# THE SECONDARY MORTGAGE MARKET

***Fannie Mae and Freddie Mac***: The **Federal National Mortgage Association** ("**Fannie Mae**" – created in 1938, privatized in 1968) and the **Federal Home Loan Mortgage Corporation** ("**Freddie Mac**" – created by the Emergency Home Finance Act of 1970) are the largest buyers of **Home Loans** in the United States. Together, they buy almost half of all residential home loans. **Fannie Mae** and **Freddie Mac** are huge, NYSE listed companies with $7 trillion of mortgage loans and securities. During the global financial crisis, **Fannie Mae** and **Freddie Mac** were nearly bankrupt and placed under the conservatorship of the **Federal Housing Finance Agency** ("**FHFA**" – created by the Housing and Economic Recovery Act of 2008).

***Ginnie Mae***: **Government National Mortgage Association** ("**Ginnie Mae**" – HUD Act of 1968) is a wholly owned U.S. government corporation within the **Department of Housing and Urban Development (HUD)**. **Ginnie Mae** guarantees **Mortgage Backed Securities**.

***Conforming Loans***: **Mortgage Loans** that **Conform** to **Fannie Mae** and **Freddie Mac Underwriting Guidelines** for **Loan Size** (for 2022: $647,200, or $970,800 in certain high cost areas of the country), **Creditworthiness** (**FICO** score), **DSCR**, **LTV**, and other criteria.

***Non-Conforming Loans***: **Mortgage Loans** that **Do Not Conform** to all the **Underwriting Guidelines** of **Fannie Mae** and **Freddie Mac** at a particular time.

***Subprime Loans***: **Mortgage Loans** that fall below the **Underwriting Guidelines** for **Creditworthiness** (**FICO** score), **DSCR**, and/or **LTV**. Not related to **Loan Size**.

***Seasoned Mortgages***: **Mortgage Loans** that have been paying monthly **Principal** and **Interest** on time. The longer the payments stay current, the more "**Seasoned**" the **Mortgage**.

***Residential Mortgage Backed Securities ("RMBS") and Commercial Mortgage Backed Securities ("CMBS")***: Created when pools of **Residential** or **Commercial Mortgage Loans** are **Tranched** into **Securities** for sale to other **Investors** in the **Capital Markets**. The primary **Risks** associated with these **Securities** are **Default Risk** and **Prepayment Risk**.

***Default Risk***: When the **Default Rate** on the pool of **Mortgage Loans** underlying the **Mortgage Backed Securities** is higher than was projected at the time of the MBS offering.

***Prepayment Risk***: When the **Prepayment Rate** on the pool of **Mortgage Loans** underlying the **Mortgage Backed Securities** is higher than was projected at the time of the MBS offering.

***Collateralized Mortgage Obligations ("CMOs")***: **Debt Securities** that are issued using a pool of **Mortgage Loans** as **Collateral**, where the **Issuer** retains **Ownership** of the **Loans**.

***Collateralized Debt Obligations ("CDOs")***: Any **Debt** can be **Collateral** for the **Securities**.

***Principal Only Tranches ("POs"), Interest Only Tranches ("IOs"), Floaters and Inverse Floaters***: Some of the unique **Securities** that can be created to appeal to different **Investors**.