



# **The US Housing Market Crisis and Its Aftermath**

Asian Development Bank

November 16, 2009

## Table of Contents

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Section		Page
I	US Economy and the Housing Market	2
II	Freddie Mac Overview	17
III	Business Activities	23
IV	Debt Securities	28
V	Mortgage Securities	35

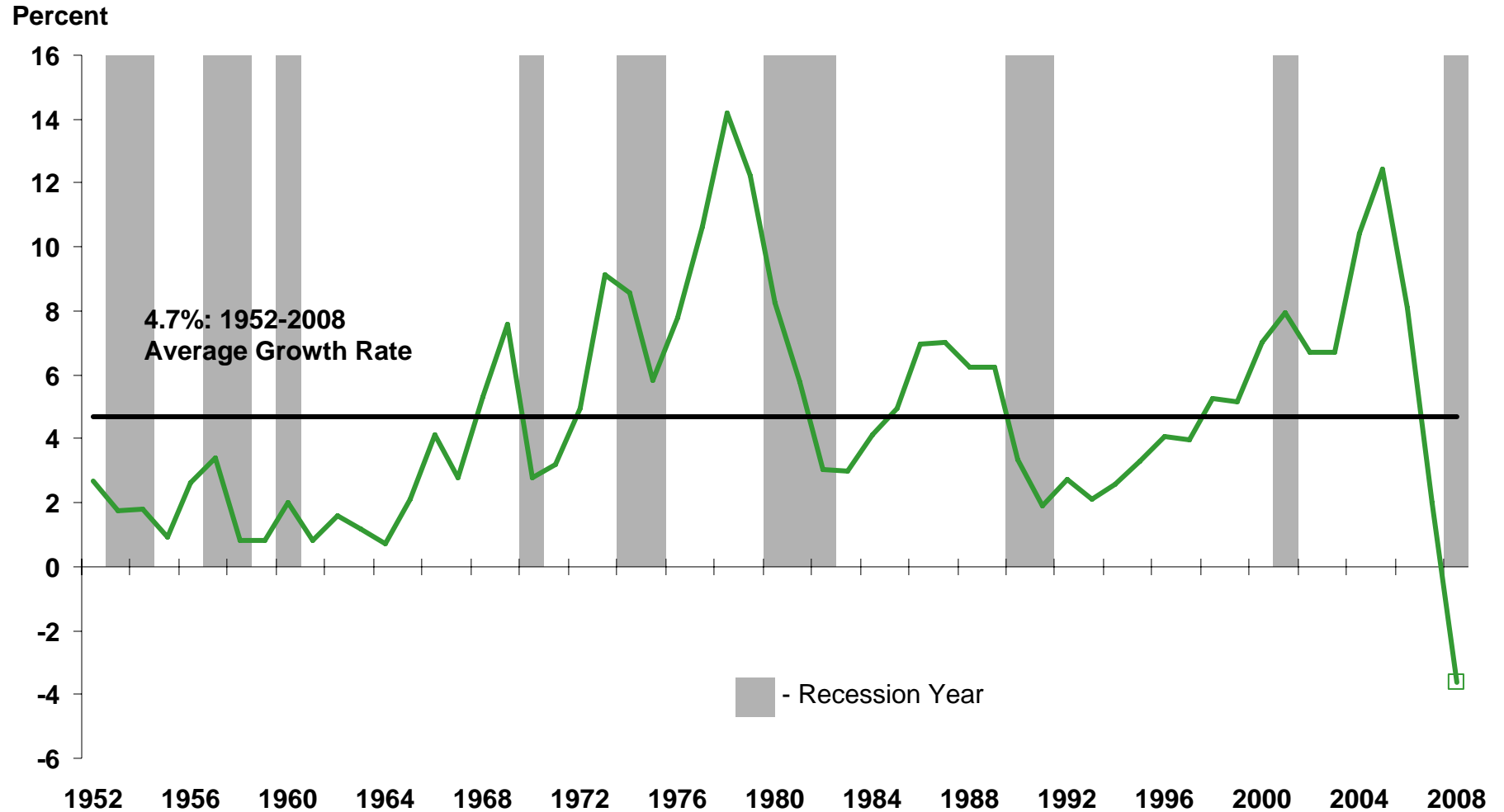
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For more information about Freddie Mac and its business, please see the company's filings with the Securities and Exchange Commission, including the company's Annual Report on Form 10-K for the year ended December 31, 2008, which are available on the Investor Relations page of the company's Web site at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors) and the Securities and Exchange Commission's Web site at [www.sec.gov](http://www.sec.gov).

## **U.S. Economy and the Housing Market**

# U.S. nominal house prices have declined sharply

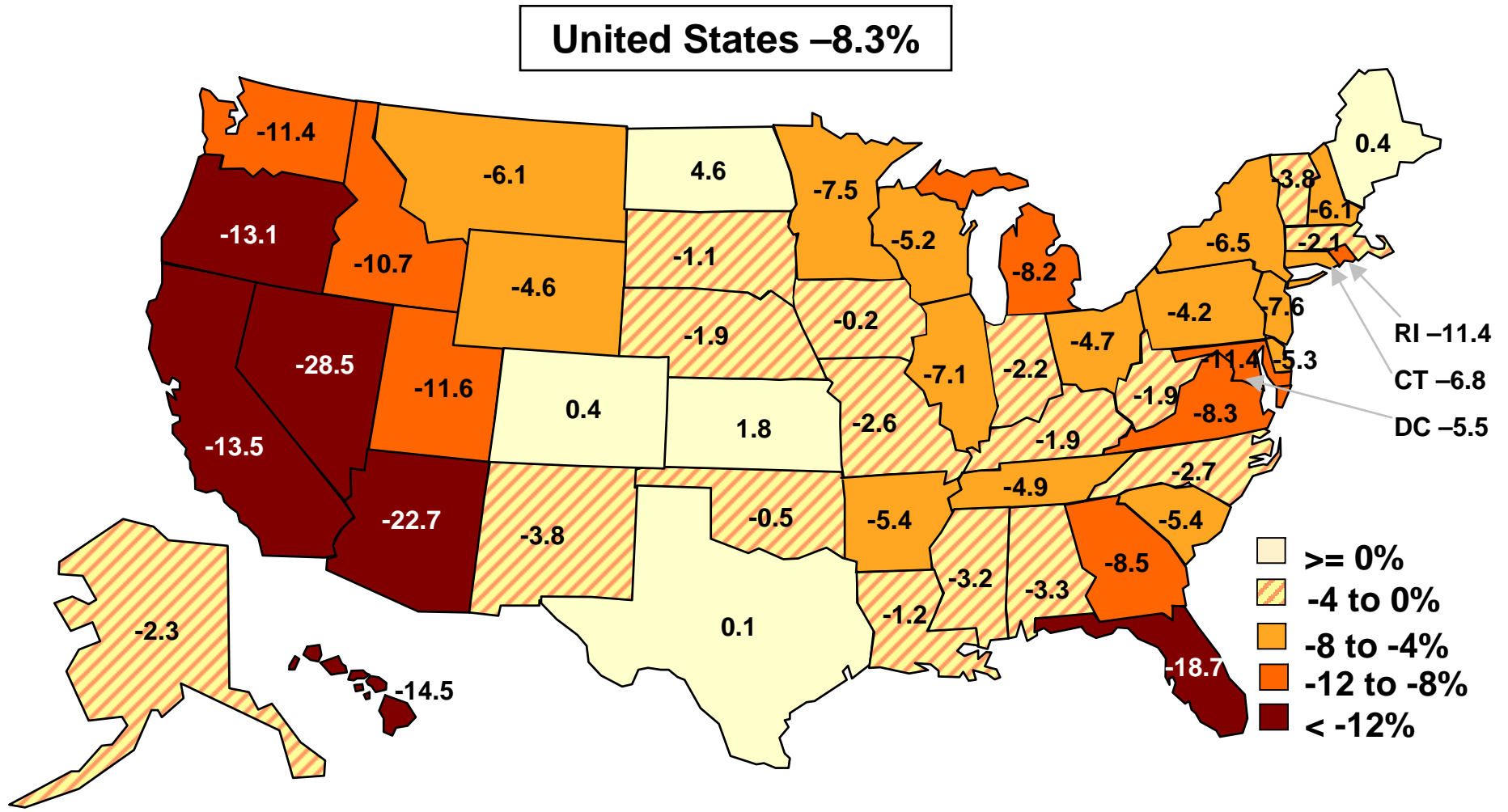
## Annual national house price growth



Note: Growth rates for 1952 to 2008 are calculated using the annual average of certain third party and Freddie Mac indices.

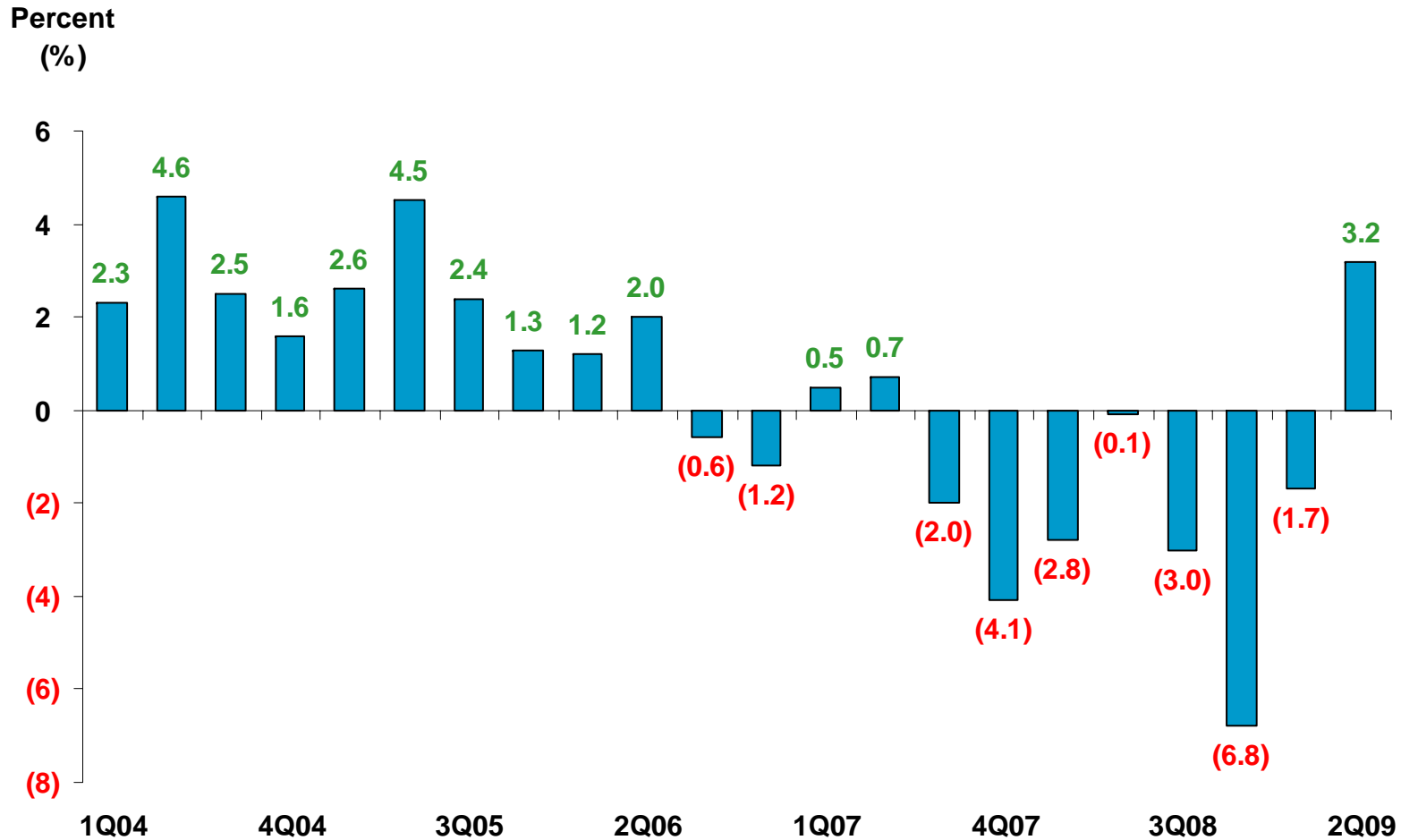
Sources: E. H. Boeckh and Associates, Bureau of Labor Statistics, U.S. Census Bureau and Freddie Mac.

# 45 States and Washington, DC had home price declines from June 2008 to June 2009<sup>1</sup>



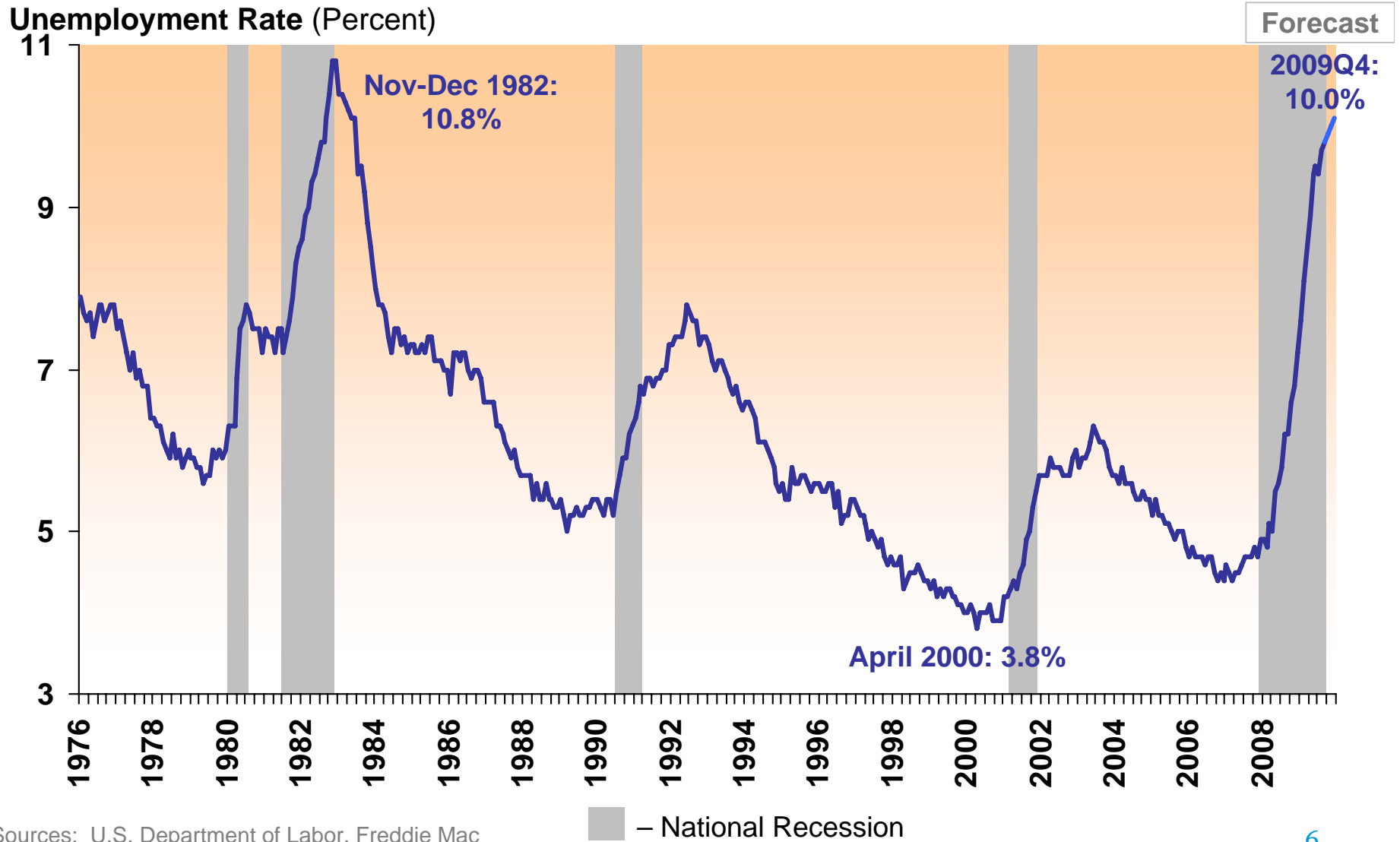
<sup>1</sup> National home prices use the internal Freddie Mac index, which is value-weighted based on Freddie Mac's single-family portfolio. The state index is a monthly series; annual growth rates are calculated as a 12-month change.

