

# The Economic Environment for RMBS

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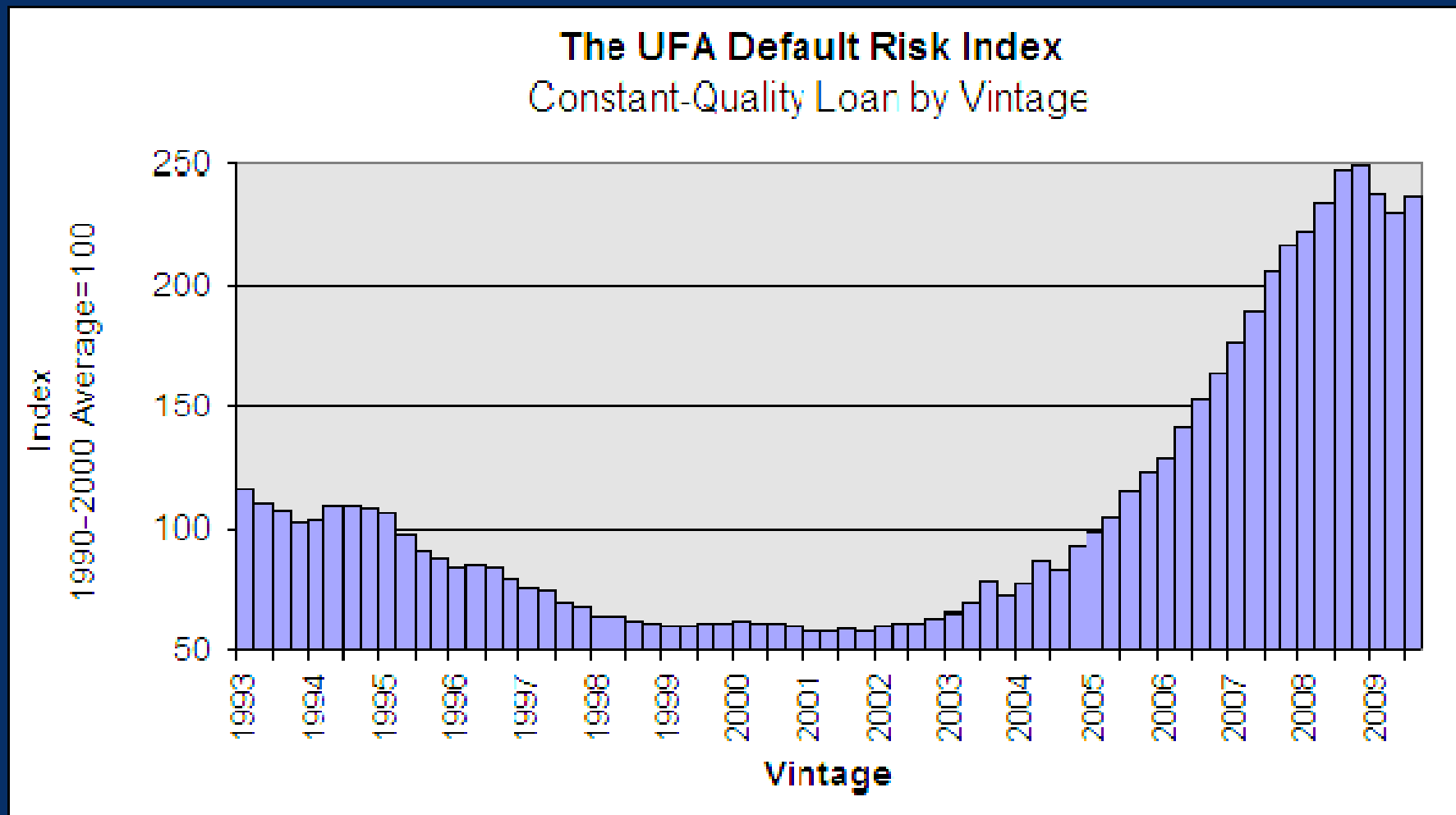
# Summary

- Economic environment for newly originated RMBS is improving
- Worst vintages are behind us
- About half of recent losses are due to the local economic environment
  - Rest is underwriting and moral hazard
- Nationally house prices will continue to fall
  - A few metros stabilizing
- Falling employment will have a big impact on recovery
  - Interacts with underwater borrowers

