



Freddie Mac

GSE and Private Label Investors Forum

October 2, 2007

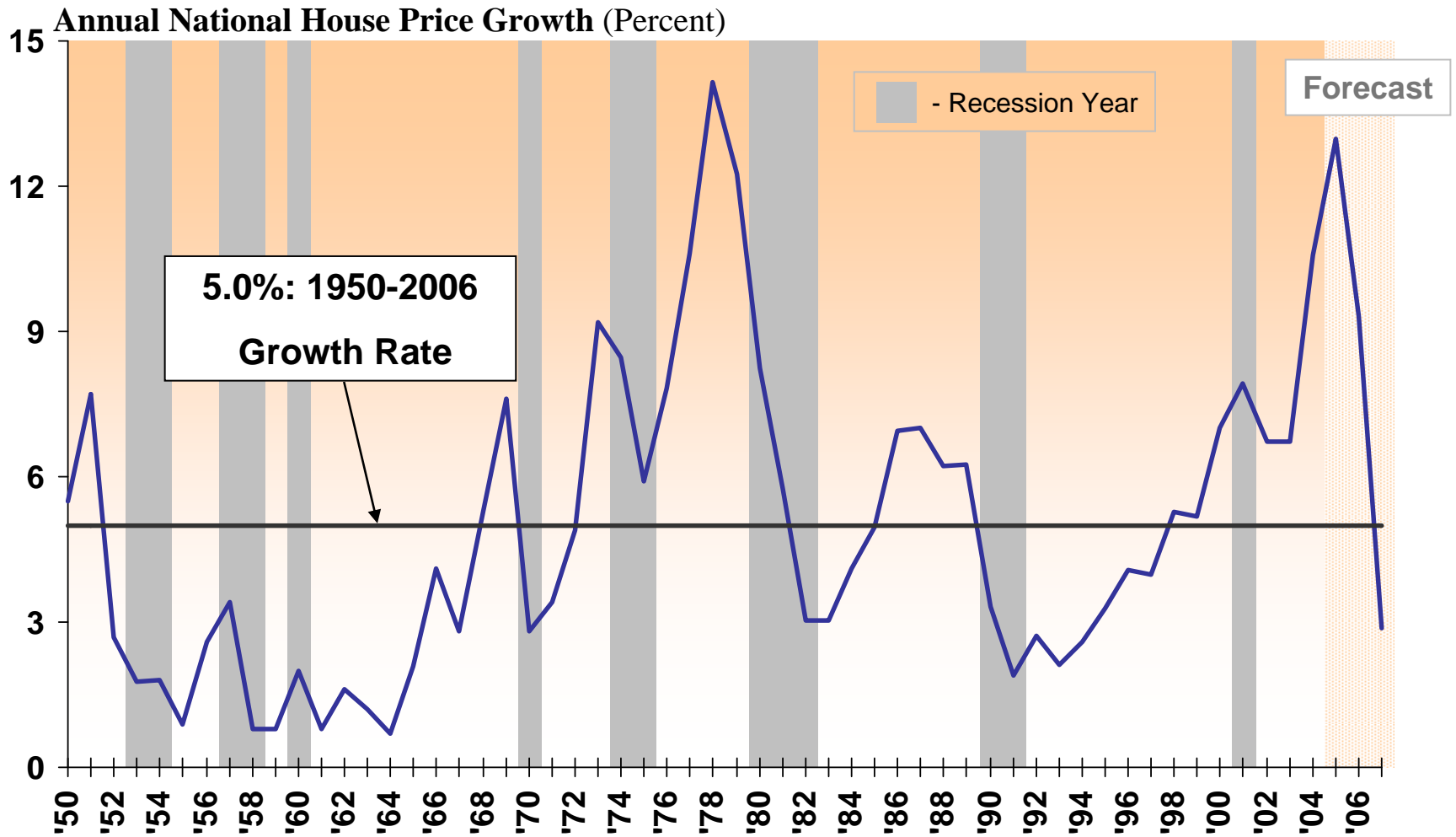
GSE and Private Label Investors Forum



- 2007 Lending Market
- Freddie Mac's Quality Control Trends
- What's Changing

