

# Capital Market Trends and Forecasts

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Education Retreat  
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# Subprime mortgage meltdown timeline

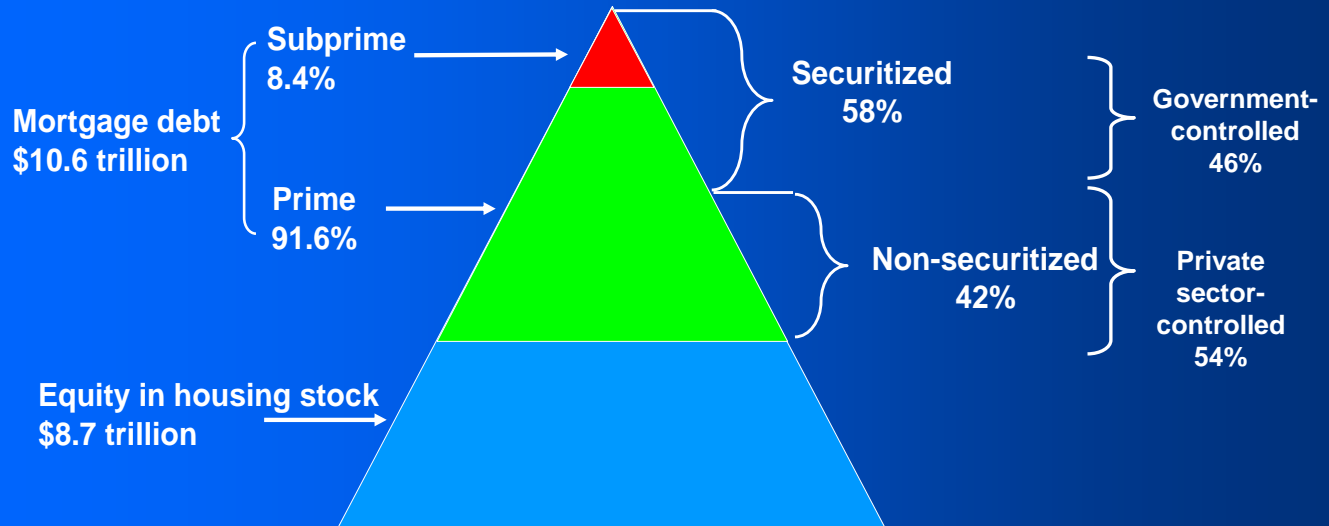
December 2006–October 2008

## Dow Jones U.S. Financial Index



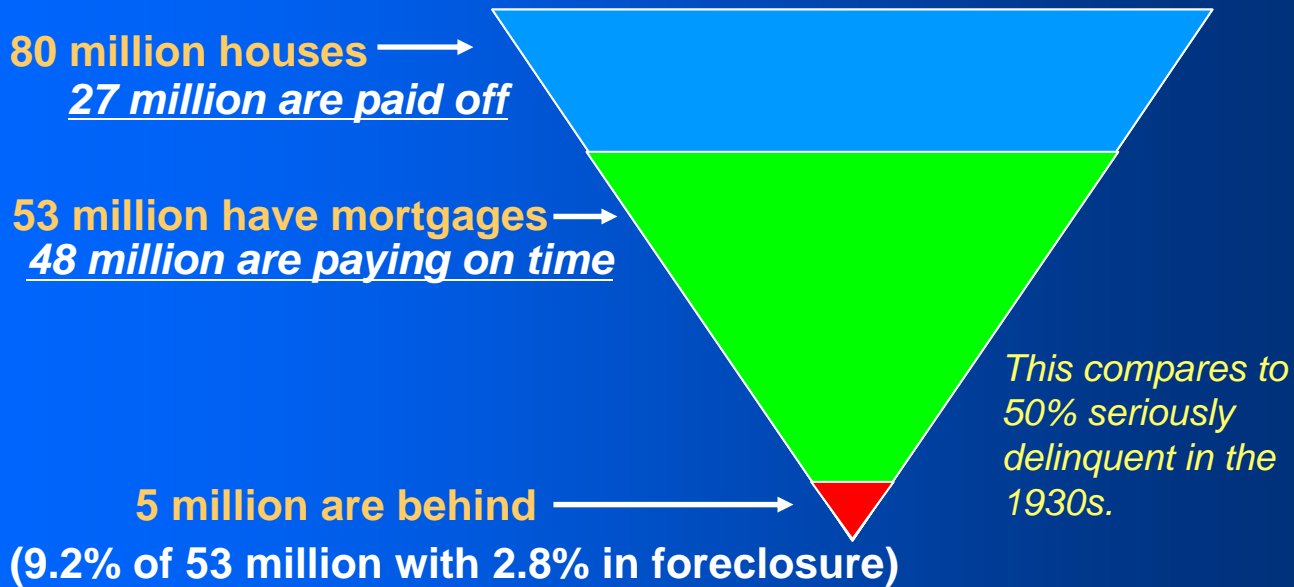
# Home mortgages: Who borrows, how much has been borrowed, and who funds them?

