



Housing and Mortgage Market Outlook

Mastermind Conference Call

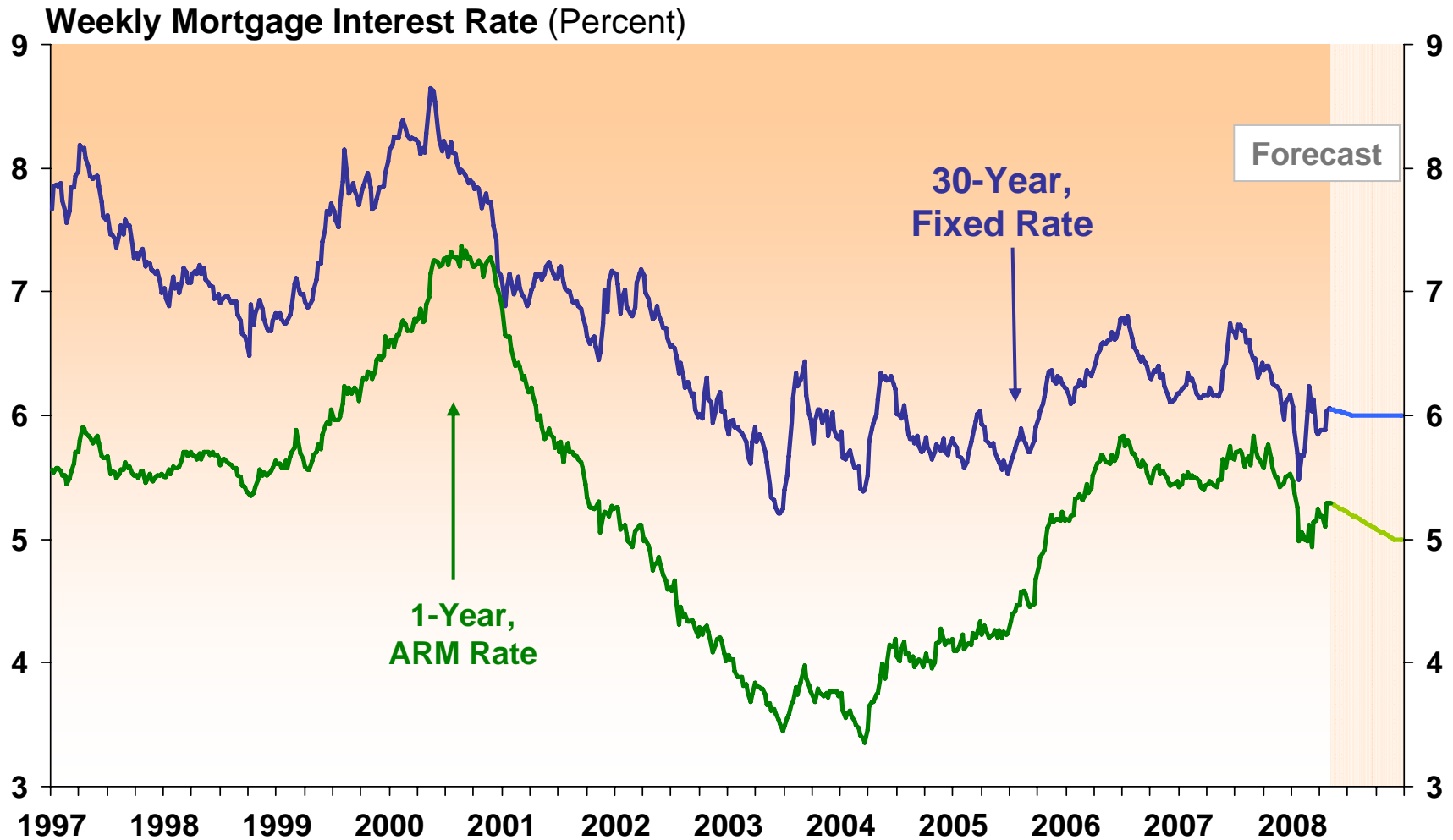
May 21, 2008

Frank E. Nothaft
Chief Economist

Recession Risk, Housing Contraction Worsen

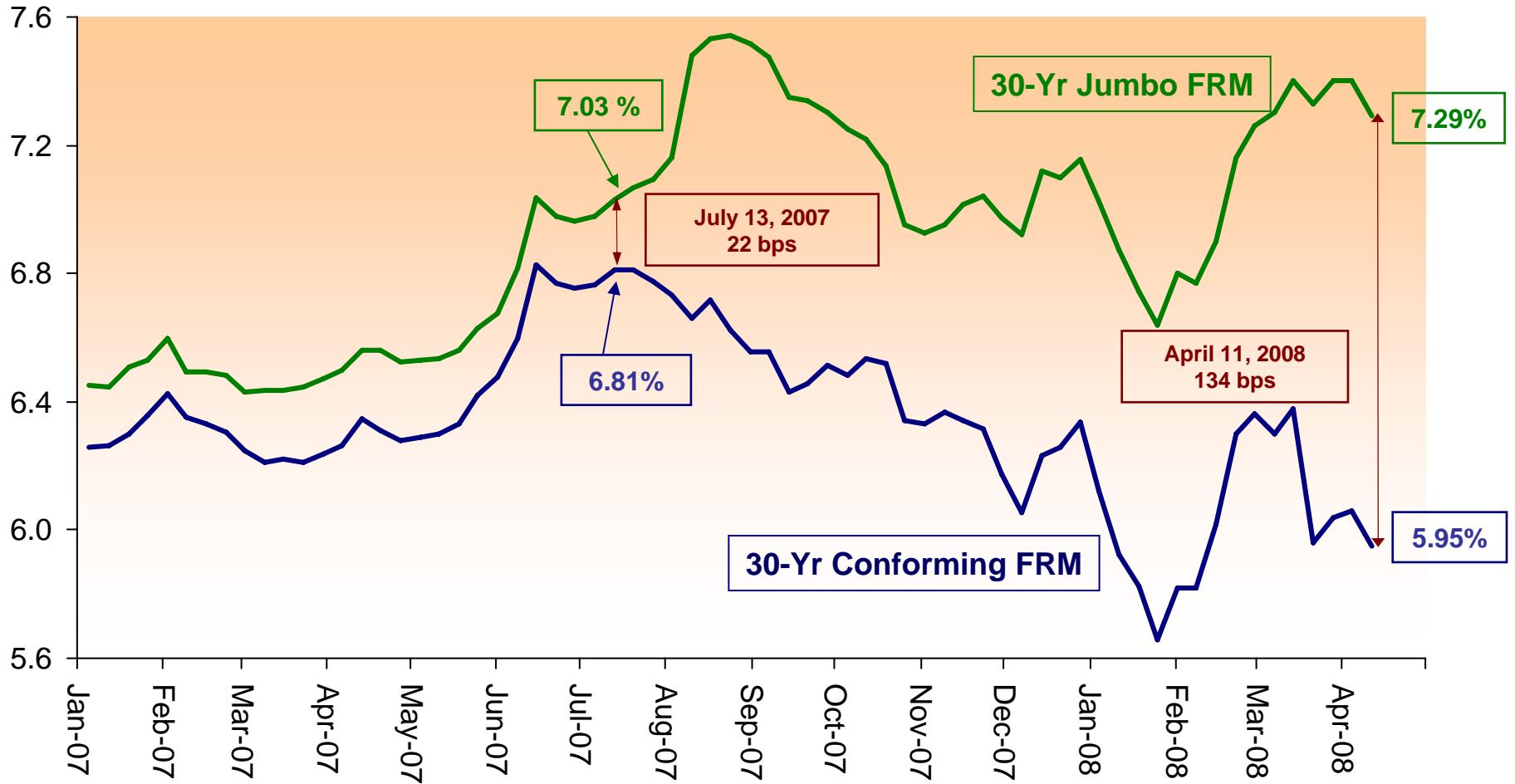
- 1-in-2 chance of recession in 2008
 - Maybe in recession already; fiscal stimulus propels growth in second half: Economic growth 1.5% in 2008
 - Job gain falls short of labor force growth; Unemployment rate up, averages 5.2% in 2008
 - Core inflation at upper end of range preferred by policy makers
 - Less housing starts, sales in 2008; house values down
- Credit quality has deteriorated
 - 2006 and 2007 subprime vintages have high early-payment defaults
 - More than half of foreclosure starts since 2006 were subprime loans
 - Banks have tightened underwriting on both prime and subprime
- Risks to the outlook
 - How much will liquidity constraints affect broader economy?
 - Current liquidity problems affecting jumbo, Alt-A markets as well as subprime
 - Energy: high oil and natural gas prices act like a tax on the economy

Prime Conforming Mortgage Rates Remain Low By Historical Standards



Spread Between 30-Year Fixed Jumbo and Conforming Mortgage Rates Is at A Record High

Effective Interest Rate Between Jumbo and Conforming 30-Year Fixed-Rate Mortgages (Percentage Points)

