

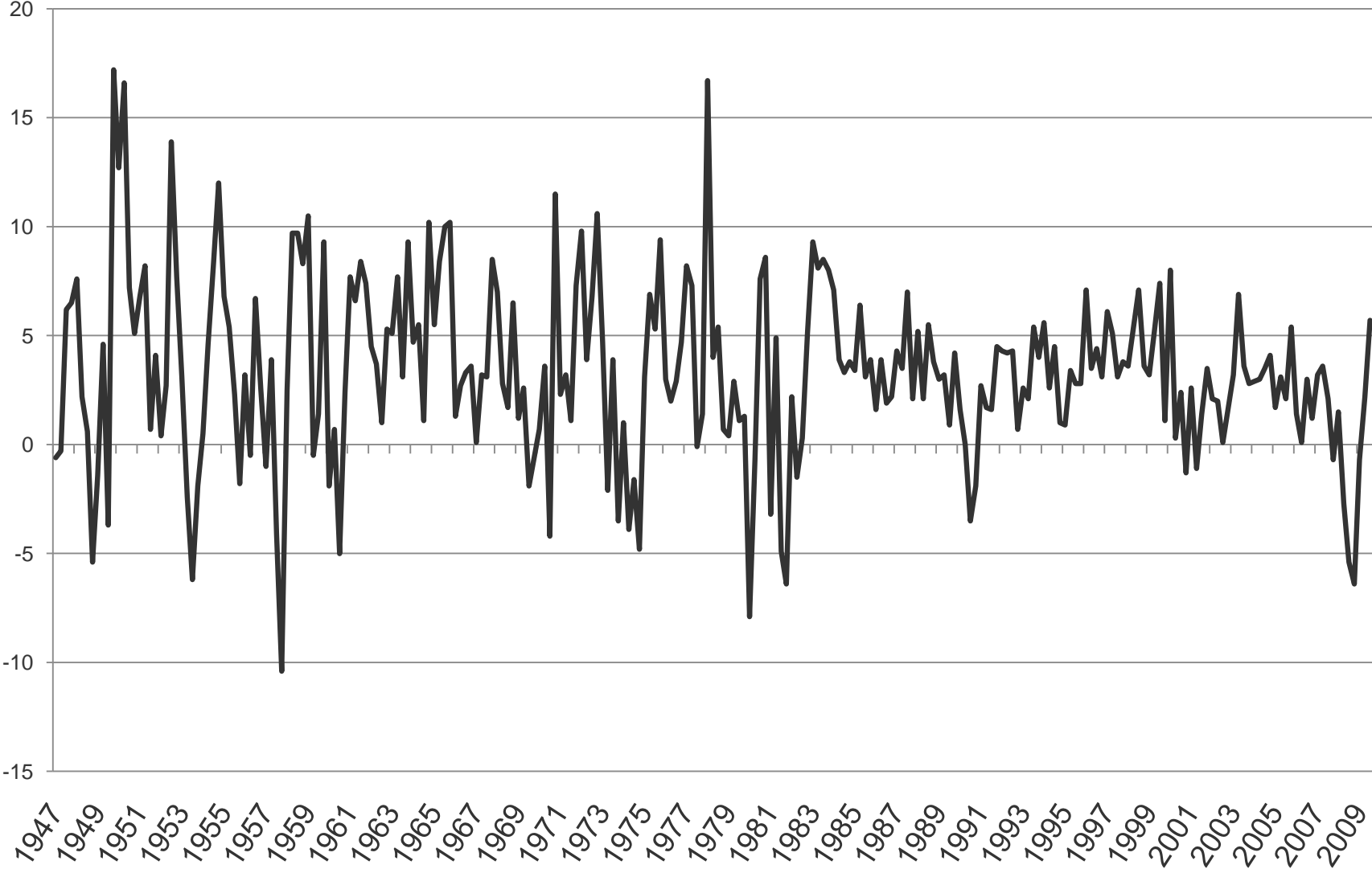
# The Outlook for 2010 and Beyond

Jay Brinkmann

MBA Chief Economist and SVP of Research

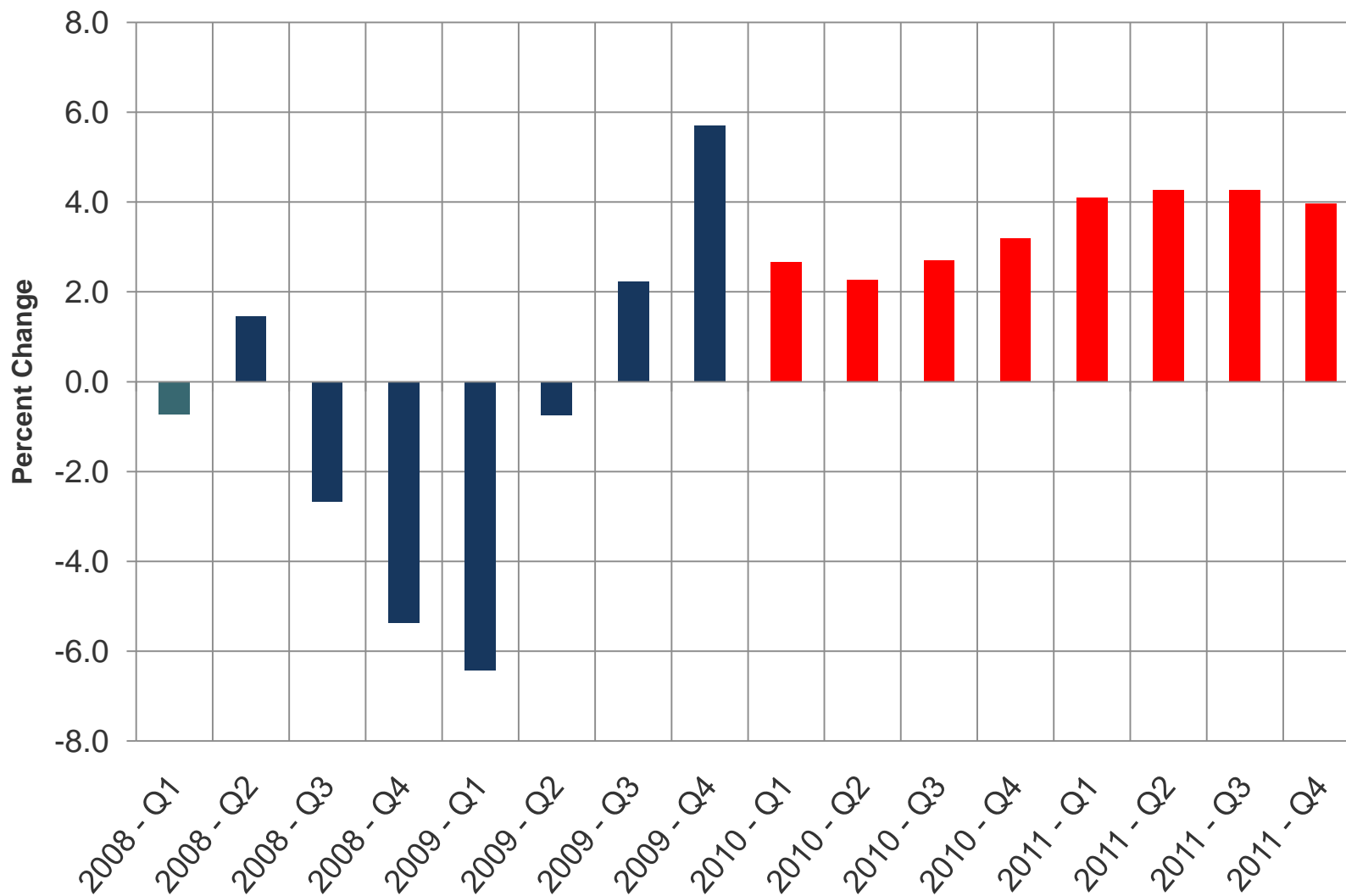
- Economic Growth
- Employment
- Delinquencies
- Interest Rates
- The GSEs

