

The Housing Outlook

Presented by

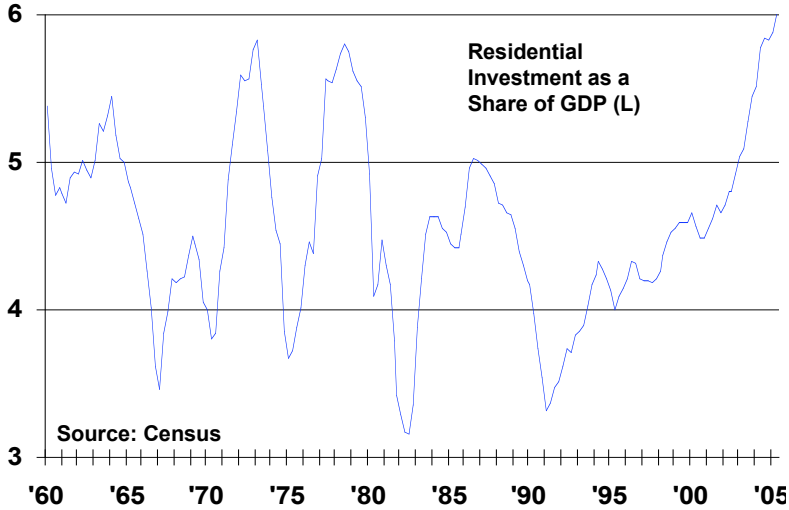
Mark Zandi
Chief Economist



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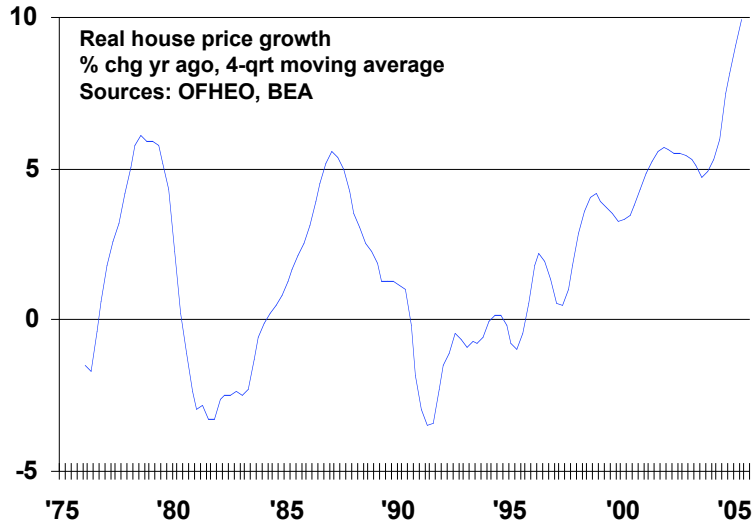
Booming Residential Investment



