

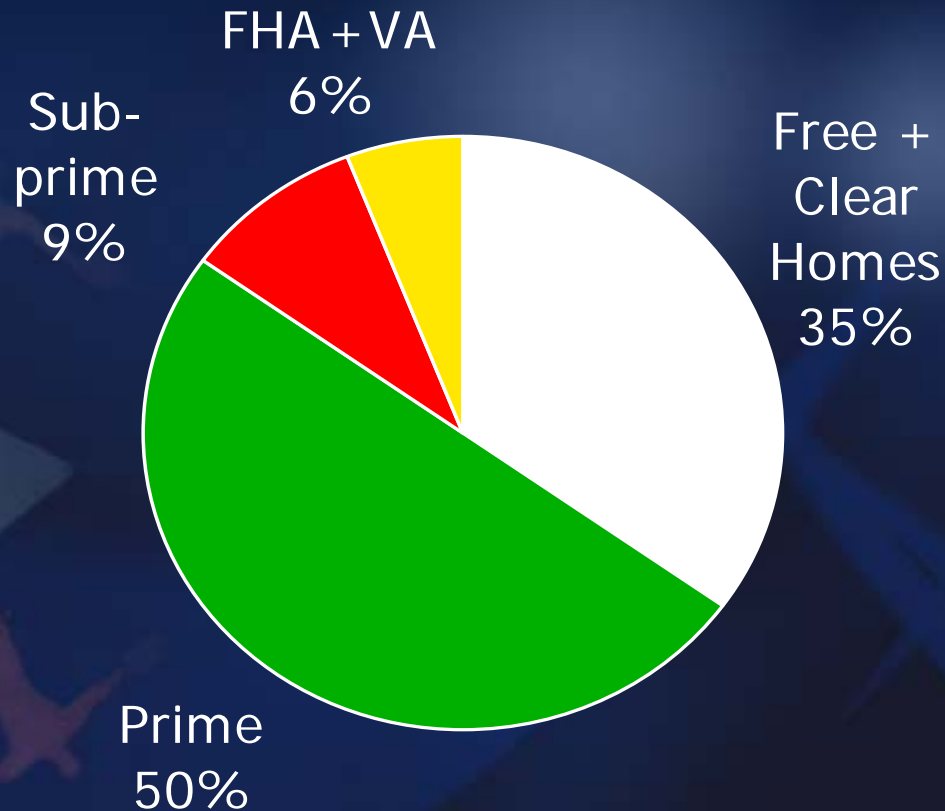
# After the Storm



# Subprime Loan Implosion

- Homeowners facing higher resetting rates and foreclosures
- Wall Street reassessing risk
- Sub-prime brokers desperate for Wall Street funding
- Potential homebuyers left out in the cold

