



# The Mortgage and Housing Market Outlook

## National Economists Club

Washington, DC

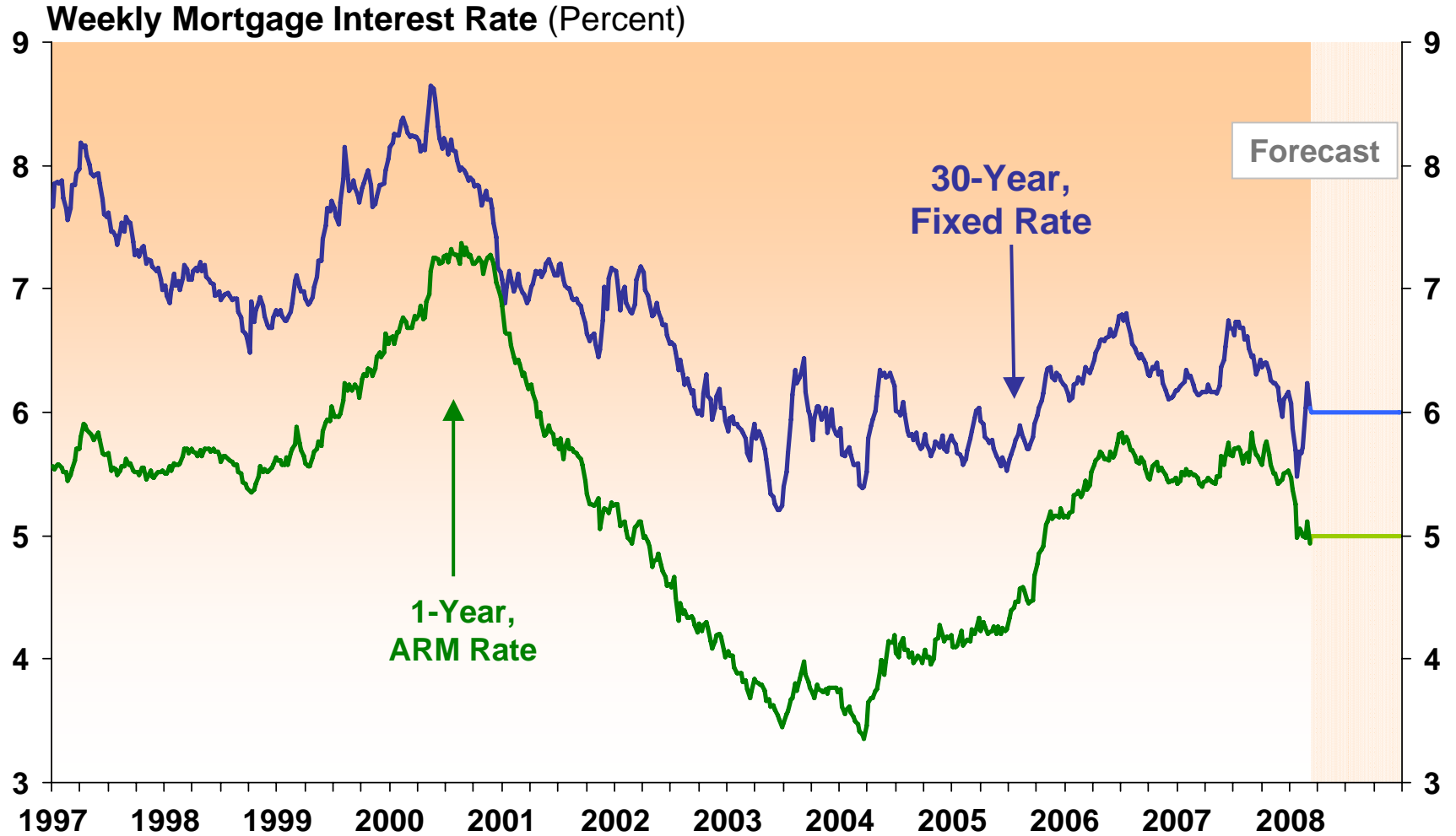
March 27, 2008

Frank E. Nothaft

Chief Economist

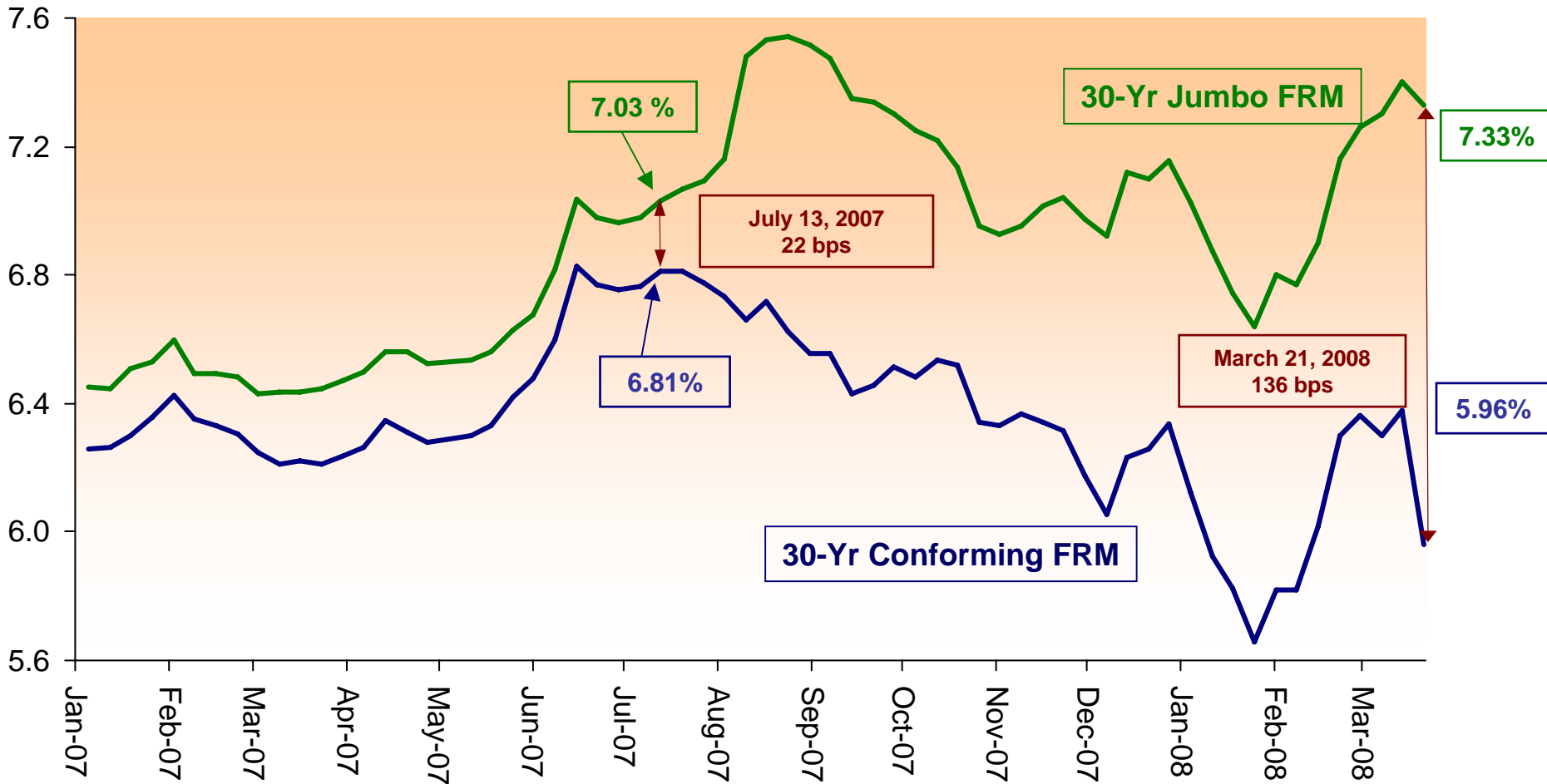
- **1-in-2 chance of recession in 2008**
  - Maybe in recession already; fiscal stimulus propels growth in second half: Economic growth 1.9% in 2008
  - Job gain falls short of labor force growth; Unemployment rate up, averages 5.2% in 2008
  - Core inflation within range preferred by policy makers
  - Less housing starts, sales in 2008; house values down
  
- **Credit quality has deteriorated**
  - 2006 and 2007 subprime vintages have high early-payment defaults
  - More than half of foreclosure starts since 2006 were subprime loans
  - Banks have tightened underwriting on both prime and subprime
  - Auto loan 60-day delinquencies at 10-year high
  
- **Risks to the outlook**
  - How much will liquidity constraints affect broader economy?
    - Current liquidity problems affecting jumbo, Alt-A markets as well as subprime
  - Energy: high oil and natural gas prices act like a tax on the economy

