

FannieMae ECONOMICS AND MORTGAGE MARKET ANALYSIS

Have We Seen The Bottom Pass?

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Timely Quote

"We Californians have learned something. And that is that home prices can't just go up forever—they have to be supported by something. **Never again will Californians make this mistake.**"

-LA Times, 1886, after the 1885 LA housing bubble

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Questions to Ponder

- What is the rate of tradeoff of economic growth for macroeconomic risk reduction?
- Are consumers making a sustained shift away from consumption based on access to credit and toward saving at historical levels?
- Do economies with concentrated bank-centric financial systems outperform diversified financial services systems in the long run?
- Can leverage be managed counter cyclically?
- What is the sustainable homeownership rate?
- What is the fundamental price level for housing?

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Previous Recession Ends: What Leads; What Lags

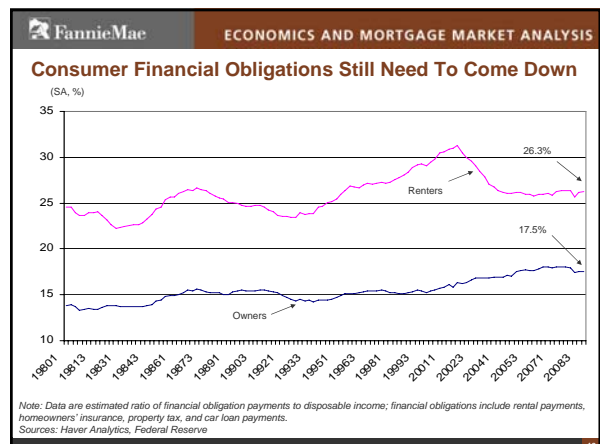
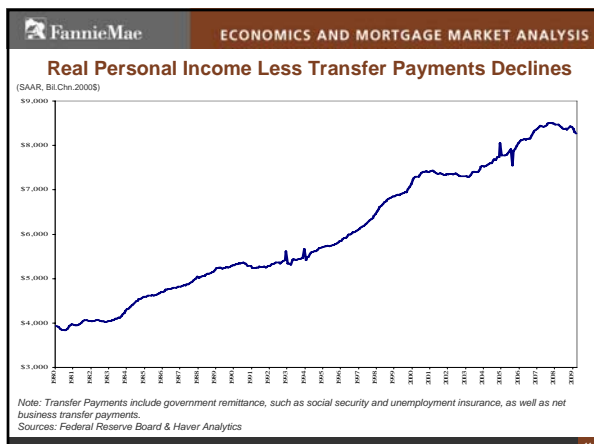
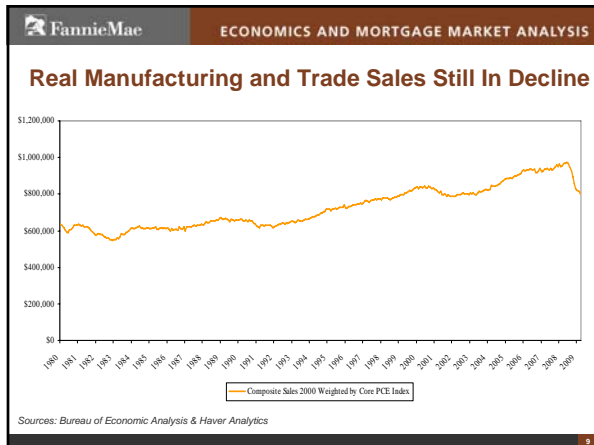
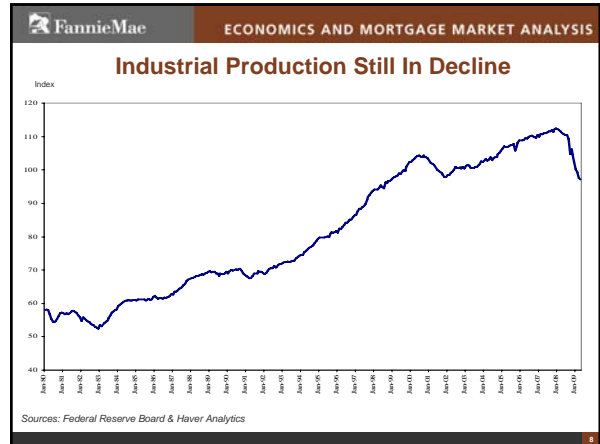
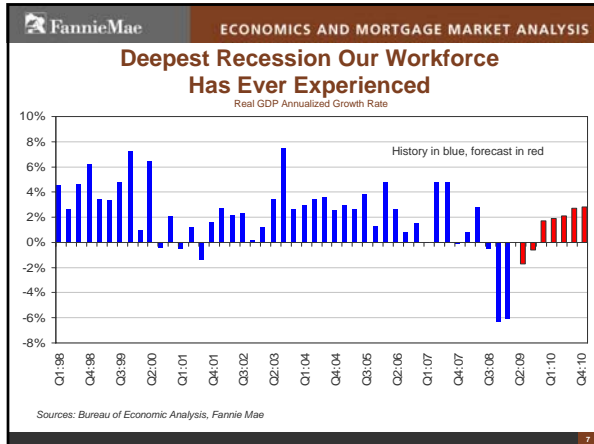
Note: Average of post 1960 recessions
Sources: PMI, Fannie Mae

