

July 18, 2007

## Overview:

- Concerns about the credit quality of the subprime mortgage sector have pushed spreads in that area up to record highs. Thus far there are no real signs of contagion into the rest of the economy, and overall economic growth accelerated modestly in the second quarter.
- Housing activity weakened further in May, with unsold inventories remaining near record highs. Moreover, several of the leading indicators of home sales suggest further weakness.
- There was no change in monetary policy at the most recent FOMC meeting, as expected. Long-term interest rates have edged down recently, however, but this likely stems from a modest flight to quality in response to problems in the subprime mortgage sector.
- The latest data on mortgage delinquencies from the MBA show that the share of troubled loans rose in the first quarter of 2007 – with the increase most apparent in the subprime market.
- Core inflation continues to edge down, but there are concerns that ongoing increases in food and energy prices could spill over into the core rate.
- Economic growth is projected to stay a bit below trend in 2007 (after a small bounce in the second quarter) in response to past Fed tightening, high energy costs, and the slowing housing market.
- We expect no change in policy by the Fed this year (but perhaps some easing in 2008), with long-term interest rates little changed.
- Home sales are projected to fall further in 2007. National home price appreciation is likely to move modestly negative this year.
- Mortgage originations and MDO growth are forecast to decline again in 2007, with a large drop in purchase originations.

## The Outlook for the Economy, Housing, and Mortgage Finance Markets

- **Overview: Concerns about subprime mortgages have increased, but the overall economy accelerated a bit in the second quarter.**

Reports that two hedge funds that invested primarily in subprime securities were in financial difficulty (necessitating a significant capital infusion from the parent company of the funds) highlighted the ongoing (and worsening) problems in the subprime sector (see the discussion on subprime delinquencies below). Credit spreads have ballooned for subprime securities – with the spread between BBB- rated subprime securities and LIBOR skyrocketing to nearly 2200 basis points, from around 500 at the beginning of the year. This, in turn, led to fears that this could result in a worldwide financial crisis similar to the combination of the Thai Baht devaluation and the bankruptcy of Long Term Capital Management a decade ago. Thus far, however, there are few signs of financial contagion from the subprime problems – with Treasury rates down only modestly in reaction. Moreover, there are signs that the U.S. economy grew a bit faster in the second quarter (probably around 3.0-3.5 percent for real GDP, which would be the fastest pace in more than a year). While we think that this modest reacceleration will prove to be temporary (in part because the housing downturn has not yet run its course), the overall pace of economic growth over the next year should be considerably faster than the first quarter's 0.7 percent. Real GDP growth is projected to average between 2.5-3.0 percent through the end of 2008.

In addition to the pickup in economic activity, there was further good news on inflation (despite even more increases in food and energy costs), as core inflation dipped further into the Federal Reserve's implicit target range. Even with this positive development for core inflation, financial markets expect no change in monetary policy until early-2008 at the earliest. This will keep the overall nexus of interest rates basically unchanged over the next year or so.

- **Housing: Activity has slipped still more, with leading indicators down again.**

Housing activity retreated across the board in May, and some of April's surprisingly large jump in new home sales was revised away – leading to the conclusion that the housing market hasn't reached bottom yet. Moreover, the housing market index from the National Association of Homebuilders (NAHB) plummeted in June to 28 (the lowest level since early 1991) and pending sales from the National Association of Realtors (NAR) dropped by 3.5 percent in May to the lowest level in five years. Still, purchase applications from the Mortgage Bankers Association's (MBA) mortgage applications survey continue to be stronger than expected – giving some hope that sales may not fall much further. On the other hand, that may instead reflect either the tightening of credit standards (causing multiple applications) or a movement from the subprime to the prime market for mortgage applications.

