

The Outlook for the U.S. Housing & Mortgage Markets

NAR Midyear Meetings
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May 12, 2011

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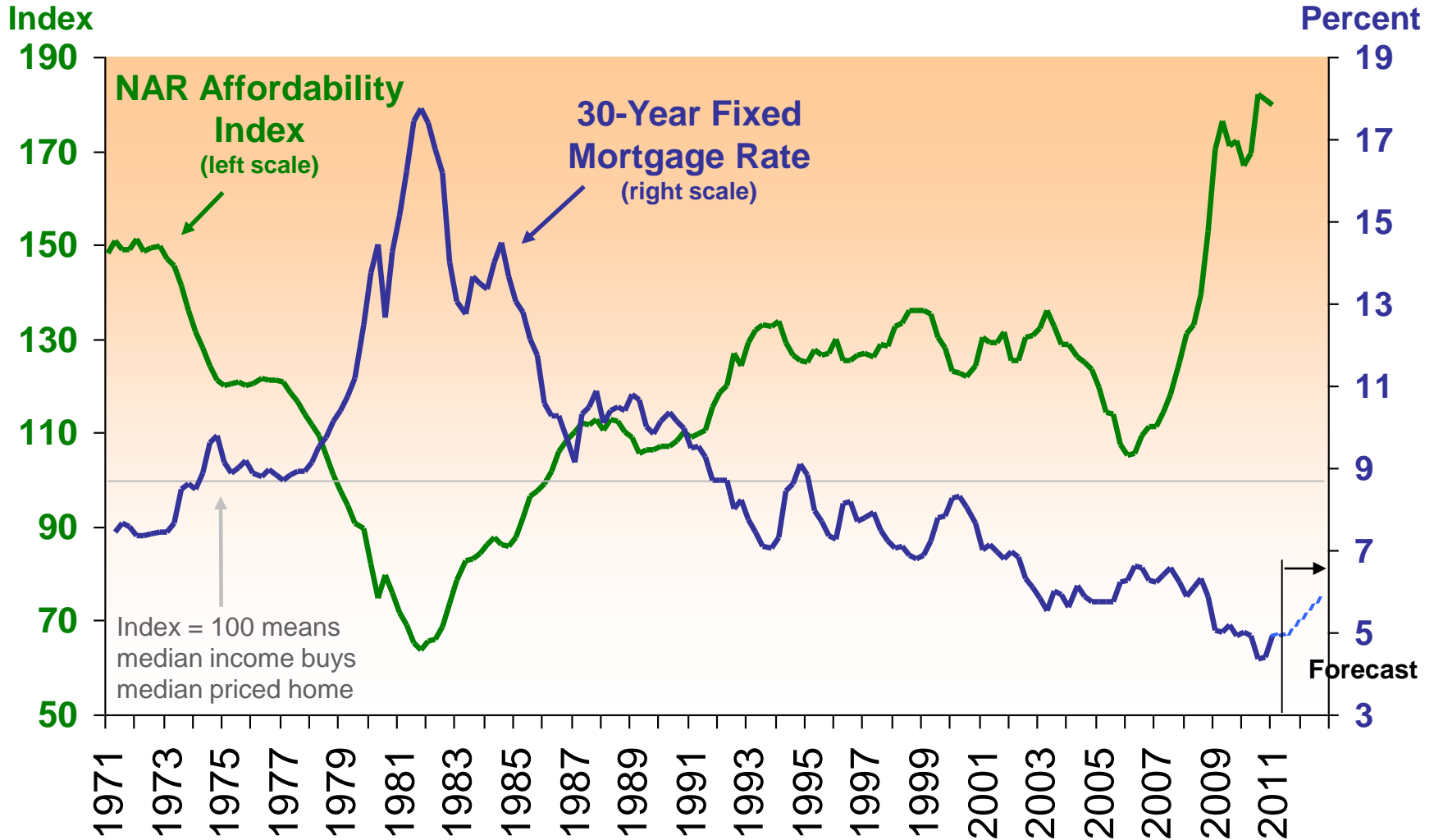
Home Buyer Affordability High; National Price Indexes Bottom-Out by End of 2011

- **Low mortgage rates support gradual housing pick-up**
 - 30-year FRMs stay largely in 4.75% to 5.25% range through 2011
 - Home buyer affordability supports home sales, up about 5% in 2011
 - Originations about one-third less in 2011, because of less refinance
 - FHA & VA about one-fourth to one-third of all lending in 2011

- **U.S. house price indexes likely to bottom in 2011**
 - Excess vacant, existing homes vary by market, but push price down
 - Improving consumer confidence will support housing demand
 - (Most) U.S. indexes will bottom by end of 2011
 - Markets with excess supply will have prices bottom after 2011

- **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

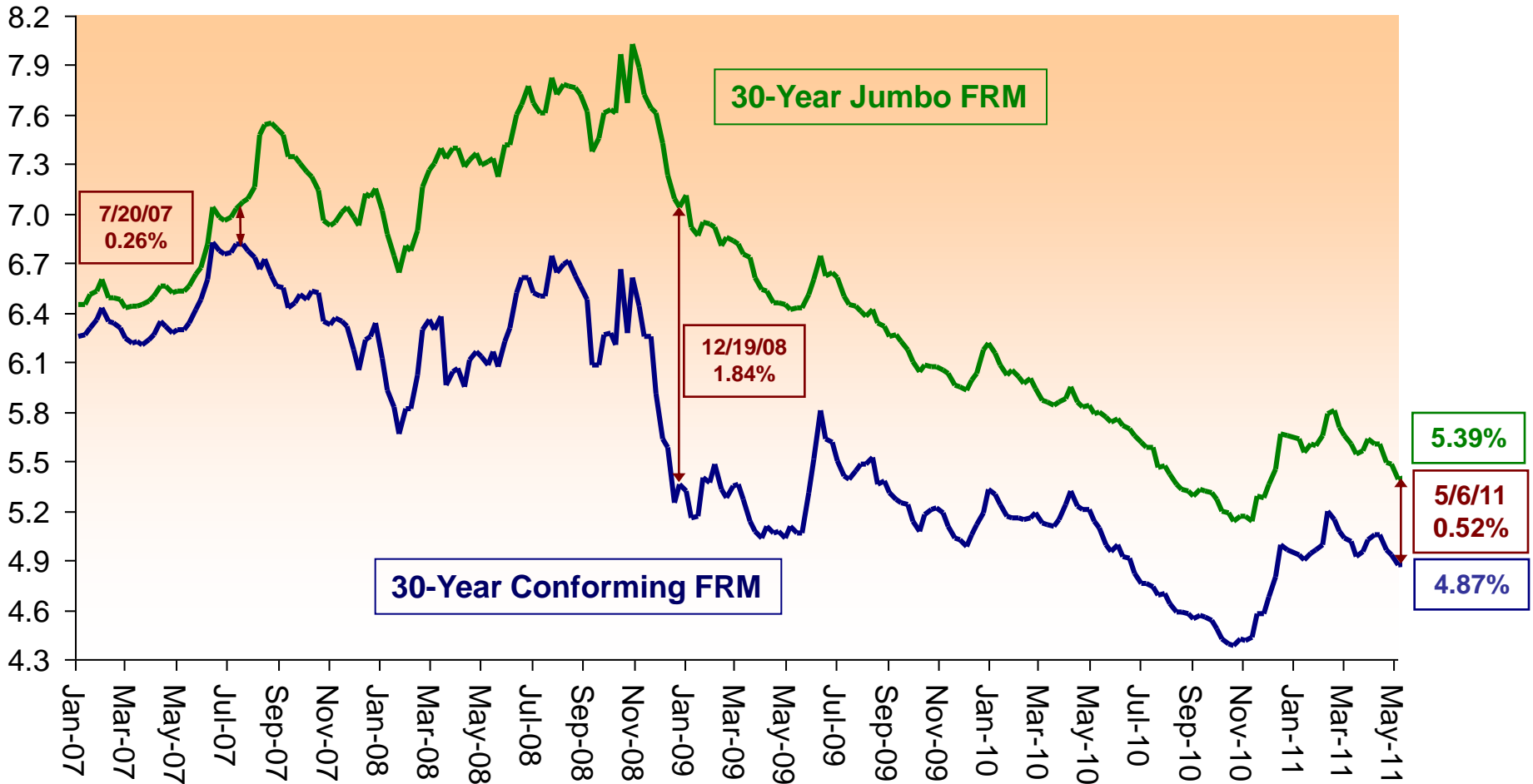
Low Interest Rates & Lower Home Prices Have Increased Homebuyer Affordability



Source: 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 April 2011 Outlook.