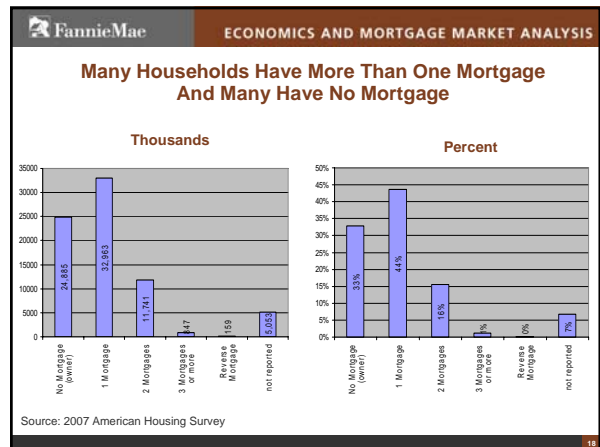
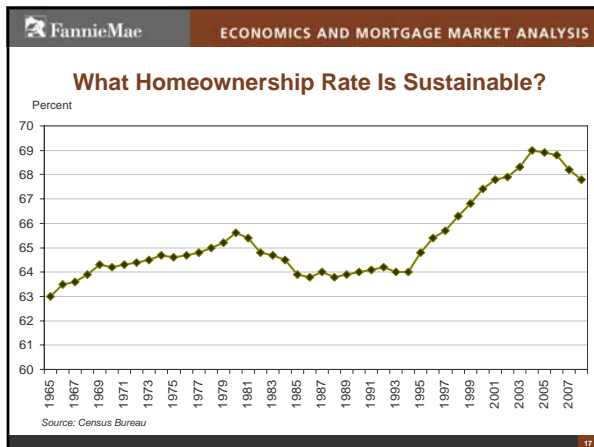
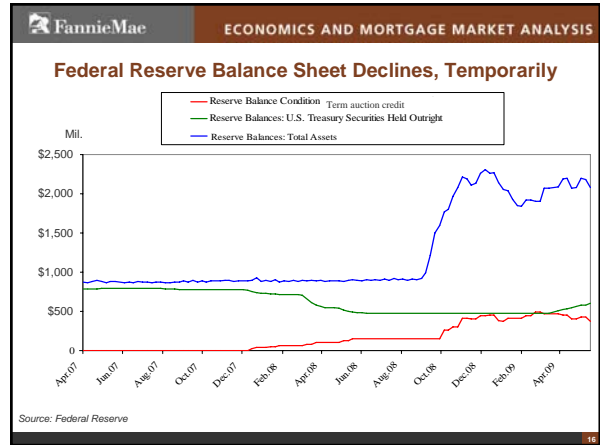
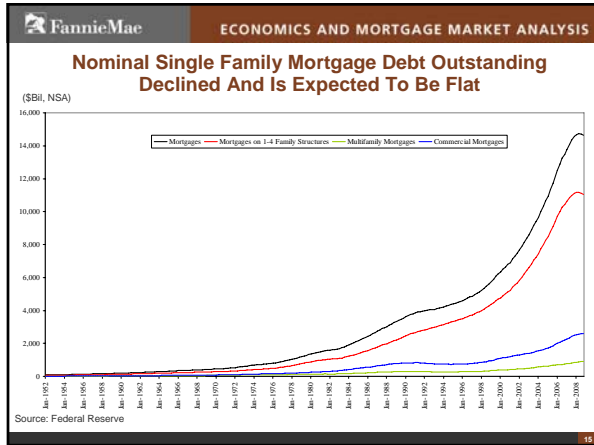
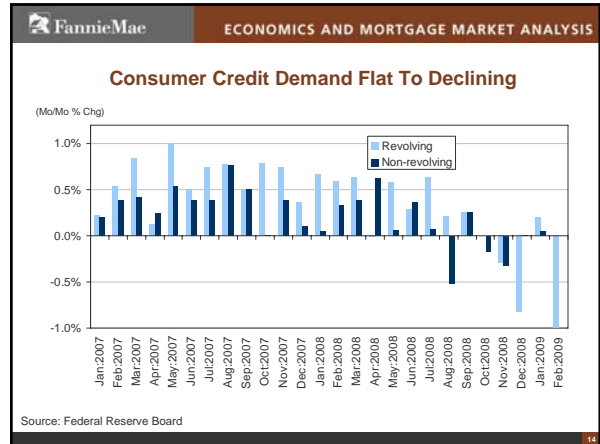
