



Office of the Chief Economist

Housing and Mortgage Market Update

Washington Association of Money Managers

Washington, DC

October 7, 2009

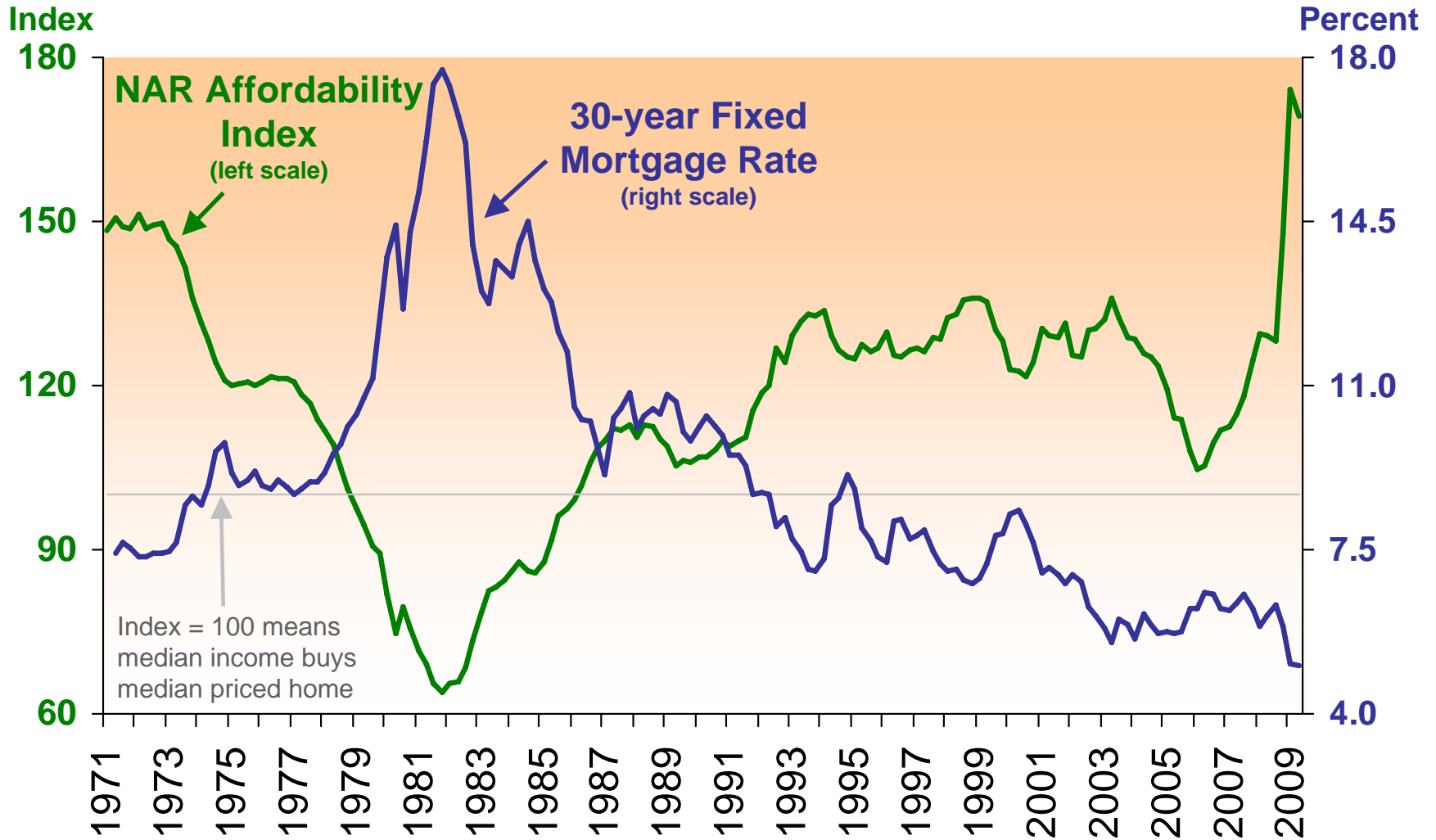
Frank E. Nothaft

Chief Economist

Housing Near Bottom, but Mortgage Defaults Rising

- **Housing activity low**
 - Single-family construction is lowest since 1945
 - In DC-NoVa, housing permits down about 75% from 2005
 - Sales are near bottom; about a third are foreclosure sales
 - U.S. house price measures up in 2nd quarter, but will likely decline through 2010
- **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
 - Subprime, Alt-A and Option ARMs drive DC-area foreclosures
- **Making Home Affordable Is Very Important**
 - Keeping families in homes is our long-term priority
 - Streamline refinance will help families lower monthly payment
 - Loan modifications are ramping up

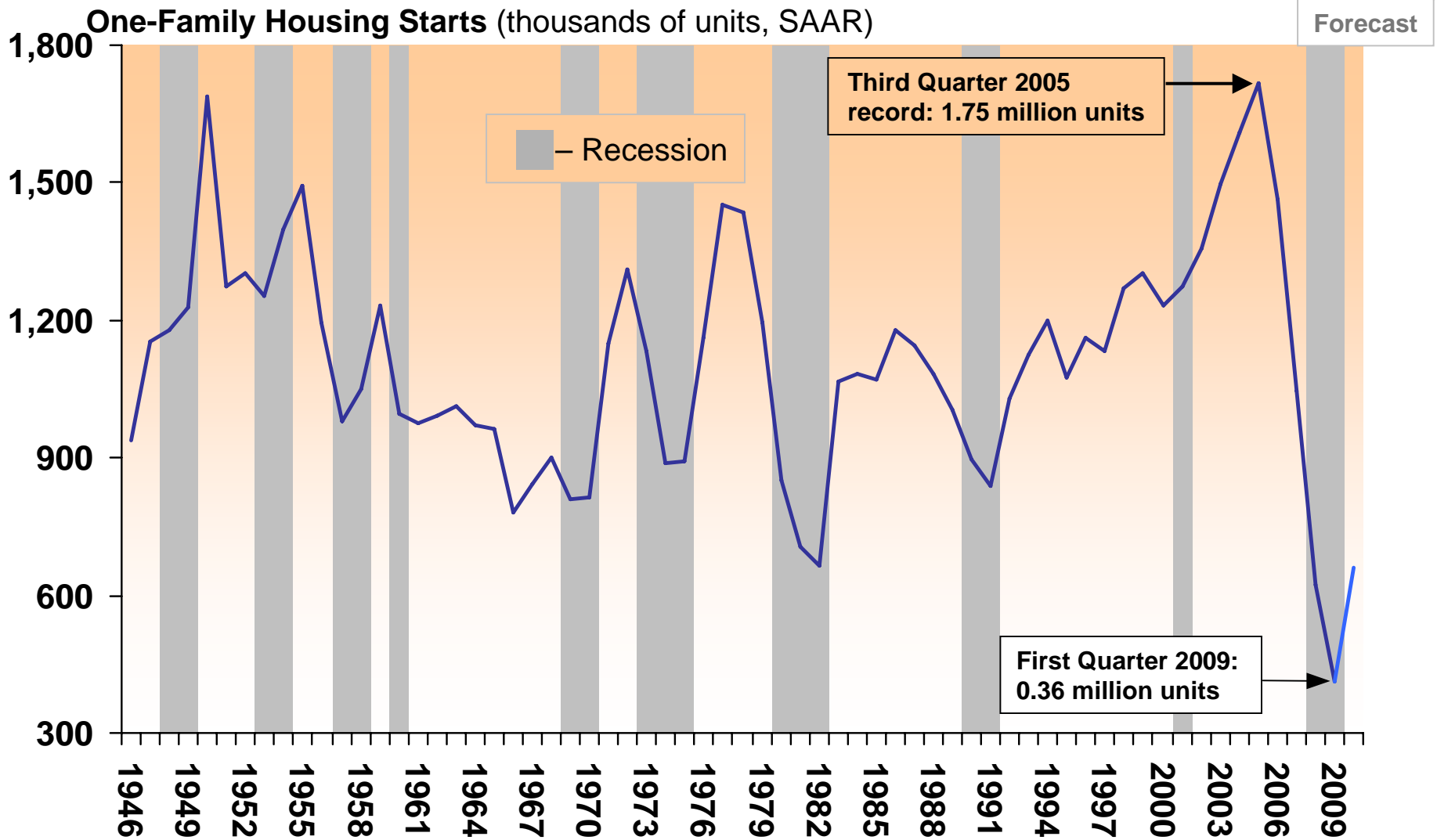
Low Interest Rates and Falling Home Prices Have Increased Housing Affordability