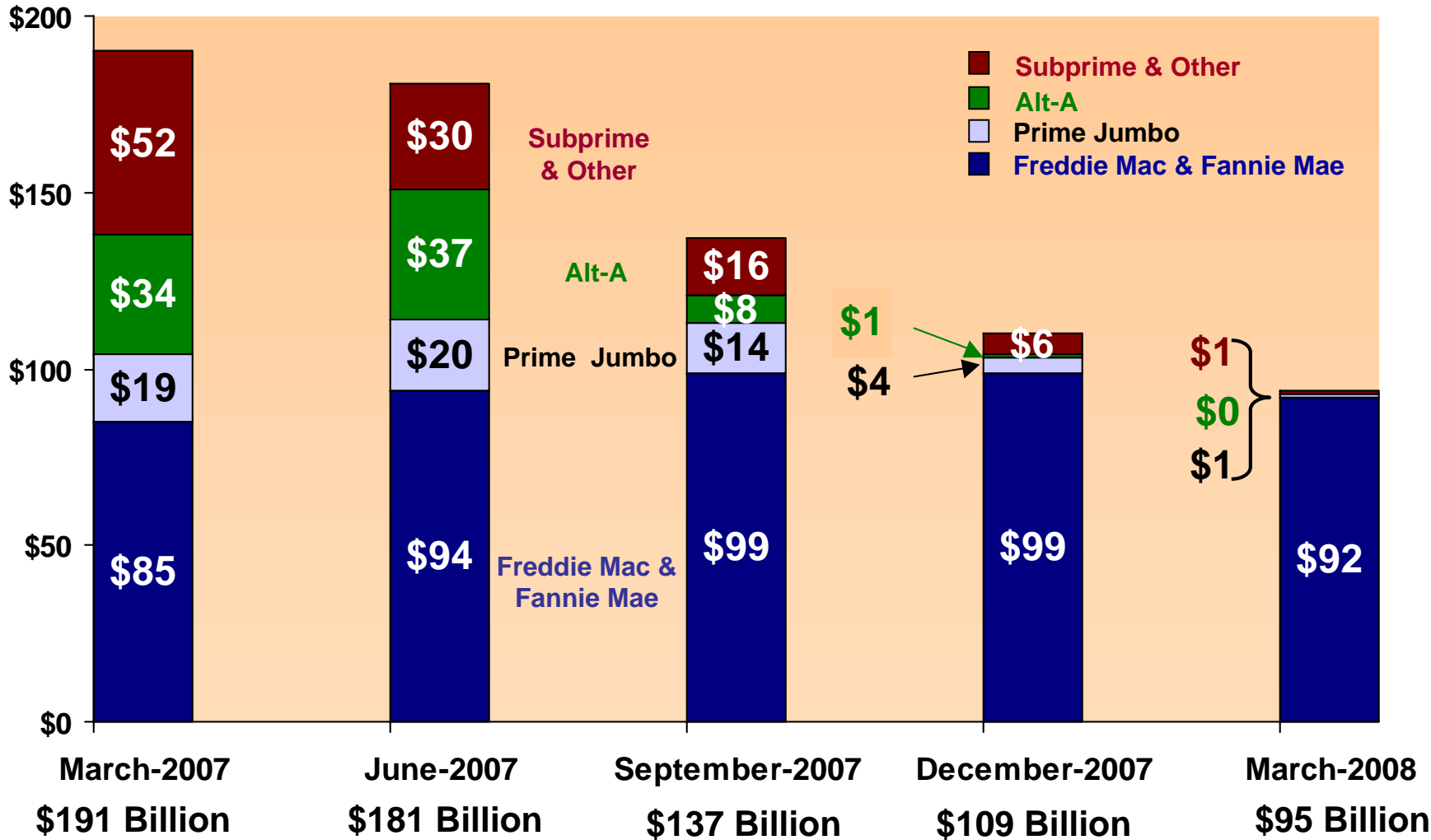


Source: HSH Associates (last data: week ending April 11, 2008)
 Note: Effective rate adds fees and points to the interest rate.

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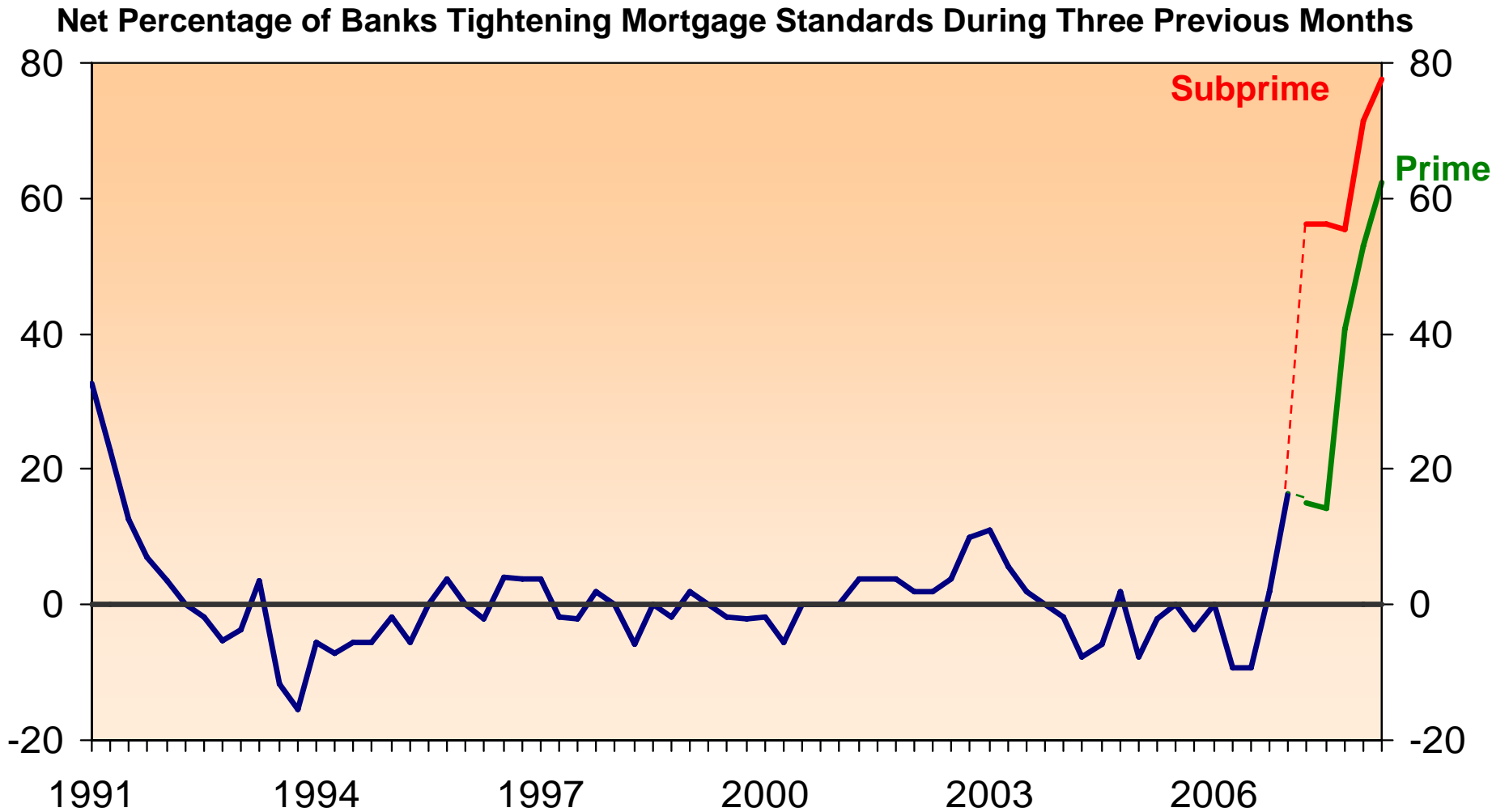
Private-Label Mortgage-Backed Security Issuance Has Fallen Sharply

Dollar Amount of Issuance (Billions)



Source: Inside MBS & ABS

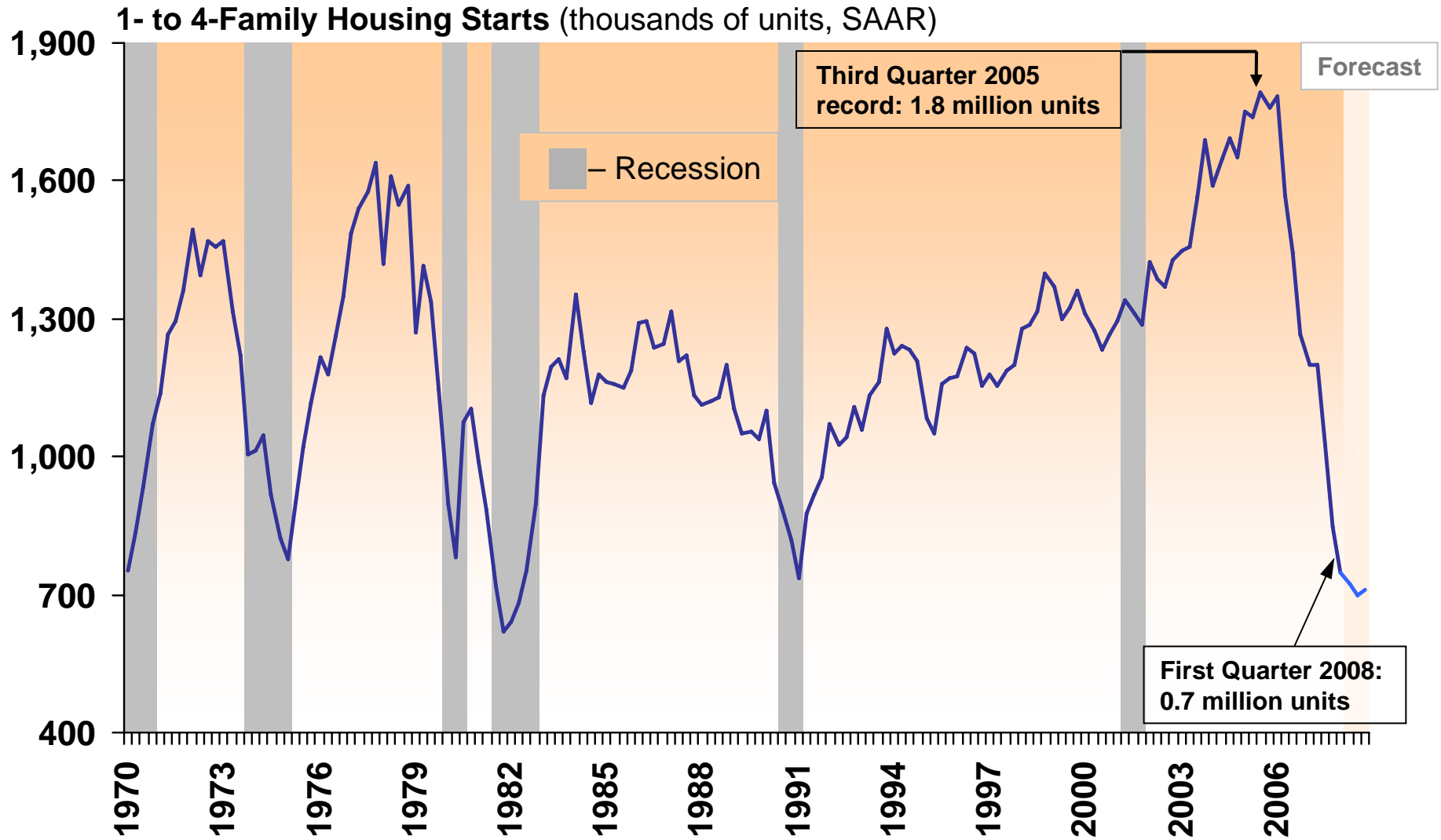
Highest Percentage of Banks Tightening Home Mortgage Standards Since 1990