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Housing is Through the Roof

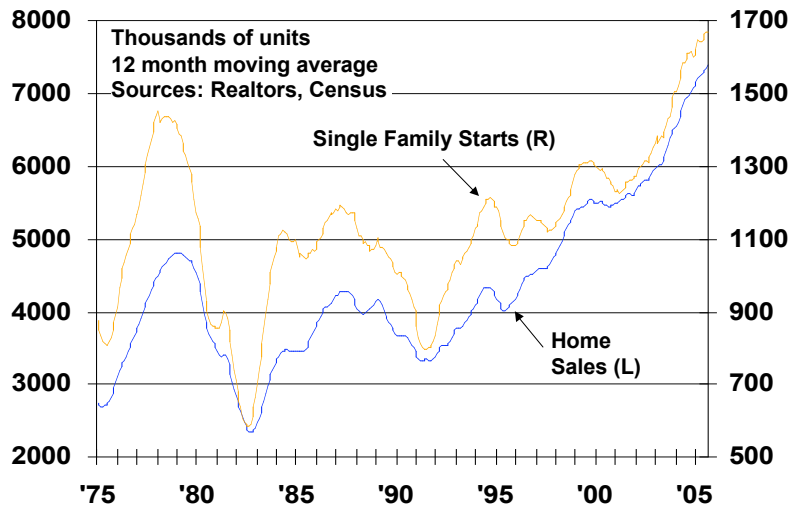


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Record Housing Activity



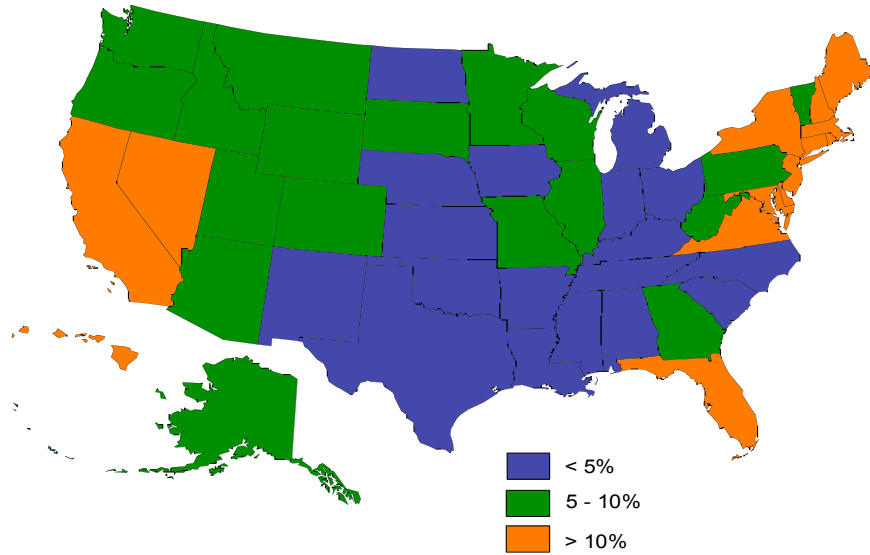
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Where Housing is Strongest

Avg Annual % Chg, Past 5 Yrs, OFHEO, U.S. = 8.5%



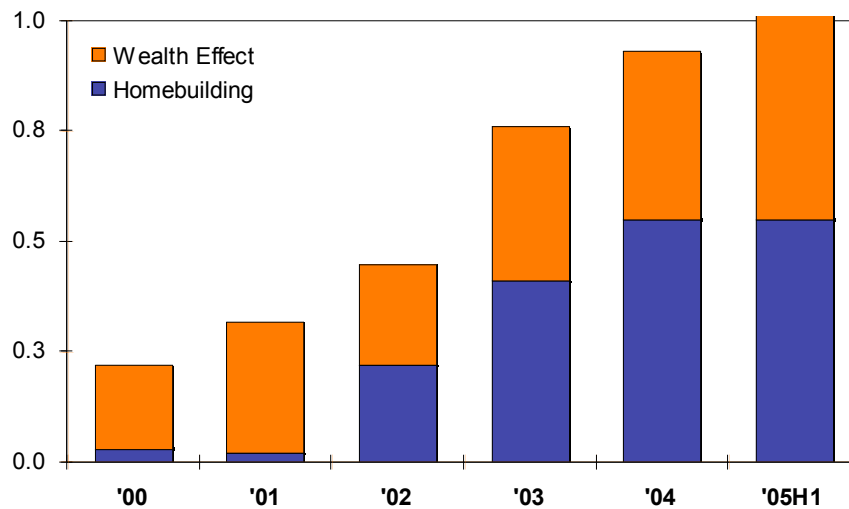
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Housing's Outsized Contribution to Growth