# Prime Conforming Mortgage Rates Remain Low By Historical Standards



# Spread Between 30-Year Fixed Jumbo and Conforming Mortgage Rates Is at A Record High

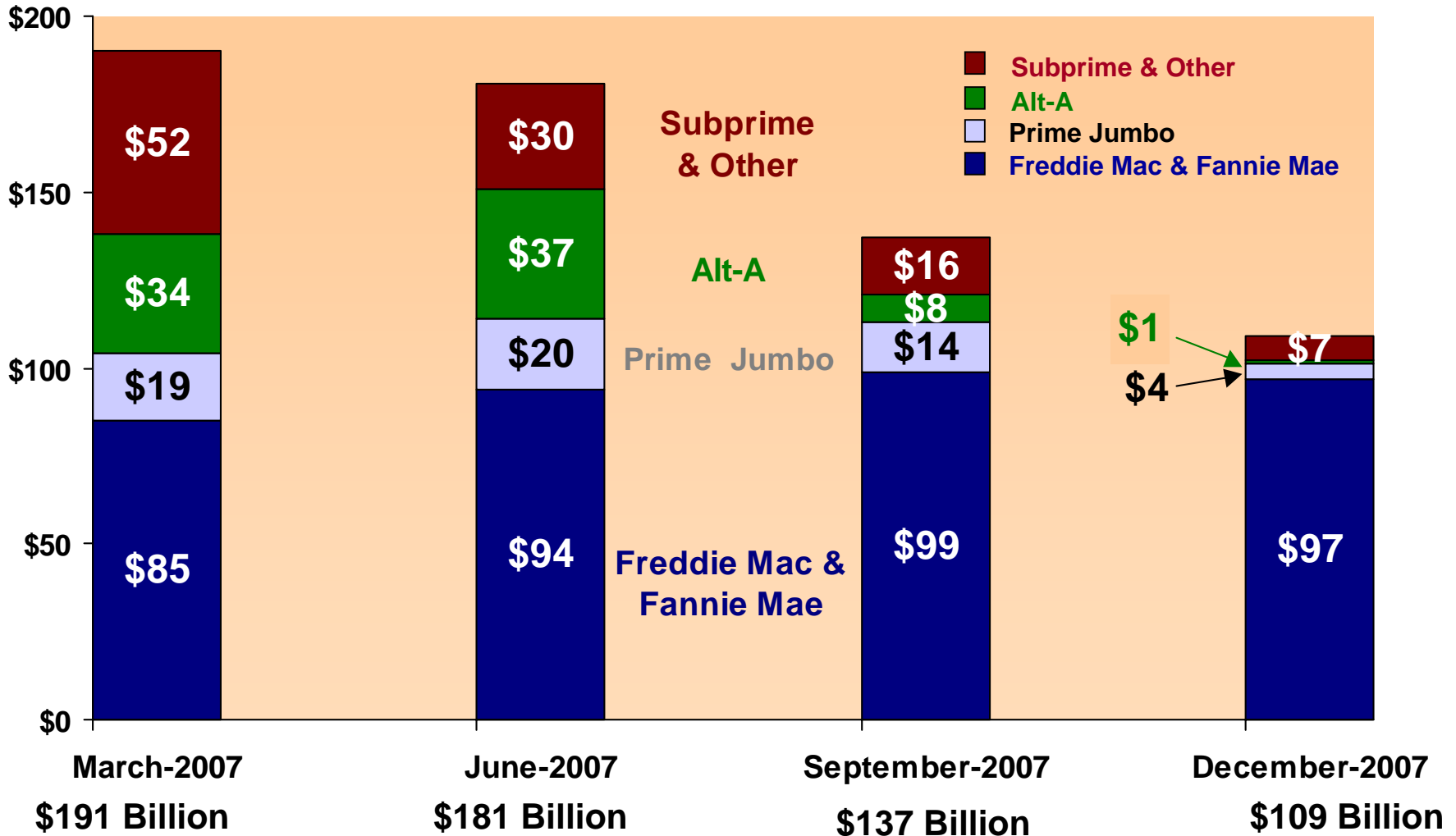
Effective Interest Rate Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Percentage Points)



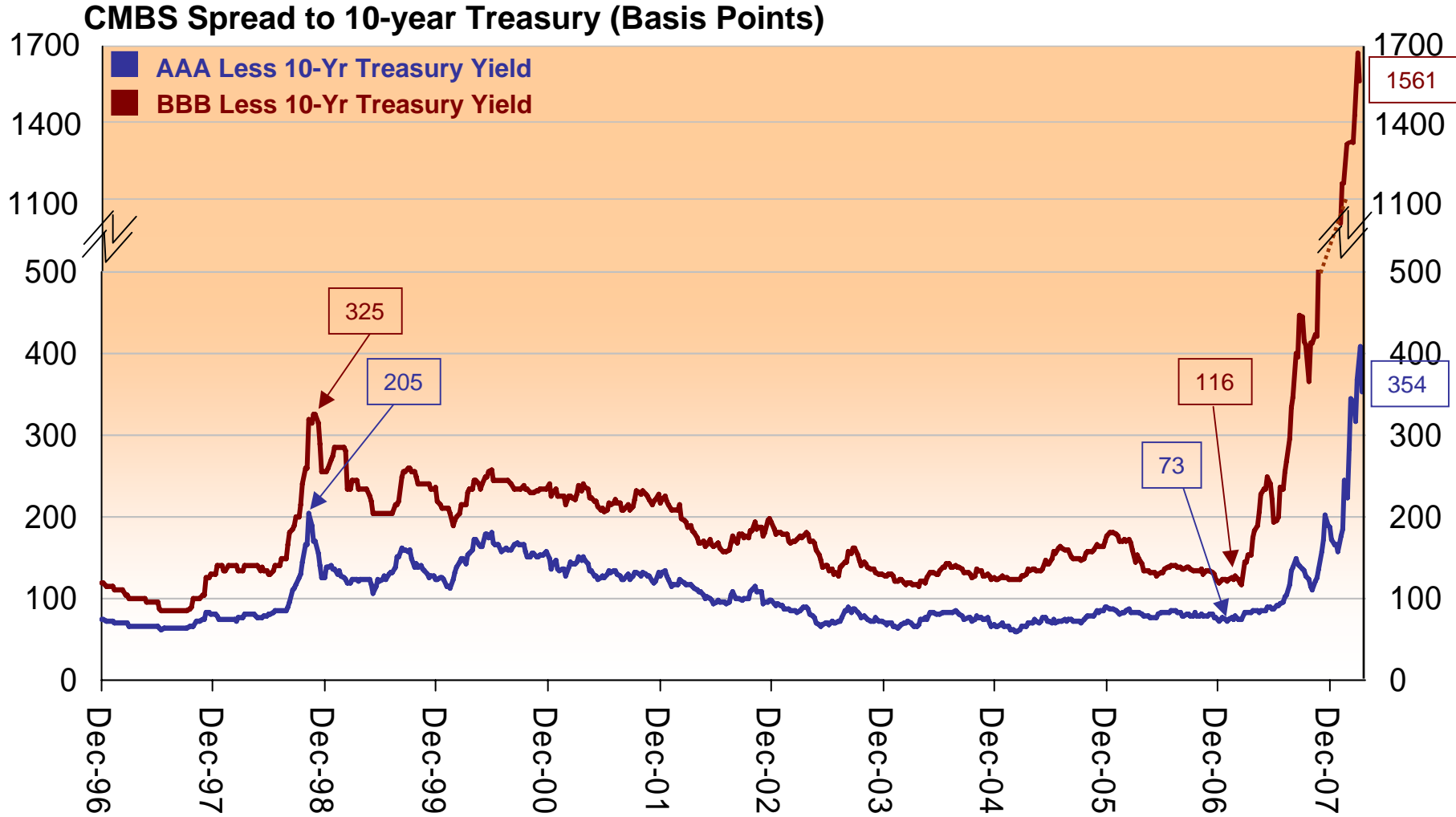
Source: HSH Associates (last data: week ending March 21, 2008)  
 Note: Effective rate adds fees and points to the interest rate.

# Private-Label Mortgage-Backed Security Issuance Has Fallen Sharply

Dollar Amount of Issuance (Billions)