# National home prices have experienced a cumulative decline of 16.8% since June 2006<sup>1</sup>



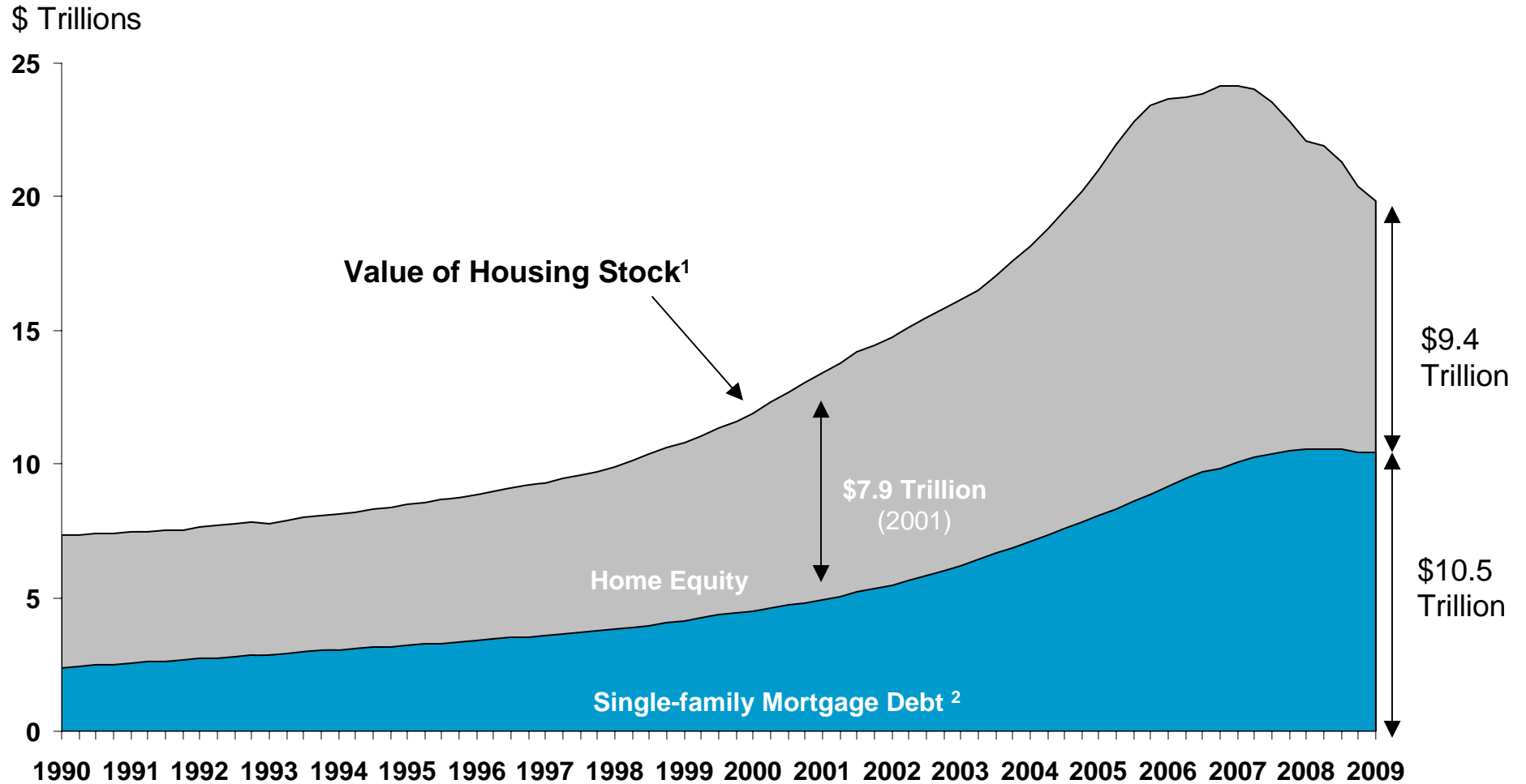
<sup>1</sup> National home prices use the internal Freddie Mac Index, which is value-weighted based on Freddie Mac's single-family portfolio. The U.S. index is a monthly series; quarterly growth rates are calculated as a 3-month change based on the final month of each quarter. Cumulative decline of 16.8% calculated as a cumulative compound growth rate.

# U.S. unemployment rate rose to 9.8% in September, the highest in more than 26 years



Sources: U.S. Department of Labor, Freddie Mac

# Single-family mortgage debt in relation to total value of housing stock

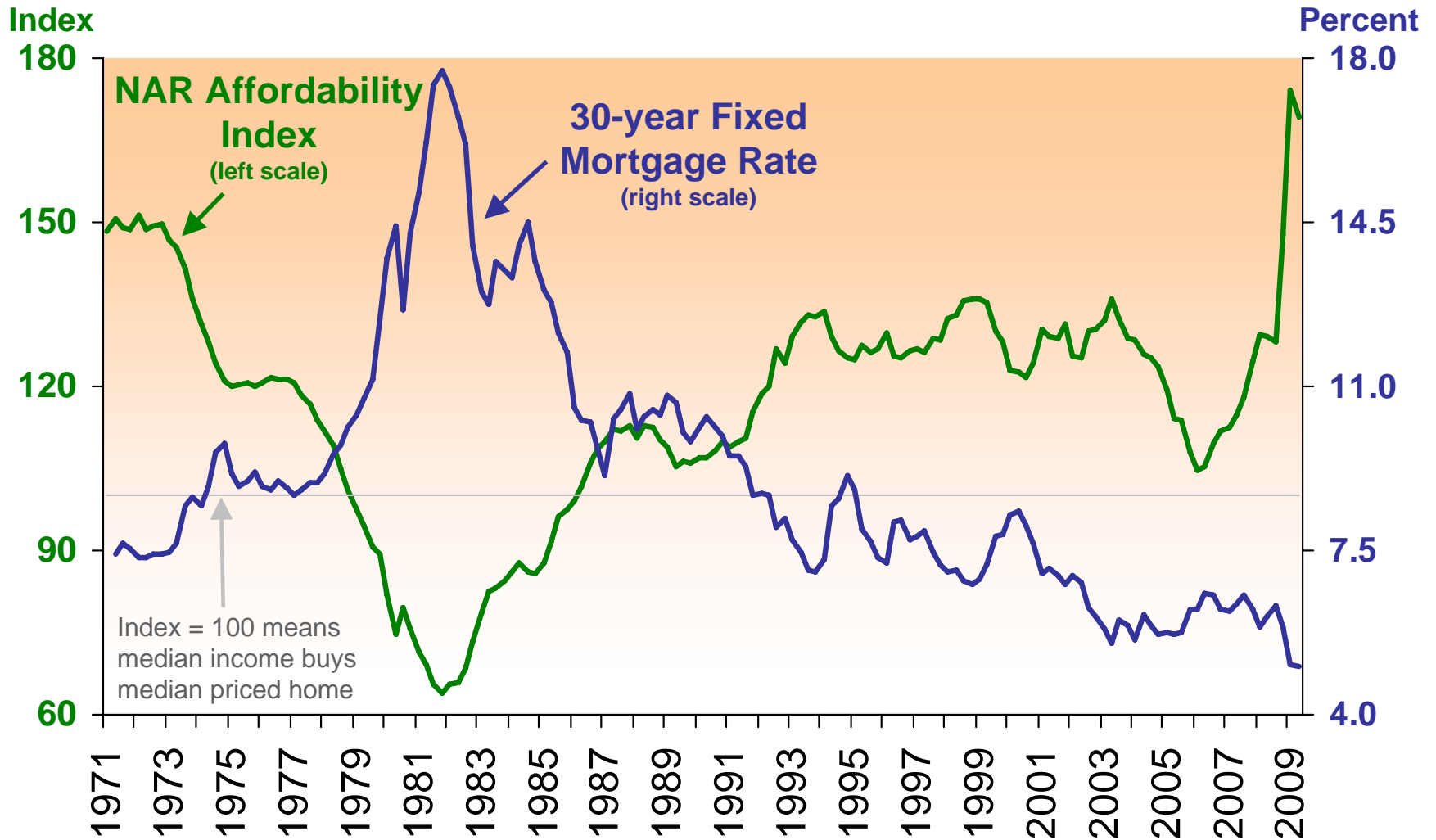


<sup>1</sup> Value of Housing Stock: Federal Reserve Board's Flow of Funds Accounts, June 11, 2009, Table B.100 (line #50). Note this figure includes homes with and without underlying mortgages. Home equity is the difference between the value of the housing stock and the amount of single-family mortgage debt.

<sup>2</sup> Single-family Mortgage Debt Outstanding: Federal Reserve Board's Flow of Funds Accounts, June 11, 2009, Table B.100 (line #33).

Source: Federal Reserve Board's Flow of Funds Accounts. Data as of March 31, 2009.

# Low interest rates and falling home prices have increased housing affordability

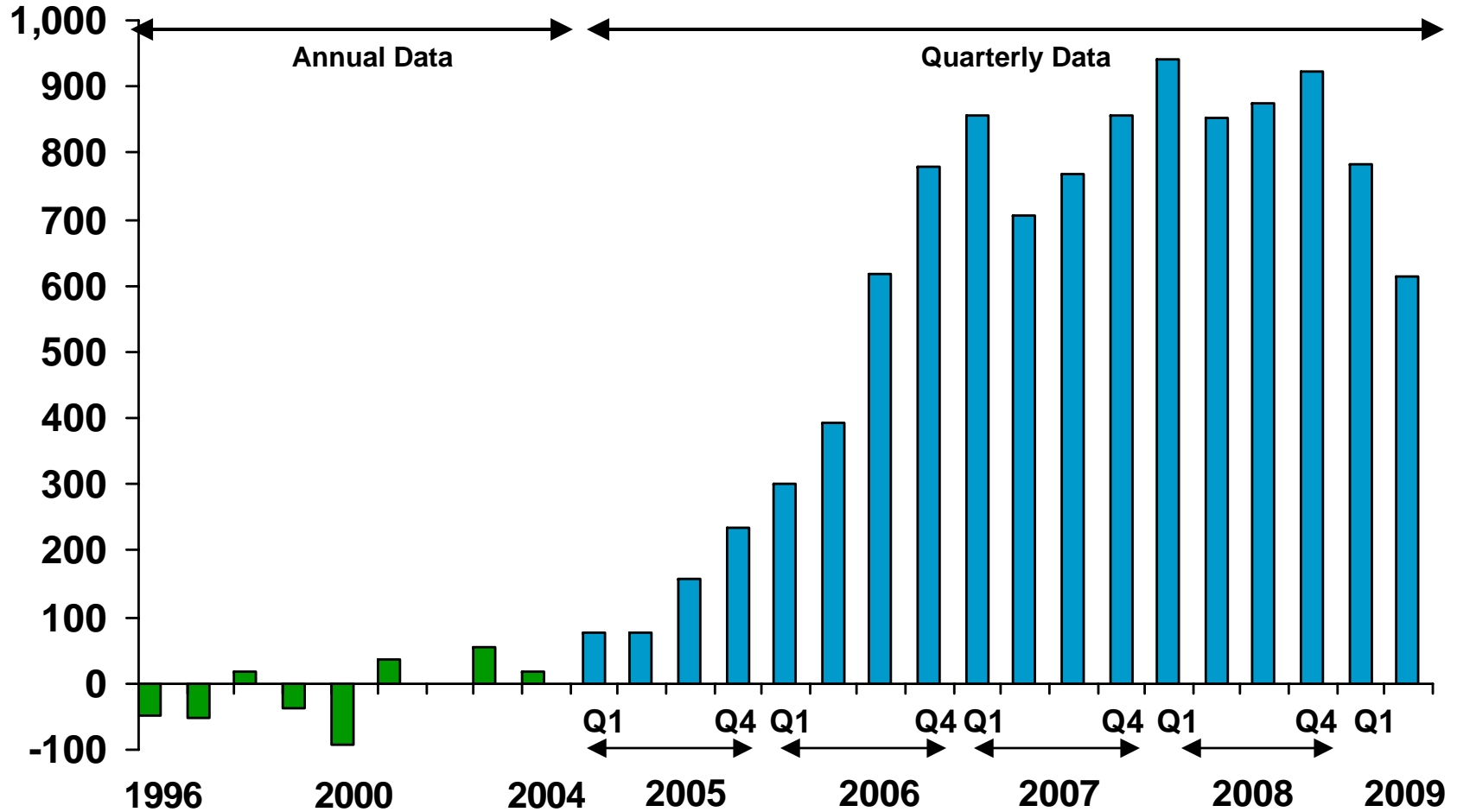


Source: National Association of Realtors Composite Housing Affordability Index – (% of median priced home affordable on median income with conventional mortgage and 20% down); Freddie Mac Primary Mortgage Market Survey<sup>®</sup>

