

Preem (B)

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- Back in 2001, agencies such as Fannie Mae & Freddie Mac's motto was: "Our business is the American Dream"
- Average pricing rose steadily since 1985

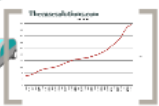
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American Housing and Global Financial Turmoil

• Housing market has been down since the start of the 2008 financial crisis and has been expected to keep falling until 2010

• Global financial crisis has led to a credit crunch and a global recession

• The housing market is expected to remain weak through 2010



Home Finance Reform 17%

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• "National Debt Relief" will help homeowners who are struggling to pay their mortgage

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Innovation in Mortgages

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- The mortgage market is expected to remain weak through 2010
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Changes in the Secondary Market for Mortgages

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Global Financial Market

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Thank you

How to reduce pain from Foreclosures

- Investor oppose "giving break" to people who could afford the reset
- Provide new government loan or grants
- Reduce mortgage payments
- Regulating the mortgage industry itself
- Aim strengthening 1994 Law "HOEPA"
- Financed by debt and add some equity
- Creditors unwilling to finance property. They prefer "rent"
- Increase the fraction of the home's appreciation

For Renters at their own risk

• Renters are at their own risk

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• Renters are at their own risk



How small size losses cause turmoil

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- Small size losses cause turmoil
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The Rise in Foreclosures

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• The rise in foreclosures is a result of the housing market crash

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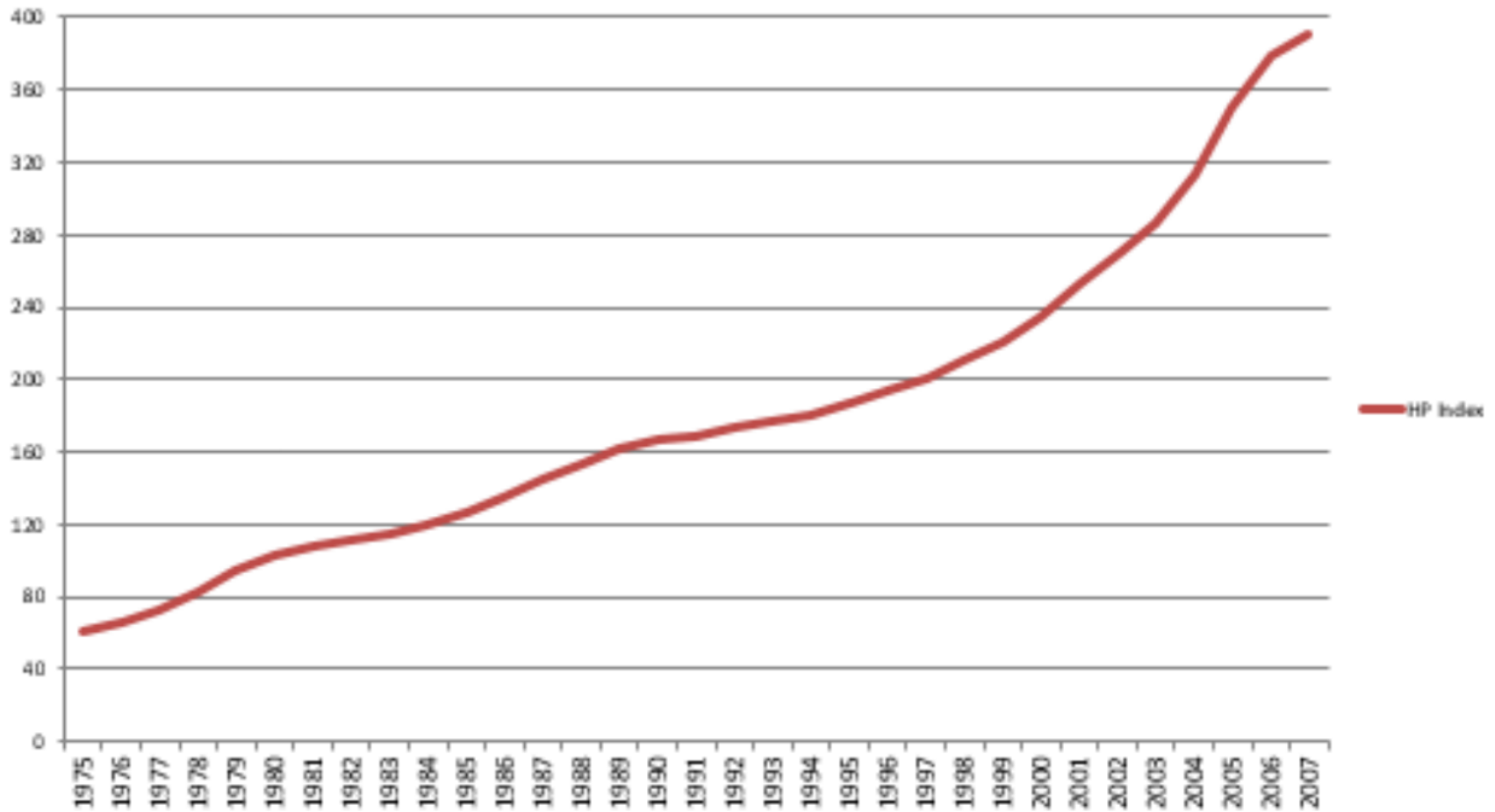


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- Back in 2001, Agencies such as Fannie Mae (a GSE) had a bully feeling about the housing market
- Fannie Mae's motto was "Our Business is the American Dream"
- Average pricing house grew steadily since 1975

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HP Index



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American Housing and Global Financial Turmoil

- Predictions coming from Dean Baker, the co-director of the Center for Economic and Policy Research claimed a housing bubble ready to burst with potential losses of 2-3 trillion.
- Others explained the housing prices to be a product of the low interest rates
- Developers were contradicted. One of them , Bob Toll disagreed. He said, “ Why can’t the real Estate just have a boom like every other industry? Why do we have to have a bubble and then pop?”

Home Finance Before 1990

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- “Traditional” Fixed 30 year mortgage
- Saving and Loan Association (S&L)
 - HOLC
 - After WWII Banks and S&L started creating 30 years Mortgages. It eventually resulted in the S&L crisis from 1980
 - Creation of GSEs (1938 and 1970)
 - Government cap loans at \$417,000.00 for GSEs (2006)
- Credit Problematic people would apply to lenders insured by FHA.

Innovation in Mortgages

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- In the 1990s new firms started borrowing to sub prime lenders.
- List for these type of lenders went from 63 in 1993 to 205 in 2005.
- Subprime has higher interest rates and fees.
- Subprime required less documentation. Loans were based on “stated income” and “stated value”
- Arms Loans – teaser rates

Changes in the Secondary Market for Mortgages

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1995	28% of subprime loan were sold in the secondary market
2005	73% of mortgages classified as having high interest rate were sold
2006	Total US residential mortgage debt was \$11 trillion



The Rise in Foreclosures

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Foreclosure is a legal process in which a lender attempts to recover the balance of a loan from a borrower, who has stopped making payments to the lender, by forcing the sale of the asset used as the collateral for the loan.