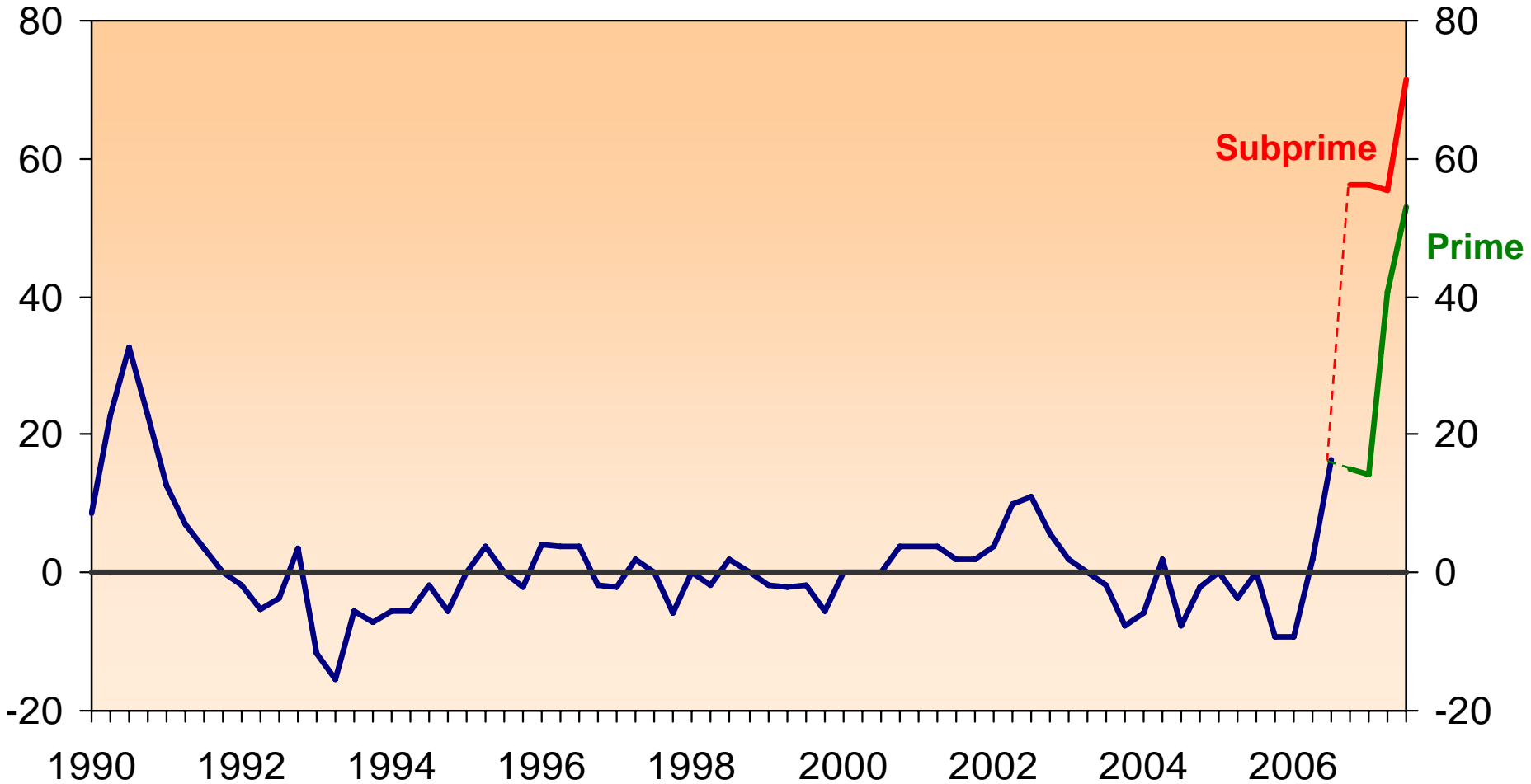


# CMBS Spreads Have Also Reached Record High Levels



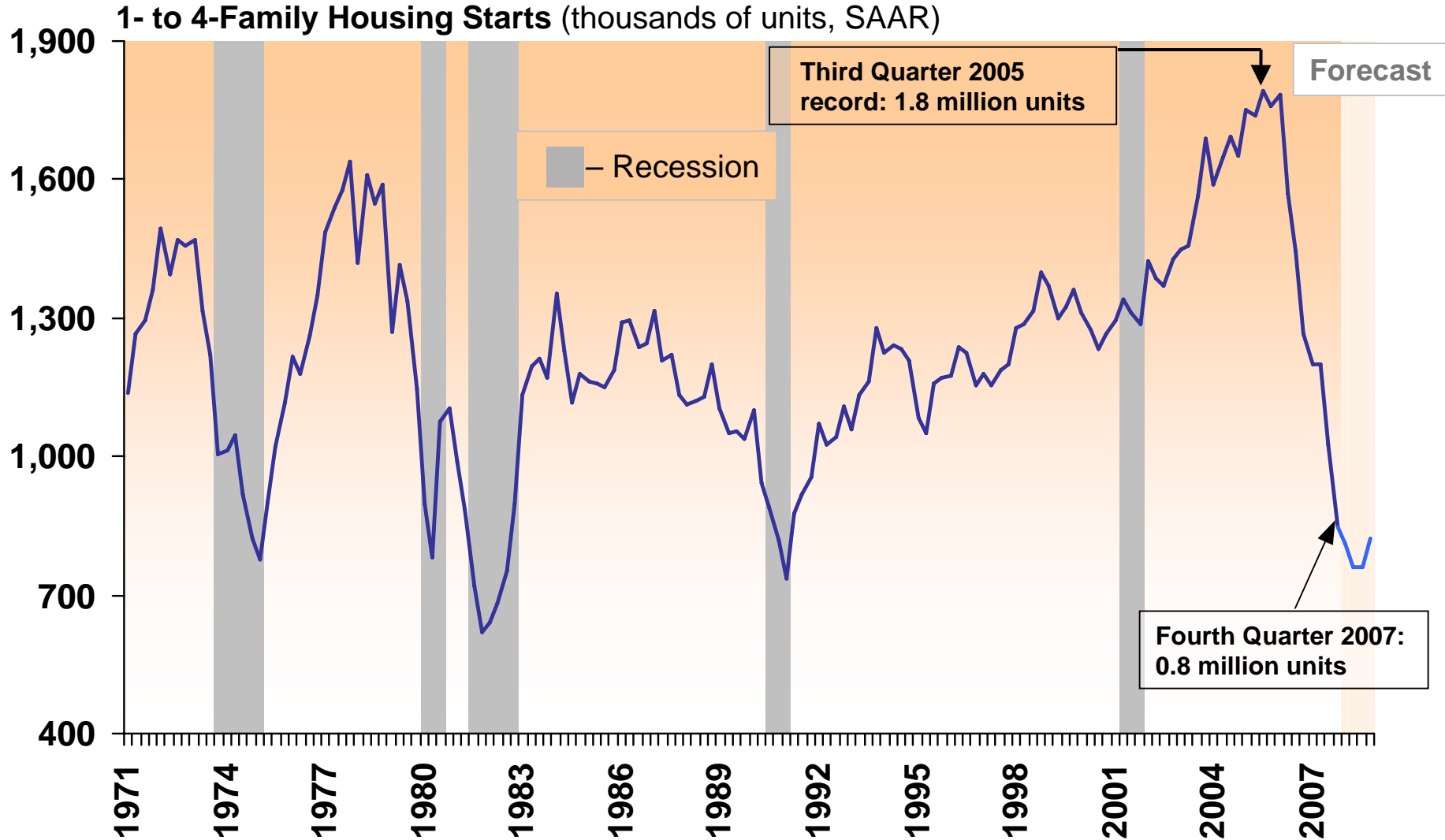
# Highest Percentage of Banks Tightening Home Mortgage Standards Since 1990

Net Percentage of Banks Tightening Mortgage Standards During Previous Three Months



Source: Federal Reserve Board's Senior Loan Officer Survey  
 (Last update: February 4, 2008)

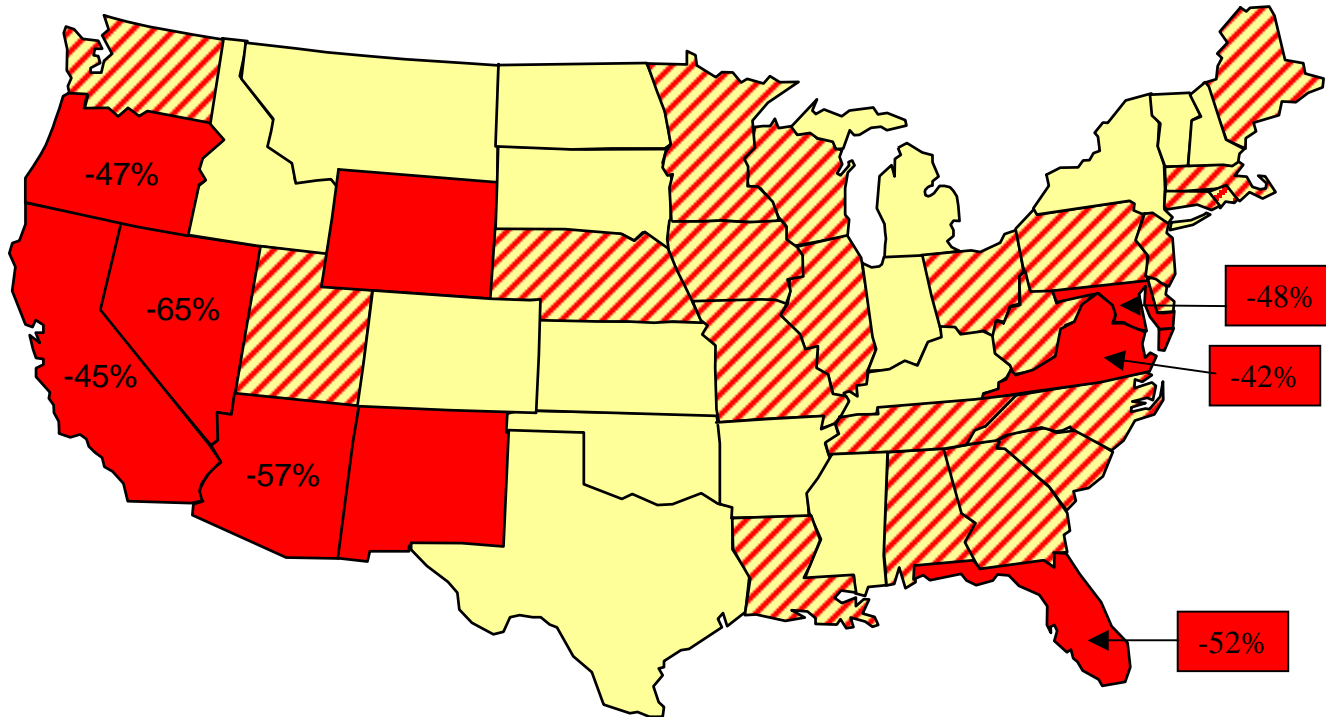
# Single-family Building Hit a Record in 2005, but Was 53% Lower Two Years Later



