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Economic Outlook and the Current State of the Housing Finance Industry

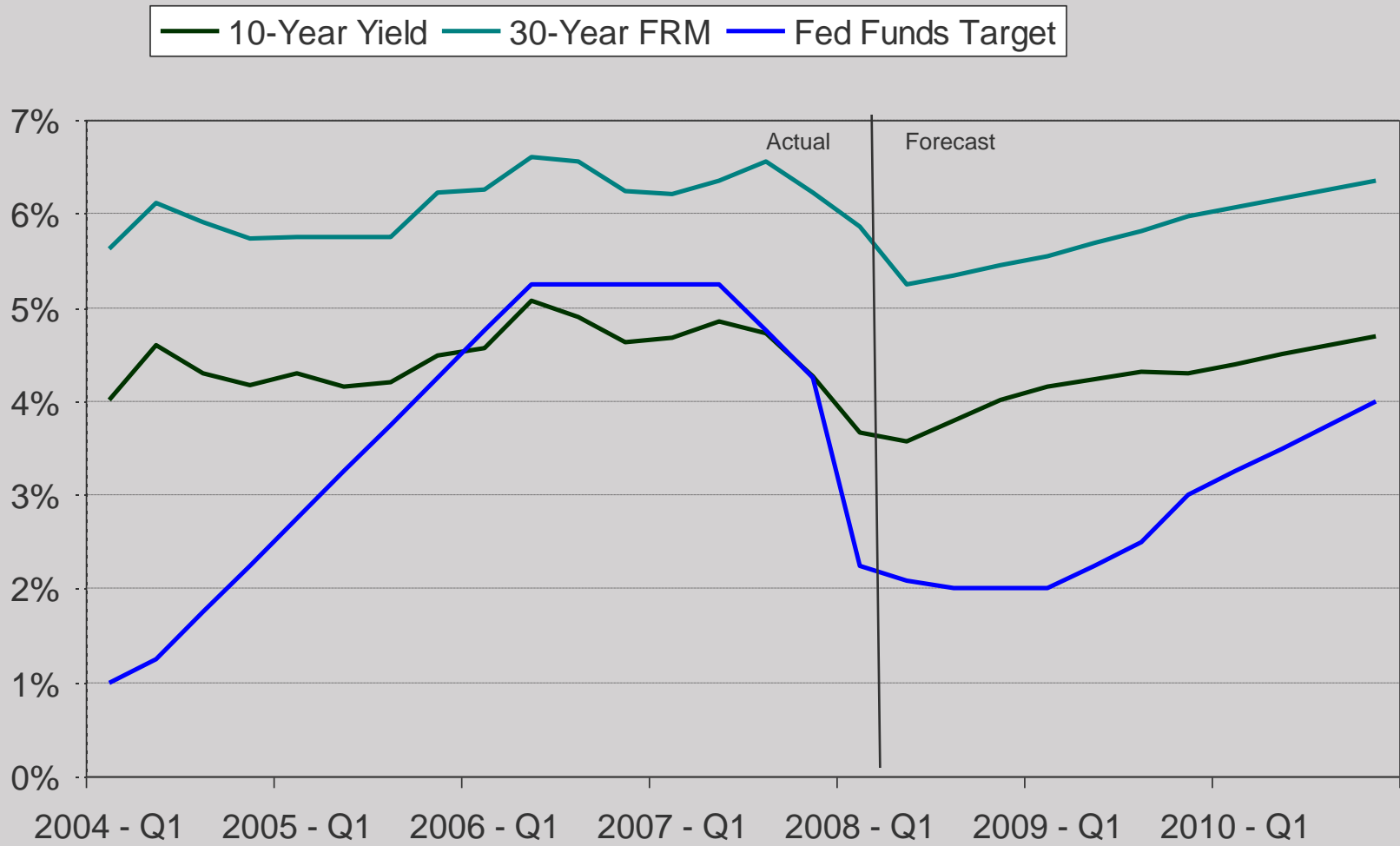
Jay Brinkmann

Vice President, Research and Economics

Mortgage Bankers Association

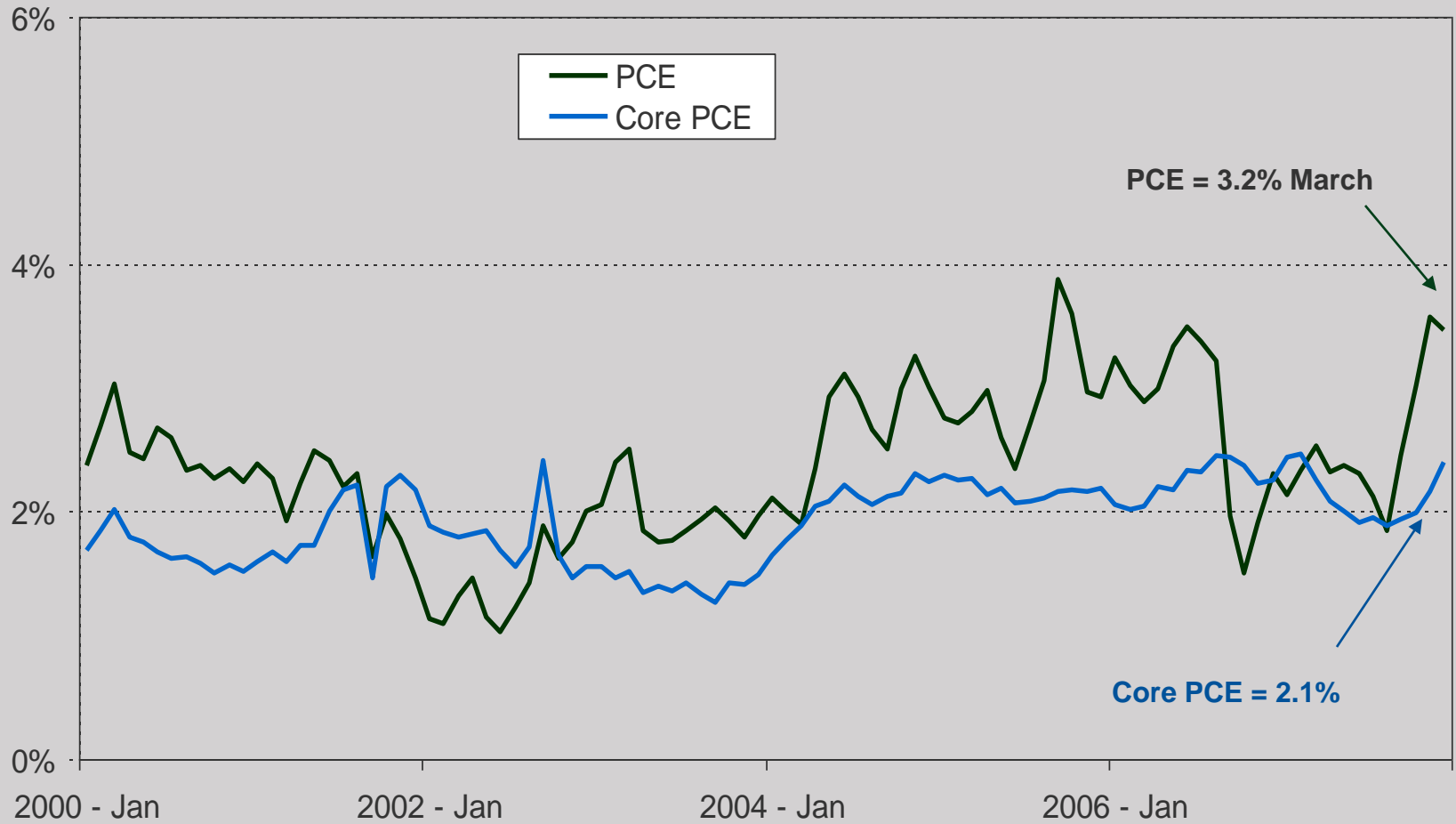
- Economic outlook
- MBA forecast
- Single-family mortgage performance
- Commercial & multifamily performance
- Observations on the recovery of the secondary market.

10-Year Treasury and 30-Year Fixed Rate Mortgage Yields



Source: Federal Reserve Board and Freddie Mac

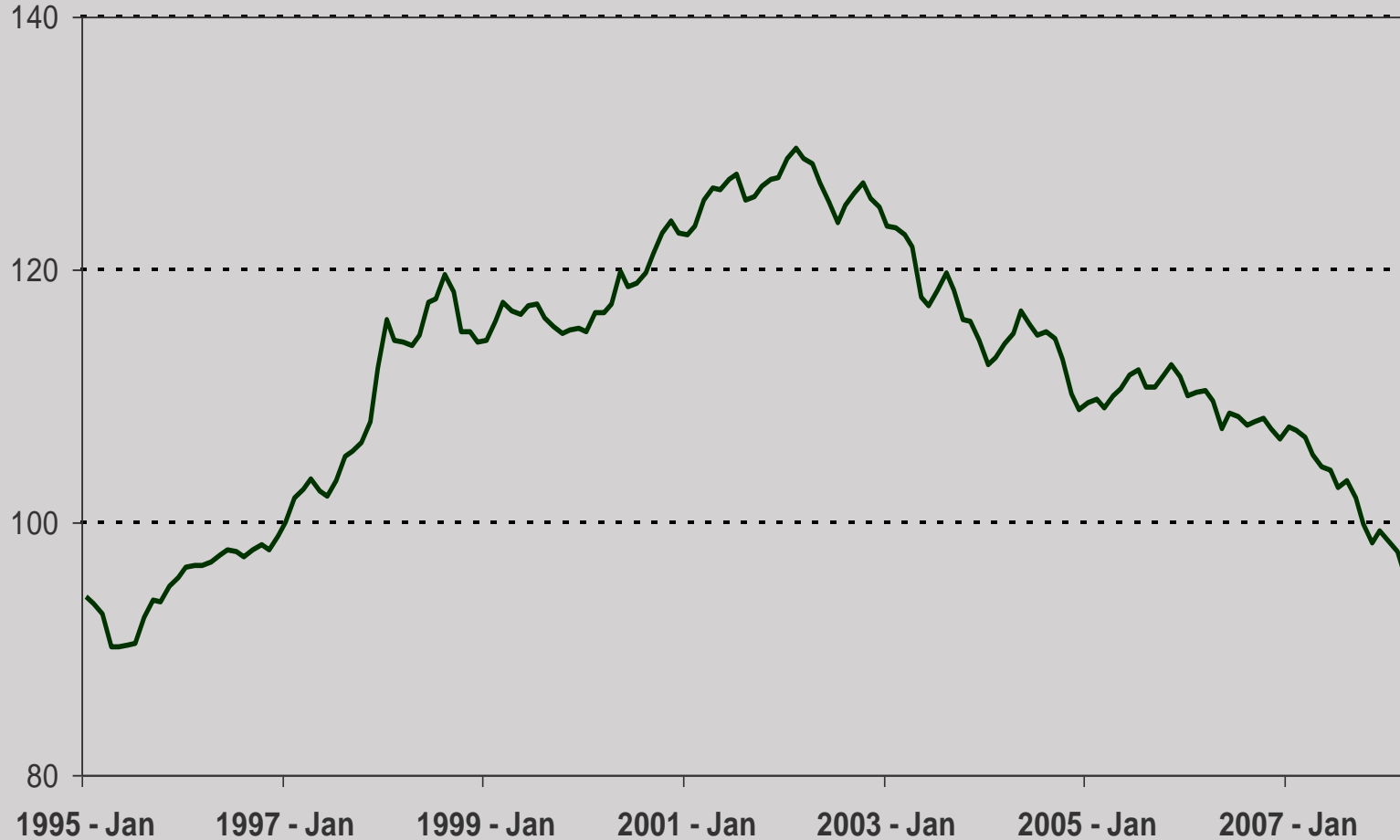
Year-over-year percent change



*Personal Consumption expenditures (PCE) chain price index

Source: Bureau of Economic Analysis

Jan 1997 = 100



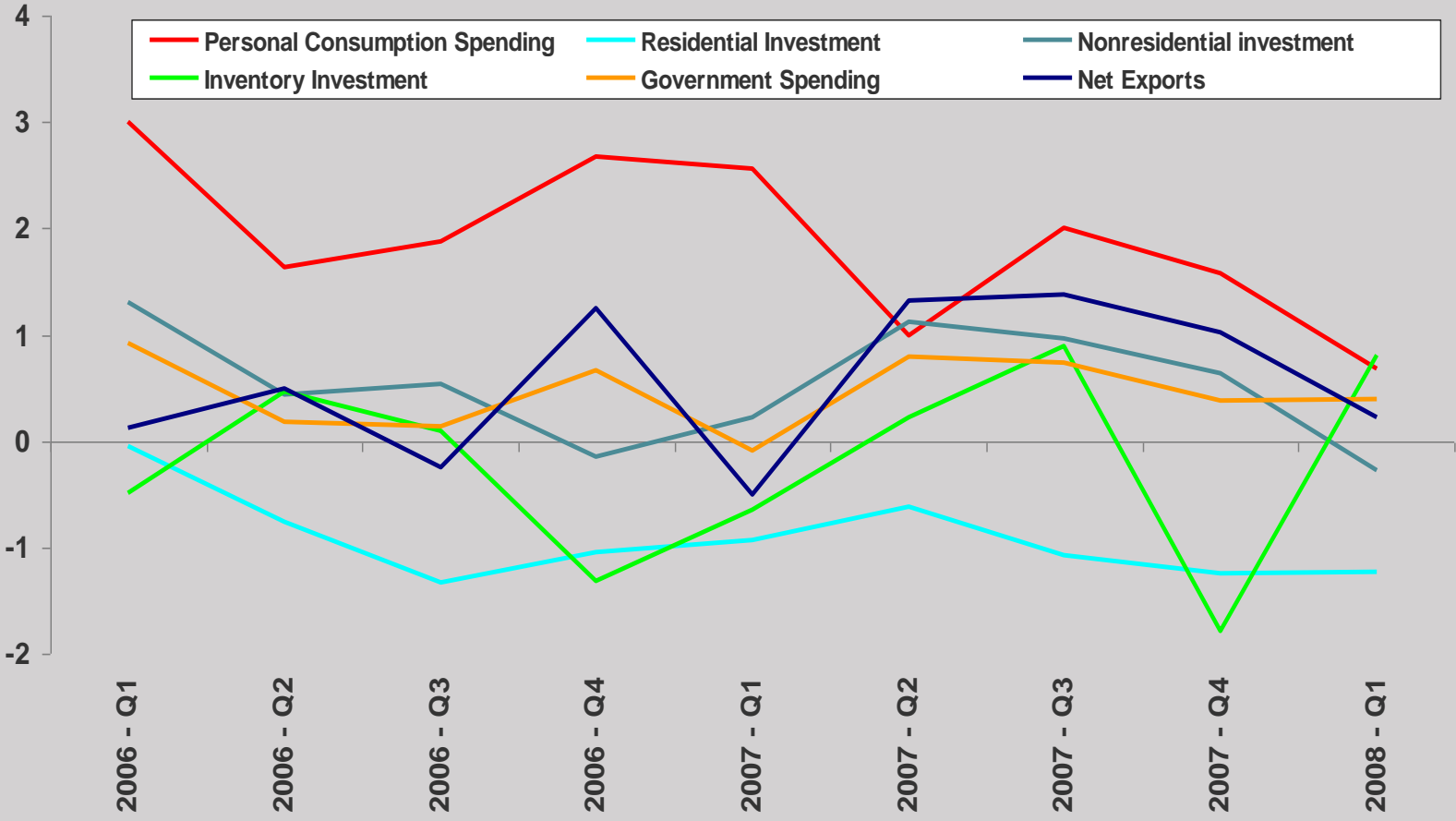
Source: Federal Reserve Board

- Do rate cuts work when an economic slowdown is due to a credit squeeze?
- Dealing with a bank run that does not involve banks
- Does beggaring investors in order to force them to take on more risk work if investors are one step away from sticking money into mattresses because they can't assess the risk?

Are we in a recession?

Contributions to Real Gross Domestic Product

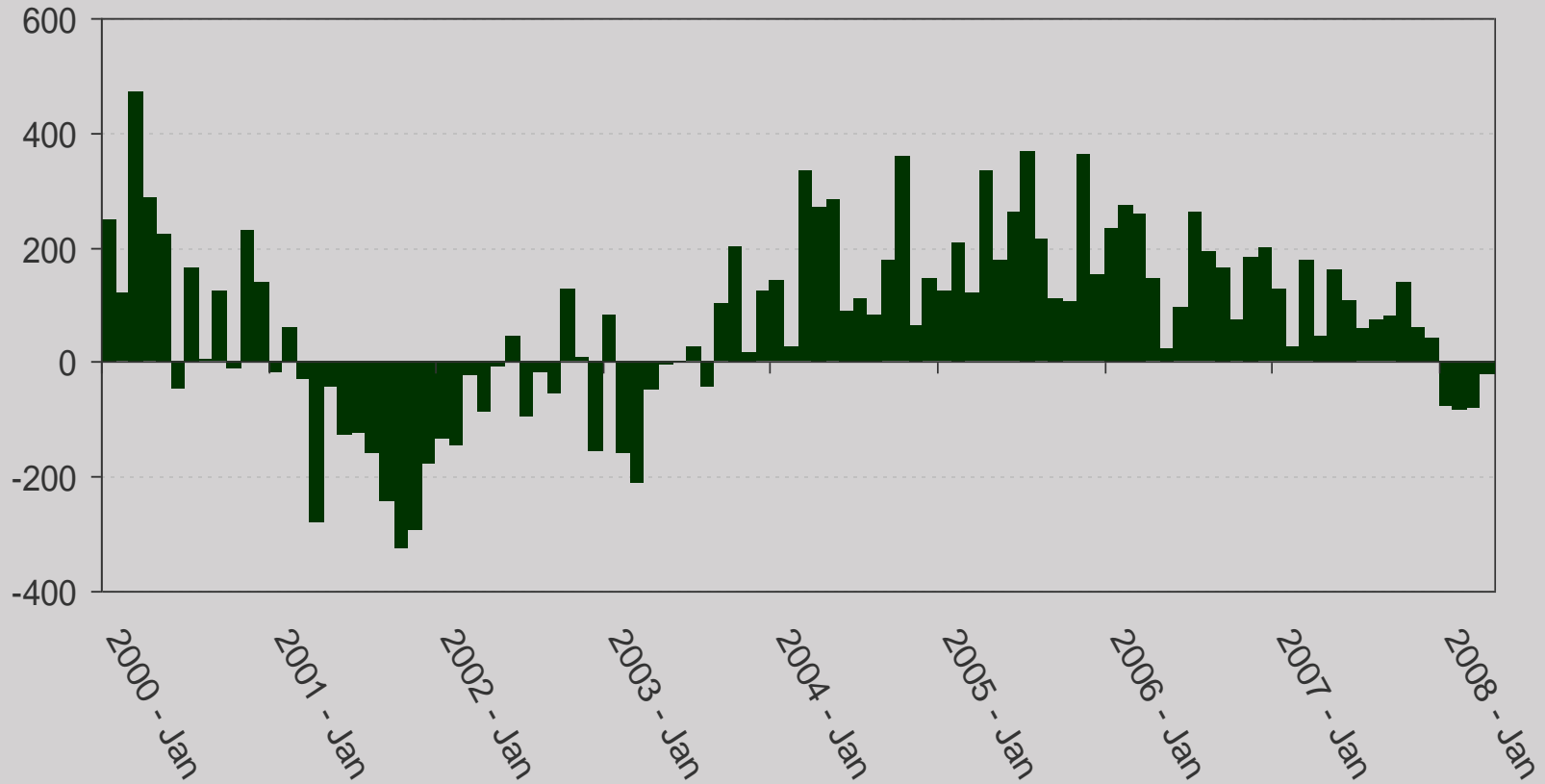
Percentage point



Source: Bureau of Economic Analysis

- The package will increase personal consumption spending sufficiently to drive up that component, likely keeping the GDP numbers just above recession levels.
- The package will do little to impact housing since it will do little to impact new employment.

