Will The Recovery Hold?
By Doug Duncan
Vice President and Chief Economist
Fannie Mae
June 17, 2010
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Growth in Real GDP and Contribution to GDP Growth – First Year of Economic Recoveries vs. 2010 Forecast

(Percent Contributions)

Post-WWII Recessions
- GDP Growth (SAAR) 6.8%
- Gross Private Domestic Investment 3%
- Residential Fixed Investment 1%
- Government Consumption and Investment 2%
- Net Exports of Goods and Services -1%

2010 Forecast
- Personal Consumption Expenditures 3.2%

Note: Average of first four quarters of recoveries of the Post WWII Recessions with 1980-82 “double-dip” as a single recession.

Sources: Bureau of Economic Analysis, Fannie Mae Research
Employment Starts to Firm

Source: Bureau of Labor Statistics
Unemployment Rates by State
Seasonally Adjusted, April 2010

Source: Bureau of Labor Statistics
Consumers Take A Breather After Strong Showing

Real personal consumption expenditures (month-to-month percent change)

Source: Bureau of Economic Analysis
Non-manufacturing Activity Expanding After Record Low

Source: Institute for Supply Management
Stock Value Falls Sharply

Stock price index: Standard & Poor’s 500 Composite (1941-43 = 100), monthly average through May

Source: Wall Street Journal
Capital Markets
Financial Stress Drops Sharply From Peak
The Federal Reserve Bank of Kansas City Financial Stress Index*

*A positive value indicates that financial stress is above the long-run average, while a negative value signifies that financial stress is below the long-run average.

Source: Federal Reserve Bank of Kansas City
Bank Loans as a Percent of GDP Still Declining

Total Commercial Bank Loans as a Share of Real GDP (%)

Sources: Federal Reserve Board, Bureau of Economic Analysis
Net Foreign Purchases of Government Agency Debt Show Little Net New Investment Interest

Source: U.S. Treasury Department
Rising European Risks Imply Slower Global Growth

Markit iTraxx Financial Index of European Swaps

Source: Bloomberg, Markit
Greek Bond Spread Surges on Solvency Concerns

10-year government bonds minus German government bonds, basis points

Source: Bloomberg
Housing
The Housing Supply Pool Level is Still High

No Lifeguard on Duty! Swim at Your Own Risk!

Months’ Supply

<table>
<thead>
<tr>
<th>Foreclosures</th>
<th>New housing completions</th>
<th>Existing homes</th>
<th>Condo conversions</th>
</tr>
</thead>
</table>

Normal Fill Level

Source: Fannie Mae
What is a Sustainable Homeownership Rate?
Housing Starts Remain at Very Low Levels

Source: Census Bureau
New Homes For Sale at the Lowest Levels Since the 1970s

[Graph showing the number of new single family houses for sale (SA, Thousands) from 1965 to 2010. The graph indicates a significant decrease in the number of homes for sale, reaching the lowest levels since the 1970s.]
Existing Homes on the Market Still at Elevated Levels

Source: National Association of REALTORS®
Current Excess Supply Over Normalized Demand and Pent-Up Supply of 7 Million Units* Have the Potential to Further Depress Future Home Prices

- **Homeowner Vacancy Rate**
  - 700,000 excess supply of homes, based on 1.7 percent normal rate

- **Rental Vacancy Rate**
  - 1.2M excess supply of homes, based on 7.7 percent normal rate

- **Vacant Homes Held off Market**
  - 650,000 units above trend

- **Seriously Delinquency Rate***
  - 5 million homes, based on 52 million total mortgages

Sources: Census Bureau, Mortgage Bankers Association, *Fannie Mae estimate
Mortgage Origination
Mortgage Rates Are Still Good

Sources: Federal Reserve Board, Freddie Mac
Government-Insured Share of Purchase Applications is the Highest in Almost 20 Years

Source: Mortgage Bankers Association
Serious Delinquent Rates in Each State – Q1 2010

Note: Data is market-wide SDQ information.

Sources: Mortgage Bankers Association, National Delinquency Survey
Safety, education most important considerations in home purchase

- Indicating there is a strong non-financial component to owning, based on a sense of security for your family – significantly stronger than any of the more economic considerations.