# The Recession – How Bad Was It?



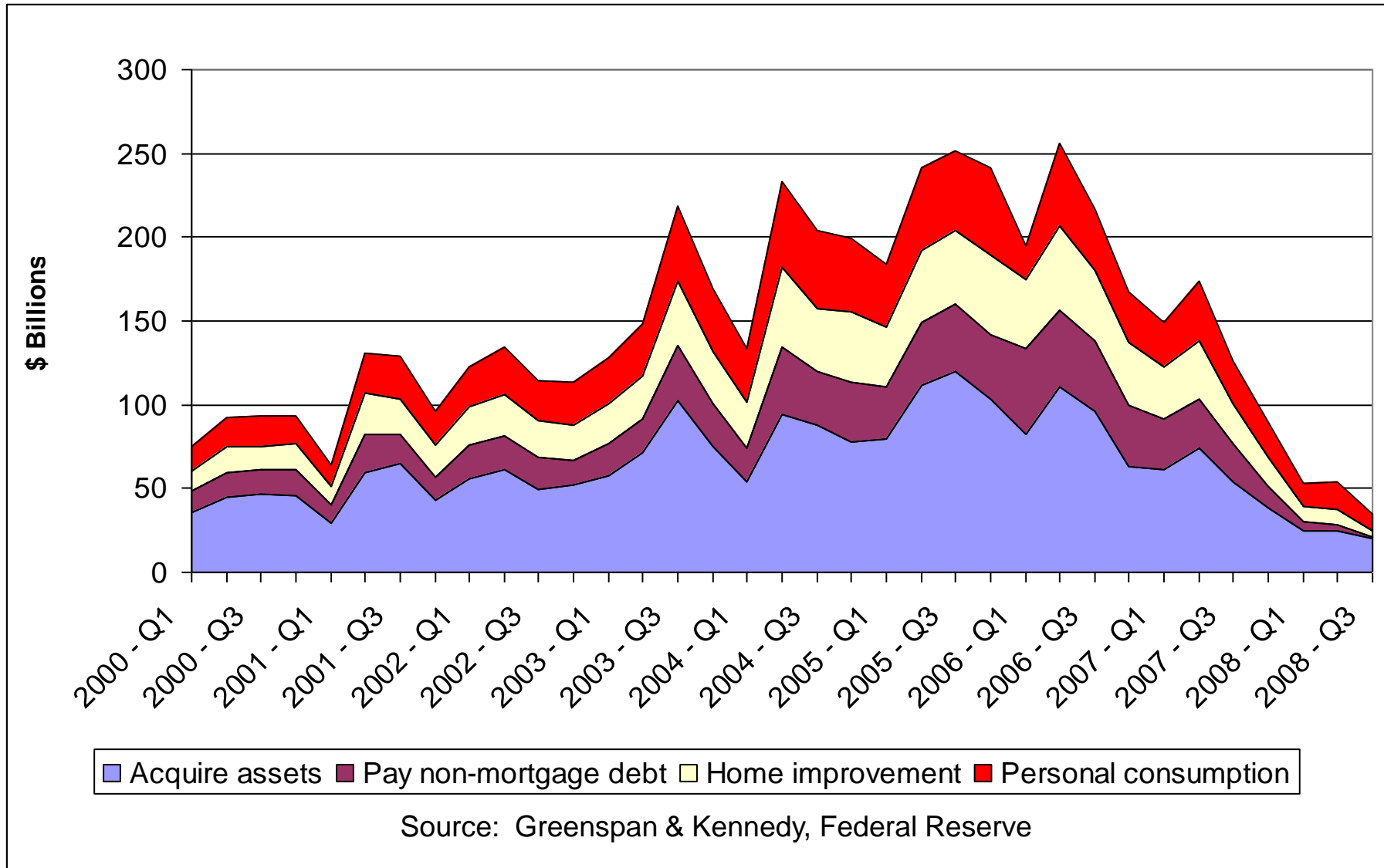
Quarterly percentage change in GDP

# Actual and Forecast Changes in GDP 2008 - 2011



# But What is Normal Growth?

## Size and Use of Home Equity Extraction 2000- 2008



# Job Losses by Sector – Dec. 2007 to Dec. 2009 (thousands)

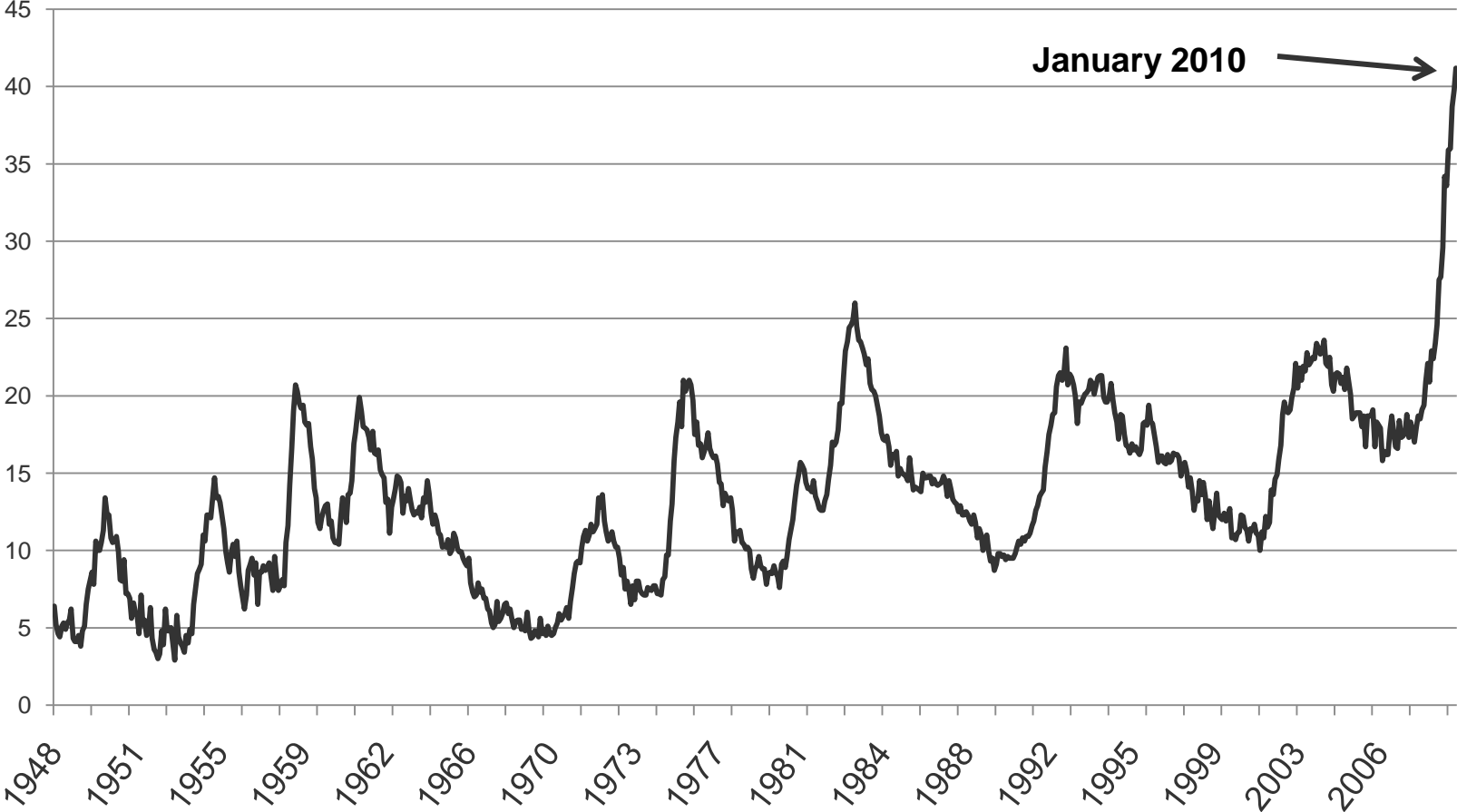
Manufacturing	-2,086	-15%
Construction	-1,564	-21%
Transportation	-397	-9%
Retail & Wholesale Trade	-1,405	-6%
Leisure & Hospitality	-446	-3%
Professional & Business Services	-1,221	-7%
Financial Services	-527	-6%
Information	-219	-7%
Other	-164	-2%
Education	125	4%
Health Care & Social Assistance	772	5%
Federal	68	2%
State	37	1%
Local	-27	0%
<b>Total</b>	<b>-7,054</b>	<b>-5%</b>



# Half of US Job Losses Between Dec 2007 and Dec 2009 Were in Eight States

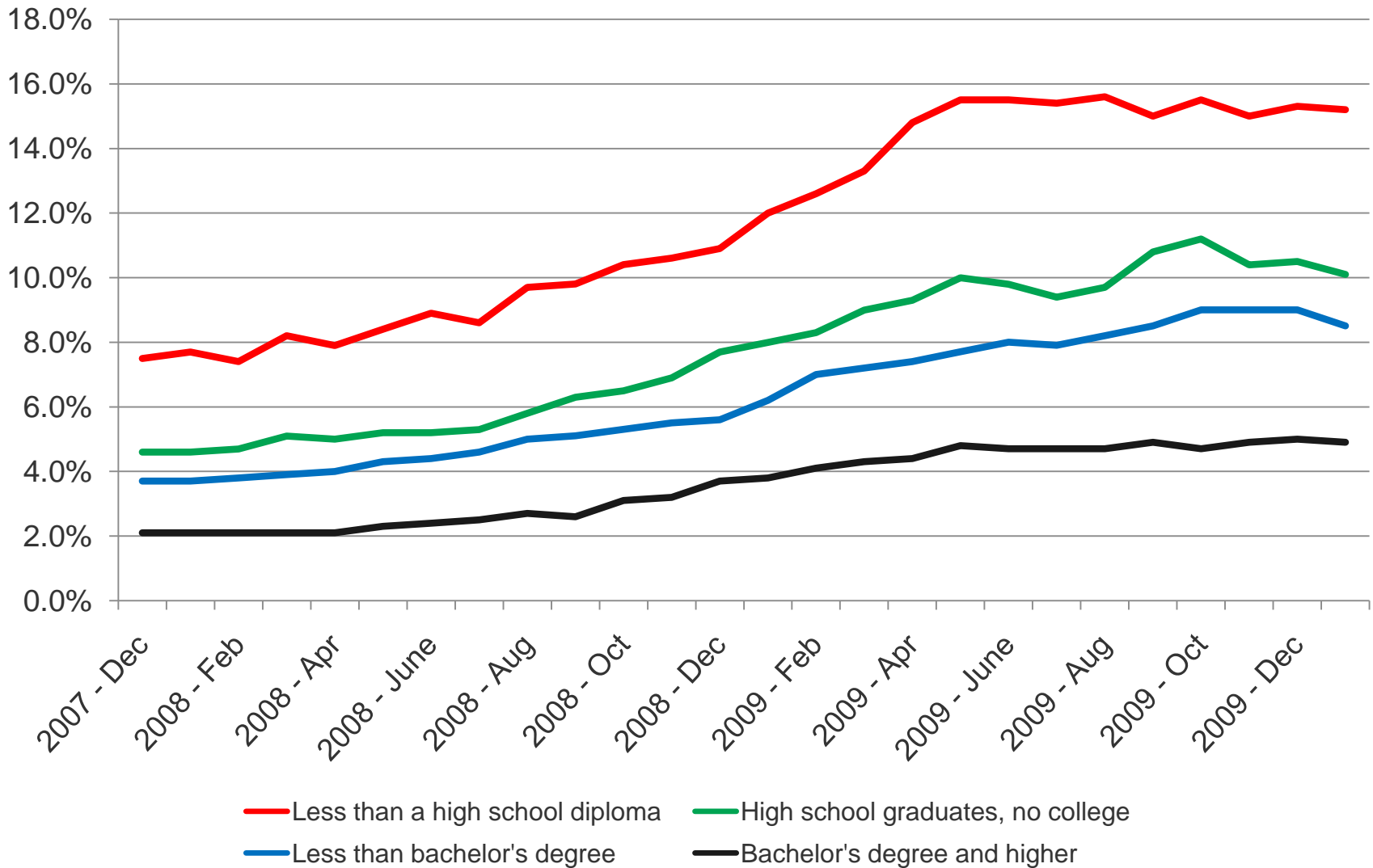
	<b>Jobs Lost</b>	<b>Percent of US Total</b>
California	-1,041.3	14.8%
Florida	-607.6	8.6%
Michigan	-411.0	5.8%
Illinois	-379.0	5.4%
Ohio	-331.8	4.7%
Georgia	-314.5	4.5%
Arizona	-261.6	3.7%
North Carolina	-248.0	3.5%
	<b>Percent of US Total:</b>	<b>51.0%</b>

