



The Housing Market Going Forward: Lessons from the Recent Crisis



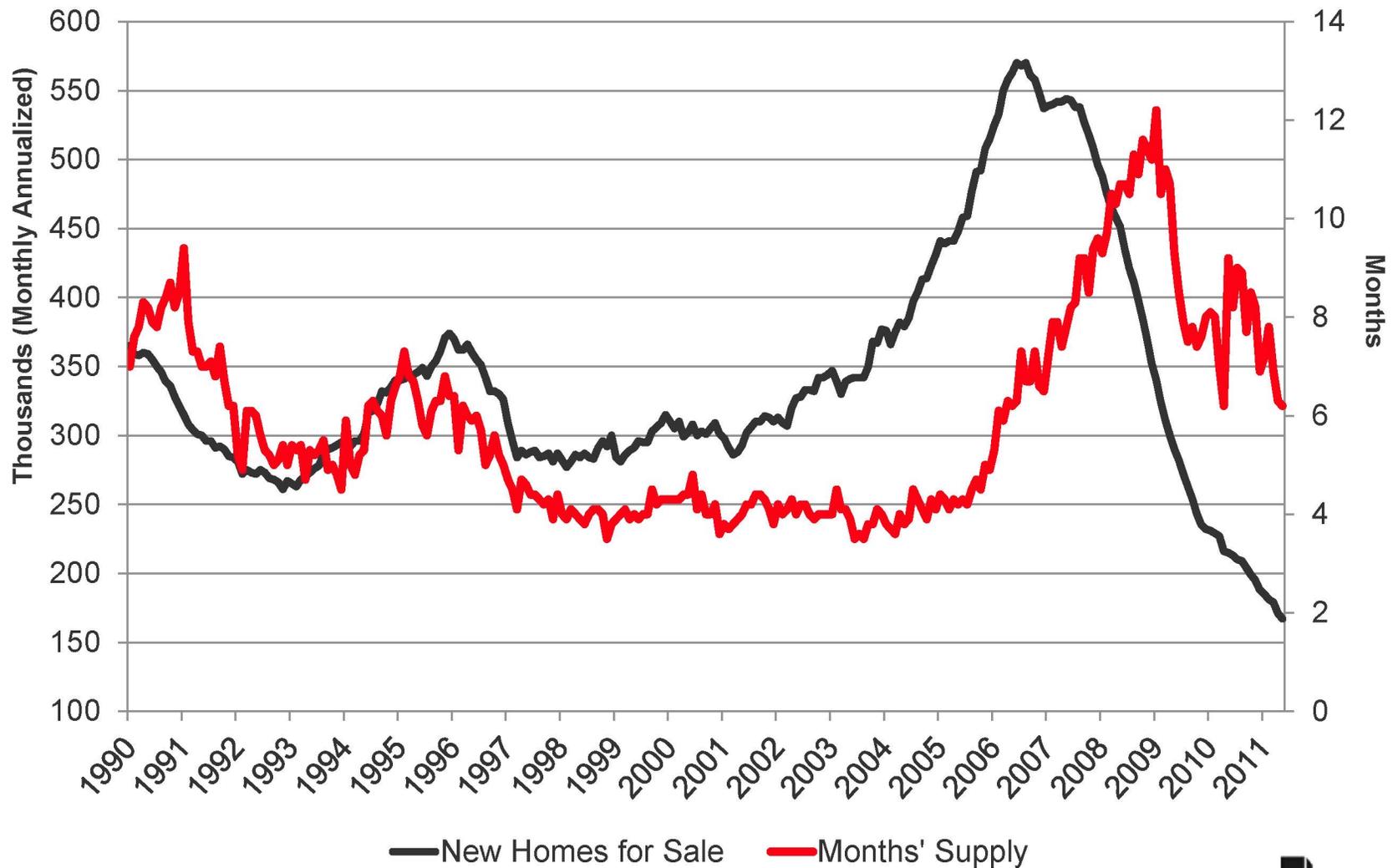
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What Caused the Housing Crash?