# Graphical Summary

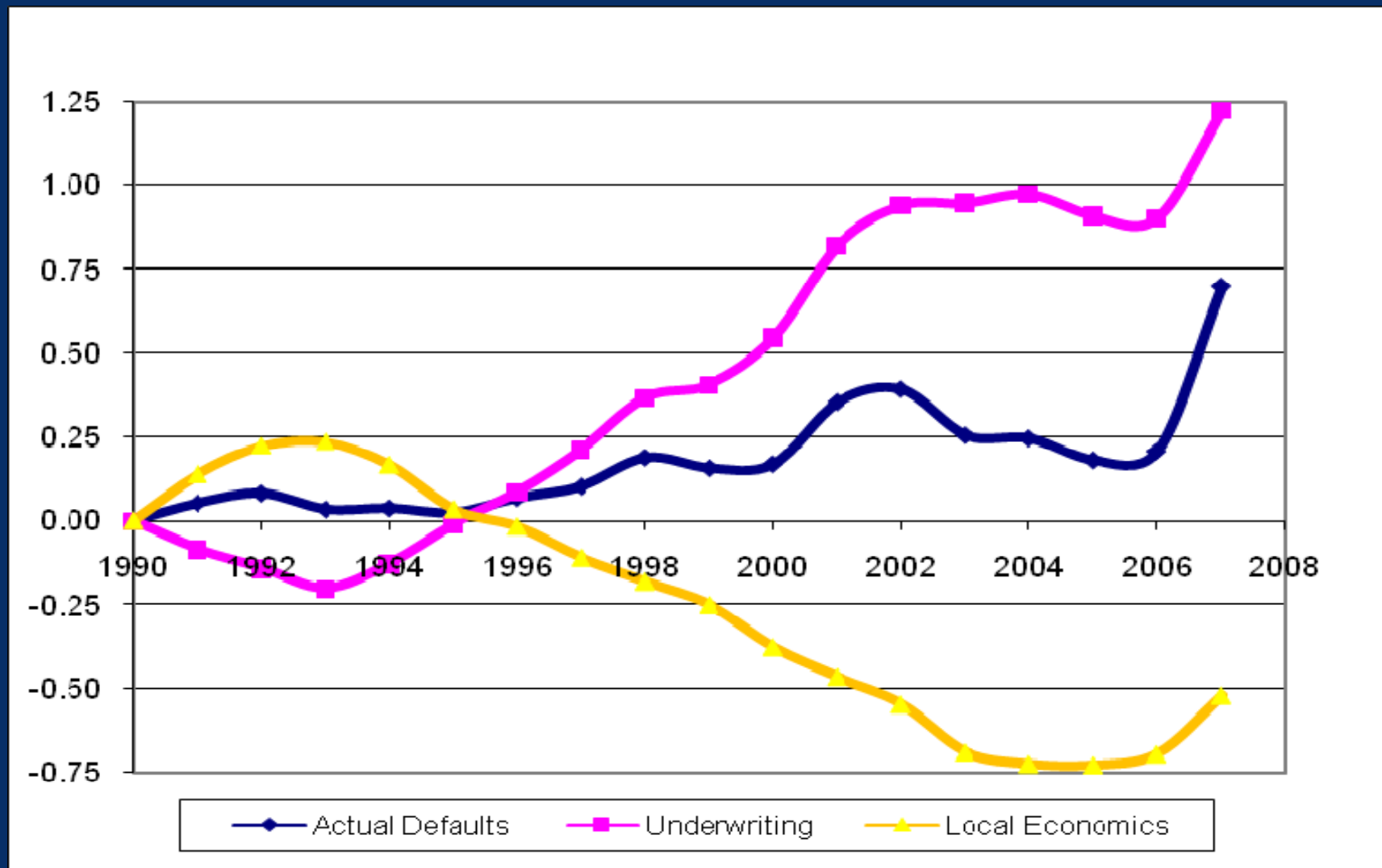


# National: UFA Default Risk Index by Vintage

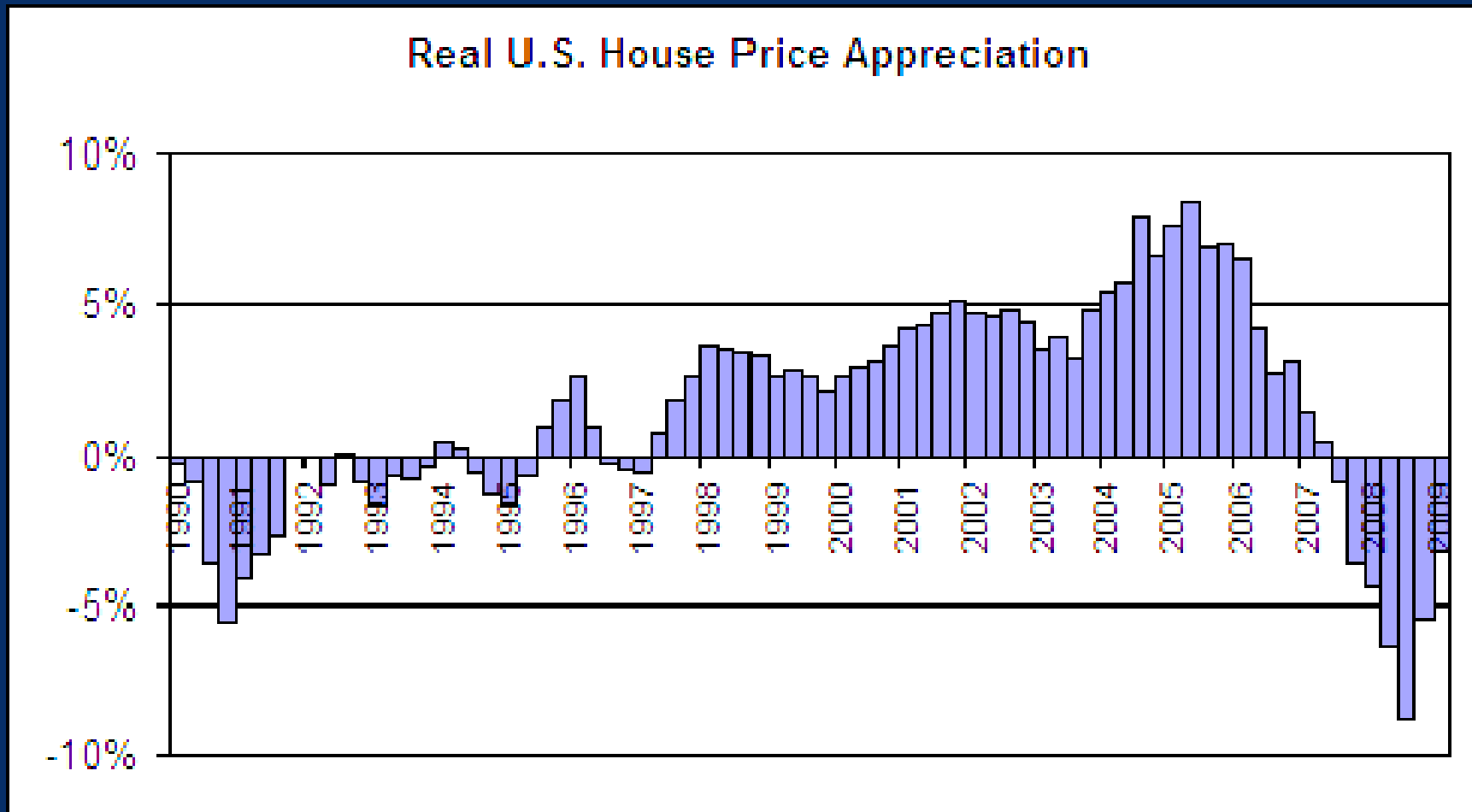