Total value of housing stock = \$19.3 trillion



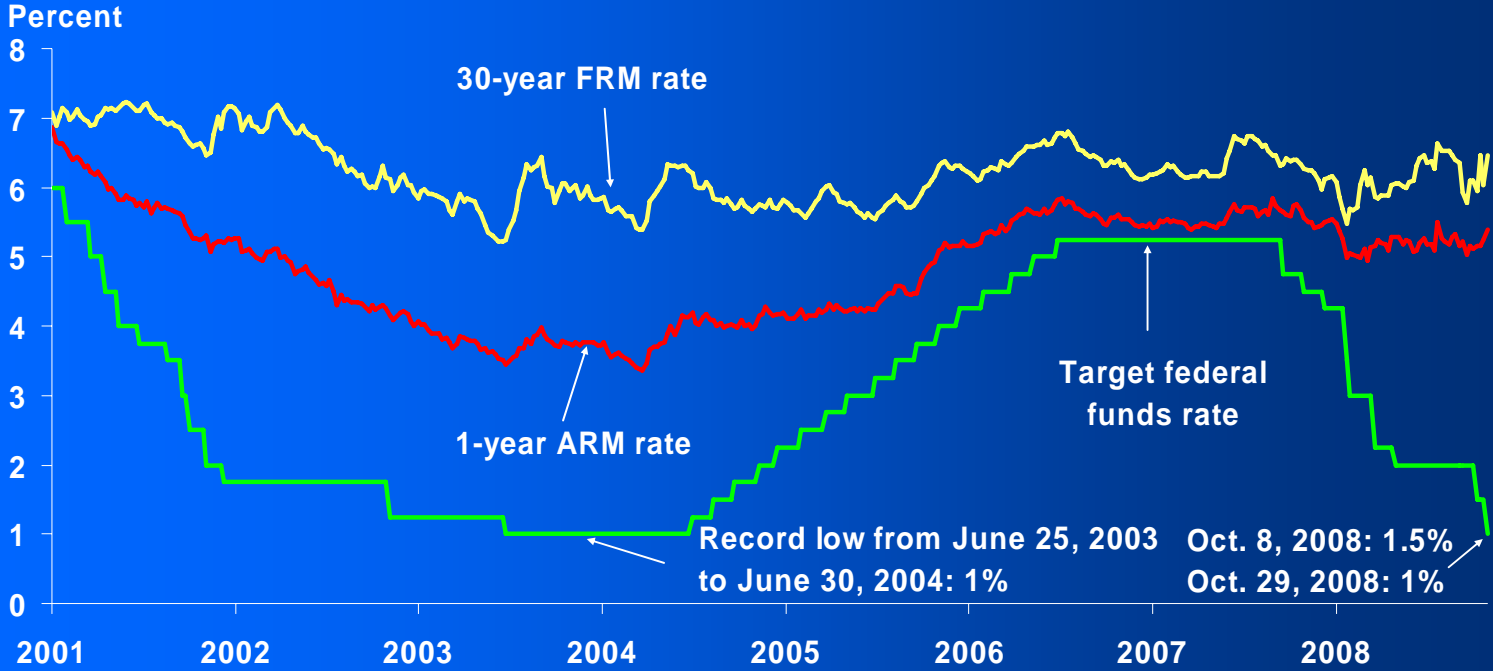
Note: total residential and commercial mortgages = \$14.7 trillion; 5 percent = \$700 billion

# The mortgage problem in perspective



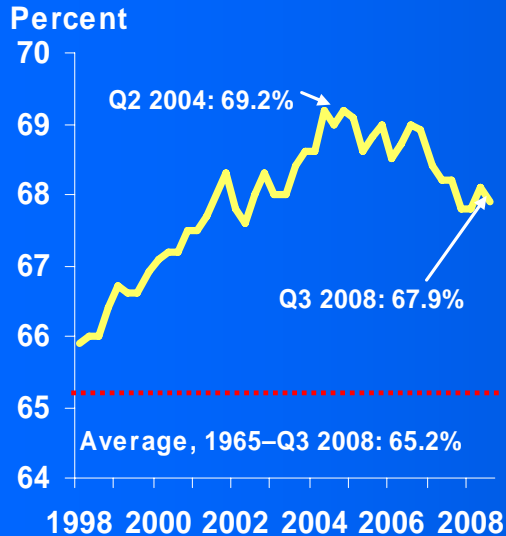
# Did the Fed lower interest rates too much and for too long?

