



# Housing and Mortgage Market Update

## **E.V. Williams Center for Real Estate and Economic Development**

Norfolk, VA  
June 2, 2009

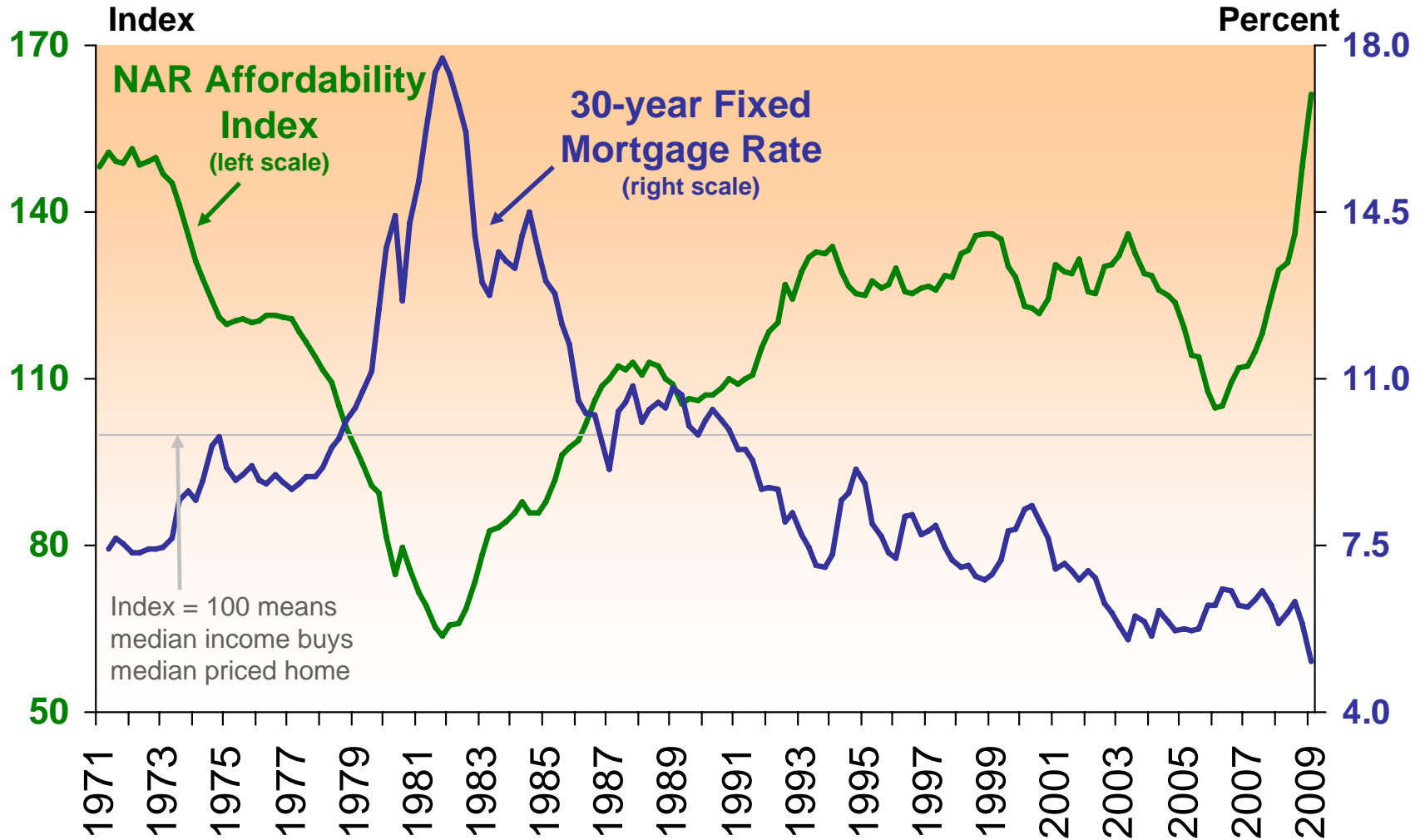
Frank E. Nothaft  
Chief Economist

# Housing Contraction Ongoing, Mortgage Defaults Rising

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- **Housing activity low**
  - Single-family construction is lowest since 1945
  - Sales are near bottom; about a third are foreclosure sales
  - U.S. house price measures will likely decline through 2010
- **Low mortgage rates promote loan demand**
  - Less purchase-money because of lower house prices, fewer sales
  - Refis account for 75% of applications over past five months
  - FHA volume up sharply
  - Refi volume pushes 2009 originations above last year
- **Mortgage defaults rise**
  - Unemployment main trigger event for delinquency
  - 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

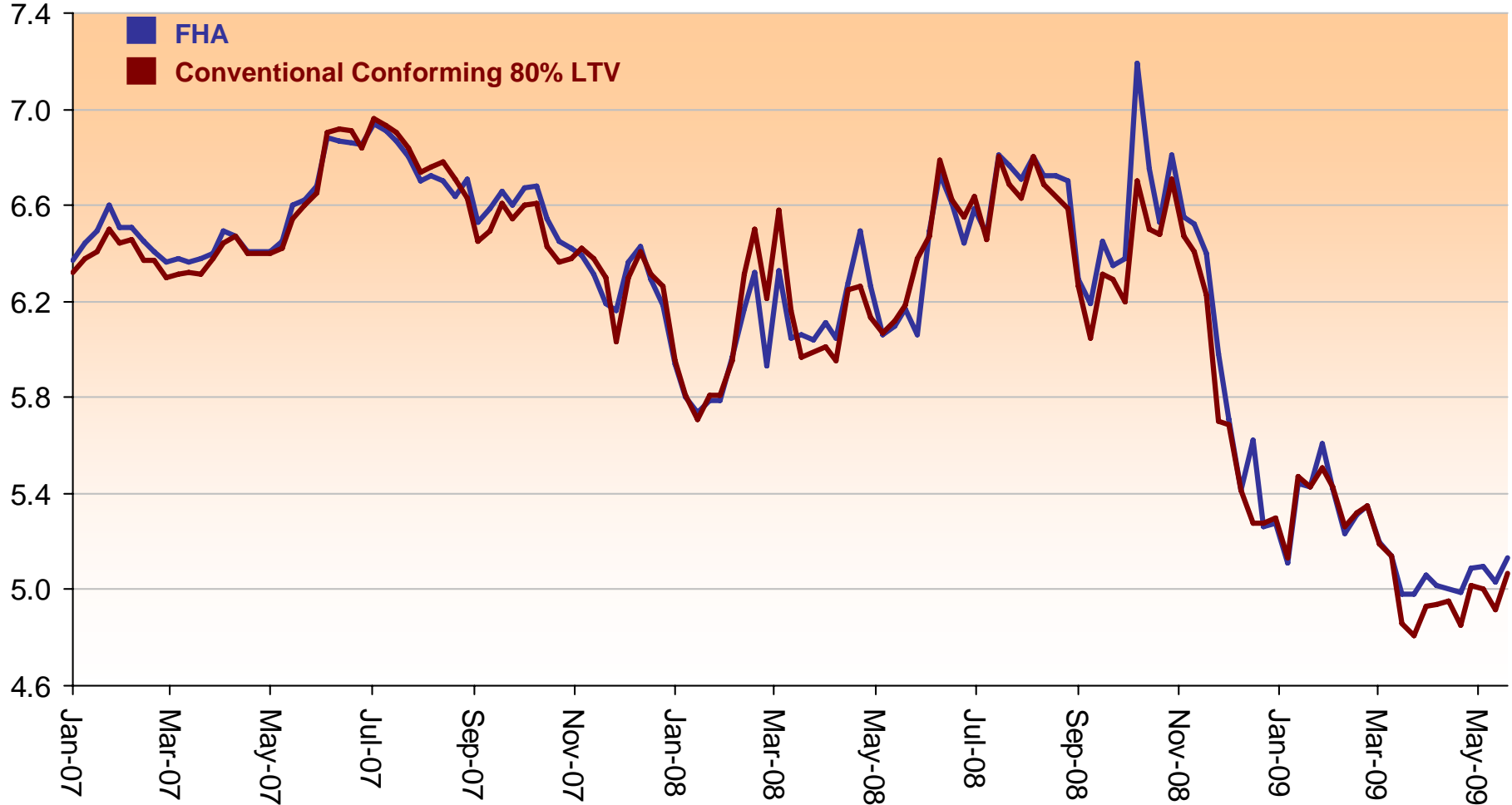
# Low Interest Rates and Falling Home Prices Have Increased Housing Affordability



Source: National Association of Realtors Composite Housing Affordability Index – (% of median priced home affordable on median income with conventional mortgage and 20% down); Freddie Mac Primary Mortgage Market Survey®

# Conventional and FHA Mortgage Rates Have Dropped 2% Since October

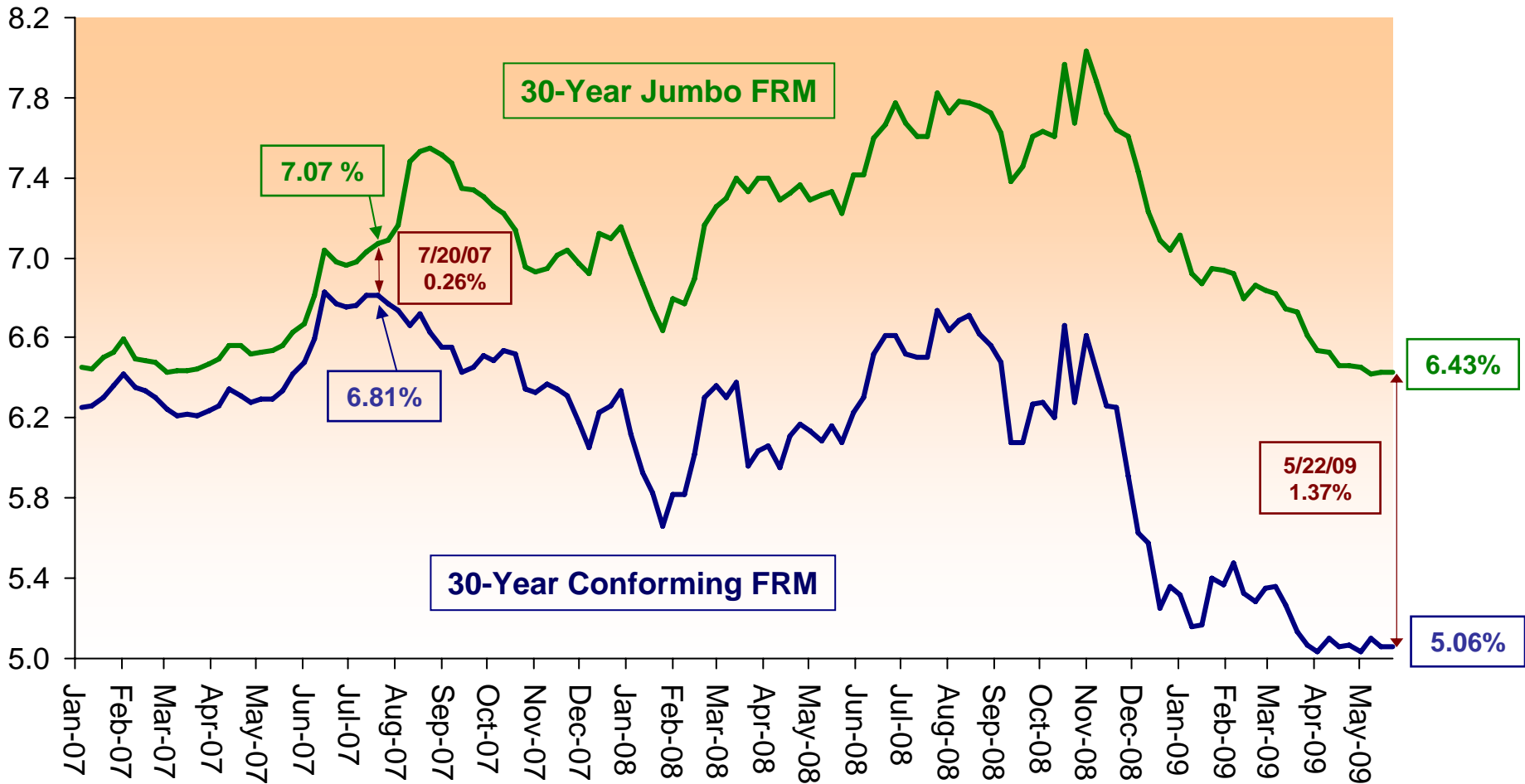
Effective Interest Rates on 30-Year Fixed-Rate Mortgages (Percent)