# A large inventory overhang remains within the housing market

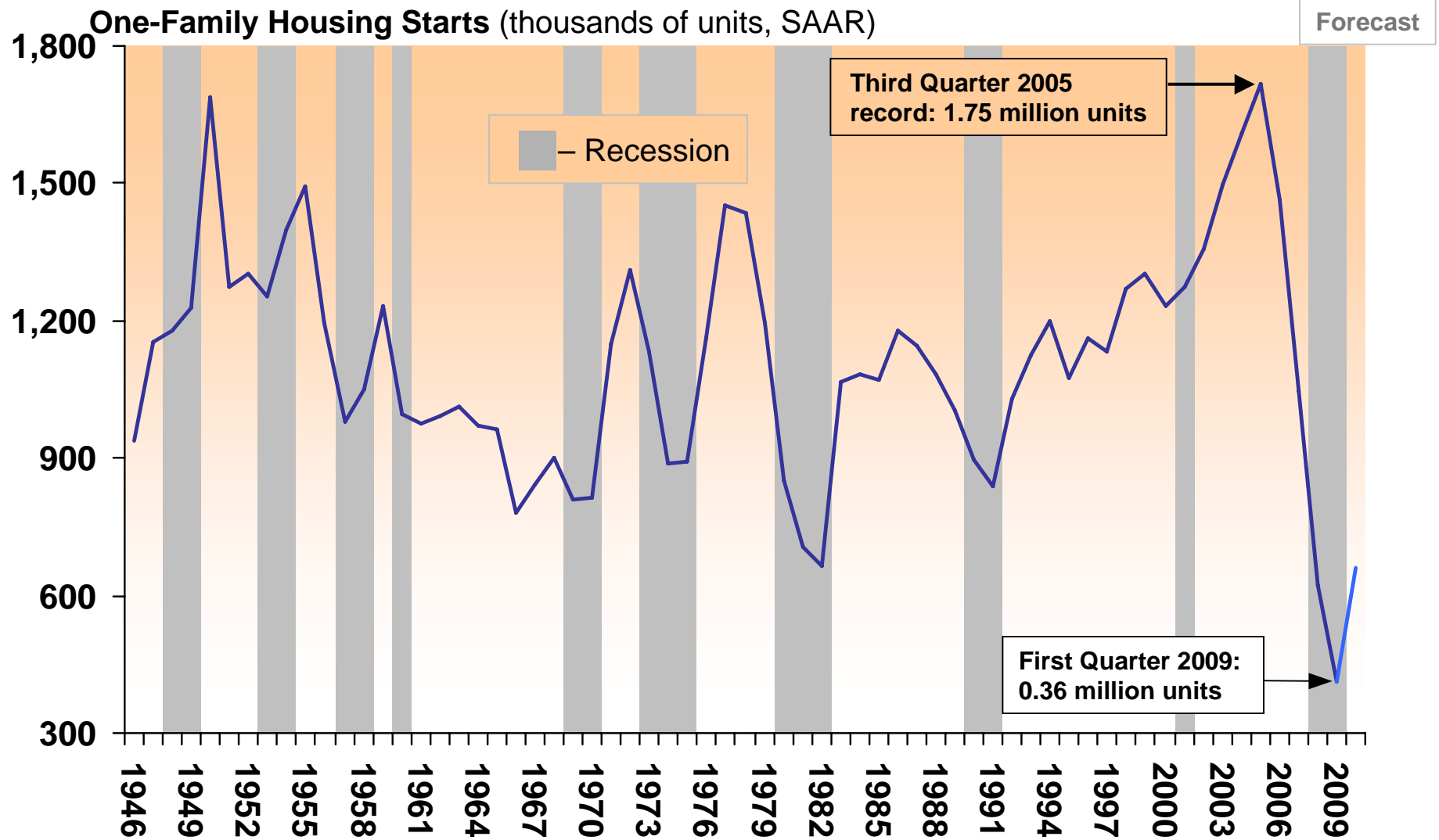
## Excess unsold homes for sale

Numbers in Thousands



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

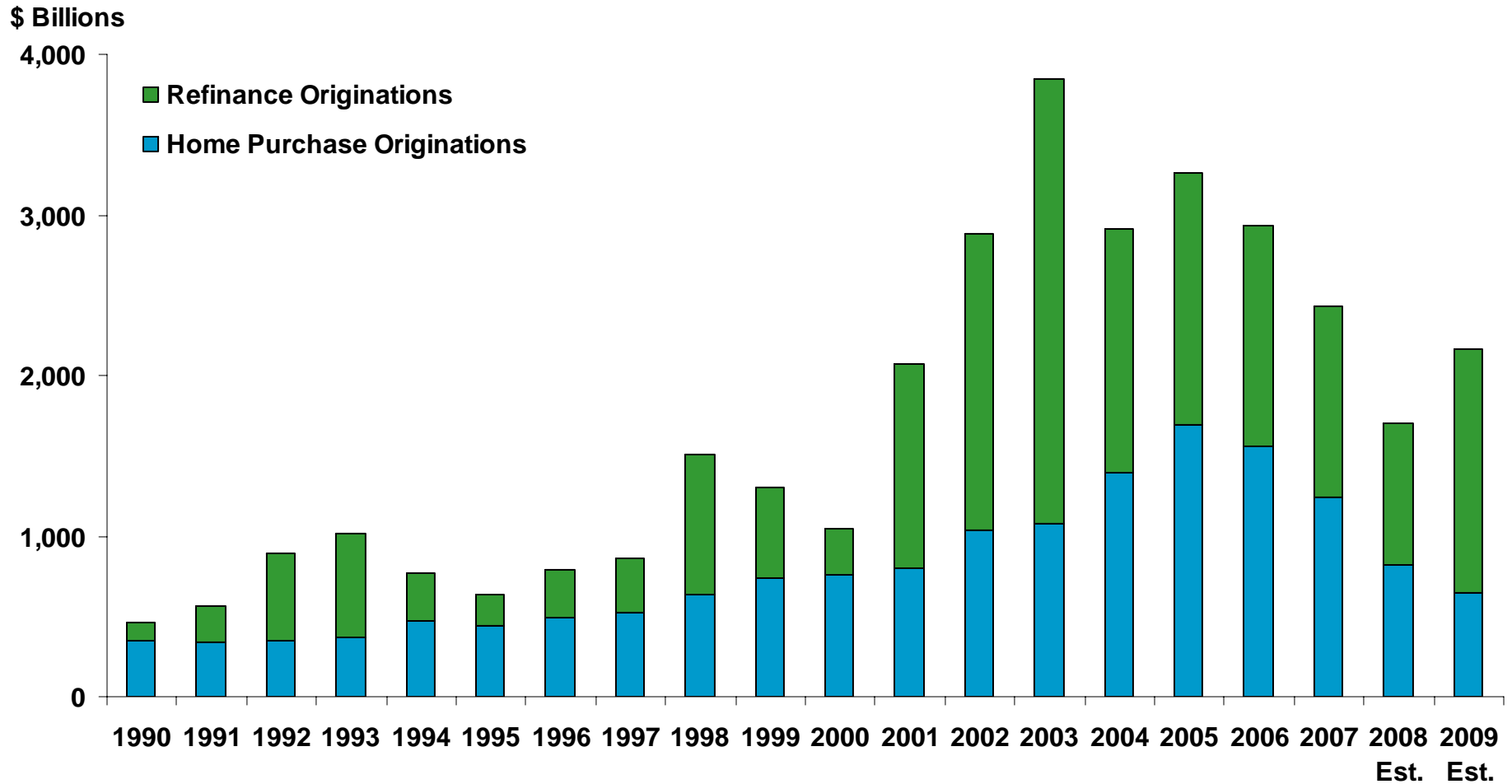
# Single-family building hit a record in 2005, but has fallen to lowest level since 1945



Sources: Bureau of Census (SAAR), Freddie Mac

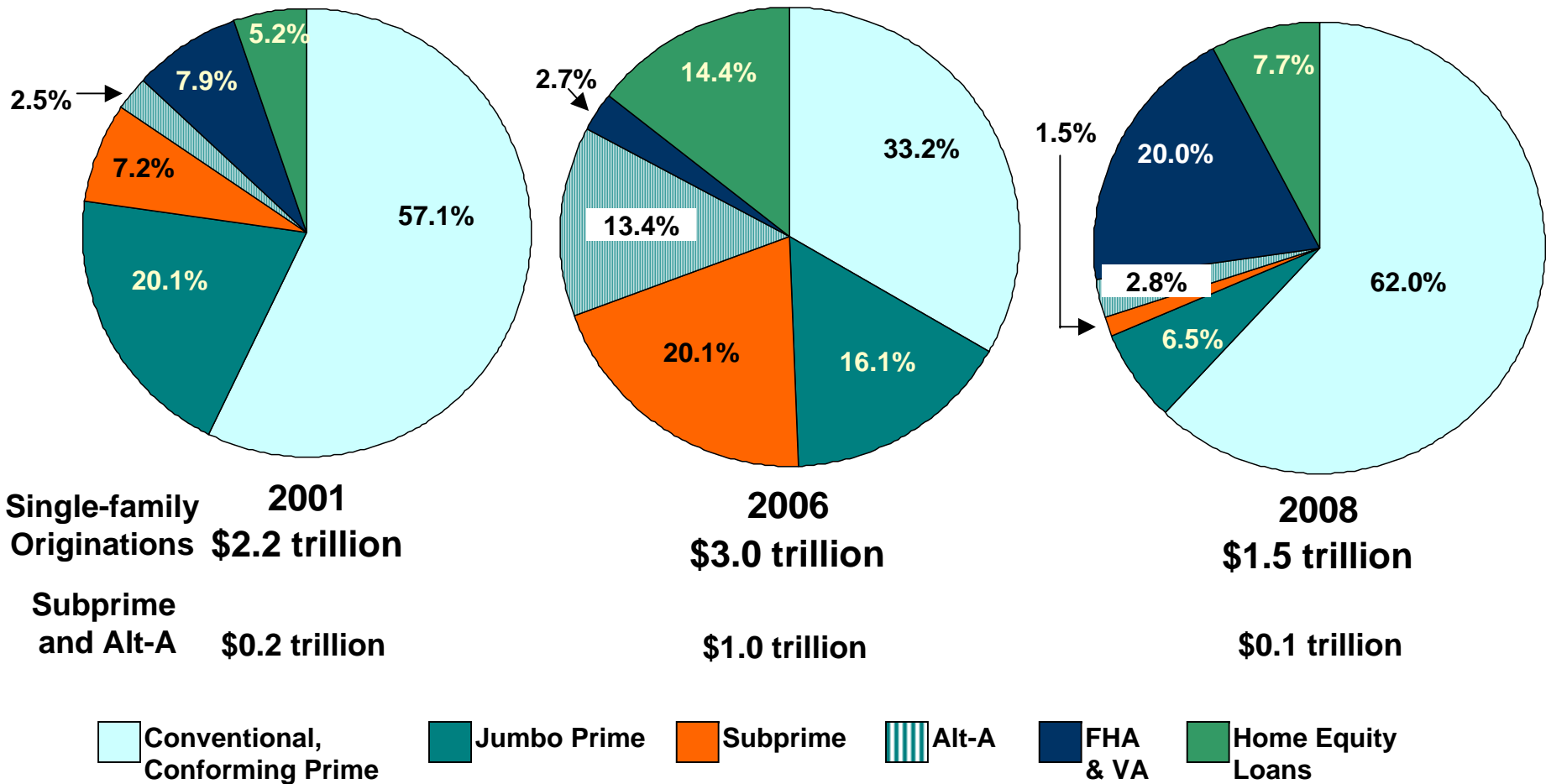
# Higher refinances expected to increase mortgage originations in 2009

## Total single-family mortgage originations



Source: U.S. Department of Housing and Urban Development and Federal Financial Institutions Examination Council. 2008 and 2009 data based on the October 2009 forecast of Freddie Mac's Office of the Chief Economist.

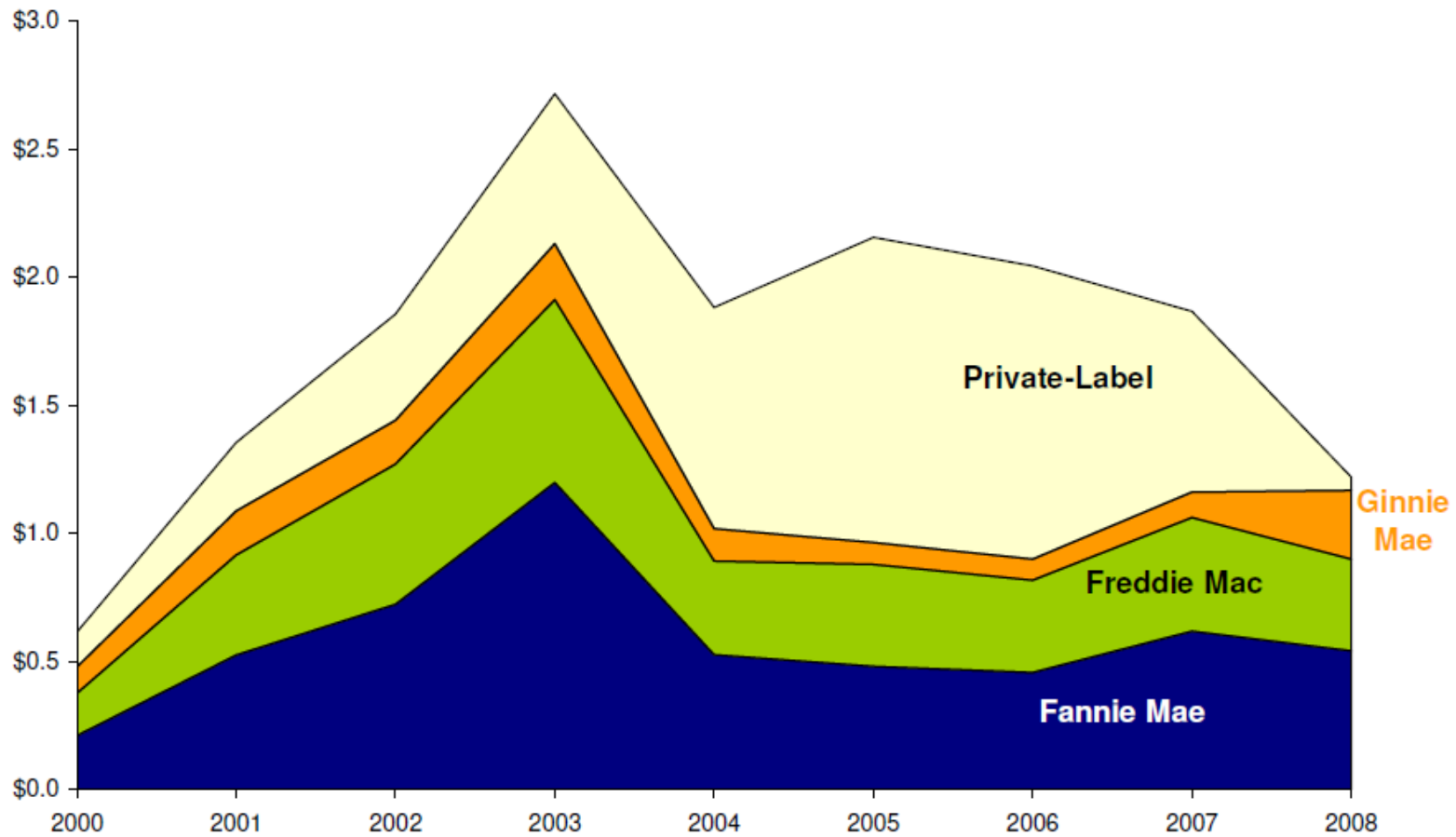
## Subprime and Alt-A volume quintupled 2001 to 2006, then fell from 2006 to 2008



Source: Inside Mortgage Finance (by dollar amount).

