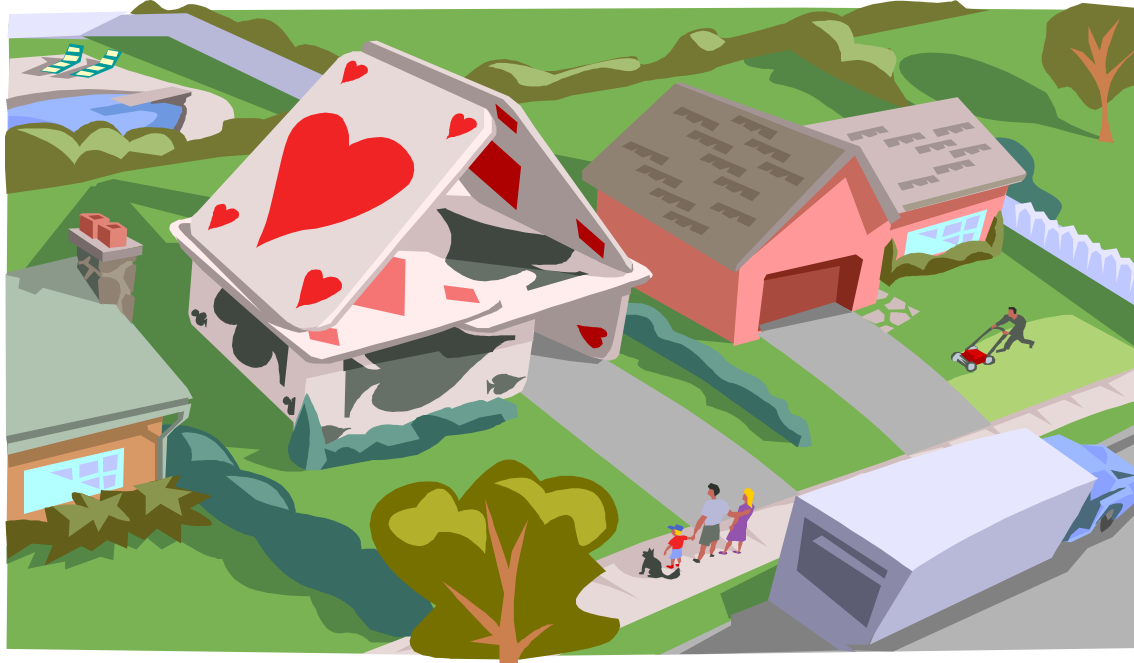


Housing, the Economy, and Public Policy



By Professor Chris Mayer

Today's outline

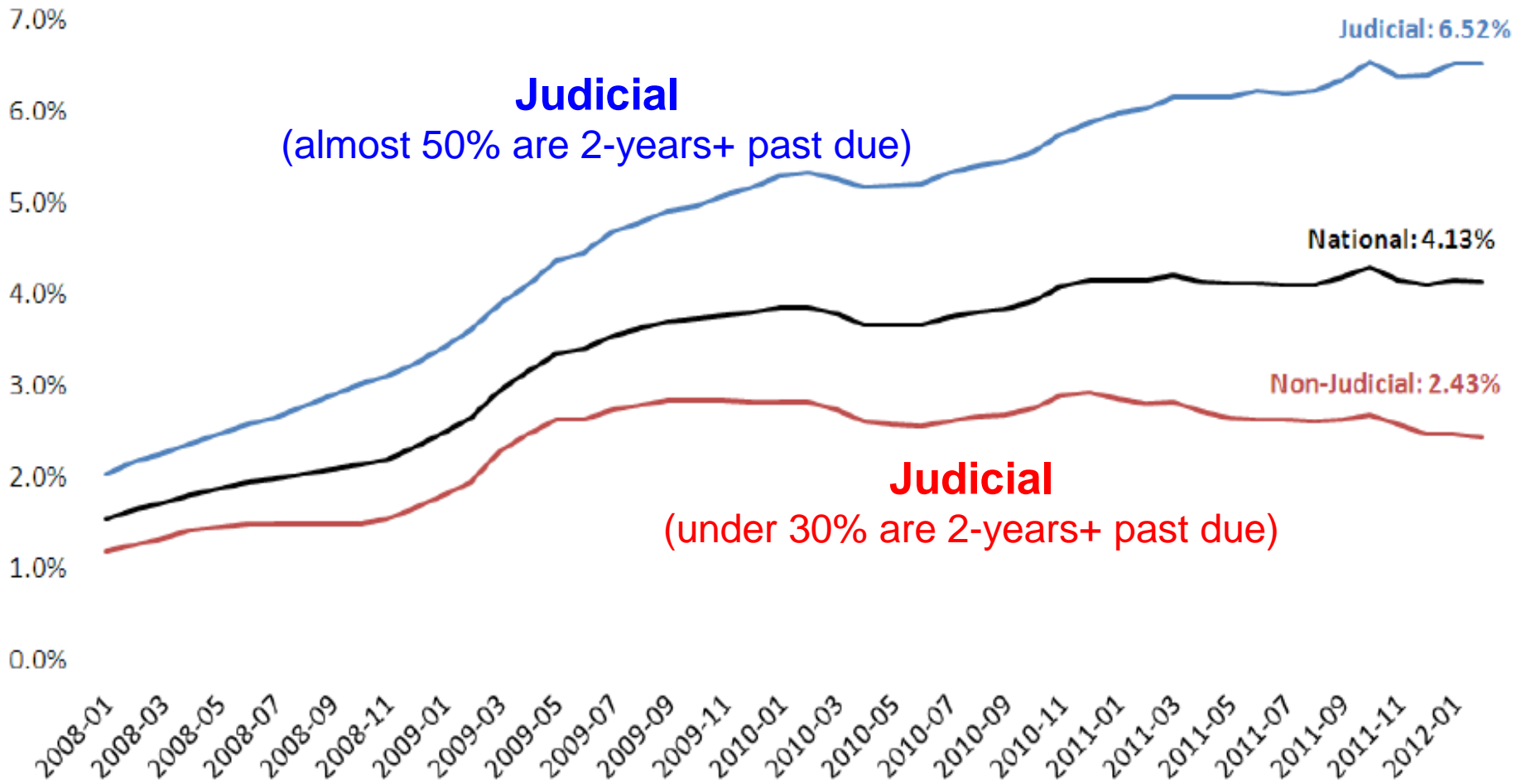
- Housing and credit markets update
- Second liens, underwater borrowers, and mortgage delinquencies remain a problem
- Policy has been mostly lacking and ineffective
- Rental market will grow

Today...House prices appear to have stabilized, but might be temporary

- Existing home sales at 4.6 million are above the pace of the last several years (4.2-4.3 million since 2009)
- Homes on the market have been falling, but most improvements are due to a backlog of foreclosures due to legal constraints on foreclosures
- With the Attorneys General Settlement, there are likely to be at least 3-4 million new foreclosures in the next 3 years. (Some analysts estimate as many as 5-7 million foreclosures before the crisis is resolved)

Foreclosure inventory in judicial states remains at all-time highs

Foreclosure % for Judicial vs. Non-Judicial States



Mortgage credit conditions are extremely weak

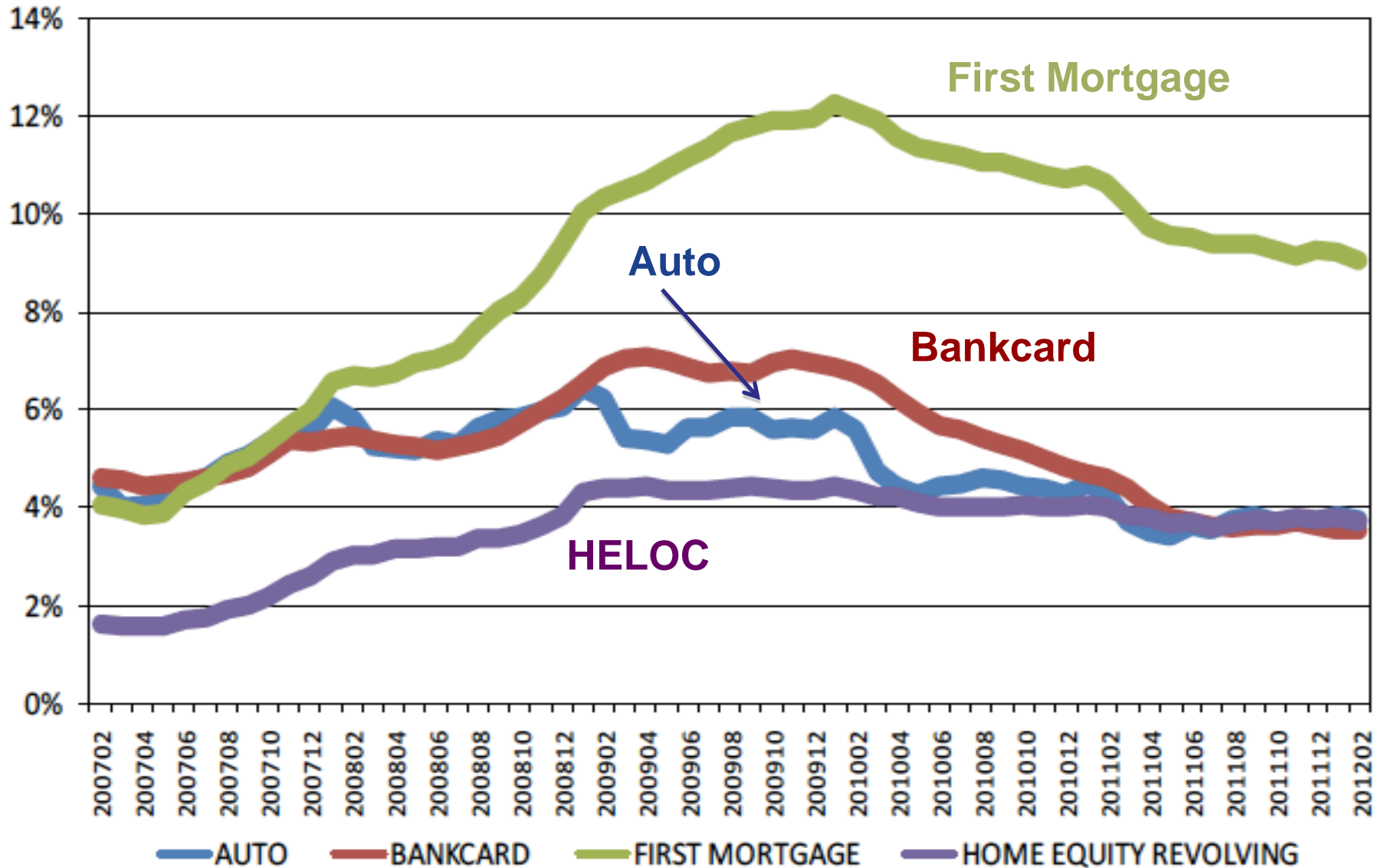
- Mortgage delinquencies falling, but not as much as for credit cards or auto loans
- 95% of new mortgages are backed by the government
- Credit is not returning to mortgages as it is in other sectors of the economy

