



The Mortgage Market Outlook

NAHB Spring Forecast Conference

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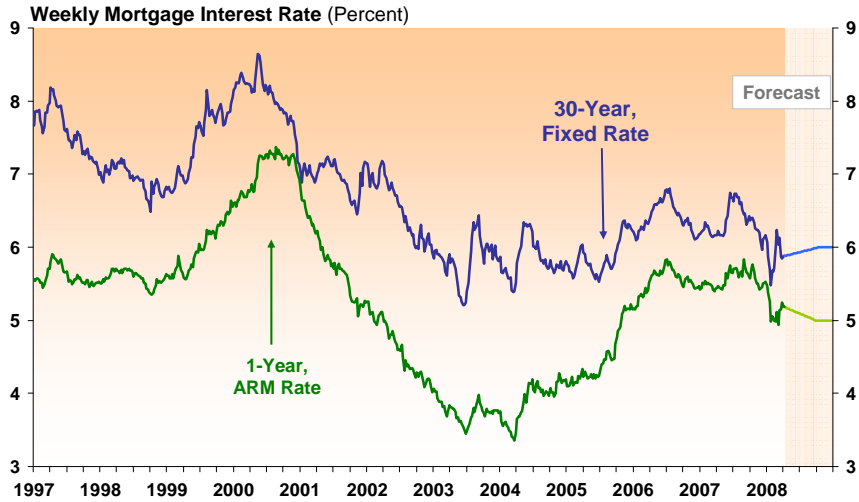
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Recession Risk, Housing Contraction Worsen

- **1-in-2 chance of recession in 2008**
 - Maybe in recession already; fiscal stimulus propels growth in second half: Economic growth 1.5% in 2008
 - Job gain falls short of labor force growth; Unemployment rate up, averages 5.2% in 2008
 - Core inflation at upper end of 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
- **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



Source: Freddie Mac's Primary Mortgage Market Survey®

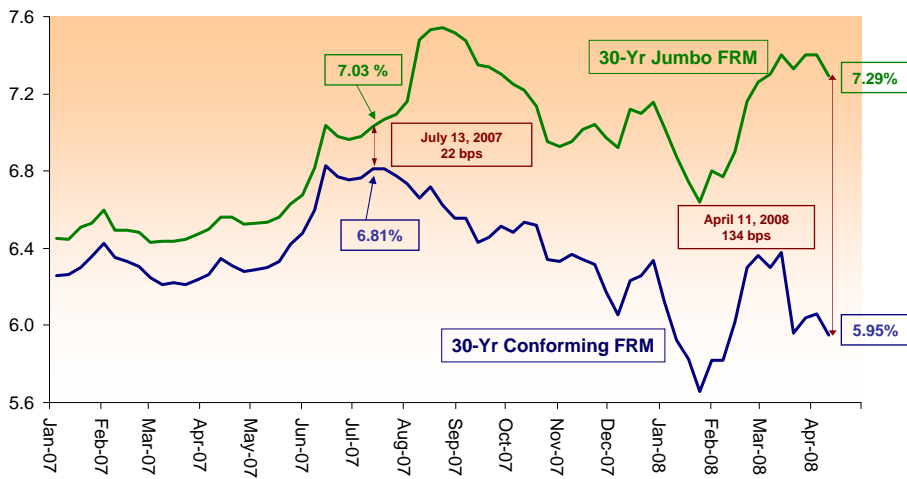
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2



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 April 11, 2008)
 Note: Effective rate adds fees and points to the interest rate.

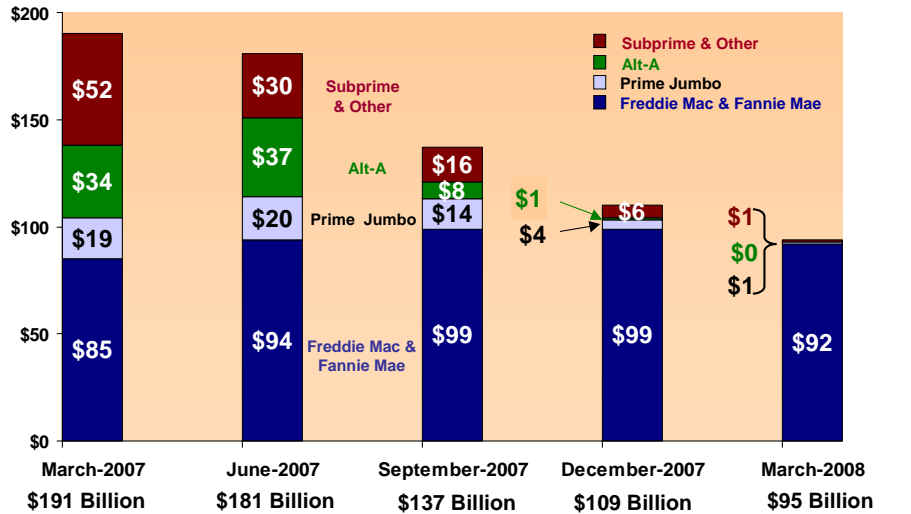
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3



