

Unusually Uncertain

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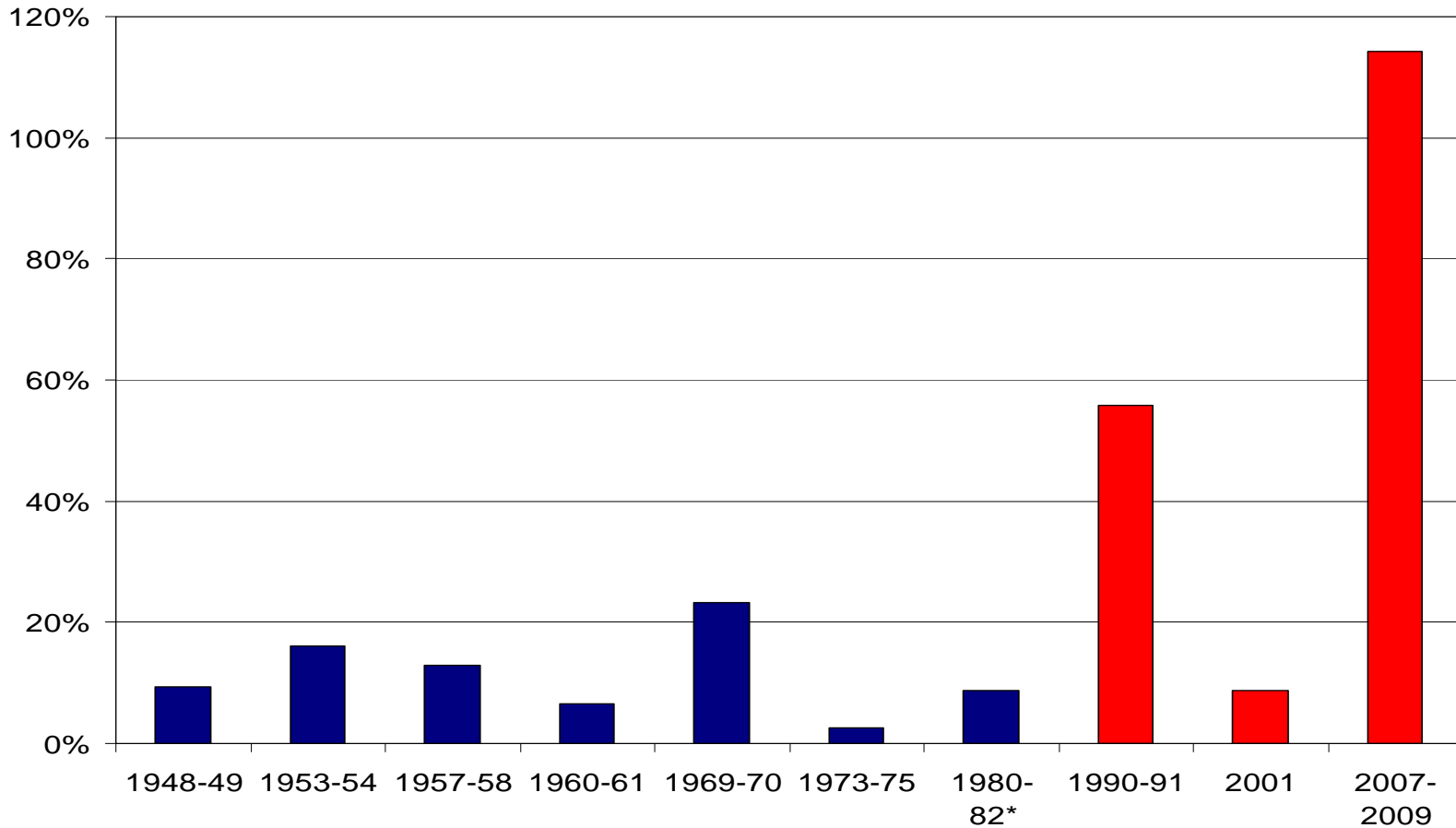
October 13, 2010

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Role of Construction Jobs in Recoveries Has Diminished

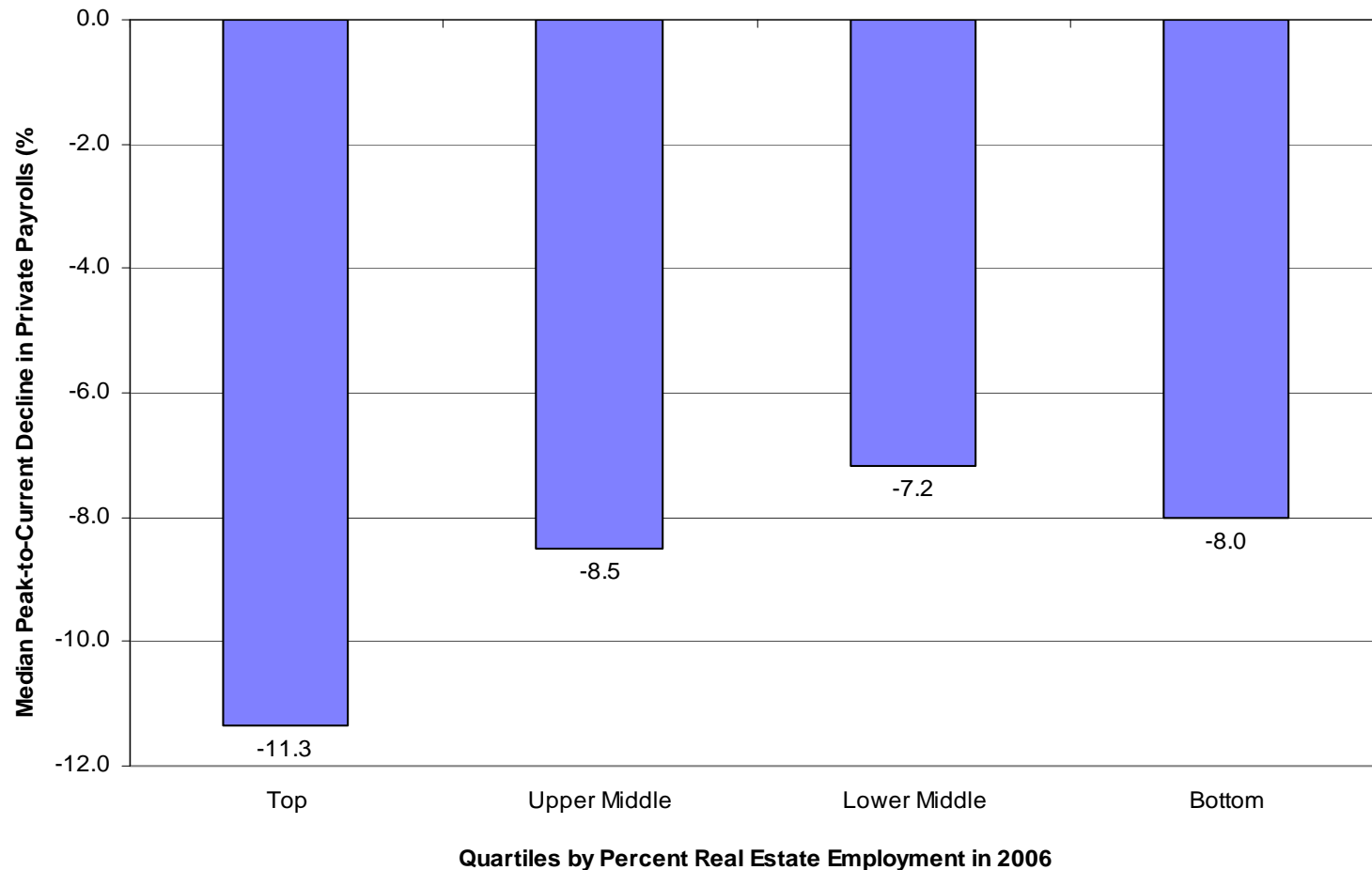
Construction employment gain as a share of private employment change in the first year of economic recoveries