# How much of the mortgage debacle is explained by Local Economic Conditions?

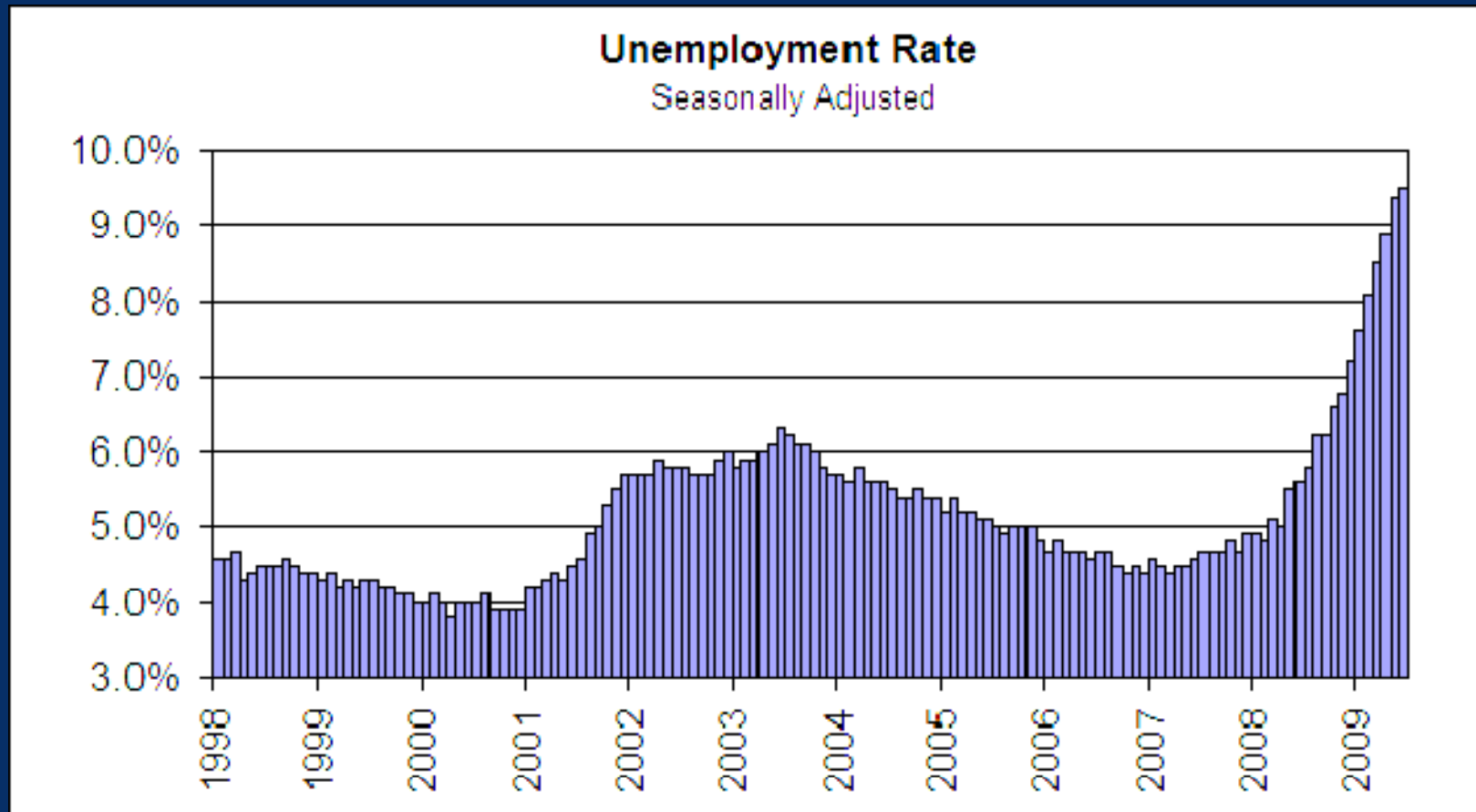
Source: Capozza and Van Order, "Deconstructing a Mortgage Meltdown . . ."



