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 of 2007-2008, **Fannie Mae** and **Freddie Mac** nearly went bankrupt and were placed under the conservatorship of the **Federal Housing Finance Agency** ("**FHFA**" – 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 2023: $726,200 and $1,089,300 in high cost counties), **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**.