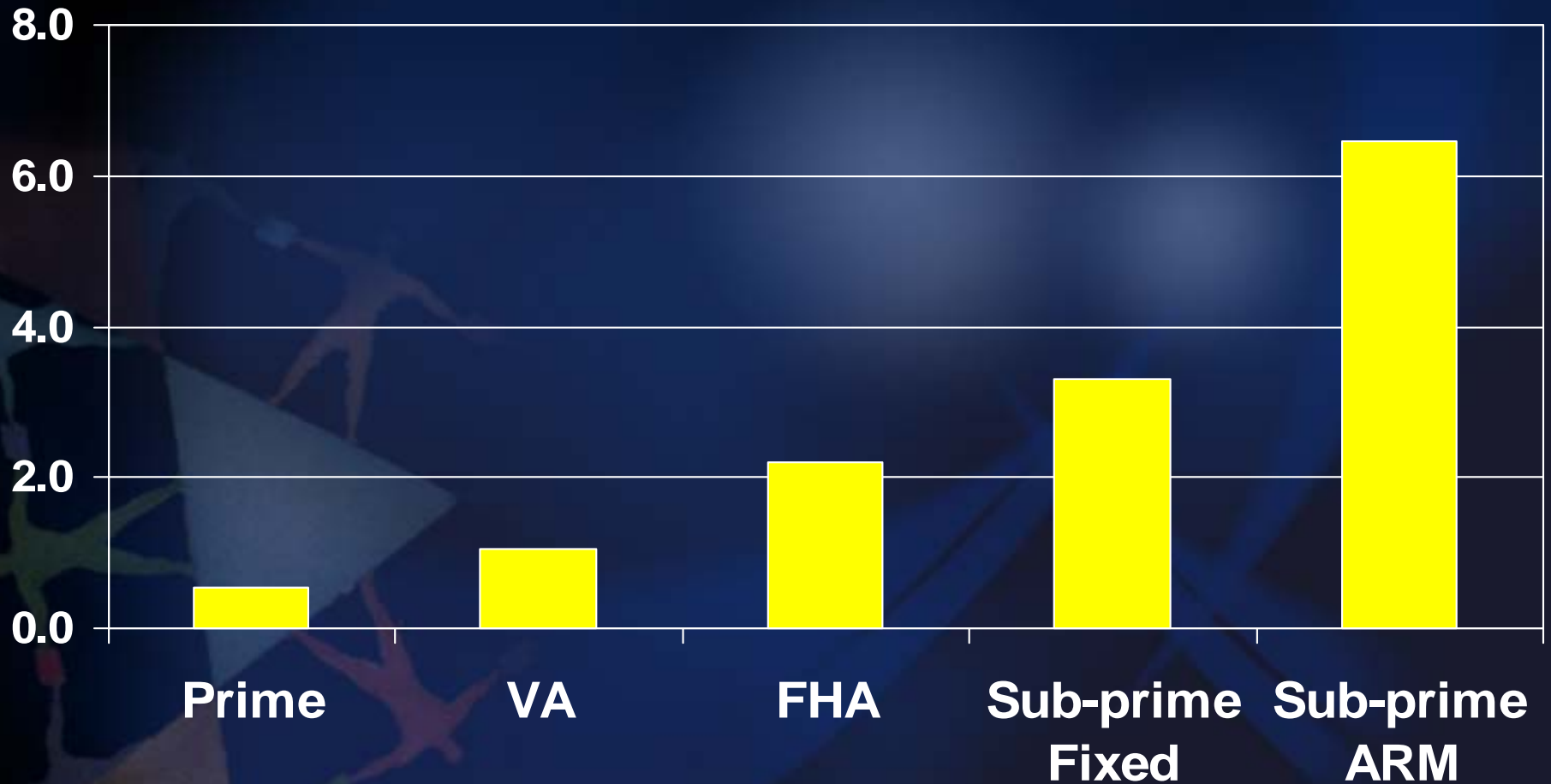
# Subprime Loan Exposure



Source: NAR Estimate

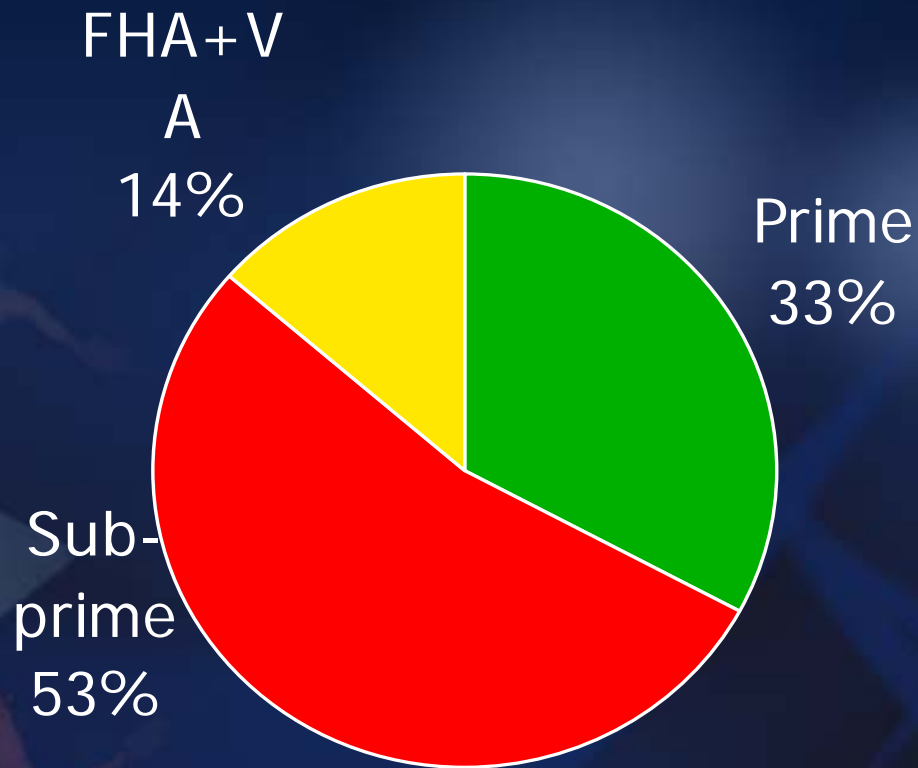
# Foreclosure Rates by Loan Type

## 2007 Q1



Data: MBA

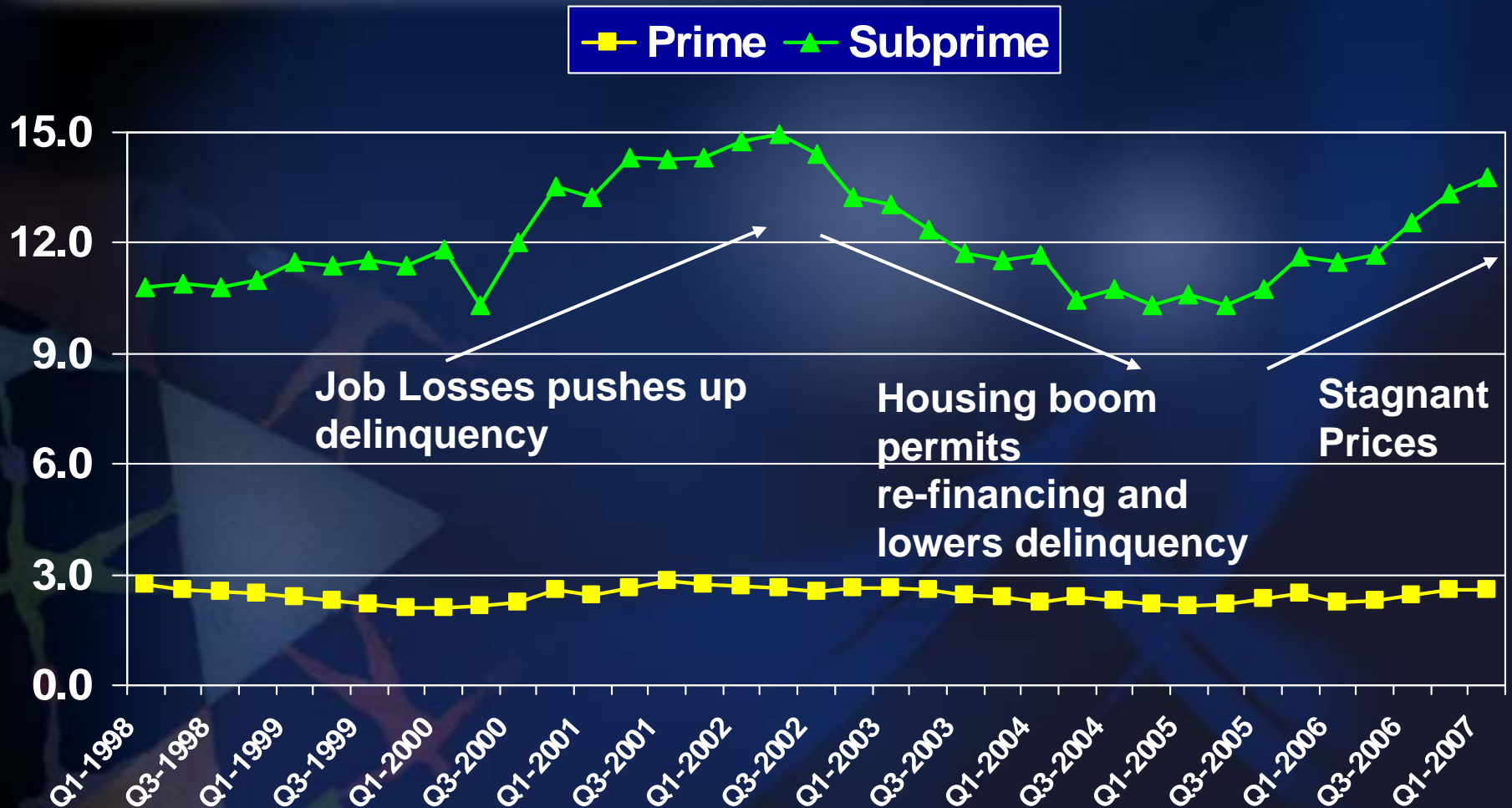
# Foreclosed Homes



Source: NAR Estimate

# National Mortgage Delinquencies

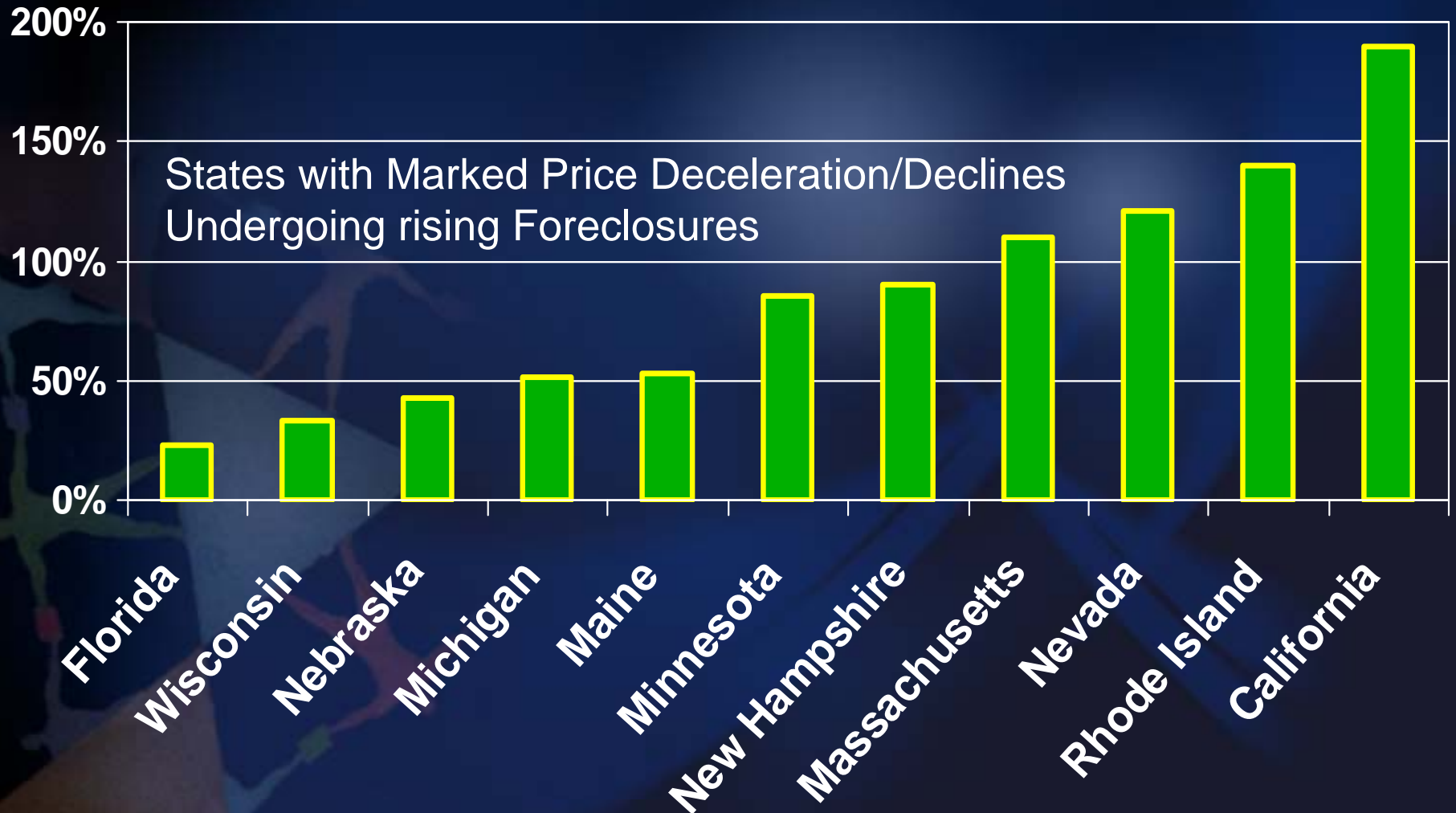
(Big swings for subprime; no real change in prime)