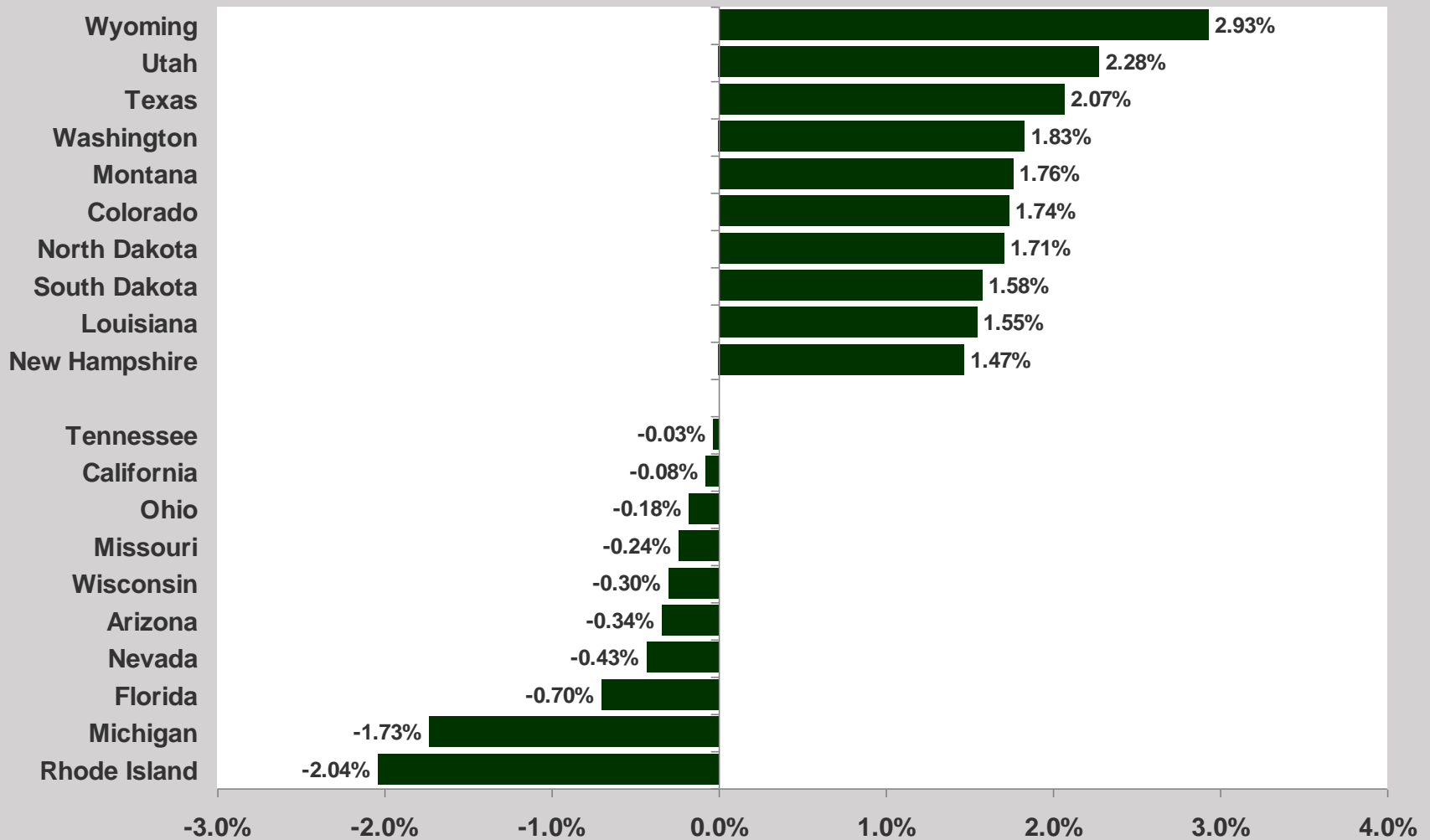
Thousands



Source: Bureau of Labor Statistics

Employment Change: March 2007 to March 2008

Top-ten and Bottom-ten States



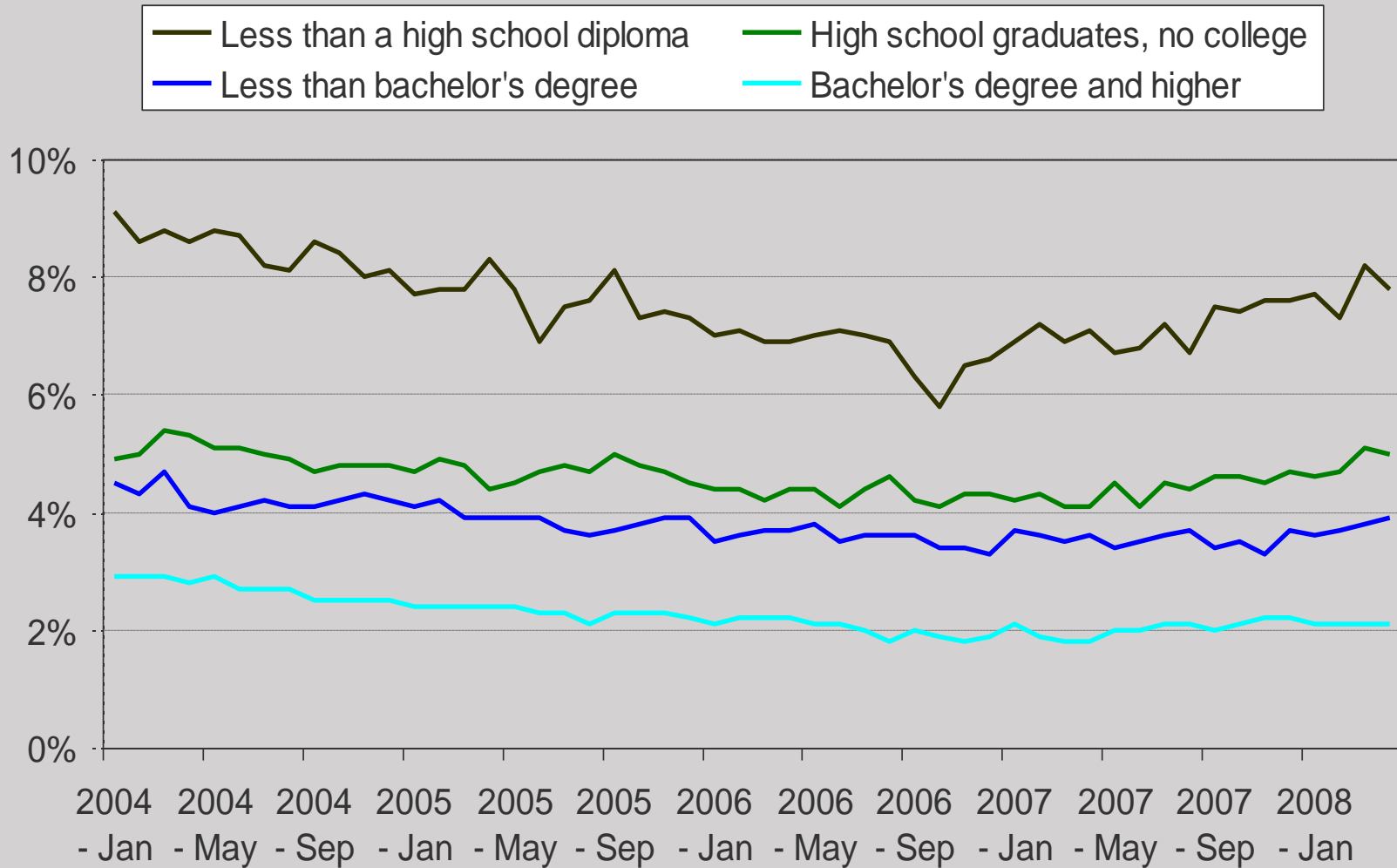
Source: Bureau of Labor Statistics

Strengths

- Banking system is healthy but capital constraints at some of the larger banks.
- Corporate performance in international markets is good but profits on domestic business are down.
- Other than construction, the contraction in employment has not been particularly severe.
- Exports are up but net exports are flat due to the price of imported oil.

Weaknesses

- The risk of inflation, primarily due to the cost of imports. China is a special risk.
- Energy prices.
- Uncertainty over tax rates, particularly capital gains and dividend taxes after the next election, and certainty over the continued increases in the state and local tax burden.
- Entitlement costs.
- Wage inflation due to tightness in the skilled labor pool and boomer retirements.



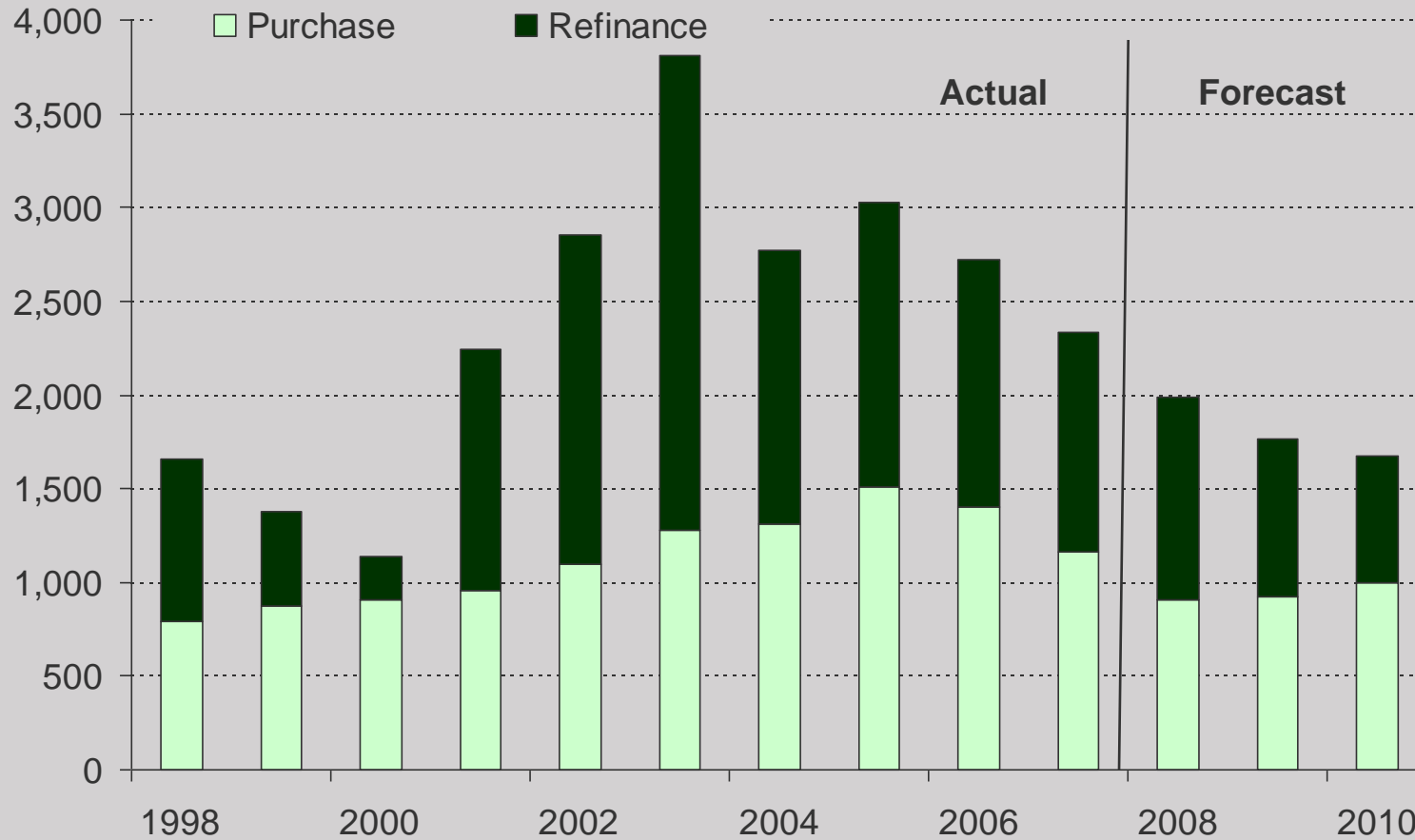
Source: The Bureau of the Census

Key drivers:

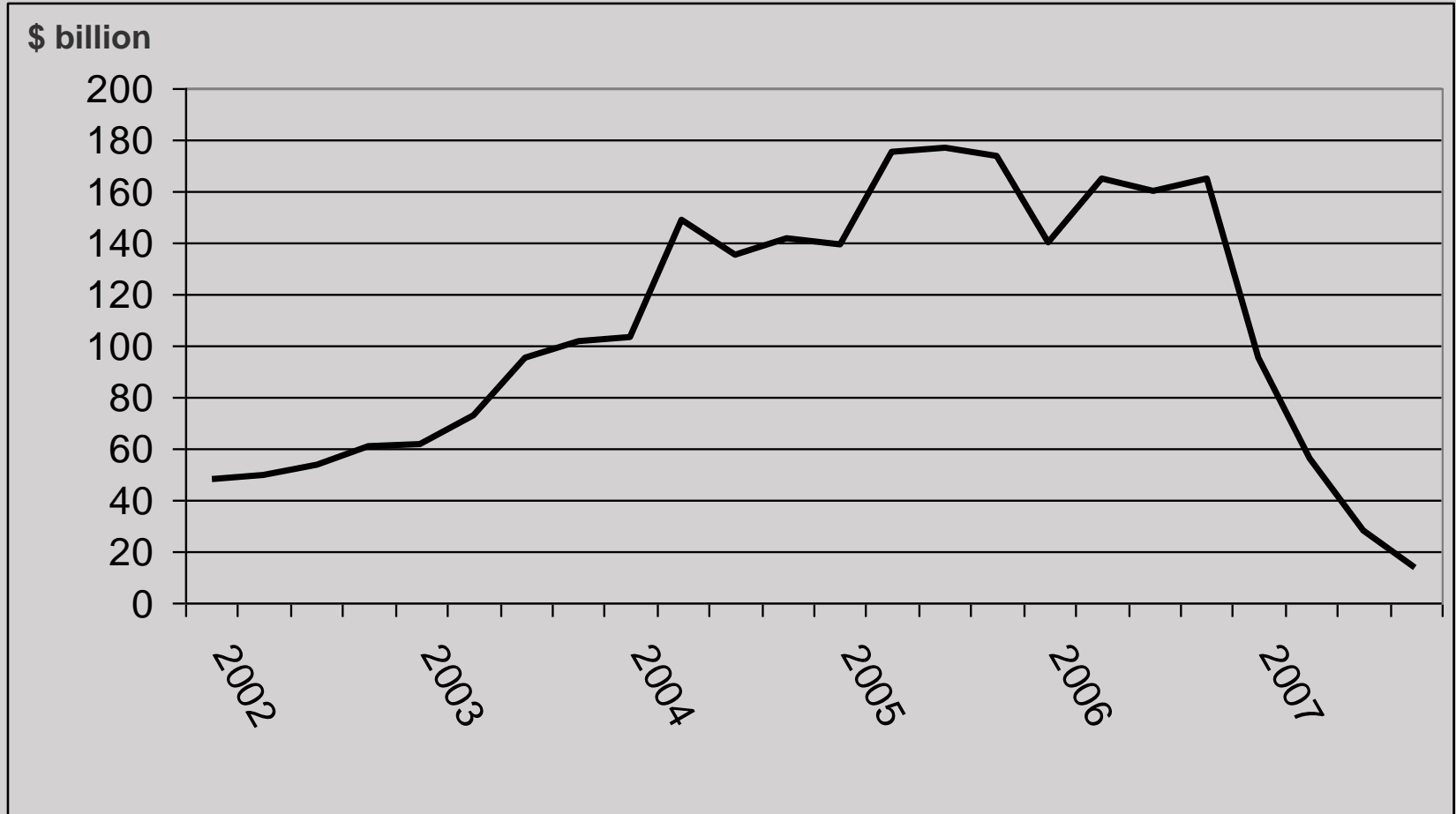
- Interest rates
- Sales
- Prices
- Credit