*Federal funds rate vs. rates on FRMs and ARMs*

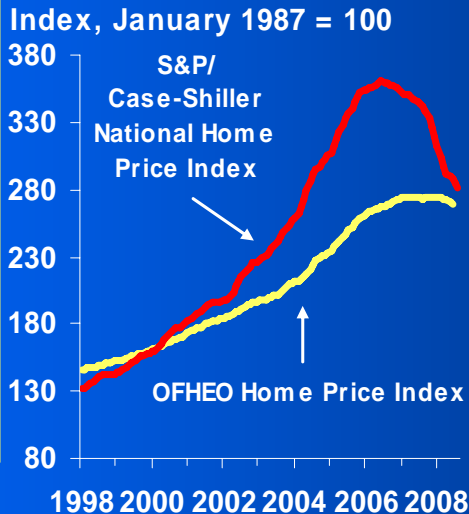


Sources: Federal Reserve, Mortgage Bankers Association, Moody's Economy.com, Milken Institute.

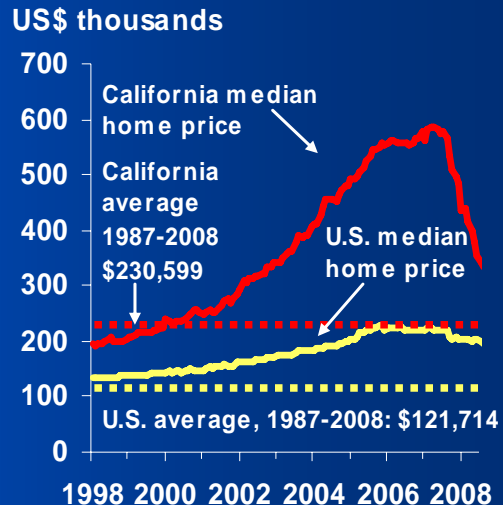
## Credit boom pushes homeownership rate to historic high