Data: MBA

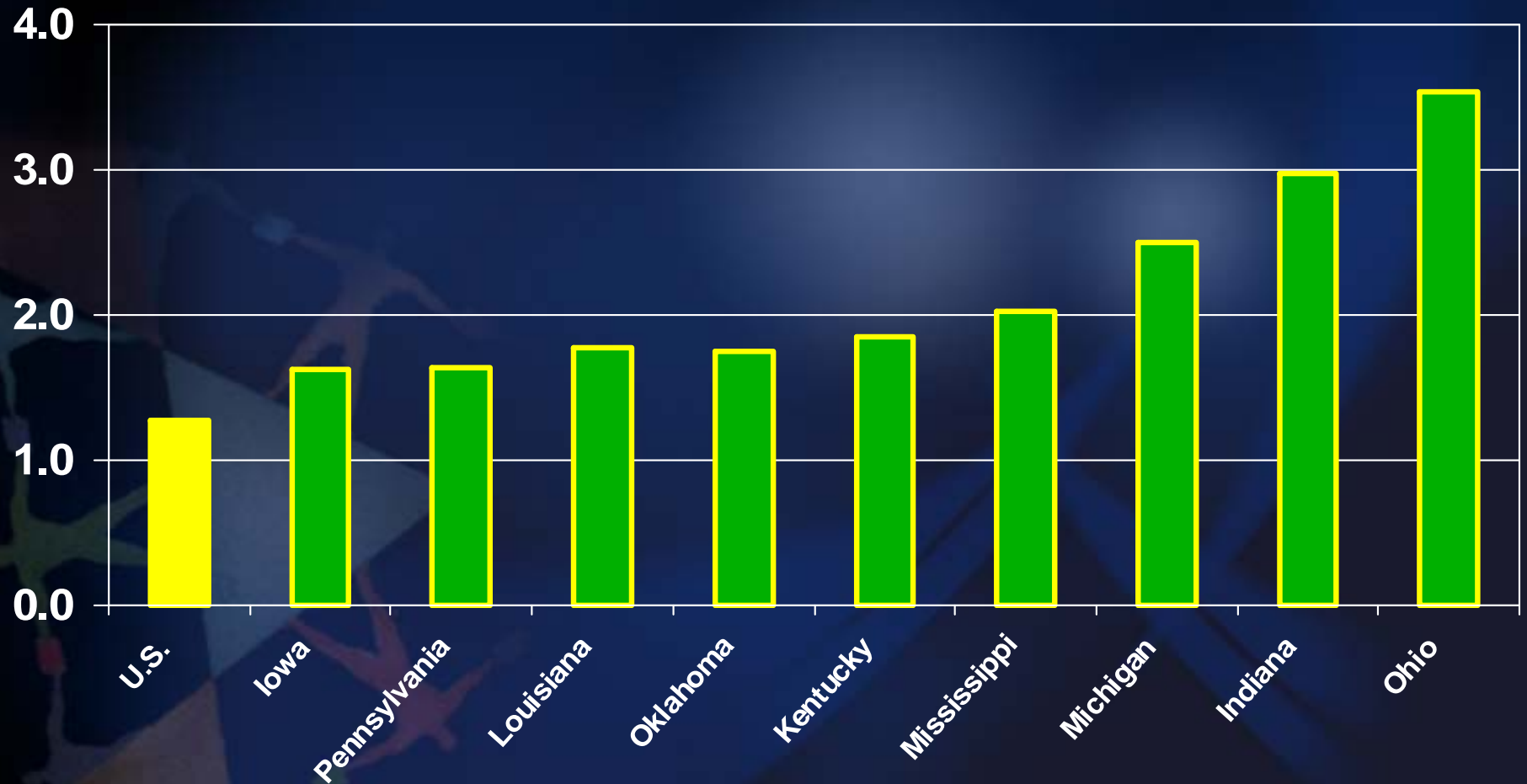
# Rising Foreclosures

Percent change in foreclosure rate in 2005 Q1 vs 2006 Q4



# High Foreclosure States

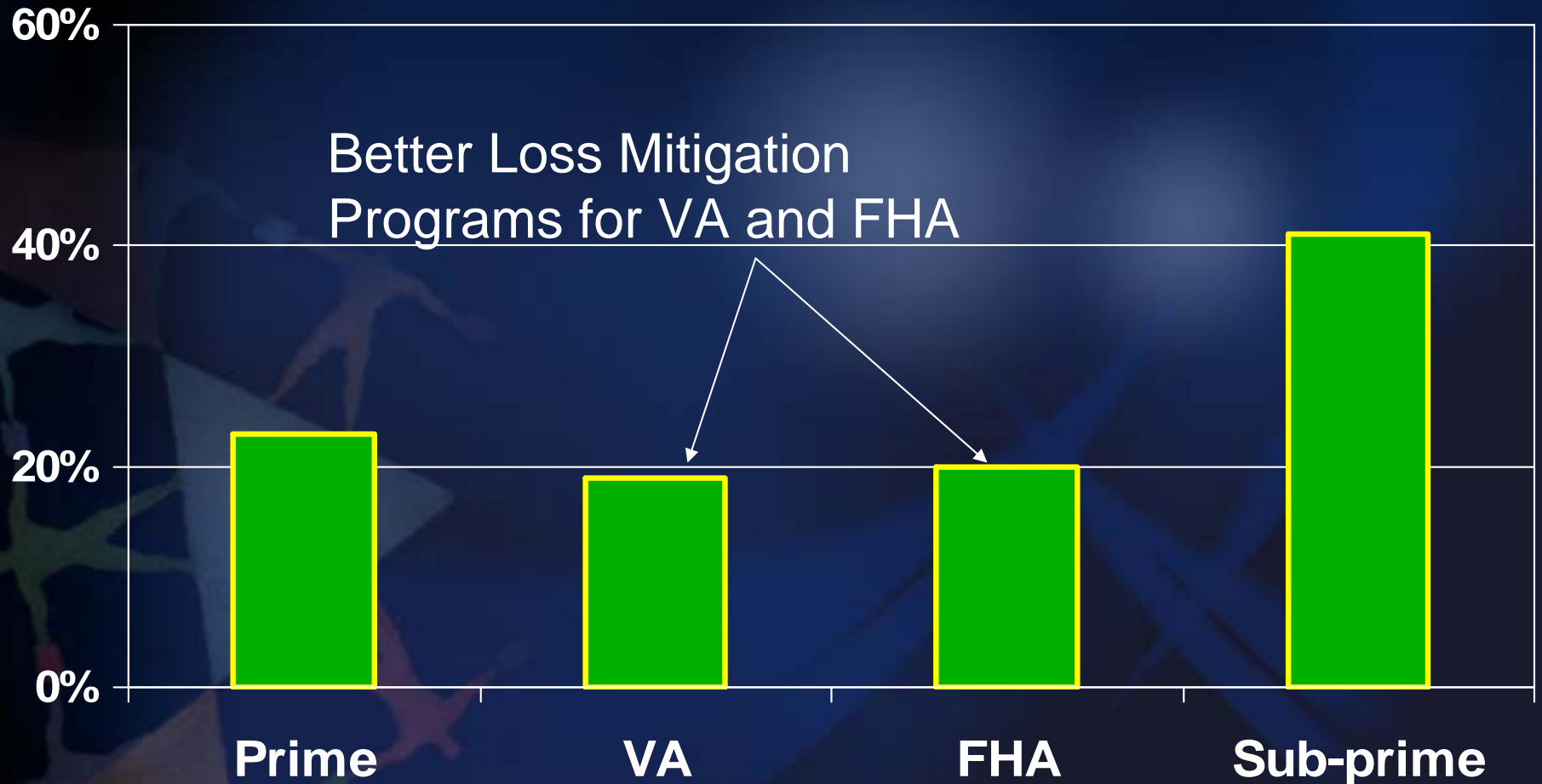
(2007 Q1)



Data: MBA

# Delinquency to Foreclosure

(Latest Foreclosure/Delinquency ratio)



# Not All Markets are Suffering ... States with Falling Foreclosures

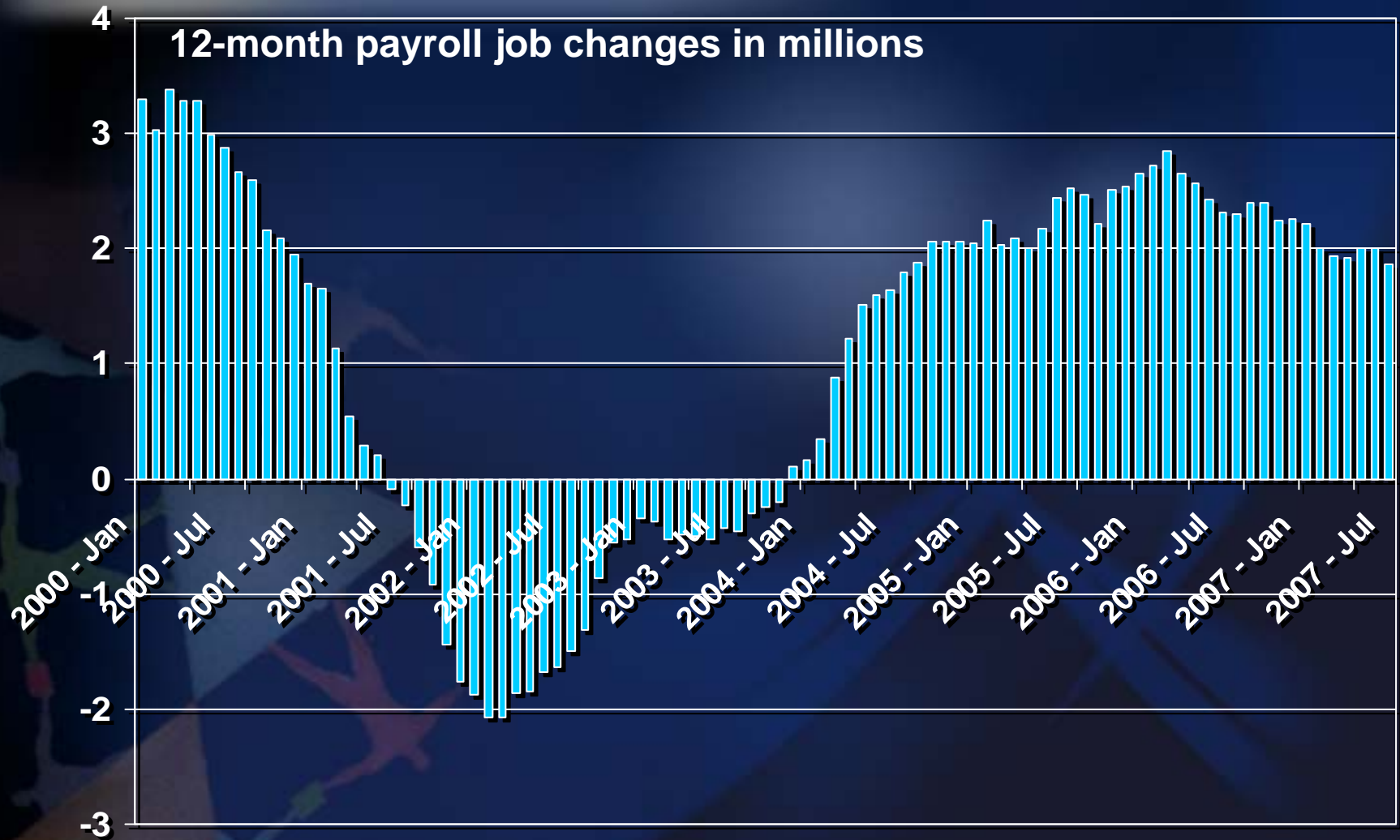
Percent change in foreclosure rate in 2005 Q1 vs 2006 Q4



# Healthier Future Market

- Job growth leads to accumulating and releasing of pent-up housing demand
- Cut back in new home construction thins out inventory and strengthen home prices
- Shift to “traditional” products
  - Reckless lenders going belly up
  - Wall Street tightening
  - FHA revival
  - Higher prevalence of fixed-rate mortgages
- Short-term Pain from lower home sales
- Long-term Gain from lower defaults

