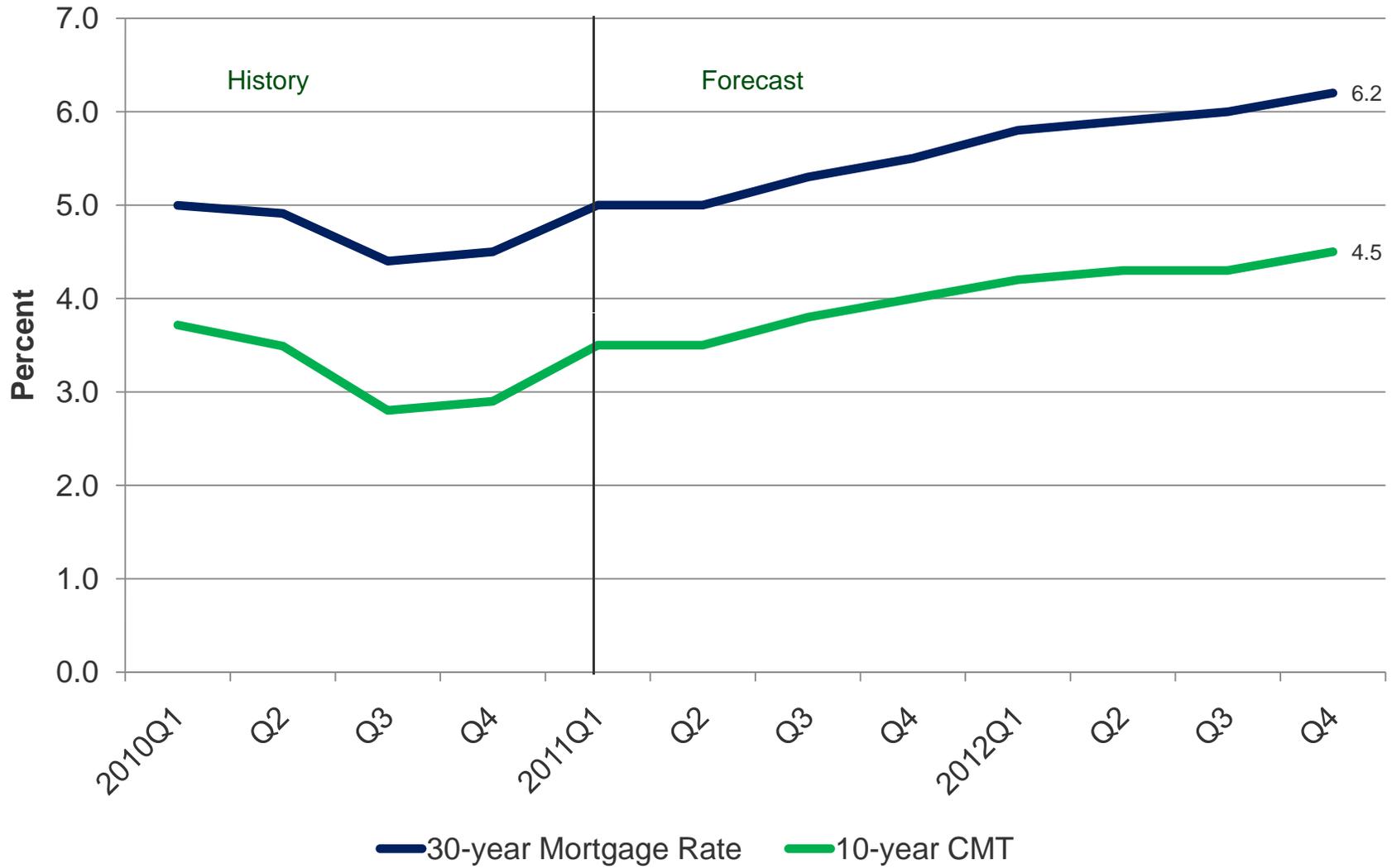


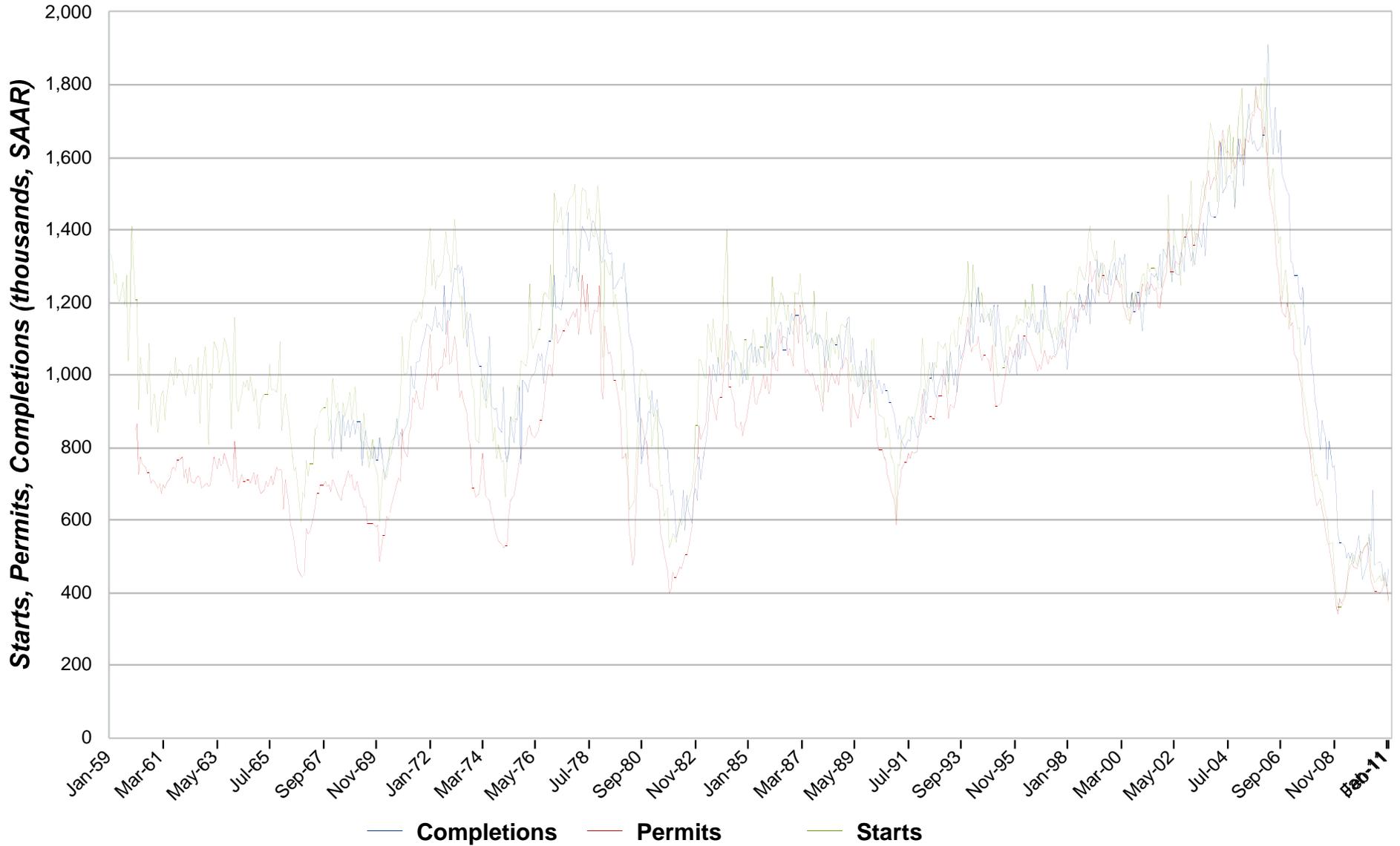
# Real Estate Lending Panel Richmond Fed Conference April 1, 2011