2007 Lending Market: Declining Values

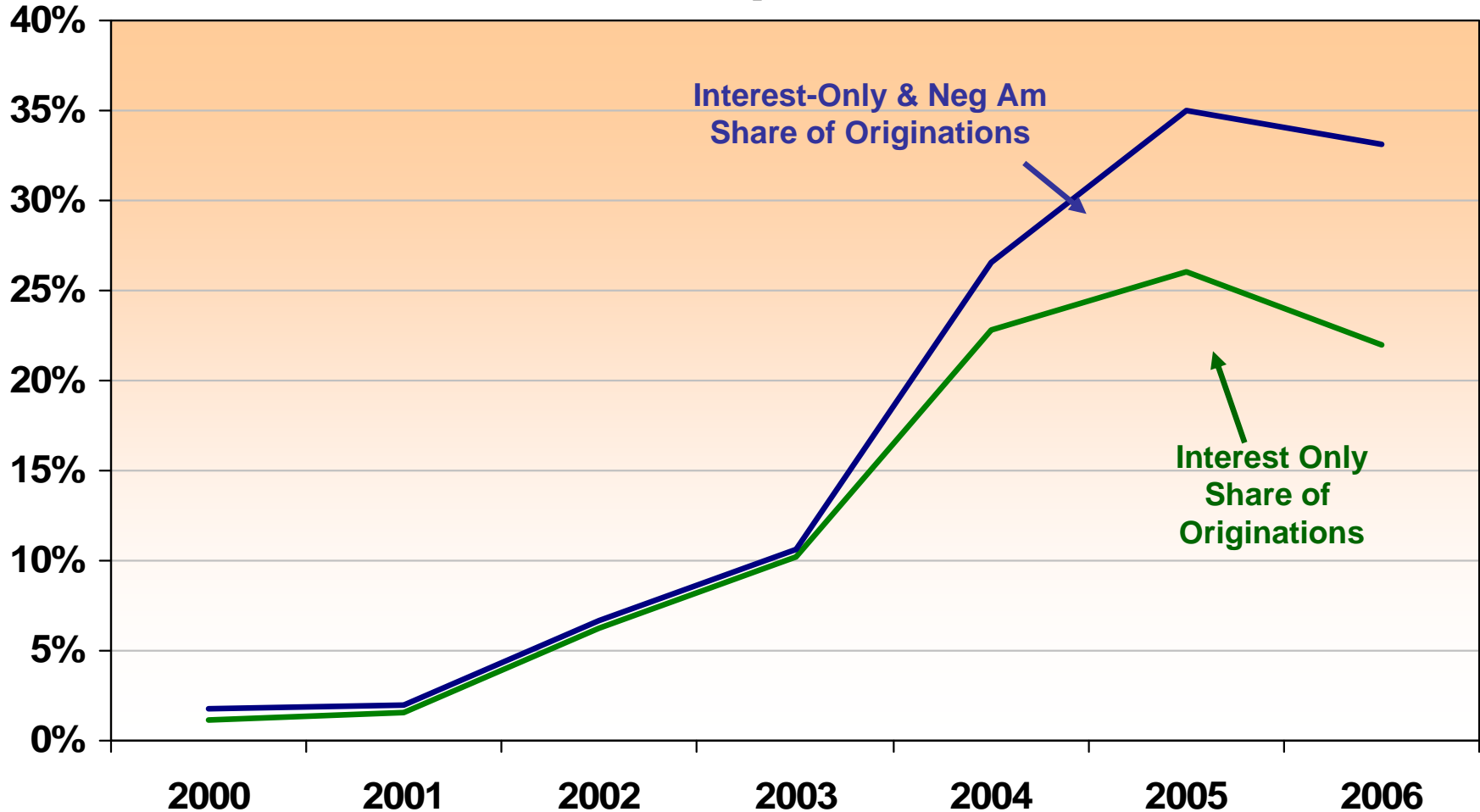
U.S. Home Price Growth Is Trending Down Towards Long-term Average



Source: E. H. Boeckh and Associates, Bureau of Labor Statistics, U.S. Census Bureau, Freddie Mac