Source: Federal Reserve Board's Senior Loan Officer Survey
 (Last update: May 5, 2008)

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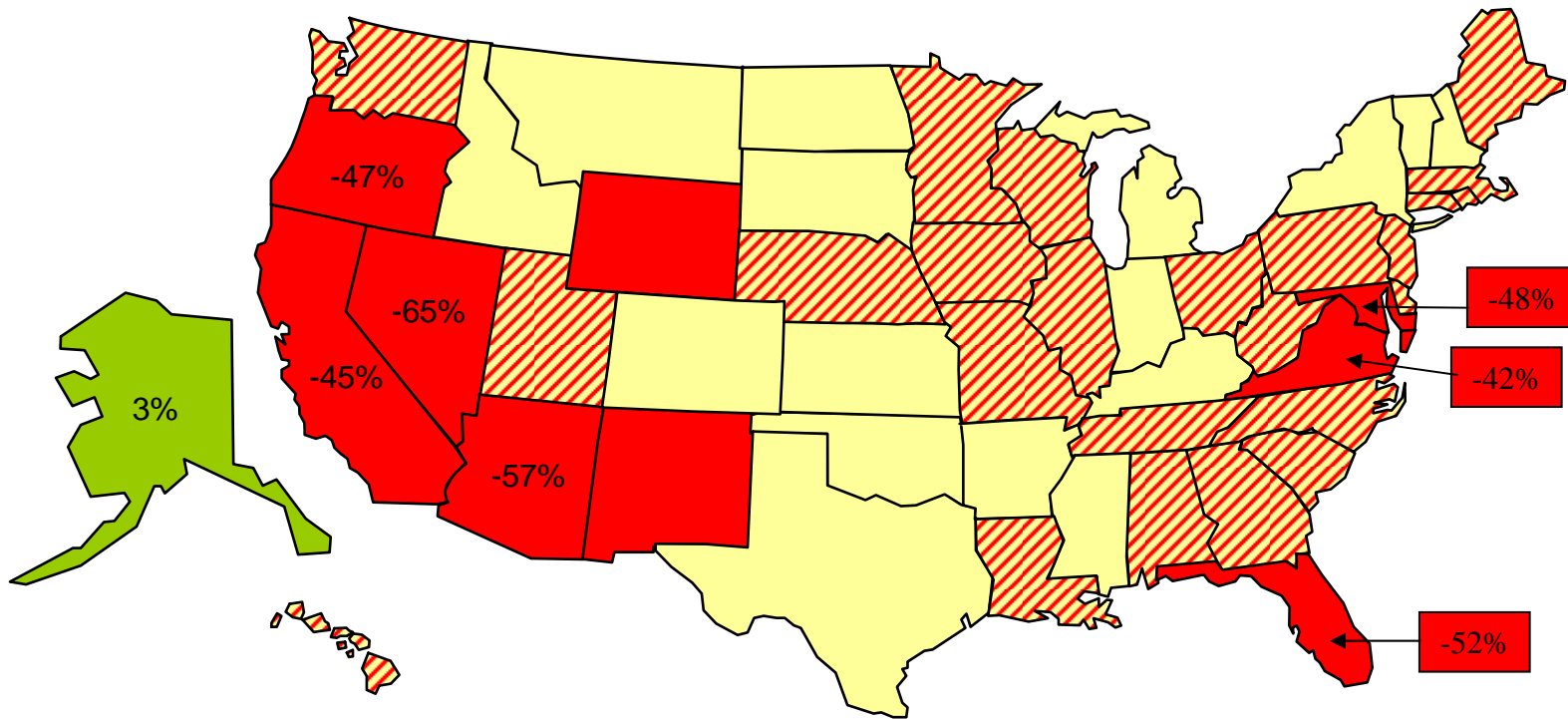
Single-family Building Hit a Record in 2005, but Fell About 60% Since Then



Sources: Bureau of Census, Freddie Mac

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Existing Home Sales Are Down Everywhere (except Alaska)



*Percent change in existing home sales
Fourth quarter 2005 through Fourth quarter 2007*

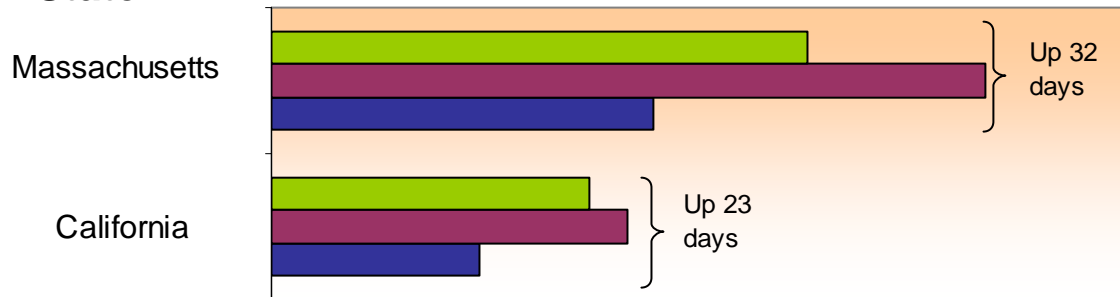
- Down less than 20%
- Down 20-40%
- Down more than 40%

**Existing Home Sales
Nationwide Down 29%**

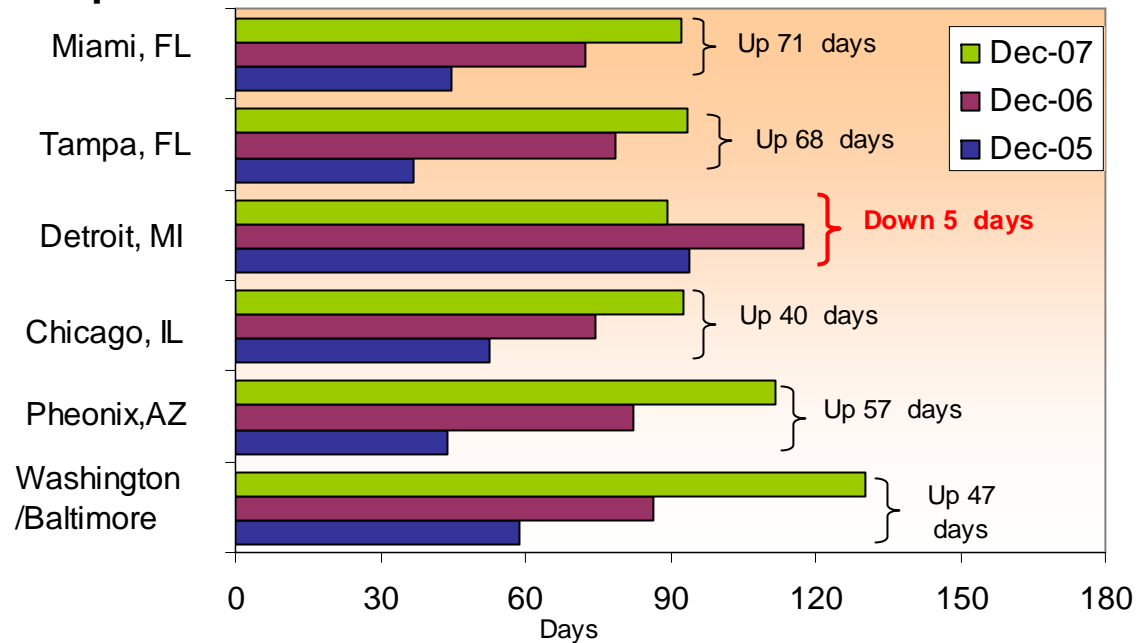
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Time-On-Market Up in Most Markets

