

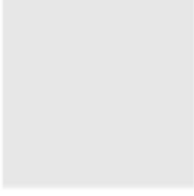


AMERICAN  
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# **The Economic and Housing Market Outlook - When Might We See Bottom?**

***Dr. Amy Crews Cutts***

Deputy Chief Economist, Freddie Mac; Washington, D.C.



# *Housing and Mortgage Market Update*

Detroit Consumer Bankruptcy Conference

Troy, MI

November 12, 2009

**Amy Crews Cutts, PhD**

Deputy Chief Economist

## Recession Now Appears Likely

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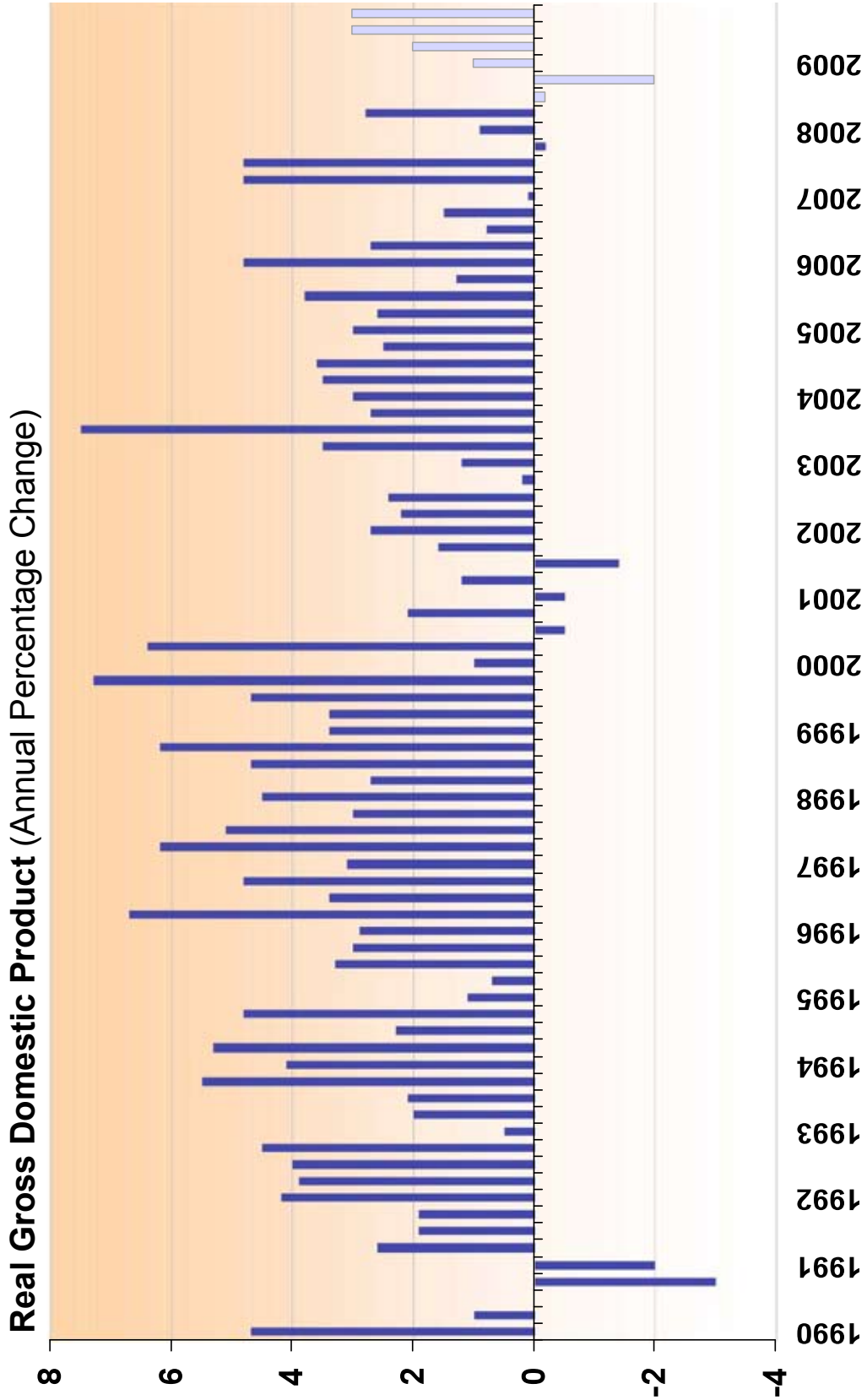
### ■ Recession risks have risen

- Financial market problems in September and October affect consumer and investor confidence and spending, leading to expected declines in real GDP
- Monthly job losses are rising; Unemployment rate up
- Housing market news in July and August was positive, but is expected to reflect financial market troubles over next few months
- Stabilization in the housing market now expected to come in 2009, starting with leveling-off of home sales in first half of year

### ■ Risks to the outlook

- Financial market troubles continue – How bad will it be?
- Energy & Food Costs: high oil and natural gas prices act like a tax on the economy

# Economic Growth Expected To Be Negative in 3Q and 4Q 2008

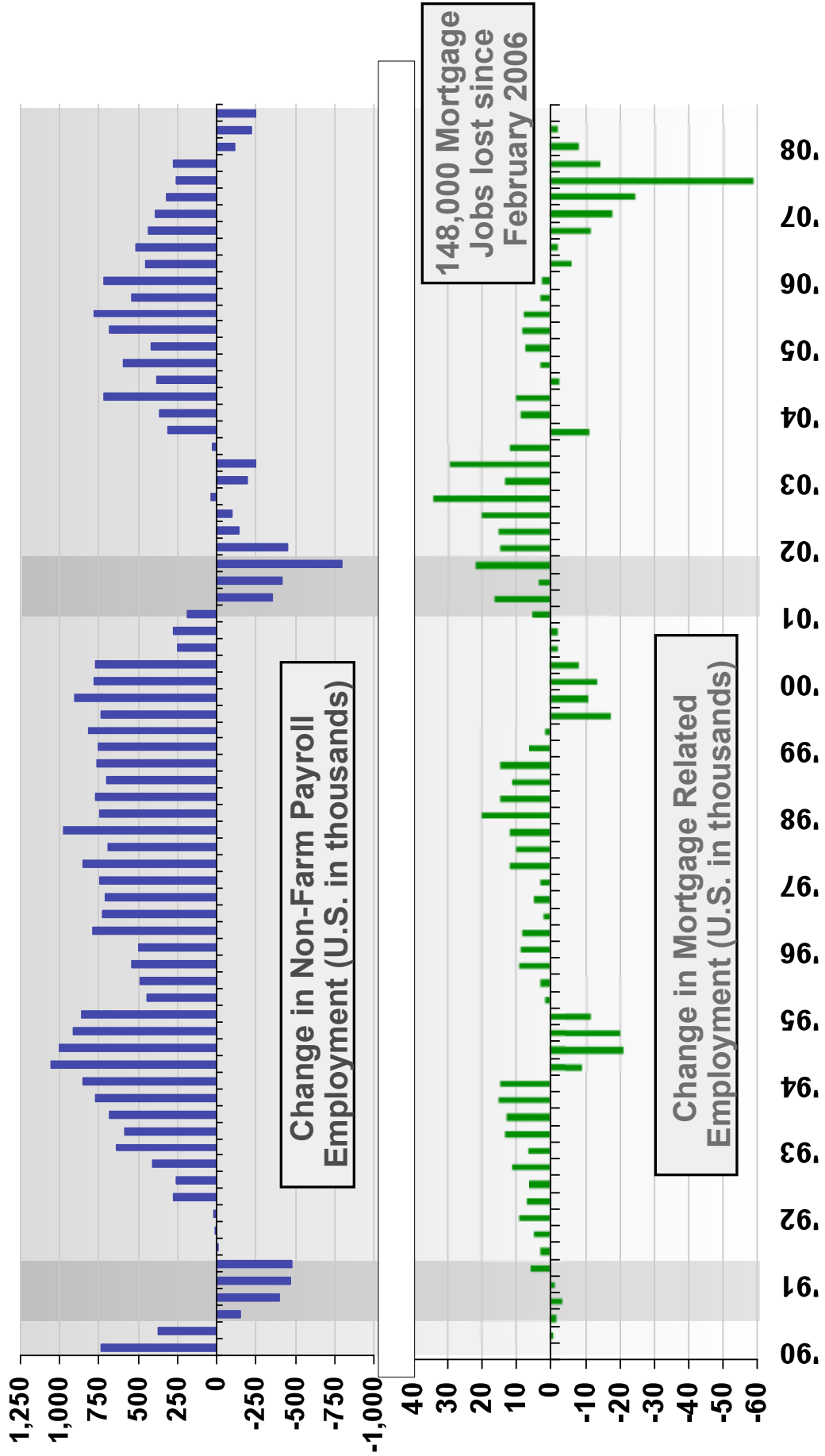


Sources: Department of Commerce, Freddie Mac

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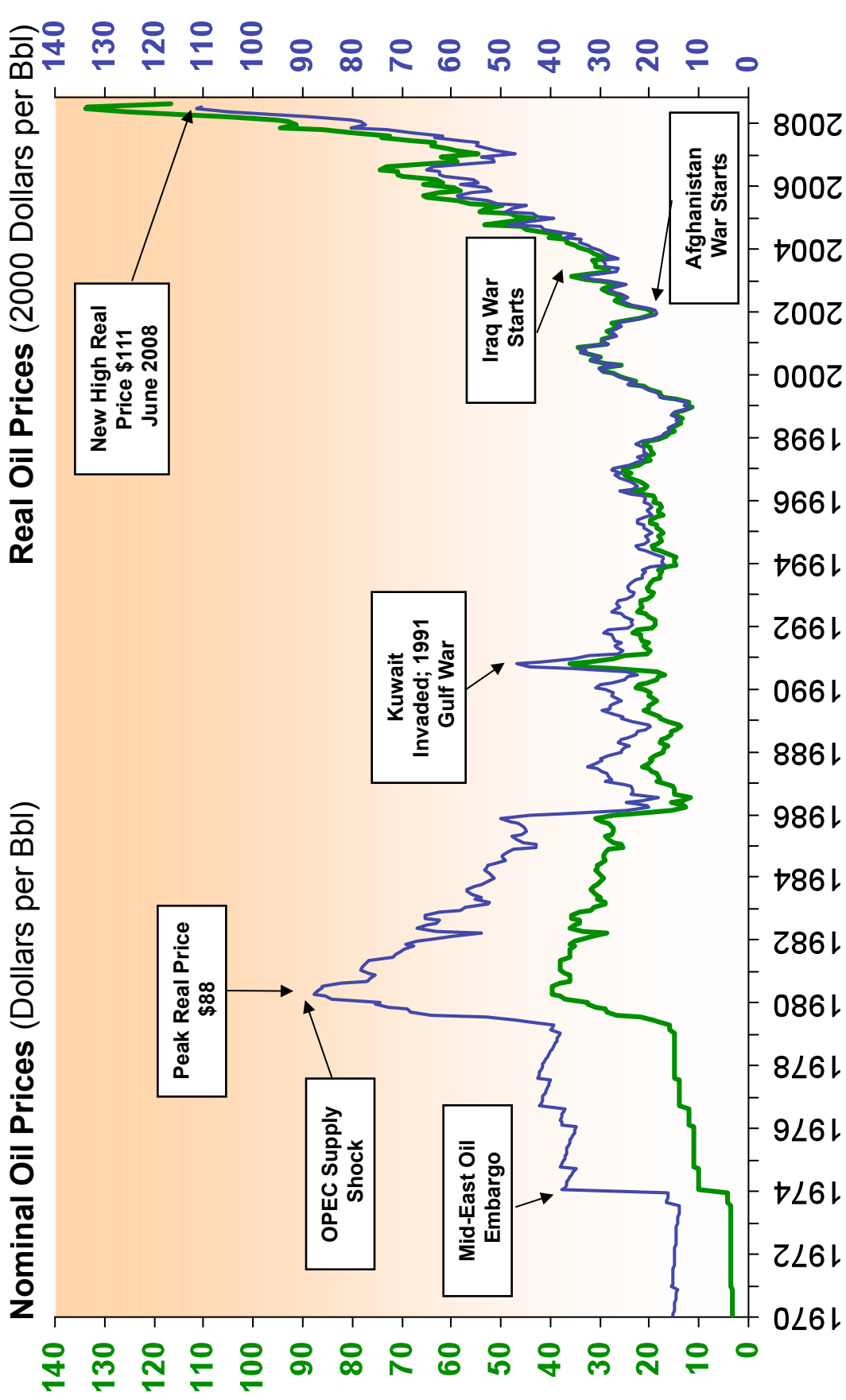
# 600,000 Non-Farm Payroll Jobs Were Lost in the First Half of 2008