<table>
<thead>
<tr>
<th>Is this a major reason, minor reason or not a reason at all to buy a home</th>
<th>GP %</th>
<th>Delinquent %</th>
<th>Owner %</th>
<th>Mortgage %</th>
<th>Renter %</th>
<th>Underwater %</th>
<th>Hispanic %</th>
<th>African American %</th>
<th>&lt;$25k %</th>
<th>$25k-$50k %</th>
<th>$50k-$100k %</th>
<th>$100k+ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Showing Major reason</td>
<td></td>
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</tr>
<tr>
<td>It means having a good place to raise children and provide them with a good education</td>
<td>80</td>
<td>83</td>
<td>82</td>
<td>80</td>
<td>78</td>
<td>75</td>
<td>88</td>
<td>82</td>
<td>80</td>
<td>80</td>
<td>79</td>
<td>83</td>
</tr>
<tr>
<td>You have a physical structure where you and your family feel safe</td>
<td>79</td>
<td>79</td>
<td>82</td>
<td>91</td>
<td>75</td>
<td>81</td>
<td>83</td>
<td>80</td>
<td>79</td>
<td>91</td>
<td>80</td>
<td>74</td>
</tr>
<tr>
<td>It gives you control over what you do with your living space, like renovations and updates</td>
<td>71</td>
<td>67</td>
<td>73</td>
<td>72</td>
<td>70</td>
<td>71</td>
<td>70</td>
<td>70</td>
<td>87</td>
<td>74</td>
<td>74</td>
<td>69</td>
</tr>
<tr>
<td>Paying rent is not a good investment</td>
<td>63</td>
<td>66</td>
<td>63</td>
<td>72</td>
<td>54</td>
<td>69</td>
<td>61</td>
<td>50</td>
<td>53</td>
<td>66</td>
<td>70</td>
<td>71</td>
</tr>
<tr>
<td>Owning a home is a good way to build up wealth that can be passed along to my family</td>
<td>61</td>
<td>61</td>
<td>64</td>
<td>54</td>
<td>66</td>
<td>55</td>
<td>71</td>
<td>75</td>
<td>66</td>
<td>64</td>
<td>58</td>
<td>52</td>
</tr>
<tr>
<td>It is a good retirement investment</td>
<td>60</td>
<td>59</td>
<td>65</td>
<td>55</td>
<td>61</td>
<td>51</td>
<td>67</td>
<td>67</td>
<td>61</td>
<td>85</td>
<td>60</td>
<td>55</td>
</tr>
<tr>
<td>It allows you to select a community where people share your values</td>
<td>51</td>
<td>56</td>
<td>61</td>
<td>49</td>
<td>47</td>
<td>41</td>
<td>55</td>
<td>50</td>
<td>52</td>
<td>53</td>
<td>50</td>
<td>49</td>
</tr>
<tr>
<td>Owning a home provides tax benefits</td>
<td>47</td>
<td>58</td>
<td>45</td>
<td>51</td>
<td>45</td>
<td>50</td>
<td>51</td>
<td>50</td>
<td>42</td>
<td>46</td>
<td>50</td>
<td>54</td>
</tr>
<tr>
<td>Owning a home gives me something I can borrow against if I need it</td>
<td>35</td>
<td>41</td>
<td>39</td>
<td>30</td>
<td>30</td>
<td>30</td>
<td>44</td>
<td>44</td>
<td>42</td>
<td>31</td>
<td>30</td>
<td>28</td>
</tr>
<tr>
<td>It motivates you to become a better citizen and engage in important civic activities, such as voting, volunteering, and contributing to charities</td>
<td>30</td>
<td>36</td>
<td>39</td>
<td>25</td>
<td>28</td>
<td>26</td>
<td>45</td>
<td>31</td>
<td>33</td>
<td>32</td>
<td>28</td>
<td>22</td>
</tr>
</tbody>
</table>

Source: Fannie Mae National Housing Survey
Barriers to buying a house

- Poor credit and inability to afford a home prevent renters from buying, especially among lower income Americans
  - Many also refrain because they do not think it is a good time economically to buy