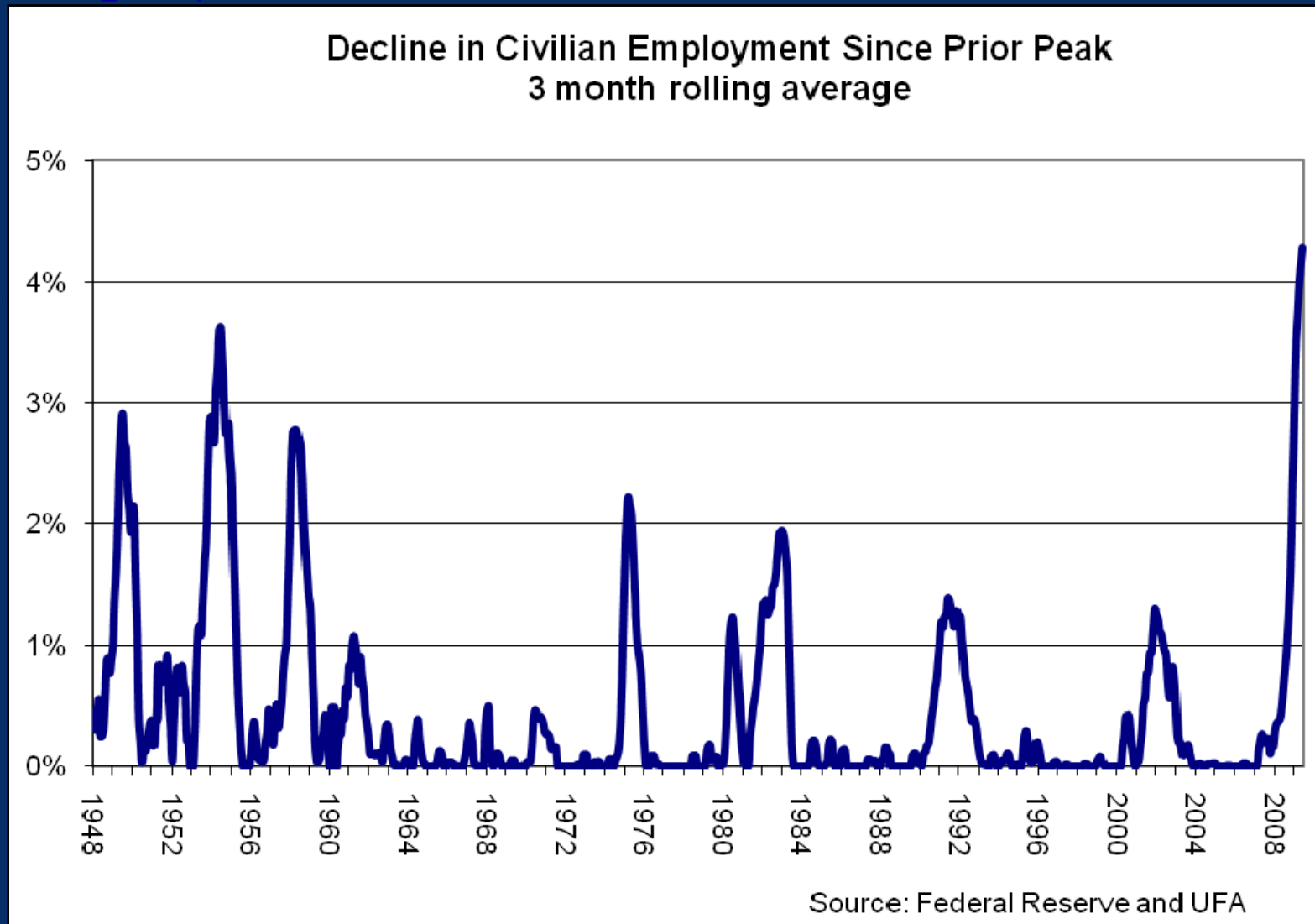
# Real House Price Appreciation



# Unemployment



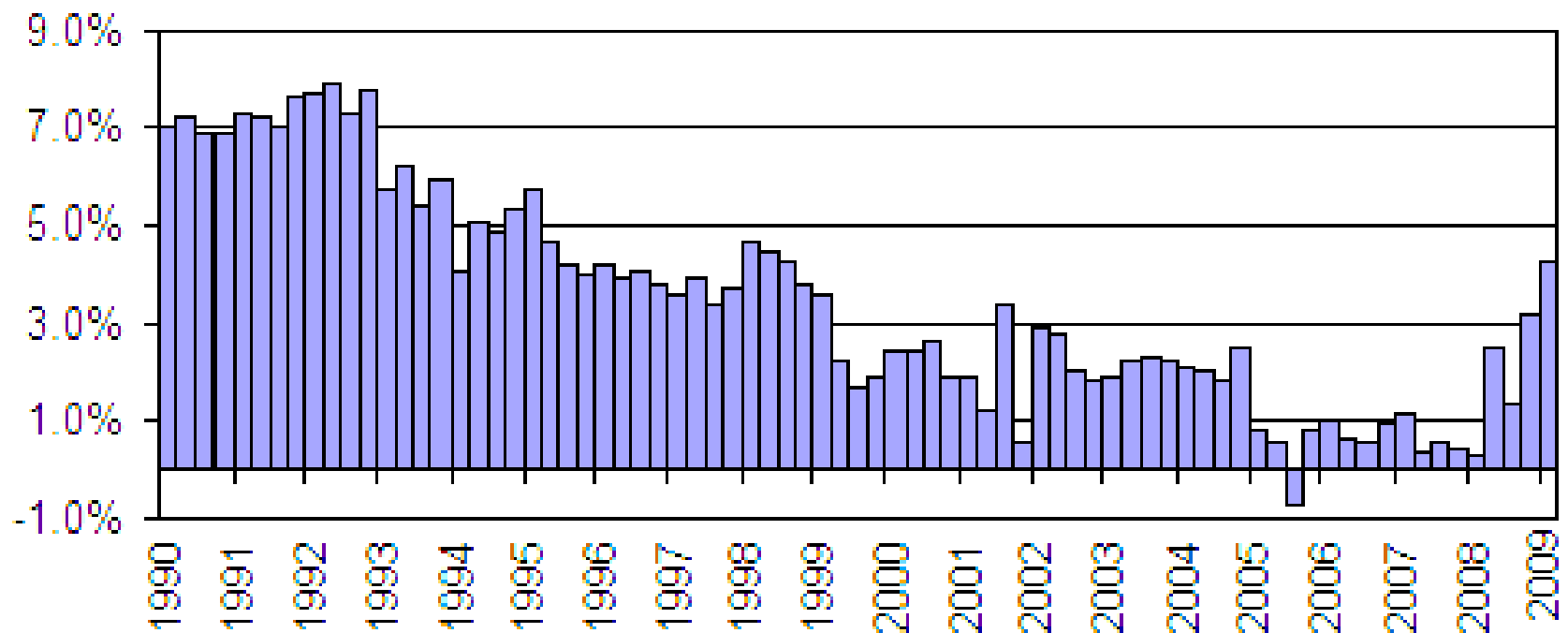