Source: Mortgage Bankers Association (last data: week ending April 24, 2009)

# Difference Between 30-Year Fixed Jumbo and Conforming Rates Is at Record Levels

Effective Interest Rate on 30-Year Fixed-Rate Conventional Mortgages (Percentage Points)

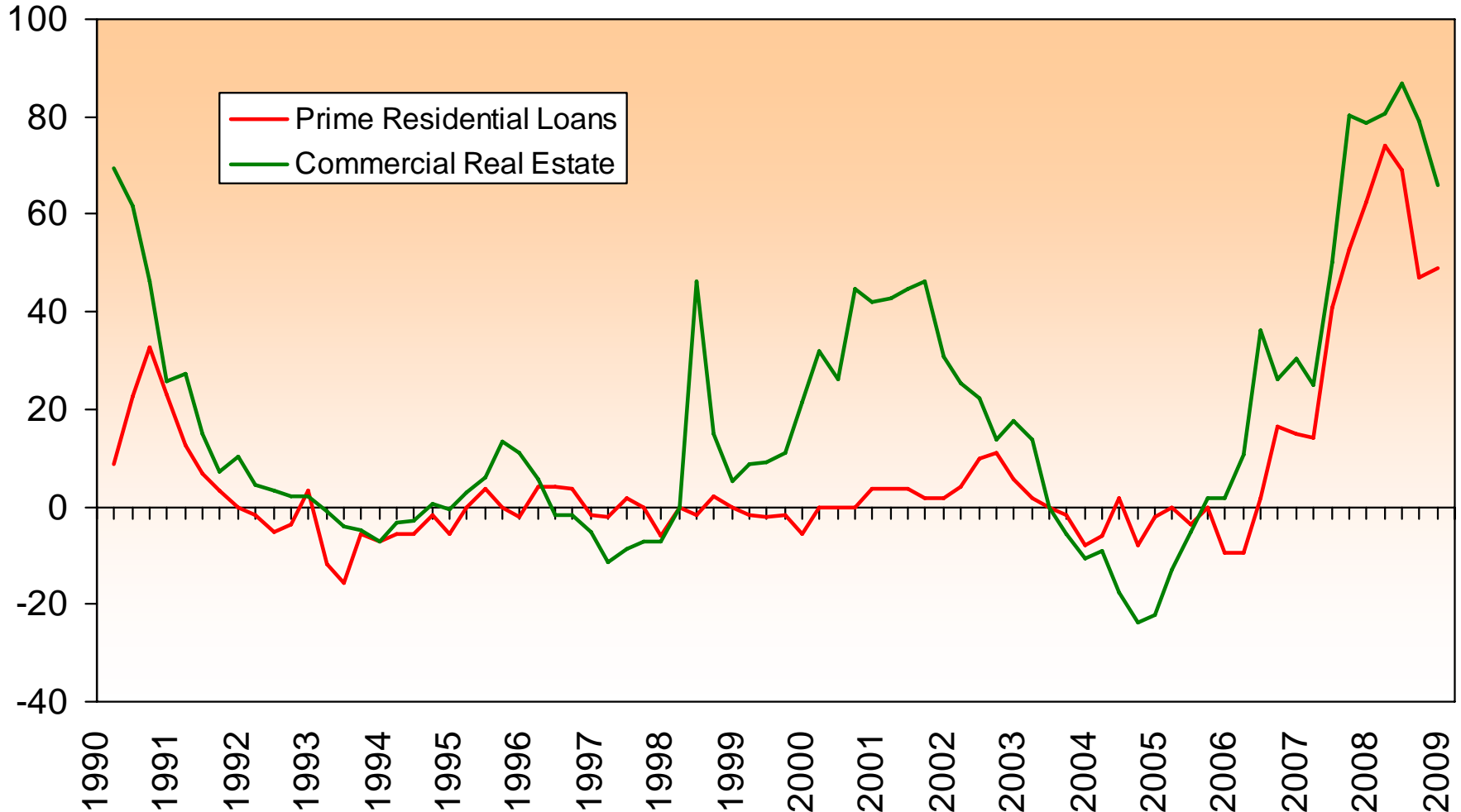


Source: HSH Associates (last data: week ending April 17, 2009)

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

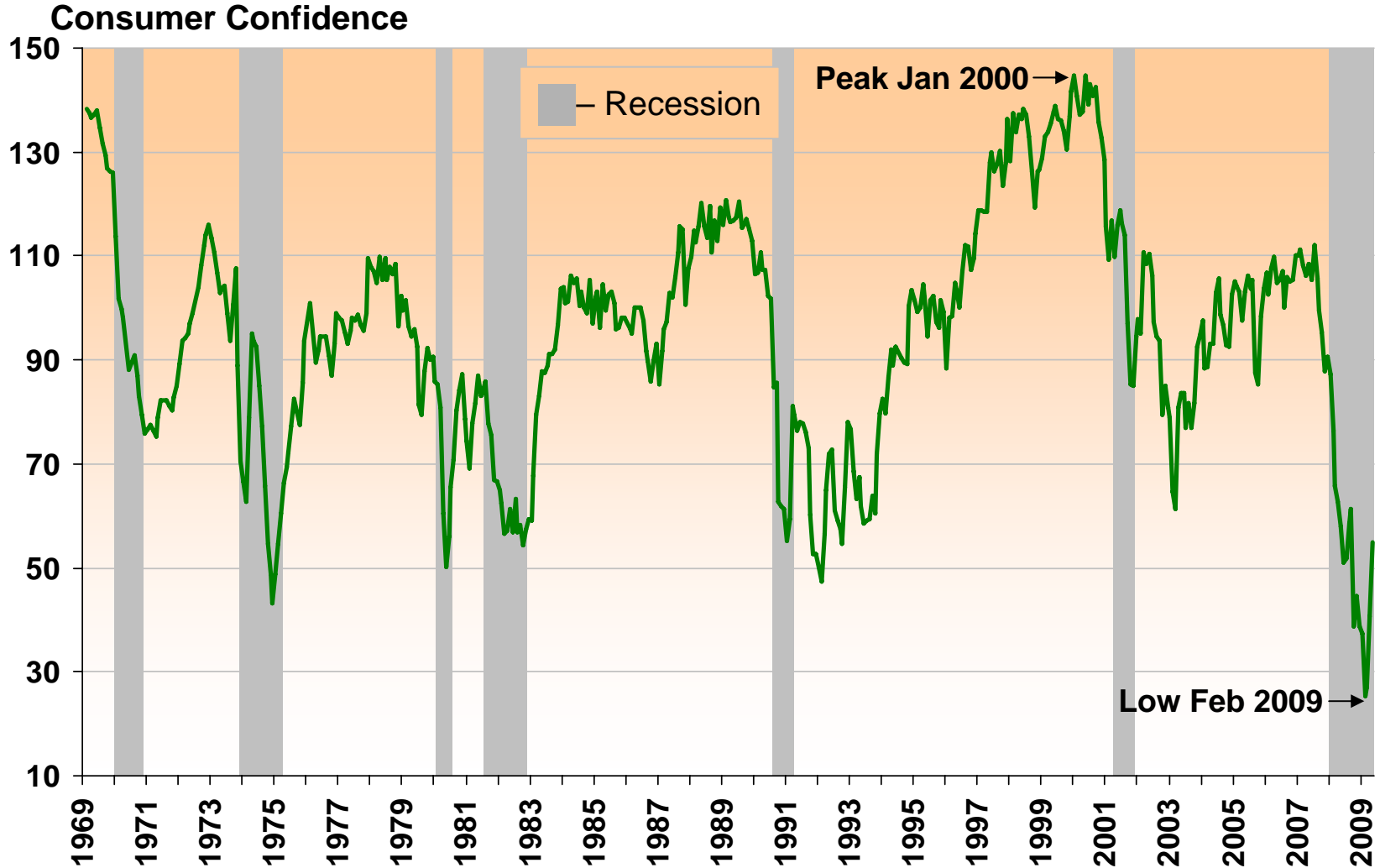
# Banks Are Tightening Lending Standards Across All Lines of Business

Net Percentage of Banks Tightening Credit Standards During Three Previous Months



Source: Federal Reserve Board's Senior Loan Officer Survey (all residential loans through 2007Q1, prime residential starting 2007Q2); last update: May 4, 2009

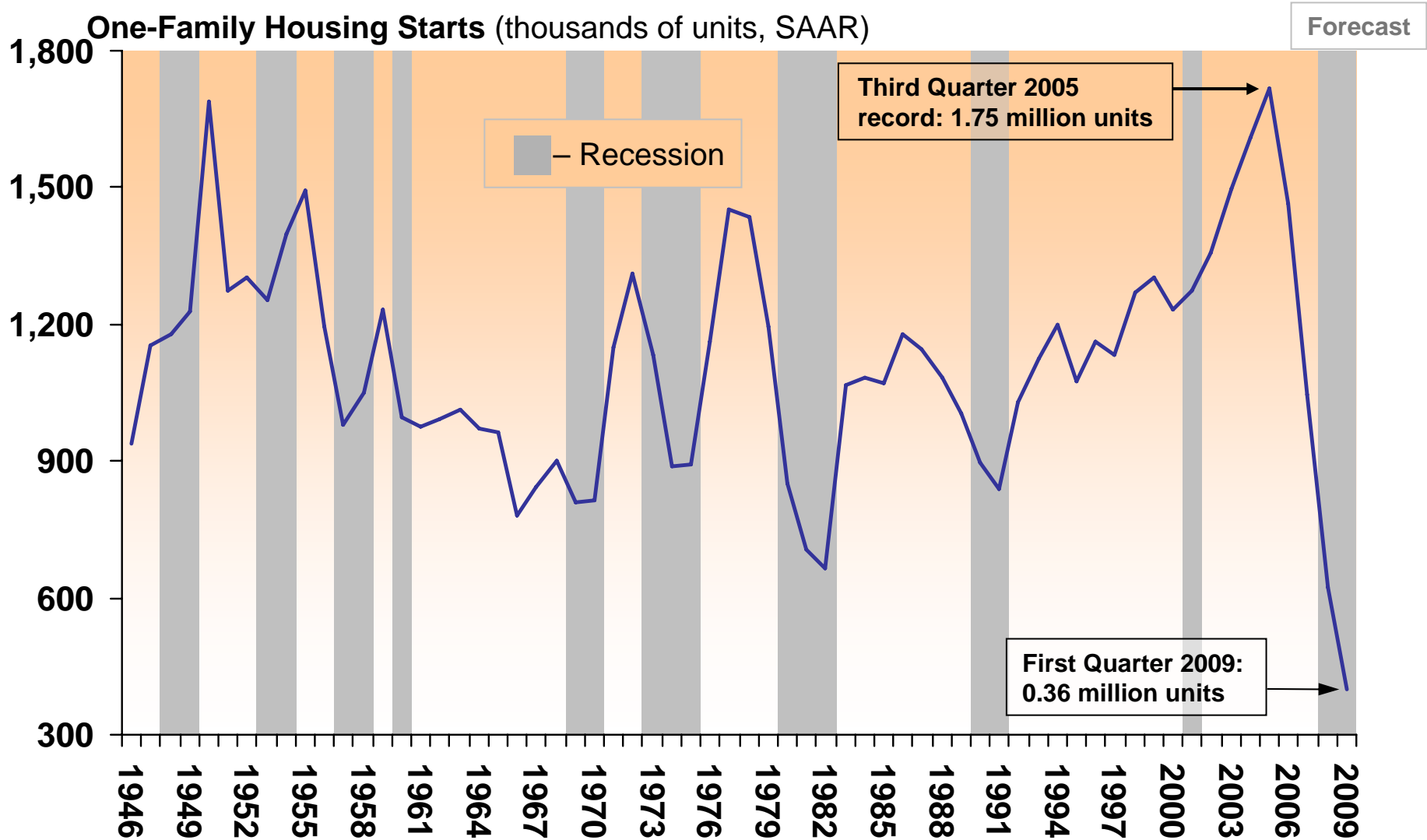
# Consumer Confidence Fell in February to An All-Time Low



