

Challenges and opportunities for housing & mortgage markets

U.S. Housing and Mortgage Market Outlook

Len Kiefer, Deputy Chief Economist

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A *Better* Freddie Mac

...and a *better* housing finance system

For families

...innovating to improve the liquidity, stability and affordability of mortgage markets

For customers

...competing to earn their business

For taxpayers

...reducing their exposure to mortgage risks

Current conditions

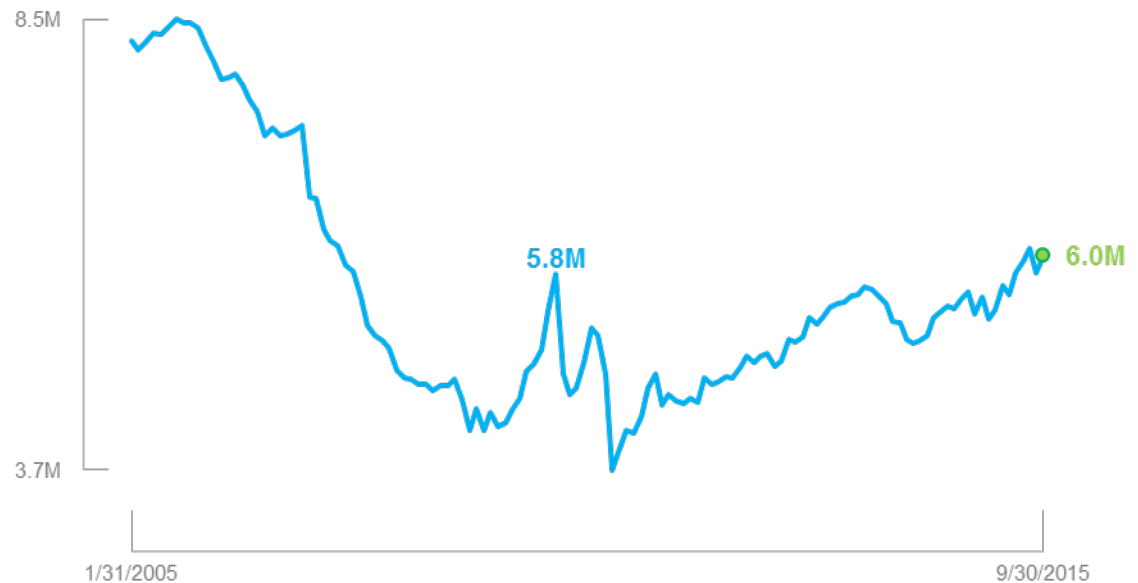
The best year in home sales since 2007

- Low mortgage rates
- Stronger jobs market
- Home prices accelerate

Home sales on pace for the best year since 2007

Despite tight inventories, home sales are accelerating

Total home sales (SAAR)