# Employment Decline Since Prior Peak





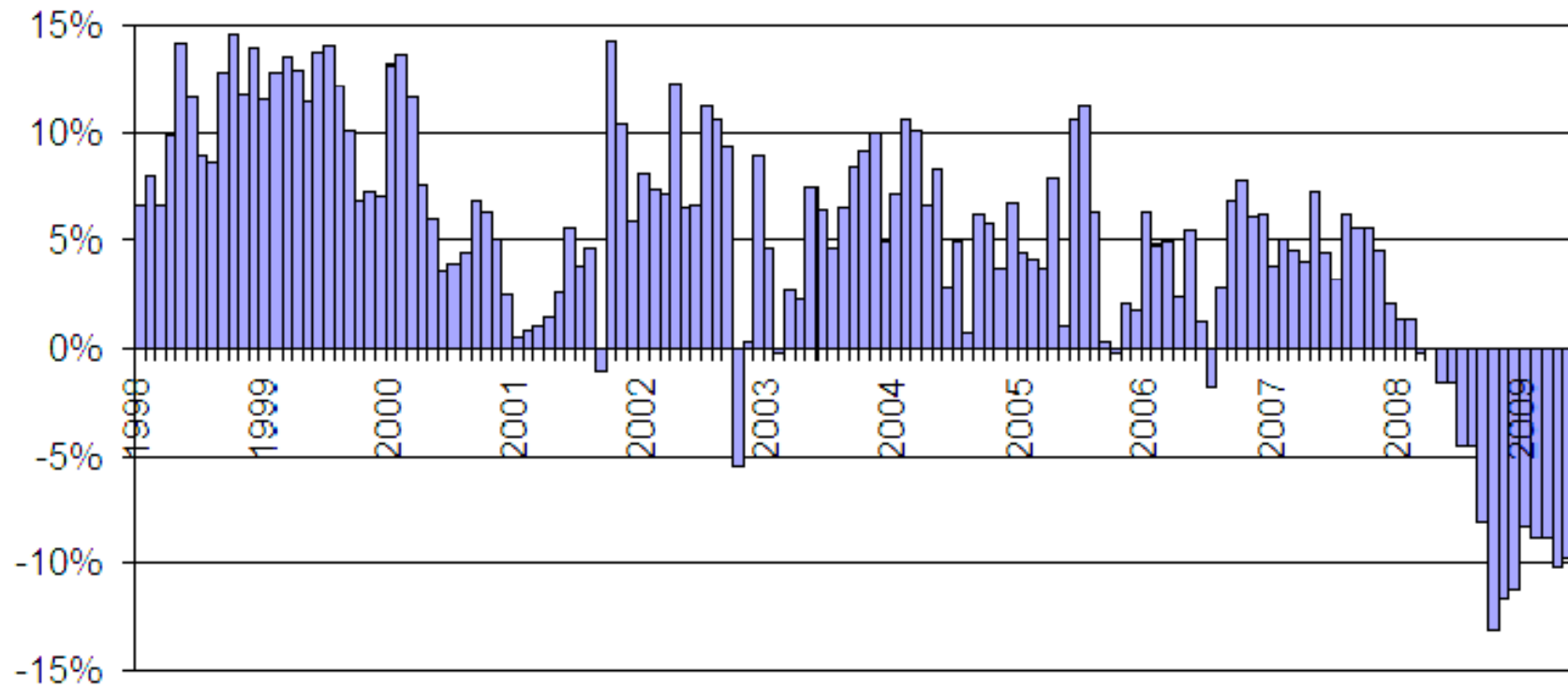
# Savings Rate

Ratio of Quarterly Personal Savings to Disposable Personal Income

