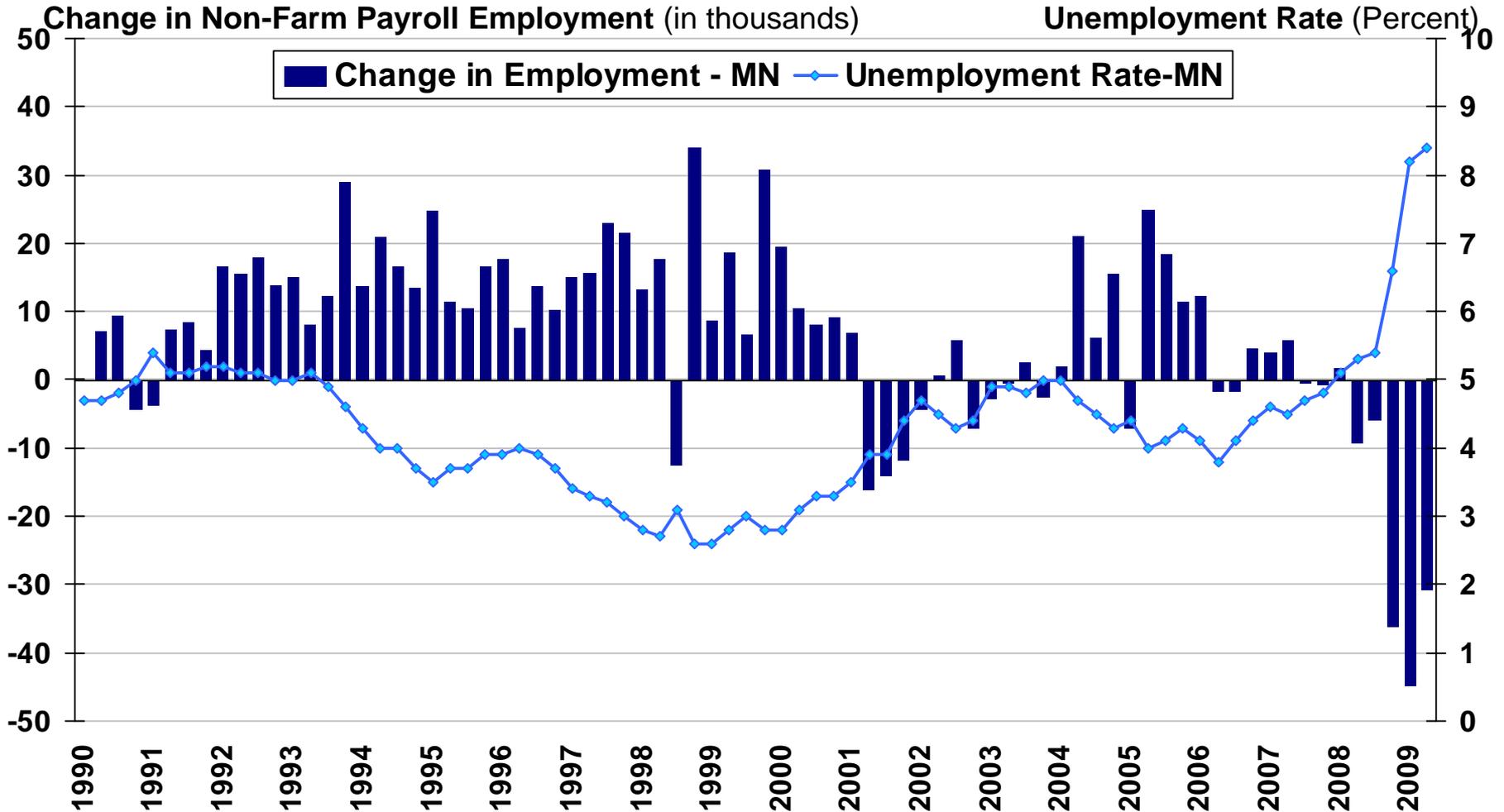
This Is the Most Severe Recession Since Early 1980s – Look for Positive Growth in 3Q'09



7.2 million U.S. Non-Farm Payroll Jobs Were Lost 12/07-9/09 – Most in Post-WWII Period

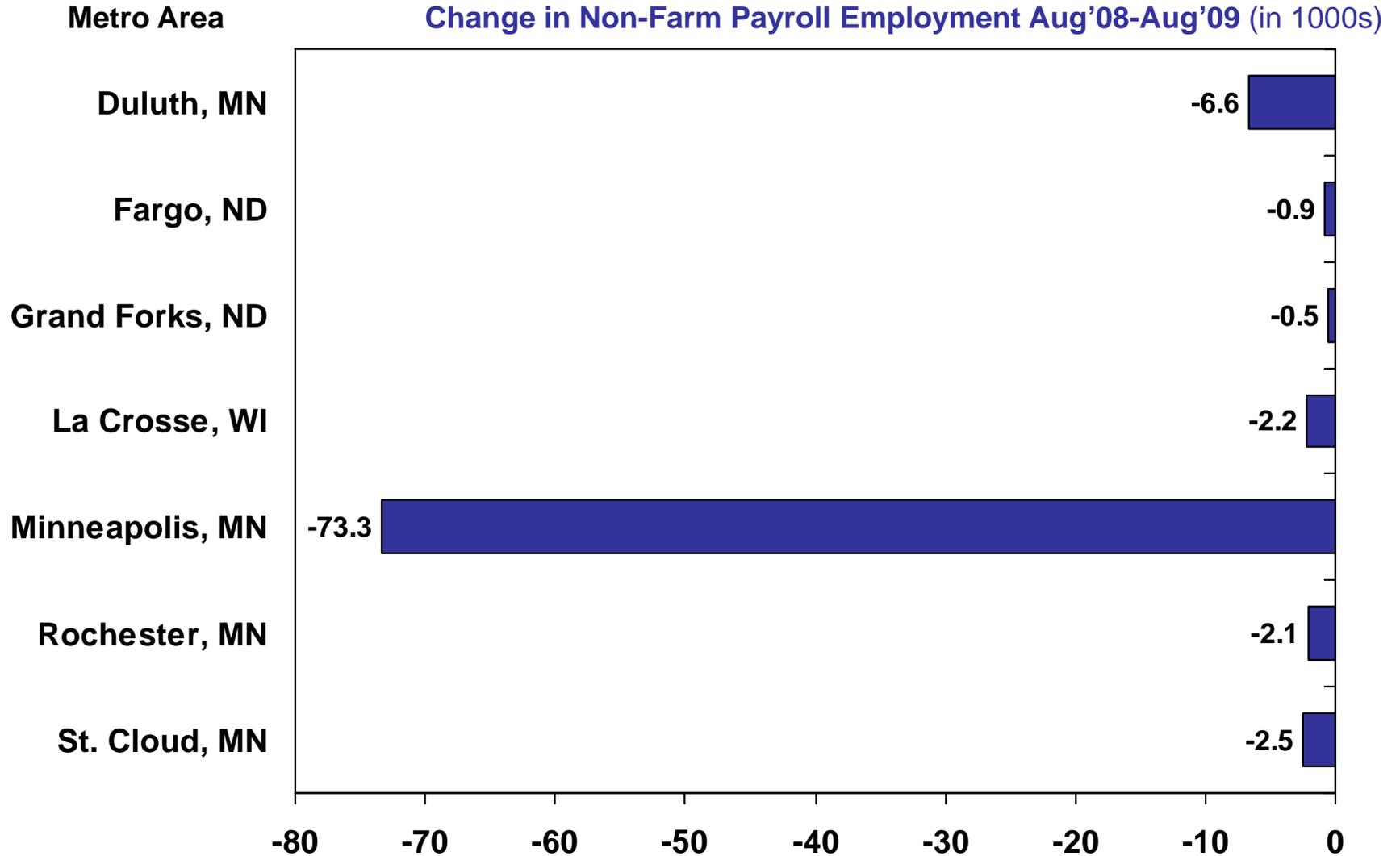


Job Losses in This Recession Came Late to Minnesota: 132,000 Job Were Lost Since Feb '08

