

## SECONDARY MARKETING

- The secondary market is that portion of the mortgage market, in which lenders and investors buy and sell existing mortgages. As we previously discussed; a lender pools their loans and sells them to the investor.
- The secondary market serves four important economic functions:
  - It provides liquidity to investors who do not traditionally invest in mortgages.
  - It moderates the negative effects of periods of capital shortage.
  - It facilitates the movement of capital from surplus regions to low-capital regions.
  - It moderates regional differences in interest rates and lessens the effects of regional economic downturns.
- Mortgages may be bought and sold in the secondary market in several different forms:
  - Whole loans transfer the entire ownership interest in a mortgage.
  - Participants represent a partial interest in a mortgage.
  - Mortgage-backed securities represent an undivided interest in a pool of mortgages.
  - Debt obligations are mortgage-backed bonds, which are collateralized by mortgages.
- The major players in the secondary market are:
  - FNMA-a privately held, federally chartered institution which deals mostly with conventional mortgages in issuing mortgage-backed securities.
  - FHLMC-a privately held, federally chartered institution which deals mostly with conventional mortgages in issuing PCs.
  - GNMA-a federally chartered institution, which is a part of HUD. It issues mortgage-backed securities by FHA and VA mortgages.
  - Numerous private investors
- Lenders must manage risk in the secondary market of changing interest rates. This is accomplished by:
  - Mandatory delivery commitments
  - Optional delivery commitments
  - Hedging in the secondary market
  - Developing and using a marketing plan

## WAREHOUSING

Warehousing is short-term borrowing by a mortgage lender to fund mortgage loans until they are sold to an investor. This is the part of the process where the lenders hold the loans while we are forming the pools to sell to the investors.

- ❖ The mortgage banker pledges the loan documents as security for the warehouse funds.

The collateral package normally includes:

- The mortgage note
- A certified copy of the mortgage



- An assignment in blank
  - Copies of the title report, hazard insurance policy or binder, mortgage insurance policy, and
  - A copy of the investor commitment
- ❖ Commercial banks require mortgage bankers to deposit compensating balances as security for borrowings. Compensating balances normally consist of the tax and property insurance payments the mortgage banker is holding in escrow.

### ***DELIVERY (Shipping)***

Delivery is the preparation and the physical or automated delivery of loan documents to an investor or its agent according to the terms of the investor commitment. After the sell to the investor the loans are shipped or delivered to that investor.

- ❖ A mandatory delivery commitment requires the seller to deliver mortgages to the investor by a certain date and at a fixed price and yield and requires the investor to buy them.
- ❖ The delivery staff is responsible for seeing that investor commitments are fulfilled within specified deadlines and according to investor requirements.
- ❖ The Delivery process includes four steps:
  1. Checking loan files for missing original documents and other required documents
  2. Making copies of the loan documents for the lender and investor
  3. Preparing the investor's transmittal and any pool documents
  4. Shipping the loan documents to the investor or pool custodian