NOTE: For previous three recessions, private job growth was negative in the first year of economic recovery. Therefore the red bars indicate construction's share of private job loss .

*1980 and 1981-82 counted as a single recession.

Metros with Concentrations of Real Estate Employment Hit Hard by Job Losses During Current Recession



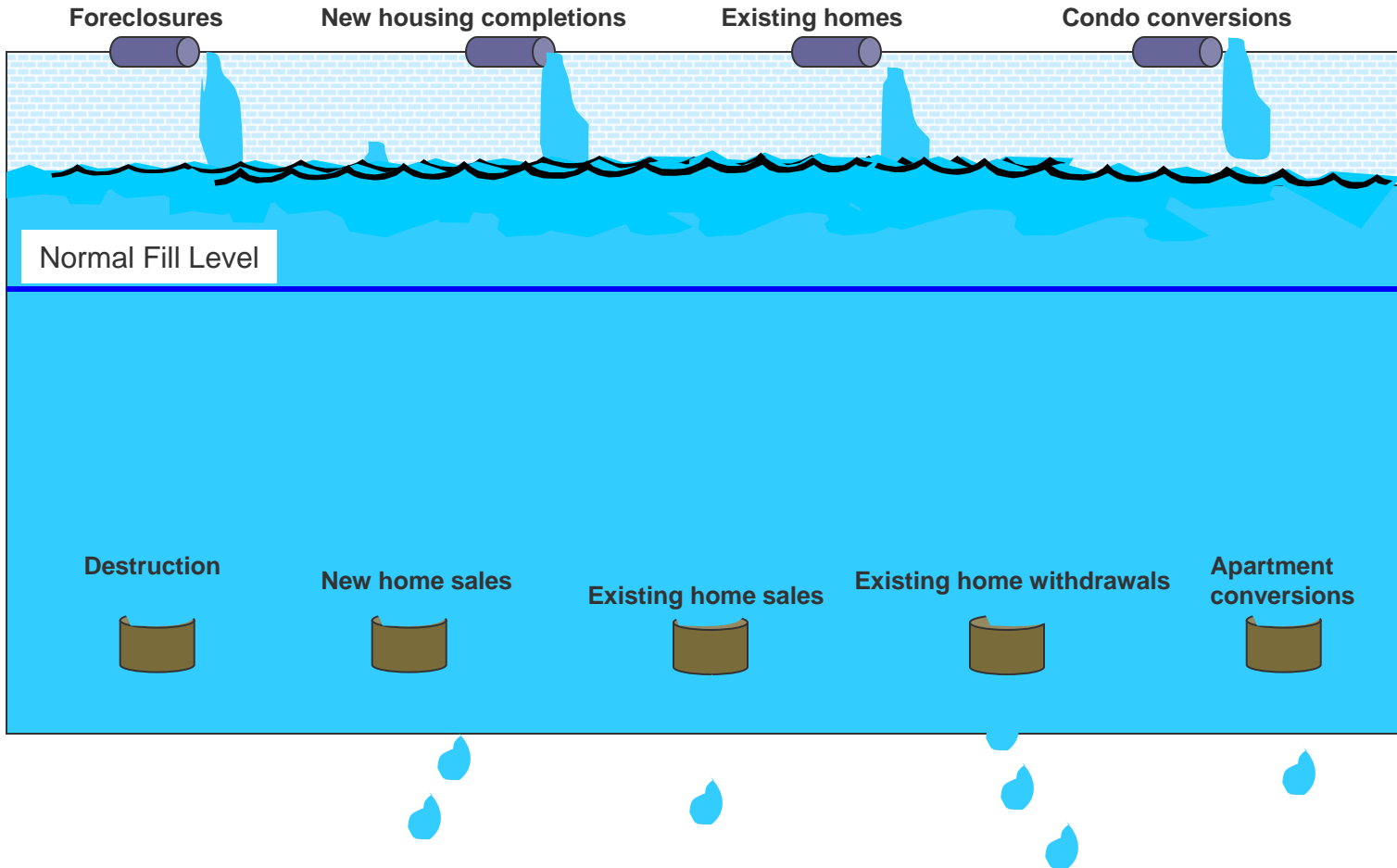
Percent real estate employment defined as employment in Residential Building Construction (NAICS 2361) and Offices of Real Estate Agents and Brokers (NAICS 5312) as a percent of total private payroll employment in 2006. Chart reflects the 235 (out of 365) metropolitan statistical areas for which percent real estate employment was defined.