Annual Mortgage Production

\$ Billion



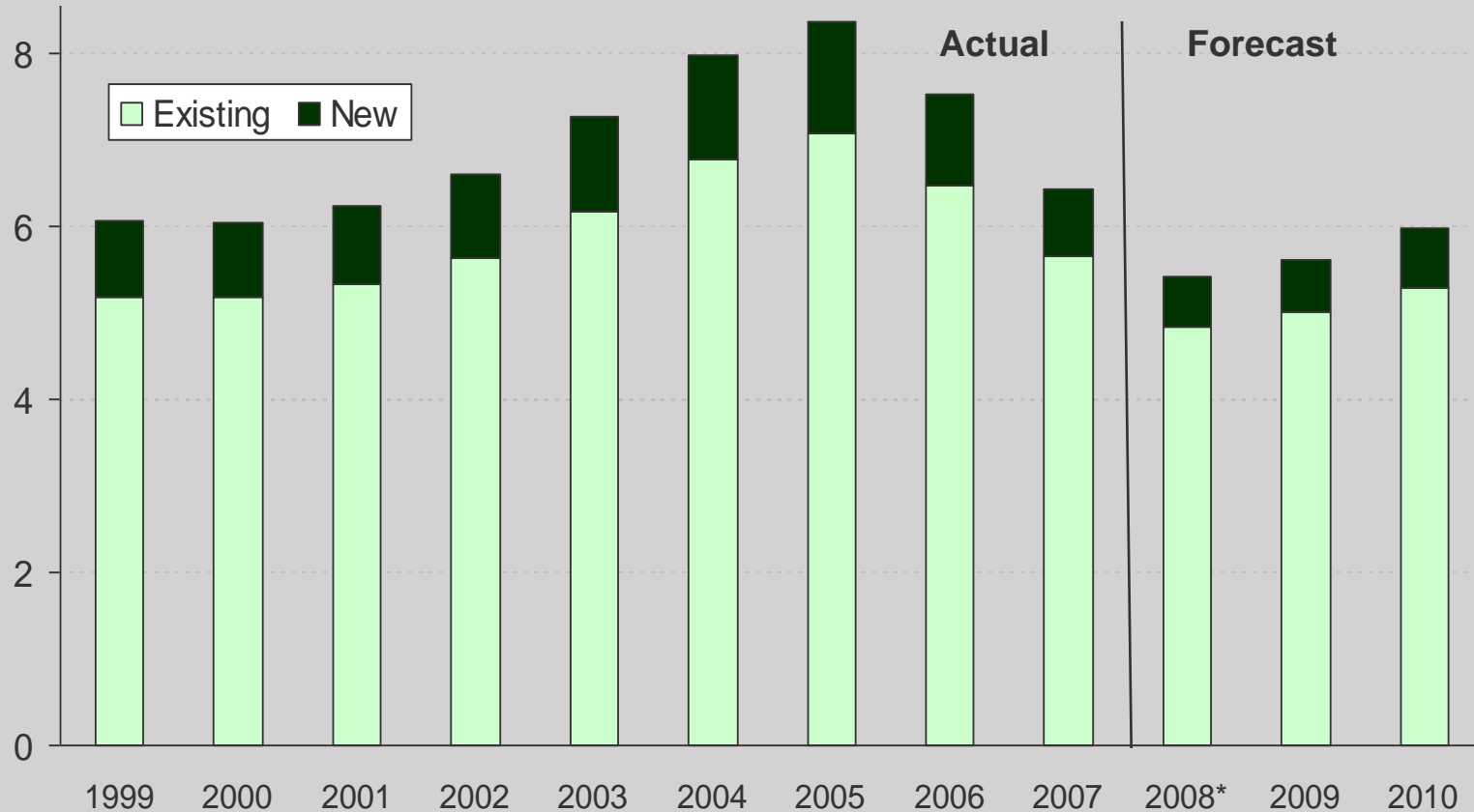
Source: Mortgage Bankers Association



Source: Inside B&C Lending

New and Existing Home Sales

Millions of homes

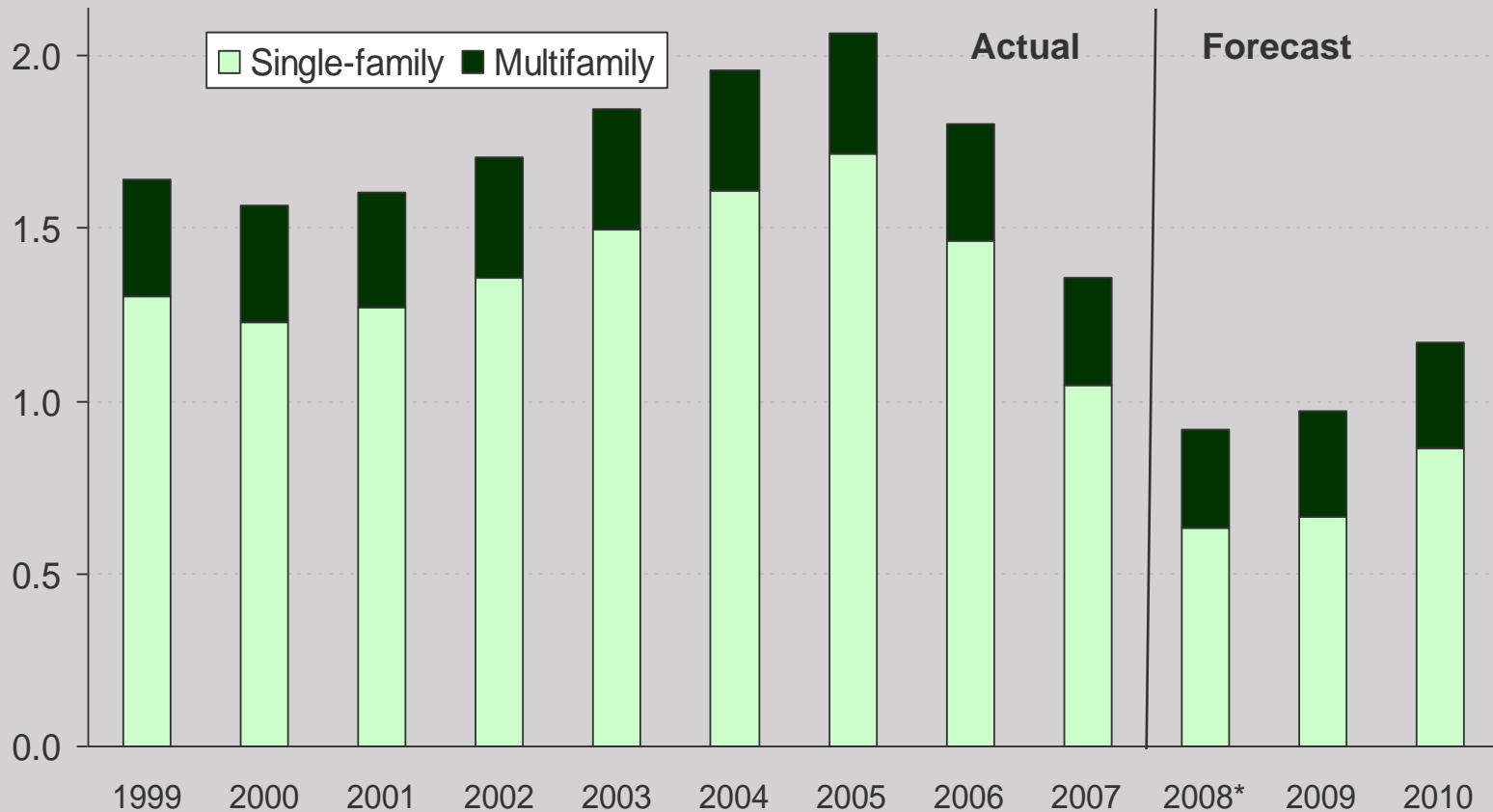


Source: Census Bureau and National Association of Realtors

Forecast: 14% drop in existing home sales and 27% drop in new home sales

Single-family and Multifamily Starts

Millions of units



Source: Census Bureau

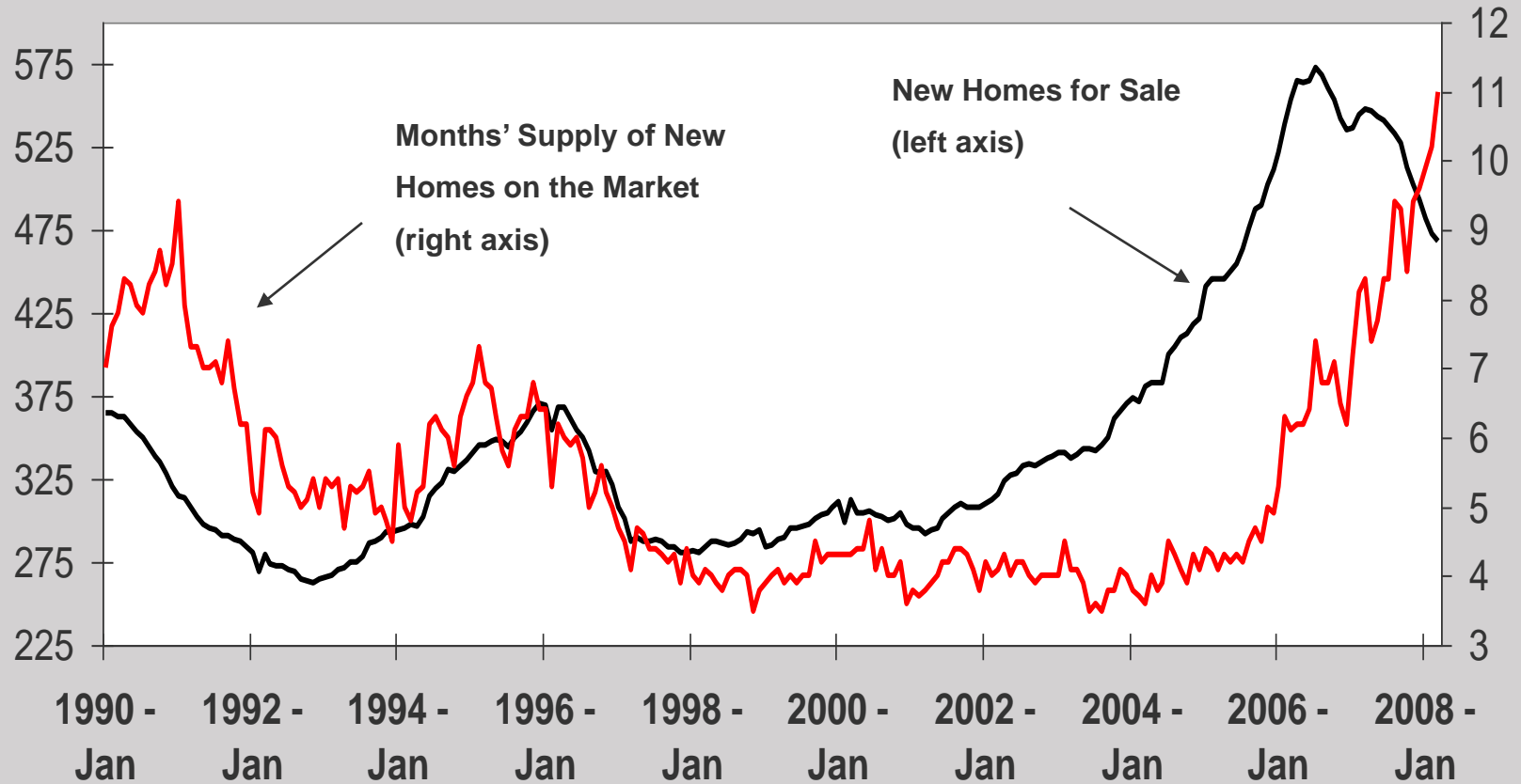
Forecast; 40% drop in single-family starts and 5% drop in multifamily starts

