

Today's Mortgage Market: Tough times but with nuggets to mine

Insights on expanding markets from your Freddie Mac team

A confluence of economic and housing trends continue to affect the mortgage market in many different ways, posing unique challenges for lenders, brokers and borrowers alike. Nevertheless, the prime mortgage industry remains resilient, dynamic and, more importantly, profitable with several niche market opportunities to pursue. Lenders who are on top of new prospective markets and are ready with a variety of mortgage solutions can weather the current market challenges and come out ahead. ►

An enduring market environment

“Economic growth slowed in the first part of this year and the adjustment in the housing sector is ongoing. Nevertheless, the economy seems likely to expand at a moderate pace over coming quarters.”

— *Federal Reserve, May 9, 2007*

Freddie Mac's [June 2007 Economic and Housing Outlook](#)¹ provides some insights into the economic backdrop for the mortgage market stating, *“Continued resilience in the broader economy can provide much-needed support for the housing sector,”* and that:

- A return to Gross Domestic Product growth to trend levels (at or above 3 percent annual rate) later this year should bolster jobs and income, ultimately supporting housing demand
- The unemployment rate remained unchanged at 4.5 percent as new nonfarm payrolls rose 157,000, the largest increase since March
- Even when gas prices topped \$3 a gallon, consumer spending remained unabated
- Thirty-year fixed mortgage rates ended the quarter at 6.7%, up 0.5 percentage points over the quarter, and 1-year Treasury-indexed adjustable-rate mortgages averaged 5.7%, gaining 0.25 percentage points.

So, with what remains a resilient housing market amidst a changing economy, where is it best to seek opportunities?

Many still want a piece of the American dream

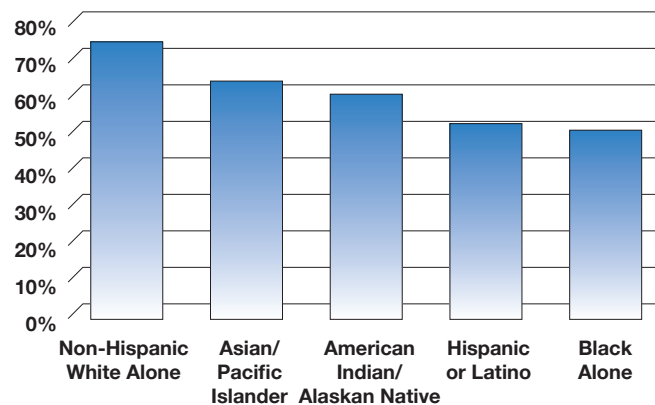
In 2006, the U.S. homeownership rate was 68.8 percent.² This means that there may be a significant number of households across America that may be on the cusp of homeownership and are just waiting for the right opportunity to come along. Loan originators could generate significant momentum from a diverse set of homebuyers. Here's why:

- Each year, the U.S. opens its doors to more immigrants. The Department of Homeland Security data indicates that since 1997 the average number of immigrants admitted for legal residence has been over 900,000 per year.³
- Homeownership rates are increasing substantially for minorities, with Hispanics (+20.63 percent) and Asians (+18.51 percent) posting the highest percent growth rates between 1994 and 2006.²

- Foreign-born and minority households will continue to be the fastest-growing segments of the housing market and should expand from 28 percent in 2005 to 32 percent in 2015, according to Harvard University's 2006 Joint Center for Housing Studies.⁴

In the next decade, families chasing the dream of homeownership will increasingly be ethnically and culturally diverse:

Homeownership rates by race in 2006 (in percent)
U.S. Total: 68.8%



Taken from [Housing Vacancies and Homeownership Annual Statistics](#), U.S. Census Bureau, Housing and Household Economic Division, February 12, 2007

Business imperatives to reach expanding markets

Different demographic groups approach homeownership in different ways. But studies reveal there are fundamental barriers to homeownership that ethnic groups have in common, including unfamiliarity with the U.S. financial system, limited knowledge of the homebuying process, limited credit history, and lack of in-language mortgage documents.

Financial education, credit counseling and a trusted-advisor approach to mortgage lending have therefore become essential to connecting with these expanding markets. Working with lenders and other industry participants, Freddie Mac has developed educational [outreach initiatives](#) and bilingual tools to help lenders guide immigrants and first-time homebuyers through the homebuying process, including:

- **Get the Facts!** – a dynamic education initiative that dispels the common myths about buying and owning a home
- **CreditSmart®** – a financial literacy curriculum, available in English, Spanish, Chinese, Korean and Vietnamese, that educates consumers about long-term credit and

While the housing industry has made inroads in reaching out to the Hispanic market, the Asian community is another burgeoning market that cannot be overlooked.