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®

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



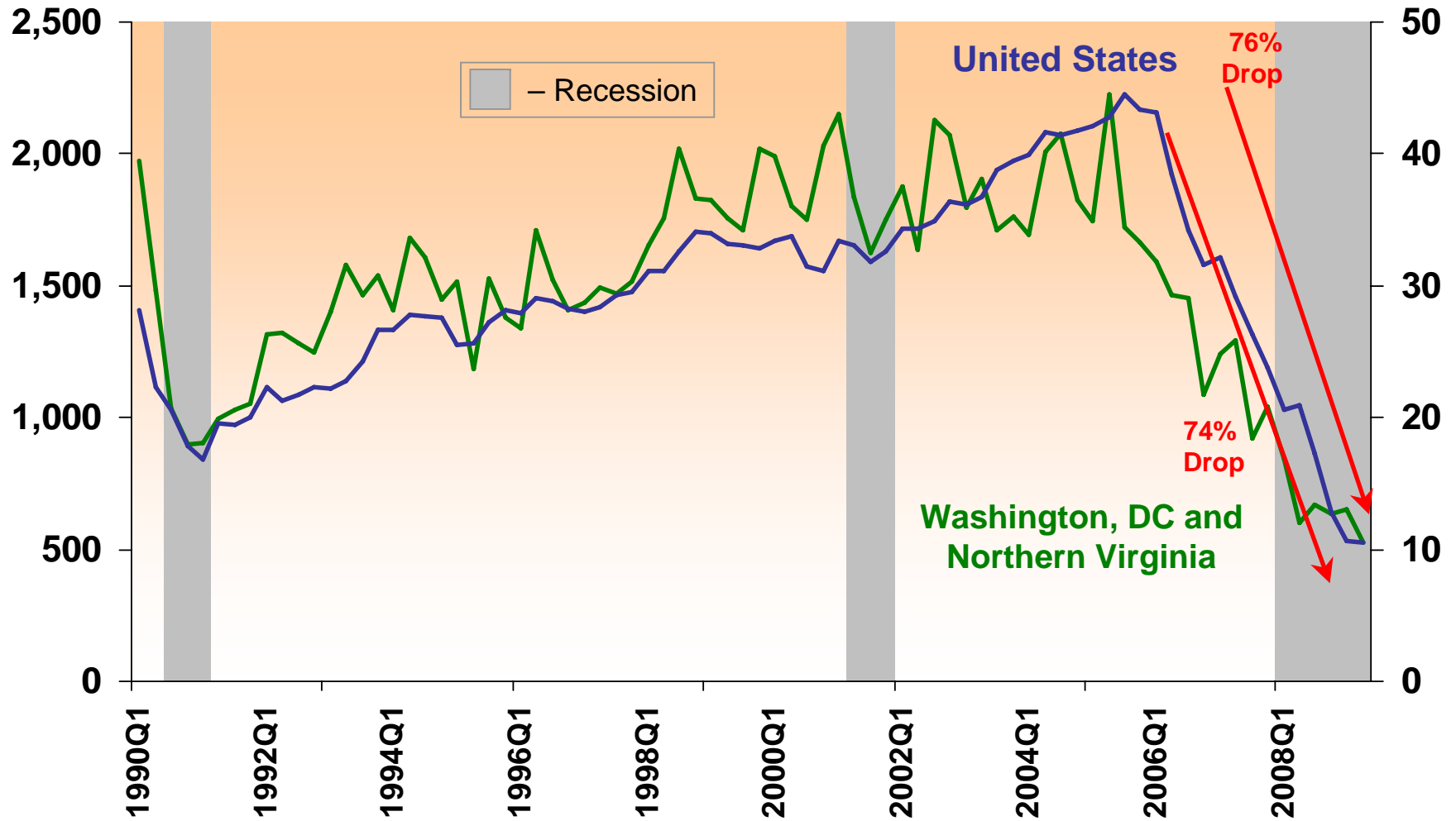
Sources: Bureau of Census (SAAR), Freddie Mac

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Building Permits Have Dropped in U.S. Over Last 4 Years

Housing Permits U.S. (Thousands)

Housing Permits Washington & NoVa (Thousands)

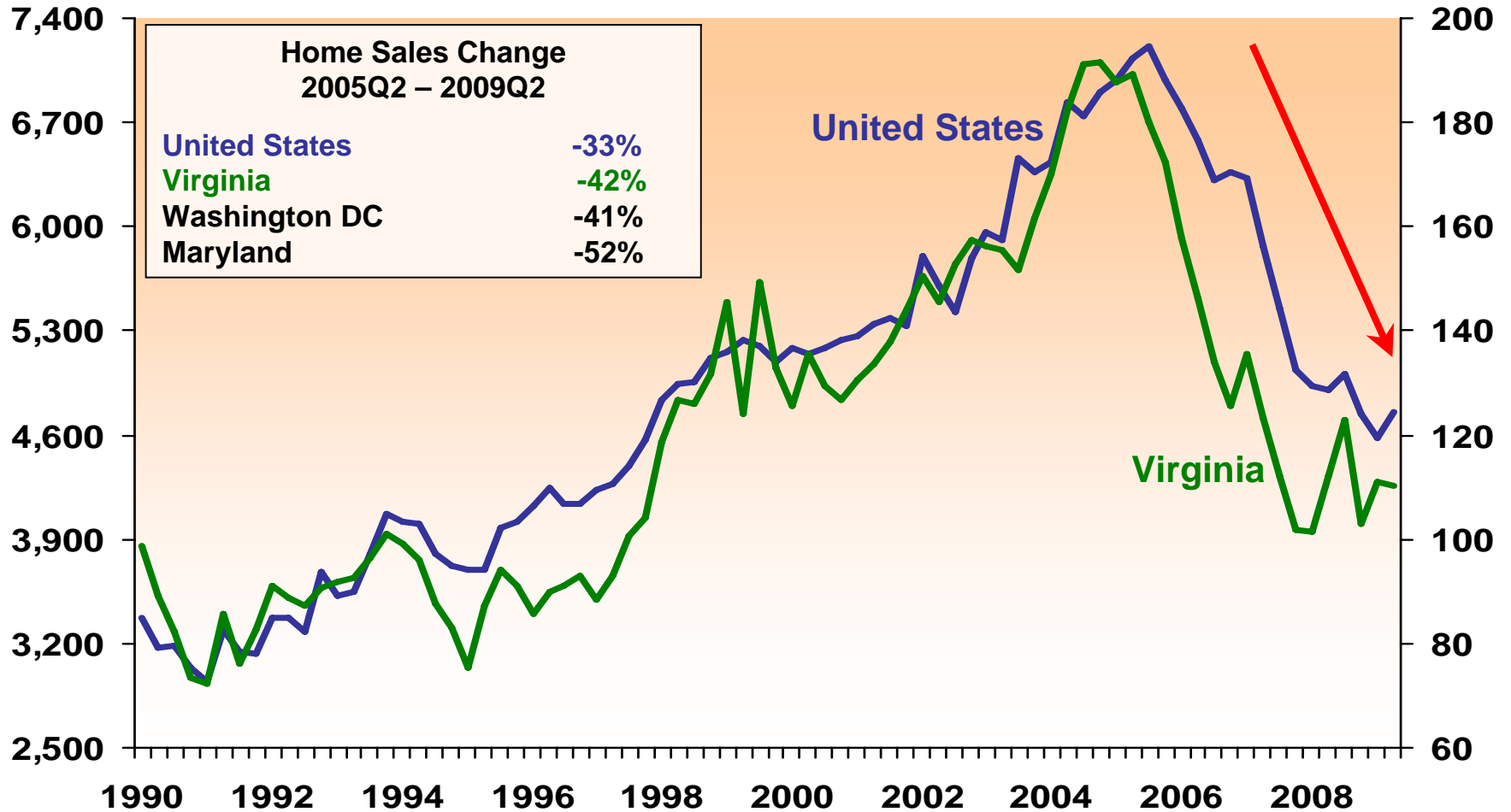


Source: Bureau of Census ("Washington, DC and Northern Virginia" is the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA)