2007 Lending Market: Rapid Growth in Non-Traditional Loan Originations

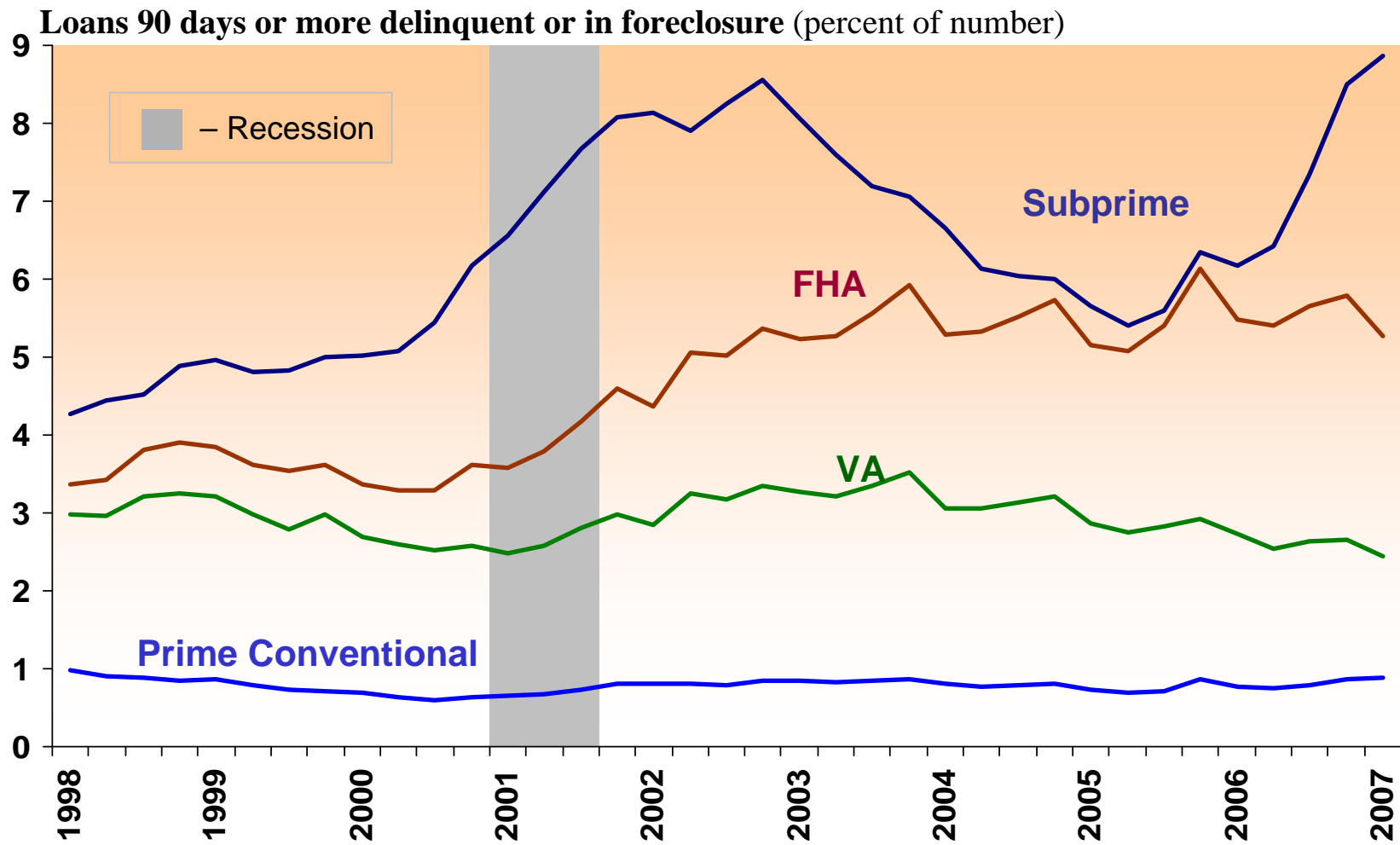
Interest-Only & Negative Amortization Share of Originations in Private Label Securities (percent of loans)



Source: Loan Performance-a unit of First American Corp (Securities issues through December 2006)