Michael Fratantoni  
MBA Research & Economics

# Mortgage and Treasury Rate Forecast



# Construction Activity



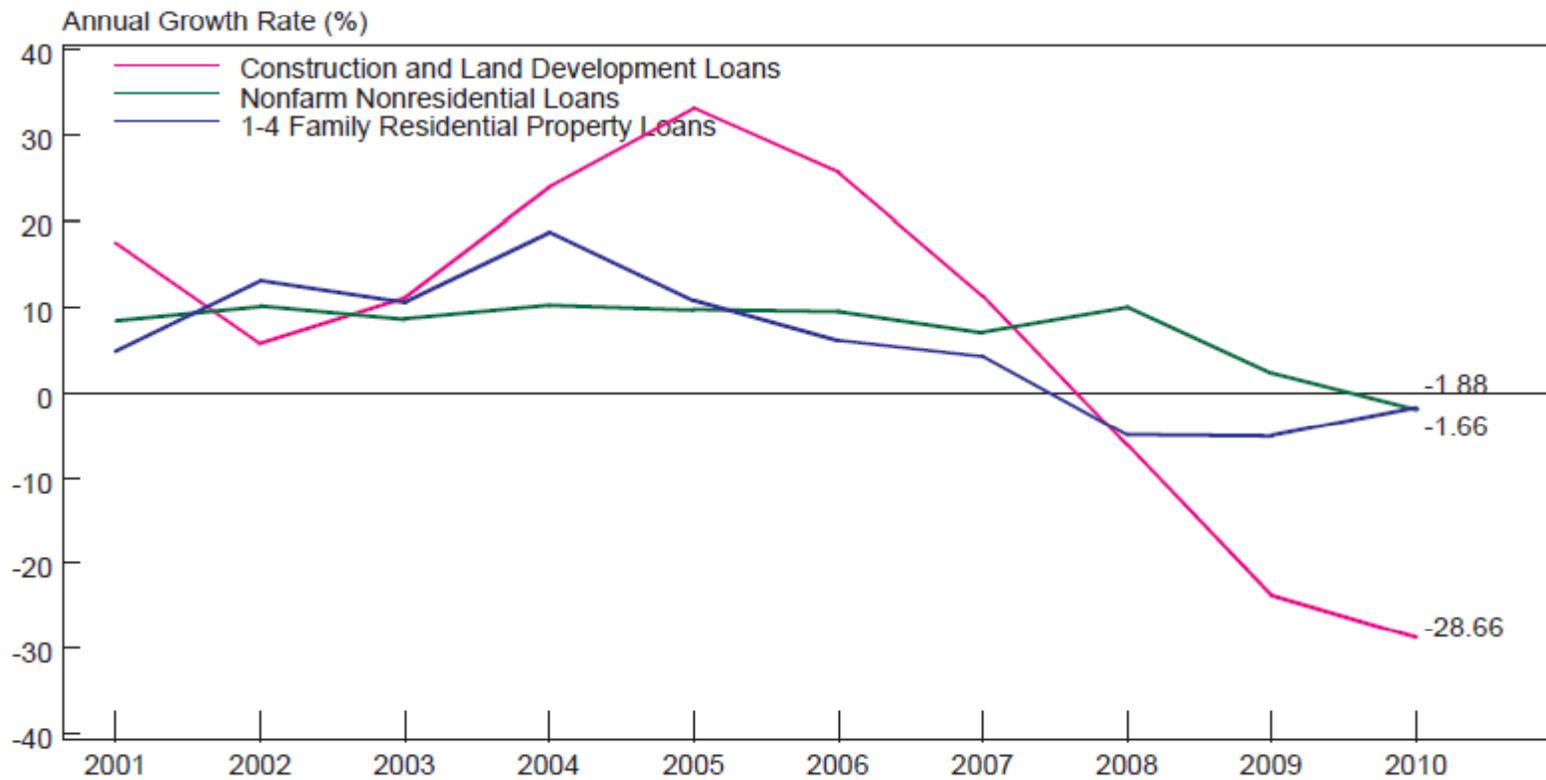
Source: Census Bureau

# Construction Lending



## Real Estate Loan Growth Rates

2001-2010

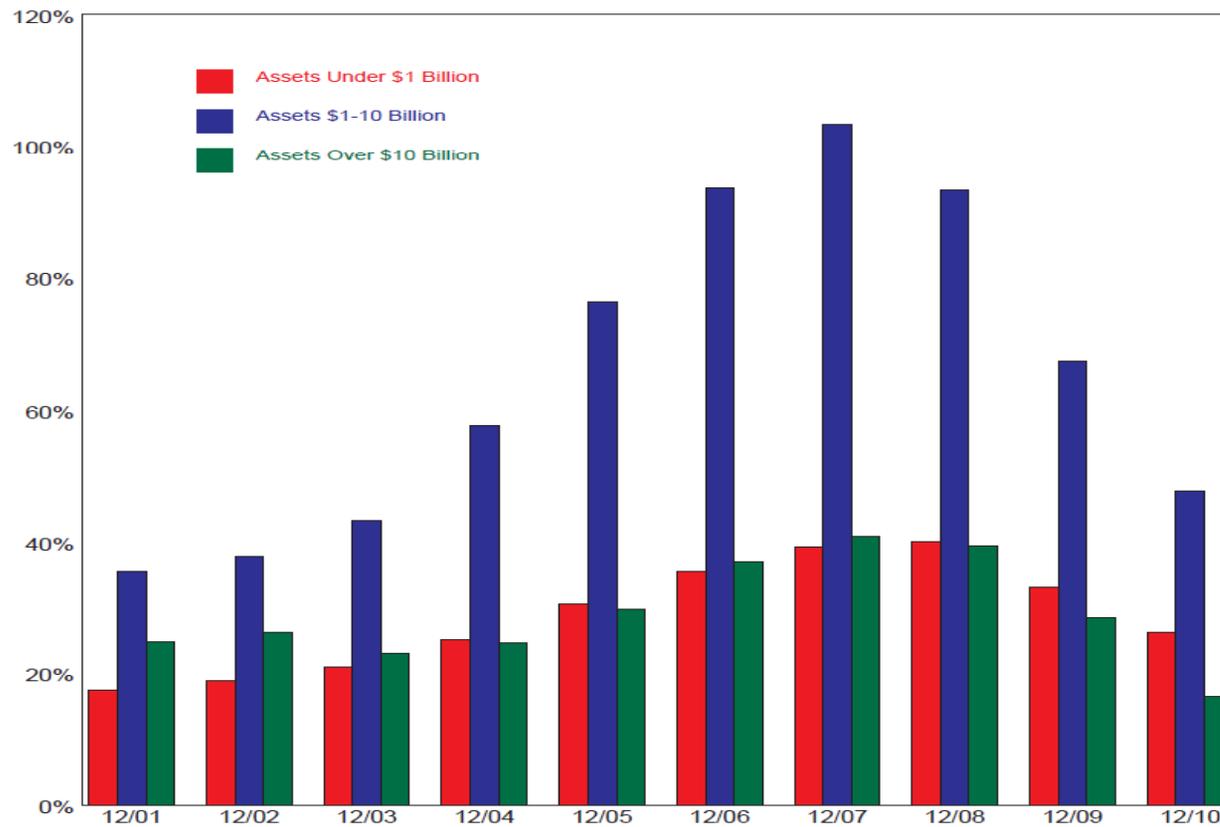


# Construction Lending

## Median Construction and Development Loan Concentrations

2001 - 2010

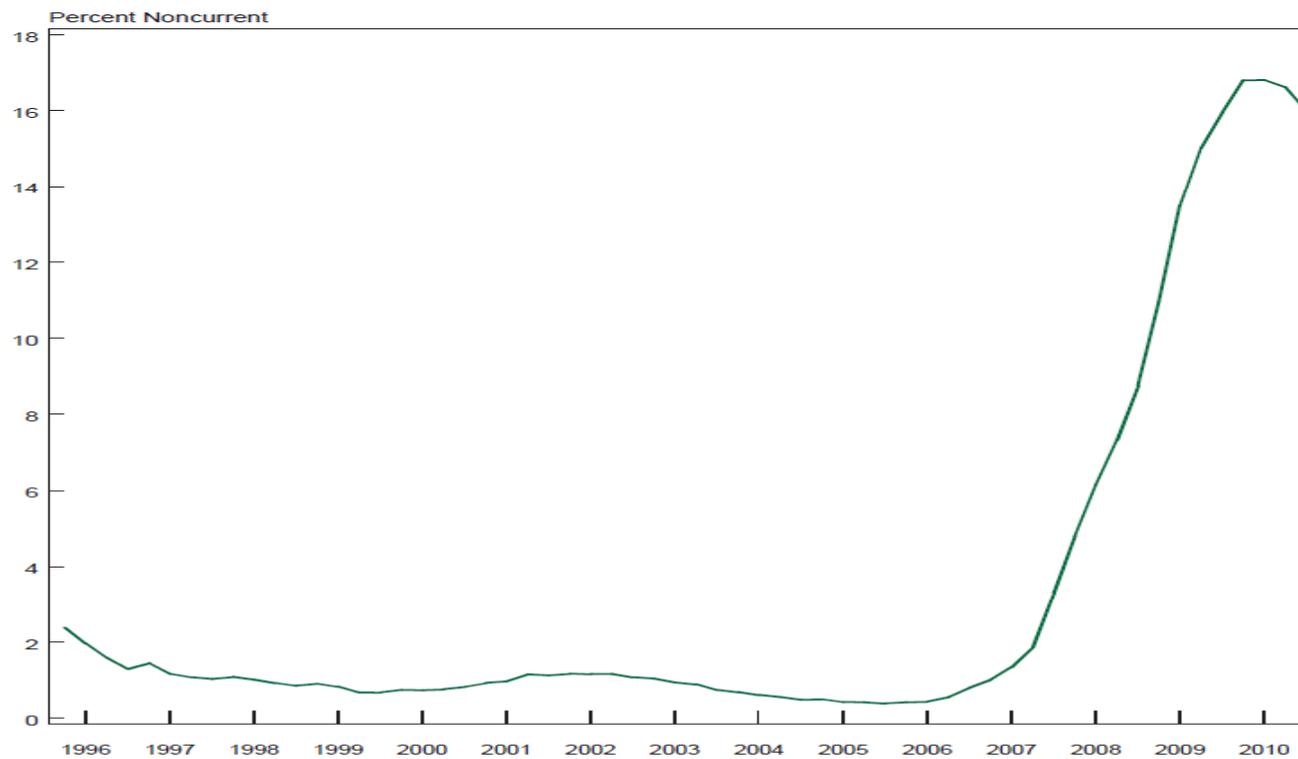
Percent of Total Risk-Based Capital, by Lender Asset Size