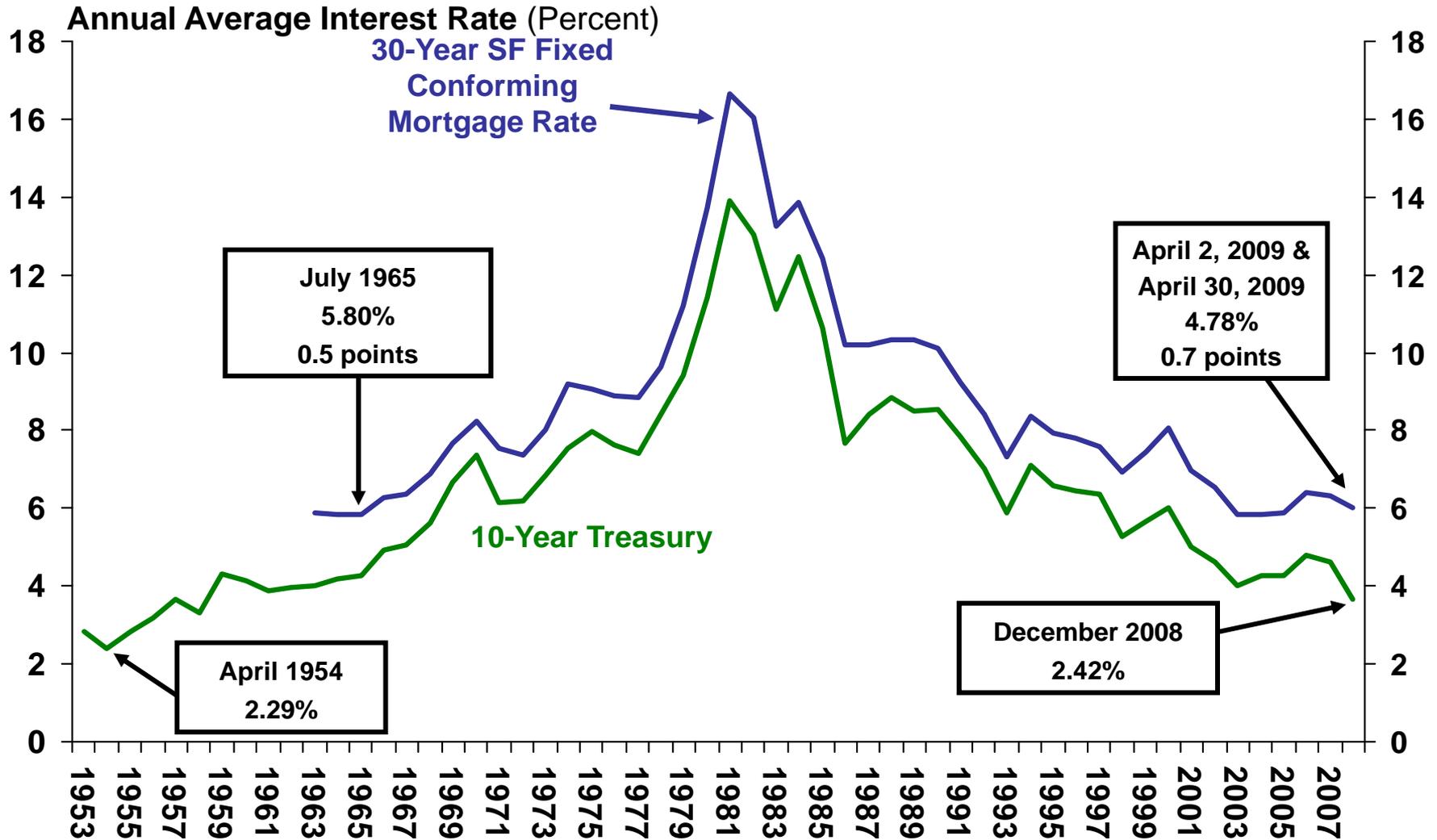


Sources: U.S. Bureau of Labor Statistics, Freddie Mac; Data are seasonally adjusted

Job Losses Are Felt Across MN

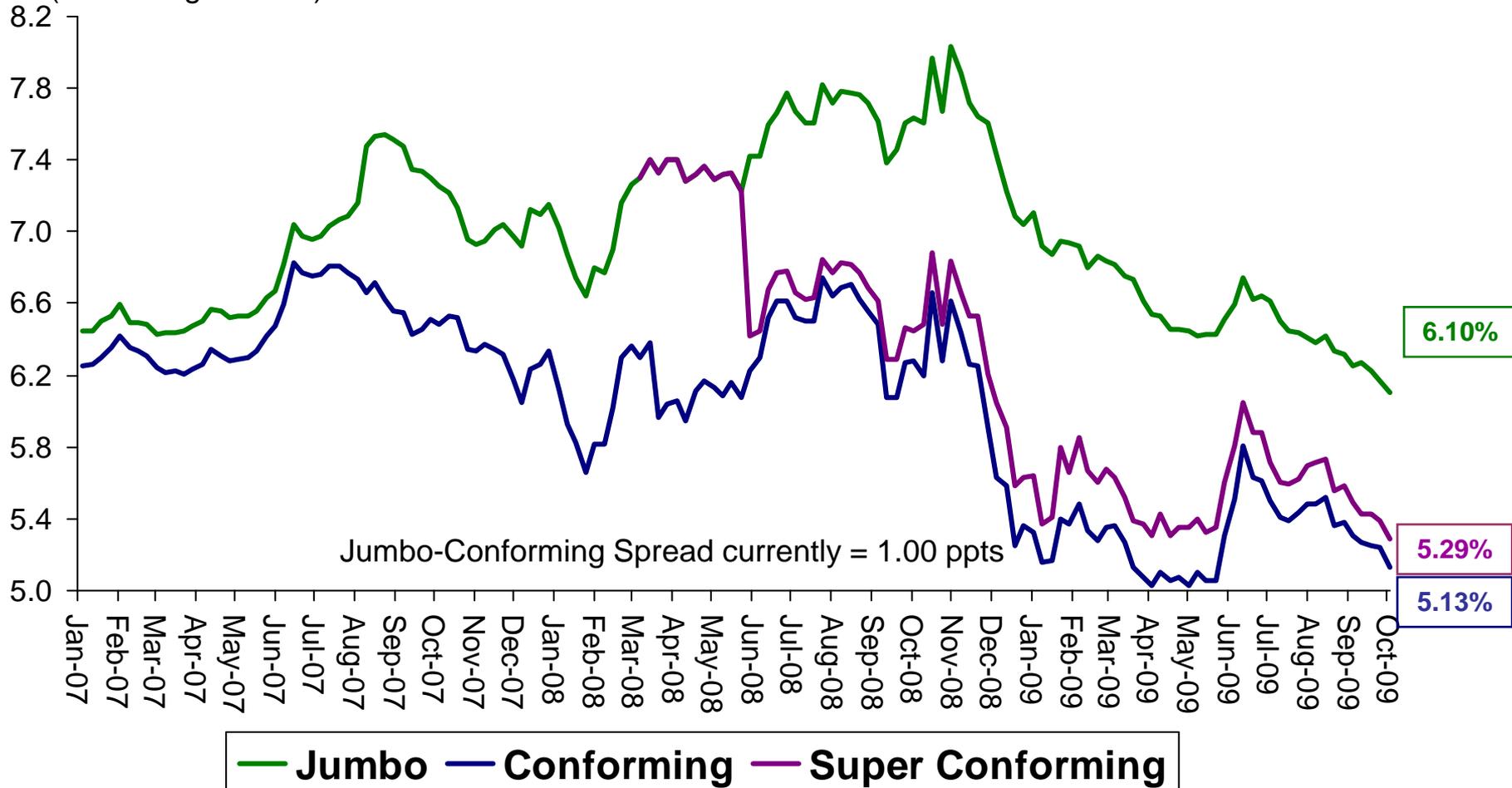


Mortgage Rates Are At 50-Year Lows – Currently at 4.87% (week ended October 9, 2009)



Conforming Rates Have Risen Recently; Jumbo Rates, Less So

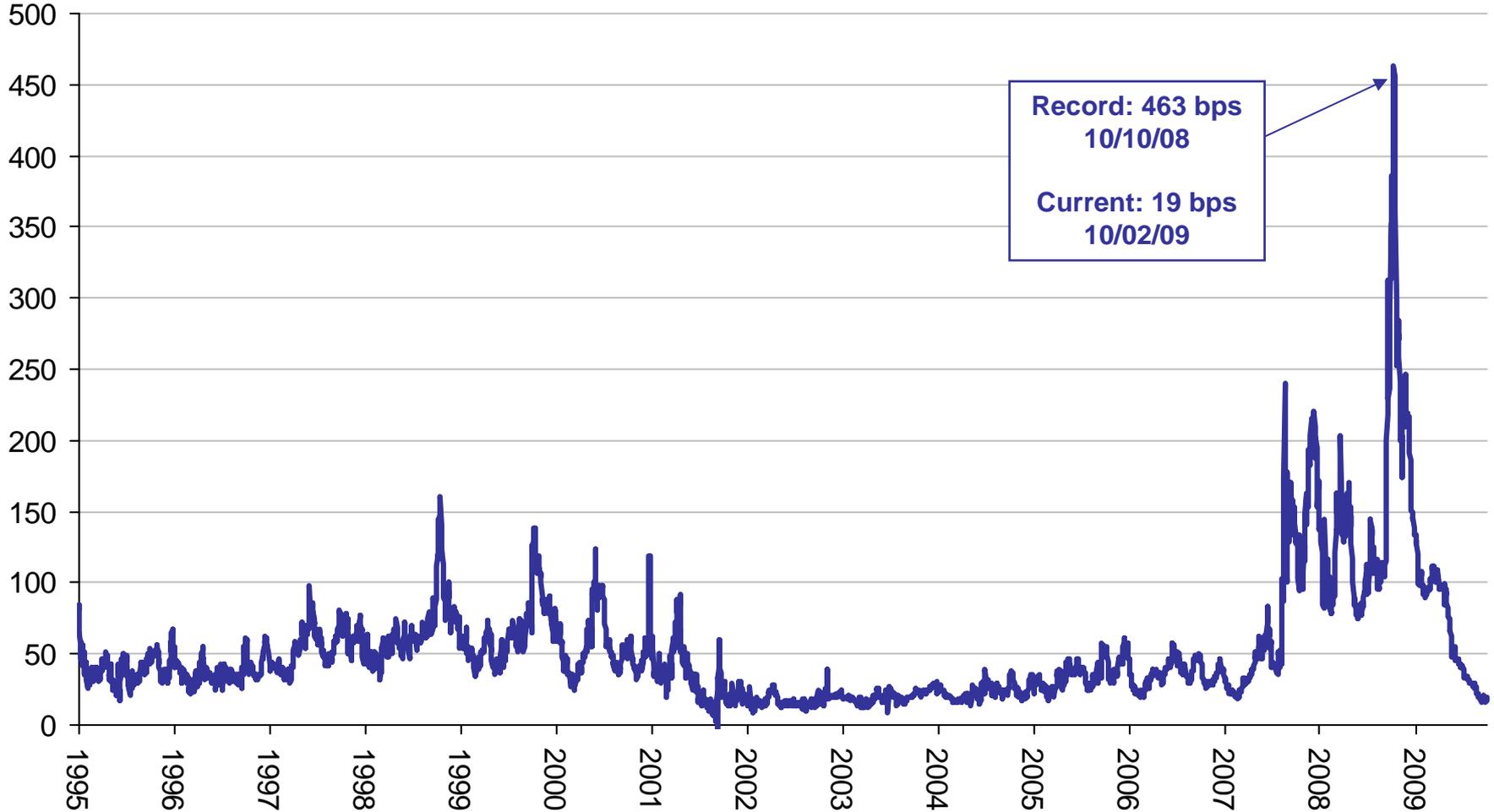
Effective Interest Rate for 30-Year Fixed-Rate Mortgages Assuming LTV of 80% & Prime Credit
 (Percentage Points)



Source: HSH Associates (last data: week ending October 2, 2009)
 Note: Effective rate adds fees and points to the interest rate.

