

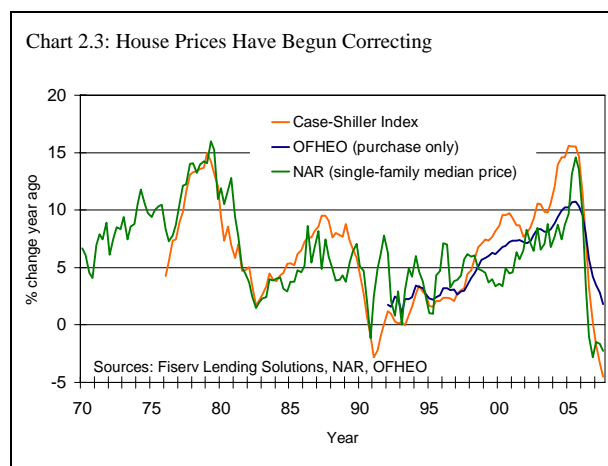
FACT SHEET

Analyzing Affordability in Metropolitan Housing Markets examines the home affordability challenges facing middle-income households – households earning between 60 percent and 120 percent of area median income – against the backdrop of shifting market conditions.

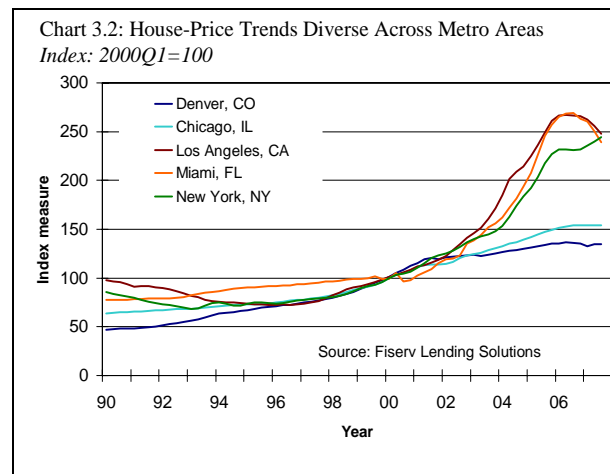
Analyzing Affordability in Metropolitan Housing Markets can be found online at www.homesforworkingfamilies.org. The study was prepared for Homes for Working Families by Moody's Economy.com. It focuses particularly on housing affordability for middle-income households in light of recent developments in house prices, interest rates and mortgage markets. The study uses the Case-Shiller Home Price Indexes from Fiserv Lending Solutions and data from the American Community Survey to gauge affordability of homes most likely purchased by middle-income households for selected metro areas.

Recent Market Conditions

- Since 2005 home-price growth has decelerated dramatically. The sale of new homes has fallen by approximately 44 percent since the high recorded in the third quarter of 2005 (Chart 2.3).

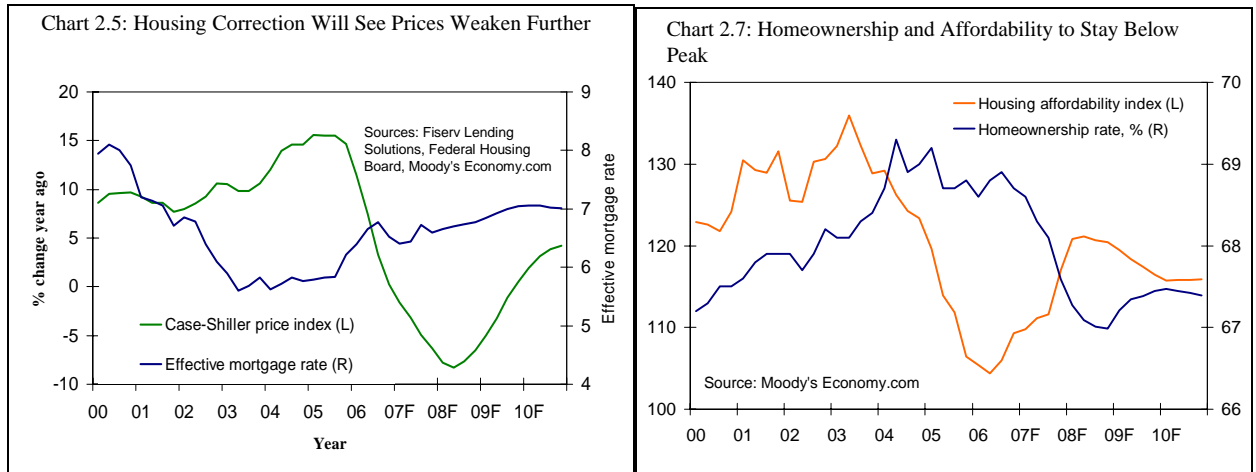


- Housing permits and housing starts peaked during the third quarter of 2005 and have fallen between 800,000 and 900,000 units annually since that time.
- Subprime delinquency rates exceeded 16 percent in the third quarter of 2007.
- Nationally, rents increased by 2 percent annually over most of 2007.
- The Federal Reserve Board reported that during the fourth quarter of 2007, banks throughout the country tightened their credit standards. A net 55.5 percent of banks tightened their standards for subprime lending, 40.5 percent for non-traditional loan products, and 14.3 percent for prime borrowers.
- There is significant regional variability in housing price trends and the differences between geographic areas are widening (Chart 3.2).