Sources: Bureau of Census, Freddie Mac



# Existing Home Sales Are Down Everywhere Over Last Two Years

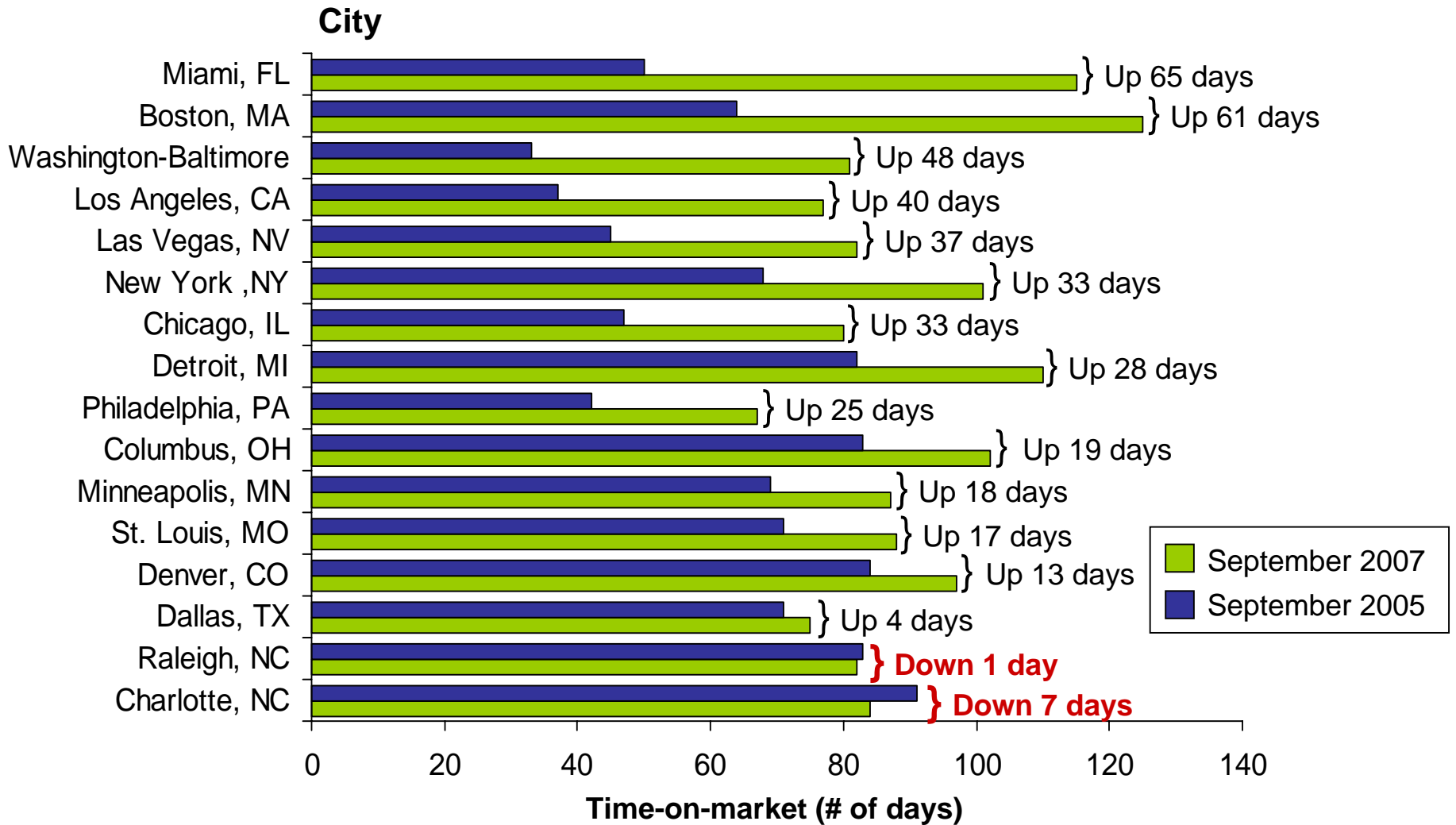


*Percent change in existing home sales  
Fourth quarter 2005 through Fourth quarter 2007*

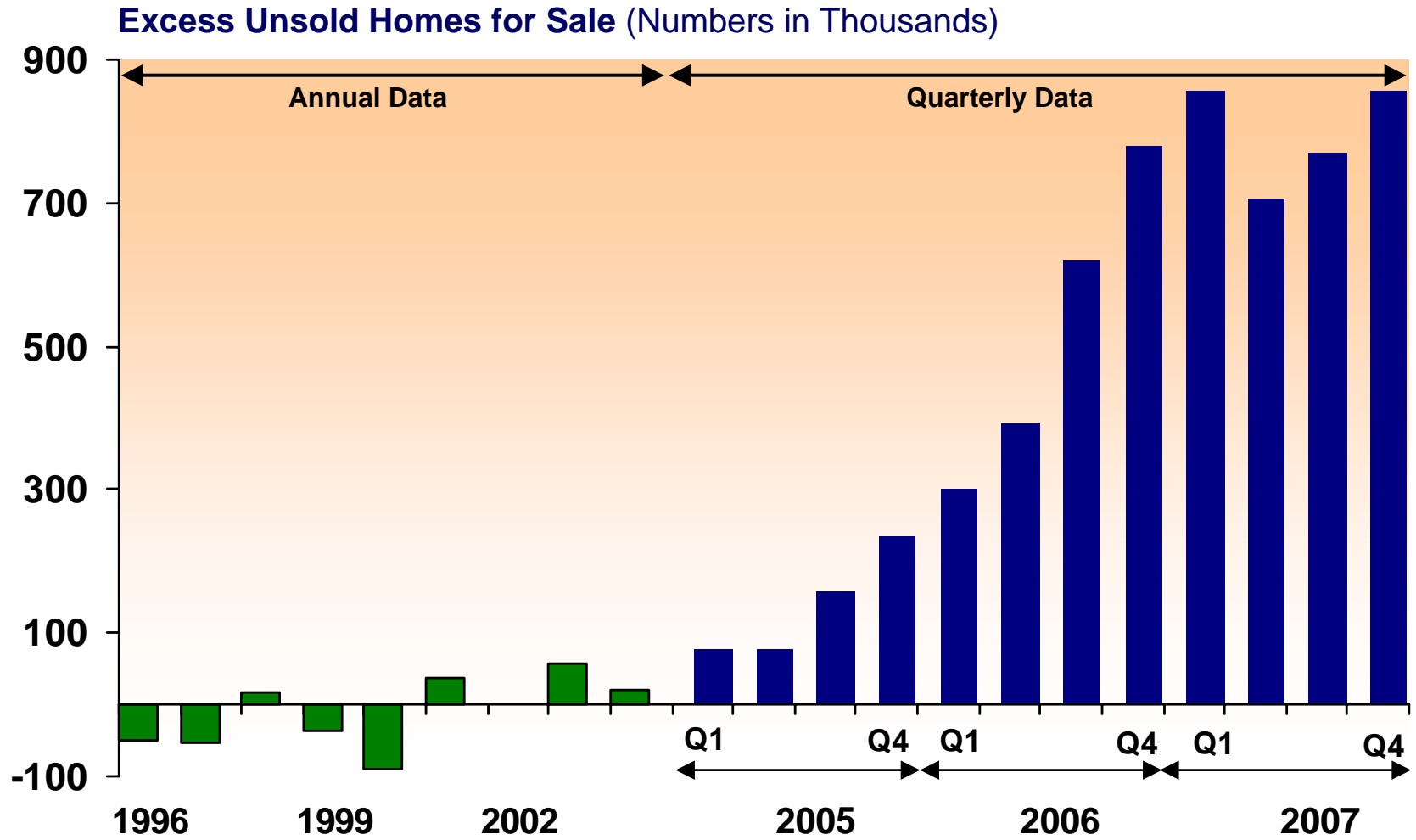
- Down less than 20%
- Down 20-40%
- Down more than 40%

