



Mortgage Market Update

2010 International Builders Show

Las Vegas, NV

January 19, 2010

Frank E. Nothaft

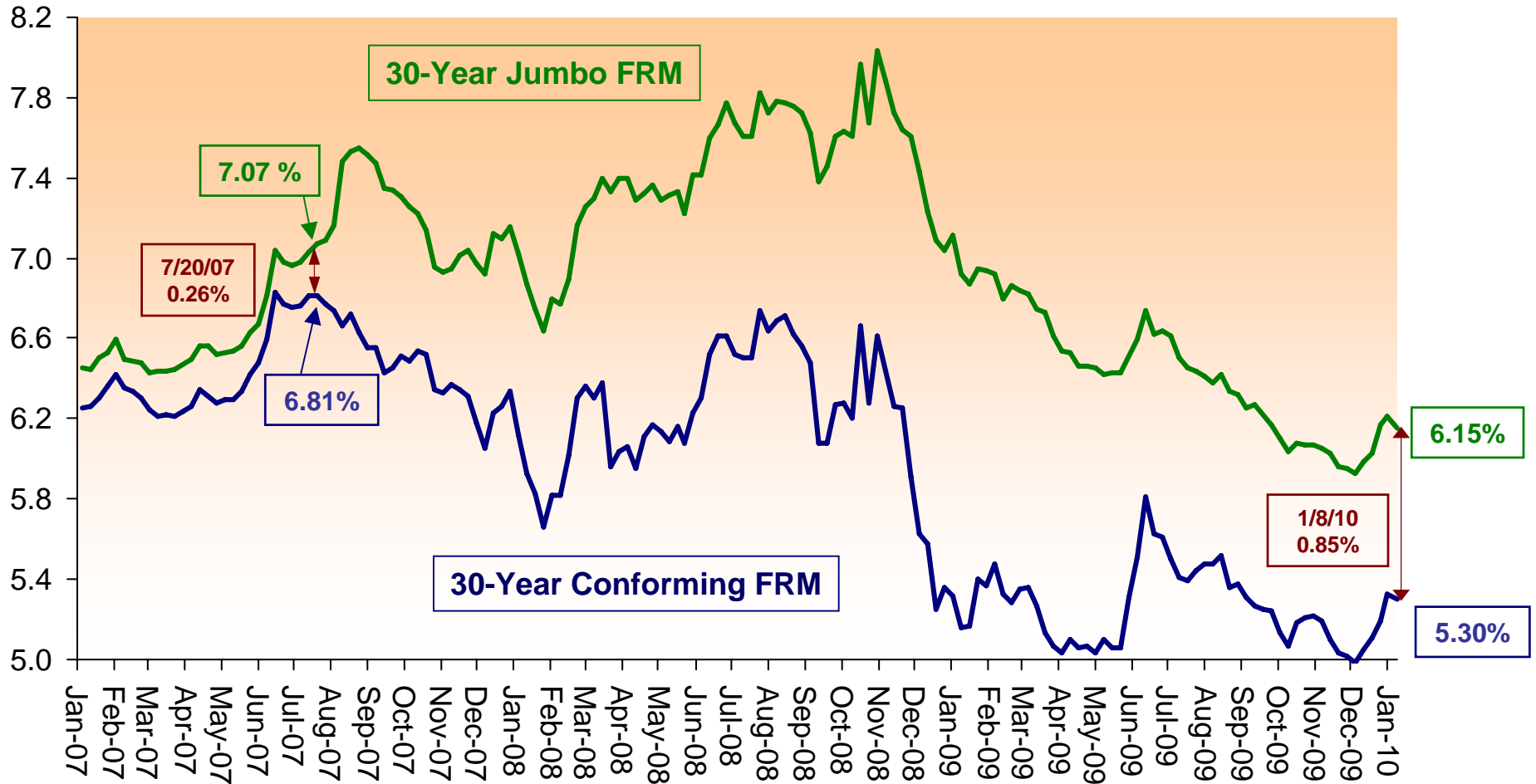
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Mortgage Rates Low, But Defaults Rising; Loan Modifications Will Help Reduce Overall Impact

- **Mortgage rates low, underwriting more careful**
 - 30-year fixed mortgage rates stay in 5% to 6% range in 2010
 - Originations 10% less in 2010, driven by less refinance
 - FHA & VA about one-fourth of all lending in 2010
- **Mortgage defaults rise**
 - Unemployment main trigger event for delinquency
 - House price declines add to foreclosure risk
 - Serious delinquency rates likely to rise further in 2010
 - Subprime, Alt-A and Option ARMs drive foreclosures
- **Making Home Affordable lessens impact**
 - Keeping families in homes is the long-term priority
 - High vacancy rate for homes with a defaulted loan is a challenge
 - Streamline refinance will help families lower monthly payment
 - Loan modification is important tool in 2010

Conforming Rates Remain Near Record Lows, Jumbo Rates More Expensive

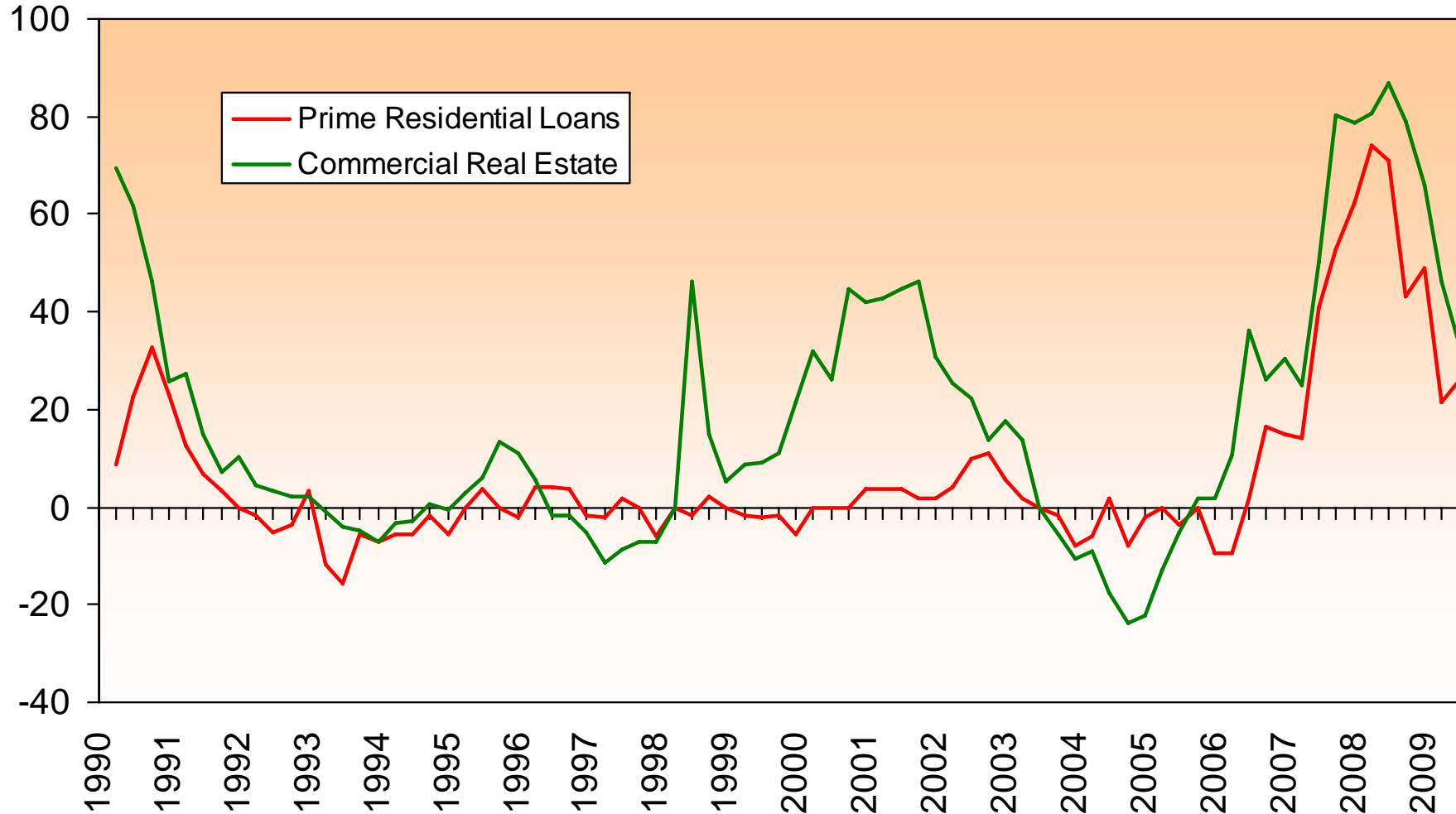
Effective Interest Rate on 30-Year Fixed-Rate Conventional Mortgages (Percentage Points)