Home Affordability for Middle-Income Households

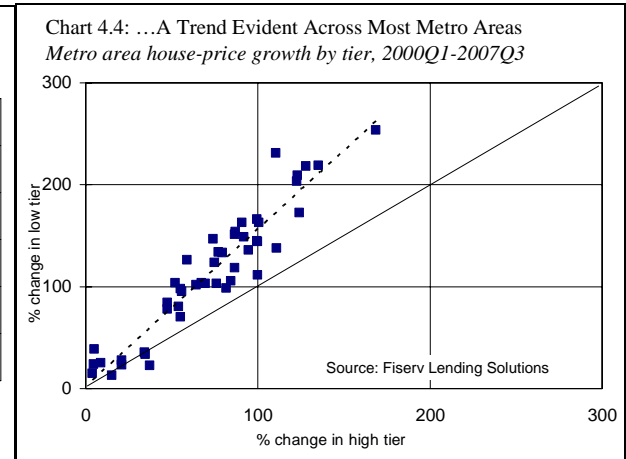
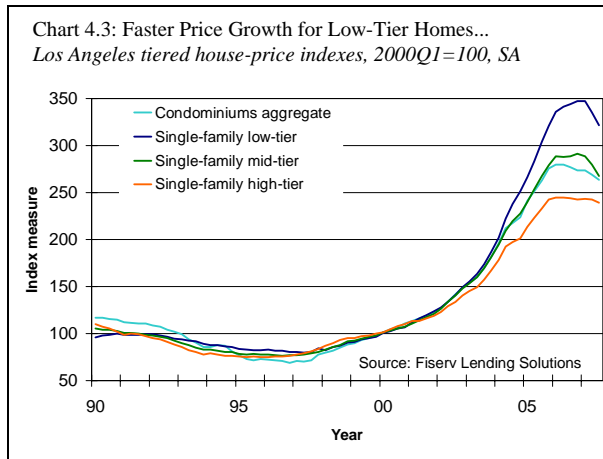
- The housing landscape facing lower-and middle-income households remains bleak. Affordability has improved little, despite plunging house prices. Although decreasing house prices since mid-2006 have generated a 5 percent increase in affordability nationwide, affordability still remains 8 percent below affordability levels prevalent over the 1990s.
- While house prices are expected to continue to decline – at an accelerating rate over the near-term – they are unlikely to fall sufficiently to restore affordability to historically more acceptable levels (Charts 2.5 and 2.7).



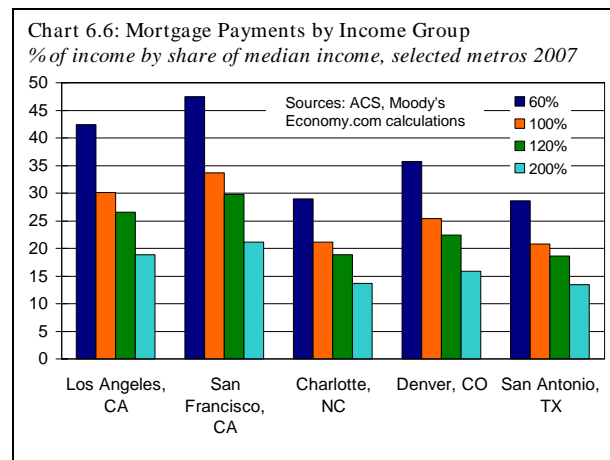
- The study confirms anecdotal evidence, providing a first look at the susceptibility of middle-income households to affordability challenges, house price fluctuations and the ways in which these negatively affect new homebuyers. When prices are increasing or high, middle-income households will have difficulty affording a home. When values fall, existing middle-income homeowners will lose equity in their homes making it difficult to refinance into an affordable mortgage.