Mortgage credit conditions are extremely weak

- Mortgage delinquencies falling, but not as much as for credit cards or auto loans
- 95% of new mortgages are backed by the government
- Credit is not returning to mortgages as it is in other sectors of the economy
- **Is lack of credit or lack of demand responsible for slow housing market?**
- **How does this impact overall economy?**

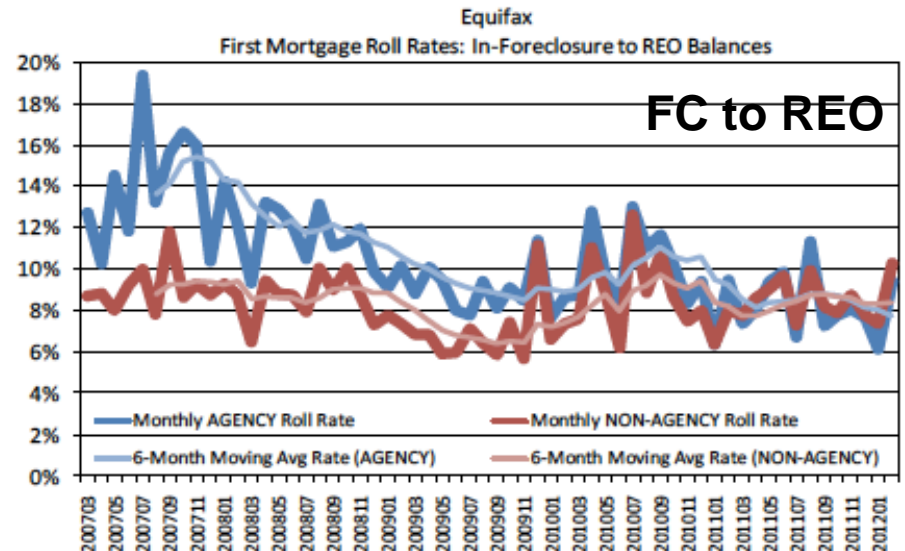
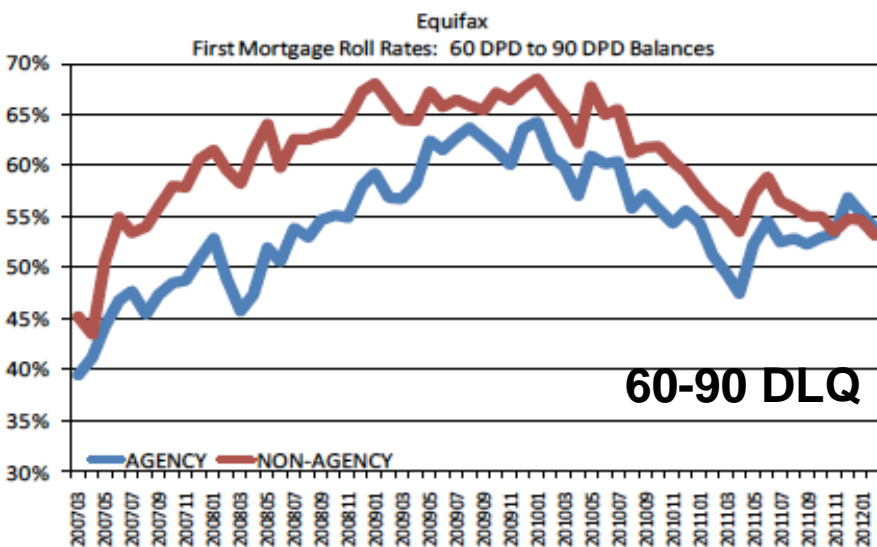
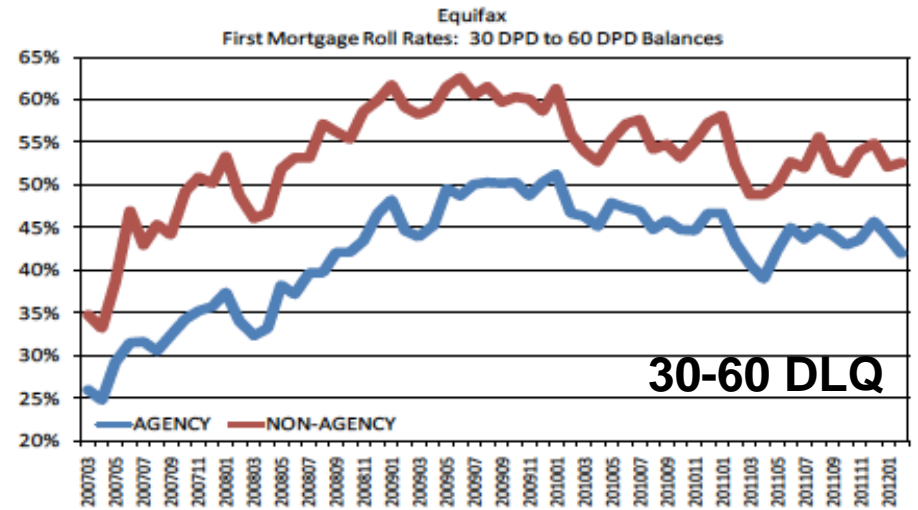
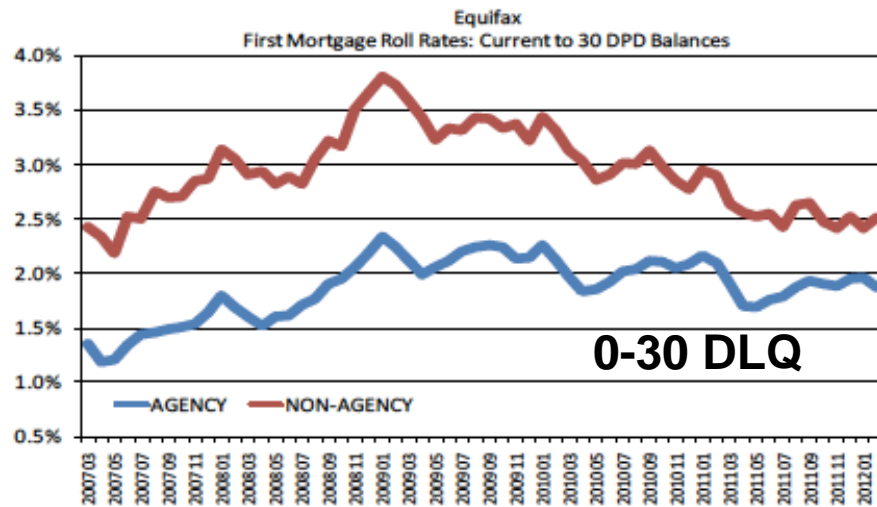
Housing credit performance is poor

Equifax
Select Business Lines, 30 Plus DPD (Excludes Write-Off) Dollar Delinquency Rates