Sources: U.S. Bureau of Labor Statistics, Freddie Mac

Office of the Chief Economist

# Oil Prices Are High and Volatile and Put Stress on Consumers and Businesses

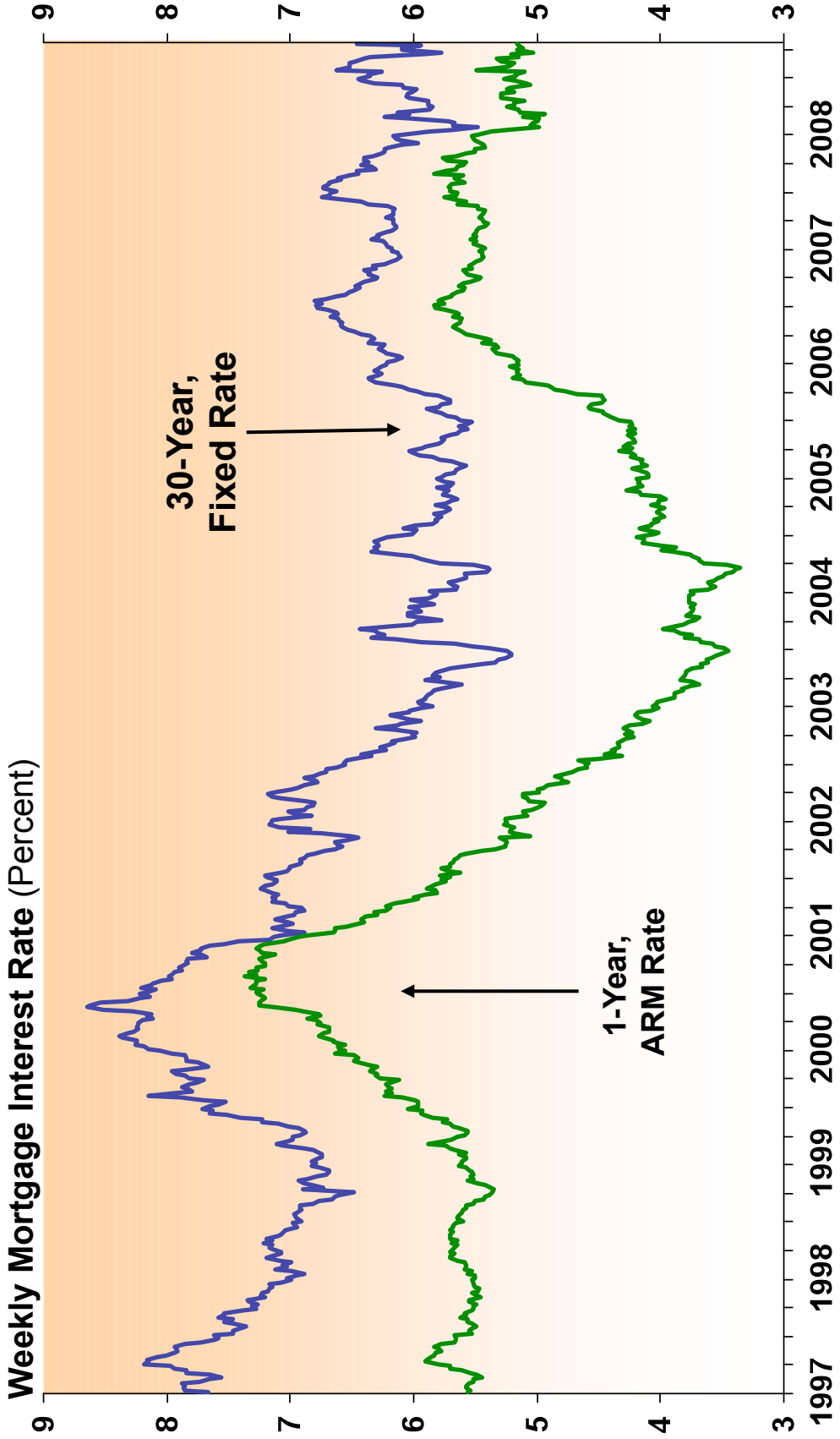


Sources: U.S. Bureau of Labor Statistics (CPI Less Energy, 2000=100), Federal Reserve Bank of St. Louis

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# Prime Conforming Mortgage Rates Remain Low By Historical Standards

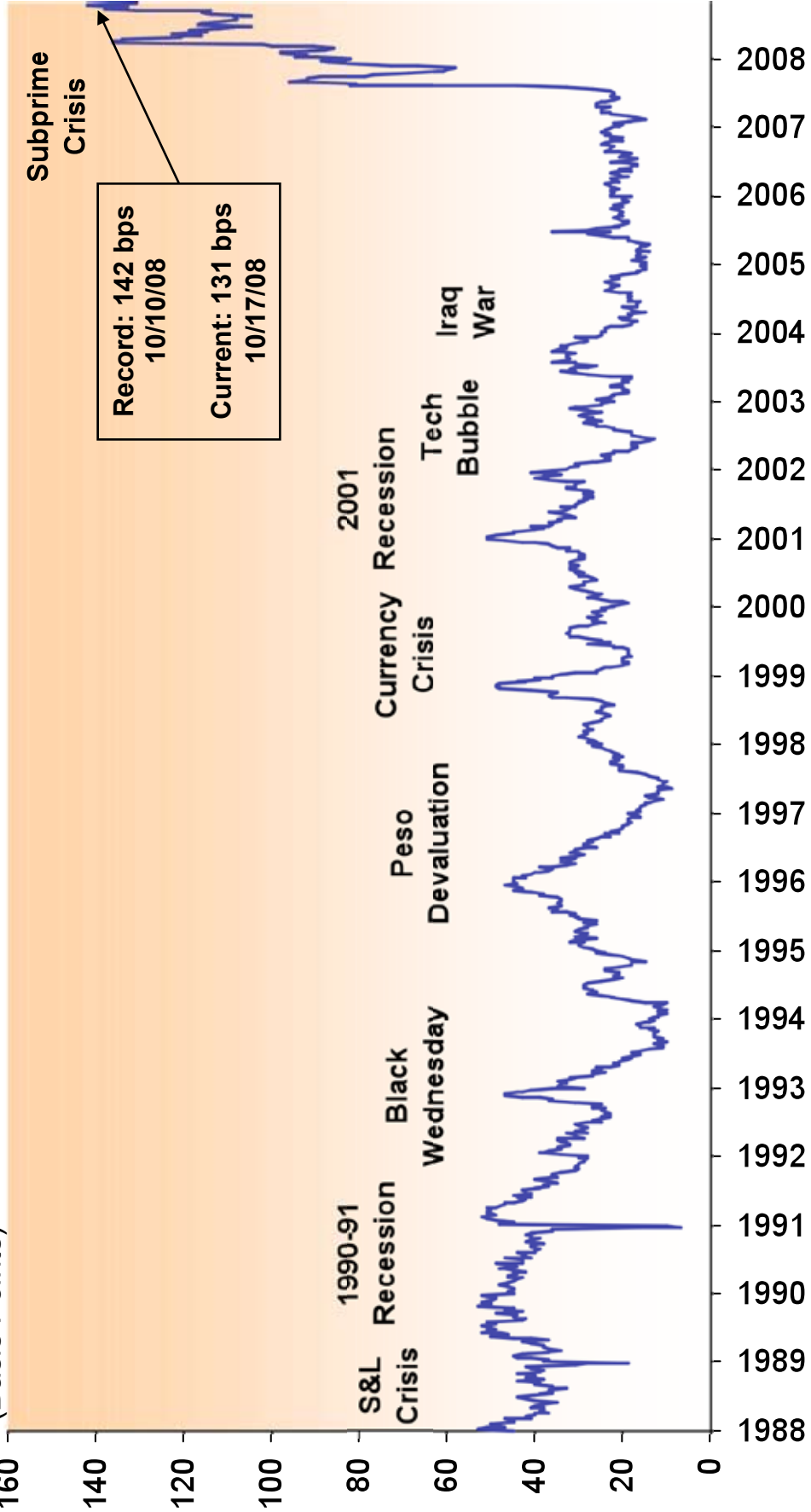


Source: Freddie Mac's Primary Mortgage Market Survey®



# Jumbo Spreads Remain Near Record Levels

**Effective Interest Rate Spread Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Basis Points)**

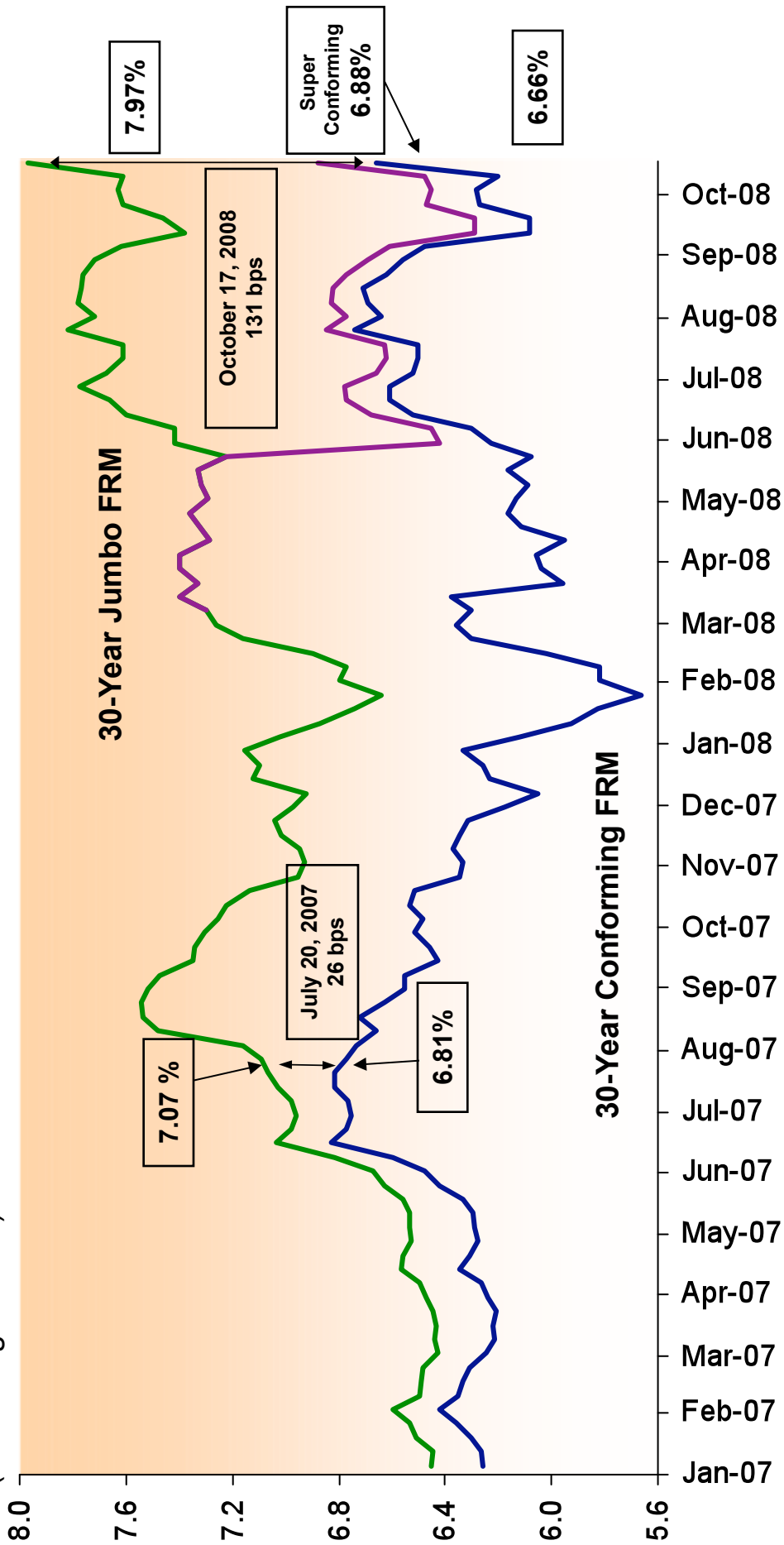


Source: HSH Associates (last data: week ending October 17, 2008)  
Note: Effective spread adds fees and points to the interest rate.