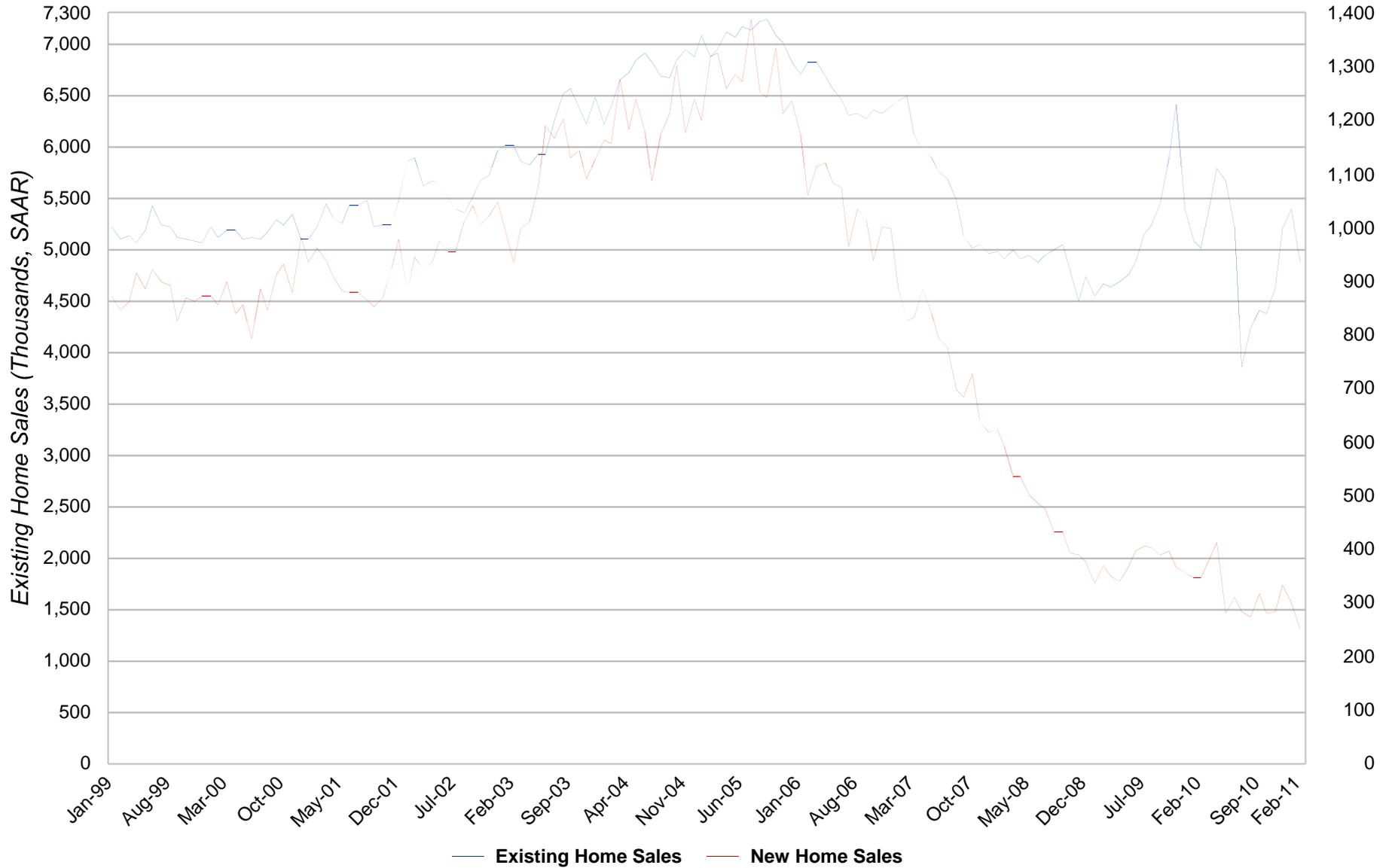
# Construction Lending



**Noncurrent Rate on Real Estate Construction  
and Development Loans  
1996-2010**

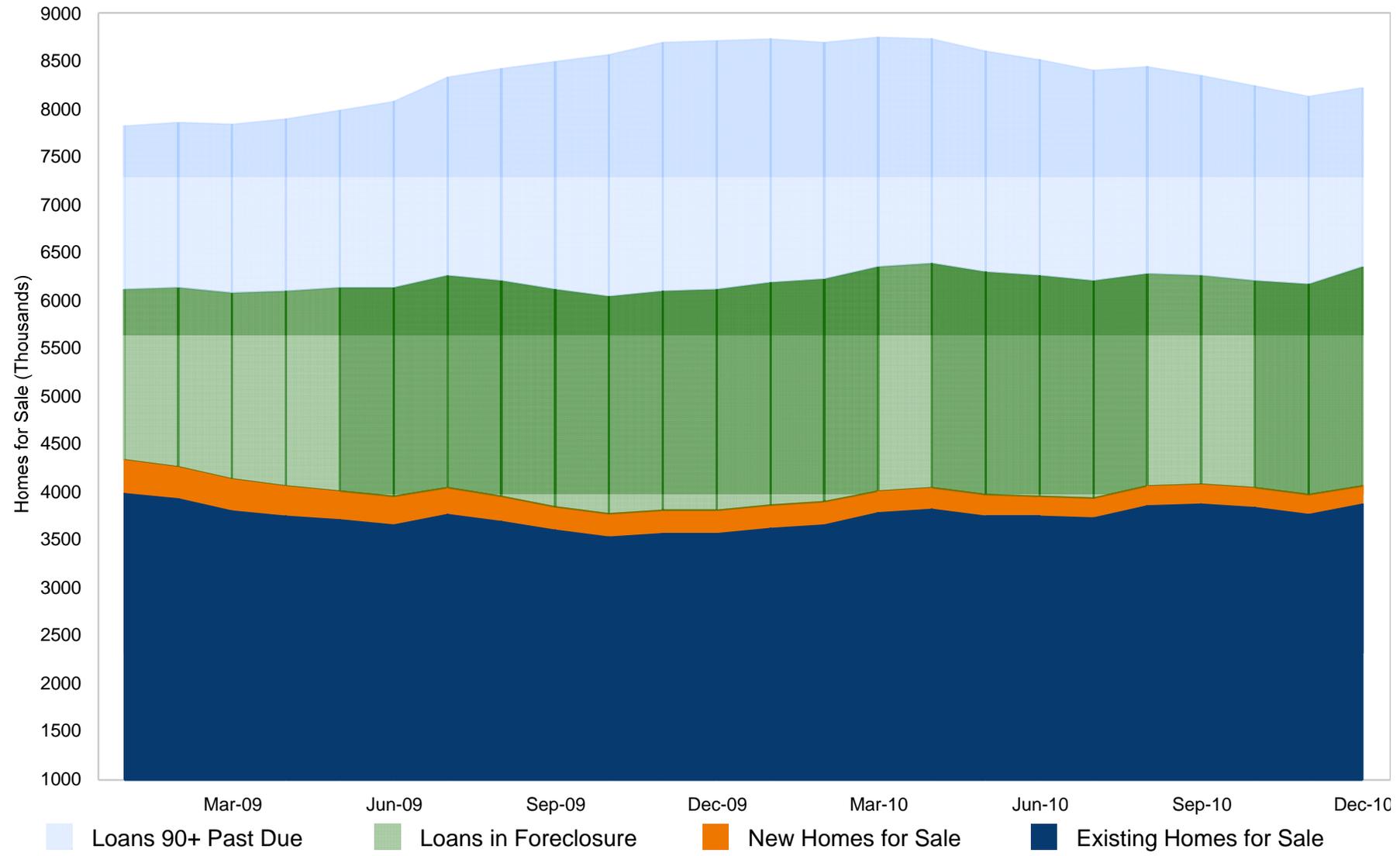


# Home Sales



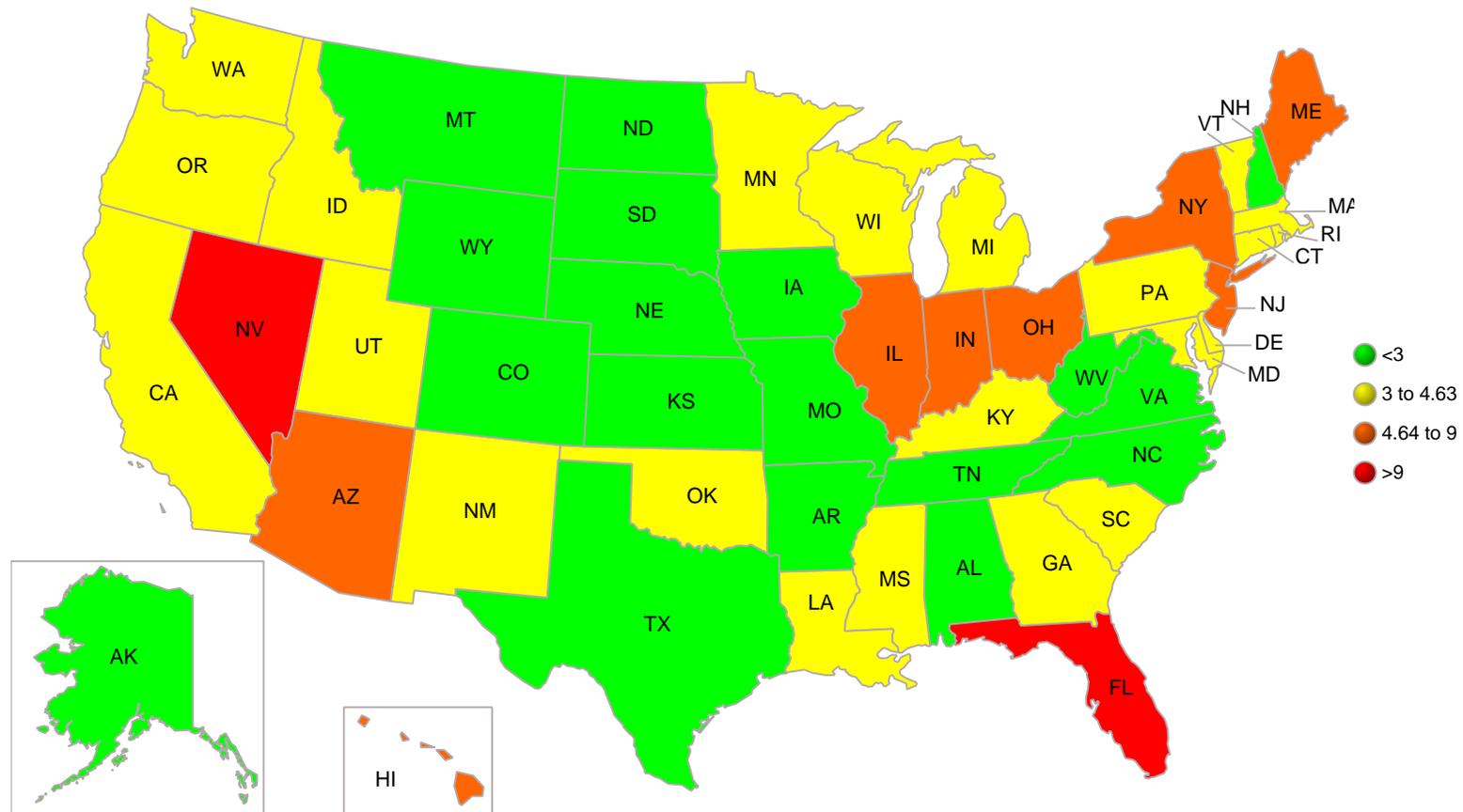
Source: Census, NAR

# Inventory of Homes for Sale + Shadow Inventory



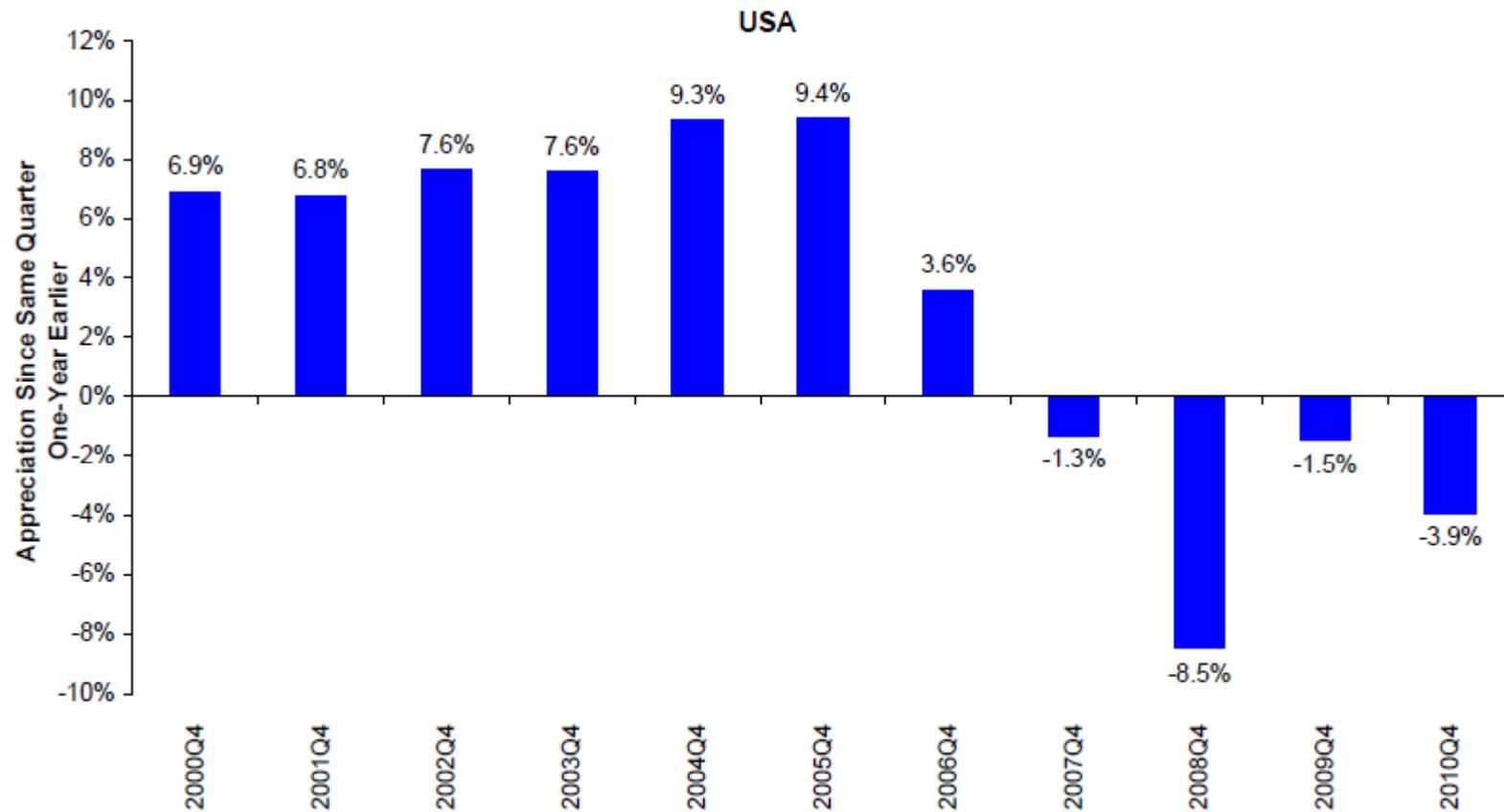
Source: Census, NAR

# Foreclosure Inventory Rates by State: 2010 Q4



# National Home Price Trend

HOUSE PRICE APPRECIATION OVER PREVIOUS FOUR QUARTERS  
(Seasonally Adjusted, Purchase-Only Index)





# Housing Starts, Sales and Prices



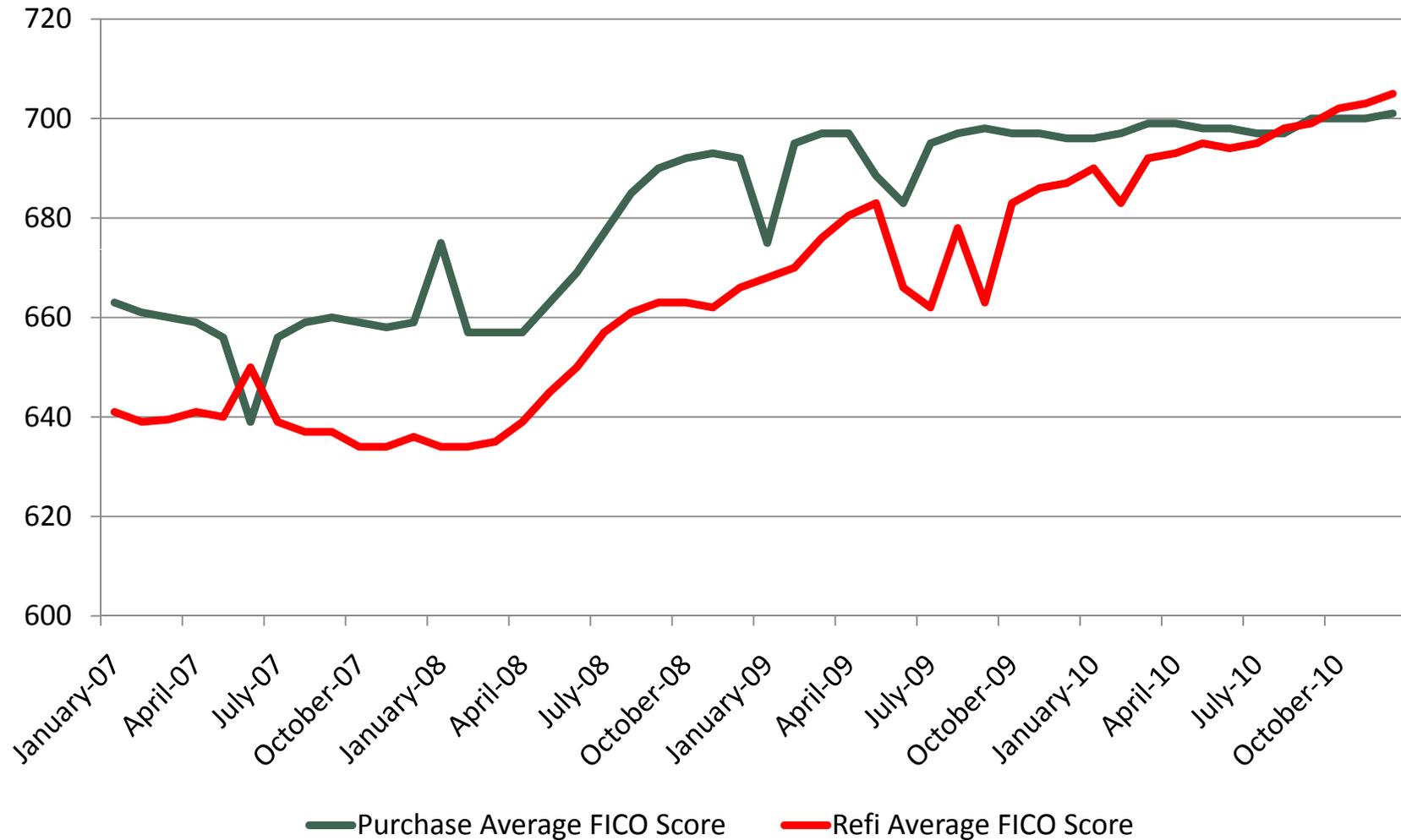
	2009	2010	2011	2012
Housing Starts (SAAR, Thous)	553	585	595	850
Single-Family	440	471	465	665
Two or More	113	114	130	185
Home Sales (SAAR, Thous)				
Total Existing Homes	5,150	4,907	5,087	5,450
New Homes	374	320	334	450
FHFA HP Index (Q4/Q4 % Change)	-4.3	-2.5	0.6	3.6

The *ex post* change in the policy for repurchase demands by the GSEs has dramatically slowed up loan closings, increased costs and reduced the willingness of lenders to assume any risk:

- Extensive documentation requirements
- Detailed appraisal reviews and often multiple appraisals
- Multiple fraud checks
- Outright refusal of deals that are outside the norm

# FHA Standards Tightening

## Average FICO - FHA Endorsements



Source: FHA

## Fannie Mae's Acquisition Profile:

	<b>2007</b>	<b>2010</b>
Average LTV	75.5	66.3
Average FICO	716	760
% with FICO > 740	40.1%	73.7%
% Interest Only	15.2%	1.7%
% Alt-A	16.7%	1.1%

# Conservative Rating Agencies Criteria



## Generating Rating Stressed Losses

A core objective of the model framework is to more clearly associate rating stress levels with economic conditions and home price correction scenarios to aid investors in understanding the type of stress and the associated loss expectations each rating category represents.

When deriving a loan's FOF and LS at each rating category, the primary variable used to determine the stressed scenarios is the sMVD. Fitch calibrated the sMVD stress scenarios using the recent downturn's 35% peak-to-expected trough national home price decline to represent a 'A' stress. Therefore, when assigning new ratings, bonds rated 'A' or higher must have, at a minimum, sufficient loss protection for each loan to experience a 35% market value decline.