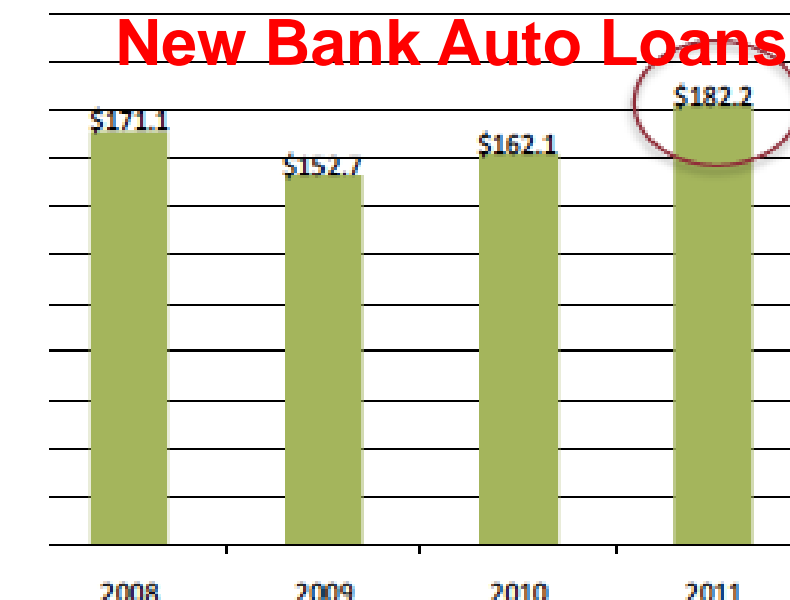
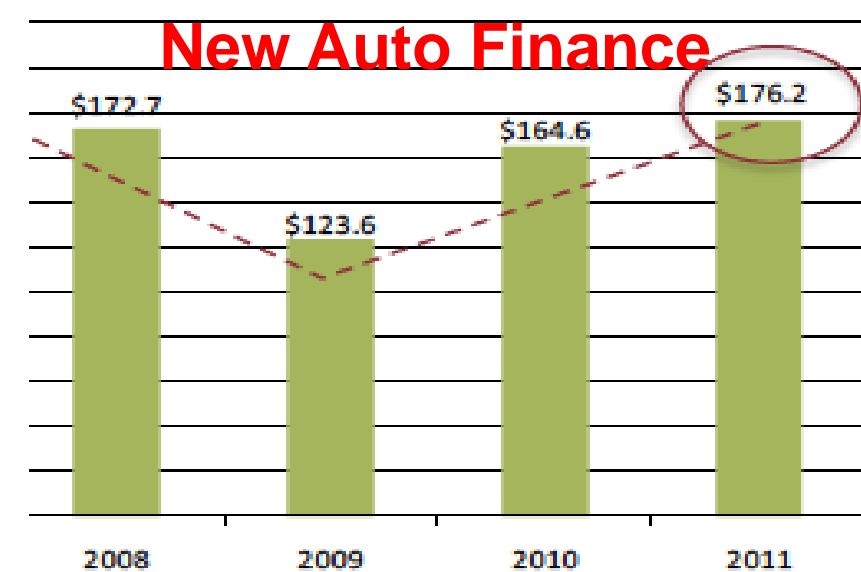
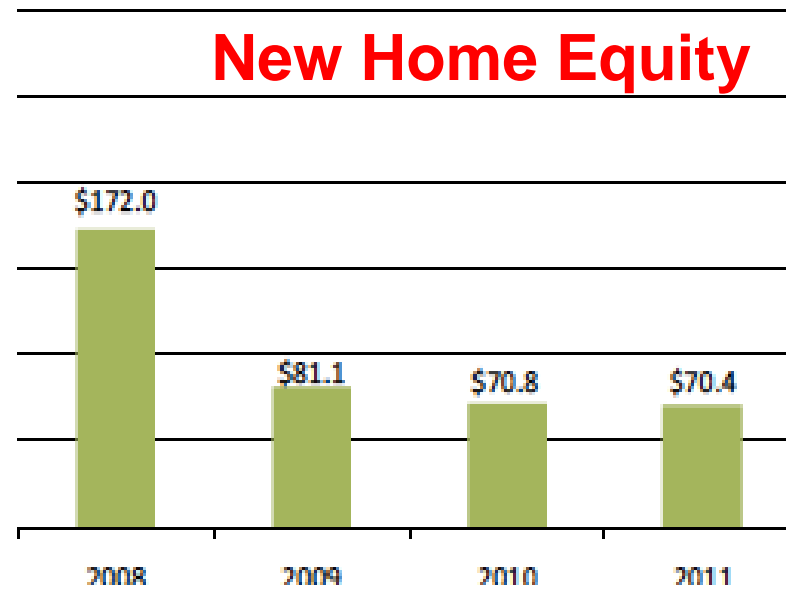
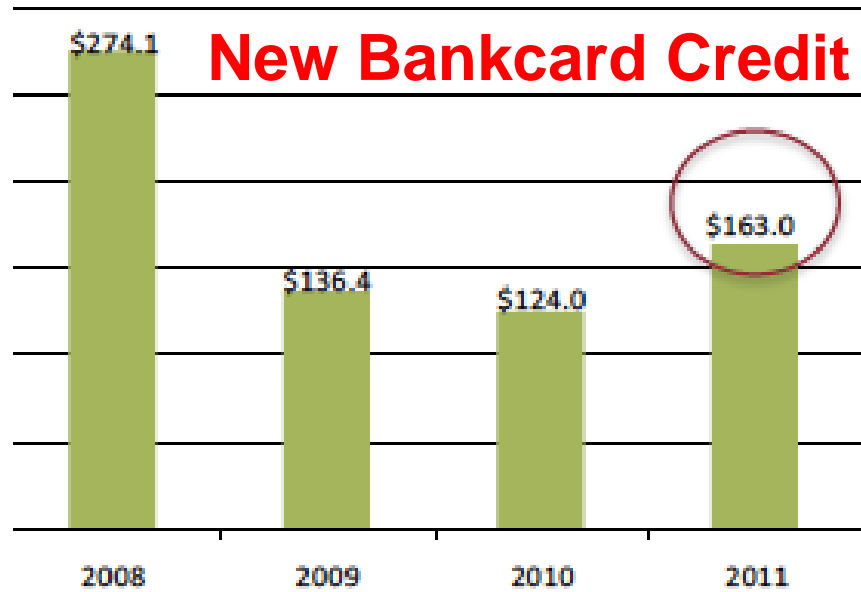