**Existing Home Sales  
Nationwide Down 29%**

# Time-On-Market Up in Most Markets

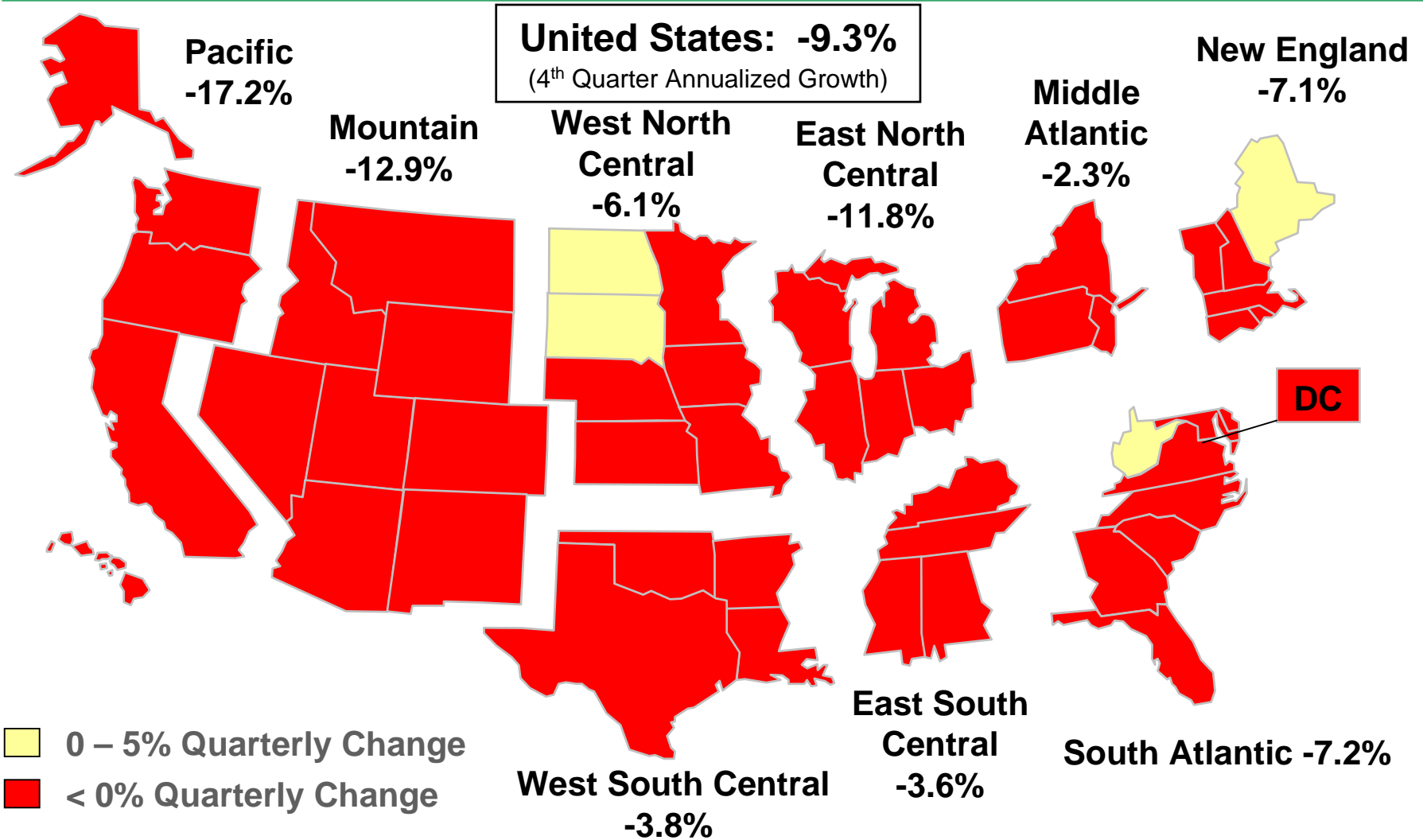


# A Large Inventory Overhang Remains within the Housing Market



Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2007Q4:Quarterly Data)  
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

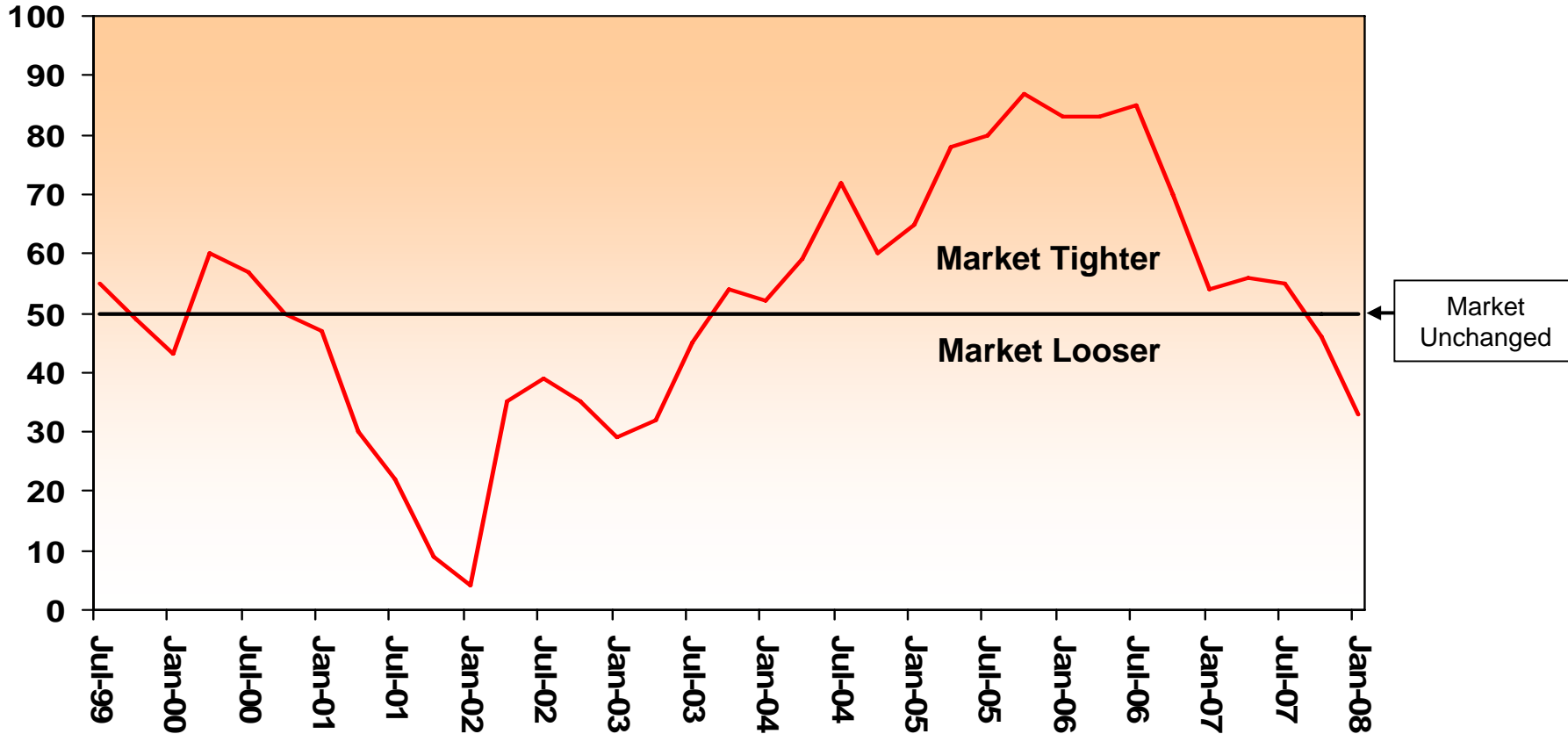
# Forty-Six States Had Falling Prices in the Fourth Quarter 2007



Source: Freddie Mac's Purchase-Only Conventional Mortgage Home Price Index (Annualized Quarterly Rates for 4Q2007)