# Super Conforming Mortgage Rates Are Close to Regular Conforming Mortgage Rates

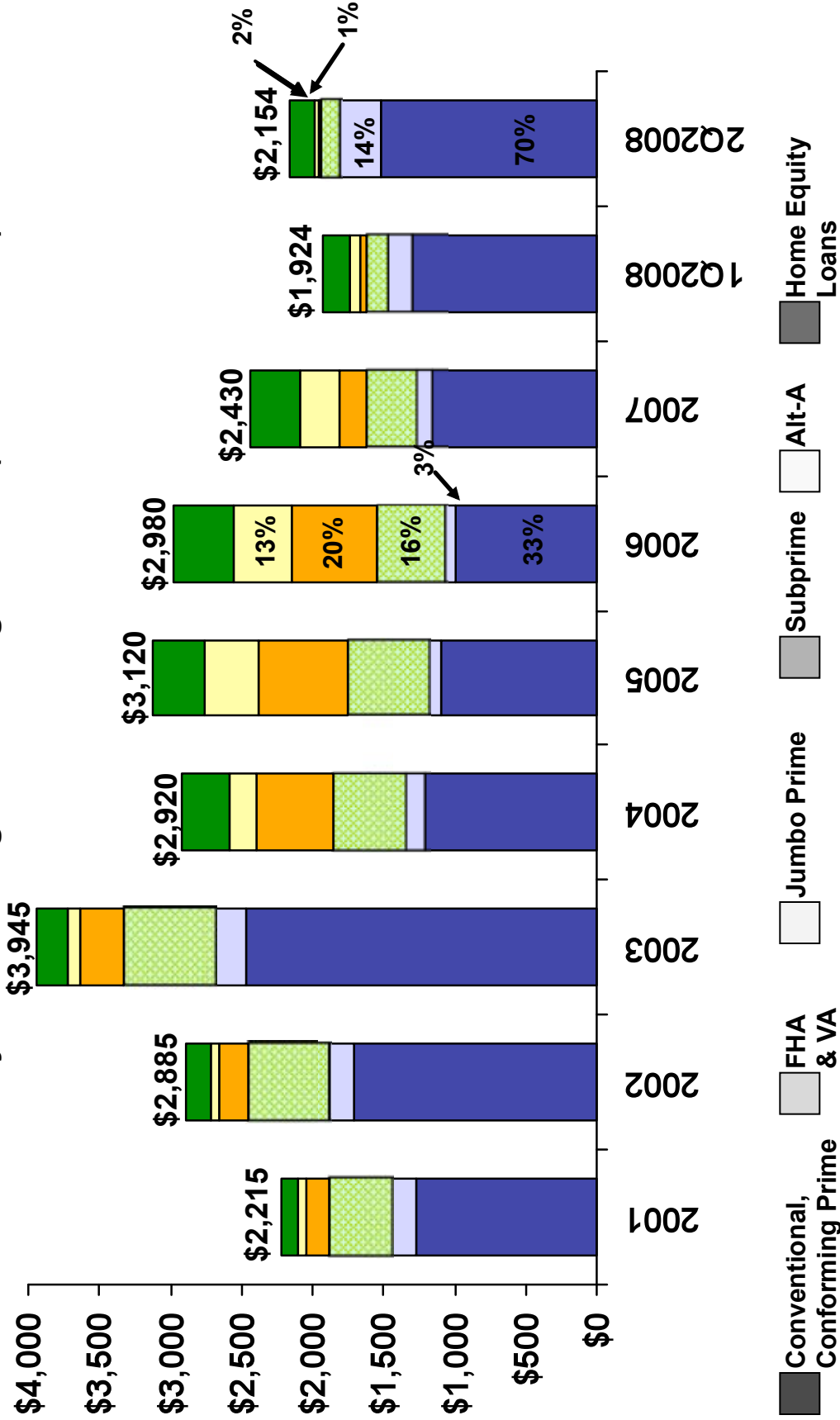
Effective Interest Rate Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Percentage Points)



Source: HSH Associates (last data: week ending October 10, 2008)  
 Note: Effective rate adds fees and points to the interest rate.

# Subprime Mortgages Now Make Up 1% of Loan Originations, Down from 20% in 2006

Market Share by Product Segment of Originations (\$, annualized)



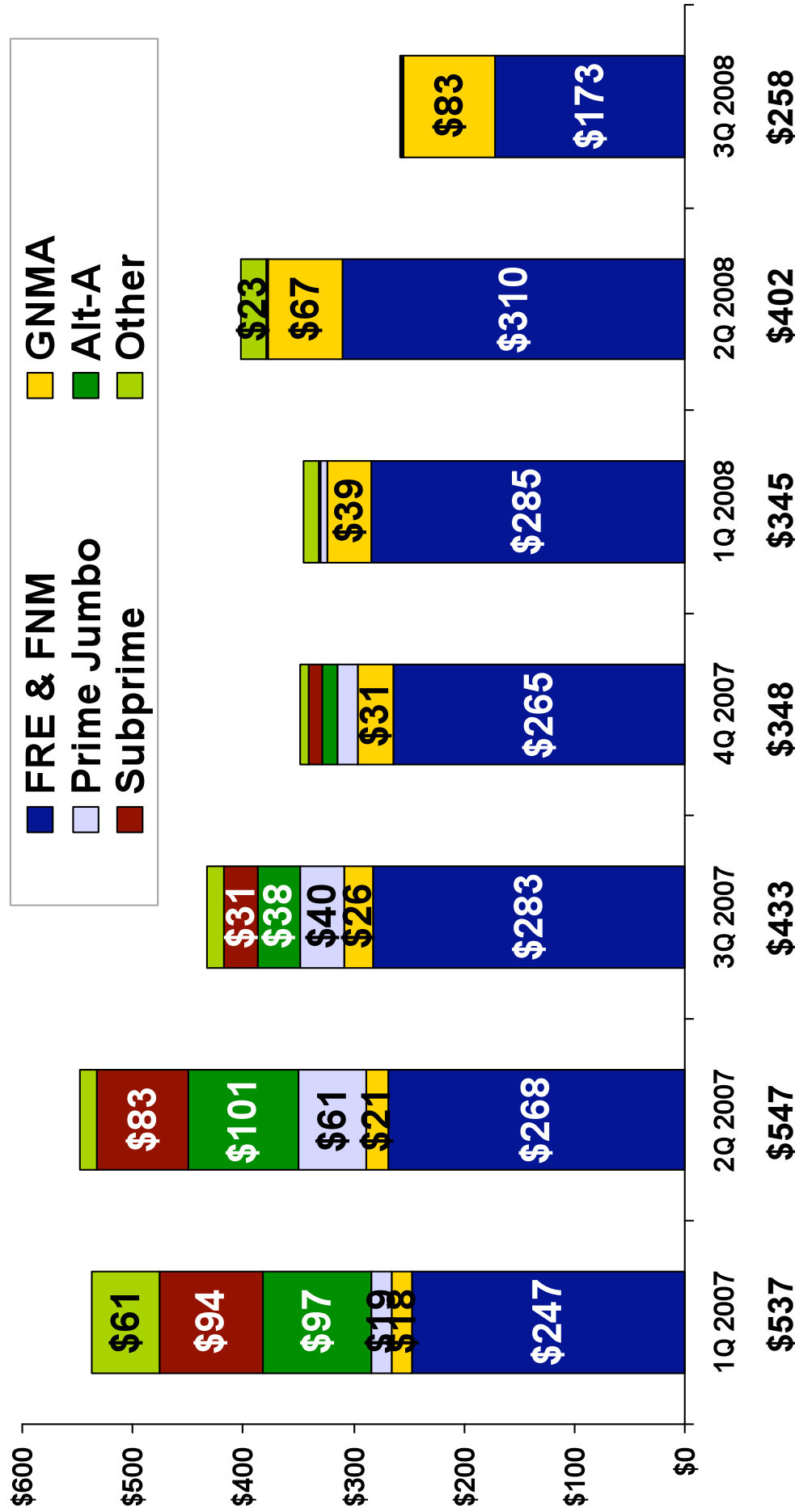
Source: Inside Mortgage Finance, Freddie Mac (by dollar amount); Note: 2Q2008 values adjusted to reflect the undercount of Fannie Mae, and FHA activity in the IMF data.

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# Private-Label (non-GSE) Security Issuance Has Slowed Sharply

Dollar Amount of Issuance (Billions)



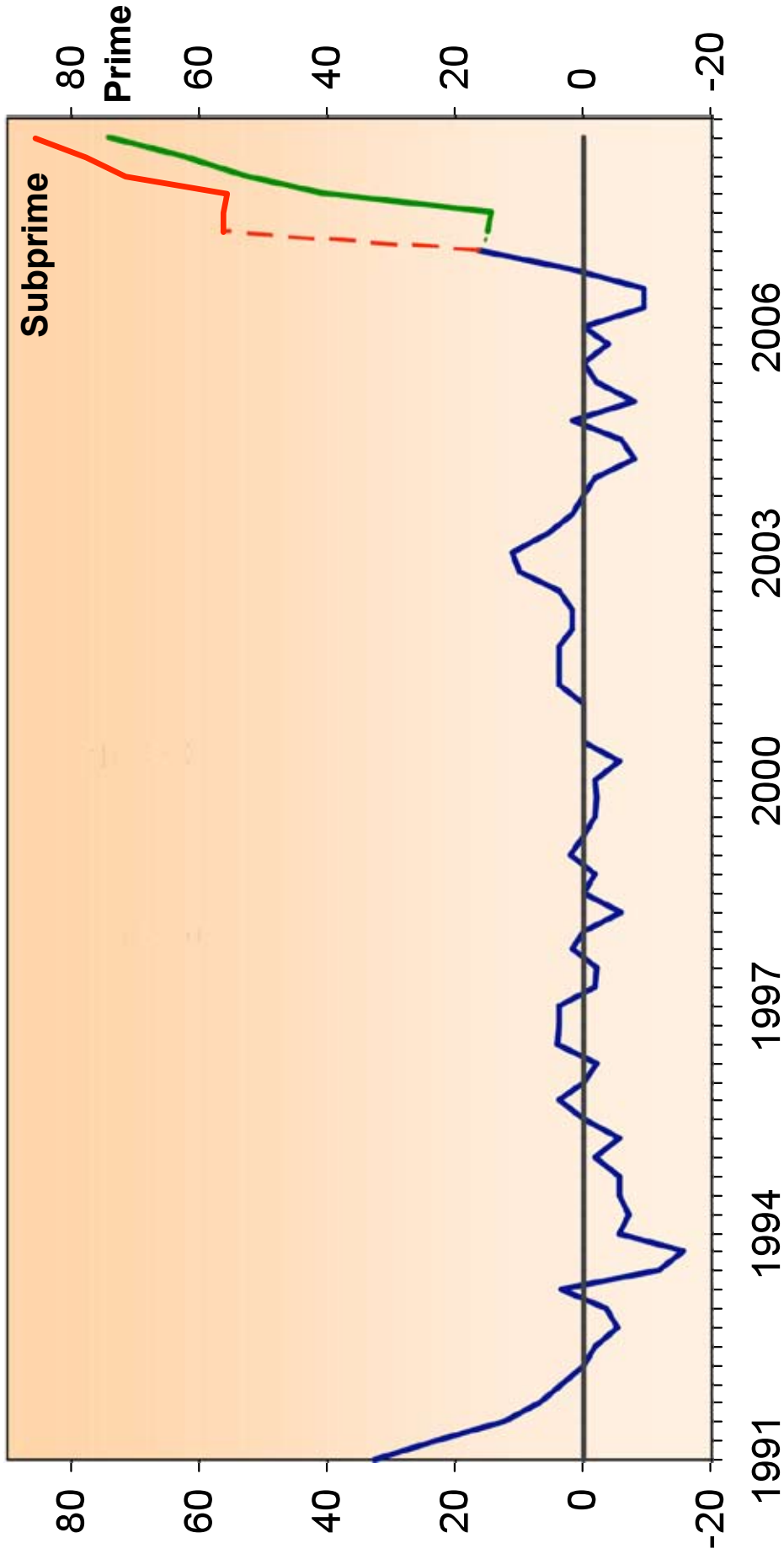
Source: Inside MBS & ABS, Freddie Mac

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# Highest Percentage of Banks Tightening Mortgage Standards Since 1991