- New home sales fell by 1.6 percent in May to 915 thousand units (seasonally adjusted annual rate, or SAAR), while April's outsized gain was revised down by more than 5 percent. Actual sales in the first five months of 2007 were nearly 21 percent lower than a year ago.
- Total existing home sales (single-family plus condos/co-ops) slipped by 0.3 percent in May to 5.99 million units (SAAR), the lowest level in nearly four years. Actual sales in the first five months of 2007 were more than 8 percent less than a year ago.
- Total housing starts dropped by 2.1 percent in May to 1.47 million units (SAAR), the lowest level since January. Single-family starts fell by 3.4 percent while multifamily starts rose by a similar amount. Starts in the first five months of 2007 were 26.5 percent lower than a year ago.
- Manufactured housing shipments edged up again in May to 98 thousand units (SAAR), their third consecutive (modest) increase. Still, they remain close to their 1961 levels.

- **Interest Rates: No change in Fed policy and, after a big jump, long-term rates edge down in response to subprime concerns.**

To the surprise of no one in financial markets, the Federal Open Market Committee (FOMC – the policy-making arm of the Federal Reserve) kept monetary policy unchanged at its most recent meeting which concluded on June 28. The policy statement at the end of the meeting showed that the Fed remained concerned that core inflation could still reaccelerate even though it had fallen within the Fed's implicit target range. It also suggested that the Fed is more concerned with the potential for higher core inflation than with a downturn in the economy. None of this should have been a surprise to financial markets, and interest rates were little changed after the meeting.

Long-term interest rates had risen sharply over much of the past month, continuing the increase that began at the end of March (mostly because of the market's downward reassessment of the chances of Fed easing this year). Yields on the 10-year Treasury constant maturity note, for example, were down at around 4.50 percent in mid-March – but had jumped to around 5.25 percent in the middle of June. Since then, however, long-term Treasury rates have slipped back to around 5.10 percent. While there has been some weaker economic news and better inflation reports, none of that data was so far from expectations that it should have generated that large a rally in the bond market. Instead, the problems in the subprime mortgage market (specifically, troubles at a couple of hedge funds that invested heavily in subprime securities) probably drove a flight to quality, with investors leaving subprime for the Treasury market. Since the beginning of June, a common index of credit default swaps tied to subprime asset-backed securities (the ABX.06.2.BBB- index) has sold off by 19 basis points in price to a record low of 60 basis points (the price at issuance was 100) – showing the magnitude of the sell-off in the subprime market.

- **Mortgage Markets: Credit performance among subprime loans continues to deteriorate.**

The results of the Mortgage Bankers Association's *National Delinquency Survey* for the first quarter of 2007 showed that mortgage delinquencies and foreclosures continue to increase, especially for subprime loans. The serious delinquency rate (SDQ, loans 90 days or more past due or in the process of foreclosure as a share of all loans being serviced) among subprime loans rose to 8.33 percent in the first quarter of 2007 compared with 7.78 percent during the final quarter of last year and 6.22 percent in last year's first quarter. The subprime SDQ rate recorded in the first quarter was the highest since the final quarter of 2003, but still remains below the levels experienced in late-2001 when the SDQ rate for subprime loans rose above 12 percent. Data regarding loans backing subprime non-agency ABS, however, suggest that subprime loans originated in 2006 are performing worse than the 2000 originations that were the primary drivers of the high SDQ rates in 2001. The expected continued poor credit performance of subprime loans originated in 2006 will likely continue to push the SDQ rate for subprime loans higher over at least the next few quarters.

Signs of deteriorating mortgage credit performance were also apparent among prime conventional loans, but to a much lesser extent than in the subprime market. The SDQ rate for prime conventional mortgages rose to a nine-year high of 0.89 percent in the first quarter of this year, up by 12 basis points from the SDQ rate recorded during the first quarter of last year. This relatively modest increase was likely driven primarily by the relatively poor credit performance of non-traditional loans such as interest-only (IO) ARMs that were originated over the past couple of years. The SDQ rate for prime fixed-rate loans was unchanged at 0.68 percent between the first quarter of this year and last year, while the SDQ rate for prime ARM loans (including non-traditional ARMs made to borrowers with relatively high credit scores) more than doubled to 1.66 percent over the same period. In contrast to credit performance trends in the conventional mortgage market, delinquencies and foreclosures among government loans have moderated somewhat over the past year. Between the first quarter of 2006 and 2007, the SDQ rate for loans guaranteed by FHA and VA decreased by 26 basis points to 4.50 percent.