# Steady U.S. Job Gains Near 2 Million in Past 12 months



Source: BLS

# Wage Growth Picking Up



Source: BLS

# Aggregate U.S. Wages and Salary Disbursement



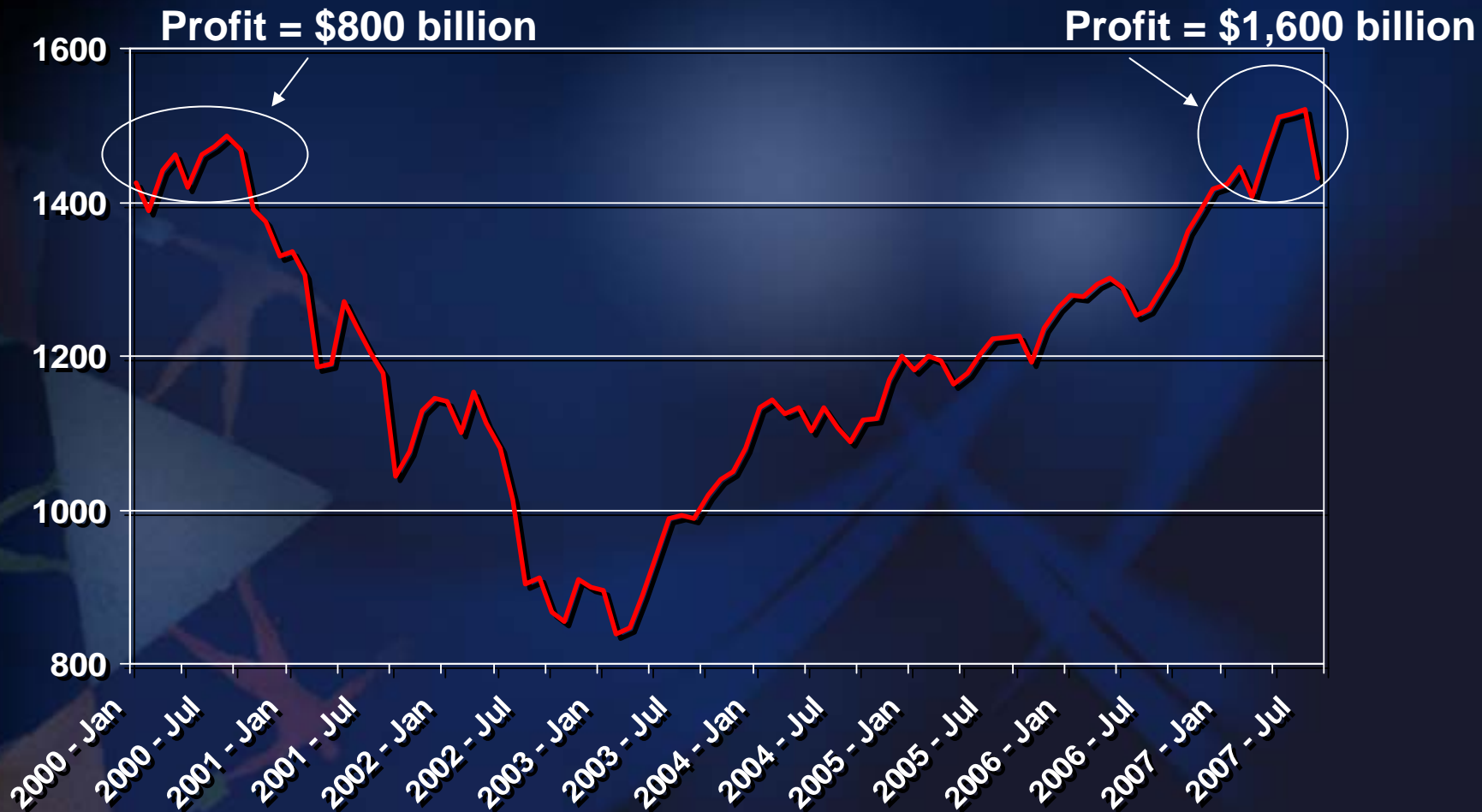
Source: BEA

# Corporate Profits – Record High



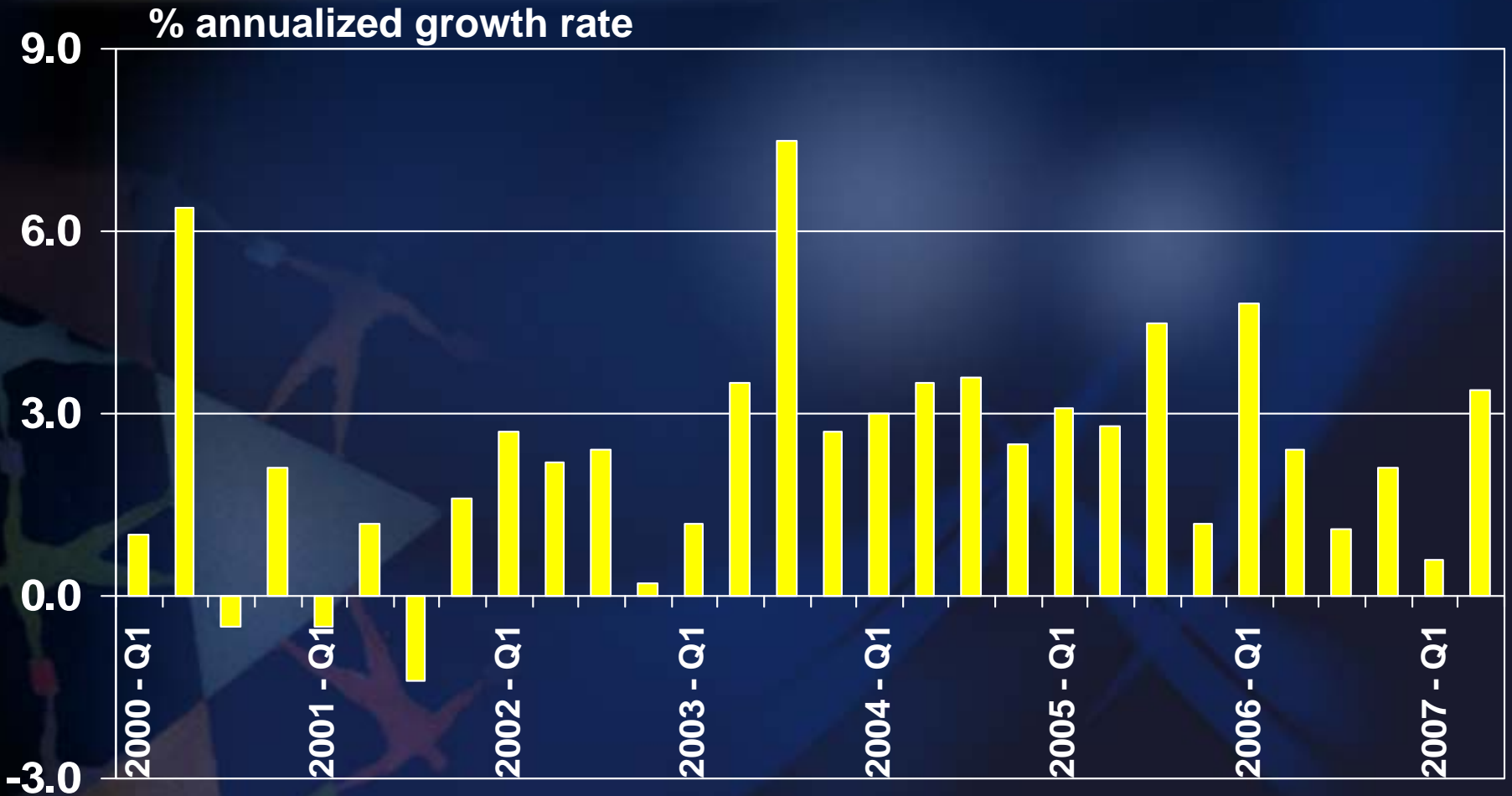
Source: BEA

# S&P 500 Index

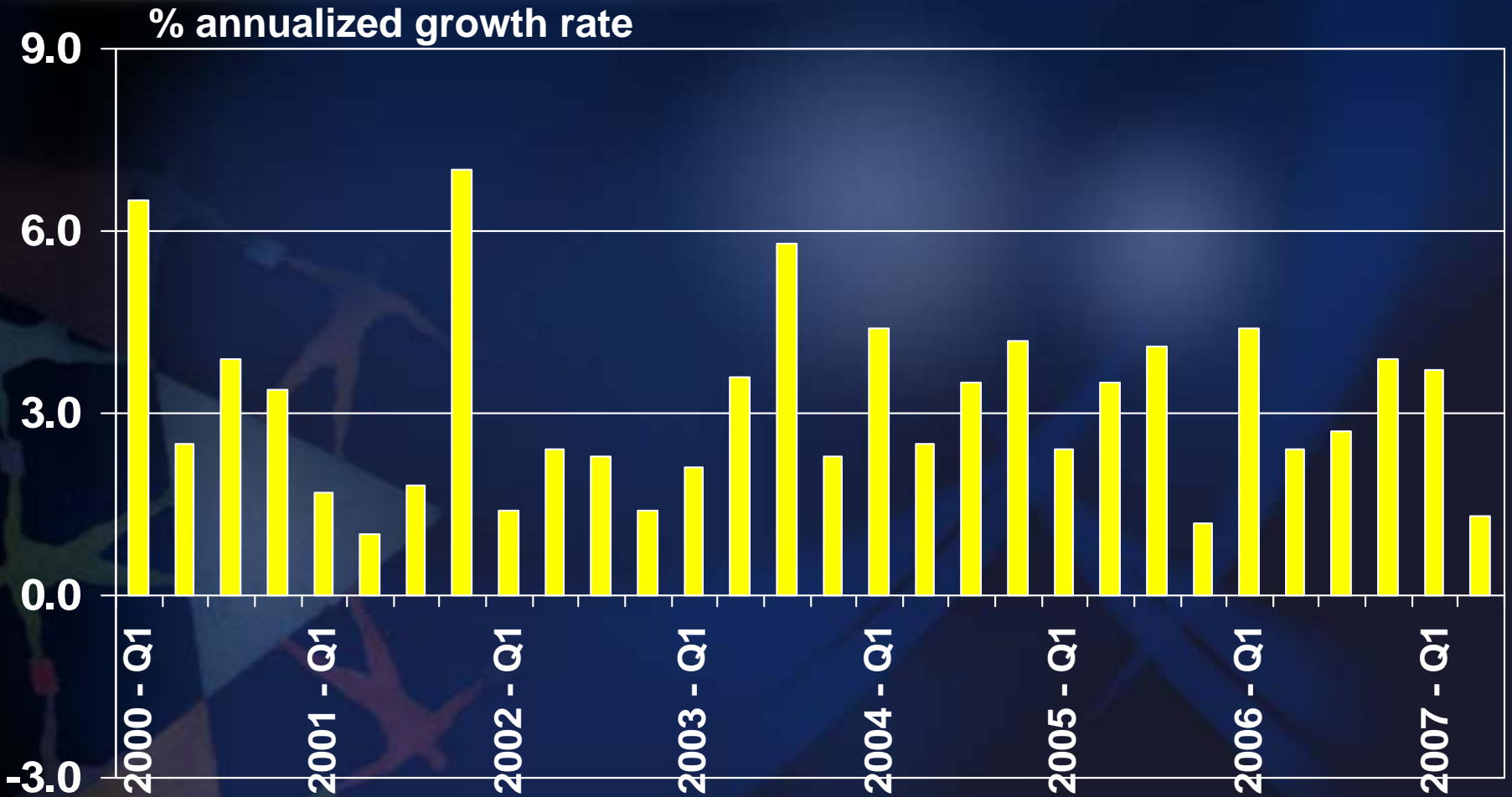


Source: NYSE

