Housing and Mortgage Market Update

International Builders Show
Orlando, Florida

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Frank E. Nothaft
Freddie Mac Chief Economist
Home Buyer Affordability, Household Formations Support Gradual Housing Recovery

- Home buyer affordability high
  - 30-year FRMs stay in 4.75% to 5.25% range for most of 2011
  - U.S. price indexes likely to bottom in 2011
  - Home sales up about 10%, starts up about 20% in 2011

- Rental market conditions gradually improve
  - Household formation pickup helps to absorb existing inventory
  - Vacancy rates are high but moving down from peak
  - Rents are stabilizing/beginning to rise in better markets, projects

- FHA and GSEs account for bulk of lending
  - SF originations about 30% less in 2011, because of less refinance
  - FHA & VA about one-fourth to one-third of SF lending in 2011
  - Loan defaults remain high but will slowing recede
Low Interest Rates and Lower Home Prices Have Increased Homebuyer Affordability

Source: National Association of Realtors Composite Housing Affordability Index – (% of median priced home affordable on median income with conventional mortgage and 20% down), seasonally adjusted; Freddie Mac Primary Mortgage Market Survey ® and December 2010 Outlook.
Household Growth Affected by Demographic and Economic Factors

**Household Growth Rate** (Annual Percent Change)

- Baby Boom Forms HHs 1966-81 Average Annual HH Growth= 2.2%
- 1994-2009 Average Annual HH Growth= 1.0%
- 2010-2015 Projection HH Growth= 1.0%-1.2%

Sources: Bureau of Census, NBER, Harvard University JCHS W09-5 (July 2009)
Tax Credit Stimulated Home Sales, and Drop-off After Expiration

U.S. Existing Home Sales (Thousands)

U.S. New Home Sales (Thousands)

Peak-to-Trough:
EHS Down 47%
NHS Down 80%

Source: US Census Bureau, National Association of Realtors®

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By 2009 Single-family Building Had Fallen to Lowest Level in Post-WW2 Period

One-Family Housing Starts (thousands of units, SAAR)

3rd Quarter 2005 record: 1.75 million homes

2009Q1: 0.36 million homes

Forecast

Sources: Bureau of Census, Freddie Mac; Annual data 1946-2003; quarterly thereafter
### More Purchase-Money but Less Refinance Result in 30% Decrease in 2011 Originations

**Total Single-Family Mortgage Originations** (Billions of Dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>FHA &amp; VA</th>
<th>Conventional Refi</th>
<th>Conventional Purchase</th>
</tr>
</thead>
<tbody>
<tr>
<td>'98</td>
<td>$1,250</td>
<td>$2,500</td>
<td>$3,250</td>
</tr>
<tr>
<td>'99</td>
<td>$1,000</td>
<td>$2,750</td>
<td>$3,500</td>
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<tr>
<td>'00</td>
<td>$750</td>
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<td>$4,000</td>
</tr>
<tr>
<td>'01</td>
<td>$500</td>
<td>$3,250</td>
<td>$4,250</td>
</tr>
<tr>
<td>'02</td>
<td>$250</td>
<td>$3,500</td>
<td>$4,750</td>
</tr>
<tr>
<td>'03</td>
<td>$0</td>
<td>$4,000</td>
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<tr>
<td>'08</td>
<td>$1,250</td>
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<tr>
<td>'09</td>
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<td>$6,500</td>
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<tr>
<td>'10</td>
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<td>$5,750</td>
<td>$6,750</td>
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<tr>
<td>'11</td>
<td>$2,000</td>
<td>$6,000</td>
<td>$7,000</td>
</tr>
</tbody>
</table>

Sources: Freddie Mac, HUD, VA

Office of the Chief Economist
Large Inventory Surplus Remains in Market

Excess Unsold Homes for Sale (Numbers in Thousands)

Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).
National House Prices Have Experienced a Cumulative Decline of 21% Since June 2006

**Quarterly Growth Rates** (Numbers in Percentages)

Note: National home prices use the internal Freddie Mac Index, which is a value-weighted based on Freddie Mac's single-family portfolio. The US index is a monthly series; quarterly growth rates are calculated as a 3-month change based on the final month of each quarter.