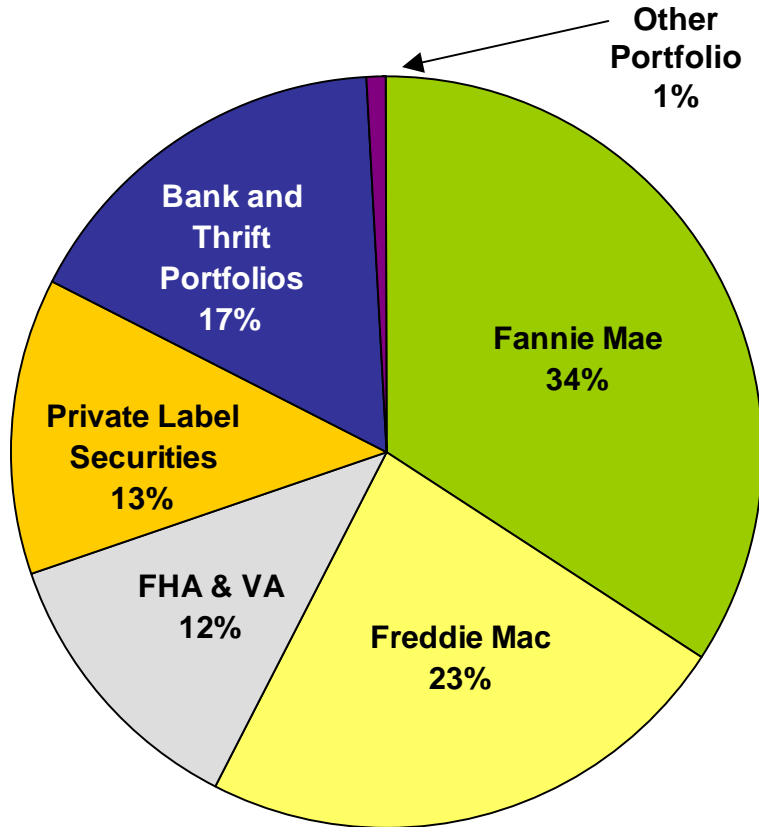
## Private-label issuance grew and declined rapidly

MBS Issuance by Issuer, in Trillions  
2000 - 2008



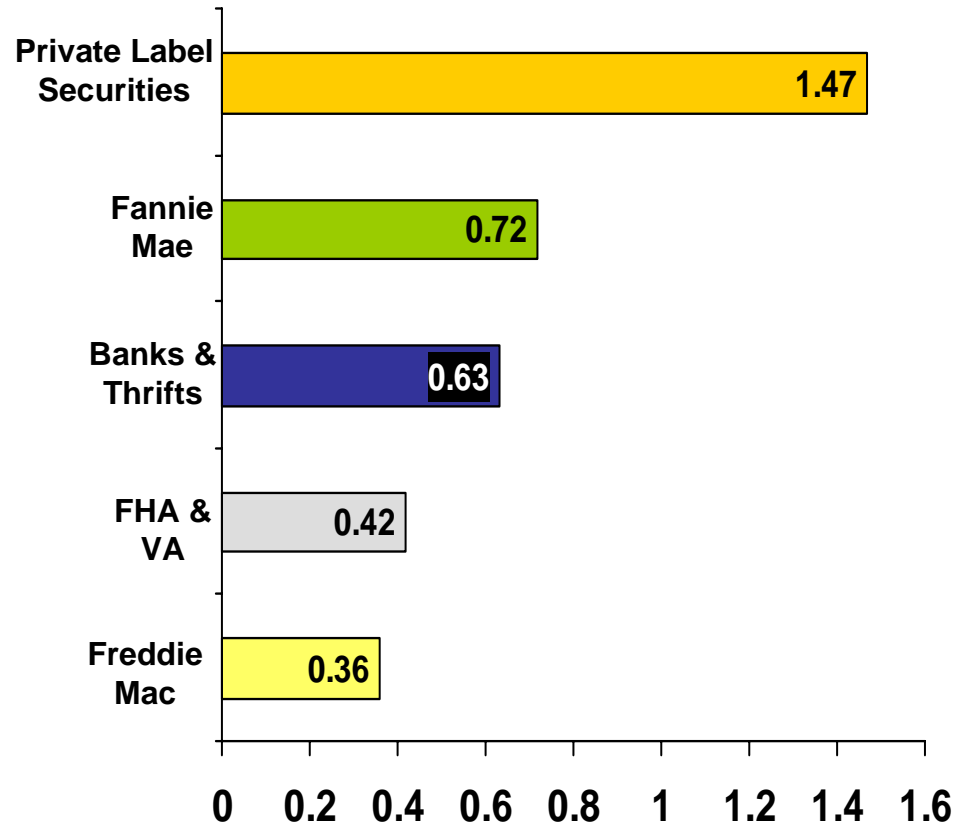
## Private label securities comprise 13% of loans outstanding but over a third of problem loans

**Number of First Mortgages Outstanding (in millions)**



**Total: 53 Million**

**Seriously Delinquent Mortgages (in millions)**



**Total: 4.2 Million**

Sources: FDIC, Freddie Mac, Fannie Mae, Mortgage Bankers Association, HUD, First American CoreLogic (LoanPerformance). Note: Data as of June 30, 2009. 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.

# Spreads on mortgage backed securities widened dramatically



Capital Markets Analytic:

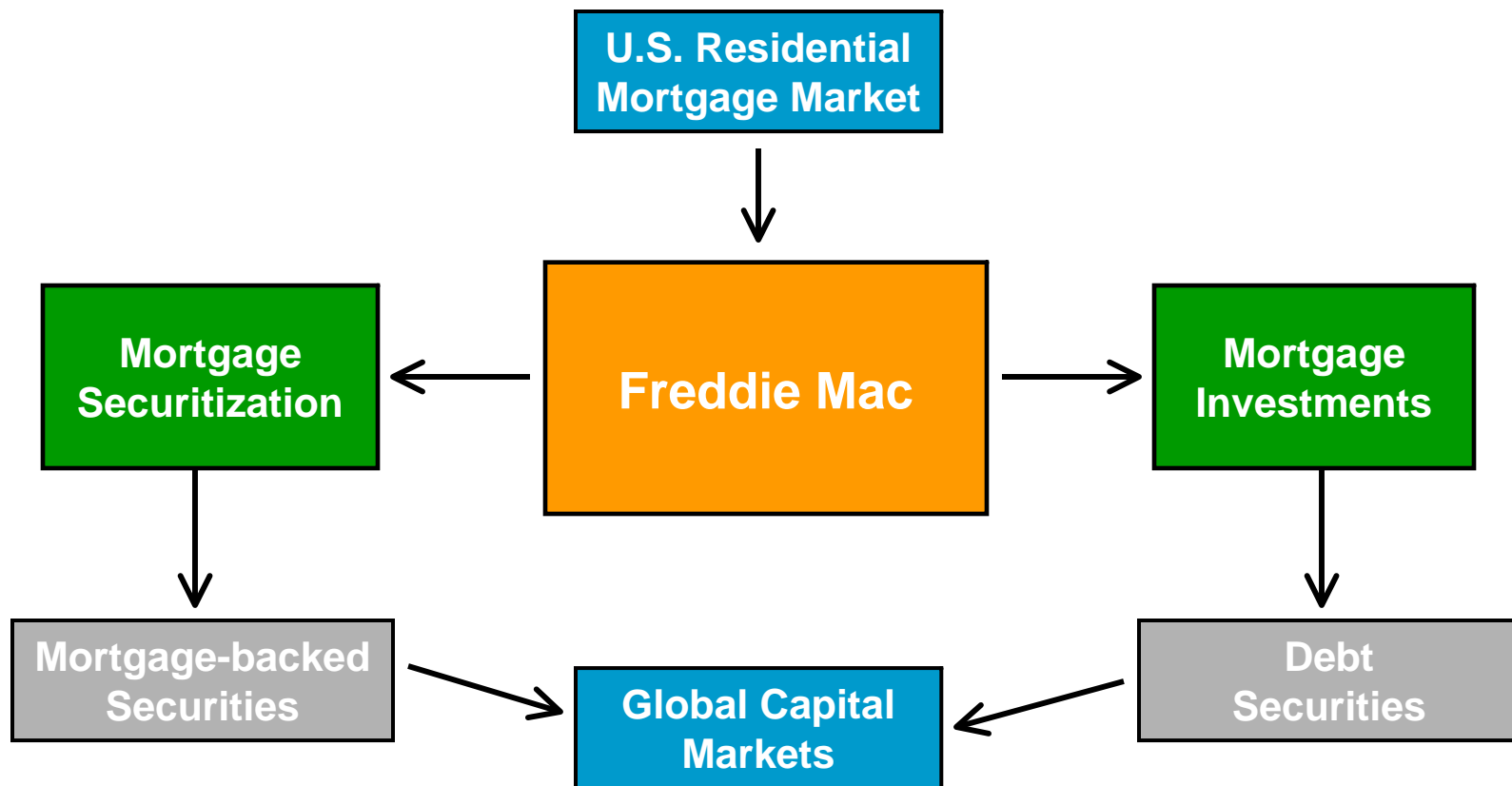
Current Coupon OAS to Libor



Key	Axis	Name	Last	Minimum	Maximum	Mean	SD	SD Change
—	Left	Current Coupon OAS to Libor	-4.312	-25.234 05/26/2009	190.510 01/08/2009	6.598	22.348	5.969

## Freddie Mac Overview

## Congress created Freddie Mac to provide stability, liquidity, and affordability to the U.S. residential mortgage market



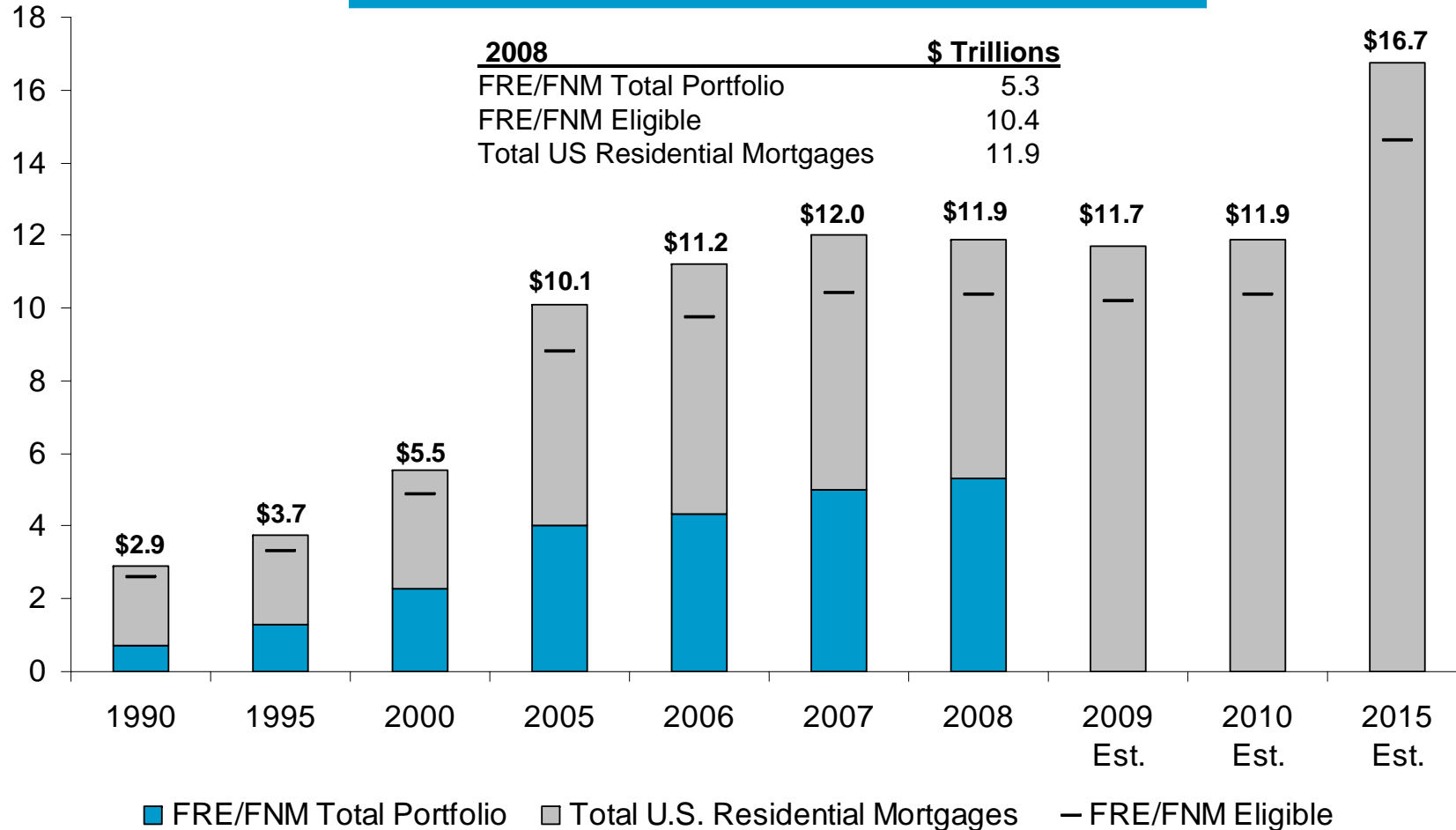
*“A primary purpose is to provide stability in the secondary market for home mortgages including mortgages securing housing for low and moderate income families. This can be accomplished through both portfolio purchasing and selling activities, as well as through the securitization of home mortgages.”<sup>1</sup>*

<sup>1</sup>House of Representatives report on FIRREA, No. 54, 101<sup>st</sup> Congress, 1<sup>st</sup> Session, Part 3 at 2 (1989).

# Freddie Mac is a central part of the U.S. housing market

\$ Trillions

## U.S. Residential Mortgage Debt Outstanding



2008	\$ Trillions
FRE/FNM Total Portfolio	5.3
FRE/FNM Eligible	10.4
Total US Residential Mortgages	11.9

Sources: Freddie Mac Total Portfolio: Monthly Volume Summary, January 2009; Fannie Mae Total Portfolio: Monthly Summary, January 2009, "Book of Business"; Total US Residential MDO: Federal Reserve Board's Flow of Funds Accounts, September 17, 2009. The MDO forecasts for 2009 and 2010 are based on the October 2009 forecast of Freddie Mac's Chief Economist. The forecasted figure for 2015 is from the Homeownership Alliance, based on an 8.25% annual growth rate, and assumes a constant FHA & VA share of MDO; to prepare the 2015 FRE/FNM Eligible MDO estimate, we net out an assumed 15% jumbo share of single-family conventional MDO.