- **Inflation: Core inflation down, but concerns about food and energy prices increase.**  
The recent better news on core inflation has continued, even as food and energy costs have pushed overall inflation upward. The core rate of inflation edged down again over the past month, rising over the prior 12 months by 1.9 percent in May (using the Fed's preferred measure of the price index for personal consumption expenditures), the slowest pace of increase in more than three years. This is within the Fed's implicit target range of 1-2 percent, but recent statements by members of the FOMC suggest that it would prefer to see core inflation move into the middle of that range. Moreover, given the sharp, and seemingly long-lived, increases in food and energy prices (along with declines in the dollar), there are concerns that the slowdown in core inflation could reverse in coming months. While we share the concern, the odds don't favor a reacceleration of core inflation – and we expect it to edge down further in coming months, even if overall inflation remains elevated.
- **Economic Outlook: Growth for 2007 still expected to be slightly below-trend.**  
Real GDP growth probably accelerated to (or slightly above) the trend pace in the second quarter, at around 3.0-3.5 percent – which would be the fastest quarter of growth in more than a year. Still, there are big encumbrances on the U.S. economy coming from two years and 425 basis points of tightening by the Fed (which always affect the economy with a lag), historically high nominal oil prices (which, along with reduced refining capacity, is fueling record nominal gasoline prices), and a slowdown in housing activity. Moreover, the ongoing tightening of lending standards (especially for subprime and other non-traditional mortgage products) may reduce housing demand and consumer spending still more in coming months. The recent runup in interest rates will also have a modestly negative impact on the economy, mostly through the housing and mortgage markets.

Despite these headwinds, jobs continue to be created at a modest (albeit below-trend) pace, orders for nondefense capital goods and manufacturing activity have both generally accelerated in recent months, and exports are growing. This suggests further growth rather than recession. A fairly flat yield curve reinforces this view of modest growth rather than strong expansion or recession. We expect growth slightly below the trend rate for the economy over the second half of 2007, as the factors boosting and inhibiting growth roughly balance out – which would bring growth for the year down to 2.4 percent, the slowest pace since 2002. Growth may move up a bit to around trend for all of 2008.

- **Interest Rate Outlook: No Fed easing in 2007, with long-term rates little changed over the remainder of the year.**  
With the Fed still fixed on its concern about a potential rise in core inflation, we continue to expect no easing by the Federal Reserve in 2007, with only one 25-basis point drop in rates in the first half of next year. That would bring the 2008 year-end federal funds rate down to 5.00 percent and to around 3.0-3.5 percent in inflation-adjusted terms – somewhat above the middle of its historical range, and therefore slightly contractionary. Still, this would be a level of the real federal funds rate that typically isn't associated with recessions.

Futures prices suggest that long-term interest rates are unlikely to move significantly from current levels, although with a very modest upward drift through the end of next year, and this is the path of our forecast as well. This means that long-term rates should move in fairly narrow bands. This would suggest that yields on 30-year fixed-rate mortgages (FRMs) would range between about 6.50-6.85 percent for the rest of this year and next (with yields on 10-year Treasury notes ranging between about 4.90-5.50 percent). Greater economic weakness than we expect, or flights to quality from economic or world-wide financial problems, would move rates toward the bottom of this range, while an uptick in economic activity and/or inflation would move them toward the top. Of course, if financial markets change their views on the outlook for monetary policy, then that would have an effect on interest rates, too.

