



Housing and Mortgage Market Update

VCU Real Estate Trends Conference

October 14, 2009

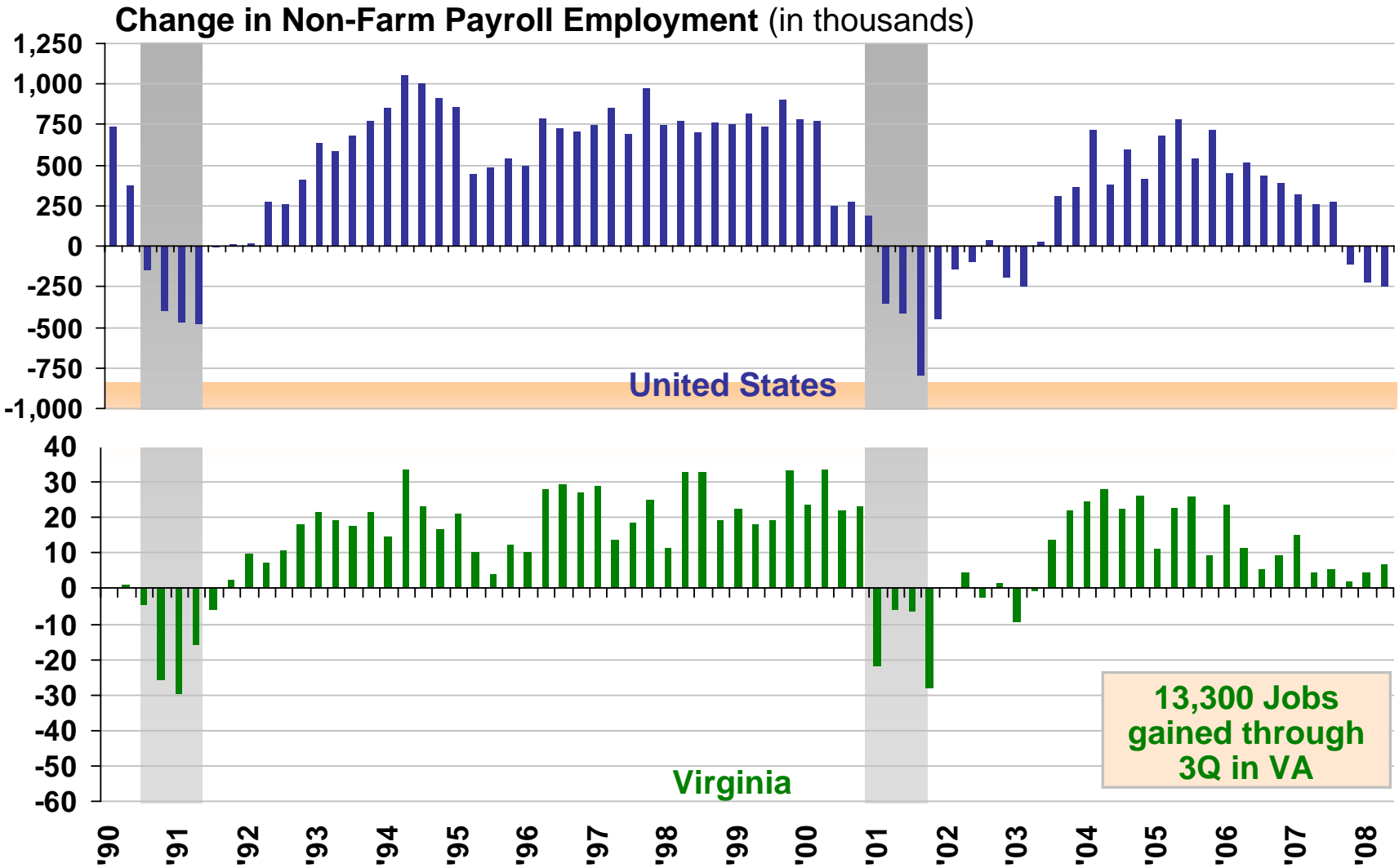
Amy Crews Cutts, PhD
Deputy Chief Economist

Recession Risks Still Elevated, Housing Contraction Ongoing

- **Recession risks still elevated**
 - Fiscal stimulus promotes growth in second quarter, but latter half expected to be weak
 - Job gain falls short of labor force growth; Unemployment rate up
 - Core inflation at upper end of range preferred by policy makers
 - Fewer housing starts, sales in 2008; house values down

- **Risks to the outlook**
 - Financial market troubles continue – How bad will it be?
 - Energy & Food Costs: high oil and natural gas prices act like a tax on the economy

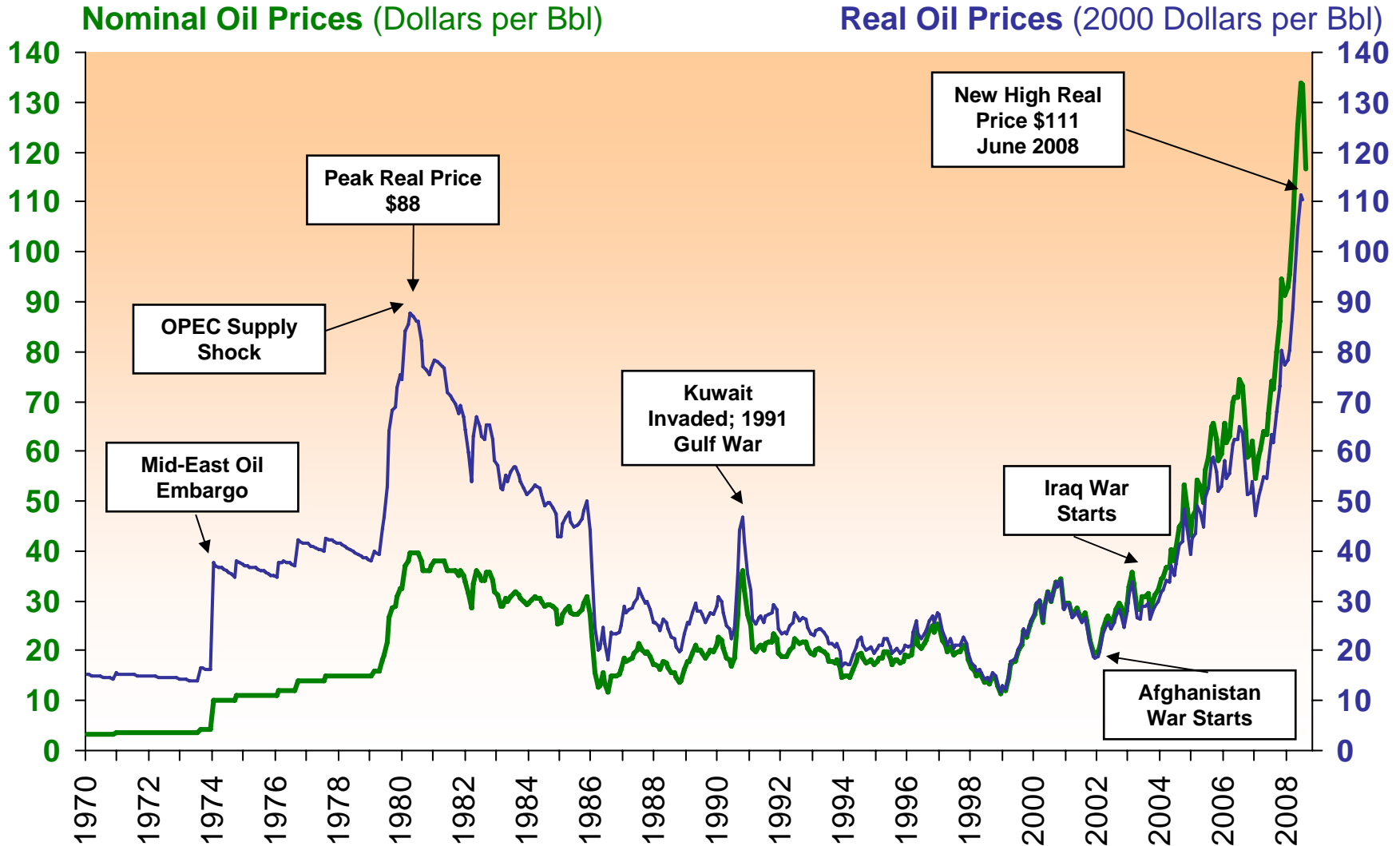
600,000 Non-Farm Payroll Jobs Were Lost in the First Half of 2008