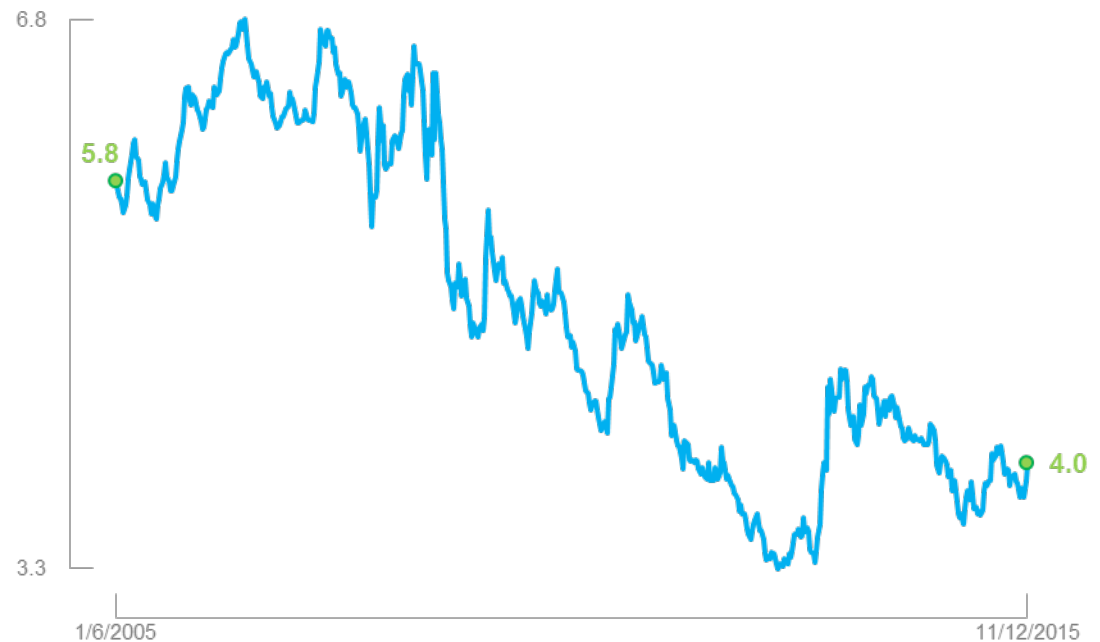


Source: NAR, Census/HUD

Low mortgage rates support homebuyer affordability

Rates haven't been above five percent in over five years

30-year fixed mortgage rate (%)

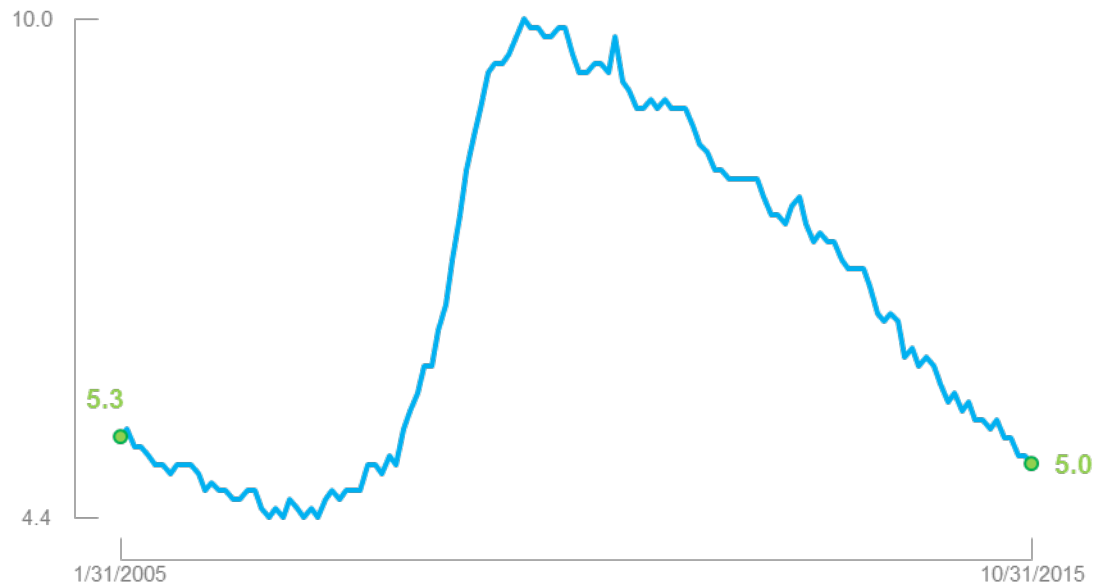


Source: Freddie Mac Primary Mortgage Market Survey®

Unemployment continues to drop, and is currently below historical averages

While the headline unemployment rate is below its historic average, there are still signs of weakness in the labor market

Unemployment Rate (%)