2007 Lending Market: Subprime Default Rates

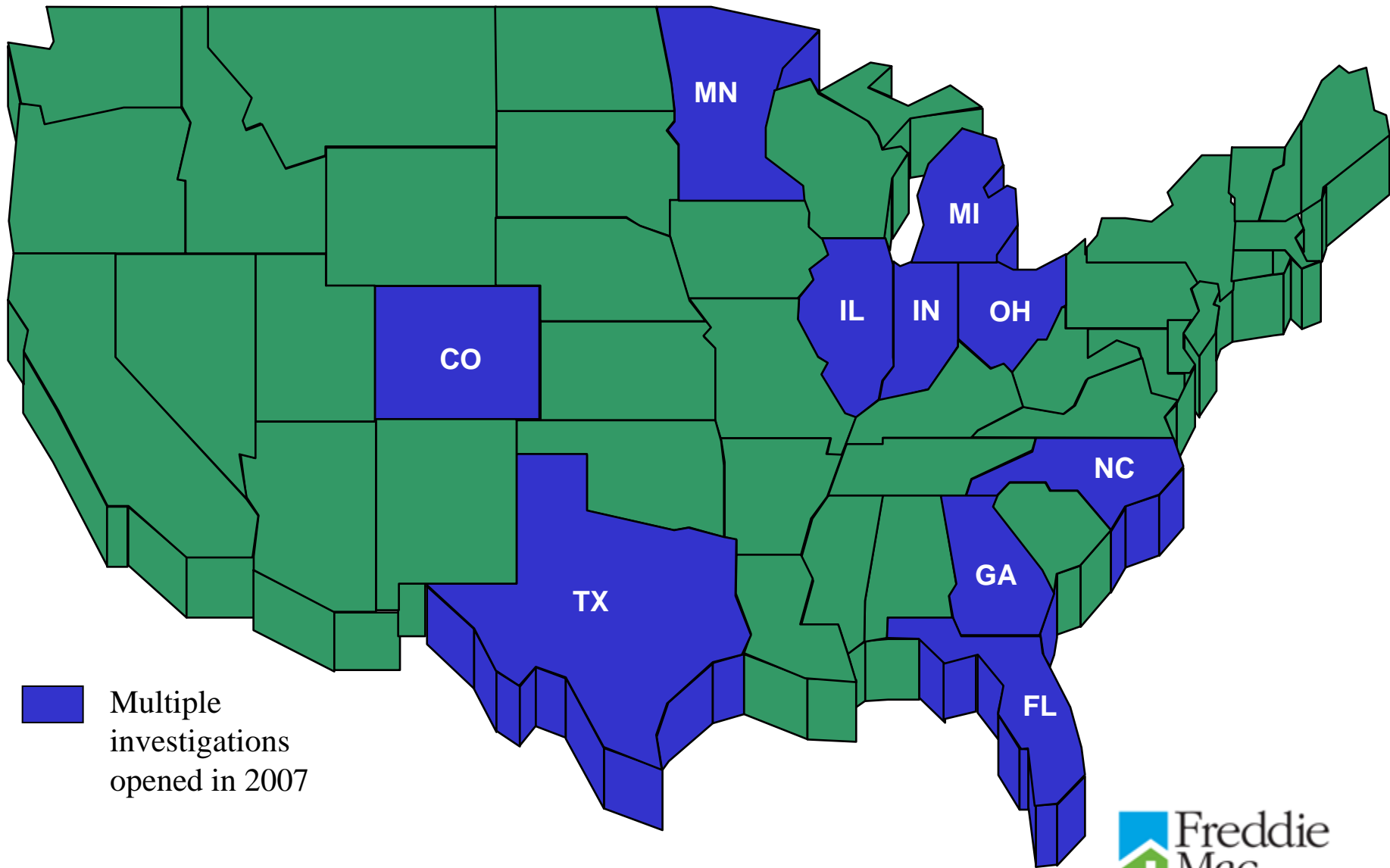
10 Times Those on Prime and Equal to Previous High



Source: Mortgage Bankers Association and Loan Performance;
OTS Method (1998Q1-2000Q3) and MBA Method (2000Q4-2007Q1)

- Unsupported property valuations
- Insufficient income/undisclosed debt
- Missing documentation
- Increase in high cost loans
- Misrepresentation

Case Trends/Statistics



Multiple investigations opened in 2007

- Builder bailout and cash back at closing schemes
- Investment clubs
- Manipulation of MLS data
- Fraud in affordable housing programs
- Foreclosure rescue scams
- Asset rental/employment verification programs
- Abuse of SISA/NINA loans

- New players — organized crime (drug dealers/gangs/terrorists/Mafia)
- Money laundering
- Highly organized fraud-for-profit schemes involving multiple loans
- “One stop shopping” — one person controls the entire transaction from property sale, loan origination, and appraisal through closing
- Loans are kept current for a period of time to evade QC radar

- Greater focus on credit requirements:
 - Streamline refinances (6/22/07)
 - Interagency Guidance on Non-traditional mortgages (9/13/07)
- Subprime policy
- Leverage data mining
- Focus on misrepresentation and NPL