## Home price bubble peaks in 2006

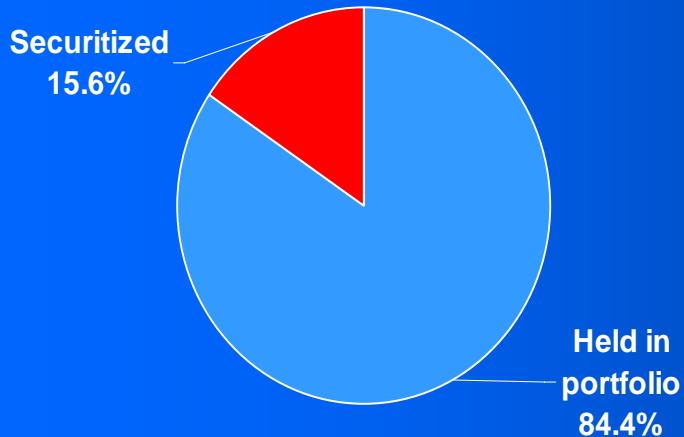


## California and national home prices reach record highs

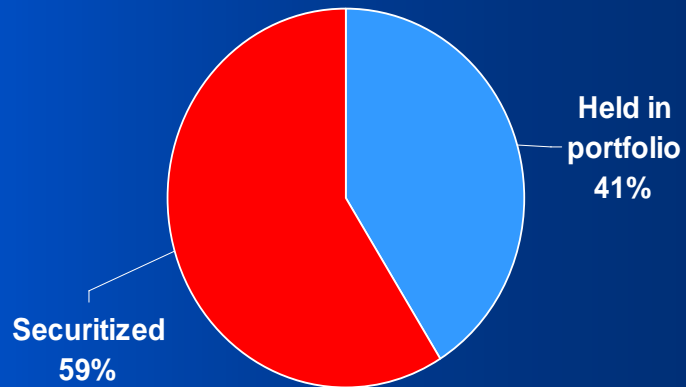


# The mortgage model switches from originate-to-hold to originate-to-distribute

Residential mortgage loans  
1980: Total = \$958 billion

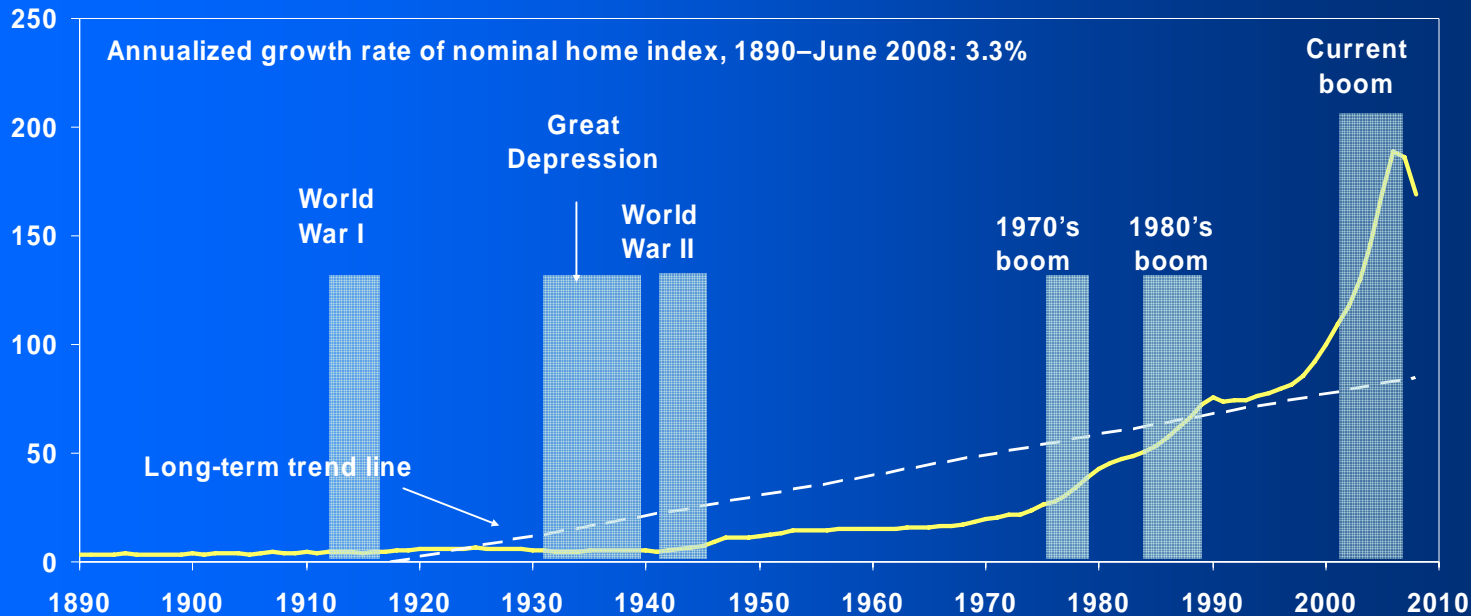


Residential mortgage loans  
Q2 2008: Total = \$11.3 trillion



# The recent run-up of home prices was extraordinary

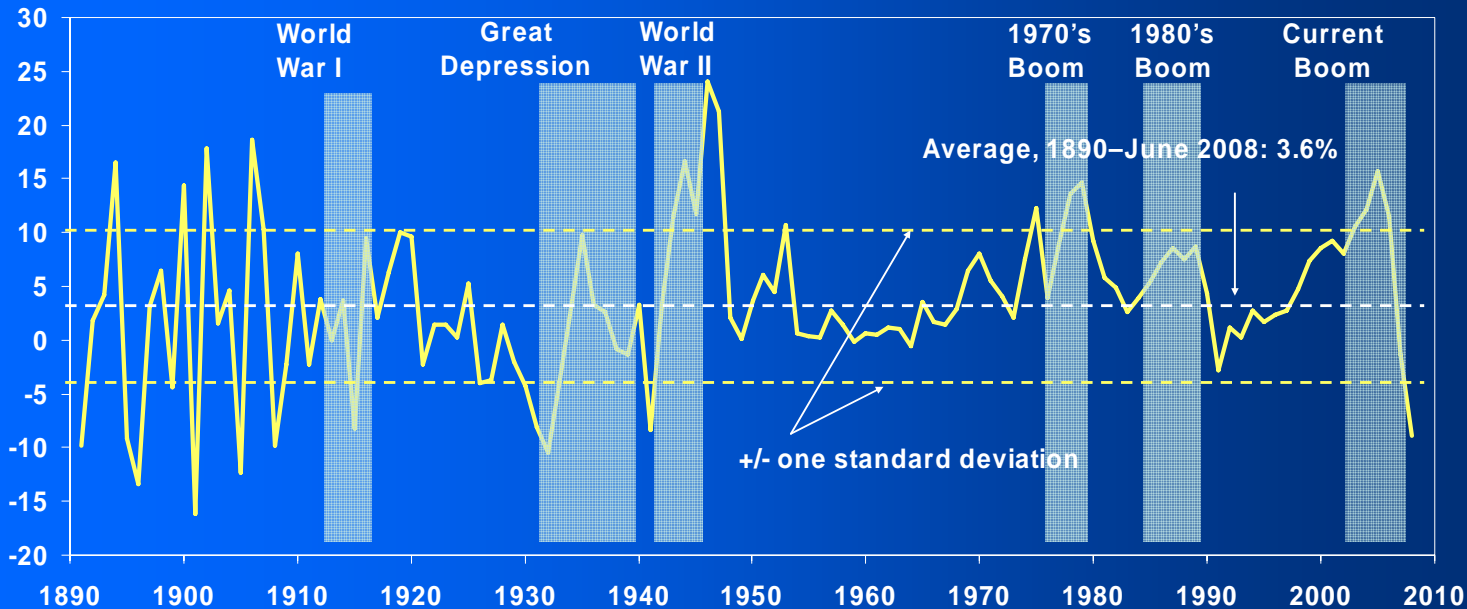