New Homes Available For Sale Remain at Elevated Levels

SECONDARY.08

Thousands

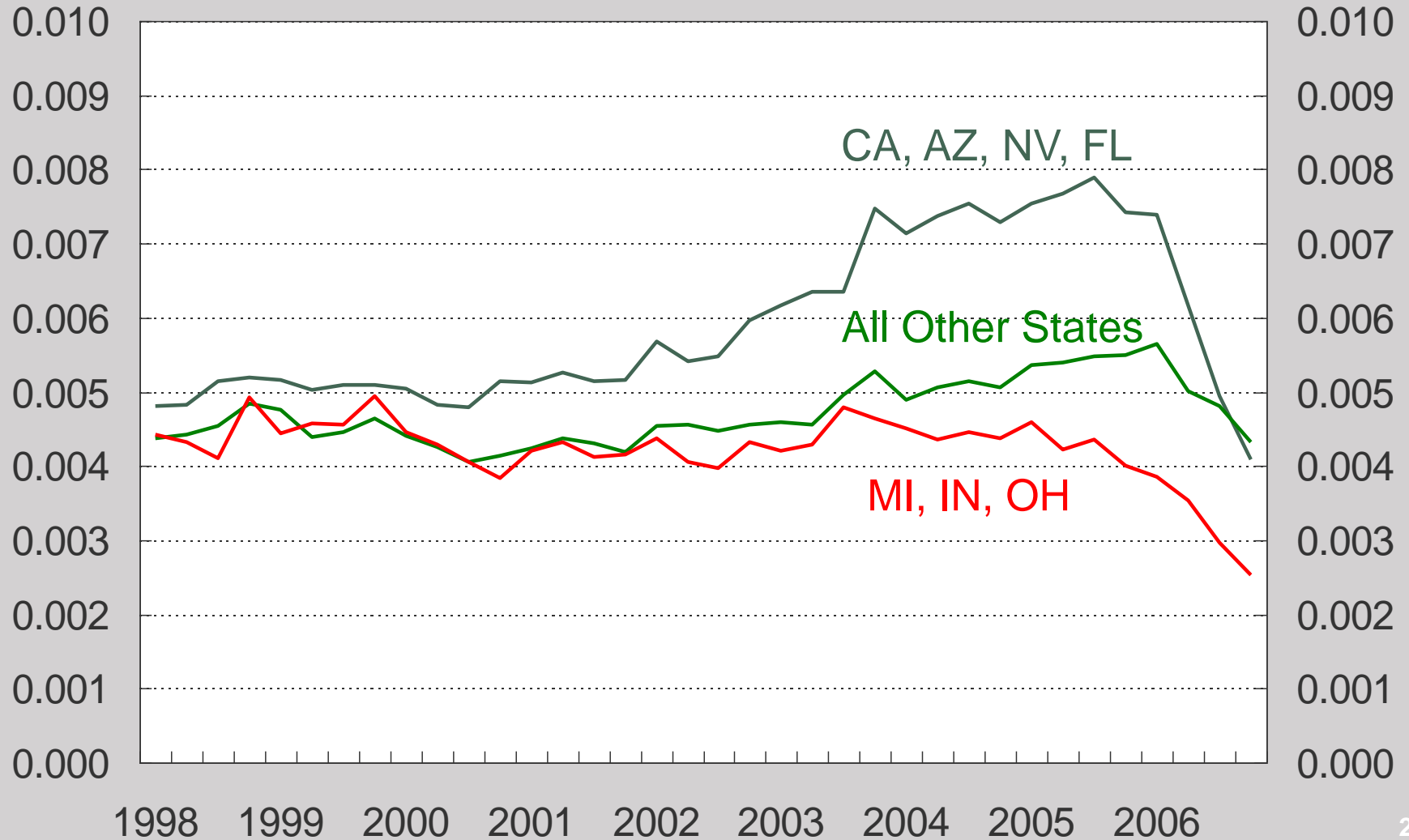
Months



Housing Starts Per Capita

Percent

Percent

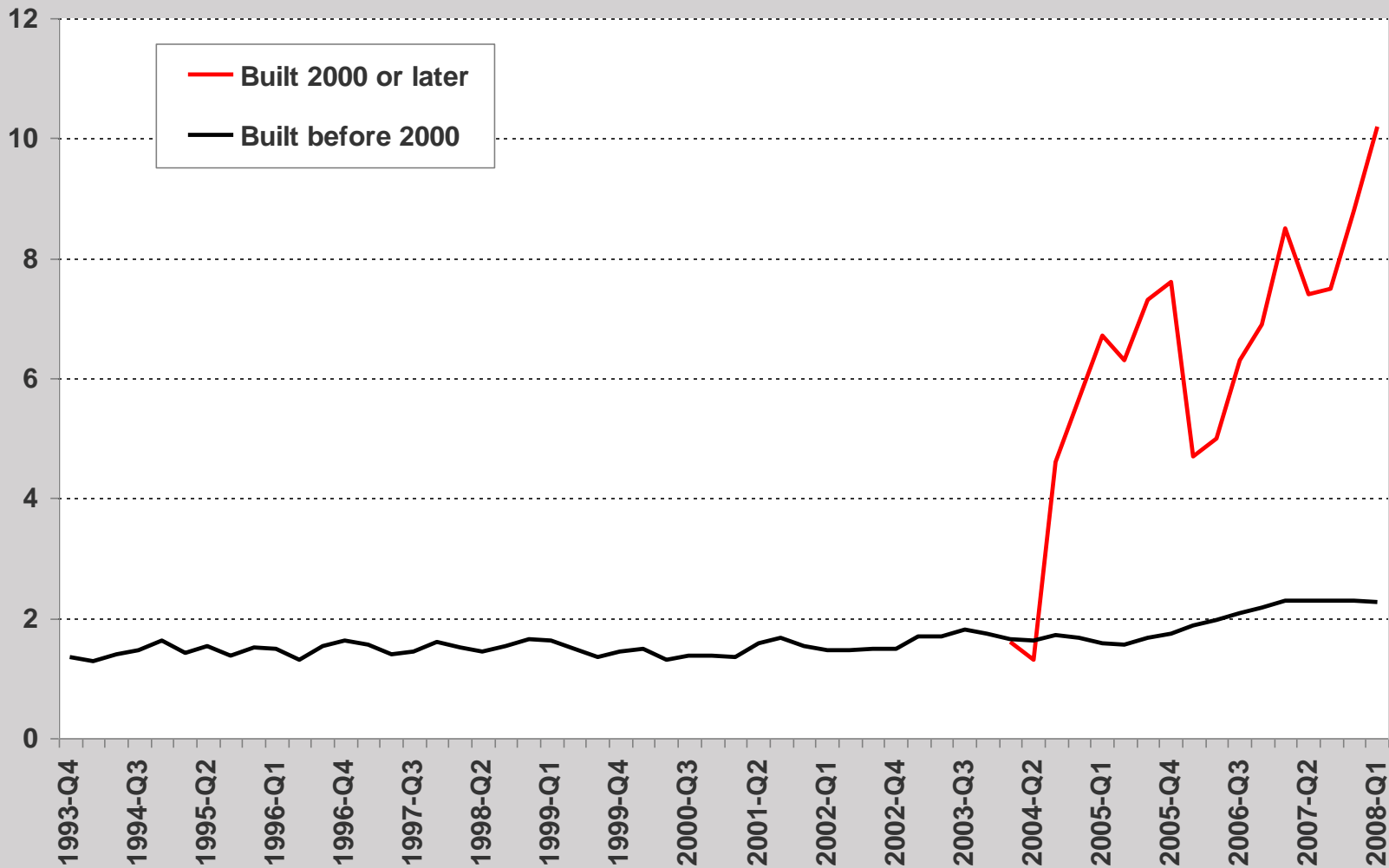


Source: New York Federal Reserve and Economy.com

Homeowner Vacancy Rate, by Year Structure Built

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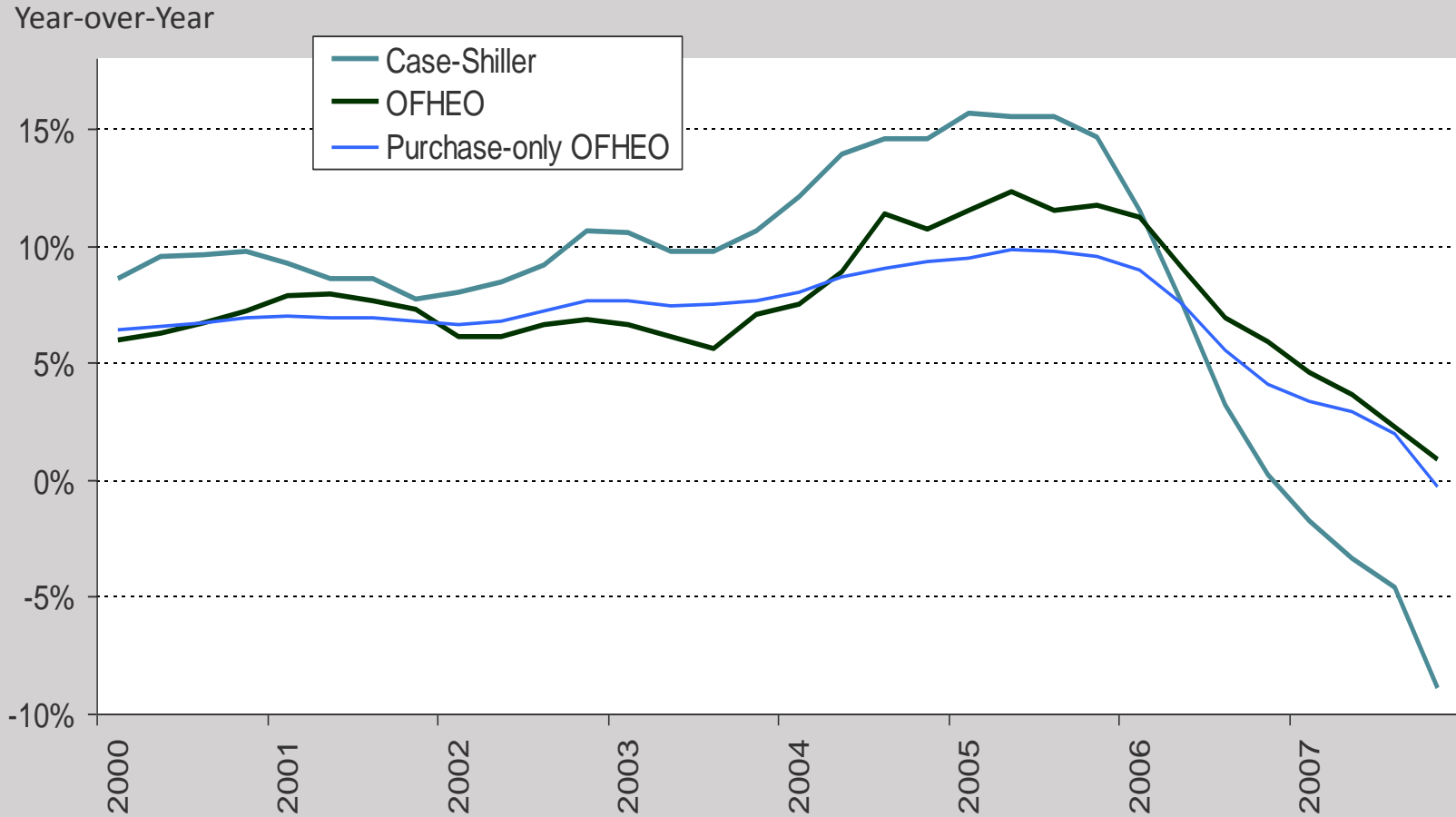
Percent vacant



Source: Census

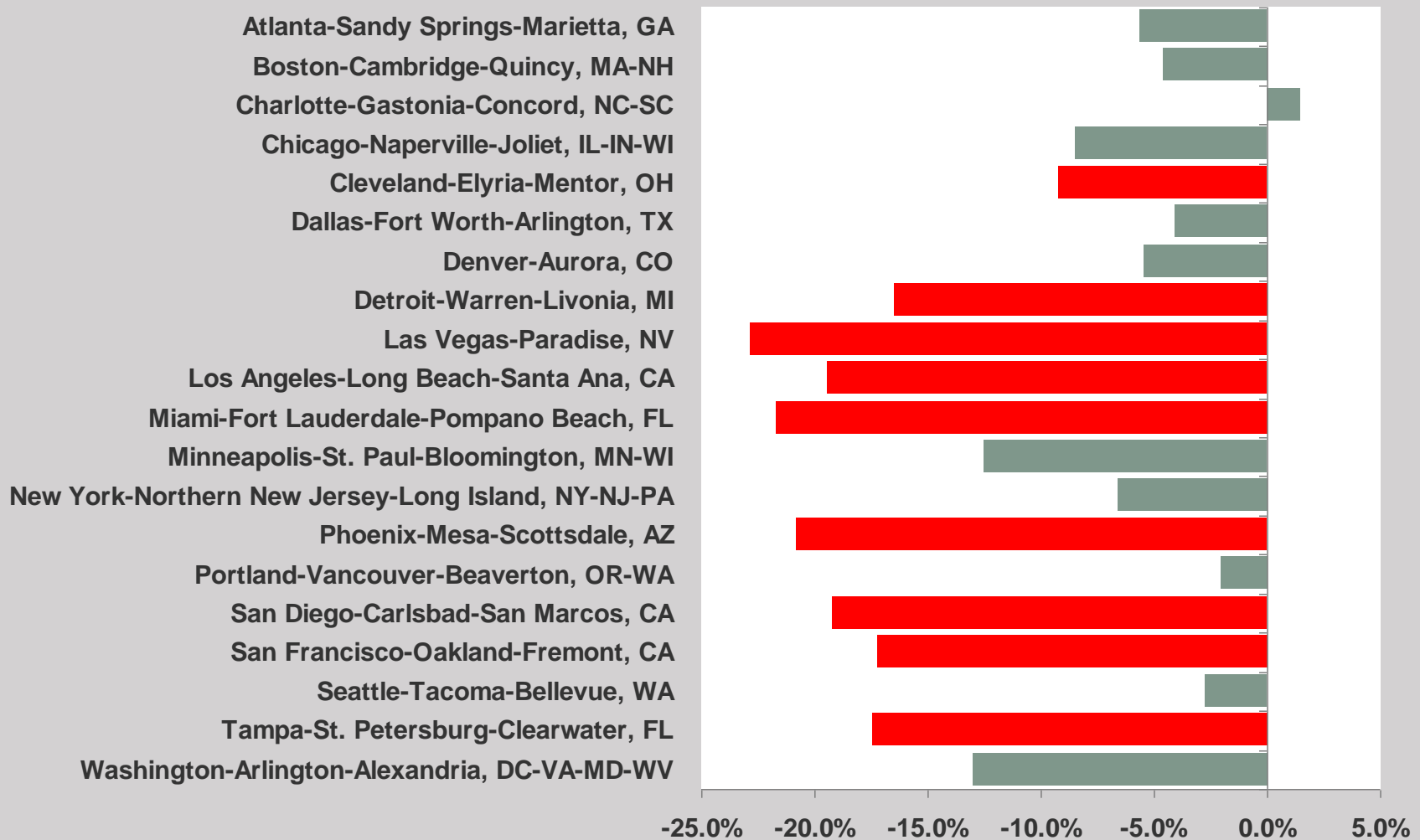
Vacancy rate for "Built before 2000" is the simple average of the vacancy rates of properties built during each decade prior to the 2000s.

Have Home Prices Declined Nationally? It Depends on the Measure You Use



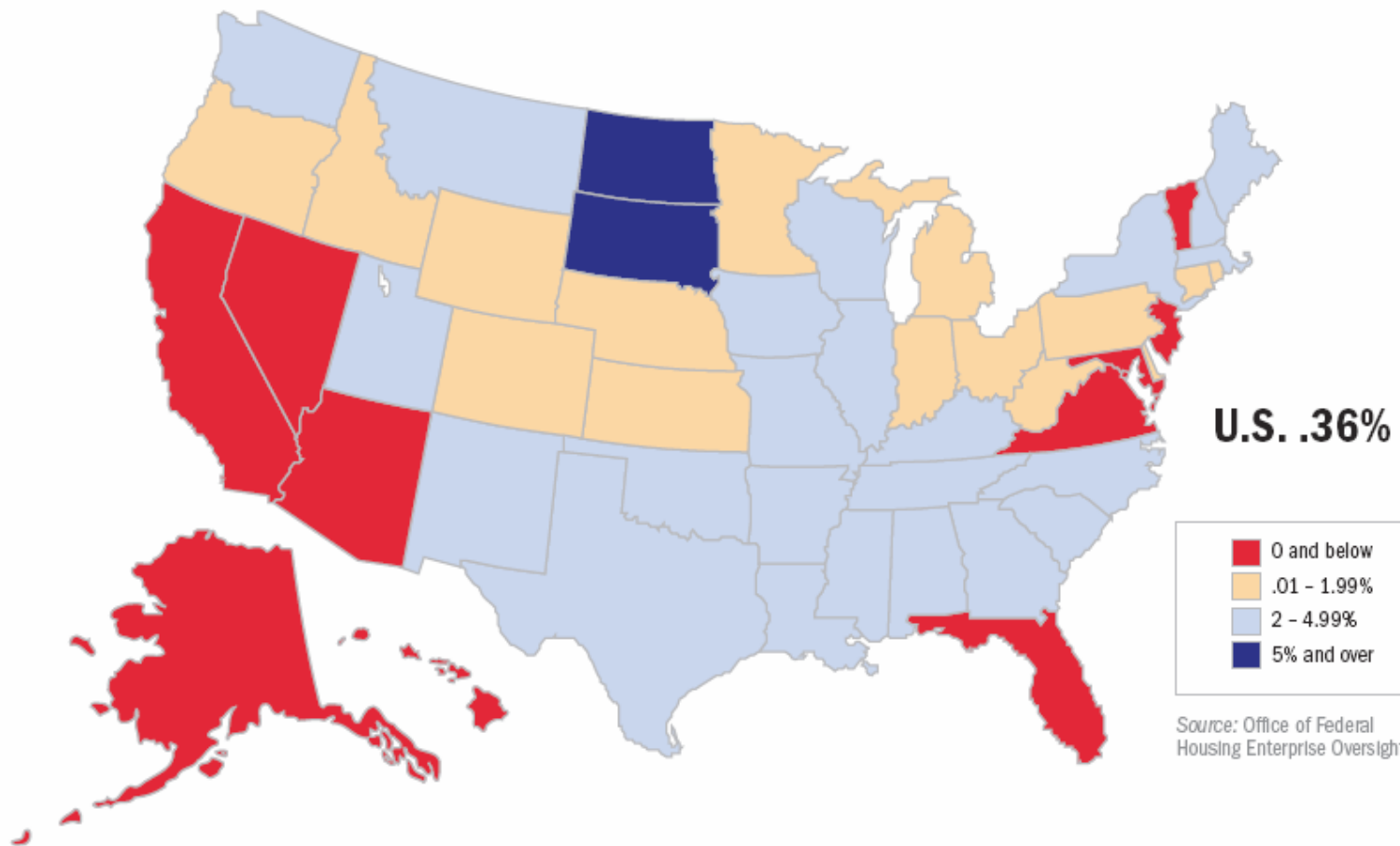
Source: Office of Federal Housing Enterprise Oversight and Standard and Poor's

Standard and Poor's Case-Shiller Indices, 20 MSAs: February 2007 to February 2008

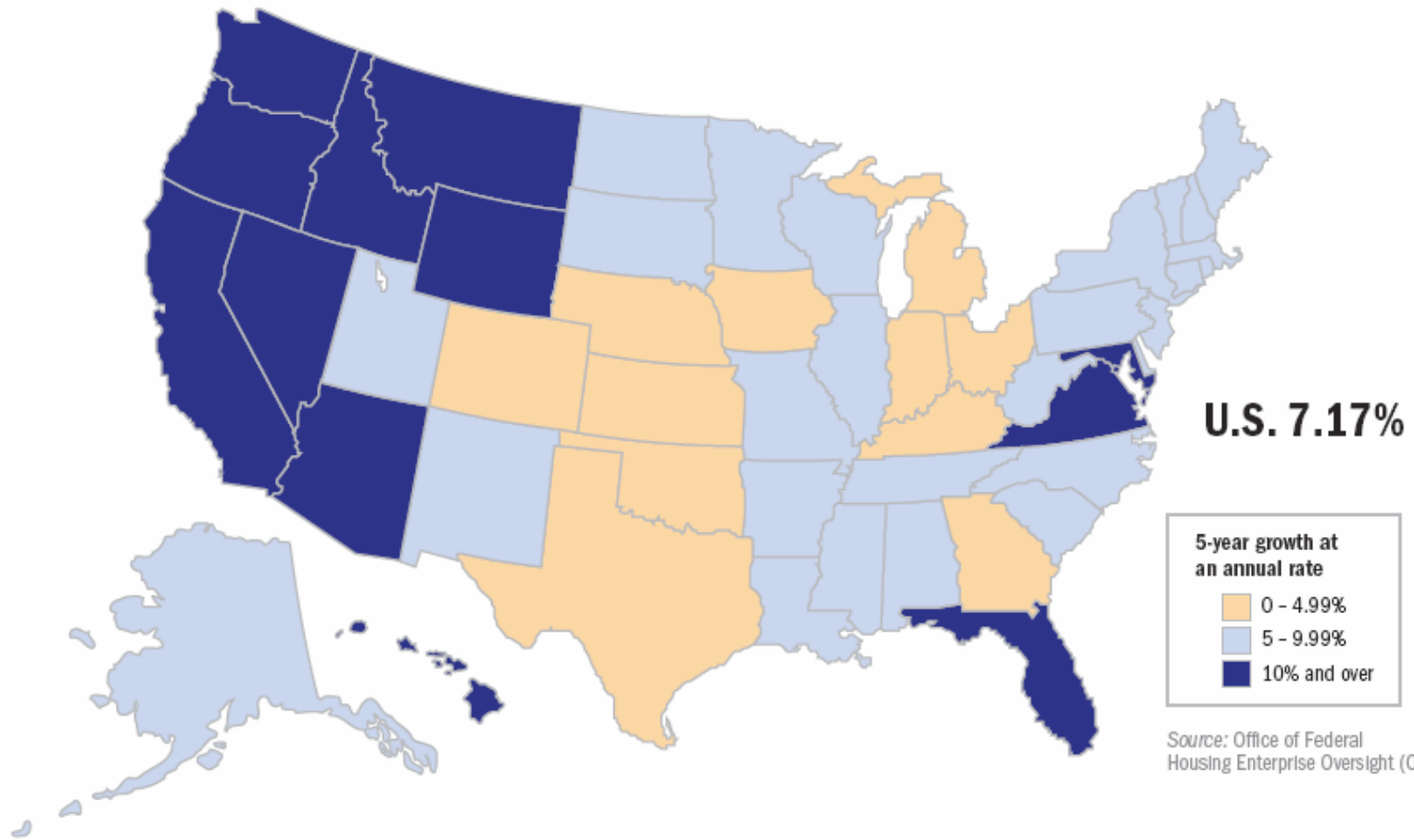


Source: Standard & Poor's

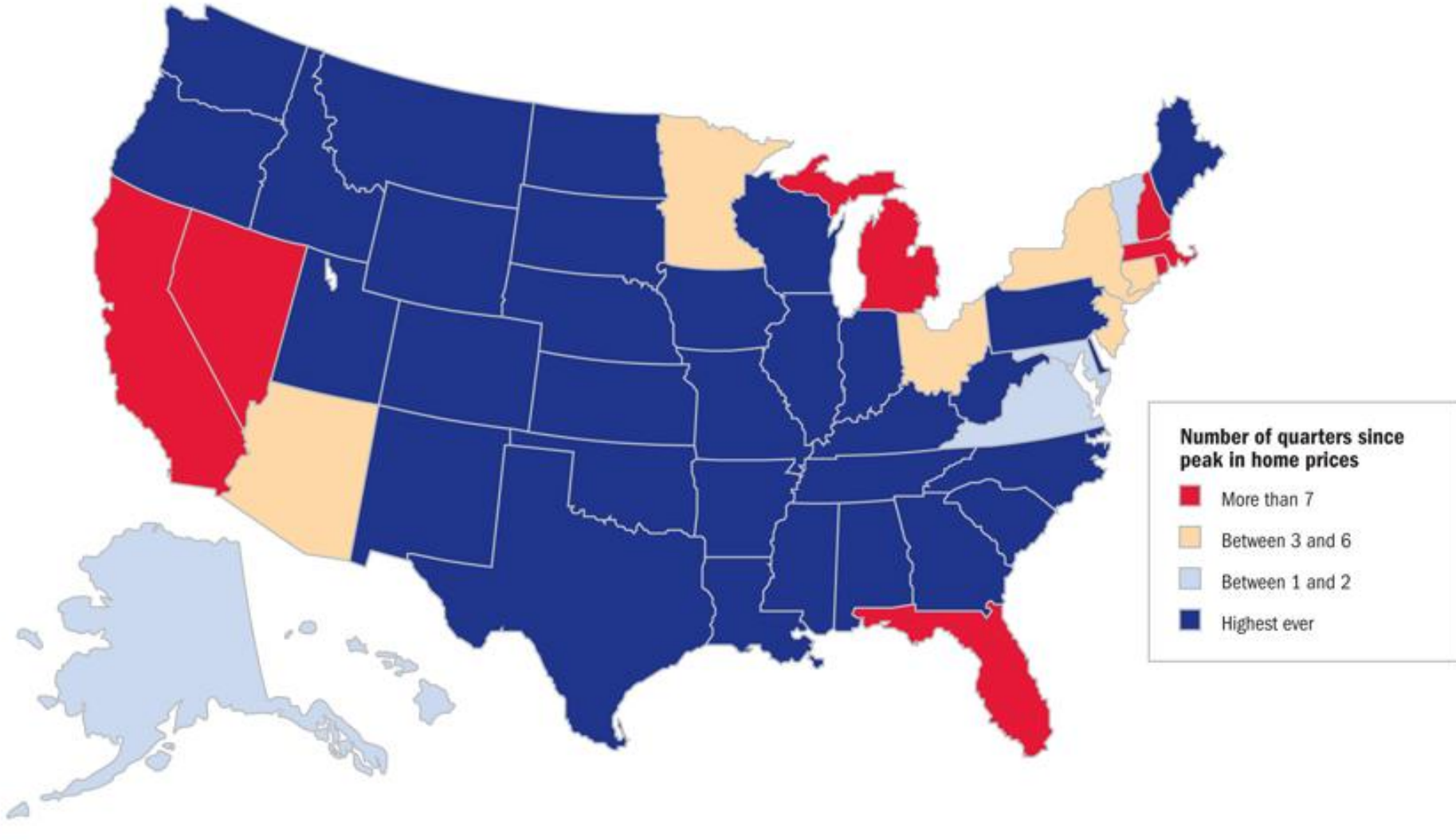
Annualized Quarterly Home Price Growth Rates, Fourth Quarter 2007