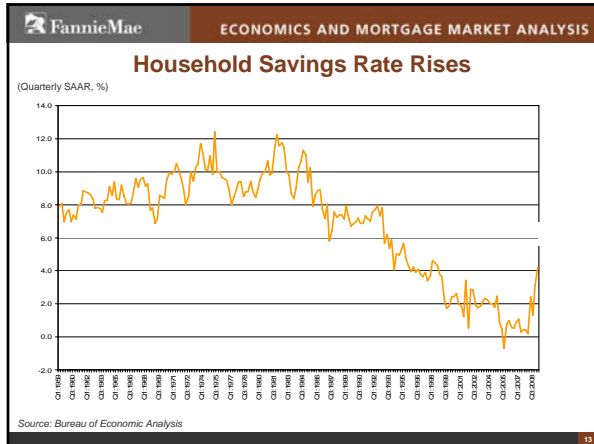
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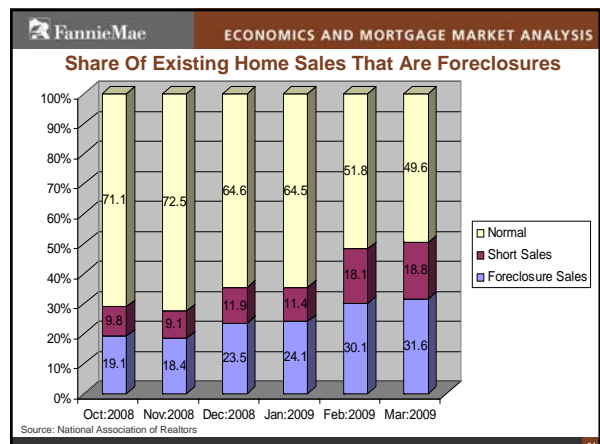
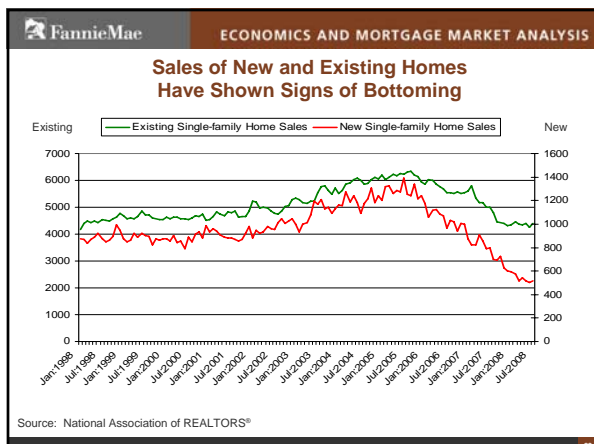