Sources: U.S. Bureau of Labor Statistics, Freddie Mac

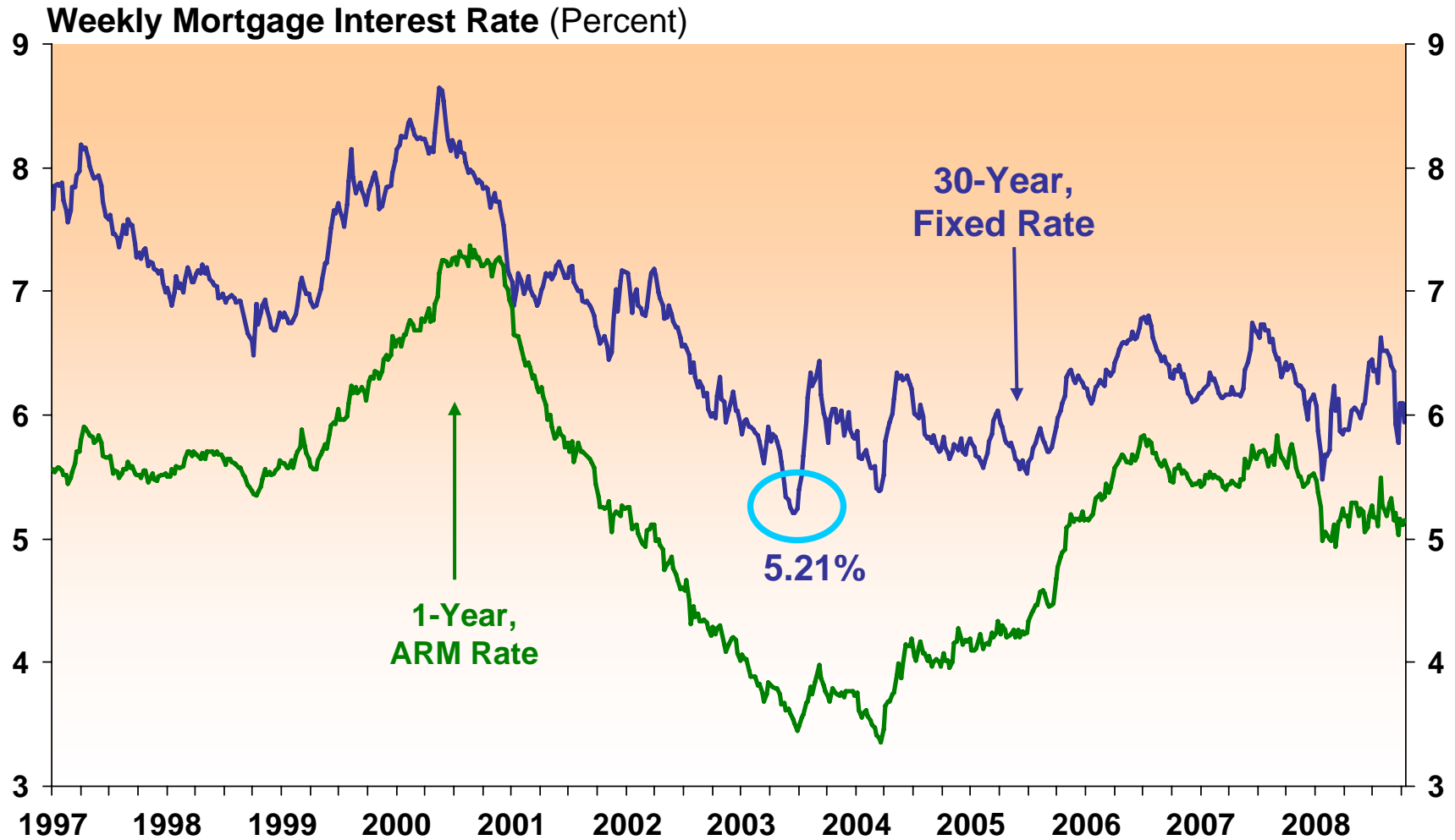
 - National Recession

Oil Prices Are High and Volatile and Put Stress on Consumers and Businesses



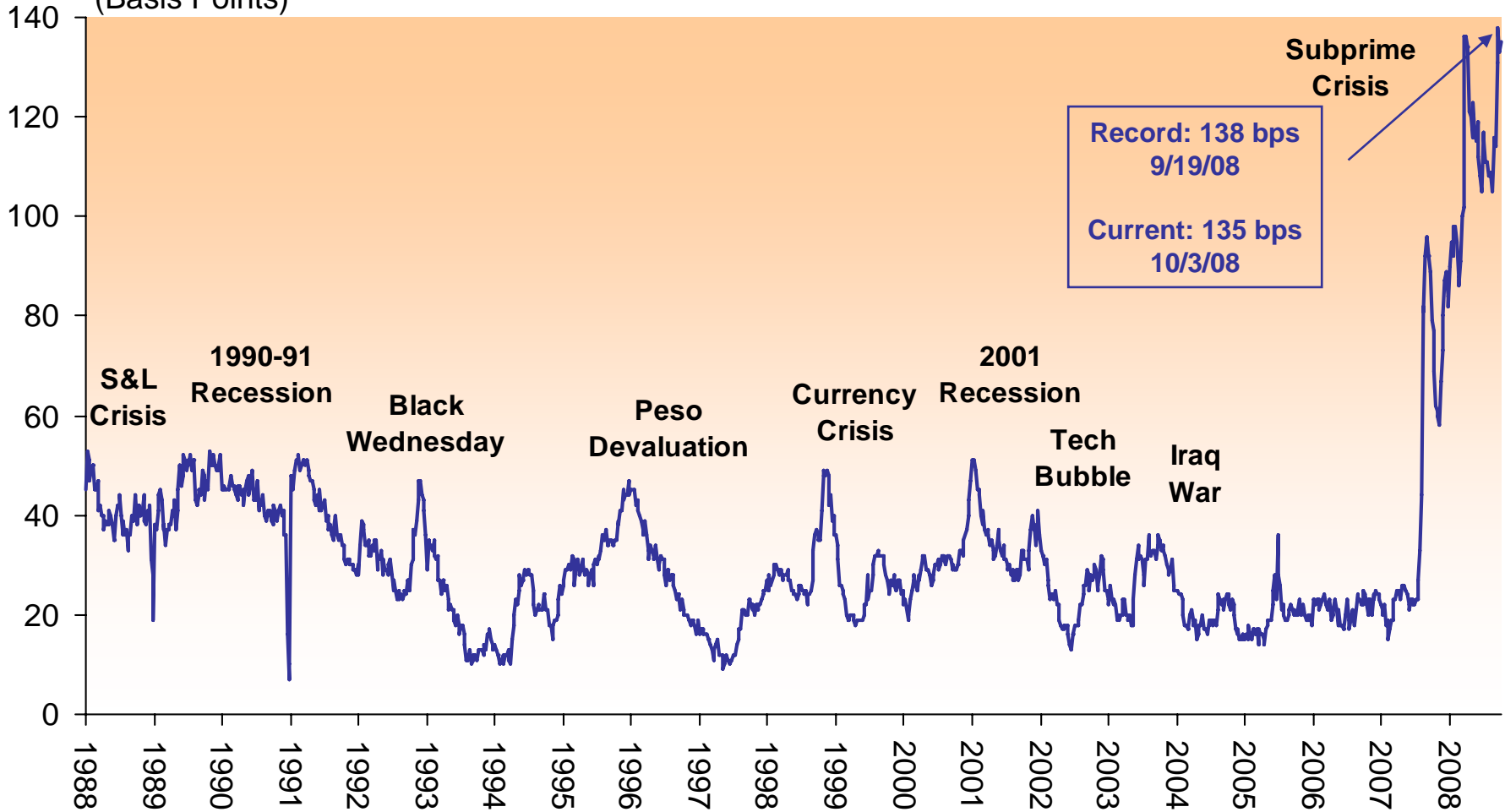
Sources: U.S. Bureau of Labor Statistics (CPI Less Energy, 2000=100), Federal Reserve Bank of St. Louis; Data through August 2008