Source: HSH Associates (last data: week ending January 8, 2010)
 Note: Effective rate adds fees and points to the interest rate.

Banks Are Tightening Lending Standards Across All Lines of Business

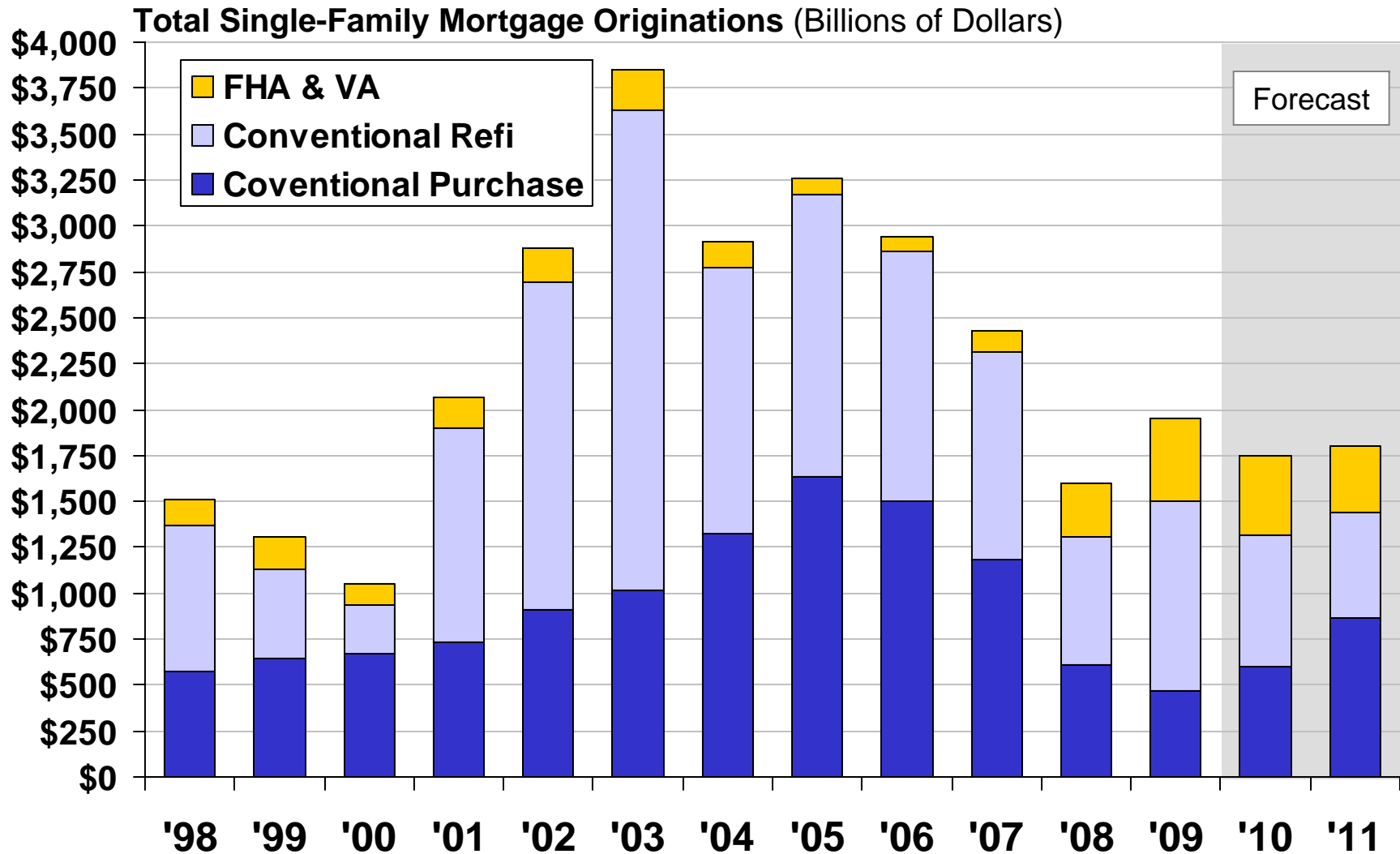
Net Percentage of Banks Tightening Credit Standards During Three Previous Months



Source: Federal Reserve Board's Senior Loan Officer Survey (all residential loans through 2007Q1, prime residential starting 2007Q2; commercial real estate includes construction and land development); Last update: November 9, 2009.

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More Sales but Less Refinance Result in 10% Decrease in 2010 Originations