# Percent Unemployed More than 6 Months

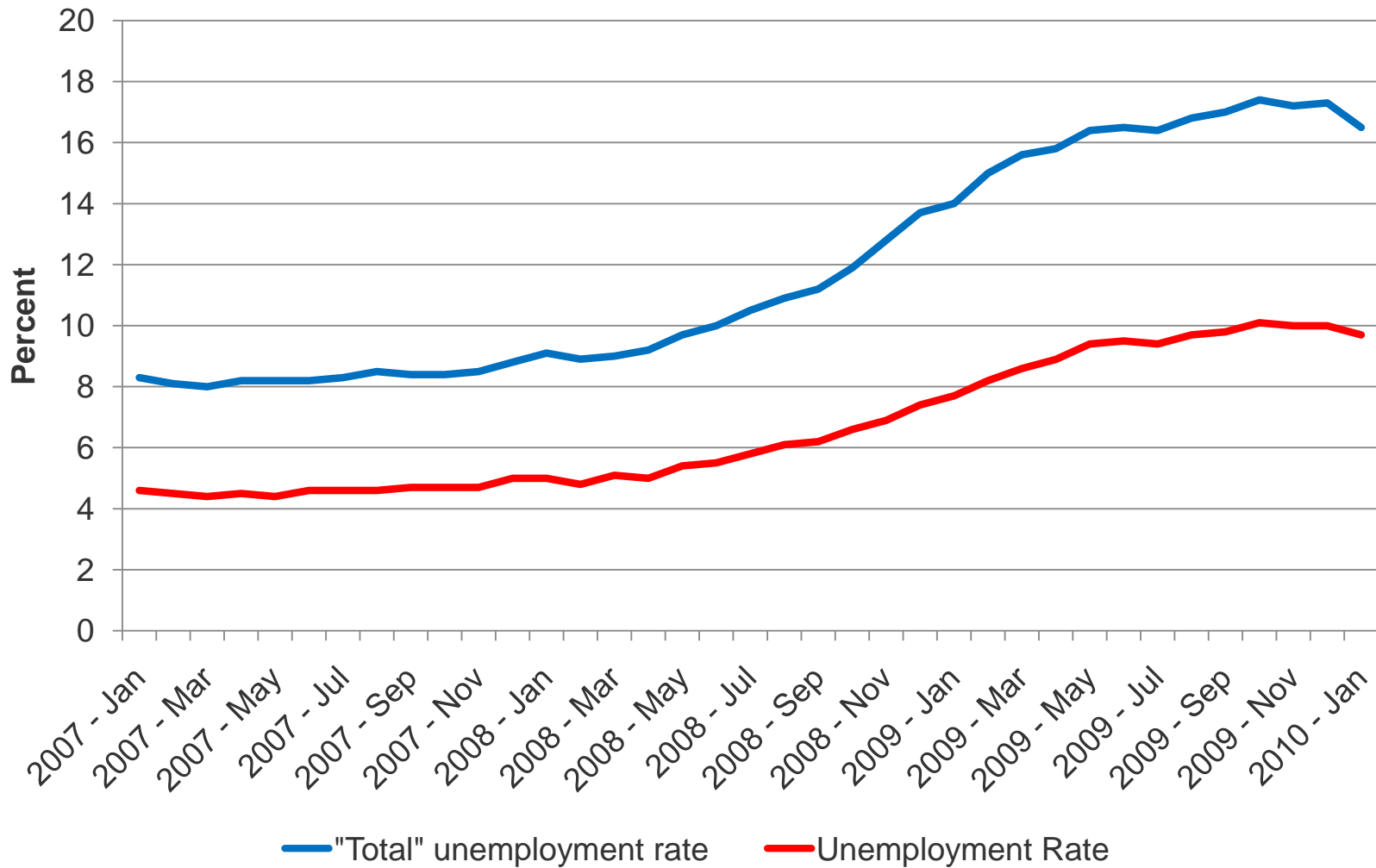


Percent of unemployed who have been out of work more than 27 weeks.  
Source: Bureau of Labor Statistics

# Unemployment Rate by Education



# Unemployment Rate plus Marginally Employed



Includes those unemployed but looking for work, discouraged workers no longer looking, those marginally attached to the work force and those forced to take part-time positions while seeking full-time.

# Official versus "Total" Unemployment Rate by State



	Unemployment Rate - Dec 2009	Estimated "Total" Unemployment Rate - Dec 2009
Michigan	14.6	23.5
Nevada	13.0	20.9
Rhode Island	12.9	21.1
South Carolina	12.6	21.0
California	12.4	22.2
Florida	11.8	20.2
North Carolina	11.2	18.6
Oregon	11.0	20.5
Alabama	11.0	17.5
Tennessee	10.9	19.0
Ohio	10.9	18.4
Kentucky	10.7	17.9
Georgia	10.3	17.6
Indiana	9.9	17.9
Arizona	9.1	17.4
US	10.0	17.3

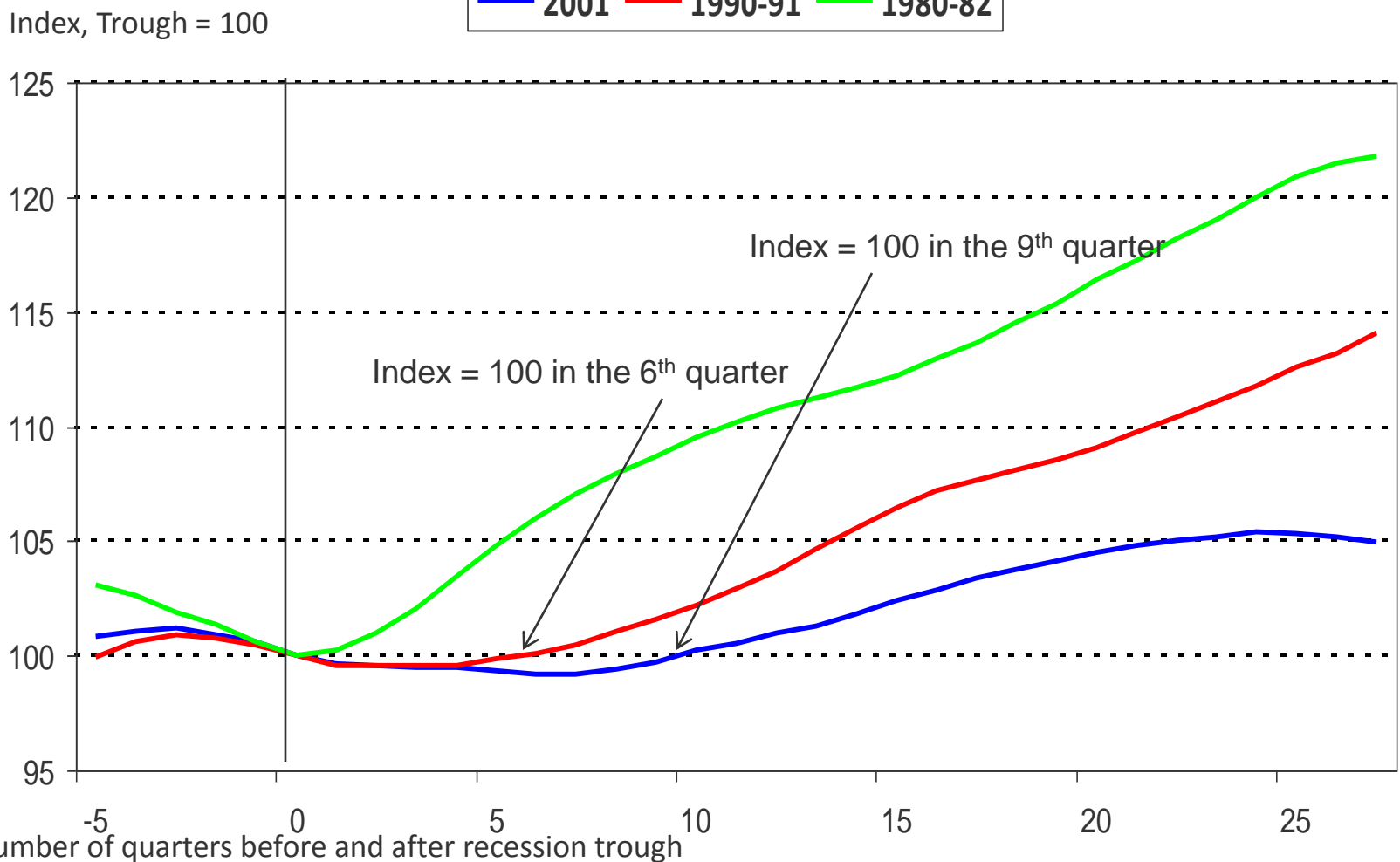
The "total" unemployment rate includes those looking for work, discouraged workers no longer looking, marginally attached workers who have recently looked and those working part-time for economic reasons.

Source: BLS and MBA estimates of state level "total" unemployment based on historical patterns in BLS U6 data.