Prime Conforming Mortgage Rates Remain Low By Historical Standards



Jumbo Spreads Have Spiked to Record Levels

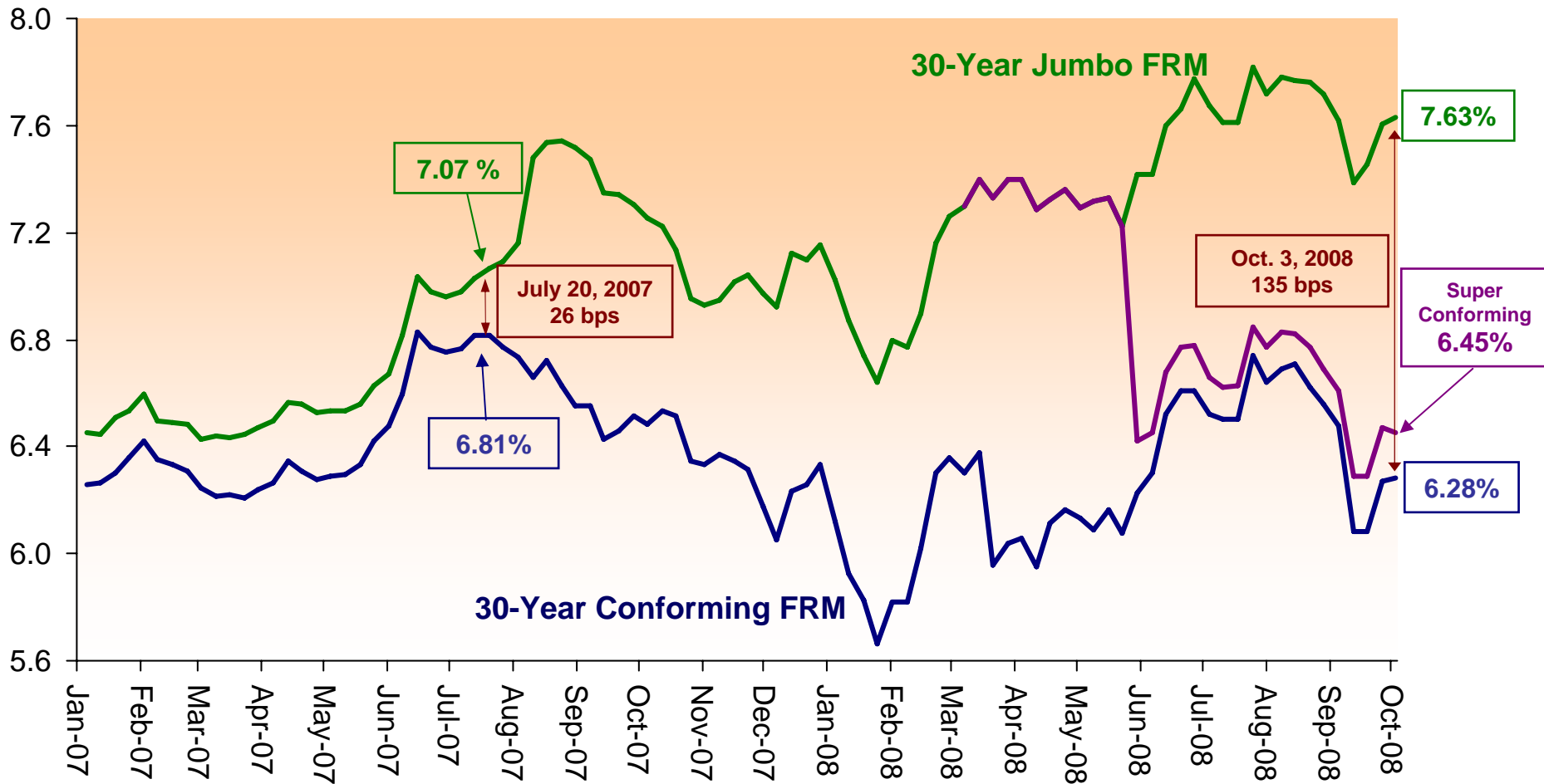
Effective Interest Rate Spread Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Basis Points)



Source: HSH Associates (last data: week ending October 3, 2008)
Note: Effective spread adds fees and points to the interest rate.

Super Conforming Mortgage Rates Are Close to Regular Conforming Rates

Effective Interest Rate Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Percentage Points)

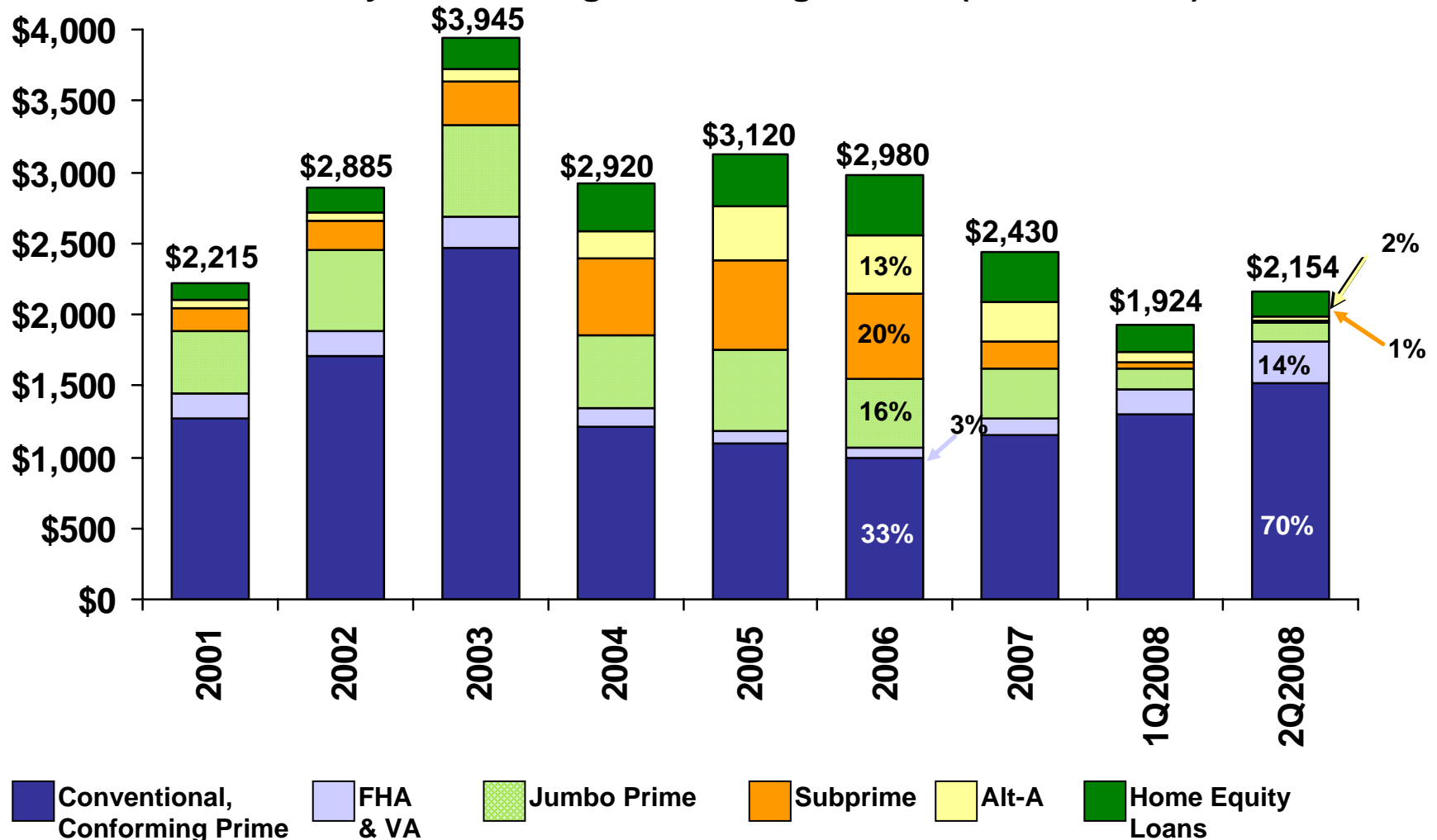


Source: HSH Associates (last data: week ending October 3, 2008)

Note: Effective rate adds fees and points to the interest rate.