State



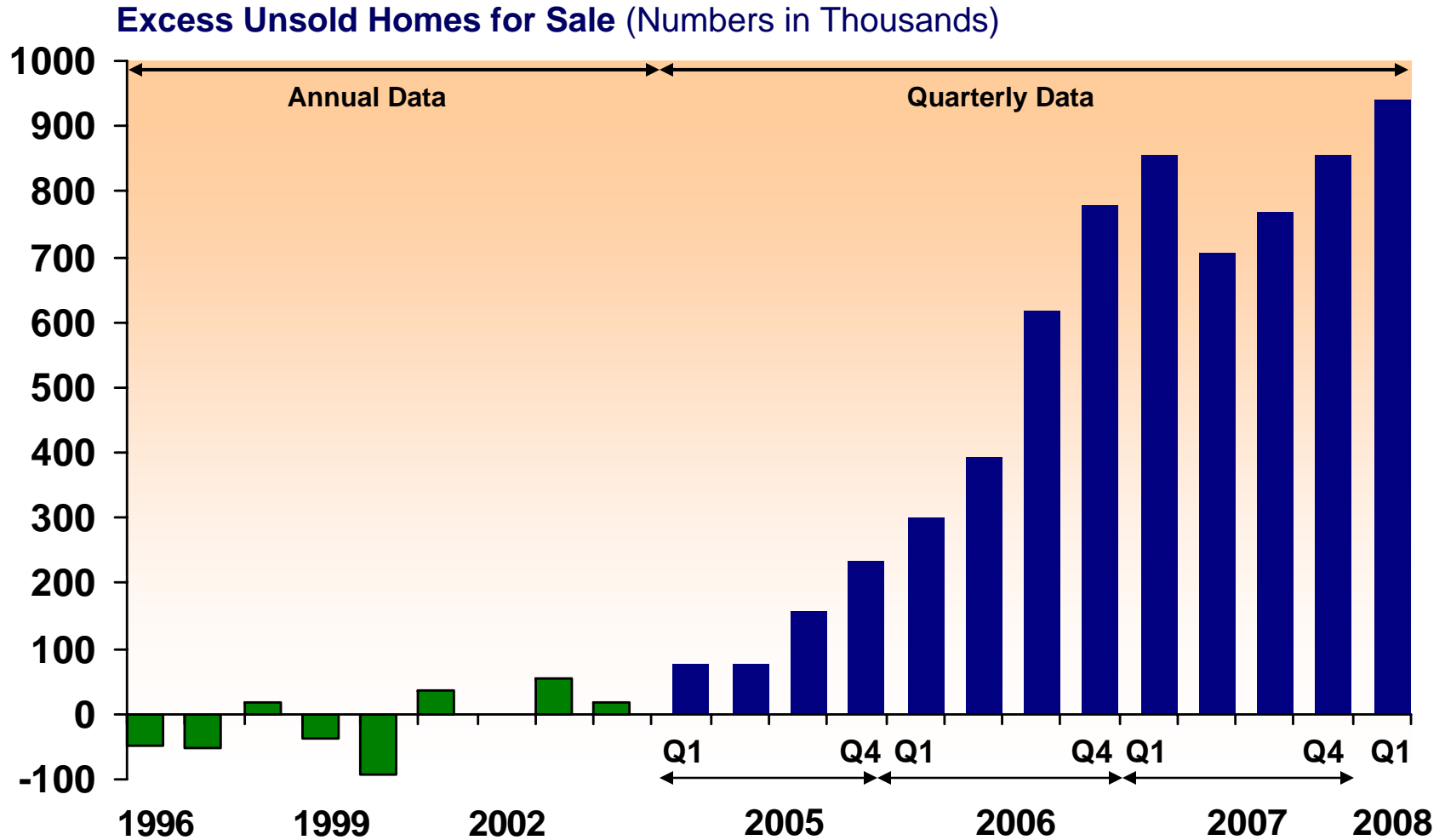
Metropolitan Statistical Areas



Source: National Association of Realtors

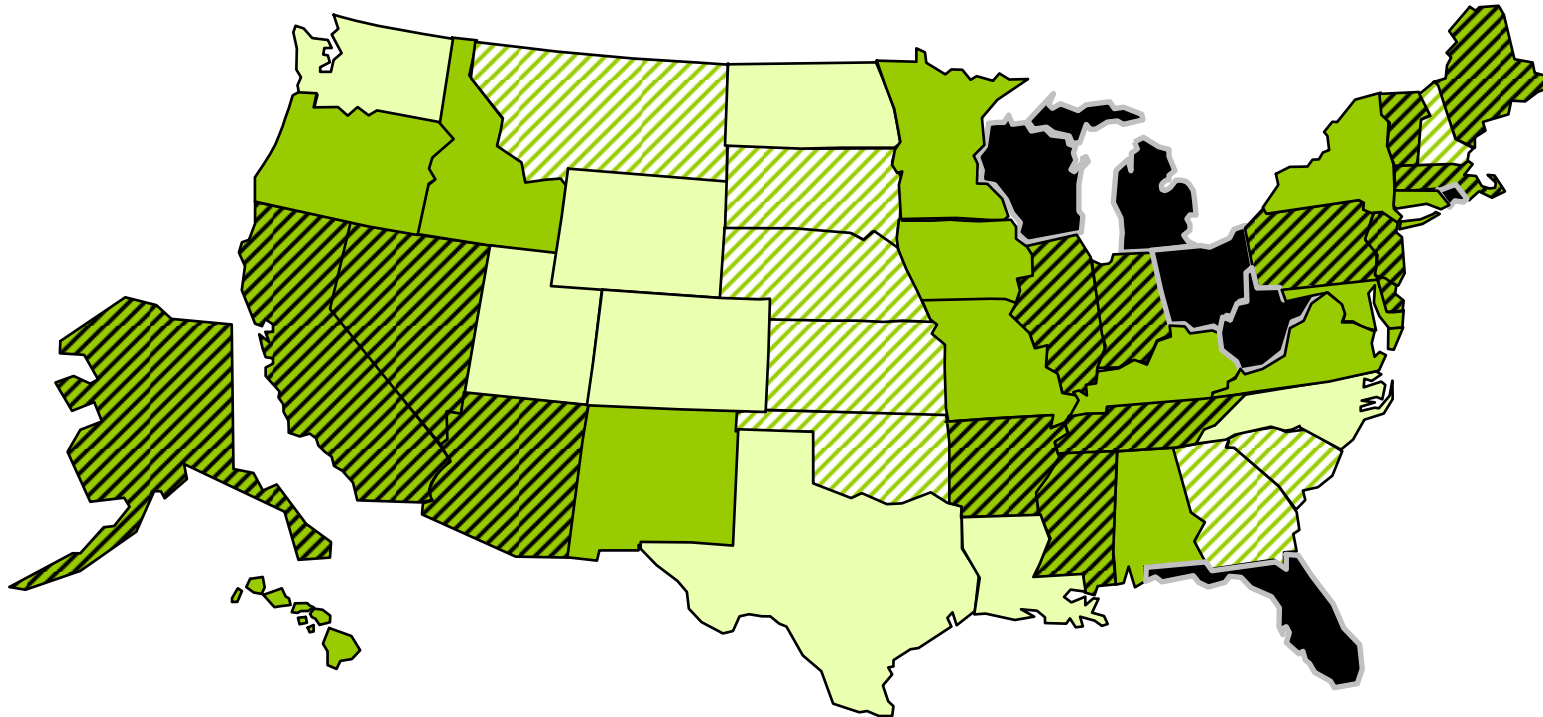
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Large Inventory Surplus Remains in Market








Source: Bureau of Census (1996-2004:Annual Data, 2005Q1–2008Q1:Quarterly Data)
 Note: The excess unsold homes were estimated based on the average vacancy rate from 1996Q1 to 2005Q4 (1.7%).

Employment Growth Weakest In Markets With Flat or Falling House Values



*Percent change in the non-farm payroll employment
January 2007 through January 2008*

