

Will The Recovery Hold?

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Vice President and Chief Economist

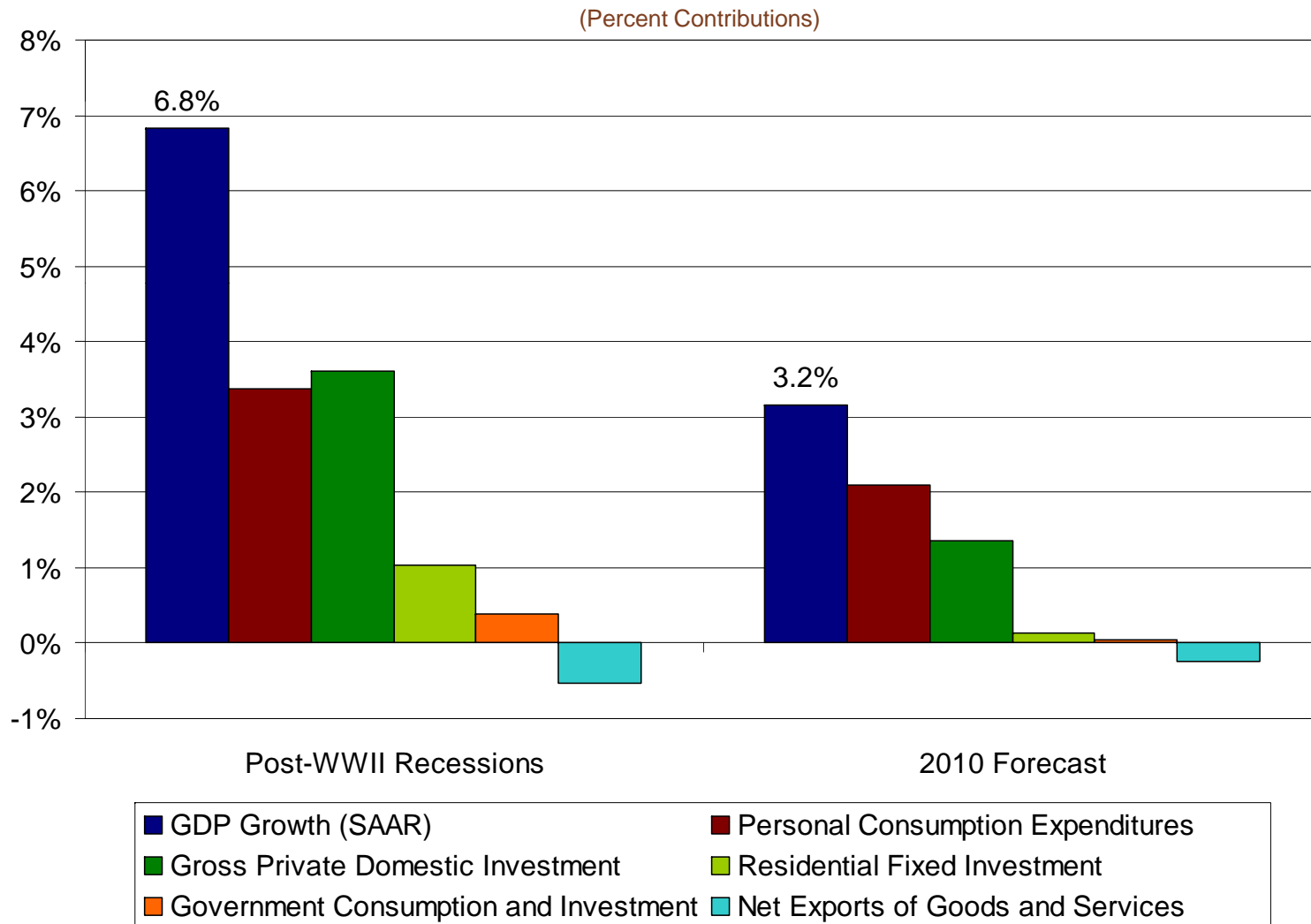
Fannie Mae

June 17, 2010

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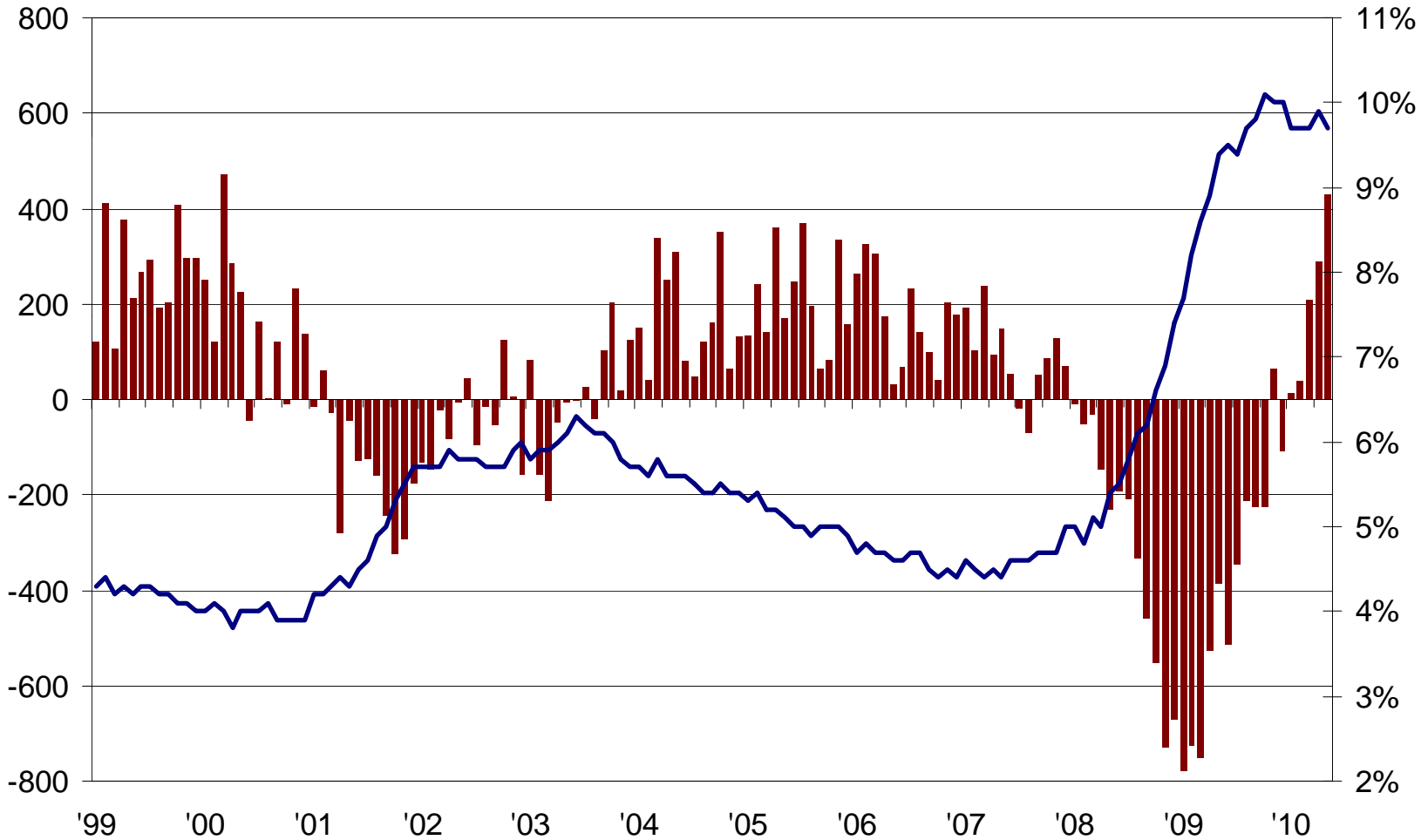
Growth in Real GDP and Contribution to GDP Growth – First Year of Economic Recoveries vs. 2010 Forecast



Note: Average of first four quarters of recoveries of the Post WWII Recessions with 1980-82 “double-dip” as a single recession.

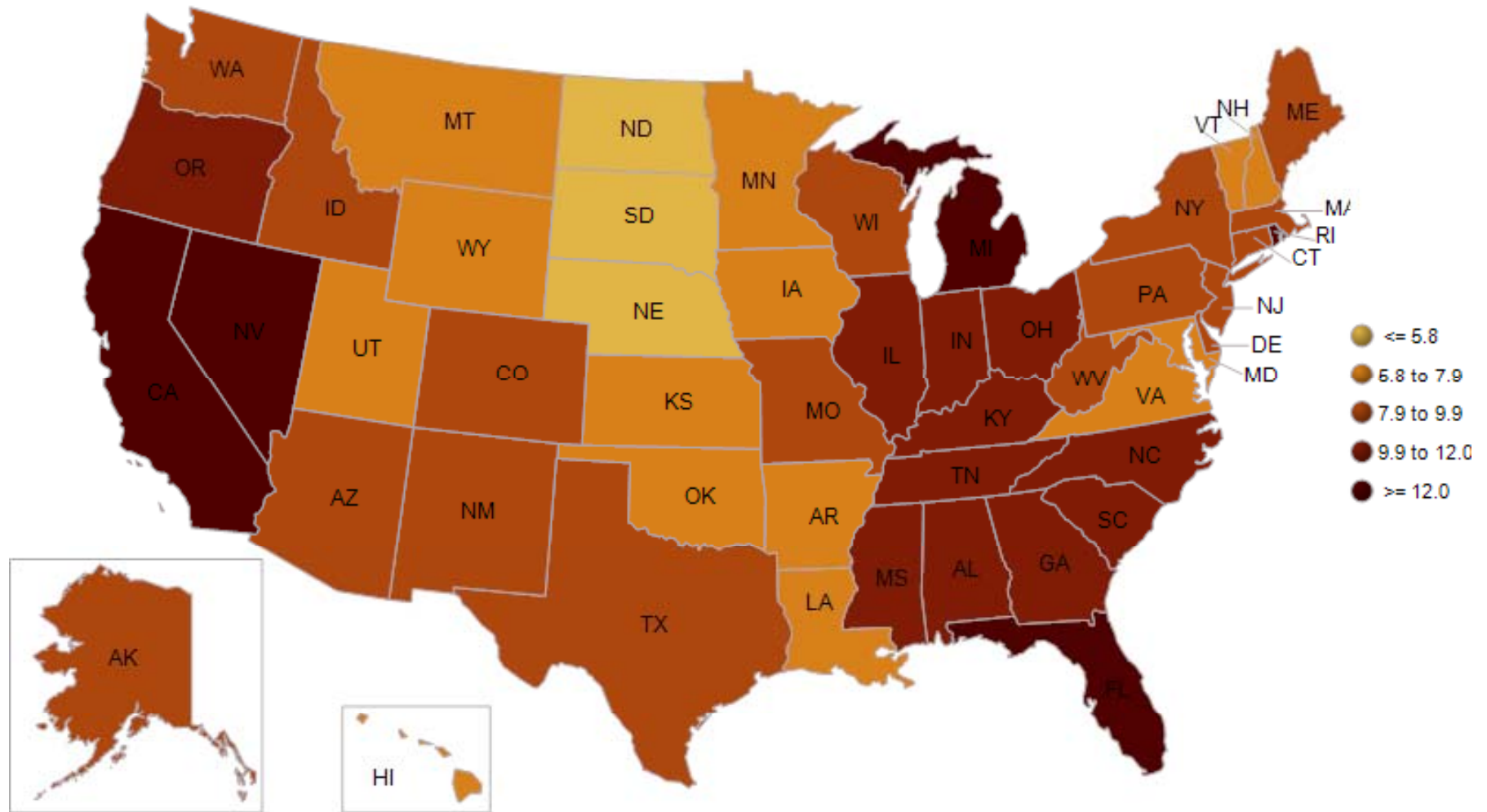
Sources: Bureau of Economic Analysis, Fannie Mae Research