---

## Rating Category Stresses: sMVD Floors

	sMVD Stress is the Higher of:	
	sMVD Floor (%)	OR the Multiple Times (*) Base Case sMVD
AAA	45	1.30
AA	40	1.25
A	35	1.15
BBB	30	1.10
BB	25	1.05
B	20	1.00

---

Dodd-Frank requires originators to retain 5% of the risk of mortgages that are not considered to be “qualified residential mortgages”. If the credit box for being qualified is too small, the results will be:

- More risk-based pricing and a new non-conforming market with pricing differences similar to jumbo pricing.
- Fewer lenders willing to make loans outside of the credit box due to capital requirements and potential risk.
- Fewer borrowers will qualify at the posted rates.
- Lenders have more exposure to lawsuits over racial differences in pricing.

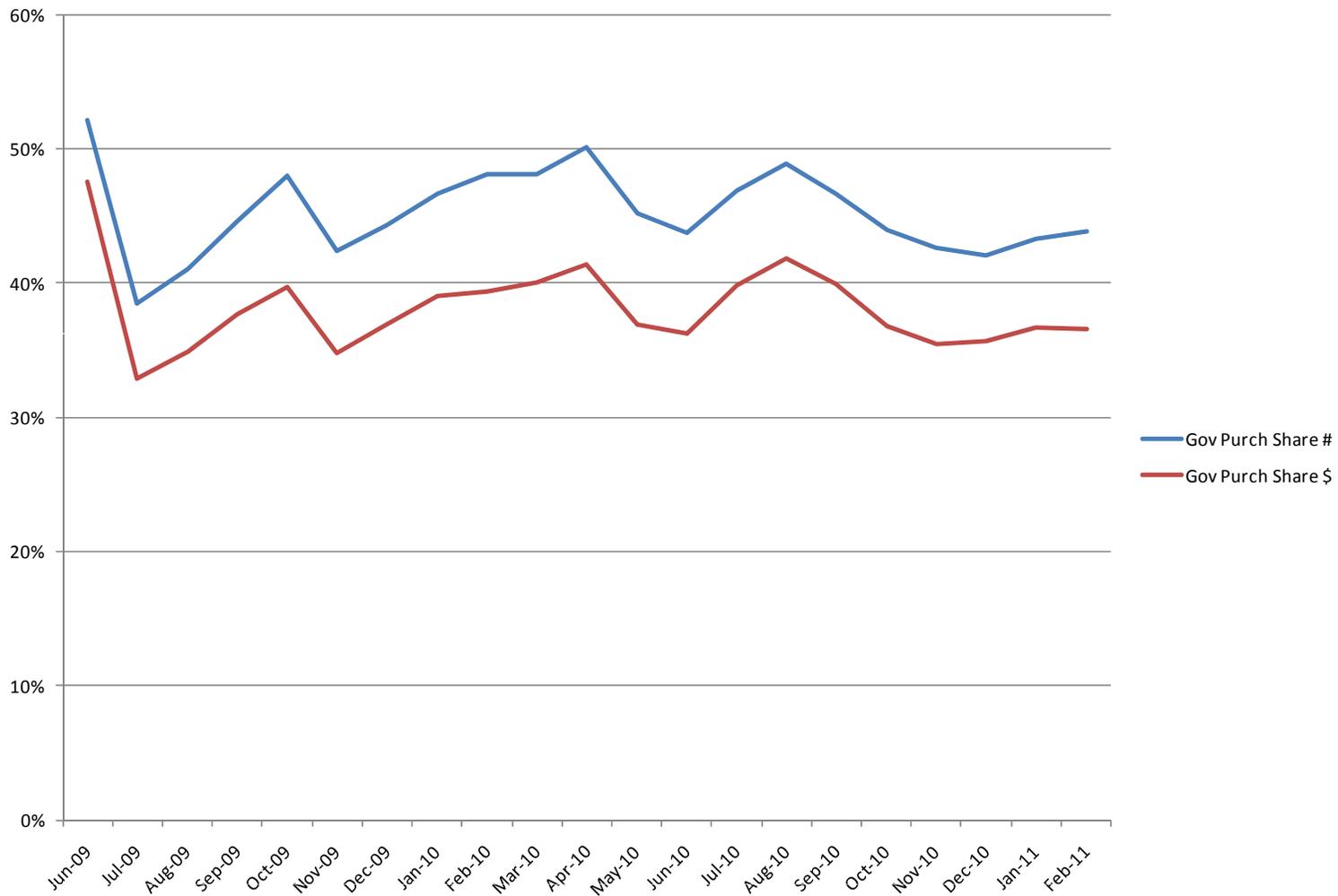
# Purchase Apps – Recent Activity



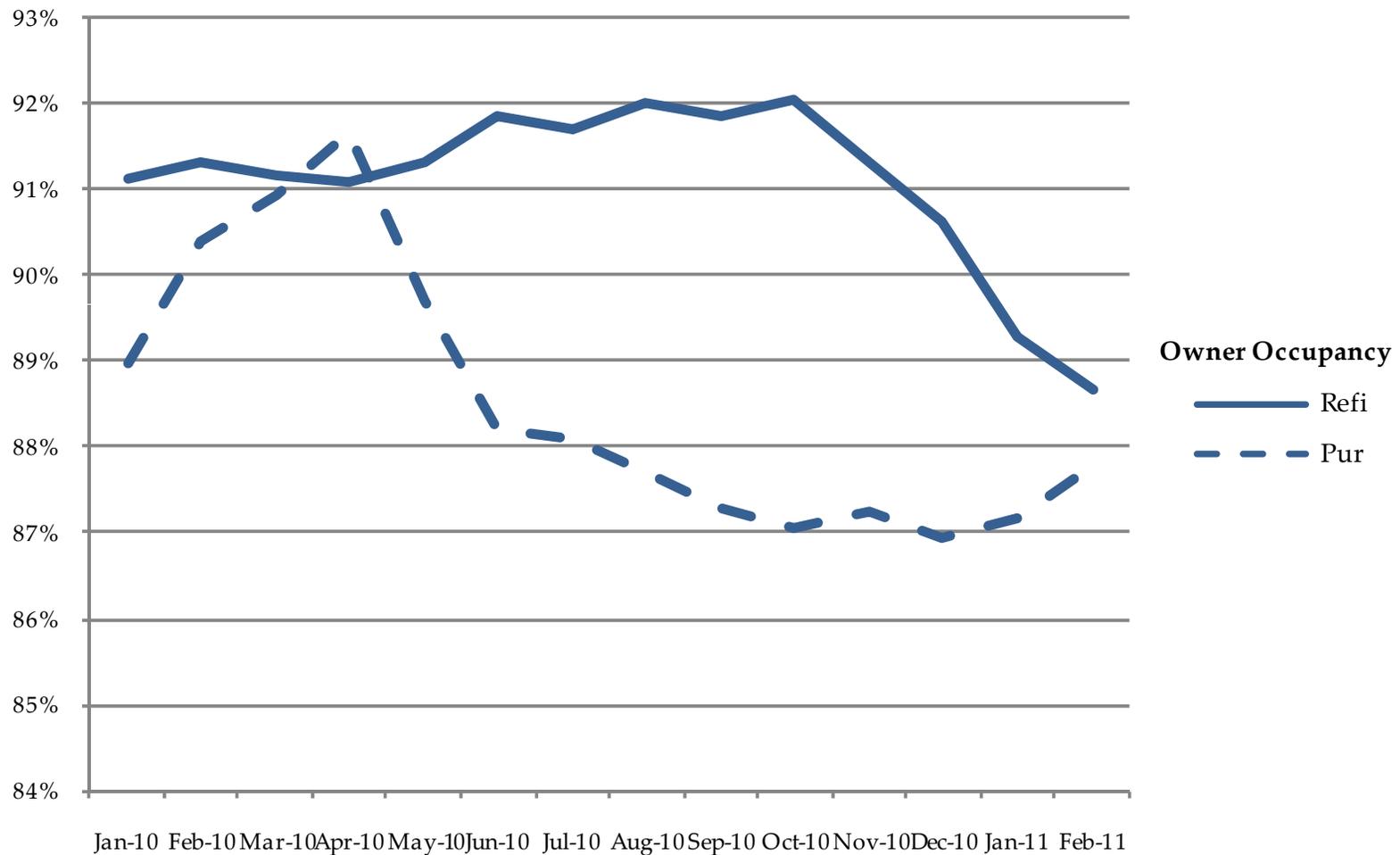
# Government Share of Purchase Applications