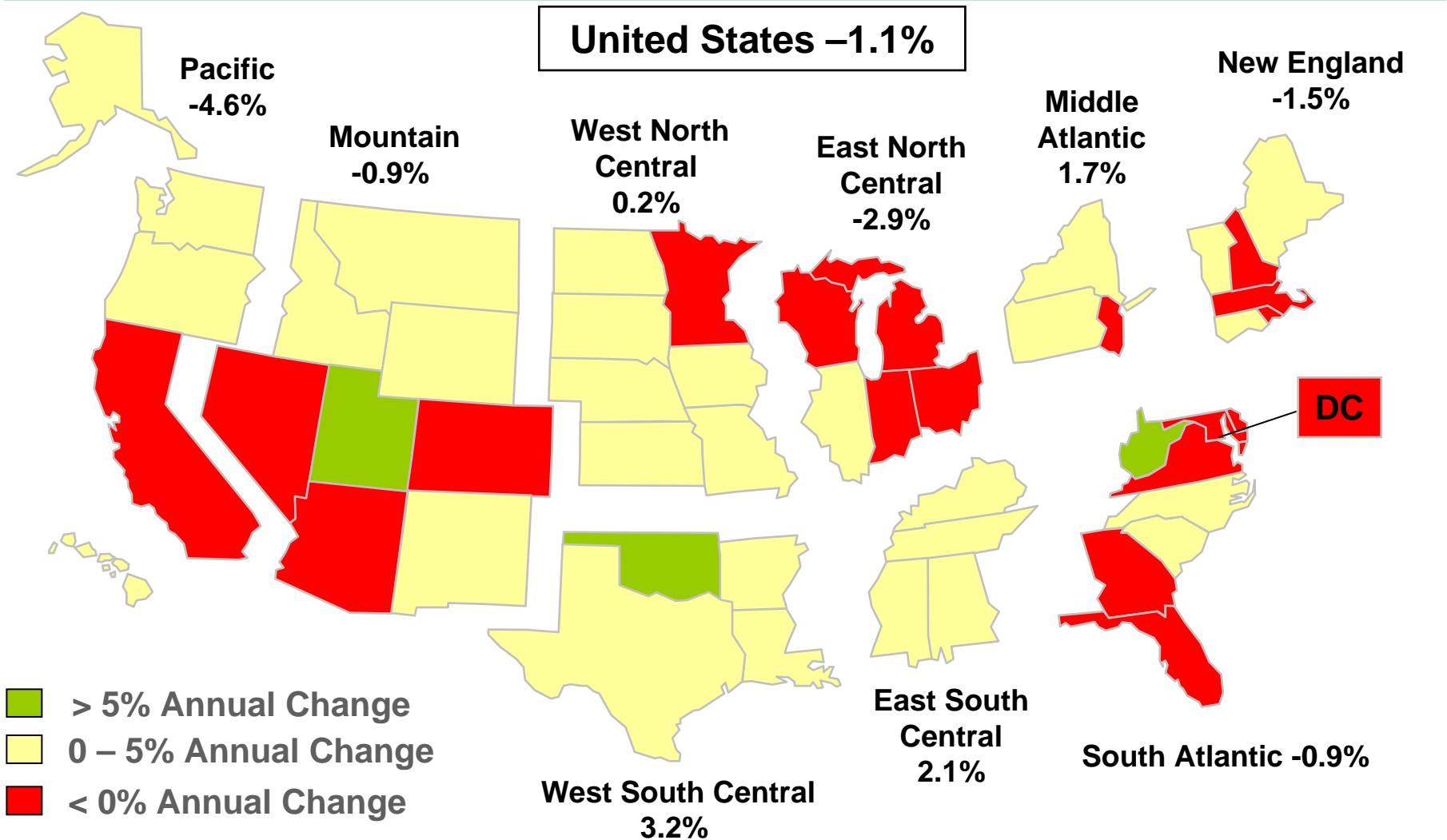
 Above 2.0%
 1.1% to 1.9%
 0.6% to 1.0%

 0.0% to 0.5%
 Below 0.0%

National employment up 0.7%
0.9 million

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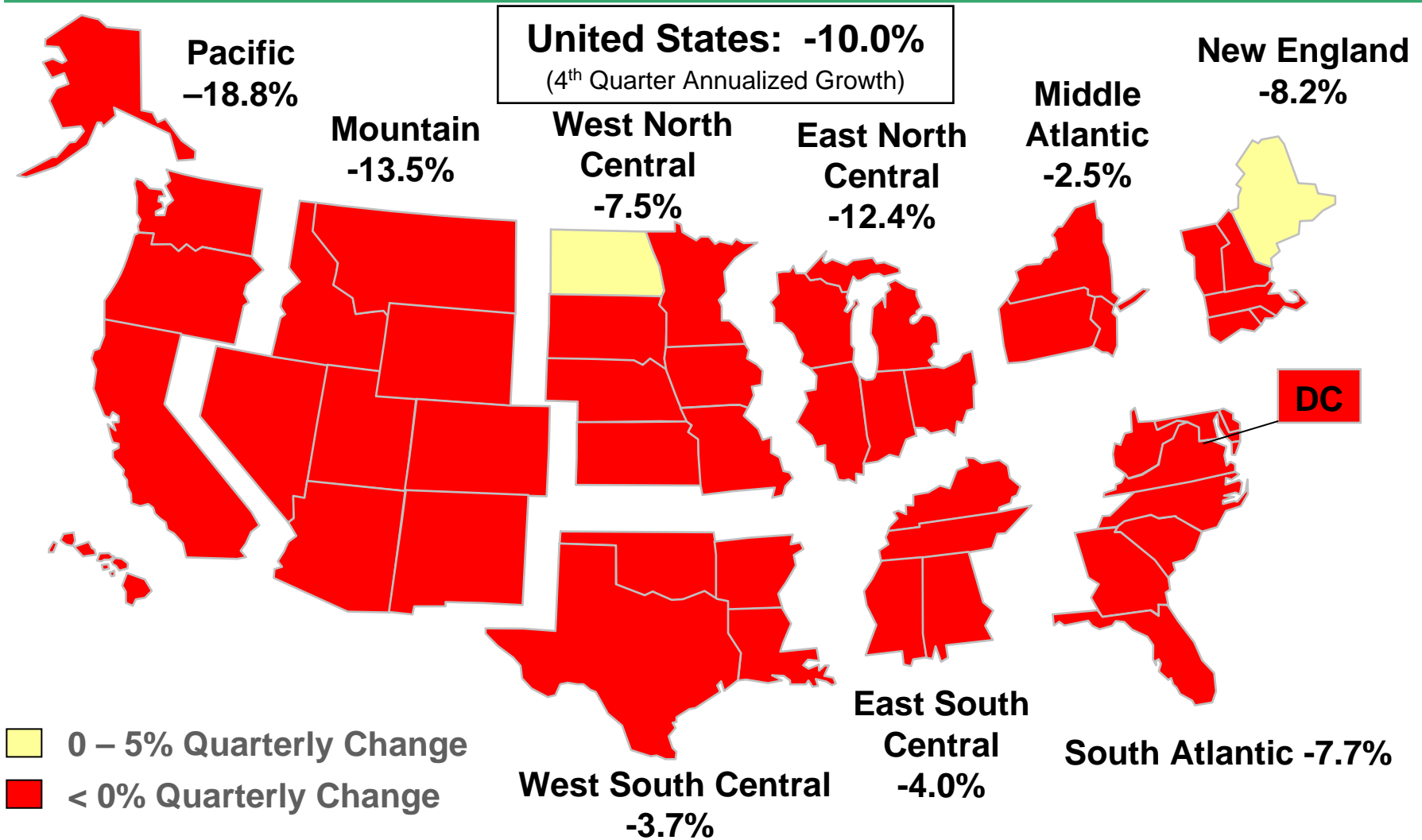
Home Sales Prices Fell in Eighteen States Over 2007



Source: Freddie Mac's Purchase-Only Conventional Mortgage Home Price Index (Annual Growth Rates for 4Q2007)

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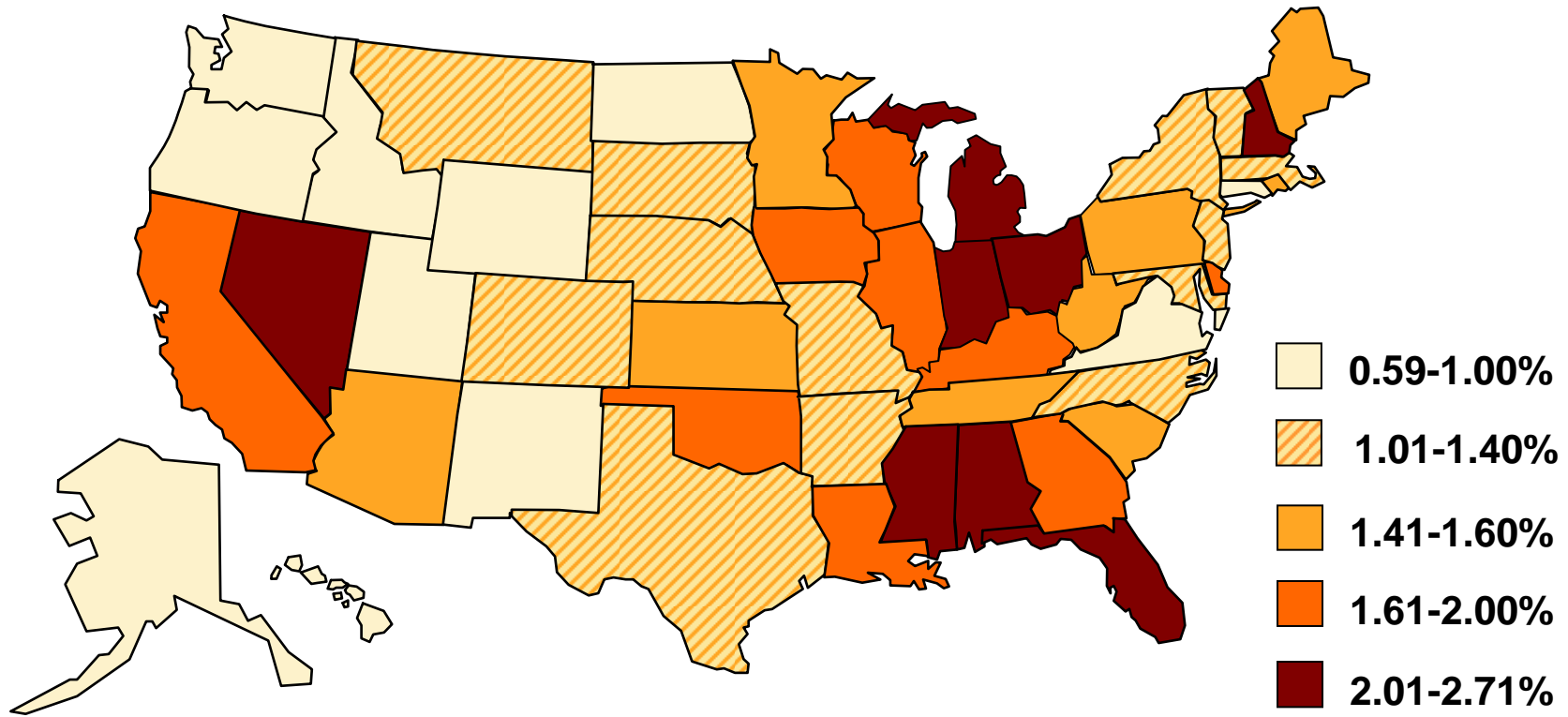
Forty-eight States Had Falling Prices in the Fourth Quarter 2007