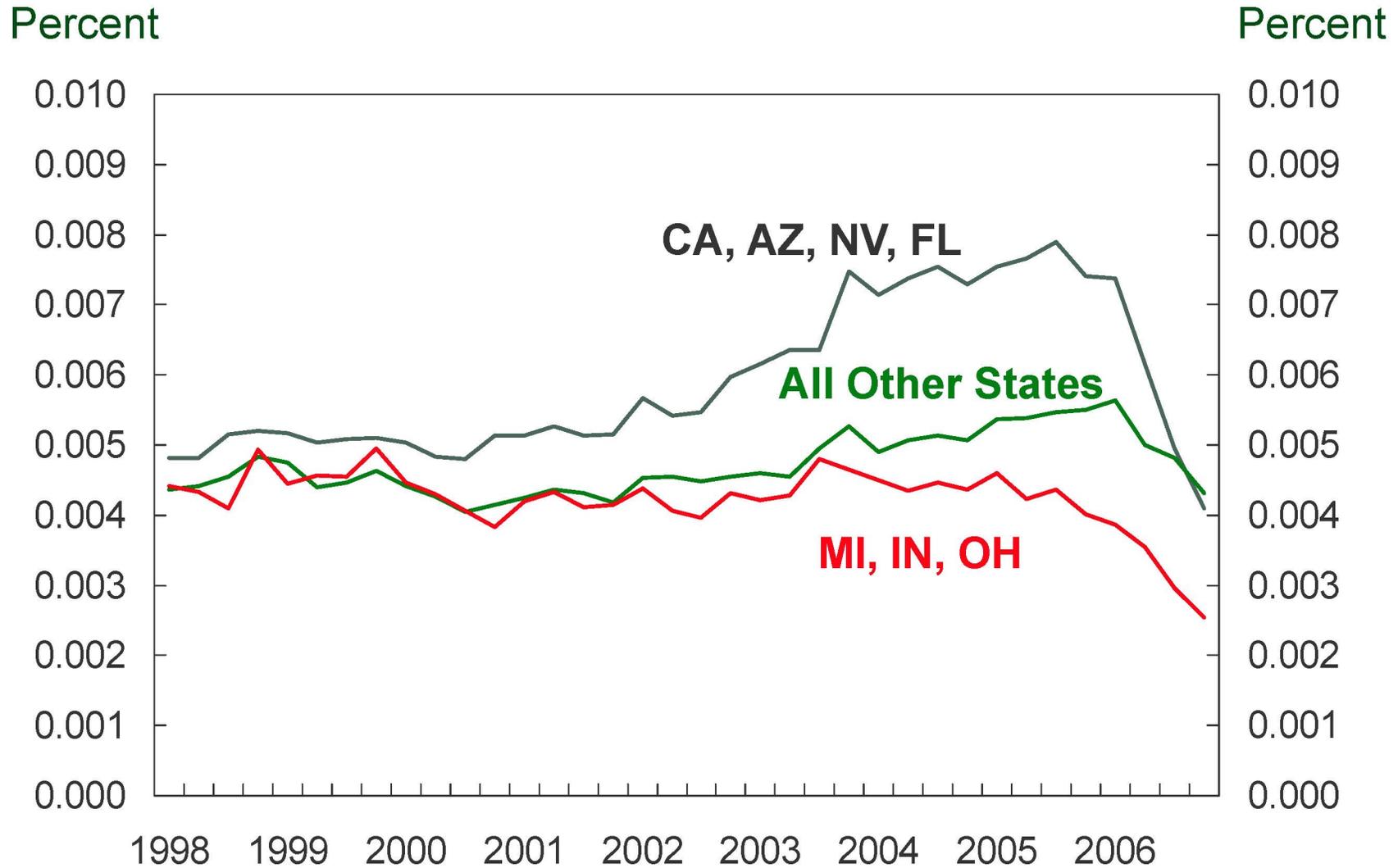
Supply > Demand

(Inelastic supply of houses
versus
unsustainable demand.)