Jumbo Rates Remain Well Above Rates on Loans Eligible for Sale to Freddie Mac

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

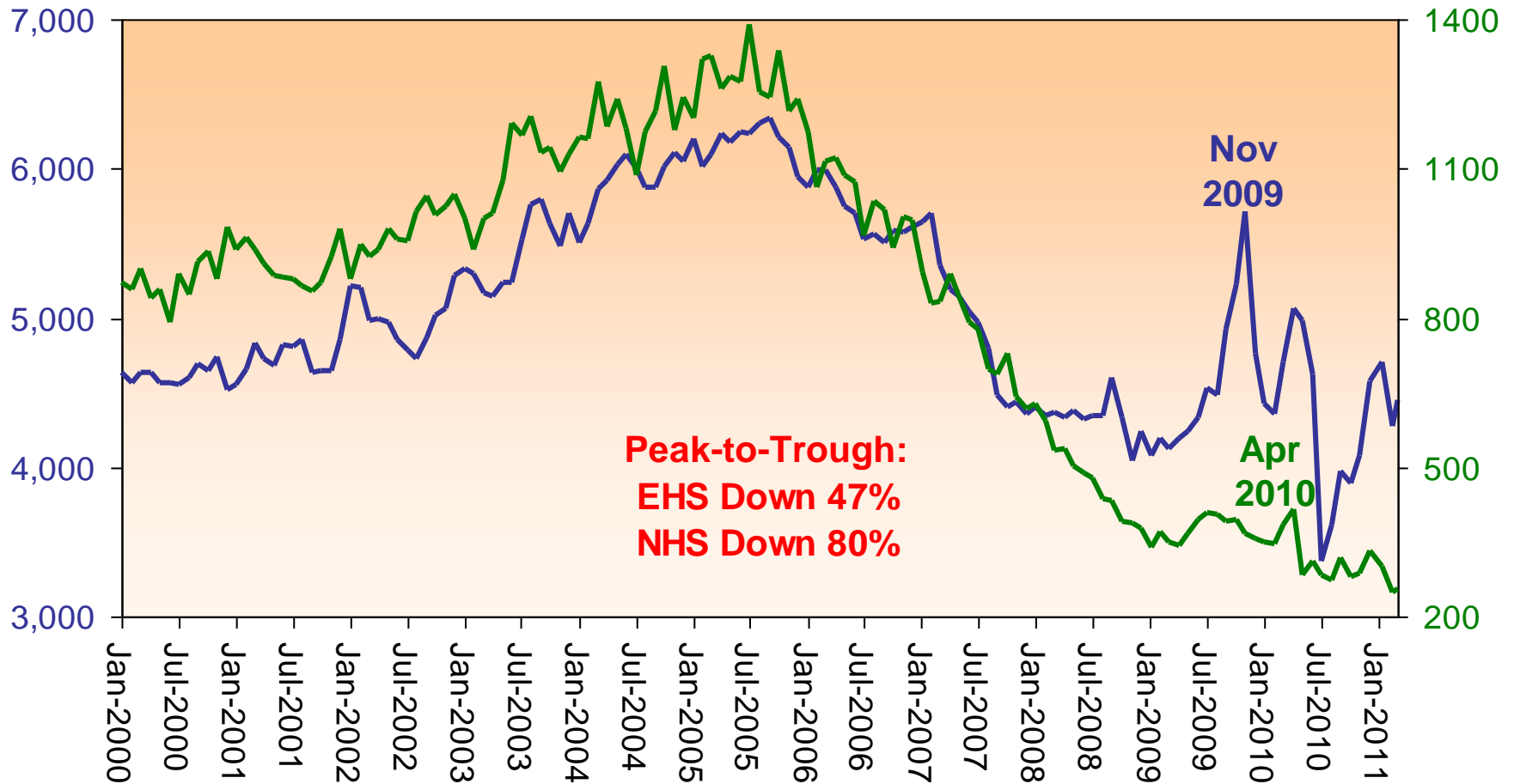


Source: HSH Associates (last data: week ending May 6, 2011)
 Note: Effective rate adds fees and points to the interest rate.

Tax Credit Stimulated Home Sales, and Drop-off After Expiration; Sales Gained toward Year-end

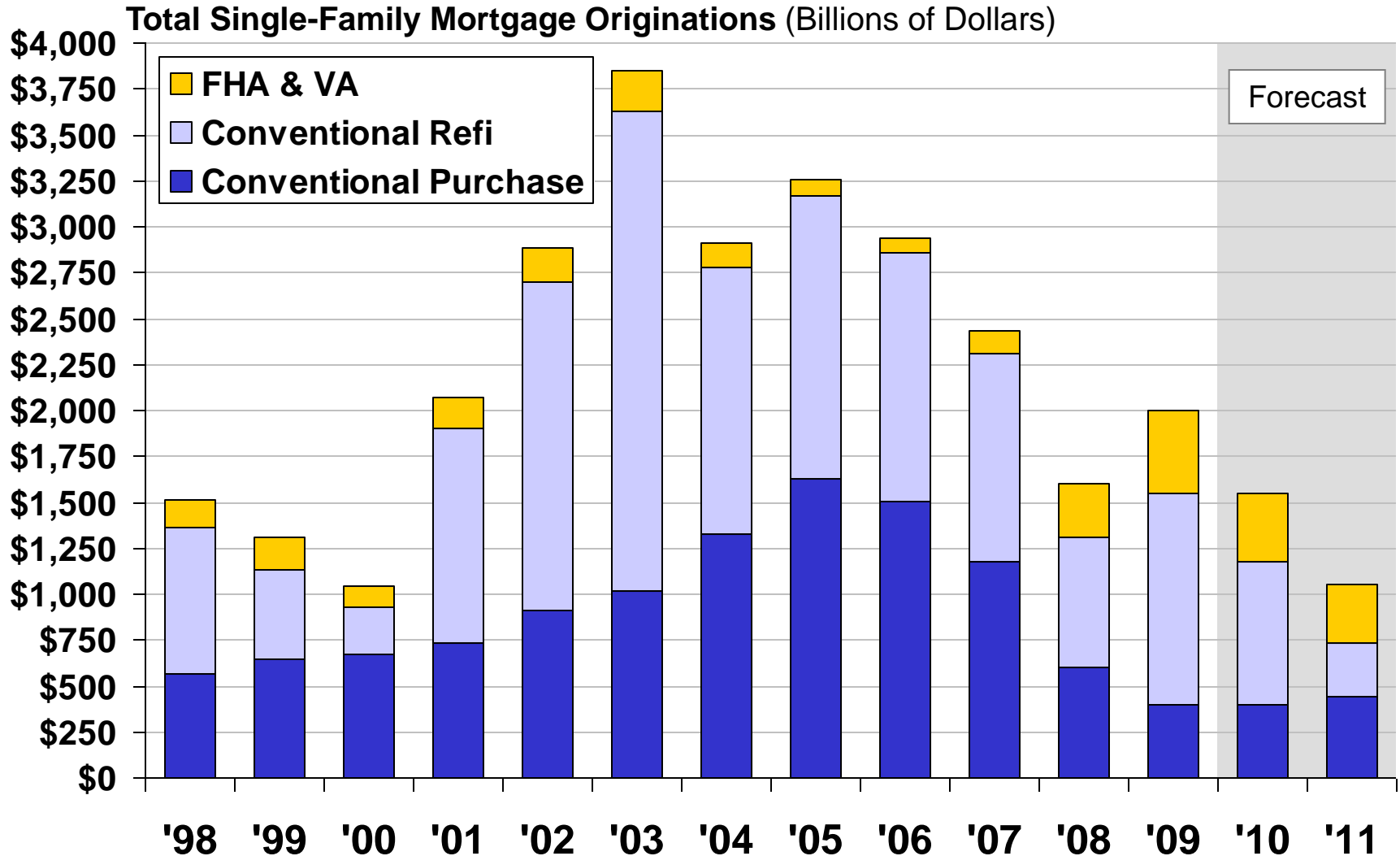
U.S. Existing Home Sales (Thousands)