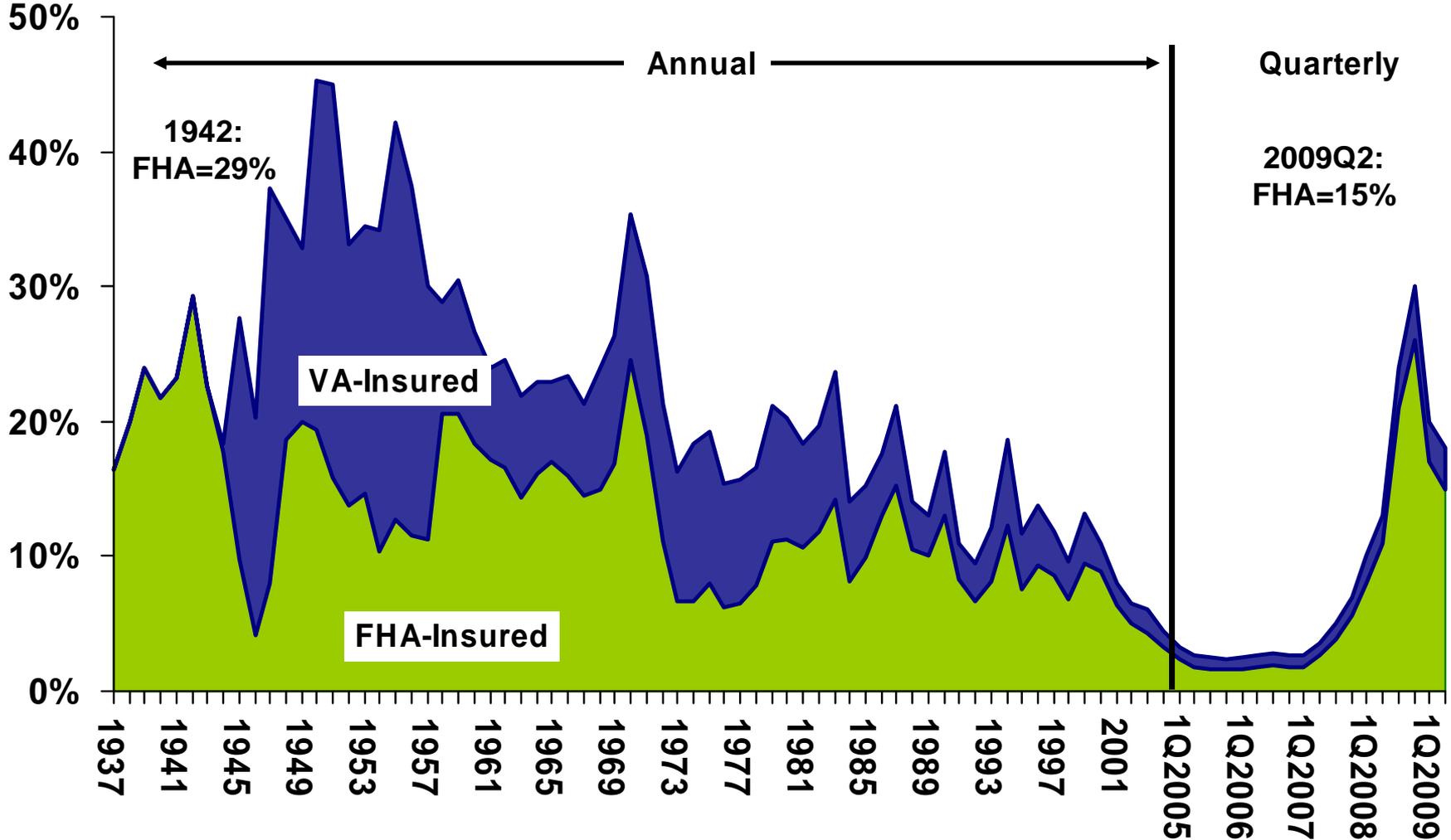
3-Month LIBOR Spread to Treasuries Has Returned to Normal

Basis Points



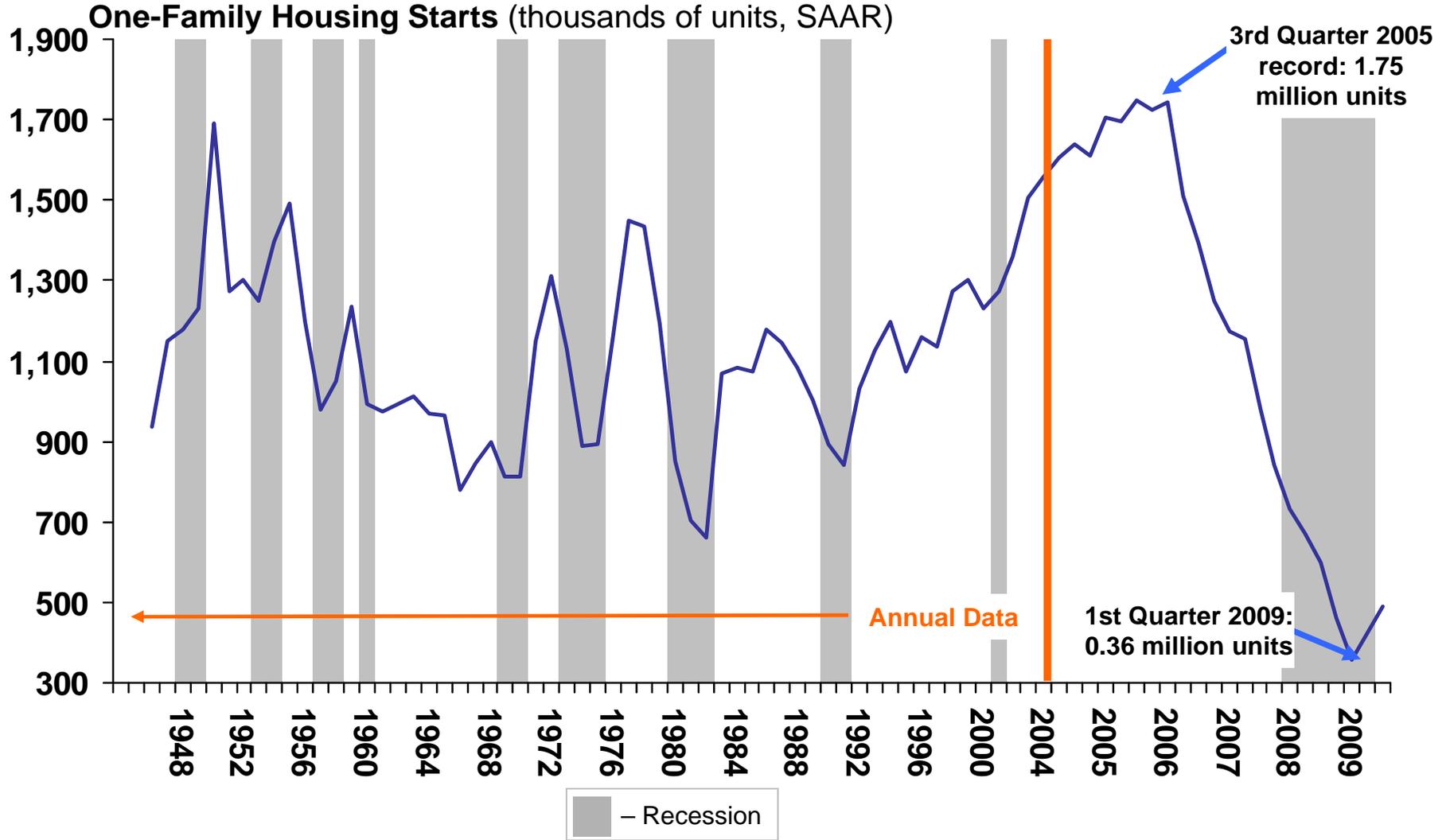
FHA Lending Has Ramped Up – Dollar Volumes Are Still Rising But Share Has Receded