# Apartment Market Conditions Are Weaker

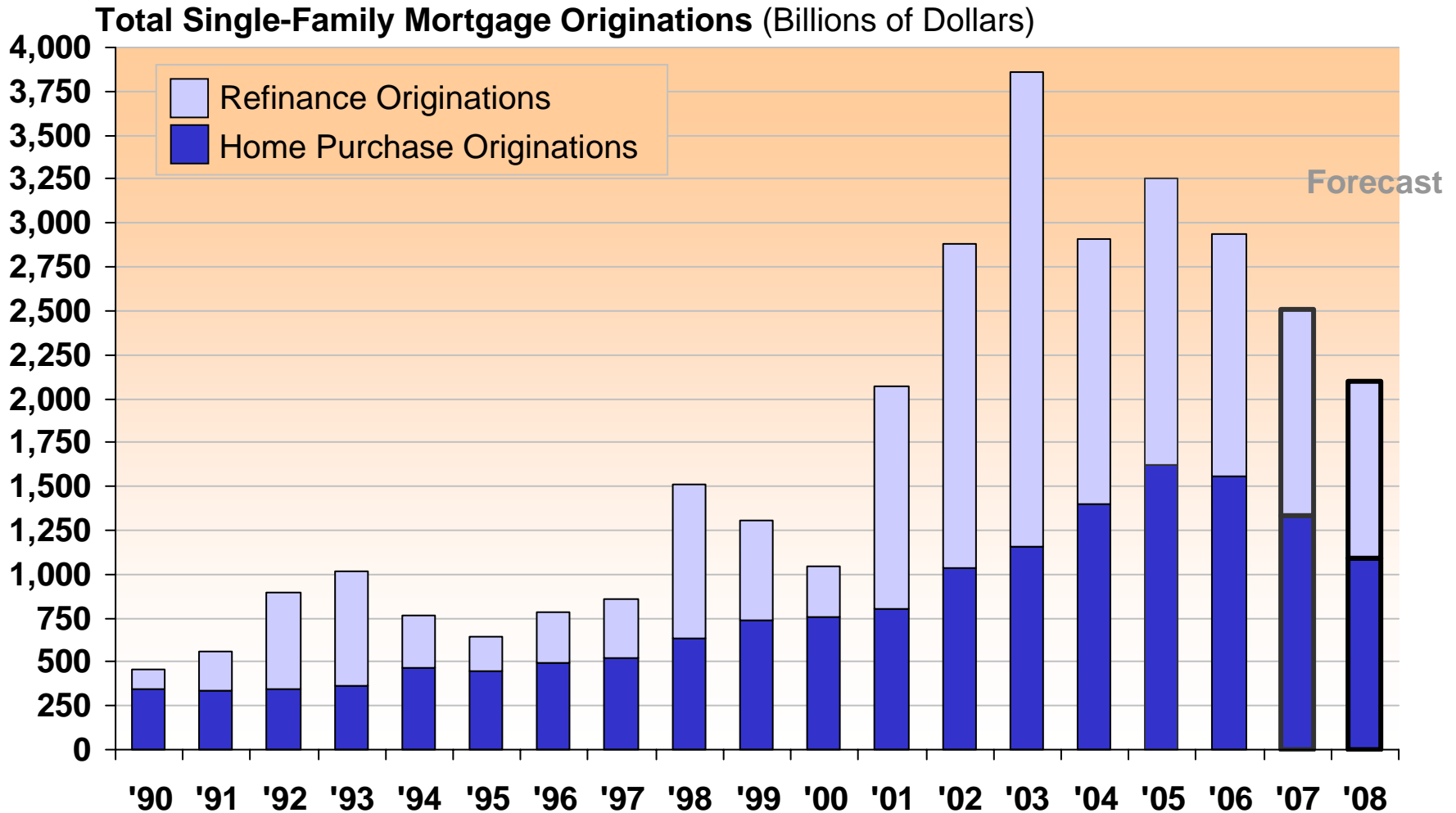
Market Tightness Index



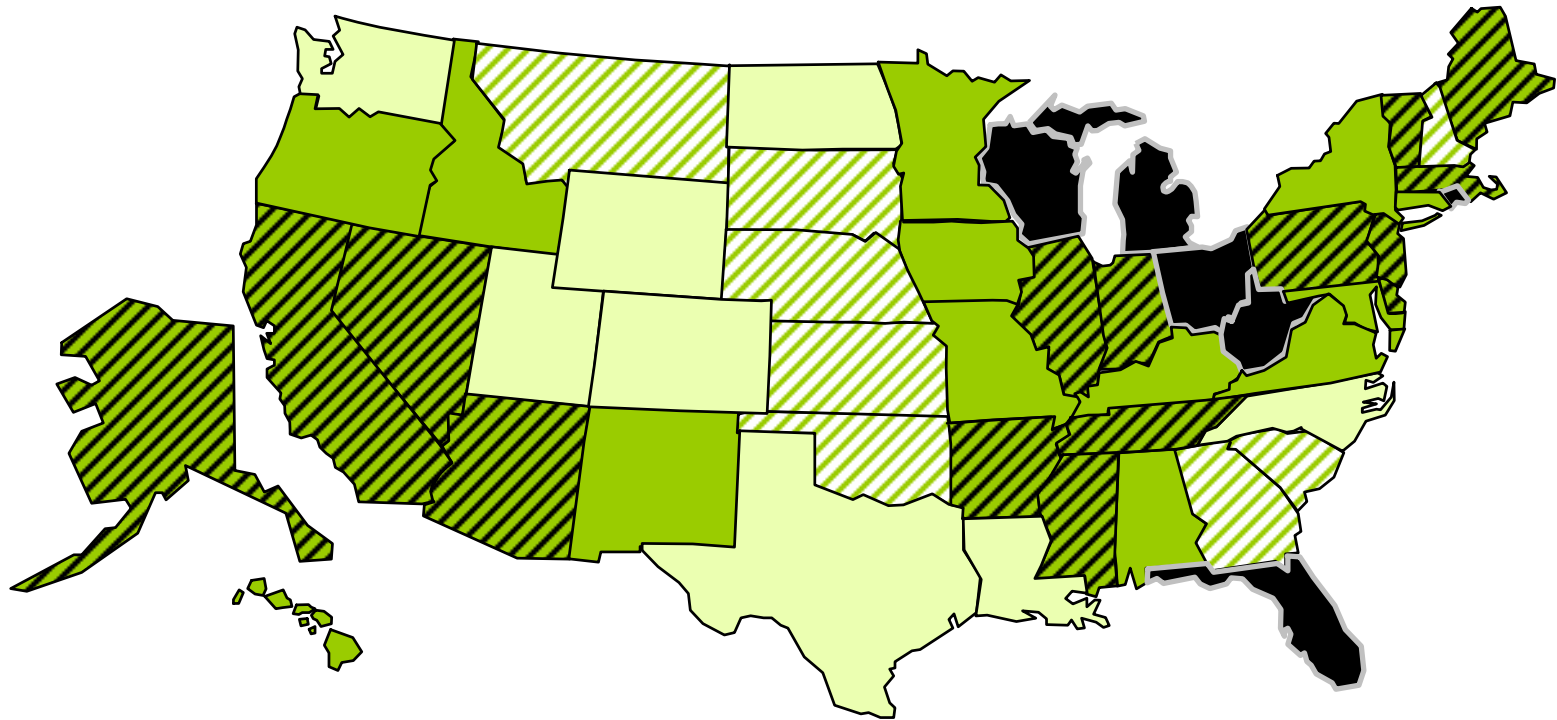
**Survey question for Market Tightness Index:**

How are apartment market conditions in the local market 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.

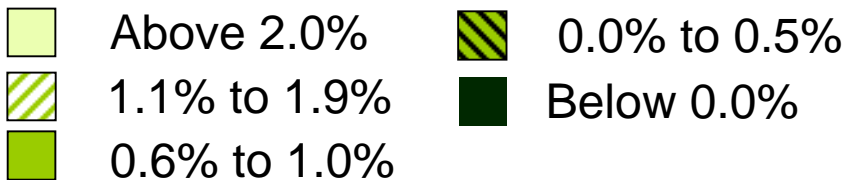
# Fewer Refis, Sales Result in a 16% Drop in Mortgage Originations in 2008



# Employment Growth Weakest In Markets With Flat or Falling House Values

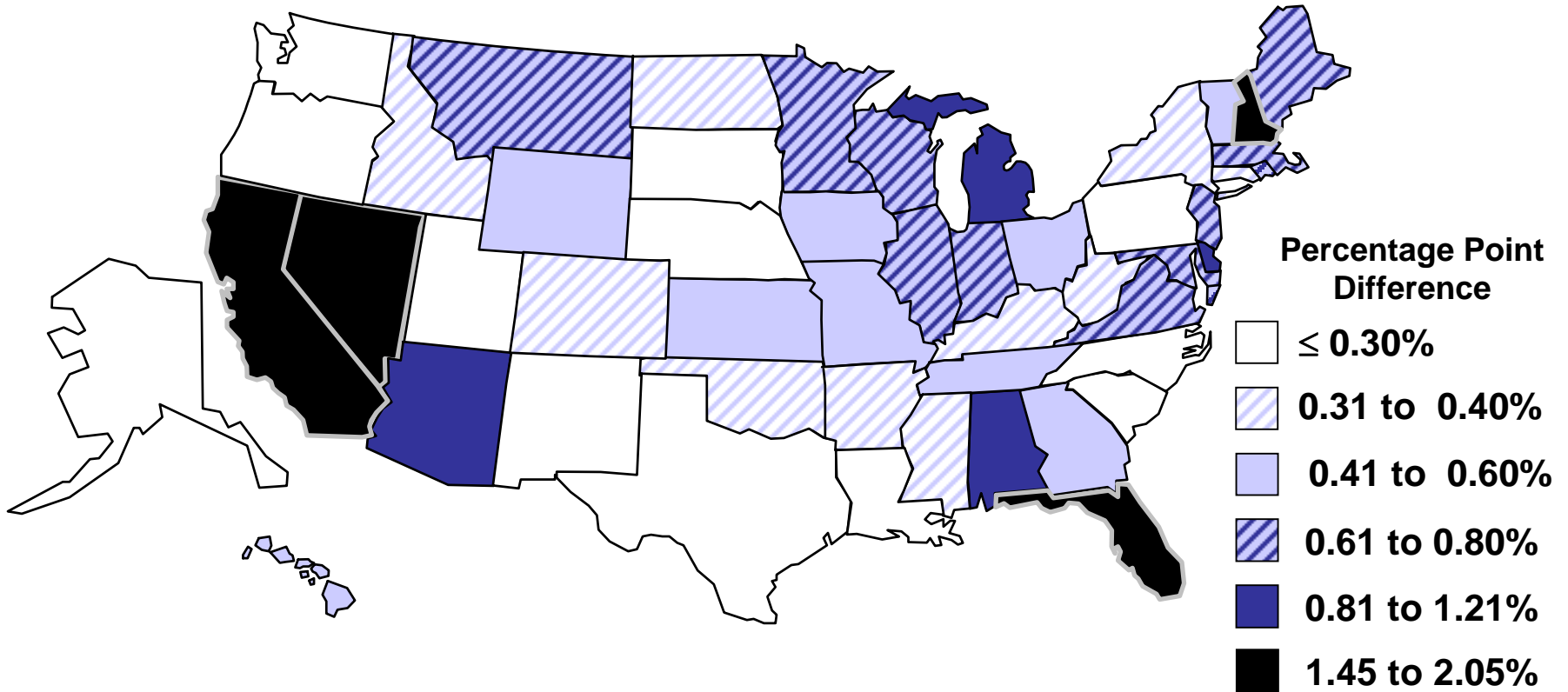


*Percent change in the non-farm payroll employment  
January 2006 through January 2007*



**National employment up 0.7%**

# Delinquency Rates Have Jumped In Markets With Flat or Falling House Values



**4Q '06 to 4Q '07 Change in Level of Serious Delinquency Rate  
(90+ days or in foreclosure, Prime Conventional Loans)**