# Payroll Employment – Time to Recovery after End of Recession



— 2001 — 1990-91 — 1980-82



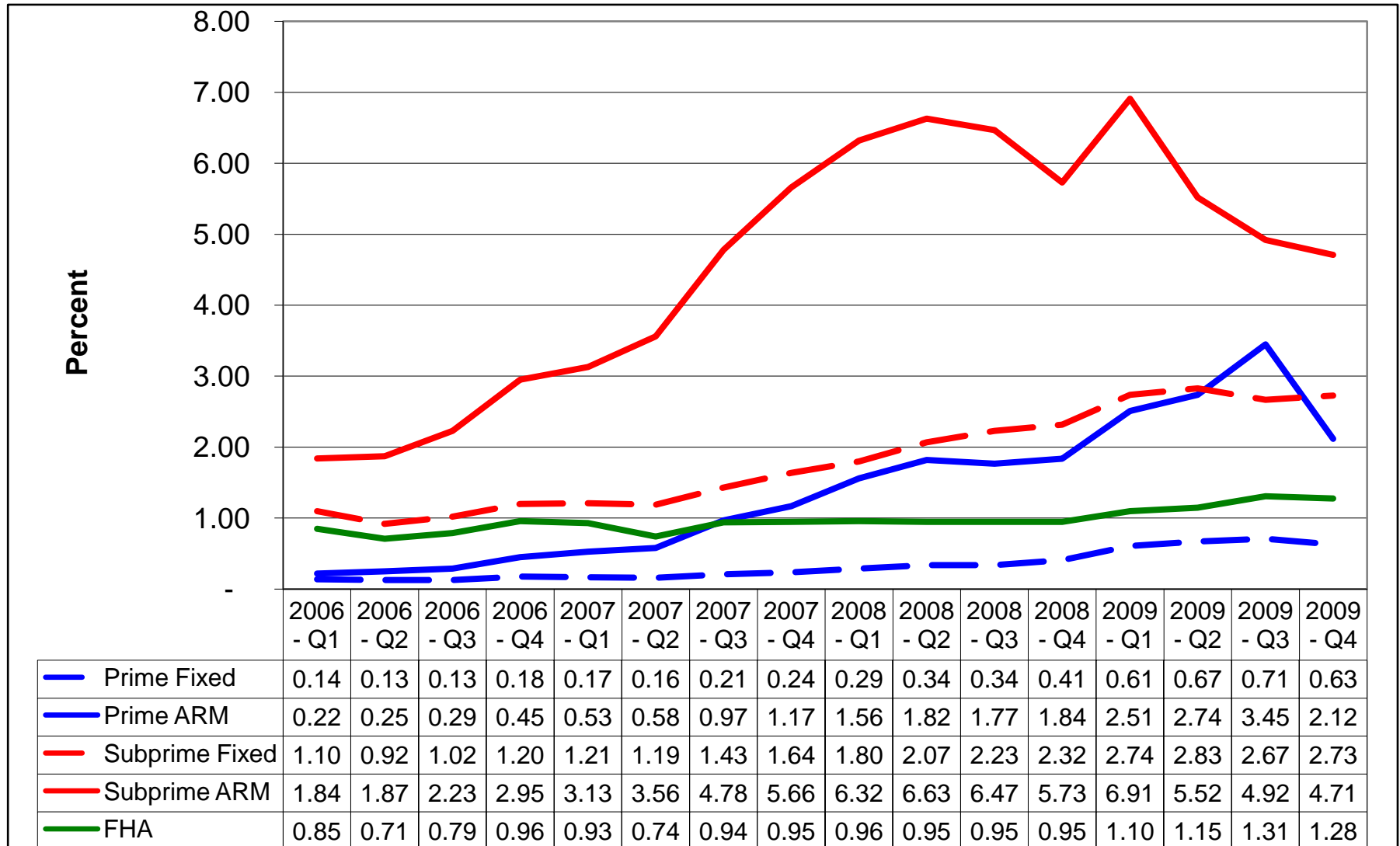
**Since the trough of the most recent recession, we have lost approximately 2.7 million jobs.**

# Initial Claims for Unemployment Insurance (Seasonally Adjusted)

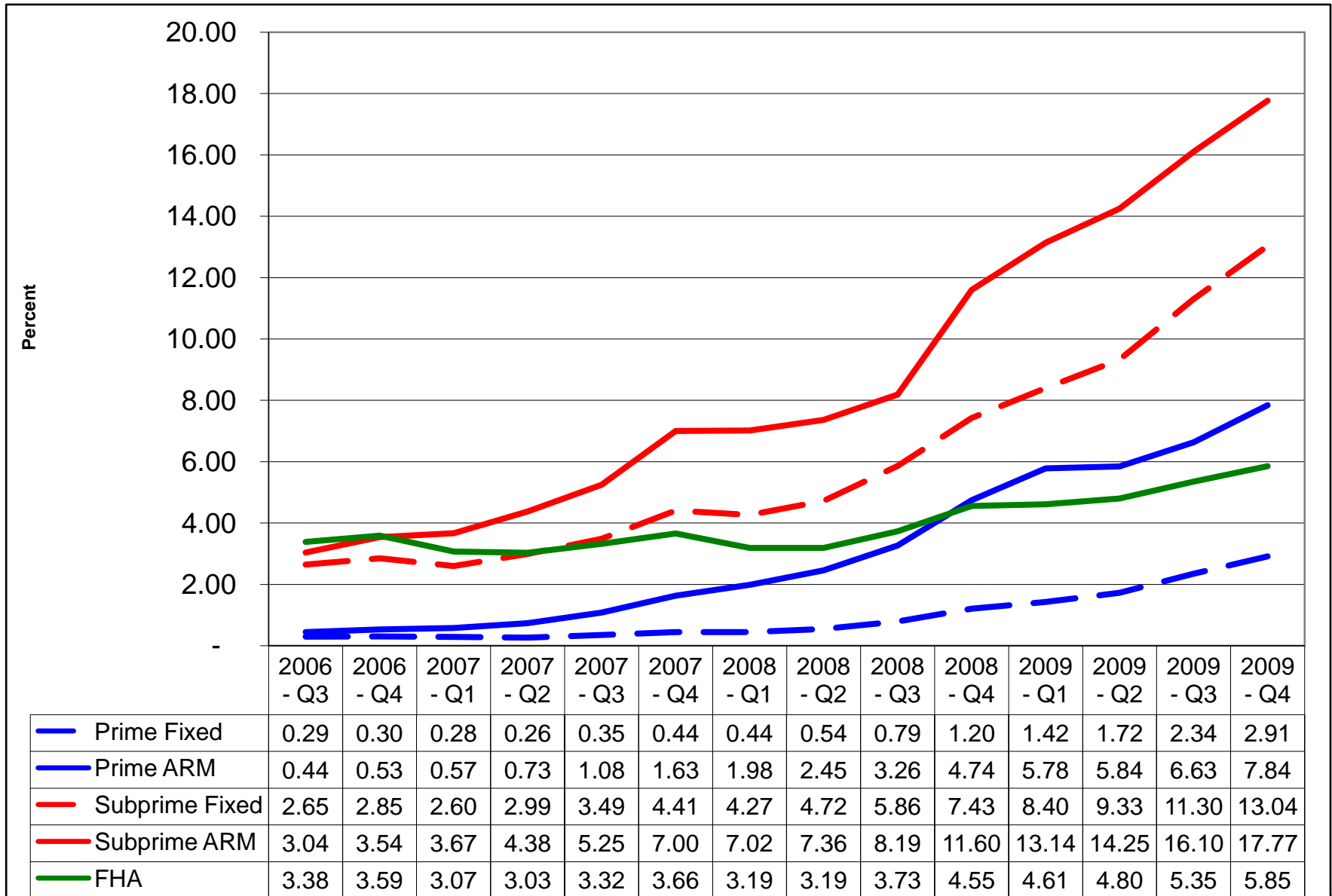


# Mortgage Performance

# Foreclosures Started by Loan Type (NSA)



# 90+ Day Delinquencies by Loan Type (NSA)



# Prime Fixed-Rate Loans Largest Share of Problems



## US Foreclosure Starts

**Q409**

Product	Percent of US Loans Outstanding	Percent of US Foreclosures Started
Prime Fixed	65.5%	34.6%
Prime ARM	11.6%	20.6%
Subprime Fixed	6.2%	14.2%
Subprime ARM	4.4%	17.3%
FHA	12.4%	13.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Q408**

Product	Percent of US Loans Outstanding	Percent of US Foreclosures Started
Prime Fixed	65.1%	24.8%
Prime ARM	13.5%	23.1%
Subprime Fixed	6.3%	13.6%
Subprime ARM	5.7%	30.2%
FHA	9.3%	8.2%
<b>All</b>	<b>100%</b>	<b>100%</b>

## US 90+ Day Delinquencies

**Q409**

Product	Percent of US Loans Outstanding	Percent of US Loans 90+ Days Delinquent
Prime Fixed	65.5%	37.2%
Prime ARM	11.6%	17.7%
Subprime Fixed	6.2%	15.8%
Subprime ARM	4.4%	15.2%
FHA	12.4%	14.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

**Q408**

Product	Percent of US Loans Outstanding	Percent of US Loans 90+ Days Delinquent
Prime Fixed	65.1%	26.3%
Prime ARM	13.5%	21.6%
Subprime Fixed	6.3%	15.8%
Subprime ARM	5.7%	22.1%
FHA	9.3%	14.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

# The Sand States Continue to Dominate Foreclosures



## December 2009

## December 2008

**Percent of US Loans Outstanding**      **Percent of US Foreclosure Starts**

**Percent of US Loans Outstanding**      **Percent of US Foreclosure Starts**

<b>All Loans</b>		
California	13.2%	15.0%
Florida	7.9%	16.1%
Nevada	1.2%	3.2%
Arizona	2.7%	4.9%
<b>Total</b>	<b>25.0%</b>	<b>39.2%</b>

<b>All Loans</b>		
California	13.2%	16.9%
Florida	8.0%	17.4%
Nevada	1.3%	3.1%
Arizona	2.7%	5.1%
<b>Total</b>	<b>25.2%</b>	<b>42.5%</b>

<b>Prime Fixed</b>		
California	12.4%	10.2%
Florida	7.2%	18.5%
Nevada	1.0%	2.7%
Arizona	2.5%	4.9%
<b>Total</b>	<b>23.2%</b>	<b>36.3%</b>

<b>Prime Fixed</b>		
California	11.6%	8.2%
Florida	7.3%	18.8%
Nevada	1.0%	2.3%
Arizona	2.5%	4.9%
<b>Total</b>	<b>22.4%</b>	<b>34.2%</b>

# Sand States Still Dominate ARM Foreclosures



## December 2009

Percent of US Loans Outstanding      Percent of US Foreclosure Starts

<b>Prime ARM</b>		
California	28.7%	31.4%
Florida	11.8%	20.3%
Nevada	2.3%	5.6%
Arizona	3.5%	6.0%
<b>Total</b>	<b>46.4%</b>	<b>63.3%</b>

<b>Subprime ARM</b>		
California	16.5%	19.0%
Florida	14.0%	15.4%
Nevada	2.3%	3.7%
Arizona	4.0%	5.7%
<b>Total</b>	<b>36.8%</b>	<b>43.8%</b>