## Conservatorship

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- The Director of the Federal Housing Finance Agency (FHFA) has placed Freddie Mac and Fannie Mae in conservatorship in order to restore the balance between the GSEs' safety and soundness and mission
  
- FHFA is the Conservator for both GSEs
  - » The Conservator assumed all powers of the Boards, management and shareholders
  - » FHFA reconstituted our board of directors and executive management
  - » FHFA stated that the GSEs will continue business as usual during the conservatorship
  
- FHFA has indicated that the goals of the conservatorship include:
  - » Restoring confidence in the GSEs
  - » Enhancing the GSEs' capacity to fulfill their missions
  - » Mitigating the systemic risk that has contributed to market instability
  
- FHFA has indicated that a GSE's conservatorship will end when the Director determines that FHFA's plan to restore the GSE to a safe and solvent condition has been completed

## GSE-related government actions

- Treasury actions:
  - » Entered into a Senior Preferred Stock Purchase Agreement with each GSE
    - Each Agreement provides a commitment for an indefinite time period for a maximum amount of \$200 billion for each GSE
    - Freddie Mac has received a total of \$50.7 billion
      - Paid dividends of \$1.7 billion in cash on the senior preferred stock
      - The corresponding annual cash dividends payable to Treasury are \$5.2 billion, which exceeds our annual historical earnings in most periods
  - » Created a GSE Credit Facility
    - Short-term credit facility is available to Freddie Mac, Fannie Mae and the Federal Home Loan Banks at LIBOR + 50 basis points
    - As of June 30, 2009, we had not borrowed funds using the credit facility which is set to expire on December 31, 2009
  - » Implemented an MBS Purchase Program
    - Purchased \$176.0 billion of GSE mortgage-backed securities as of September 30, 2009
    - Program will expire on December 31, 2009
- The Fed resumed purchases of Agency securities for its System Open Market Account (SOMA) for the first time since 1981
  - » Fed may purchase up to \$200 billion in Agency debt securities, and had purchased a total of \$14.5 billion of Agency discount notes and \$139.8 billion of Agency long-term debt securities as of October 16, 2009
  - » Fed may purchase up to \$1.25 trillion of Agency MBS, and had purchased \$941.0 billion<sup>1</sup> of Agency MBS as of October 16, 2009
  - » Fed announced it will gradually slow the pace of purchases under the program and anticipates that these purchases will be executed by the end of the first quarter of 2010

<sup>1</sup> Represents the amount purchased net of sales.

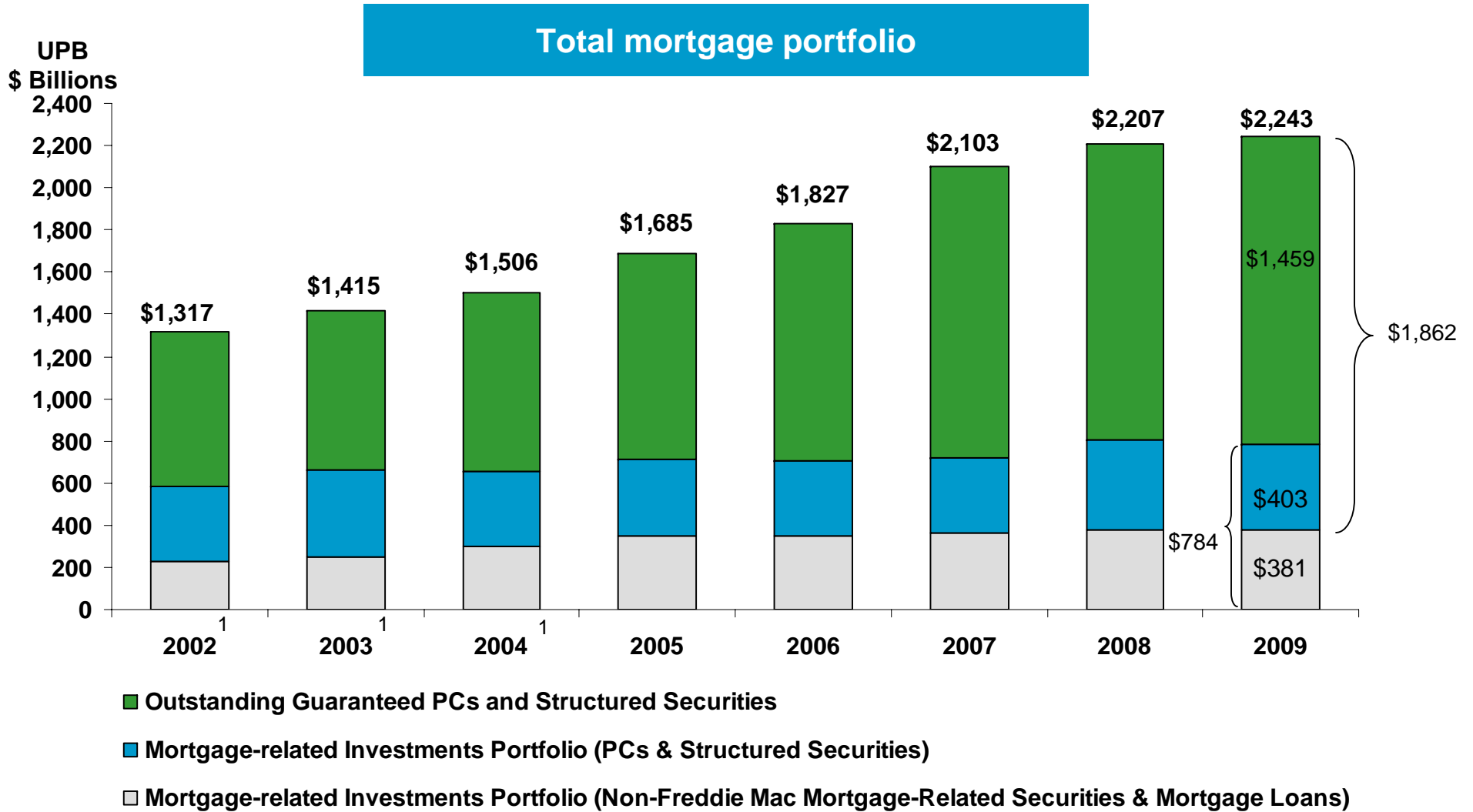
## Making Home Affordable Program

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- On February 18, 2009, President Obama announced the Making Home Affordable (MHA) Program designed to help in the housing recovery, promote liquidity and housing affordability, expand our foreclosure prevention efforts and set market standards. Key components of the plan are:
  - » **Home Affordable Refinance** gives eligible homeowners with loans owned or guaranteed by Freddie Mac or Fannie Mae an opportunity to refinance into more affordable monthly payments
  - » **Home Affordable Modification Program (HAMP)** commits U.S. government, Freddie Mac and Fannie Mae funds to avoid foreclosure and keep eligible homeowners in their homes

## **Business Activities**

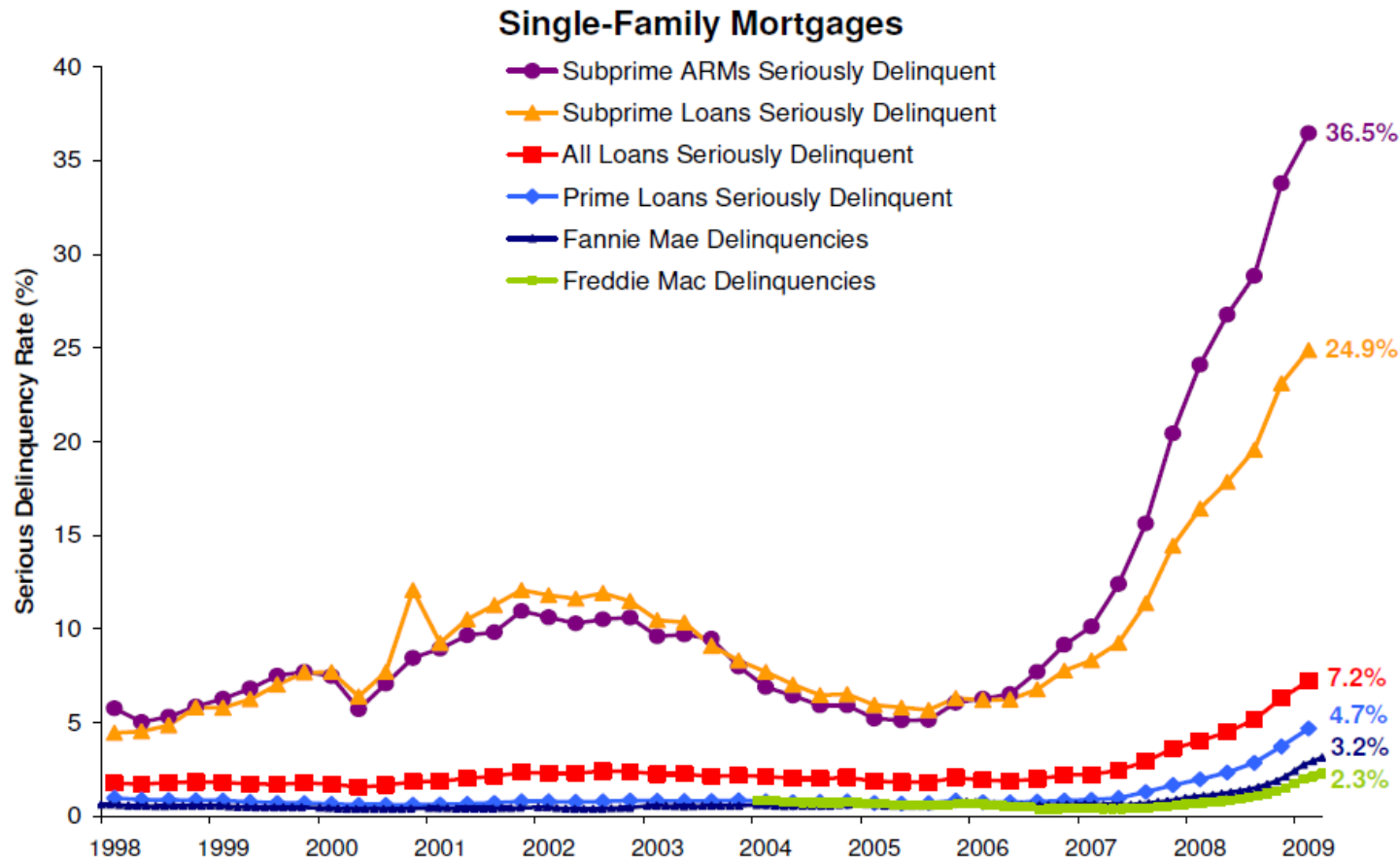
# Our credit guarantee business has accounted for most of our growth



<sup>1</sup> Includes PCs and Structured Securities Freddie Mac held in connection with PC market-making and support activities accomplished through the Securities Sales & Trading Group business unit and the Money Manager program. These programs ceased in the fourth quarter of 2004.

Source: Freddie Mac. Figures for 2009 are subject to change. 2009 data as of September 30, 2009.

# Serious delinquencies continue to rise

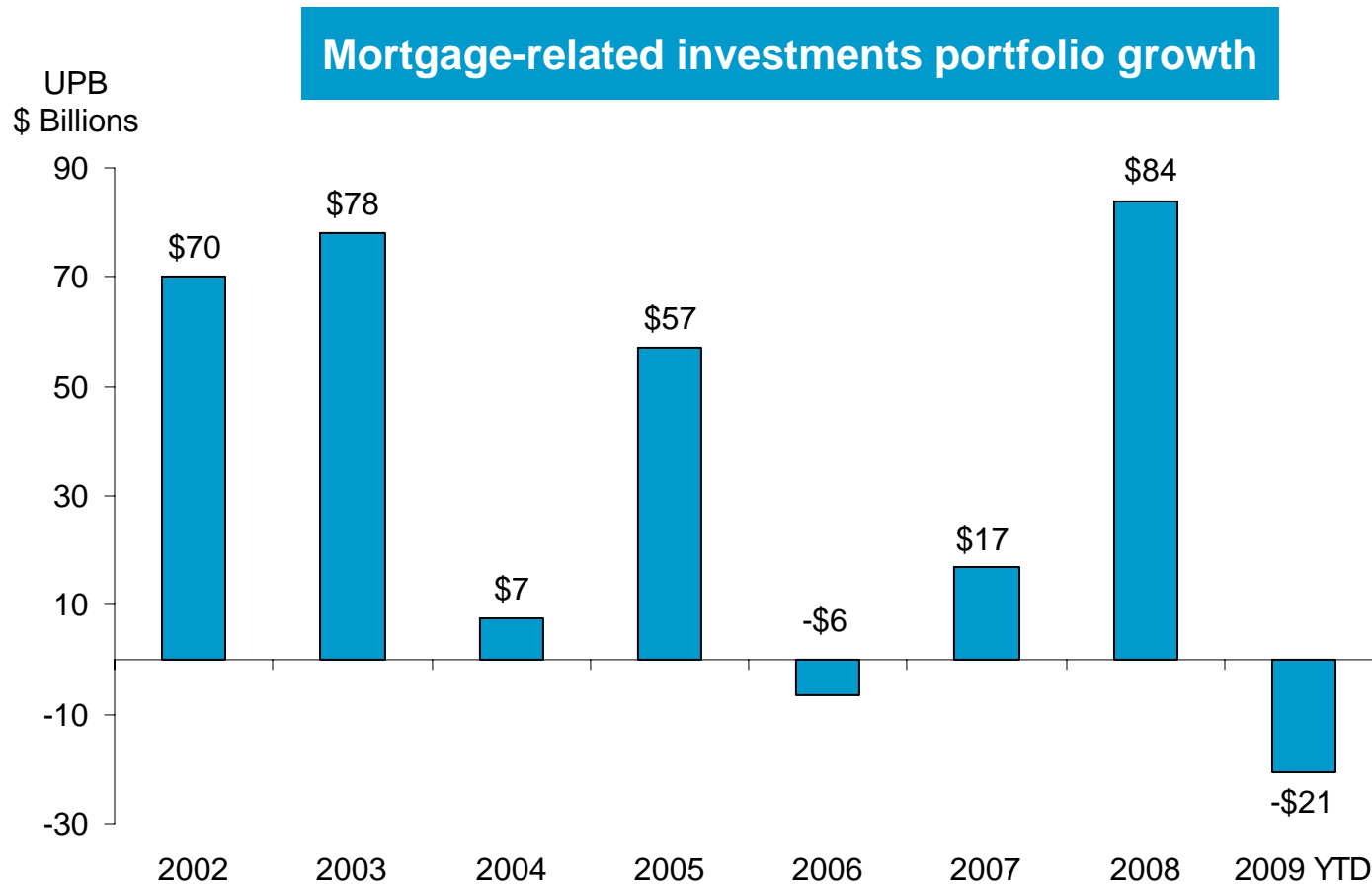


Sources: Inside Mortgage Finance, Enterprise Monthly Volume Summaries.