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

# Single-family Building Hit a Record in 2005, but Has Fallen to Lowest Level Since 1945



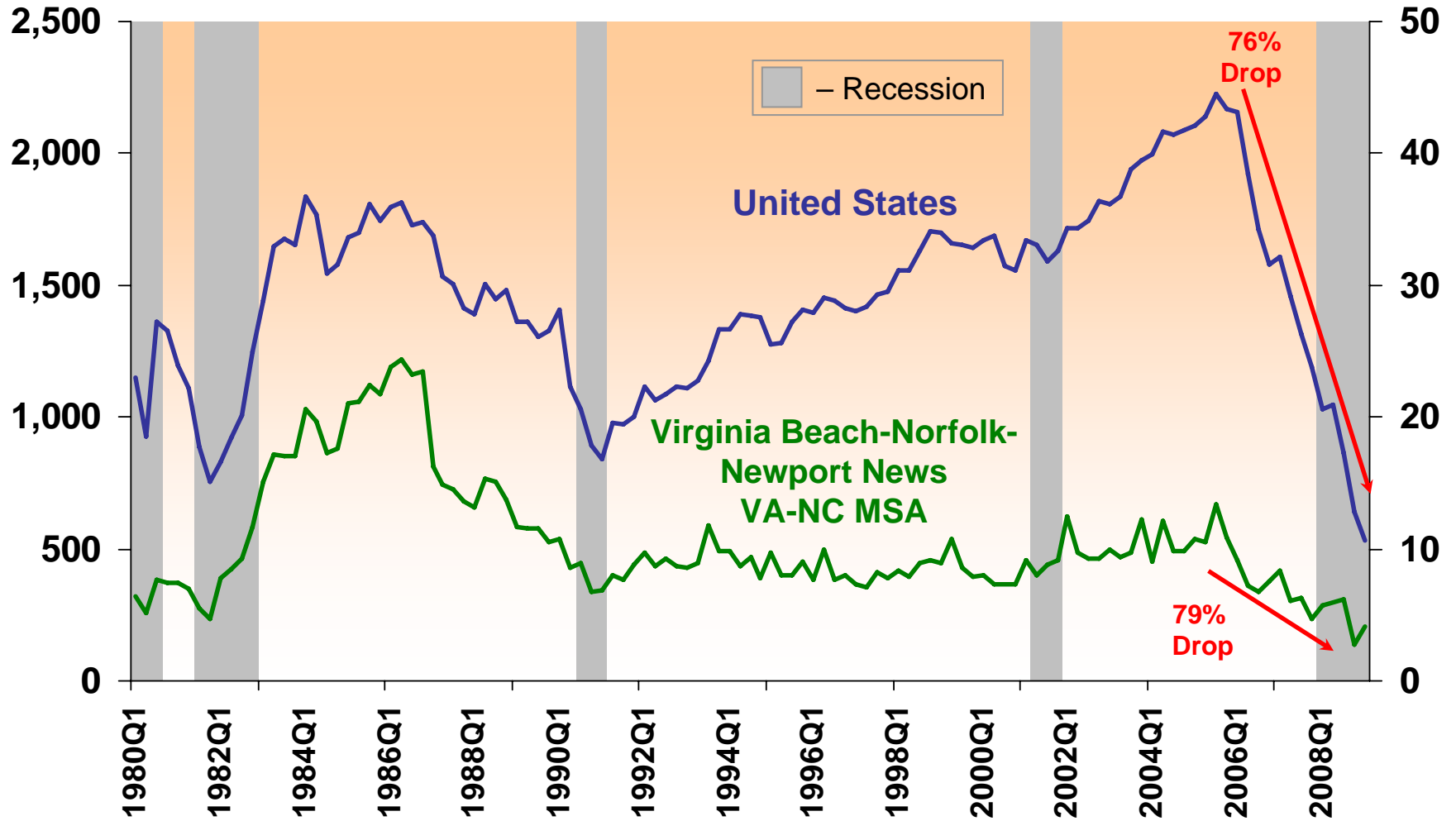
Sources: Bureau of Census (SAAR), Freddie Mac

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# Building Permits Have Dropped in U.S. Over Last 3½ Years

Housing Permits U.S. (Thousands)

Housing Permits Norfolk (Thousands)

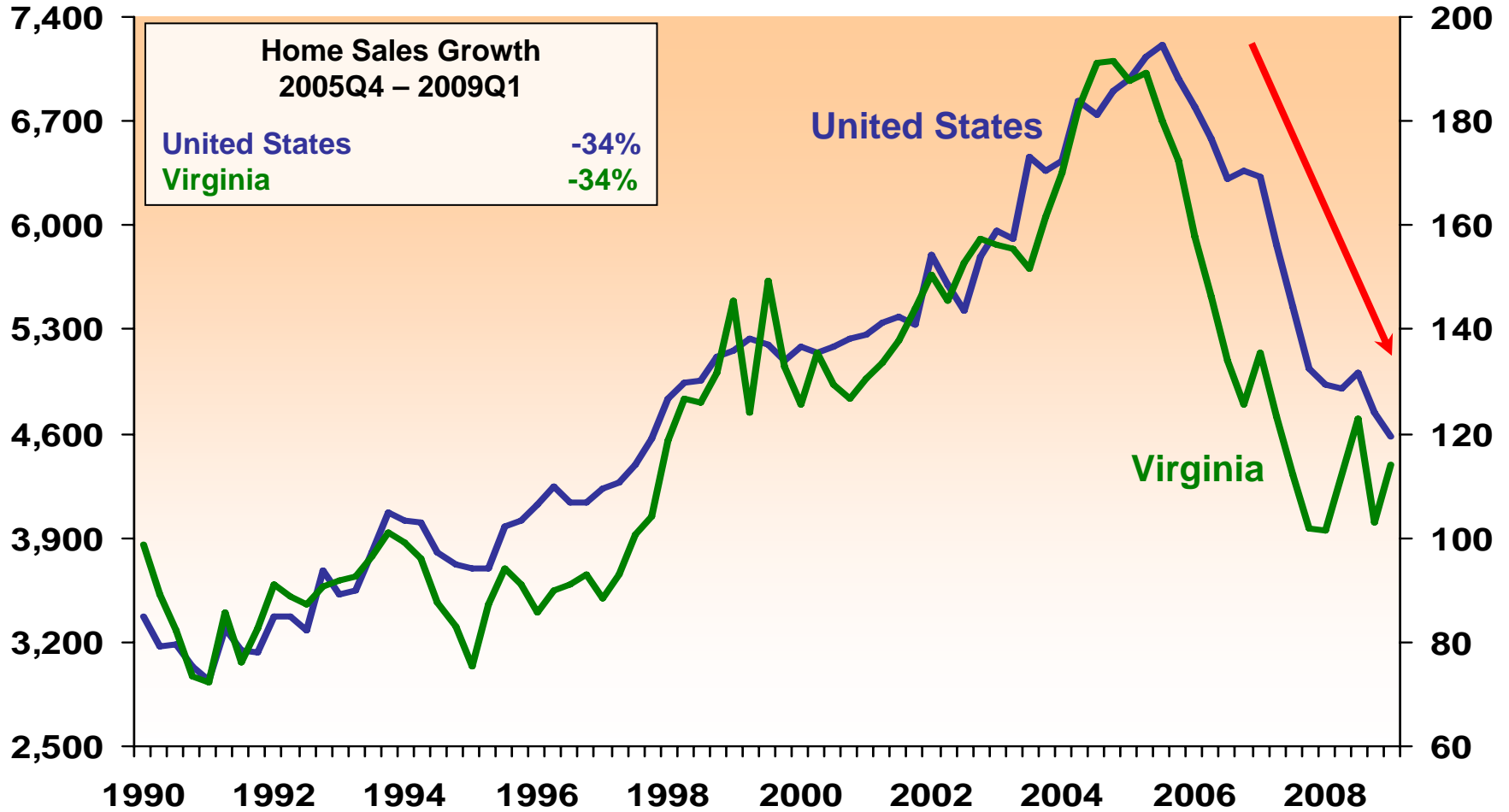


Source: Moody's Economy.com, Bureau of Census

# Existing Home Sales Down a Third in U.S. and Virginia during the Last Three Years

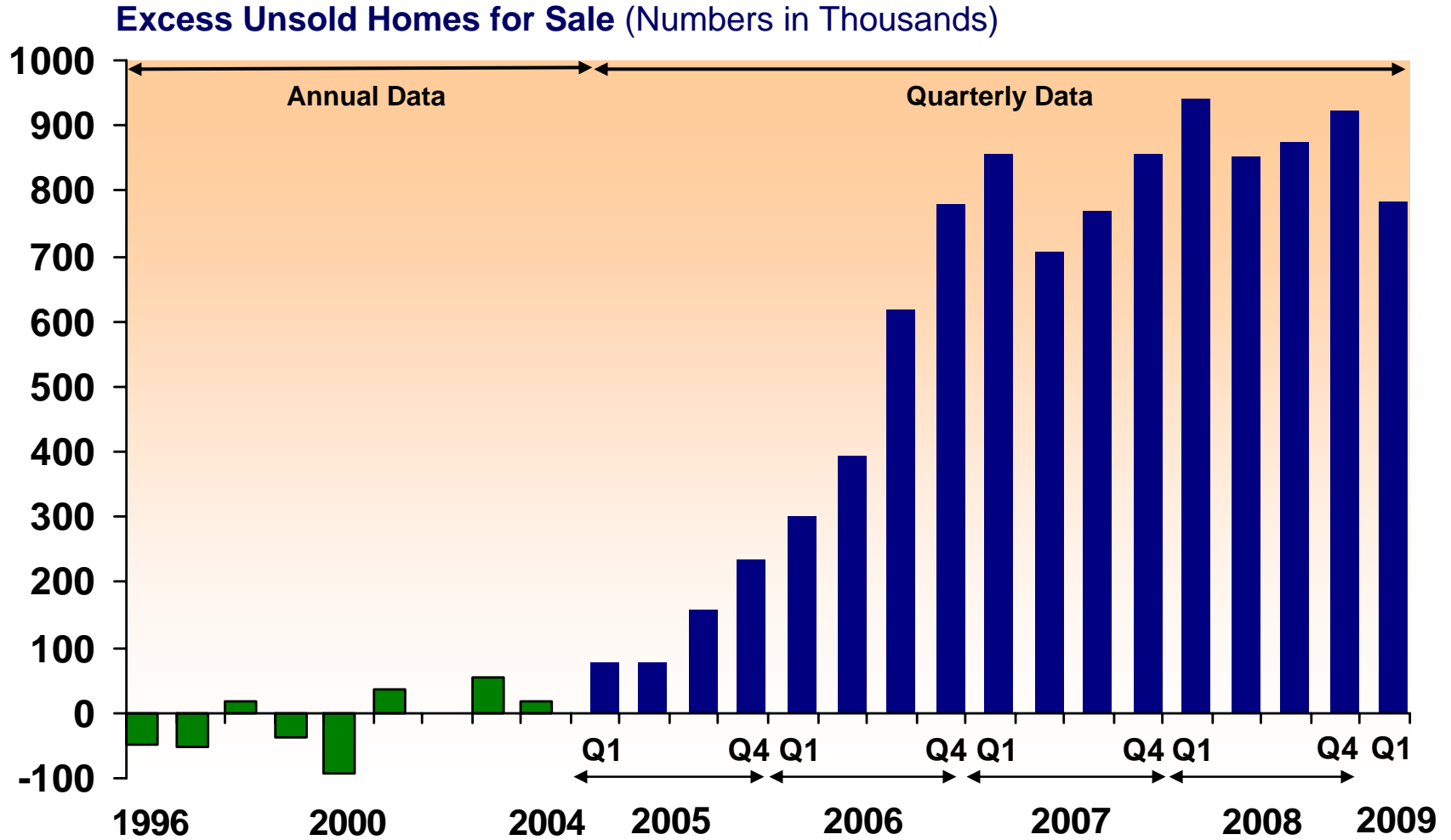
U.S. Existing Home Sales (Thousands)