Subprime Mortgages Now Make Up 1% of Loan Originations, Down from 20% in 2006

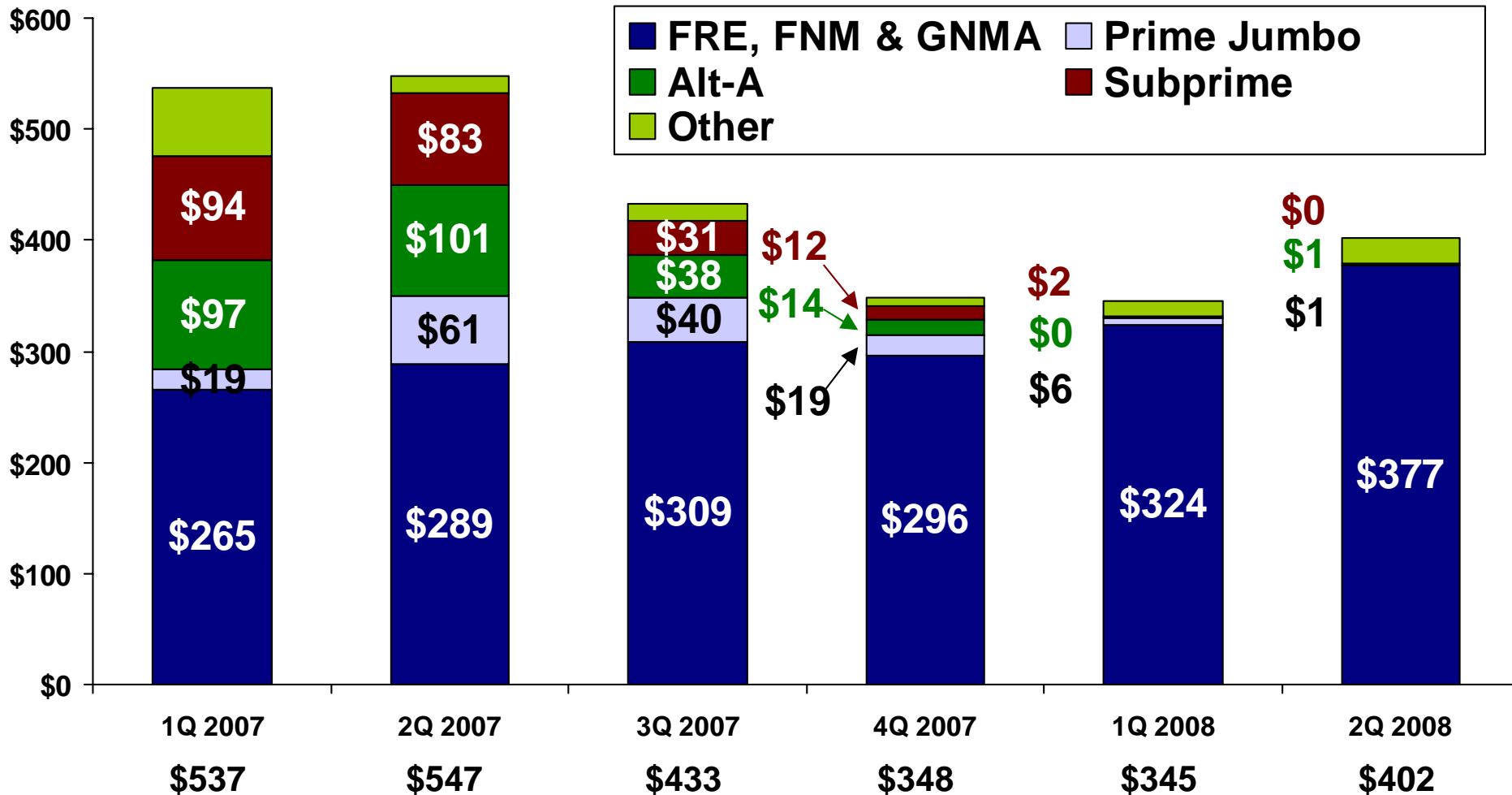
Market Share by Product Segment of Originations (\$, annualized)



Source: Inside Mortgage Finance, Freddie Mac (by dollar amount); Note: 2Q2008 values adjusted to reflect the undercount of Fannie Mae, and FHA activity in the IMF data.

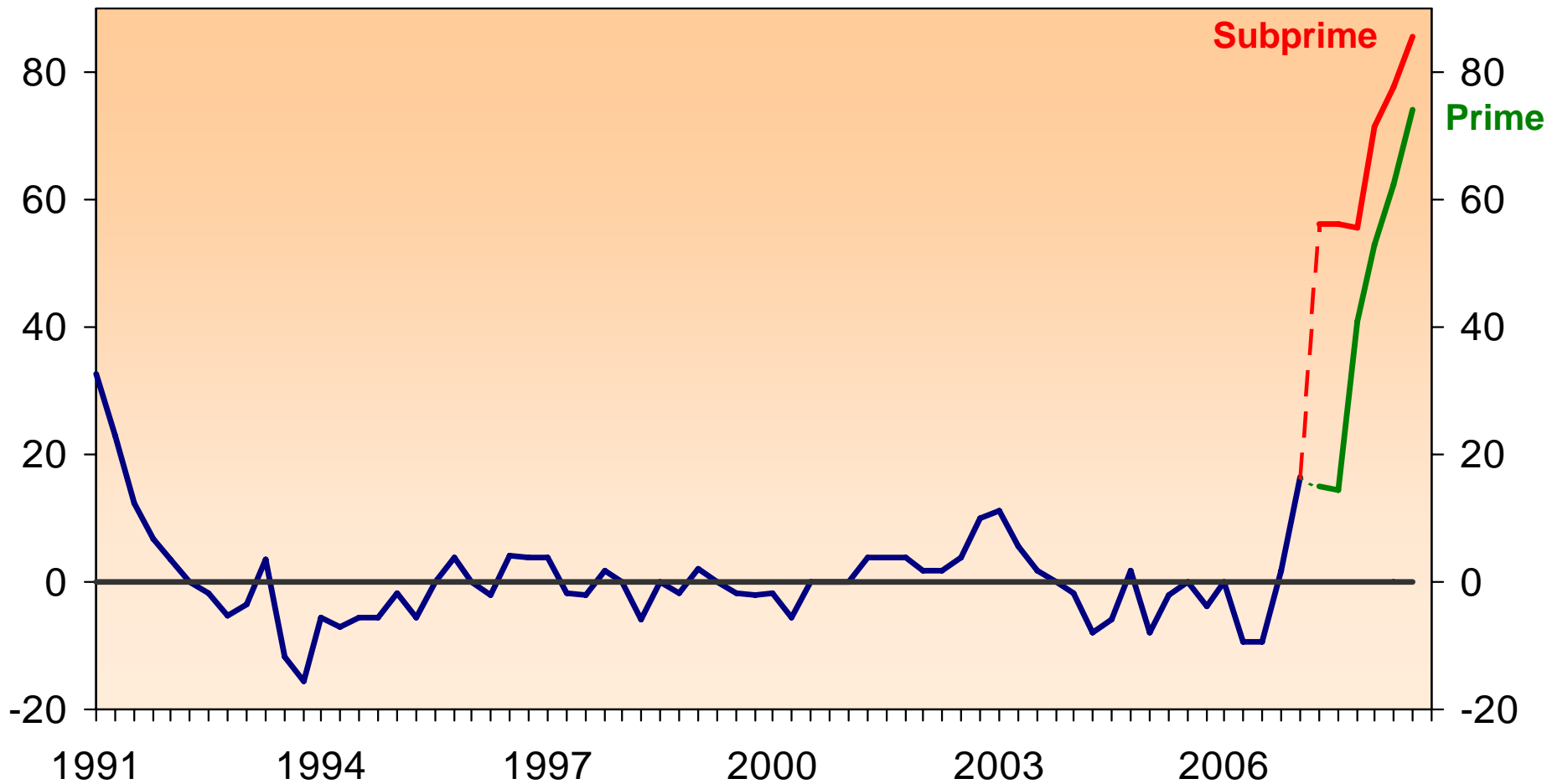
Private-Label (non-GSE) Security Issuance Has Slowed Sharply

Dollar Amount of Issuance (Billions)