Private-Label Mortgage-Backed Security Issuance Has Fallen Sharply

Dollar Amount of Issuance (Billions)



Source: Inside MBS & ABS

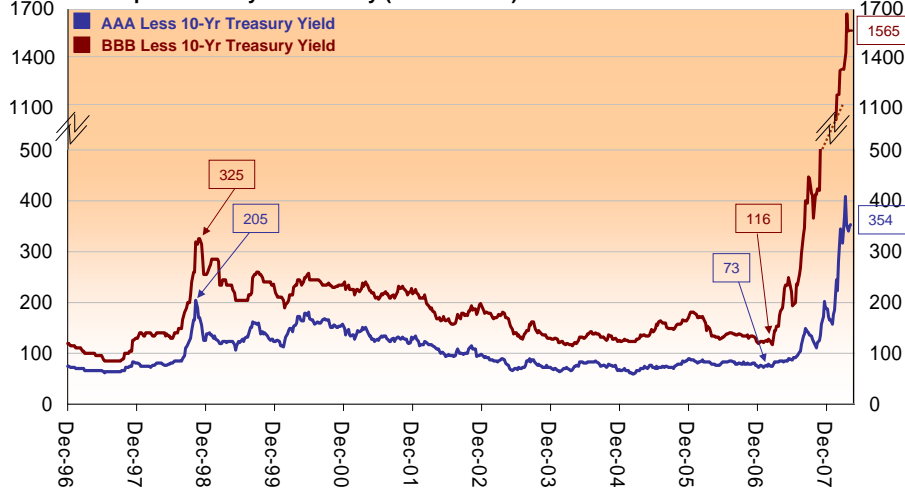
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4



CMBS Spreads Have Also Reached Record High Levels

CMBS Spread to 10-year Treasury (Basis Points)



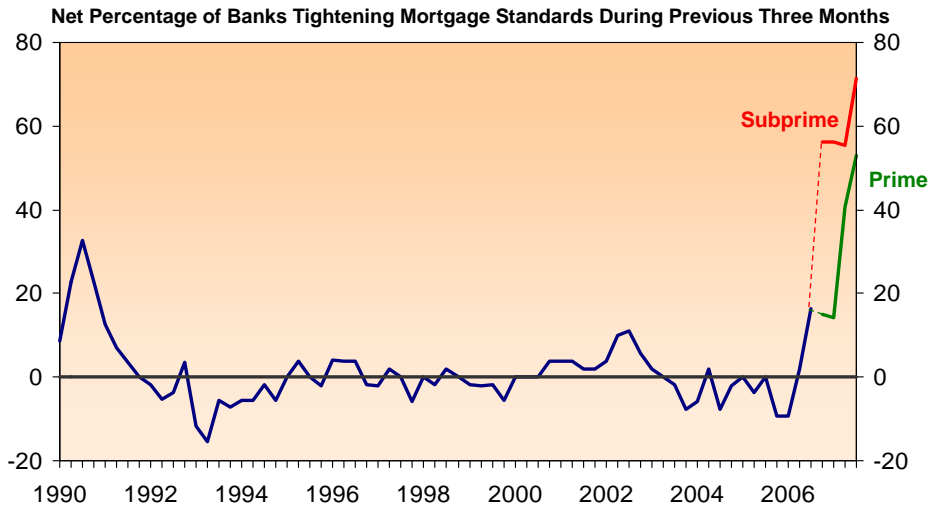
Source: Morgan Stanley (last data: week ending April 11, 2008)