Virginia Existing Home Sales (Thousands)



Source: National Association of Realtors  
(Existing Single-Family Houses, Apartment Condos & Co-ops)

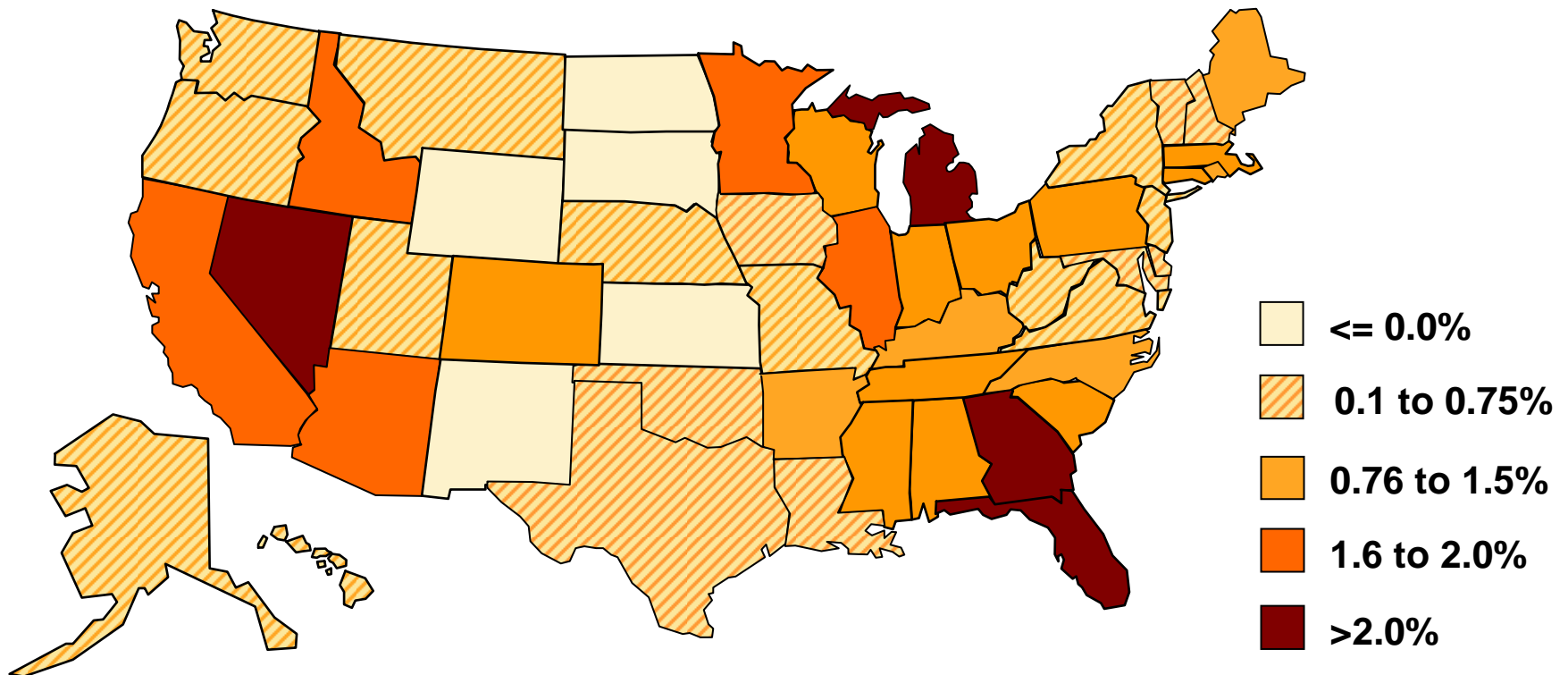
# Large Inventory Surplus Remains in Market



Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2009Q1: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

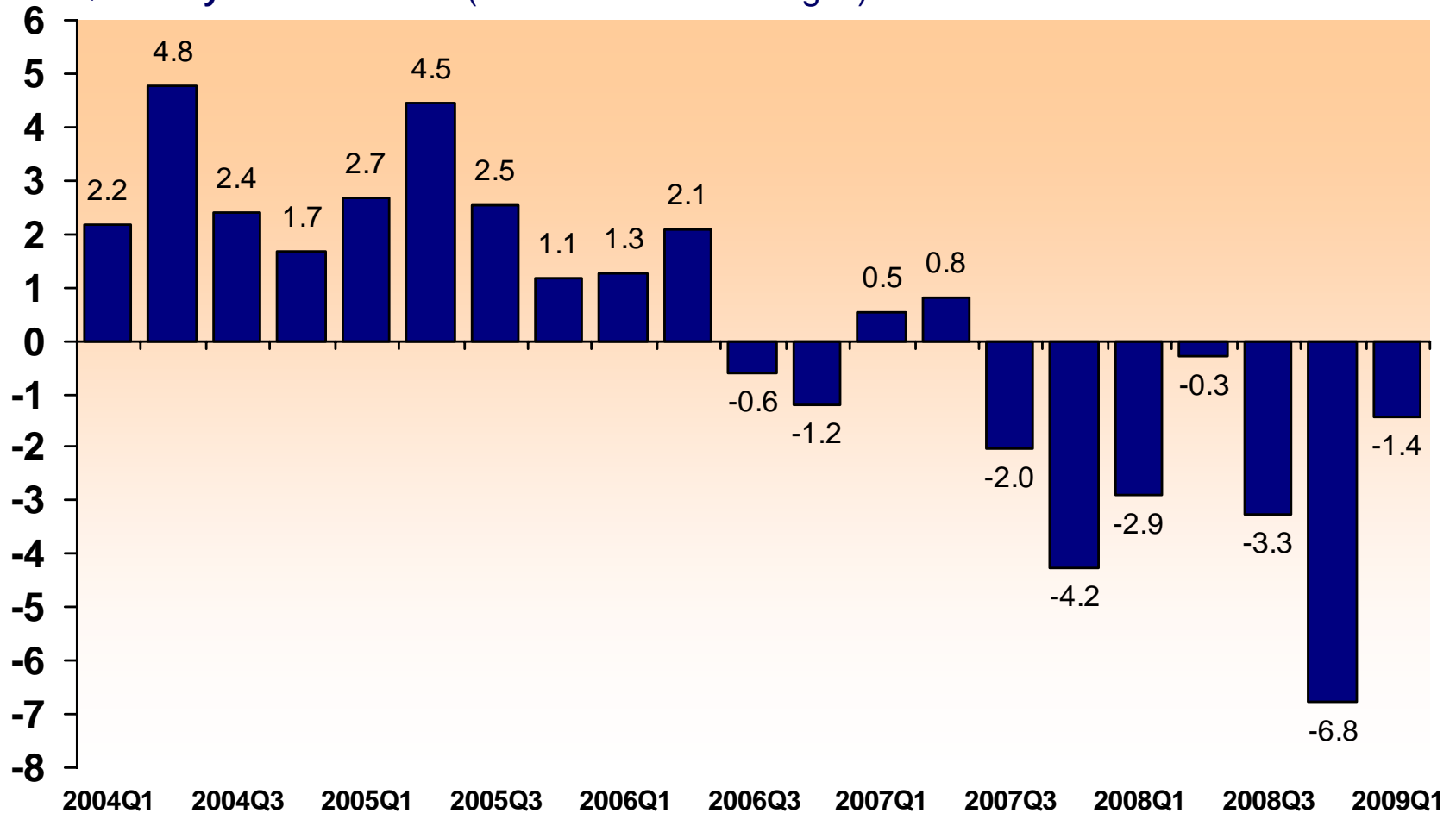
Estimated overhang of vacant-for-sale homes as a percent of state homeowner dwellings



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).

# National House Prices Have Experienced a Cumulative Decline of 20% Since June 2006

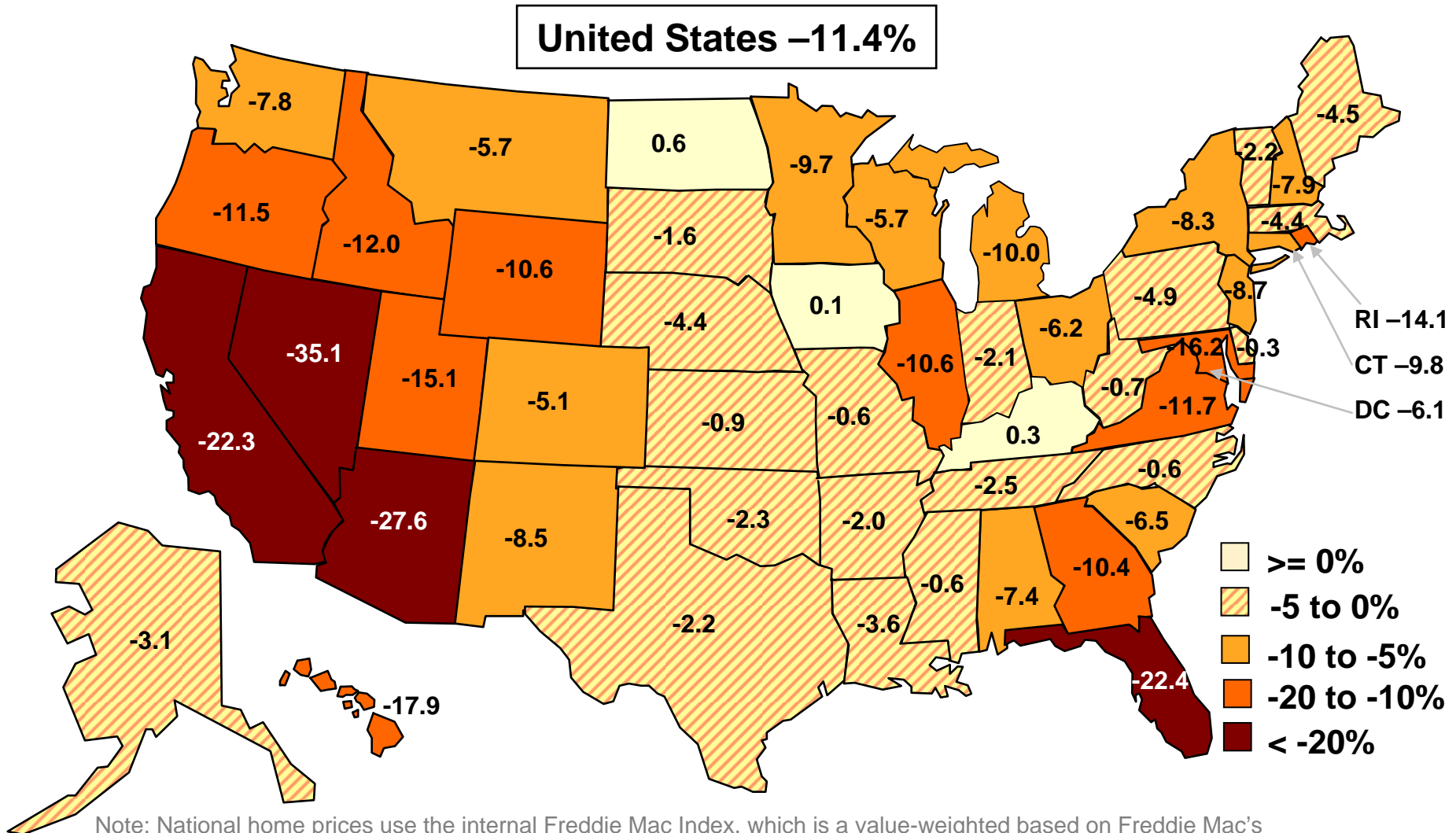
Quarterly Growth Rates (Numbers in Percentages)



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.

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# House Price Declines Were Broad Based from March 2008 to March 2009



Note: National home prices use the internal Freddie Mac Index, which is a value-weighted based on Freddie Mac's single-family portfolio. State indexes are monthly series; annual growth rates are calculated as a 12-month change.