- **Housing Outlook: Housing activity should slow still more in 2007, but may start to rise next year, with modestly declining national home prices likely.**

Not only has the combination of below-trend economic growth, lower affordability, and investors leaving for greener pastures hit the housing market, but now regulatory changes that make it more difficult for borrowers to qualify for subprime and Alt-A loans are having an effect (and will go forward, as well). Moreover, the increase in mortgage rates over the past few months (especially the past month) will soon have an additional negative impact on housing demand. As a result, we have again lowered our projections of home sales and starts for 2007. We currently expect total home sales (new plus existing) to decline by 10.2 percent in 2007, with single-family starts down by 21.7 percent. The significantly larger decline in starts than in new sales (down by more than 14 percent) comes from the necessity of reducing near-record unsold inventories – and that can only occur if the growth rate of sales exceeds that of starts for a while. At some point in 2008, unsold inventories should have fallen by enough so that the downward pressure on house prices should be about over. The projected level of sales for 2007 would be the lowest since 2002, while the two-year (2006-07) drop in sales would be the largest since the housing downturn of 1989-91.

In the meantime, however, the large number of unsold inventories is putting downward pressure on house prices – with the 20-city composite repeat transactions house price index from S&P/Case-Shiller falling for a ninth consecutive month in April (down by 2.1 percent from the year-ago level). For all of 2007, we expect this index to fall by about 2.0 percent, while the OFHEO house price index (less volatile because it doesn't include houses financed with jumbo loans) should be about flat (but the purchase-only component is likely to slip a bit). It is likely that those areas with the strongest economies will continue to see positive in-migration and housing demand – and thus home price growth. But areas with weak economies and/or large drops in investor demand will probably see house price declines.

- **Mortgage Market Outlook: Weaker purchase originations, more refinancings, a lower ARM share, and slower MDO growth are in store for 2007.**

Expected declines in average house prices and the large projected drop in home sales in this month's forecast should result in an 11.5 percent decline in purchase originations to \$1.28 trillion in 2007, after falling by a modest 4.3 percent last year. We have revised downward our 2007 projection for refinance originations as a result of the higher path of interest rates, now down by 9.3 percent to \$1.19 trillion. This is still a strong number, however, as many borrowers with upward-adjusting ARMs (a large share of which have subprime loans) refinance into new lower-rate loans (both fixed and adjustable). Also, even with modest house price declines expected for this year, the amount of home equity available for borrowing remains at record levels – and with the yield curve still fairly flat (which makes home equity loans expensive compared with new first-lien mortgages in many cases), cash-out refinancings will remain popular. Total single-family mortgage originations (the sum of purchase and refinance originations) are expected to fall to about \$2.47 trillion this year – a decline of 10.5 percent from last year's estimated volume of \$2.76 trillion.

Despite the recent increase in FRM rates relative to ARMs, the rate spread between the two remains relatively tight. In addition, fewer investor homebuyers and regulatory changes will reduce ARM borrowing. These should combine to keep the ARM share around current levels through 2008.

Single-family mortgage debt outstanding (MDO) is projected to slow sharply this year. We project a slowdown to 5.7 percent first-lien growth in 2007 (5.9 percent including seconds), after a more modest slowdown to 9.2 percent last year (9.6 percent with seconds). While refinance activity (both regular rate-term and cash-out, as well as households moving from subprime or other nontraditional mortgage products into more standard mortgages) will be a positive, we expect that further weakness in home sales and house prices will have a bigger impact on MDO growth. We project even slower MDO growth in 2008, with 5-6 percent growth for the next several years.