Percentage point contribution to real GDP growth, Source: Economy.com

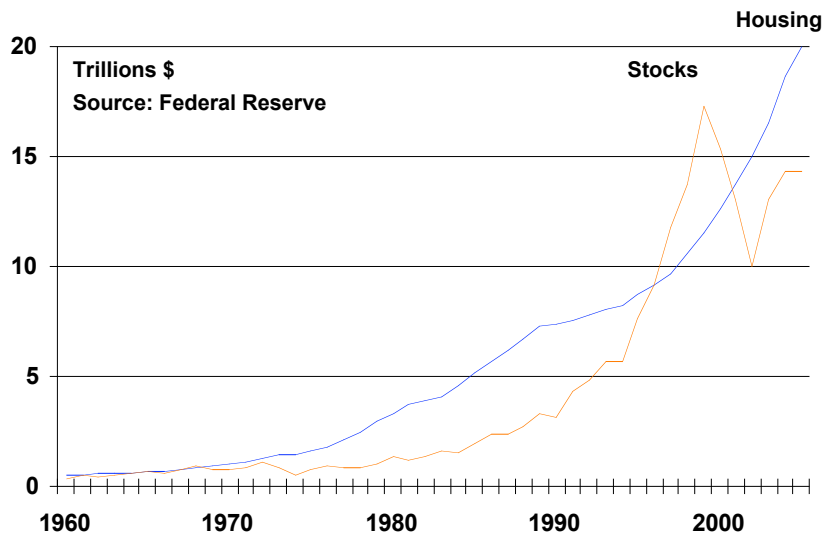


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Households' Most Important Asset

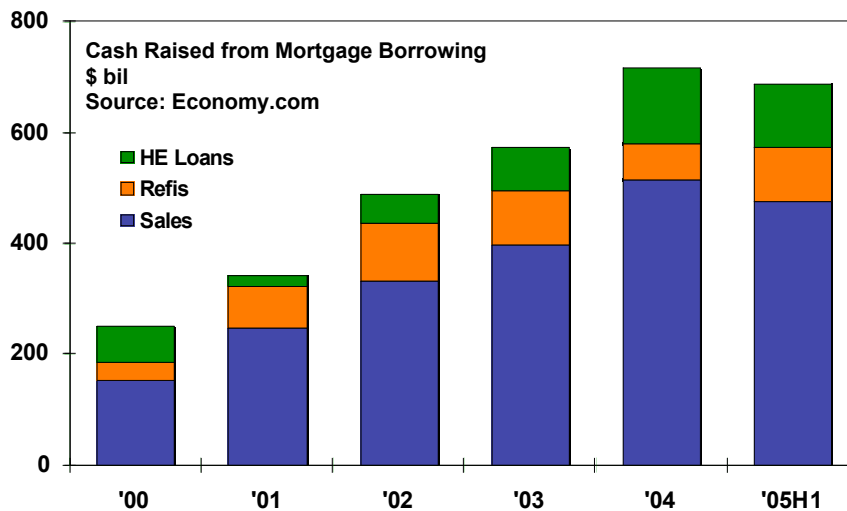


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The Home Has Become a Cash Machine