Employment Starts to Firm



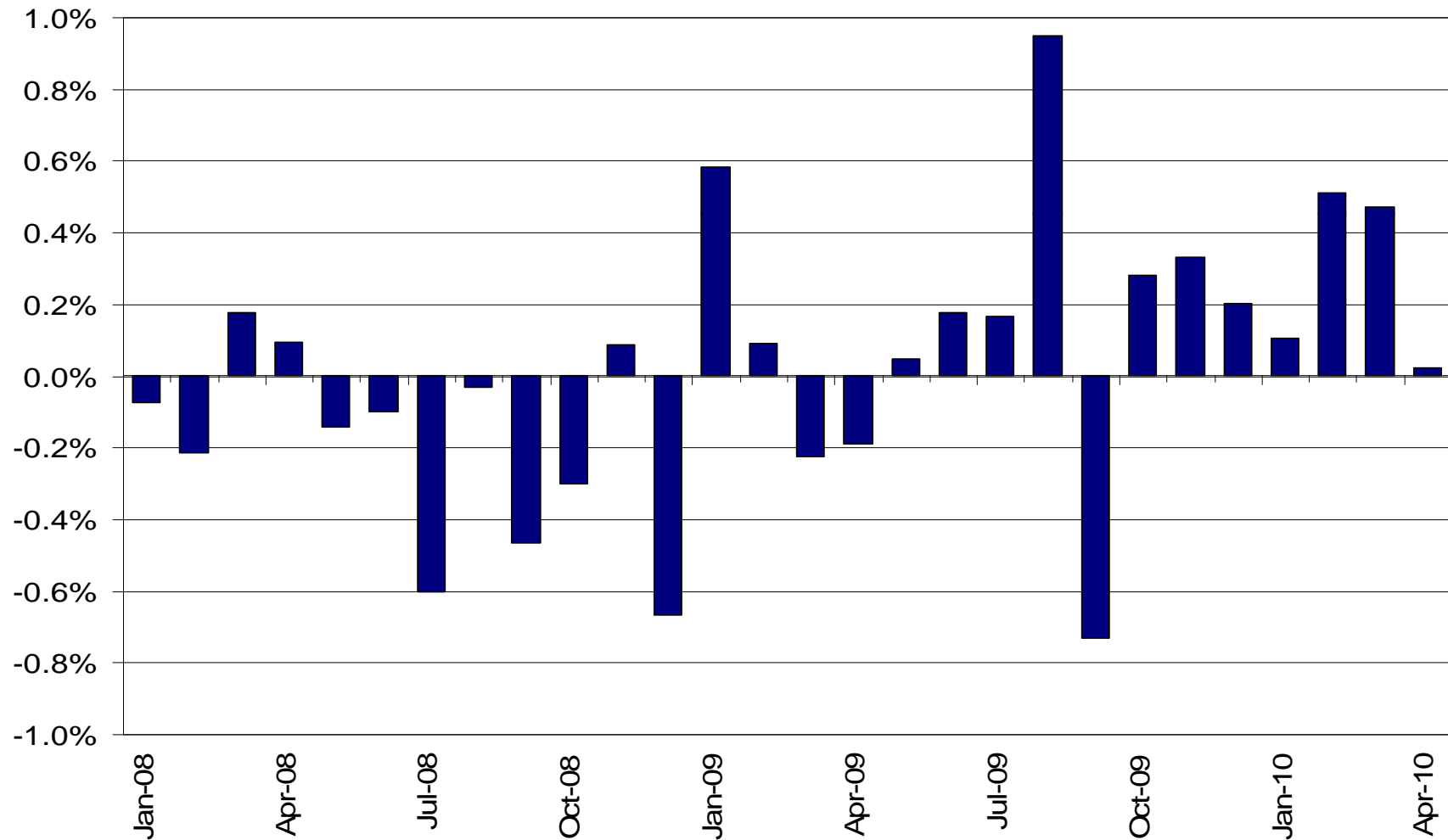
■ All Employees: Total Nonfarm (SA, Thous) Difference - Month to Month
— Civilian Unemployment Rate: 16 yr + (SA, %)

Unemployment Rates by State Seasonally Adjusted, April 2010

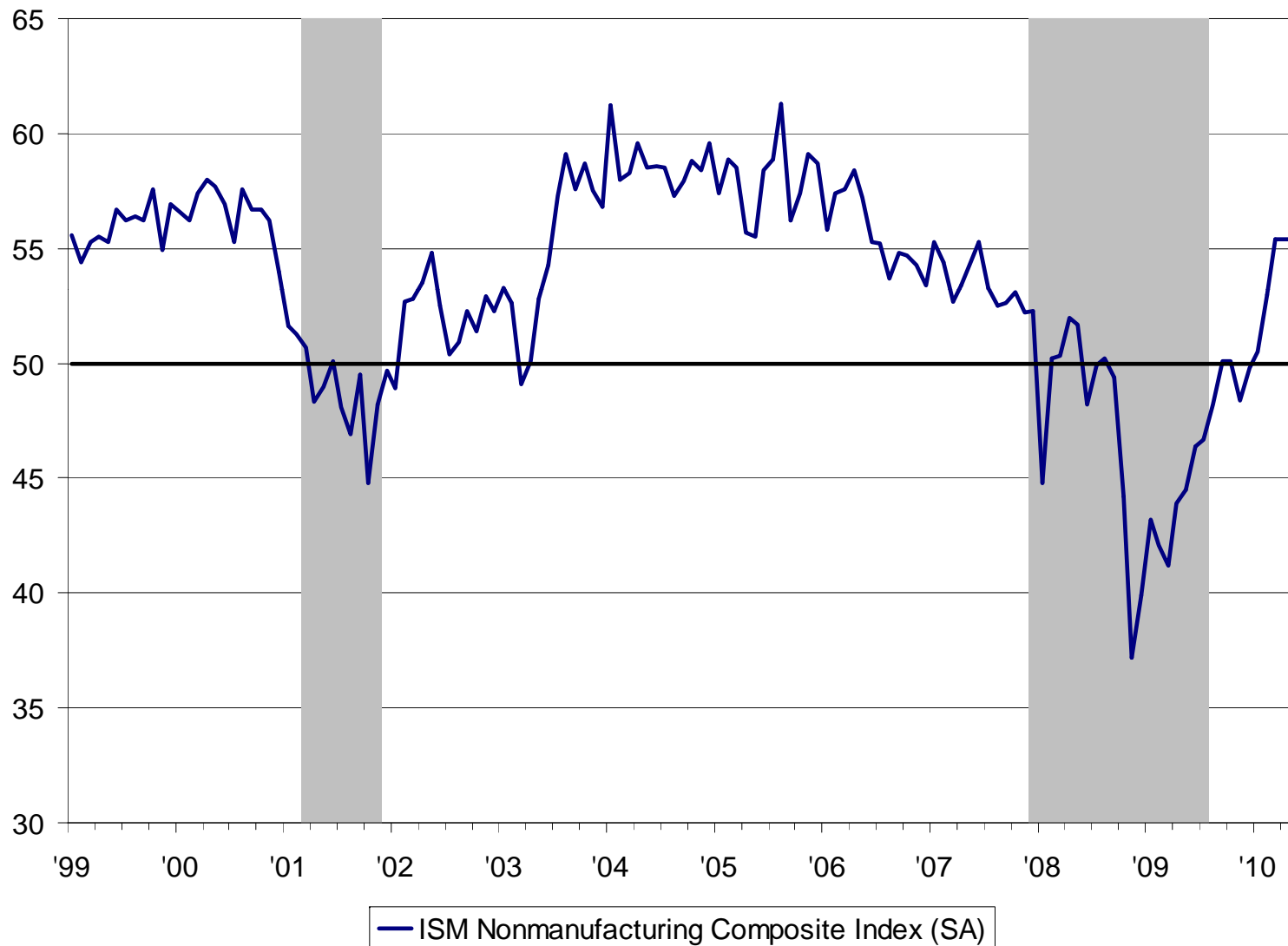


Consumers Take A Breather After Strong Showing

Real personal consumption expenditures (month-to-month percent change)