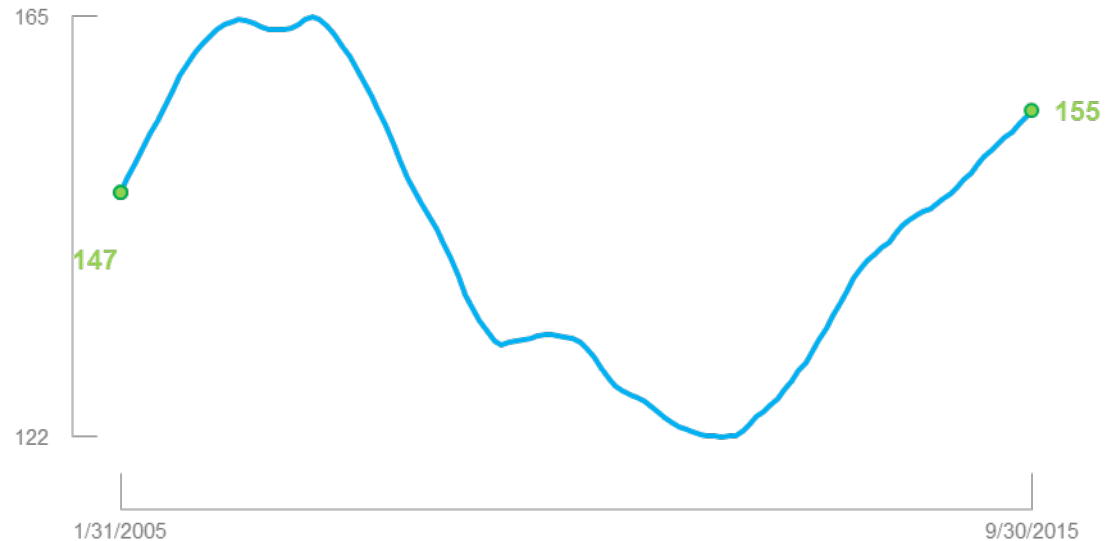
Source: BLS

U.S. house prices have risen 5.8 percent y-o-y in September of 2015

Nationally, house prices are still about 5.8 percent below pre-recession peak, up about 27 percent from the trough

U.S. House Price Index

Dec 2000 = 100, SA

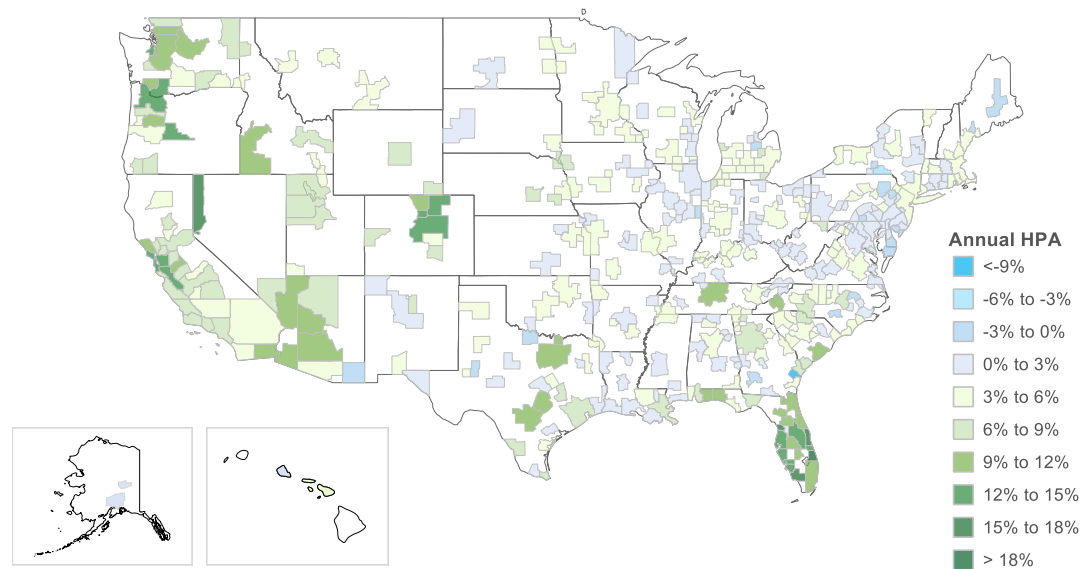


Source: Freddie Mac House Price Index

House prices rise rapidly throughout the western and southern U.S.