Highest Percentage of Banks Tightening Mortgage Standards Since 1991

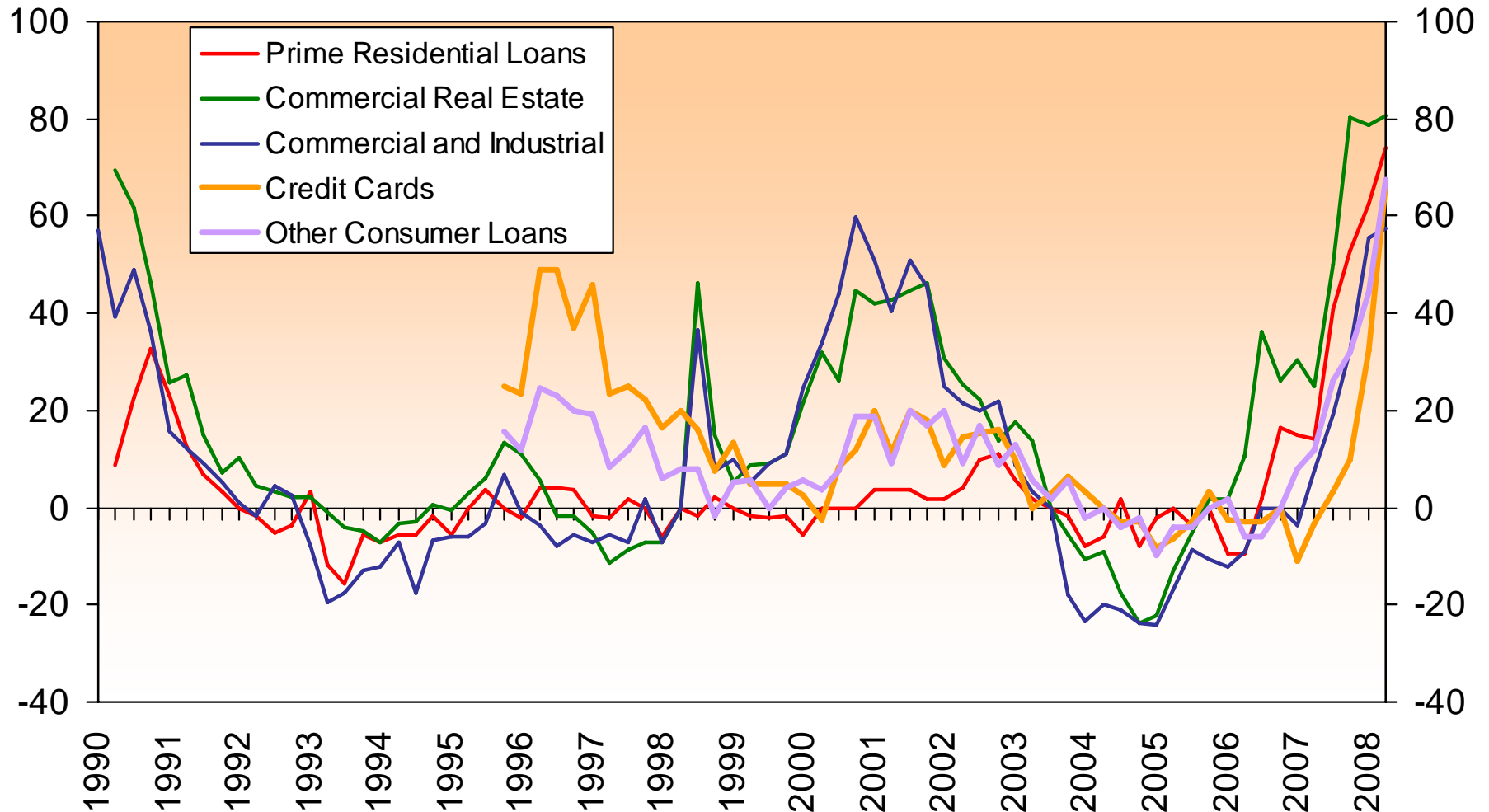
Net Percentage of Banks Tightening Mortgage Standards During Three Previous Months



Source: Federal Reserve Board's Senior Loan Officer Survey, Freddie Mac
(Last update: August 11, 2008)

Banks Are Tightening Lending Standards Across All Lending Lines of Business

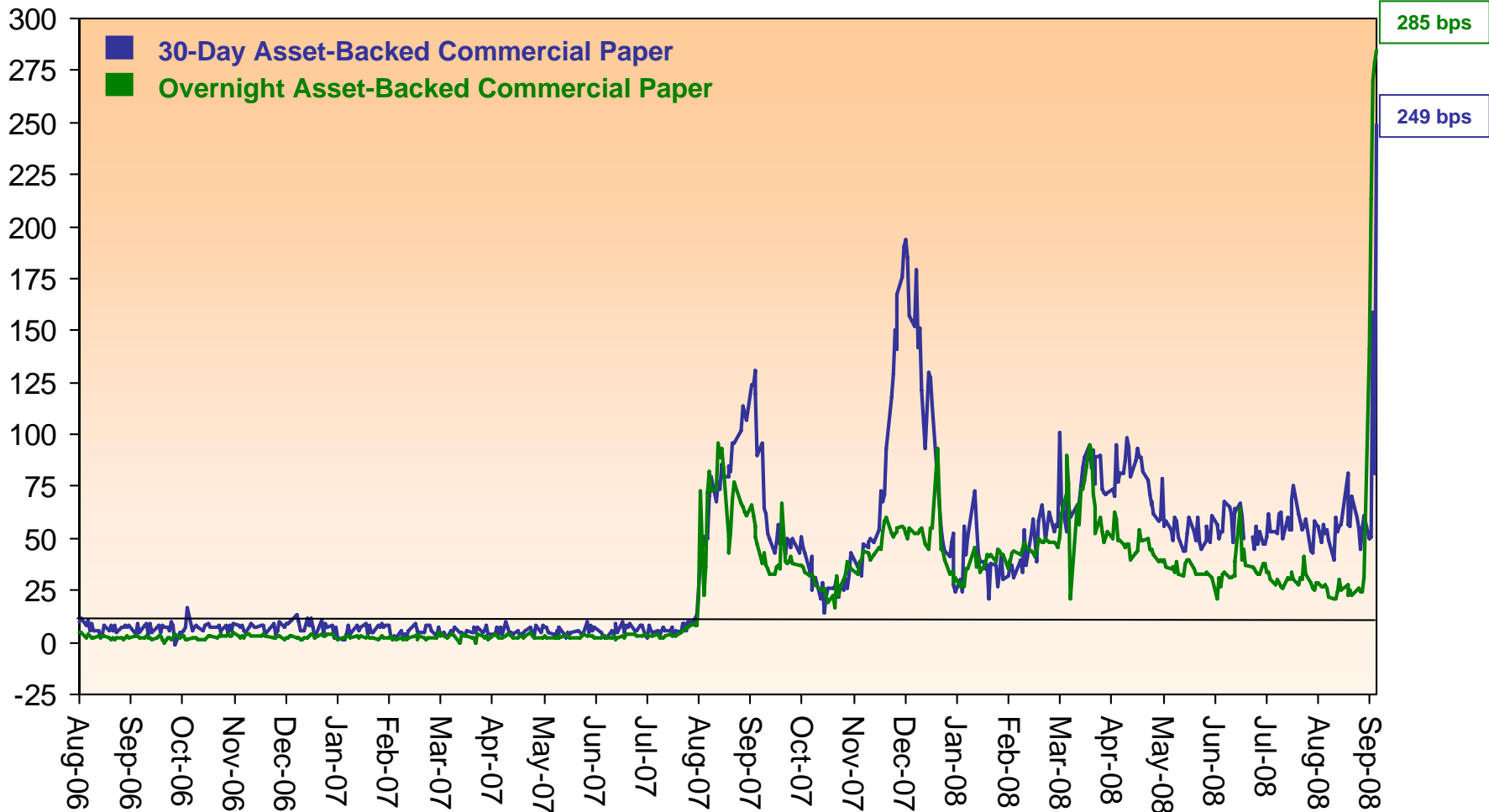
Net Percentage of Banks Tightening Mortgage Standards During Three Previous Months



Source: Federal Reserve Board's Senior Loan Officer Survey
(Last update: August 11, 2008)

30-Day and Overnight Asset-Backed Commercial Paper Spreads Have Spiked

Spread to AA-rated Nonfinancial Commercial Paper (Basis Points)