June 3, 2009

Testimony of James B. Lockhart III, Director FHFA

# Mortgage-related investments portfolio growth depends on market conditions and is subject to growth cap<sup>1</sup>



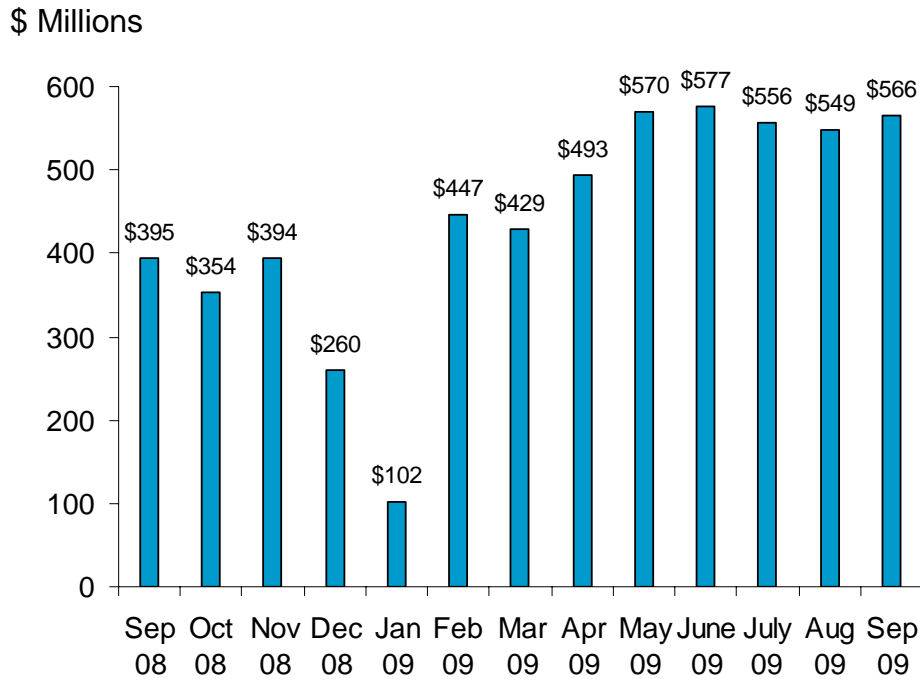
<sup>1</sup> Under FHFA regulation and the Senior Preferred Stock Purchase Agreement with Treasury, our mortgage-related investments portfolio may not exceed \$900 billion as of December 31, 2009 and then must decline by 10% per year thereafter until it reaches \$250 billion. The first of the annual 10% portfolio reductions is effective on December 31, 2010 and will be calculated relative to the actual balance of our mortgage-related investments portfolio on December 31, 2009. The Purchase Agreement also limits the amount of indebtedness we may incur.

Note: Data represents net growth of the mortgage-related investments portfolio based on unpaid principal balances.

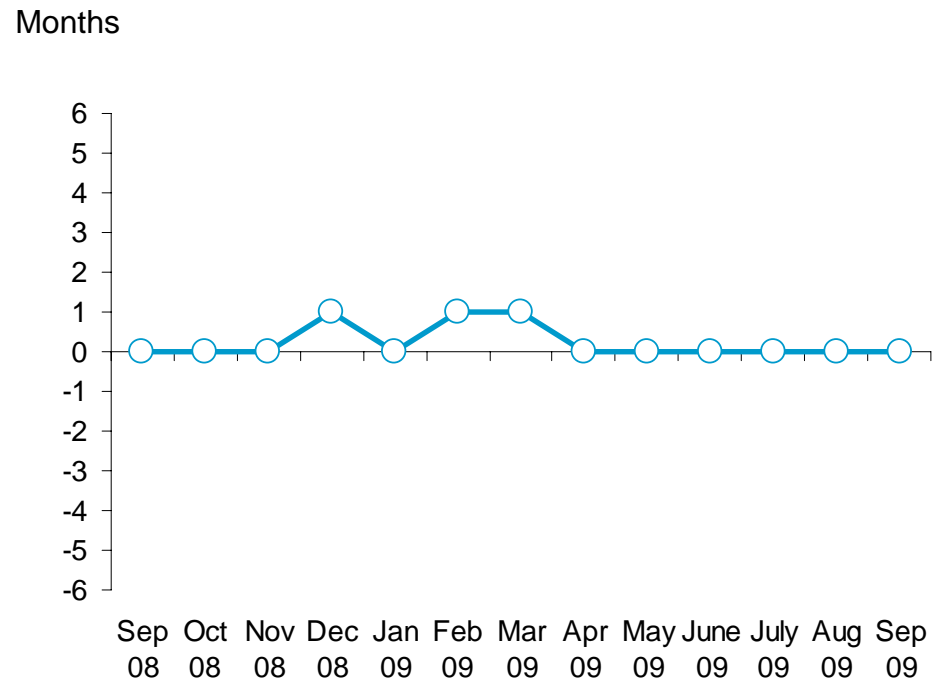
Source: Freddie Mac. Data as of September 30, 2009. Figures for 2009 are subject to change.

# Interest-rate risk measures

**Average monthly PMVS-Level**



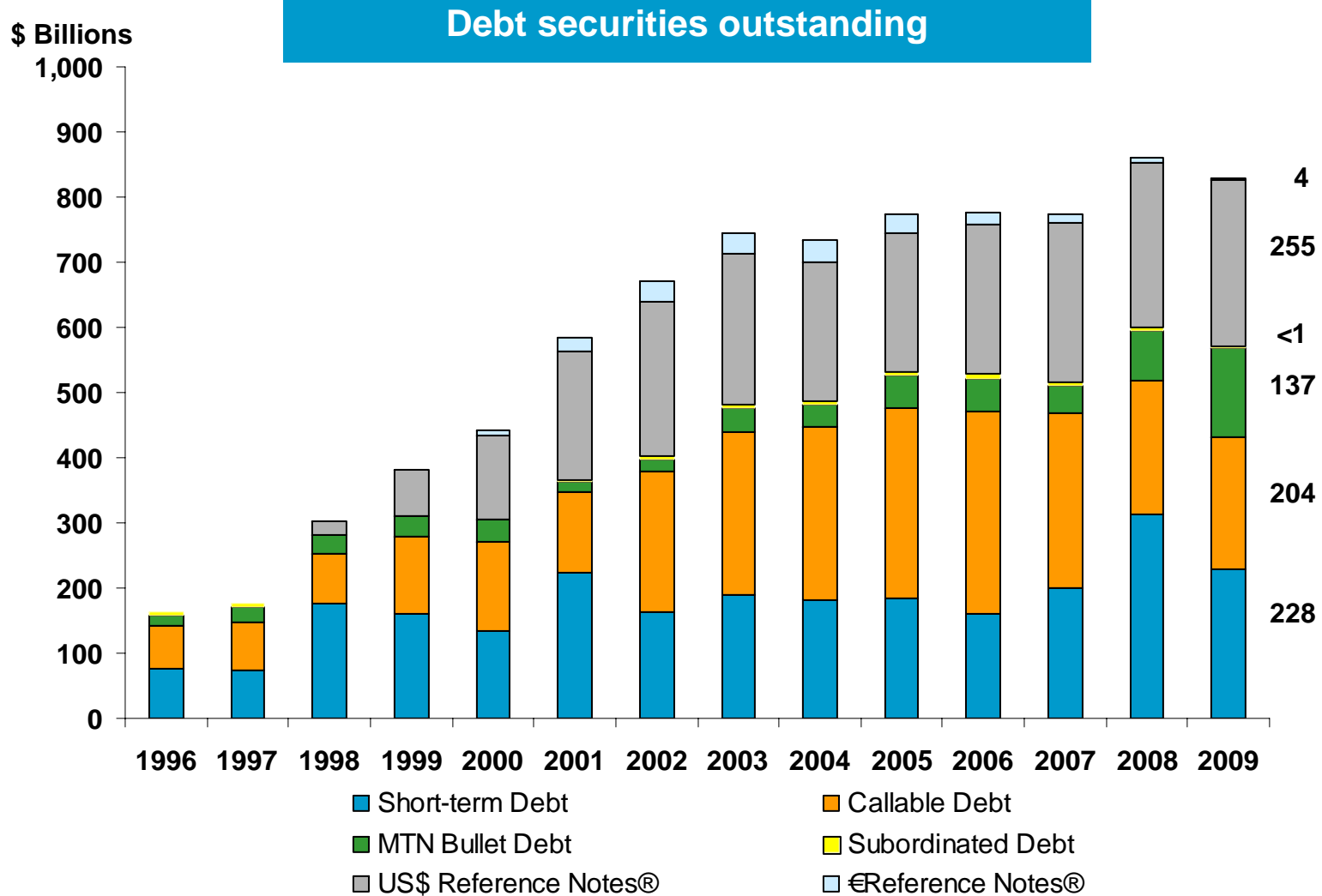
**Average monthly duration gap**



Source: Freddie Mac. Figures provided for 2009 are subject to change.

## **Freddie Mac Global Debt Securities**

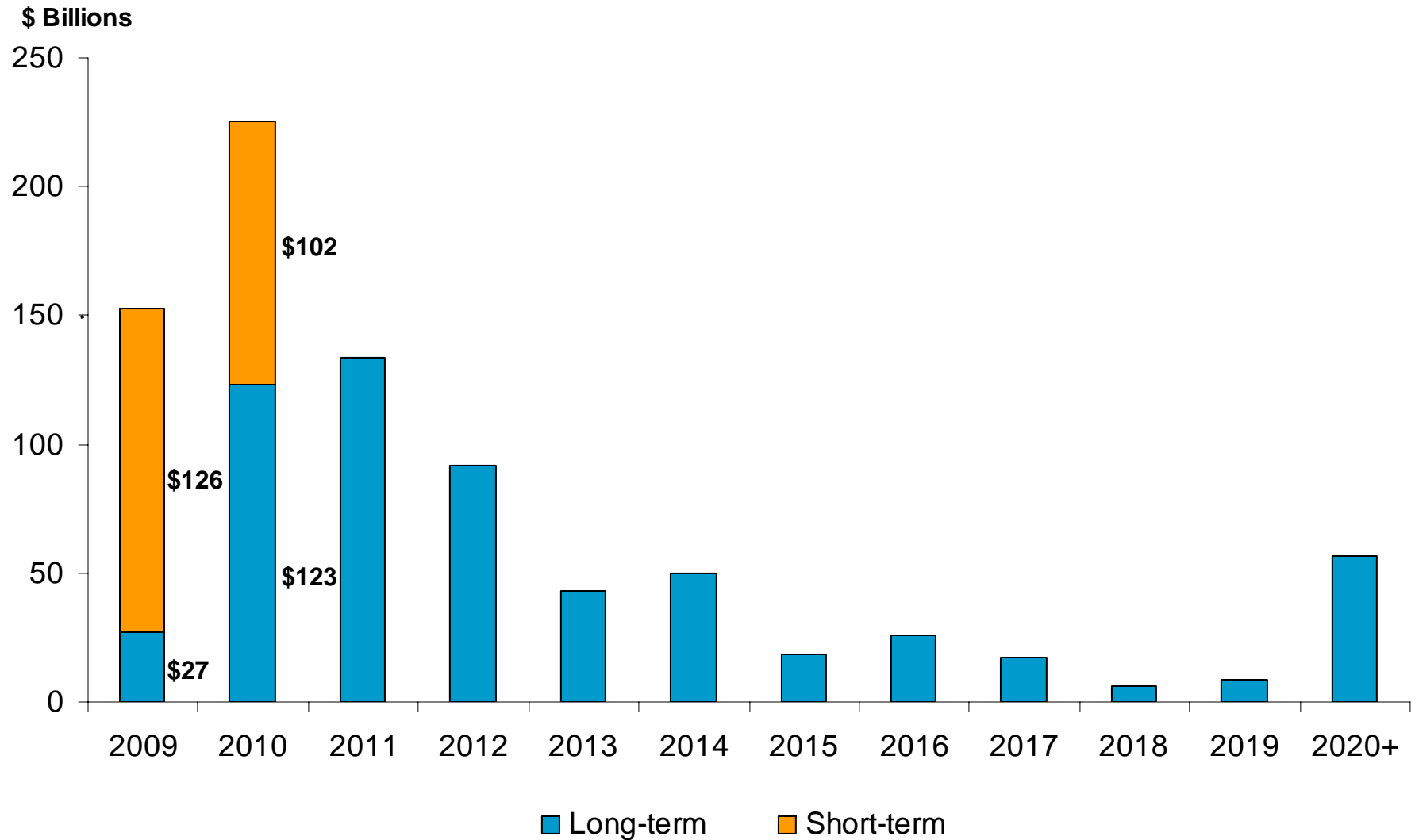
## Freddie Mac's suite of debt products



Note: All figures represent face amounts in USD billions based on trade date. These figures could differ significantly from proceeds, amortized principal amount and book value figures, particularly for zero-coupon securities.