Index, 2000 = 100



# Home prices don't go up forever

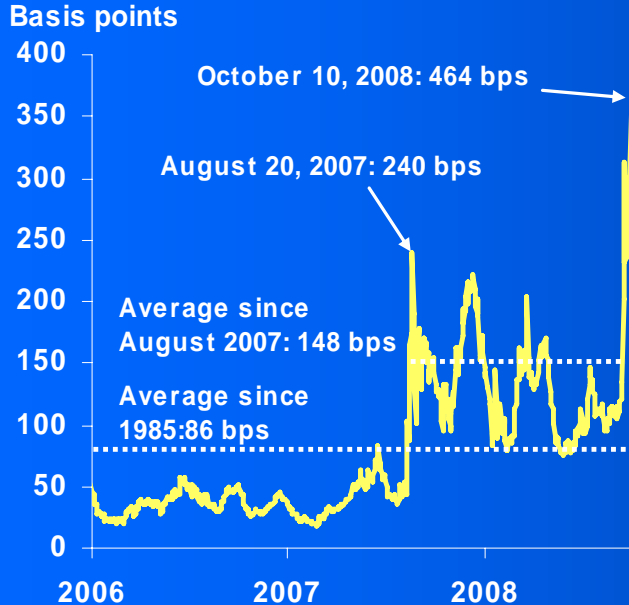
*Change in home prices in 100-plus years*

Percentage change in nominal home price, year ago

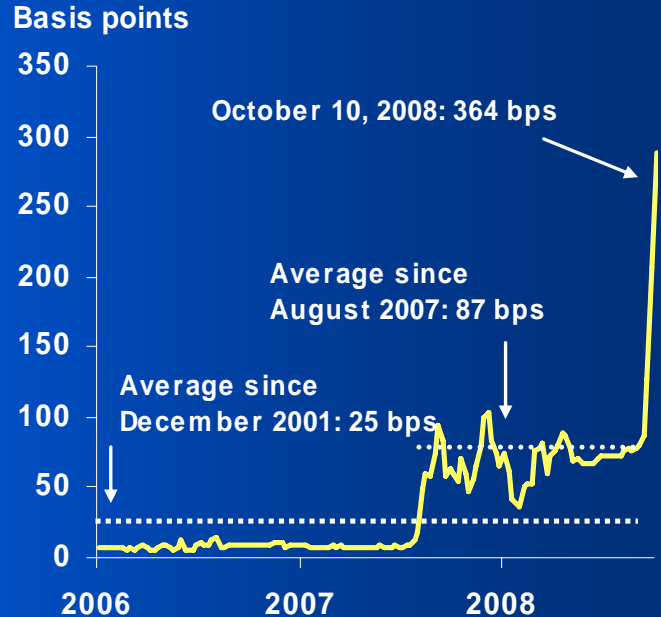


# Liquidity freeze

## Spread between 3-month LIBOR and T-bill rate



## Spread between 3-month LIBOR and overnight index swap rate



# When is a AAA not a AAA?

## Multilayered mortgage products