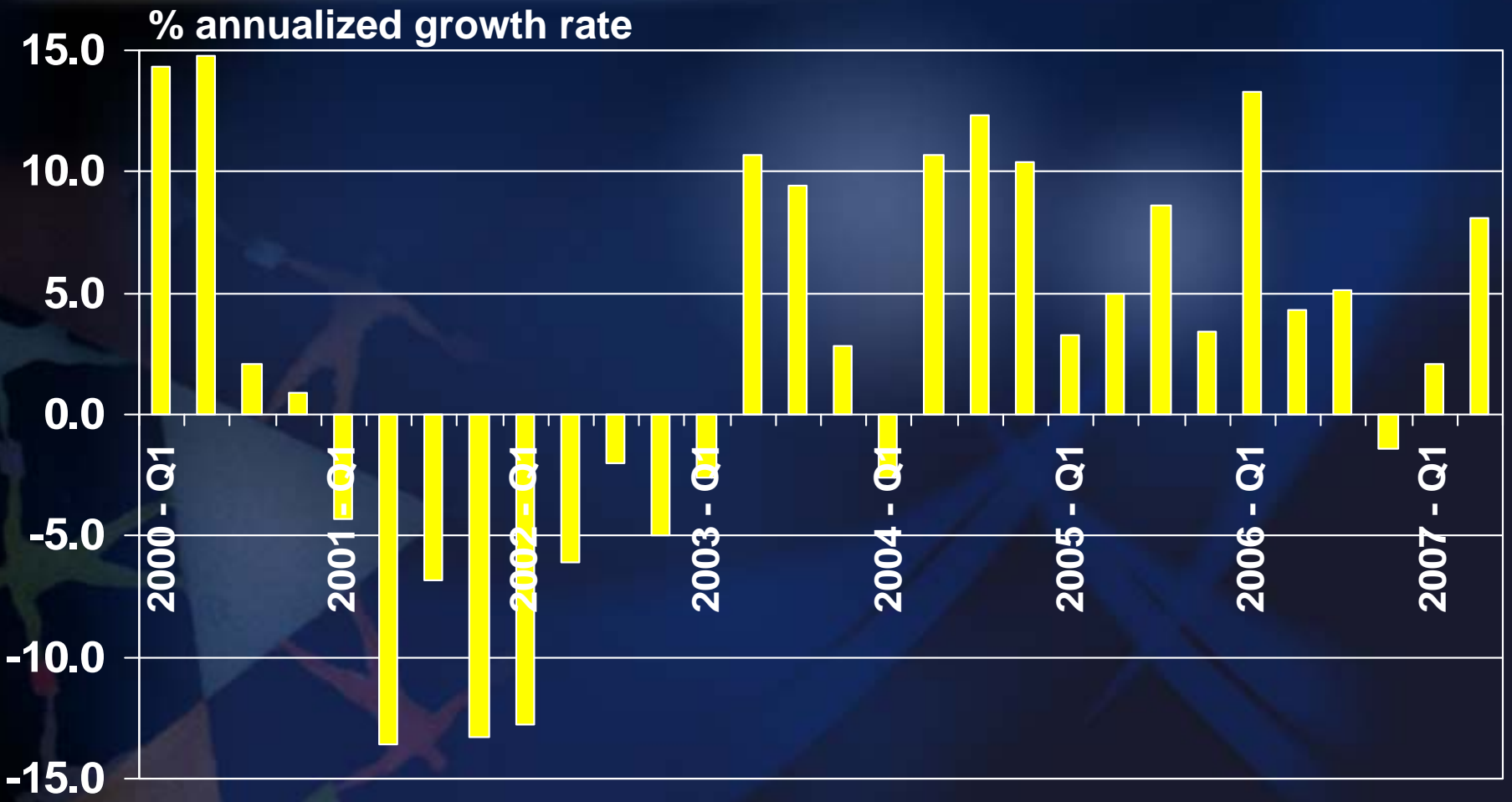
# Economic Growth



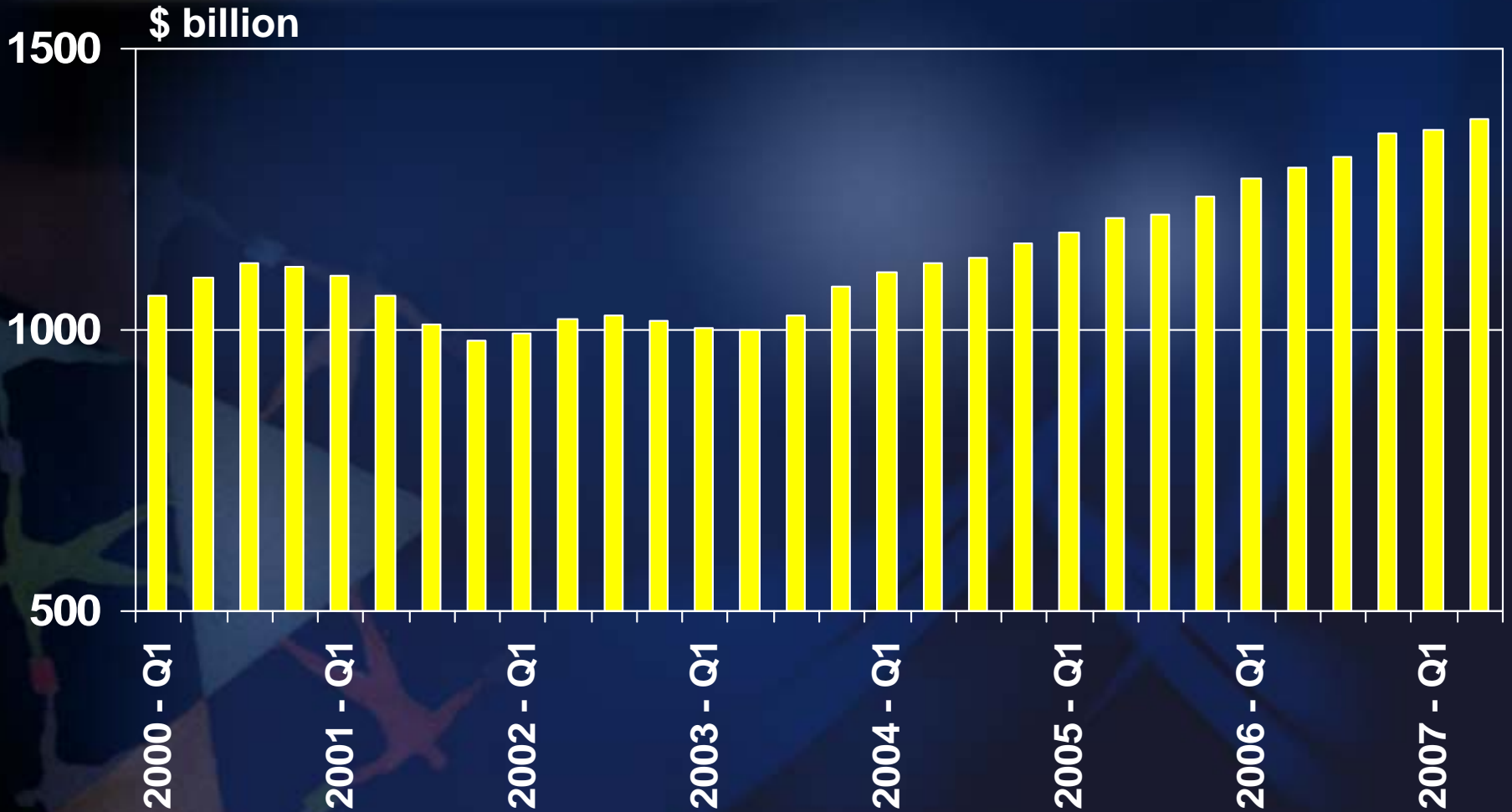
# Consumer Spending



# Business Spending



# Export Growth



# Worry Spot - Oil Price

\$ per barrel



Source: Wall Street Journal

# Economic Outlook

	2006	2007	2008
GDP	3.3%	2.0%	2.8%
CPI Inflation	3.2%	2.6%	2.4%
Job Growth	1.9%	1.5%	1.5%
Unemployment Rate	4.6%	4.6%	4.7%