New Home Construction Spurred by Unsustainable Demand Leads to Oversupply



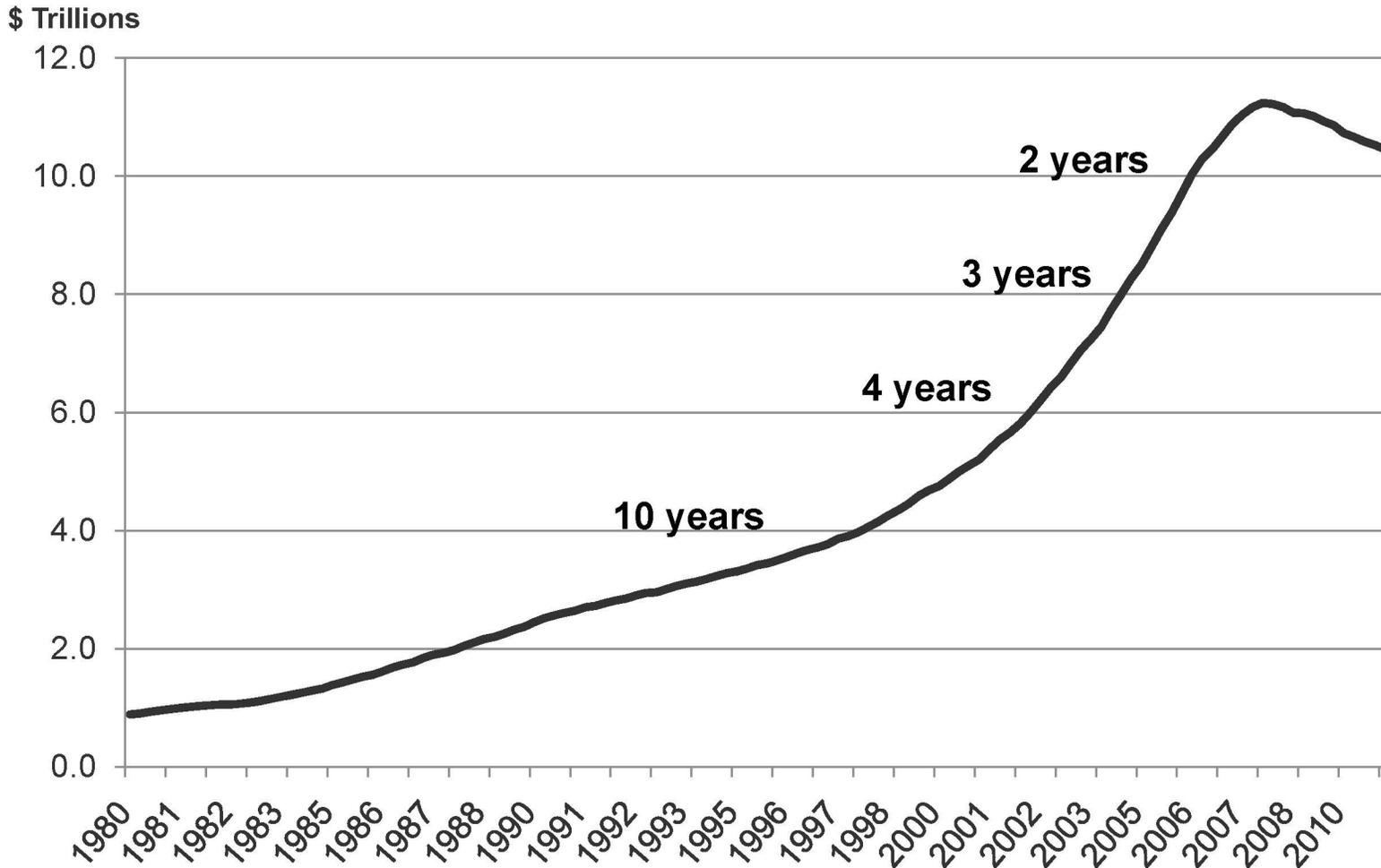
Housing Starts Per Capita



Source: New York Federal Reserve and Economy.com

US Residential Mortgage Debt Outstanding

Time intervals for \$2 trillion increases



Source: Federal Reserve Flow of Funds

Factors That Led to Unsustainable Demand

1. Weak credit criteria, including expansion of low initial payment mortgages and stated income loans, all encouraged by CRA and Fannie & Freddie.
2. Speculation, fueled by fraudulent income and occupancy claims.
3. Rapid home price increases brought more young people into the market.
4. In several areas the surge in building led to a demand for more houses, that is, people buying houses based on their income from building houses.