## Economic and Mortgage Market Forecast: July 2007

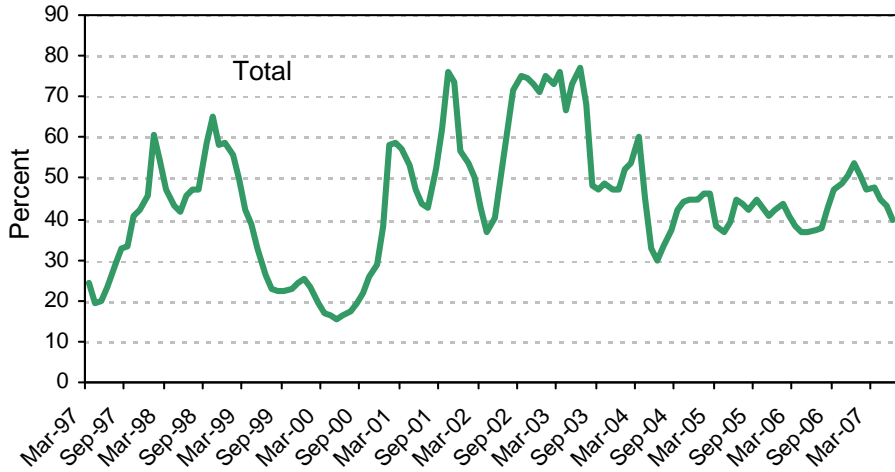
	06.1	06.2	06.3	06.4	07.1	07.2	07.3	07.4	08.1	08.2	08.3	08.4	2005	2006	2007	2008
<b>Macroeconomic Variables</b>																
Real GDP (%) (chain-weight)	5.6	2.6	2.0	2.5	0.7	<b>3.1</b>	<b>2.8</b>	<b>2.8</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.1</b>	3.1	3.1	<b>2.4</b>	<b>3.0</b>
Unemployment Rate (%)	4.7	4.7	4.7	4.5	4.5	<b>4.5</b>	<b>4.6</b>	<b>4.7</b>	<b>4.8</b>	<b>4.8</b>	<b>4.8</b>	<b>4.9</b>	5.1	4.6	<b>4.6</b>	<b>4.8</b>
Consumer Price Inflation (%)	1.9	5.0	3.1	-2.1	3.8	<b>5.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.1</b>	<b>2.3</b>	<b>2.2</b>	<b>2.1</b>	3.7	1.9	<b>3.7</b>	<b>2.1</b>
Consumer Price Inflation (% year-over-year)	3.7	4.0	3.4	1.9	2.4	<b>2.6</b>	<b>2.5</b>	<b>3.7</b>	<b>3.3</b>	<b>2.4</b>	<b>2.3</b>	<b>2.1</b>	3.4	3.2	<b>2.8</b>	<b>2.5</b>
<b>Interest Rates</b>																
Fed. Funds (%)	4.46	4.90	5.25	5.25	5.26	5.25	<b>5.25</b>	<b>5.25</b>	<b>5.25</b>	<b>5.00</b>	<b>5.00</b>	<b>5.00</b>	3.21	4.96	<b>5.25</b>	<b>5.06</b>
1 yr. T-Note (%)	4.63	5.02	5.09	4.99	5.01	4.93	<b>4.97</b>	<b>4.98</b>	<b>4.96</b>	<b>4.97</b>	<b>5.00</b>	<b>5.04</b>	3.62	4.93	<b>4.97</b>	<b>5.00</b>
10 yr. T-Note (%)	4.57	5.07	4.90	4.63	4.68	4.85	<b>5.13</b>	<b>5.19</b>	<b>5.26</b>	<b>5.28</b>	<b>5.30</b>	<b>5.32</b>	4.29	4.79	<b>4.96</b>	<b>5.29</b>
30 yr. T-Bond (%)	4.62	5.14	4.99	4.74	4.80	4.93	<b>5.19</b>	<b>5.24</b>	<b>5.33</b>	<b>5.37</b>	<b>5.41</b>	<b>5.45</b>	4.56	4.87	<b>5.04</b>	<b>5.39</b>
FRM Rate (%)	6.24	6.60	6.56	6.25	6.22	6.34	<b>6.64</b>	<b>6.67</b>	<b>6.69</b>	<b>6.70</b>	<b>6.72</b>	<b>6.73</b>	5.87	6.41	<b>6.47</b>	<b>6.71</b>
ARM Rate (%)	5.32	5.66	5.66	5.50	5.47	5.55	<b>5.69</b>	<b>5.70</b>	<b>5.69</b>	<b>5.68</b>	<b>5.68</b>	<b>5.70</b>	4.48	5.53	<b>5.60</b>	<b>5.69</b>
<b>Housing and Mortgage Markets</b>																
<u>Housing Starts (thous.)</u>	2,127	1,861	1,704	1,555	1,460	<b>1,469</b>	<b>1,444</b>	<b>1,449</b>	<b>1,460</b>	<b>1,468</b>	<b>1,483</b>	<b>1,494</b>	2,068	1,801	<b>1,456</b>	<b>1,476</b>
Single family	1,752	1,520	1,393	1,232	1,172	<b>1,164</b>	<b>1,125</b>	<b>1,127</b>	<b>1,138</b>	<b>1,145</b>	<b>1,156</b>	<b>1,166</b>	1,716	1,465	<b>1,147</b>	<b>1,151</b>
Multifamily	376	341	311	323	288	<b>306</b>	<b>320</b>	<b>322</b>	<b>322</b>	<b>323</b>	<b>327</b>	<b>328</b>	353	336	<b>309</b>	<b>325</b>
New Home Sales (thous.)	1,132	1,086	994	986	852	<b>913</b>	<b>922</b>	<b>922</b>	<b>923</b>	<b>923</b>	<b>927</b>	<b>934</b>	1,283	1,051	<b>902</b>	<b>927</b>
Total Existing Home Sales (thous.)	6,863	6,627	6,287	6,263	6,423	<b>5,782</b>	<b>5,592</b>	<b>5,629</b>	<b>5,809</b>	<b>5,934</b>	<b>6,009</b>	<b>6,106</b>	7,076	6,478	<b>5,856</b>	<b>5,965</b>
<u>Home Prices (NSA, thous. \$)</u>																
Median new	244.8	246.1	236.2	245.1	254.5	<b>234.8</b>	<b>227.4</b>	<b>236.2</b>	<b>245.3</b>	<b>237.1</b>	<b>230.8</b>	<b>240.3</b>	240.9	246.5	<b>241.6</b>	<b>241.7</b>