Net Percentage of Banks Tightening Mortgage Standards During Three Previous Months

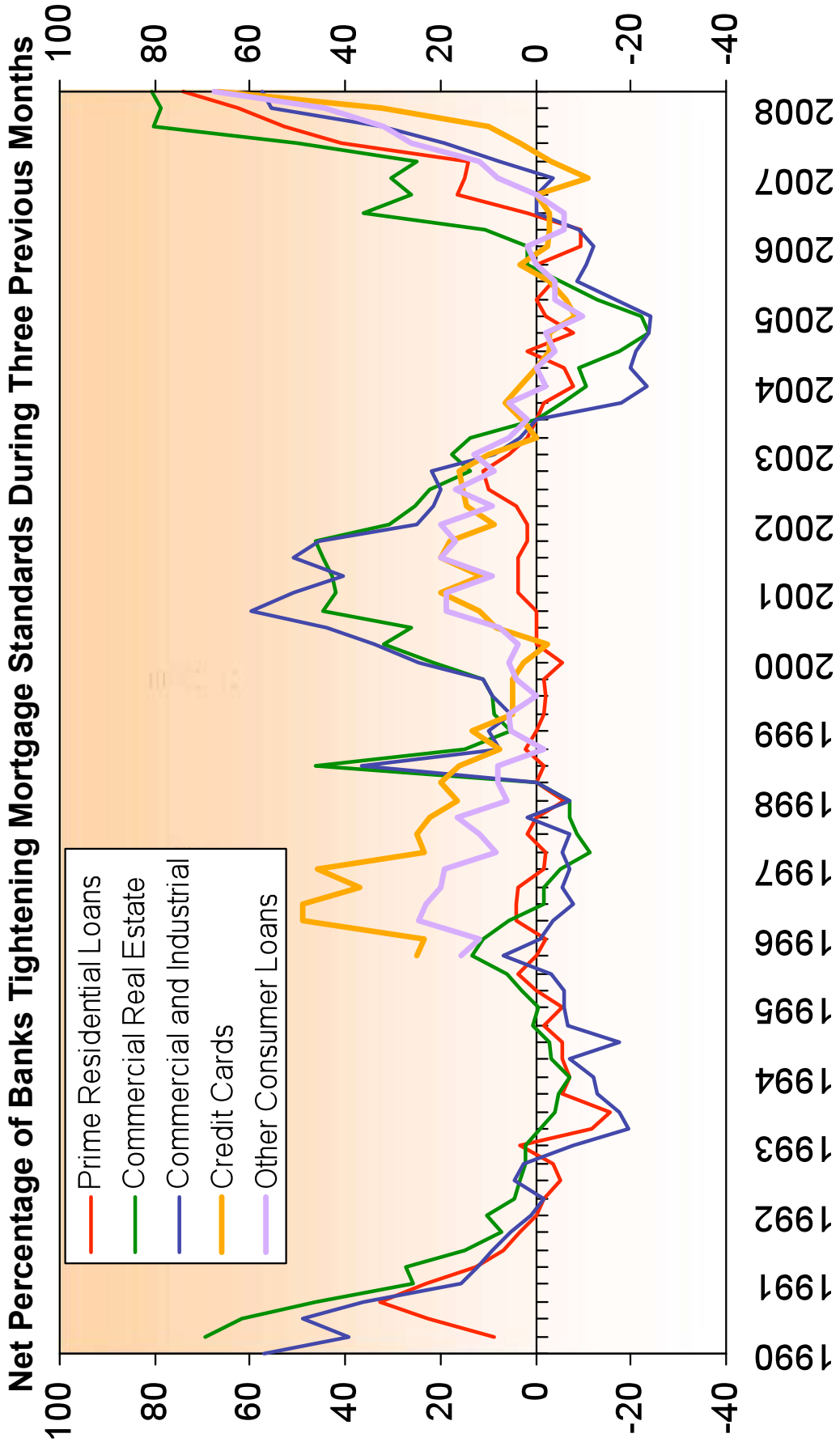


Source: Federal Reserve Board's Senior Loan Officer Survey, Freddie Mac (Last update: August 11, 2008)

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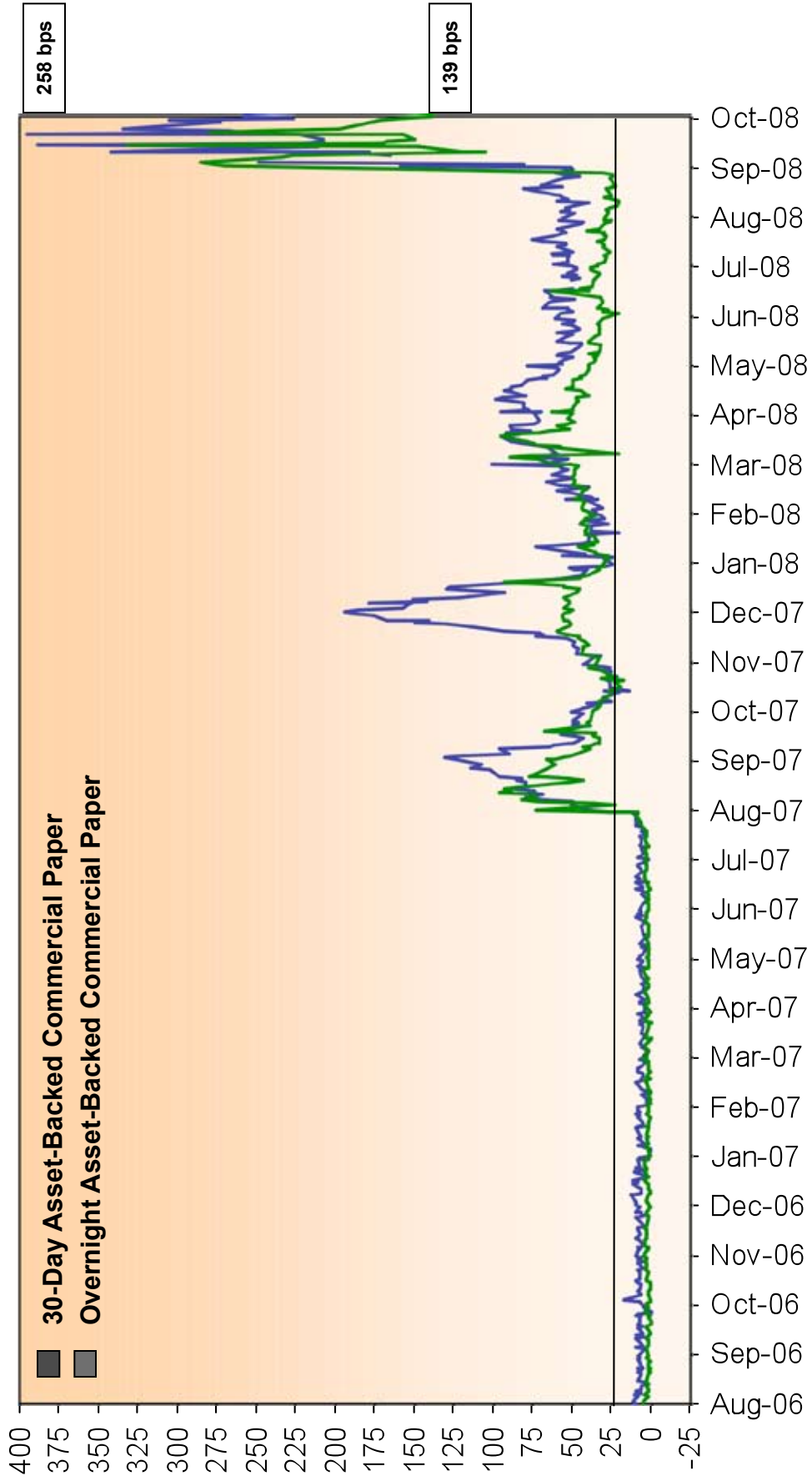
# Banks Are Tightening Lending Standards Across All Lending Lines of Business



Source: Federal Reserve Board's Senior Loan Officer Survey (Last update: August 11, 2008)

# 30-Day and Overnight Asset-Backed Commercial Paper Spreads Have Spiked Too

**Spread to AA-rated Nonfinancial Commercial Paper (Basis Points)**

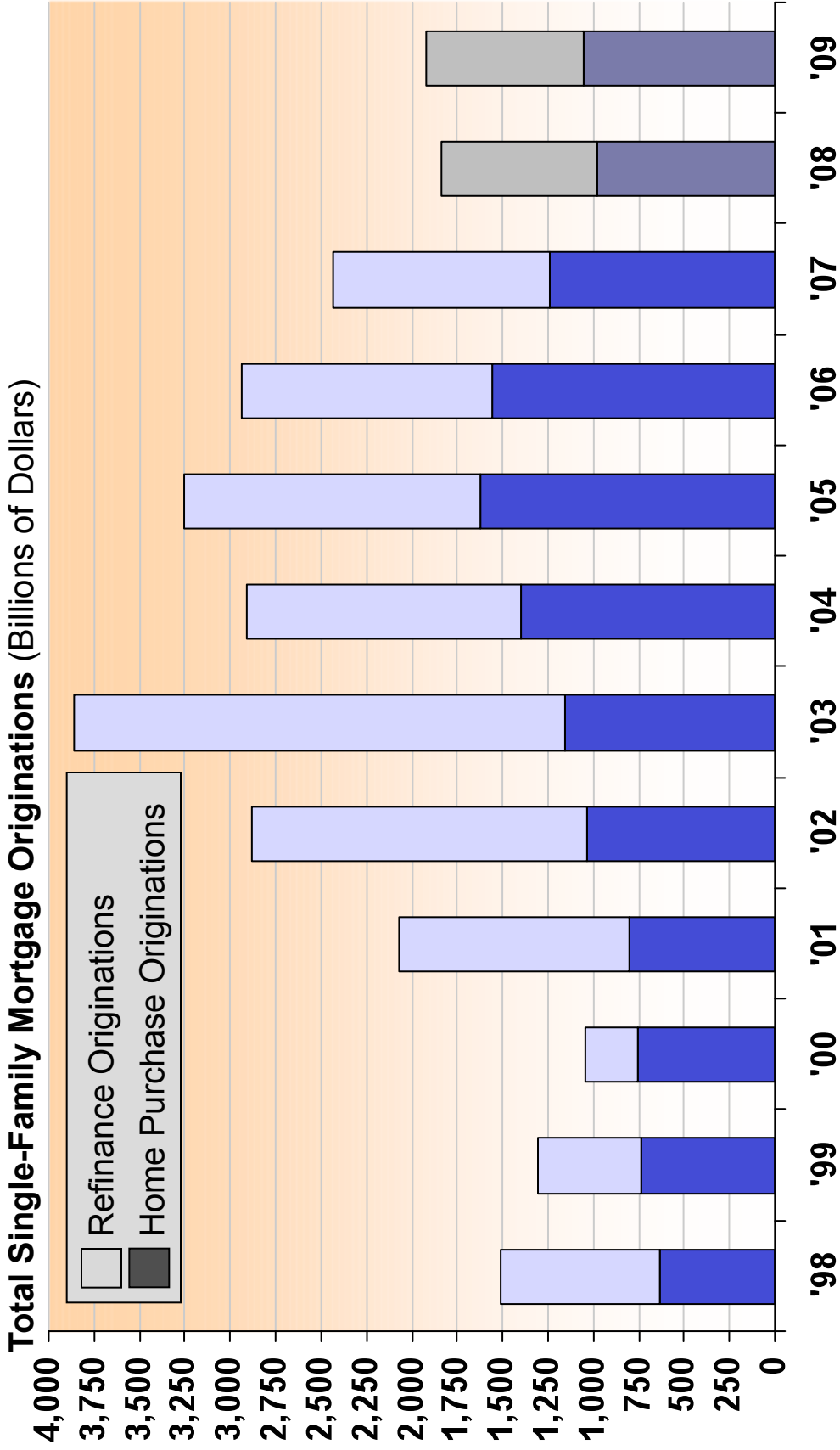


Source: Federal Reserve Board (last data: day ending October 17, 2008)