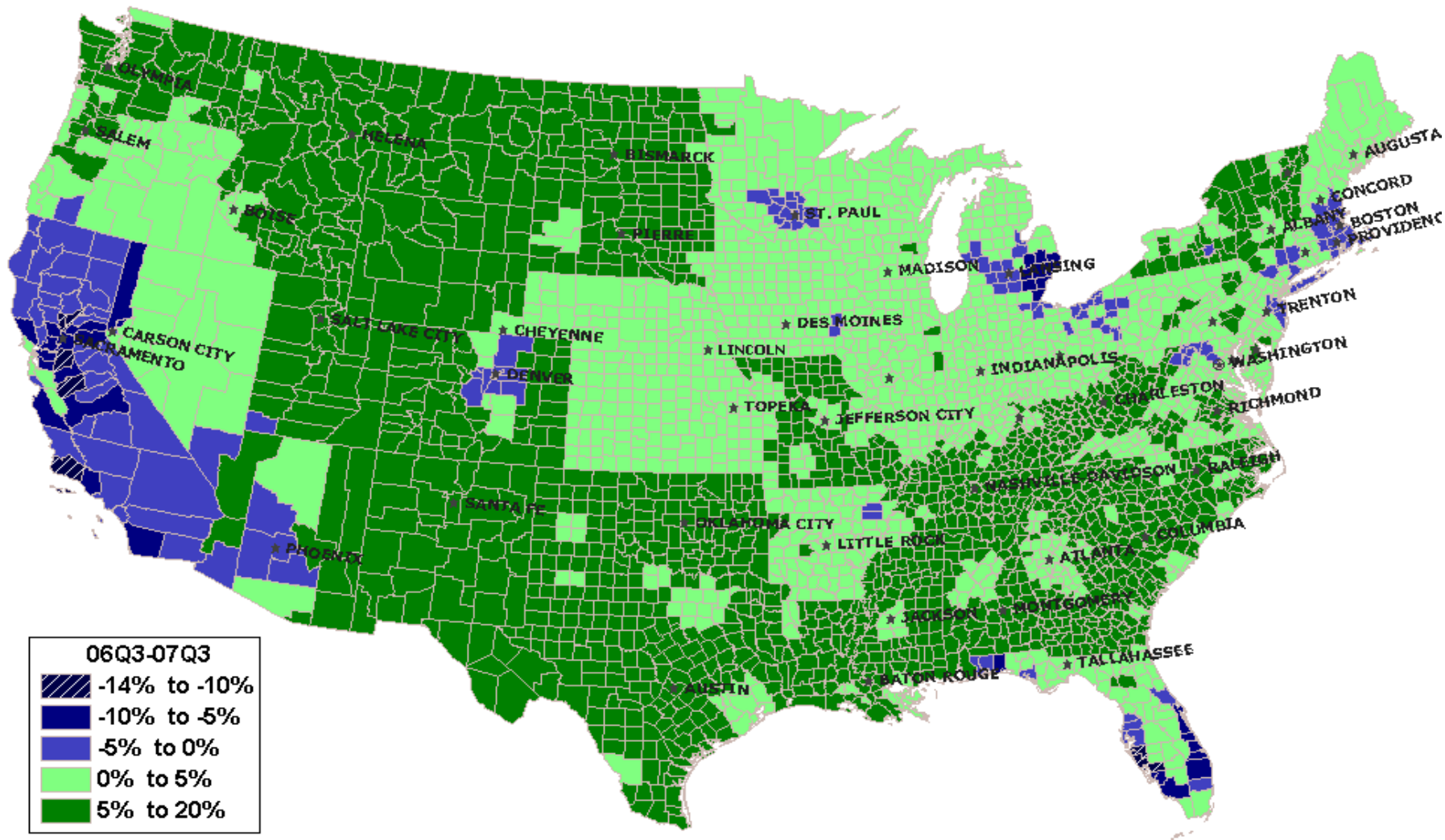
Source: Federal Reserve Board (last data: day ending September 19, 2008)

A Word on Home Prices

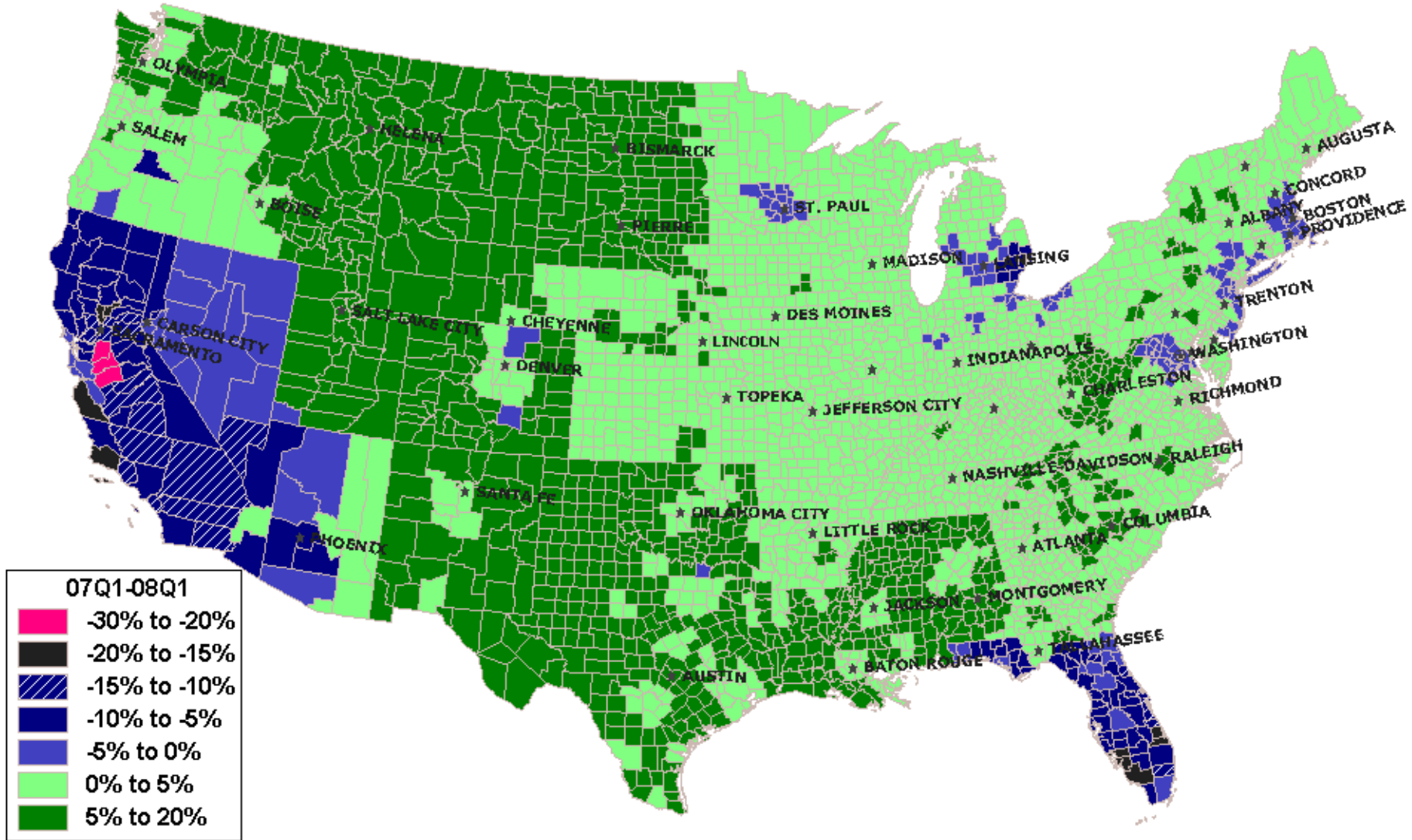
- There are 5 widely cited series on home prices, and many other lesser known series – all are showing the same trend (DOWN), but to different degrees
- How far will they fall?
 - Depends on the index – S&P/Case-Shiller national index is down more than 16% already
 - OFHEO's index, based on values of homes financed by Freddie Mac and Fannie Mae, is showing declines in both its purchase-only and classic series of more than 3.5%
 - For a discussion of home price index differences see a recent report from Freddie Mac at

www.freddiemac.com/corporate/reports/pdf/home-price-appreciation_022808.pdf

The Steepest Declines Are at -14% Over Just One Year: Cumulative Growth '06Q3 - '07Q3