Existing Home Sales Down A Third in U.S. and More in DC Area during the Last Four 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)

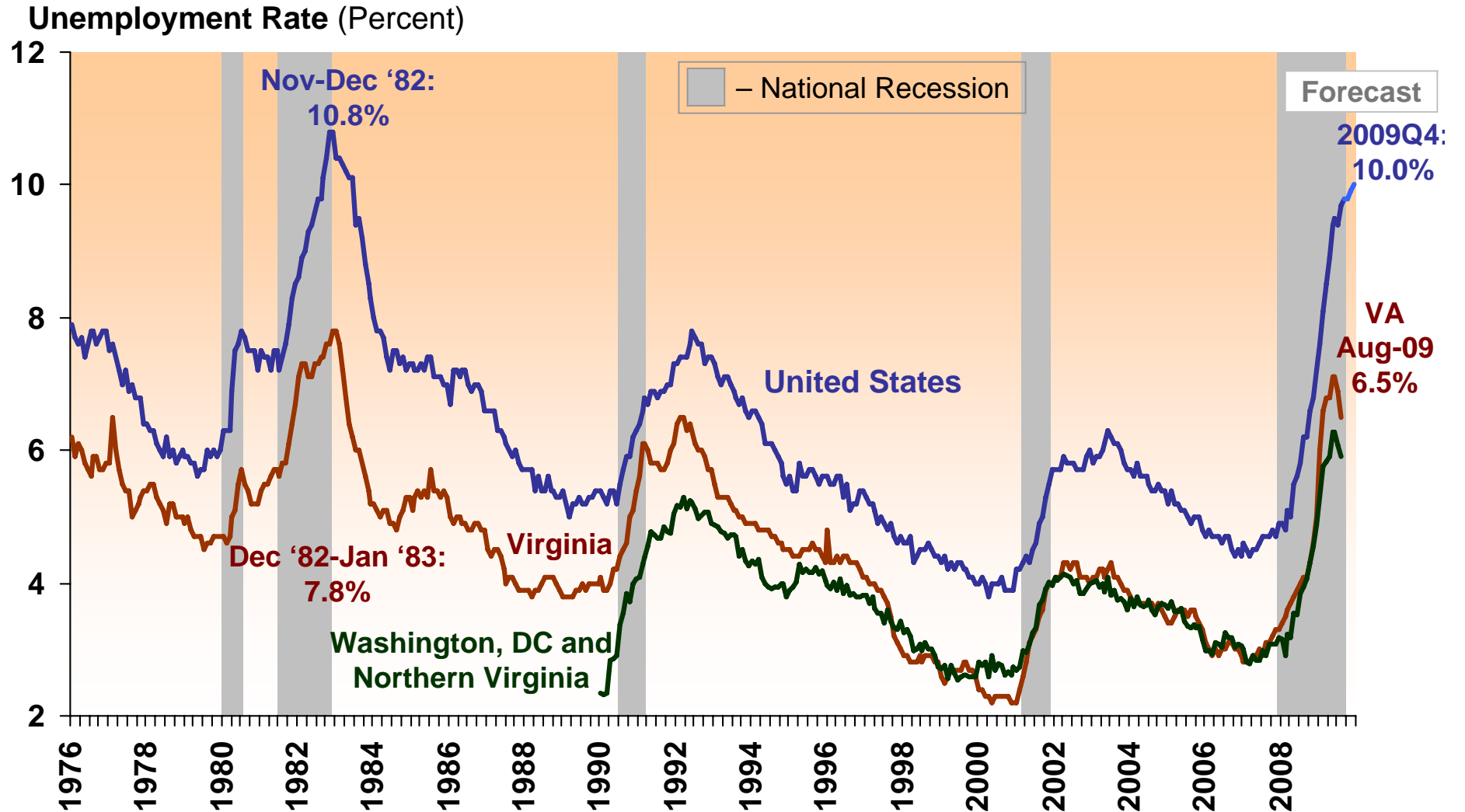
Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

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

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

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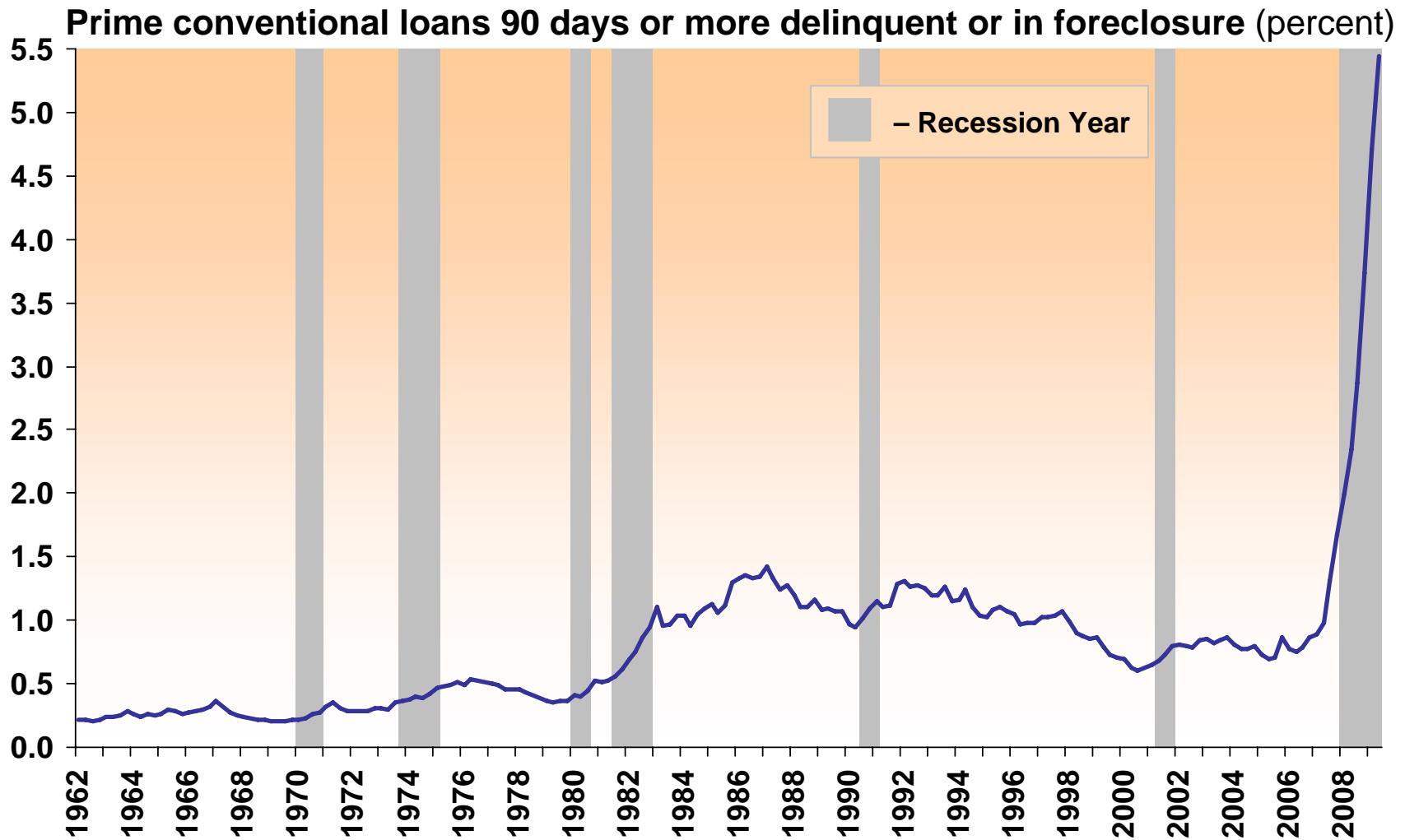
U.S. Unemployment Rate Rose to 9.8% in September, the Highest in More Than 26 Years



