

Determining Declining Markets

Freddie Mac uses the OFHEO House Price Index on the OFHEO website to help identify markets where home prices may be declining. This document assists you in determining declining markets. Although we are providing this guidance, you are ultimately responsible for determining whether a property is in a declining market. If you or the appraiser has determined that a property is located in a declining market, maximum financing must be reduced. Refer to Section 23.5 of the *Single-Family Seller/Service Guide* for more information about our maximum financing requirements.

Using the OFHEO Index, subject to you completing the analysis described below, you should consider that home prices are declining in the Metropolitan Statistical Area (MSA) and non Metropolitan Statistical Area (non-MSA) in which a property is located if either of the following is true:

- Test 1 - The overall decline in the OFHEO Index for the MSA/non-MSA for the most recent two quarters is greater than 1% (ex. – if 3Q07 compared to 1Q07 – results in a number less than negative 1.00%)

OR

- Test 2 - There is an overall decline in the OFHEO Index for the MSA/non-MSA year-over-year (ex. - 3Q07 compared to 3Q06 – results in a number less than 0.00%) **unless there is overall growth in the OFHEO Index for the MSA/non-MSA in the most recent two quarters**

Using the criteria above, home prices in the MSA/non-MSA in which a property is located may be declining; however, there may be smaller geographic areas within the MSA/non-MSA that have stable or increasing property values. Freddie Mac expects you to examine the appraisal and other information sources with care and perform a rigorous analysis to determine whether in fact the property is located in a geographic area within the MSA or non-MSA where home prices are declining.

Evaluating the MSA and non-MSA

MSA Evaluation Steps

1. Go to <http://www.ofheo.gov>
2. Go to the Tab labeled “House Price Index”
3. Select “Downloadable HPI Data” from the drop down list
4. Click on XQ 2007 Manipulatable Data for the Metropolitan Statistical Areas (MSAs) (Excel Format) (X = 1, 2, 3 or 4 for the quarter being reported)
5. An Excel spreadsheet opens:
 - Column A = MSA Name
 - Column B = MSA Number
 - Column C = Index Year
 - Column D = Index Quarter
 - Column E = Index Value
 - Column F = You do not need the data in this column to make a determination

(Continue with step 6 below)

Non-MSA Evaluation Steps

1. Go to <http://www.ofheo.gov>
2. Go to the Tab labeled “House Price Index”
3. Select “Downloadable HPI Data” from the drop down list
4. Click on “Rural Indexes Through 2007QX” under heading “Indexes for Homes not in Metropolitan Statistical Areas” (X = 1, 2, 3 or 4 for the quarter being reported)
5. An Excel spreadsheet opens:
 - Column A = State Name
 - Column B = Index Year
 - Column C = Index Quarter
 - Column D = Index Value
 - Column E = You do not need the data in this column to make a determination

(Continue with step 6 below)

6. To determine if there is a decline in the MSA/non-MSA, you need to perform Test 1 and/or Test 2 as referenced above
7. Test 1 = Determine the decline in the MSA or non-MSA for the most recent two quarters:
 - a. Divide the most recent quarter data in column E, by the data in column E from two quarters ago (Use data from column D if evaluating non-MSA)
 - b. Subtract 1.0 and multiply by 100
 - c. If the resulting number is less than negative 1.00% then the MSA/non-MSA may be declining; you do not need to perform Test 2
8. Test 2 = Determine the overall decline in the MSA or non-MSA year-over-year:
 - a. Divide the most recent quarter data in column E, by the data in column E for the corresponding quarter of the previous year (Use data from column D if evaluating non-MSA)
 - b. Subtract 1.0 and multiply by 100
 - c. If the resulting number is less than 0.00%, check for recent growth by dividing the most recent quarter data in column E, by the data in column E from two quarters ago. (Use column D data for non-MSA) If the resulting number is less than 0.00% then the MSA may be declining; if the resulting number is greater than 0.00% then the market may not be declining
9. For purposes of performing the calculations in Step 7 and 8, Freddie Mac does not round
10. See examples on next page