Non-manufacturing Activity Expanding After Record Low



Stock Value Falls Sharply

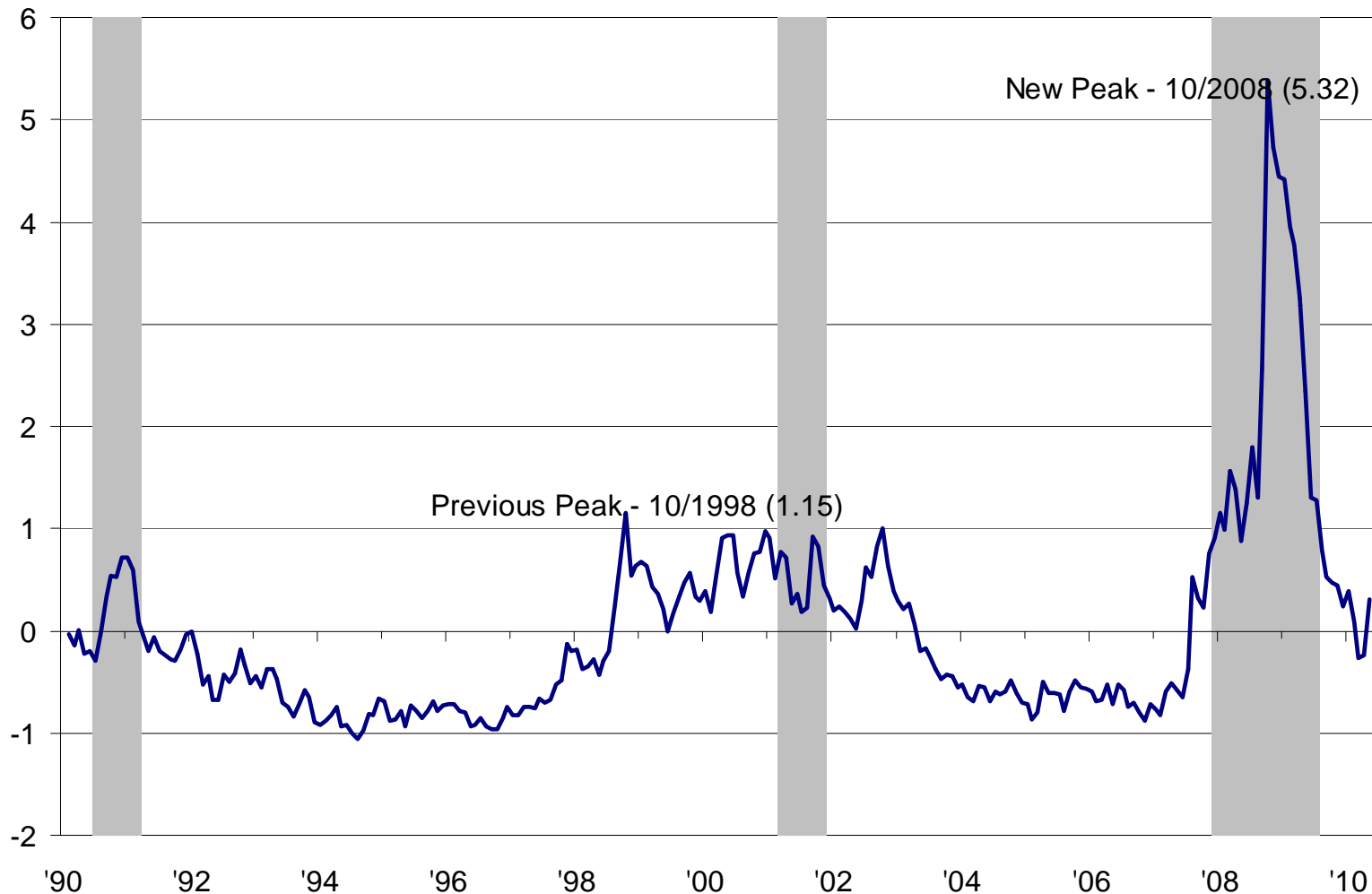
Stock price index: Standard & Poor's 500 Composite (1941-43 = 100), monthly average through May



Capital Markets

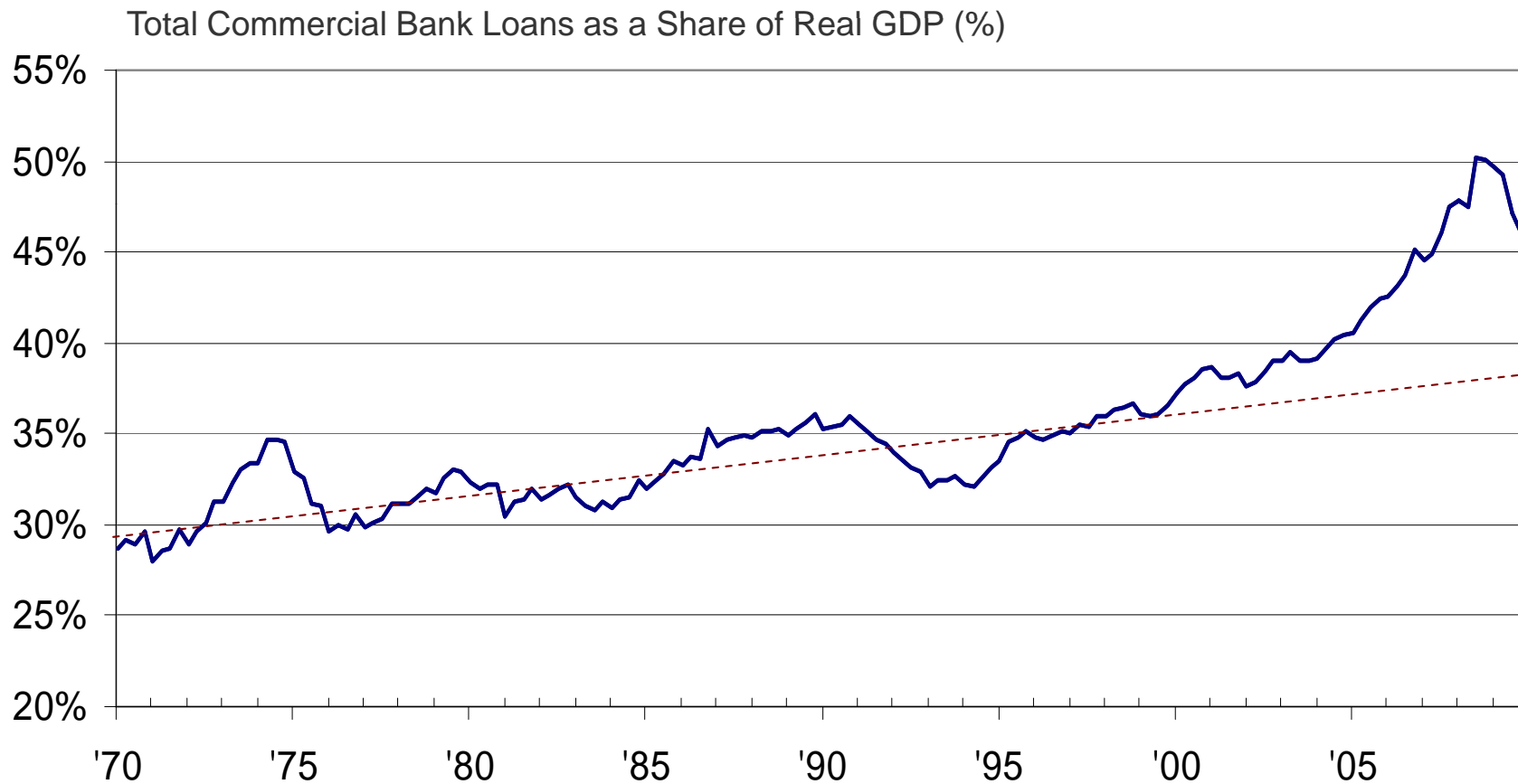
Financial Stress Drops Sharply From Peak

The Federal Reserve Bank of Kansas City Financial Stress Index*



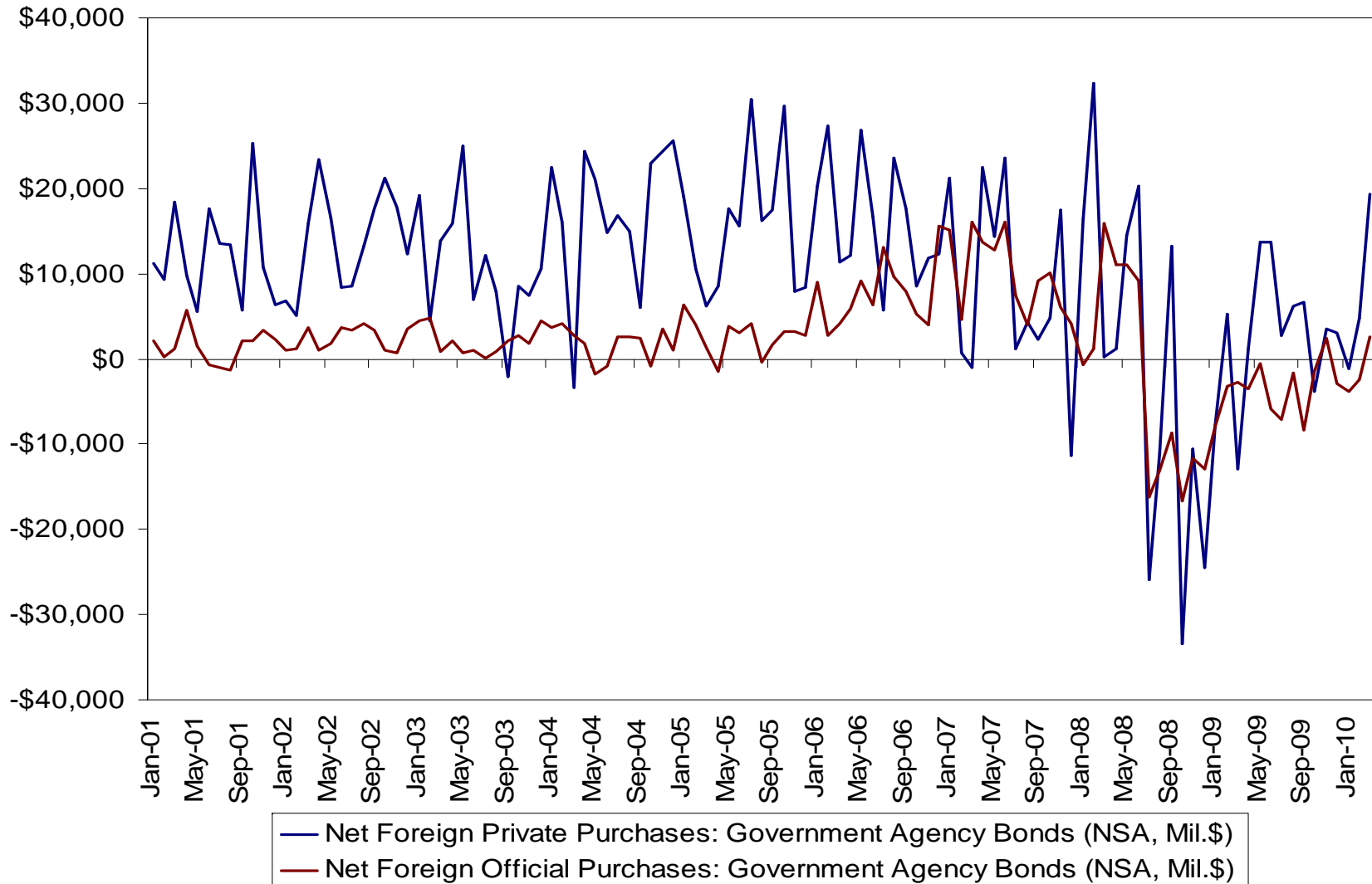
*A positive value indicates that financial stress is above the long-run average, while a negative value signifies that financial stress is below the long-run average.