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5



Highest Percentage of Banks Tightening Home Mortgage Standards Since 1990



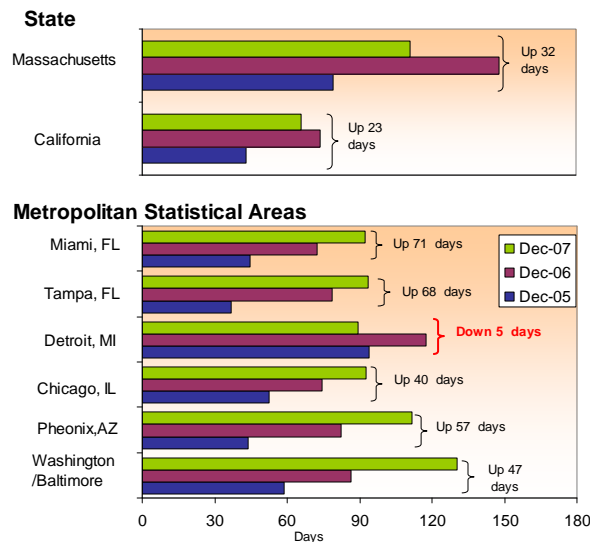
Source: Federal Reserve Board's Senior Loan Officer Survey (Last update: February 4, 2008)

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6



Time-On-Market Up in Most Markets



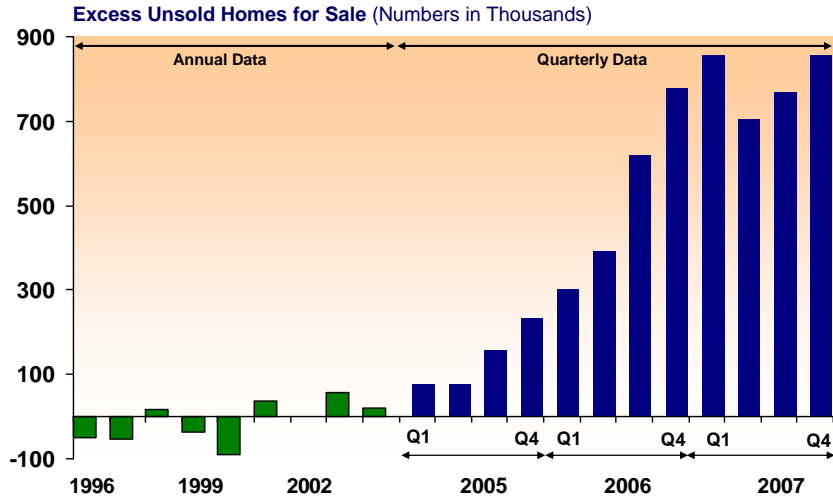
Source: National Association of Realtors

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7



A Large Inventory Overhang Remains within the Housing Market



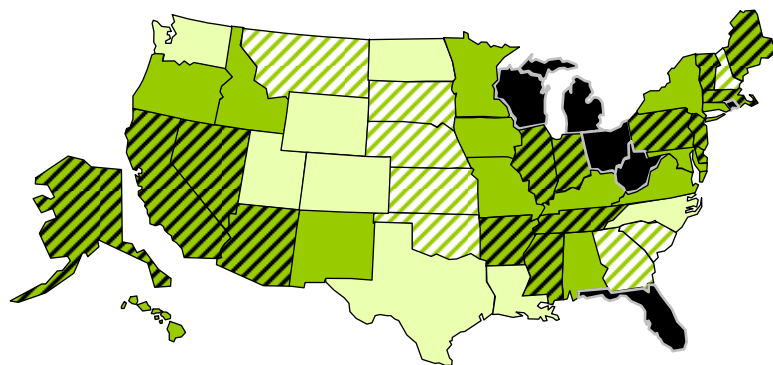
Source: Bureau of Census (1996-2004: Annual Data, 2005Q1-2007Q4: Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

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8



Employment Growth Weakest In Markets With Flat or Falling House Values



*Percent change in the non-farm payroll employment
 January 2007 through January 2008*