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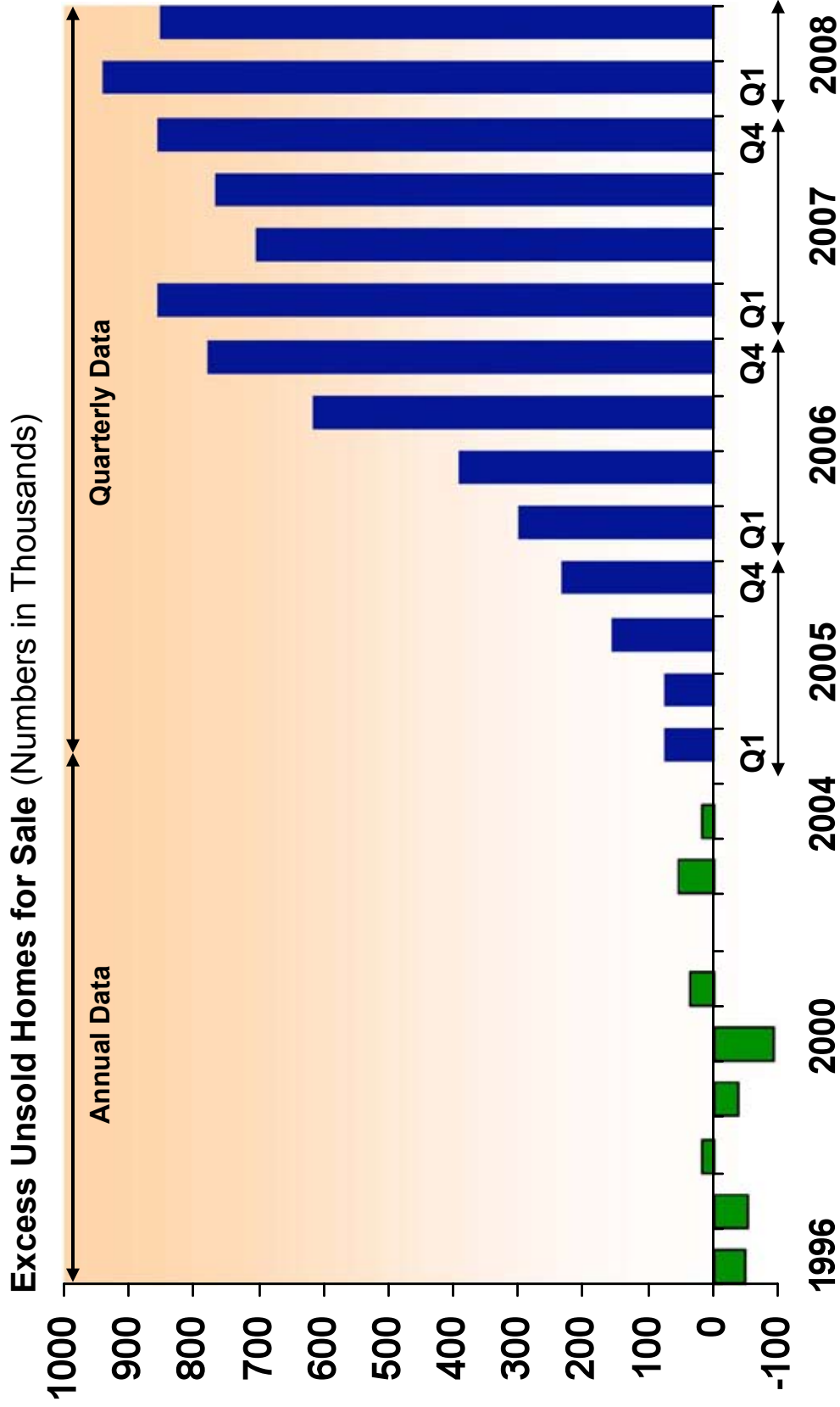
# Fewer Refis, Sales Result in an Expected 25% Drop in Mortgage Originations in 2008



Sources: Freddie Mac

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# Inventory Surplus Of Homes For Sale Remains Large



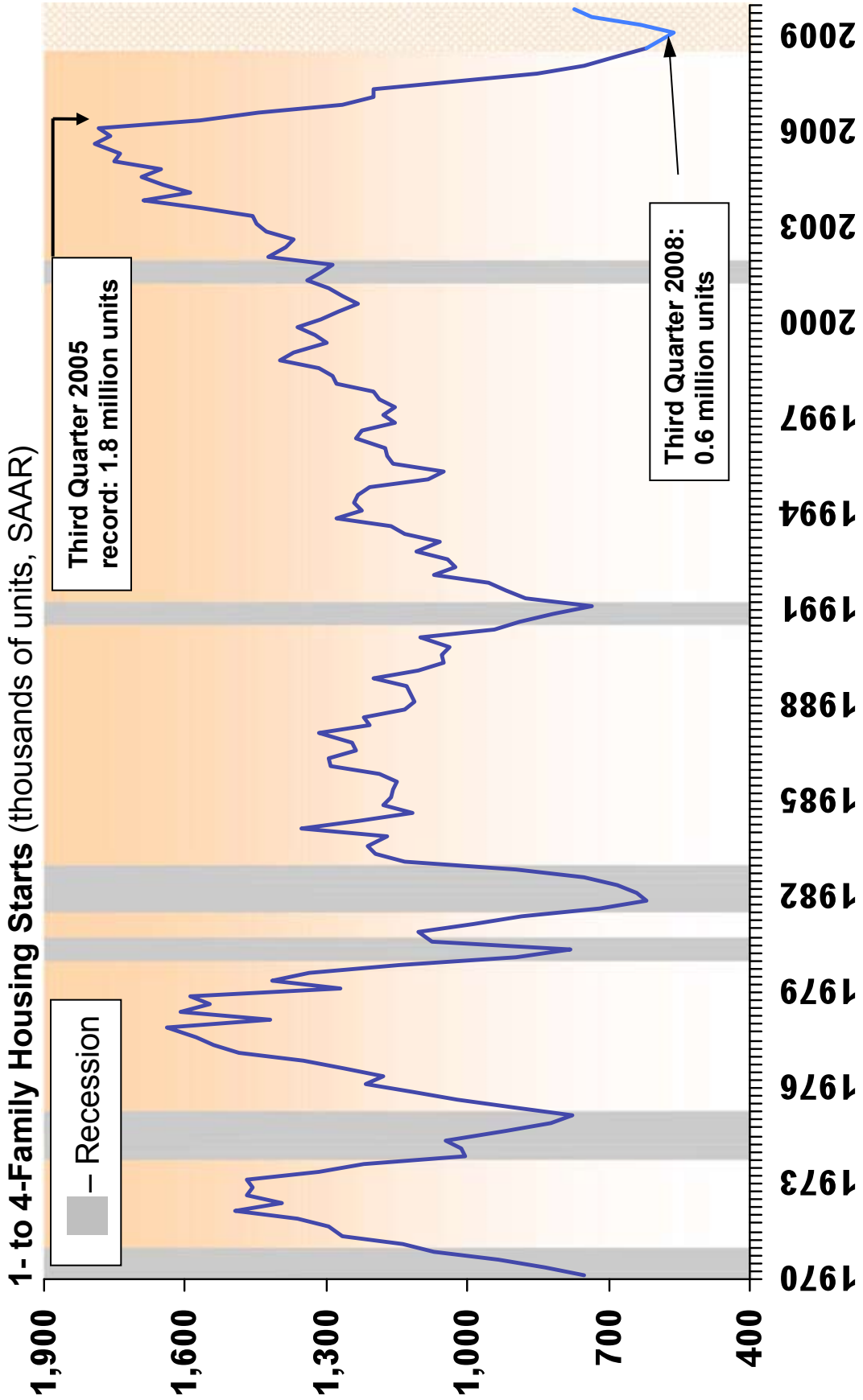
Source: Bureau of Census, Freddie Mac (1996-2004:Annual Data, 2005Q1-2008Q2:Quarterly Data)

Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

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# Single-family Building Hit a Record in 2005, but Has Fallen More Than 65% Since Then