U.S. New Home Sales (Thousands)

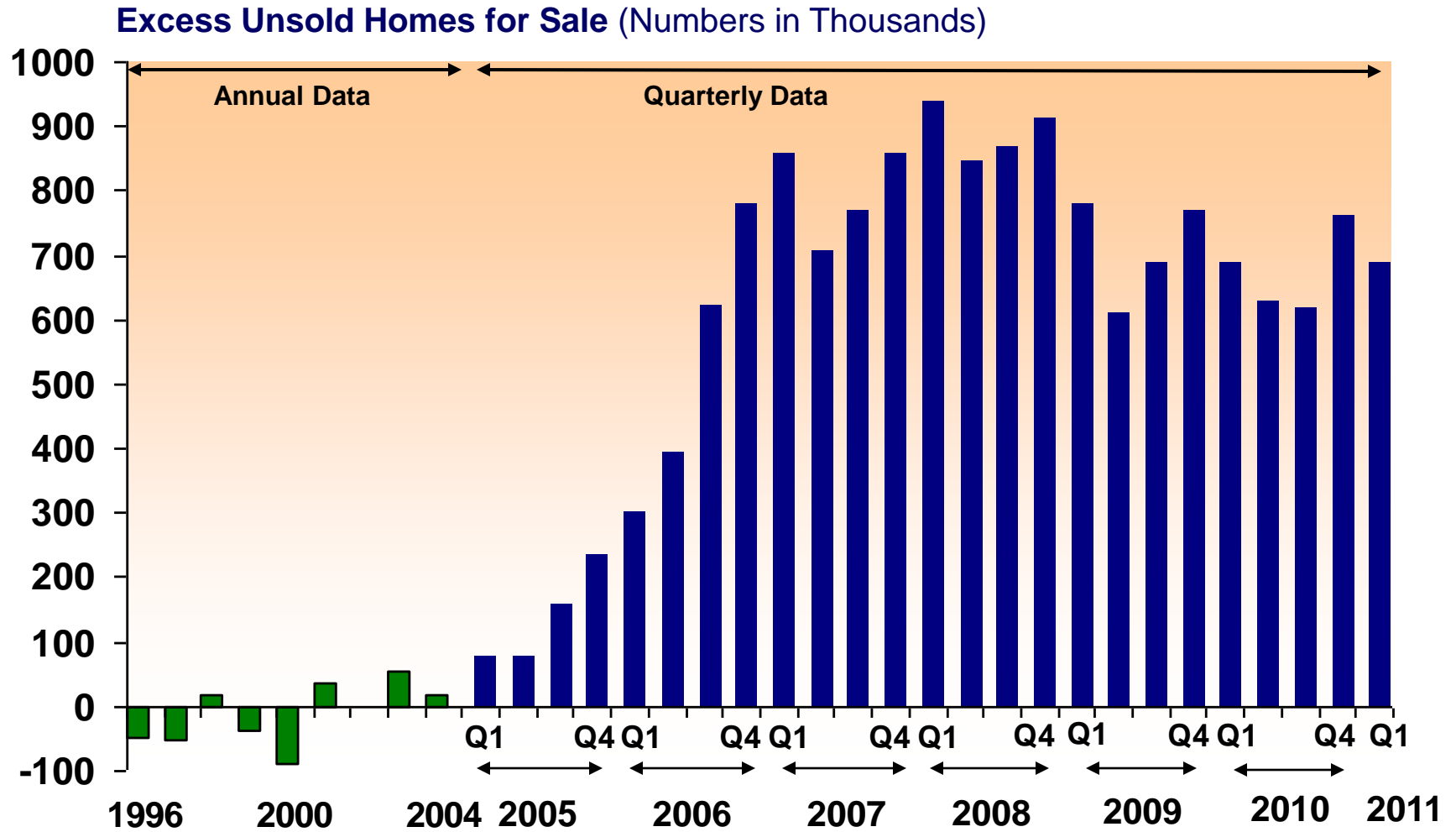


Source: US Census Bureau, National Association of Realtors® (excludes condo/co-op sales)

More Purchase-Money but Less Refinance Result in 30% Decrease in 2011 Originations ($\frac{1}{3}, \frac{1}{3}, \frac{1}{3}$)



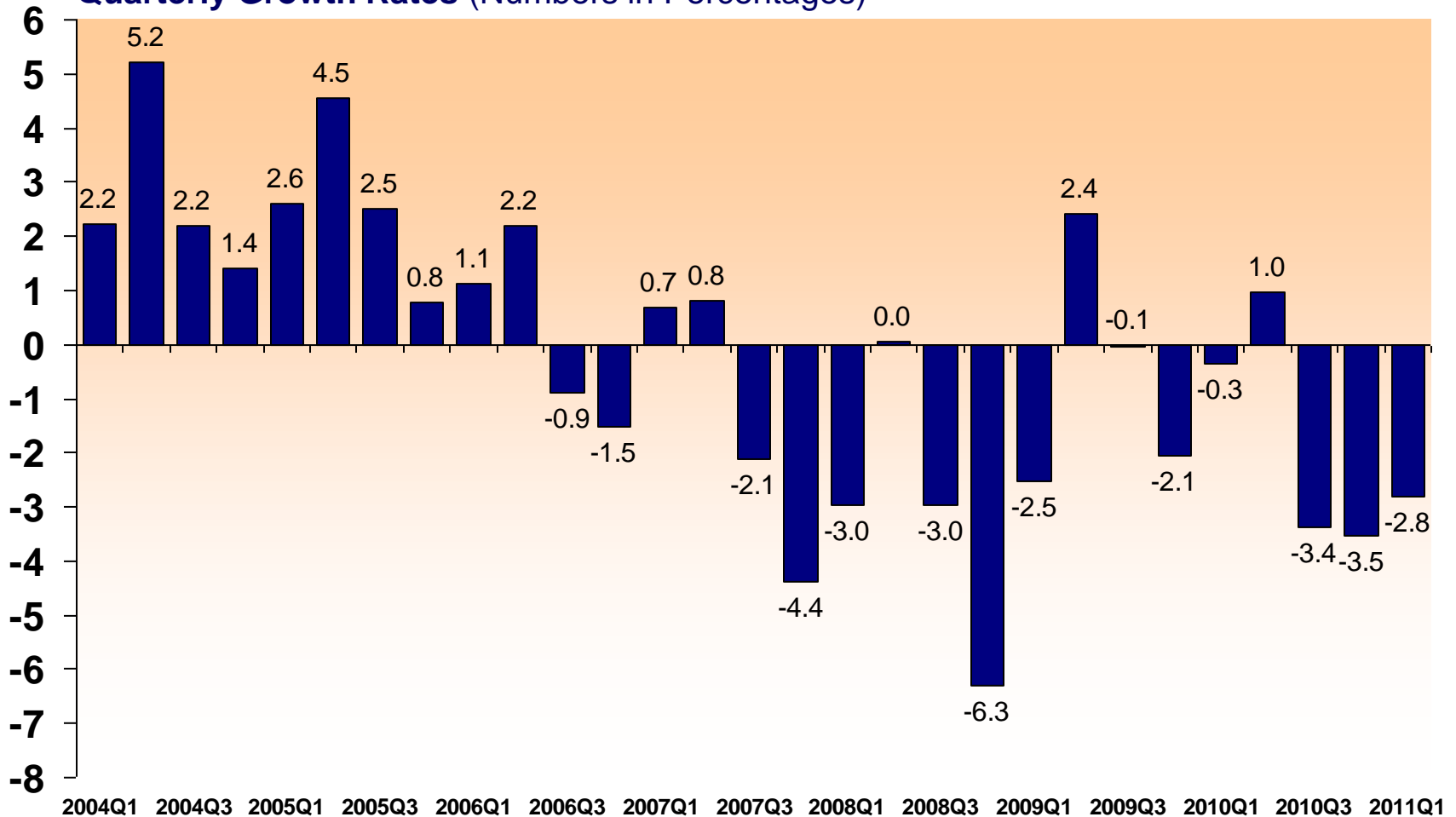
Large Inventory Surplus Remains in Market



Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2011Q1:Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

Freddie Mac's U.S. House Price Index Has Had A Cumulative Decline of 27% Since June 2006

Quarterly Growth Rates (Numbers in Percentages)



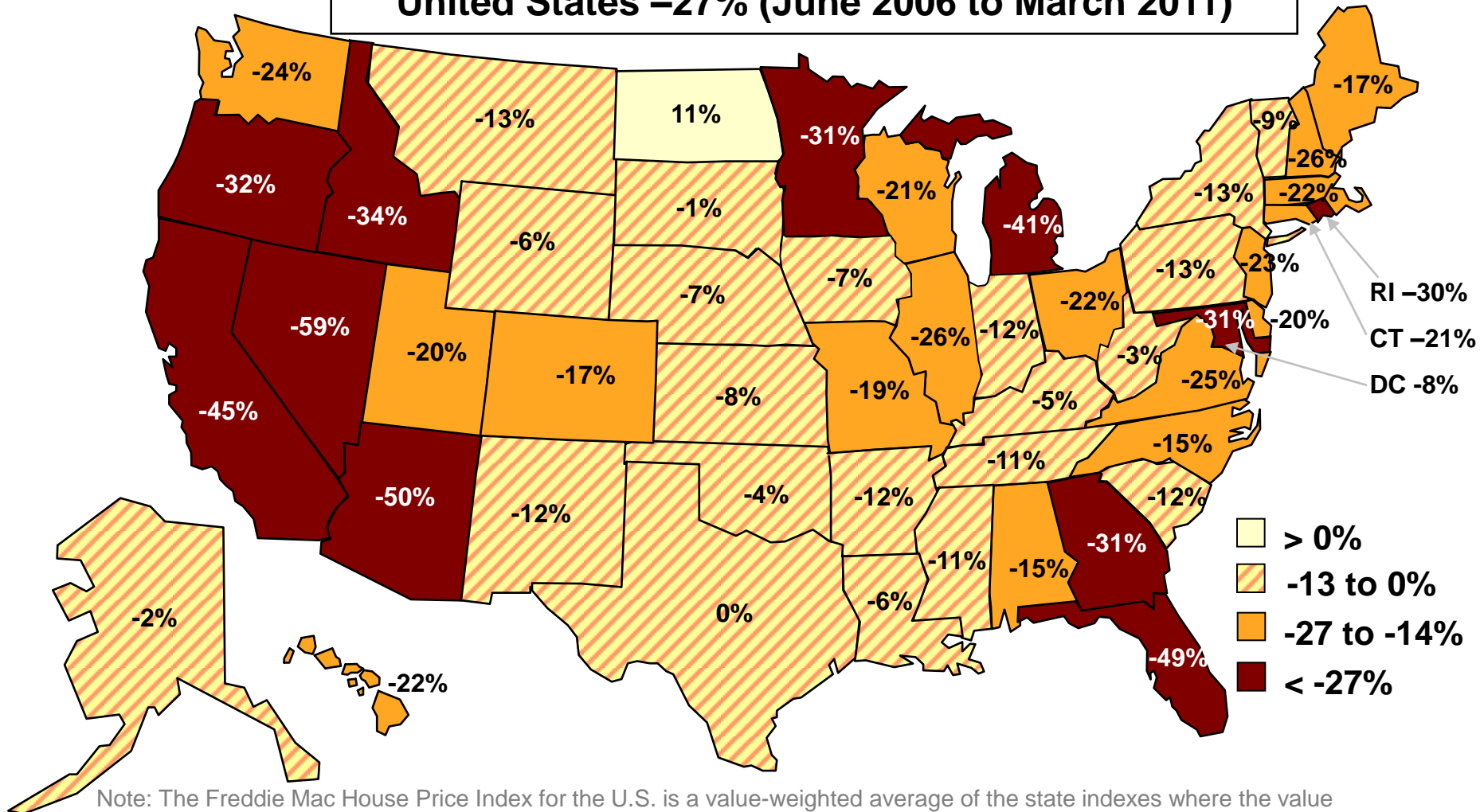
Note: The Freddie Mac House Price Index for the U.S. is a value-weighted average of the state indexes where the value weights are based on Freddie Mac's single-family portfolio. The U.S. index is a monthly series; quarterly growth rates are calculated as a 3-month change based on the final month of each quarter.

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Source: Freddie Mac House Price Index

House Price Performance Has Varied A Lot by State (-59% to 11%), June 2006 to March 2011

United States -27% (June 2006 to March 2011)



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 portfolio.

Source: Freddie Mac House Price Index

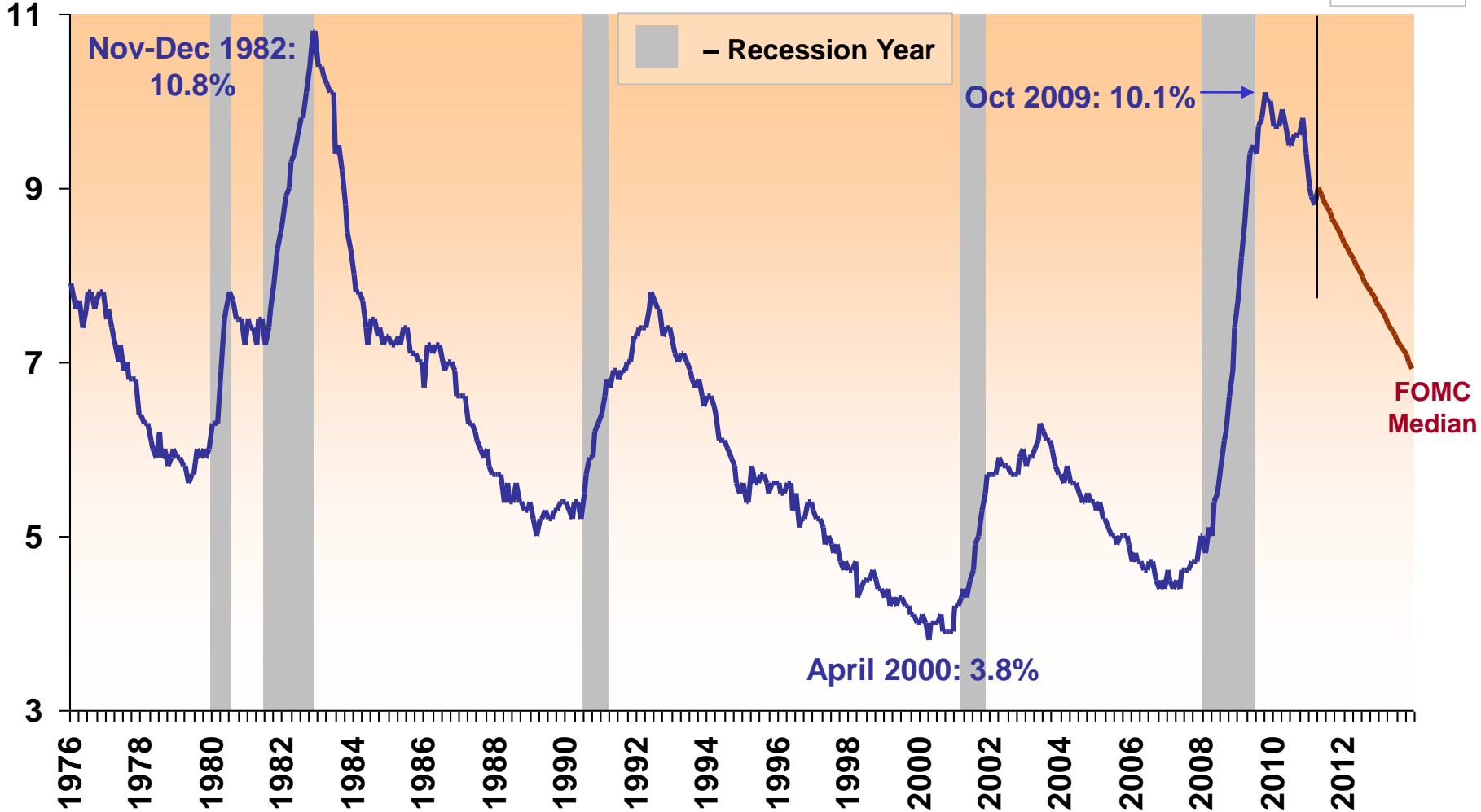
Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