Metro Annual House Price Percent Change (Percent Change September 2014 to September 2015)

Price growth
strongest in CO,
FL, TX, and West
Coast

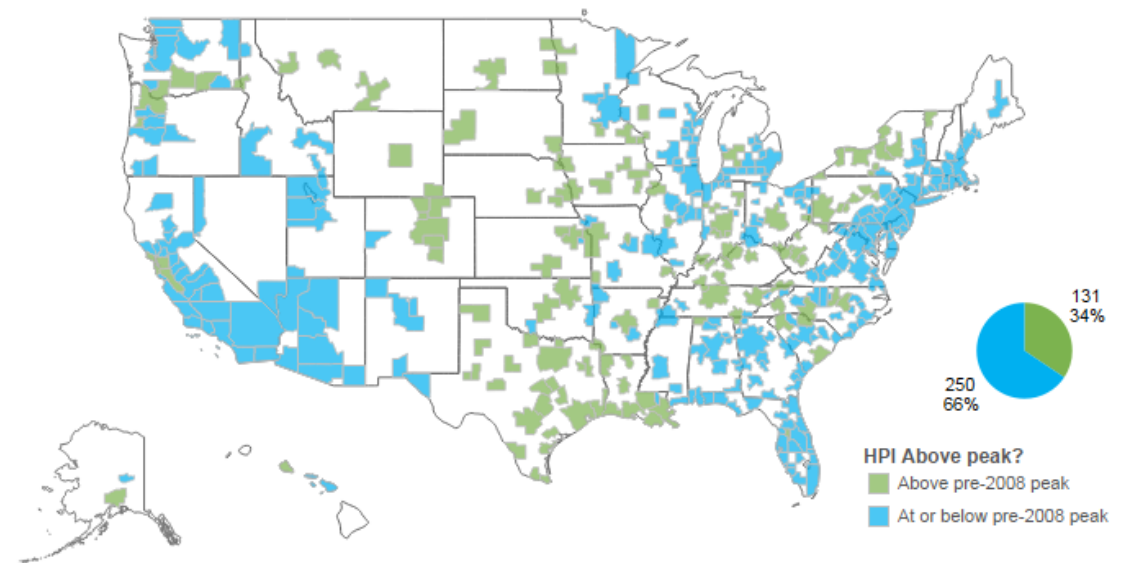


Freddie Mac House Price Index, © 2015 Freddie Mac

House prices have still not recovered in most of the country

Have house prices surpassed their pre-2008 peak? - September 2015

House prices still below peak levels in most of the country



Freddie Mac House Price Index, © 2015 Freddie Mac

Challenges

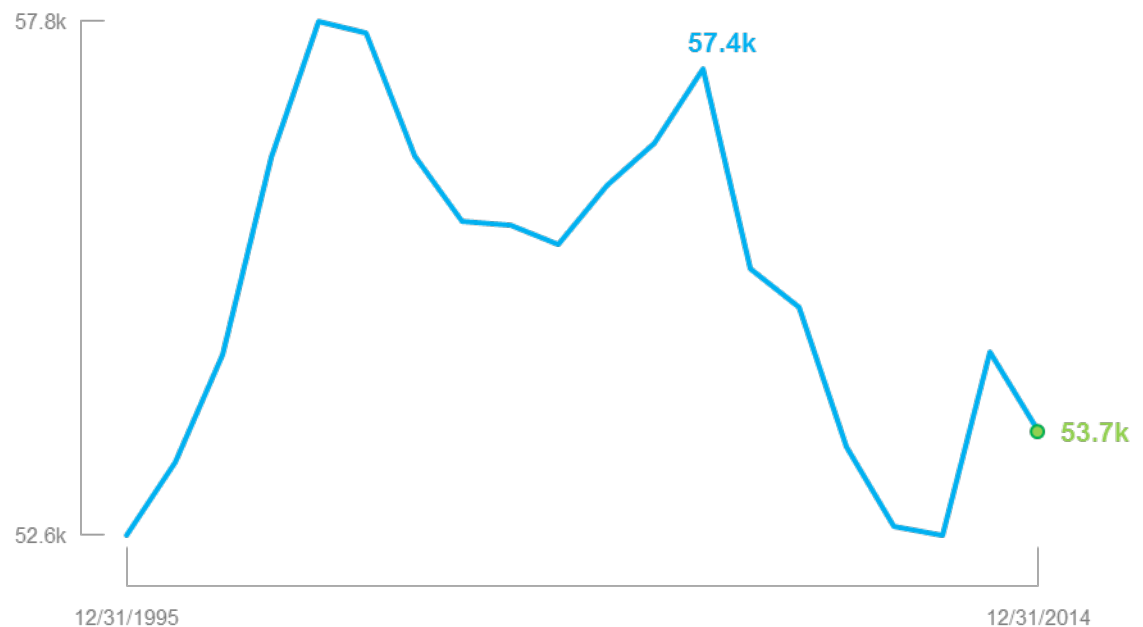
Challenges for 2016 & beyond

- Rising mortgage rates
- Barriers to first time buyers – student debt
- Inequality and other structural issues

20 years and not much to show for it

Inflation-adjusted incomes are at about the same level as 20 years ago

Median household income (2014 USD)