Sources: Bureau of Census, Freddie Mac

## A Word on Home Prices

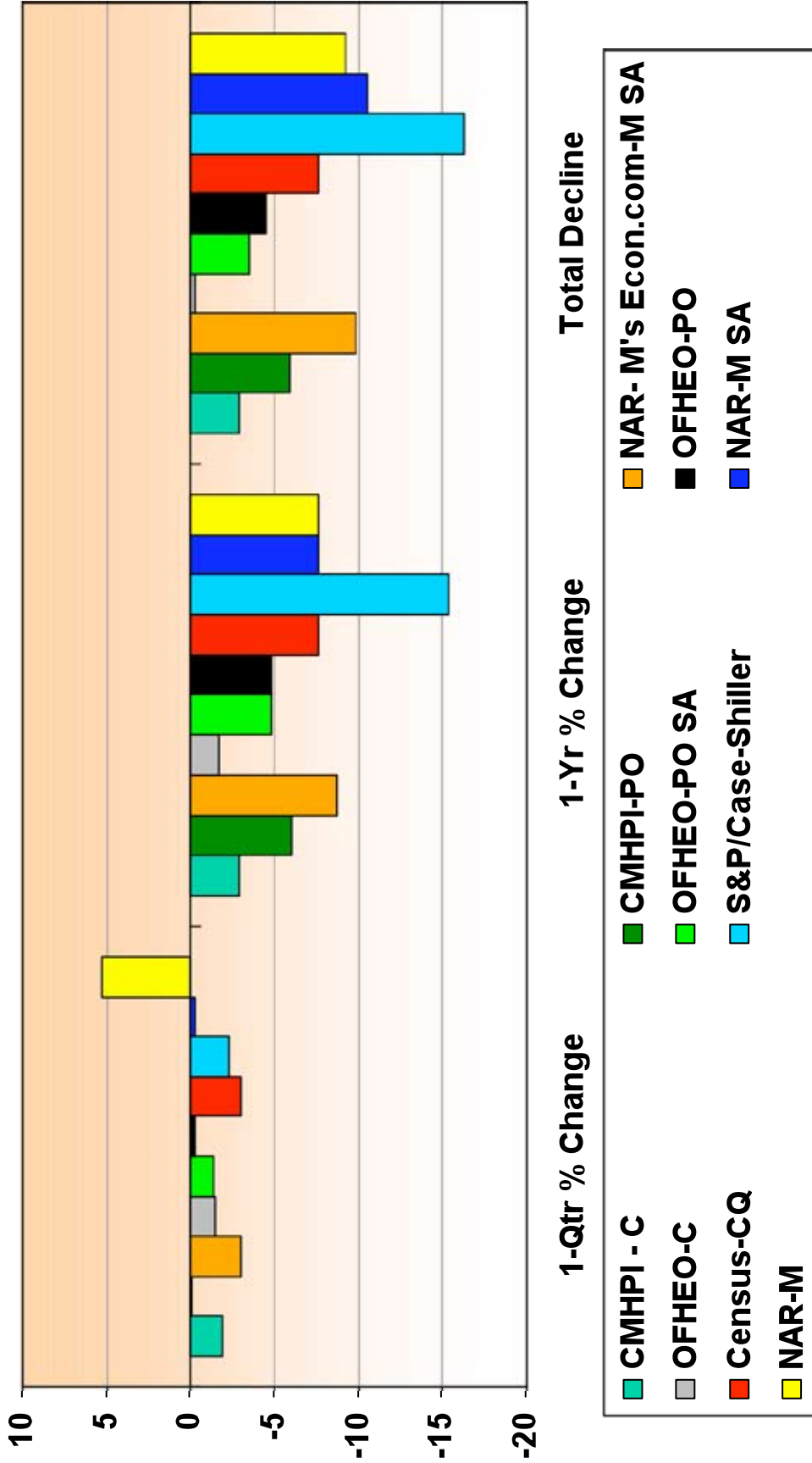
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- There are 5 widely cited series on home prices, and many other lesser known series – all are showing the same trend (DOWN), but to different degrees
- How far will they fall?
  - Depends on the index – S&P/Case-Shiller national index is down more than 16% already
  - OFHEO’s index, based on values of homes financed by Freddie Mac and Fannie Mae, is showing declines in both its purchase-only and classic series of more than 3.5%
  - For a discussion of home price index differences see a recent report from Freddie Mac at

[www.freddiemac.com/corporate/reports/pdf/home-price-appreciation\\_022808.pdf](http://www.freddiemac.com/corporate/reports/pdf/home-price-appreciation_022808.pdf)



# There Are Many Home Price Indices – They All Point to Moderating Rates of Price Declines

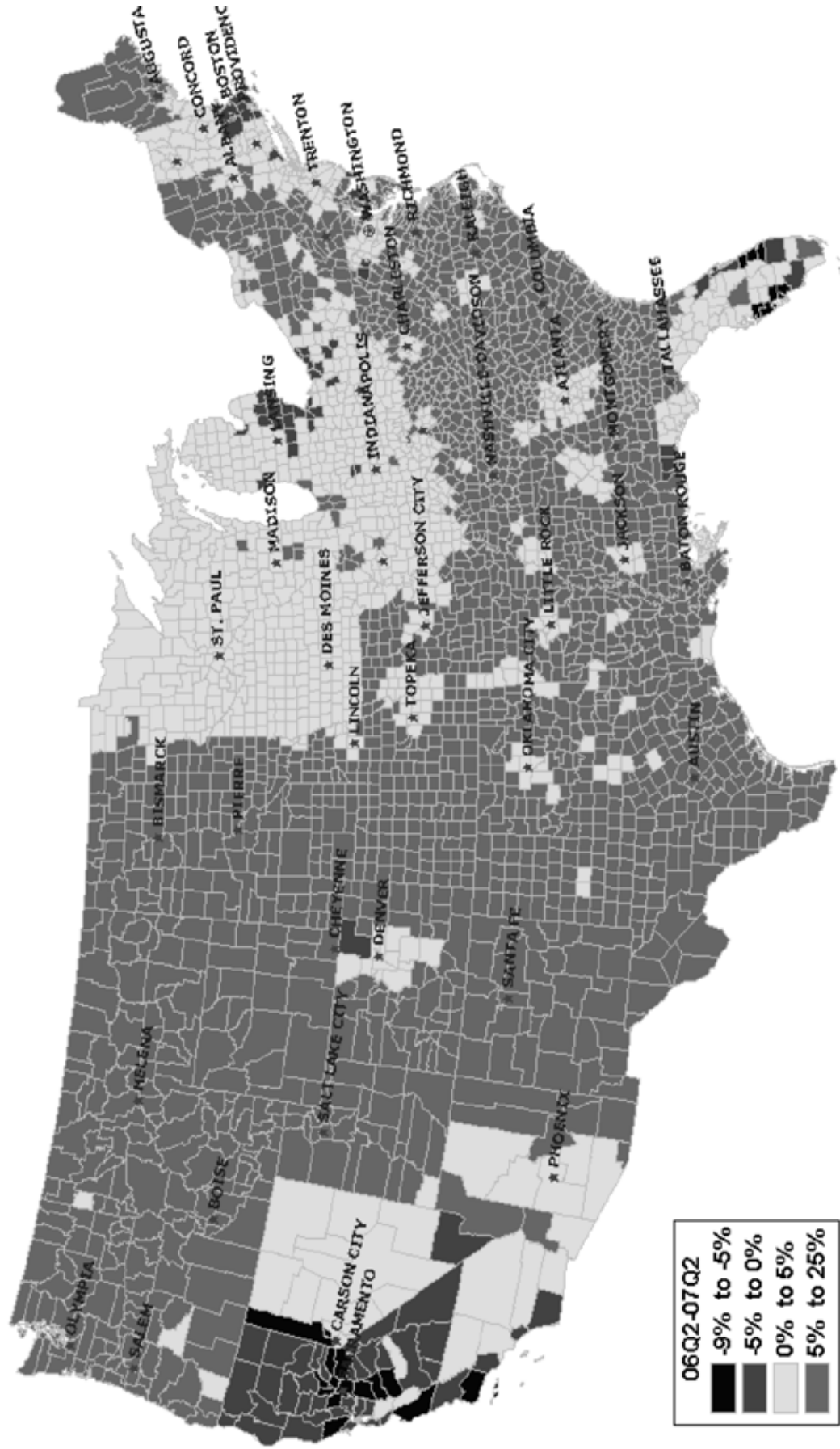


Source: Moody's Economy.com, Freddie Mac. SA = Seasonally adjusted; C = Classic series, PO = Purchase-only series; CQ= Constant Quality; M = Median. Data as of 2Q 2008.