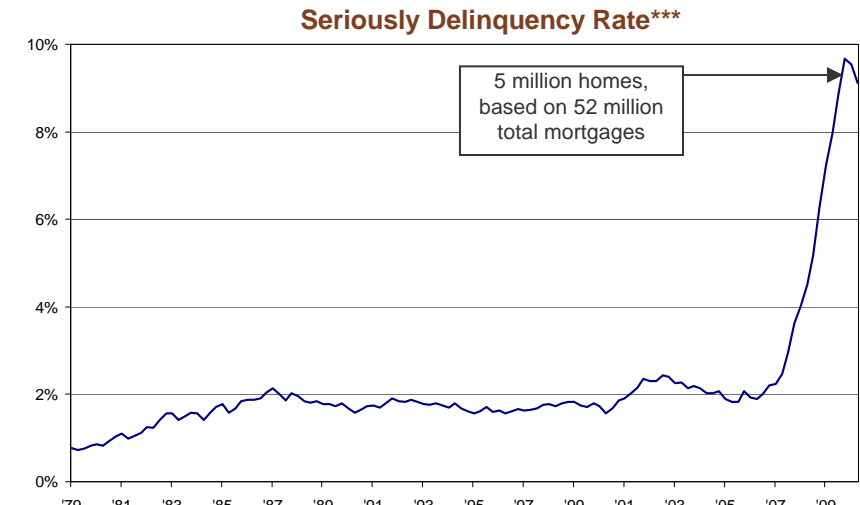
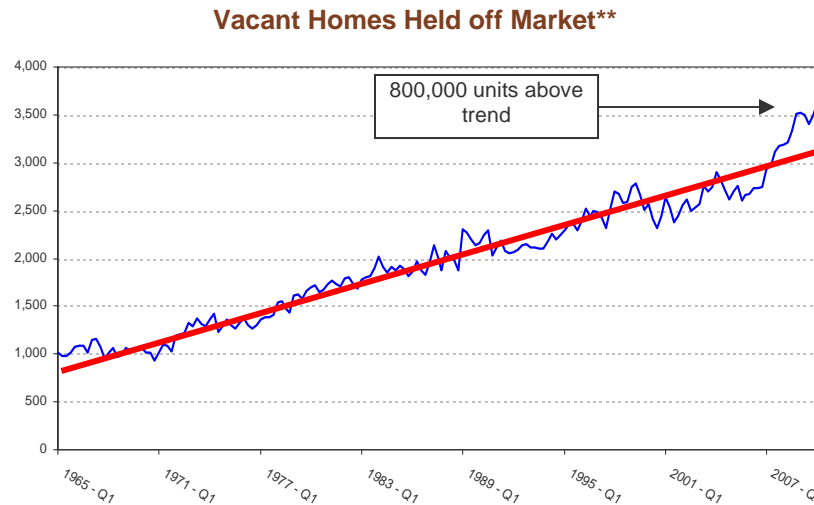
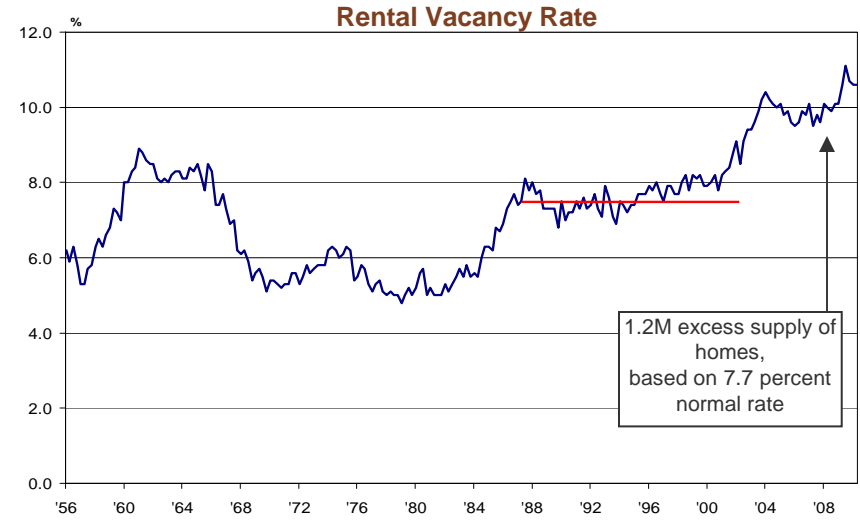
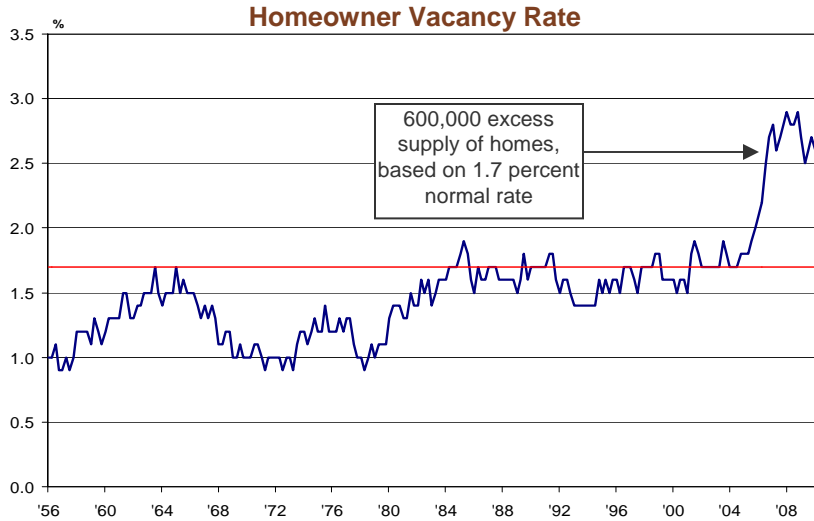
The Housing Supply Pool Level is Still High

No Lifeguard on Duty!
Swim at Your Own
Risk!

Months' Supply



Current Excess Supply Over Normalized Demand and Pent-Up Supply of 7 Million Units* Have the Potential to Further Depress Future Home Prices