percent change (from year ago)	6.5%	6.9%	-0.1%	2.1%	3.9%	<b>-4.6%</b>	<b>-3.7%</b>	<b>-3.6%</b>	<b>-3.6%</b>	<b>1.0%</b>	<b>1.5%</b>	<b>1.8%</b>	9.0%	2.3%	<b>-2.0%</b>	<b>0.1%</b>
Median total existing	216.9	226.8	225.0	219.3	214.0	<b>221.6</b>	<b>218.9</b>	<b>215.2</b>	<b>214.4</b>	<b>222.5</b>	<b>219.9</b>	<b>216.9</b>	219.6	221.9	<b>217.4</b>	<b>218.4</b>
percent change (from year ago)	8.7%	2.9%	-1.1%	-2.7%	-1.4%	<b>-2.3%</b>	<b>-2.7%</b>	<b>-1.9%</b>	<b>0.2%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.8%</b>	12.4%	1.0%	<b>-2.0%</b>	<b>0.5%</b>
OFHEO HPI (% change from year ago)	12.6%	10.2%	7.9%	6.1%	4.3%	<b>2.4%</b>	<b>0.0%</b>	<b>-2.2%</b>	<b>-2.7%</b>	<b>-1.2%</b>	<b>-0.1%</b>	<b>0.4%</b>	13.1%	9.1%	<b>1.1%</b>	<b>-0.9%</b>
<u>Mortgage Originat'ns (bill. \$, 1-4 fam.)</u>																
Purchase	<b>598</b>	<b>748</b>	<b>742</b>	<b>673</b>	<b>612</b>	<b>706</b>	<b>603</b>	<b>551</b>	<b>463</b>	<b>571</b>	<b>552</b>	<b>494</b>	<b>3,034</b>	<b>2,761</b>	<b>2,471</b>	<b>2,080</b>
Refinancing	<b>297</b>	<b>417</b>	<b>397</b>	<b>335</b>	<b>273</b>	<b>369</b>	<b>341</b>	<b>297</b>	<b>245</b>	<b>362</b>	<b>360</b>	<b>316</b>	<b>1,512</b>	<b>1,447</b>	<b>1,280</b>	<b>1,284</b>
Refi Share (%)	<b>50.2%</b>	<b>44.2%</b>	<b>46.4%</b>	<b>50.3%</b>	<b>55.3%</b>	<b>47.8%</b>	<b>43.4%</b>	<b>46.1%</b>	<b>47.0%</b>	<b>36.6%</b>	<b>34.7%</b>	<b>36.0%</b>	<b>50.2%</b>	<b>47.6%</b>	<b>48.2%</b>	<b>38.3%</b>
Conventional Share (%)	<b>97.1%</b>	<b>97.2%</b>	<b>97.1%</b>	<b>97.3%</b>	<b>97.1%</b>	<b>97.0%</b>	<b>97.0%</b>	<b>97.0%</b>	<b>96.9%</b>	<b>96.9%</b>	<b>96.9%</b>	<b>96.9%</b>	<b>97.3%</b>	<b>97.2%</b>	<b>97.0%</b>	<b>96.9%</b>
Conventional Mortg. Orig. (bill. \$)	<b>580</b>	<b>727</b>	<b>721</b>	<b>655</b>	<b>593</b>	<b>685</b>	<b>585</b>	<b>534</b>	<b>448</b>	<b>553</b>	<b>535</b>	<b>479</b>	<b>2,952</b>	<b>2,682</b>	<b>2,398</b>	<b>2,015</b>
Liquidations (bill. \$)	<b>387</b>	<b>540</b>	<b>539</b>	<b>513</b>	<b>479</b>	<b>552</b>	<b>475</b>	<b>440</b>	<b>381</b>	<b>440</b>	<b>426</b>	<b>387</b>	<b>2,040</b>	<b>1,980</b>	<b>1,946</b>	<b>1,635</b>
Mortg. Debt Outstdg. (bill. \$, 1-4 fam. 1st Lien)	8,683	8,891	9,093	9,254	9,386	<b>9,541</b>	<b>9,669</b>	<b>9,779</b>	<b>9,861</b>	<b>9,991</b>	<b>10,117</b>	<b>10,224</b>	8,473	9,254	<b>9,779</b>	<b>10,224</b>
% change	10.3%	9.9%	9.4%	7.3%	5.8%	<b>6.8%</b>	<b>5.5%</b>	<b>4.6%</b>	<b>3.4%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>4.3%</b>	13.3%	9.2%	<b>5.7%</b>	<b>4.6%</b>
Mortg. Debt Outstdg. (bill. \$, 1-4 fam.)	9,621	9,873	10,105	10,288	10,426	<b>10,604</b>	<b>10,757</b>	<b>10,894</b>	<b>11,002</b>	<b>11,160</b>	<b>11,314</b>	<b>11,450</b>	9,387	10,288	<b>10,894</b>	<b>11,450</b>
% change	10.3%	10.9%	9.8%	7.4%	5.5%	<b>7.0%</b>	<b>5.9%</b>	<b>5.2%</b>	<b>4.0%</b>	<b>5.9%</b>	<b>5.6%</b>	<b>4.9%</b>	13.7%	9.6%	<b>5.9%</b>	<b>5.1%</b>
ARM Share of Applications (% of #)	29.0%	29.4%	27.3%	24.9%	20.9%	18.6%	<b>20.7%</b>	<b>19.1%</b>	<b>17.7%</b>	<b>17.6%</b>	<b>17.5%</b>	<b>17.5%</b>	31.4%	27.6%	<b>19.8%</b>	<b>17.6%</b>