Effects of Market Volatility on Middle-Income Households

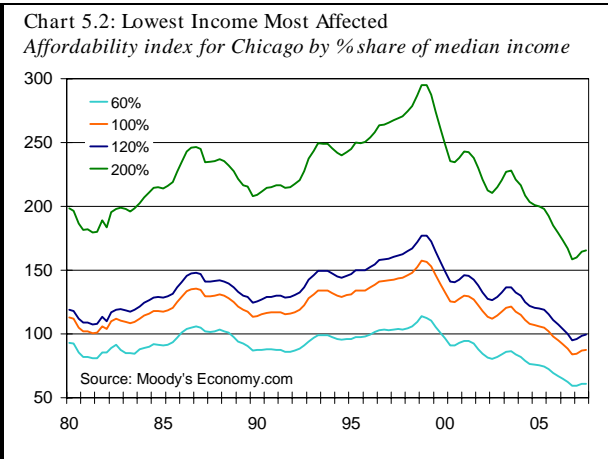
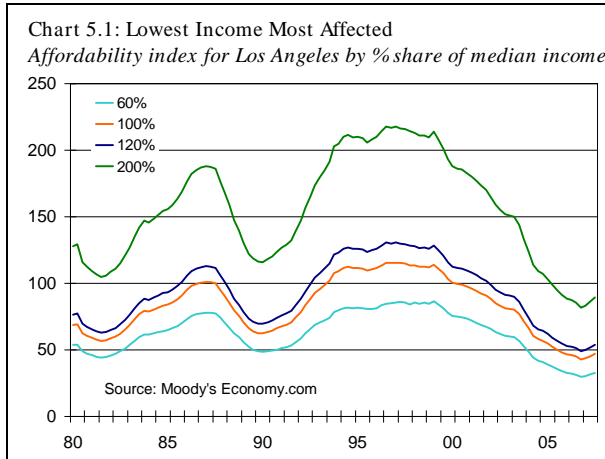
- An analysis of the Case-Shiller tiered indexes demonstrates that since 1971, houses in the lowest-tier index have appreciated almost two-thirds faster than those in the high price tier. These trends are evident on average (Chart 4.3), as well as across metropolitan areas (Chart 4.4). Indeed, the low-tier index is approximately 8 percent more volatile than the highest-tier index. Since 2000, the volatility gap has widened to 9 percent.



- Affordability has declined more for those on the lower end of the income distribution. These households generally have more difficulty obtaining a home because the the costs of carrying a mortgage on homes available to them are proportionately higher than their income, compared with wealthier households (Chart 6.6)



- Since the prices of relatively less expensive homes are more volatile than those of more expensive homes, there has been a significant deterioration in home affordability for lower- and middle-income households (Chart 5.1 and 5.2).



Least Affordable Metropolitan Areas

- The affordability of housing for a particular household is a function of that household's income, the house prices they face, and the interest rate and terms upon which they can borrow.
- A housing affordability index number of 100 represents a market in which a household earning the median income spends exactly 28 percent of their income on housing. A number below 100 represents a market in which a median-priced home is unaffordable to a household earning the median income.
- Of the markets considered in this report, below are the 20 with the greatest affordability gap for middle-income households.

- | | |
|--|----------------------------------|
| 1. San Francisco, Calif. – 37.7 | 11. Seattle, Wash. – 68.8 |
| 2. Los Angeles, Calif. – 46.9 | 12. Riverside, Calif. – 69.9 |
| 3. Santa Ana-Anaheim-Irvine, Calif. – 48.6 | 13. New York, N.Y. – 72.1 |
| 4. San Jose, Calif. – 49.6 | 14. Peabody, Mass. – 75.1 |
| 5. Santa Rosa, Calif. – 51.9 | 15. Cambridge, Mass. – 76.2 |
| 6. San Diego, Calif. – 55.3 | 16. Fort Lauderdale, Fla. – 76.2 |
| 7. Ventura, Calif. – 55.7 | 17. Boston, Mass. – 76.7 |
| 8. Miami, Fla. – 55.7 | 18. Sacramento, Calif. – 77.5 |
| 9. Oakland, Calif. – 56.6 | 19. Portland, Ore. – 77.9 |
| 10. Bridgeport-Stamford, Conn. – 64.3 | 20. Chicago, Ill. – 87.3 |

Projections for the Future

- Housing market volume activity – permits, starts and sales – is expected to bottom out in 2008 and rise after this time. From peak to trough, national house prices as measured by the Case-Shiller index will lose 14 percent of its value.
- Despite recent easing of short-term interest rates by the Federal Reserve, longer-term interest rates are expected to gradually increase. This is a result of reduced willingness throughout the world to accumulate U.S. assets and a global repricing of risk – including the inherent “future risk” in holding long-term assets such as mortgage-backed securities.
- In response to the slowing homeownership market, future gains in rental rates can be expected.