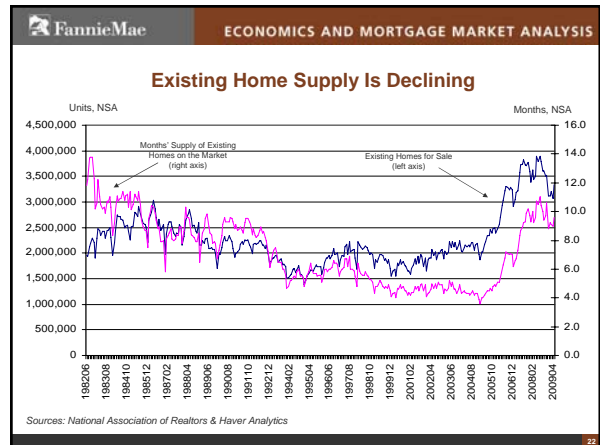
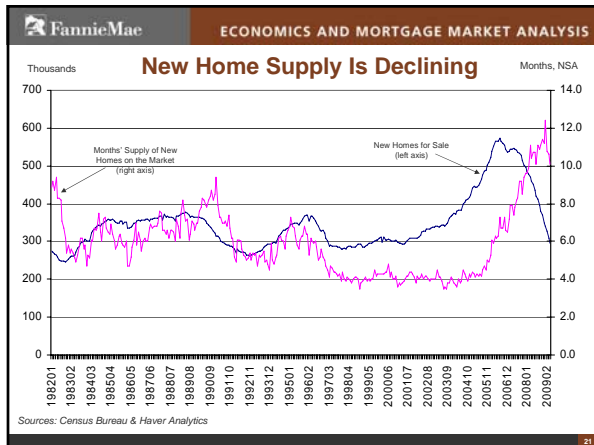
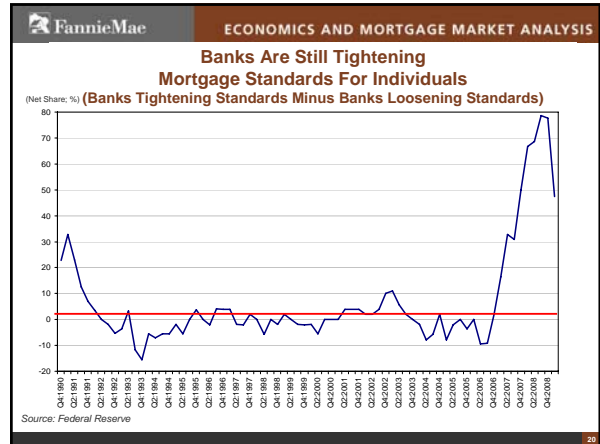
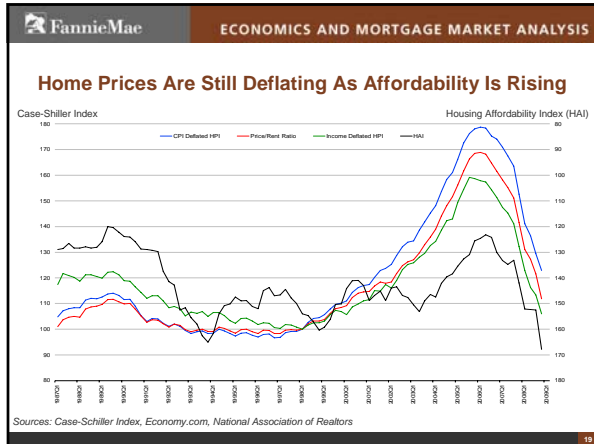
Growth in Real GDP First Year of Economic Recoveries