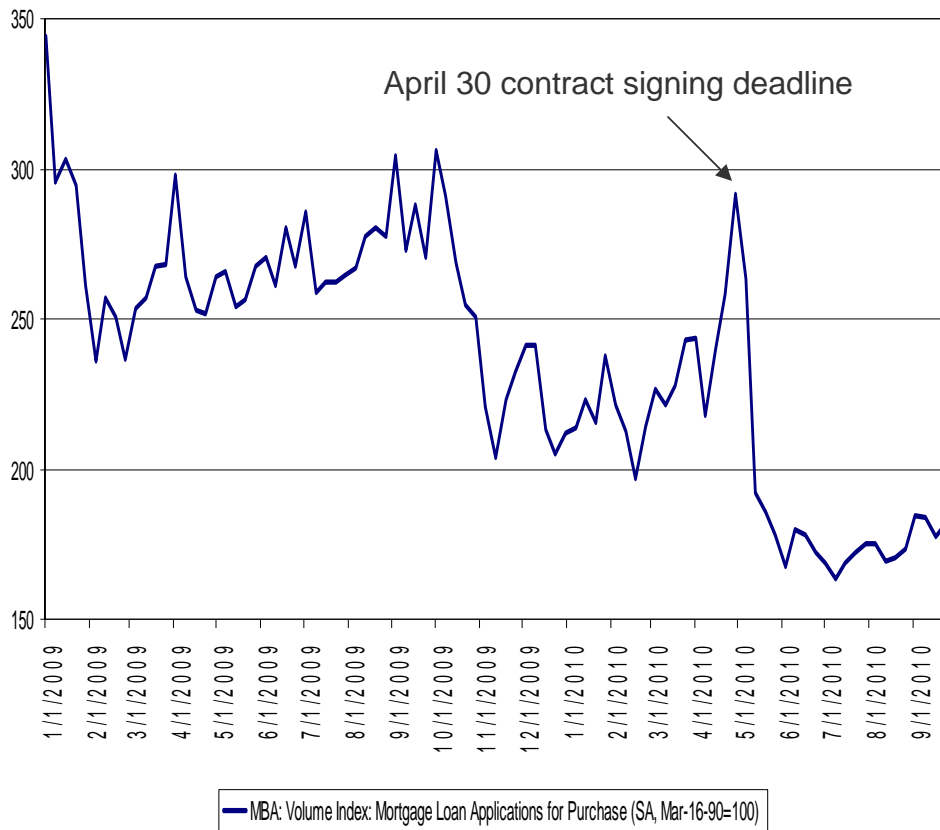


**for reasons other than for occasional use or temporarily occupied by persons with usual residences elsewhere

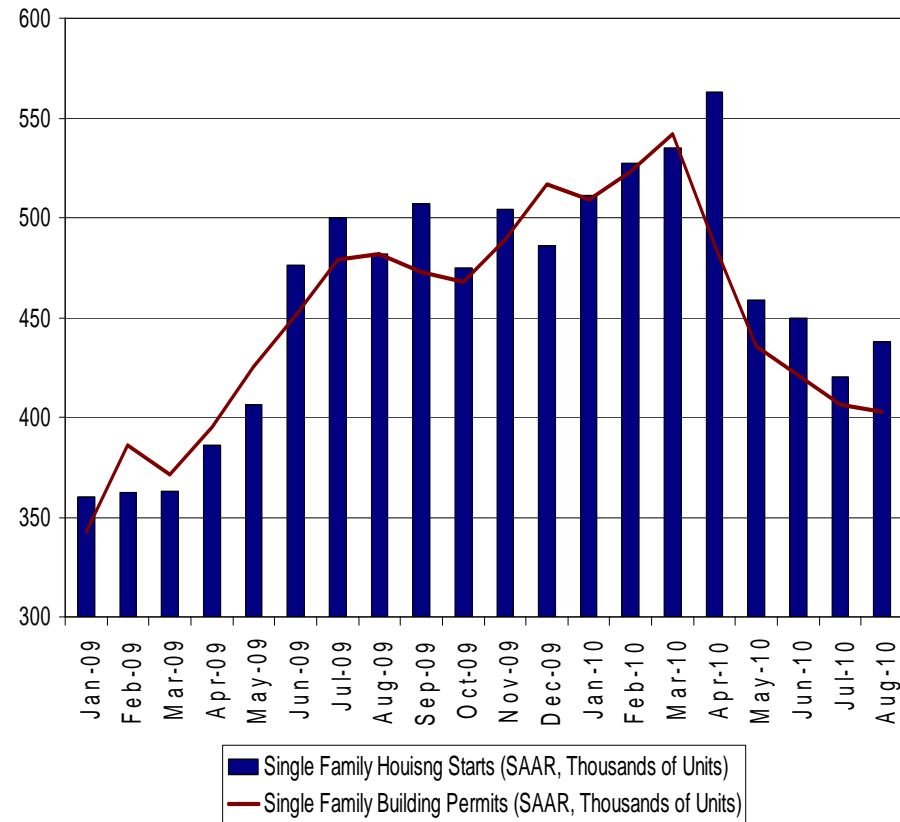
***the percentages of mortgage payments 90 days and over past due plus the percentages of inventory of mortgages in foreclosure

Post-Tax Credit Hangover

Purchase Applications Suggest Little Rebound



Permits Suggest Further Pullback in Starts



Financial Reform: Uncertainty Ahead

- **U.S. financial regulators will enter intense RULE-MAKING period over next 6 to 18 months, but continue beyond.**
- **IMPLEMENTATION of the various rules, however, will extend over many years to come.**
- **According to one tabulation from the Chamber of Commerce in early July, the bill will require: 355 new agency rule-makings, 47 studies, and 74 reports. By way of comparison, SOX required 16 rules, 6 studies.**

Expiring Tax Provisions: Uncertainty Ahead

- Maximum Capital Gains Tax
- Income Tax Brackets
- Tax on Dividends
- Estate Tax
- “Marriage Penalty”
- Child Tax Provision

Numbers Game

How the expiration of the Bush tax cuts would affect rates

Income taxes		Scheduled	Likely outcome
Current	Income level	rate next year	
10%	\$0 - \$16,750	15%	Current levels likely to continue, at least temporarily
15	16,751 - 68,000	15	
25	68,001 - 137,300	28	
28	137,301 - 209,250	31	
33	209,251 - 373,650	36	Might continue or rise
35	\$373,651 and above	39.6	

Capital-gains taxes		Scheduled	Likely outcome
Current	Income level	rate next year	
15%	couples up to \$250,000	20%	Likely to continue
15	couples over \$250,000	20	Might continue or rise

Taxes on dividends		Scheduled	Likely outcome
Current	Income level	rate next year	
15%	couples up to \$250,000	up to 36%	Likely to continue
15	couples over \$250,000	up to 39.6%	Might continue or rise

Estate tax		Scheduled	Likely outcome
Rate	Current	rate next year	
	0%	55%	Likely to return, possibly lower
Exemption	N.A.	\$1 million	Likely to return, possibly higher

Note: Income-tax ranges based on 2010 taxable income. Income levels for capital gains and dividends based on adjusted gross income. Sources: Tax Foundation; WSJ research

Health Care Reform Provisions: Uncertainty Ahead

- **Eight years to fully implement**
- **2014: Insurance companies barred from rejecting individuals based on pre-existing conditions**
- **Companies with 50 or fewer employees: excluded from mandate to provide coverage by 2014 (96% of businesses) or face \$2000 penalty per employee**
 - **Adverse incentives?**
- **Funded in part by 0.9% tax increase on wages for individuals earning \$200,000 or more (\$250,000 for married couples)**
- **Businesses with less than 26 employees that cover over 50% of employee health care costs and pay an average annual wage under 50k will be eligible for a tax credit equal to 35% the cost of premiums. Tax credit will increase by 50% in 2013 and continue for two additional years.**