Agency mortgage performance closer to bank and private label mortgages

Agency mortgages in Blue include FHA, VA, Fannie, and Freddie



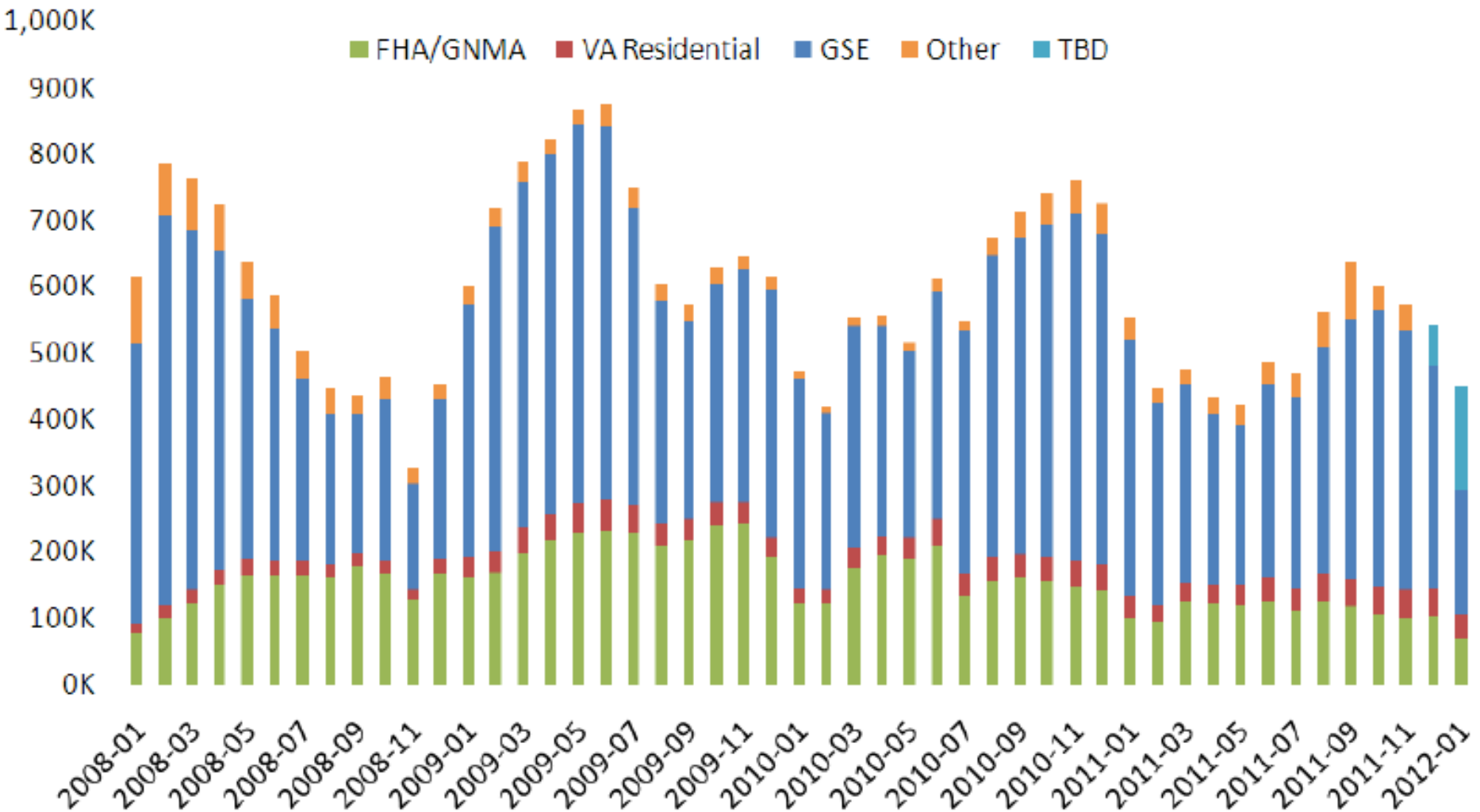
Lending has returned for Autos, CC's



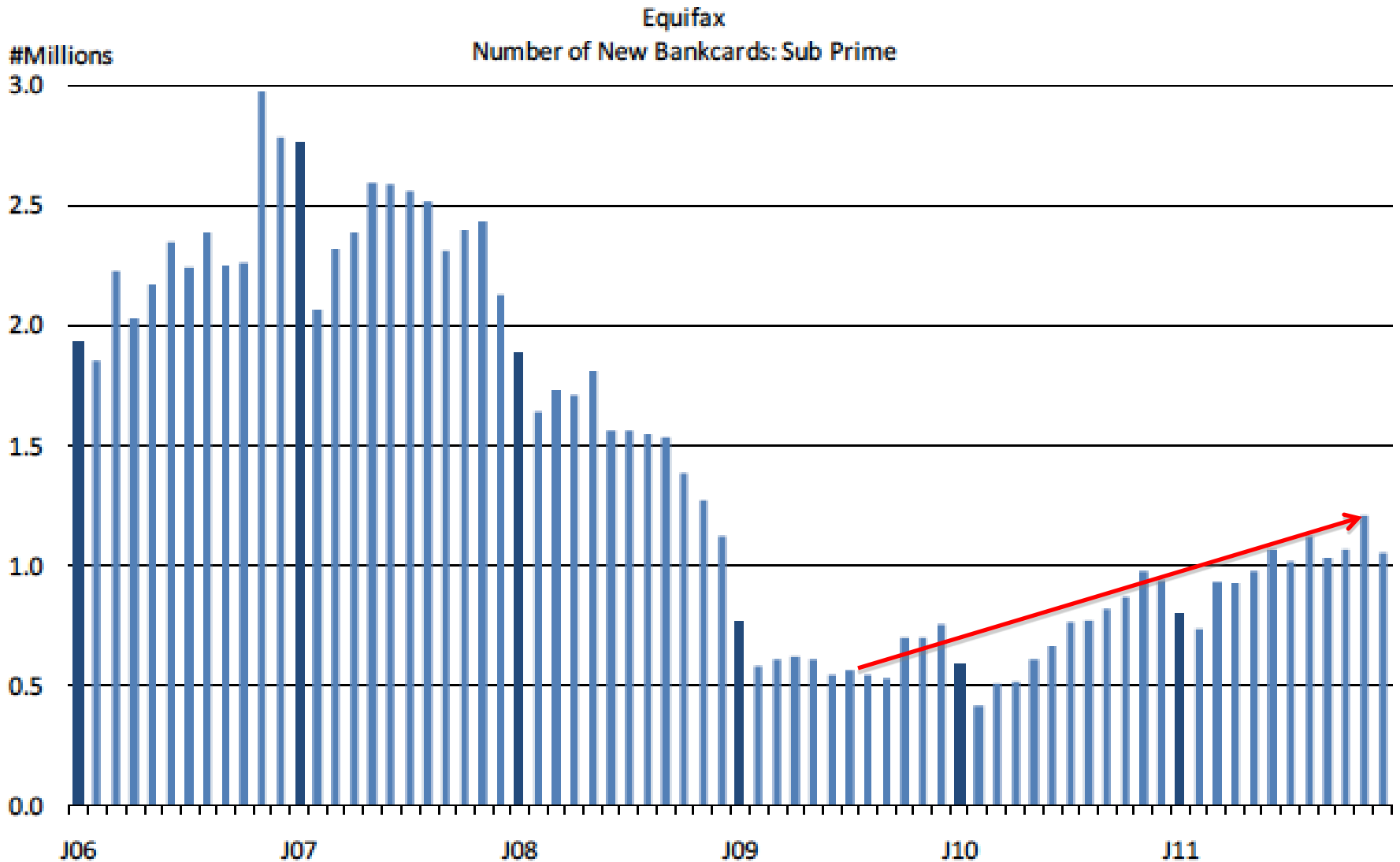
Mortgage originations keep declining; 30% of home sales have no mortgage

(Govt. is 95% of market)

Origination by Product



Subprime Bankcard (and Auto) lending is returning (FICO<660)

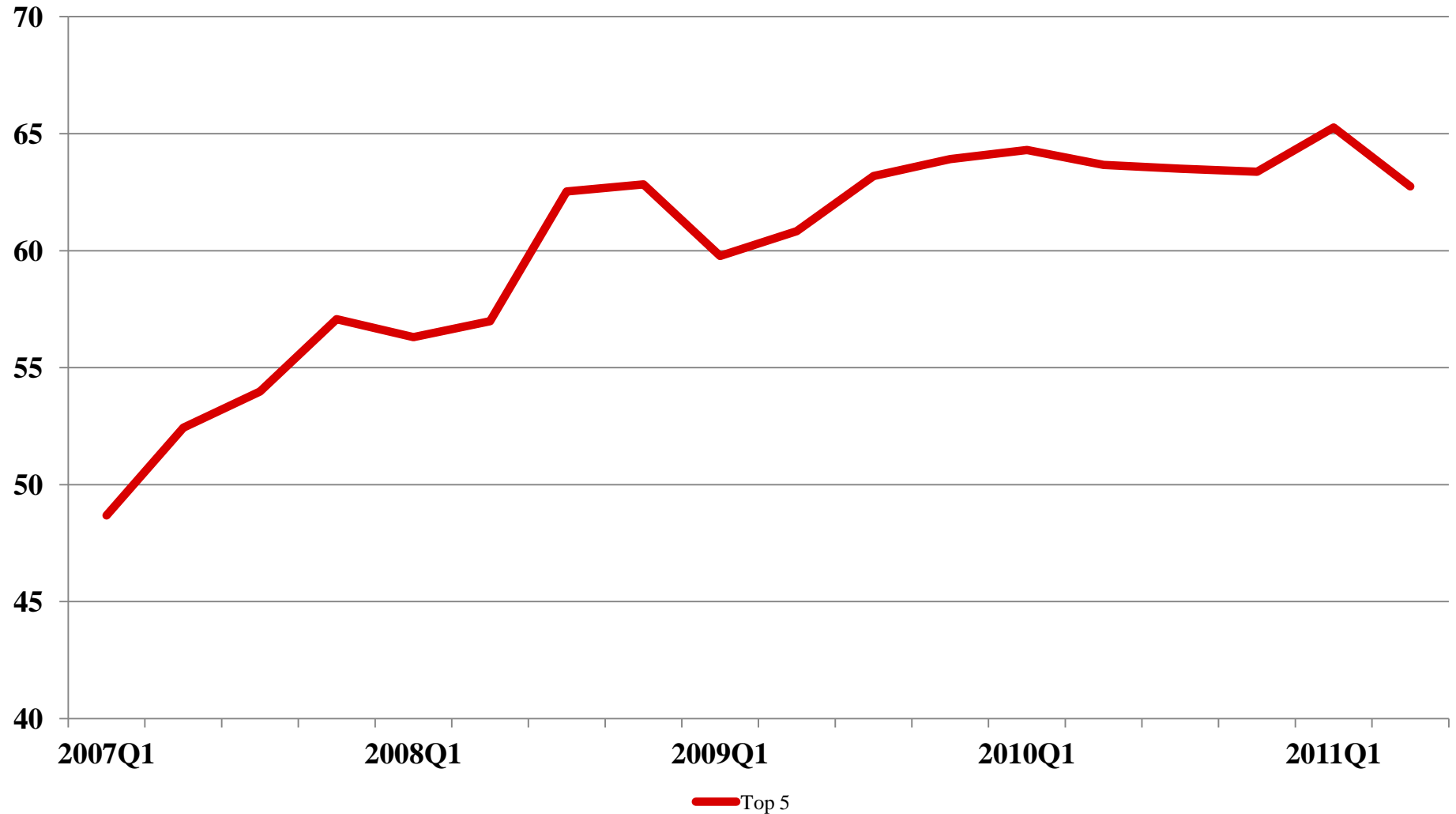


Mortgages are now priced 120 bp above wholesale rates, a record level



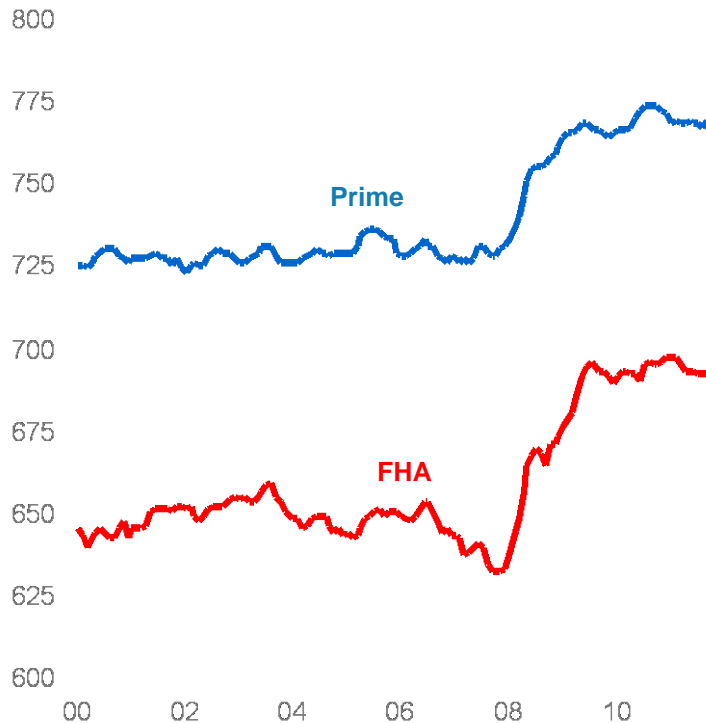
Little competition in mortgage origination

Market Share of 5 Largest Originators



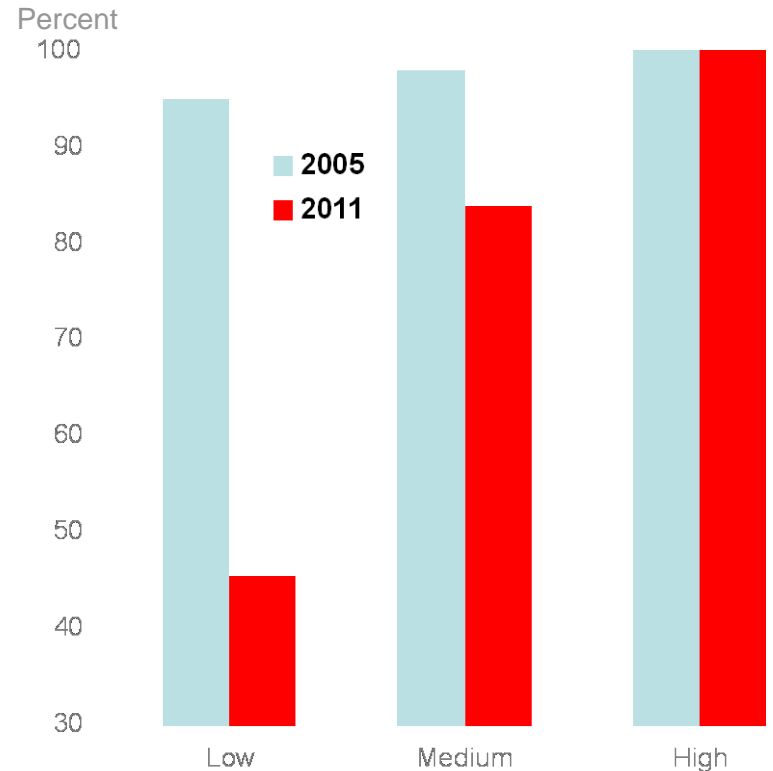
Mortgages are only available for the best borrowers

Median Credit Scores



Source: Calculations from LPS Applied Analytics data

Share of Lenders Offering GSE-Eligible Loans by Credit Quality



Source: LoanSifter and Morgan Stanley Research

Note: For a hypothetical owner-occupied 30-year conventional fully documented mortgage