July 5, 2007

Note: Numbers in bold italics represent Fannie Mae Economics and Mortgage Market Analysis estimates and/or forecasts.

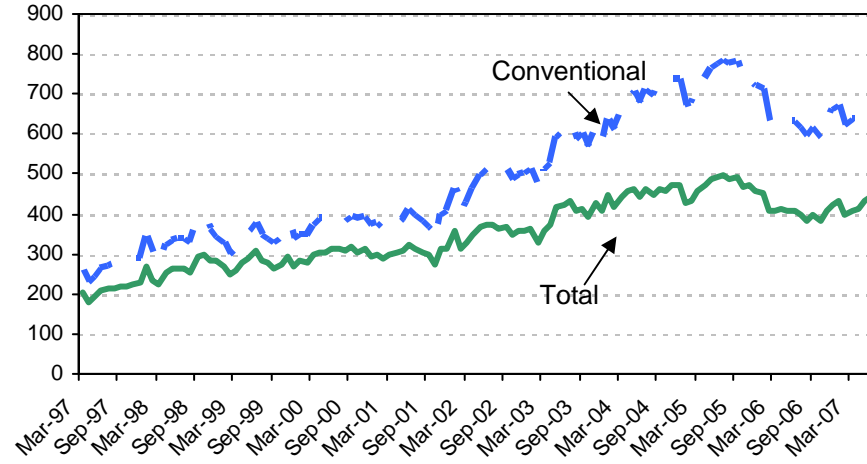
Source: Actuals: Census, Bureau of Labor Statistics, Federal Reserve, Mortgage Bankers Association, National Association of Realtors, OFHEO, Forecasts: Fannie Mae Economics and Mortgage Market Analysis