Hardship Reason	2009
Unemployment or curtailment of income	58.3%
Excessive obligation	16.3%
Illness or Death in the Family	11.2%
Marital difficulties	5.0%
Inability to sell or rent property	2.8%
Property problem or casualty loss	1.7%
Employment transfer or military service	0.9%
Extreme hardship	0.1%
All other reasons	3.7%

Source: Freddie Mac; data represent prime borrowers who were delinquent on conventional conforming loans owned by Freddie Mac and had successful contact with their servicer during 2009. All Other Reasons includes: Abandonment of Property; Energy/Environment Cost; Incarceration; Payment adjustment; Payment Dispute; Servicing problem; Unable to contact borrower and other – nondescript.

U.S. Unemployment Rate (9.0% in April) Expected to Decline Gradually

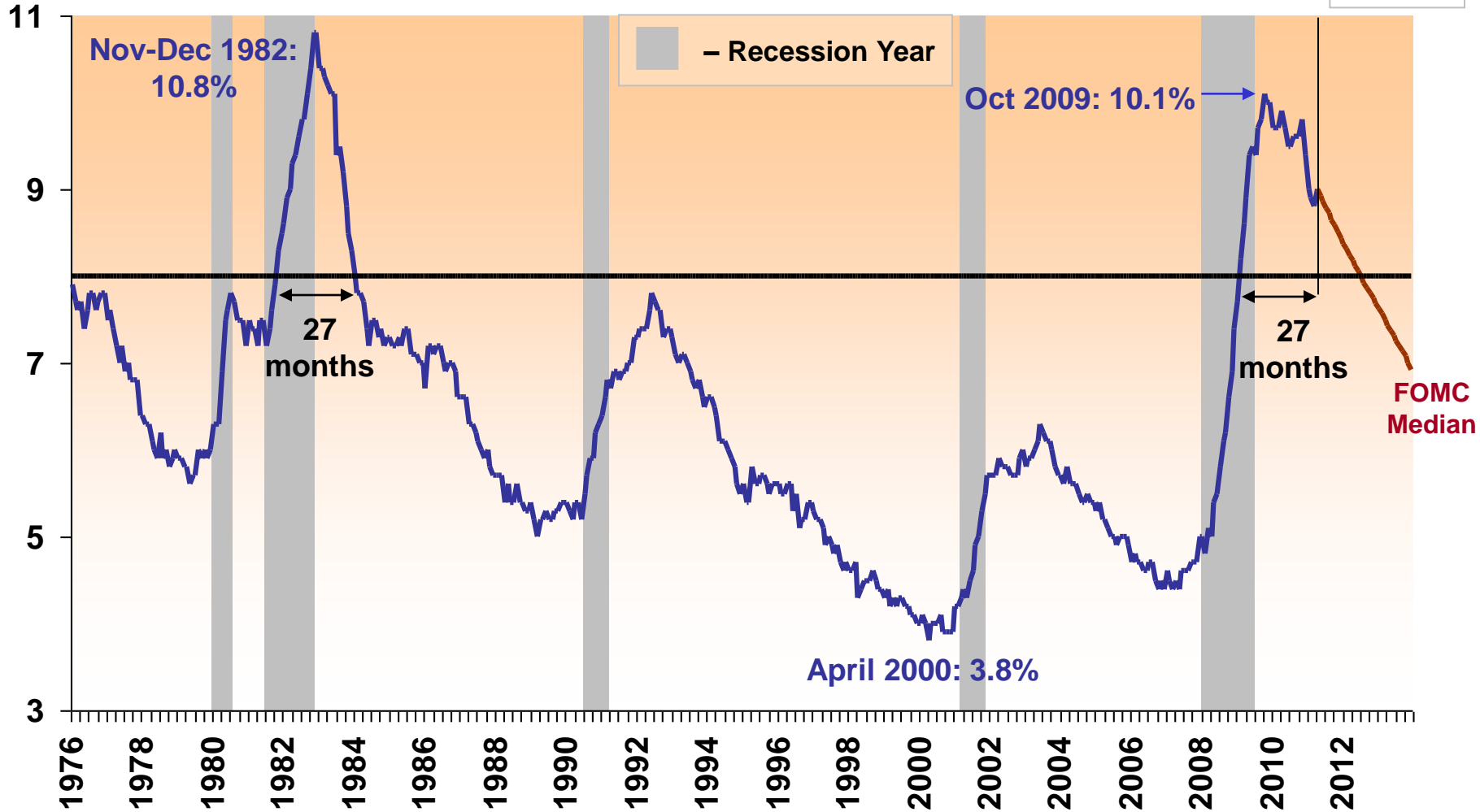
Unemployment Rate (Percent)



Sources: U.S. Department of Labor, Federal Reserve (Central Tendency projection midpoint of Governors and Reserve Bank presidents as of April 2011 for fourth quarter of 2011, 2012 and 2013 (other quarters obtained through linear interpolation)).