Commercial banks like Agency MBS instead of holding mortgages

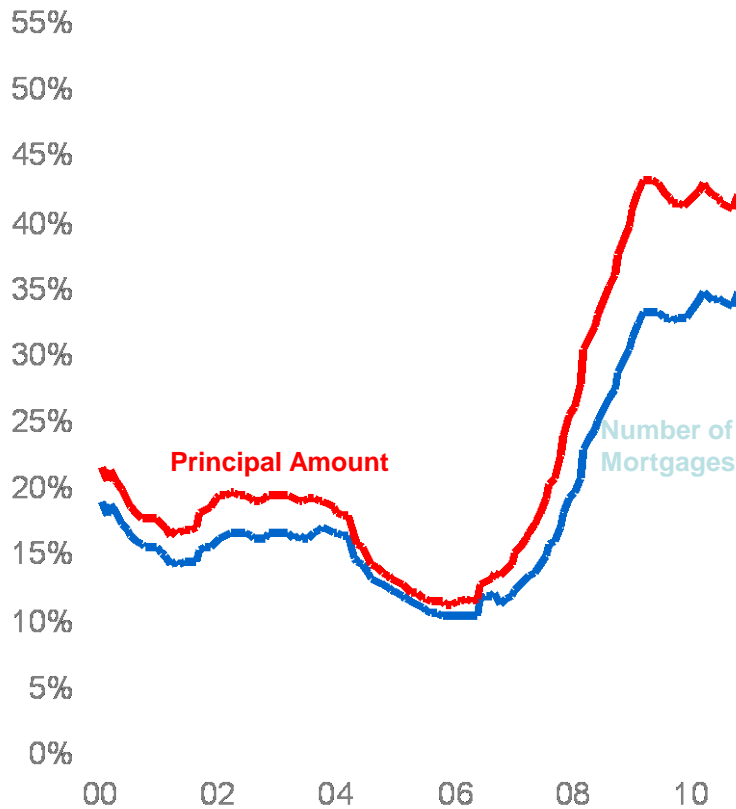


Policy has not been very effective

- Monetary policy has little impact on current US mortgage market due to serious frictions
- Mortgage lending standards are the tightest they have been in decades
- Investors have a hard time obtaining financing to purchase homes for rental
- **Key: Government policy coming out of a financial crisis should focus on restoring credit at normal terms (but has not!)**

Many borrowers cannot refinance

Share of Agency-Backed Mortgages With LTV Above 80%



Source: Morgan Stanley Research
Note: Current mortgages only

Effective Interest Rate on Outstanding Mortgages
Percent

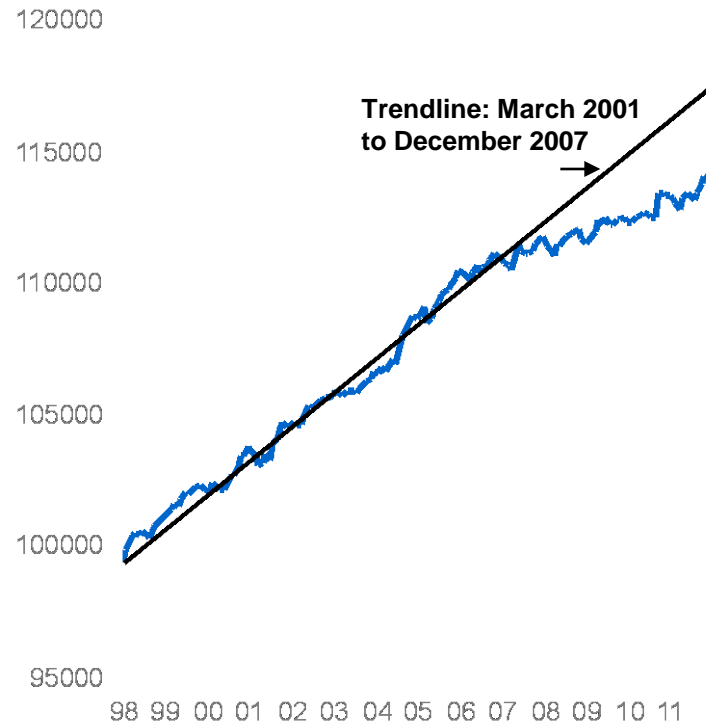


Source: Bureau of Economic Analysis and Freddie Mac

Rentership and Living at Home: The New American Dream?

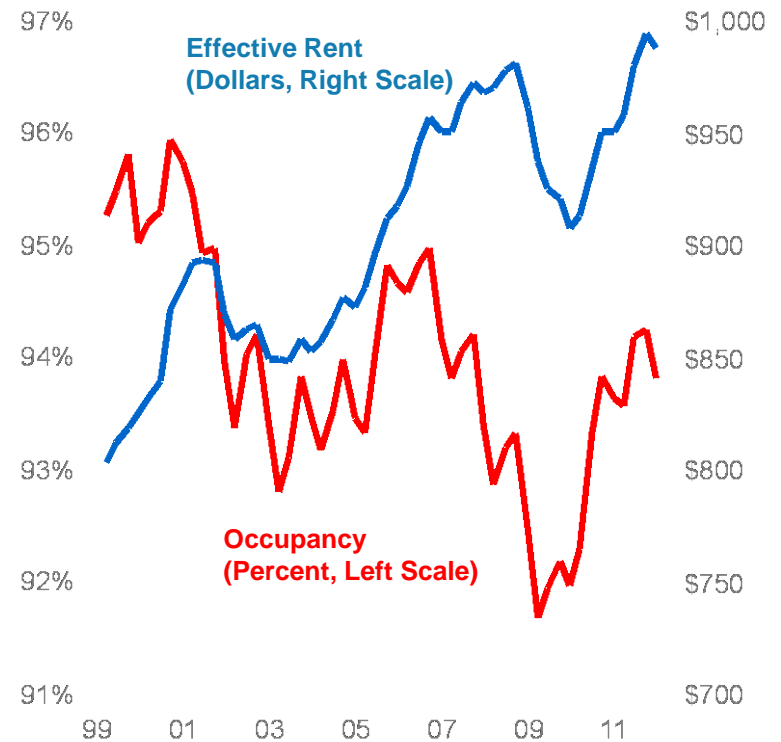
Household Formations Are Running Below Trend

Thousands



Source: Census Bureau

Rental Market Conditions Are Starting to Improve

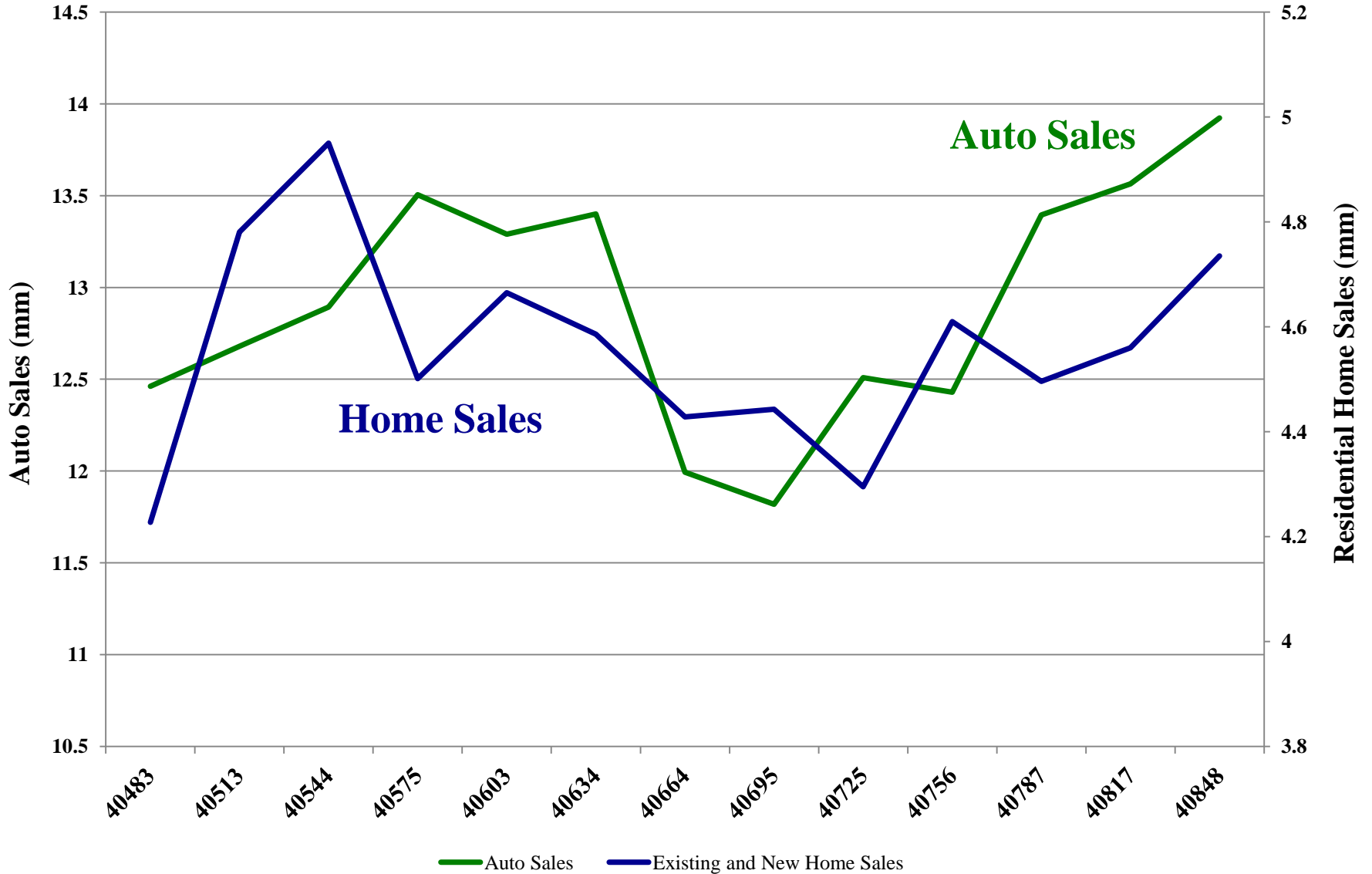


Source: AXIometrics Inc.