Sources: Freddie Mac, HUD, VA

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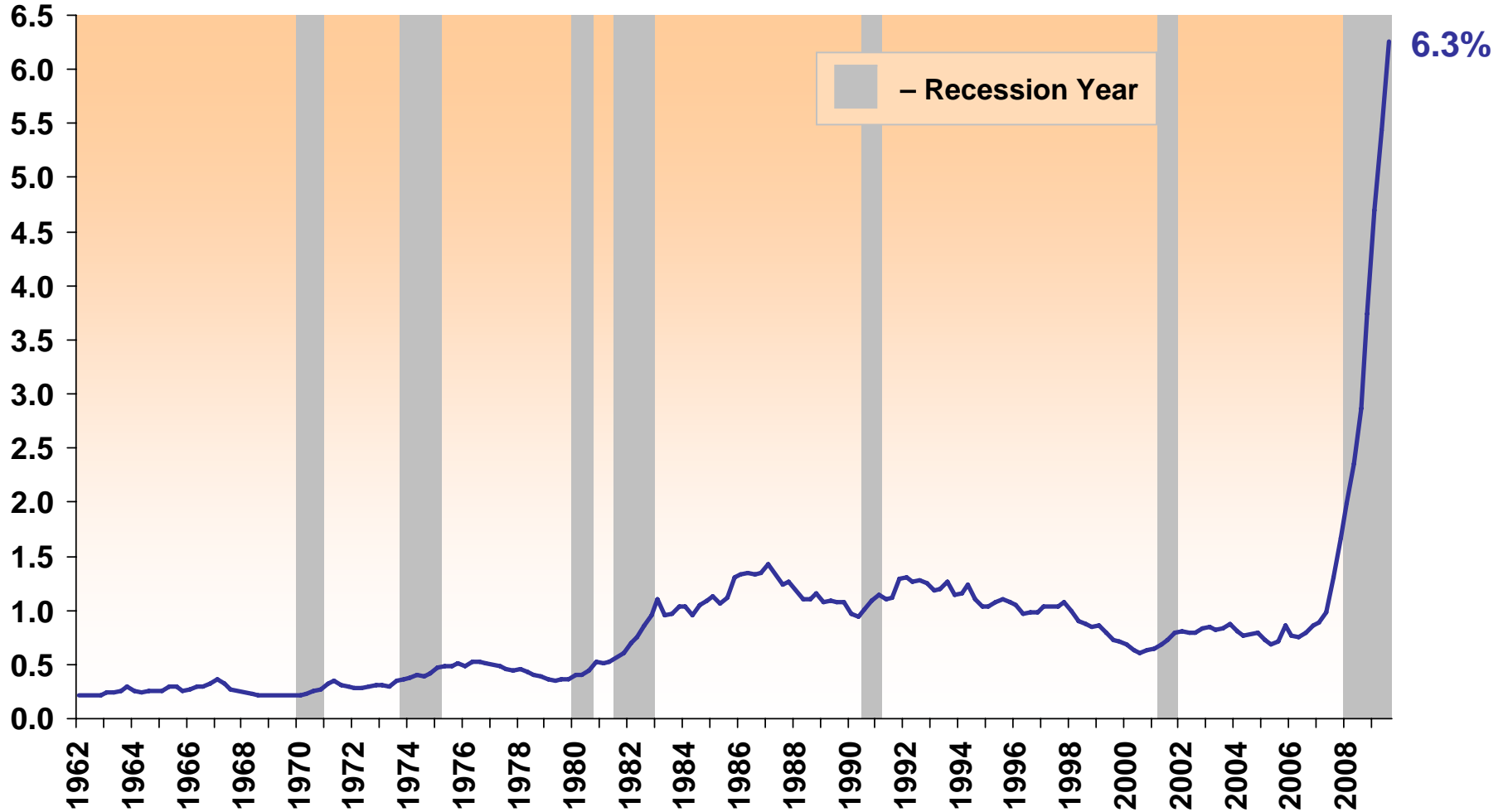
Job Loss Is the Main Hardship Reason Among Delinquent Prime Borrowers

Hardship Reason	Jan-Jun 2009
Unemployment or curtailment of income	56.8%
Excessive obligation	19.3%
Illness or Death in the Family	11.4%
Marital difficulties	4.7%
Inability to sell or rent property	2.4%
Property problem or casualty loss	0.9%
Employment transfer or military service	0.2%
Extreme hardship	0.1%
All other reasons	4.2%

Source: Freddie Mac; Data cover only prime conventional conforming loans and are from sample of borrowers who made successful contact with their servicer. All Other Reasons includes: Abandonment of Property; Energy/Environment Cost; Incarceration; Payment adjustment; Payment Dispute; Servicing problem; Unable to contact borrower and other – nondescript.

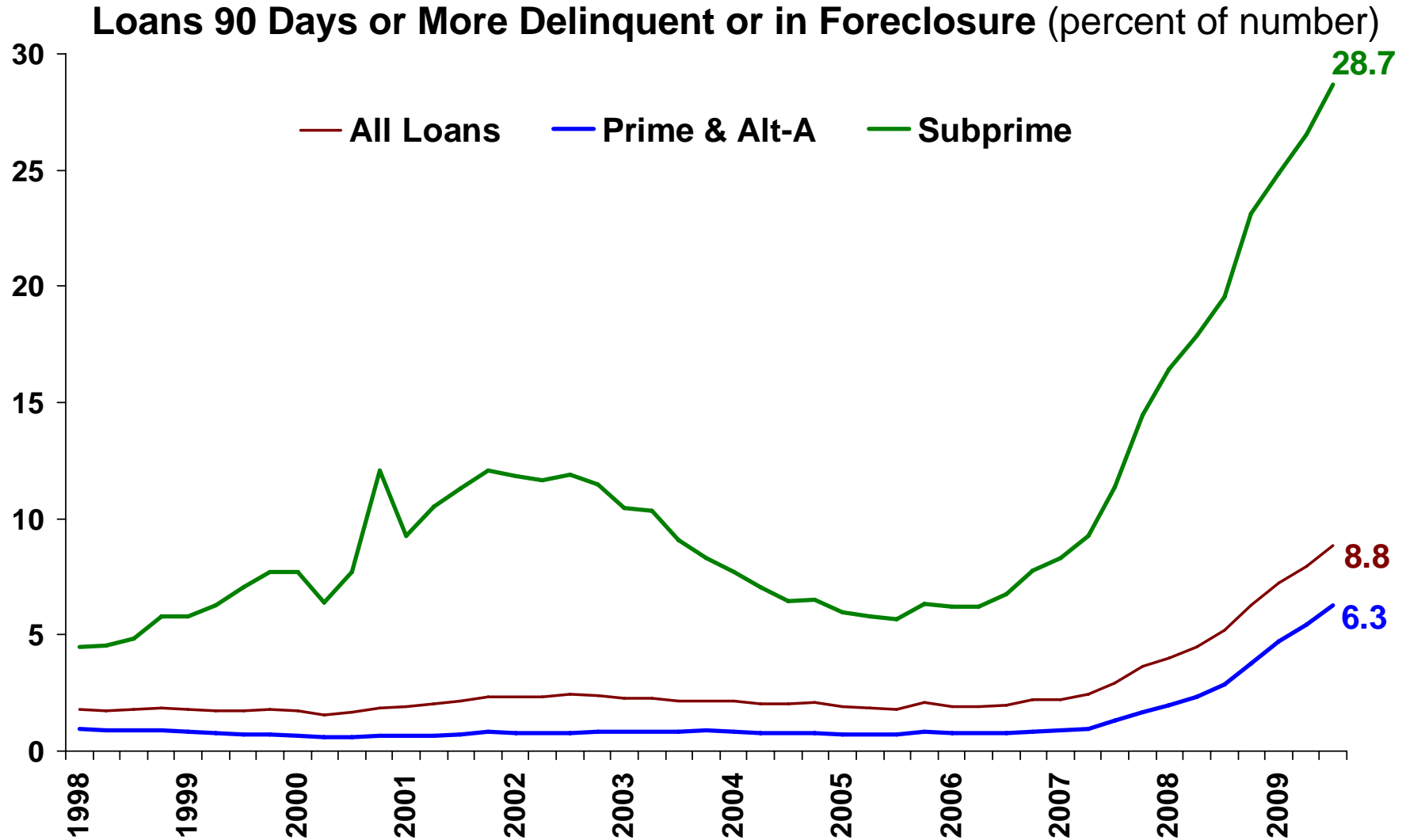
Recent Default Experience Is Unlike Any Previous Business Cycle Since the 1930s

Prime conventional (incl. Alt-A) loans 90 days or more delinquent or in foreclosure (percent)



Source: National Bureau of Economic Research, Mortgage Bankers Association
 (Prime Conventional includes Alt-A).