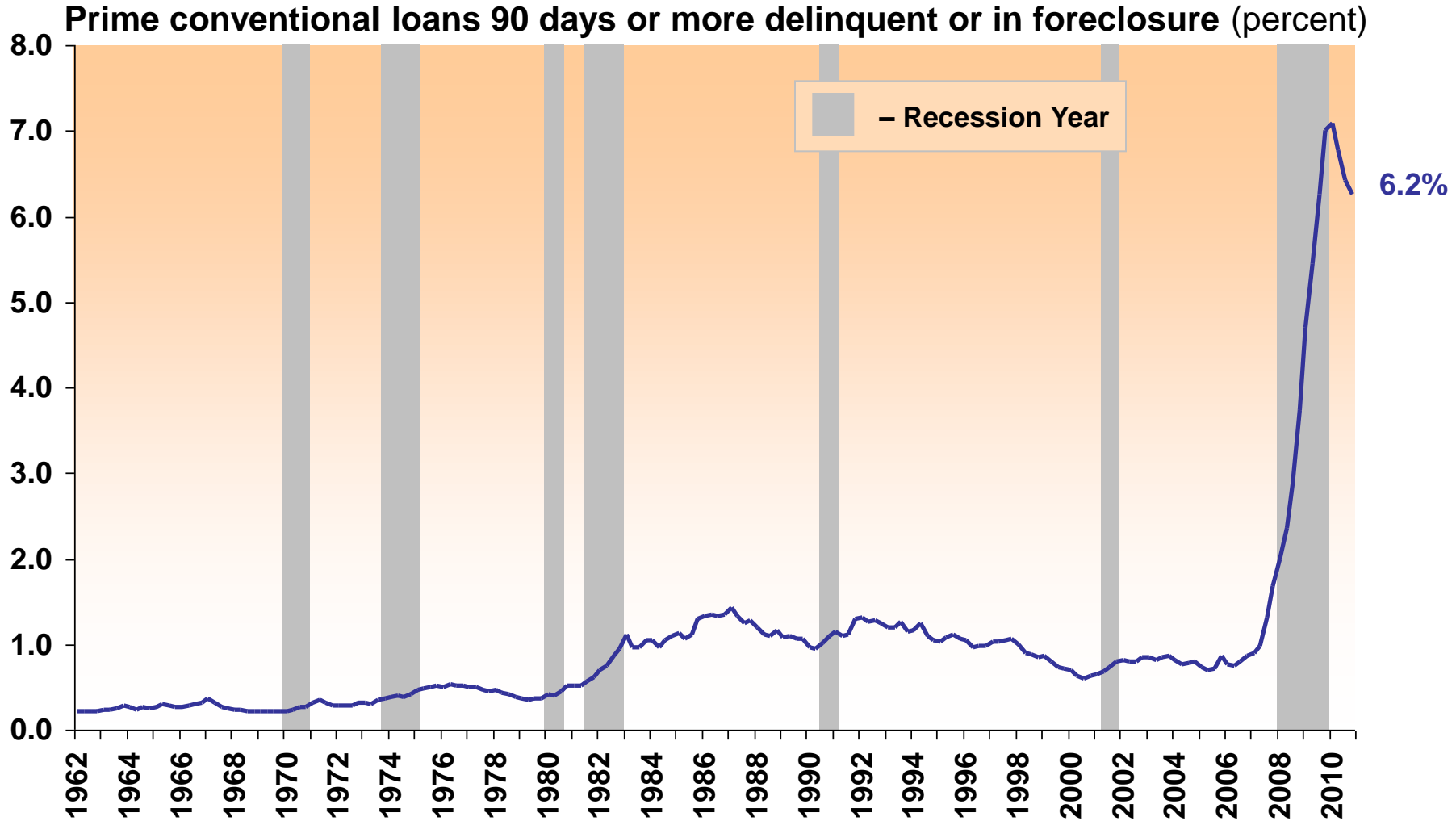
U.S. Unemployment Rate Has Been Above 8% for 27 Straight Months

Unemployment Rate (Percent)



Sources: U.S. Department of Labor, Federal Reserve (Central Tendency projection midpoint of Governors and Reserve Bank presidents as of April 2011 for fourth quarter of 2011, 2012 and 2013 (other quarters obtained through linear interpolation)).

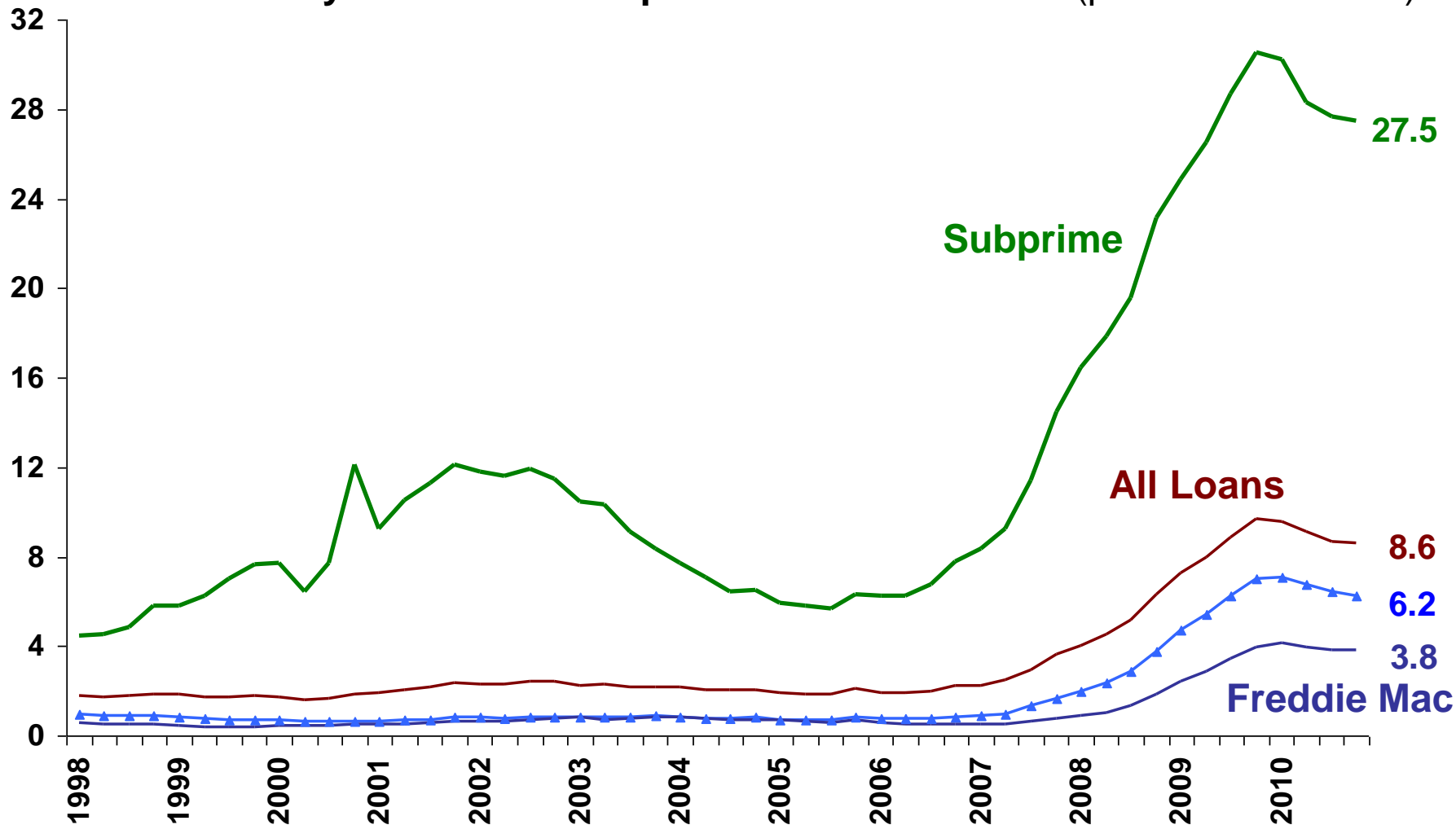
Recent Default Experience Is Unlike Any Previous Business Cycle Since the 1930s