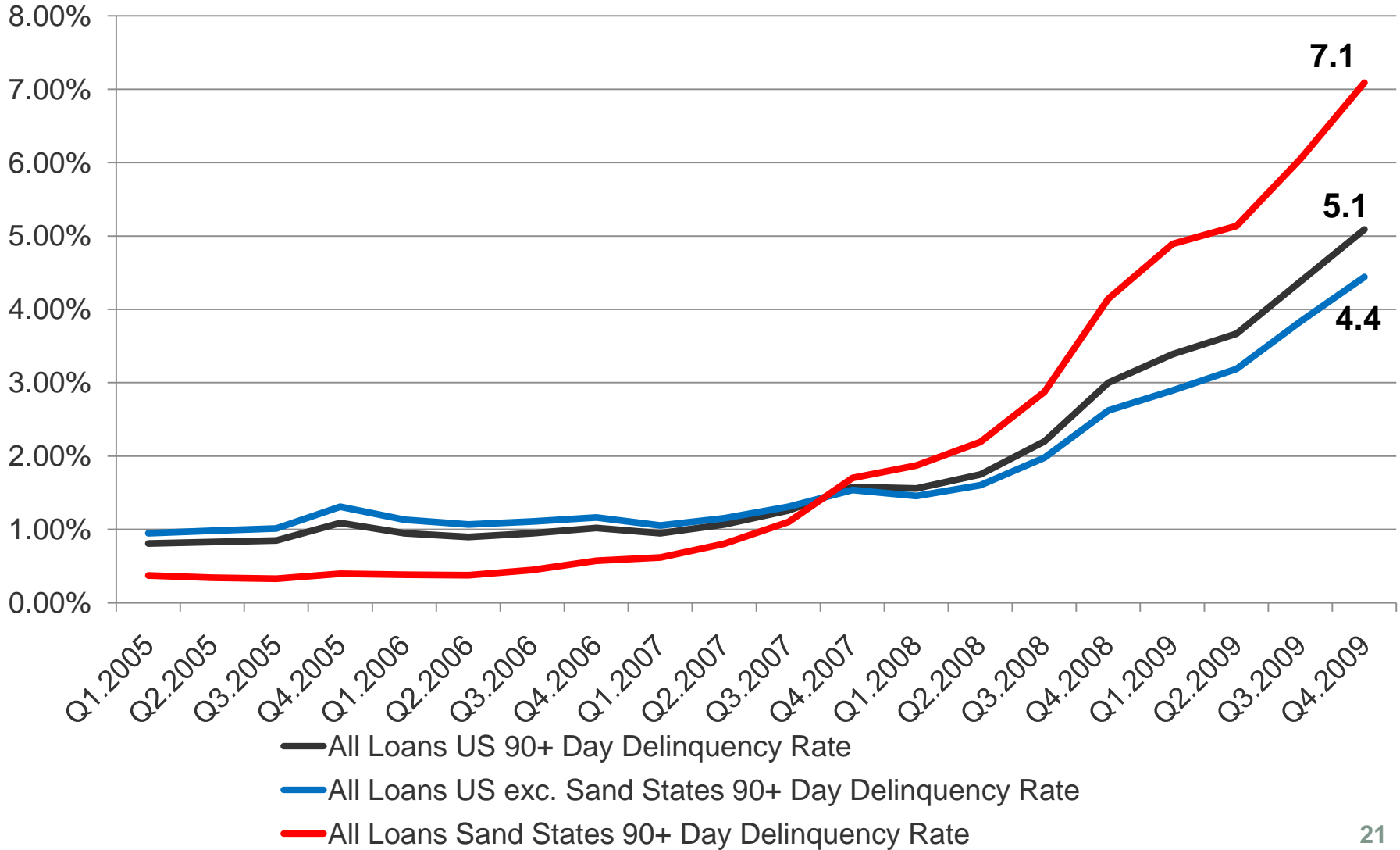
## December 2008

Percent of US Loans Outstanding      Percent of US Foreclosure Starts

<b>Prime ARM</b>		
California	28.5%	29.0%
Florida	11.3%	22.8%
Nevada	2.3%	4.6%
Arizona	3.6%	6.0%
<b>Total</b>	<b>45.8%</b>	<b>62.3%</b>

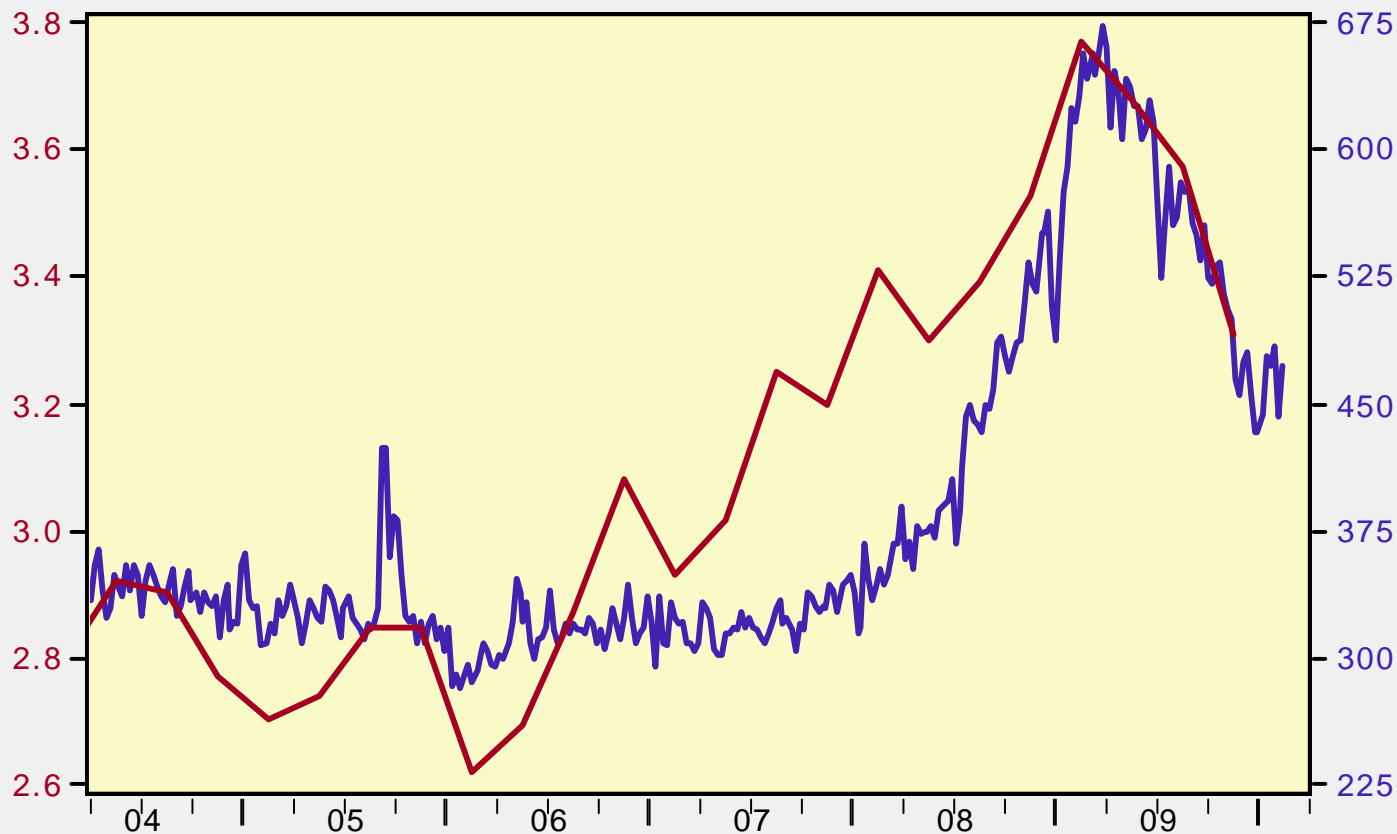
<b>Subprime ARM</b>		
California	17.9%	19.8%
Florida	13.5%	19.3%
Nevada	2.6%	3.7%
Arizona	4.5%	5.8%
<b>Total</b>	<b>38.6%</b>	<b>48.6%</b>

# Sand State Impact on National 90+ Day Delinquency Rate



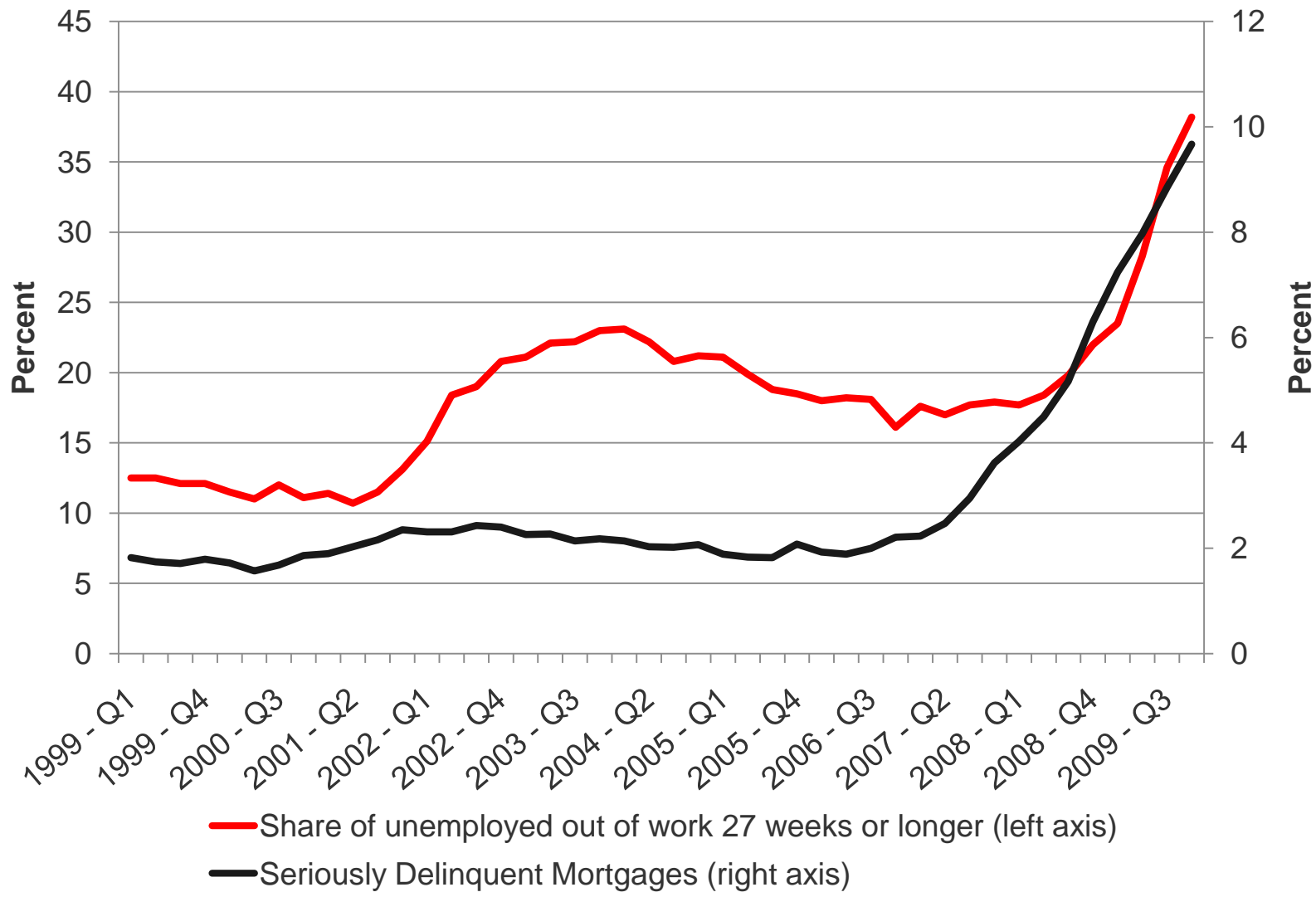
## Mortgage Payments Past Due 30-59 Days: United States SA, %