**The Fed cuts rate in early 2008**

# U.S. Existing-Home Sales



Source: NAR

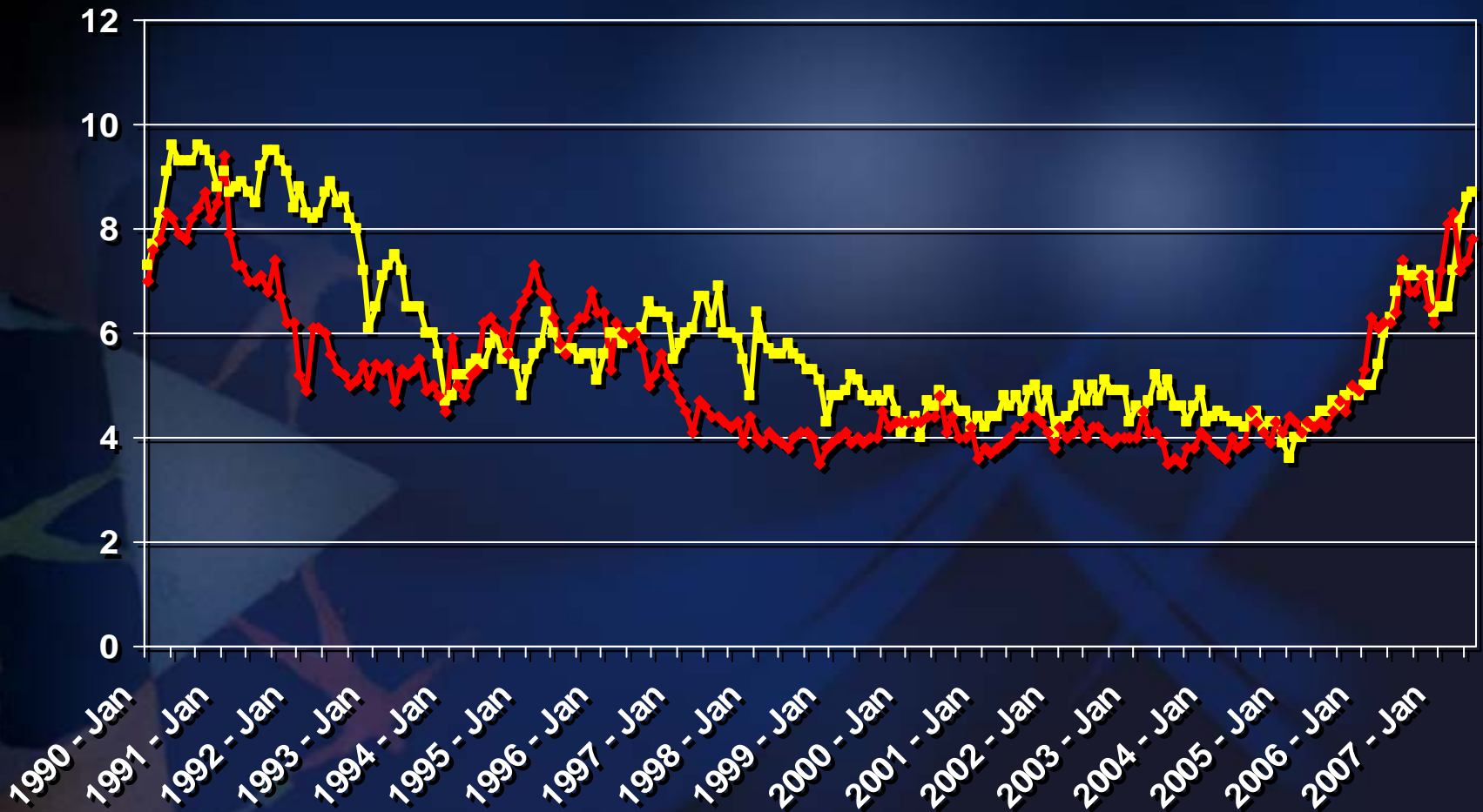
# U.S. New-Home Sales



Source: NAR, Census

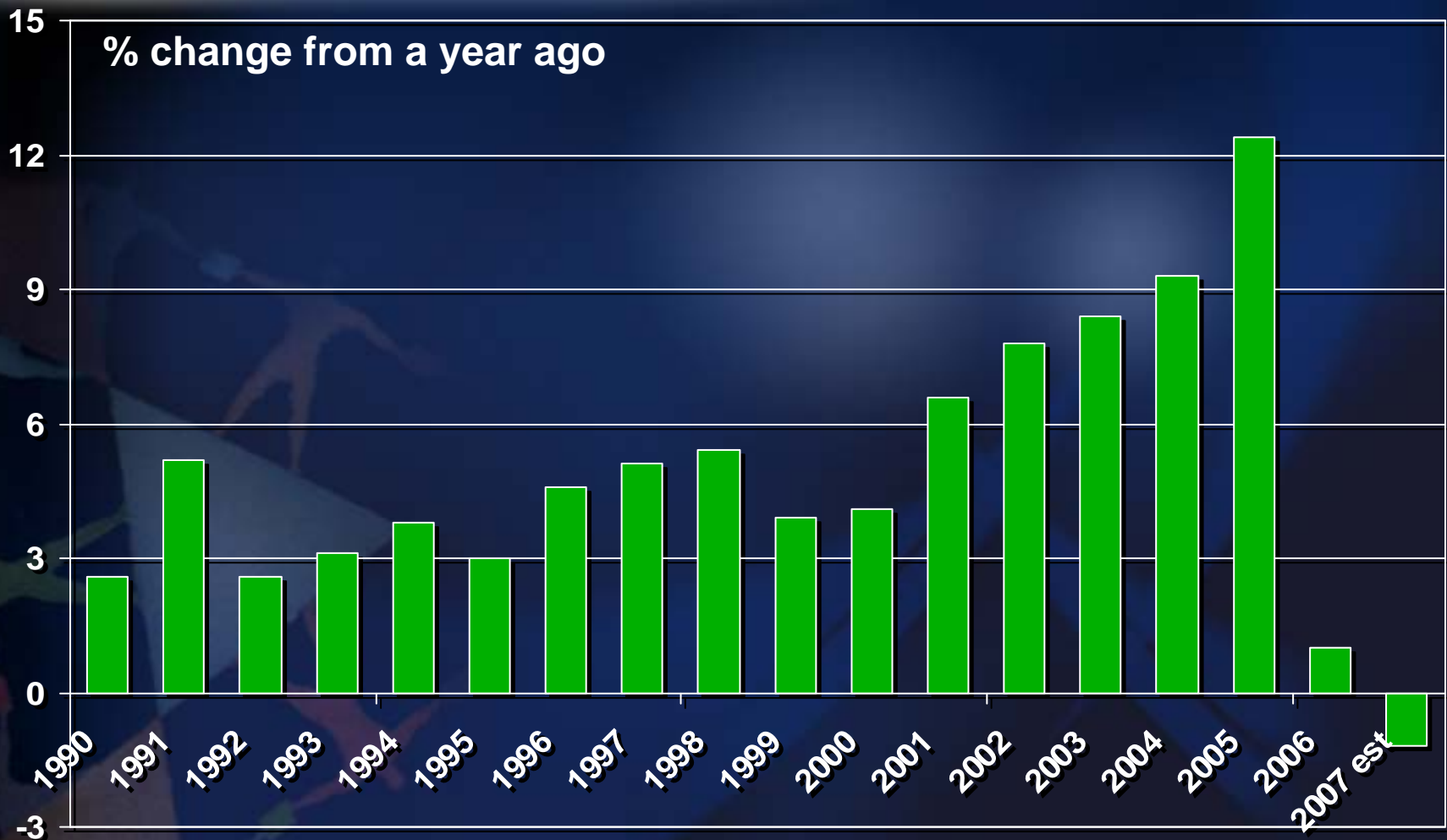
# Inventory of Homes

Existing New



Source: Census

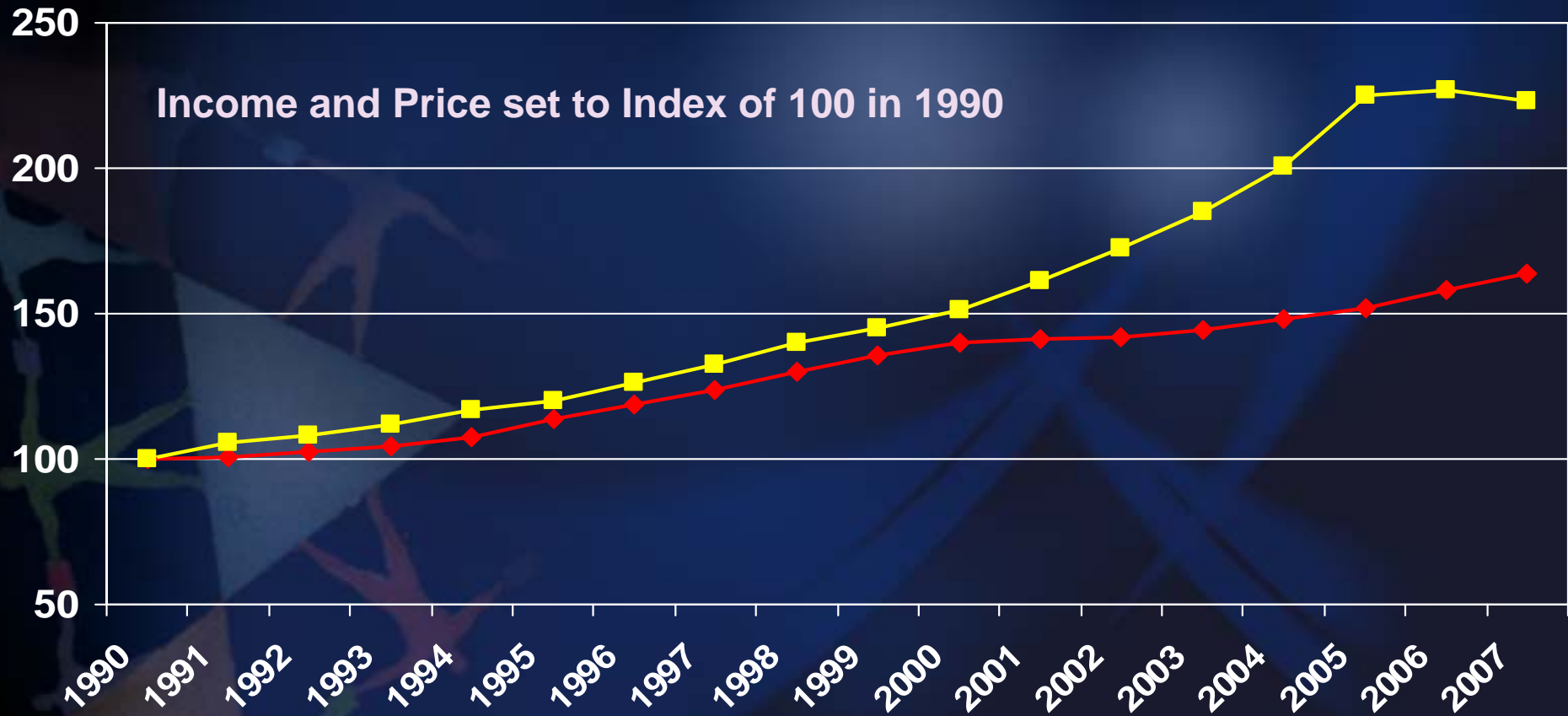
# Home Price Growth



Source: NAR

# Something appears Out of Whack!

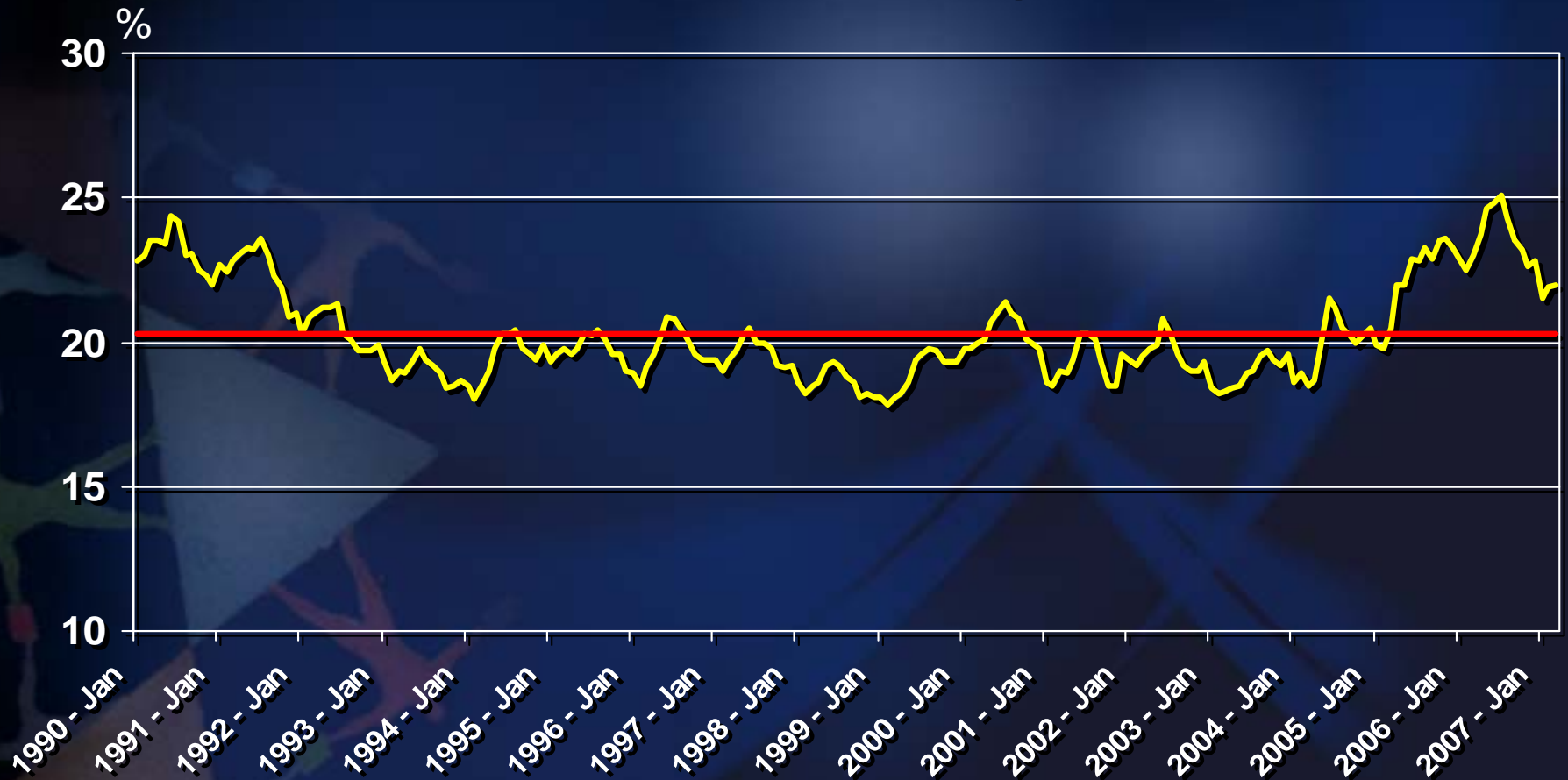
◆ Income    ■ Home Price



Source: NAR

# Mortgage Obligation to Income Manageable

— U.S. — Average



Source: NAR

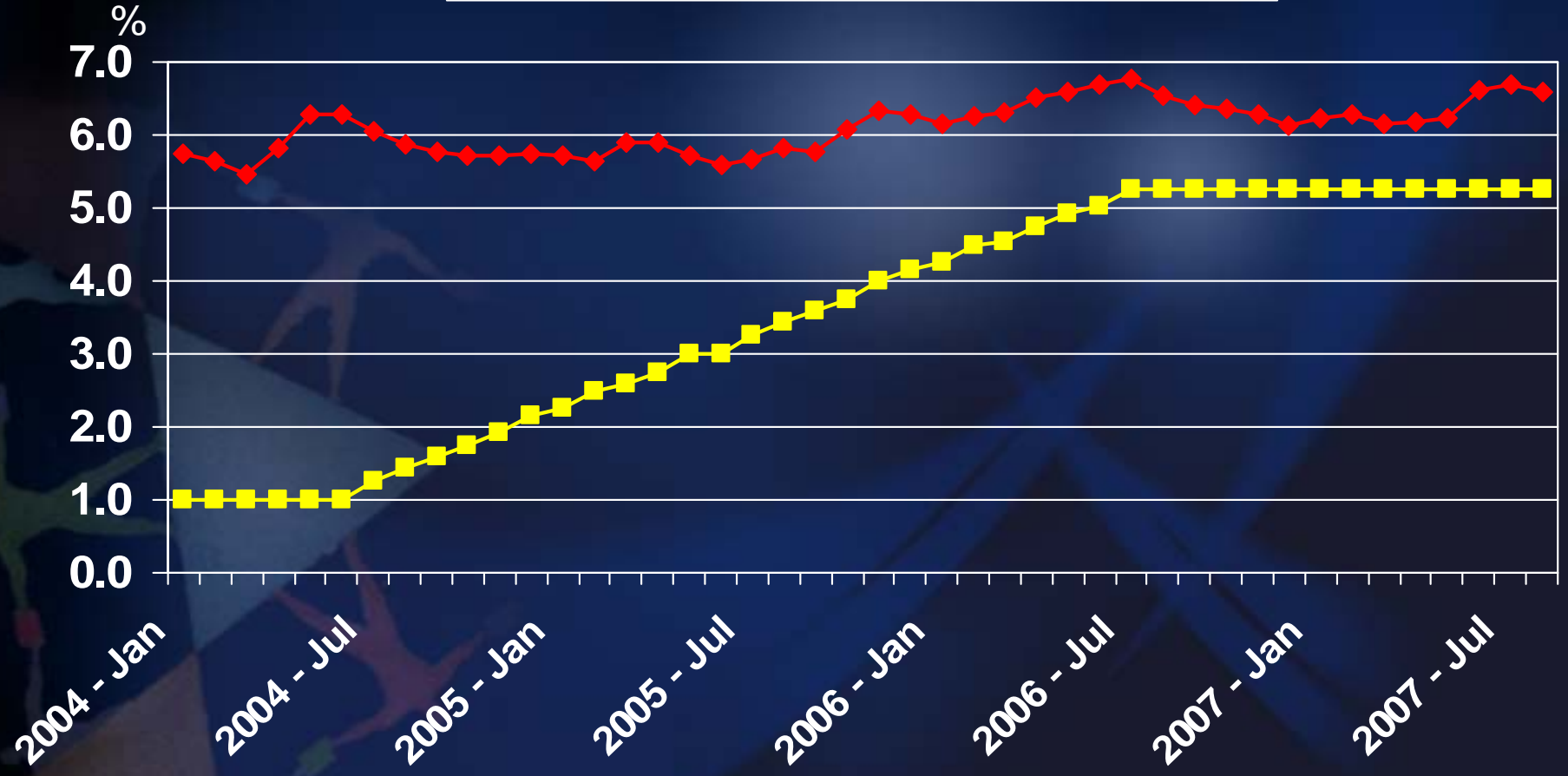
