



17 - Secondary Mortgage Market - ch. 19, 20

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▼ Supplemental

- ▼ FDIC (federal deposit insurance corporation) insures up to \$250k in a single account

▼ Lecture

- ▼ fannie mae (NYSE:FNMA) and freddie mac (NYSE:FMCC)
 - ▼ fannie mae - federal national mortgage association, created 1938, privatized 1968
 - ▼ freddie mac - federal home loan mortgage corporation,

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/2d63ac8f-2292-49ee-9cf4-4098dcaede71/15_-_SECONDARY_MORTGAGE_MARKET_-_Chapters_19_and_20.pdf

created by Emergency Home Finance Act of 1970, largest buyers of home loans in the US

- ▼ HUGE companies together owning 50% of residential home loans and \$7 trillion in loans and securities

- ▼ during 2007-8 crisis, they nearly went bankrupt and were placed in conservatorship of the Federal Housing Finance Agency (FHFA - housing an economic recovery act of 2008)

- ▼ ginnie mae

- ▼ Government National Mortgage Associate (HUD act of 1968)

- ▼ US govt corp within 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, creditworthiness (FICO), DSCR, LTV, and others

- ▼ non-conforming loans

- ▼ mortgage loans that don't conform to the previous

guidelines - at a time

▼ subprime loans

▼ mortgages that fall BELOW the underwriting guidelines of fannie mae and freddie mac

▼ in FICO, DSCR, LTV

▼ NOT considering loan size

▼ seasoned mortgages

▼ mortgages that have been paying monthly principal and interest on time

▼ longer the payments stay current, the more seasoned it is

▼ RMBS and CMBS

▼ residential mortgage backed securities and commercial mortgage backed securities

▼ created when pools of resi or comm mortgages are trunched into securities for sale to investors in the capital markets

▼ primary risks are default risk and prepayment risk

▼ default risk

▼ when default rate on the mortgages in the tranch of a MBS is higher than projected at time of MBS offering

▼ prepayment risk

- ▼ when prepayment rate on the mortgages in the tranch of a MBS is higher than projected at time of MBS offering
- ▼ CMOs
 - ▼ collateralized mortgage obligations
 - ▼ debt securities issued using a pool of mortgage loans as collateral
 - ▼ issuer retains ownership of the loans
- ▼ CDOs
 - ▼ collateralized debt obligations
 - ▼ any debt can be collateral for the securities
- ▼ POs, IOs, and floaters and inverse floaters
 - ▼ principal only tranches, interest only tranches, and tranches tied to an index like LIBOR
 - ▼ unique securities created to appeal to different investors

▼ Discussion



SUMMARY