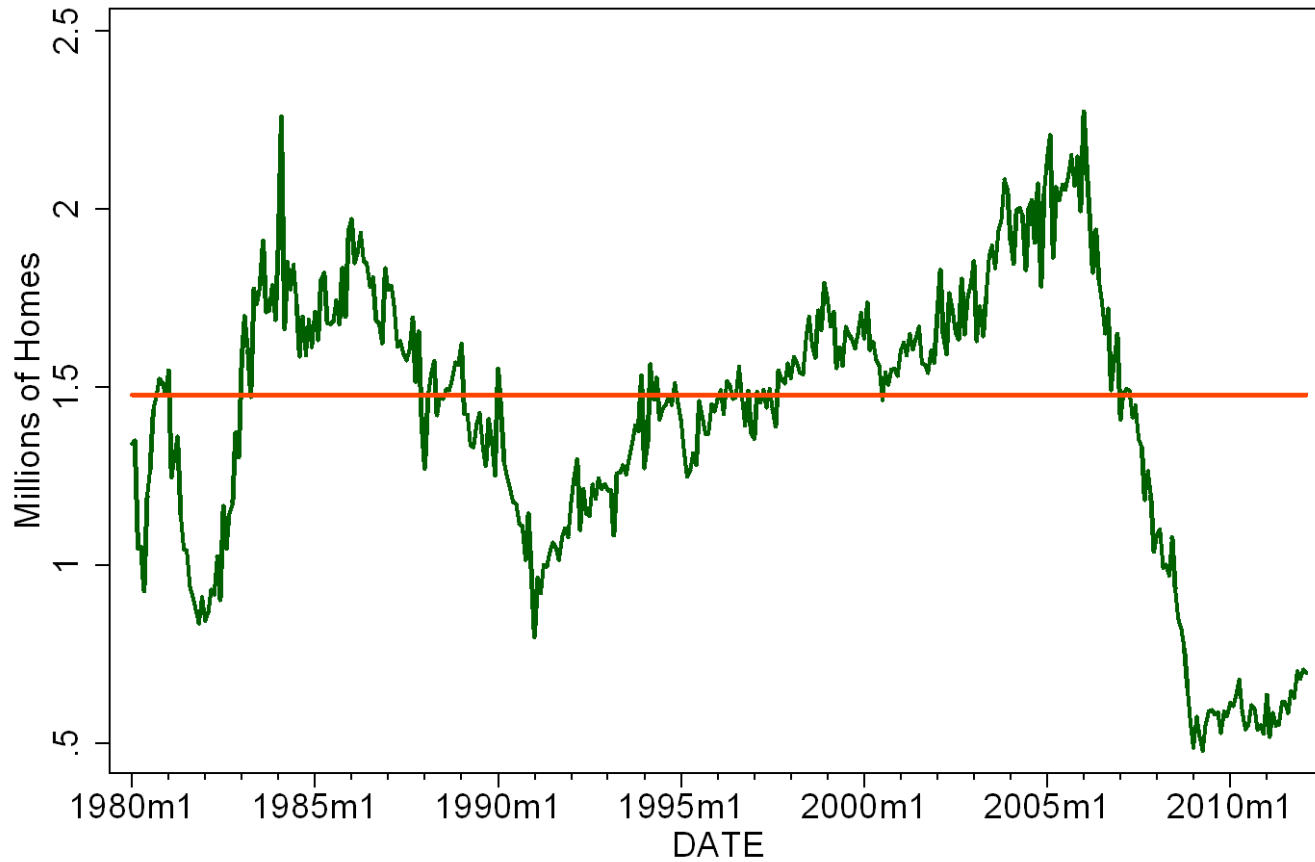
Housing market and the economy

- Slow housing market is a key reason for the sluggish economy in the US
- Housing is tied to the economy (but the economy is tied to housing)
- **My views:**
 - Broken credit markets and a miss-allocation between housing supply and demand will continue to hamper housing without stronger policies
 - New construction will likely pick up, but it may be for rental housing

Auto sales have started to recover faster than housing



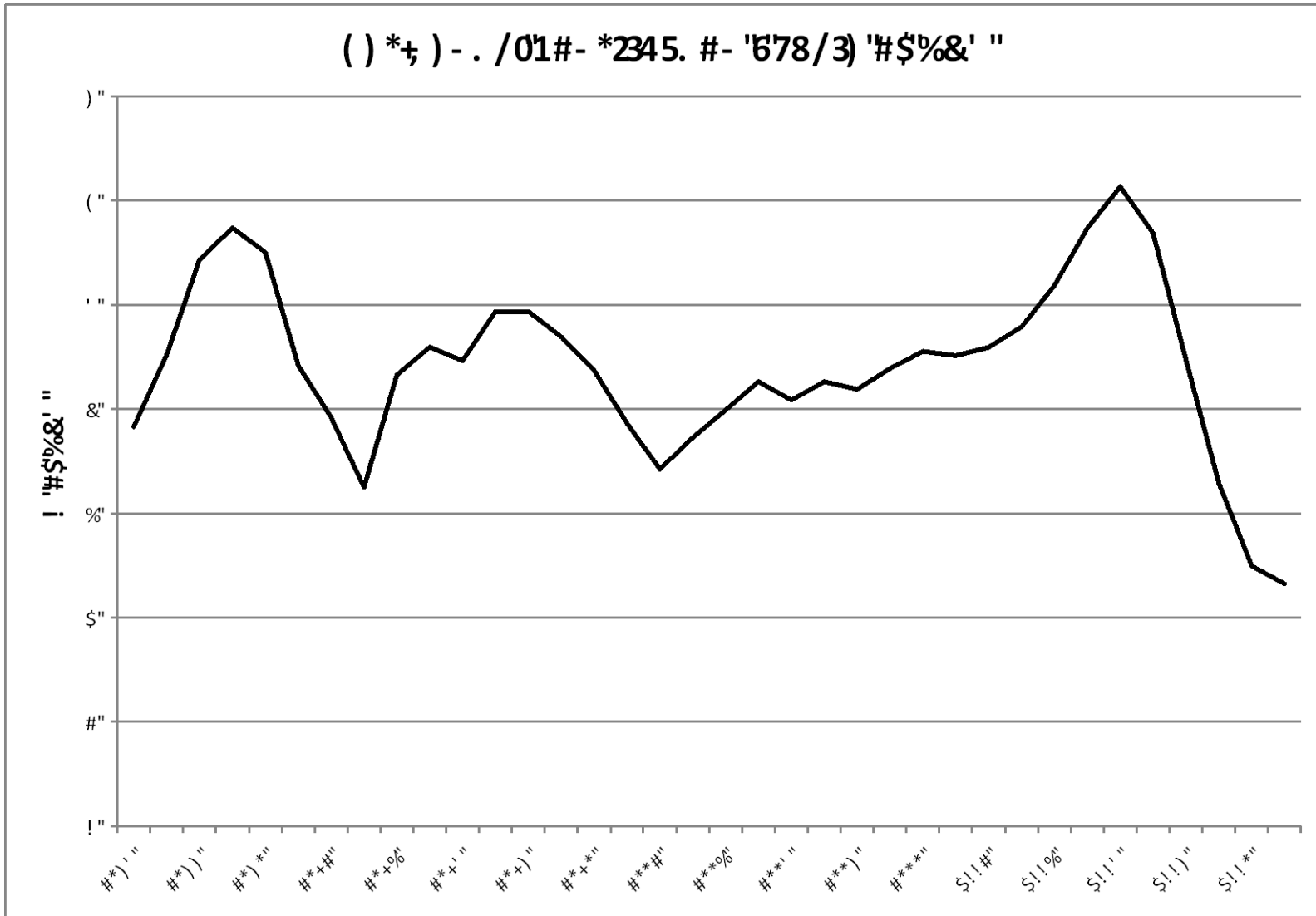
Housing Starts



Current as of February 2012
Source: U.S. Census Bureau
Housing Starts: National Seasonally Adjusted Annual Rate

Residential Construction (share of GDP)