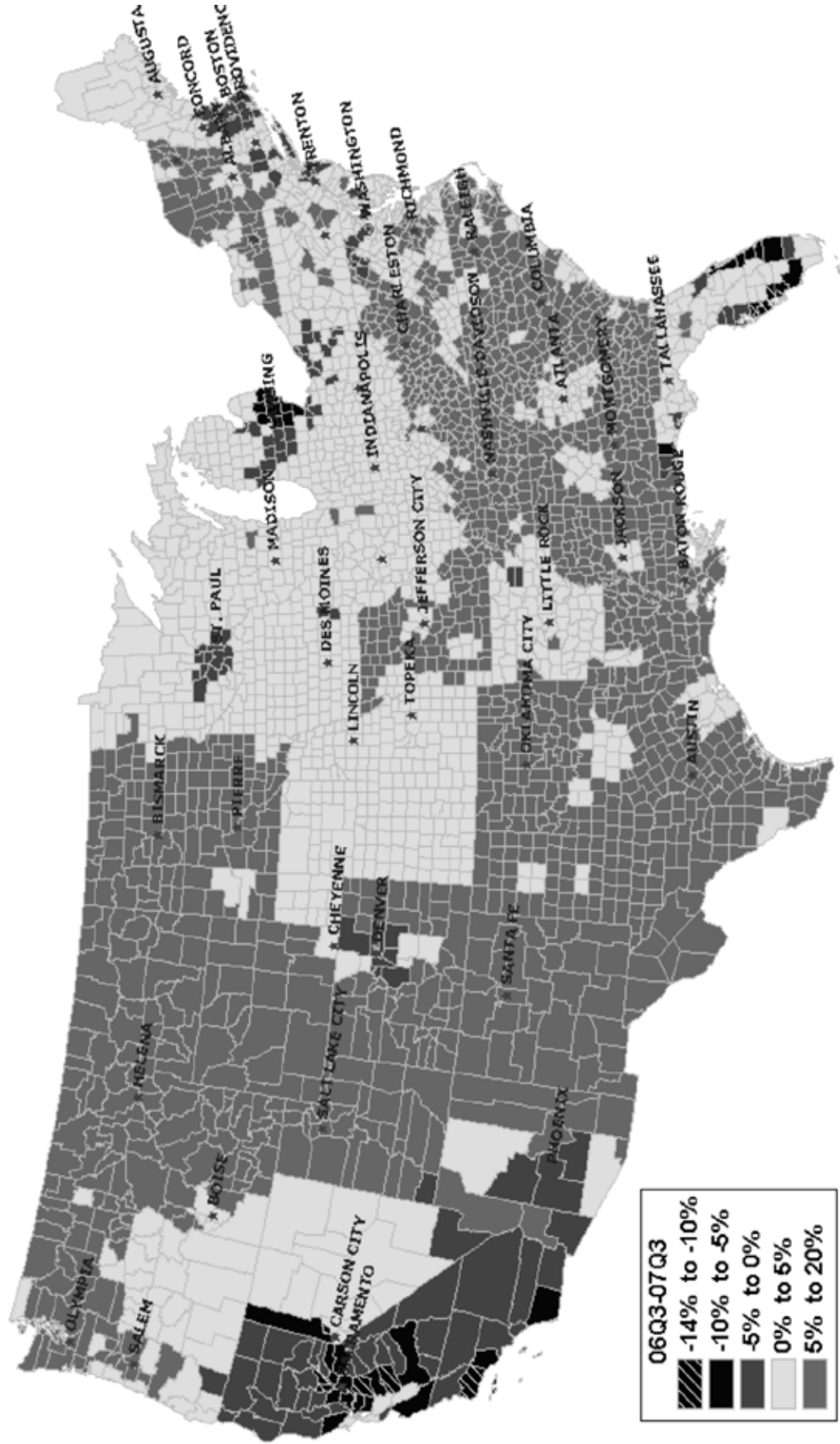


# The Steepest Declines Are at -9% Over Just One Year: Cumulative Growth '06Q2 - '07Q2



Source: OFHEO 07Q4 HPI, Freddie Mac

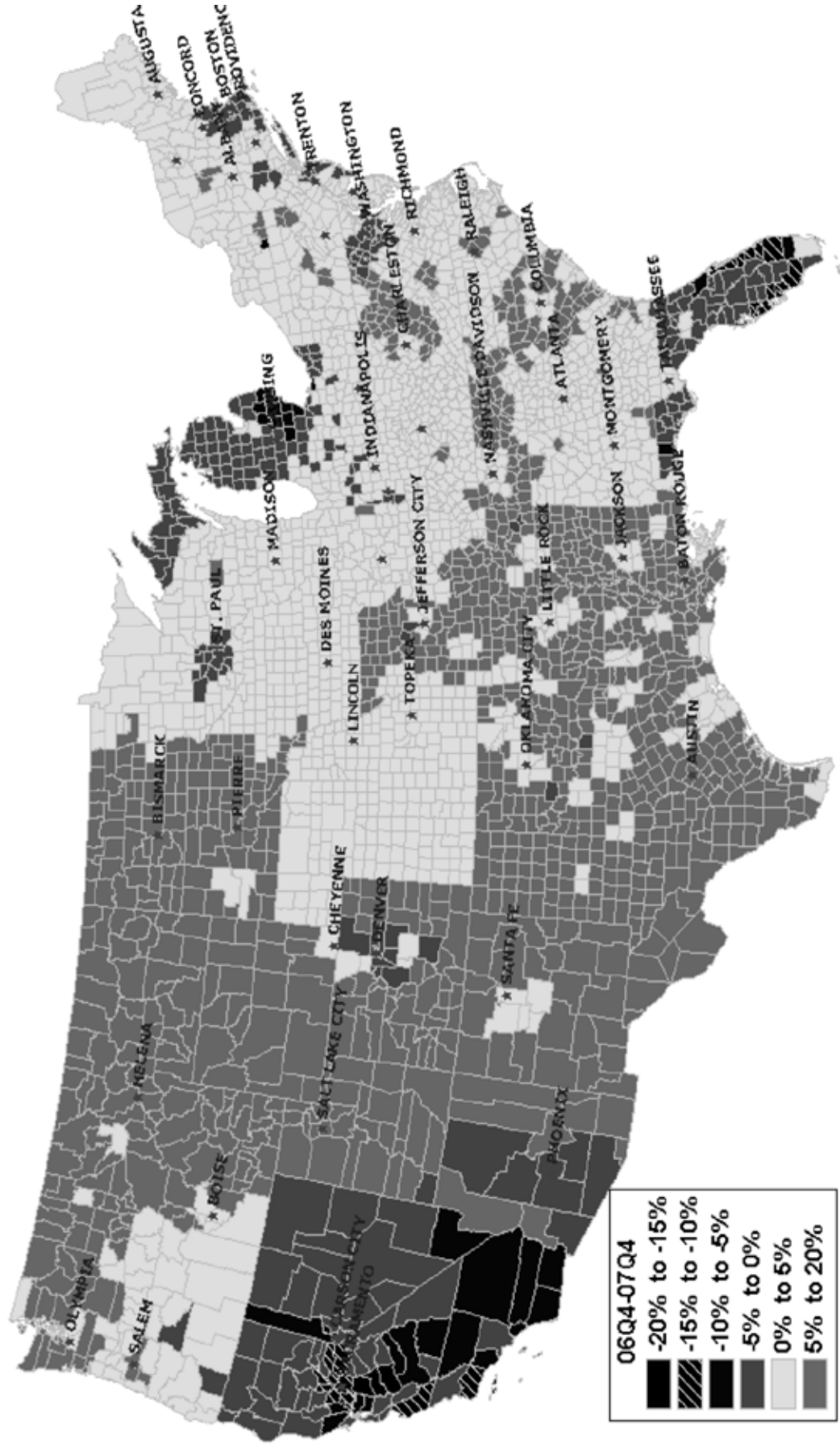
# The Steepest Declines Are at -14% Over Just One Year: Cumulative Growth '06Q3 - '07Q3



Source: OFHEO 07Q4 HPI, Freddie Mac

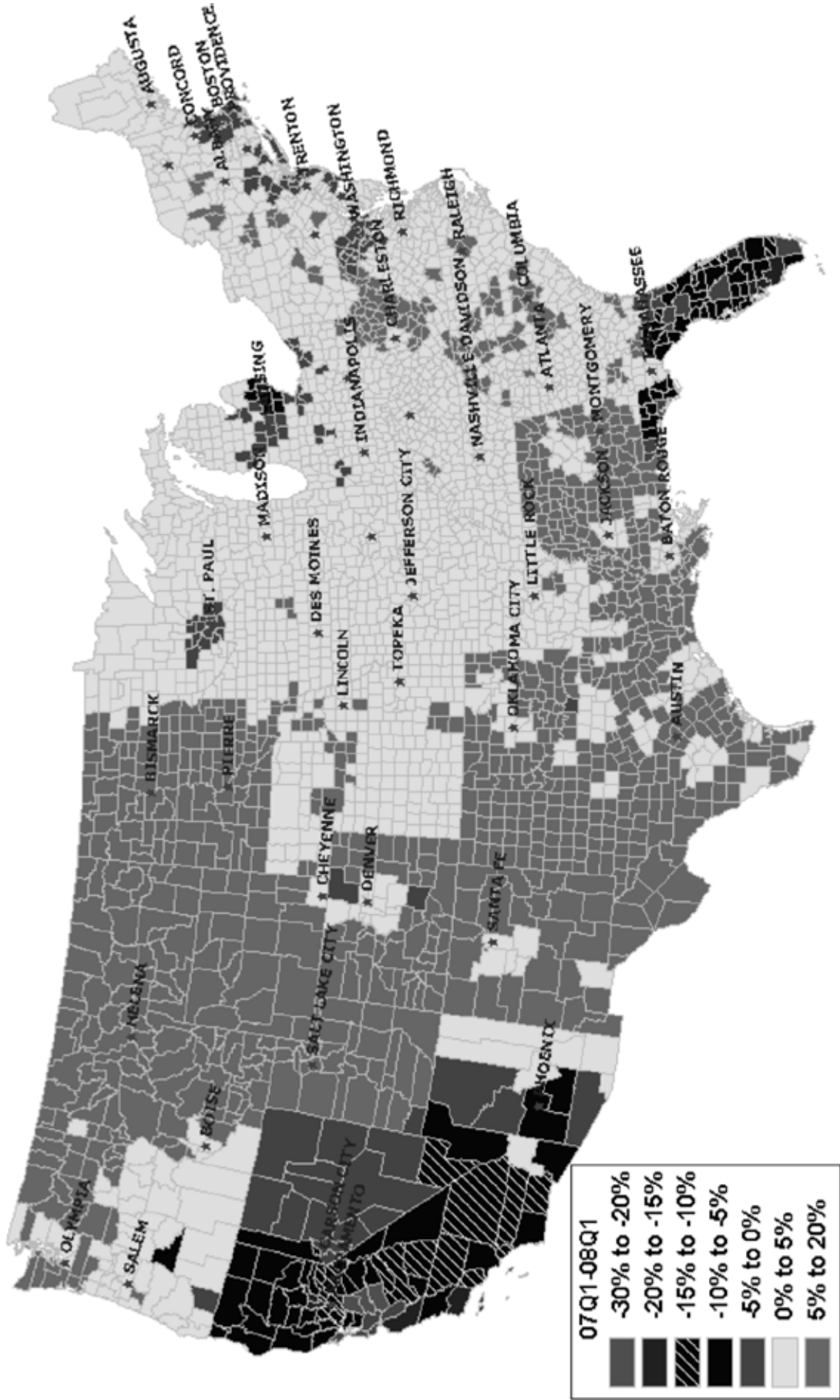


# The Steepest Declines Are at -20% Over Just One Year: Cumulative Growth '06Q4 - '07Q4



Source: OFHEO 07Q4 HPI, Freddie Mac

# The Steepest Declines Are at -30% Over Just One Year: HPI Growth '07Q1 - '08Q1

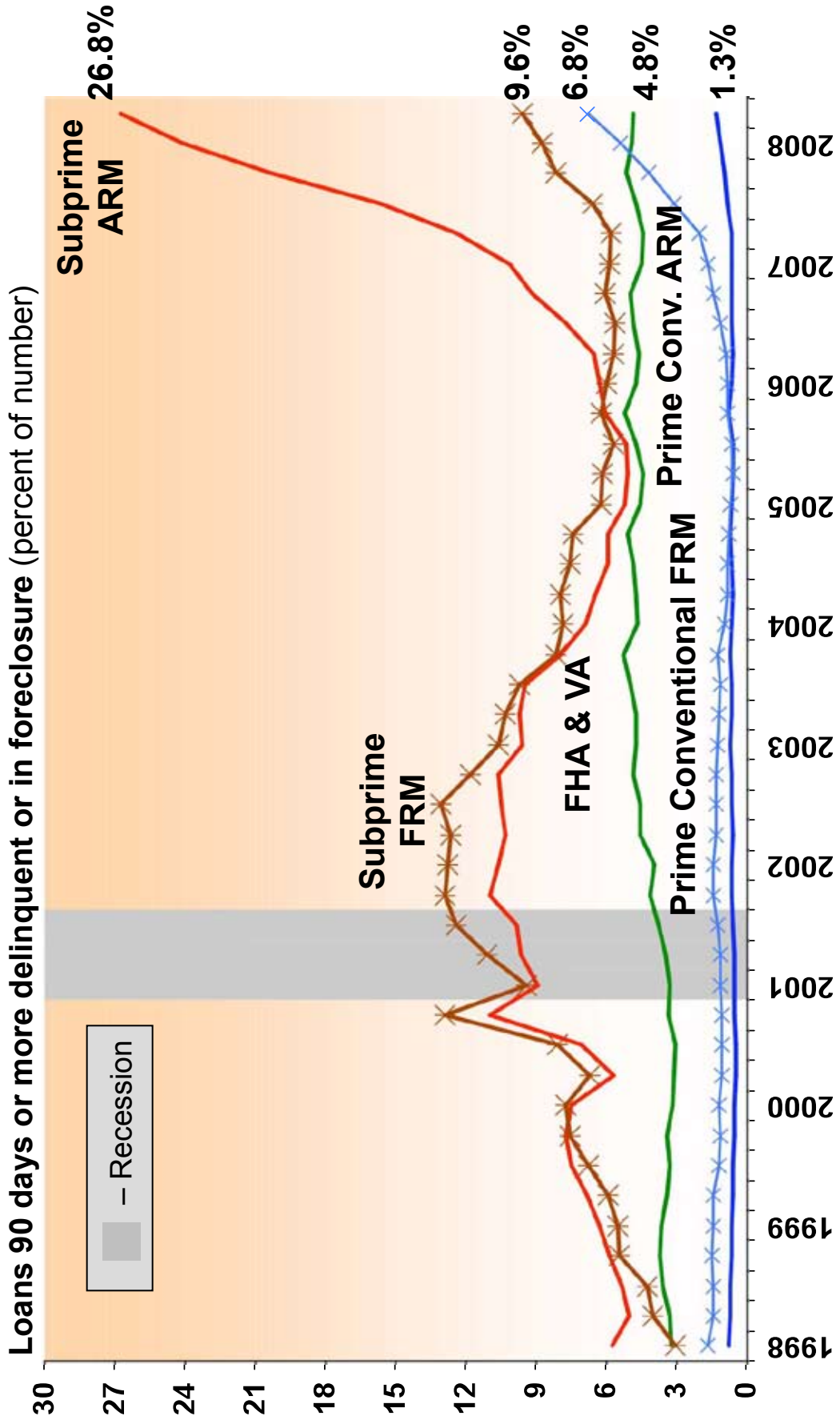


Source: OFHEO 07Q4 HPI, Freddie Mac

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# Subprime ARM Default Rate Is 20 Times That on Prime FRMs