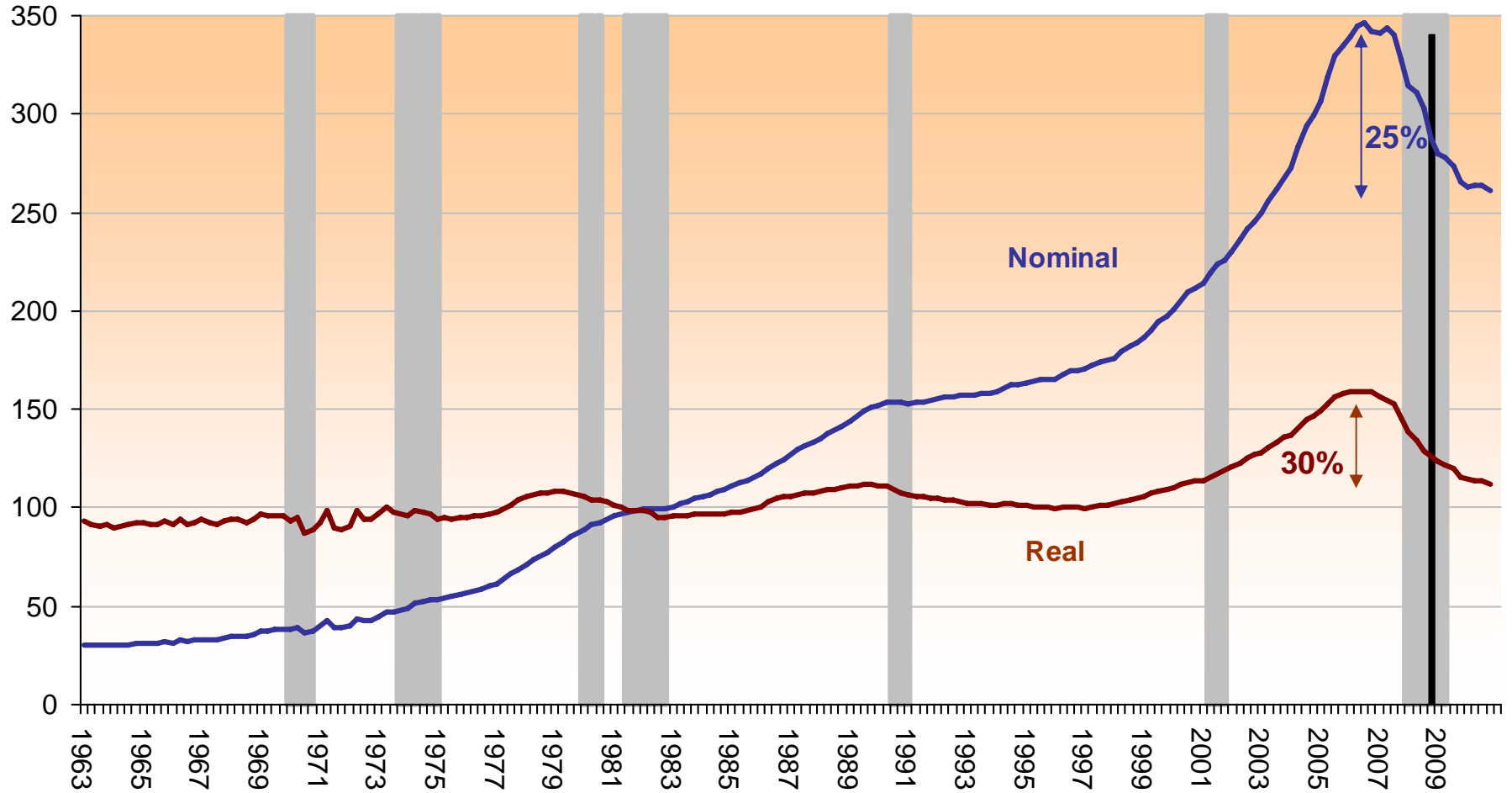
Source: Freddie Mac

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# Expected Peak-to-2010Q4 Decline in US House Prices Is 25% Nominal, 30% Real

## U.S. House Price Index

Forecast



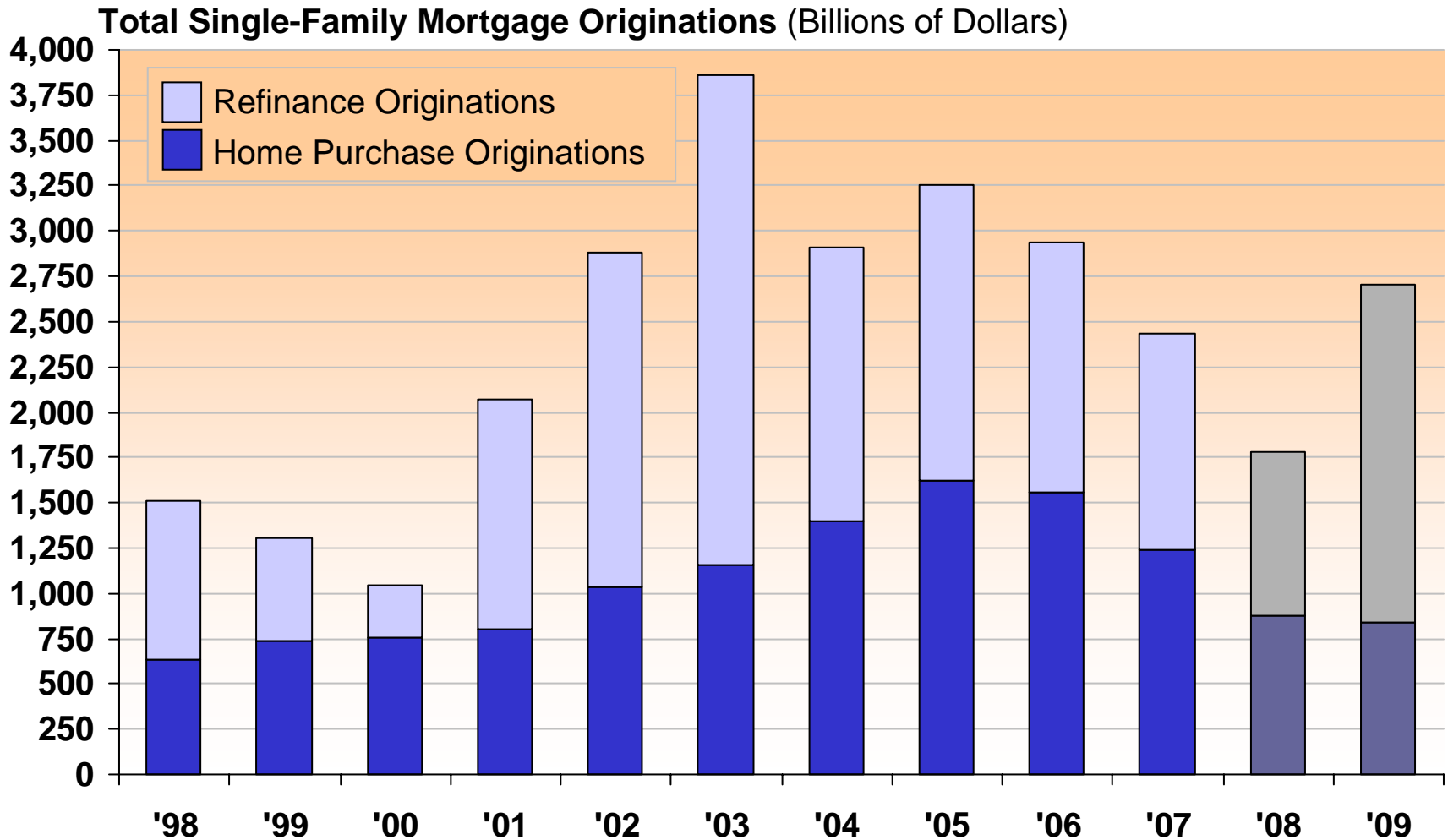
Sources: Nominal House Prices - Census Bureau's Constant Quality New-House Purchase Index (1963-1969), Freddie Mac's Conventional Home Price Purchase-Only Index (1970-1974), portfolio-weighted WRSI index and forecast (1975-2010); Consumer Price Index - U.S. Bureau of Labor Statistic's Consumer Price Index (1963-2008) and February 2009 Blue Chip Forecasts (2009-2010).

# Past Financial Crises Have Had Substantial Value and Output Declines

	Peak-to-Trough Change (%)	Length of Time (Average)
Real House Price	-35%	5 years
Stock Market Values	-56%	3-4 years
Unemployment Rate	7%	5 years

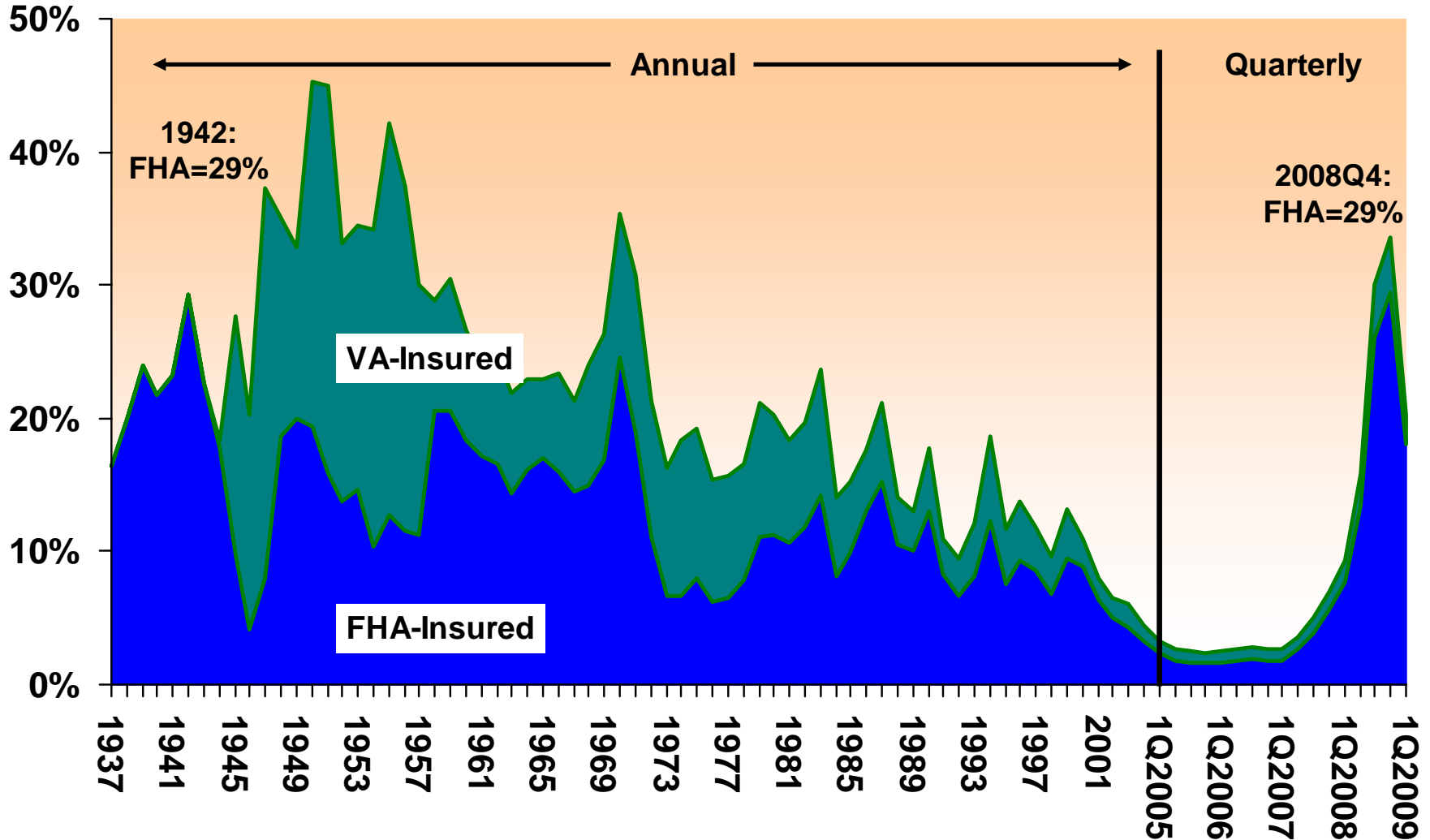
**As of March 2009, U.S. Real House Prices are down about 25% from peak of June 2006**