Source: Bureau of Economic Analysis

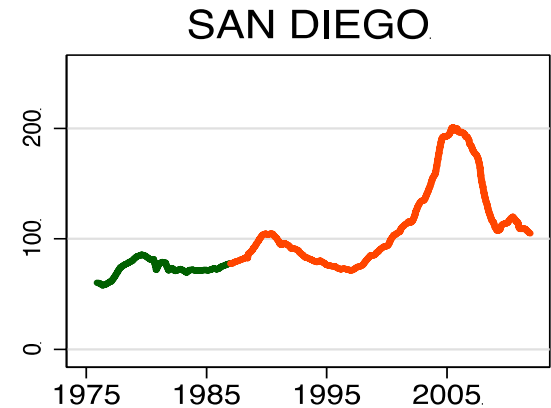
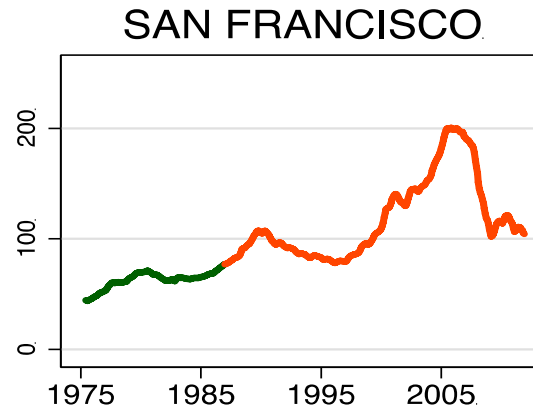
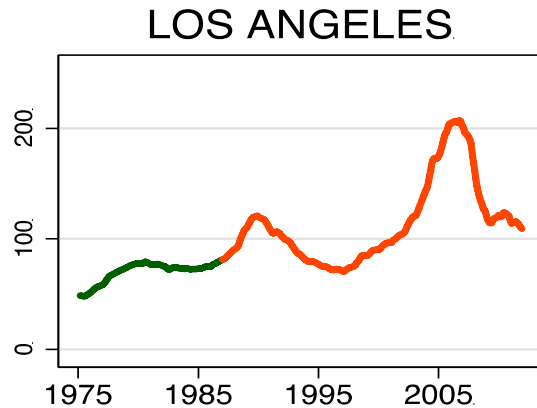
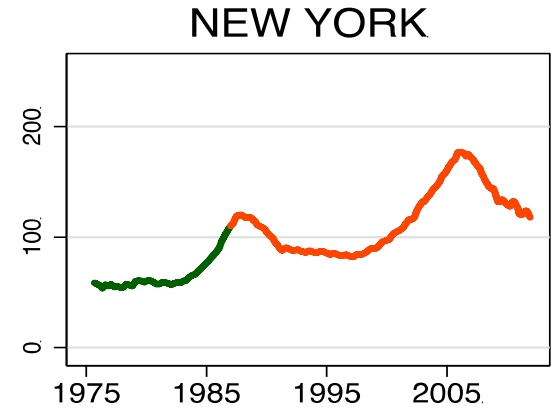
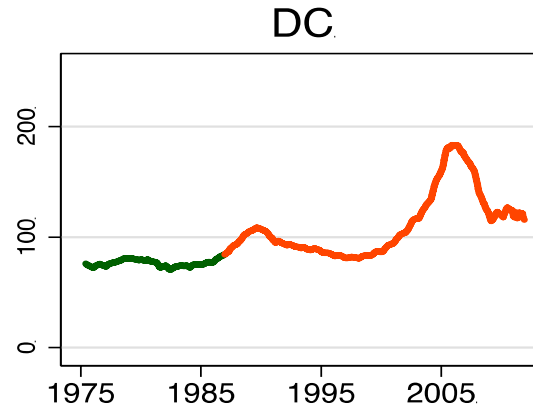
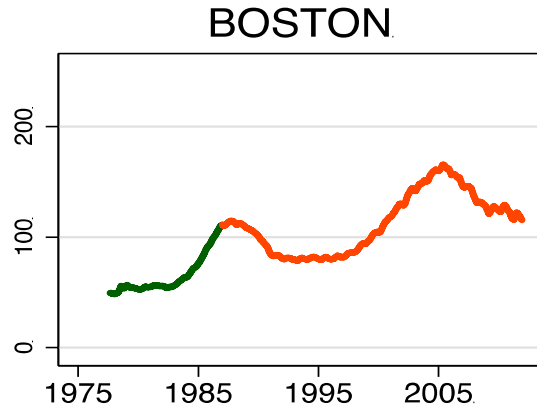


Conclusion for housing/mortgages

- Policies have had relatively little success in stabilizing US housing
- Future policies need to re-establish reasonable lending standards and reduce frictions;
- Rental market for single-family homes is growing

**But housing prices did not boom
or bust equally across the US**

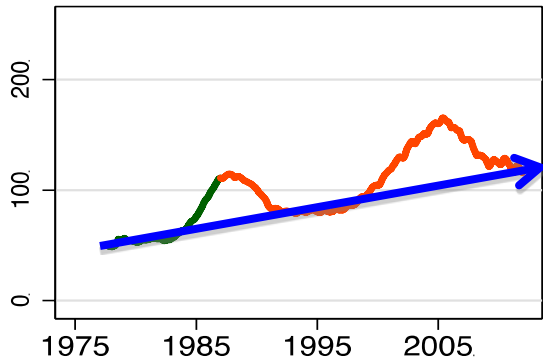
House Prices in Cyclical Markets



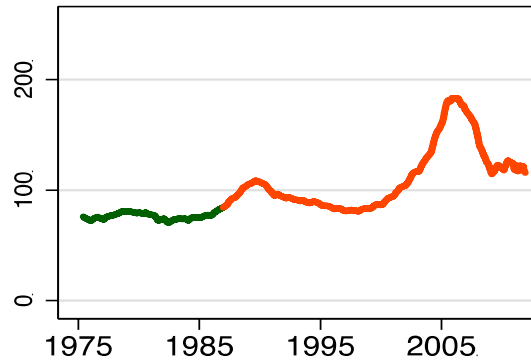
Source: OFHEO, Case-Shiller Index and BLS.
 OFHEO Index Current as of Quarter 4 2011.
 Case-Shiller Index Current as of January 2012.
 Real Home Price Index

House Prices in Cyclical Markets

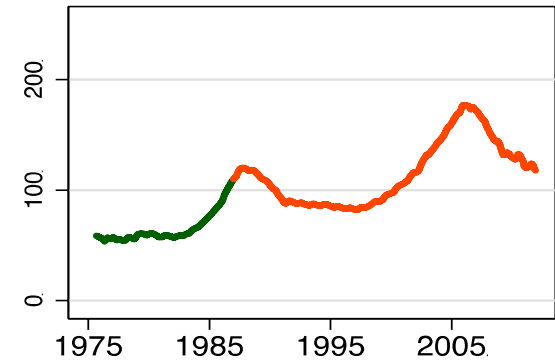
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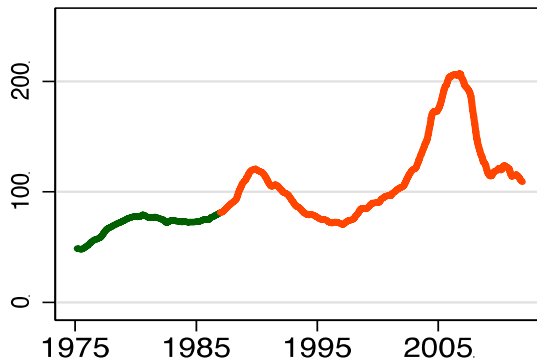
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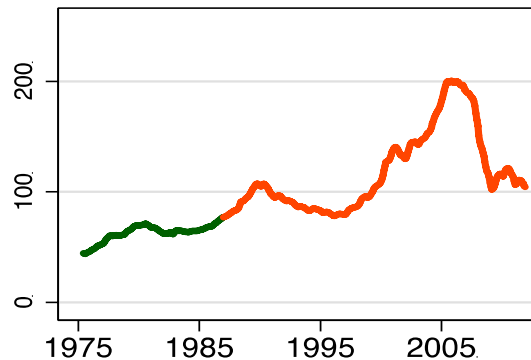
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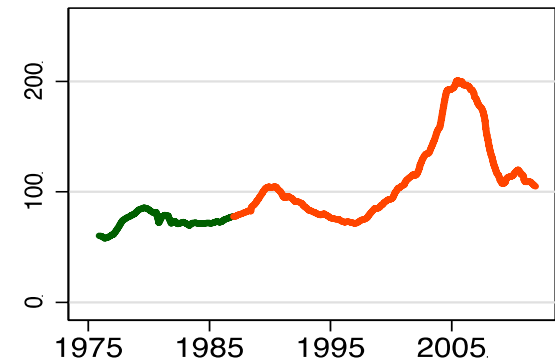
LOS ANGELES



SAN FRANCISCO



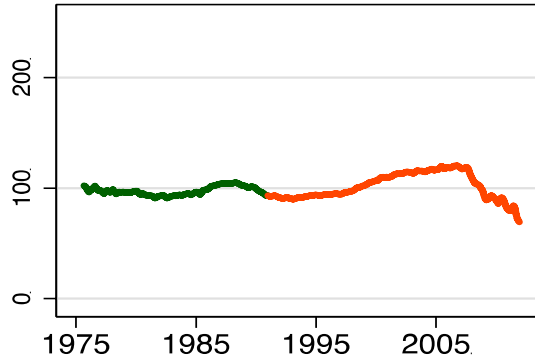
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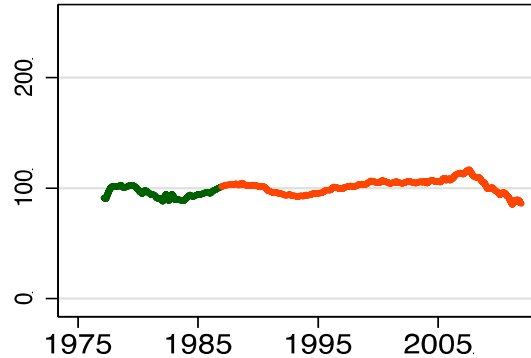
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House Prices in Steady Markets

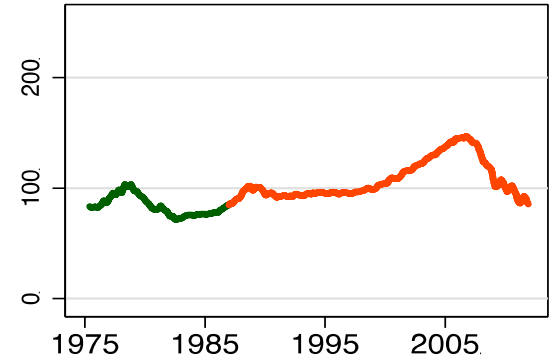
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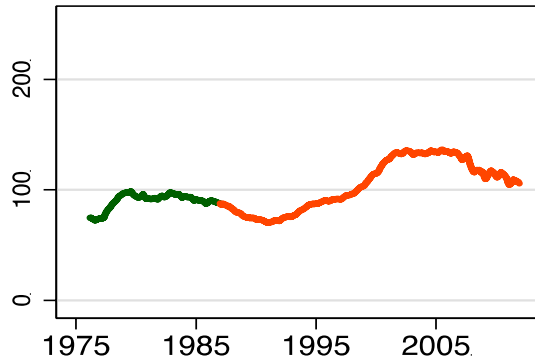
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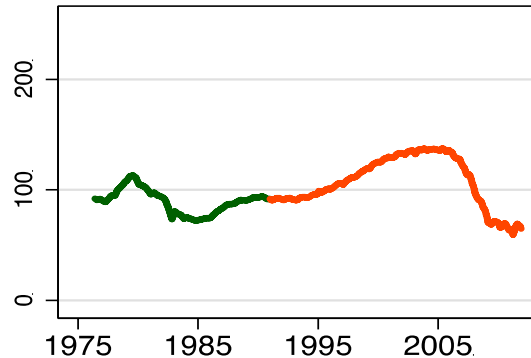
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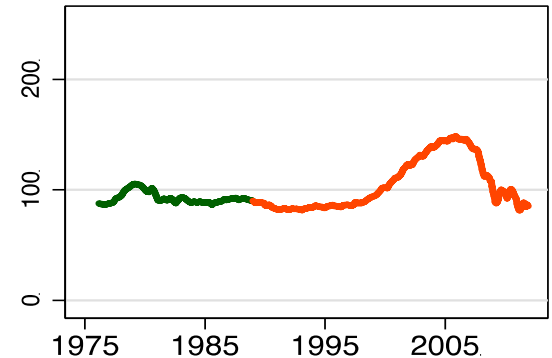
DENVER