## Unemployment Insurance: Initial Claims, State Programs SA, Thous

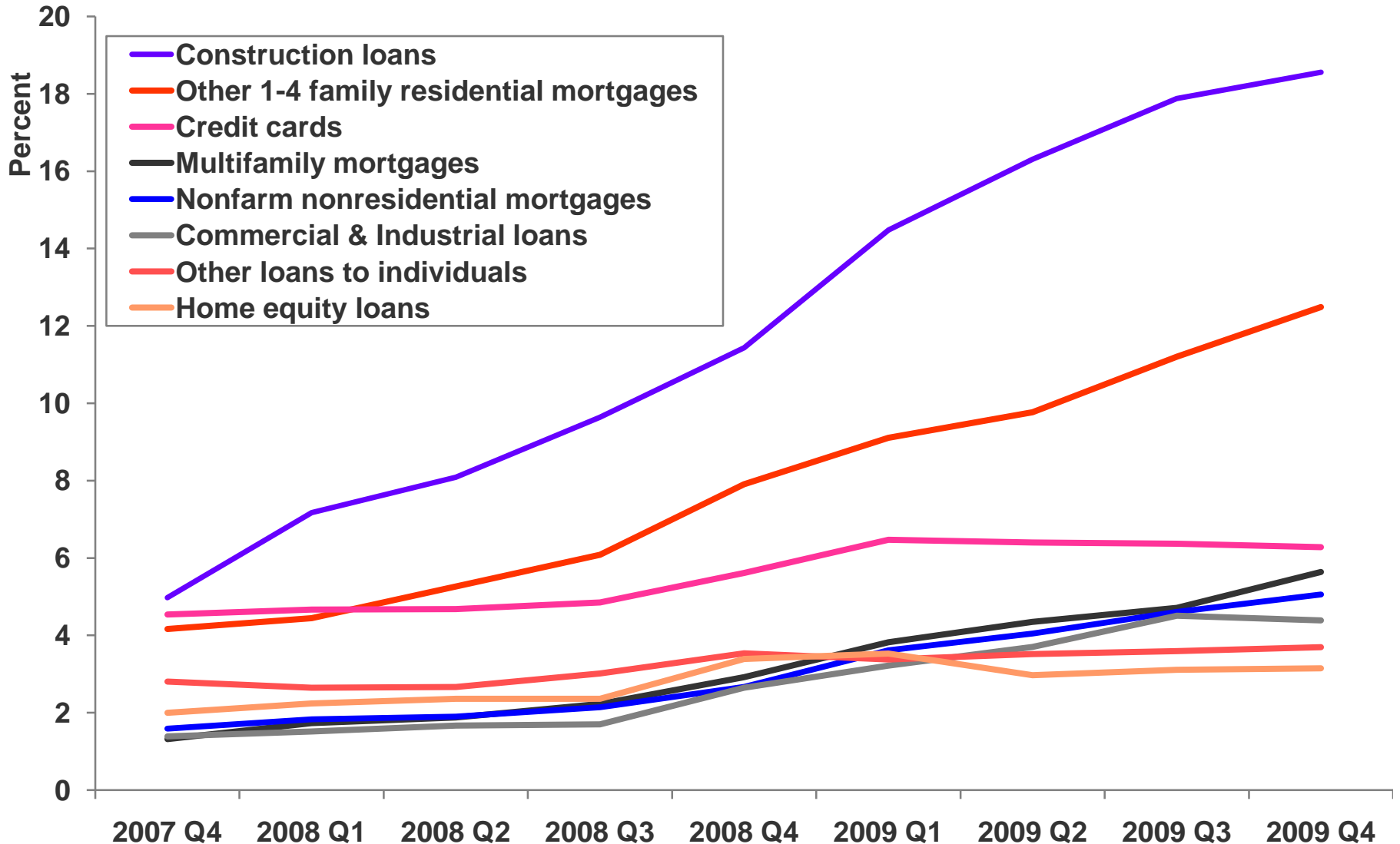


Sources: Mortgage Bankers Association, Department of Labor

# Long-term Unemployment and Long-term Delinquencies

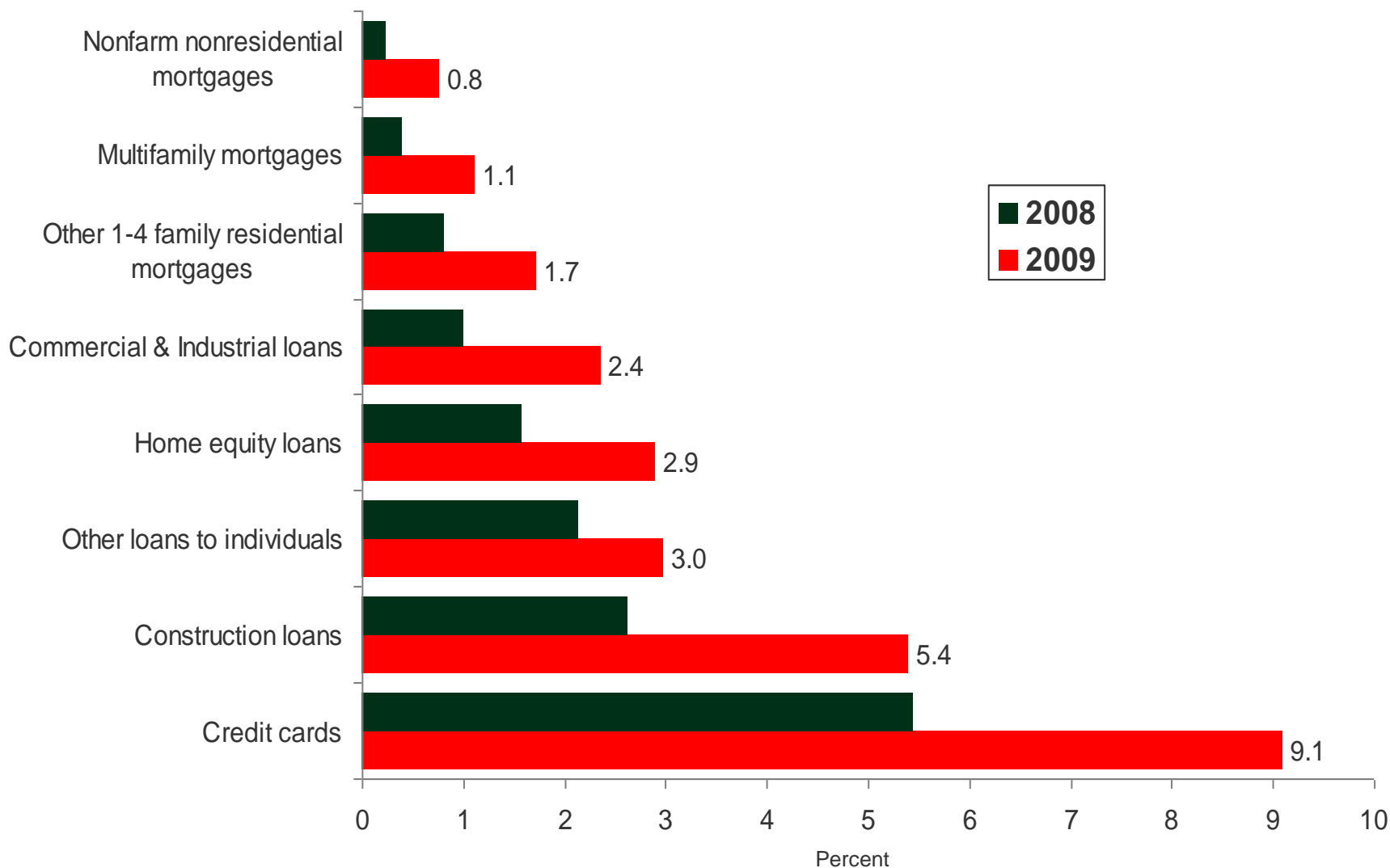


# BANKS & THRIFTS: 30+ Day Delinquency Rates of Loans and Leases



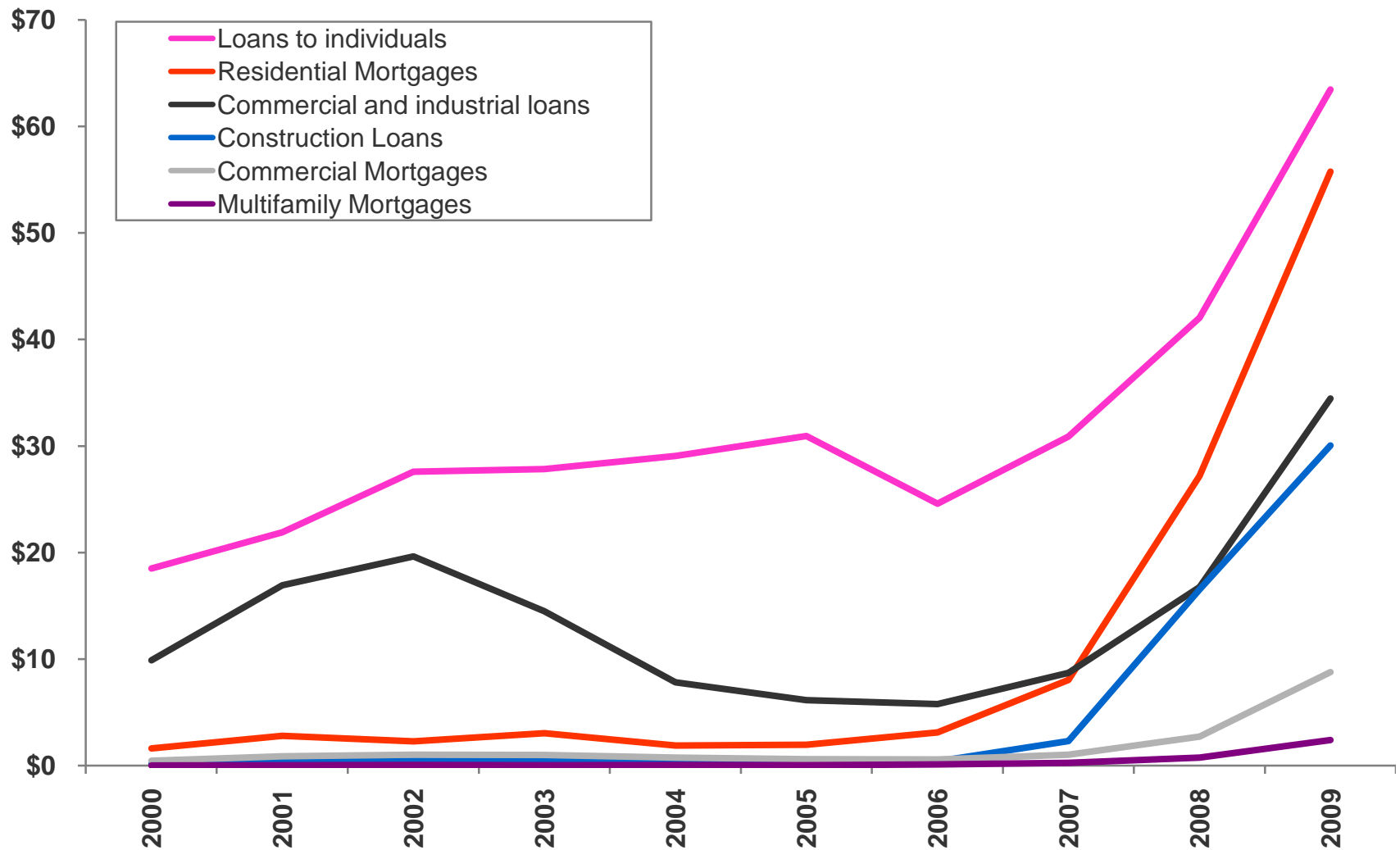
Sources: MBA and FDIC

# BANKS & THRIFTS: Charge-off Rates of Loans and Leases



Sources: MBA and FDIC

# Charge-offs at Banks and Thrifts (\$billions)



Source: MBA and FDIC

# The Outlook

- **Fed Funds**

No increase in the Fed Funds rate until December or early 2011

- No evidence of inflation, particularly wage inflation.
- May need to move earlier to protect the dollar, but the dollar has strengthened.
- Absent some new crisis with the major banks, LIBOR spreads should remain near current levels.

- **10-Year Treasury**

Increasing through 2010 to about 4.25% by December, with considerable volatility:

- Flights to quality
- Economic headlines (particularly any positive jobs reports)
- Auction dates