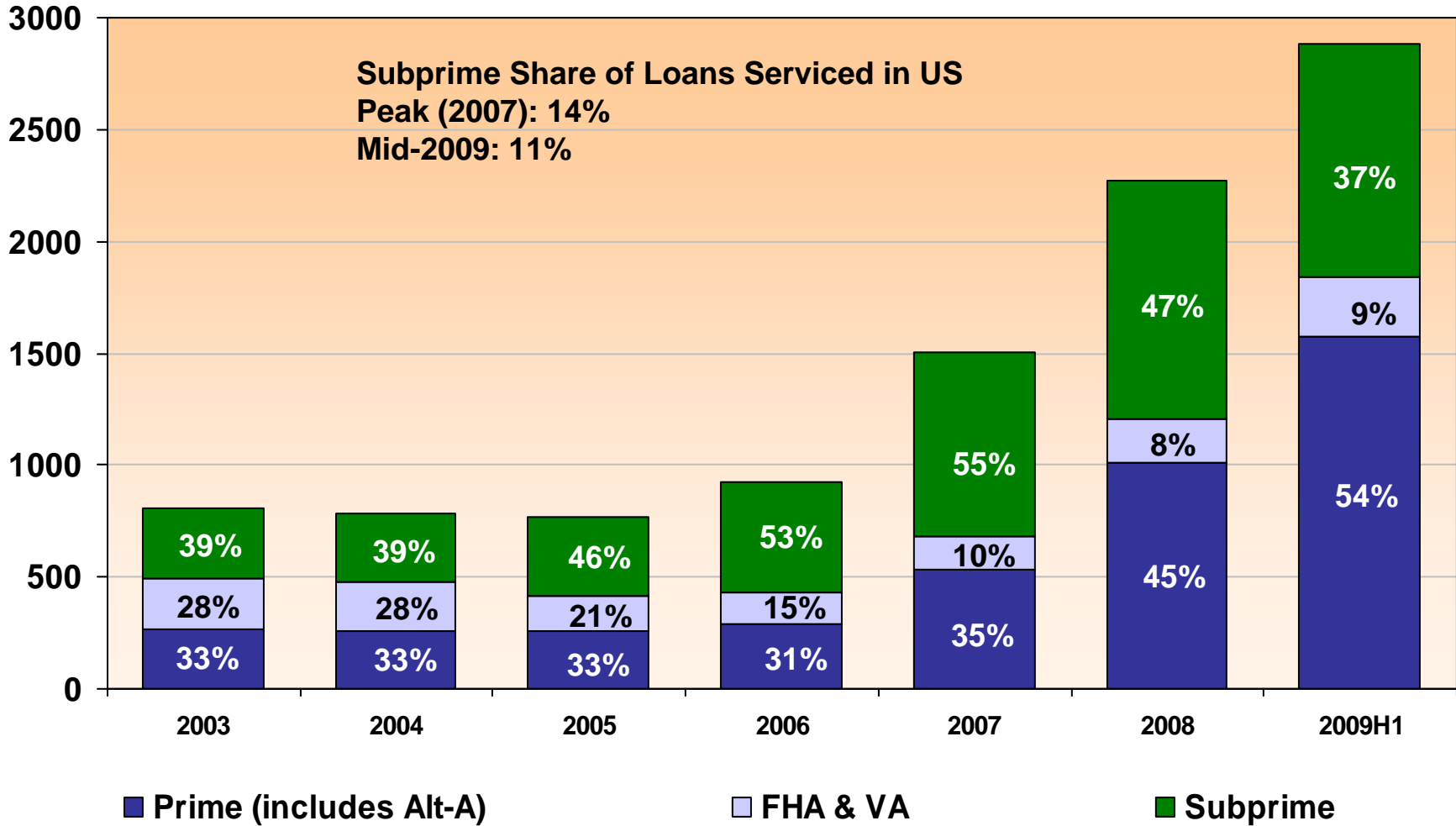
Increasing Delinquencies, Especially Subprime



Source: Mortgage Bankers Association; "Prime Loans" includes Alt-A (Quarterly data not seasonally adjusted; 1998Q1-2009Q3).

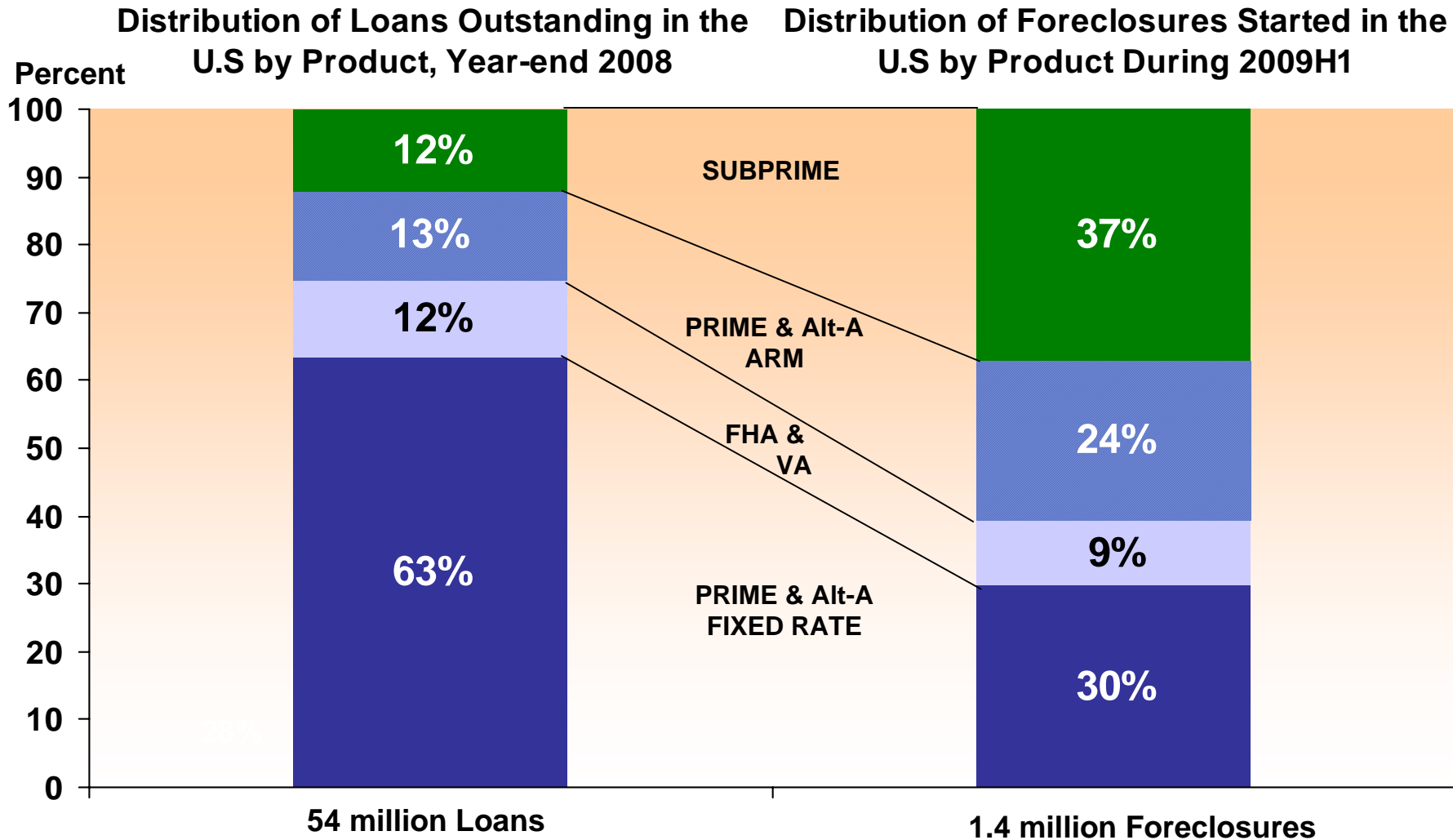
Relative to Serviced Loans, Subprime Accounts for a Very Large Share of Foreclosures

Number of Foreclosures Started (Annual Rate in Thousands)



Source: Mortgage Bankers Association National Delinquency Survey (2003 is only for second half). Numbers adjusted for 85% coverage.