- With a growth rate of 69 percent, Asians are the second fastest growing minority population in the United States next to the Hispanic population.*
- Asians and Pacific Islanders are expected to account for 13 percent in household growth or about 3.5 million new households over the next two decades. And about two-thirds of these new households or approximately 2.3 million will become homeowners.*
- Asians had the highest median household income among all race groups in 2005, at \$61,094, even exceeding the national average of \$46,326.**
- In 2001, 41% of immigrants who naturalized were from Asia.*** This segment may be a major source of new housing demand in the years to come.

* [Homeward Bound: An in-depth look at Asian Homebuyers](#), Freddie Mac, November 2005

** [Income, Poverty and Health Insurance Coverage in the U.S.](#), U.S. Census, August 2006

*** [Citizenship in the United States, U.S. Citizenship and Immigration Services](#), DHS, May 2004

money management. CreditSmart's newest addition is a module on homeownership preservation with a comprehensive section on foreclosure avoidance.

- [Mortgage documents translated into Spanish](#). Freddie Mac and Fannie Mae jointly offer 83 non-executable Spanish translations of Mortgage Uniform Instruments to expand the homeownership rate among the Hispanic-speaking population.

Open up more possibilities with sustainable and affordable solutions

In addition to providing in-language borrower education, multicultural homebuyers are also best served when lenders have access to a full range of [affordable lending opportunities](#) that can maximize their borrowers' options.

It is important to provide borrowers with information about the products and options for which they qualify, enabling them to understand the terms, costs, and risks, so that they can select the mortgage that best meets their home financing needs.

A dynamic and reliable point-of-sale technology is equally important to serving this market. An automated underwriting service should be able to provide the information originators need in a cost-effective and timely manner. With [Freddie Mac's Loan Prospector®](#), loan officers and brokers can easily and quickly assess loans of different types for different borrower financial circumstances, obtaining a Freddie Mac purchase decision right at the point-of-sale.

Help families win as homeowners

Helping homeowners build and maintain equity in their homes is a win-win situation for borrowers, lenders and communities. With serious industry concerns over the rise in defaults in parts of the country, it is critical, now more than ever, to help borrowers succeed as long-term homeowners.

Freddie Mac offers a set of educational tools and options to combat predatory lending and avoid foreclosure — helping homeowners keep their homes whenever possible. These include:

- [Don't Borrow Trouble®](#), a consumer education campaign aimed at combating predatory lending practices and protecting current homeowners

Freddie Mac's Home Possible[®] Mortgages meet the needs of many low- and moderate-income and first-time homebuyers with:

- Zero or low down payment options
- Secondary financing including Affordable Seconds[®]
- Temporary subsidy buydowns
- Low mortgage insurance coverage levels
- More purchasing power for teachers, law enforcement personnel, firefighters, healthcare workers and military families

- **Avoiding Foreclosure Toolkit** provides educational materials, available in English, Spanish, and several Asian languages that help mortgage servicers and others reach homeowners to understand the options to foreclosure.

Sincere relationships + good service = more business

With the changing face of homeownership, more lending institutions are realizing that to create new revenue opportunities they must invest time and resources in building a borrower's chances to be a successful homeowner. This means providing borrowers with the homeownership education they need, offering them a suitable and stable mortgage product, and intervening early with practical solutions for those who run into financial hardship. With many homebuyers, the potential for business referrals from satisfied clients cannot be underestimated.

As lenders move forward to connect with these rapidly growing markets, it is equally important to link up with a secondary market investor that not only has the right products and services, but embraces a holistic approach to the homebuying process. We believe that investor is Freddie Mac.

Each day we're working with you every step of the way of the homebuying process with the tools, resources, and options to take on today's market opportunities and challenges — helping create opportunities for more borrowers, realize more business possibilities and preserve homeownership dreams.

References

1 **Economic & Housing Outlook**, Freddie Mac, Office of the Chief Economist, June 2007

2 **Housing Vacancies and Homeownership Annual Statistics**, U.S. Census Bureau, Housing and Household Economic Division, February 12, 2007

3 **Yearbook of Immigration Statistics, 2006** (Table 3), Department of Homeland Security

4 **The State of the Nation's Housing 2006**, Joint Center for Housing Studies, Harvard University

* **Homeward Bound: An in-depth look at Asian Homebuyers**, Freddie Mac, November 2005

** **Income, Poverty and Health Insurance Coverage in the U.S.**, U.S. Census, August 2006

*** **Citizenship in the United States**, U.S. Citizenship and Immigration Services, DHS, May 2004



We make home possibleSM

8200 Jones Branch Drive, McLean, Virginia 22102

www.FreddieMac.com 703.903.2000

pub# 714 August 2007