# Mortgage Origination Forecast



	2010							
	2009	2010	2011	2012	Q1	Q2	Q3	Q4
<b>Housing Measures (Thous)</b>								
Home Sales								
Total Existing Homes	5,164	5,411	5,687	5,813	5,458	5,537	5,213	5,435
New Homes	372	411	525	679	413	420	400	413
FHFA HPI (YOY % Change)	-4.1	0.0	2.8	5.0	-3.3	-2.6	-1.6	0.0
<b>Interest Rates (%)</b>								
30-Year Fixed Rate Mortgage	5.0	5.7	6.2	6.4	5.2	5.7	5.9	6.0
10-Year Treasury Yield	3.3	4.0	4.4	4.8	3.8	4.0	4.1	4.2
1-Year Treasury ARM	4.8	4.9	5.5	6.3	4.8	4.9	4.9	5.0
1-Year Treasury Yield	0.4	0.7	1.9	3.3	0.6	0.7	0.8	0.9
<b>Mortgage Originations</b>								
Total 1- to 4-Family (Bil \$)	2,107	1,274	1,196	1,377	340	366	322	246
Purchase	740	745	822	907	136	223	216	170
Refinance	1,368	529	374	470	204	143	106	76
Refinance Share (%)	65	42	31	34	60	39	33	31

# But what about the stimulus package?

Amount appropriated:	\$787 Billion
Amount spent through 12/31/09:	\$263 Billion
Percent spent:	33.4%

Estimated spending by fiscal year:

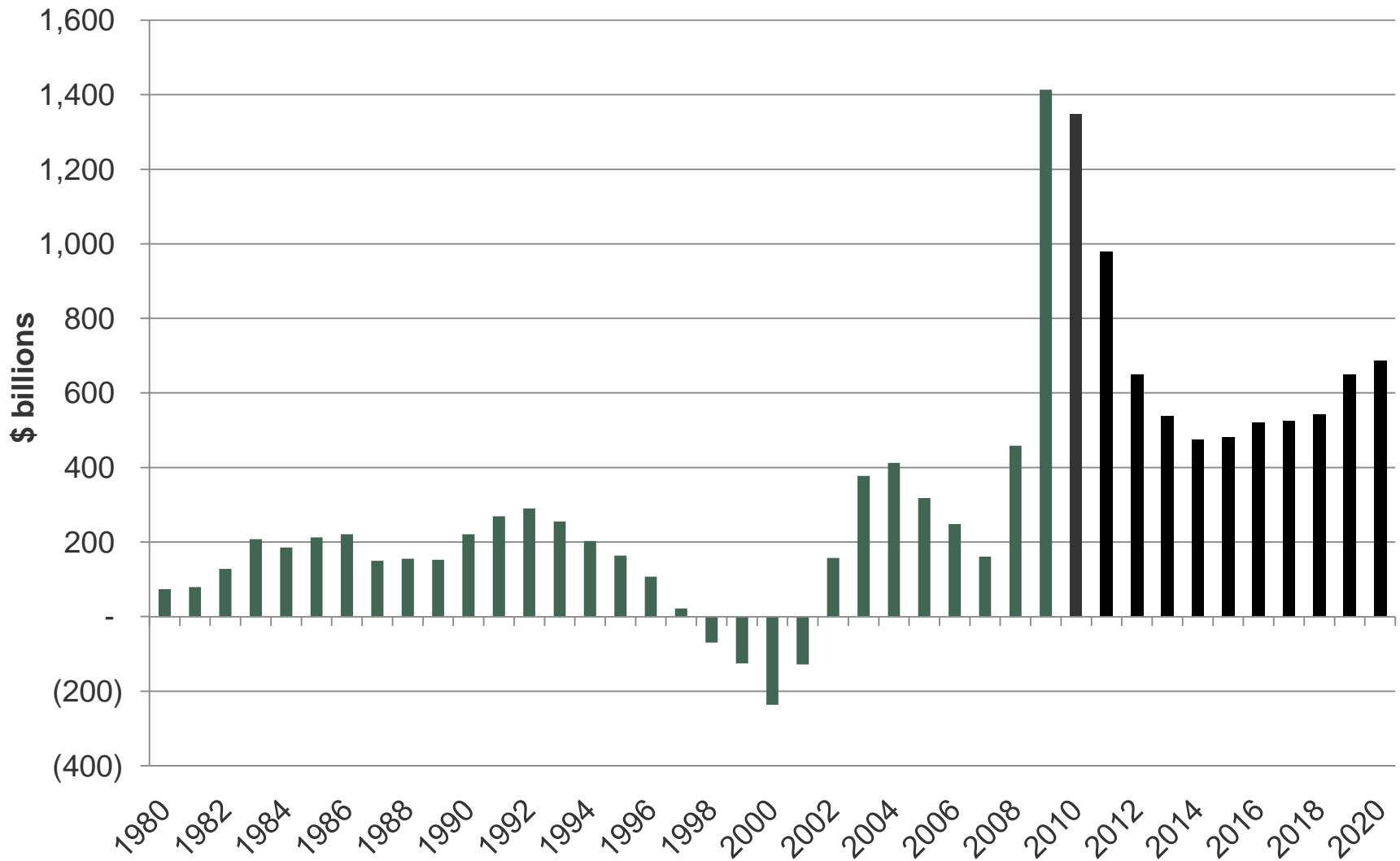
\$184 billion in FY2009  
\$399 billion in FY2010  
\$91 billion in FY2011-2015