MSA Spreadsheet Results

| A | B | C | D | E |
|----------|------------|------------|---------------|-------------|
| MSA Name | MSA Number | Index Year | Index Quarter | Index Value |
| MSA 1 | 12345 | 2006 | 3 | 184.43 |
| MSA 1 | 12345 | 2006 | 4 | 184.87 |
| MSA 1 | 12345 | 2007 | 1 | 182.98 |
| MSA 1 | 12345 | 2007 | 2 | 180.14 |
| MSA 1 | 12345 | 2007 | 3 | 173.14 |

| A | B | C | D | E |
|----------|------------|------------|---------------|-------------|
| MSA Name | MSA Number | Index Year | Index Quarter | Index Value |
| MSA 2 | 22345 | 2006 | 3 | 242.08 |
| MSA 2 | 22345 | 2006 | 4 | 243.35 |
| MSA 2 | 22345 | 2007 | 1 | 247.42 |
| MSA 2 | 22345 | 2007 | 2 | 247.53 |
| MSA 2 | 22345 | 2007 | 3 | 250.45 |

| A | B | C | D | E |
|----------|------------|------------|---------------|-------------|
| MSA Name | MSA Number | Index Year | Index Quarter | Index Value |
| MSA 3 | 32345 | 2006 | 3 | 201.01 |
| MSA 3 | 32345 | 2006 | 4 | 201.76 |
| MSA 3 | 32345 | 2007 | 1 | 201.57 |
| MSA 3 | 32345 | 2007 | 2 | 201.88 |
| MSA 3 | 32345 | 2007 | 3 | 200.37 |

| A | B | C | D | E |
|----------|------------|------------|---------------|-------------|
| MSA Name | MSA Number | Index Year | Index Quarter | Index Value |
| MSA 4 | 42345 | 2006 | 3 | 308.57 |
| MSA 4 | 42345 | 2006 | 4 | 306.24 |
| MSA 4 | 42345 | 2007 | 1 | 302.59 |
| MSA 4 | 42345 | 2007 | 2 | 298.72 |
| MSA 4 | 42345 | 2007 | 3 | 305.91 |

MSA Evaluation Examples

| MSA | 3Q07 | 1Q07 | 3Q06 | Test 1 3Q07/1Q07 | Test 2 3Q07/3Q06 | Assessment |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|--------|--------|----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|------------------|
| MSA 1 | 173.14 | 182.98 | 184.43 | $173.14/182.98 - 1.0 = -0.0537$ $-0.0537 \times 100 = -5.37\%$ (Fails) | Not Needed | Declining |
| MSA 1 is declining because the decline in home prices for the most recent two quarters is greater than one percent (Test 1). In this example, Test 2 is not needed due to the results in Test 1. | | | | | | |
| MSA 2 | 250.45 | 247.42 | 242.08 | $250.45/247.42 - 1.0 = 0.0122$ $0.0122 \times 100 = 1.22\%$ (Passes) | $250.45/242.08 - 1.0 = 0.0346$ $0.0346 \times 100 = 3.46\%$ (Passes) | Stable |
| MSA 2 is stable because there has been no decline in home prices over the most recent two quarters (Test 1) and there has been no decline in home prices from 2007 compared to 2006 (Test 2). | | | | | | |
| MSA 3 | 200.37 | 201.57 | 201.01 | $200.37/201.57 - 1.0 = -0.0059$ $-0.0059 \times 100 = -0.59\%$ (Passes) | $200.37/201.01 - 1.0 = -0.0031$ $-0.0031 \times 100 = -0.31\%$ (Fails) No growth over past 2 Qs (Fails) | Declining |
| MSA 3 is declining. Although the MSA passes Test 1 (the decline is not greater than 1.0%) it fails Test 2. It fails Test 2 because there has been a decline in home prices from 2007 compared to 2006 and there has been no growth over the most recent two quarters. | | | | | | |
| MSA 4 | 305.91 | 302.59 | 308.57 | $305.91/302.59 - 1.0 = 0.0109$ $0.0109 \times 100 = 1.09\%$ (Passes) | $305.91/308.57 - 1.0 = -0.0086$ $-0.0086 \times 100 = -0.86\%$ (Fails) Has growth over past 2 Qs (Passes) | Stable |
| MSA 4 is stable. Although the results in Test 2 show a decline in home prices from 2007 compared to 2006, this MSA has had growth over the most recent two quarters and it is on the rebound. | | | | | | |