Source: Freddie Mac's Purchase-Only Conventional Mortgage Home Price Index (Annualized Quarterly Rates for 4Q2007)

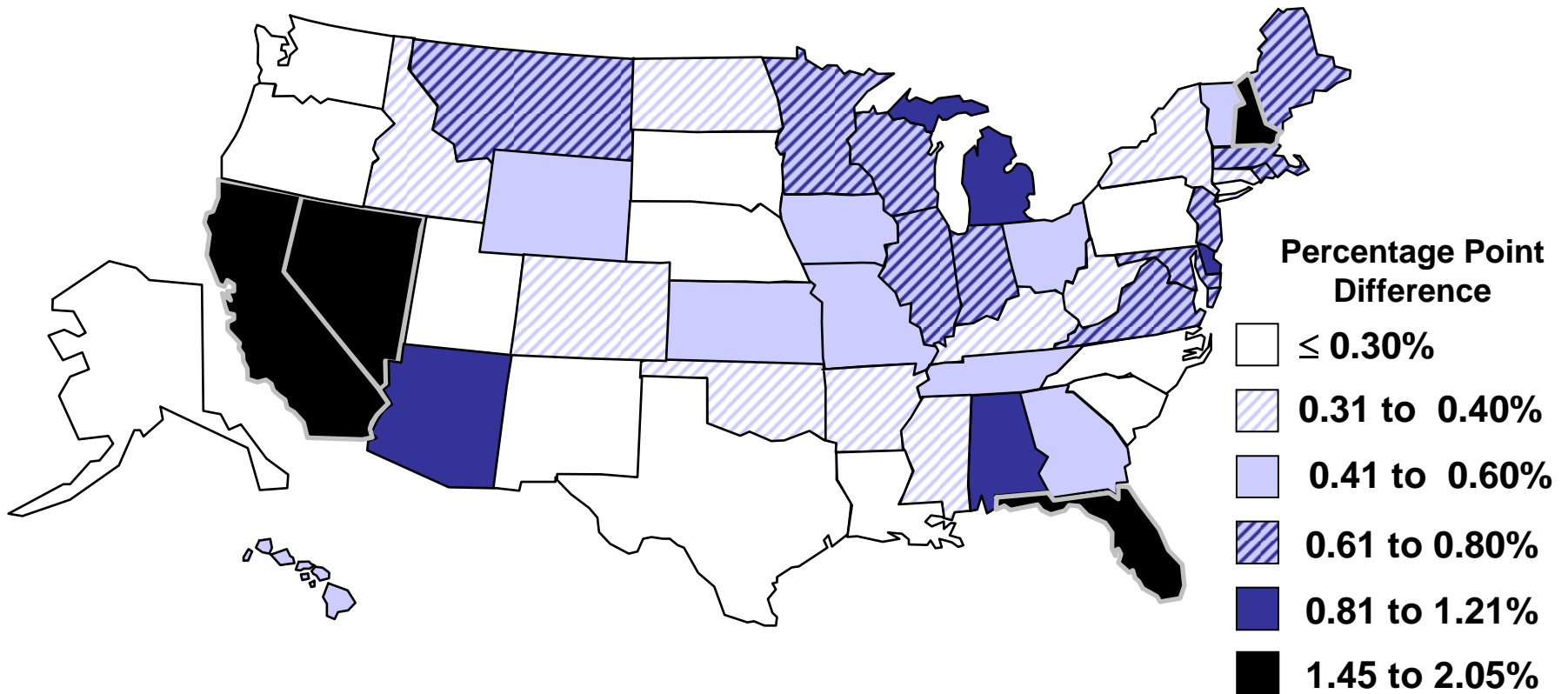
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Prime Delinquencies Are Lowest in the Northwest



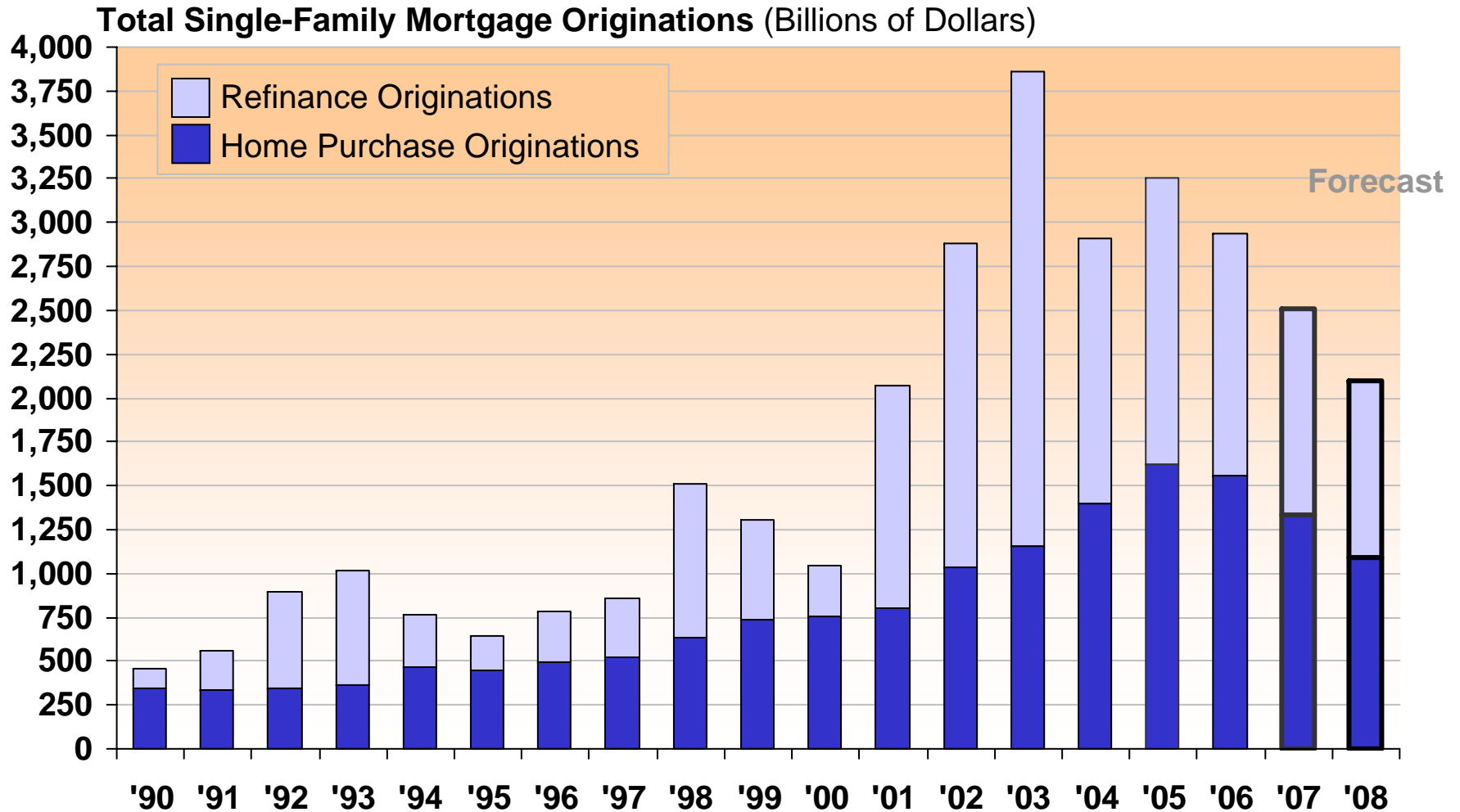
***National = 1.67% Seriously Delinquent
(90+ days delinquent or in foreclosure, prime conventional)
Data as of December 2007***

Delinquency Rates Have Jumped In Markets With Flat or Falling House Values



**4Q '06 to 4Q '07 Change in Level of Serious Delinquency Rate
 (90+ days or in foreclosure, Prime Conventional Loans)
 National Average Change = 0.81%
 Data as of December 2007**