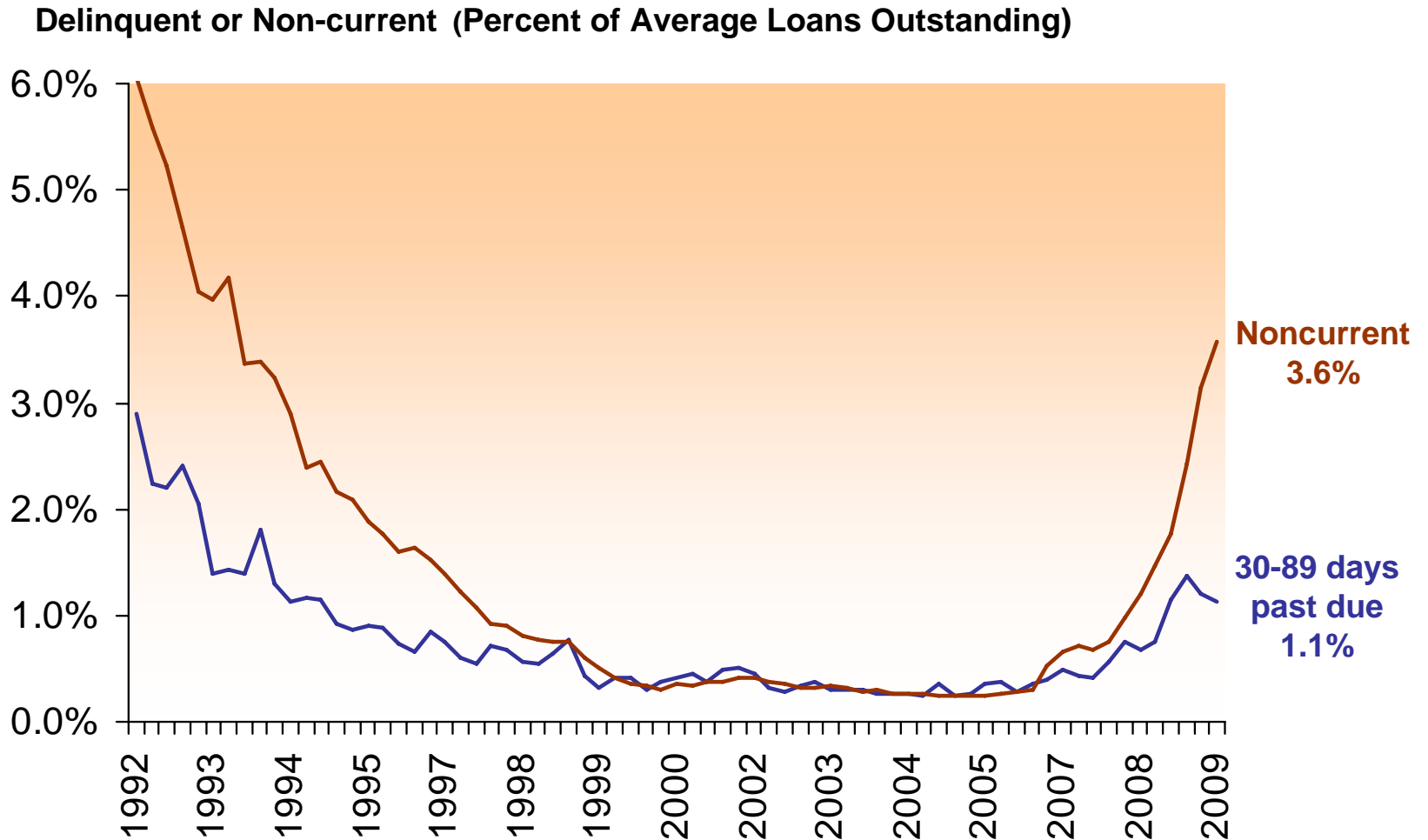
Subprime, Alt-A ARMs, and Option ARMs Drive Foreclosures in the U.S



Source: Mortgage Banker's Association National Delinquency Survey. Numbers adjusted for 85% coverage.

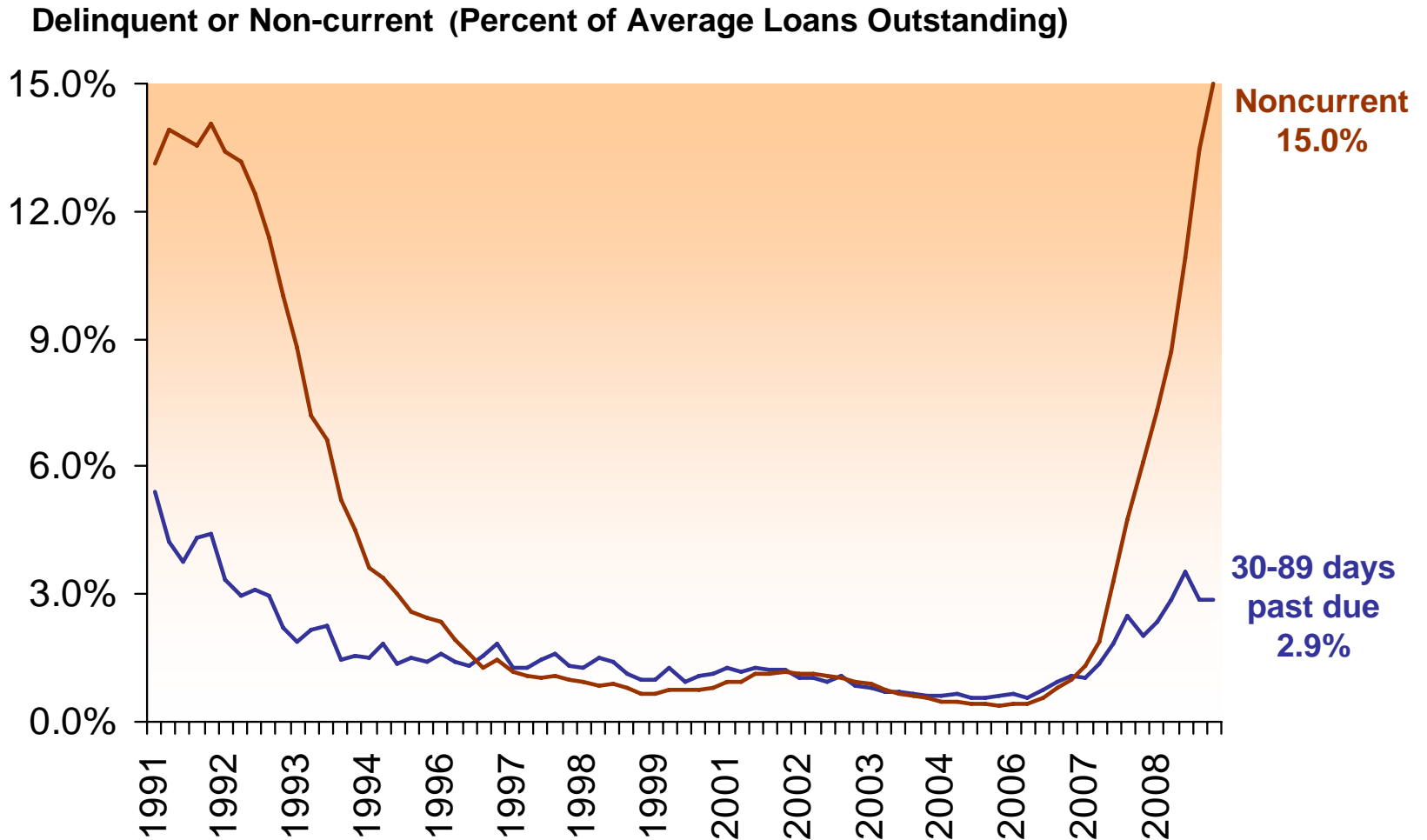
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Multifamily Default Rates at Banks and Savings Institutions Are Highest Since 1993