# Low Rates, GSE Streamline Refis Result in Origination Rebound in 2009



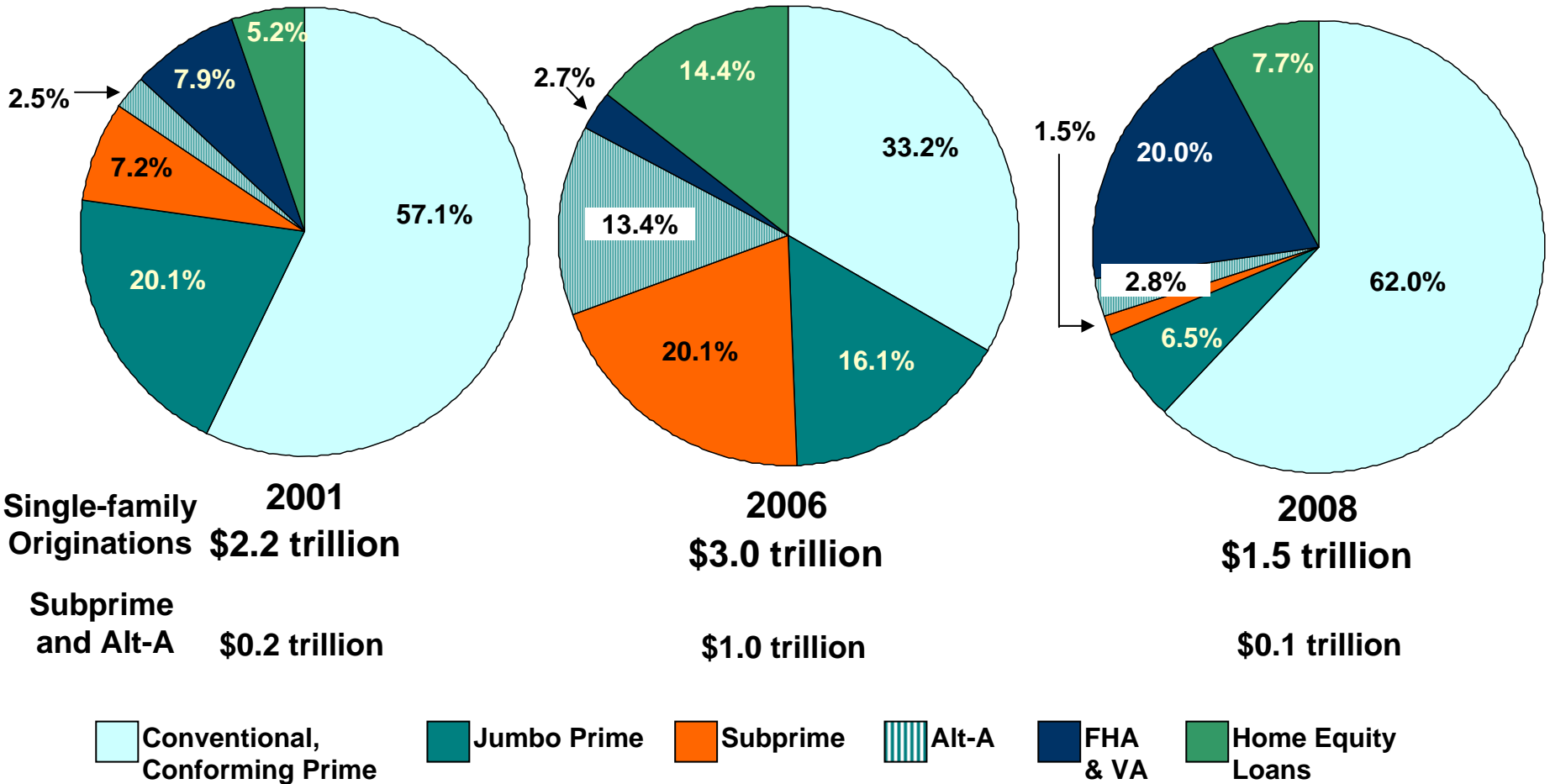
# FHA Lending Is Up Sharply: Fourth Quarter of 2008 Had Largest Origination Share Since 1942

Share of Single-Family Originations



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

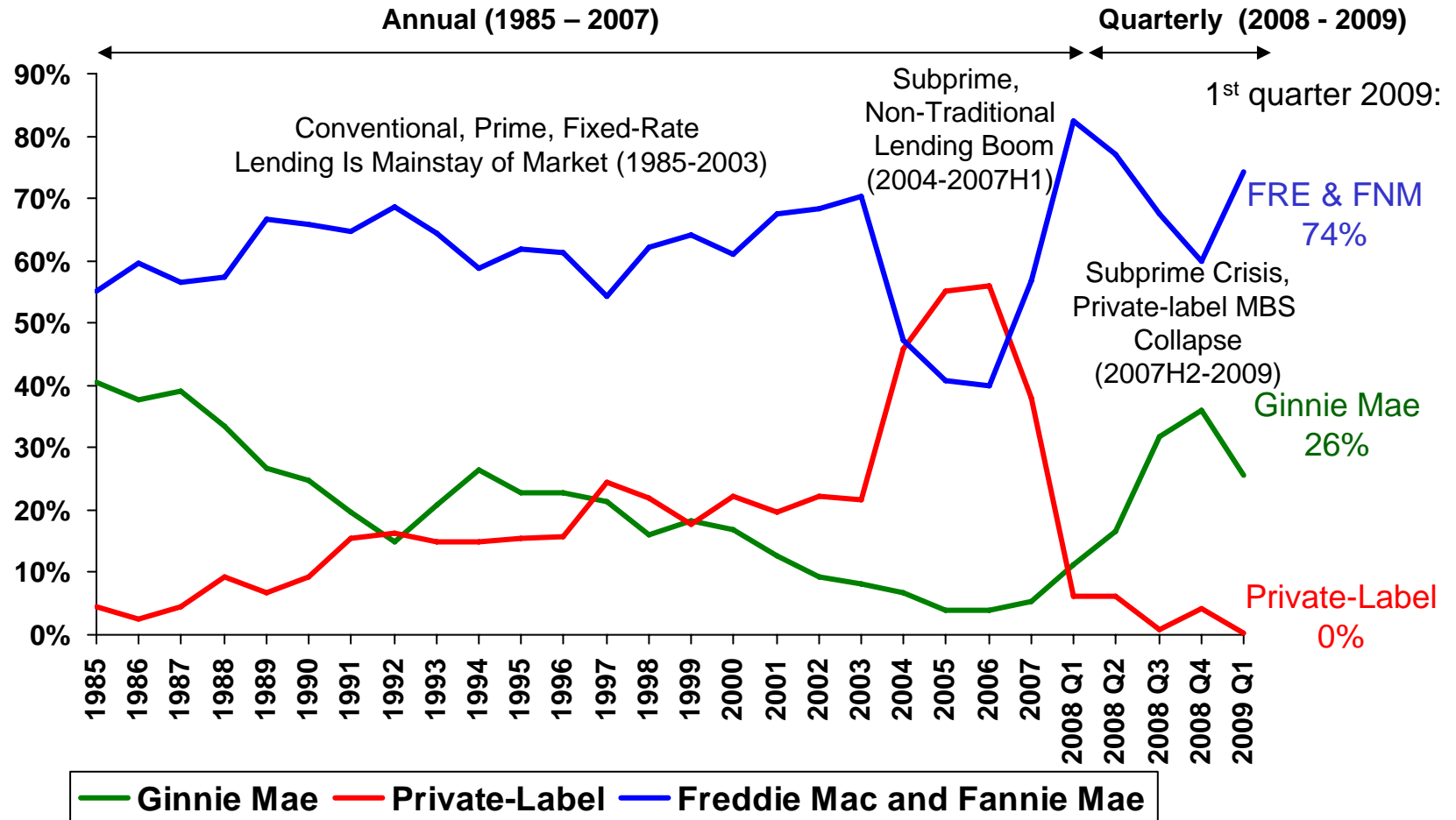
# Subprime and Alt-A Volume Quintupled 2001 to 2006, then Fell from 2006 to 2008



Source: Inside Mortgage Finance (by dollar amount)

# GSE & GNMA Market Share Fell When Subprime Boomed; Today GSEs & GNMA Are Main Source of Mortgage Funds

**MBS Share Issuance (Percent of MBS Issuance)**



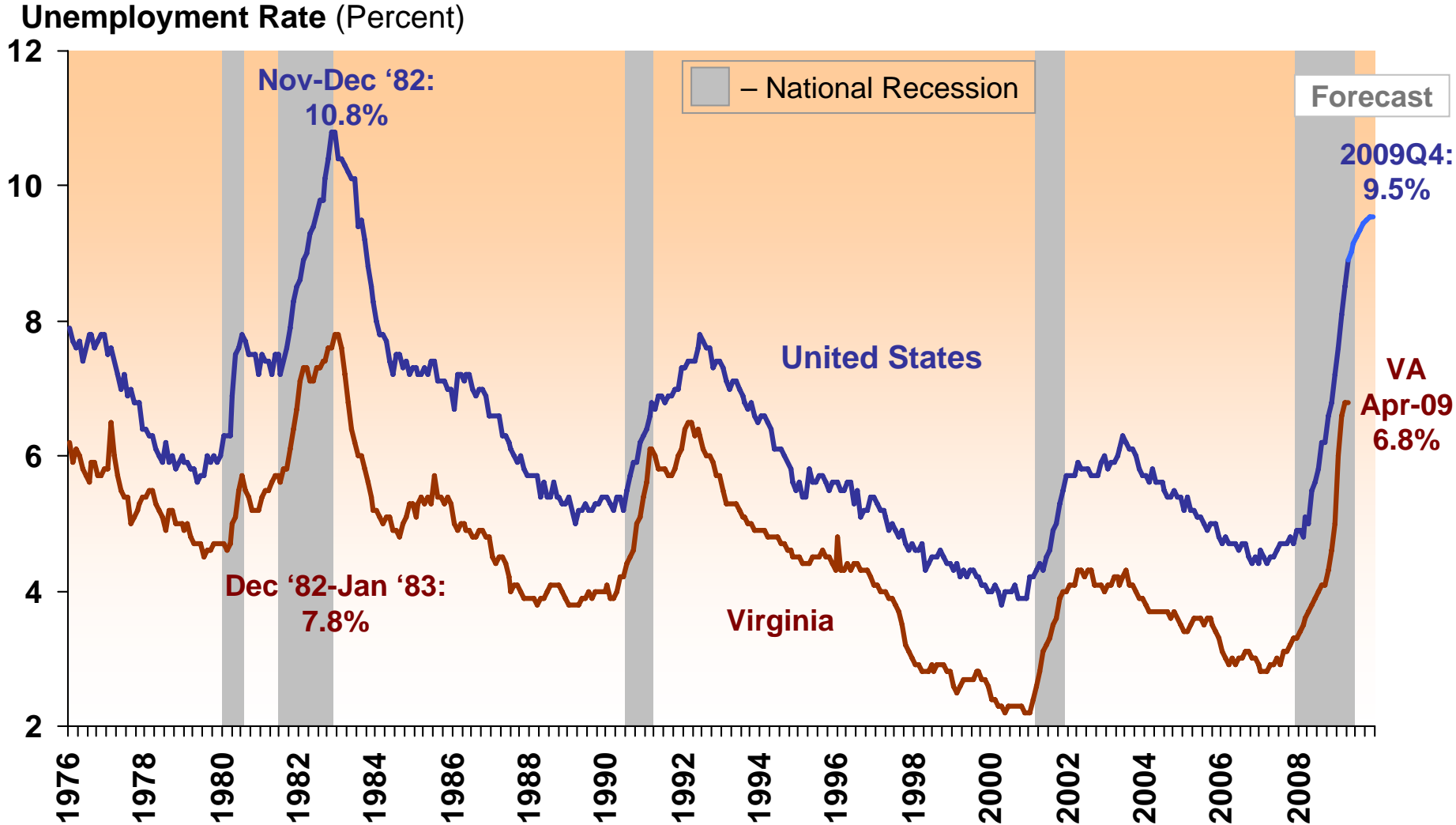
Source: Inside MBS & ABS (The 2008 Mortgage Market Statistical Annual - Volume II), Inside MBS & ABS (April 25, 2005, July 11, 2008 issues, January 9, 2009, and April 3, 2009).

# Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

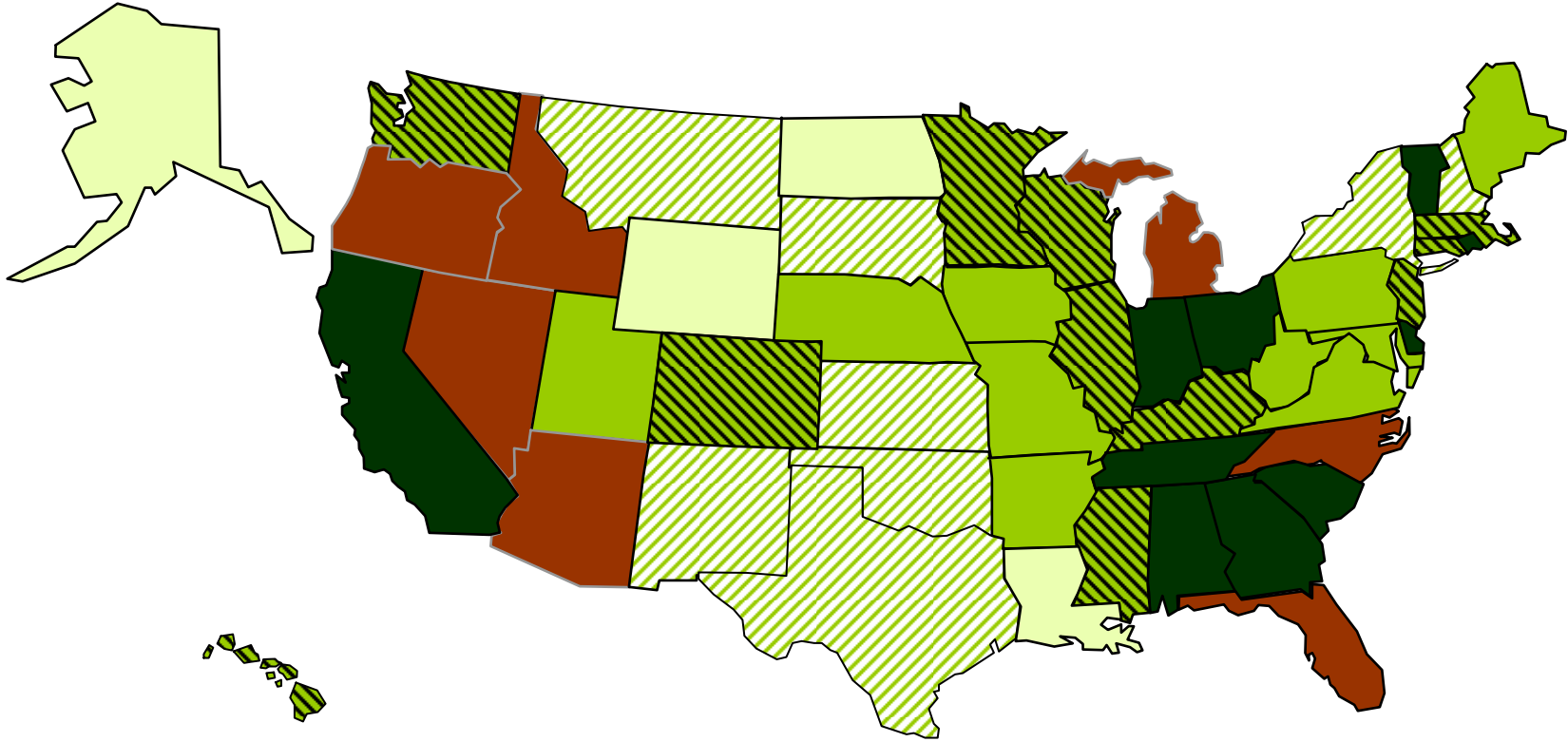
<b>Hardship Reason</b>	<b>2007</b>
<b>Unemployment or curtailment of income</b>	<b>43.0%</b>
<b>Illness or Death in the Family</b>	<b>25.5%</b>
<b>Excessive obligation</b>	<b>16.2%</b>
<b>Marital difficulties</b>	<b>6.6%</b>
<b>Property problem or casualty loss</b>	<b>2.0%</b>
<b>Extreme hardship</b>	<b>0.4%</b>
<b>Inability to sell or rent property</b>	<b>1.7%</b>
<b>Employment transfer or military service</b>	<b>0.9%</b>
<b>All other reasons</b>	<b>3.7%</b>

Source: Freddie Mac; data exclude delinquent loans in Louisiana and Mississippi due to hurricane effects. Data cover only prime conventional conforming loans.

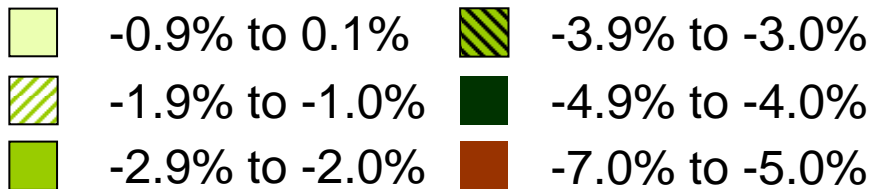
# U.S. Unemployment Rate Rose to 8.9% in April, the Highest in More Than 25 Years



# States With High Job Losses Are Strongly Correlated with High Delinquency Rates



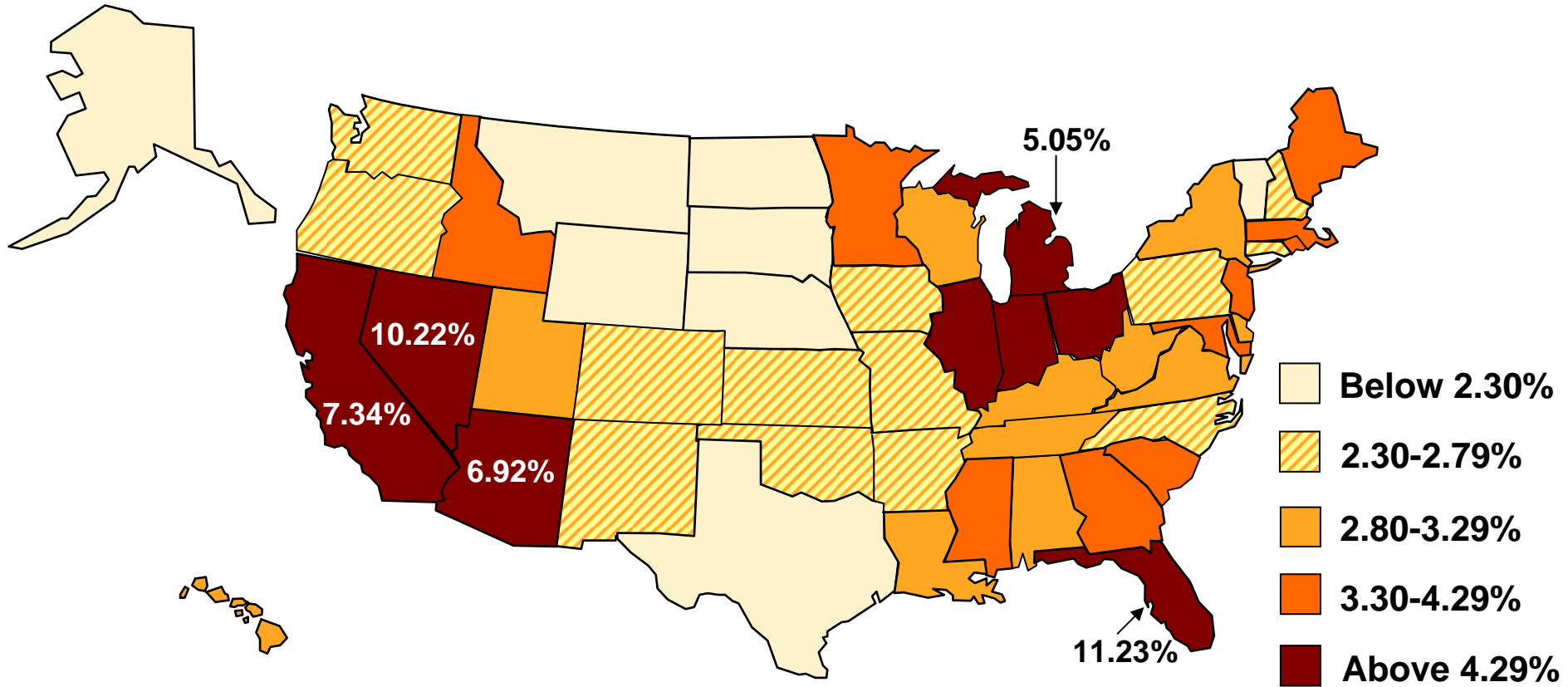
*Percent change in the non-farm payroll employment  
March 2008 through March 2009*



**National employment  
 down 4.9 million (-3.5%)  
 VA down 95,000 (-2.5%)**

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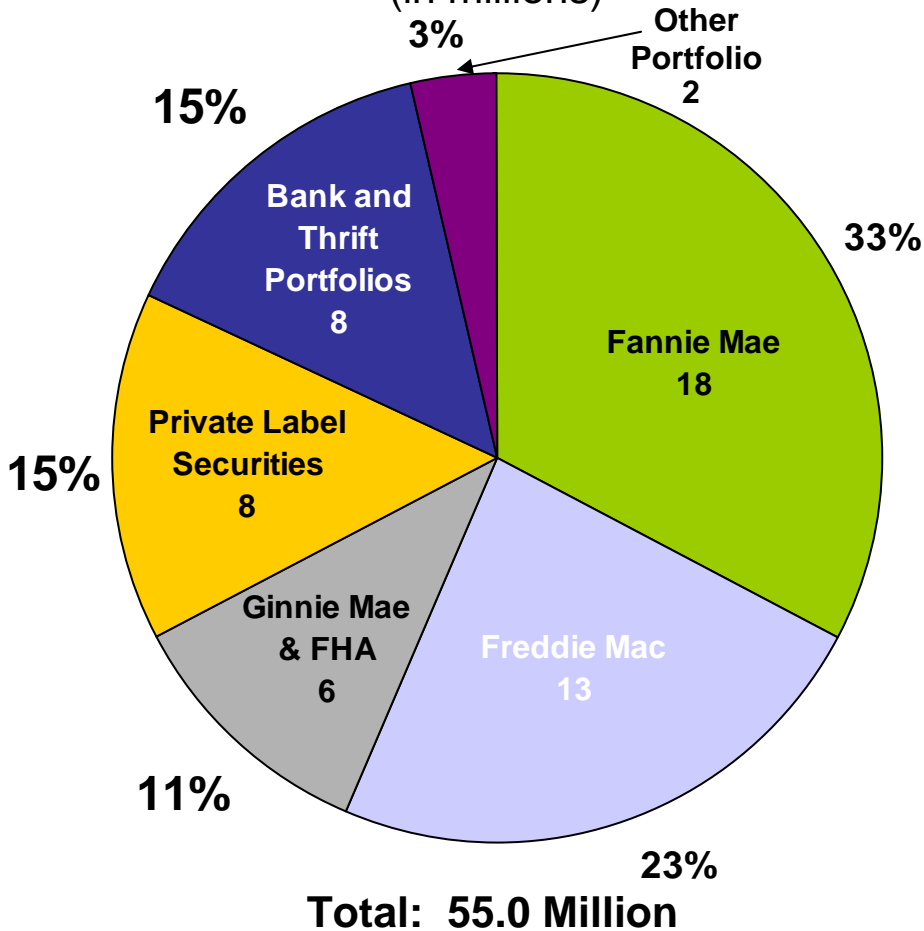
# Prime & Alt-A Delinquencies Are Highest in Areas With Falling Home Values and Job Loss