<table>
<thead>
<tr>
<th>Reason</th>
<th>Renter %</th>
<th>Hispanic %</th>
<th>African-American %</th>
<th>&lt;$25K %</th>
<th>$25K-$50K %</th>
<th>$50K-$100K %</th>
<th>$100K+ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>You don't have good enough credit for a mortgage</td>
<td>54</td>
<td>55</td>
<td>59</td>
<td>63</td>
<td>45</td>
<td>45</td>
<td>47</td>
</tr>
<tr>
<td>You don't think you can afford the purchase or upkeep of a home</td>
<td>47</td>
<td>43</td>
<td>42</td>
<td>55</td>
<td>41</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>You don't think it's a good time economically to buy a home</td>
<td>41</td>
<td>NA</td>
<td>52</td>
<td>NA</td>
<td>46</td>
<td>38</td>
<td>31</td>
</tr>
<tr>
<td>You don't think you will be in a certain area for an extended period of time</td>
<td>34</td>
<td>33</td>
<td>23</td>
<td>33</td>
<td>34</td>
<td>43</td>
<td>41</td>
</tr>
<tr>
<td>It is cheaper per month to rent than to buy</td>
<td>30</td>
<td>NA</td>
<td>25</td>
<td>25</td>
<td>35</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>The process of buying a home seems too complicated</td>
<td>25</td>
<td>28</td>
<td>22</td>
<td>29</td>
<td>26</td>
<td>15</td>
<td>11</td>
</tr>
<tr>
<td>Purchasing a home makes you feel like you will have limited flexibility in your future choices. Is this a major reason you have not bought a house?</td>
<td>23</td>
<td>NA</td>
<td>22</td>
<td>NA</td>
<td>27</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>You don't want to be concerned with doing the upkeep</td>
<td>21</td>
<td>29</td>
<td>16</td>
<td>24</td>
<td>18</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>You'd rather use the money for other investments than a home</td>
<td>21</td>
<td>23</td>
<td>10</td>
<td>25</td>
<td>18</td>
<td>10</td>
<td>23</td>
</tr>
<tr>
<td>You can live in a better neighborhood by renting</td>
<td>17</td>
<td>20</td>
<td>13</td>
<td>17</td>
<td>16</td>
<td>17</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Fannie Mae National Housing Survey
Buying a home is considered a safe investment

- Though 7 in 10 think buying a house is a safe investment, still one of the safest, this number is down 13 points from 2003.
- That number is just as high for Delinquents.
- Respondents with lower incomes think buying a home is a riskier investment than those with higher incomes.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Showing Safe/Risky</td>
<td>GP %</td>
<td>Delinquent %</td>
<td>Owner %</td>
<td>Mortgage %</td>
<td>Rentor %</td>
<td>Underwater %</td>
<td>Hispanic %</td>
<td>African American %</td>
<td>&lt;$25k %</td>
<td>$25k $50k %</td>
<td>$50k $100k %</td>
<td>$100k+ %</td>
</tr>
<tr>
<td>Putting money into a savings or money market account</td>
<td>74/20</td>
<td>79/16</td>
<td>73/24</td>
<td>73/22</td>
<td>74/19</td>
<td>79/16</td>
<td>82/15</td>
<td>71/23</td>
<td>78/15</td>
<td>76/20</td>
<td>69/25</td>
<td>75/15</td>
</tr>
<tr>
<td>Buying a home</td>
<td>70/27</td>
<td>83/15</td>
<td>65/32</td>
<td>73/21</td>
<td>78/19</td>
<td>76/21</td>
<td>88/11</td>
<td>61/61</td>
<td>37/17</td>
<td>75/23</td>
<td>64/33</td>
<td>81/15</td>
</tr>
<tr>
<td>Putting money into an IRA or 401(k) plan</td>
<td>63/30</td>
<td>69/22</td>
<td>57/37</td>
<td>61/29</td>
<td>63/26</td>
<td>67/31</td>
<td>72/21</td>
<td>63/31</td>
<td>70/15</td>
<td>69/30</td>
<td>55/34</td>
<td>65/22</td>
</tr>
<tr>
<td>Buying government or corporate bonds</td>
<td>50/39</td>
<td>NA</td>
<td>47/38</td>
<td>52/36</td>
<td>NA</td>
<td>66/35</td>
<td>NA</td>
<td>44/44</td>
<td>NA</td>
<td>54/36</td>
<td>46/41</td>
<td>NA</td>
</tr>
<tr>
<td>Buying an insurance annuity</td>
<td>50/31</td>
<td>NA</td>
<td>48/22</td>
<td>48/22</td>
<td>NA</td>
<td>63/22</td>
<td>NA</td>
<td>50/28</td>
<td>NA</td>
<td>48/23</td>
<td>46/24</td>
<td>NA</td>
</tr>
<tr>
<td>Investing in a mutual fund</td>
<td>46/41</td>
<td>53/33</td>
<td>45/41</td>
<td>44/42</td>
<td>47/34</td>
<td>48/41</td>
<td>56/35</td>
<td>44/41</td>
<td>55/27</td>
<td>50/37</td>
<td>37/47</td>
<td>46/36</td>
</tr>
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Source: Fannie Mae National Housing Survey
Contact Information

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