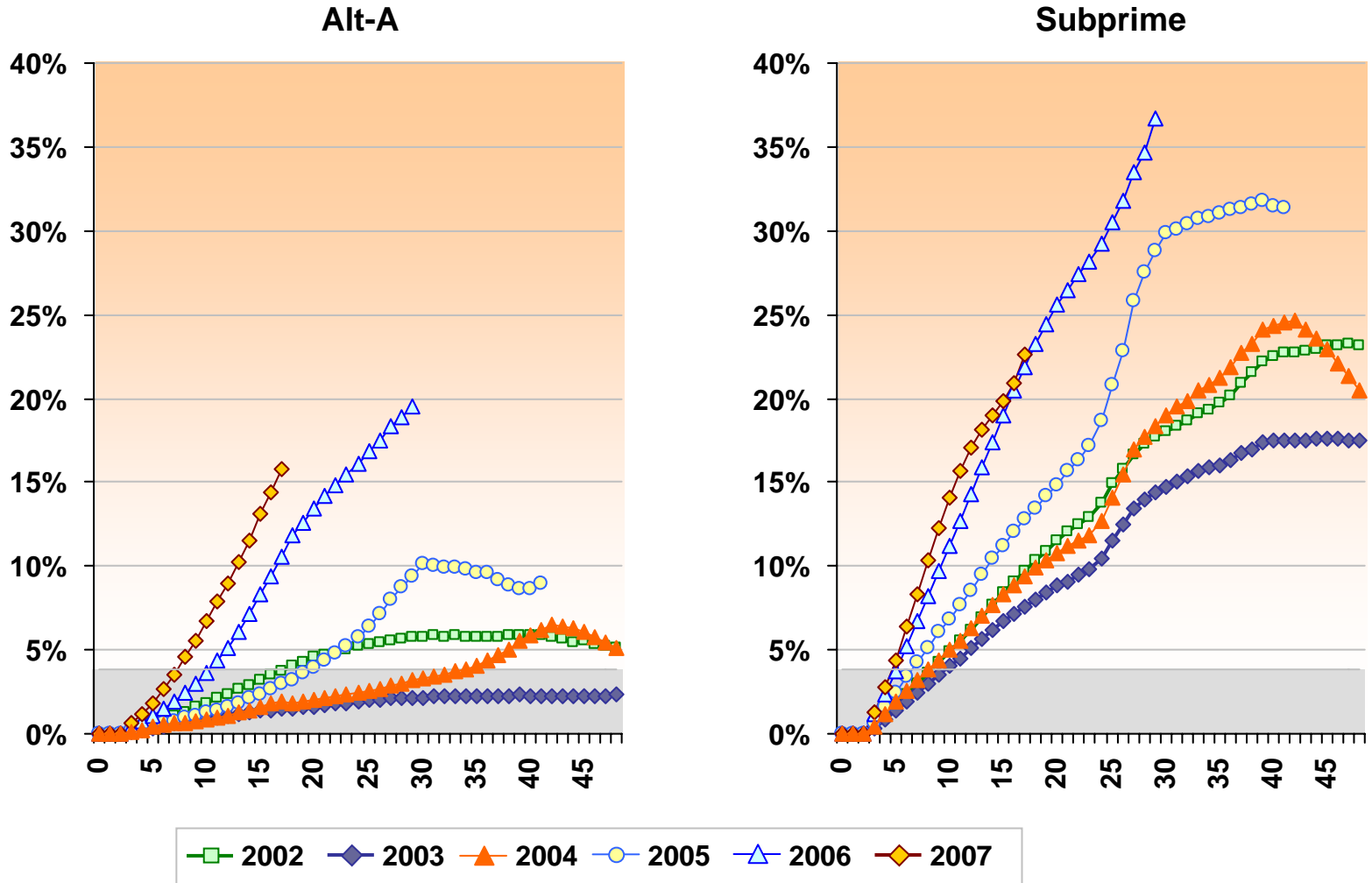
The Steepest Declines Are at -30% Over Just One Year: HPI Growth '07Q1 - '08Q1



Office of the Chief Economist

2006 & 2007 Early Payment Defaults Are High in Subprime and Alt-A Segments

Cumulative 60-Days and Worse Delinquency Rate as a Share Number of Loans Originated



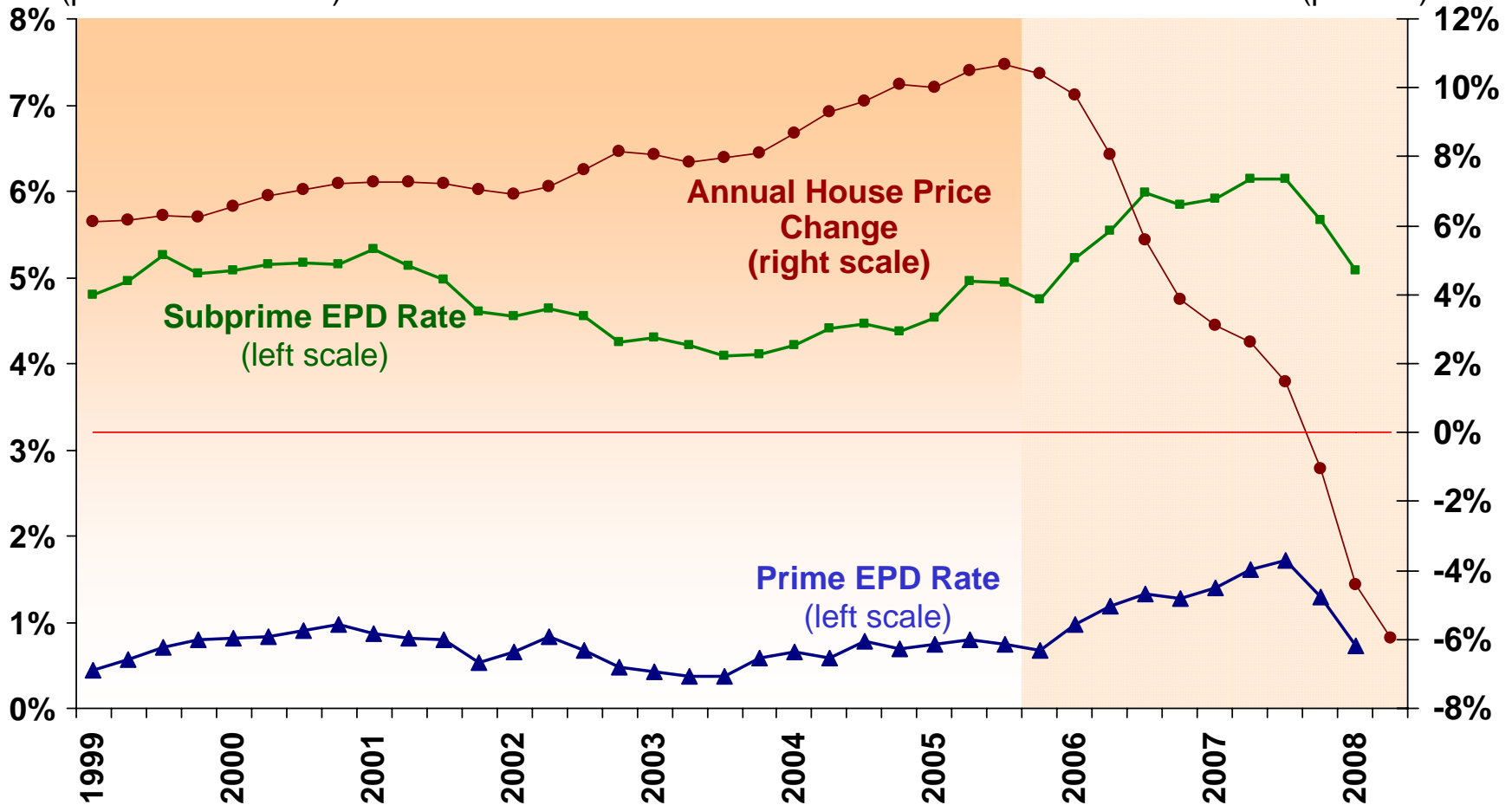
Age of Loan in Number of Months From Origination Date

Source: First American CoreLogic LoanPerformance Securities data, Freddie Mac. The grey shaded area represents the upper bound of prime loan delinquencies. Note: the last twelve points on each year cohort have incomplete data – not all loans have reached those ages. Data through June 2008.