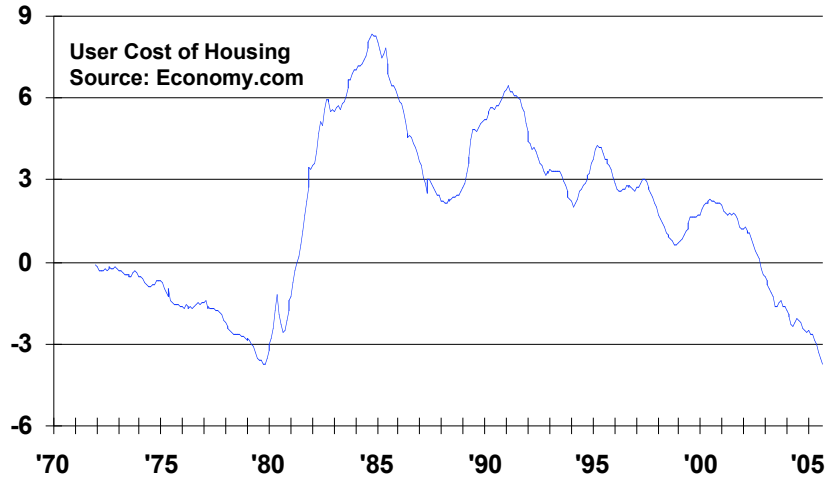


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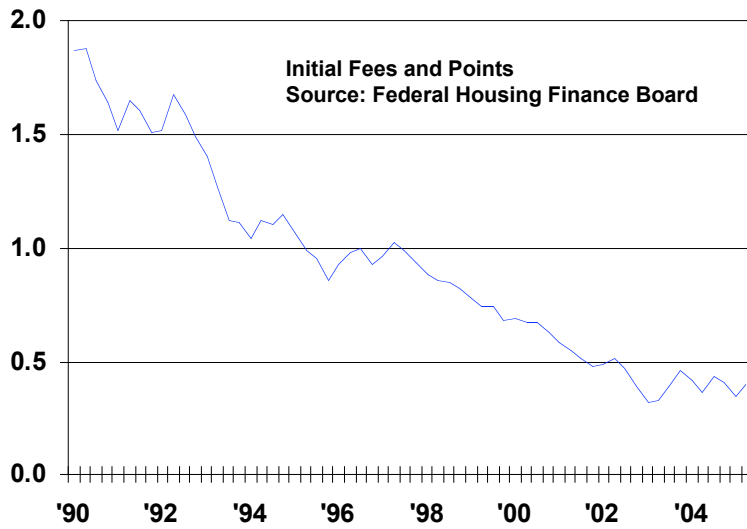
Record Low Borrowing Costs



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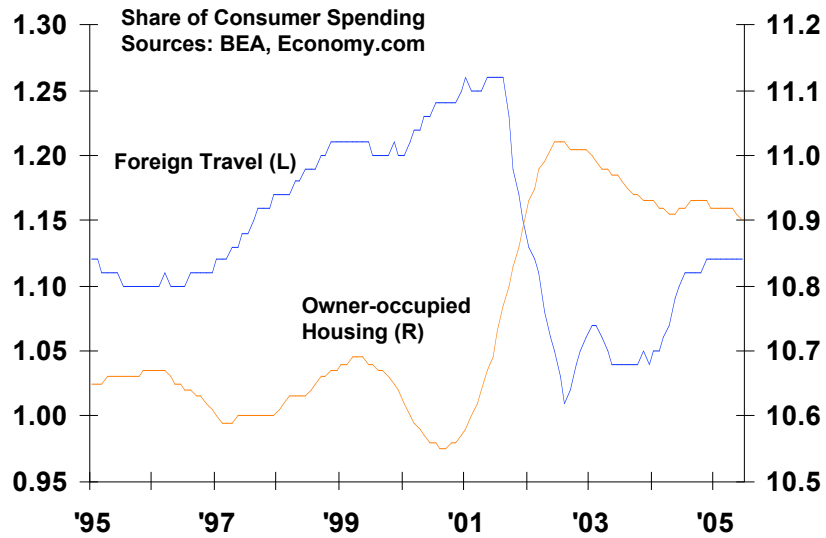
Plunging Transaction Costs



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Nesting

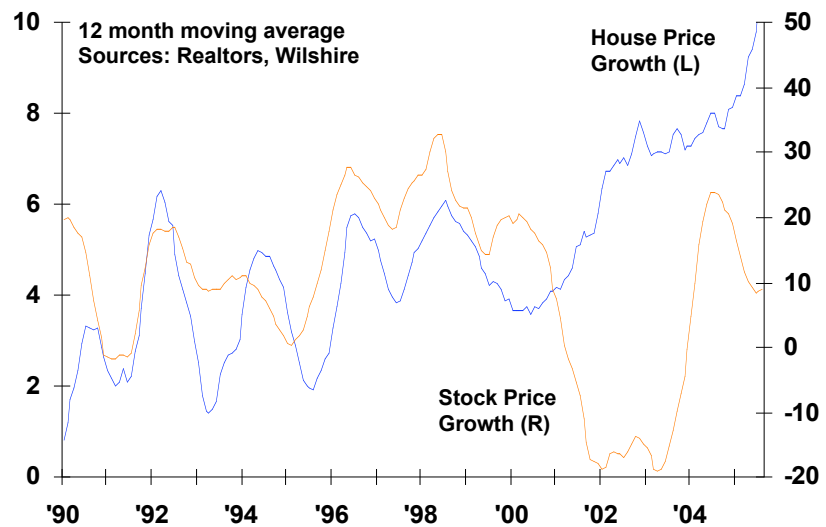


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Household Portfolio Shifting