Share of Single-Family Originations



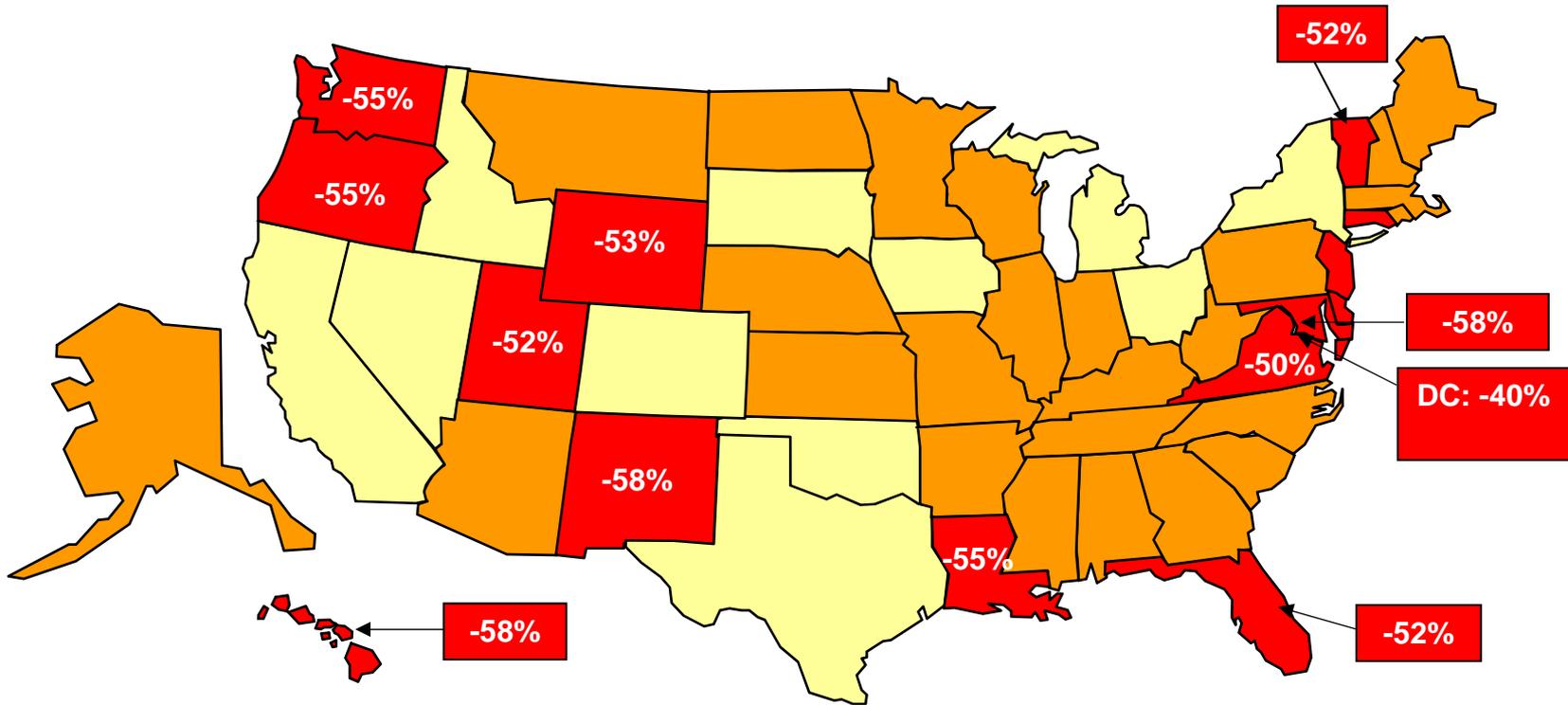
Sources: HUD (1935-1997), Freddie Mac & Inside Mortgage Finance (1998 – Present)

Single-family Building Has Fallen to Lowest Level Since 1946; Down 80% Since 3Q 2005



Sources: Bureau of Census, Freddie Mac; Annual data 1946-2003; quarterly thereafter

Existing Home Sales Are Down Sharply Since Peak

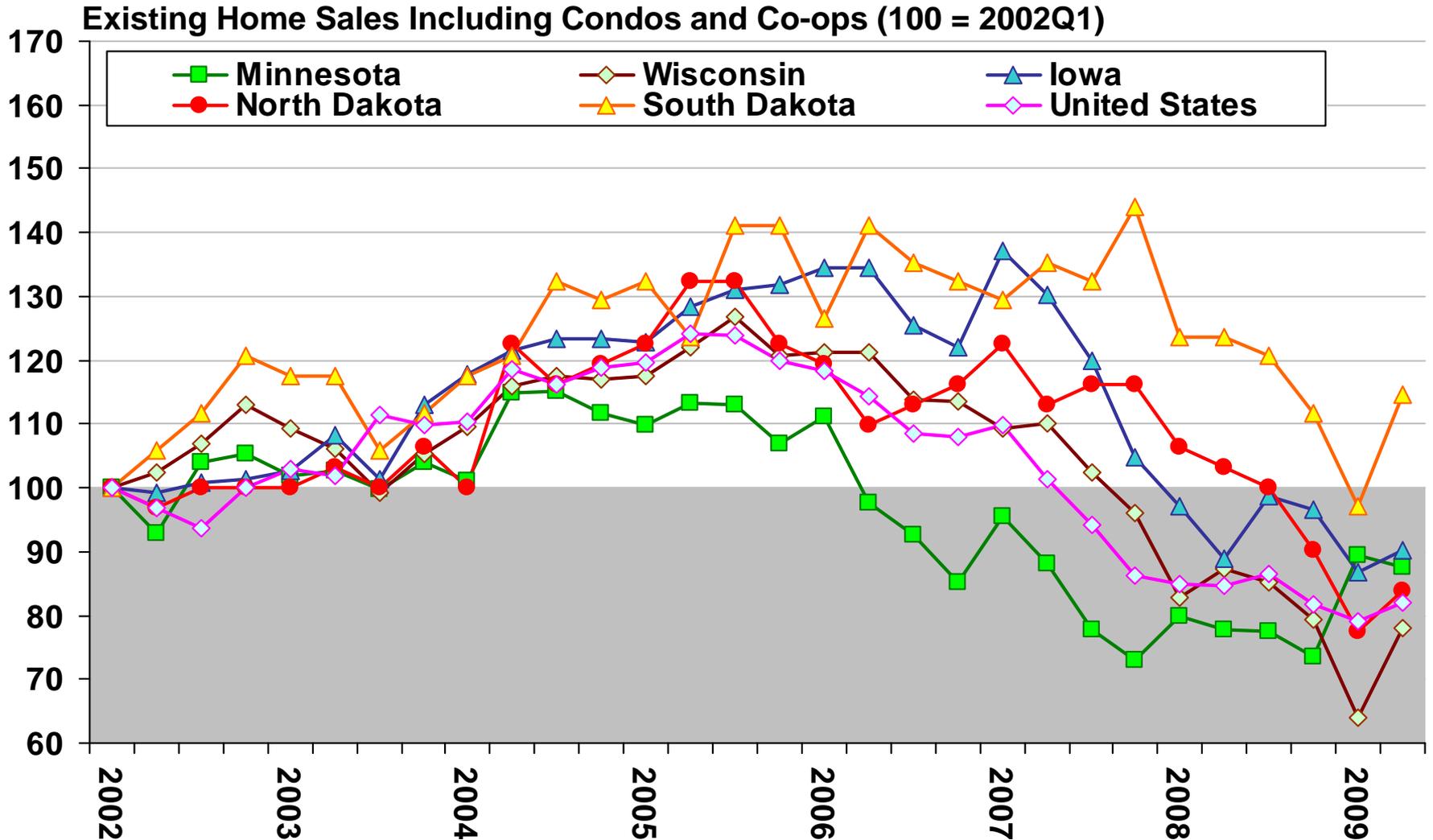


Percent change in existing home sales
State's Peak Quarter (1Q2005-4Q2007) through Fourth Quarter 2008

- Down less than 30%
- Down 30-50%
- Down more than 50%

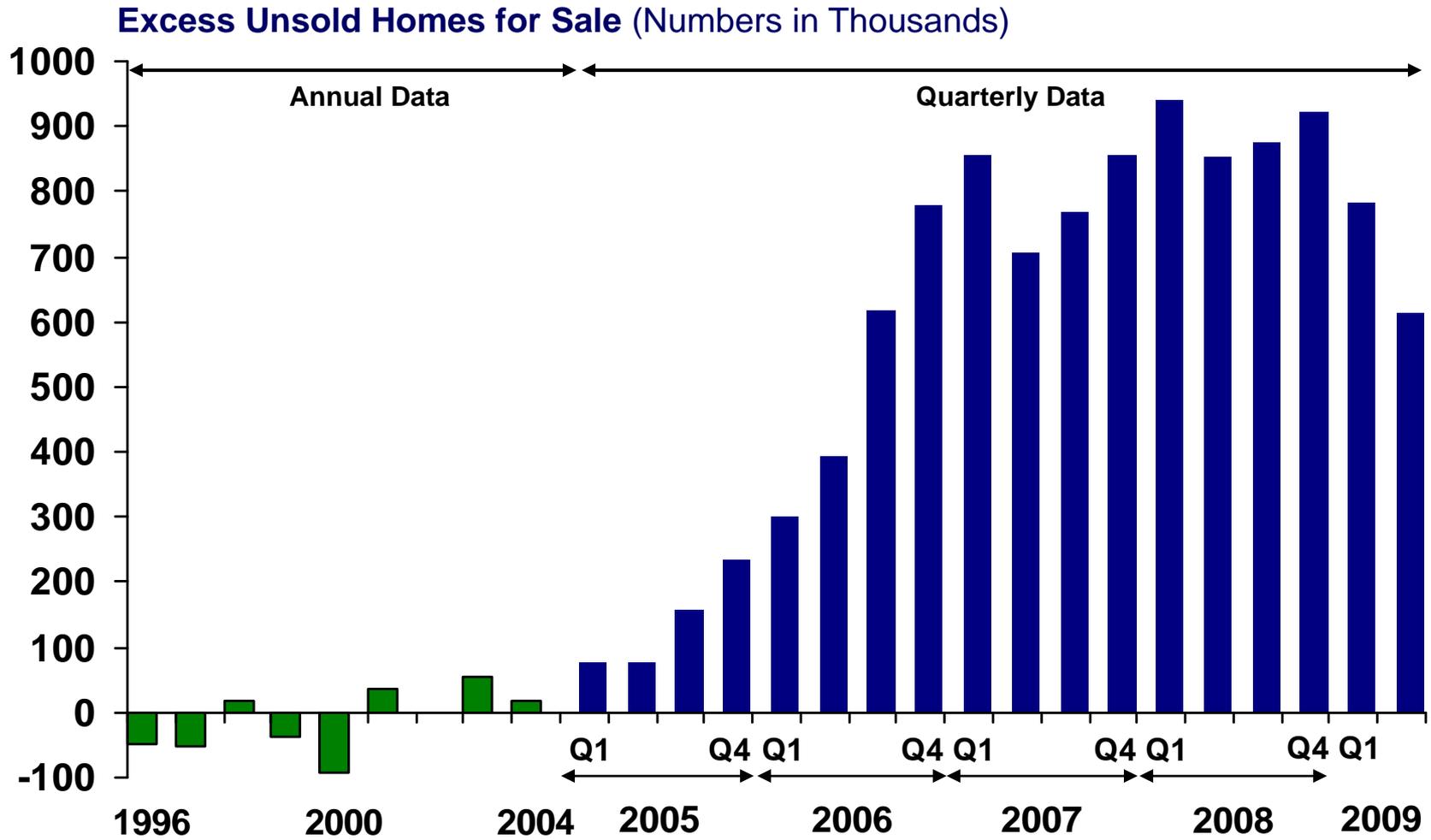
Existing Home Sales
Nationwide Down 33%
(3Q2005 = Peak)

Home Sales Are Down 18% Nationally from 2002 Levels, Down 12.5% in Minnesota



Source: National Association of Realtors, Moody's Economy.com. Based on Seasonally adjusted annualized rates.