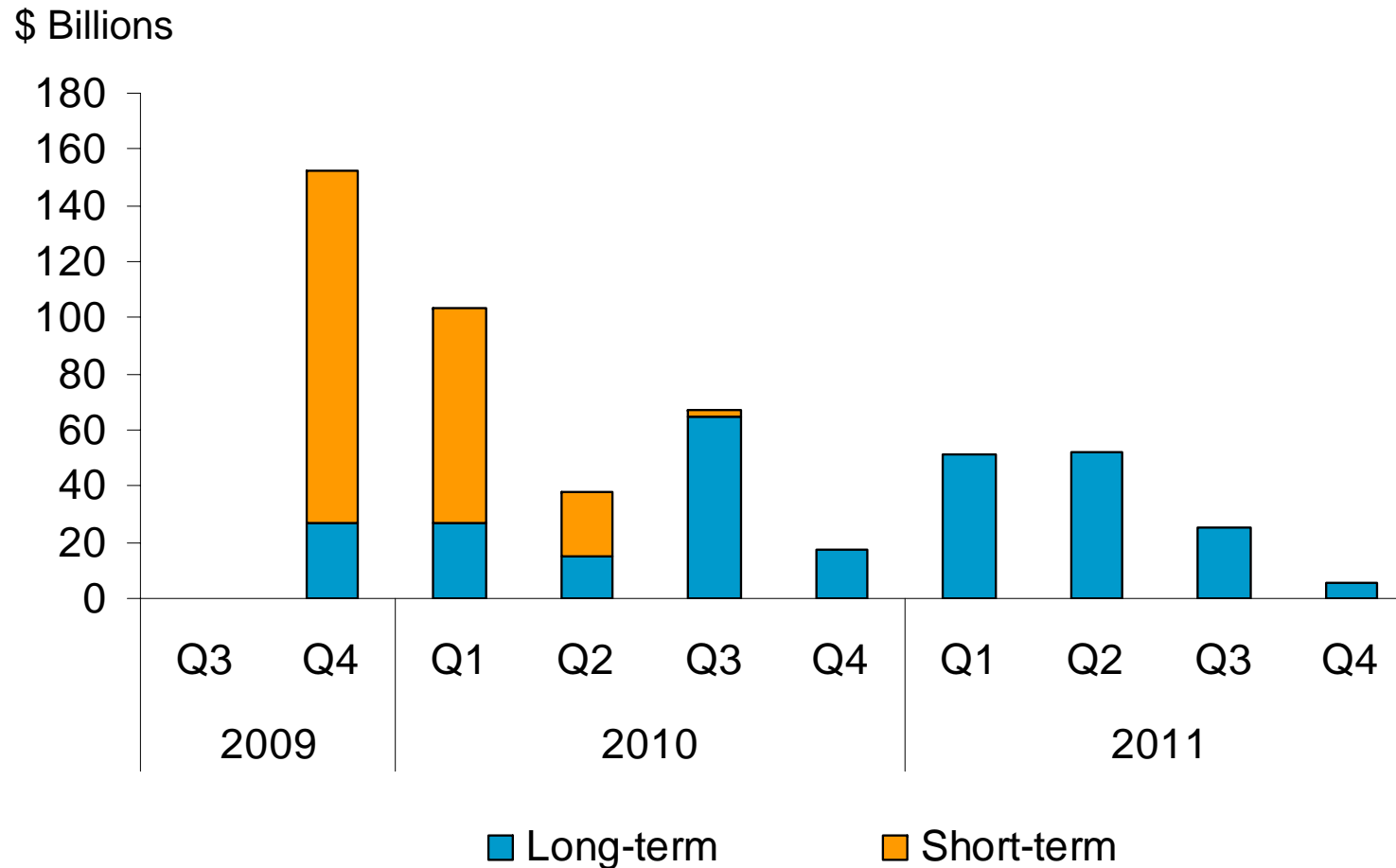
Source: Freddie Mac. 2009 data as of September 30, 2009.

## Debt maturity profile



Note: Outstanding balance using par amounts.  
 Source: Freddie Mac. Data as of September 30, 2009.

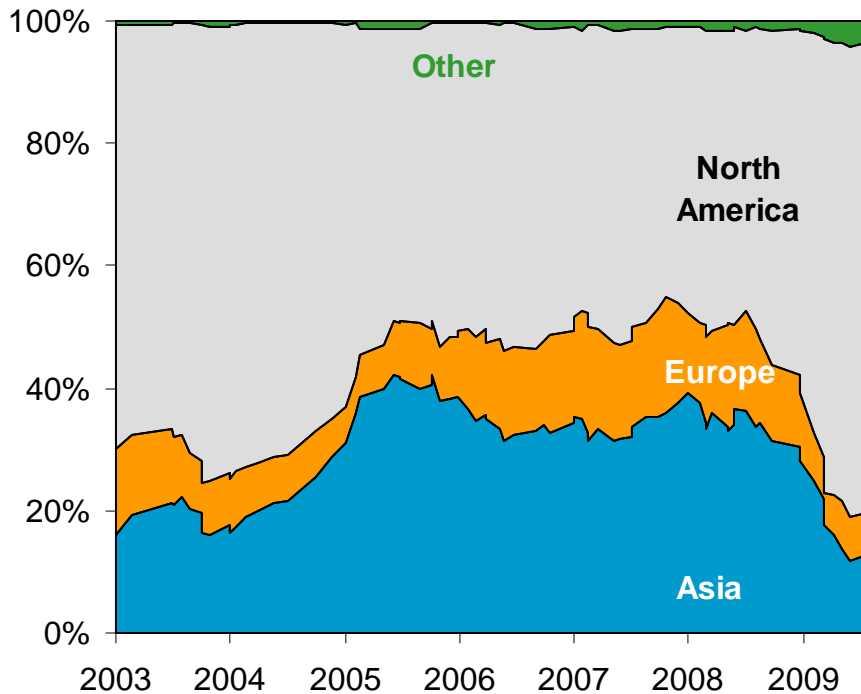
## Debt maturity profile by quarter



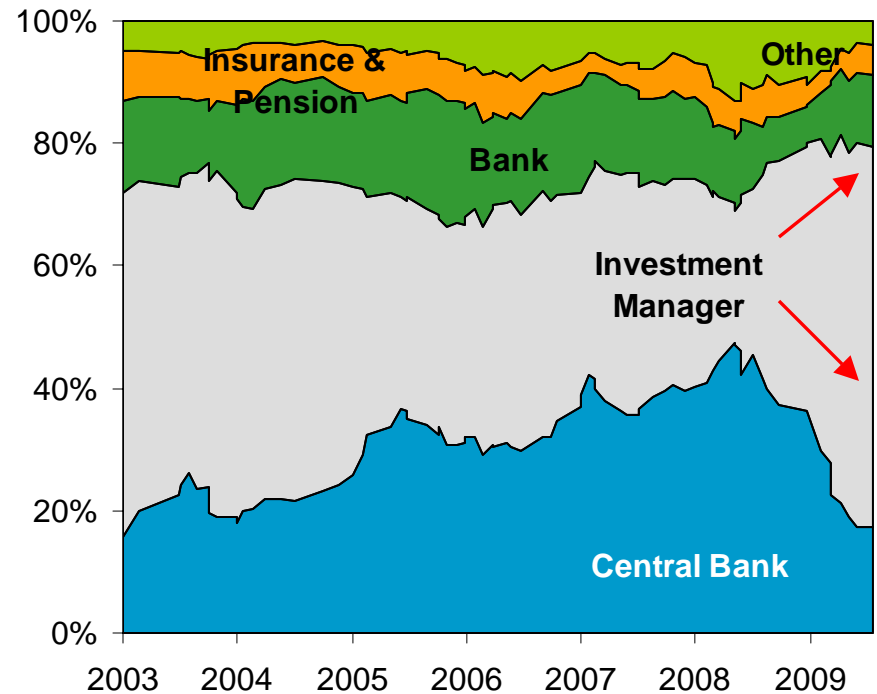
Note: Outstanding balance using par amounts.  
 Source: Freddie Mac. Data as of September 30, 2009.

# Increased domestic institutional investor demand has offset decreased foreign demand for our Reference Notes® securities

## Geographic region



## Investor type

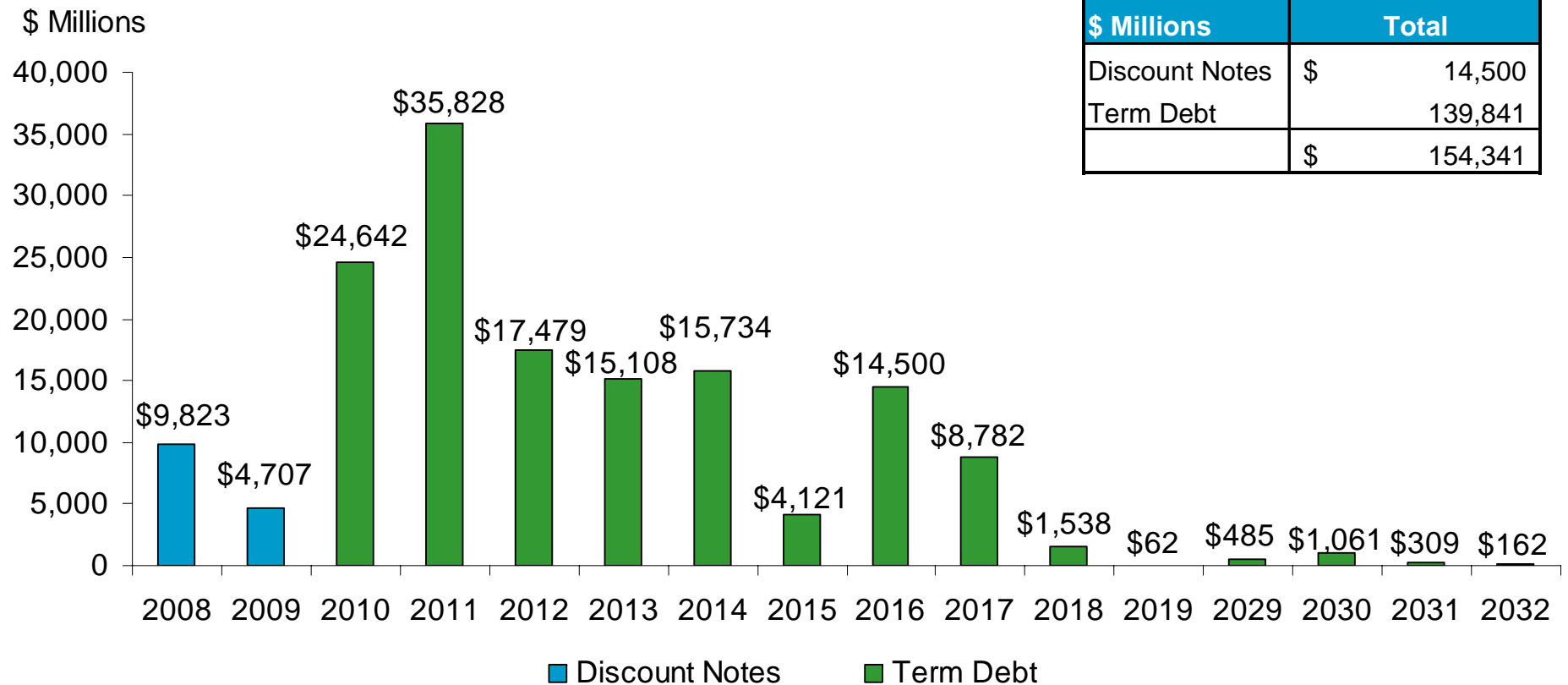


Note: Data reflects 6-month moving average of orders placed in our US\$ Reference Notes® securities syndicated bond offerings.

Source: Freddie Mac. Data as of September 30, 2009.

## Fed purchases of Agency debt

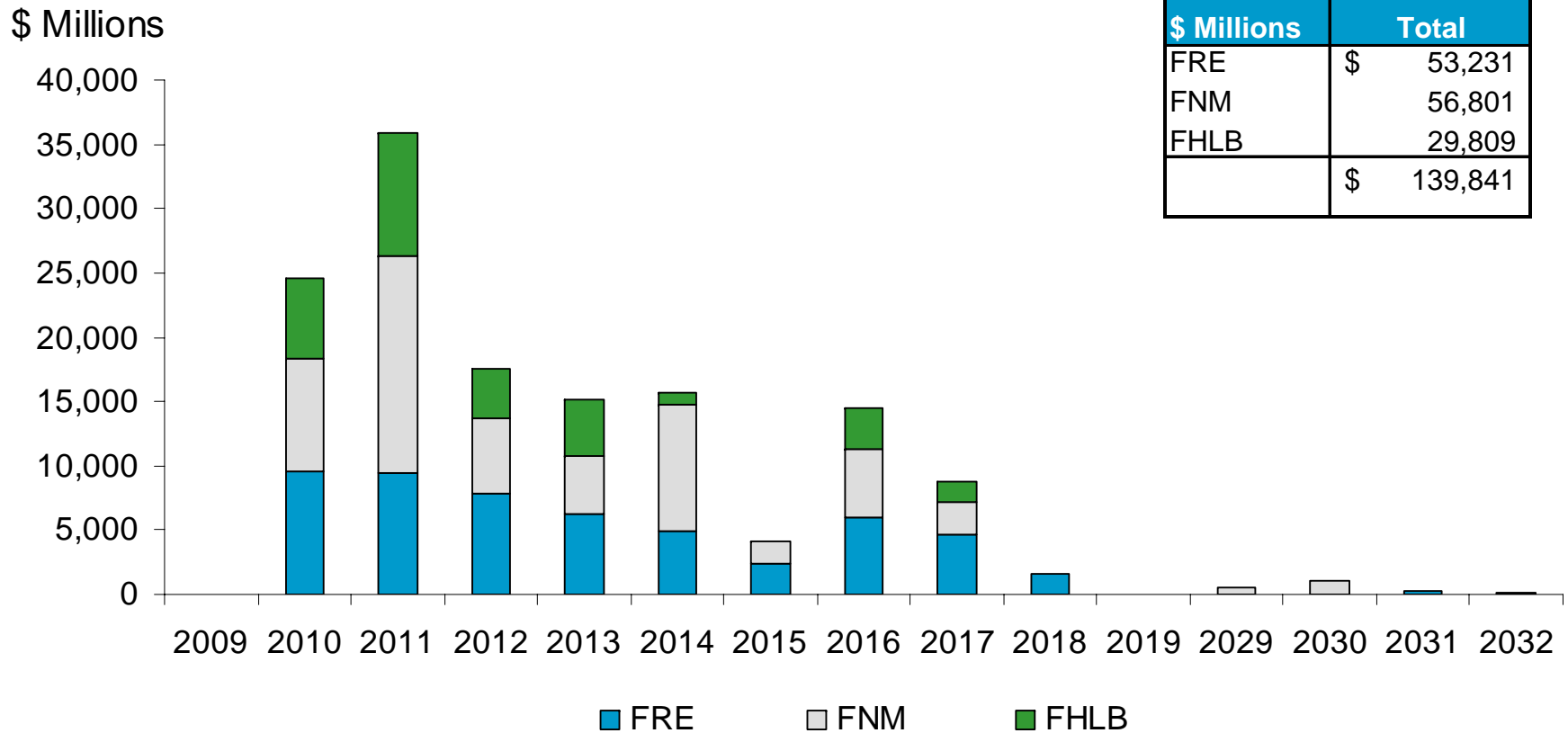
### Purchases by maturity date



\$ Millions	Total
Discount Notes	\$ 14,500
Term Debt	139,841
	\$ 154,341

## Fed purchases of Agency term debt by GSE

### Purchases by maturity date

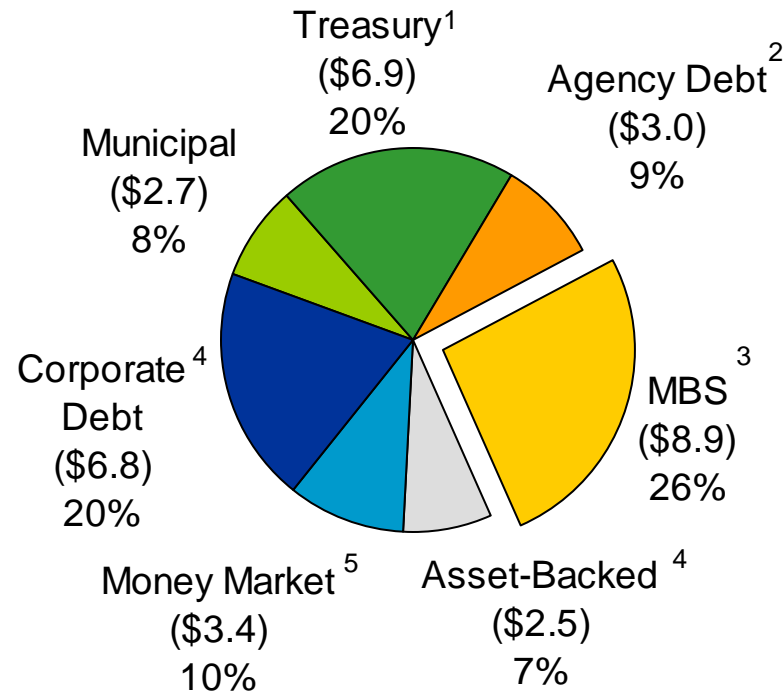


\$ Millions	Total
FRE	\$ 53,231
FNM	56,801
FHLB	29,809
	\$ 139,841

# Freddie Mac Mortgage Securities

## U.S. mortgage securities are the largest fixed-income sector

### Outstanding public and private bond market debt – \$34.3 Trillion



<sup>1</sup> Interest-bearing marketable public debt.