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

Serious Delinquencies Have Begun to Lessen, but Remain Very High

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

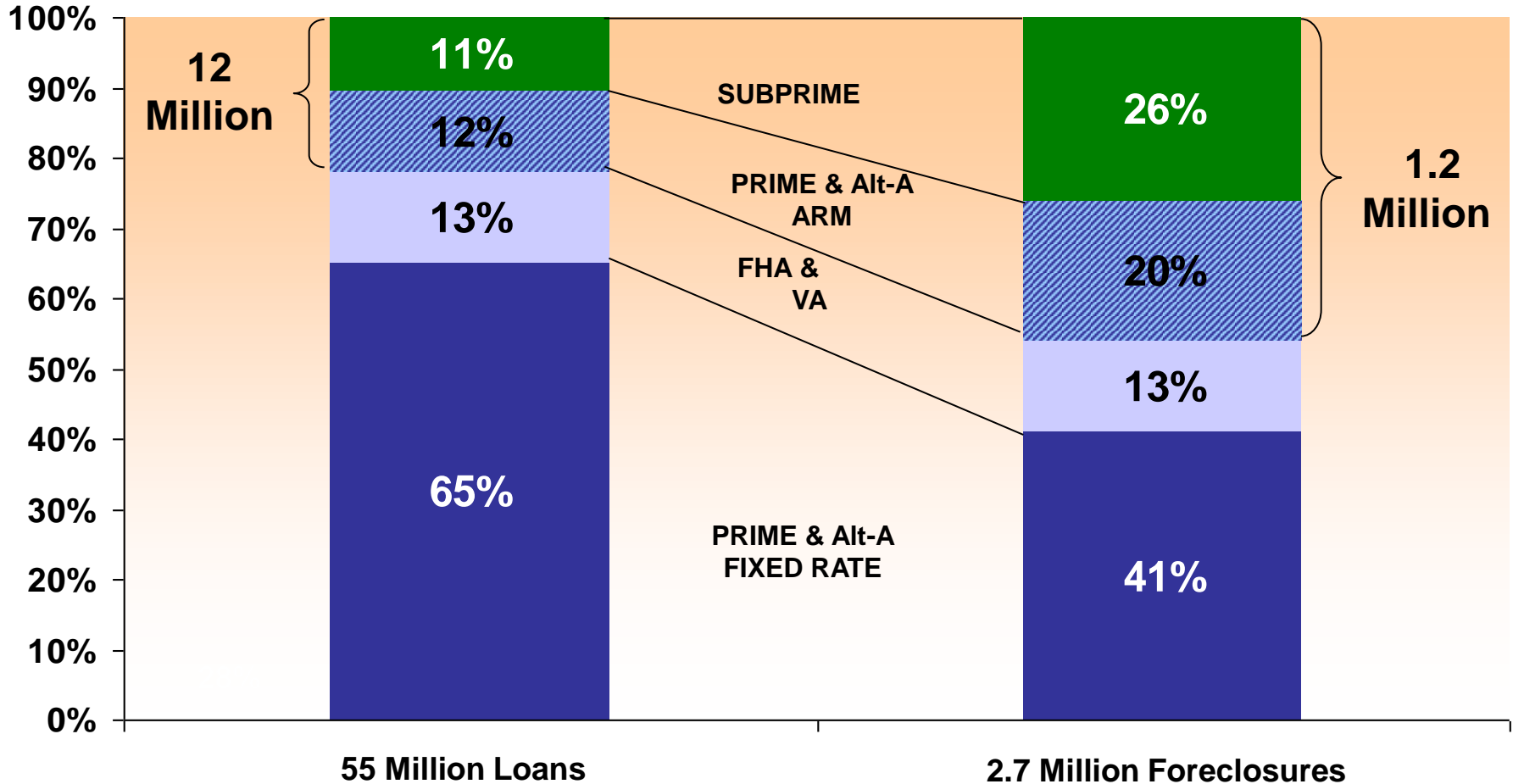


Source: Mortgage Bankers Association, "Prime Loans" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2010Q2); Freddie Mac.

Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in the U.S

Distribution of Loans Outstanding in the U.S by Product, January 1, 2010

Distribution of Foreclosures Started in the U.S by Product, Jan-December 2010

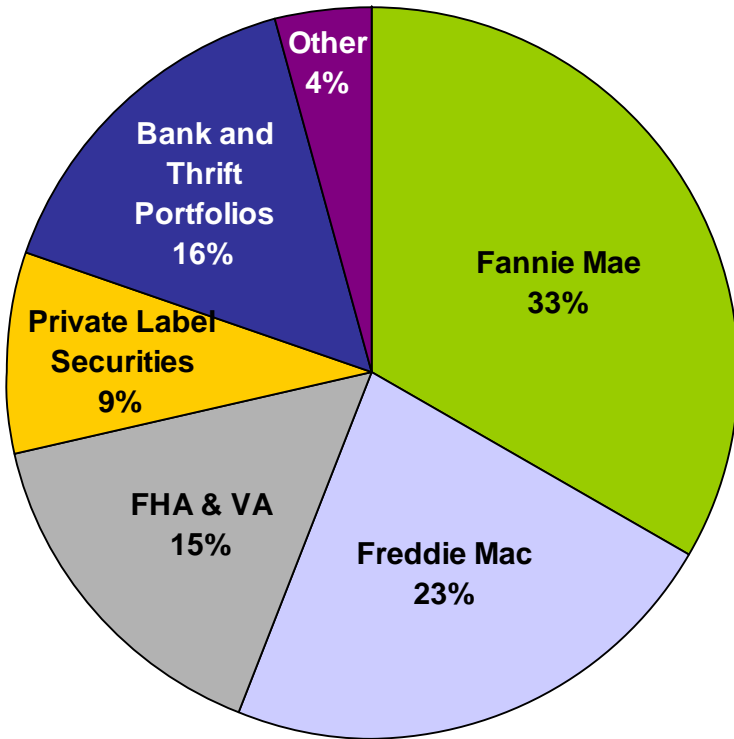


Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for coverage.

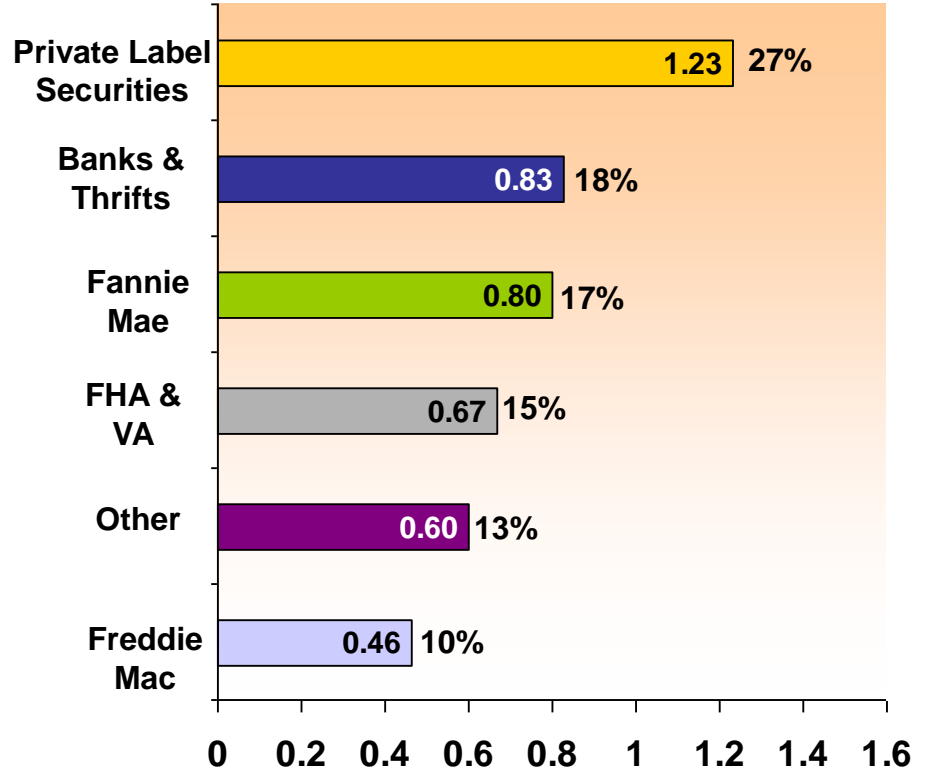
Private Label Securities Comprise 9% of Loans Outstanding but Over 25% of Problem Loans

Number of First Mortgages Outstanding
(in millions)

Seriously Delinquent 1st Mortgages
(in millions)