Fewer Refis, Sales Result in a 16% Drop in Mortgage Originations in 2008

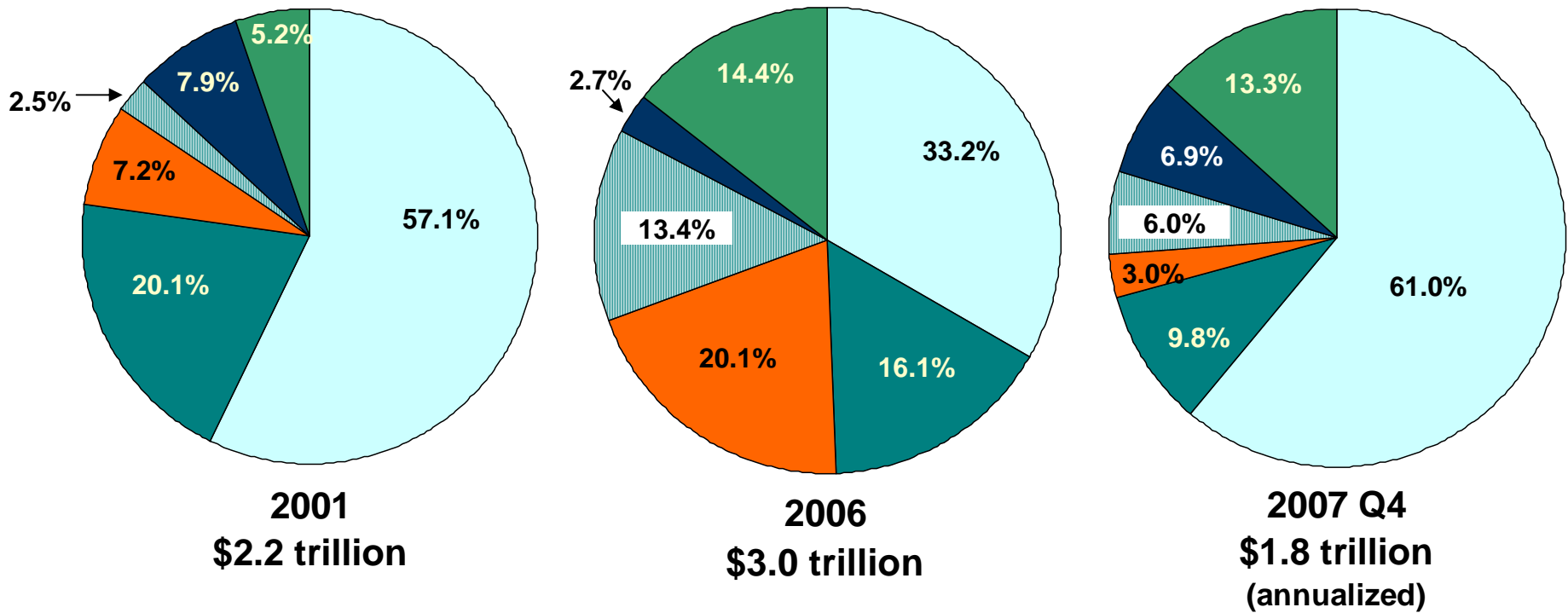


Sources: U.S. Department of Housing and Urban Development, Freddie Mac

Subprime Credit Performance

- Weak underwriting characterized subprime originations in recent years
- Early payment defaults and serious delinquencies are worse for recent vintages of subprime loans
- Subprime loans accounted for over half of foreclosures in 2006 and 2007
- About 1.5 million loans began foreclosure in 2007
- Credit problems are concentrated in economically depressed regions

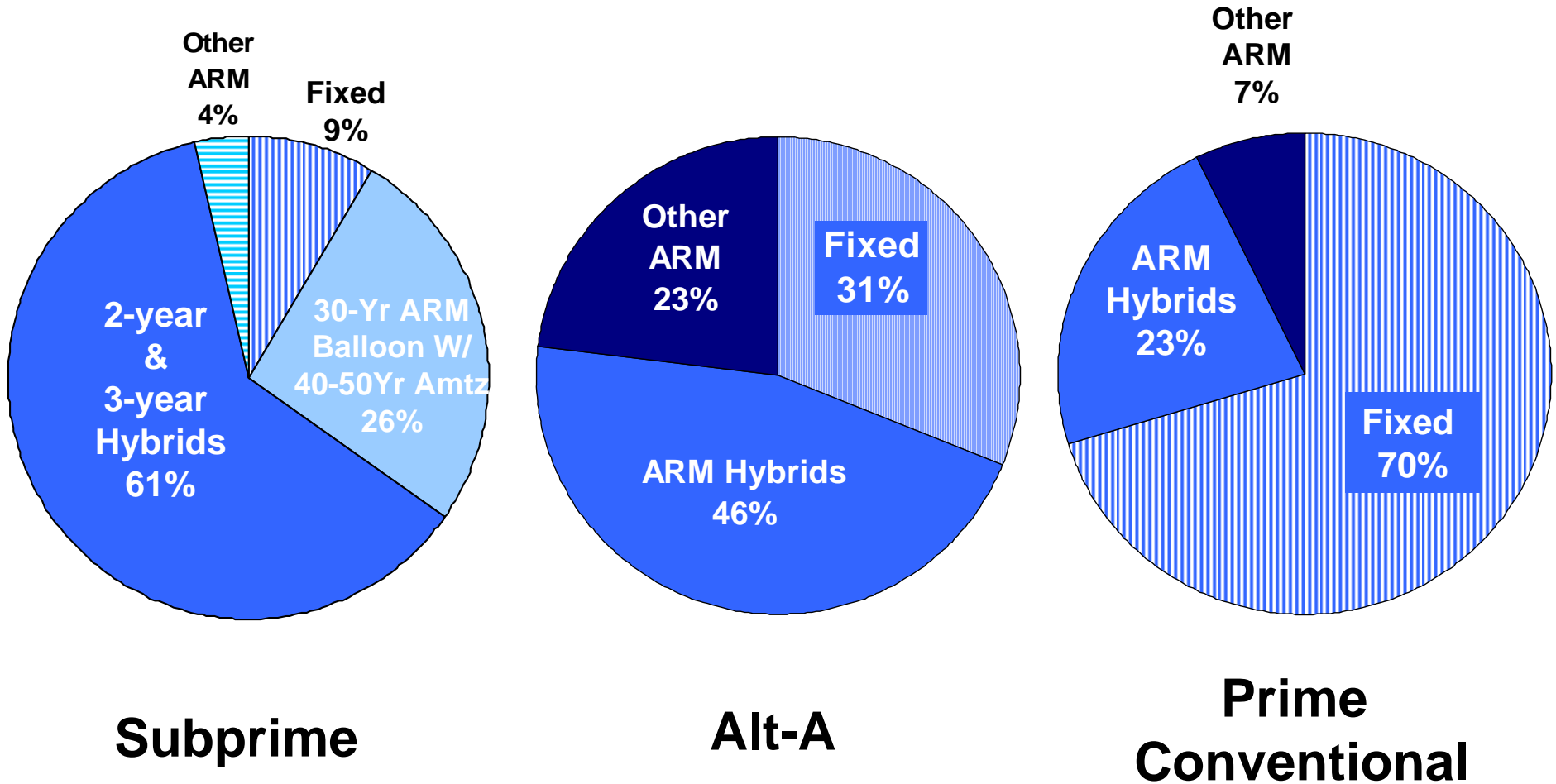
Subprime and Alt-A Volume Quintupled Between 2001 and 2006, then Fell in 2007



Conventional, Conforming Prime
 Jumbo Prime
 Subprime
 Alt-A
 FHA & VA
 Home Equity Loans

Source: Inside Mortgage Finance (by dollar amount)

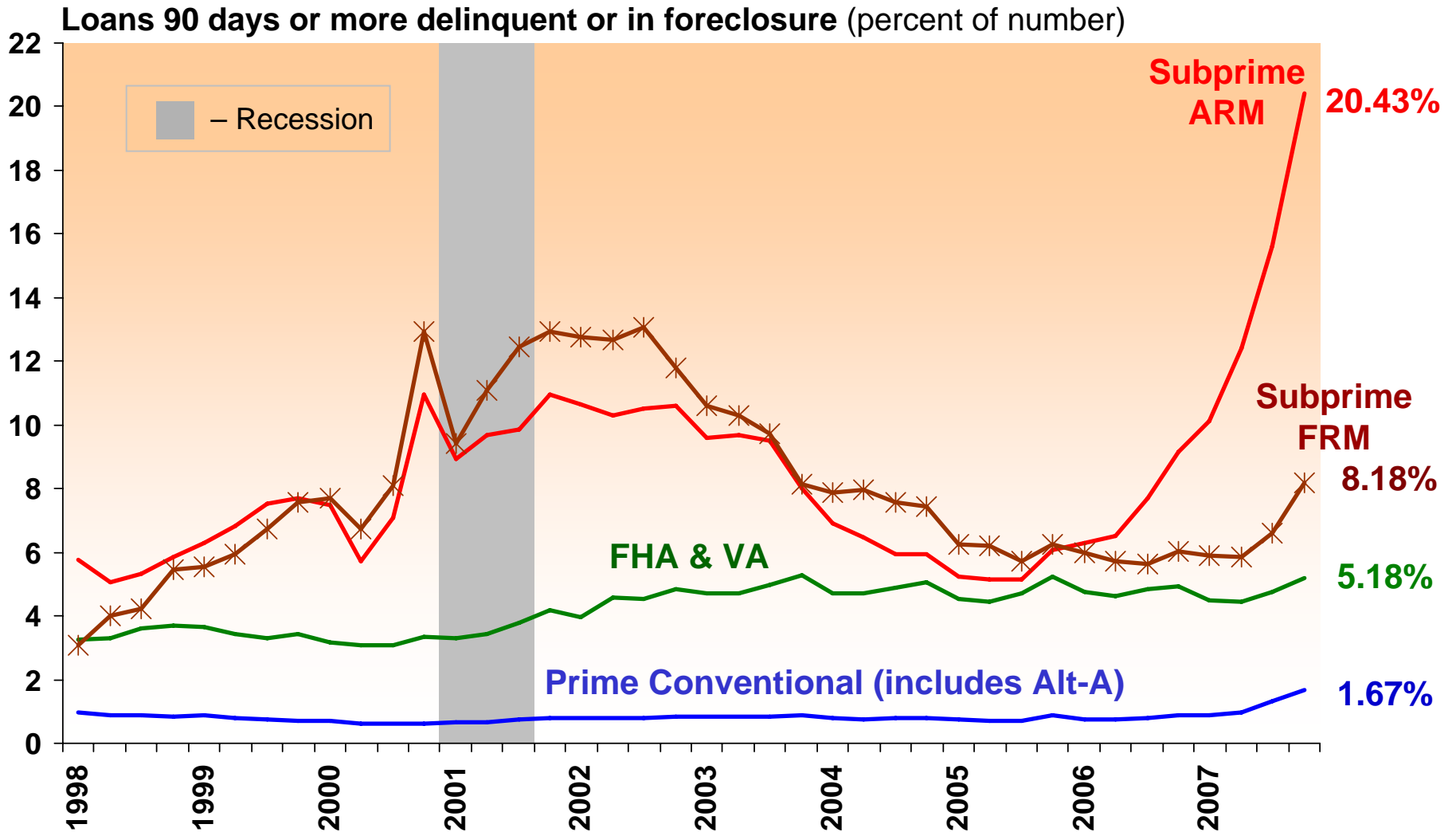
2/28 ARMs Dominated Subprime Home-Purchase Loan Originations in 2006



Source: LoanPerformance, a subsidiary of First American Real Estate Solutions, TrueStandings Securities; MIRS. First liens only; by dollar amount.