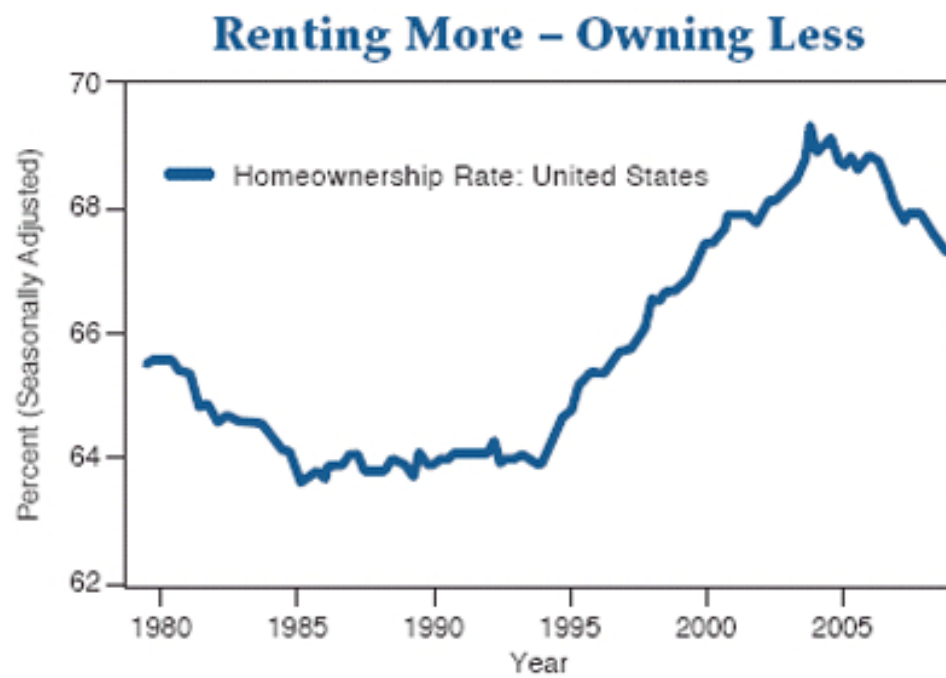


# Durables

Real U.S. Expenditure on Durable Goods,  
Percent Change from Previous Year