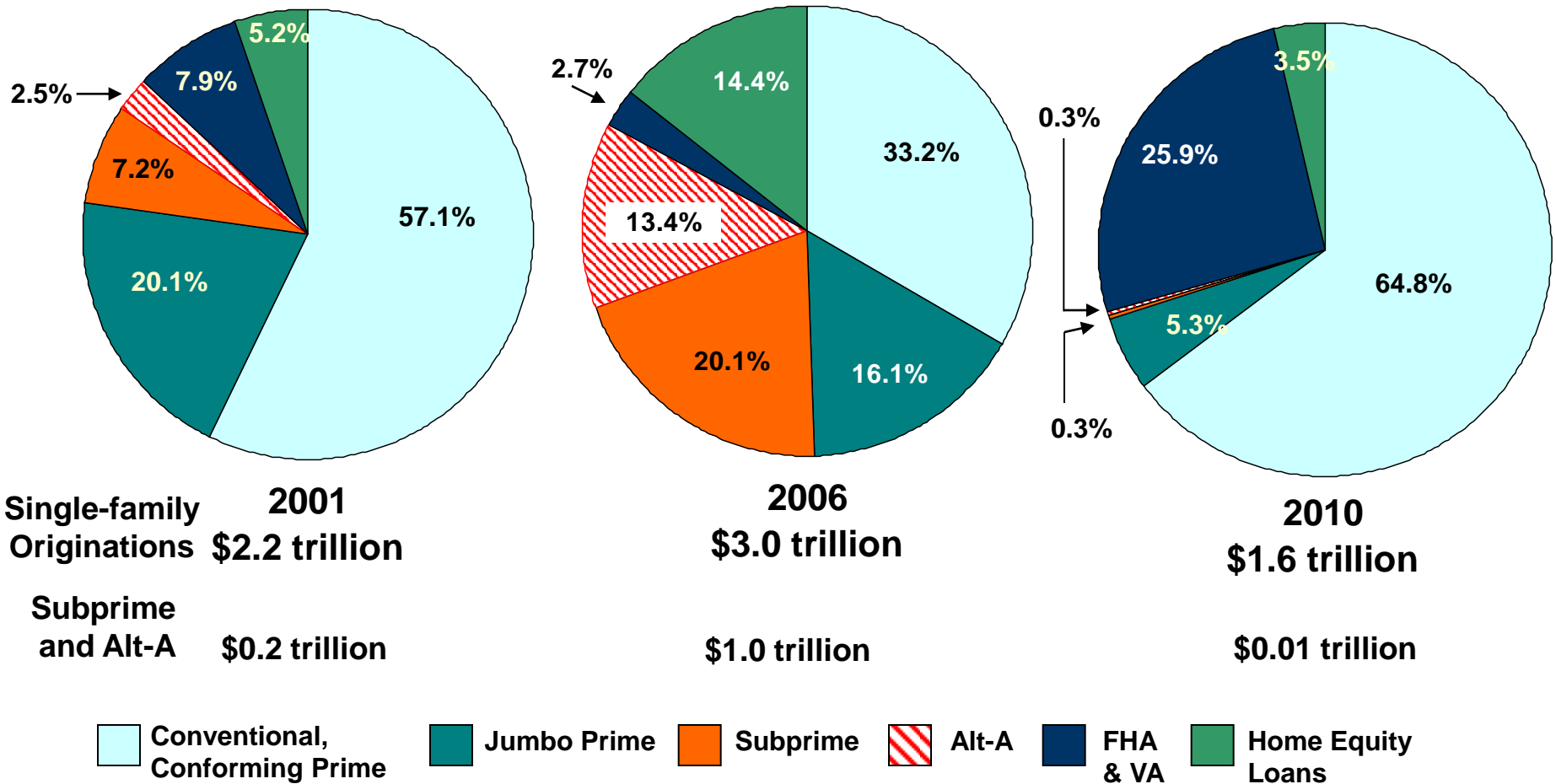
Total: 54 Million



Total: 4.6 Million

Sources: FDIC, Freddie Mac, Fannie Mae, Mortgage Bankers Association, HUD, VA, CoreLogic, Federal Reserve.
 Note: Data as of December 31, 2010. 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.

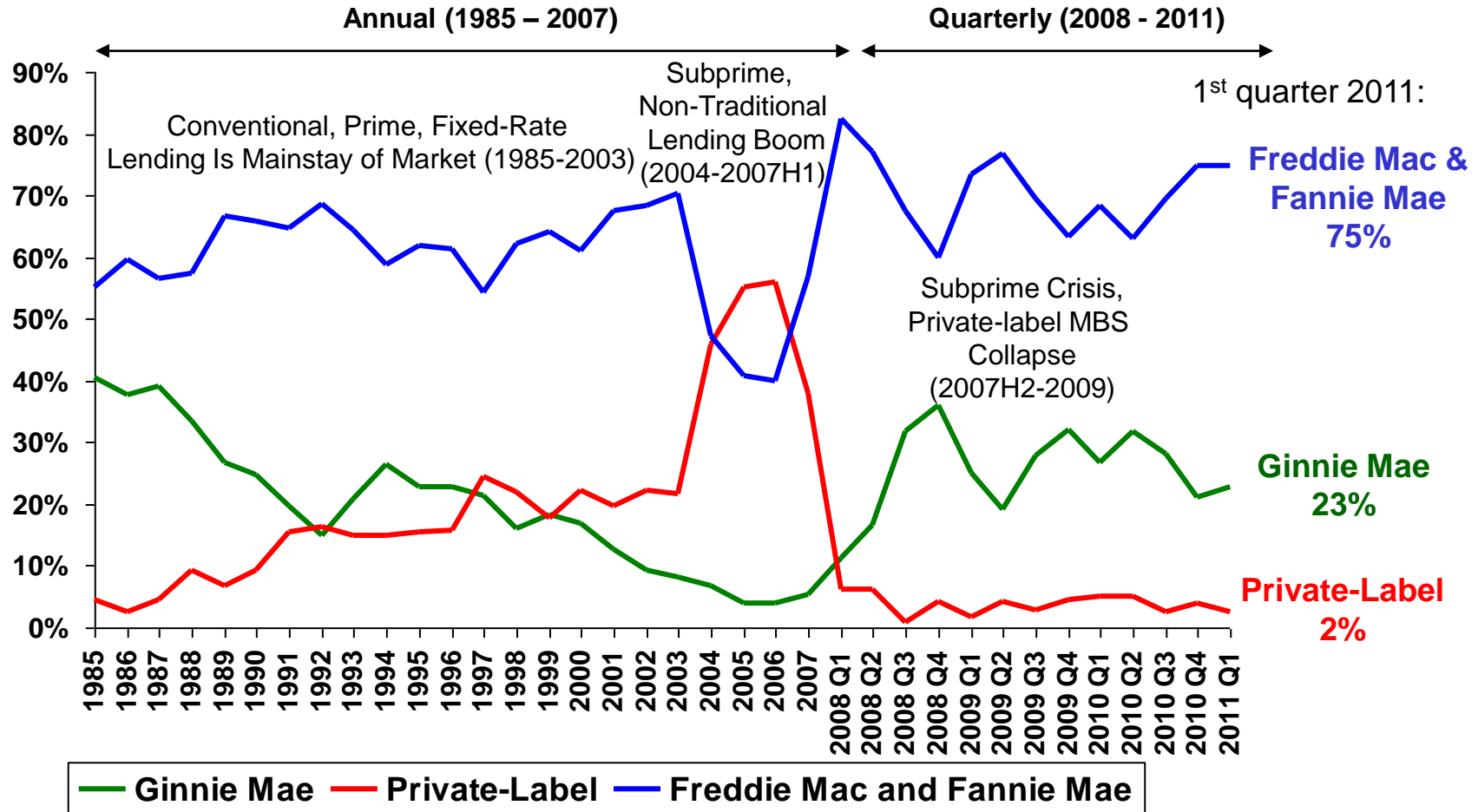
Subprime and Alt-A Volume Quintupled 2001 to 2006, then Fell from 2006 to 2010



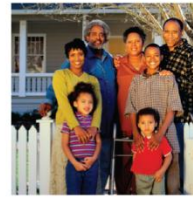
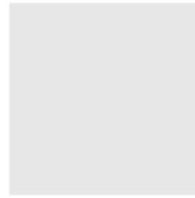
Source: Inside Mortgage Finance (by dollar amount)

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

MBS Share (Percent of MBS Issuance)



Source: Inside MBS & ABS (The 2008 Mortgage Market Statistical Annual - Volume II), Inside MBS & ABS (January 8, 2010), Inside MBS & ABS (October 8, 2010), Inside MBS & ABS (January 8, 2011), Inside MBS & ABS (May 6, 2011).



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