## Government Purchase Share (% of all Purch Apps)



# Investor Activity in Mortgage Market



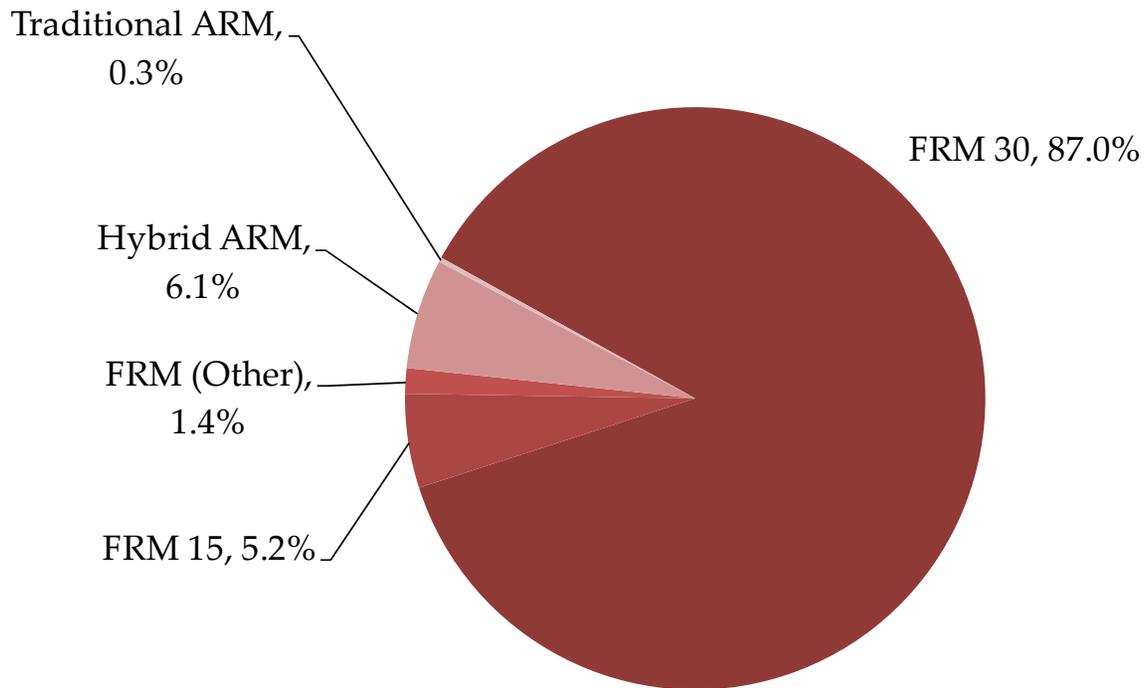
# Weekly Apps – Product Mix

## Purchase Apps For Owner-Occupied

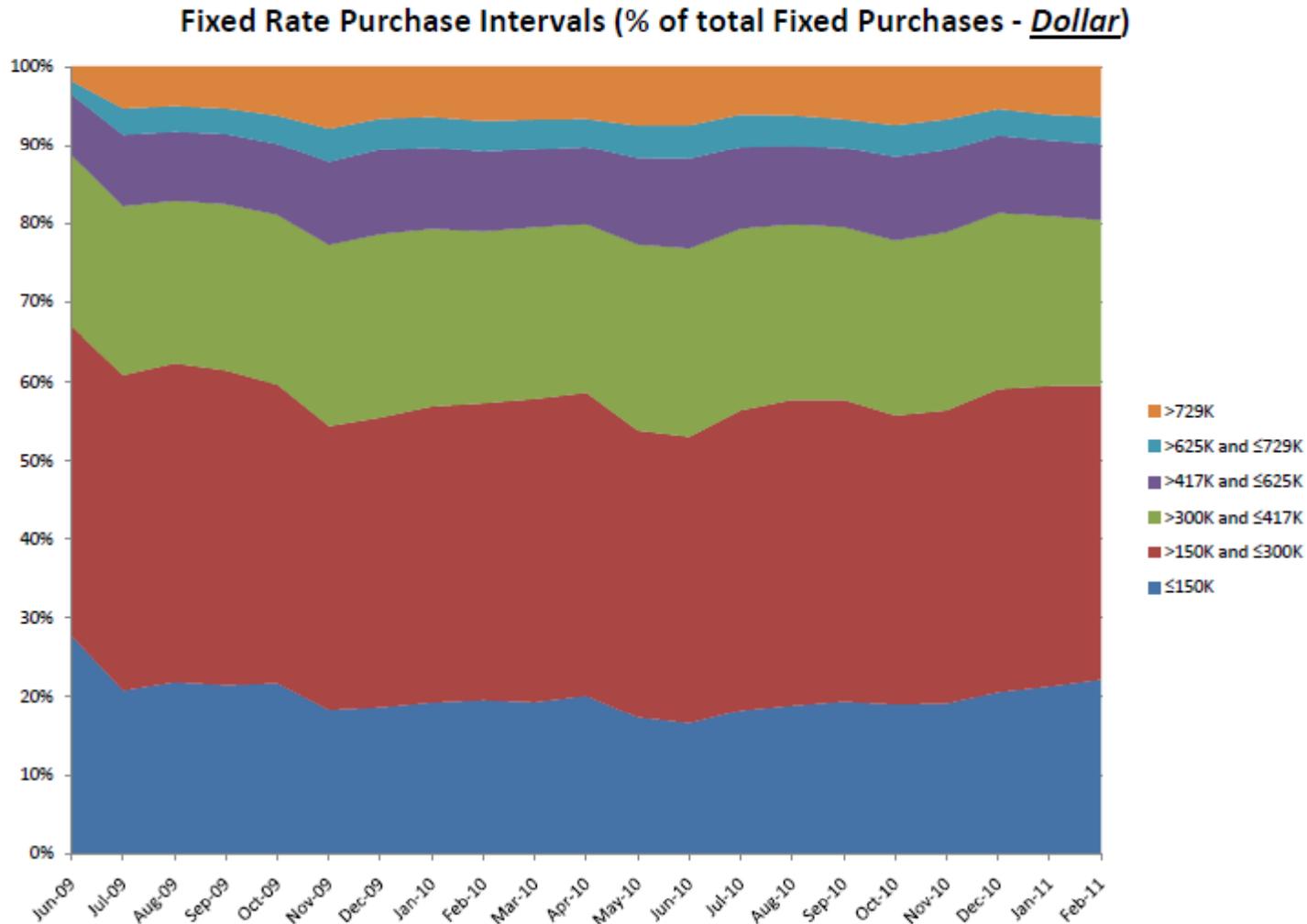


### Product Types

#### Owner Occupied: Purchase - 86.9%



# Loan Size Distribution: Purchase Apps for Fixed-rate Loans

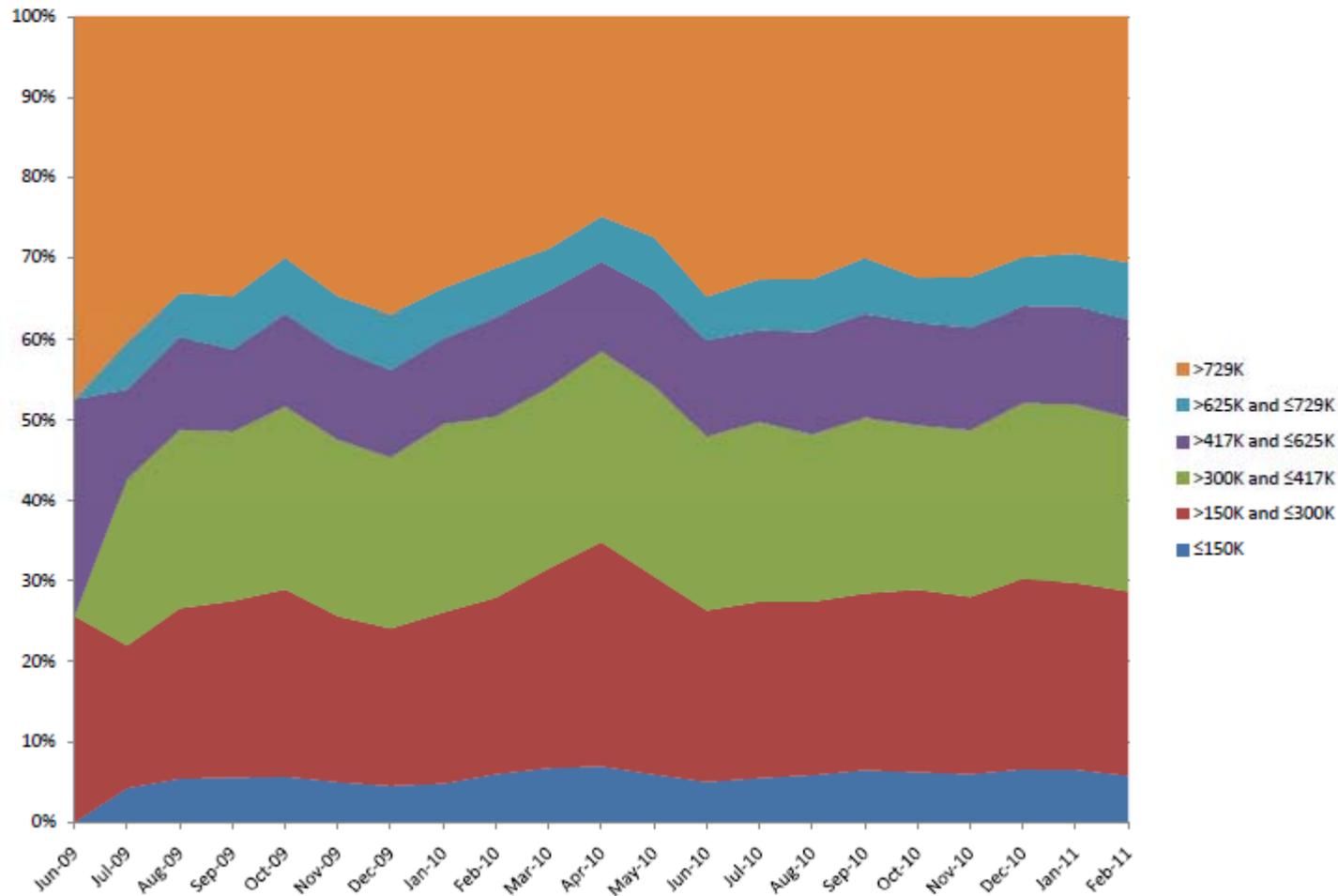


Source: Mortgage Bankers Association, Weekly Loan Applications Survey.

# Loan Size Distribution: Purchase Apps for ARMs



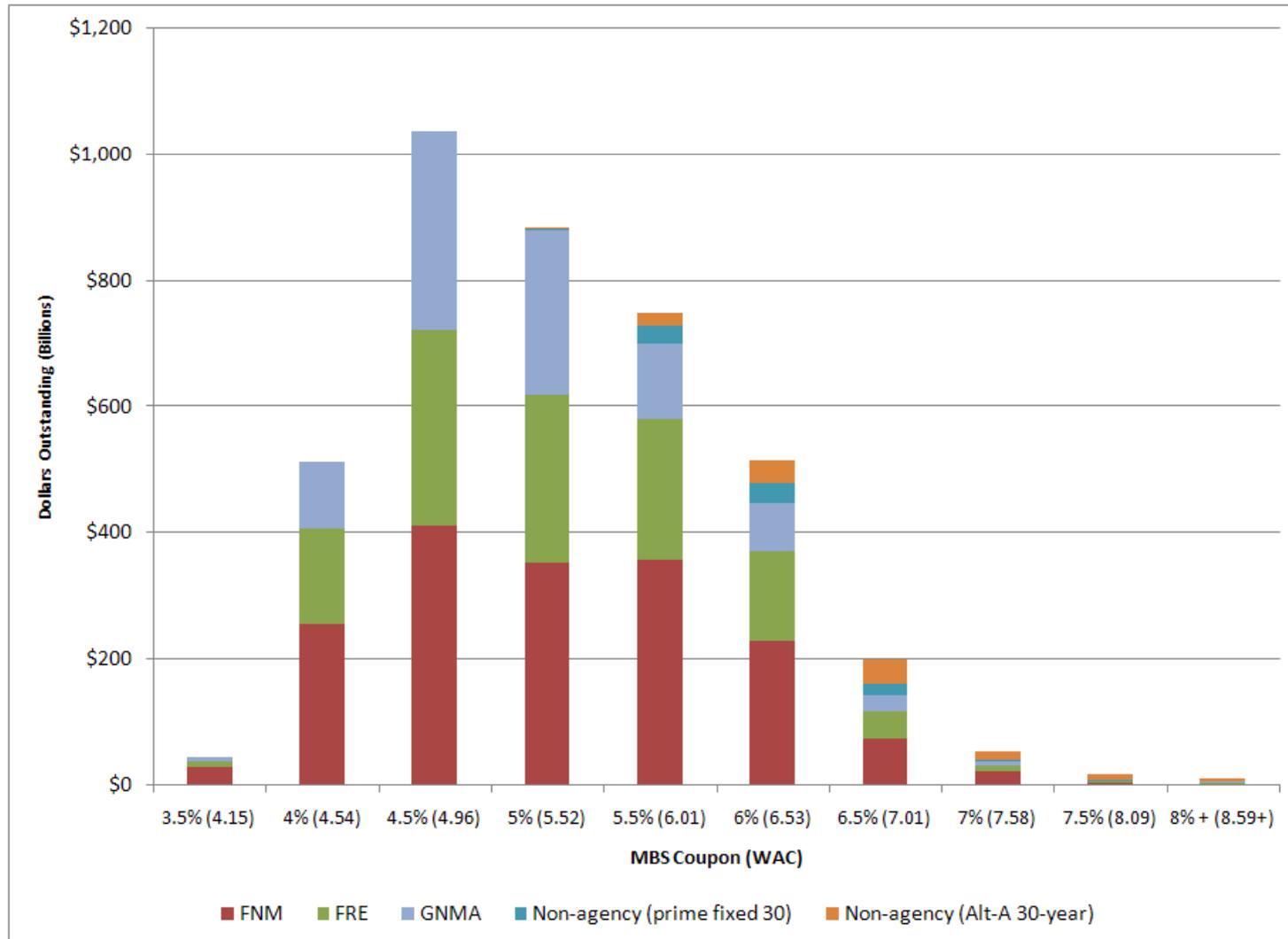
ARM Purchase Intervals (% of total FRM Purchases - Dollar)



Source: Mortgage Bankers Association, Weekly Loan Applications Survey.

# MBS Outstanding by Coupon

As of February 28, 2011



# Refi Apps – Recent Activity

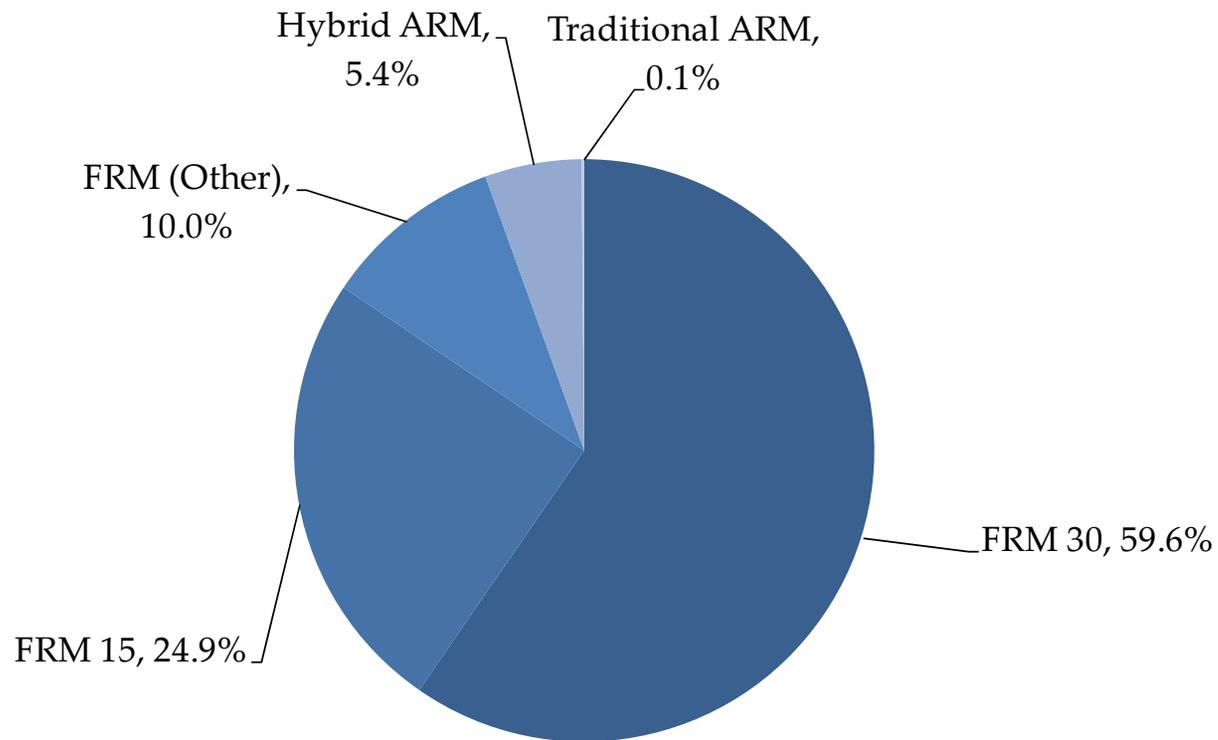


# Weekly Apps – Product Mix

## Refinance Apps



### Refinance - 72.5%



# Mortgage Originations Forecast



	2009	2010	2011	2012
<b>Mortgage Originations</b>				
Total 1- to 4-Family (Bil \$)	1,995	1,572	1032	962
Purchase	700	473	607	729
Refinance	1,295	1,099	425	233
Refinance Share (%)	65	70	41	24

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### **MBA homepage:**

[www.mortgagebankers.org](http://www.mortgagebankers.org)

### **MBA research page:**

[www.mortgagebankers.org/research](http://www.mortgagebankers.org/research)