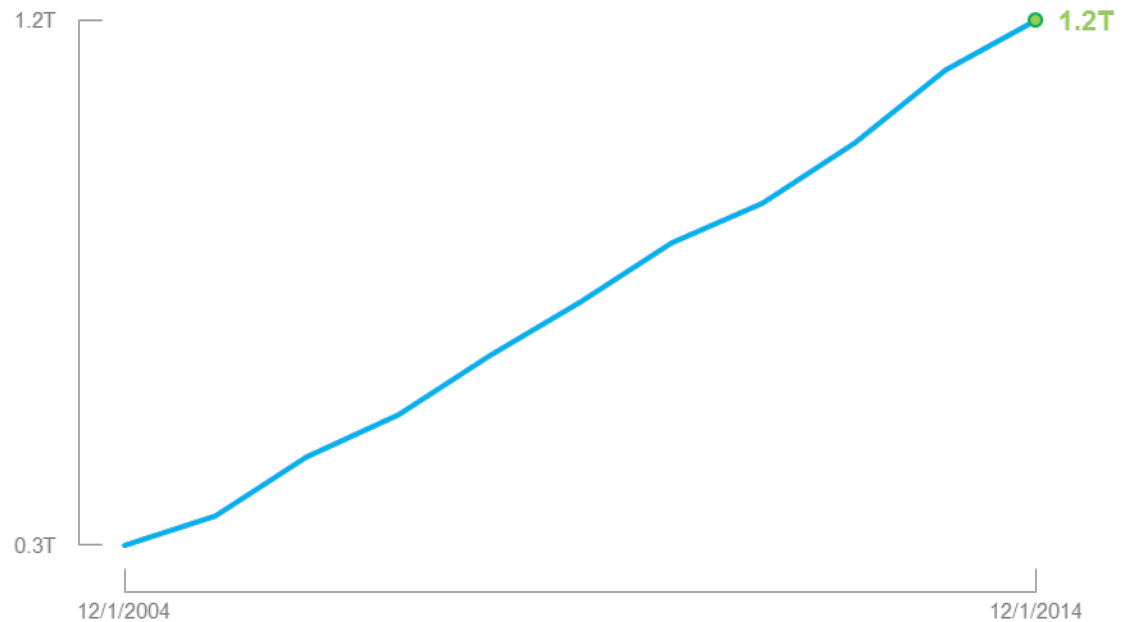


Source: Census

Rising student debt burdens will make homeownership difficult for some

Student loan balances, \$ trillions

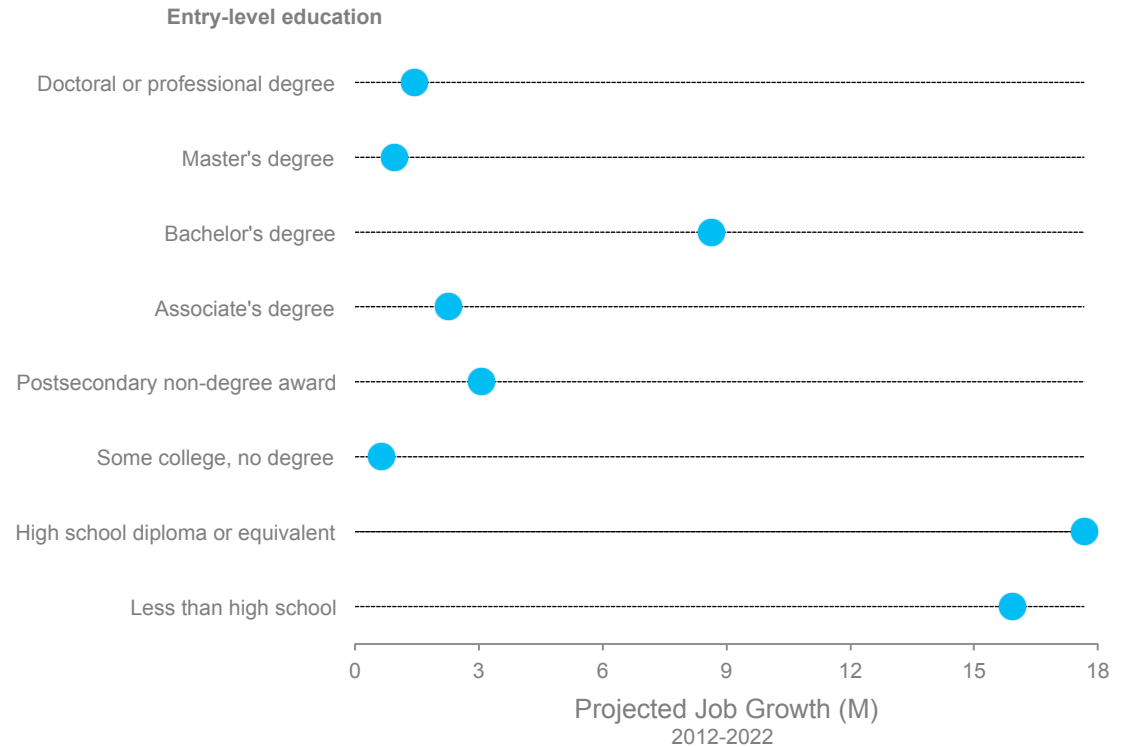
Over a decade,
student loan debt
more than tripled



Source: New York Fed Consumer Credit Panel / Equifax

The jobs outlook casts a shadow on the homeownership rate

Most (2/3) projected job openings need HS diploma or less for entry-level job



Source: Bureau of Labor Statistics Employment Projections, Census, American Community Survey Public Use Microdata Sample (2013 1-year estimate).
http://www.freddie.mac.com/news/blog/leonard_kiefer/20150202_anemic_homeownership_growth.html

