3 groups are bulk of secondary market

MORTGAGE SHOPPING

DAVID C. MULLY

(This is the second in a two-part series explaining the home mortgage secondary market.)

In last week's column, we looked at how the secondary market for mortgage loans affects people who want to buy houses by:

- providing liquidity
- moderating periods of capital shortage
- facilitating movement of capital, and
- moderating differences in regional interest rates.

To further understand how the *system works, let's take a look at* the organizations that are the major players in the secondary market.

Three federally-chartered institutions were created by Congress to develop the secondary market for residential mortgages. These institutions are the:

- Federal National Mortgage Association (FNMA)
- Government National Mortgage Association (GNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)

The oldest of these institutions is the Federal National Mortgage Association (FNMA), also known as "Fannie Mae." It was created in 1938 as a wholly-owned government corporation. Its purpose was to provide a secondary market for FHA-insured and, later, VA-guaranteed loans.

FNMA is now owned by private shareholders and deals mostly with conventional mortgages. FNMA has the nation's largest mortgage portfolio. For its securities, FNMA guarantees the timely repayment of interest and principal, even if the payments have not been collected from the borrower.

In 1968, FNMA was partitioned into FNMA and GNMA. As part of the Department of Housing and Urban Development (HUD), the Government National Mortgage Company, commonly known as "Ginnie Mae," assumed responsibility for special assistance functions, such as programs requiring government subsidies.

In 1970, GNMA created the first publicly-traded pass-through securities representing undivided interests in pools of FHA and VA mortgages. The GNMA security, which is backed by a federal government guaranty, enabled mortgage bankers to sell large quantities of mortgages to new investors who lacked the staff and expertise to evaluate the purchase of whole loan packages.

The largest number of GNMA securities is backed by pools of long-term fixed-rate mortgages on single-family residential properties. These securities are highly liquid because they are readily available and easily interchangeable.

The third federally-chartered secondary market institution is the Federal Home Loan Mortgage Institution, or "Freddie Mac." FHLMC was created in 1970 primarily as a secondary market for savings and loans institutions. However, it now buys from many types of originators.

The FHLMC has few loans in its portfolio; it finances its operation chiefly through its participation certificate (PC) program. Through this program, FHLMC purchases and packages mortgages into participation certificates.

FHLMC also exchanges PCs for mortgages packaged by a single issuer. In addition to PCs, Freddie Mac issues collateralized mortgage obligations or CMOs. These are mortgage-backed bonds that are grouped according to the maturities of the loans being used for collateral. By offering different classes of maturities, FHLMC can attract investors with different investment needs.

Recently, several other private secondary market organizations have entered the scene. These include MGIC Mortgage Marketing Corporation, General Electric Credit Corporation and The Home Mortgage Assess Corporation.

Unrelated to the federal government, these organizations buy and sell mortgage and mortgage-backed securities. Individually, they serve a number of purposes, such as dealing with mortgages that exceed FNMA or FBLMC purchase limits or helping builders obtain financing. A strong secondary market is essential for a strong primary market in residential loans.

The entry of these new companies, along with the federally-chartered organizations, helps ensure a steady stream of investments and capital for the mortgage industry.

David Mully is a senior loan officer for Source One Mortgage Services Corporation in Farmington Hills. He has specialized in residential mortgages in the Detroit metropolitan area for the last eight years. If you have any comments or questions regarding this column or would like some assistance in shopping for a home mortgage, you can call Mully at (810) 488-7664 or fax him at (810) 488-7590.

HOUSES SOLD IN OAKLAND COUNTY

These are the Observer & Eccentric-area residential real-estate closings recorded January 8 - 12 at the Oakland County Register of Deeds office and compiled by Advertising That Works, a Bloomfield Township company that tracks deed and mortgage recordings in Southeastern Michigan. Listed below are cities, addresses, and sales prices.

BEVERLY HILLS

BIRMINGHAM

BLOOMFIELD TWP.

BLOOMFIELD HILLS

CLARKSTON

COMMERCE TOWNSHIP

DAVISBURG

FARMINGTON

FARMINGTON HILLS

LATHRUP VILLAGE

NOVI

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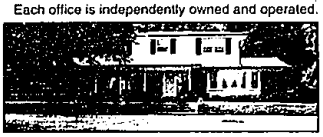

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