Sources: U.S. Department of Labor, Freddie Mac ("Washington, DC and Northern Virginia" is the Washington-Arlington-Alexandria, DC-VA-MD-WV MSA)

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Recent Default Experience Is Unlike Any Previous Business Cycle Since the 1930s

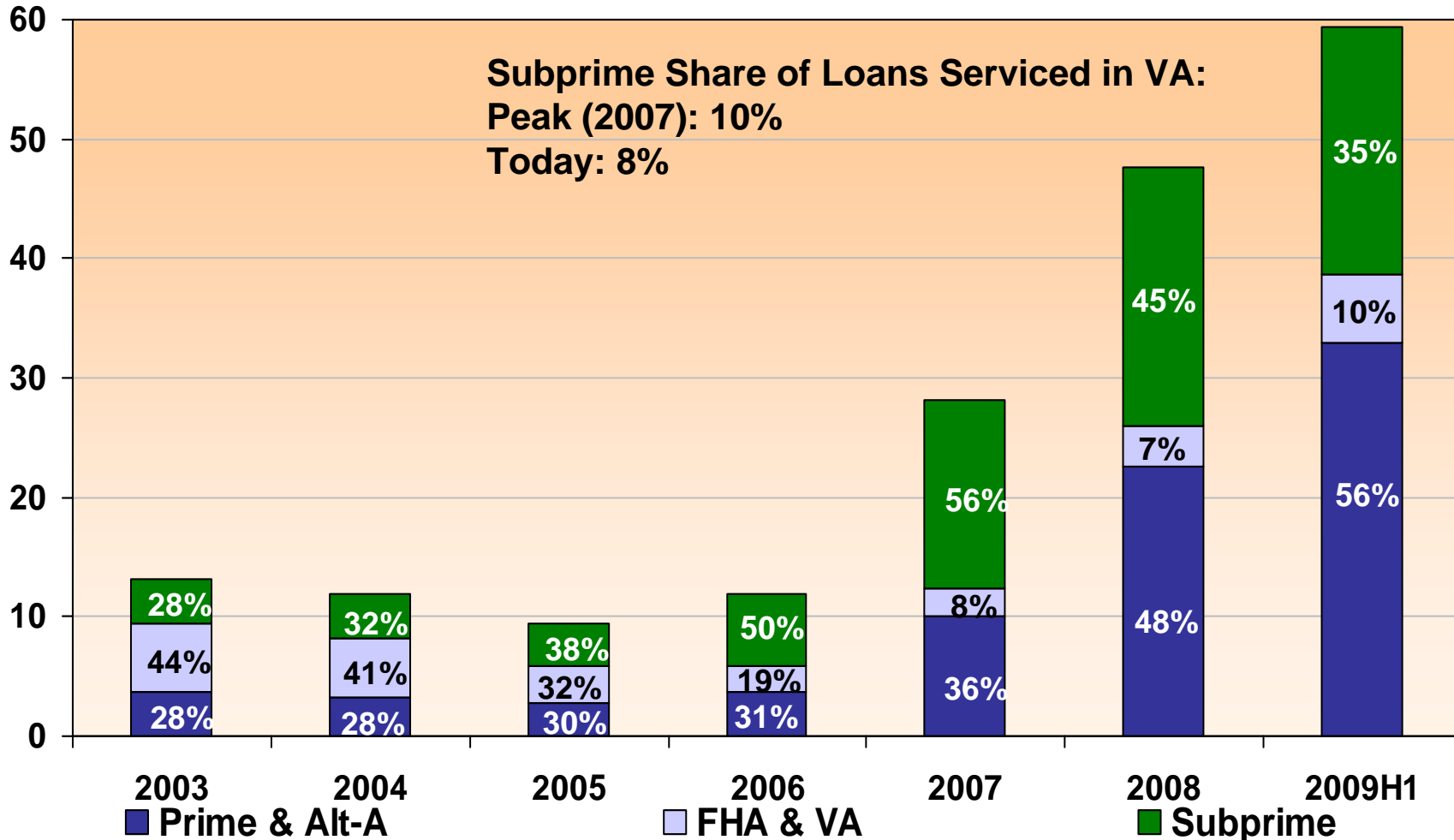


Source: National Bureau of Economic Research, Mortgage Bankers Association
 (Prime Conventional includes Alt-A).

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Relative to Serviced Loans, Subprime Accounts for a Very Large Share of Virginia Foreclosures

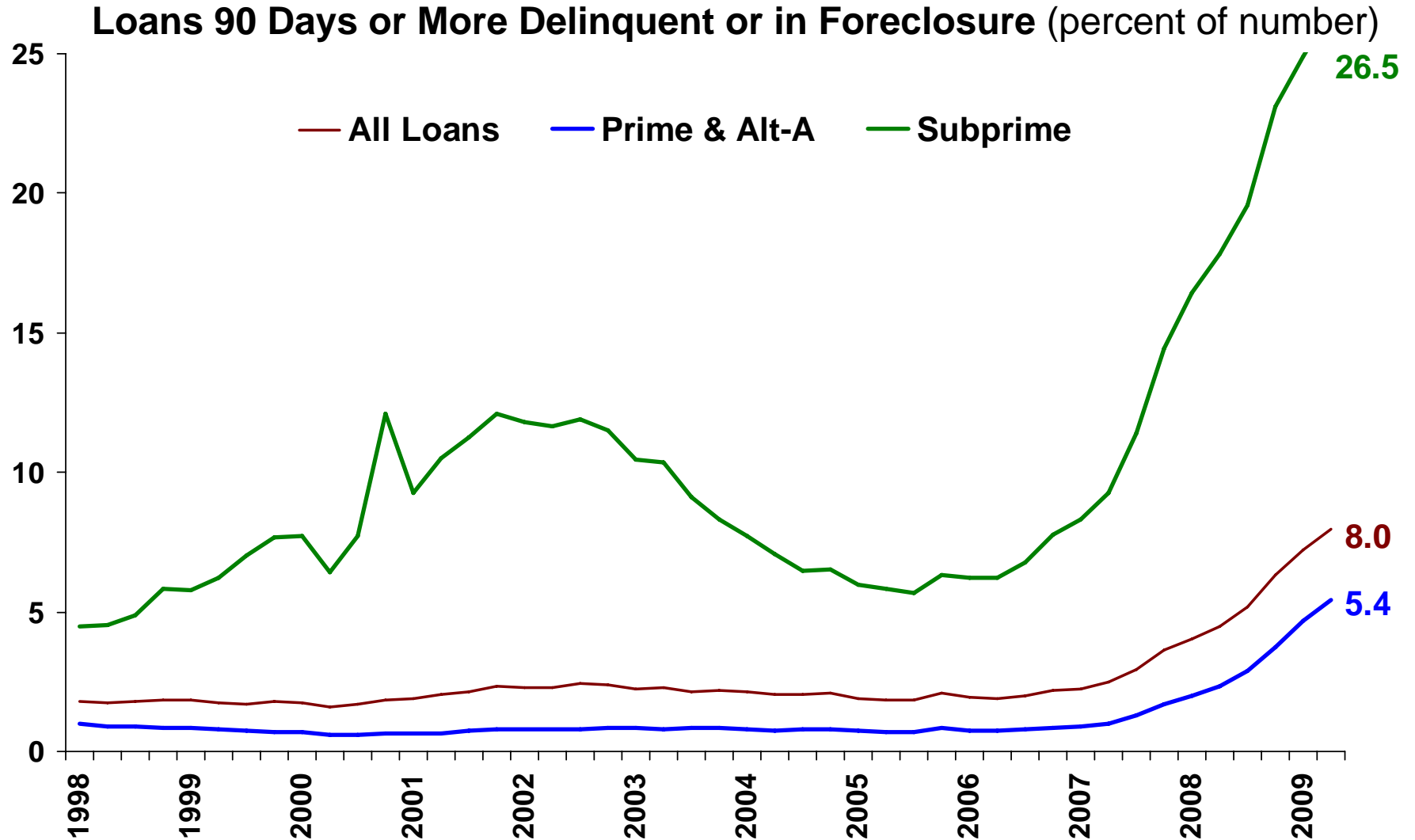
Number of Foreclosures Started (Annual Rate in Thousands)