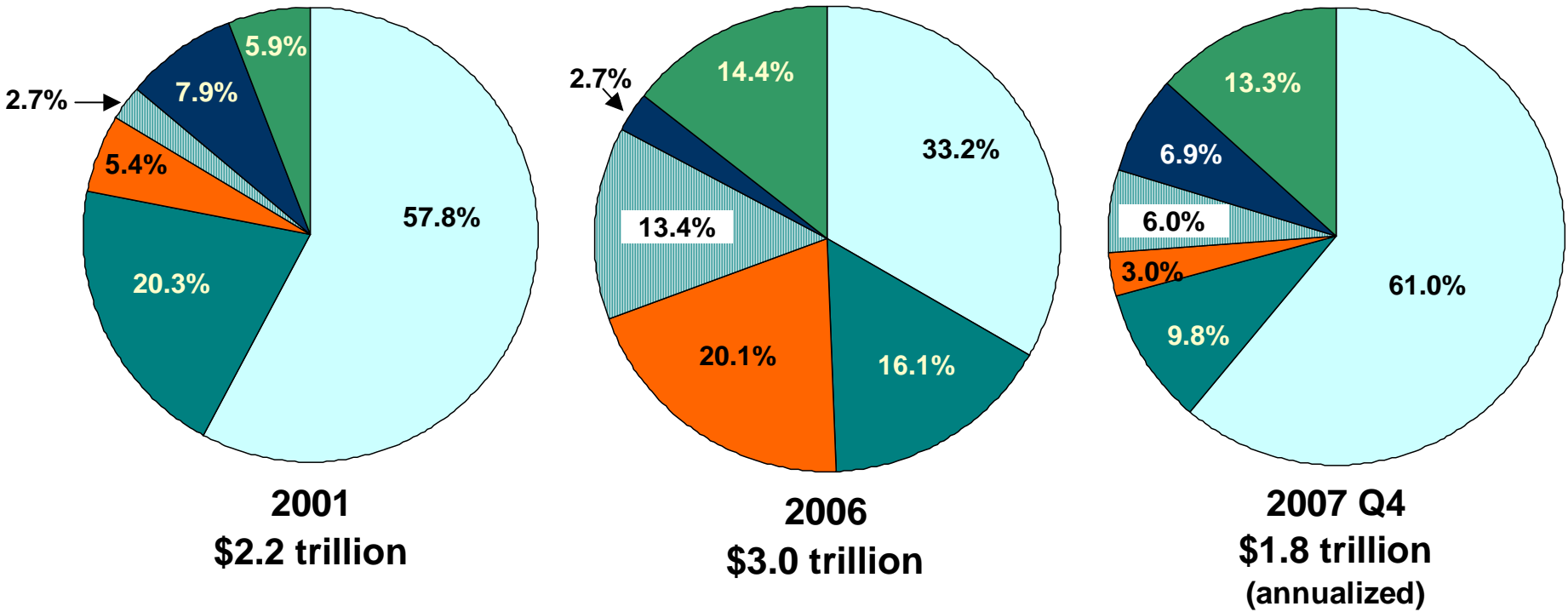
**National Average Change = 0.81%**

**Data as of December 2007**



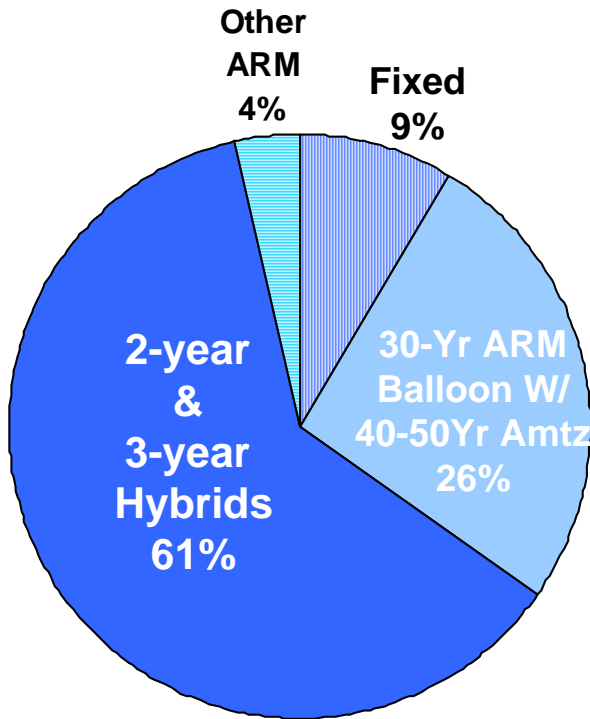
- Weak underwriting characterized subprime originations in recent years
- Early payment defaults and serious delinquencies are worse for recent vintages of subprime loans
- Subprime loans accounted for over half of foreclosures in 2006 and 2007
- About 1.5 million loans began foreclosure in 2007
- Credit problems are concentrated in economically depressed regions

# Subprime and Alt-A Shares Quadrupled Between 2001 and 2006, then Fell in 2007

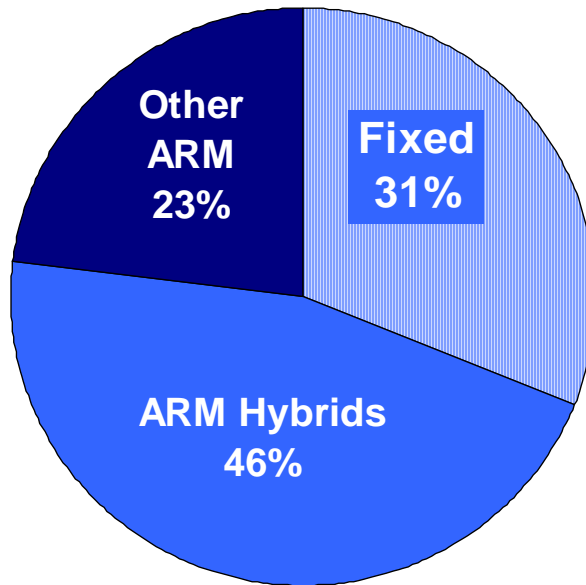


Source: Inside Mortgage Finance (by dollar amount)

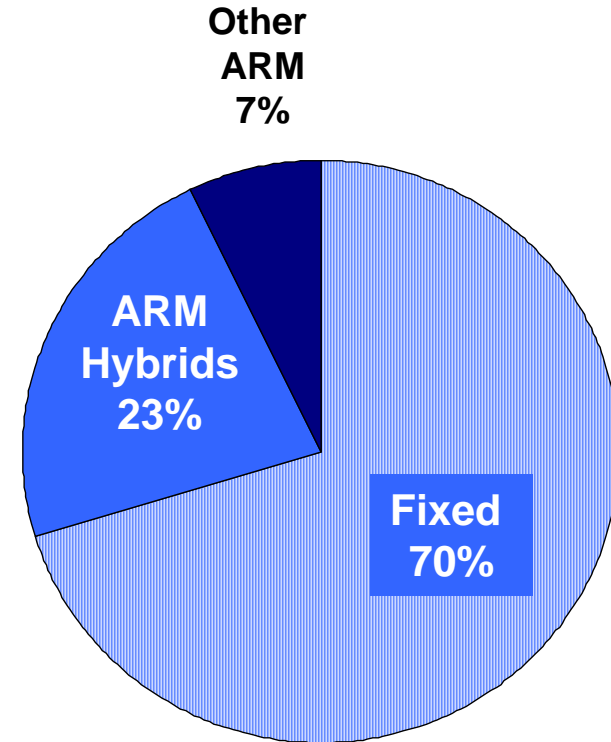
# 2/28 ARMs Dominated Subprime Home-Purchase Loan Originations in 2006



**Subprime**



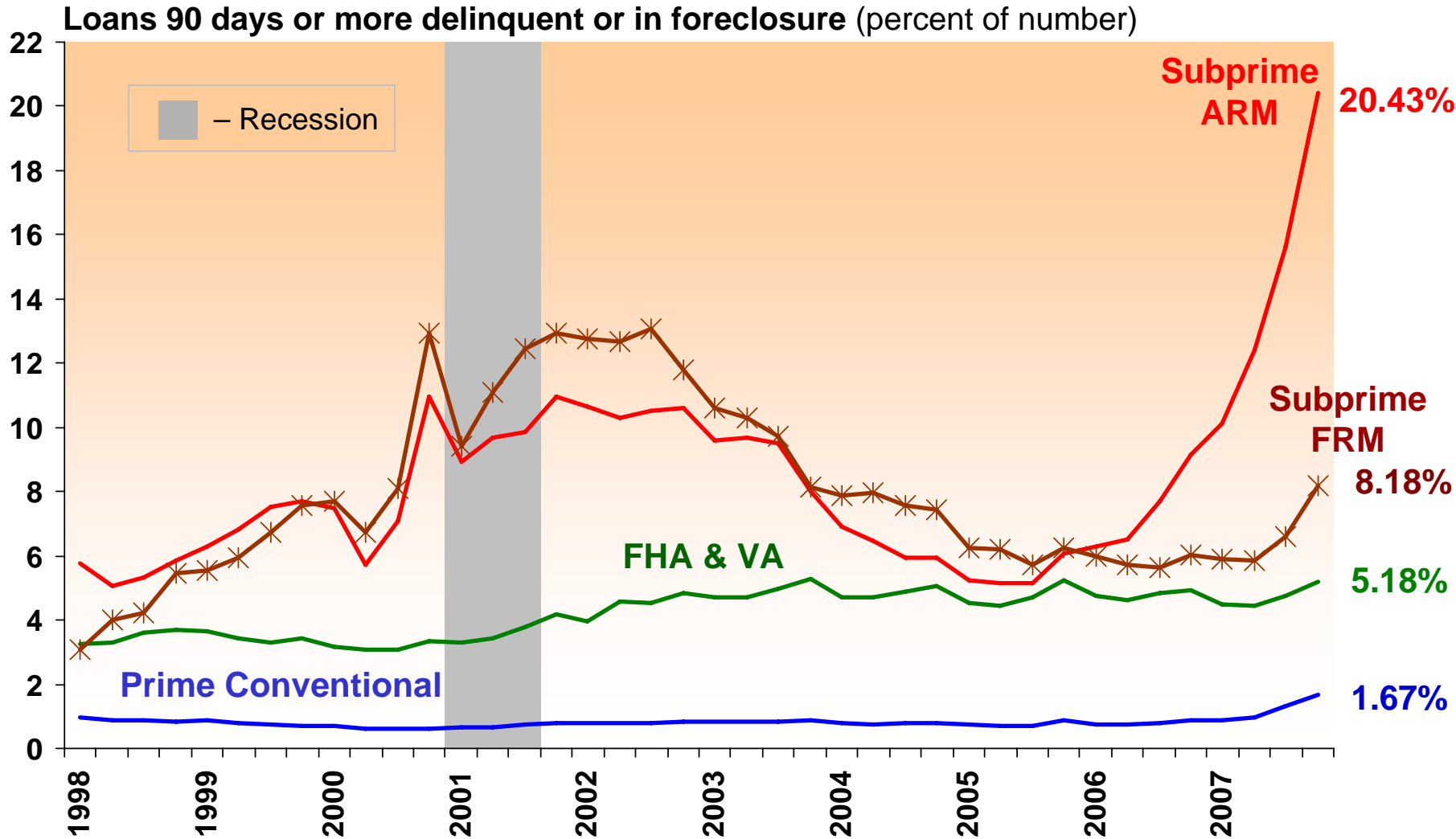
**Alt-A**



**Prime Conventional**

Source: LoanPerformance, a subsidiary of First American Real Estate Solutions, TrueStandings Securities; MIRS. First liens only; by dollar amount.