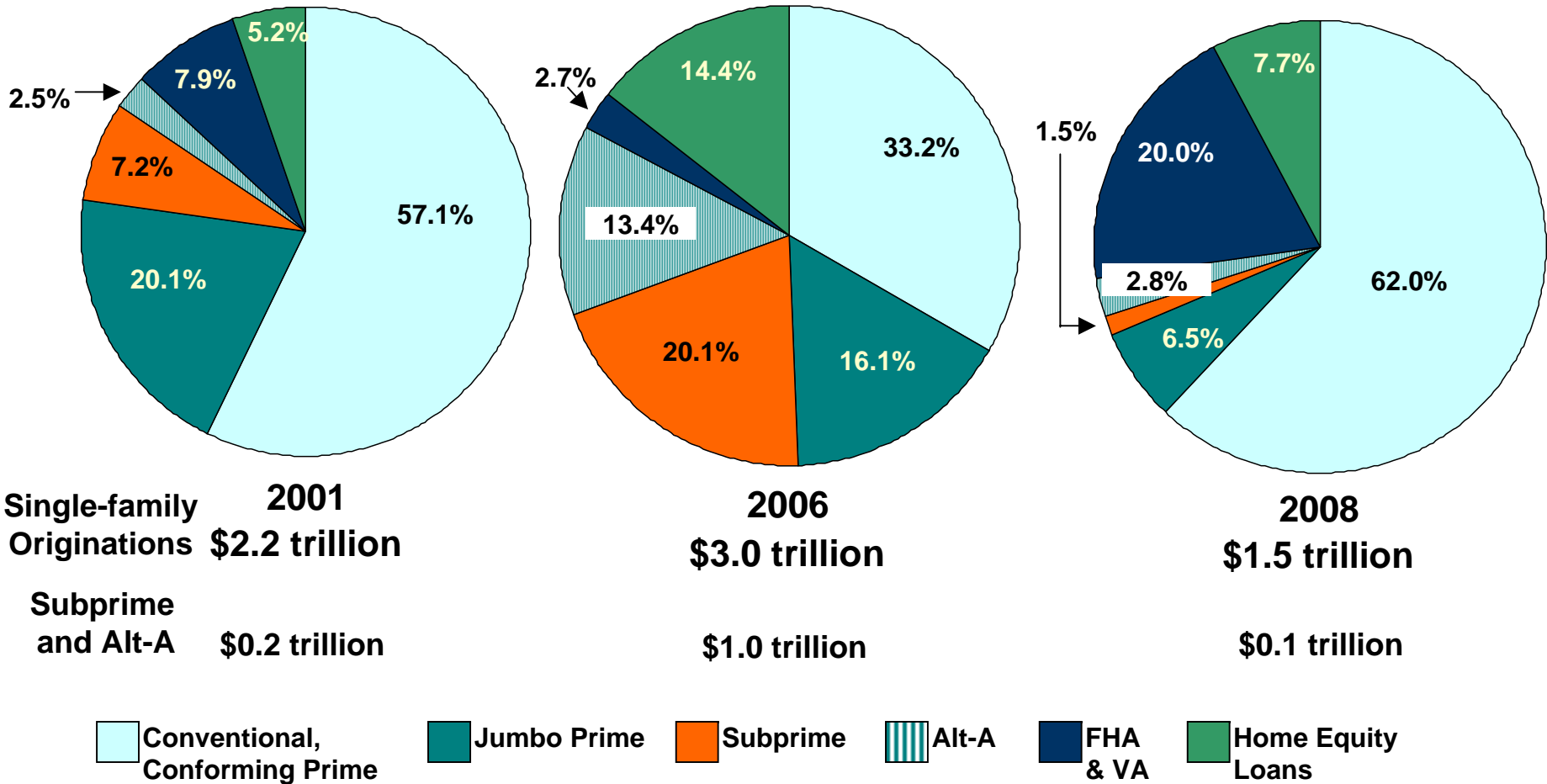
Note: Noncurrent loans – the sum of loans 90 days or more past due, and loans in nonaccrual status.
 Source: FDIC

Highest Construction and Development Default Rates at Banks and Thrifts Since 1991



Note: Noncurrent loans – the sum of loans 90 days or more past due, and loans in nonaccrual status.
 Source: FDIC