- Above 2.0%
- 1.1% to 1.9%
- 0.6% to 1.0%
- 0.0% to 0.5%
- Below 0.0%

**National employment up 0.7%
 0.9 million**

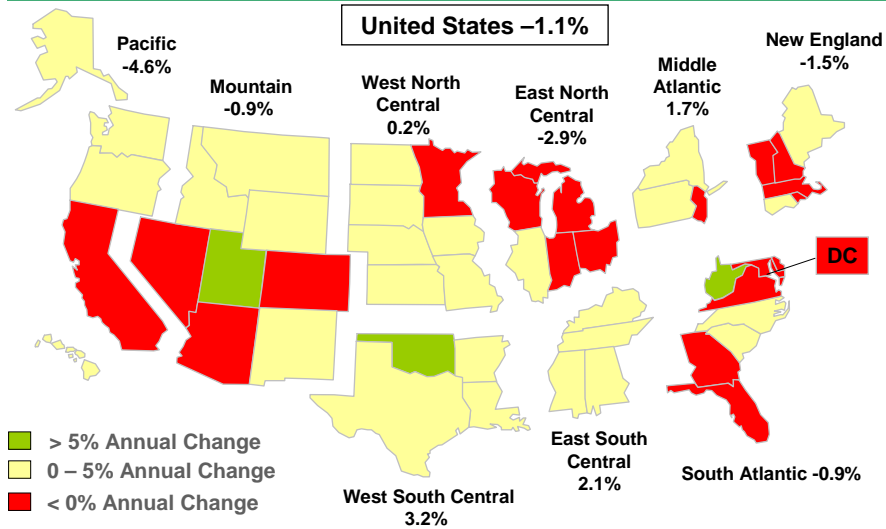
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Source: U.S. Bureau of Labor Statistics

9



Home Sales Prices Fell in Twenty States Over 2007



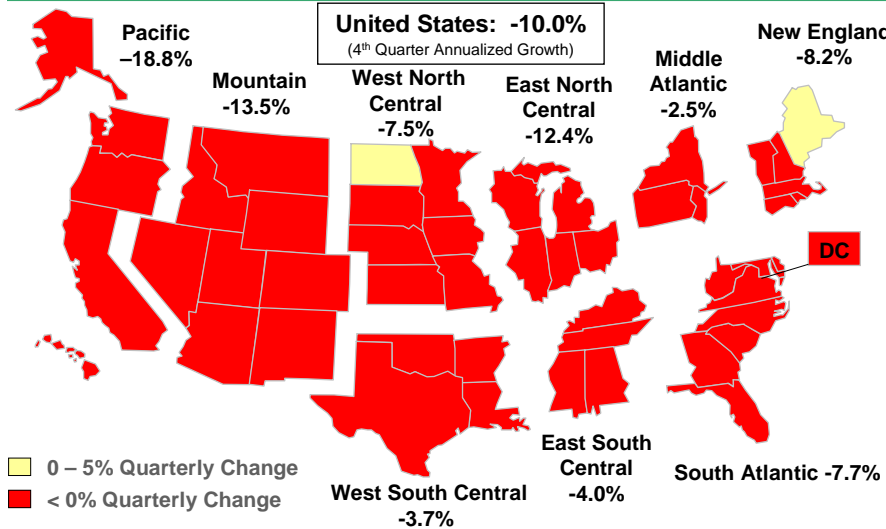
Source: Freddie Mac's Purchase-Only Conventional Mortgage Home Price Index (Annual Growth Rates for 4Q2007)

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10



Forty-eight States Had Falling Prices in the Fourth Quarter 2007



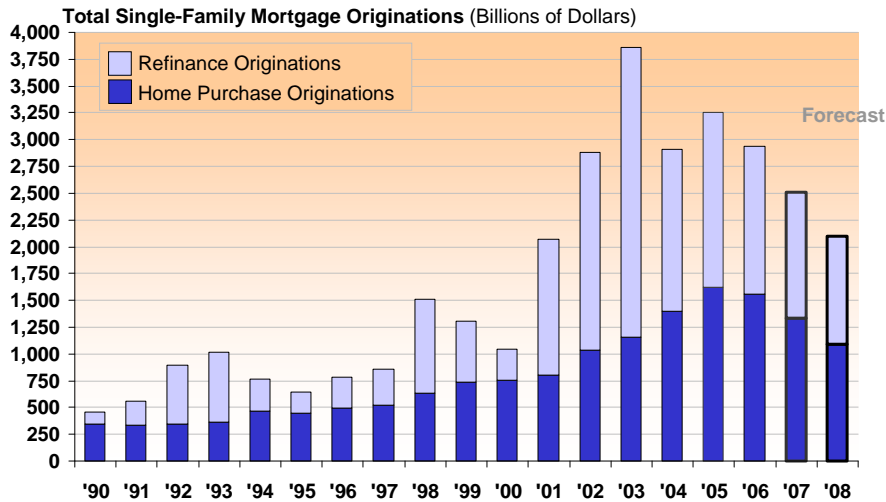
Source: Freddie Mac's Purchase-Only Conventional Mortgage Home Price Index (Annualized Quarterly Rates for 4Q2007)