Headlines

- **Majority of Americans Believe Home Prices Have Bottomed**
 - 70% of the General Population believe it is a good time to buy a house, up by 6 percentage points since January 2010
 - Almost 8 in 10 Americans believe home prices either will increase or stay the same over the next year

- **Rents Expected to Increase More than Home Prices**
 - 39% think rental prices will increase over the next 12 months, while 46% think they will stay the same
 - On average, Americans expect home rents to increase by 3.6% over the next year, which is 2.7 percentage points higher than the expected rise in home prices

- **Americans Remain Cautious, with Many Preferring to Rent Now and Buy Later**
 - The number of Americans who would be more likely to rent rather than buy their next home if they were going to move increased from 30% in January 2010 to 33% in July 2010
 - 60% of renters (up by 6 percentage points since January 2010) would be more likely to rent if they were to move, even though 69 percent of renters think it makes more sense to buy a home

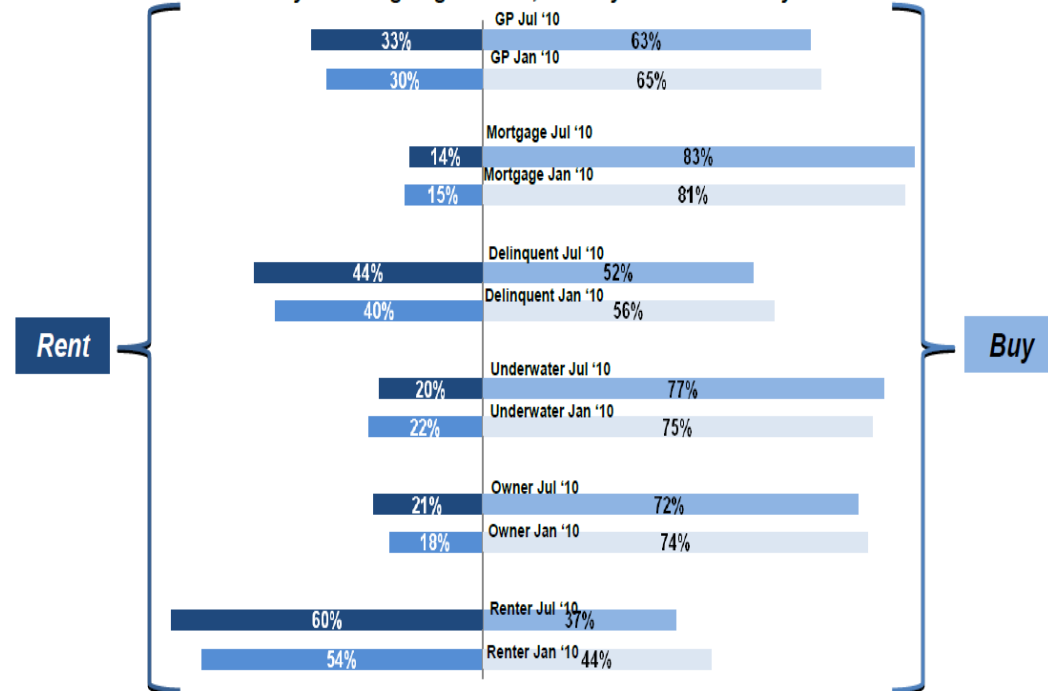
- **Mortgage Borrowers and Underwater Borrowers are Less Discouraged About Homeownership, While Delinquent Borrowers and Renters Are More Pessimistic**
 - 74% of Mortgage borrowers and 69% of Underwater borrowers are more likely to say owning a home is a safe investment than Delinquent borrowers (57% and Renters (54%))
 - 83% of Mortgage borrowers and 77% of Underwater Borrowers said they are more likely to buy in the future than rent
 - 37% of Renters and 52% of Delinquent borrowers said they are more likely to buy in the future

Changes in Attitude Toward Homeownership Suggest Continued Decline in the Homeownership Rate

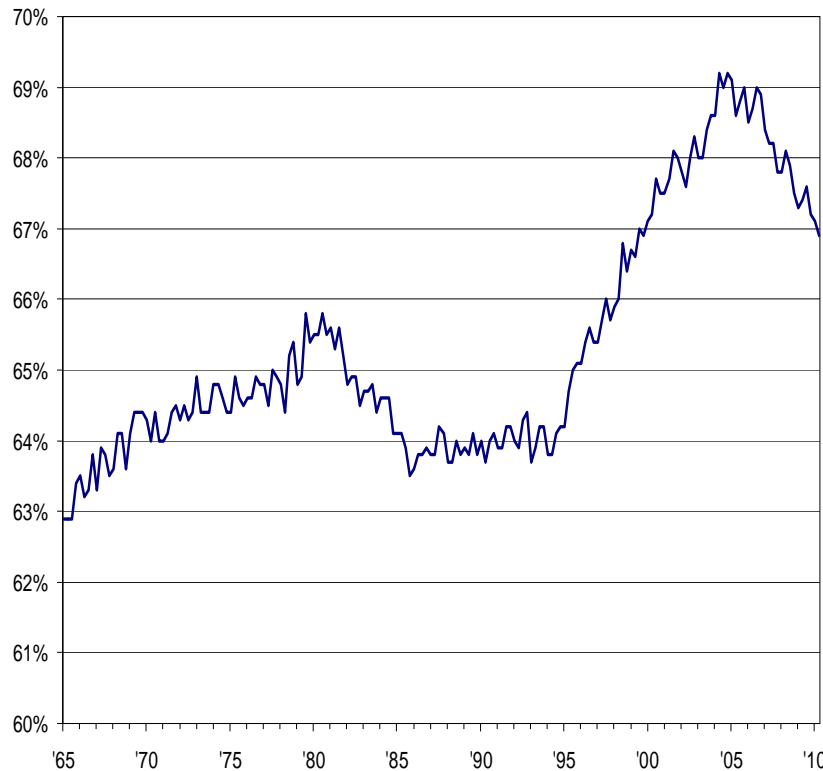
Americans would buy over rent

- Consistent with the belief that owning is preferable to renting, almost 2 in 3 Americans say they would buy a house if they were going to move. These numbers are down slightly from January 2010
 - Renters shifted the most, with 60% more likely to continue renting in case of a move – up from 54% in January
 - Underwater borrowers are far more likely to consider buying than Delinquent borrowers

If you were going to move, would you be more likely to:



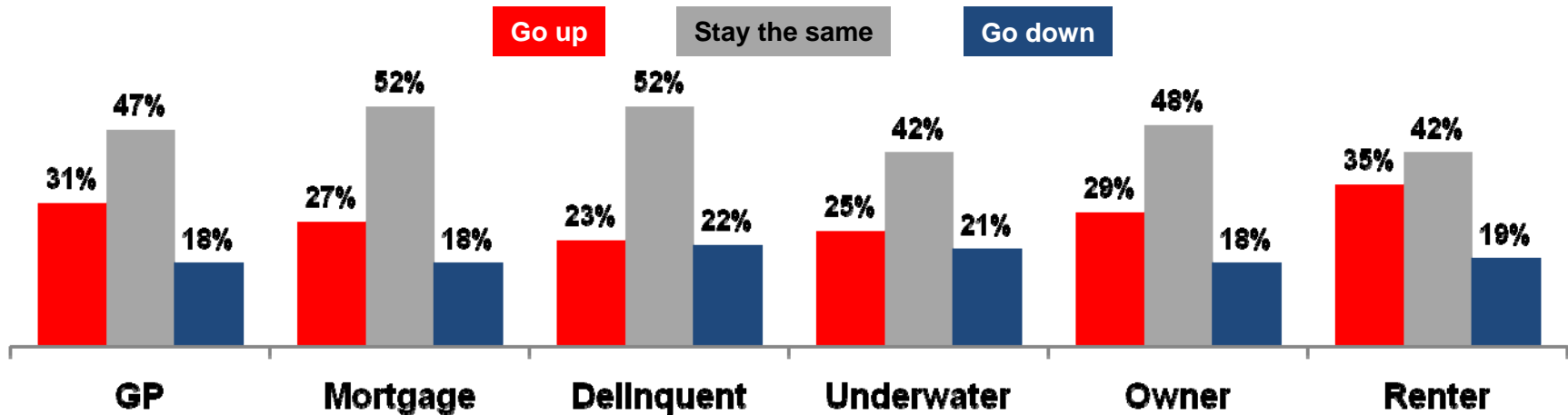
Homeownership rate, NSA



Americans expect a slight rise in home prices over the next year

- 78% of Americans think home prices either will remain the same or will go up over the next twelve months – only 18% expect the prices to go down
 - Renters have the greatest proportion expecting prices to go up and also have the greatest average price gain as measured among those expecting home prices to change either up or down

During the next 12 months, do you think home prices in general will go up, go down, or stay the same as where they are now?



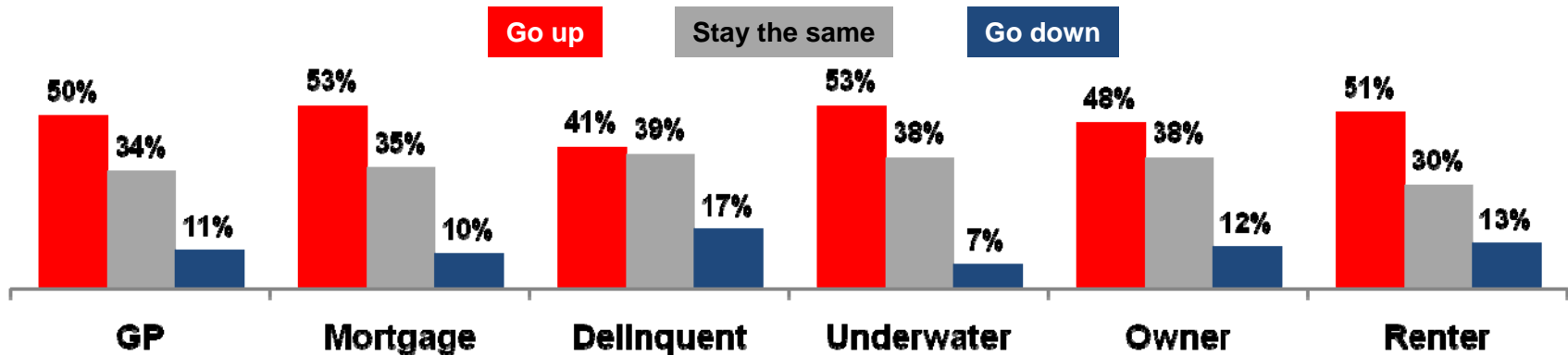
- Respondents who said home prices would go up or go down were asked to estimate by what percent. We calculated an overall average, excluding outliers beyond two standard deviations:

Overall home price change	GP %	Mortgage %	Delinquent %	Underwater %	Owner %	Renter %
	+0.9	+0.6	-0.1	-0.1	+0.1	+1.5

Americans expect home mortgage interest rates to go up rather than down over the next year by a ratio of 5 to 1

- Among the sub-groups, the highest percentages expecting mortgage interest rates to rise over the next 12 months are among Mortgage borrowers and Underwater borrowers
- Delinquent borrowers are more likely than other groups to think rates will remain the same or go down

Over the next year, do you think that home mortgage interest rates in general will go up a lot, will go up a little, will remain about the same, will go down a little, or will go down a lot?



Over the next year, do you think that home mortgage interest rates in general will go up a lot, will go up a little, will remain about the same, will go down a little, or will go down a lot?	GP %	Mortgage %	Delinquent %	Underwater %	Owner %	Renter %
TOTAL GO UP	50	53	41	53	48	51
Rates will go up a lot	8	6	9	7	10	10
Rates will go up a little	42	47	32	46	38	41
TOTAL GO DOWN	11	10	17	7	12	13
Rates will go down a little	10	9	14	6	11	12
Rates will go down a lot	1	1	3	1	1	1
RATES WILL REMAIN ABOUT THE SAME	34	35	39	38	38	30

Good time to buy, bad time to sell a house

- 70% of Americans think it is a *good* time to buy a house, up from 64% in January 2010, and 36% think now is a *very good* time to buy a house
 - More than three-quarters of Mortgage borrowers and Underwater borrowers think it is a *good* time to buy
- 83% of Americans think it is a *bad* time to sell a house
 - 91% of Delinquent borrowers think it is a *bad* time to sell a house, with 67% thinking it is a *very bad* time to do so

In general, do you think this is a very good time to BUY a house, a somewhat good time, a somewhat bad time, or a very bad time to buy a house?	GP %			Mortgage %			Delinquent %		Underwater %		Owner %			Renter %		
	Jul '10	Jan '10	2003	Jul '10	Jan '10	2003	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	2003	Jul '10	Jan '10	2003
GOOD TIME	70	64	66	82	71	75	73	70	76	66	68	62	62	59	58	56
BAD TIME	26	31	26	16	25	21	25	26	22	29	27	31	25	36	36	35

In general, do you think this is a very good time to SELL a house, a somewhat good time, a somewhat bad time, or a very bad time to sell a house?	GP %	Mortgage %	Delinquent %	Underwater %	Owner %	Renter %
	GOOD TIME	15	13	8	13	12
BAD TIME	83	86	91	85	83	78