Subprime and Alt-A Volume Quintupled 2001 to 2006, then Fell from 2006 to 2008

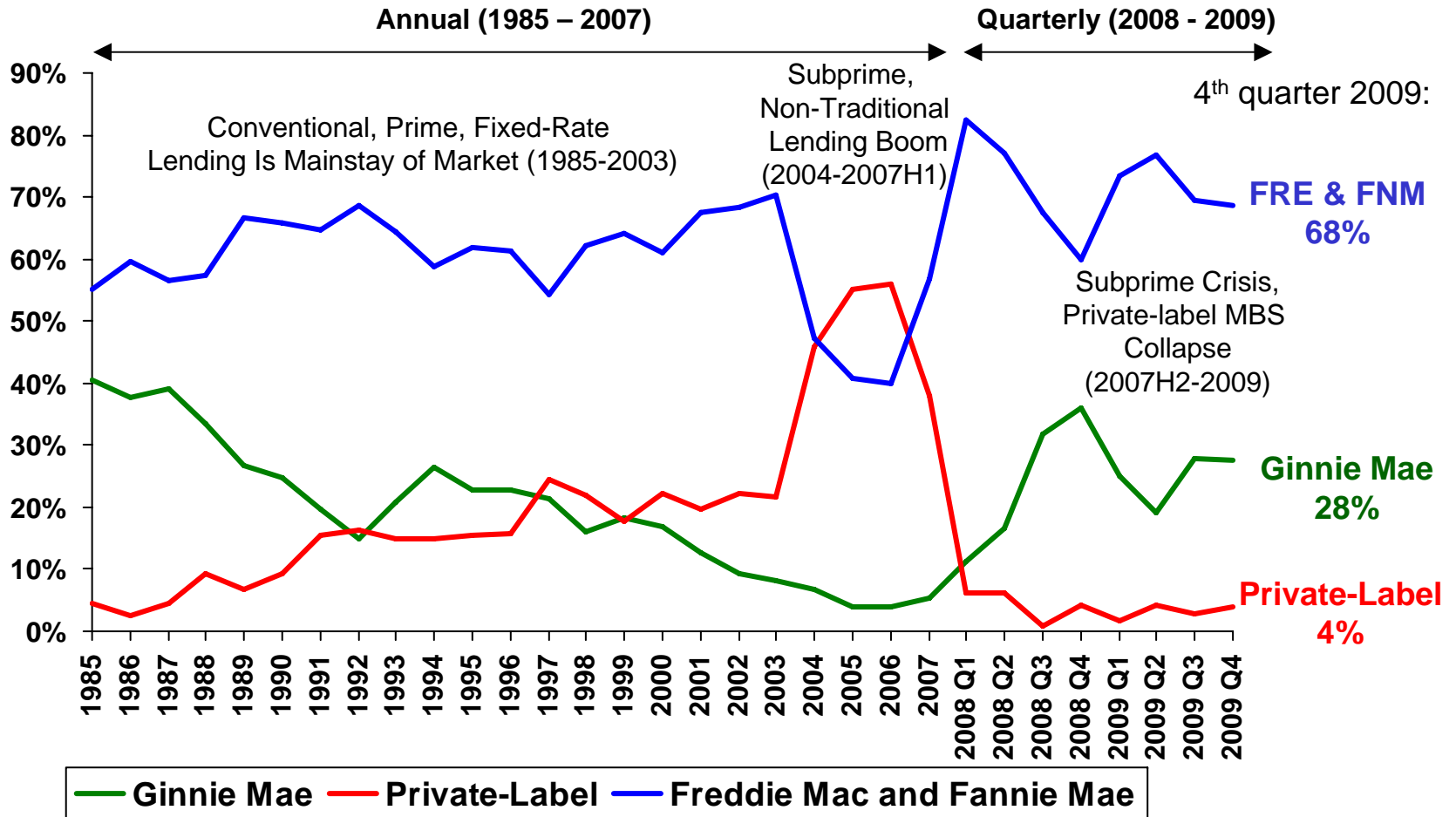


Source: Inside Mortgage Finance (by dollar amount)

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GSE & GNMA Share Fell When Subprime Boomed; Today GSEs & GNMA Are Main Source of Funds

MBS Share Issuance (Percent of MBS Issuance)

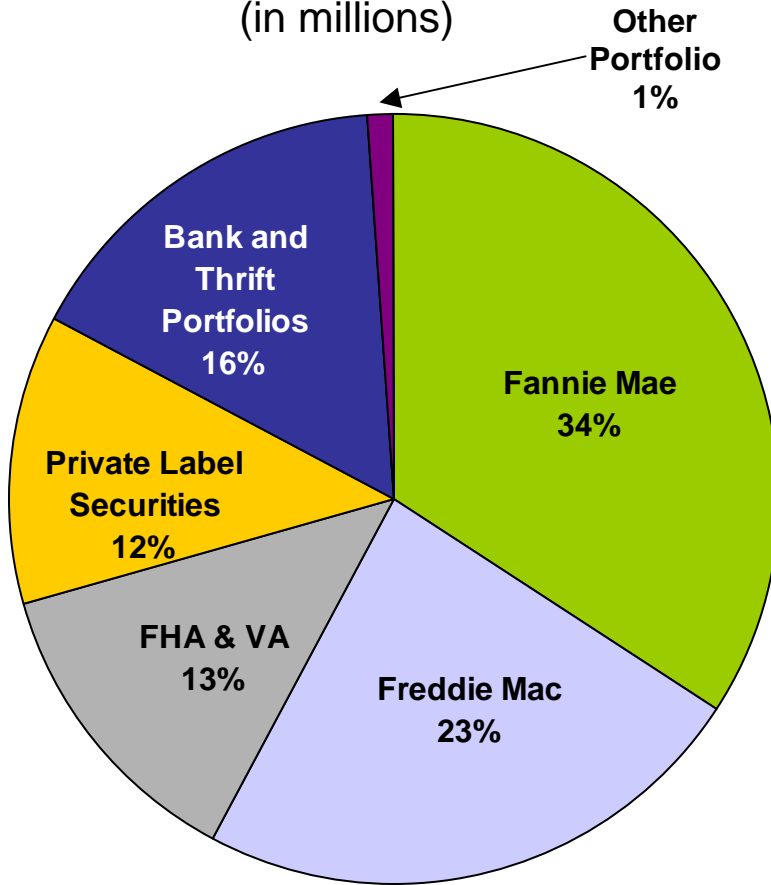


Source: Inside MBS & ABS (The 2008 Mortgage Market Statistical Annual - Volume II), Inside MBS & ABS (January 8, 2010).

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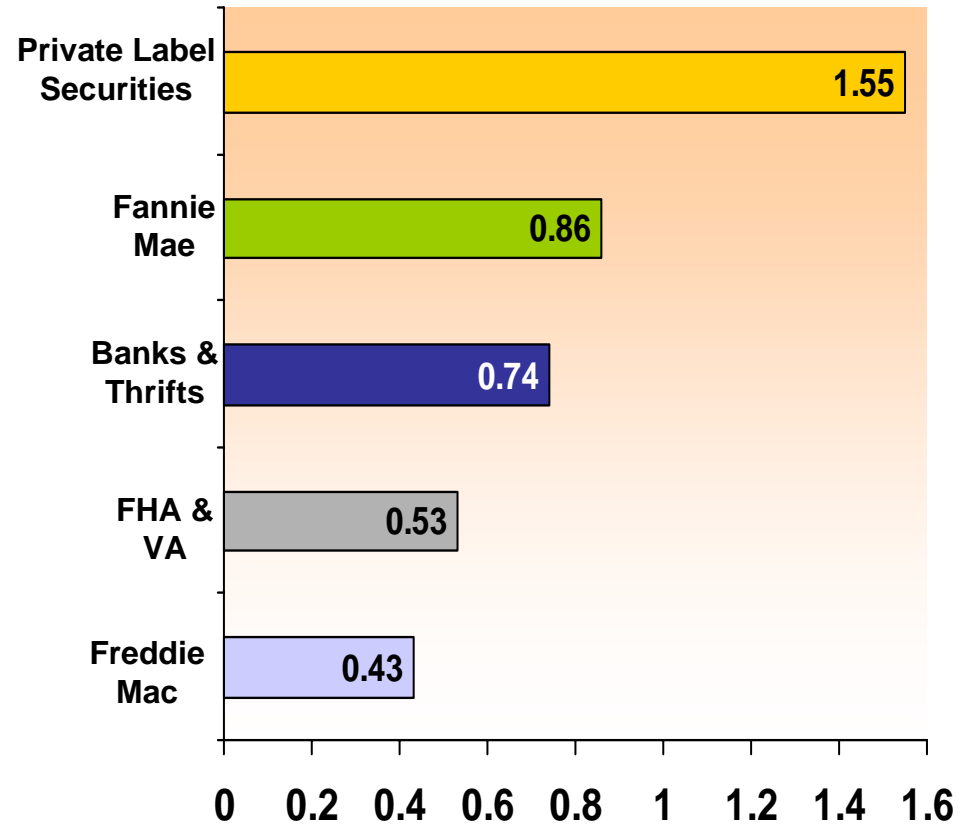
Private Label Securities Comprise 12% of Loans Outstanding but About a Third of Problem Loans

Number of First Mortgages Outstanding
(in millions)



Total: 54 Million

Seriously Delinquent 1st Mortgages
(in millions)