Bank Loans as a Percent of GDP Still Declining

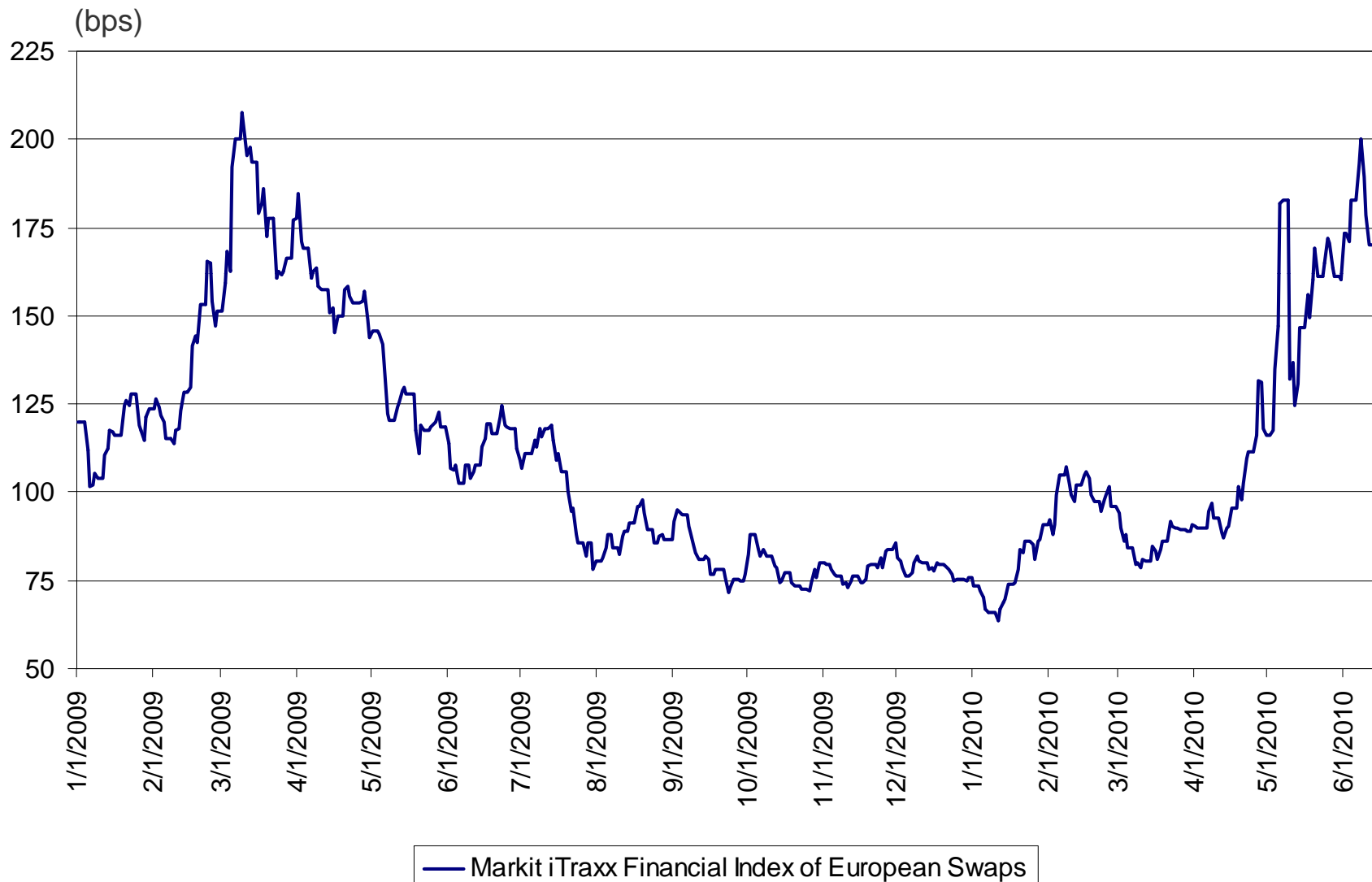


Net Foreign Purchases of Government Agency Debt Show Little Net New Investment Interest

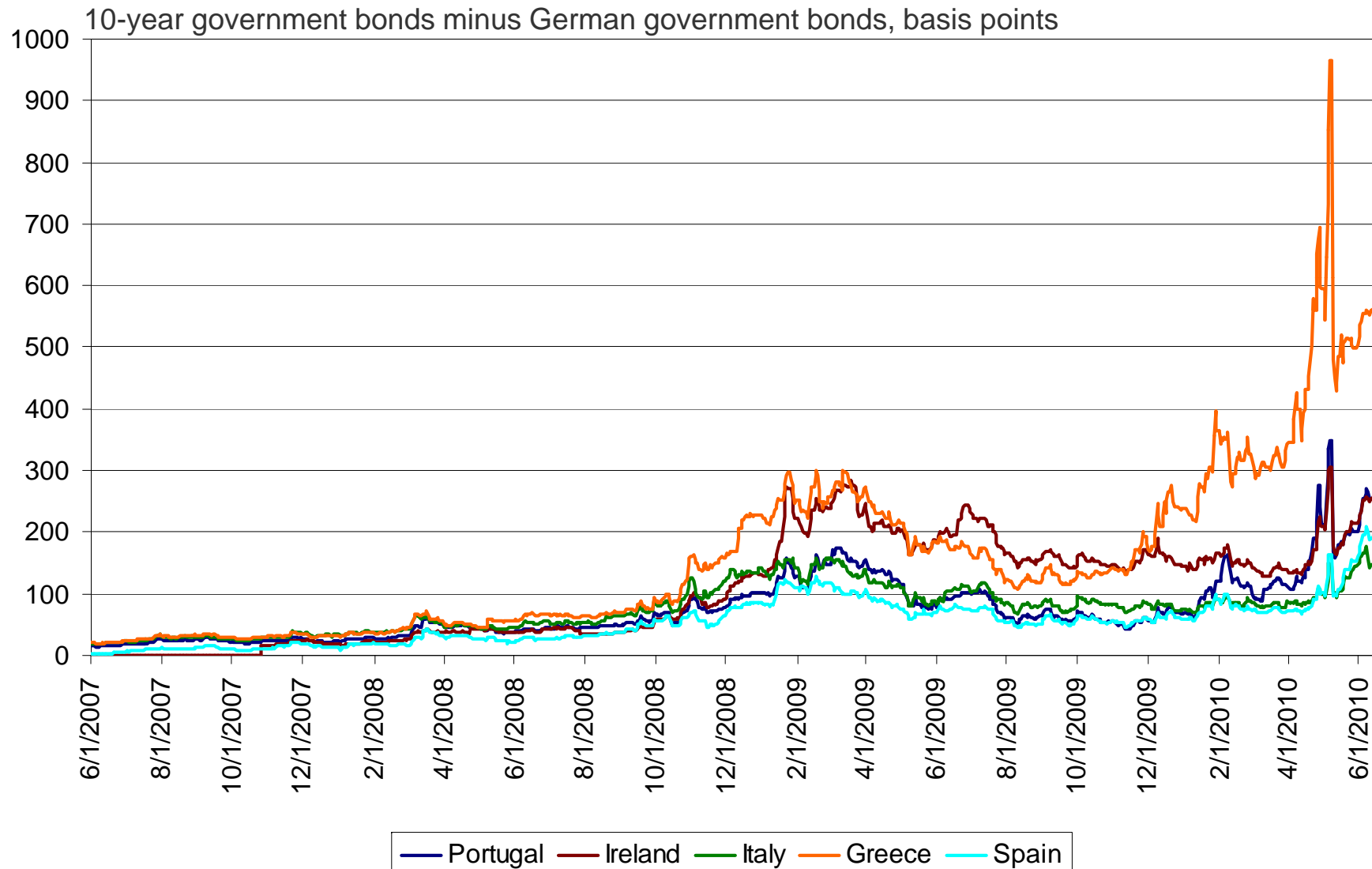
(NSA, Mil. \$)