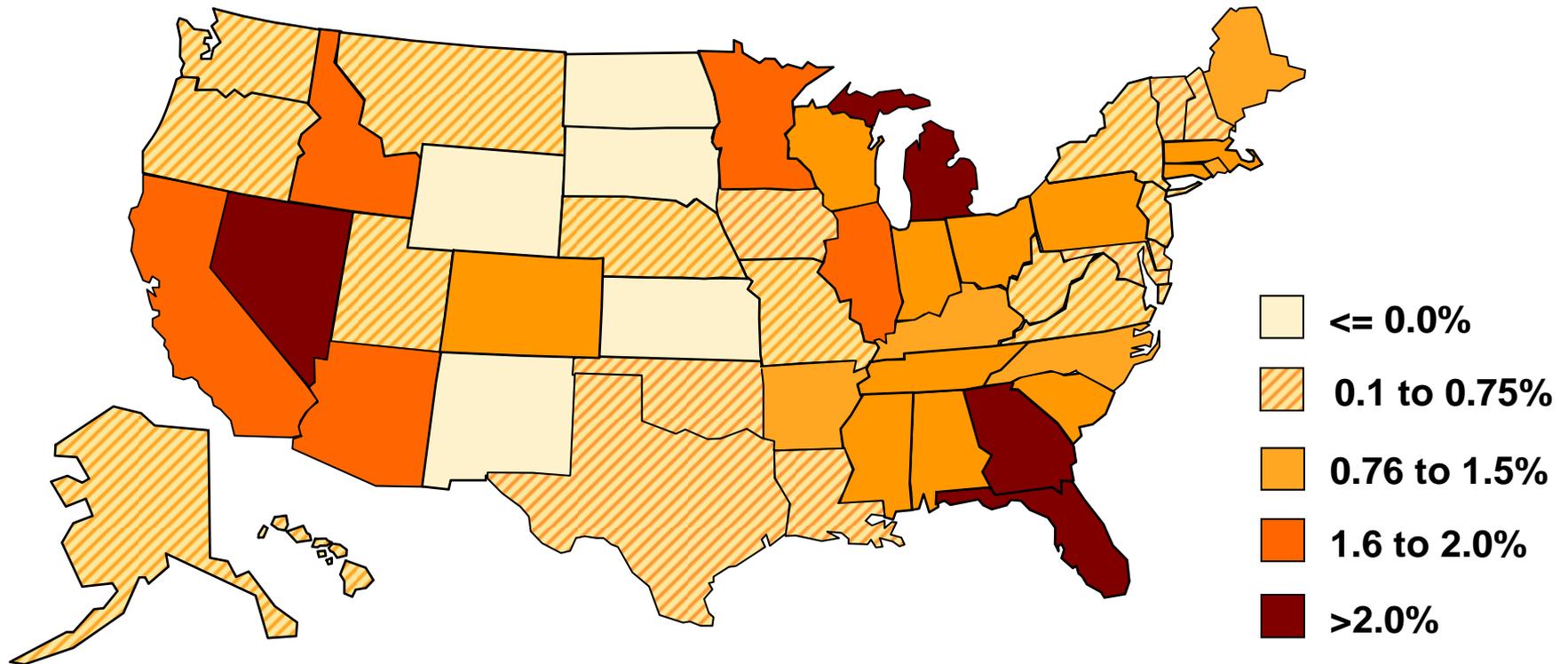
Large Inventory Surplus Remains in Market, but It's Down About 30% Since 4Q 2008



Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2009Q2:Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

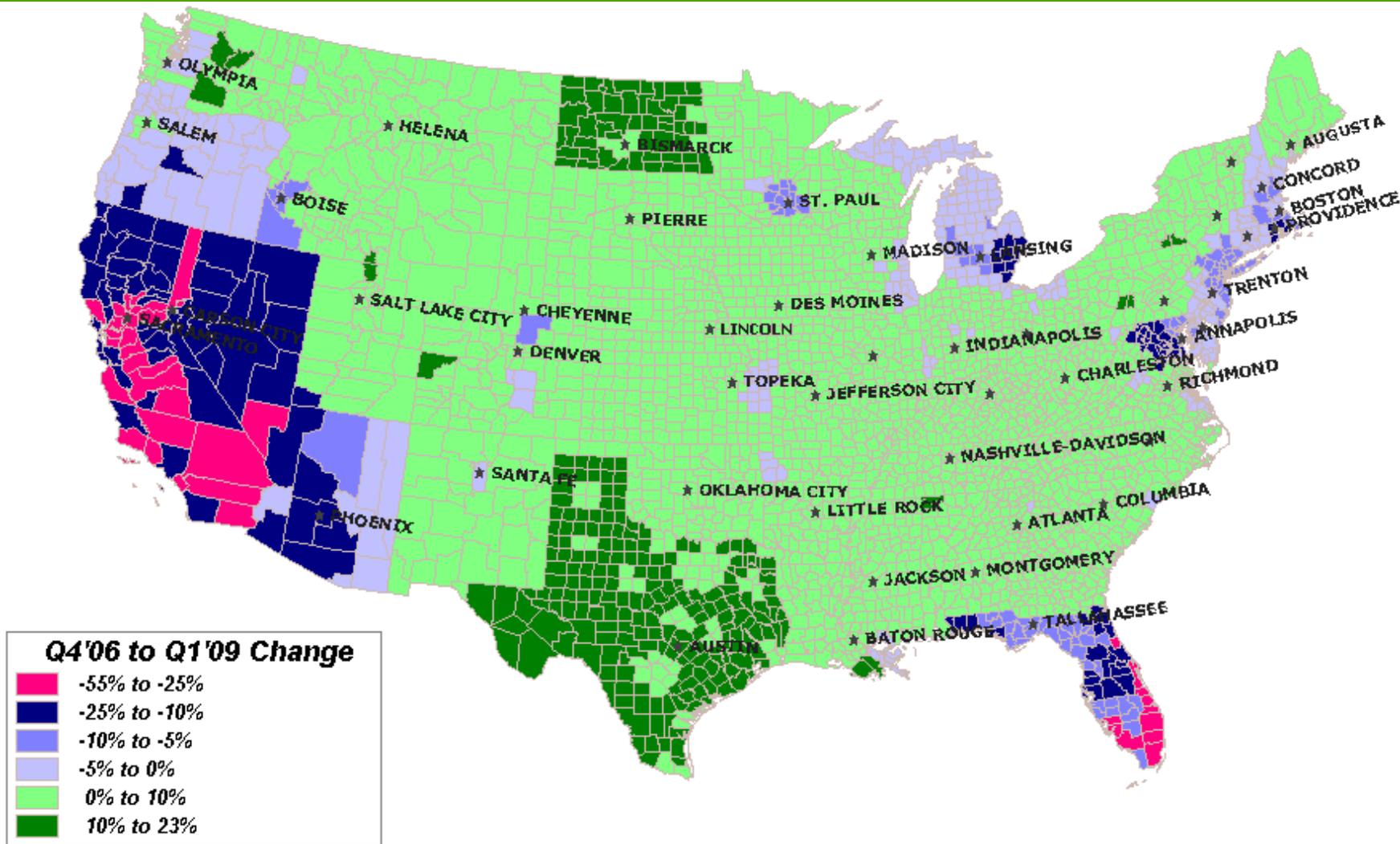
Excess Homeowner Vacancy Rate by State

Estimated overhang of vacant-for-sale homes as a percent of state homeowner dwellings