# Renters Getting Squeezed



Source: Torto-Wheaton Research

# Fed Controls on Short Rates Only

◆ Mortgage Rate    ■ Fed Funds Rate



Source: Freddie Mac, Federal Reserve

# House prices 'to soar 40 percent within next five years'

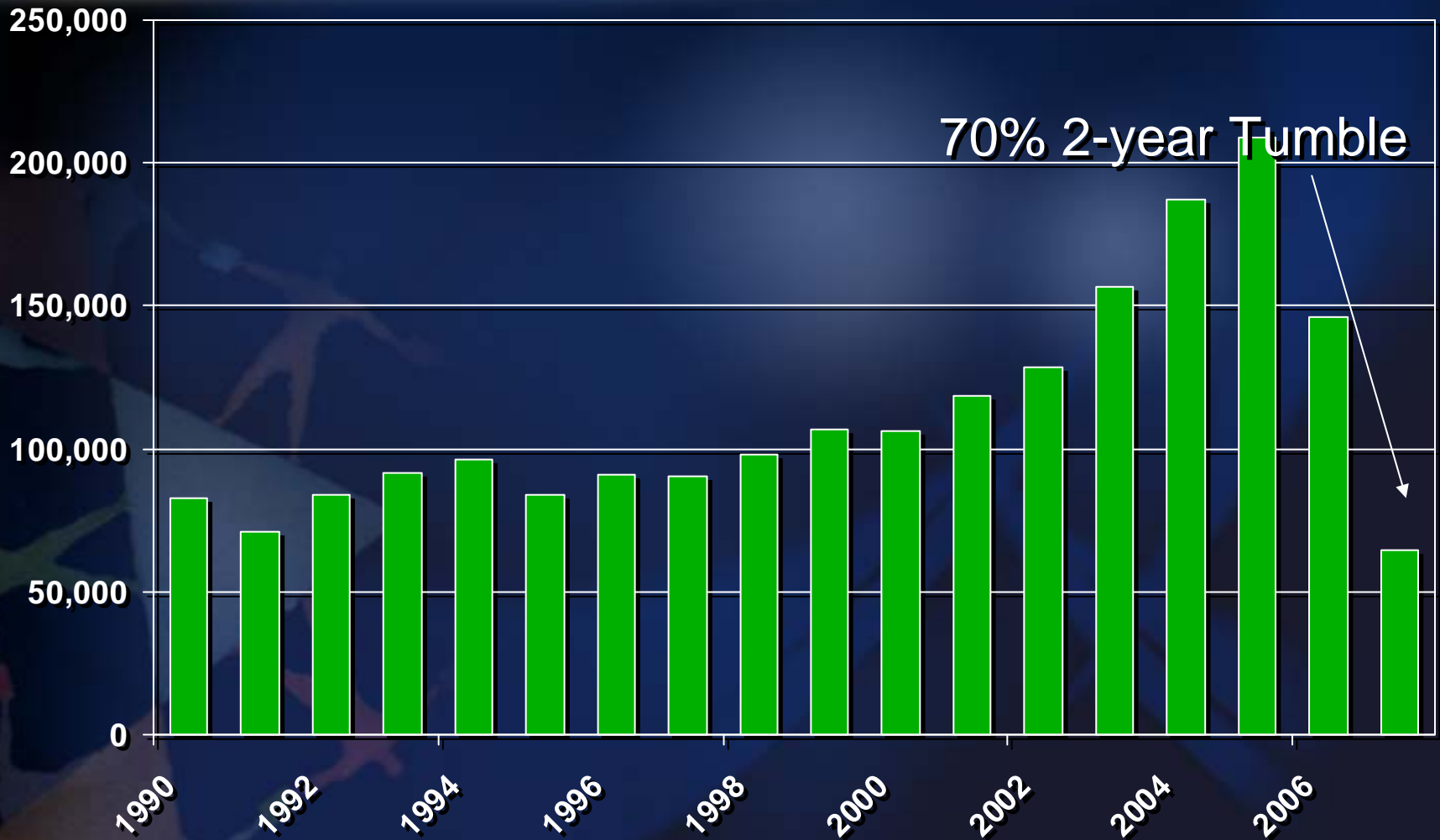
- News from National Housing Federation in U.K. ... August 2007
- U.K. home prices soared 156% past 10 years ... twice as fast as U.S. home prices
- Not building Enough Homes! Housing Shortage!

# U.S. New Single-Family Construction



Source: Census

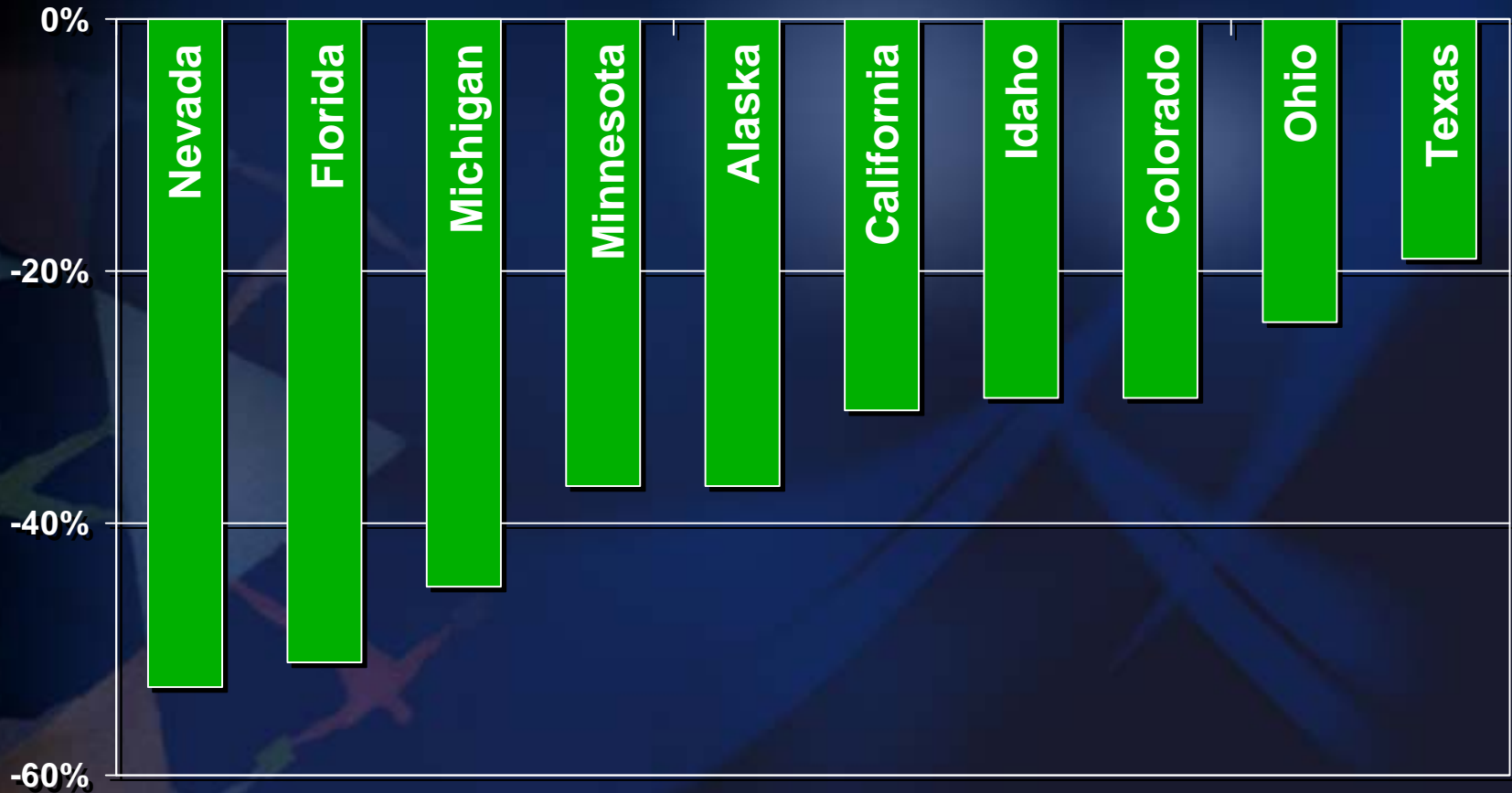
# Florida New Single-Family Construction