Rising European Risks Imply Slower Global Growth



Greek Bond Spread Surges on Solvency Concerns



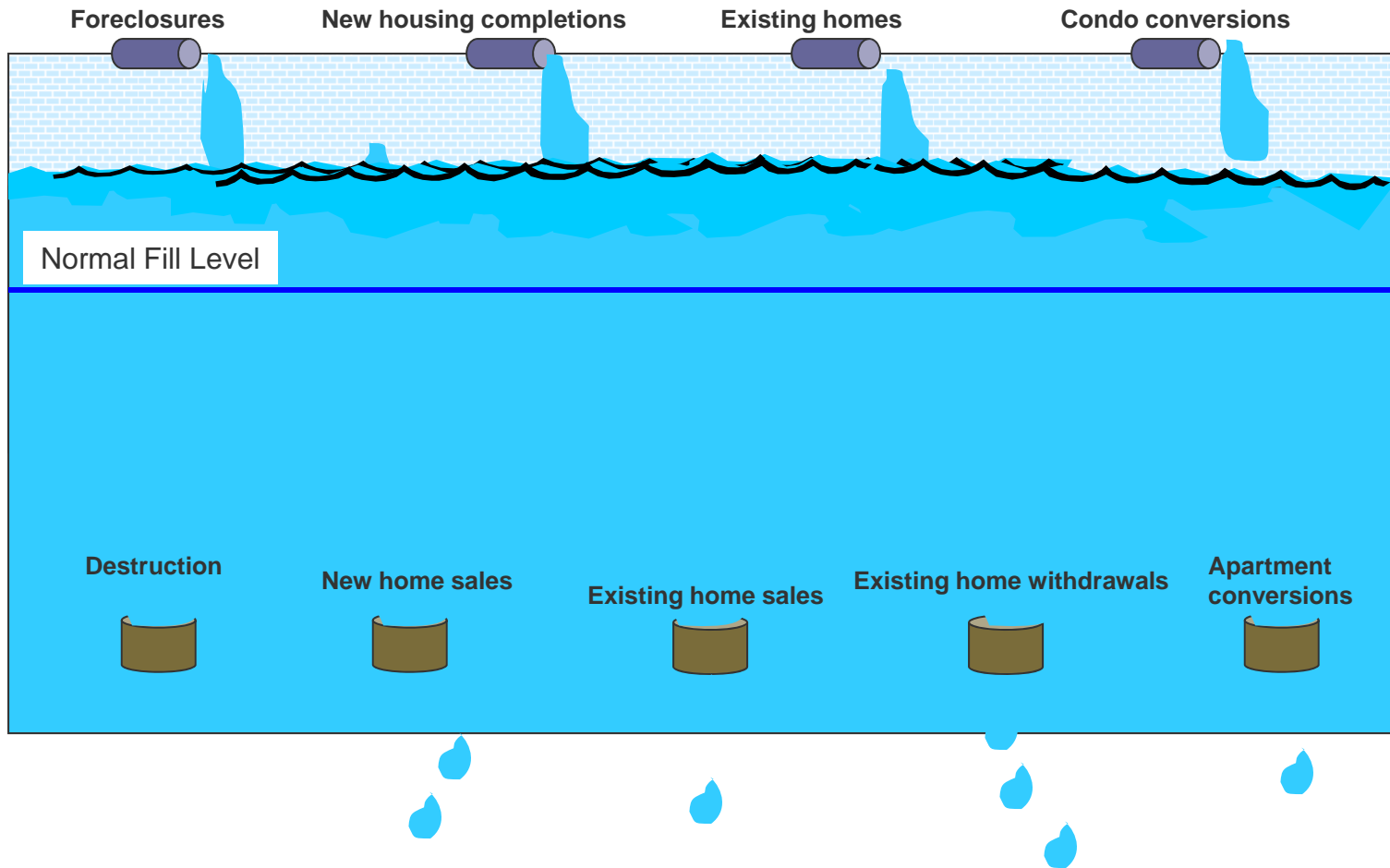
Housing



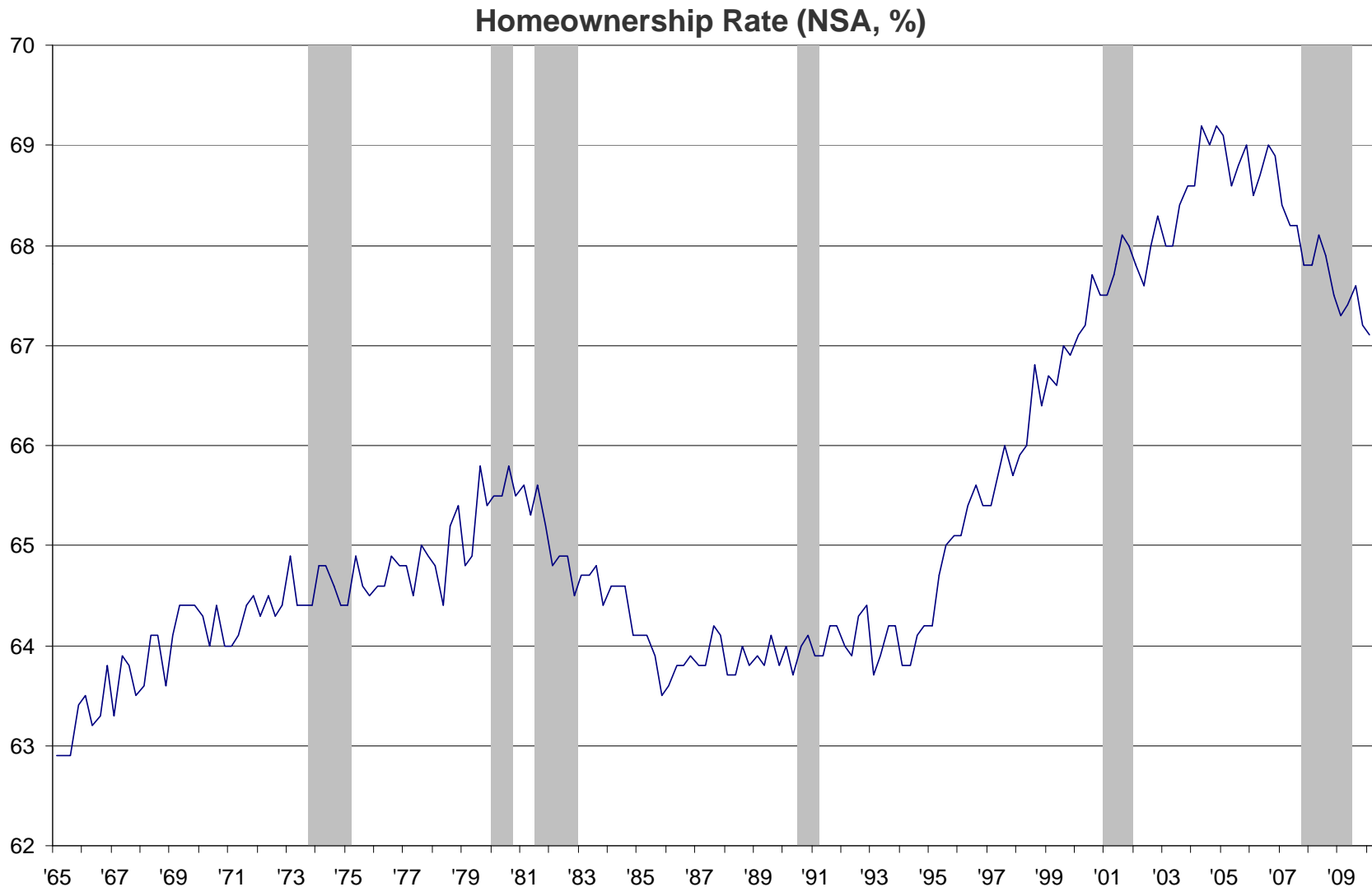
The Housing Supply Pool Level is Still High

No Lifeguard on Duty!
Swim at Your Own
Risk!