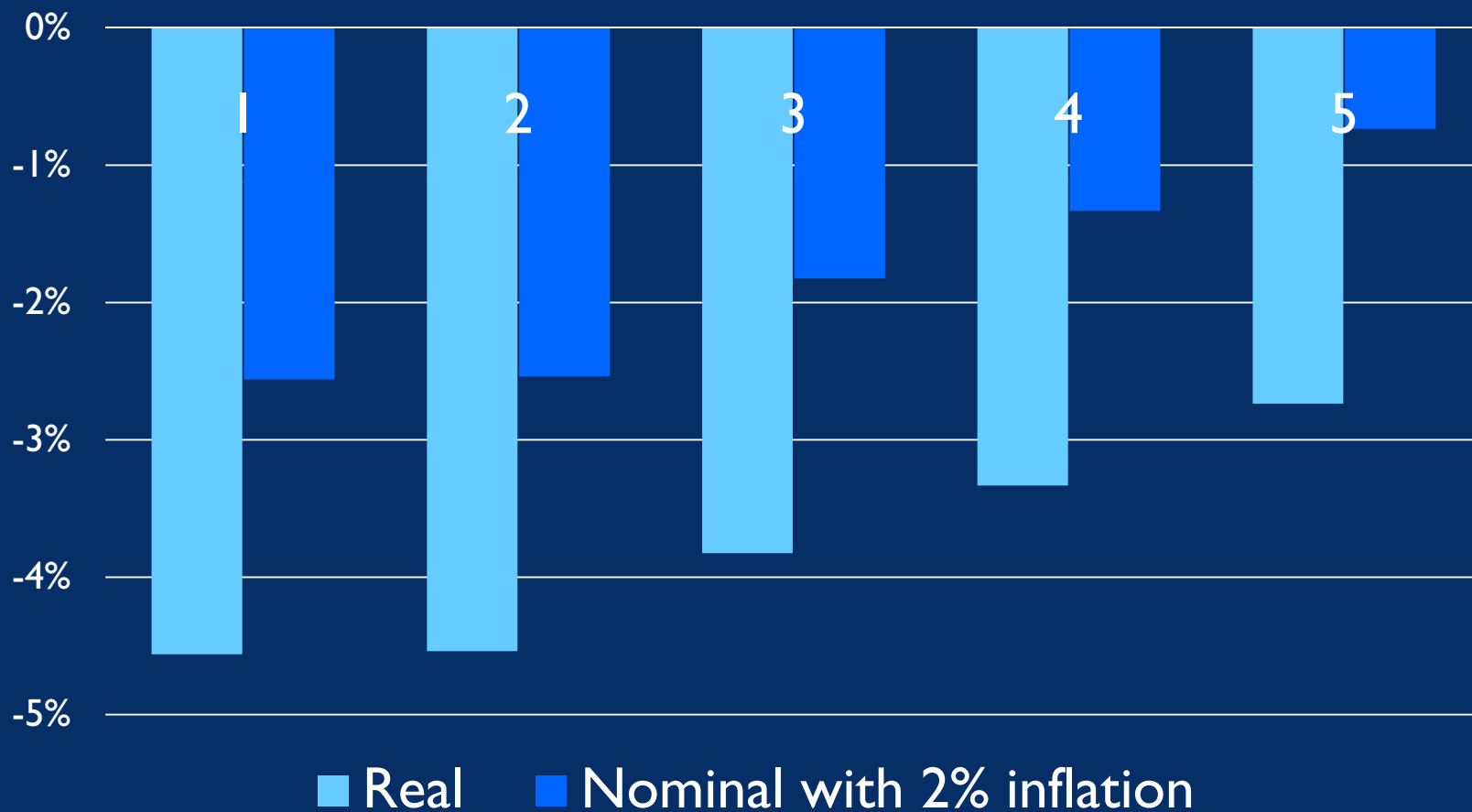
# Renting More



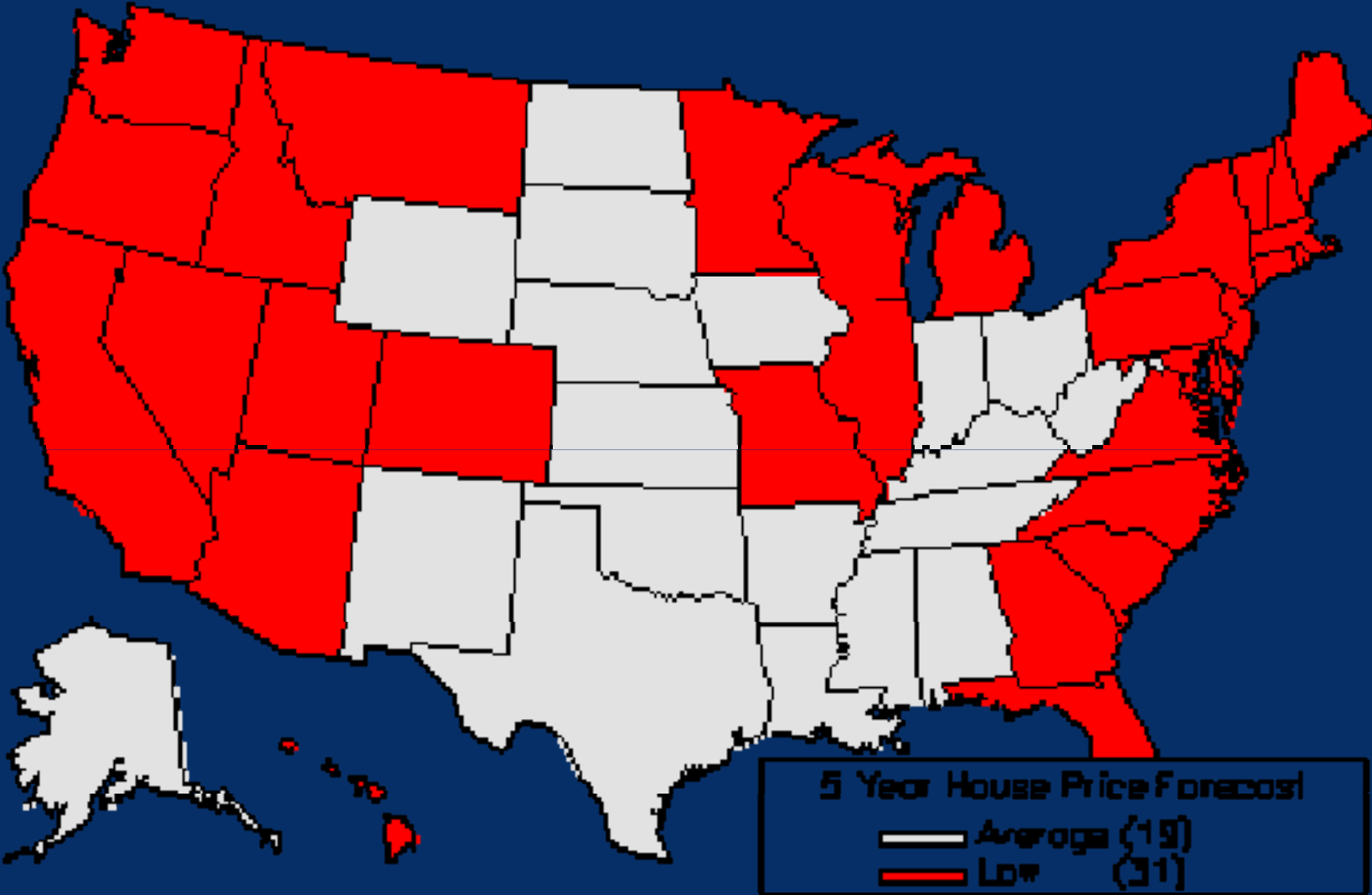
Sources: U.S. Census Bureau/Haver Analytics