Early Payment Defaults: Rose As Home Price Growth Slowed & Now Appear to be Decreasing

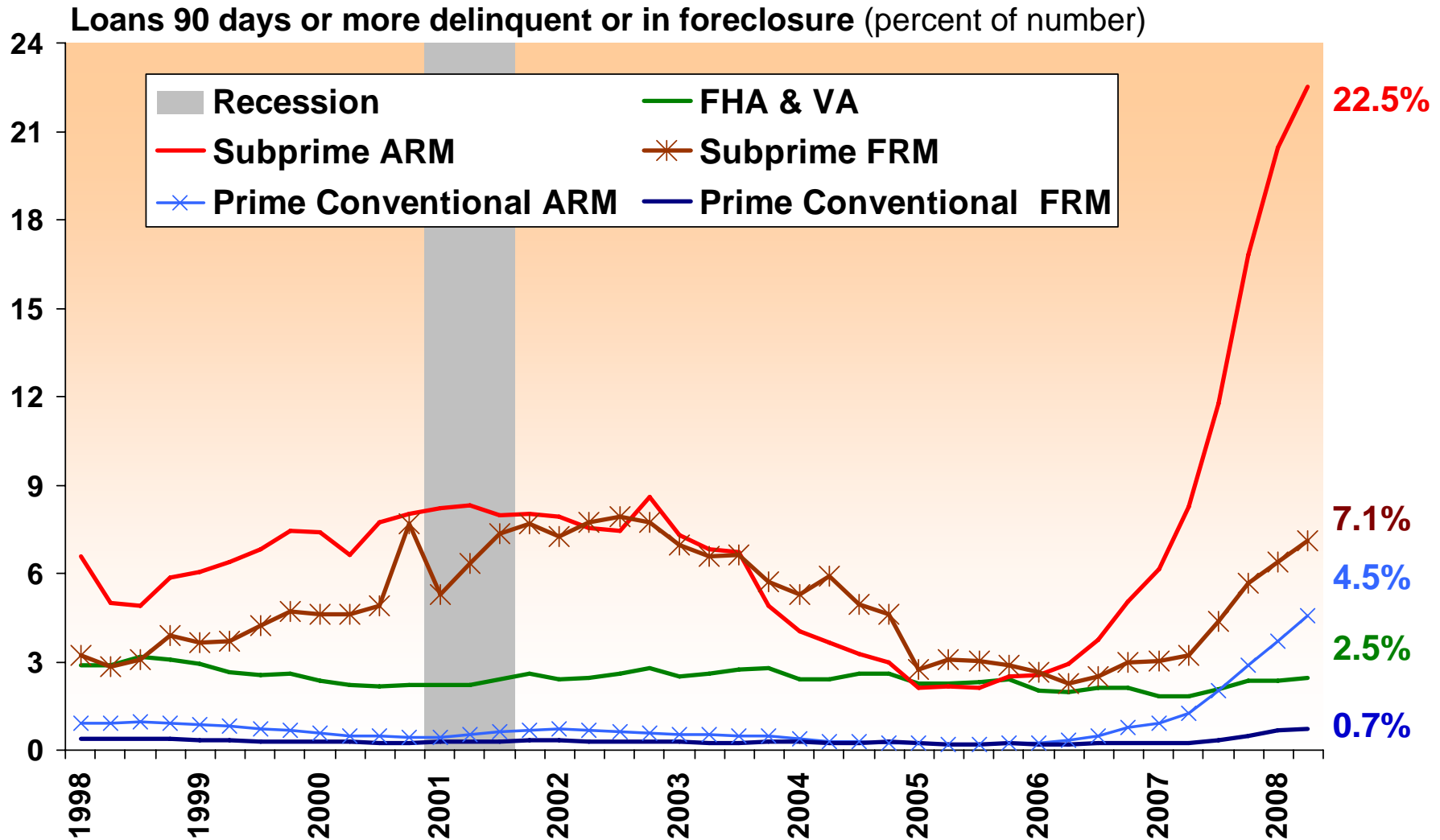
Loans ever 60 days or more delinquent over first 4 months post origination (percent of number)

Annual House Price Growth Rate (percent)



Source: First American CoreLogic LoanPerformance Servicing Databases, Freddie Mac. Note: Last data point subject to revision due to possible addition of data. FACL Data as of March 2008

Subprime ARM Default Rate Is 31 Times That on Prime FRMs in Virginia

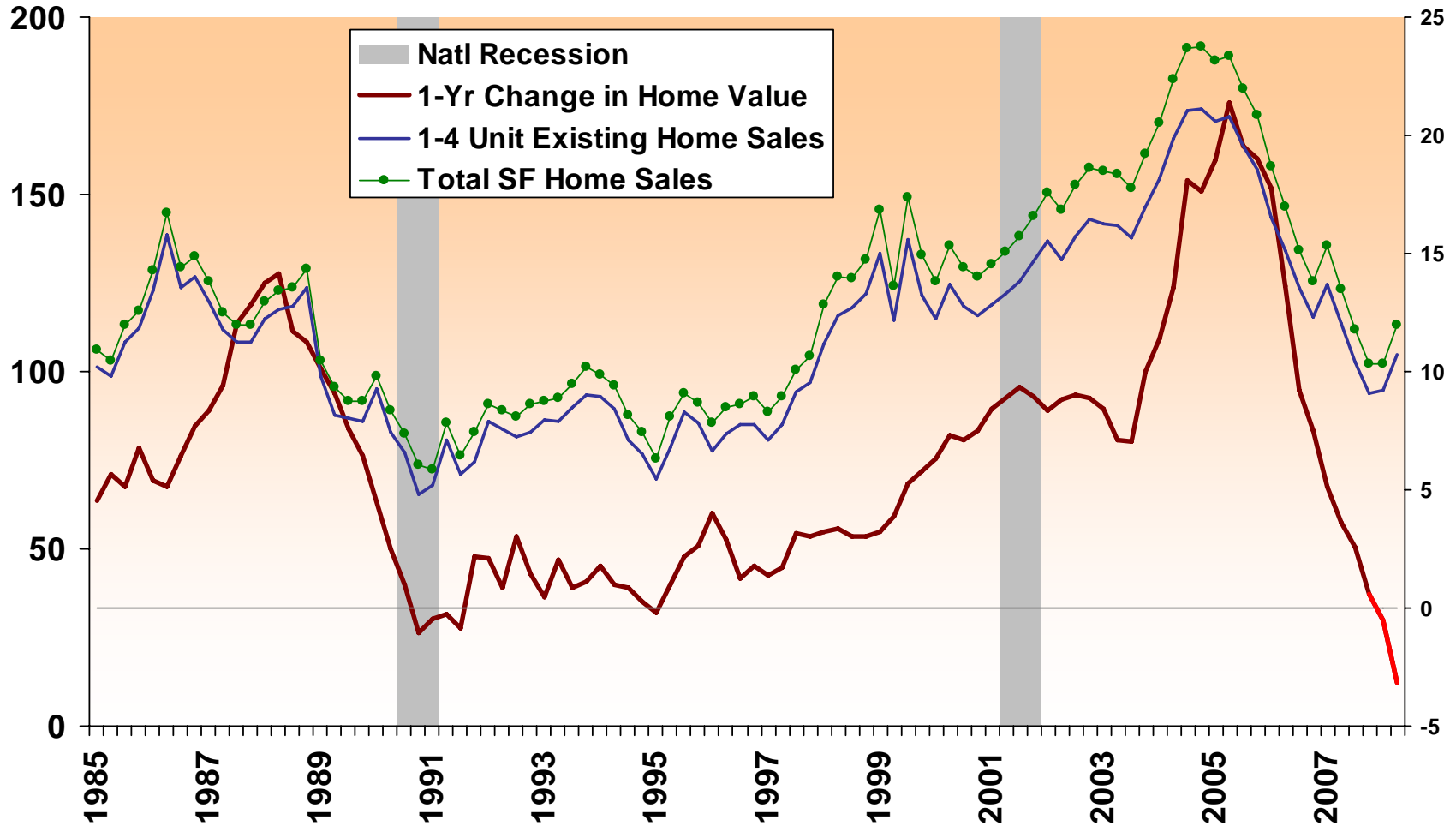


Source: Mortgage Bankers Association, Freddie Mac; "Prime Conventional" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2008Q1).

Virginia Home Sales Are Up Almost 11% in 2008 YTD thru June

Annual Existing Home Sales (1000s, SAAR)

Annual Change in Home Prices (Percent)



Sources: Moody's Economy.com, Freddie Mac Conventional Mortgage Home Price Index

Recession Risks Still Elevated, Housing Contraction Ongoing

- **Recession risks still elevated**
 - Fiscal stimulus promotes growth in second quarter, but latter half expected to be weak
 - Job gain falls short of labor force growth; Unemployment rate up
 - Core inflation at upper end of range preferred by policy makers
 - Fewer housing starts, sales in 2008; house values down

- **Risks to the outlook**
 - Financial market troubles continue – How bad will it be?
 - Energy & Food Costs: high oil and natural gas prices act like a tax on the economy



Where to Get More Information

- Look for regular updates to our economic forecast, commentary and data at www.freddiemac.com/news/finance
- Contact me at Amy_Crews_Cutts@freddiemac.com

Opinions, estimates, forecasts and other views contained in this document are those of Freddie Mac's Office of the Chief Economist, do not necessarily represent the views of Freddie Mac or its management, should not be construed as indicating Freddie Mac's business prospects or expected results, and are subject to change without notice. Although the Office of the Chief Economist attempts to provide reliable, useful information, it does not guarantee that the information is accurate, current or suitable for any particular purpose.

*Information from this document may be used with proper attribution. Alteration of this document is prohibited.
© 2008 by Freddie Mac.*