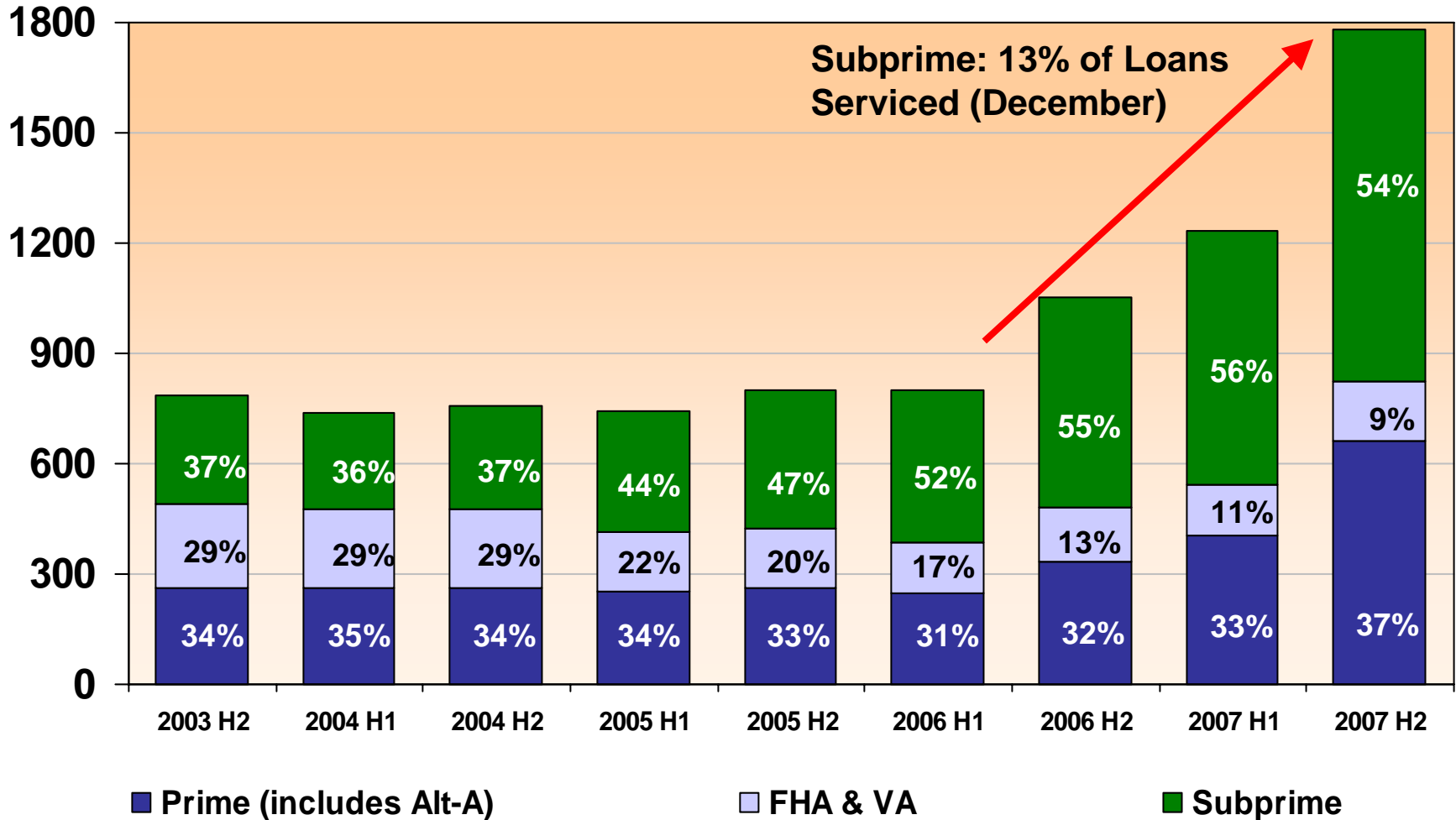
# Subprime ARM Defaults Are 12 Times Those on Prime



Source: Mortgage Bankers Association  
(Quarterly data not seasonally adjusted; 1998Q1-2007Q4)

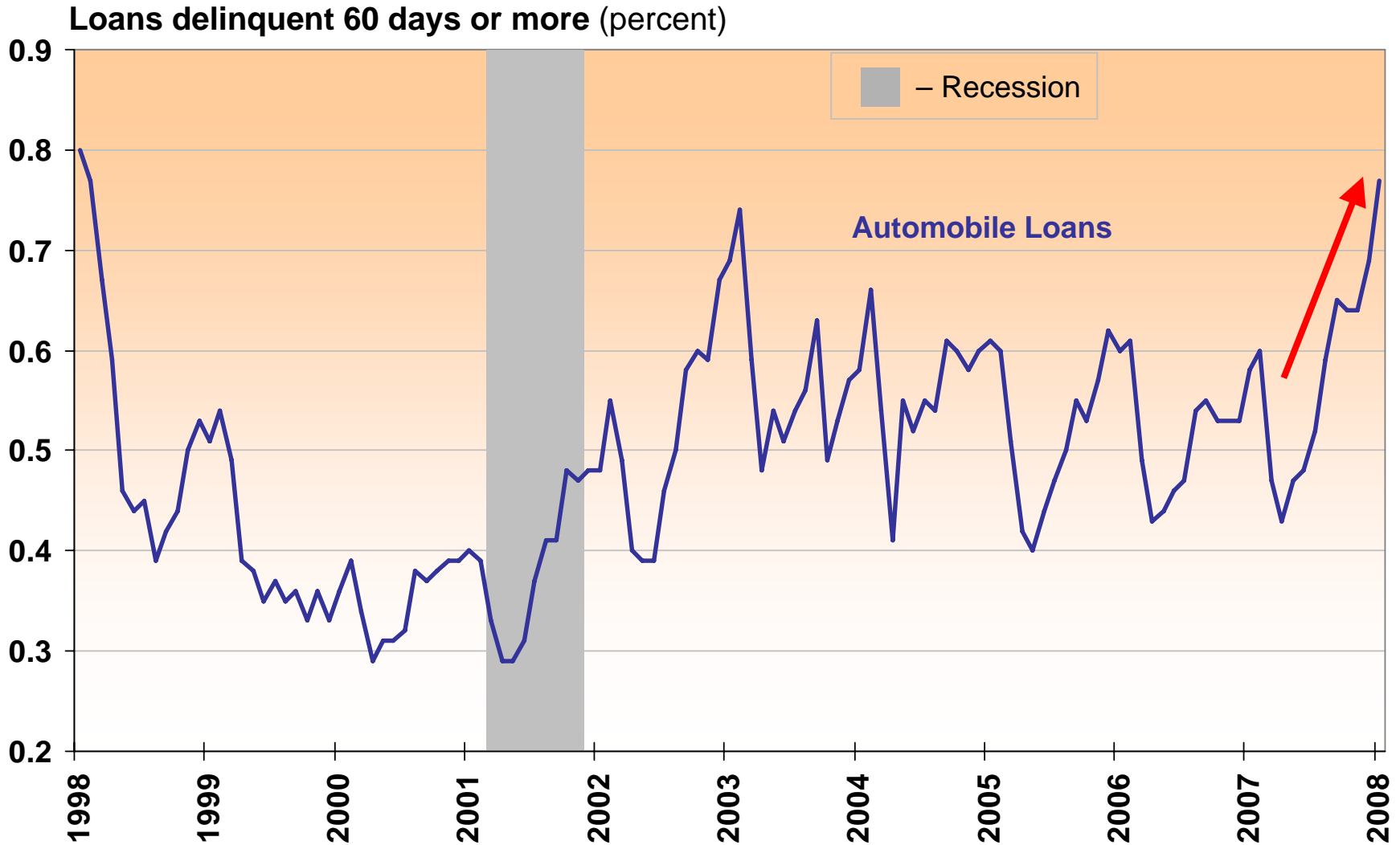
# Subprime Loans Accounted for Over Half of Foreclosures since 2006

Number of Foreclosures Started (Annualized Rate in Thousands)



Source: Mortgage Bankers Association National Delinquency Survey  
(Data as of December 2007; number expanded to reflect 85% coverage)

# Auto Loan Delinquencies Have Spiked Up



- **1-in-2 chance of recession in 2008**
  - Weak economic growth first half, better second half, 1.9% for year
  - Unemployment rate up, averages 5.2% in 2008
  - Less housing starts, sales in 2008; house values down
- **Credit quality has deteriorated**
  - New foreclosures will increase above last year's 1.5 million pace
  - Banks have tightened underwriting on both prime and subprime
  - Price of credit risk is up



# Where to Get More Information

Look for regular updates to our economic forecast,  
commentary and data at  
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Contact us at [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com)

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