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11



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



Sources: U.S. Department of Housing and Urban Development, Freddie Mac

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12



Subprime Credit Performance

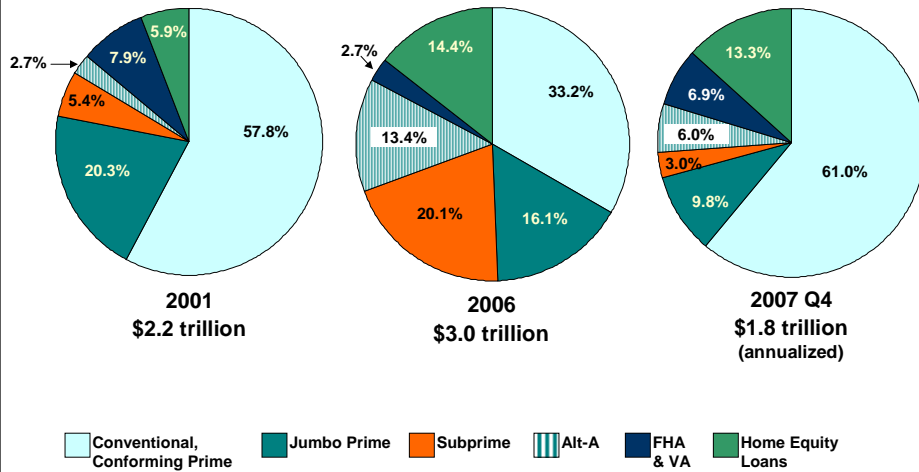
- Weak underwriting characterized subprime originations in recent years
- Early payment defaults and serious delinquencies are worse for recent vintages of subprime loans
- Subprime loans accounted for over half of foreclosures in 2006 and 2007
- About 1.5 million loans began foreclosure in 2007
- Credit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

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13



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



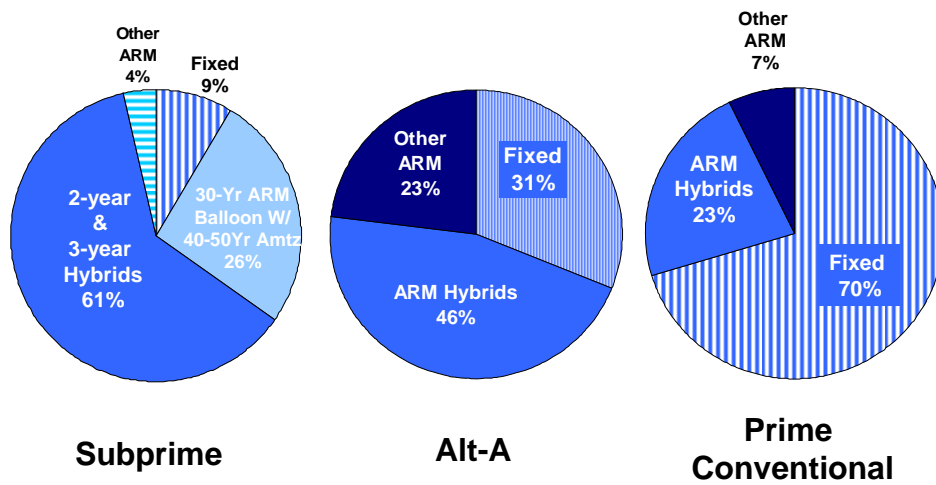
Source: Inside Mortgage Finance (by dollar amount)