5-year Average Home Price Growth, Yearly



Quarters Since Price Peak OFHEO Purchase and Refi Index



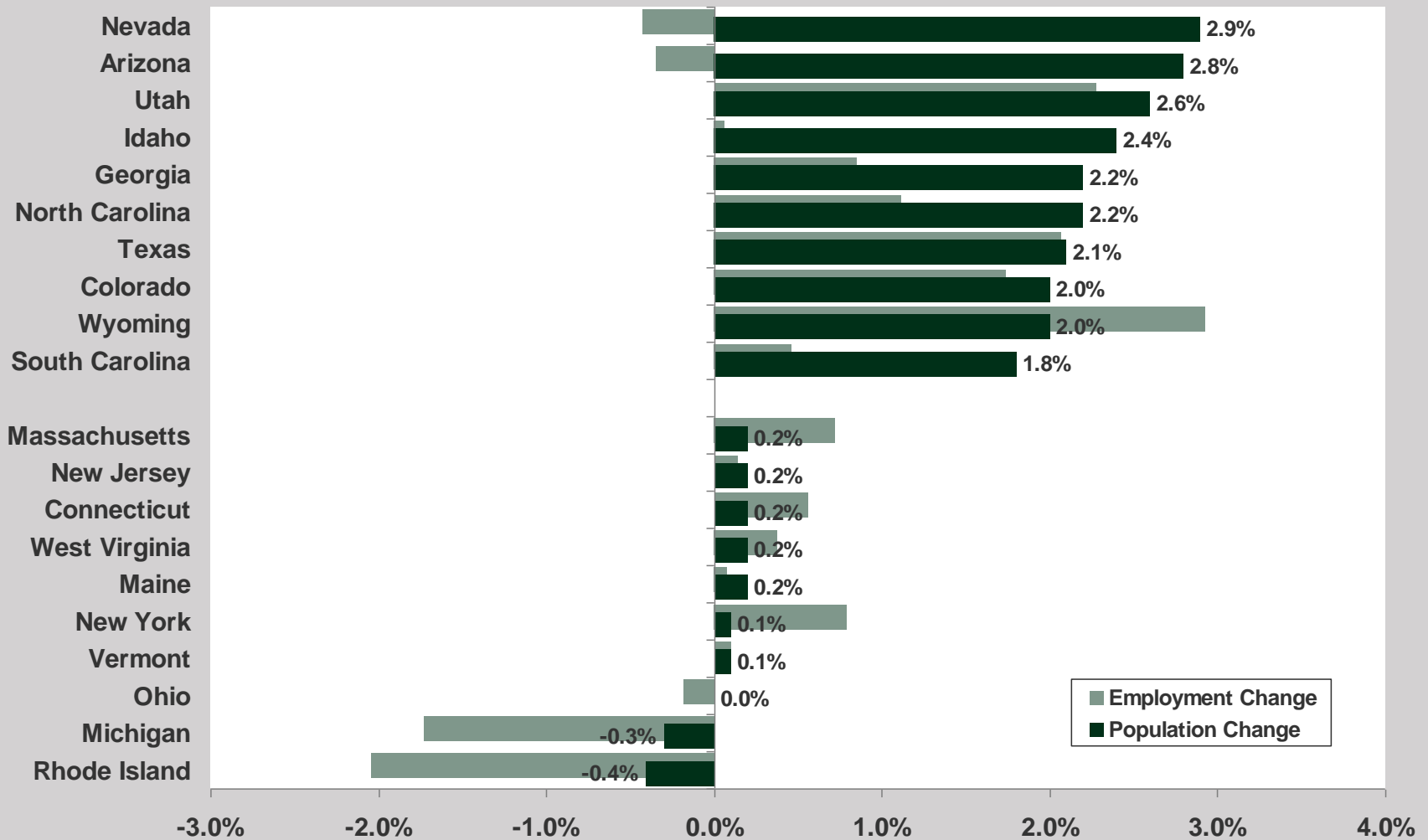
Normal Market?



Current Market?



**Top-ten and Bottom-ten States in Terms of Percent Change in Population, July 2006 – July 2007
(With Employment Change March 2007 – March 2008)**

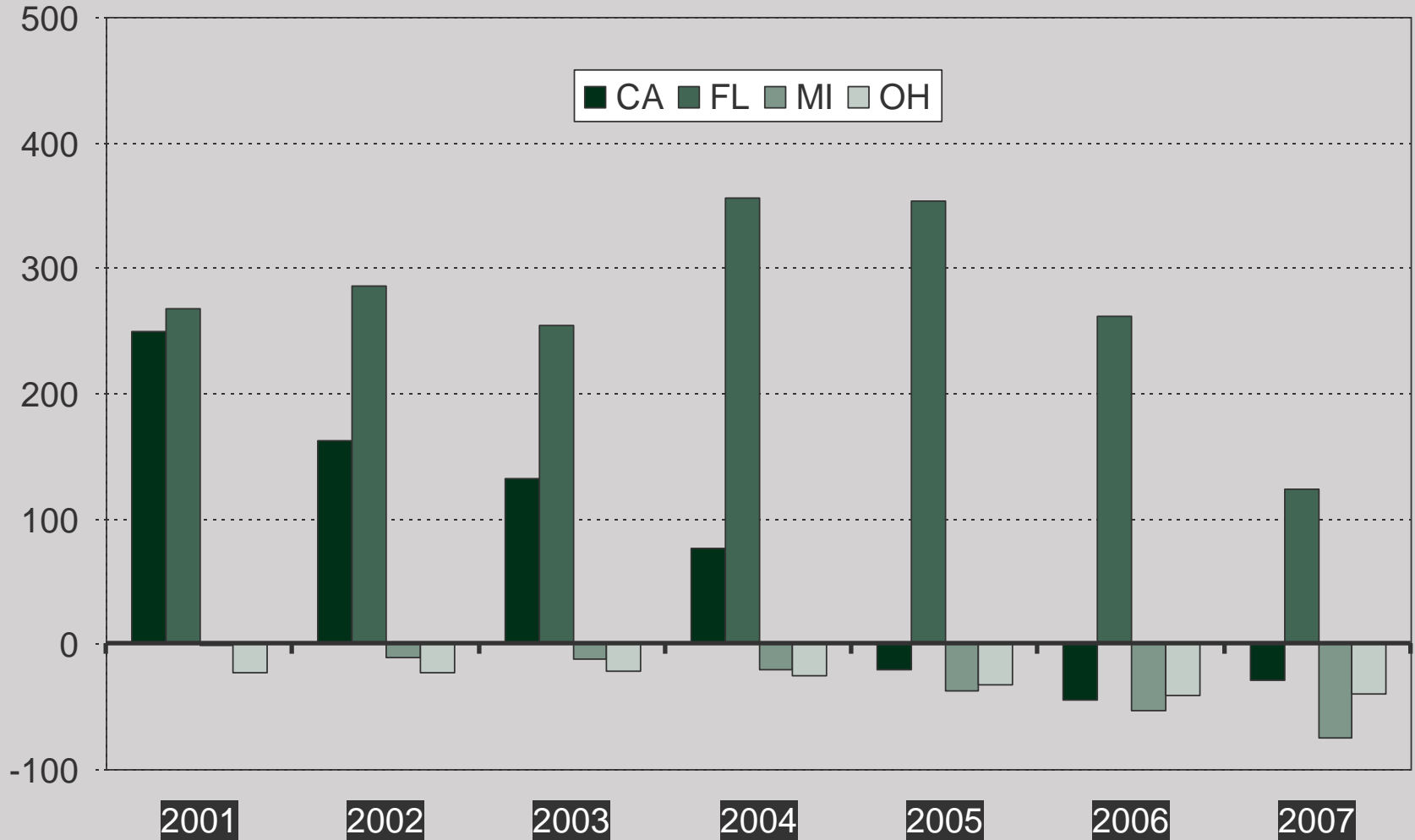


■ Employment Change
■ Population Change

Source: Census Bureau and Bureau of Labor Statistics

Net Migration, Selected States

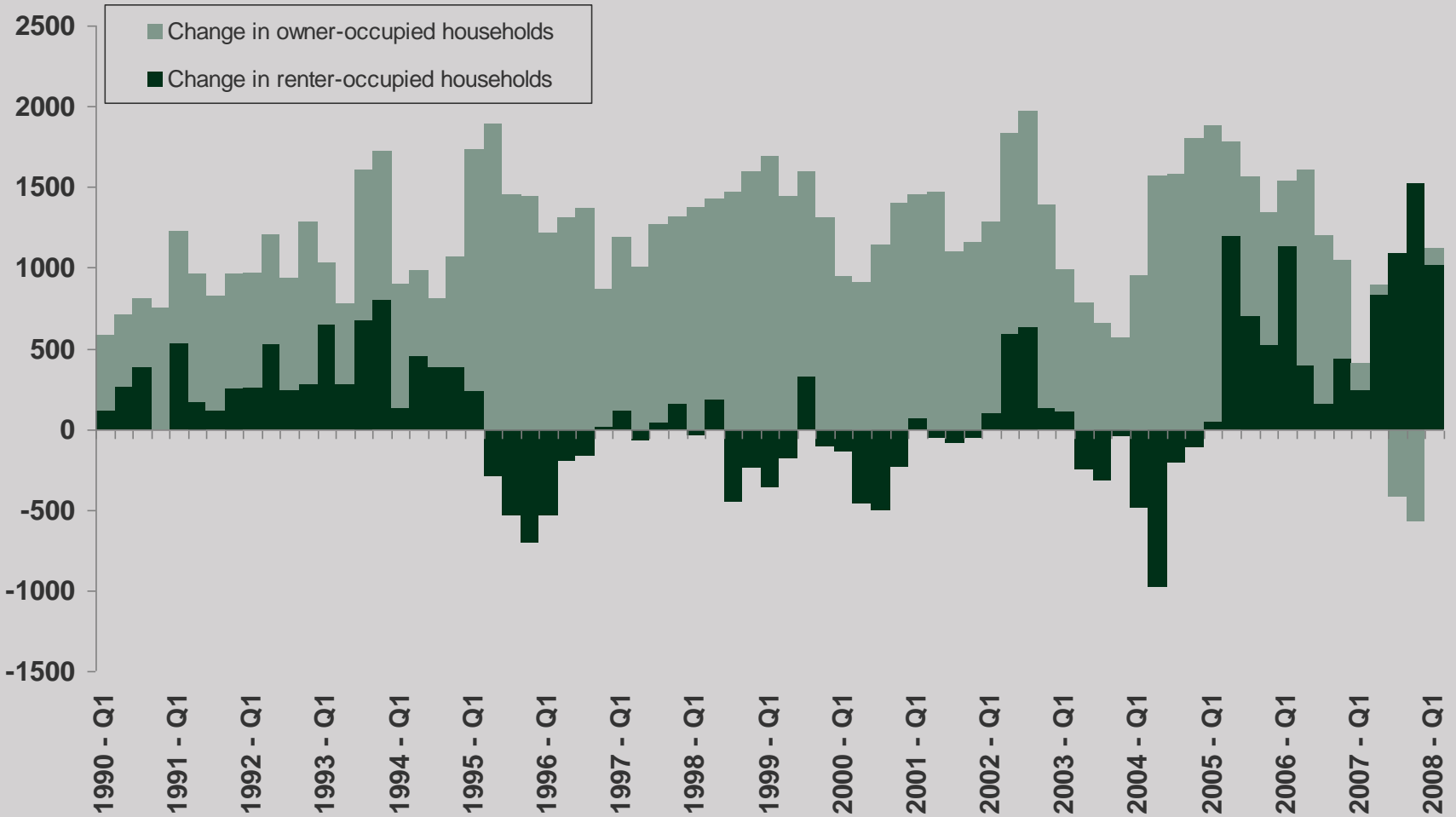
Thousands



Source: Bureau of the Census

Change in Number of Owner- and Renter-occupied Households, Year-over-year (additive)