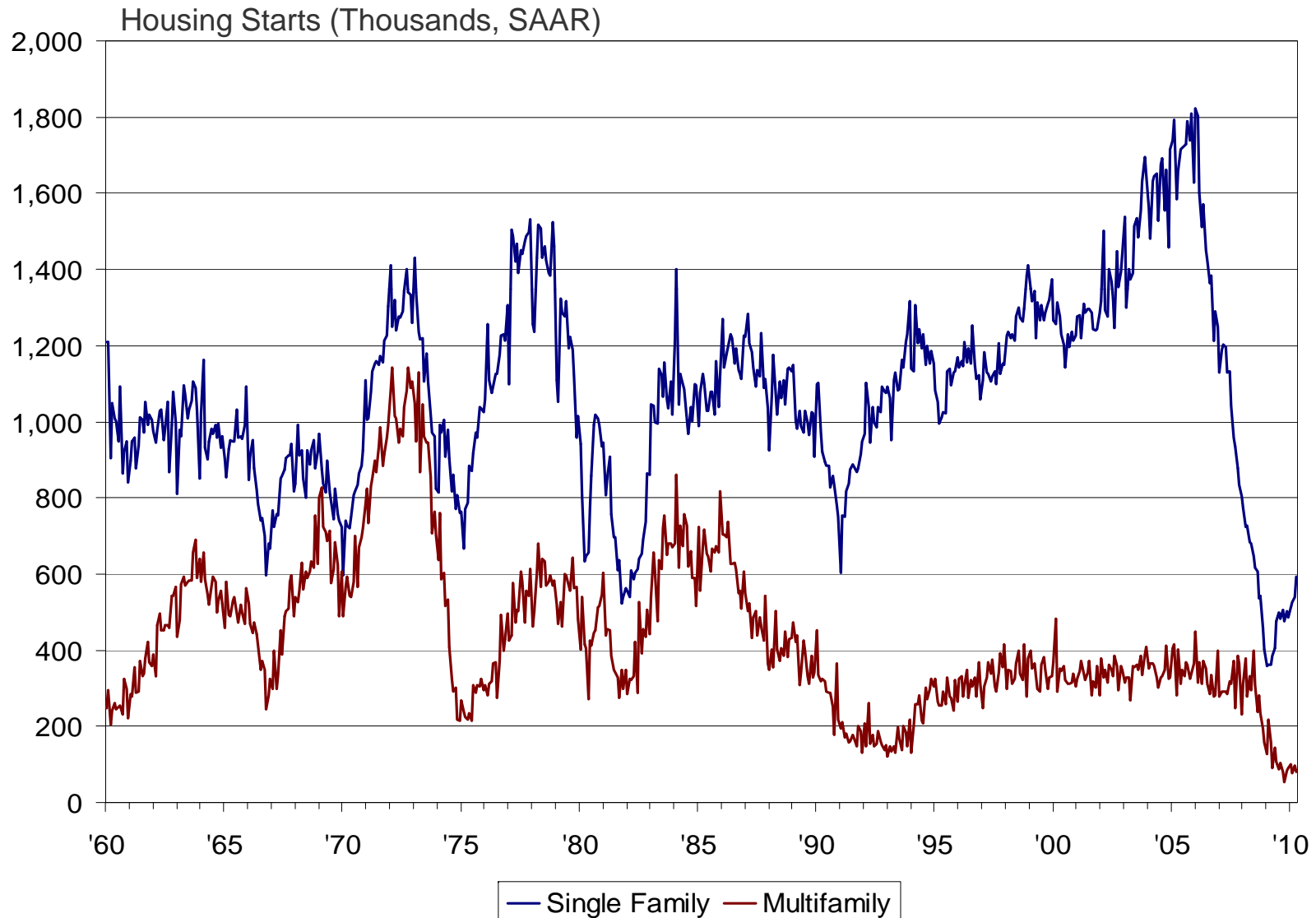
Months' Supply



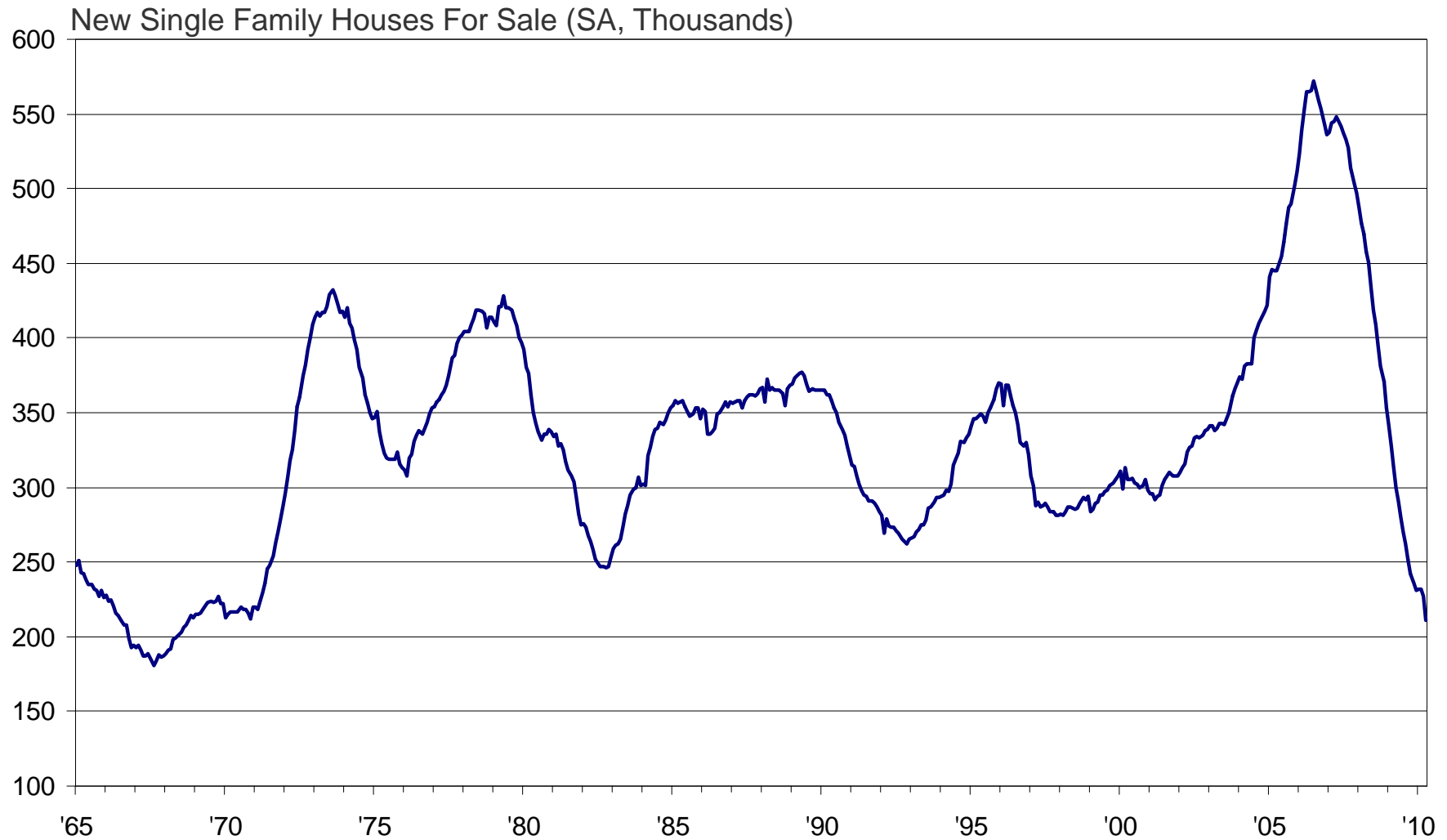
What is a Sustainable Homeownership Rate?



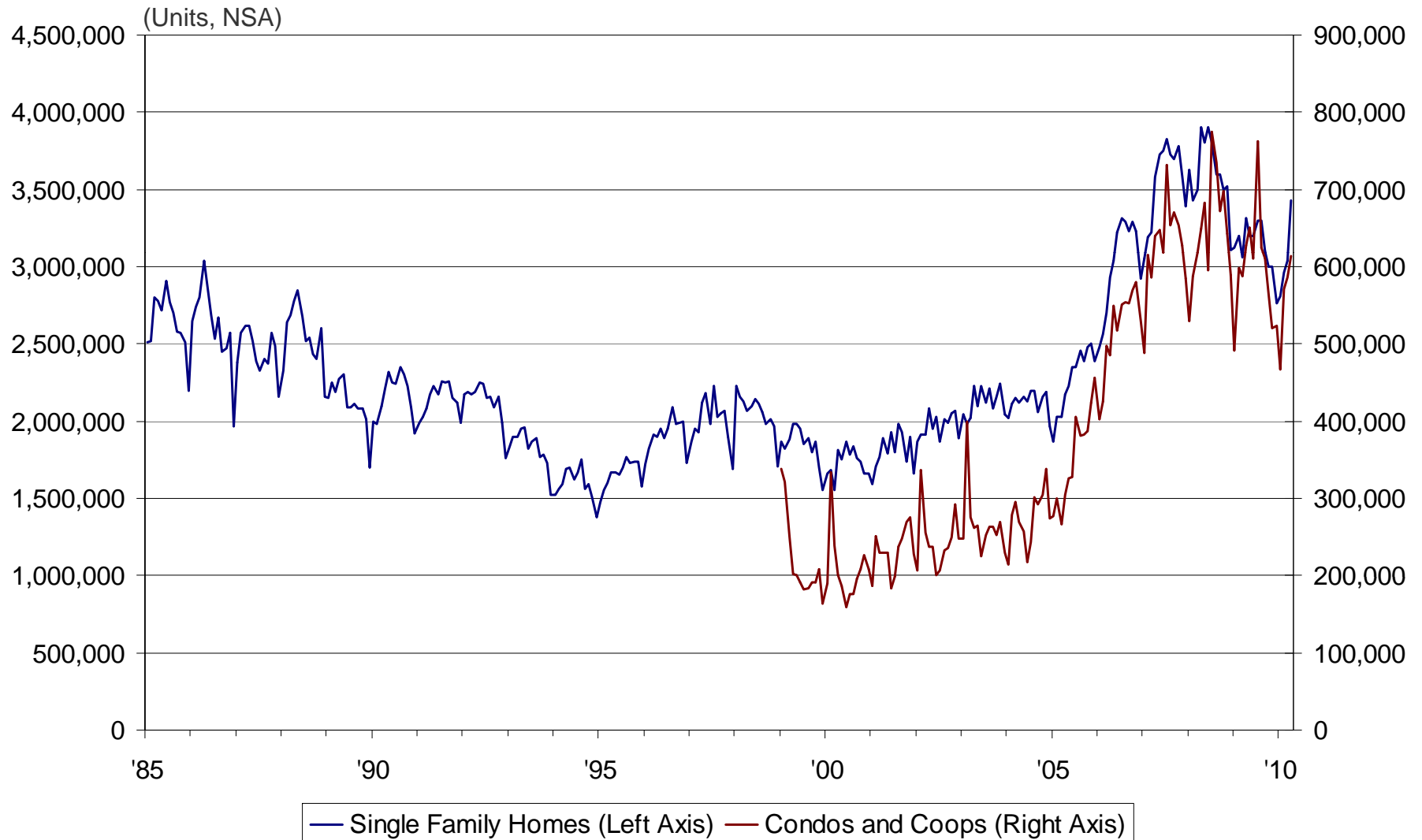
Housing Starts Remain at Very Low Levels



New Homes For Sale at the Lowest Levels Since the 1970s

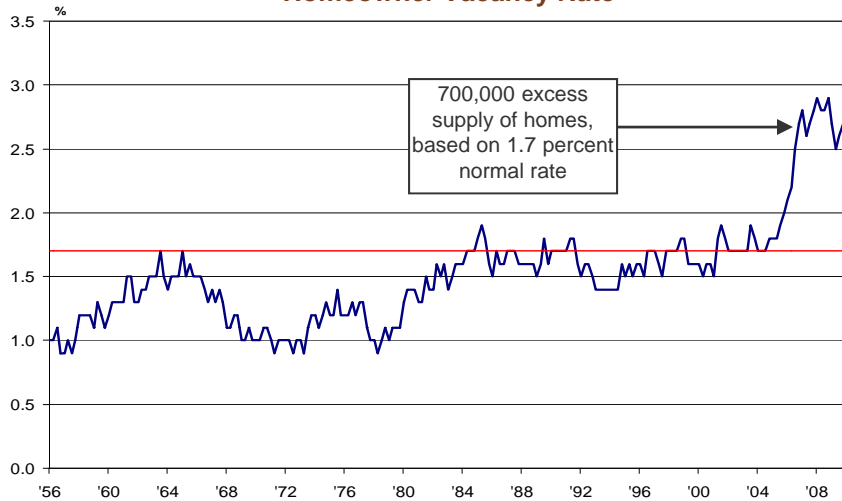


Existing Homes on the Market Still at Elevated Levels



Current Excess Supply Over Normalized Demand and Pent-Up Supply of 7 Million Units* Have the Potential to Further Depress Future Home Prices