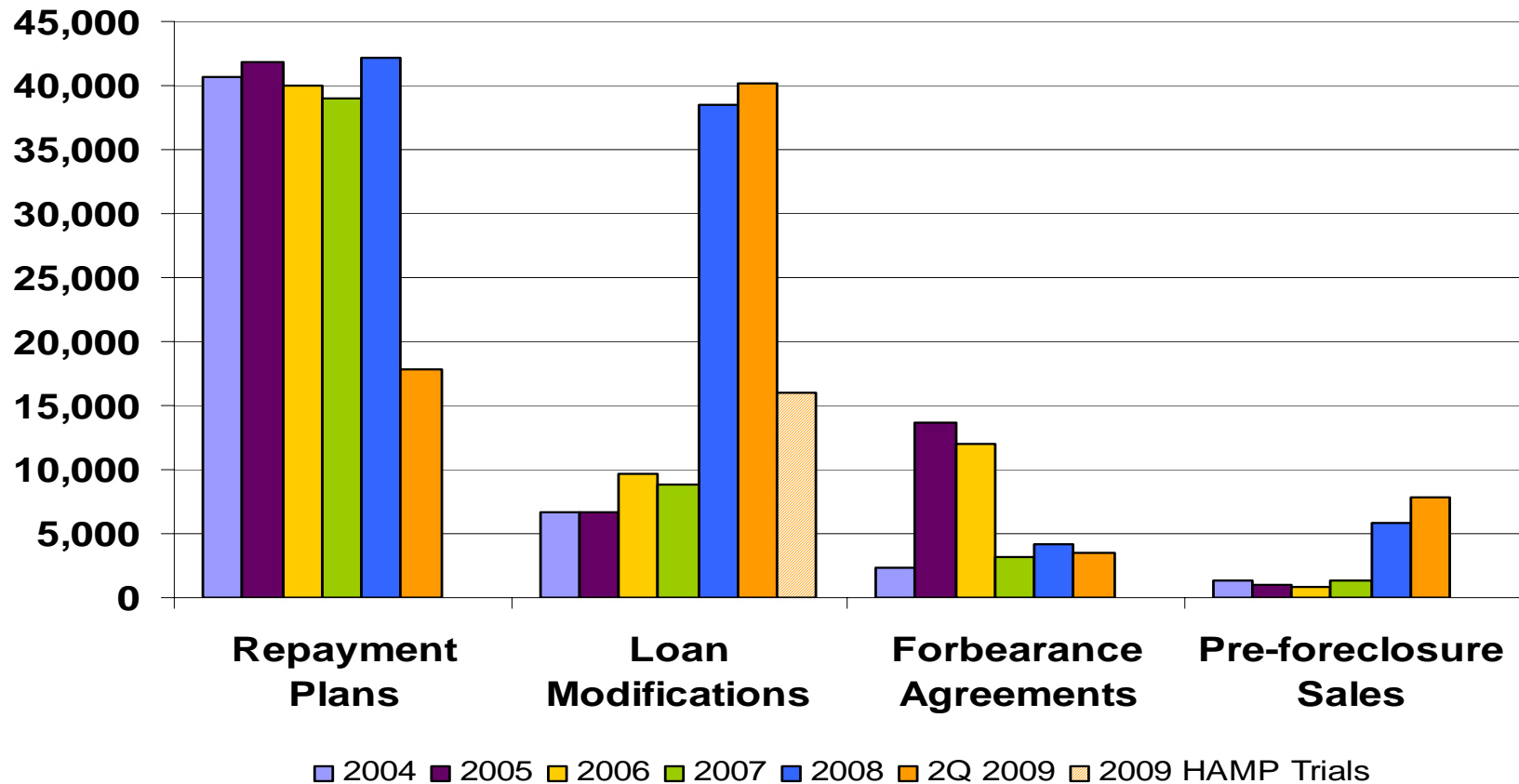


Total: 4.7 Million

Sources: FDIC, Freddie Mac, Fannie Mae, Mortgage Bankers Association, HUD, First American CoreLogic (LoanPerformance). Note: Data as of September 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. Seriously delinquent categories do not sum to 4.7 million because "Other Portfolio" is not shown.

Keeping People in Their Homes A Long-Standing Priority for Freddie Mac

Single-Family Alternatives to Foreclosure (Number of Loans)



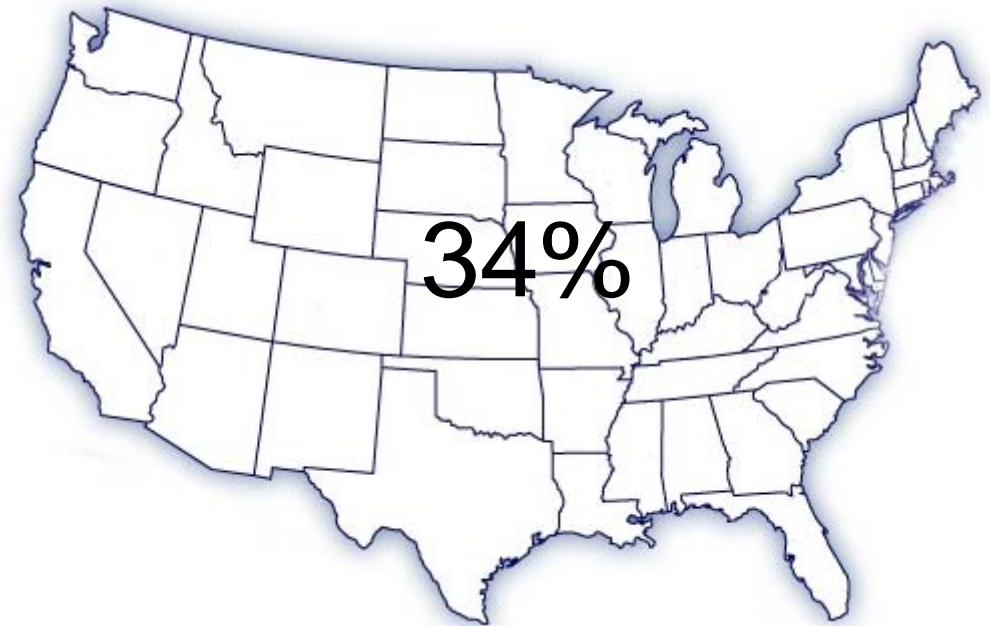
Source: Freddie Mac

Challenge: High Vacancy Rates Impact Our Ability to Reach Borrowers

Vacancy Rate for Key States¹

(Overall Rate for 90+Foreclosure Loans for 10/31/2009)

State	Percent Vacant
Arizona	37
California	30
Florida	44
Georgia	41
Illinois	30
Michigan	25
Nevada	41
New York	29
Ohio	29
Pennsylvania	32
Texas	36



1: Vacancy Rate based on vacant/unknown properties, excludes any REO acquisitions.

Freddie Mac Plays A Leadership Role in Making Home Affordable

Making Home Affordable Has Two Main Components:

**Easier
Refinancing**

*Lower rates for
4-5 million mortgages*

**Subsidized
Modifications**

*\$75 billion for
3-4 million mortgages*

Freddie Mac Relief Refinance Mortgages

- Freddie Mac must own or guarantee
- Borrowers must be current over past 12 months
- LTVs up to 125% of current value
- Lenders generally will not have to re-underwrite
- Mortgage Insurance (MI): If loan has MI, same coverage must be maintained; if loan does not have MI then not required on greater than 80 percent LTV
- Conventional loans
- Must be originated by June 10, 2010

Modification Program for At-Risk Borrowers

- \$75 billion to subsidize loan modifications
- Modifications will follow uniform guidelines
- Reduces monthly payments to a 31 percent debt-to-income ratio
- Owner-occupied loans only
- Provides financial incentives for servicers and borrowers to initiate and sustain modifications
- Each GSE responsible for modifying their own loans
- Fannie Mae is Program Administrator for Non-GSE modifications
- Freddie Mac is Compliance Agent for Non-GSE modifications



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