Thousands of households

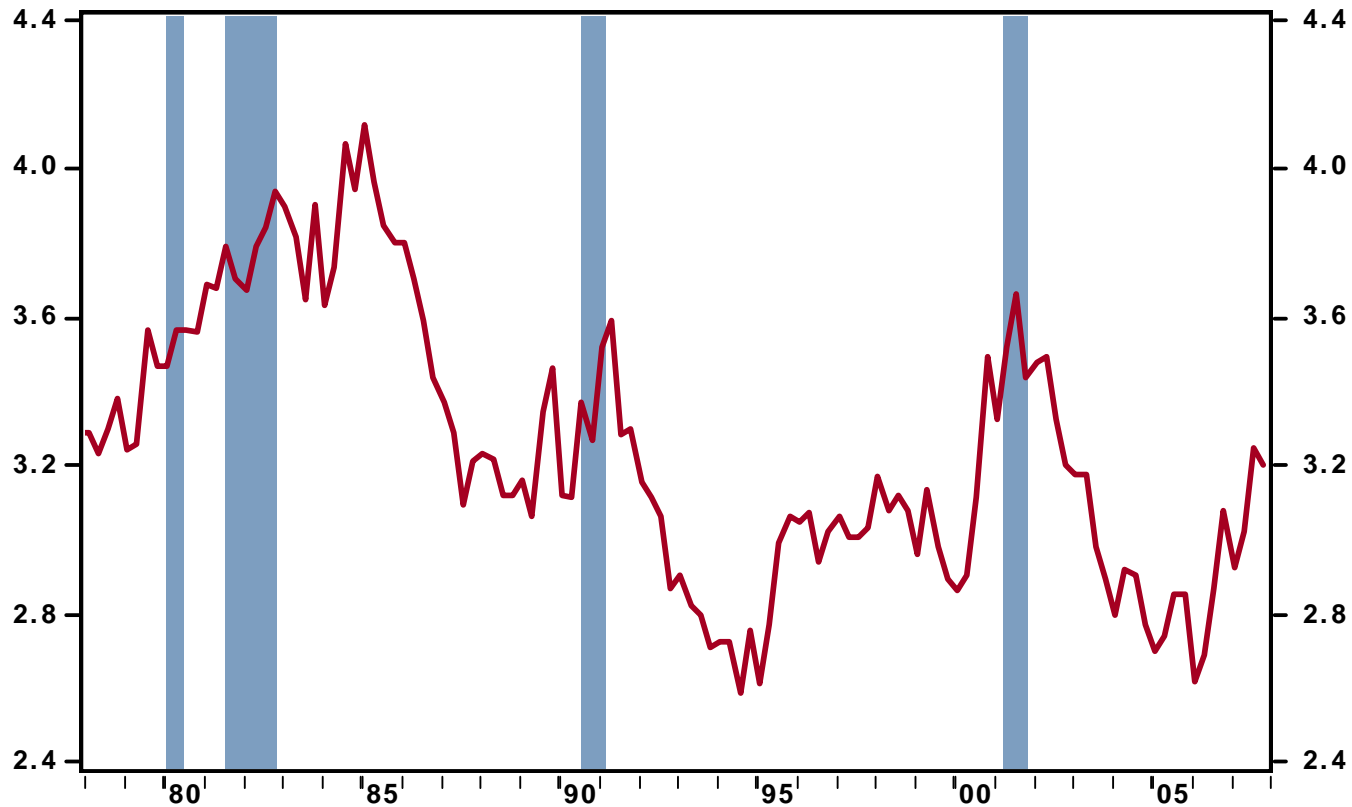


Source: Census Bureau and MBA

Single Family Market Performance

Mortgage Payments Past Due 30 Days: United States

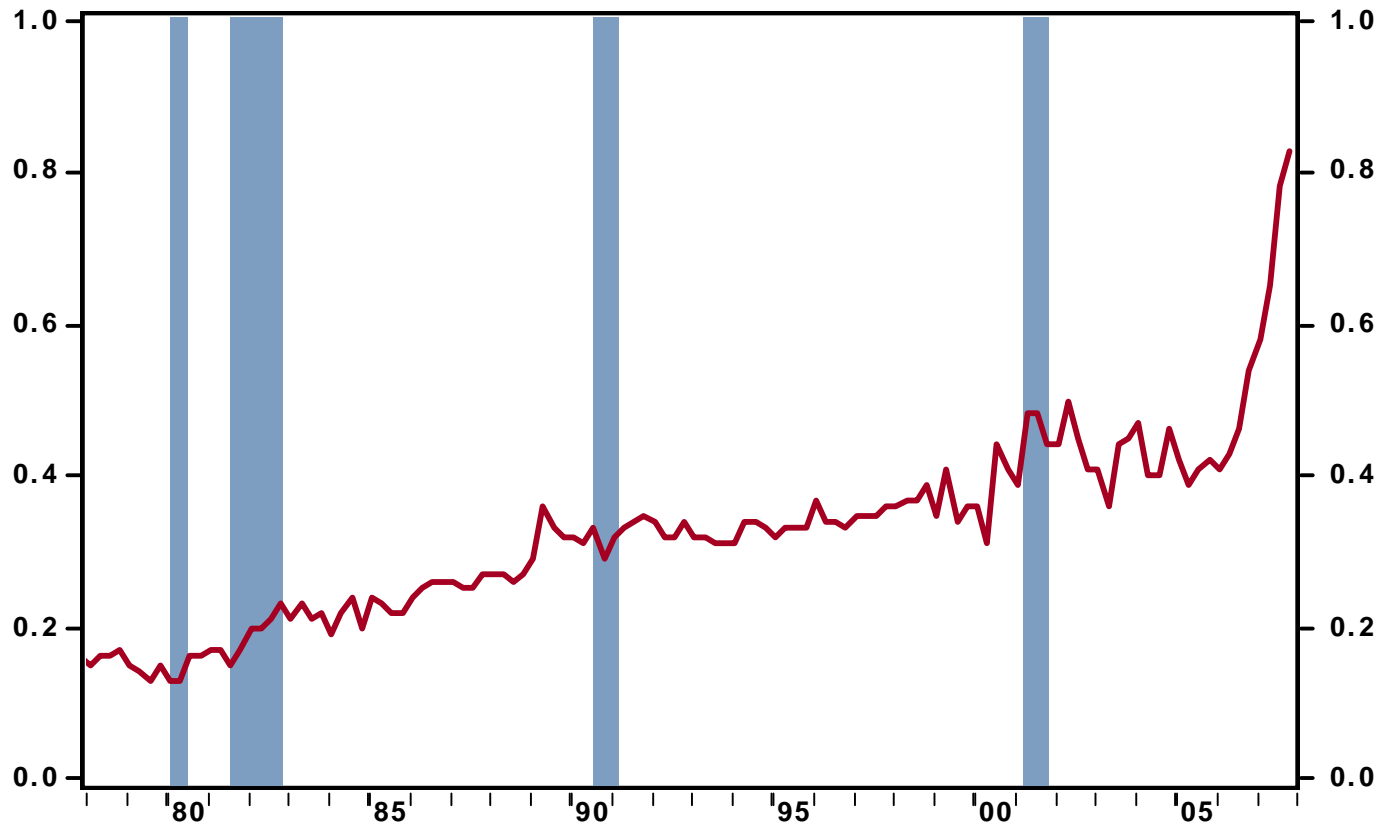
SA, %



Source: Mortgage Bankers Association

Mortgage Foreclosures Started: United States

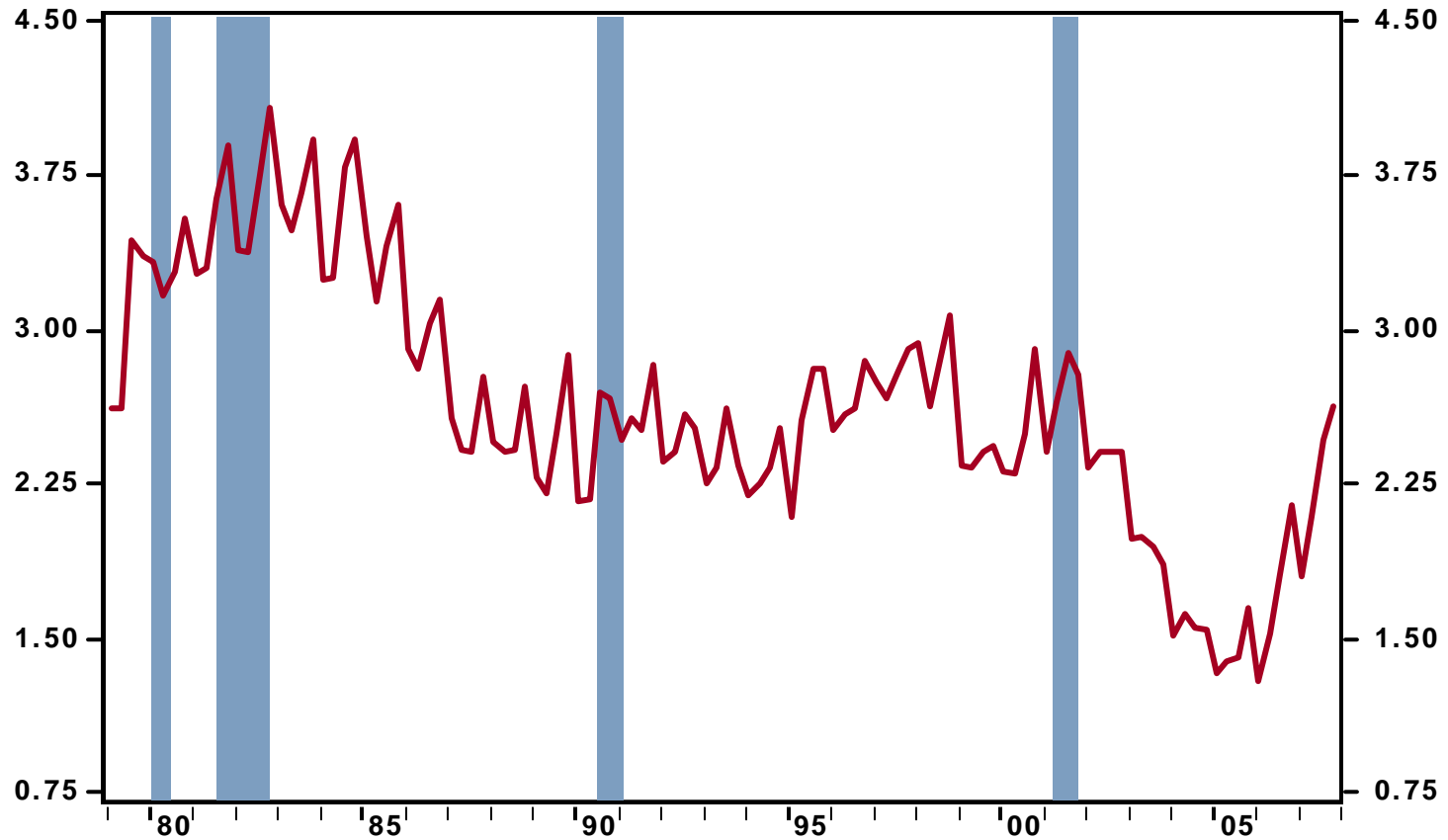
SA, %



Source: Mortgage Bankers Association

Mortgage Payments Past Due 30 Days: California

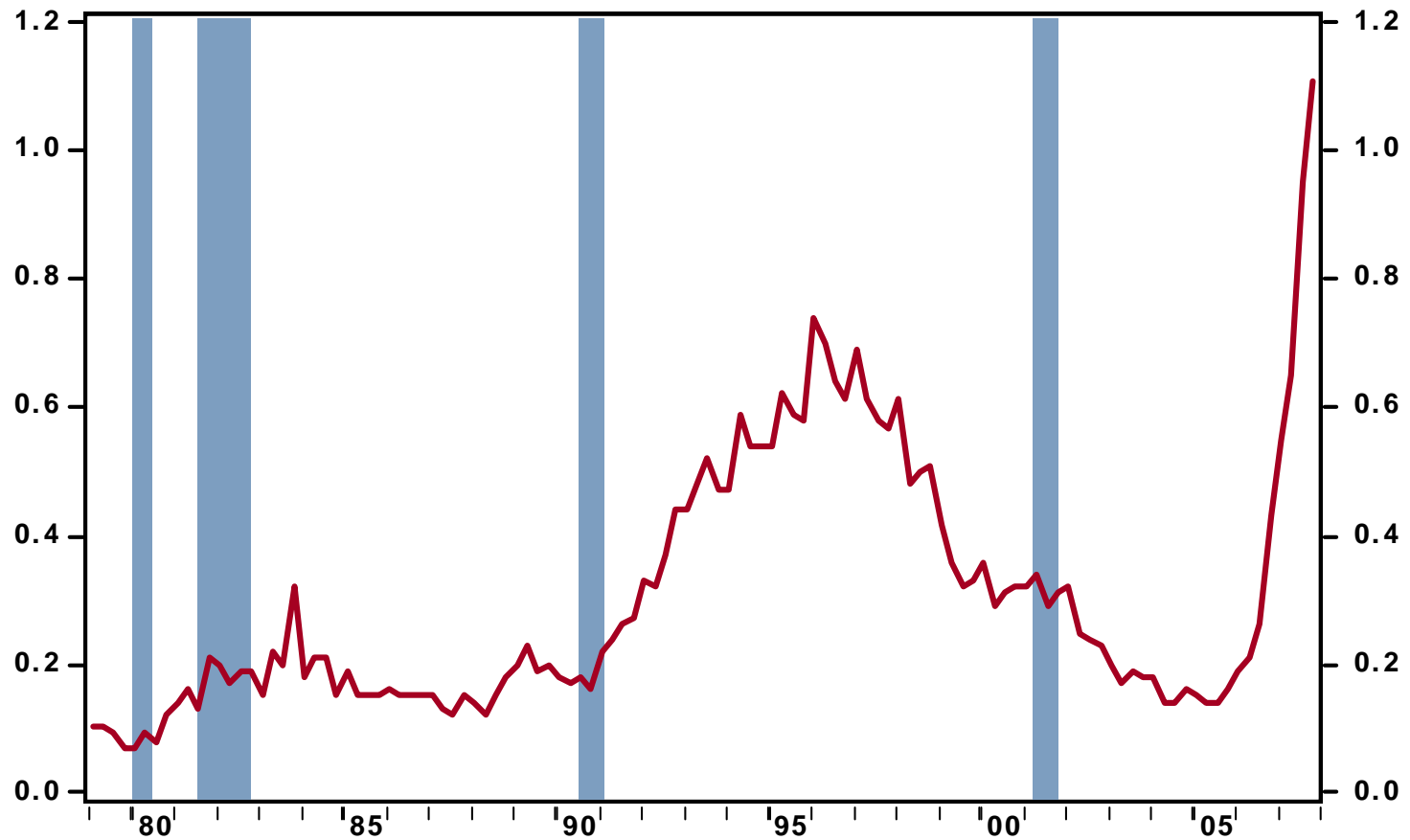
NSA, %



Source: Mortgage Bankers Association

Mortgage Foreclosures Started: California

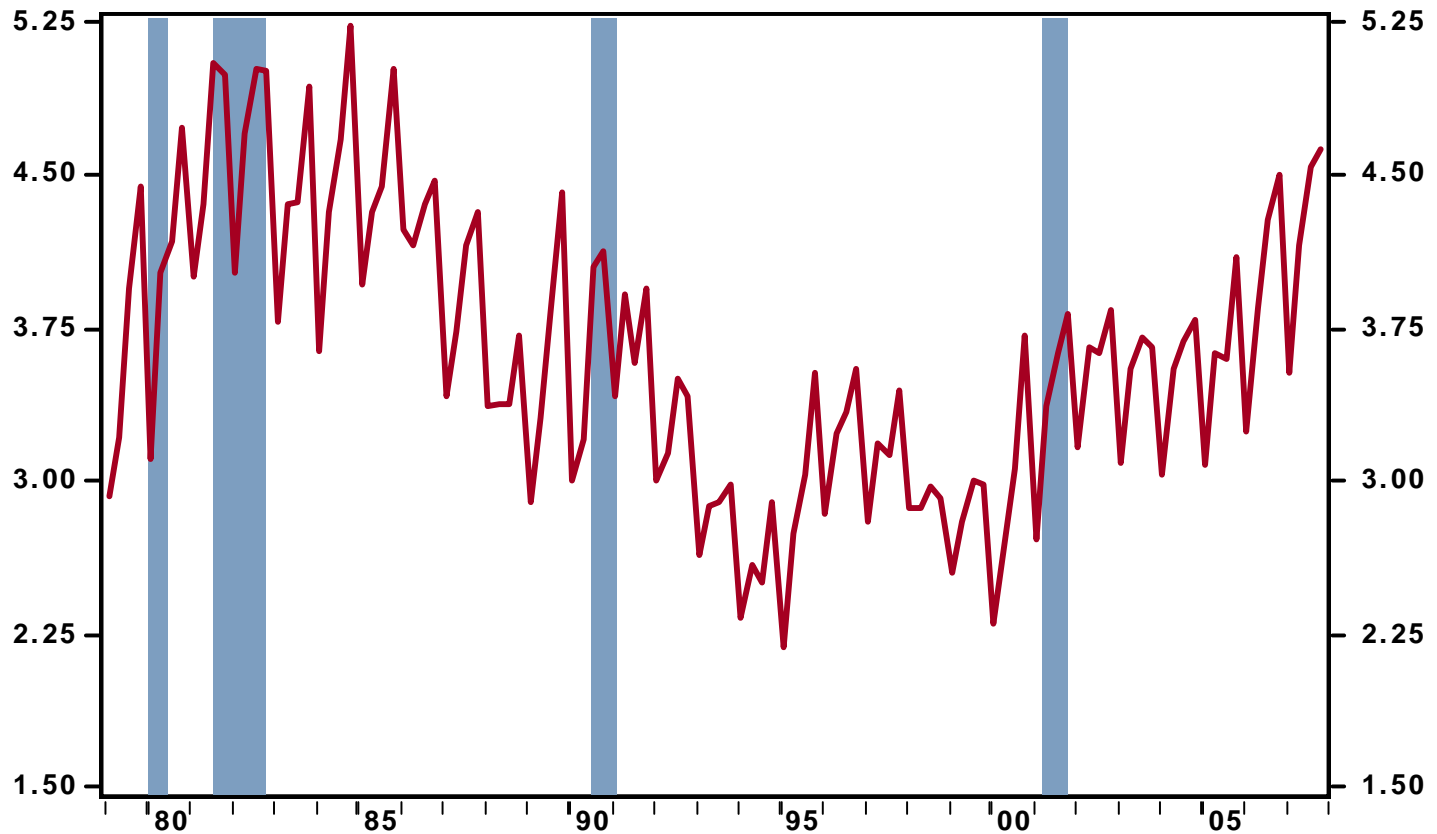
NSA, %



Source: Mortgage Bankers Association

Mortgage Payments Past Due 30 Days: Michigan

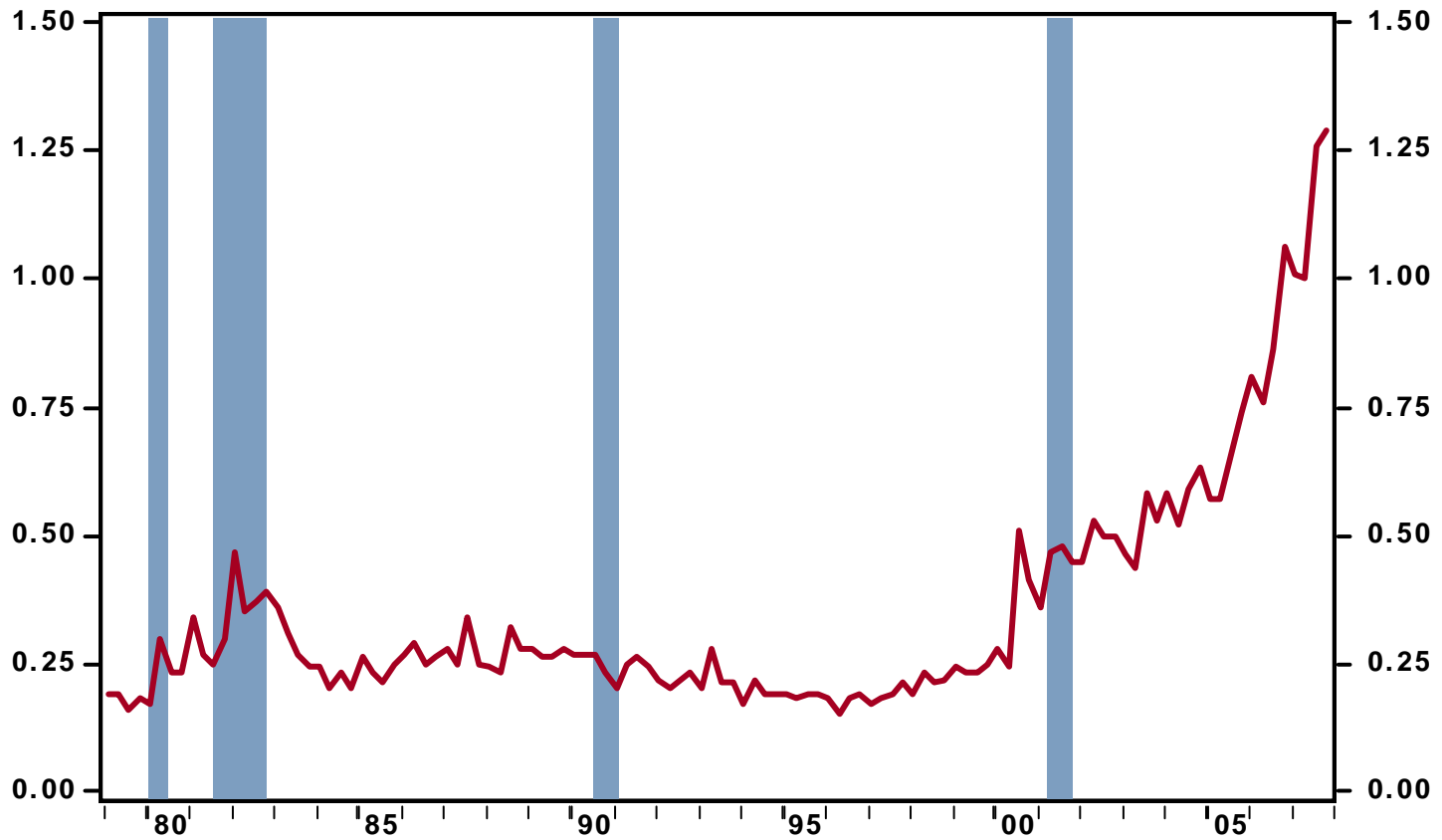
NSA, %



Source: Mortgage Bankers Association

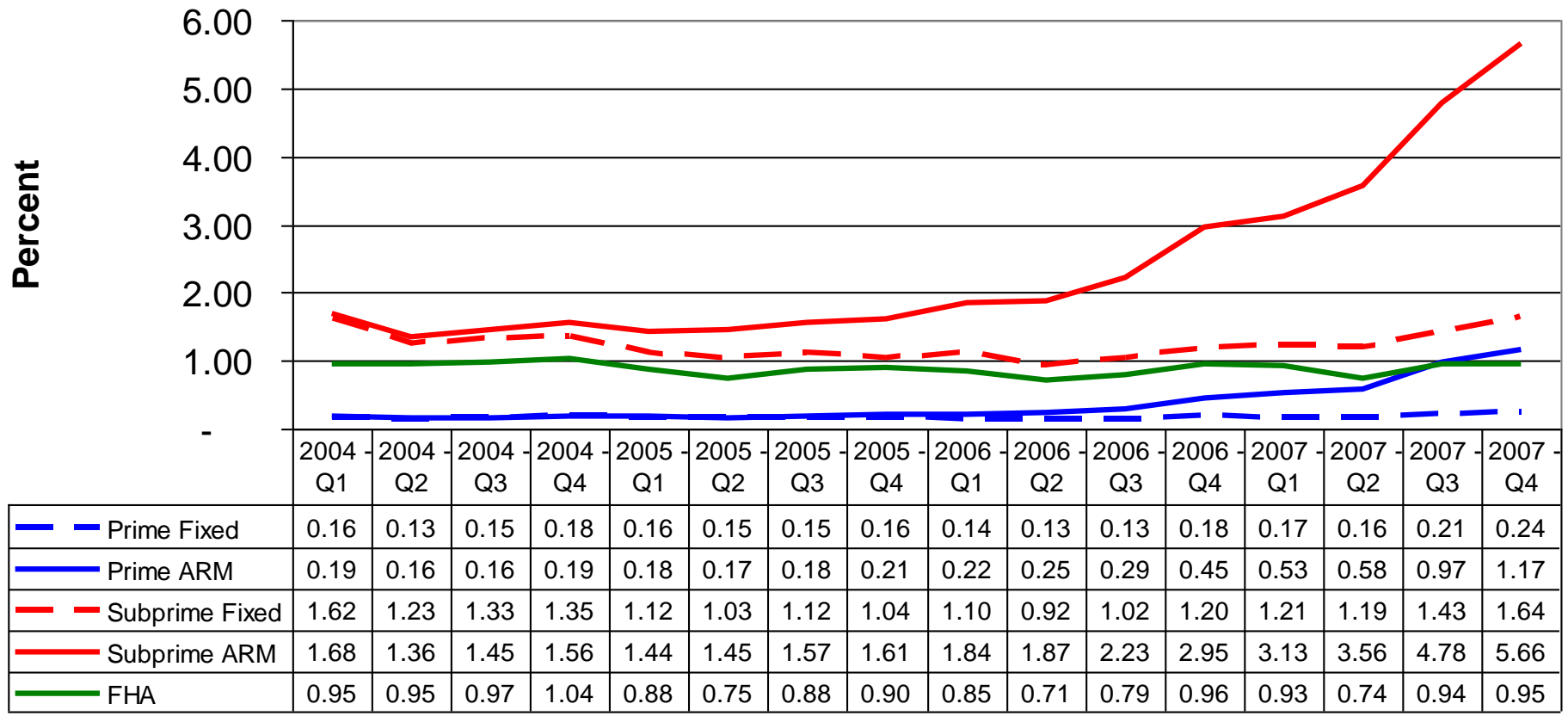
Mortgage Foreclosures Started: Michigan

NSA, %



Source: Mortgage Bankers Association

Foreclosures Started by Loan Type (NSA)