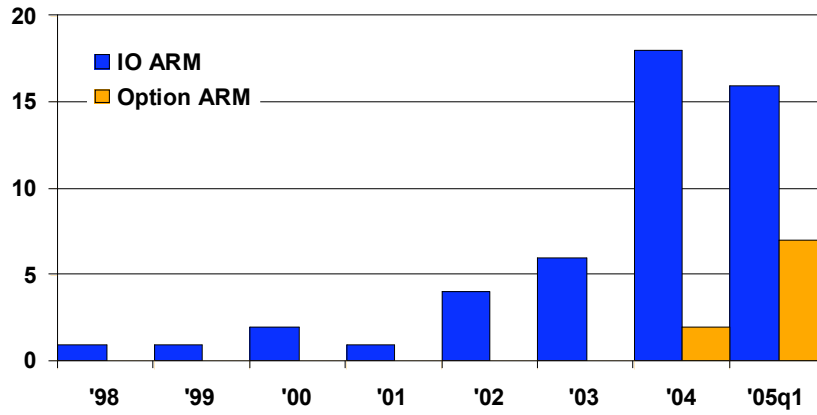


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Exotic Mortgage Lending is Surging...



Source: LoanPerformance



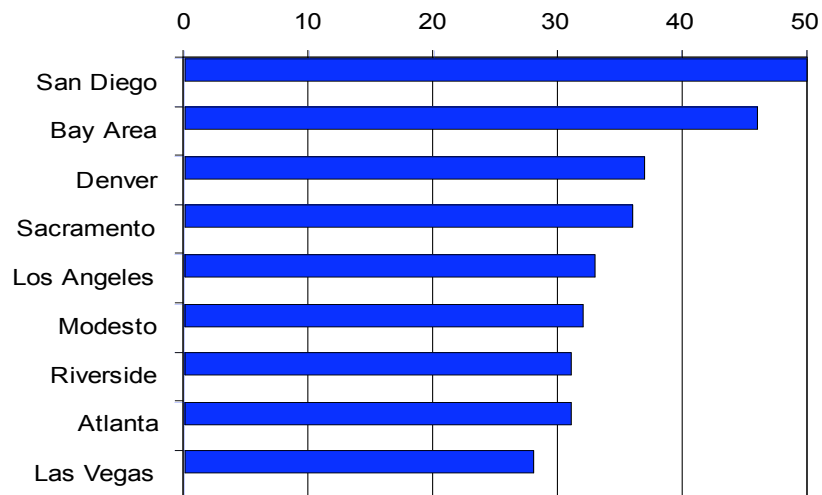
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...Especially in These Markets...

IO ARM share of Originations, 2004, Source: LoanPerformance

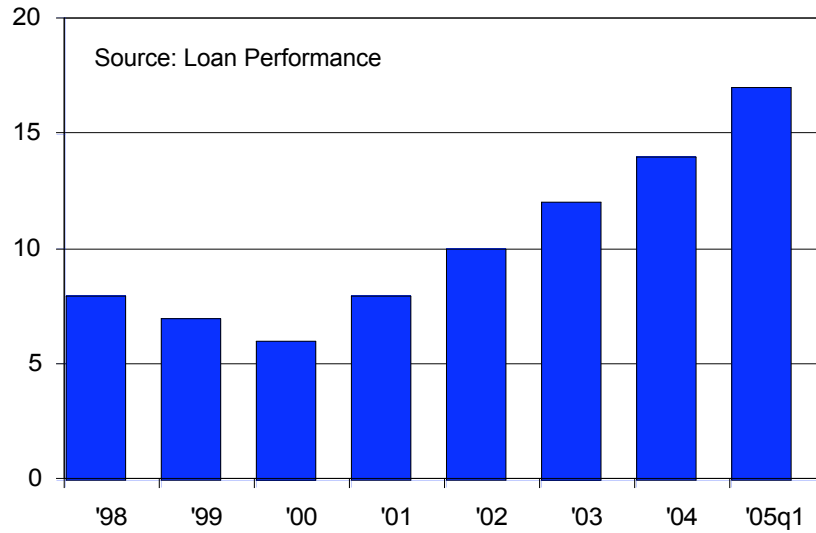


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Investor Share of Origination Soars...