# The Future: National House Price Forecast

## UFA 5-Year House Price Forecast

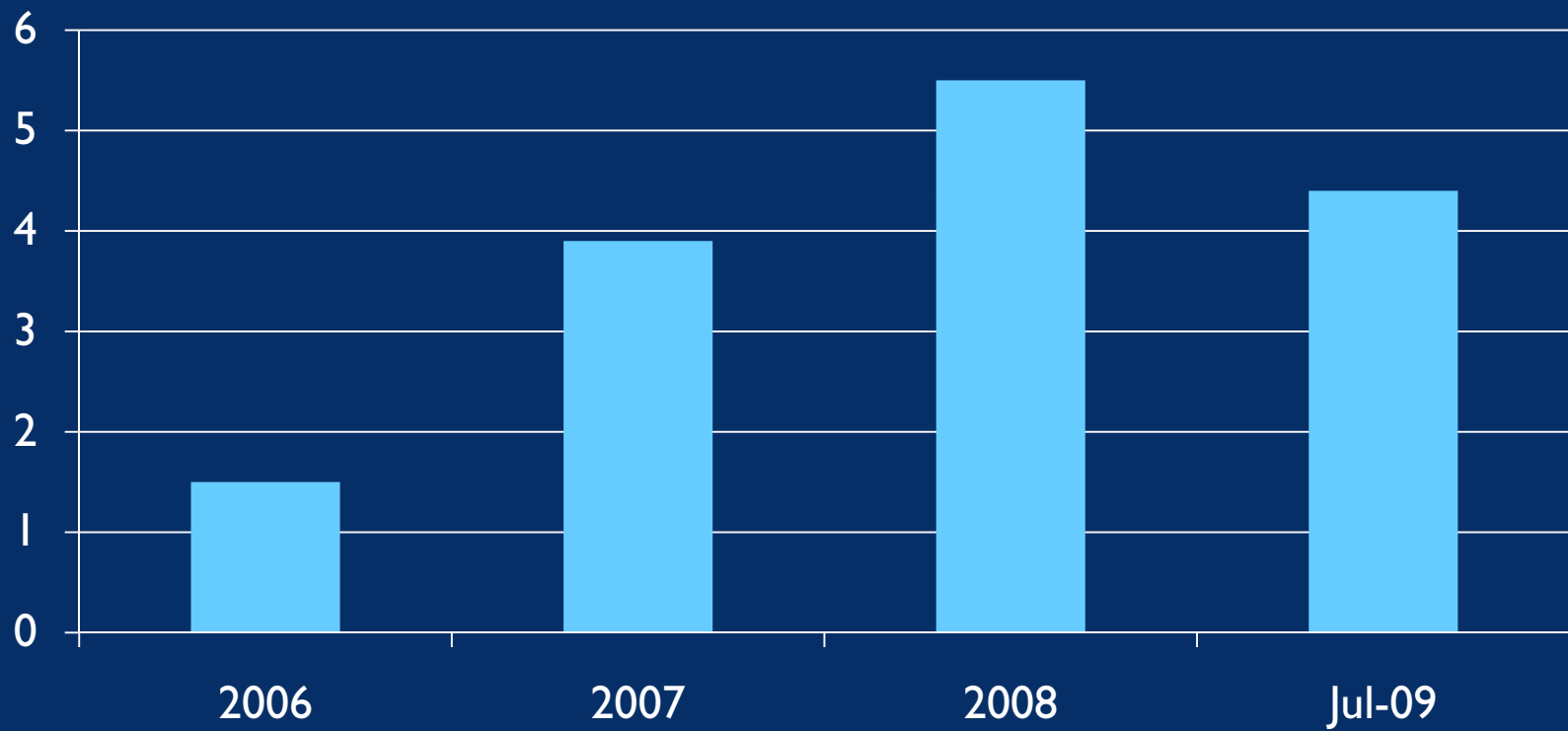


# 5 Year House Price Appreciation Forecast by State



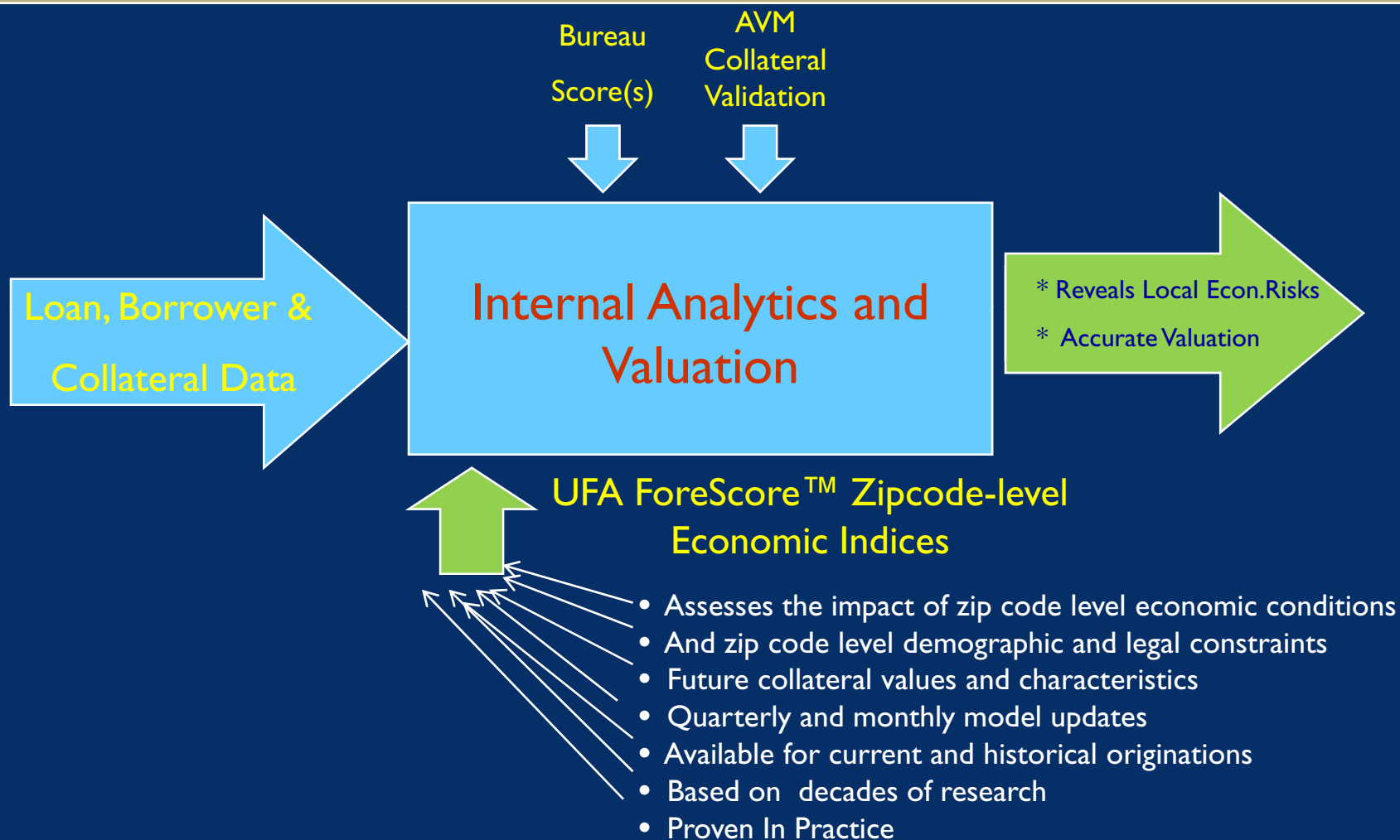
# Excess Supply

## National Excess Supply (months)



Source: NAR and UFA

# Best-Practice Approach to Incorporating Local Economic Conditions





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