Fewer Americans consider buying a home a safe investment than in January 2010 or 2003

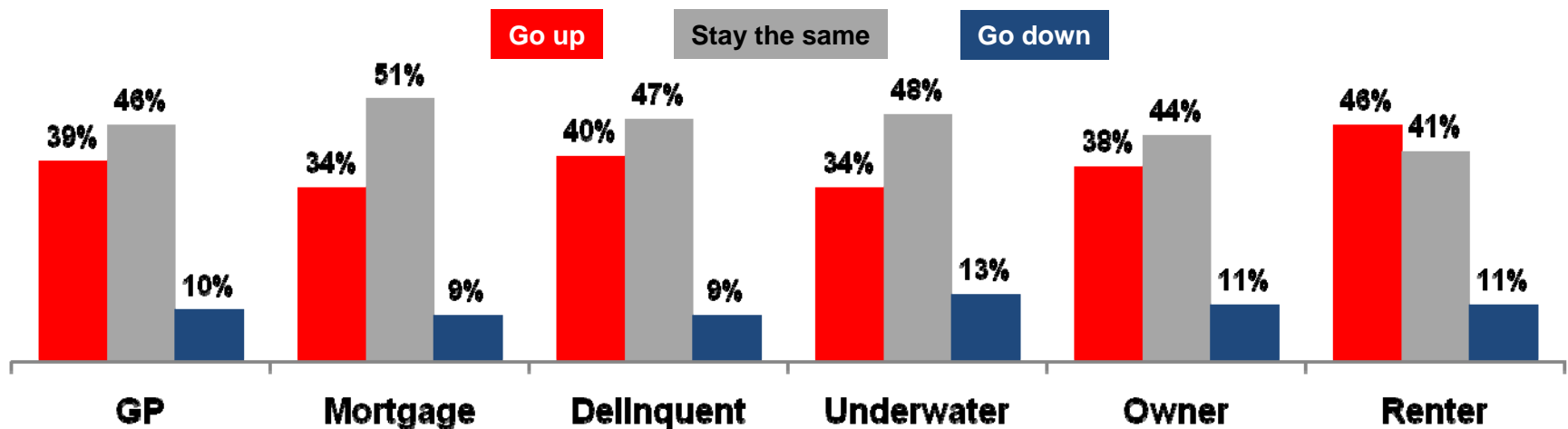
- Although 67% of Americans think buying a house is a safe investment, this is down 3 points from January 2010 and 16 points from 2003 – the largest declines among all tracked alternatives over both timeframes
- The perception that buying a home being is a safe investment has decreased among all sub-groups since January 2010, especially among Delinquent borrowers, Renters, and Underwater borrowers (down by 8, 7, and 6 points, respectively)
- Mortgage borrowers and Owners view purchasing a house as a safer investment than the General Population and the rest of the sub-groups

Do you think this investment is safe or risky?	GP %			Mortgage %		Delinquent %		Underwater %		Owner %		Renter %		
	Showing <i>Safe/Risky</i>	Jul '10	Jan '10	2003	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10
Putting money into a savings or money market account		76/20	74/20	79/16	82/16	79/16	70/27	73/23	79/20	76/20	73/22	73/22	70/25	71/23
Buying a home		67/30	70/27	83/15	74/23	76/21	57/40	65/31	69/27	75/23	72/24	73/21	54/43	61/37
Putting money into an IRA or 401(k) plan		62/30	63/30	69/22	66/28	67/31	59/36	56/37	61/34	69/30	63/30	61/29	60/33	63/31
Buying an insurance annuity		48/31	50/31	NA	51/27	49/32	42/35	48/32	51/31	48/33	50/31	48/33	45/32	50/28
Buying government or corporate bonds		48/41	50/39	NA	56/34	56/35	48/40	47/38	55/37	54/38	48/38	52/36	40/49	44/44
Investing in a mutual fund		45/39	46/41	53/33	51/35	48/41	42/46	45/41	53/34	50/37	47/41	44/42	38/44	44/41
Buying stocks		15/77	17/76	25/68	16/79	16/79	9/84	12/81	14/81	16/80	18/74	19/72	14/78	18/76

Americans expect home rental prices to rise more than home prices over the next year

- Over the next year, 39% of Americans expect home rental prices to go up and only 10% expect them to decrease – almost half of Renters expect rental prices to increase
 - Renters had the greatest average price change as measured among those expecting home rental prices to go either up or down, but all sub-groups had increases on this basis

During the next 12 months, do you think home rental prices in general will go up, go down, or stay the same as where they are now?



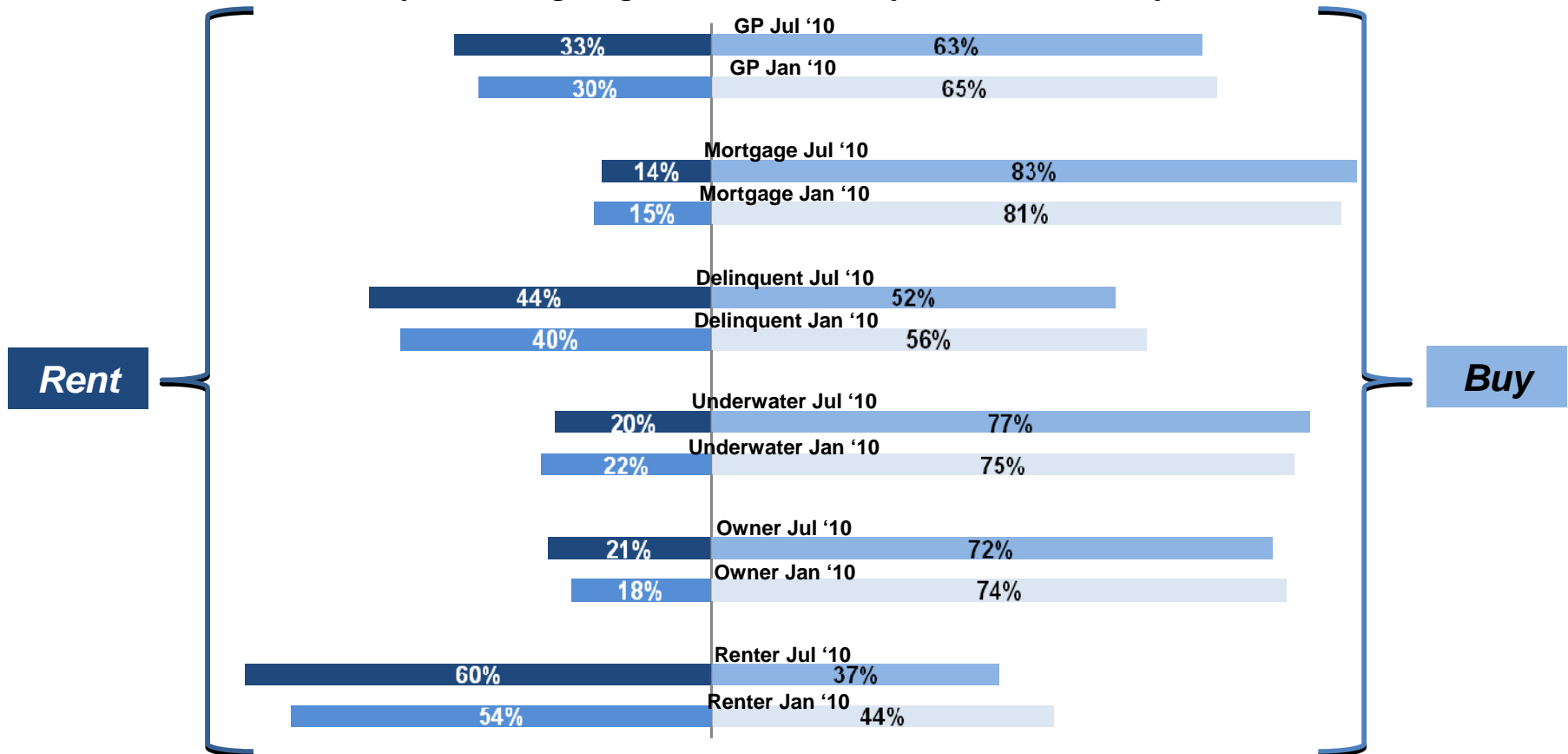
- Respondents who said home prices would go up or go down were asked to estimate by what percent. We calculated an overall average, excluding outliers beyond two standard deviations:

Overall rental price change	GP %	Mortgage %	Delinquent %	Underwater %	Owner %	Renter %
	+3.6	+2.6	+2.8	+2.3	+3.1	+5.1

More Americans say they would rent their next home

- Consistent with the belief that owning is preferable to renting, almost 2 in 3 Americans say they would buy a house if they were going to move, but the number of potential renters has increased by 3 points since January 2010
 - Renters shifted the most, with 60% more likely to continue renting in the case of a move – up from 54% in January 2010

If you were going to move, would you be more likely to:



Education, safety most important considerations in home purchase

- Non-financial considerations, such as accessing good education and safety, continue to trump financial reasons for owning a home, although reasons for homeownership in general have degraded since January 2010 among Delinquent borrowers and Renters

Is this a major reason, minor reason, or not a reason at all to buy a home? <i>Showing Major reason</i>	Non-financial Reason				Financial Reason							
	GP %		Mortgage %		Delinquent %		Underwater %		Owner %		Renter %	
	July '10	Jan '10	July '10	Jan '10	July '10	Jan '10	July '10	Jan '10	July '10	Jan '10	July '10	Jan '10
It means having a good place to raise children and provide them with a good education	79	80	82	80	75	83	83	75	80	82	74	78
You have a physical structure where you and your family feel safe	78	79	81	81	75	79	84	81	79	82	75	75
It allows you to have more space for your family	72	-	74	-	73	-	75	-	71	-	70	-
It gives you control over what you do with your living space, like renovations and updates	70	71	76	72	66	67	76	71	72	73	62	70
Paying rent is not a good investment	62	63	71	72	61	66	71	69	61	63	55	54
Buying a home provides a good financial opportunity	59	-	62	-	56	-	64	-	60	-	56	-
It allows you to live in a nicer home	59	-	61	-	56	-	64	-	60	-	58	-
Owning a home is a good way to build up wealth that can be passed along to my family	58	61	51	54	56	61	55	55	60	64	64	66
It is a good retirement investment	58	60	55	55	54	59	55	51	59	65	60	61
It allows you to live in a more convenient location that is closer to work, family, or friends	54	-	55	-	50	-	52	-	59	-	49	-
It allows you to select a community where people share your values	52	51	55	49	54	56	56	41	58	61	44	47
Owning a home provides tax benefits	45	47	48	51	51	58	48	50	44	45	44	45
Owning a home gives me something I can borrow against if I need it	33	35	28	30	34	41	30	30	36	39	35	37
It's a symbol of your success or achievement	31	-	25	-	34	-	36	-	32	-	35	-
It motivates you to become a better citizen and engage in important civic activities, such as voting, volunteering, and contributing to charities	29	30	26	25	31	36	30	26	37	39	25	28

Perceived barriers to buying a house

- Poor credit remains the top reason given by Renters for not buying a home, followed closely by purchase/upkeep affordability, and not a good time economically to buy a home
 - The importance of the top three reasons given for not buying changed materially as perceived barriers since January 2010 in the \$25k-\$50k income segment
 - Since January 2010, African-Americans increasingly believe it is cheaper to rent than to own (up 10 points) and desirable to rent for mobility flexibility (up 8 points)

IF RENTER OR BOARDER: Is this a major reason you have not bought a house, minor reason, or not a reason at all? <i>Showing major reason</i>	Renter % *N=900		Hispanic % N=233		African-American % N=200		<\$25k % N=458		\$25k-\$50k % N=296		\$50k-\$100k % N=184		\$100k+ % N=40	
	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10	Jul '10	Jan '10
You don't have good enough credit for a mortgage	52	54	52	55	53	59	62	63	53	45	47	45	42	47
You don't think you can afford the purchase or upkeep of a home	50	47	46	43	43	42	59	55	54	41	39	39	38	35
You don't think it's a good time economically to buy a home	47	41	50	52	48	40	53	46	48	38	33	31	21	25
It is cheaper per month to rent than to buy	39	30	36	39	35	25	43	35	31	25	34	26	24	23
You don't think you will be in a certain area for an extended period of time	36	34	30	33	32	23	38	33	36	34	37	43	40	41
Purchasing a home makes you feel like you will have limited flexibility in your future choices.	28	23	27	28	26	22	28	27	27	19	26	20	23	27
You don't want to be concerned with doing the upkeep	26	21	26	29	20	16	26	24	23	18	20	19	16	20
You'd rather use the money for other investments than a home	26	21	28	23	20	16	27	25	30	18	25	16	26	23
The process of buying a home seems too complicated	24	25	34	44	19	22	29	29	19	26	11	15	8	11
You can live in a better neighborhood by renting	21	17	25	29	16	13	22	17	19	16	16	17	18	23

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