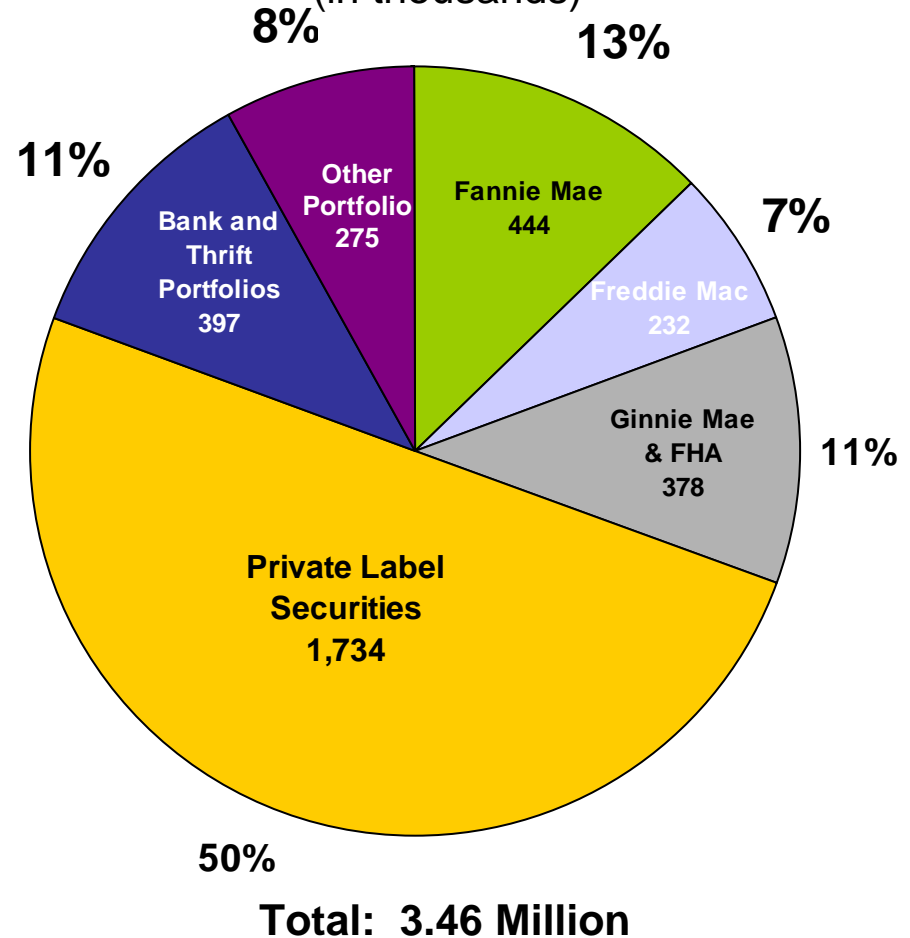
***National = 4.70% and Virginia = 2.88% Seriously Delinquent  
 (90+ days delinquent or in foreclosure, Prime & Alt-A Conventional)  
 Data as of March 31, 2009***

# Loan Modifications in Private-Label Securities Are Key to Foreclosure Reduction

Number of Mortgages Outstanding  
(in millions)

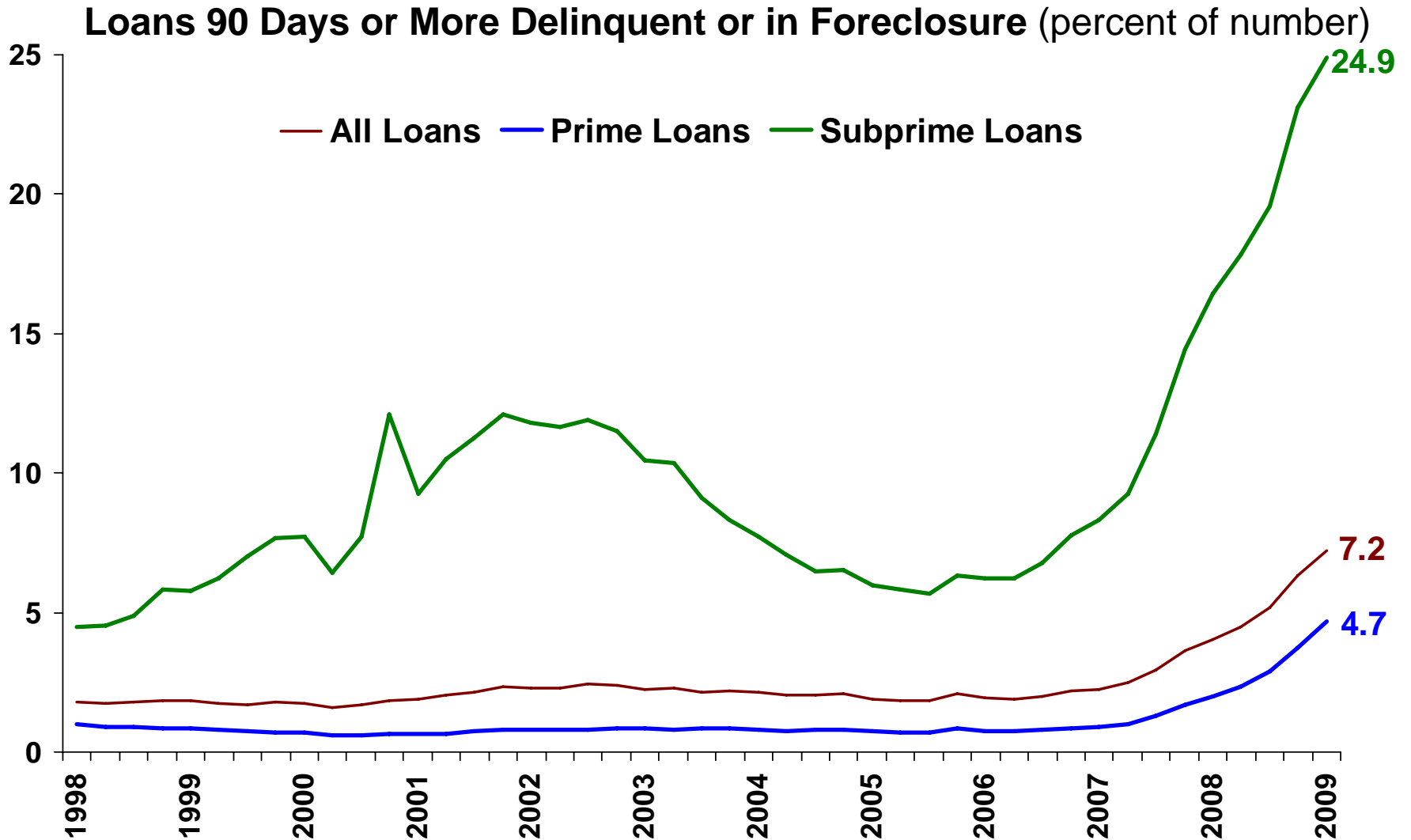


Seriously Delinquent Mortgages  
(in thousands)



Sources: Federal Reserve Board, FDIC, HUD, Freddie Mac, Fannie Mae, Mortgage Bankers Association, First American CoreLogic (LoanPerformance); data as of December 31, 2008. Seriously Delinquent loans are at least 90 days delinquent or in foreclosure. Components may not sum to total because of rounding.

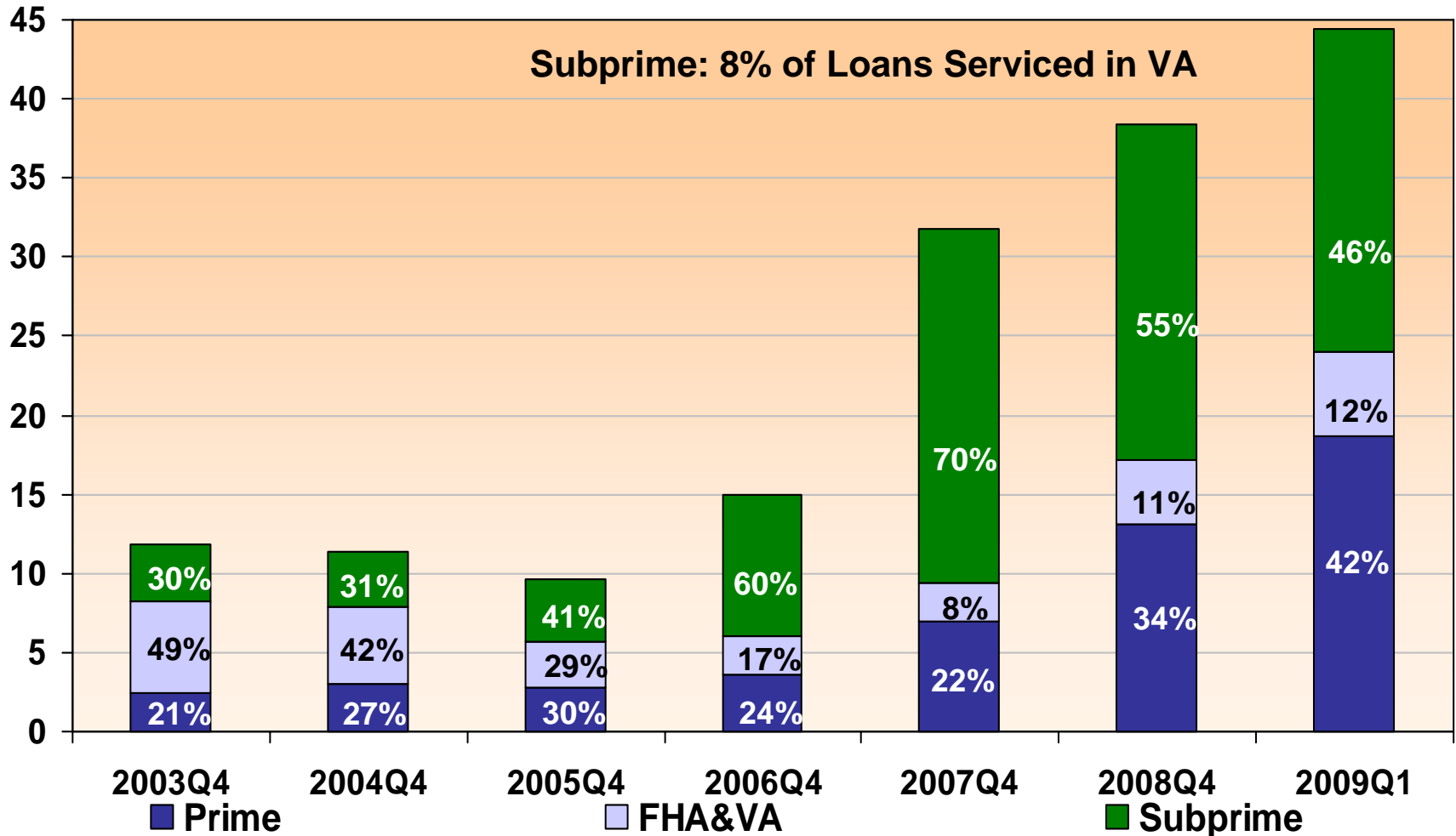
# Increasing Delinquencies, Especially Subprime



Source: Mortgage Bankers Association; "Prime Loans" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2009Q1).

# Subprime Accounted for More Than Half of VA Loans Entering Foreclosure Since 2006

Number of Foreclosures Started (Annual Rate in Thousands)



# Homeowner Affordability and Stability Plan

**Larger  
Backstop**

*Additional  
\$200 billion for GSEs*

**Easier  
Refinancing**

*Lower rates for  
4-5 million mortgages*

**Subsidized  
Modifications**

*\$75 billion for  
3-4 million mortgages*

**Increased  
Portfolio Size**

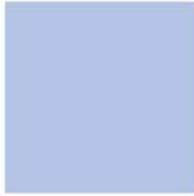
*Up to  
\$900 billion*

- Freddie Mac must own or guarantee
- Borrowers must be current over past 12 months
- LTVs up to 105% of current value
- Lenders generally will not have to re-underwrite
- Mortgage Insurance (MI): If loan has MI, same coverage must be maintained; if loan does not have MI then not required on greater than 80 percent LTV
- Conventional loans
- Must be originated by June 10, 2010

## Modification Program for At-risk Borrowers

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- \$75 billion to subsidize loan modifications
- Modifications will follow uniform guidelines
- Reduces monthly payments to a 31 percent debt-to-income ratio
- Provides financial incentives for servicers and borrowers to initiate and sustain modifications
- Each GSE responsible for modifying their own loans
- Fannie Mae is Program Administrator for Non-GSE modifications
- Freddie Mac is Compliance Agent for Non-GSE modifications



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commentary and data at  
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Contact us at [chief\\_economist@freddiemac.com](mailto:chief_economist@freddiemac.com)

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