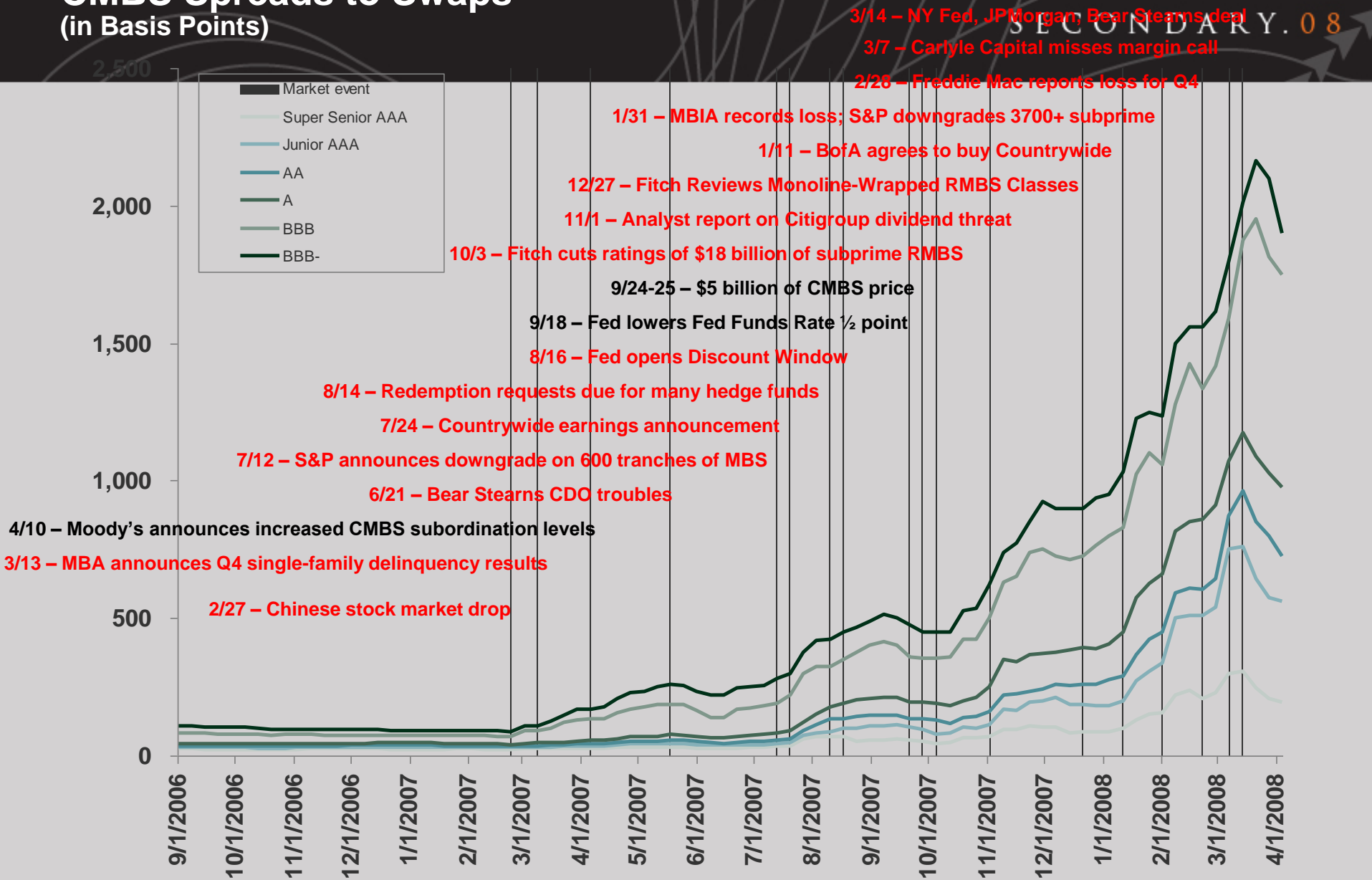
	Percent of Loans	Percent of Foreclosures Started
Prime Fixed	65%	18%
Prime ARM	15%	20%
Subprime Fixed	6%	12%
Subprime ARM	7%	42%
FHA	7%	8%

	% of Prime ARMs	% of Prime ARM Foreclosure Starts	% of Subprime ARMs	% of Subprime ARM Foreclosure Starts
California	27.7%	29.7%	17.4%	22.0%
Florida	10.9%	16.9%	11.7%	14.4%
Combined	38.6%	46.6%	29.1%	36.4%

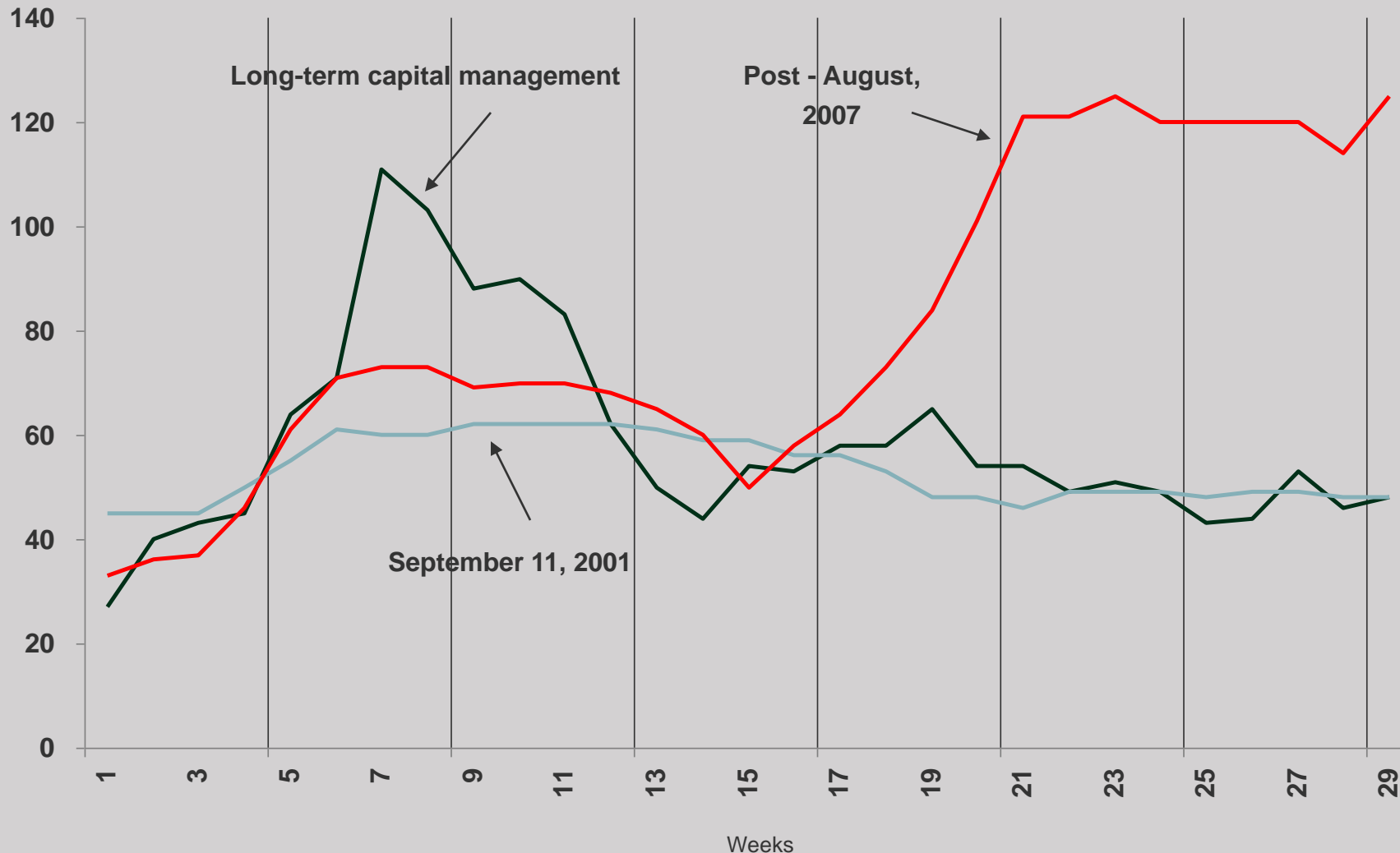
	<u>Prime ARM</u>	<u>Prime Fixed</u>	<u>Subprime ARM</u>	<u>Subprime Fixed</u>	<u>All Loans</u>
Arizona	26%	16%	21%	28%	22%
California	11%	11%	19%	20%	16%
Florida	27%	18%	21%	27%	22%
Nevada	24%	14%	20%	33%	22%
US	18%	14%	18%	28%	18%

Contagion Effects on the CMBS Market

CMBS Spreads to Swaps (in Basis Points)

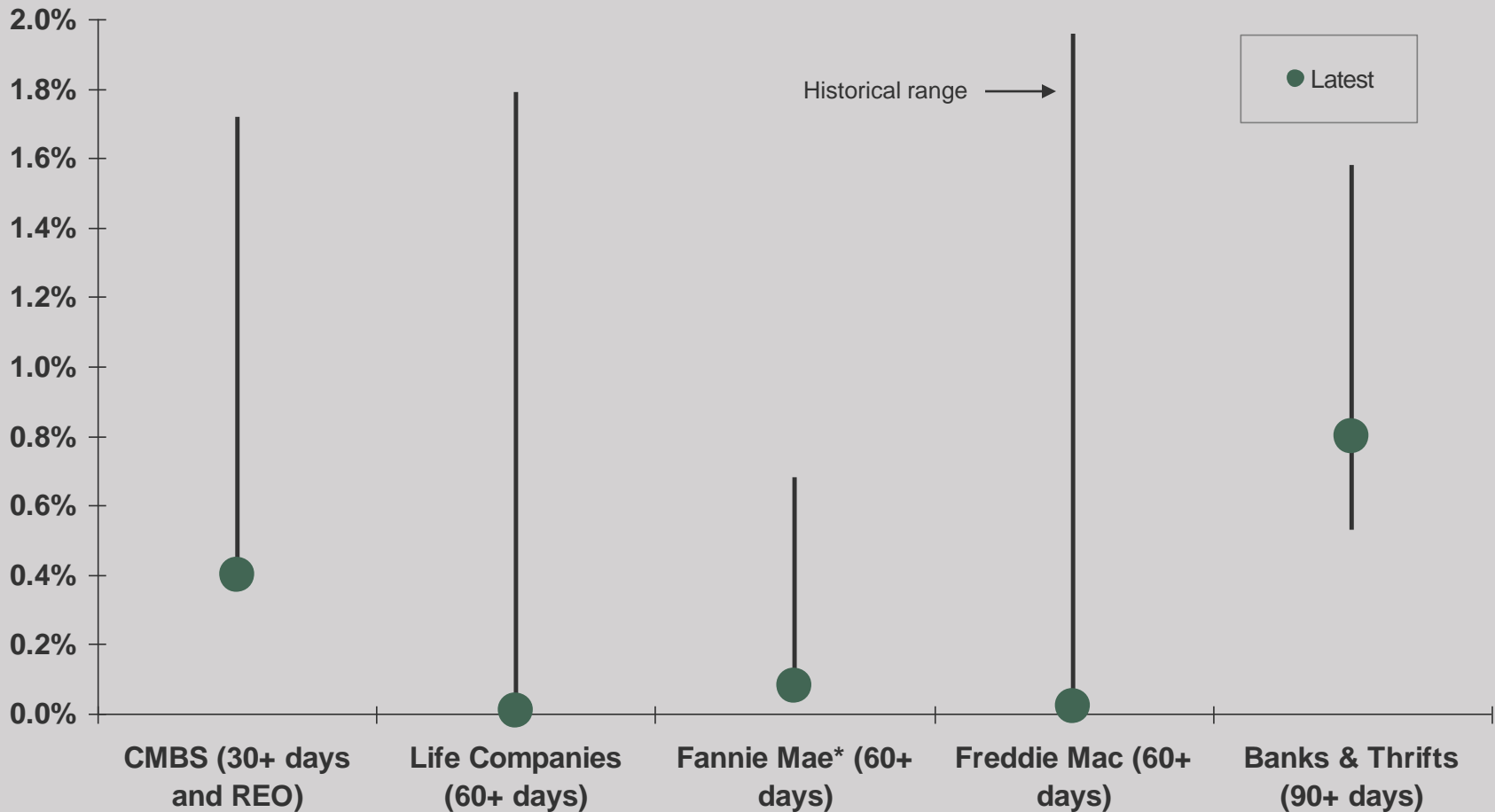


AAA CMBS Spreads in the Aftermaths of Major Credit Market Events



Historical (Generally Ten-year**) Range of Commercial/Multifamily Mortgage Delinquency Rates Among Major Investor Groups

NOTE: Delinquency rates shown are NOT comparable between investor groups. These rates show how performance of loans for each investor groups has varied over time, but cannot be used to compare one investor group to another.



Sources: Wachovia Capital Markets, LLC and Intex Solutions, Inc., American Council of Life Insurers, Fannie Mae, Freddie Mac, OFHEO and Federal Deposit Insurance Corporation.
 Data are for the period 1996 to present, except CMBS which is from 1997 to present. December figures are not available from Fannie Mae for the years 2000 to 2004. Figures for November are used instead.

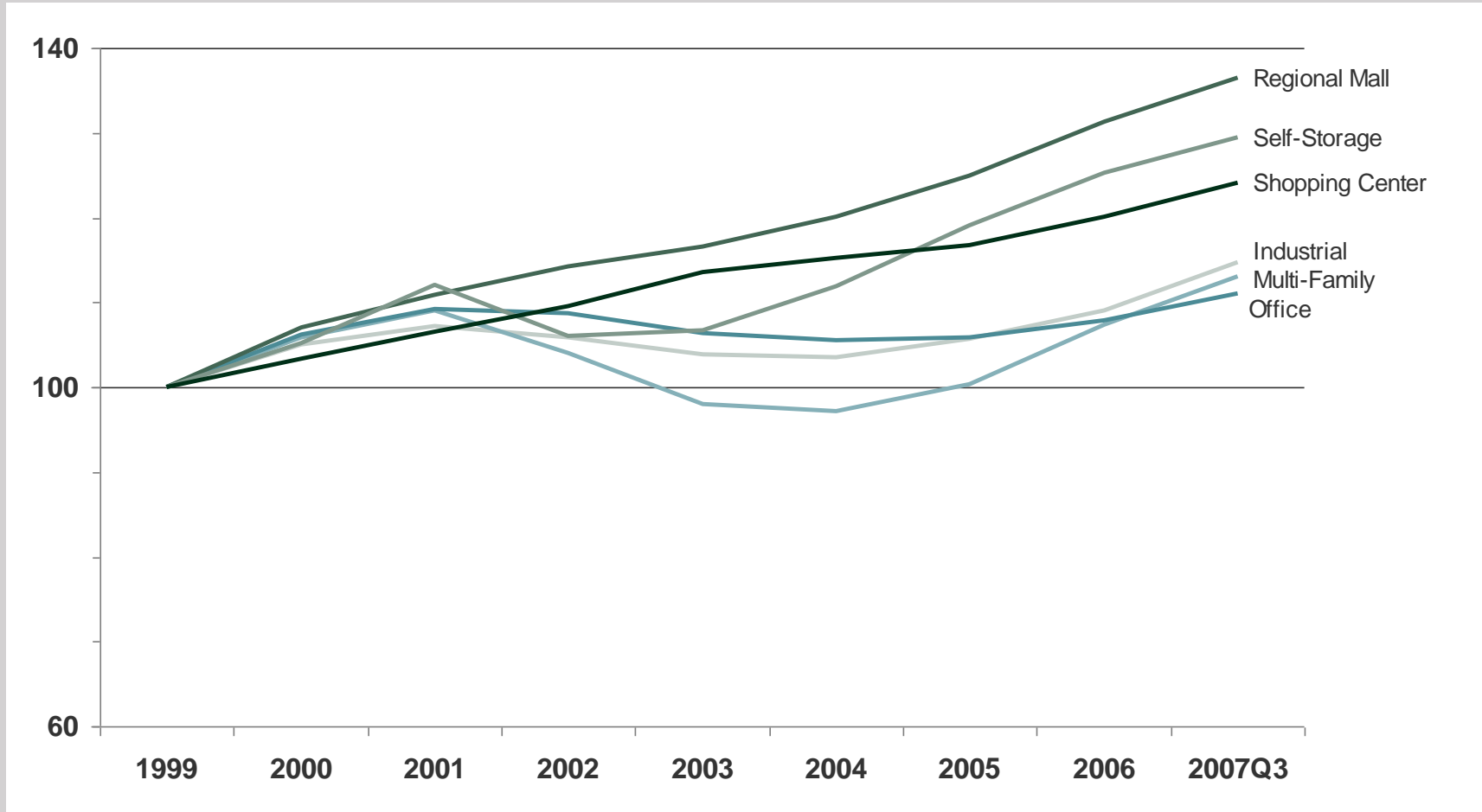
Percent of Total Tranches Outstanding Upgraded/Downgraded by Fitch Ratings, by Year of Action and Asset Type

