The US Housing Market Crisis and Its Aftermath

Asian Development Bank

November 16, 2009
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U.S. Economy and the Housing Market
U.S. nominal house prices have declined sharply

Annual national house price growth

Percent
4.7%: 1952-2008
Average Growth Rate

- Recession Year


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

45 States and Washington, DC had home price declines from June 2008 to June 2009\(^1\)

United States –8.3%

1 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.

Source: Freddie Mac.
National home prices have experienced a cumulative decline of 16.8% since June 2006\(^1\)

\(^1\) 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.

Source: Freddie Mac.
U.S. unemployment rate rose to 9.8% in September, the highest in more than 26 years.
Single-family mortgage debt in relation to total value of housing stock

Value of Housing Stock¹

Home Equity

Single-family Mortgage Debt ²

¹ 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.

² 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®
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

One-Family Housing Starts (thousands of units, SAAR)

Sources: Bureau of Census (SAAR), Freddie Mac
Higher refinances expected to increase mortgage originations in 2009

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

Number of First Mortgages Outstanding (in millions)

- **Private Label Securities**: 13%
- **Fannie Mae**: 34%
- **Freddie Mac**: 23%
- **Bank and Thrift Portfolios**: 17%
- **FHA & VA**: 12%
- **Other Portfolio**: 1%

**Total: 53 Million**

Seriously Delinquent Mortgages (in millions)

- **Private Label Securities**: 1.47
- **Fannie Mae**: 0.72
- **Banks & Thrifts**: 0.63
- **FHA & VA**: 0.42
- **Freddie Mac**: 0.36

**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
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.”

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

U.S. Residential Mortgage Debt Outstanding

2008

- FRE/FNM Total Portfolio: $5.3 Trillion
- FRE/FNM Eligible: $10.4 Trillion
- Total US Residential Mortgages: $11.9 Trillion

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

- 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\(^1\) 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

\(^1\) Represents the amount purchased net of sales.
Making Home Affordable Program

- 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

Total mortgage portfolio

UPB $ Billions
$2,400
$2,200
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
0

2002 2003 2004 2005 2006 2007 2008 2009

$1,317 $1,415 $1,506 $1,685 $1,827 $2,103 $2,207 $2,243

- Outstanding Guaranteed PCs and Structured Securities
- Mortgage-related Investments Portfolio (PCs & Structured Securities)
- Mortgage-related Investments Portfolio (Non-Freddie Mac Mortgage-Related Securities & Mortgage Loans)

1 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

Single-Family Mortgages
- Subprime ARMs Seriously Delinquent
- Subprime Loans Seriously Delinquent
- All Loans Seriously Delinquent
- Prime Loans Seriously Delinquent
- Fannie Mae Delinquencies
- Freddie Mac Delinquencies

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\(^1\)

**Mortgage-related investments portfolio growth**

\[\text{UPB} \text{ $ Billions}\]

- 2002: $70
- 2003: $78
- 2004: $7
- 2005: $57
- 2006: -$6
- 2007: $17
- 2008: $84
- 2009 YTD: -$21

\(^1\) 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

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>Sep 08</th>
<th>Oct 08</th>
<th>Nov 08</th>
<th>Dec 08</th>
<th>Jan 09</th>
<th>Feb 09</th>
<th>Mar 09</th>
<th>Apr 09</th>
<th>May 09</th>
<th>Jun 09</th>
<th>Jul 09</th>
<th>Aug 09</th>
<th>Sep 09</th>
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<tr>
<td>$395</td>
<td>$394</td>
<td>$260</td>
<td>$102</td>
<td>$447</td>
<td>$429</td>
<td>$493</td>
<td>$570</td>
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<td>$556</td>
<td>$549</td>
<td>$566</td>
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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.

Debt maturity profile

Note: Outstanding balance using par amounts.
Debt maturity profile by quarter

Note: Outstanding balance using par amounts.
Increased domestic institutional investor demand has offset decreased foreign demand for our Reference Notes® securities.

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

Fed purchases of Agency debt

Purchases by maturity date

$ Millions

Discount Notes
Term Debt

Total

$14,500

$139,841

$154,341

Fed purchases of Agency term debt by GSE

Purchases by maturity date

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>Total</th>
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<tbody>
<tr>
<td>FRE</td>
<td>$53,231</td>
</tr>
<tr>
<td>FNM</td>
<td>$56,801</td>
</tr>
<tr>
<td>FHLB</td>
<td>$29,809</td>
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<td>$139,841</td>
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Freddie Mac Mortgage Securities
U.S. mortgage securities are the largest fixed-income sector

Outstanding public and private bond market debt – $34.3 Trillion

- Treasury ($6.9) 20%
- Agency Debt ($3.0) 9%
- MBS ($8.9) 26%
- Corporate Debt ($6.8) 20%
- Municipal ($2.7) 8%
- Money Market ($3.4) 10%
- Asset-Backed ($2.5) 7%
- Note: Percentages may not add up to 100% due to rounding.


1 Interest-bearing marketable public debt.
2 Includes Freddie Mac, Fannie Mae, Federal Home Loan Banks, Tennessee Valley Authority and Farm Credit System.
3 MBS include Ginnie Mae, Fannie Mae and Freddie Mac mortgage-backed securities and CMOs, CMBS and private-label MBS/CMOs.
4 Securities Industry and Financial Markets Association estimates. Includes Auto, Credit Card, Home Equity Loans, Manufacturing, Student Loan and Other. CDOs of ABS are included.
5 Includes commercial paper, bankers acceptances and large time deposits.

Note: Percentages may not add up to 100% due to rounding.
Demand for Agency mortgage securities

Freddie Mac’s mortgage securities products

Mortgage securities products outstanding

$ Billions

REMICs
Reference REMIC
T-deals/WLR
Strips
PCs

Fed purchases of Agency MBS by GSE

Gross purchases by coupon

<table>
<thead>
<tr>
<th>$ Millions</th>
<th>FRE</th>
<th>FNM</th>
<th>GNMA</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>30-year</td>
<td>$384,807</td>
<td>$861,122</td>
<td>$87,434</td>
<td>$1,333,363</td>
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<tr>
<td>15-year</td>
<td>22,600</td>
<td>9,642</td>
<td>-</td>
<td>32,242</td>
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<tr>
<td>Other</td>
<td>1,703</td>
<td>350</td>
<td>-</td>
<td>2,053</td>
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<tr>
<td>Gross Purchases</td>
<td>$409,110</td>
<td>$871,114</td>
<td>$87,434</td>
<td>$1,367,658</td>
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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.

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