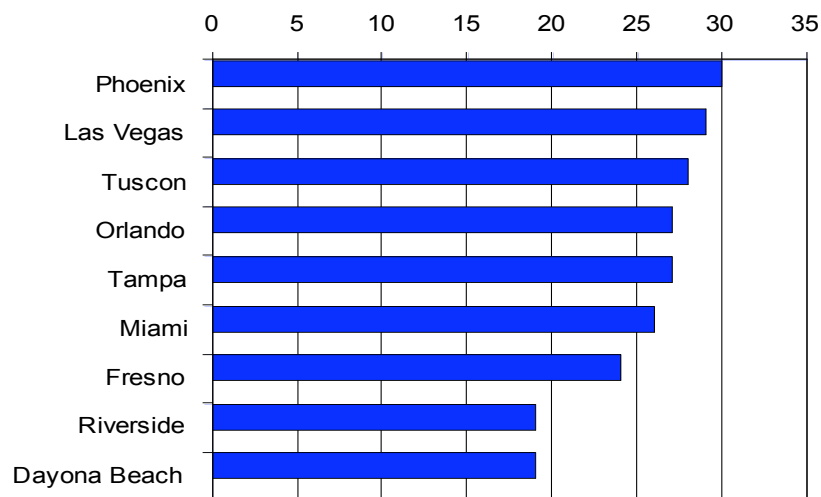
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...Especially in These Markets...

Investor Share of Home Sales, 2005q1, Source: LoanPerformance

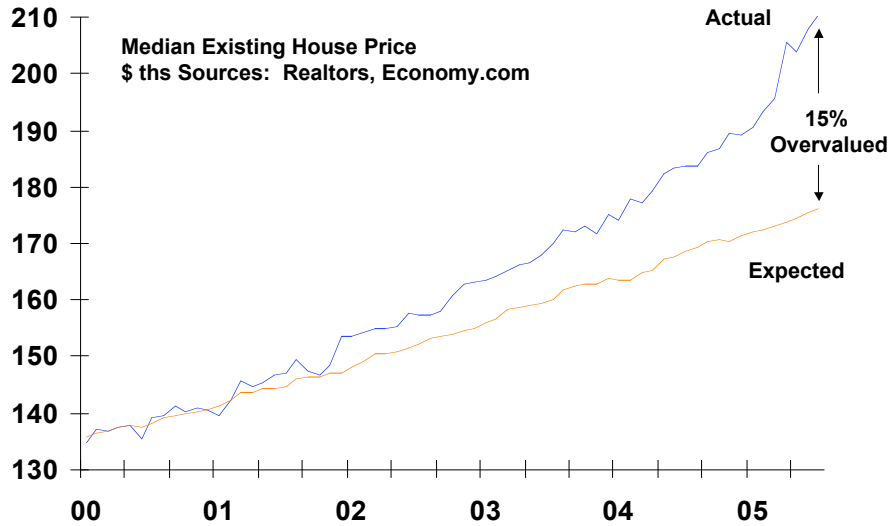


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Housing Is Increasingly Overvalued....