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Subprime ARM Defaults Are 12 Times Those on Prime

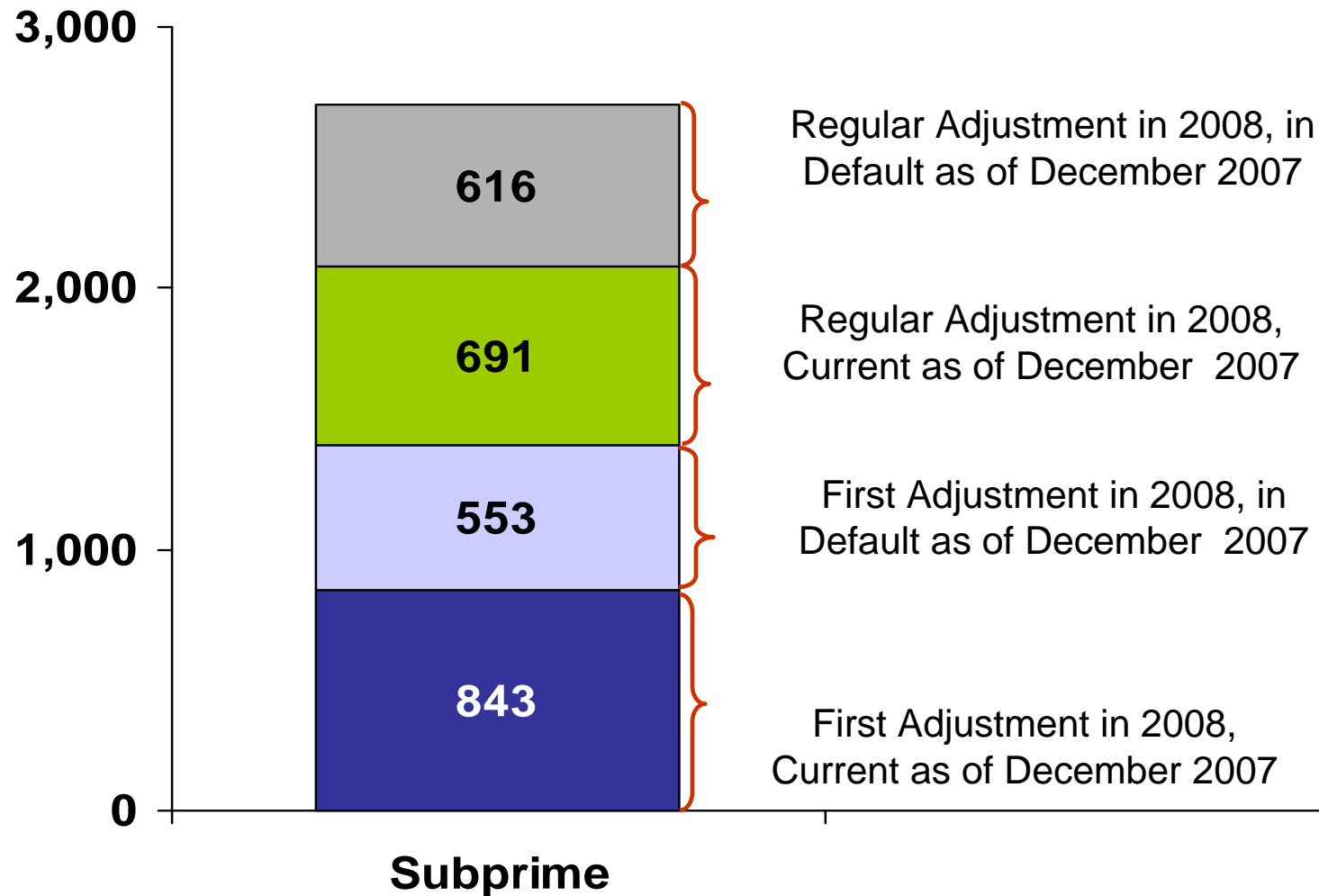


Source: Mortgage Bankers Association
 (Quarterly data not seasonally adjusted; 1998Q1-2007Q4)

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About 1.4 Million Subprime Loans Will Have First Reset in 2008

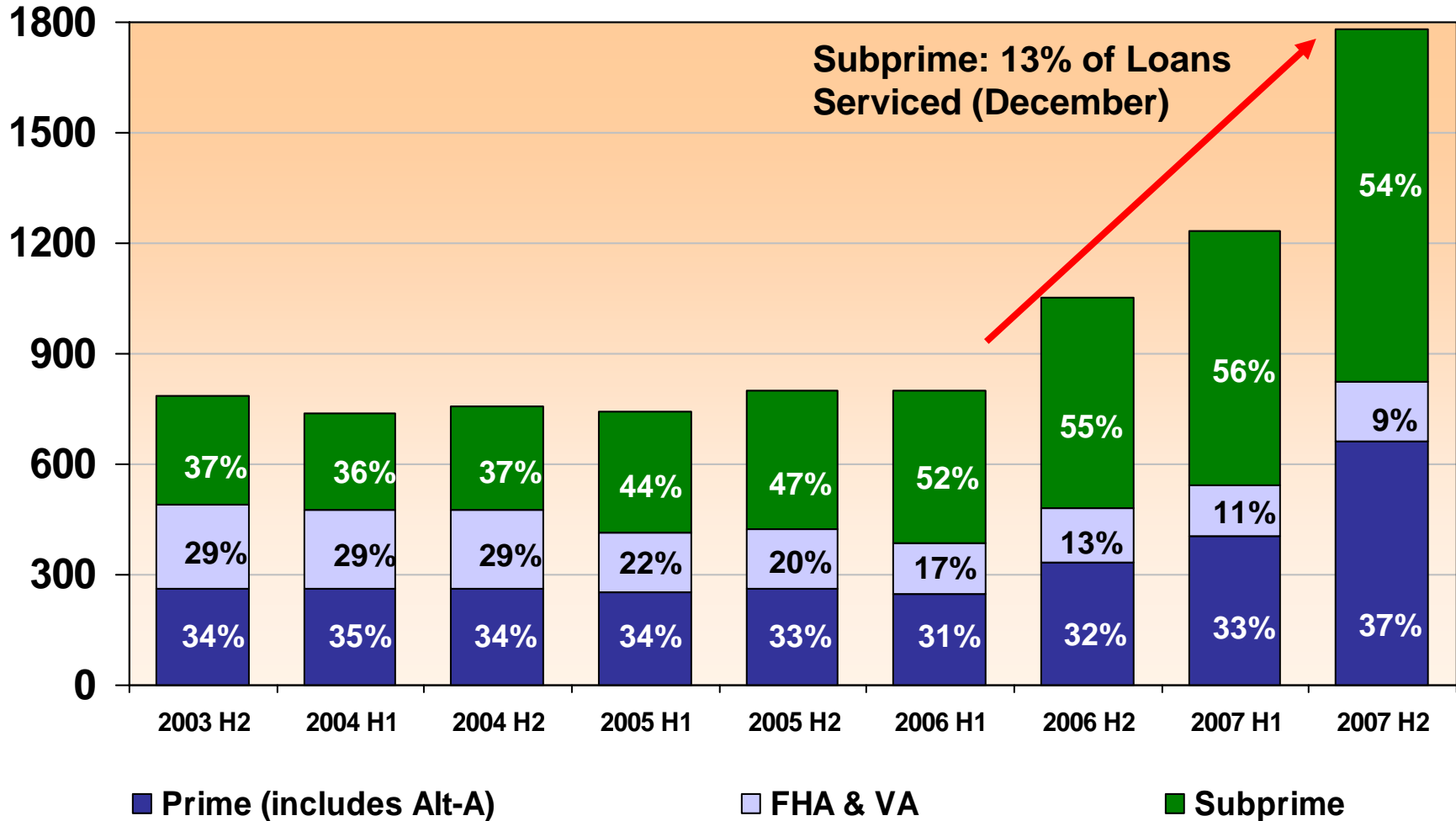
Amount of ARMs Scheduled to Have a Reset (Number of Loans in Thousands as of December 2007)



Source: LoanPerformance ABS Securities, Freddie Mac. "Default" includes loans delinquent 30 or more days or that are in foreclosure.

Subprime Loans Accounted for Over Half of Foreclosures since 2006

Number of Foreclosures Started (Annualized Rate in Thousands)



Source: Mortgage Bankers Association National Delinquency Survey
 (Data as of December 2007; number expanded to reflect 85% coverage)



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