Source: Census

# States with Sharp Construction Contraction

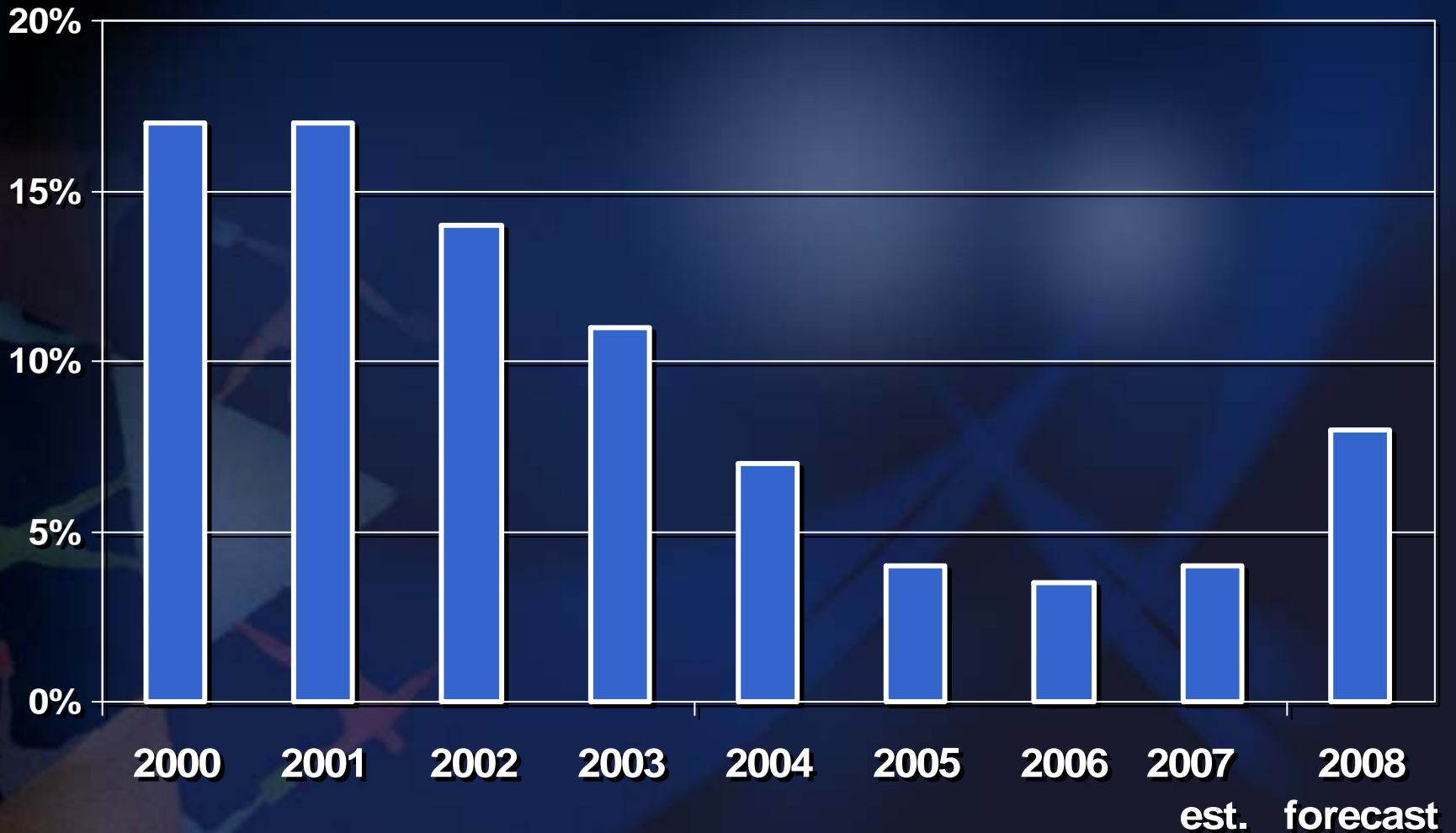
(YTD May 2007 vs YTD May 2006)



# Buyers Lining Up ?

	2005	2007	Difference
Total Home Sales	8.4 million	6.9 million	- 1.5 million
Subprime Loans	1.6 million	800,000 (?)	- 800,000
Jobs	133.7 million	138.0 million	+ 4.3 million
Wage + Salary	\$5.7 trillion	\$6.4 trillion	+ \$700 billion
Household Wealth	\$52 trillion	\$57 trillion	+ \$5 trillion
Home Prices	\$219,600	\$219,300	- \$300
Mortgage Rates	5.9%	6.5%	+ 0.6% points

# FHA Market Share for Home Purchase



Source: HMDA, NAR estimate

# National Housing Outlook

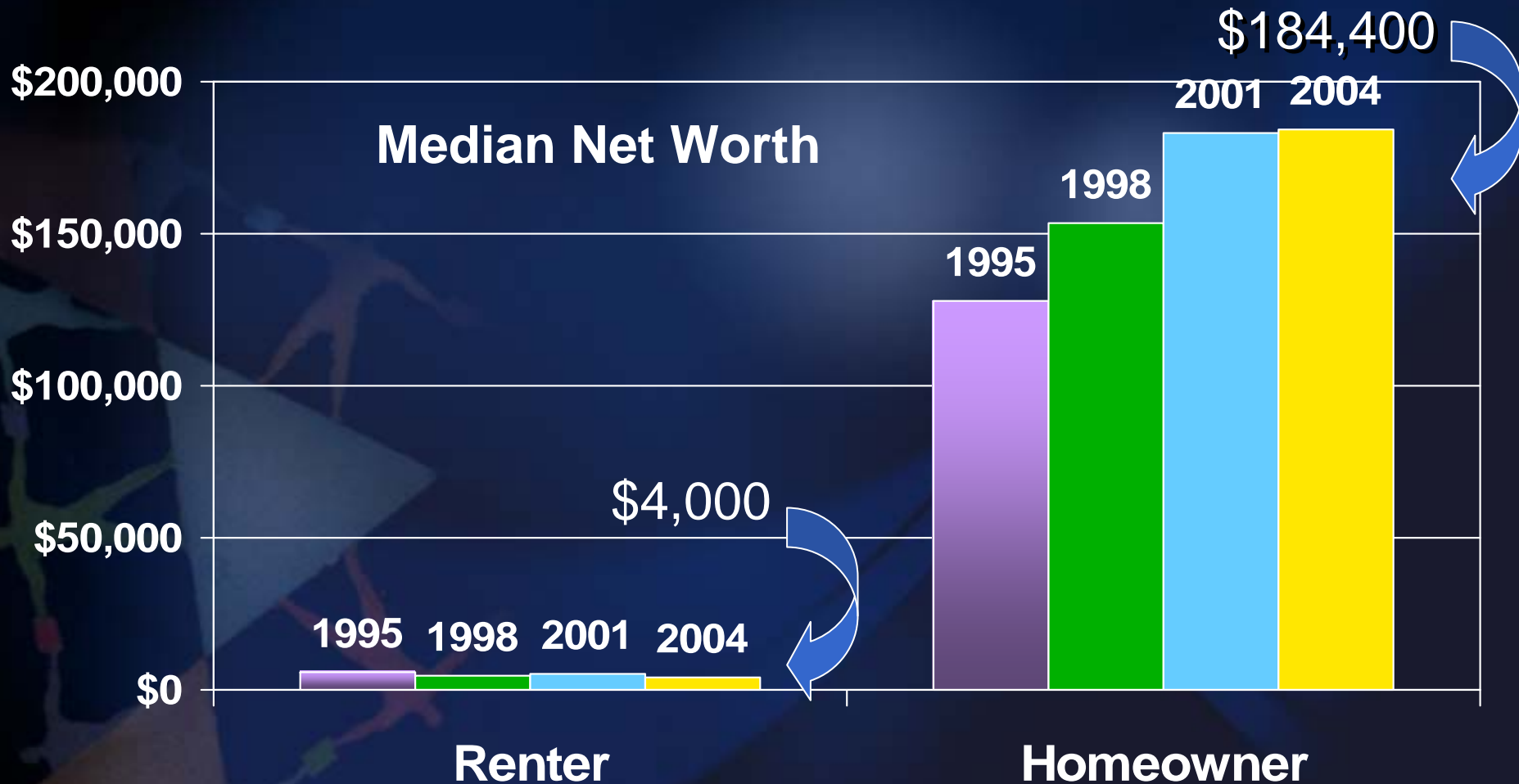
	2006	2007	2008
Existing-Home Sales	6.48 million	6.04 million	6.38 million
New Home Sales	1.05 million	0.85 million	0.85 million
Housing Starts	1.80 million	1.43 million	1.40 million
30-Year FRM	6.4%	6.5%	6.6%
1-Year ARM	5.5%	5.5%	5.2%
Existing-Home Price Growth	1.0%	-1.2%	2.0%

# Median Home Price in Los Angeles



Source: NAR

# Best Evidence: Household Wealth Accumulation



Source: Federal Reserve