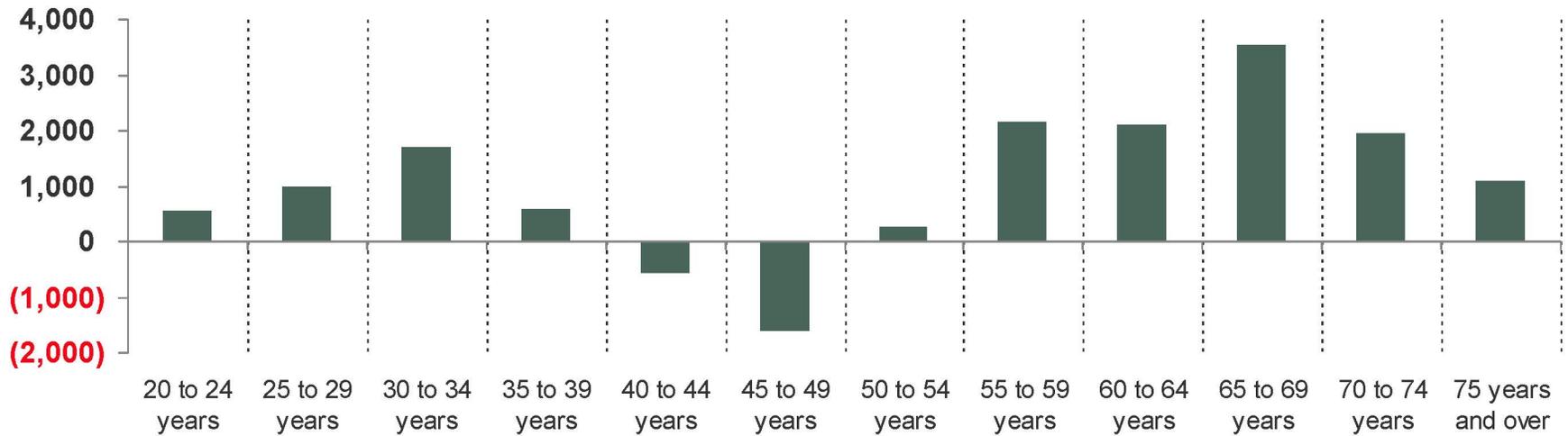
Market Failures

1. Inadequate, backwards looking credit models with no accounting for the concentration of particular loan types, local macroeconomic factors or over-heated growth. This was the real failure of Fannie and Freddie and the ratings agencies.
2. Inability or unwillingness to detect fraud by borrowers, brokers, loan officers, and appraisers, and willful ignorance on the part of securitizers and investors. Lack of adequate due diligence.
3. Investor over-reliance on rating agencies, ignoring the fundamental differences between asset-backed securities ratings and company debt ratings.

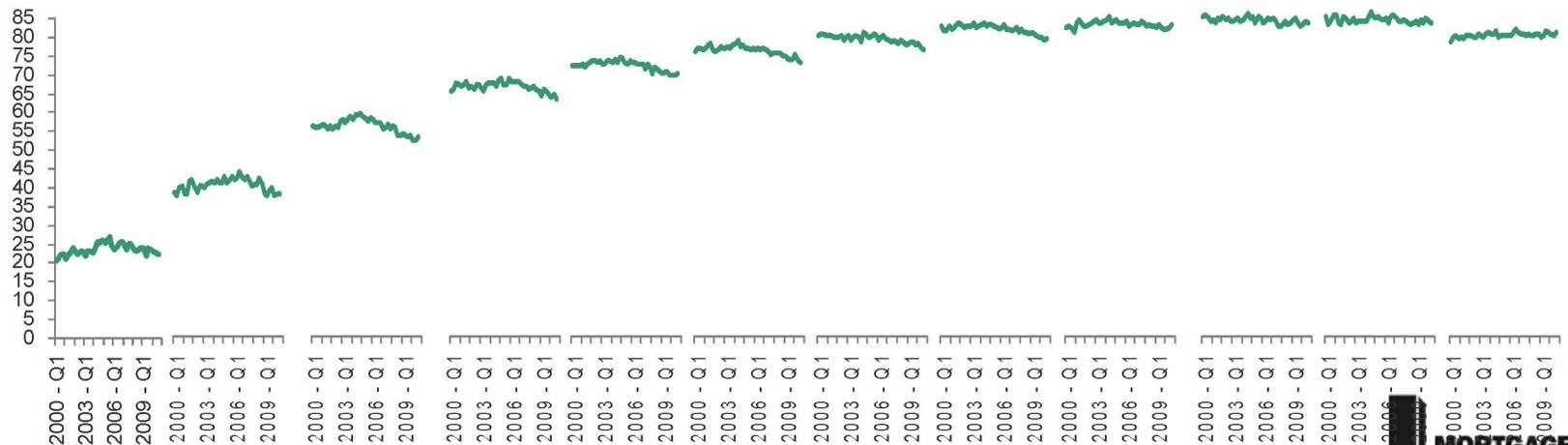
Homeownership Rates and Trends by Age Groups

2010-15 projected population change, by age

Thousands



Ownership rates by age of householder



Source: MBA and Census Bureau

State Differences in Mortgage Performance

Is the problem primarily credit models or local economic factors?

Foreclosure Starts Rates:

	California			Texas		
	2005 Q4	Peak	Δ%	2005 Q4	Peak	Δ%
Prime Fixed	0.05	0.97	1840%	0.17	0.55	224%
Prime ARM	0.09	4.43	4822%	0.38	1.43	276%
Subprime Fixed	0.28	3.42	1121%	1.23	2.12	72%
Subprime ARM	0.85	9.53	1021%	1.79	4.62	158%
FHA	0.56	1.04	86%	0.85	1.07	26%

Source: MBA National Delinquency Survey