Source: Freddie Mac
House Price Declines Largely Occur in States with Excess Vacant-for-Sale Homes

Cumulative Change, 2006Q2 to 2010Q2

Source: FHFA Purchase-Only House Price Index by State, 2006Q2 and 2010Q2.
California Has the Largest Number of Properties with Negative Equity, Nevada the Largest Share

Nationally: 11 million mortgaged properties with negative equity, 23% Negative Equity Share

Sources: CoreLogic; Data as of June 30, 2010. Near Negative Equity properties have TLTV between 95 and 100%; Percent values above bars represent share of loans with negative equity. Top 15 states by number of mortgaged properties plus Nevada are shown.
Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

<table>
<thead>
<tr>
<th>Hardship Reason</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment or curtailment of income</td>
<td>58.3%</td>
</tr>
<tr>
<td>Excessive obligation</td>
<td>16.3%</td>
</tr>
<tr>
<td>Illness or Death in the Family</td>
<td>11.2%</td>
</tr>
<tr>
<td>Marital difficulties</td>
<td>5.0%</td>
</tr>
<tr>
<td>Inability to sell or rent property</td>
<td>2.8%</td>
</tr>
<tr>
<td>Property problem or casualty loss</td>
<td>1.7%</td>
</tr>
<tr>
<td>Employment transfer or military service</td>
<td>0.9%</td>
</tr>
<tr>
<td>Extreme hardship</td>
<td>0.1%</td>
</tr>
<tr>
<td>All other reasons</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Source: Freddie Mac; data represent prime borrowers who were delinquent on conventional conforming loans owned by Freddie Mac and had successful contact with their servicer during 2009. All Other Reasons includes: Abandonment of Property; Energy/Environment Cost; Incarceration; Payment adjustment; Payment Dispute; Servicing problem; Unable to contact borrower and other – nondescript.
U.S. Unemployment Rate (9.4% in December) Expected to Decline Gradually

Unemployment Rate (Percent)

Sources: U.S. Department of Labor, Blue Chip Economic Indicators January 2011 consensus projection, Central Tendency projection midpoint of Federal Reserve Governors and Reserve Bank presidents as of November 2010 for fourth quarter of 2011 and 2012 (other quarters obtained through linear interpolation).
Recent Default Experience Is Unlike Any Previous Business Cycle Since the 1930s

Prime conventional loans 90 days or more delinquent or in foreclosure (percent)

Source: National Bureau of Economic Research, Mortgage Bankers Association
(Prime Conventional includes Alt-A).
Serious Delinquencies Have Begun to Lessen, but Remain Very High

Loans 90 Days or More Delinquent or in Foreclosure (percent of number)

Source: Mortgage Bankers Association; “Prime Loans” includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2010Q2).
Banks’ Tightening of Lending Standards Has Abated for Homes and Commercial Real Estate

Net Percentage of Banks Tightening Credit Standards During Three Previous Months

Source: Federal Reserve Board's Senior Loan Officer Opinion Survey (all residential loans through 2007Q1, prime residential starting 2007Q2; commercial real estate includes construction and land development); Last update: November 8, 2010
Survey question for Market Tightness Index:
How are apartment market conditions in the local markets that you watch? “Tight” markets are those with low vacancies and high rent increases. Conditions obviously vary greatly from place to place, but on balance, apartment market conditions in your markets today are: 1) Tighter than three months ago 2) Looser than three months ago 3) About unchanged from three months ago 4) Don’t know or not applicable.

Source: National Multi Housing Council (Last Update: October 2010)
Rental Vacancy Rates Are Moving Down from Record Levels

Source: Census Bureau (5 or more units), REIS (U.S. metro)
Vacancy Rise Has Led to Slower Rent Growth

Rent Growth (Percent, Year-over-Year)

Source: Bureau of Labor and Statistics (rent of primary residence–Quarter Average, SA), REIS (U.S. metro)
Multifamily Default Rates at Banks and Savings Institutions Are Highest Since 1992

Note: Noncurrent loans – loans 90 days or more past due, or in nonaccrual status. Data before 1993 exclude savings institutions that file a Thrift Financial Report; $0.2 trillion outstanding as of September 30, 2010.
Source: FDIC
Construction and Development Default Rates at Banks and Thrifts Edge Off Peak

Delinquent or Non-current (Percent of Average Loans Outstanding)

Note: Noncurrent loans – the sum of loans 90 days or more past due, and loans in nonaccrual status; $0.4 trillion outstanding as of September 30, 2010.
Source: FDIC
Where to Get More Information

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