# How is the stimulus package being spent?

*The limited impact on employment is tied to how money has been spent:*

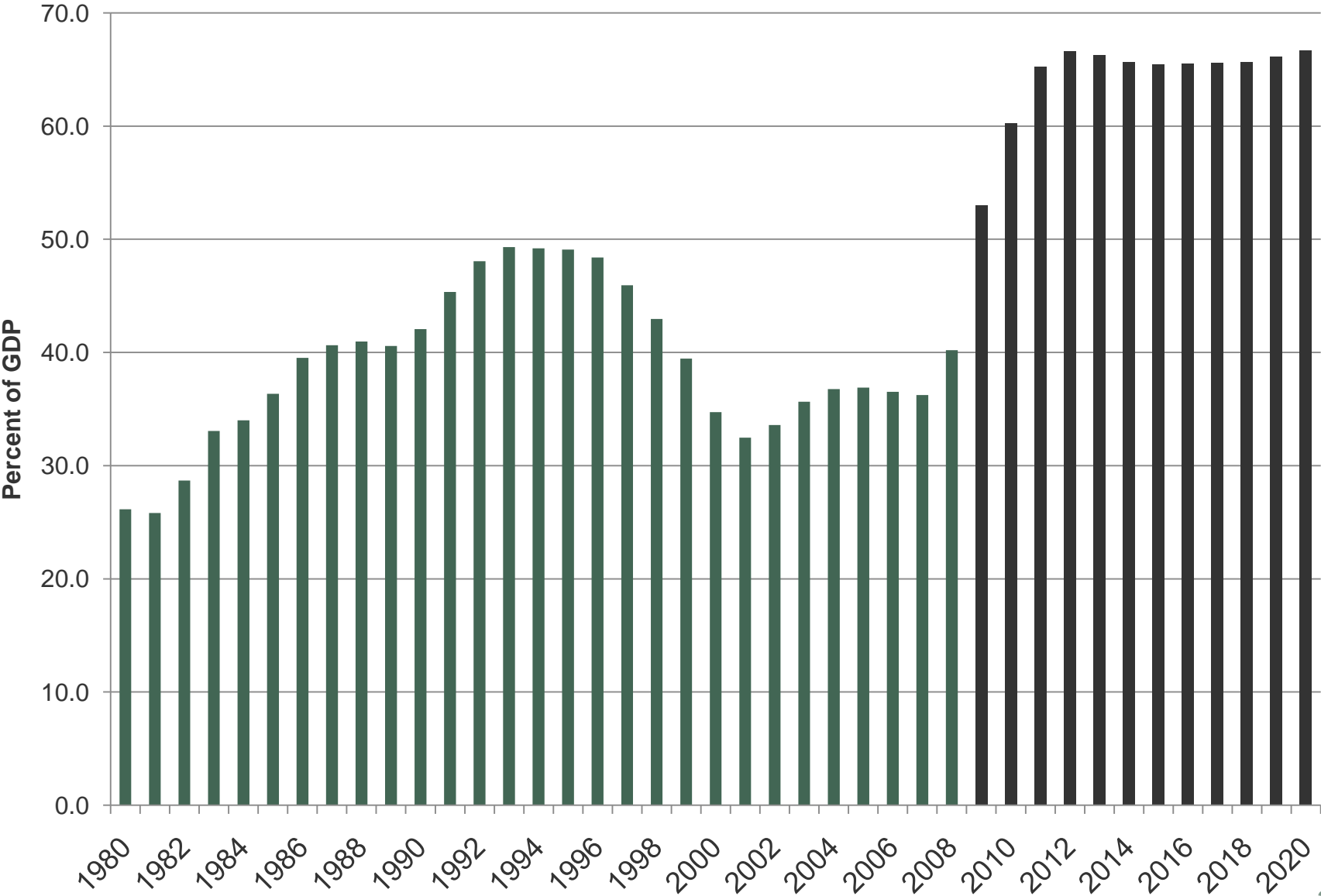
- Payments for state Medicaid obligations and other state grants 23%
- Extension of unemployment benefits and COBRA subsidy 22%
- Tax credits, including expansion of child tax credit and homebuyer tax credit 21%
- Spending on transportation and other infrastructure needs 16%
- Expanded net loss carrybacks and other business-related tax breaks 12%
- Alternative Minimum Tax relief for one year 6%

# Historical and Projected Federal Deficit Projections Under Current Law



# Federal Debt as Percent of GDP

## CBO Projections Under Current Law



Source: Congressional Budget Office

Mortgage Bankers Association

# Two Quotes from the Head of the Congressional Budget Office

“If the [Bush] tax cuts were made permanent, the AMT was indexed for inflation, and annual appropriations kept pace with GDP, ...debt held by the public would equal nearly 100 percent of GDP [by 2020].”

“Those are numbers that are not very common among developed countries. We are pushing our way toward debt levels that we don’t have experience with in this country, [and that raises the risk that] people will be concerned enough not to want to buy so much U.S. debt at current interest rates.”

-- Douglas Elmendorf, Director, Congressional Budget Office,  
January 26, 2010

# The GSEs

# Seeking the Right Balance of Federal Support

## MBA's Plan for the GSEs



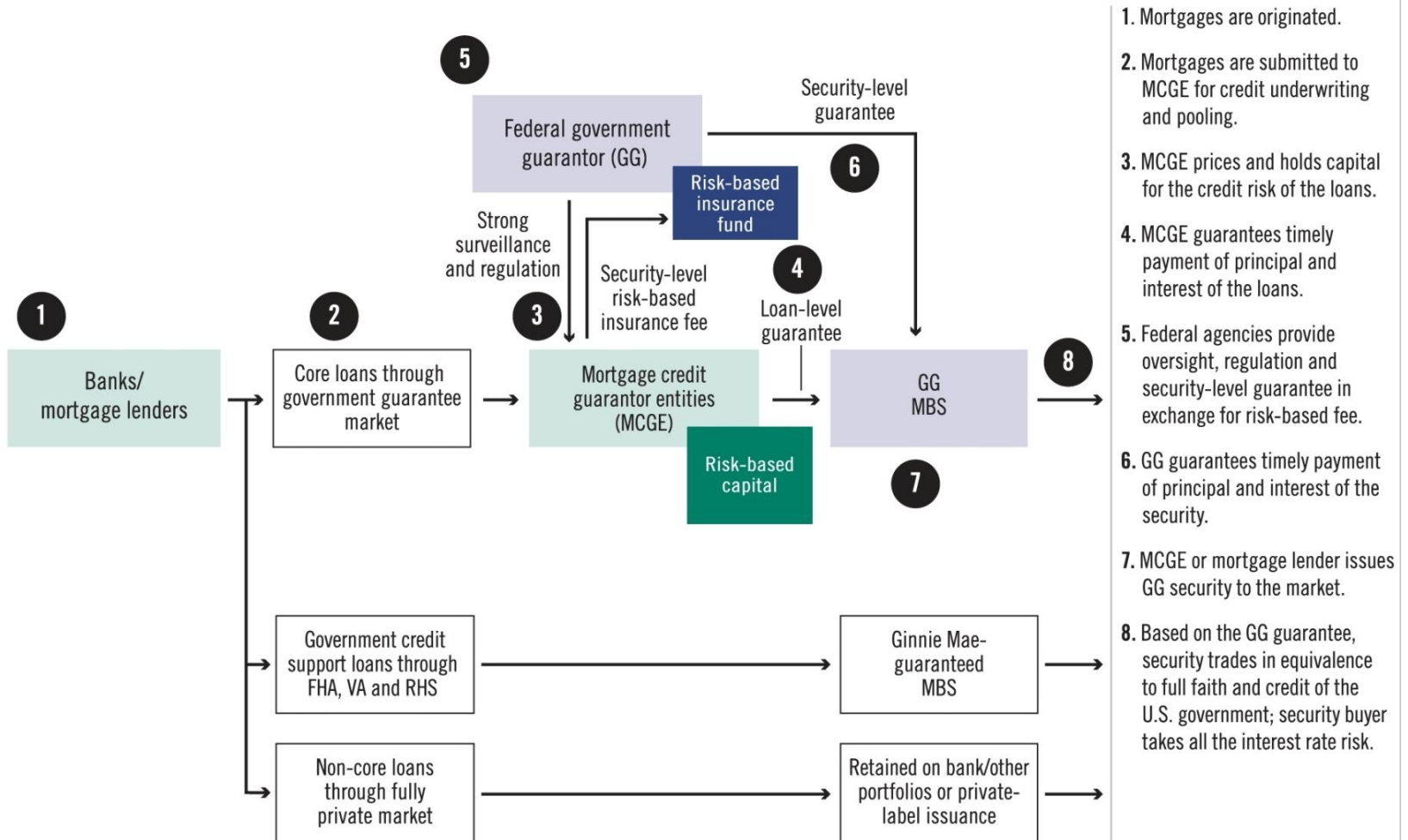
- 1) Make sure that private capital is the first line of defense against losses, with no institution too big to fail.
- 2) Establish an insurance fund as the second line of defense.
- 3) Make explicit what is or is not supported. Move from enterprise-level implicit guarantee to explicit security-level guarantee.
- 4) Establish an explicit means of compensating the government for the guarantee.
- 5) Remove all indicia of implied federal support.

1. In order to attract investors for the foreseeable future, and through a range of market conditions, the federal government's role as ultimate guarantor is made explicit through a federal credit wrap of certain mortgage-backed securities (MBS).
2. MBS investors bear all the interest rate risk
3. Privately owned and operated mono-line firms bear the credit risk, providing loan-level guarantees on the mortgages supporting the federally-guaranteed MBS and contributing to a security-level risk-based insurance fund. These firms have exclusive access to the federal wrap, are strictly regulated for risk-based capital adequacy and pricing and are limited to a defined set of core mortgage products. The role of these firms is limited to underwriting, insuring credit risk and securitizing single-family and multifamily mortgages as Mortgage Credit-Guarantor Entities (referred to as MCGEs).

# Core Secondary Mortgage Market: Recommendation

## HIGH-LEVEL VIEW

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



1. Mortgages are originated.
2. Mortgages are submitted to MCGE for credit underwriting and pooling.
3. MCGE prices and holds capital for the credit risk of the loans.
4. MCGE guarantees timely payment of principal and interest of the loans.
5. Federal agencies provide oversight, regulation and security-level guarantee in exchange for risk-based fee.
6. GG guarantees timely payment of principal and interest of the security.
7. MCGE or mortgage lender issues GG security to the market.
8. Based on the GG guarantee, security trades in equivalence to full faith and credit of the U.S. government; security buyer takes all the interest rate risk.

## What Investors Need

1. Clearly defined federal credit support
2. Liquidity
3. Simplicity and/or information
4. Quality regulation of guarantors and systems

## What Borrowers and Originators Need

1. Certainty of execution
2. Consistent offering of core products
3. Competitive pricing
4. Efficient means of hedging risk of interest rate locks

# Questions?

- The Economy & Employment
- Mortgage Performance
- Outlook
- The GSEs