Source: Mortgage Banker's Association National Delinquency Survey (2003 is only for fourth quarter). Numbers adjusted for 85% coverage.

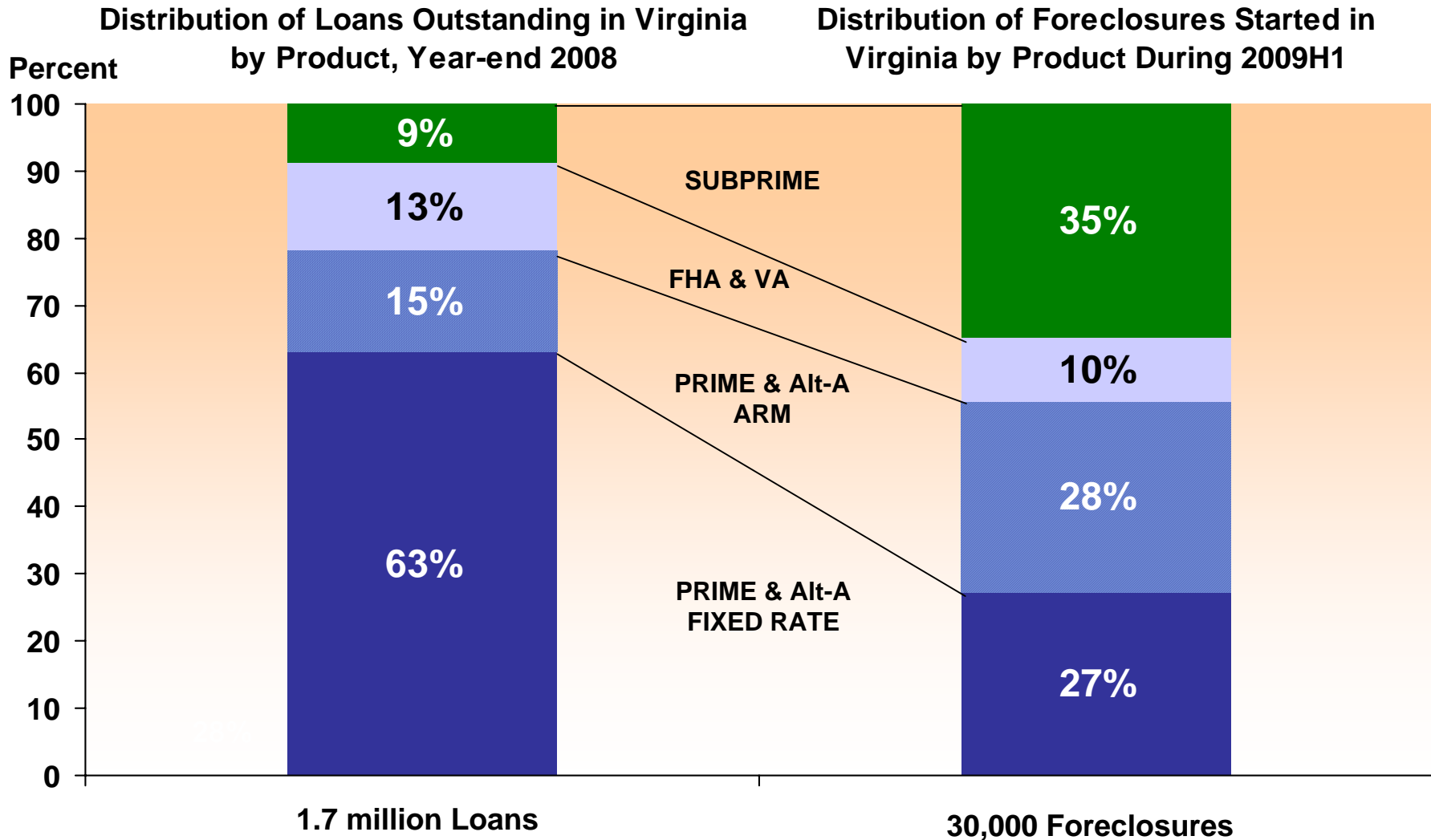
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Increasing Delinquencies, Especially Subprime



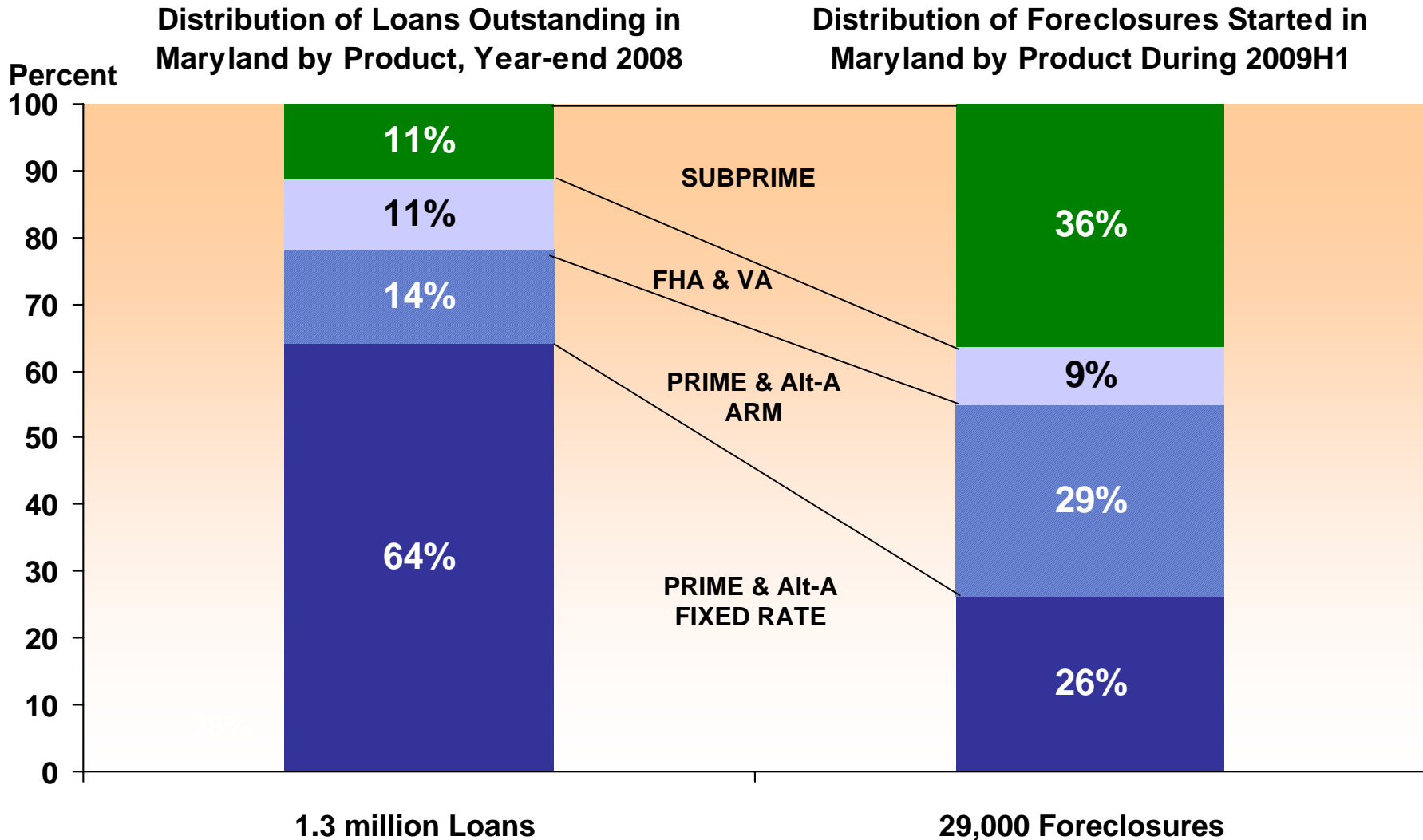
Source: Mortgage Bankers Association; "Prime Loans" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2009Q2).

Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in Virginia



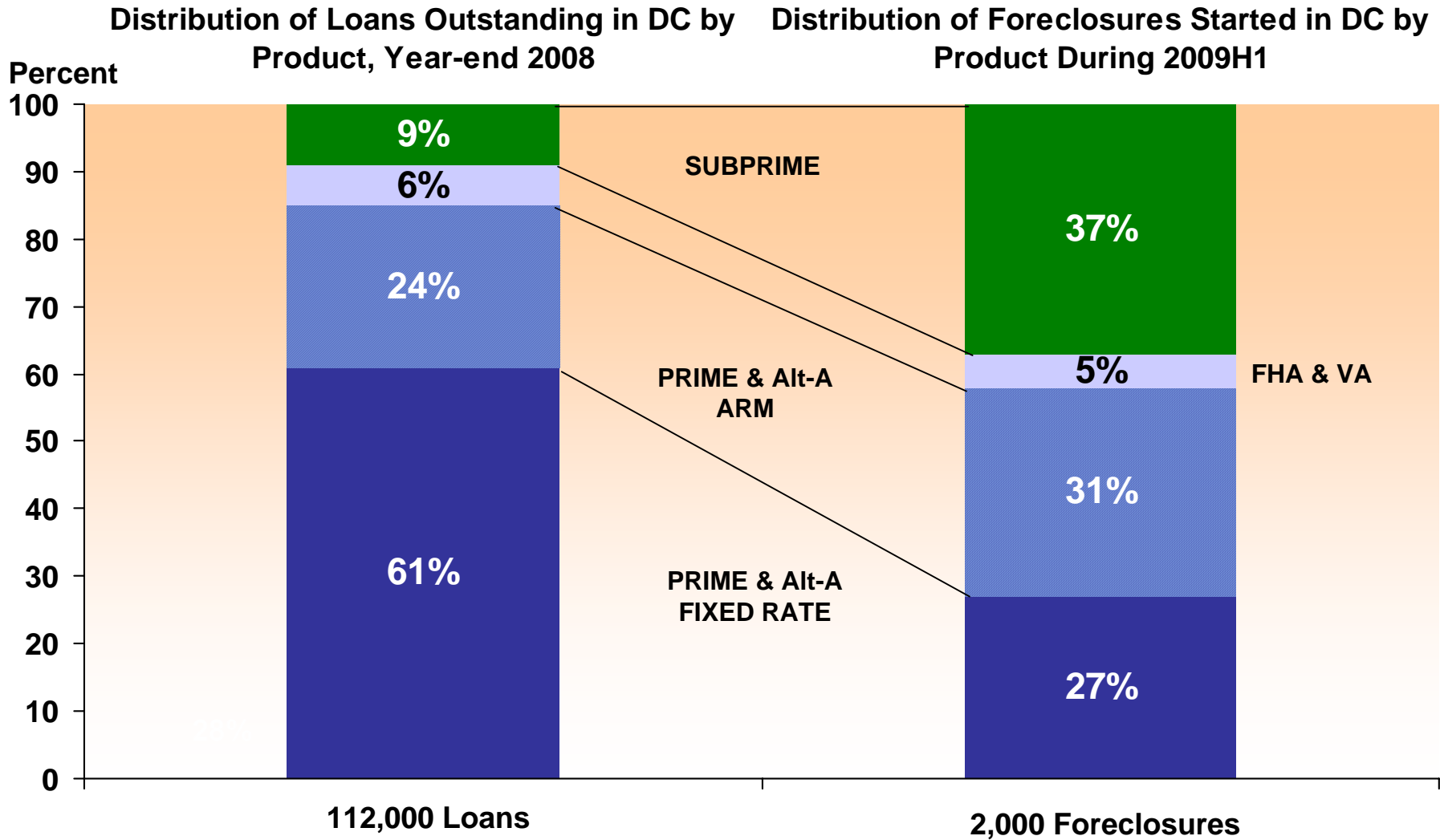
Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for 85% coverage.

Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in Maryland



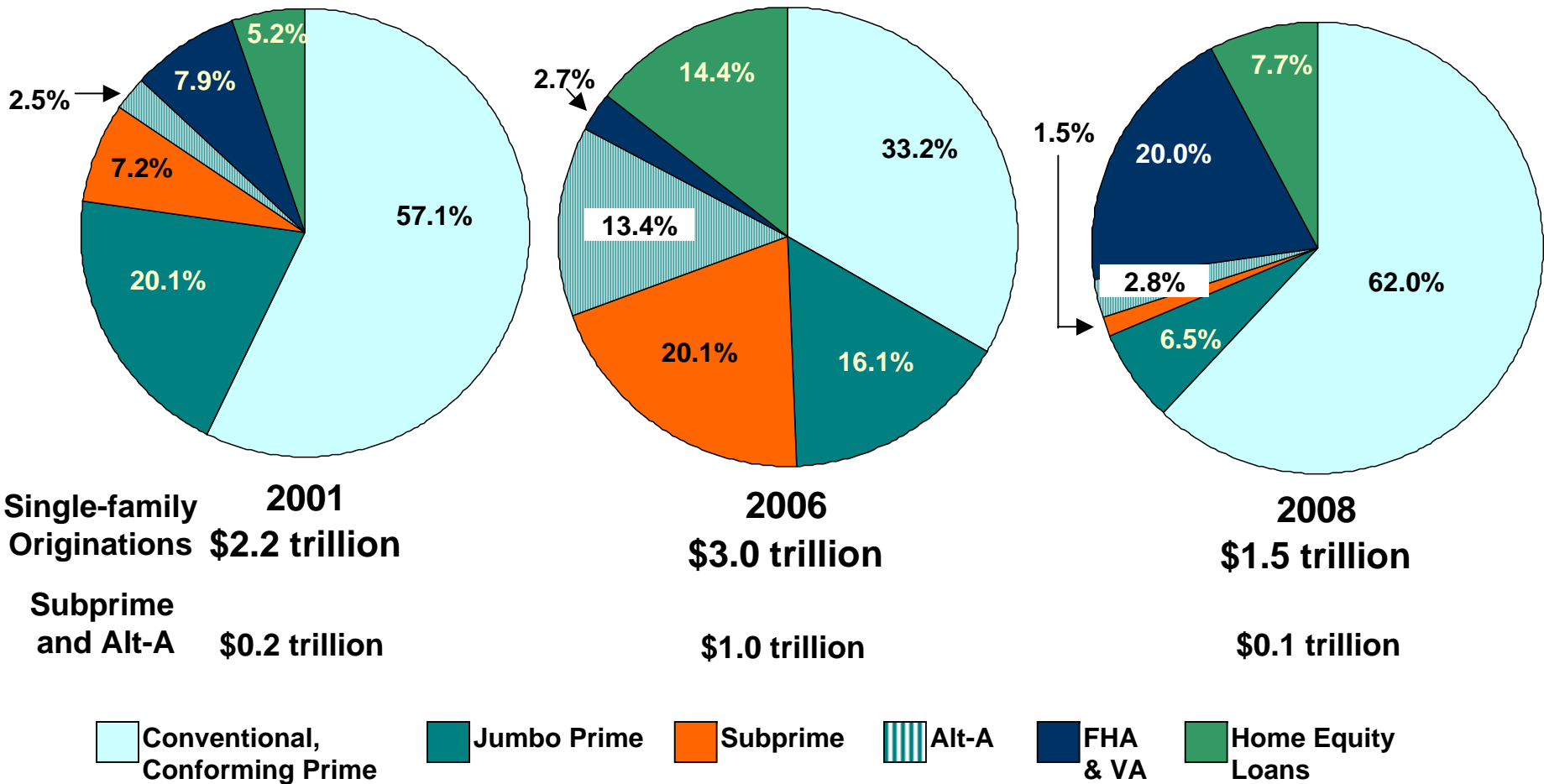
Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for 85% coverage.

Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in DC



Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for 85% coverage.

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

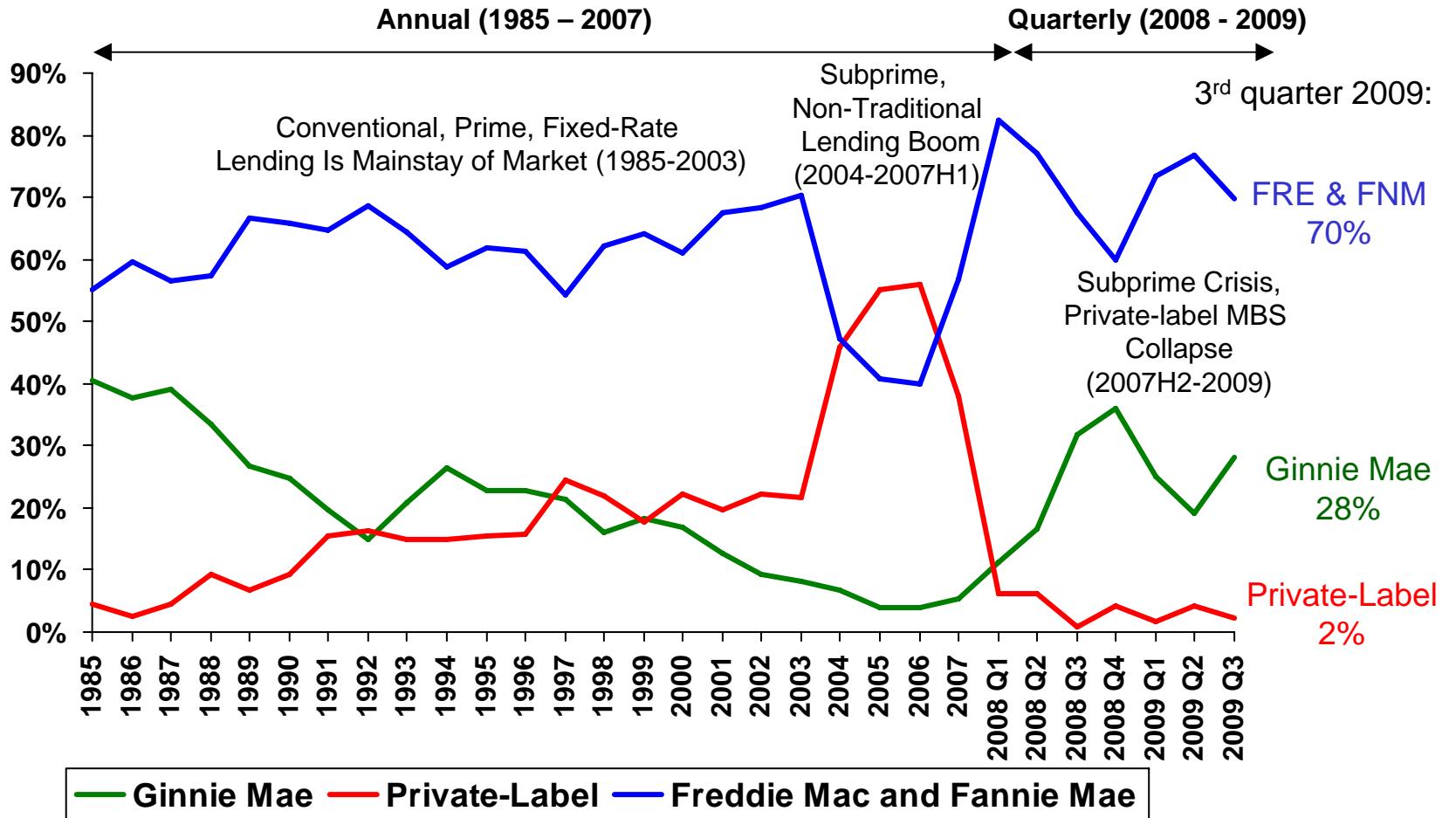


Source: Inside Mortgage Finance (by dollar amount)

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

MBS Share Issuance (Percent of MBS Issuance)

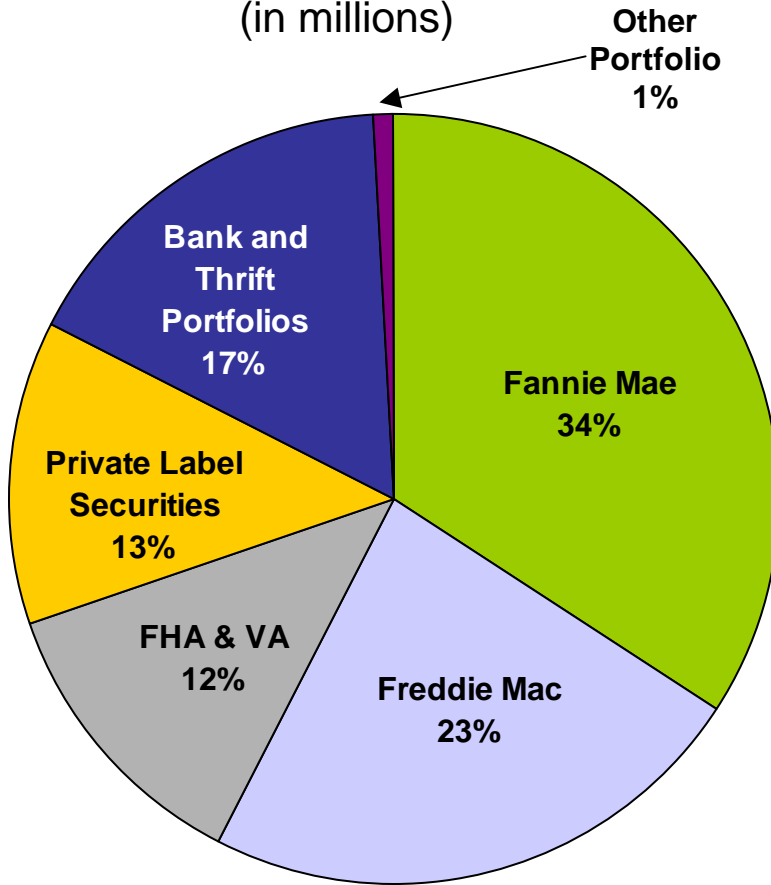


Source: Inside MBS & ABS (The 2008 Mortgage Market Statistical Annual - Volume II), Inside MBS & ABS (October 9, 2009).