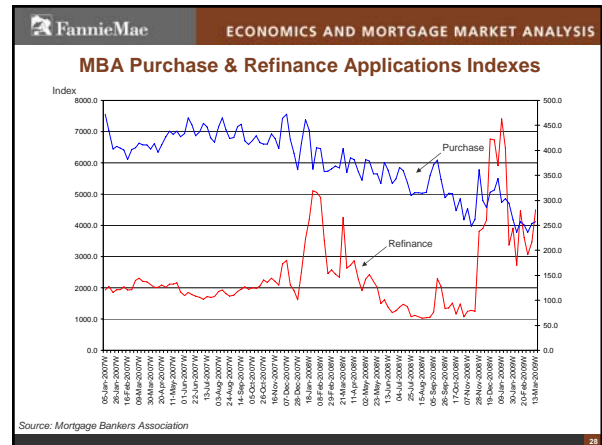
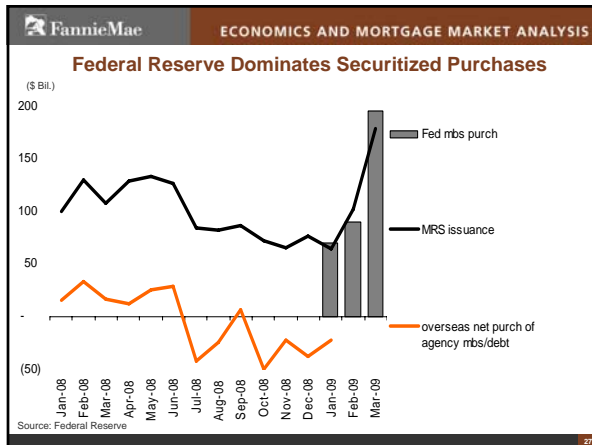
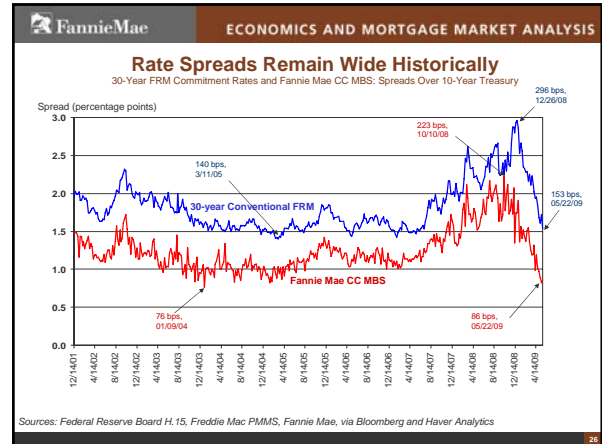
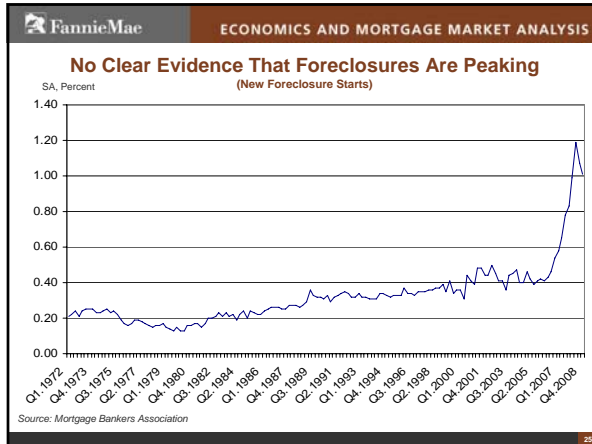
(Percentage Contributions)

Note: Average of Post WWII Recessions
Sources: Bureau of Economic Analysis, Fannie Mae Research









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How Many Refinances at 4.5% Interest Rates?

Factors preventing refinance

- CLTV or expected CLTV
- Borrower credit
- Employment issues
- Upfront cost
- MI problems

Factors delaying refinance

- Origination capacity
- Warehouse funding
- Expected better conditions

Factors leading to borrowers choosing not to refinance

- Loan seasoning
- Mobility
- Yield curve
- Jumbo pricing
- Inertia

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Conclusions

- The economy may have passed the worst in the 1st quarter.
- One data point doesn't make a trend line ...
- ... but multiple similar data points are encouraging.
- We are rapidly transferring the excessive leverage from the private to the public balance sheet.
- No inflation now but prudent fears of it ahead.
- What is the fundamental price level for housing?
- With the foreclosure moratorium we do not know if foreclosures have turned.