DETROIT



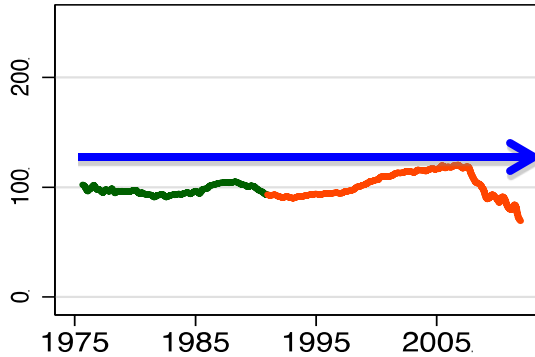
MINNEAPOLIS



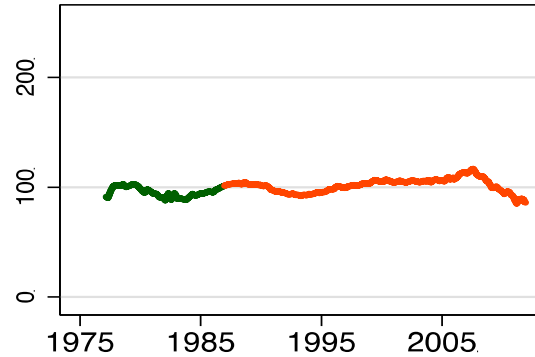
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House Prices in Steady Markets

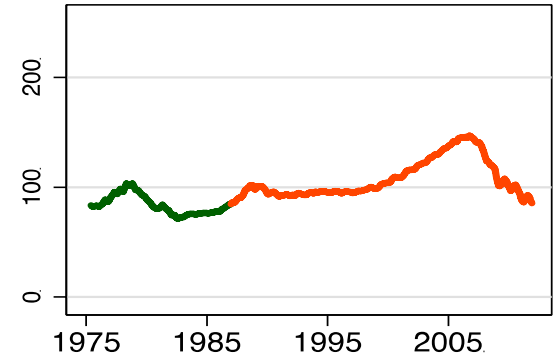
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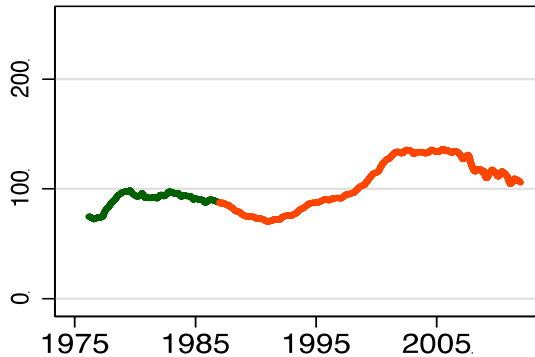
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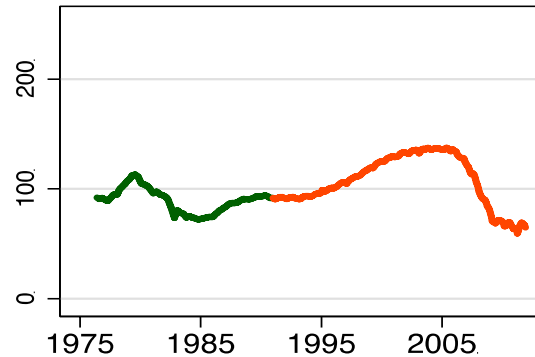
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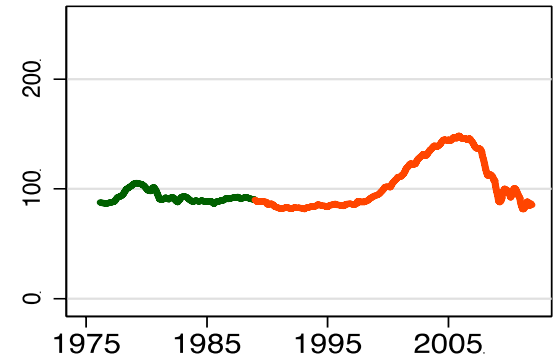
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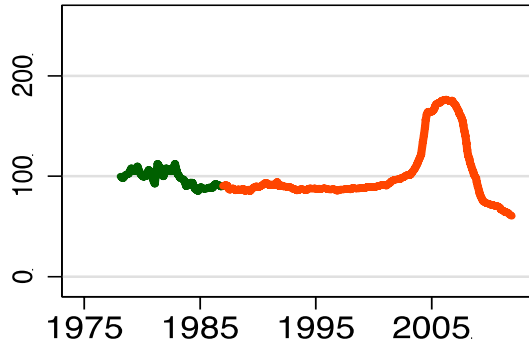
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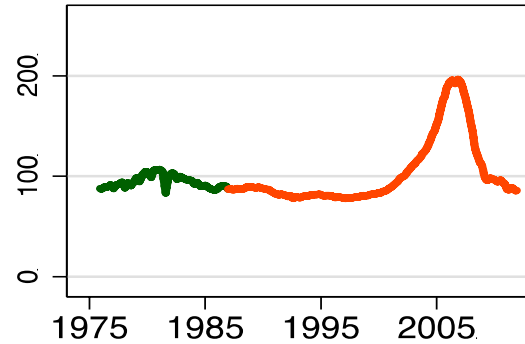
Source: OFHEO, Case-Shiller Index and BLS
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 Case-Shiller Index Current as of January 2012
 Real Home Price Index

House Prices in “Bubble” Markets

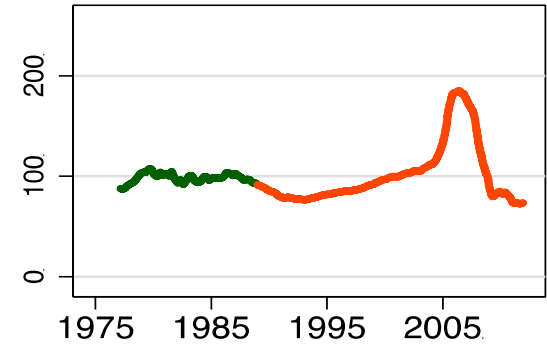
LAS VEGAS



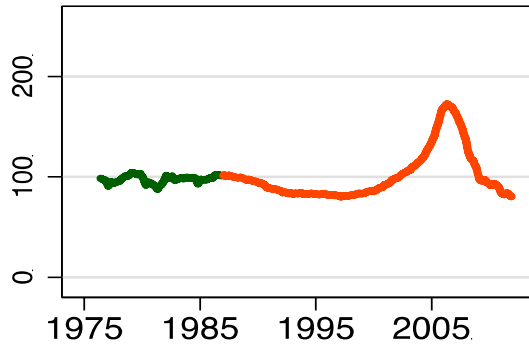
MIAMI



PHOENIX

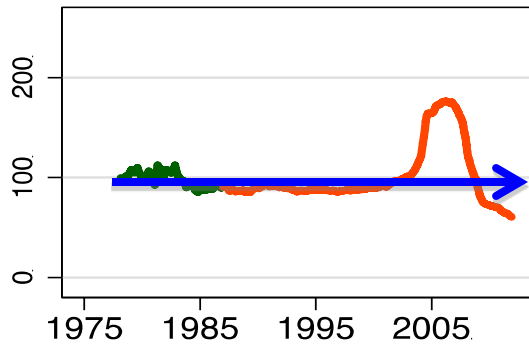


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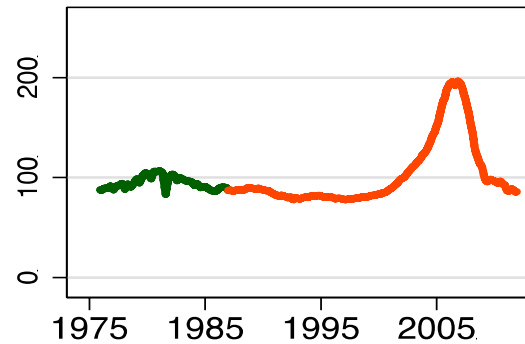


House Prices in “Bubble” Markets

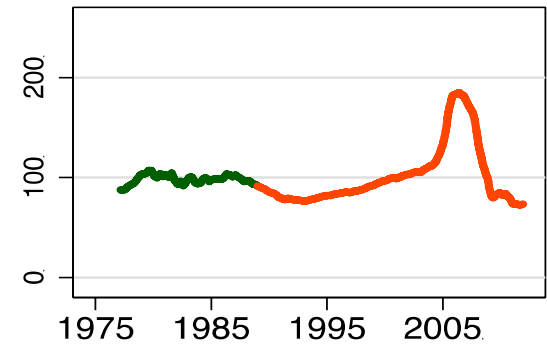
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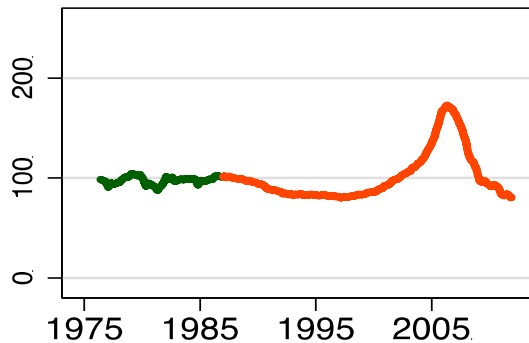
MIAMI



PHOENIX



TAMPA



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 Case-Shiller Index Current as of January 2012
 Real Home Price Index