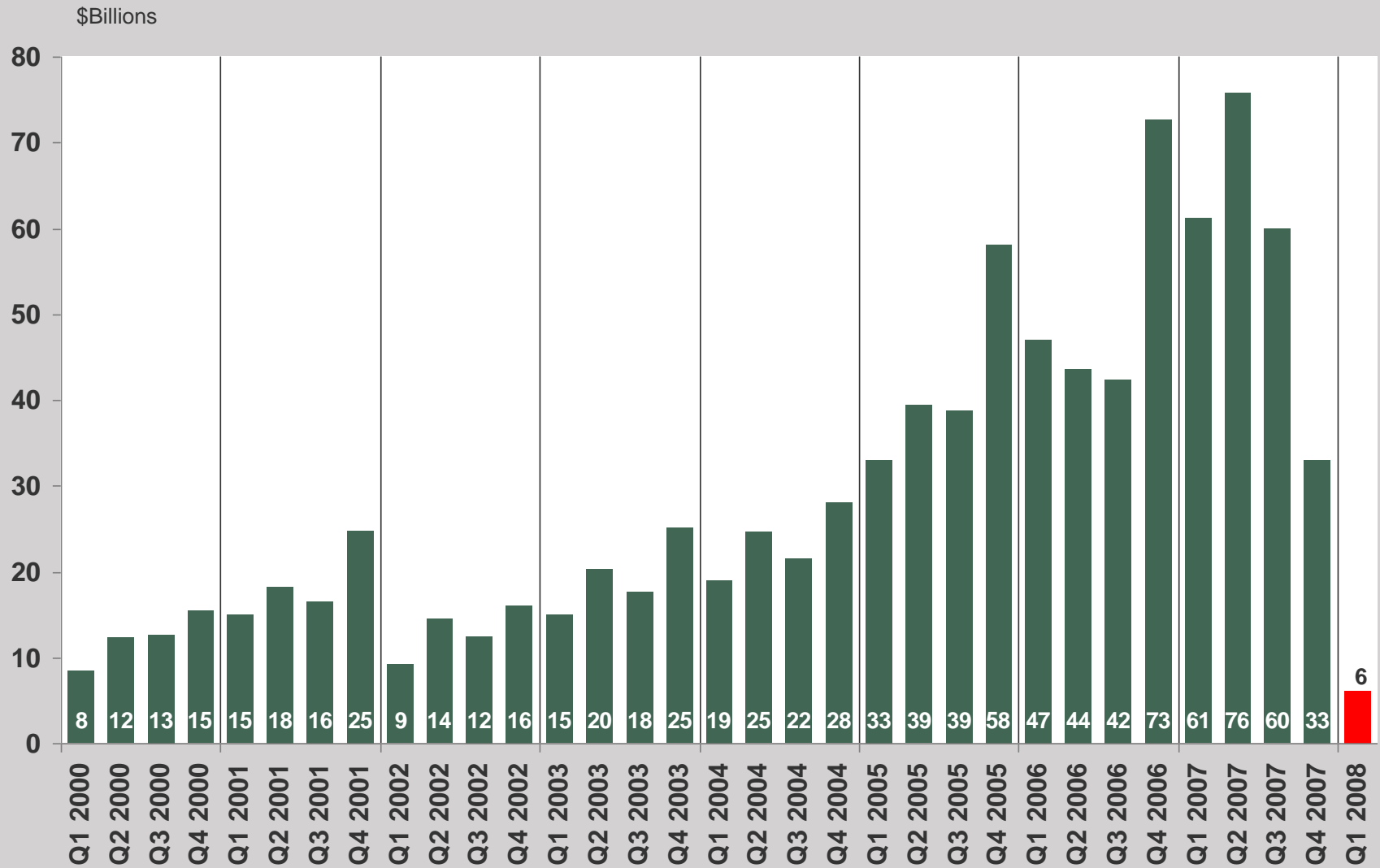


Source: Fitch Ratings

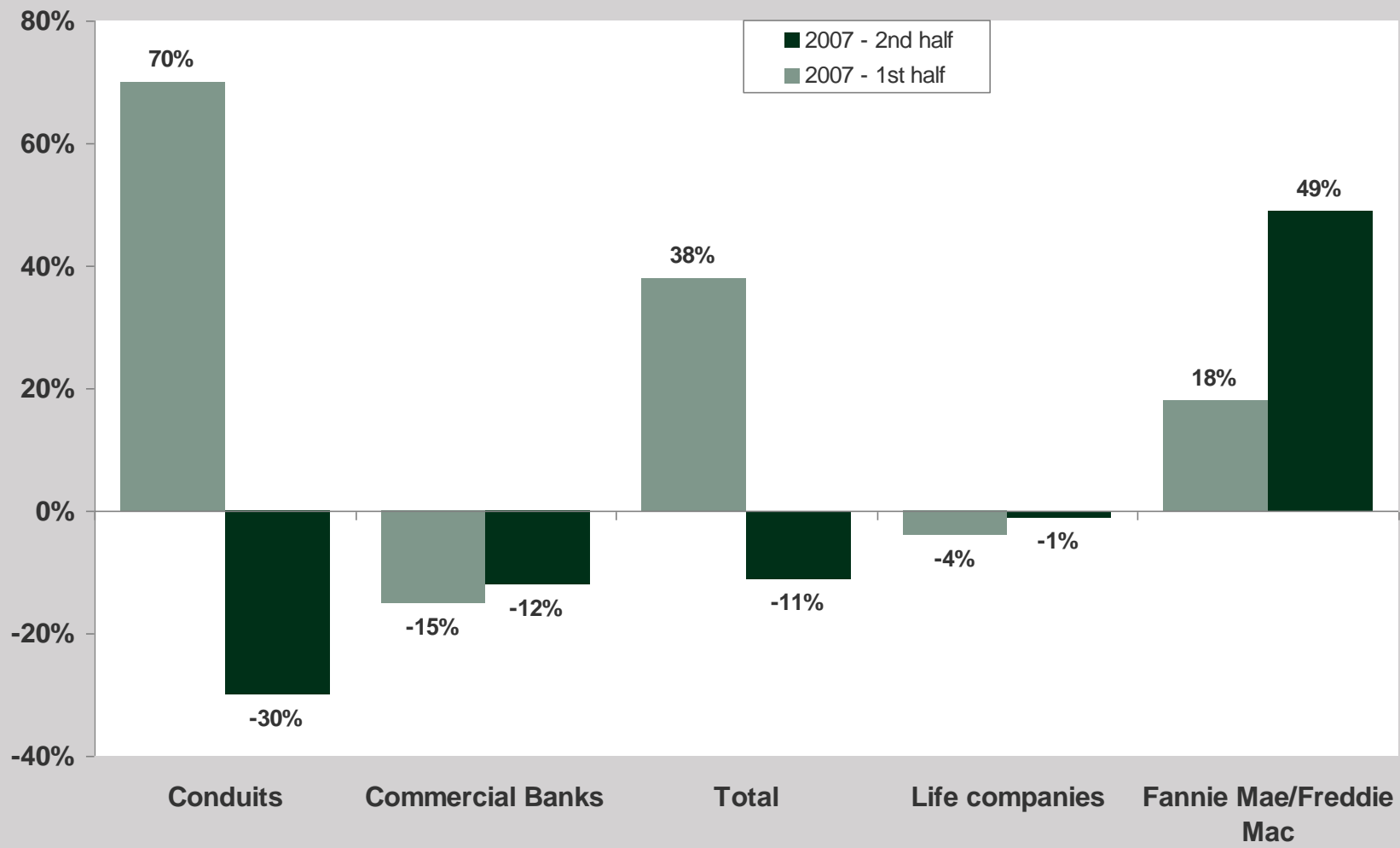
Indexed Median REIT/REOC "Same Store" Net Operating Income (NOI) by Property Focus

1999 NOI = 100



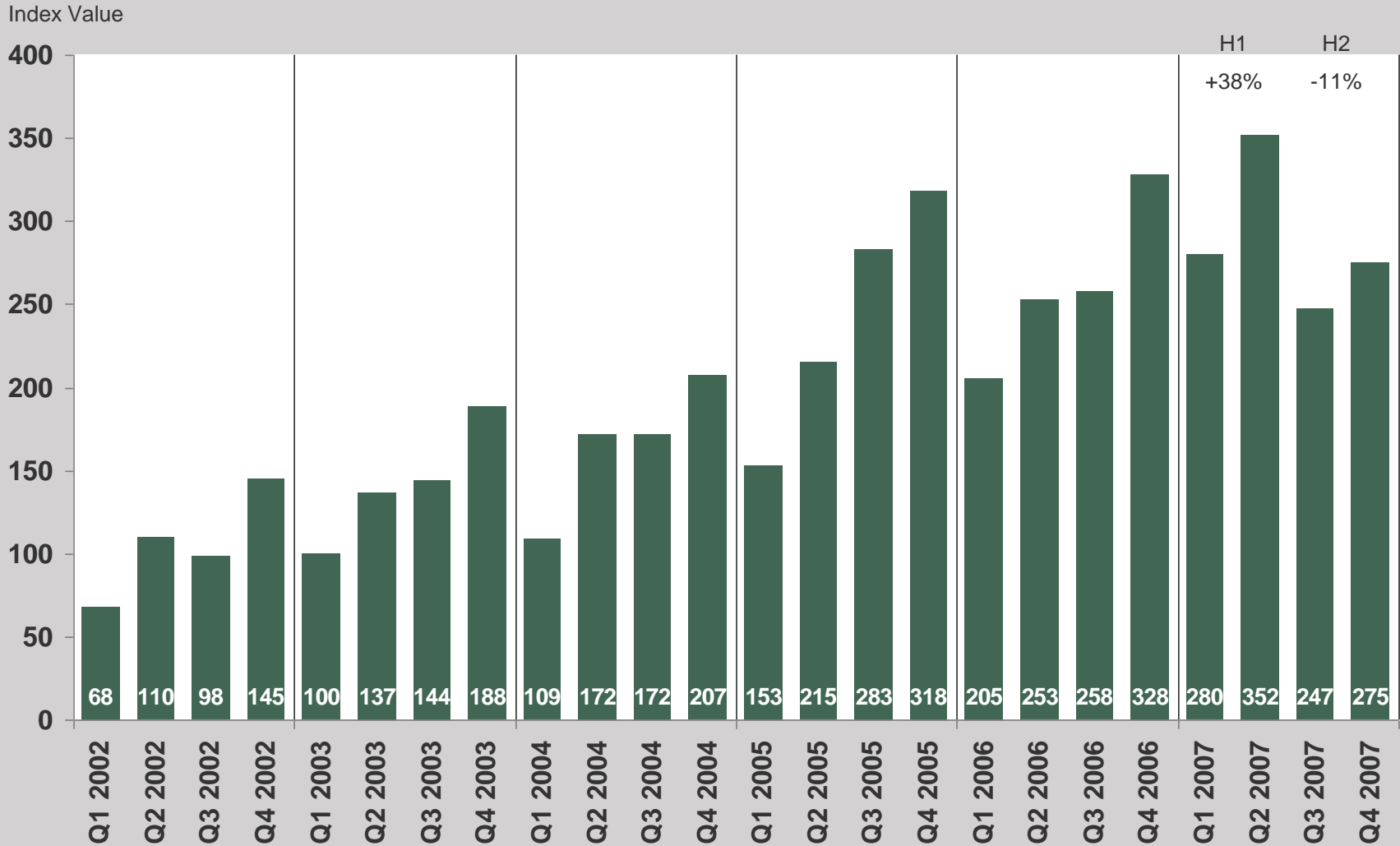


Year-over-year Percent Change in Commercial/Multifamily Mortgage Origination Volumes



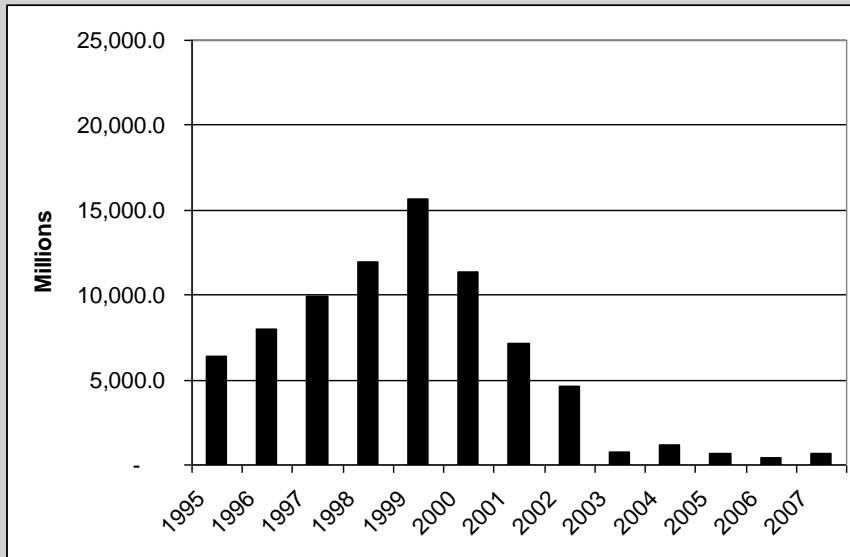
Source: Mortgage Bankers Association

Index of Commercial/Multifamily Mortgage Bankers Origination Volumes (2001 avg. Qrt = 1)

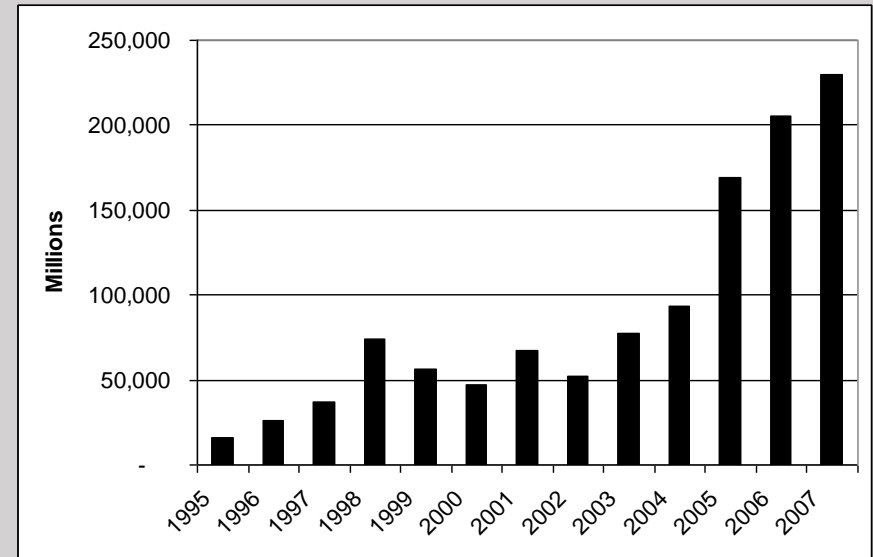


Will the private label MBS market recover?

Manufactured Housing

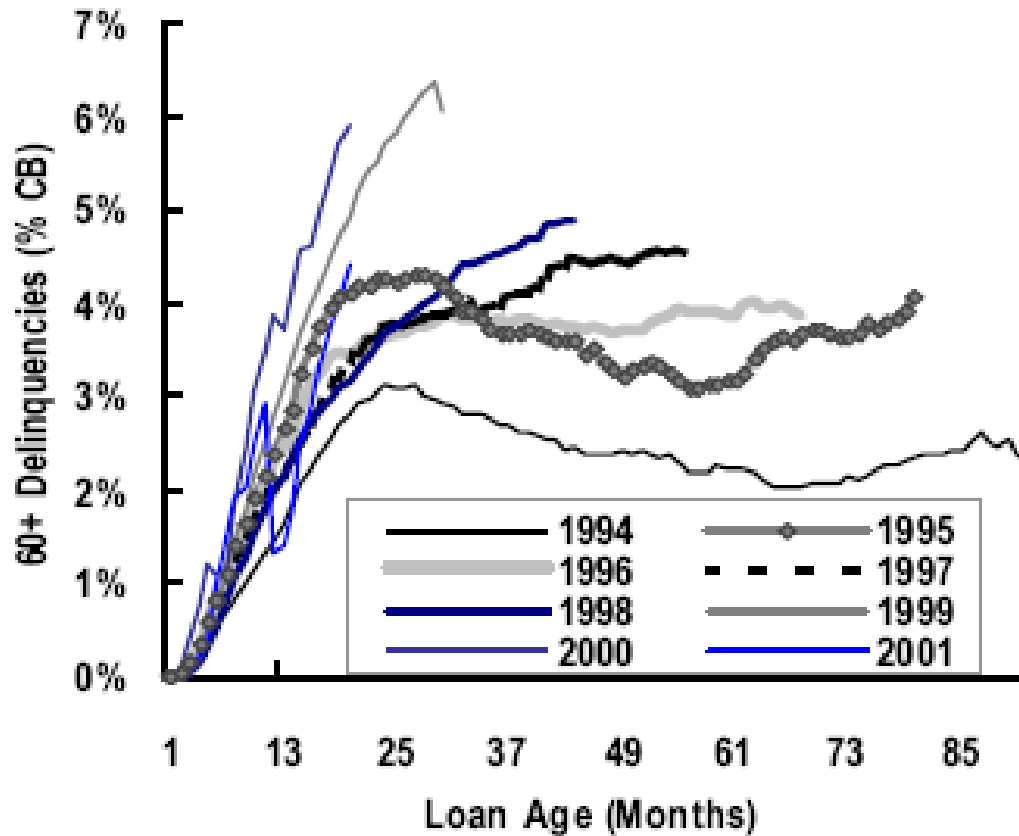


CMBS



Manufactured Housing ABS Delinquencies by Origination Year Cohort

60+ Delinquencies



Issues with the manufactured housing ABS

- Sales driven originations
- Inflated credit histories
- Lack of reliable information on asset values

CMBS

- Detailed information available on collateral
- Role of B-piece buyers

Two basic rules of finance/economics to remember

- Lemons Law – if buyers think you have better information than they have, they will assume you are selling them the worst stuff and price accordingly. Similarly, if they can't observe the value of an asset, they will assume the worst and price accordingly.
- Information costs are borne by the seller – If buyers want more information, you either have to go to the expense of providing it or price will suffer.

So what are the implications for the single-family market?

"Real estate is a very cyclical business, especially right now."

-- Calpers Board President