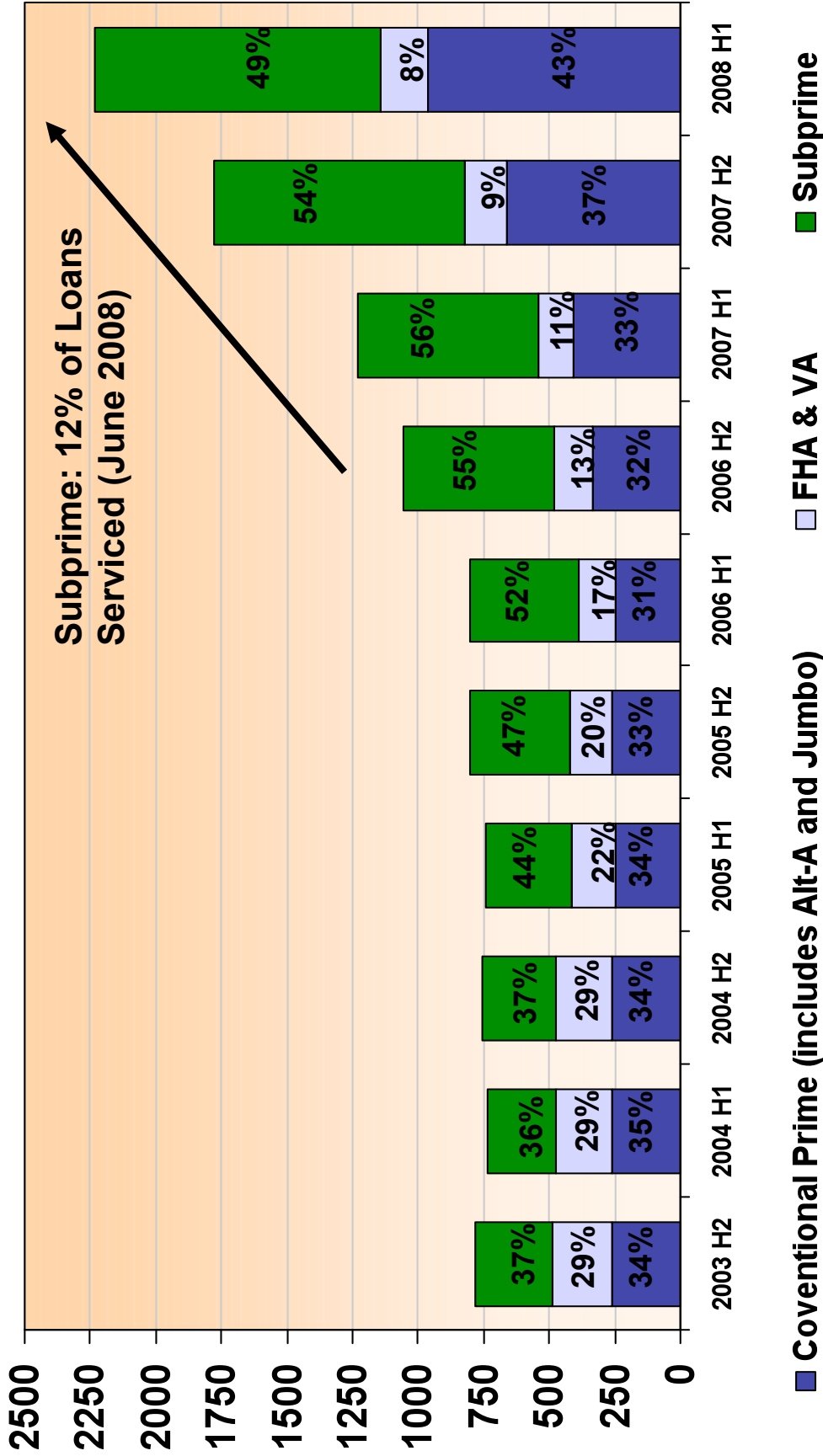
Source: Mortgage Bankers Association, Freddie Mac; "Prime Conventional" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2008Q1).

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# Subprime Loans Accounted for Over Half of Foreclosures Begun since 2006



Number of Foreclosures Started (Annualized Rate in Thousands)

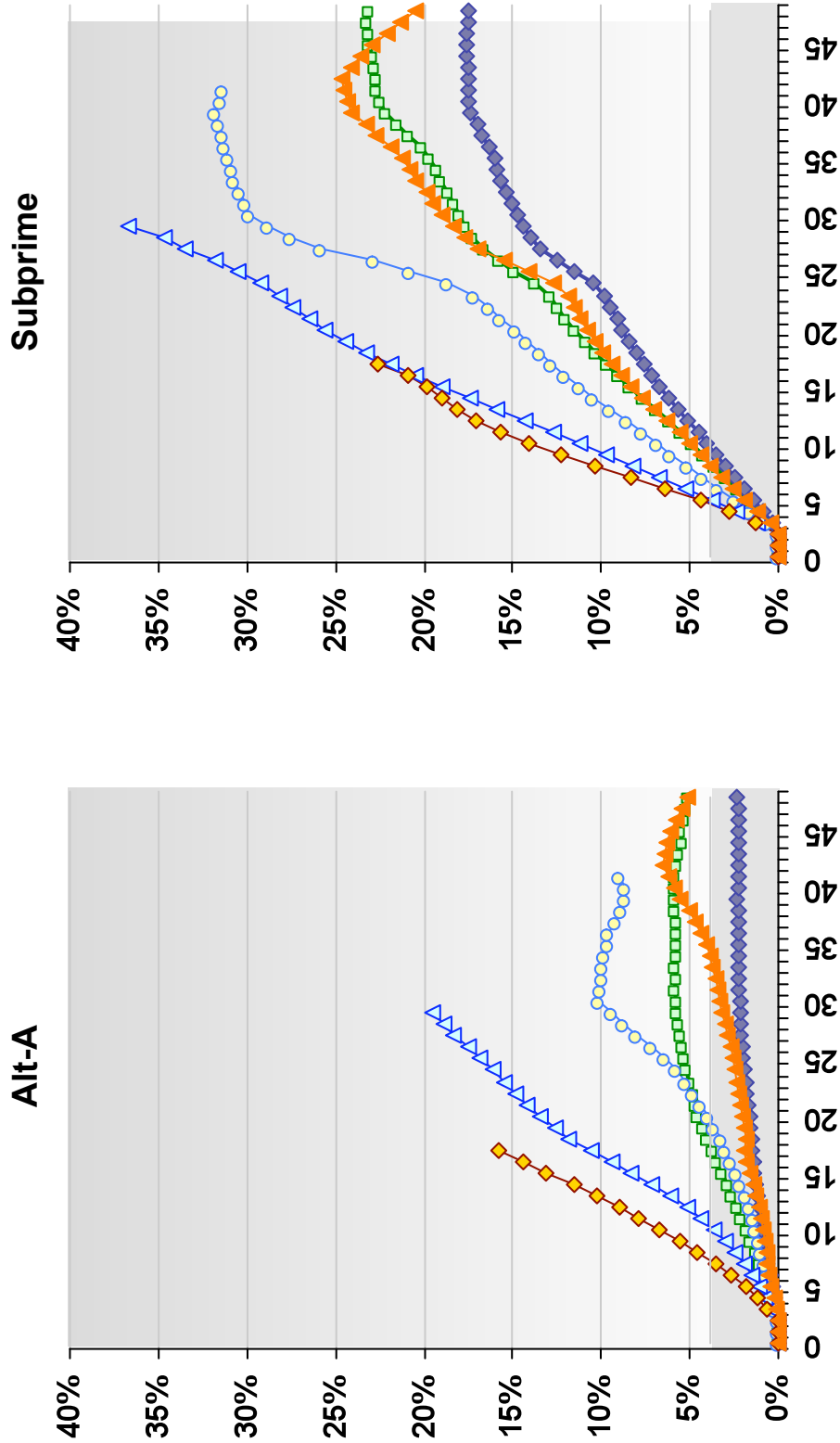


Source: Mortgage Bankers Association National Delinquency Survey (Data as of June 2008; number expanded to reflect 85% coverage)

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# 2006 & 2007 Early Payment Defaults Are High in Subprime and Alt-A Segments

Cumulative 60-Days and Worse Delinquency Rate as a Share Number of Loans Originated



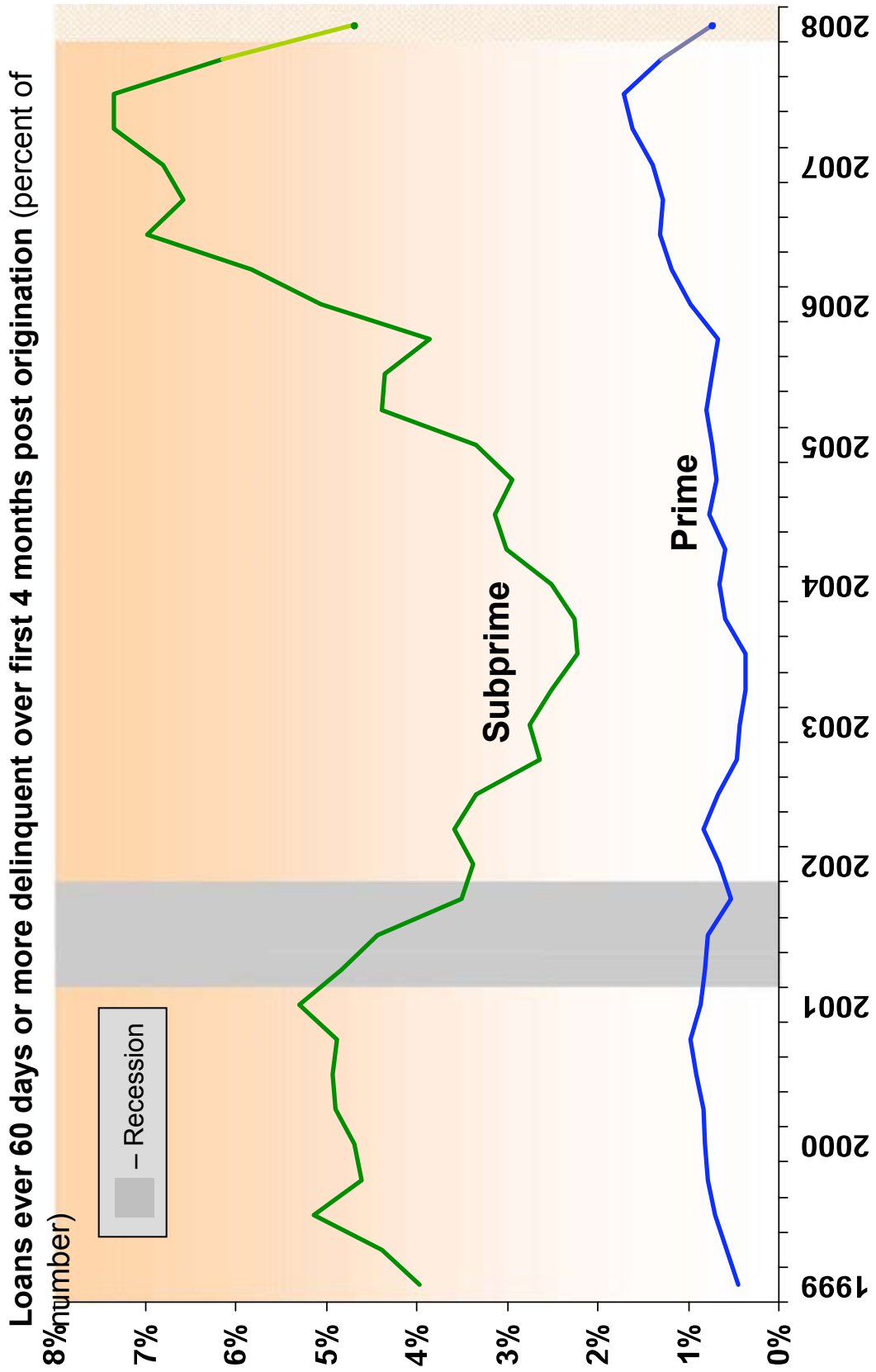
—□— 2002 —◆— 2003 —▲— 2004 —○— 2005 —△— 2006 —◇— 2007

## Age of Loan in Number of Months From Origination Date

Source: First American CoreLogic LoanPerformance Securities data, Freddie Mac. The grey shaded area represents the upper bound of prime loan delinquencies. Note: the last twelve points on each year cohort have incomplete data – not all loans have reached those ages. Data through June 2008.



# Early Payment Defaults Appear to be Decreasing



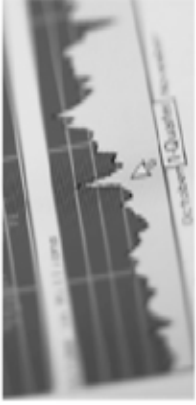
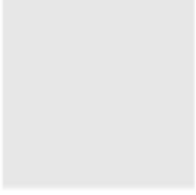
Source: First American CoreLogic LoanPerformance Servicing Databases, Freddie Mac. Note: Last data point subject to revision due to possible addition of data. Data as of March 2008

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27

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## Where to Get More Information

- Look for regular updates to our economic forecast, commentary and data at [www.freddiemac.com/news/finance](http://www.freddiemac.com/news/finance)
- Contact me at [Amy\\_Crews\\_Cutts@freddiemac.com](mailto:Amy_Crews_Cutts@freddiemac.com)

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