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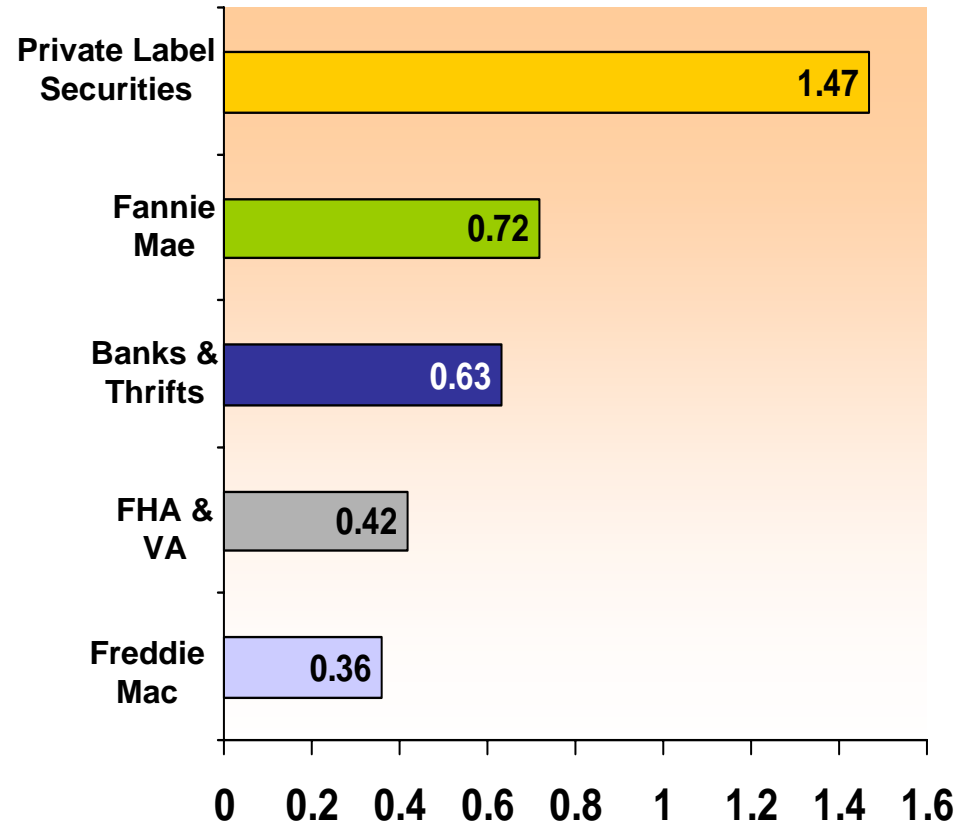
Private Label Securities Comprise 13% of Loans Outstanding but Over a Third of Problem Loans

Number of First Mortgages Outstanding
(in millions)



Total: 53 Million

Seriously Delinquent Mortgages
(in millions)

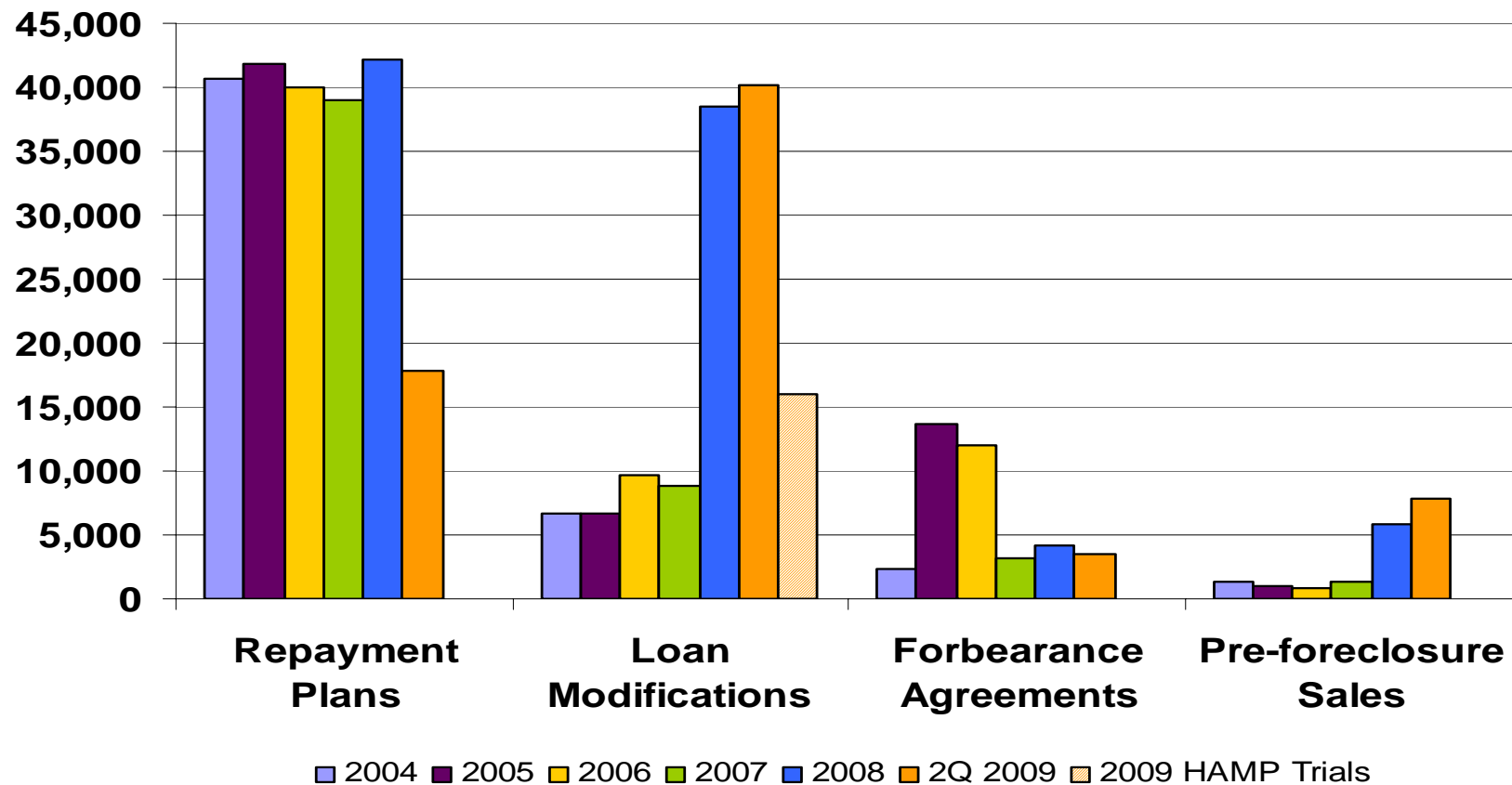


Total: 4.2 Million

Sources: FDIC, Freddie Mac, Fannie Mae, Mortgage Bankers Association, HUD, First American CoreLogic (LoanPerformance). Note: Data as of June 30, 2009. Seriously Delinquent loans were at least 90 days delinquent or in foreclosure. Components may not sum to 100% because of rounding. Freddie Mac and Fannie Mae figures include whole loans held in portfolio and in guaranteed securities outstanding.

Keeping People in Their Homes A Long-Standing Priority for Freddie Mac

Single-Family Alternatives to Foreclosure



Source: Freddie Mac

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Freddie Mac Plays A Leadership Role in Making Home Affordable

Making Home Affordable Has Two Main Components:

**Easier
Refinancing**

*Lower rates for
4-5 million mortgages*

**Subsidized
Modifications**

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

Freddie Mac Relief Refinance Mortgages

- Freddie Mac must own or guarantee
- Borrowers must be current over past 12 months
- LTVs up to 125% 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

- \$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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Contact us at chief_economist@freddiemac.com

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