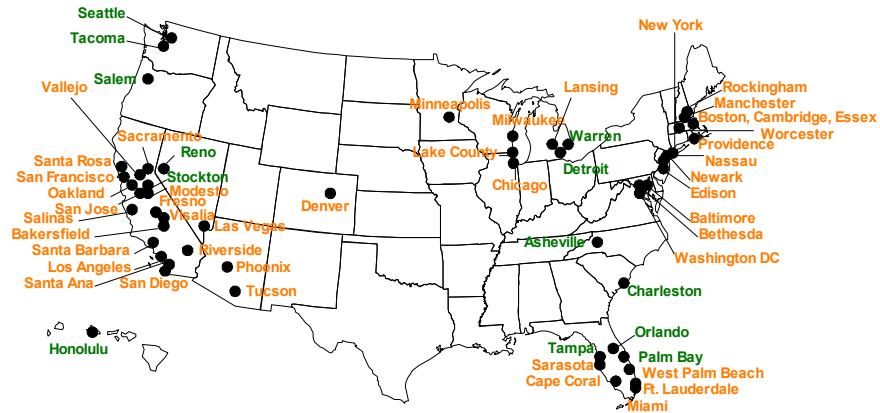


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...in These Metro Areas



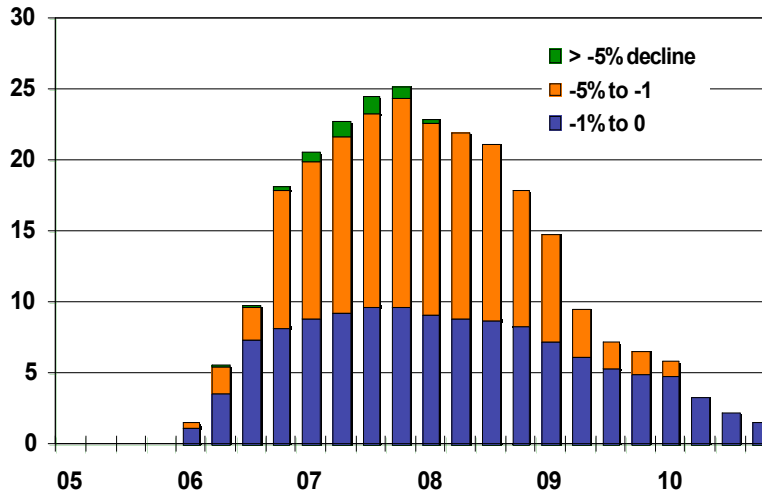
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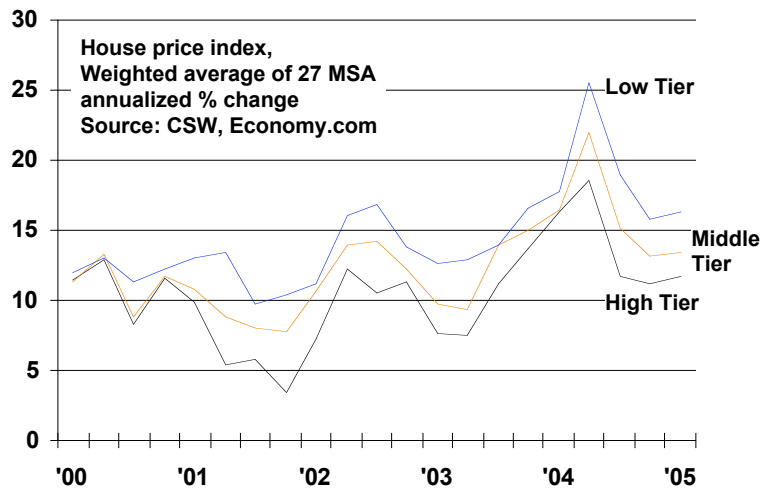
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House Price Declines Under a 7% Fixed Rate

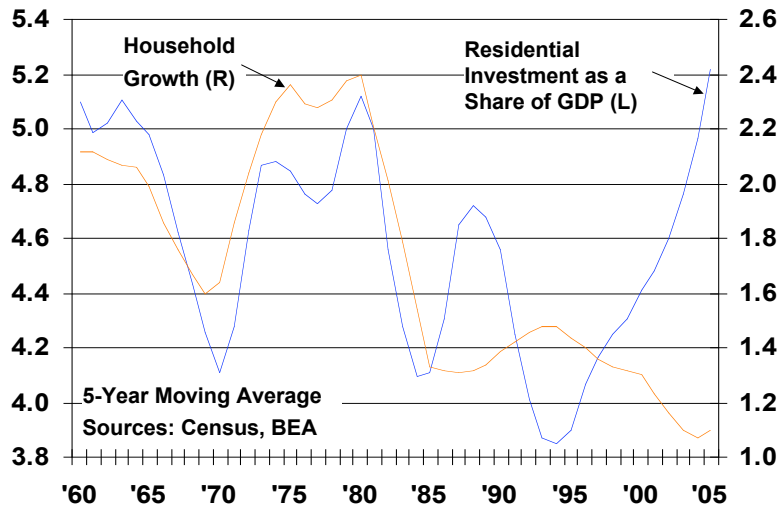
% of metro areas where house prices decline on a year-over-year basis