### **Research Institute for Housing America:**

<http://www.housingamerica.org>

### **MBA Newslink:**

<http://www.mortgagebankers.org/NewsandMedia/MBANewsLink>

# Appendix



# Economic Forecast



## MBA Economic Forecast

March 15, 2011

	2010				2011				2012				2010	2011	2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<i>Percent Change, SAAR</i>															
Real Gross Domestic Product	3.7	1.7	2.6	2.8	2.8	3.2	3.4	3.5	3.3	3.2	3.0	2.7	2.7	3.2	3.0
Personal Consumption Expenditures	1.9	2.2	2.4	4.1	3.1	3.2	3.3	3.4	2.8	2.6	2.7	2.7	2.6	3.3	2.7
Business Fixed Investment	7.8	17.2	10.0	5.3	4.3	8.9	11.6	11.1	5.3	4.7	5.7	4.8	10.0	8.9	5.1
Residential Investment	-12.3	25.7	-27.3	2.8	6.6	6.9	8.0	11.9	22.0	23.9	18.9	18.1	-4.7	8.3	20.7
Govt. Consumption & Investment	-1.6	3.9	3.9	-1.5	-3.6	-3.9	-1.1	0.8	0.2	0.0	-0.7	-0.5	1.2	-2.0	-0.3
Net Exports (Bil. Chain 2005\$)	-338.4	-449.0	-505.0	-395.0	-401.9	-396.5	-392.5	-403.0	-387.0	-371.8	-361.6	-360.1	-421.9	-398.5	-370.1
Inventory Investment (Bil. Chain 2005\$)	44.1	68.8	121.4	7.1	38.7	59.5	55.0	54.6	50.9	49.8	46.5	45.7	60.4	51.9	48.2
Consumer Prices	1.3	-0.5	1.4	2.6	3.0	2.7	2.1	2.0	1.5	1.6	2.0	2.2	1.2	2.4	1.8
<i>Percent</i>															
Unemployment Rate	9.7	9.6	9.6	9.6	8.9	8.9	8.8	8.7	8.6	8.4	8.1	7.9	9.6	8.8	8.2
Federal Funds Rate	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.8	1.3	0.2	0.2	0.6
10-Year Treasury Yield	3.7	3.5	2.8	2.9	3.5	3.5	3.8	4.0	4.2	4.3	4.3	4.5	3.2	3.7	4.3

**Notes:**

All data except interest rates are seasonally adjusted.

Forecast produced with the assistance of the Macroeconomic Advisers' model.

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# Mortgage Finance Forecast



## MBA Mortgage Finance Forecast

March 15, 2011

	2010				2011				2012				2010	2011	2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
<b>Housing Measures</b>															
Housing Starts (SAAR, Thous)	617	602	588	534	550	560	610	660	760	815	885	940	585	595	850
Single-Family	524	491	435	435	420	450	475	515	600	640	685	735	471	465	665
Two or More	93	111	153	99	130	110	135	145	160	175	200	205	114	130	185
<b>Home Sales (SAAR, Thous)</b>															
Total Existing Homes	5,140	5,570	4,170	4,747	5,012	5,094	5,076	5,168	5,358	5,382	5,463	5,600	4,907	5,087	5,451
New Homes	360	335	291	295	295	328	344	368	410	435	460	497	320	334	450
FHFA US House Price Index (YOY % Change)	-6.4	-4.5	-0.9	-1.3	-1.8	-0.9	0.1	1.0	1.4	2.0	3.1	3.6	-1.3	1.0	3.6
Median Price of Total Existing Homes (Thous \$)	166.4	176.6	177.0	169.9	172.6	169.8	169.5	172.8	172.3	174.2	176.0	174.9	172.5	171.2	174.3
Median Price of New Homes (Thous \$)	221.6	219.4	222.2	220.2	220.2	216.8	214.5	217.7	221.2	221.0	221.1	221.4	220.9	217.3	221.2
<b>Interest Rates</b>															
30-Year Fixed Rate Mortgage (%)	5.0	4.9	4.4	4.4	5.0	5.0	5.3	5.5	5.8	5.9	6.0	6.2	4.7	5.2	6.0
10-Year Treasury Yield (%)	3.7	3.5	2.8	2.9	3.5	3.5	3.8	4.0	4.2	4.3	4.3	4.5	3.2	3.7	4.3
<b>Mortgage Originations</b>															
Total 1- to 4-Family (Bill \$)	342	367	401	462	285	296	243	206	187	272	274	229	1,572	1,031	962
Purchase	120	147	104	102	115	154	183	155	140	207	208	174	473	606	729
Refinance	222	220	297	360	170	142	61	52	47	65	66	55	1,099	424	233
Refinance Share (%)	65	60	74	78	63	48	25	25	25	24	24	24	70	41	24
ARM Share (%)	5	5	6	5	6	7	7	7	7	7	7	7	5	6	7

**Notes:**

Housing starts and home sales are seasonally adjusted at annual rate.

Total existing home sales include condos and co-ops.

Total 1-to-4-family originations and refinance share are MBA estimates. These exclude second mortgages and home equity loans.

The FHFA US House Price Index is the forecasted year over year percent change of the FHFA All Transactions House Price Index.

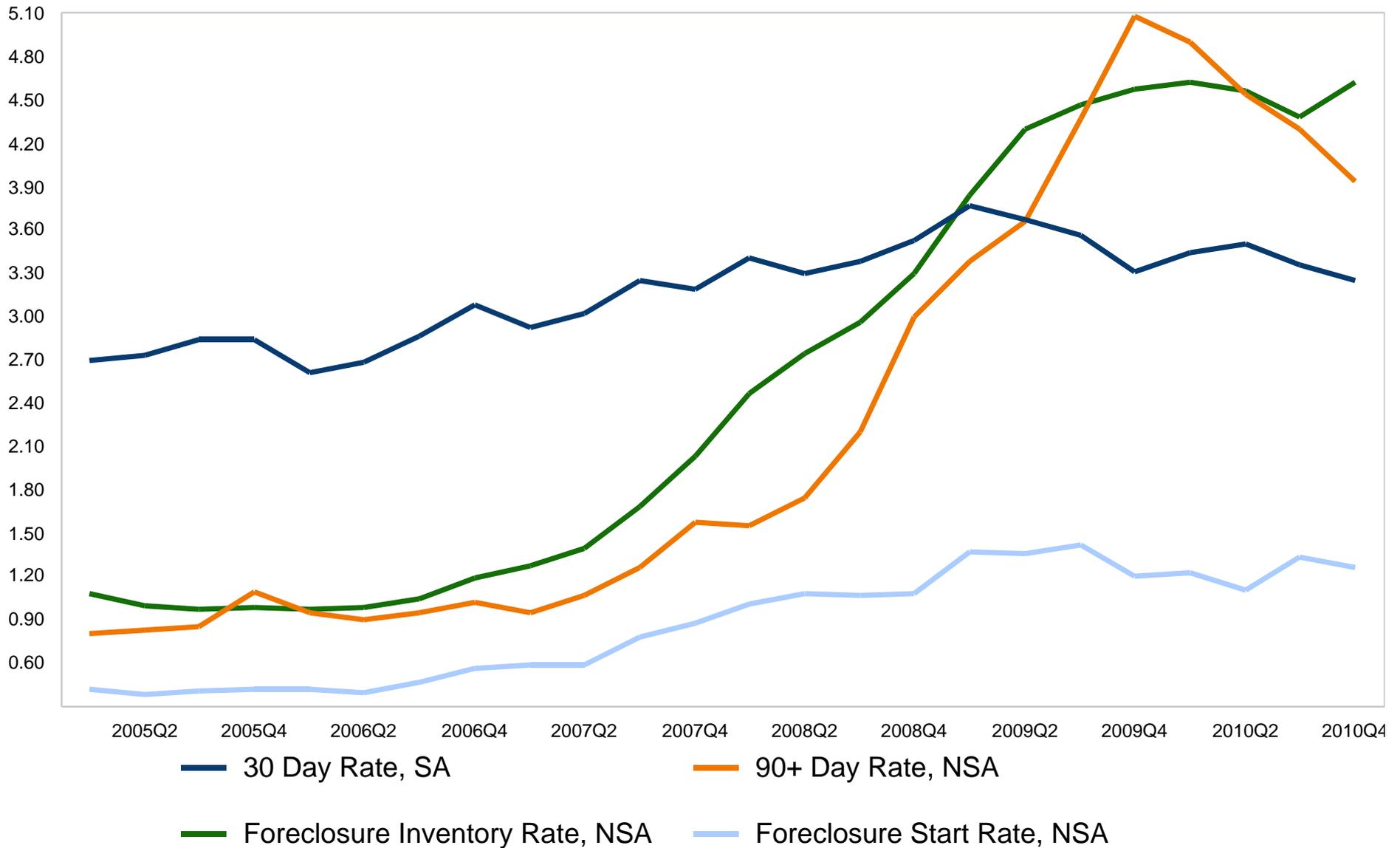
Refinance share is percent of total dollar volume of closed loans.

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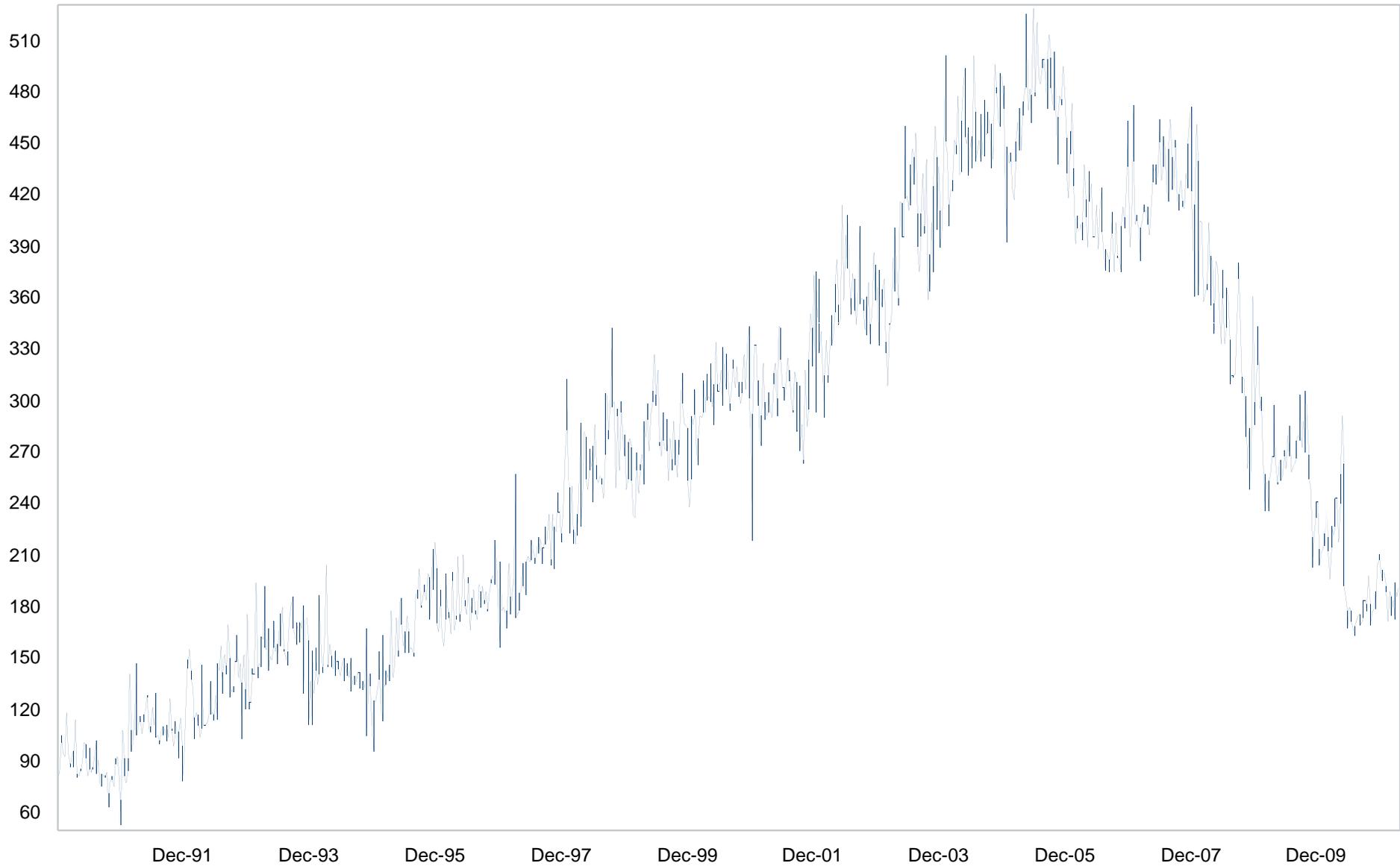