<sup>2</sup> Includes Freddie Mac, Fannie Mae, Federal Home Loan Banks, Tennessee Valley Authority and Farm Credit System.

<sup>3</sup> MBS include Ginnie Mae, Fannie Mae and Freddie Mac mortgage-backed securities and CMOs, CMBS and private-label MBS/CMOs.

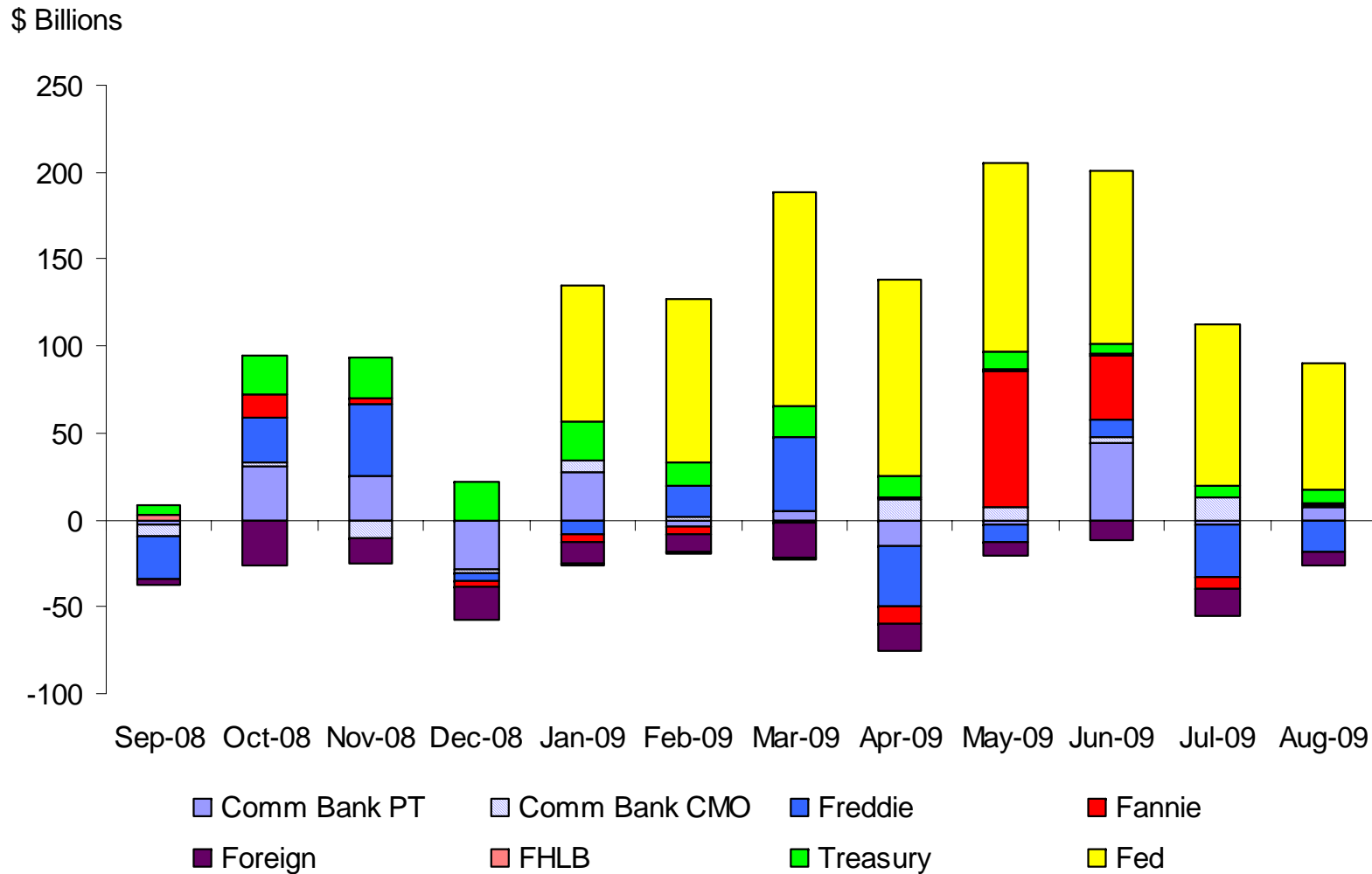
<sup>4</sup> Securities Industry and Financial Markets Association estimates. Includes Auto, Credit Card, Home Equity Loans, Manufacturing, Student Loan and Other. CDOs of ABS are included.

<sup>5</sup> Includes commercial paper, bankers acceptances and large time deposits.

Note: Percentages may not add up to 100% due to rounding.

Source: Securities Industry and Financial Markets Association as of June 30, 2009.

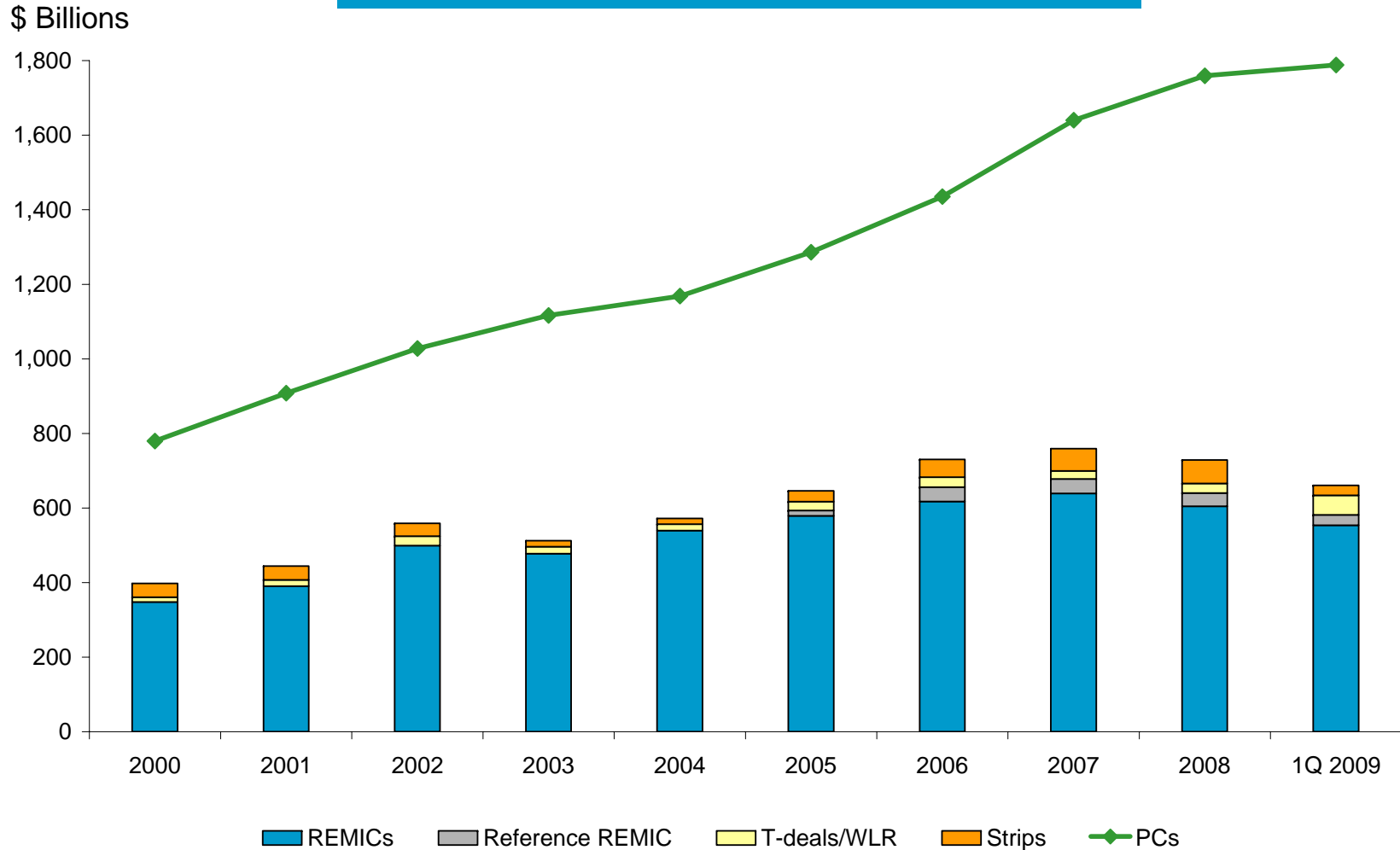
## Demand for Agency mortgage securities



Source: Federal Reserve Board; Freddie Mac and Fannie Mae Monthly Volume Summaries, Treasury International Capital Data, Federal Home Loan Banks, US Treasury Department, Federal Reserve Bank of New York. Data as of October 23, 2009.

# Freddie Mac's mortgage securities products

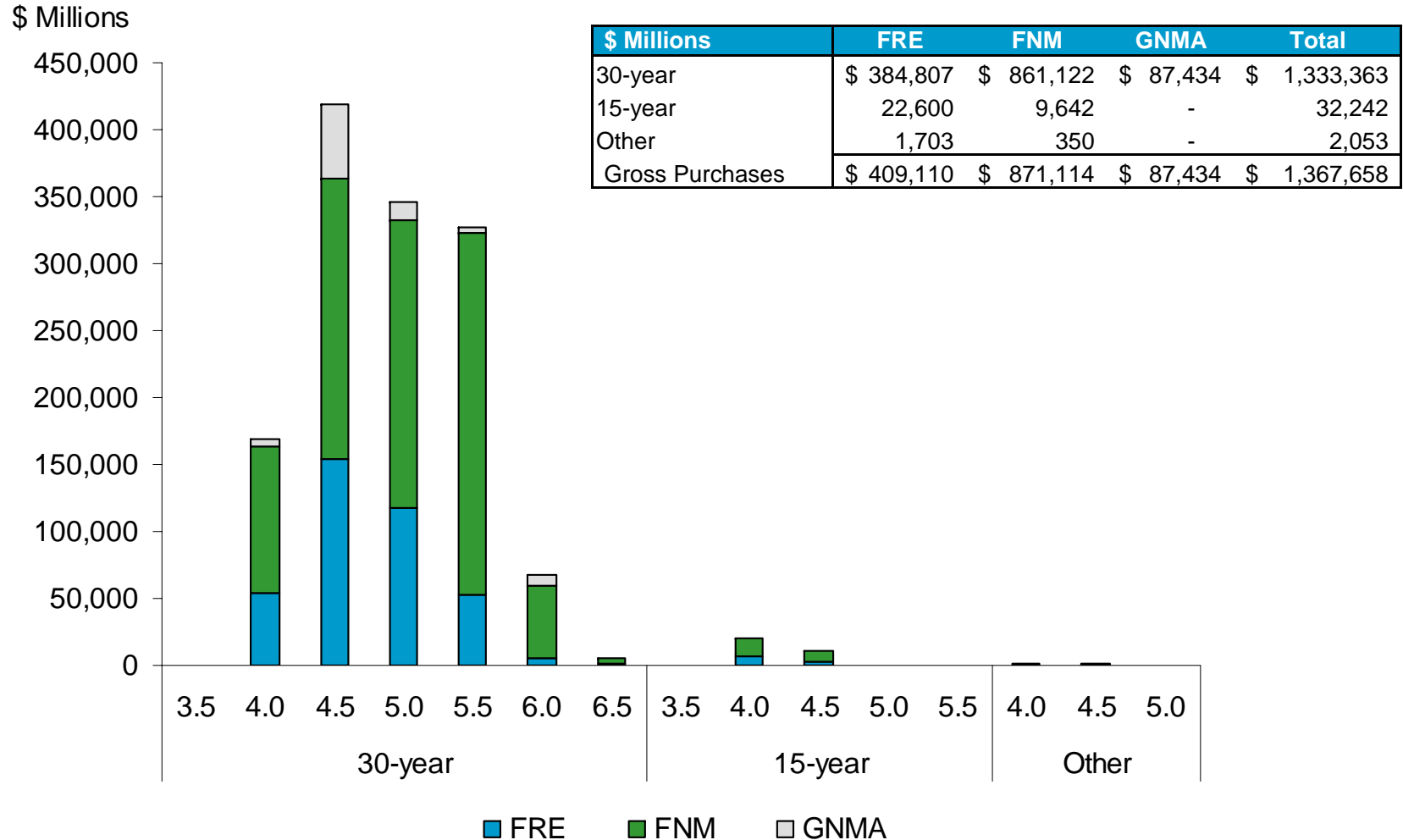
## Mortgage securities products outstanding



Source: Freddie Mac. Data as of September 30, 2009.

## Fed purchases of Agency MBS by GSE

### Gross purchases by coupon



Note: Sales of agency MBS, including sales associated with dollar rolls, by investment managers acting as agents for the System Open Market Account (SOMA) have totaled \$426,633 million.

Source: Federal Reserve Bank of New York. Data as of October 14, 2009.

## Safe Harbor Statements

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Freddie Mac's presentations may contain forward-looking statements pertaining to Freddie Mac's business and future business plans, liquidity, capital management, economic and market conditions and trends, market share, credit losses and credit-related expenses, returns on investments, results of operations and/or financial condition. Management's expectations for the company's future necessarily involve a number of assumptions, judgments and estimates, and various factors, including changes in market conditions, liquidity, mortgage-to-debt OAS, credit outlook, actions taken by FHFA, the Federal Reserve and Treasury, and the impacts of newly enacted legislation or regulations and new or amended accounting standards, could cause actual results to differ materially from these expectations. These assumptions, judgments, estimates and factors are discussed in the company's filings with the SEC, including its Annual Report on Form 10-K for the year ended December 31, 2008, which are available on the Investor Relations page of the company's Web site at [www.FreddieMac.com/investors](http://www.FreddieMac.com/investors) and the SEC's Web site at [www.sec.gov](http://www.sec.gov). The company undertakes no obligation to update forward-looking statements it makes to reflect events or circumstances after the date of this presentation or to reflect the occurrence of unanticipated events.