Refinance Share of Loan Applications  
By dollar volume



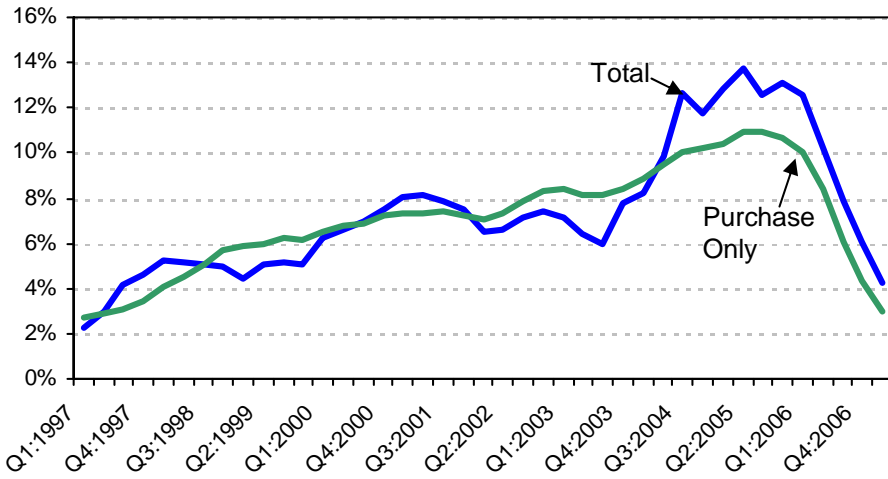
Source: MBAA Weekly Mortgage Application Survey

Purchase Application Index  
March 16, 1990 =100



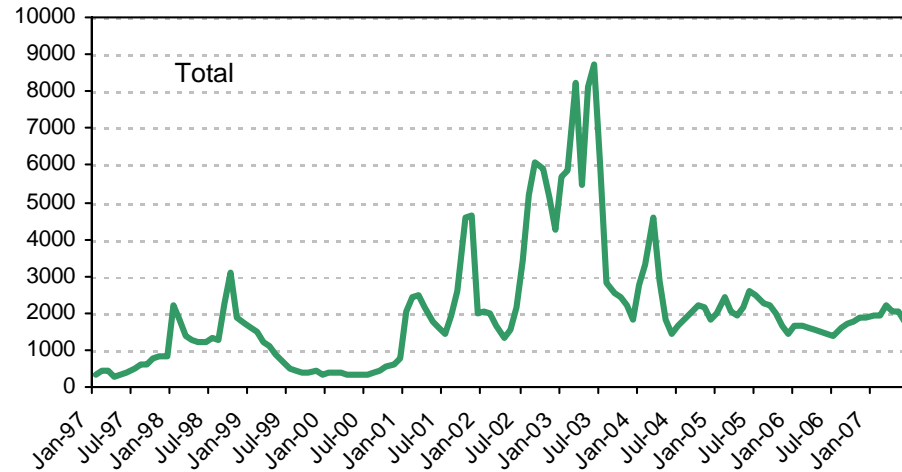
Source: MBAA Weekly Mortgage Application Survey

OFHEO House Price Index  
Year/Year Percent Change



Source: OFHEO

Refinance Application Index  
March 16, 1990 =100



Source: MBAA Weekly Mortgage Application Survey

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