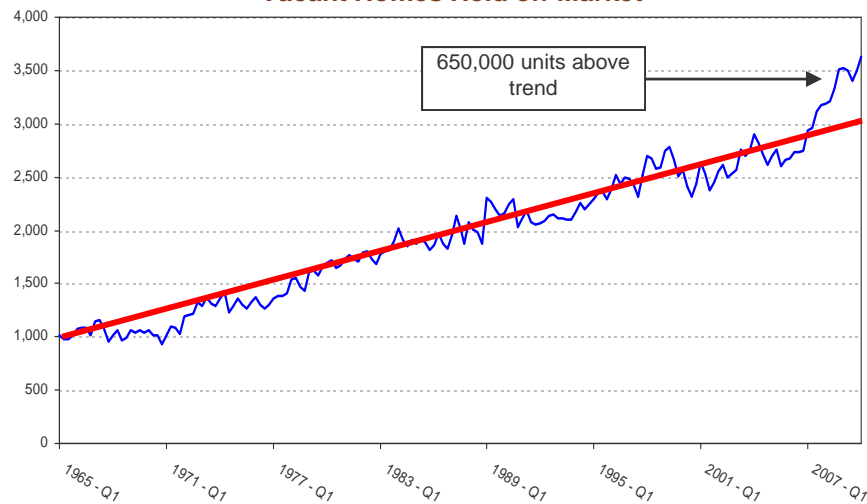
Homeowner Vacancy Rate



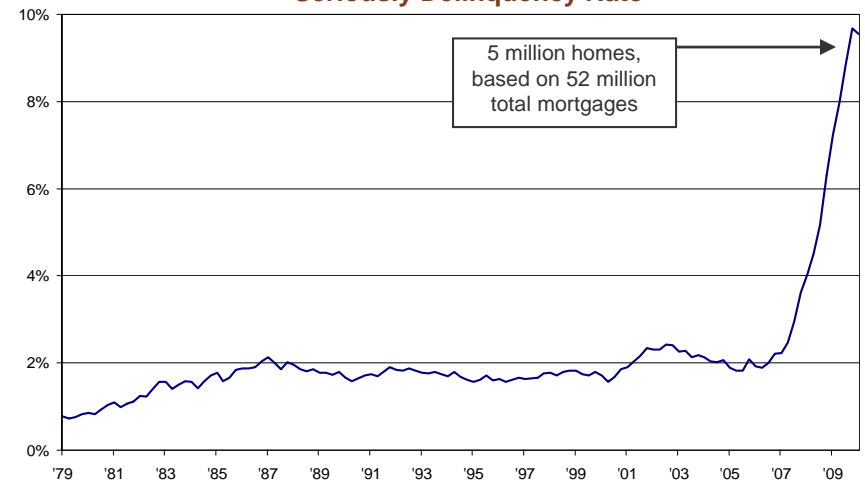
Rental Vacancy Rate



Vacant Homes Held off Market**



Seriously Delinquency Rate***

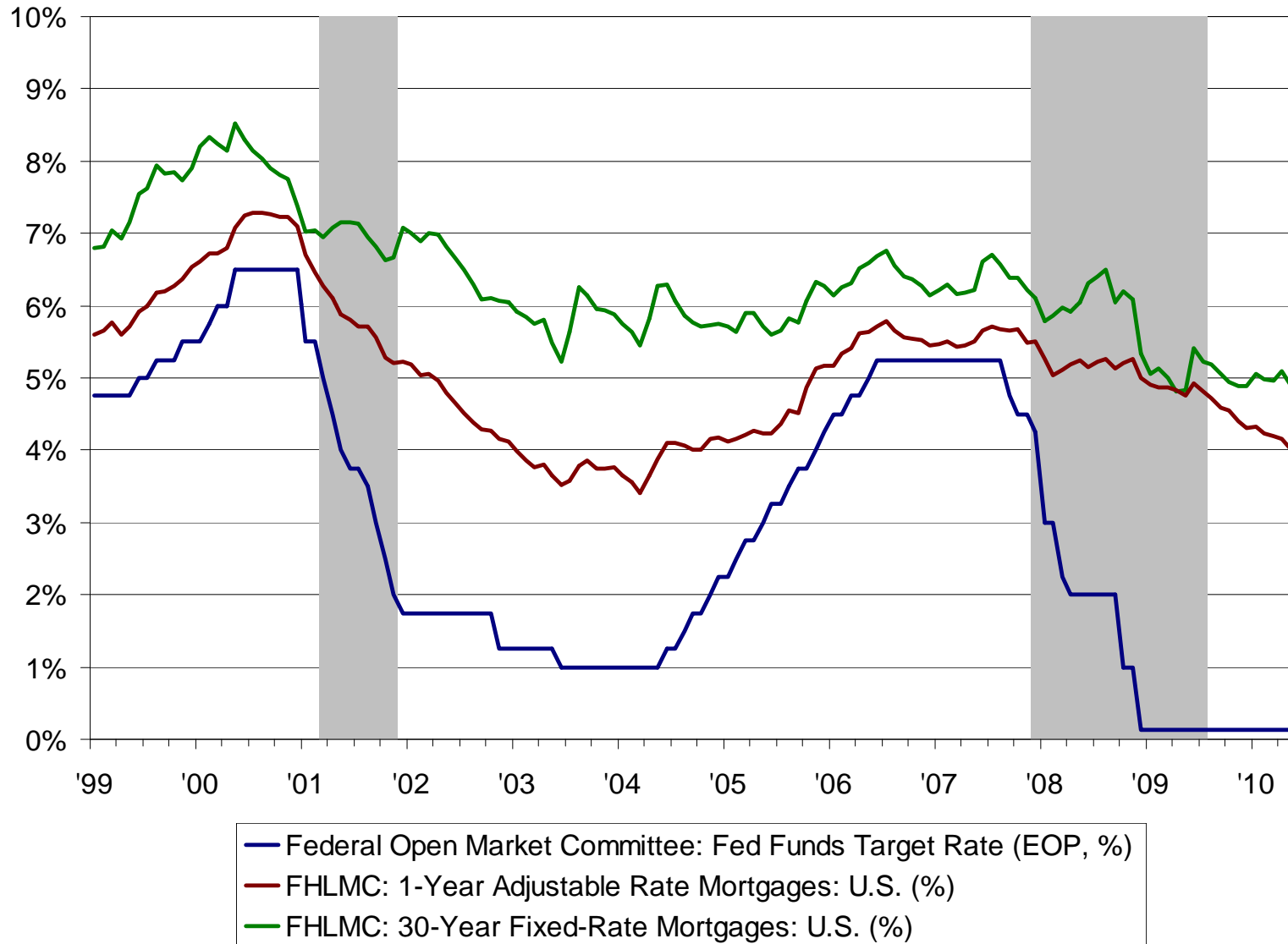


**for reasons other than for occasional use or temporarily occupied by persons with usual residences elsewhere

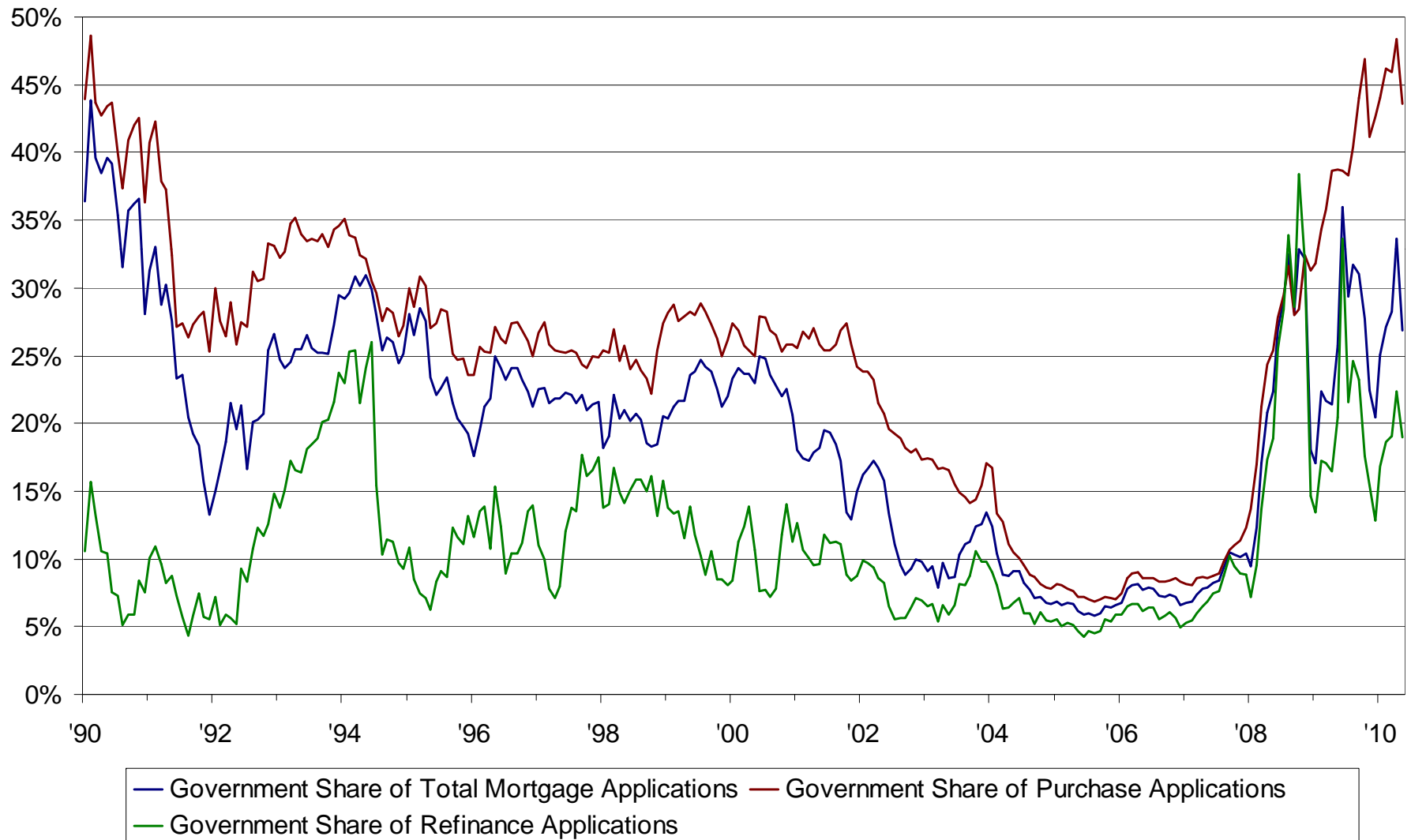
***the percentages of mortgage payments 90 days and over past due plus the percentages of inventory of mortgages in foreclosure

