Housing and Mortgage Market Update

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Home Buyer Affordability High; National Price Indexes Bottom-Out in 2012

- Low mortgage rates support gradual housing pick-up
  - 30-year Fixed-Rate Mortgages stay below 4.0% through 2013
  - Home buyer affordability supports home sales, up about 8% in 2012 and 2013
  - Consumer confidence, high unemployment are headwinds

- U.S. house price indexes up this spring
  - Oversupply of vacant homes has dropped, less downward price pressure
  - U.S. indexes will bottomed in 2012 (seasonally adjusted)
  - Local markets with excess supply will have prices bottom after 2012
  - Rents are up, as are apartment building values

- Mortgage defaults lessen but remain high
  - Unemployment main trigger event for delinquency
  - House price declines add to foreclosure risk
  - Serious delinquency rates have declined since peak at start of 2010
  - Subprime, Alt-A and Option ARMs drive foreclosures
Low Interest Rates & Lower Home Prices Have Increased Homebuyer Affordability

Sources: 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 November 2012 Outlook.
At this Stage of the Recovery, Consumer Confidence is Lower than in Previous Expansions

Note: Data are bimonthly through May 1972; missing months’ data between February 1969 and May 1972 interpolated by Freddie Mac.

Sources: The Conference Board, Freddie Mac
Home Sales Projected Up About 8% in 2012, 2013

Peak-to-September 2012:
- Existing Down 34%
- New Down 72%

Sources: US Census Bureau, National Association of Realtors®
Office of the Chief Economist
Vacant Housing Oversupply is Lowest in 10 Years

Source: Freddie Mac calculations using U.S. Census Bureau data. Negative values reflect undersupply. The under/oversupply of vacant housing was estimated based on the average vacancy rate from 1994Q1 to 2003Q4.
U.S. House Prices Down 22% from Peak to 2003 Levels

Source: Freddie Mac House Price Index

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Annual House Price Performance By State: Prices Up in 44 States (September 2011 to September 2012)

United States 4%

Note: The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac’s single-family credit guaranteed portfolio.

Source: Freddie Mac House Price Index
Vacancy Drop Since 2010 Has Led to Rent Growth; Inflation-Adjusted Rent Remains Relatively Low

Sources: Axiometrics (U.S. Derived “same store” Effective Rent, Vacancy = 100% Less Current Period Occupancy Rate), Bureau of Labor and Statistics (CPI-Less shelter–quarter average, NSA)
Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

<table>
<thead>
<tr>
<th>Hardship Reason</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unemployment or curtailment of income</td>
<td>55.3%</td>
</tr>
<tr>
<td>Excessive obligation</td>
<td>21.4%</td>
</tr>
<tr>
<td>Illness or death in the family</td>
<td>7.9%</td>
</tr>
<tr>
<td>Marital difficulties</td>
<td>3.7%</td>
</tr>
<tr>
<td>Inability to sell or rent property</td>
<td>1.9%</td>
</tr>
<tr>
<td>Employment transfer or military</td>
<td>1.1%</td>
</tr>
<tr>
<td>Property problem or casualty loss</td>
<td>0.4%</td>
</tr>
<tr>
<td>Extreme hardship</td>
<td>0.1%</td>
</tr>
<tr>
<td>All other reasons</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

Source: Freddie Mac; data cover only prime conventional conforming loans. Data through December 31, 2010.
U.S. Unemployment Remains High: 7.9% (Oct.)

Unemployment Rate (Percent)

Sources: U.S. Department of Labor, Federal Reserve (Central Tendency projection midpoint of Federal Reserve Governors and Reserve Bank presidents as of September 2012 for fourth quarter of 2013 and 2014; 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)

Sources: National Bureau of Economic Research, Mortgage Bankers Association (Prime Conventional includes Alt-A).

Office of the Chief Economist
Serious Delinquencies Have Begun to Lessen, but Remain Very High

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

Sources: Mortgage Bankers Association (Quarterly data not seasonally adjusted; 1998Q1-2012Q3); Freddie Mac.
Making Home Affordable (MHA) Benefits

- **Home Affordable Modification Program (HAMP)**
  - About 1.1 million permanent modifications started through Sept. in U.S.
  - Monthly payment reduced to 31% of monthly income

- **Home Affordable Refinance Program (HARP)**
  - Current loans owned by Freddie Mac or Fannie Mae, market LTV>80%
  - About 1.7 million over-80% LTV refinanced through Sept. in U.S.
  - Streamline refinance will help families lower monthly payment

- **MHA reduces number of distressed sales**
  - Keeping families in homes is the long-term priority
  - About 2.8 million U.S. families have benefited thru HAMP or HARP (about 5.5% of all borrowers)
Where to Get More Information

Look for regular updates to our economic forecast, commentary and data at

Contact us at chief_economist@freddiemac.com

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