# Delinquency and Foreclosure Rates



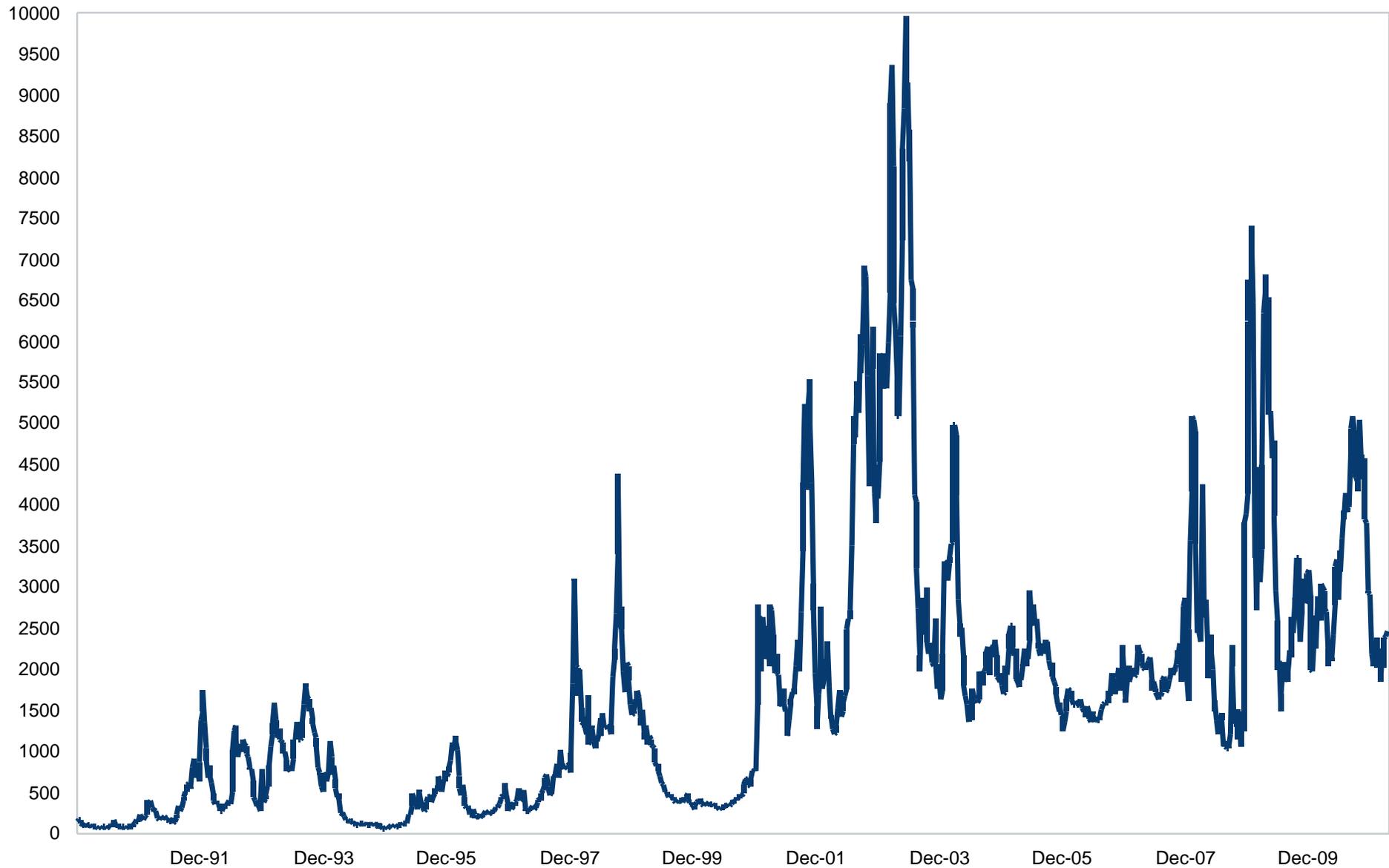
Source: Mortgage Bankers Association, National Delinquency Survey Data

# Purchase Applications



Source: Mortgage Bankers Association

# Refinance Activity

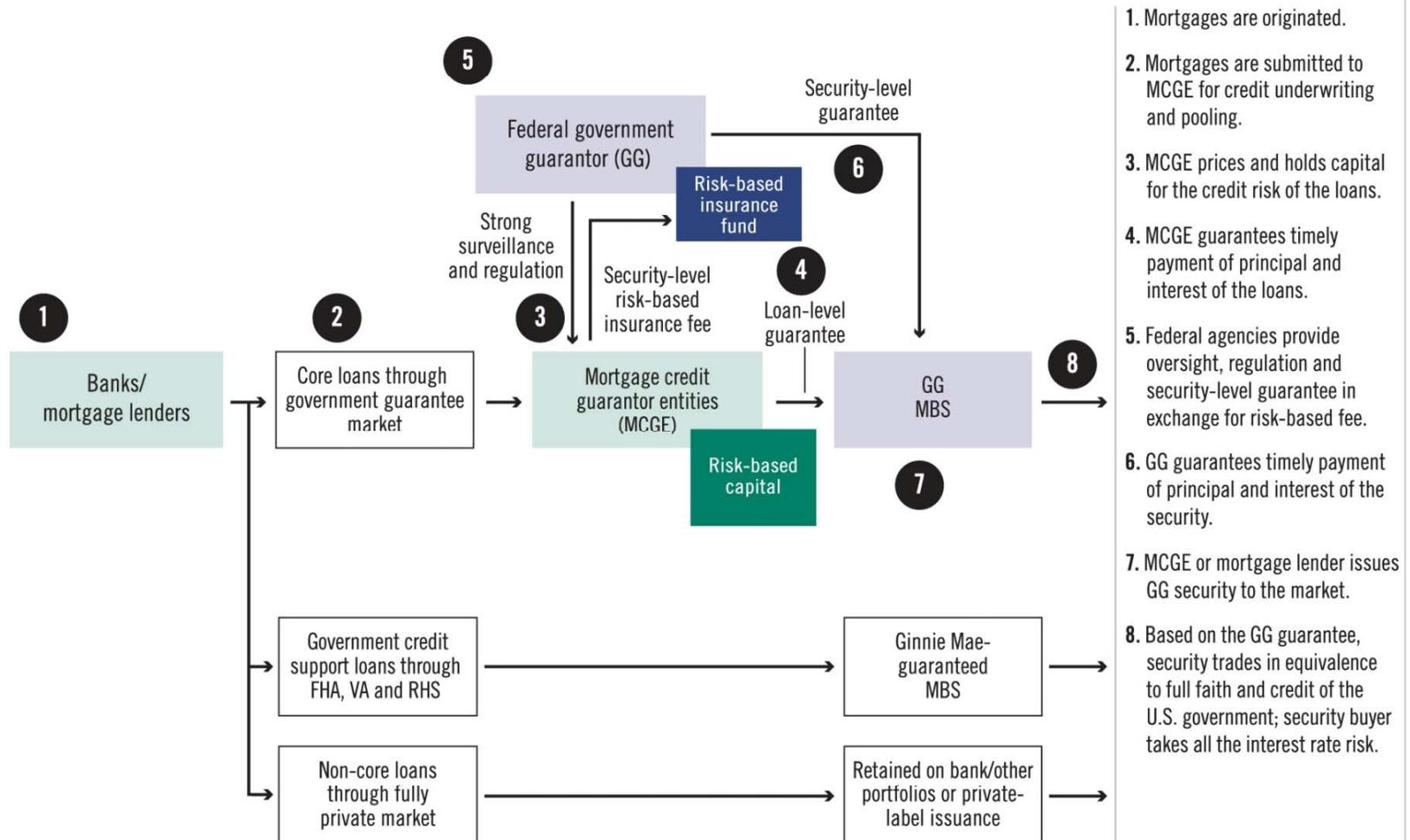


Source: Mortgage Bankers Association

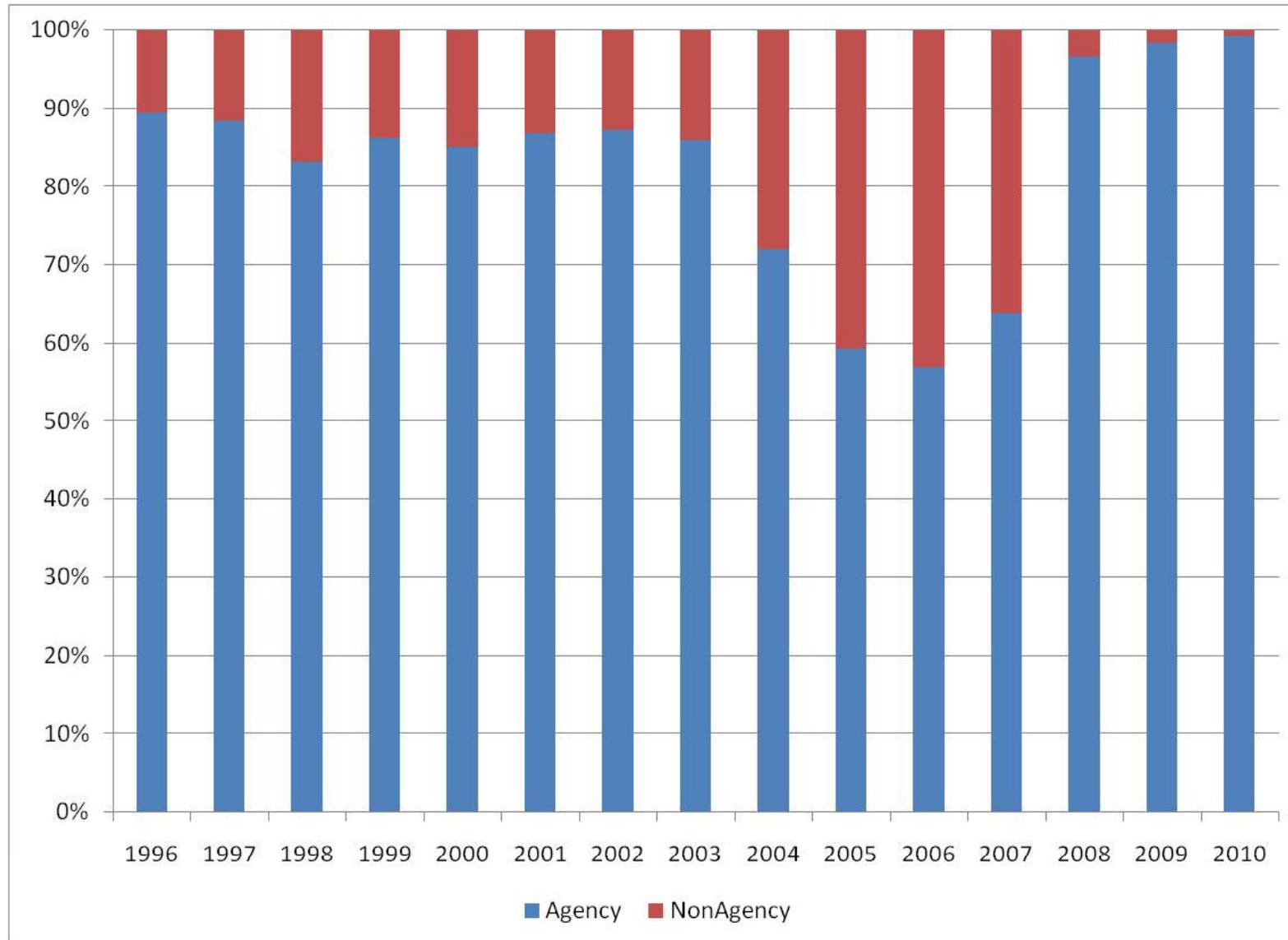
# Core Secondary Mortgage Market: MBA Recommendation