Mortgage Origination

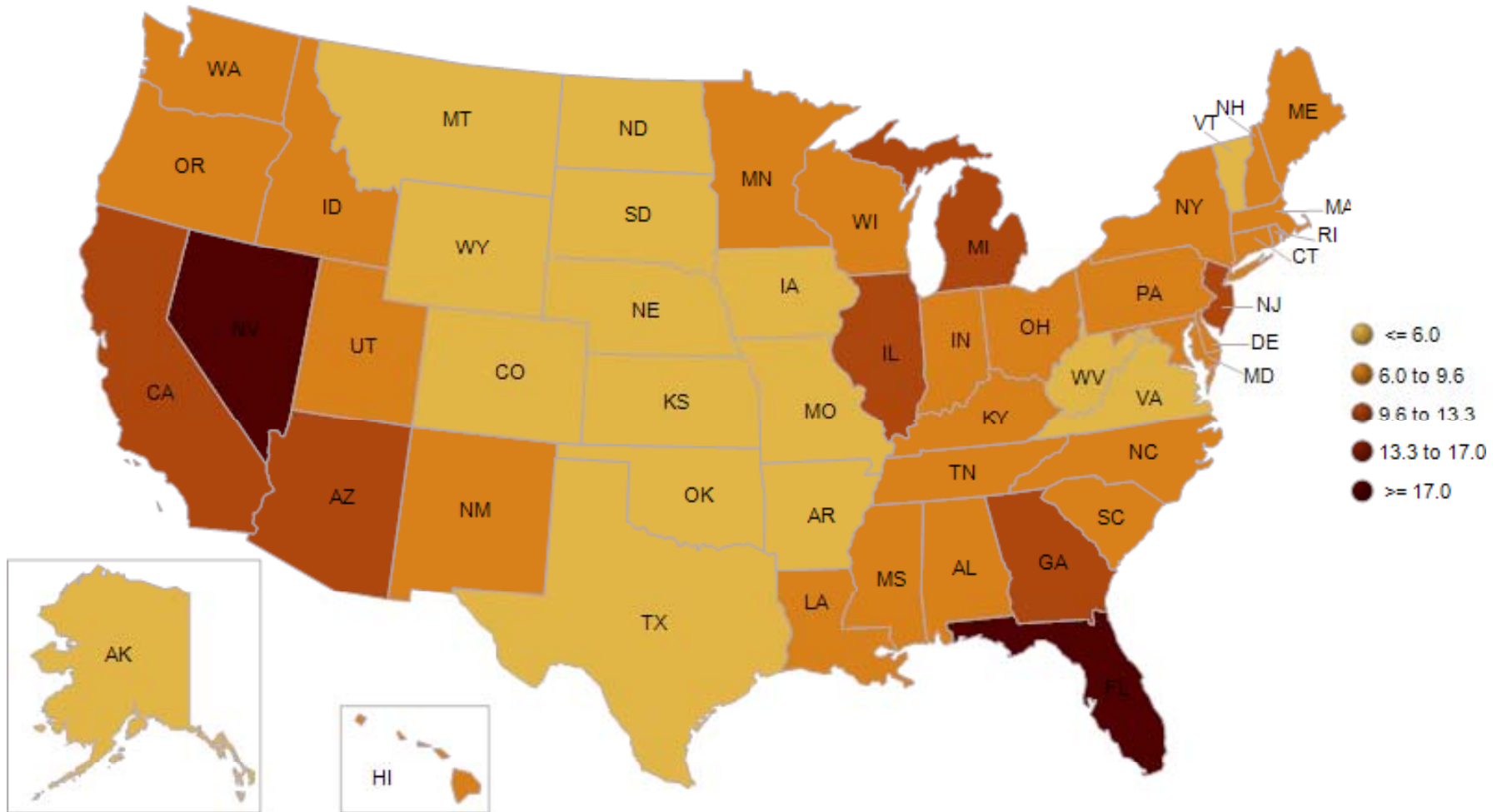
Mortgage Rates Are Still Good



Government-Insured Share of Purchase Applications is the Highest in Almost 20 Years



Serious Delinquent Rates in Each State – Q1 2010



Note: Data is market-wide SDQ information.

Sources: Mortgage Bankers Association, National Delinquency Survey

Safety, education most important considerations in home purchase

- Indicating there is a strong non-financial component to owning, based on a sense of security for your family – significantly stronger than any of the more economic considerations.

Is this a major reason, minor reason or not a reason at all to buy a home Showing <i>Major reason</i>	GP %	Delinquent %	Owner %	Mortgage %	Renter %	Underwater %	Hispanic %	African-American %	<\$25k %	\$25k-\$50k %	\$50k-\$100k %	\$100k+ %
It means having a good place to raise children and provide them with a good education	80	83	82	80	78	75	88	82	80	80	79	83
You have a physical structure where you and your family feel safe	79	79	82	81	75	81	83	80	79	81	80	74
It gives you control over what you do with your living space, like renovations and updates	71	67	73	72	70	71	70	70	67	74	74	69
Paying rent is not a good investment	63	66	63	72	54	69	61	50	53	65	70	71
Owning a home is a good way to build up wealth that can be passed along to my family	61	61	64	54	66	55	74	75	66	64	58	52
It is a good retirement investment	60	59	65	55	61	51	67	67	61	65	60	55
It allows you to select a community where people share your values	51	56	61	49	47	41	55	50	52	53	50	49
Owning a home provides tax benefits	47	58	45	51	45	50	51	50	42	46	50	54
Owning a home gives me something I can borrow against if I need it	35	41	39	30	37	30	47	44	42	37	30	28
It motivates you to become a better citizen and engage in important civic activities, such as voting, volunteering, and contributing to charities	30	36	39	25	28	26	45	37	33	32	28	22

Barriers to buying a house

- Poor credit and inability to afford a home prevent renters from buying, especially among lower income Americans
 - Many also refrain because they do not think it is a good time economically to buy

IF RENTER OR BOARDER: Is this a major reason you have not bought a house, minor reason, or not a reason at all <i>Showing major reason</i>	Renter %		Hispanic %		African-American %		<\$25k %	\$25k-\$50k %	\$50k-\$100k %	\$100k+ %
	2009	2003	2009	2003	2009	2003	2009	2009	2009	2009
You don't have good enough credit for a mortgage	54	39	55	47	59	42	63	45	45	47
You don't think you can afford the purchase or upkeep of a home	47	41	43	38	42	39	55	41	39	35
You don't think it's a good time economically to buy a home	41	NA	52	NA	40	NA	46	38	31	25
You don't think you will be in a certain area for an extended period of time	34	37	33	21	23	22	33	34	43	41
It is cheaper per month to rent than to buy	30	NA	39	NA	25	NA	35	25	26	23
The process of buying a home seems too complicated	25	13	44	21	22	25	29	26	15	11
Purchasing a home makes you feel like you will have limited flexibility in your future choices. Is this a major reason you have not bought a house?	23	NA	28	NA	22	NA	27	19	20	27
You don't want to be concerned with doing the upkeep	21	NA	29	NA	16	NA	24	18	19	20
You'd rather use the money for other investments than a home	21	NA	23	NA	16	NA	25	18	16	23
You can live in a better neighborhood by renting	17	NA	29	NA	13	NA	17	16	17	23

Buying a home is considered a safe investment

- Though 7 in 10 think buying a house is a safe investment, still one of the safest, this number is down 13 points from 2003.
- That number is just as high for Delinquents.
- Respondents with lower incomes think buying a home is a riskier investment than those with higher incomes.

Do you think this investment is...	GP %		Delinquent %	Owner %		Mortgage %		Renter %		Under water %	Hispanic %		African American %		<\$25k %	\$25k-\$50k %	\$50k-\$100k %	\$100k+ %
	2009	2003		2009	2009	2003	2009	2003	2009		2003	2009	2003	2009				
Showing <i>Safe/Risky</i>																		
Putting money into a savings or money market account	74/20	79/16	73/24	73/22	74/19	79/16	82/15	71/23	78/15	76/20	69/25	75/19	68/30	69/27	65/29	75/21	82/15	88/11
Buying a home	70/27	83/15	65/32	73/21	78/19	76/21	88/11	61/37	79/17	75/23	64/33	81/15	63/34	72/24	61/36	70/27	78/20	80/17
Putting money into an IRA or 401(k) plan	63/30	69/22	57/37	61/29	63/26	67/31	72/21	63/31	70/19	69/30	59/34	65/22	64/33	61/29	60/33	61/34	65/31	74/24
Buying government or corporate bonds	50/39	NA	47/38	52/36	NA	56/35	NA	44/44	NA	54/38	46/41	NA	47/43	NA	39/48	48/41	56/34	65/28
Buying an insurance annuity	50/31	NA	48/32	48/33	NA	49/32	NA	50/28	NA	48/33	46/34	NA	53/34	NA	47/33	51/29	51/31	56/29
Investing in a mutual fund	46/41	53/33	45/41	44/42	47/34	48/41	56/35	44/41	55/27	50/37	37/47	46/36	50/41	46/37	36/47	43/43	55/35	59/36
Buying stocks	17/76	25/68	12/81	19/72	28/63	16/79	23/73	18/76	24/63	16/80	18/73	25/62	24/69	29/63	17/73	17/78	16/80	18/80

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