Low-End of Housing Market at Greatest Risk



Overbuilding

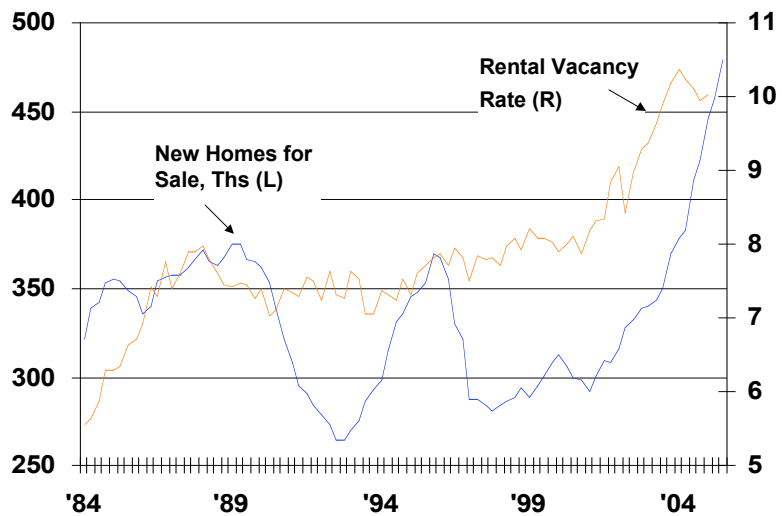


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Overbuilding



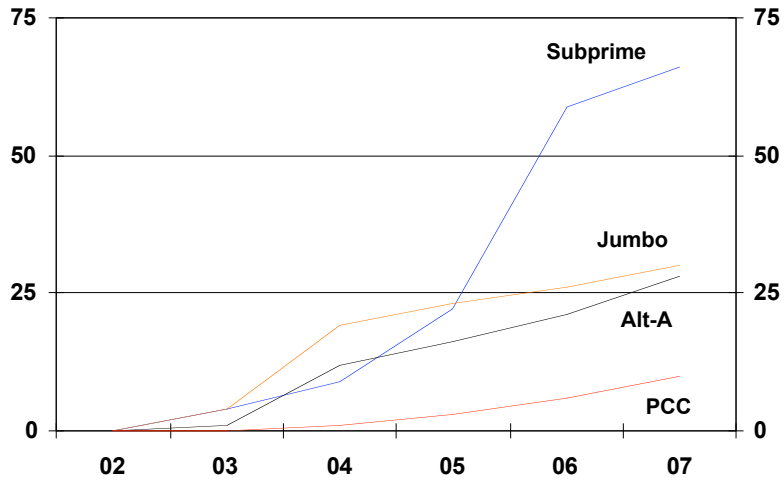
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...Will Soon Become More Pressed

Cumulative share of 2002-04 loans with rate resets, Source: Fannie Mae

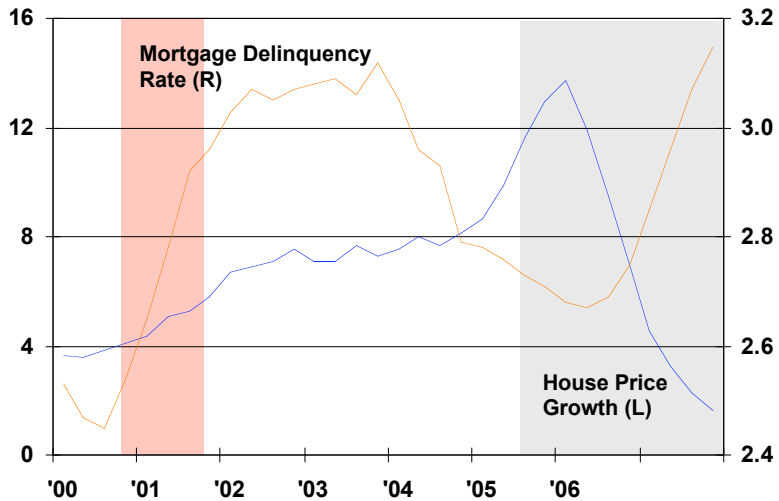


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Weakening House Price Growth and Credit Quality



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Outlook Summary

- **The single-family housing market is booming. Home sales, single family housing starts, and house price growth are robust.**
- **Single-family demand has been supported by extraordinarily low borrowing costs, falling transaction costs, aggressive lending, portfolio shifting, and nesting.**
- **Speculation is increasingly evident in housing markets in California, the Southwest, the Northeast corridor and Florida.**
- **Single-family demand and house prices will appreciably weaken with even a modest rise in mortgage rates.**
- **Mortgage credit quality will erode despite an sturdy job market.**