## HIGH-LEVEL VIEW

### TARGET STATE: POTENTIAL ROLE OF THE FEDERAL GOVERNMENT IN THE CORE SECONDARY MORTGAGE MARKET

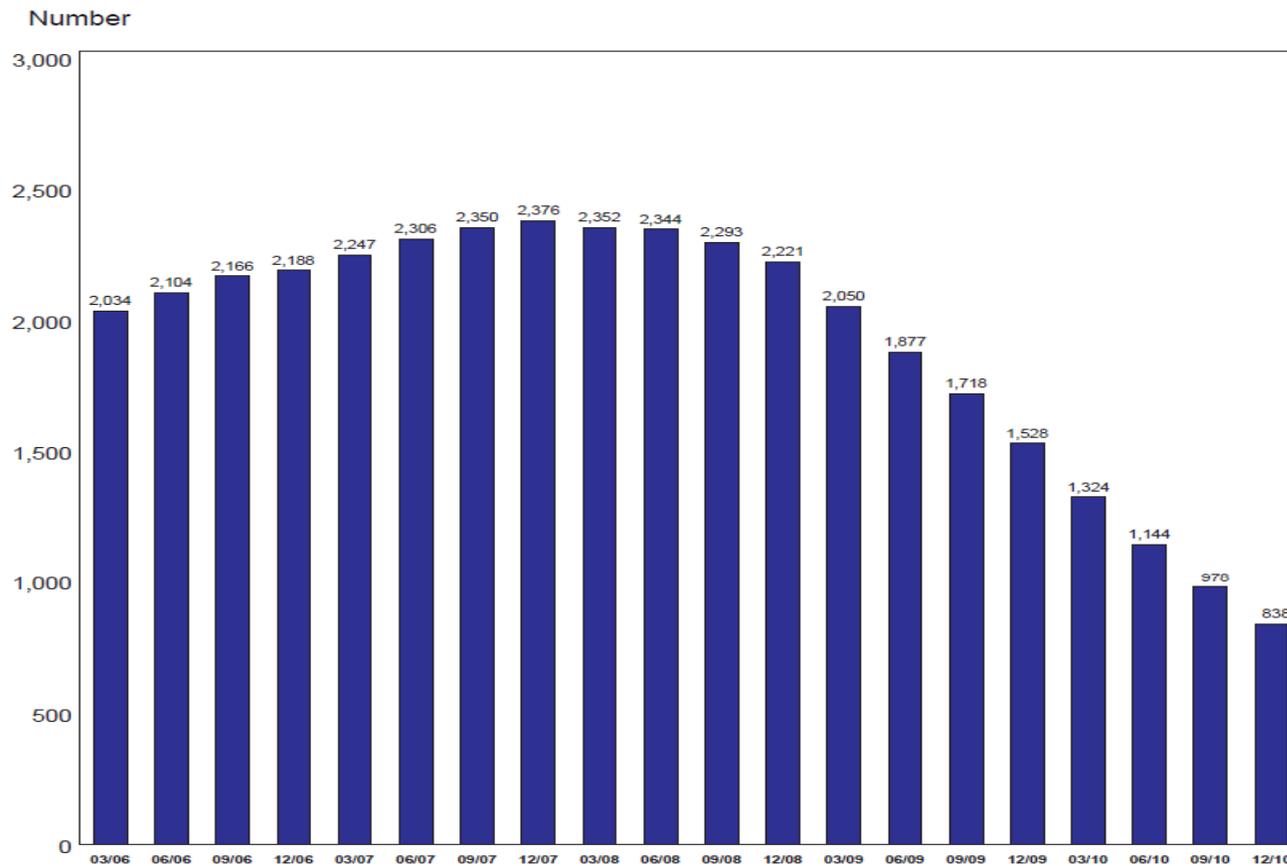


# MBS Issuance by Type

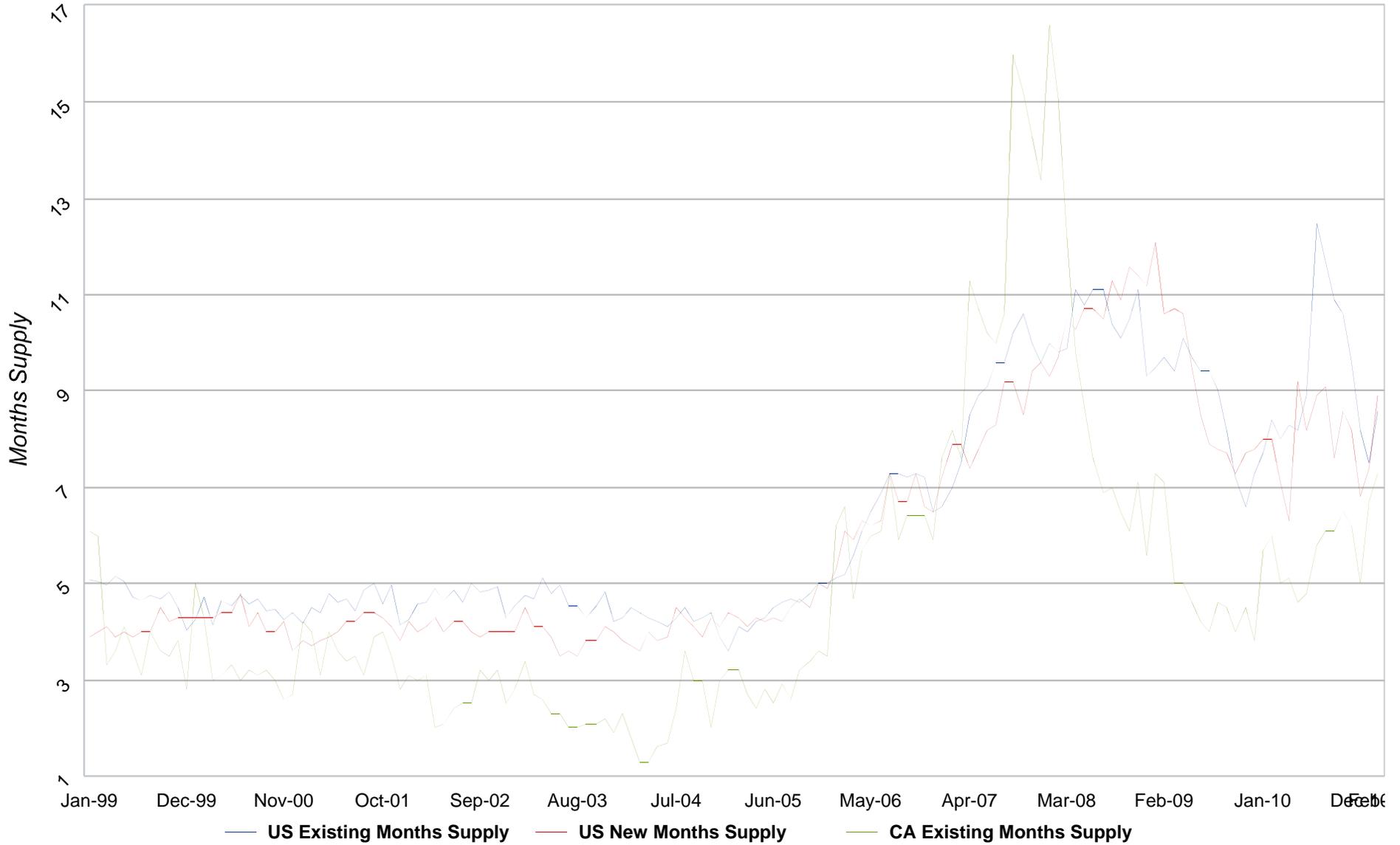


# Construction Lending

**Number of Institutions with Construction Loan Concentrations**  
(Construction Loans Exceed Total Capital)  
2006-2010

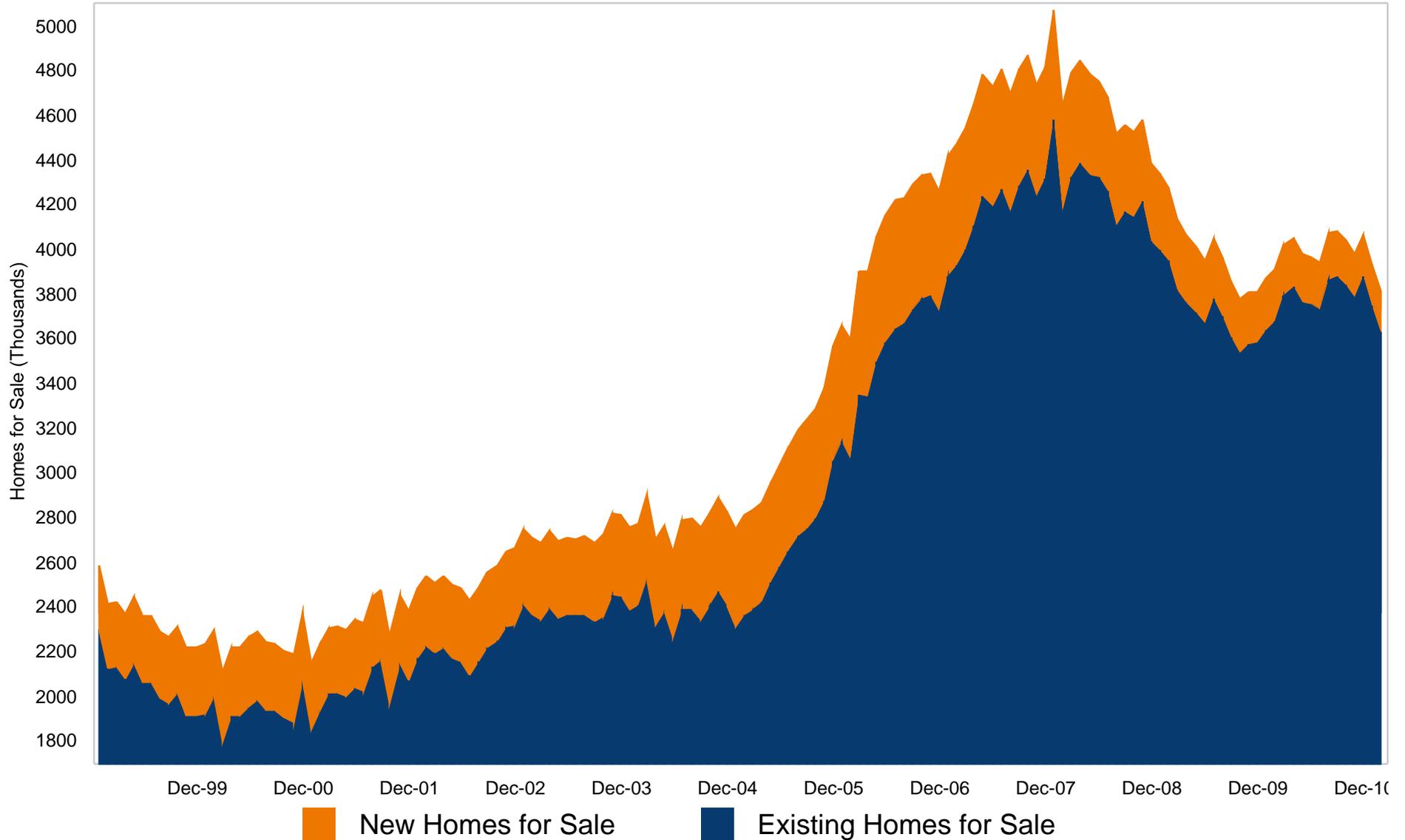


# Months Supply of Homes on the Market



Source: Census, NAR, CAR

# Inventory of Homes for Sale



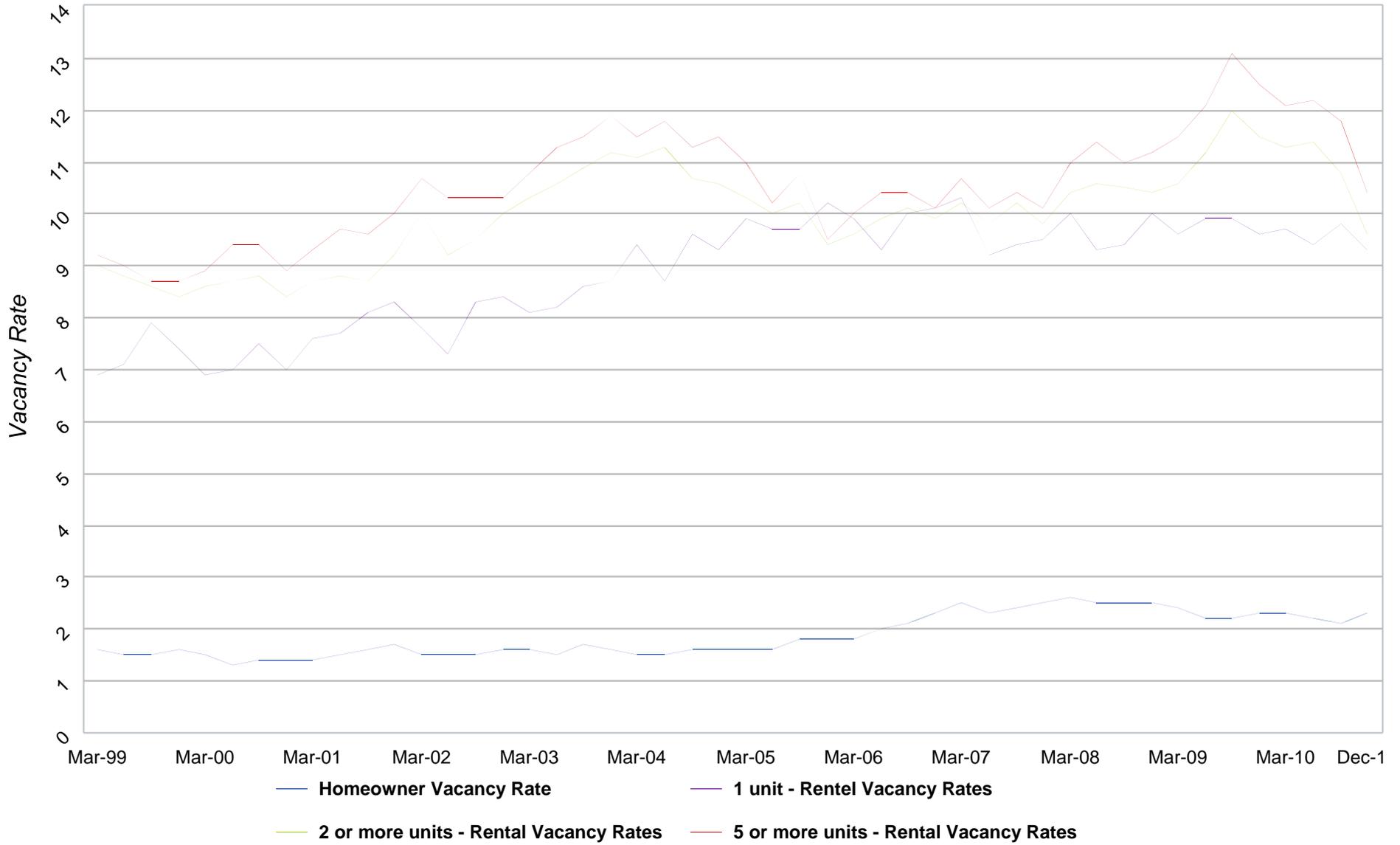
Source: Census, NAR

# Foreclosure Inventory is Highly Concentrated



	<b>Loans in Foreclosure</b>
	<b>% of National Total</b>
<b>Florida</b>	24%
<b>California</b>	13%
<b>Illinois</b>	5%
<b>New York</b>	5%
<b>New Jersey</b>	5%
<b>Total</b>	52%
as of 2010 Q4	

# Homeowner and Rental Vacancy Rates



Source: Census Bureau