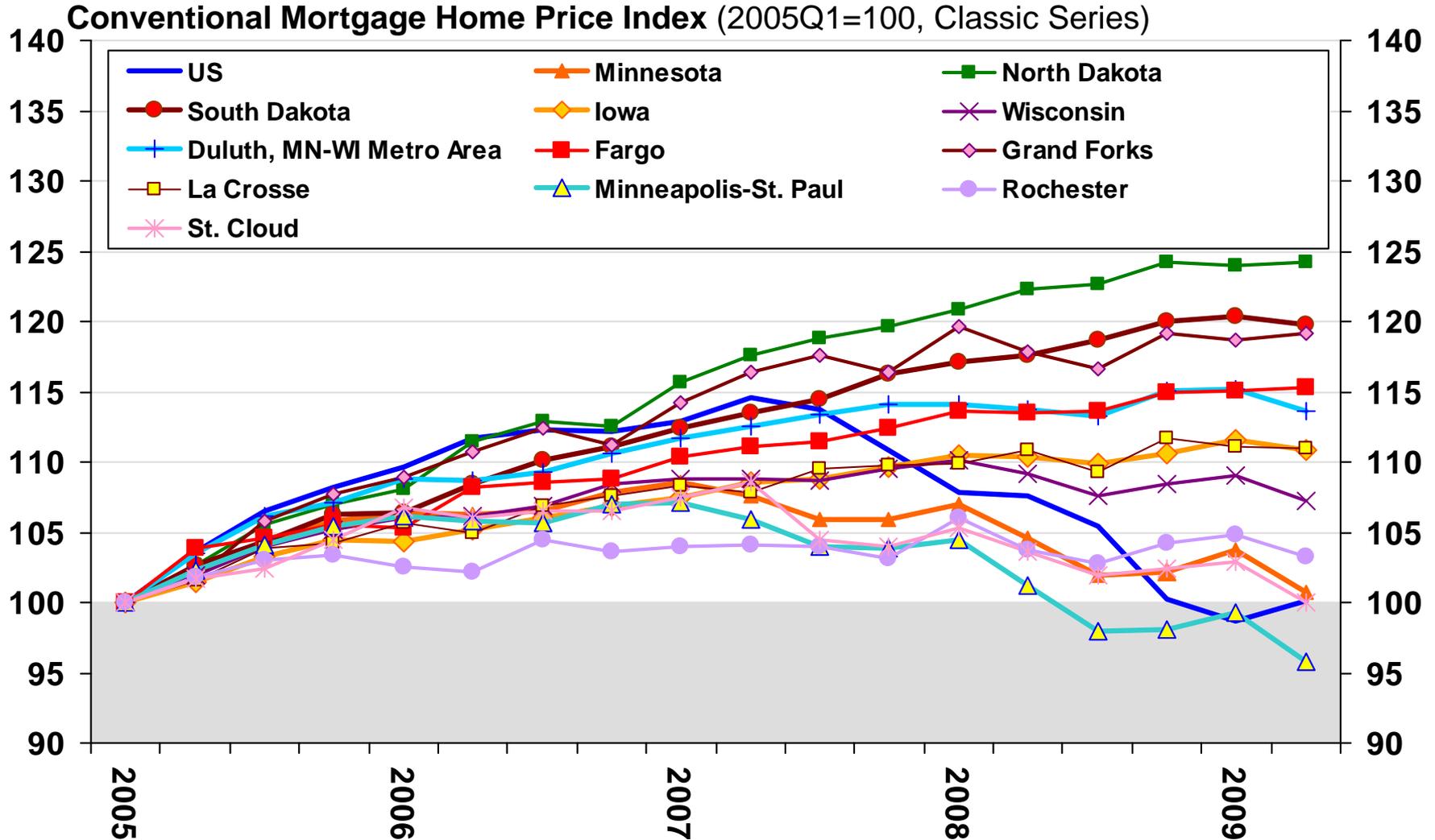


Source: U.S. Census Bureau and Freddie Mac calculations (difference between 2008 homeowner vacancy rate and 1996-2005 average homeowner vacancy rate for each state).

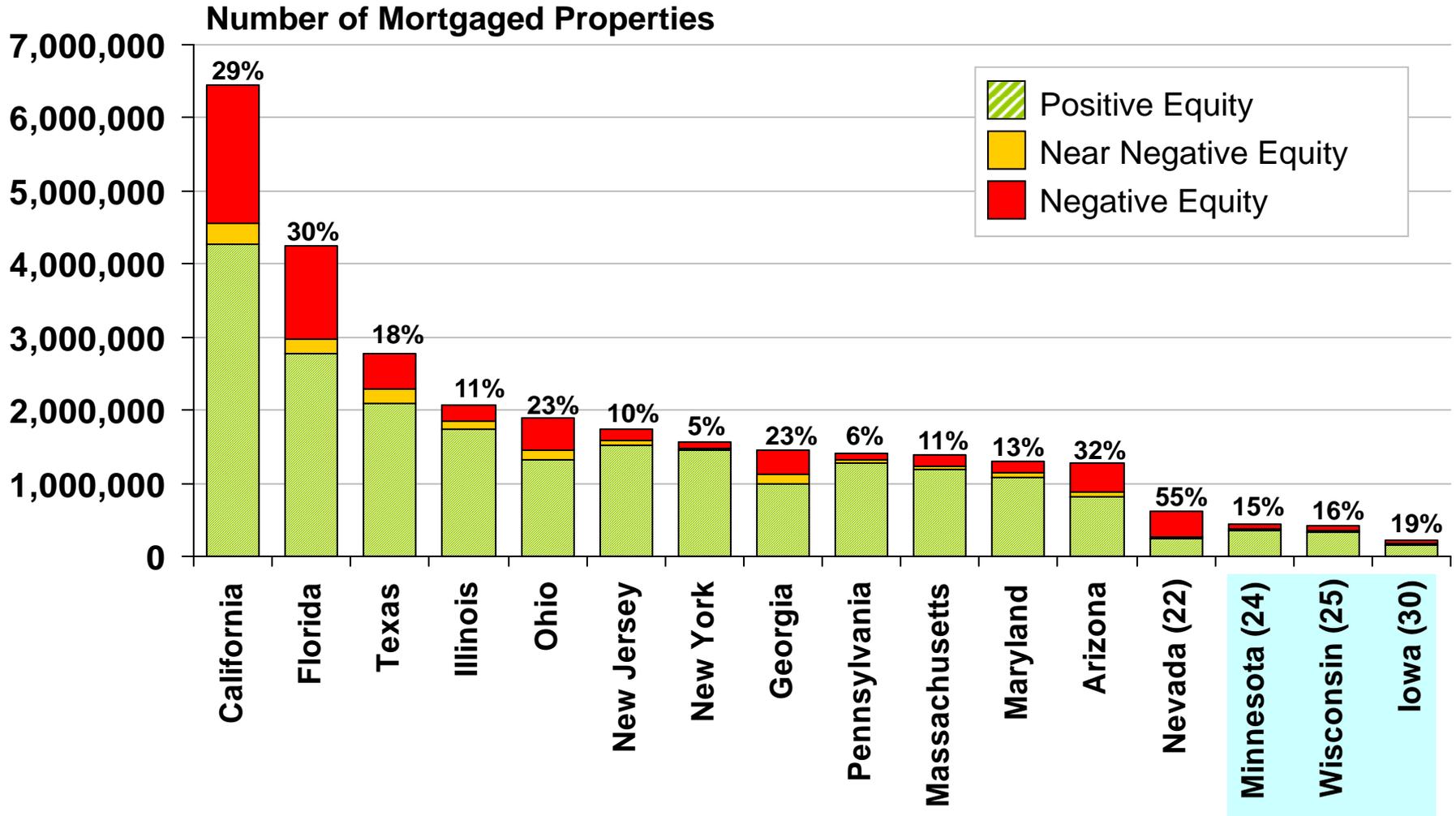
Since the 4th Quarter of 2006, Some Metro Areas Have Seen Price Declines of Up to 55%



Nationally, Home Values Are at 2005 Levels, In MN They Are Down About 5% From 2005

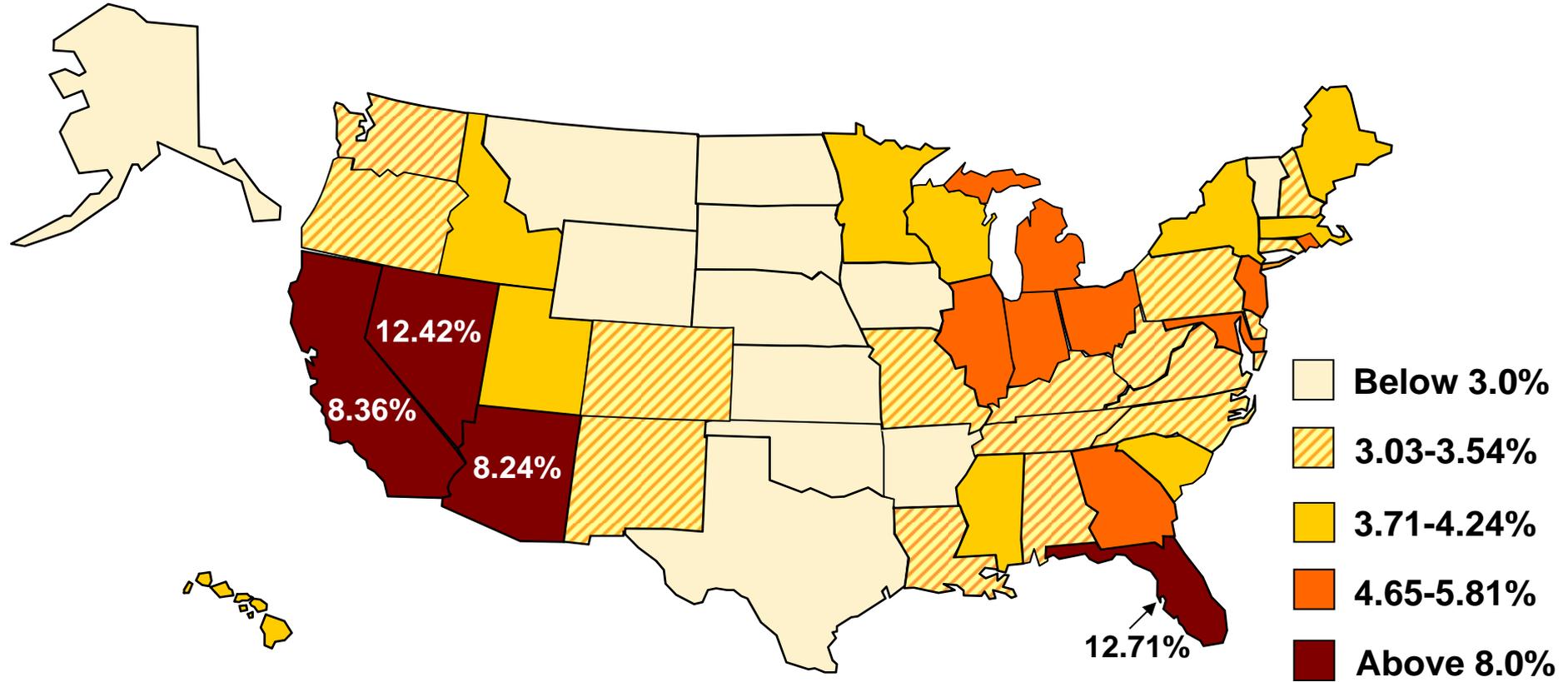


California Has the Largest Number of Properties with Negative Equity, Nevada the Largest Share



Sources: First American CoreLogic; Data as of Feb. 2009. Near Negative Equity properties have TLTV between 95 and 100%; Percent values above bars represent share of loans with negative equity.