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14



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



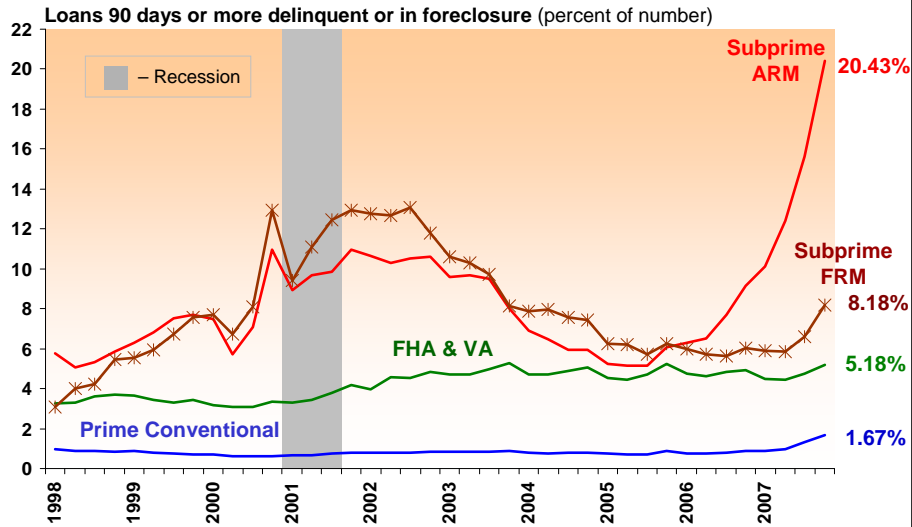
Source: LoanPerformance, a subsidiary of First American Real Estate Solutions, TrueStandings Securities; MIRS. First liens only; by dollar amount.

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15



Subprime ARM Defaults Are 12 Times Those on Prime



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

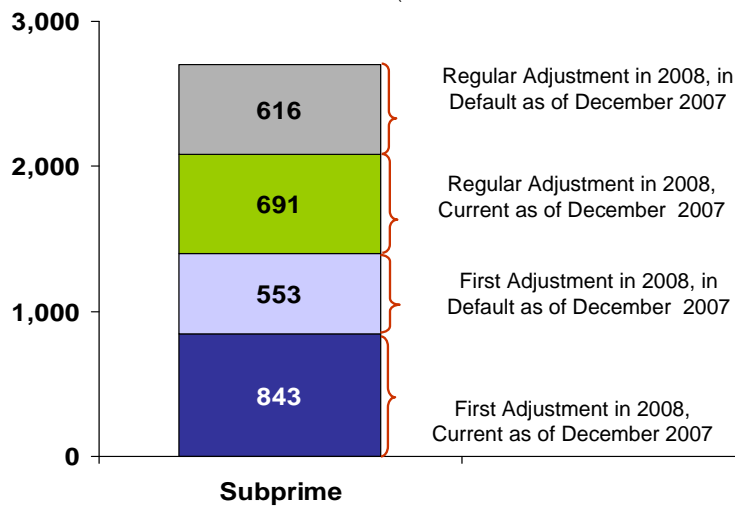
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16



About 1.4 Million Subprime Loans Will Have First Reset in 2008

Amount of ARMs Scheduled to Have a Reset (Number of Loans in Thousands as of December 2007)



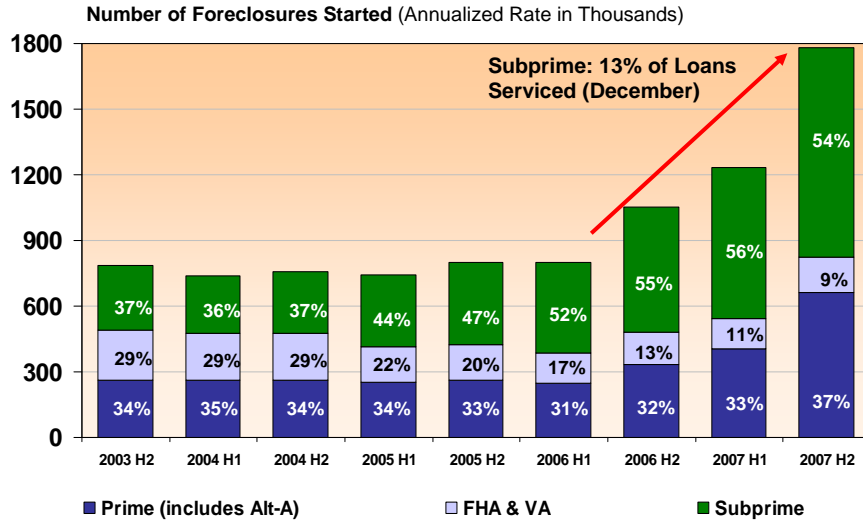
Source: LoanPerformance ABS Securities, Freddie Mac. "Default" includes loans delinquent 30 or more days or that are in foreclosure.

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17



Subprime Loans Accounted for Over Half of Foreclosures since 2006



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

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18



Recession Risk, Housing Contraction Worsen

- 1-in-2 chance of recession in 2008
 - Weak economic growth first half, better second half, 1.5% 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

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19



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