Keys

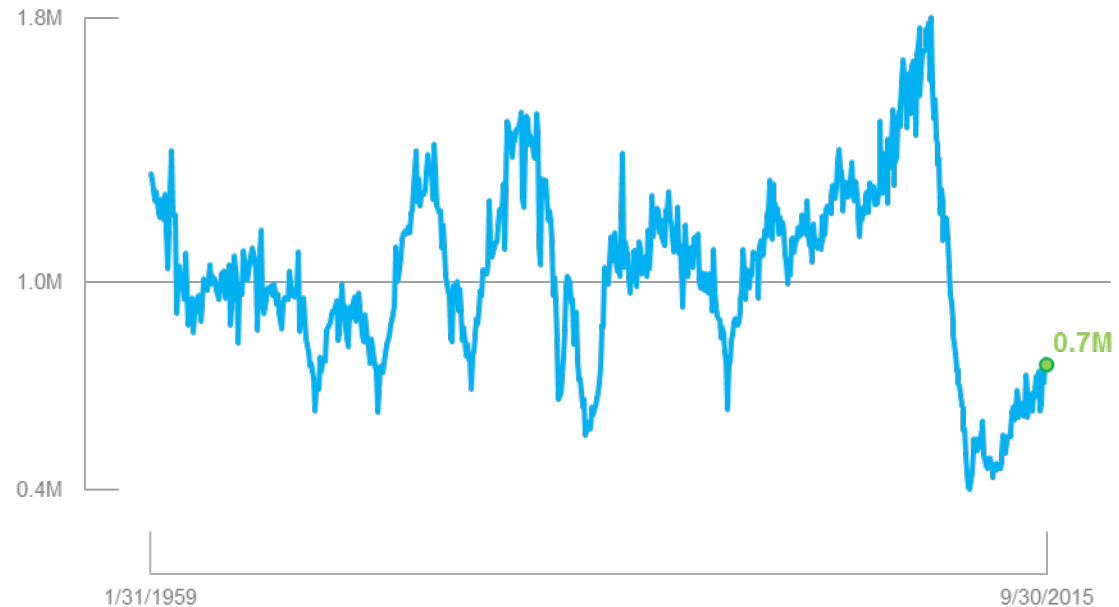
Overcoming challenges

- Increased inventory
- Low down payment mortgage options
- Demographic factors

Housing construction well below long-term demand for housing

1-unit housing starts (SAAR)

Historically 1-unit housing starts have averaged about 1 million units per year, we're currently running well below



Source: Census

Responsible low down payment lending helps support sustainable homeownership



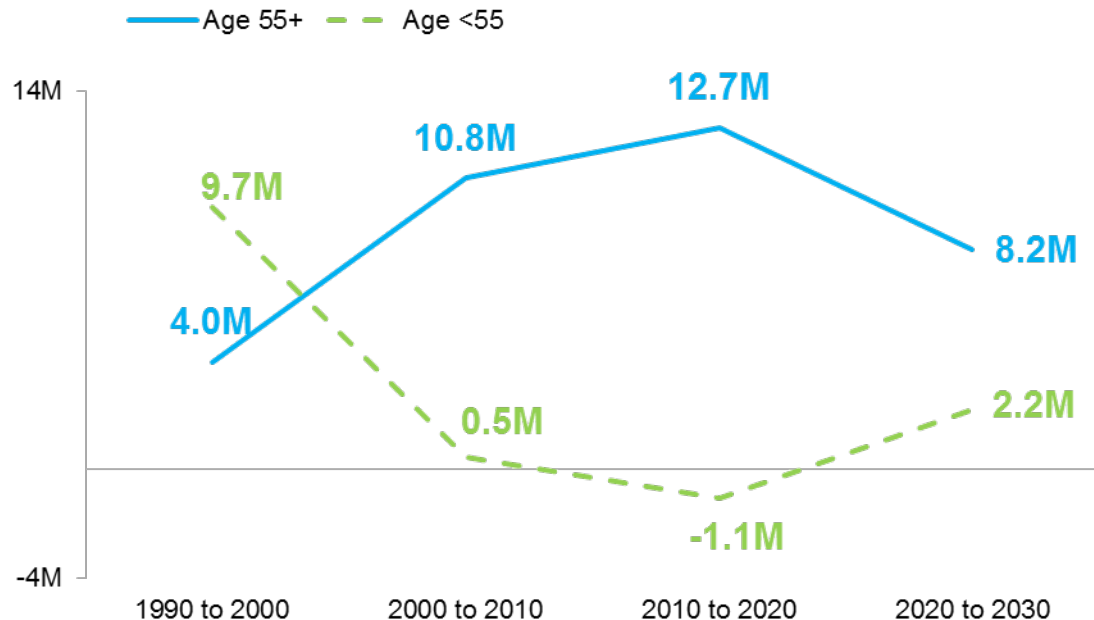
Research has shown that reduced down payments can increase the relative probability of homeownership among some groups by over 25 percent

<i>What has changed?</i>	<i>Before the crisis</i>	<i>After the crisis</i>
Payments	<i>Variable</i>	<i>Predictable</i>
Underwriting	<i>Property-based</i>	<i>Borrower-based</i>
Appraisals	<i>Questionable</i>	<i>Improved</i>
Borrower expectations	<i>Overly optimistic</i>	<i>Realistic</i>

Demographic shifts provide opportunities and raise challenges

As the population ages over the next two decades household growth will be driven by those ages 55+


Historical and projected household growth



Source: Decennial Censuses, American Community Survey, Urban Institute; average scenario

Economic and Housing Research:
www.freddiemac.com/news/finance

Contact:
chief_economist@freddiemac.com

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