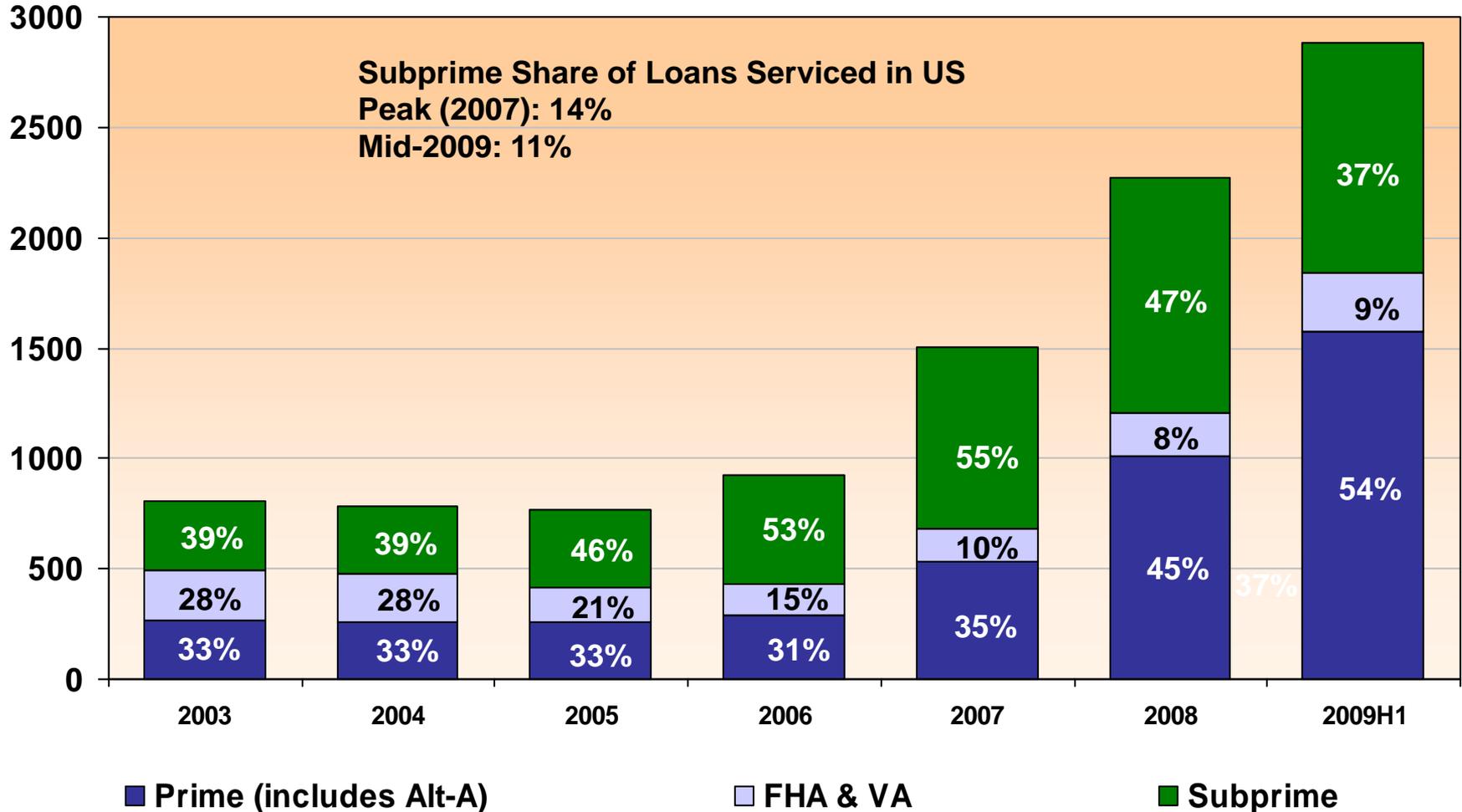
Prime & Alt-A Delinquencies Are Highest in Areas With Largest Negative Equity Shares



National = 5.44% Seriously Delinquent
(90+ days delinquent or in foreclosure, Prime & Alt-A Conventional)
Data as of June 30, 2009

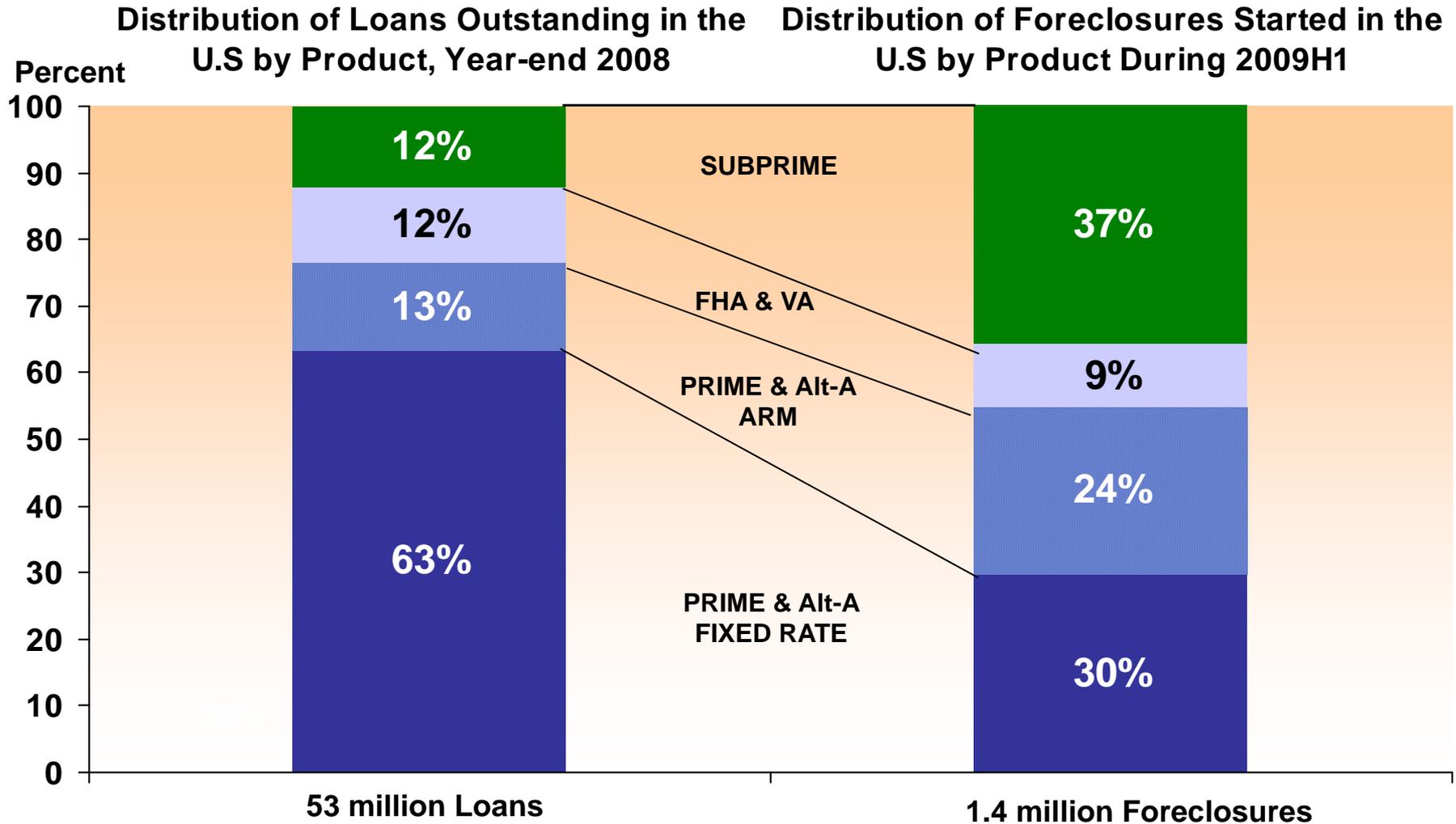
Relative to Serviced Loans, Subprime Accounts for a Very Large Share of Foreclosures

Number of Foreclosures Started (Annual Rate in Thousands)



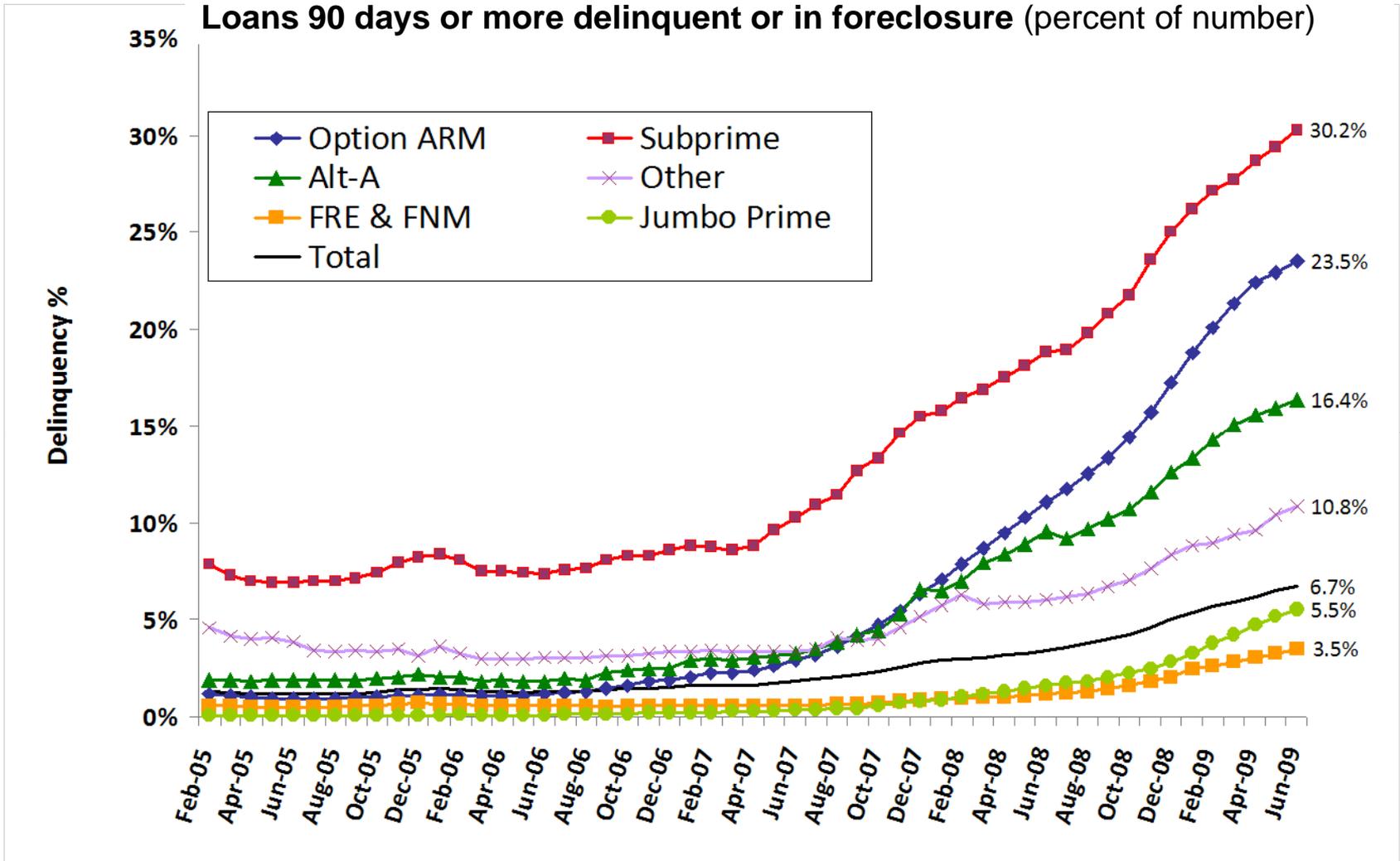
Source: Mortgage Bankers Association National Delinquency Survey (2003 is only for second half). Numbers adjusted for 85% coverage.

Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in the U.S



Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for 85% coverage.

Bad Economy Is Exacerbating Problem: Serious Delinquencies Are Rising For All Loan Types



Source: LPS Applied Analytics (Formerly McDash Analytics); Data as of June 2009

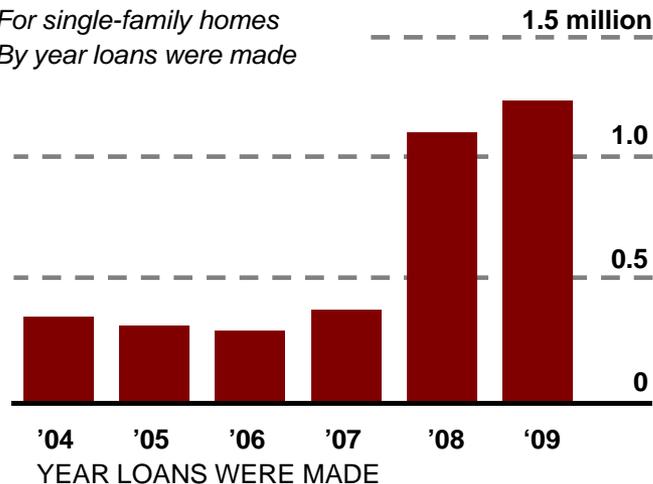
Recent FHA Loans Are Not Performing Well, & They Make Up More Than ½ the FHA Portfolio

A Troubled Portfolio

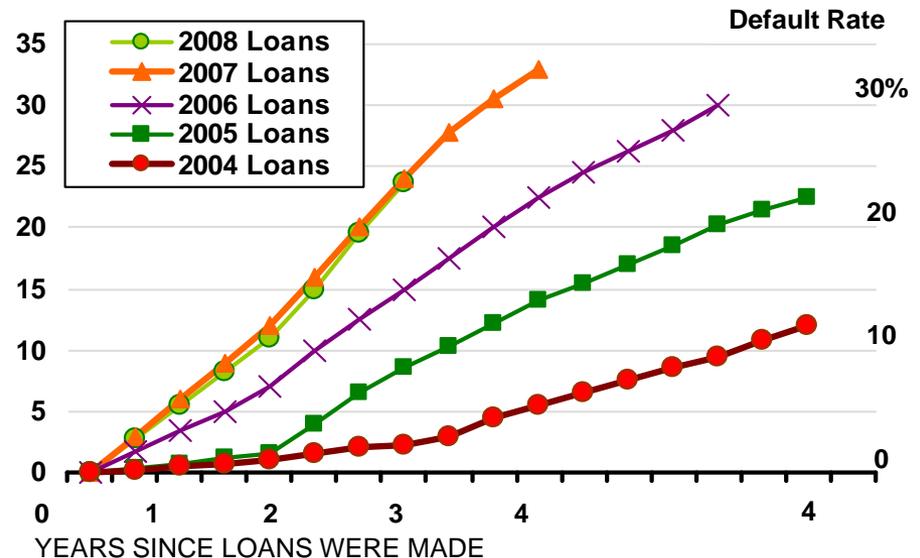
The Federal Housing Administration sharply expanded the number of mortgages it insured to help support the housing market. Now half of its portfolio covers loans made since the beginning of 2007

FHA Portfolio of Loans Insured

For single-family homes
By year loans were made

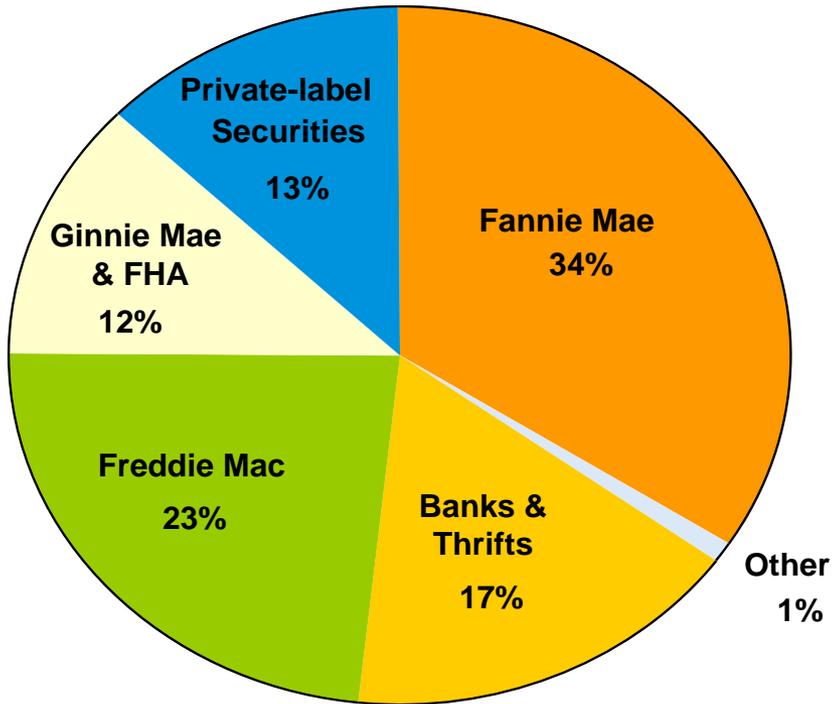


But those recent loans have also been among the worst performing – and they are running into trouble faster than loans from earlier years.



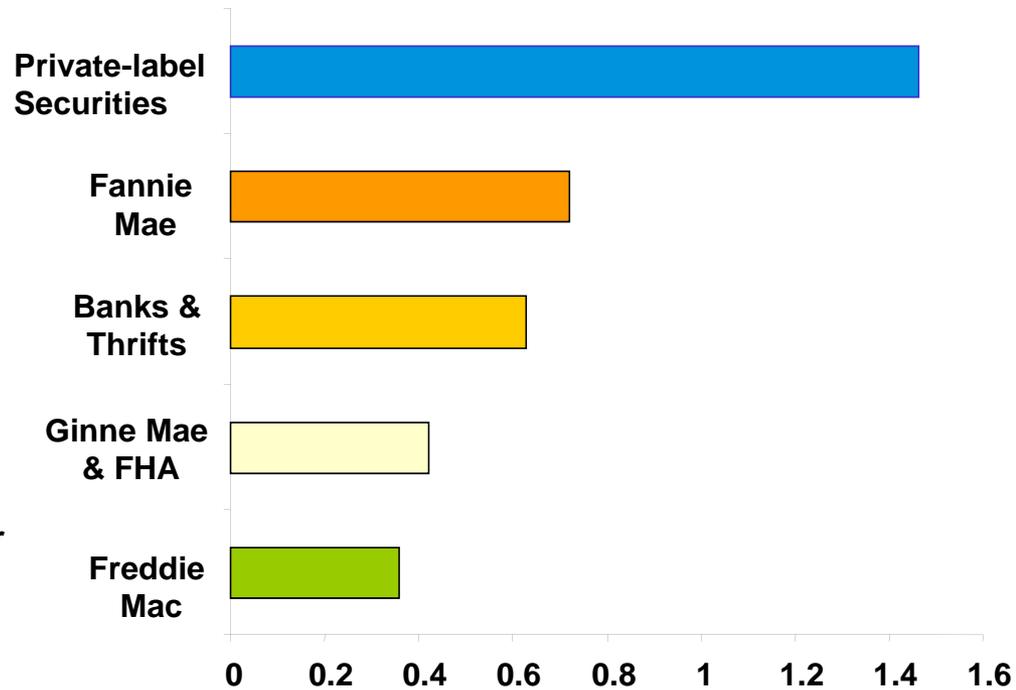
Freddie Mac and Fannie Mae Hold or Guarantee 57% of All Loans, But Have Only 23% of Problem Loans

Number of First Mortgages Outstanding
(in millions)



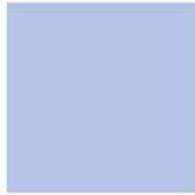
Total: 53 Million

Seriously Delinquent Mortgages
(in millions)



Total: 4.2 Million

Sources: FDIC, Freddie Mac, Fannie Mae, Mortgage Bankers Association, First American CoreLogic (LoanPerformance).
 Note: data as of March 31, 2009. Seriously Delinquent loans are at least 90 days delinquent or in foreclosure.
 Components may not sum to 100% because of rounding. Freddie Mac and Fannie Mae figures include only whole loans held in portfolio and in outstanding guaranteed securities.



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