BEYOND THE CREDIT SCORE:

The Secondary Mortgage Market

Housing Action Illinois

A stronger Illinois begins at home

Housing Action IL

- Housing Action Illinois is a statewide coalition formed to protect and expand the availability of quality, affordable housing throughout Illinois. Together we empower communities to thrive through three programs: Organizing, Policy Advocacy, and Training and Technical Assistance.

- Our members include housing counseling agencies, homeless service providers, developers of affordable housing and policymakers. These organizations serve low- and moderate-income households, helping to provide a place to call home, thereby strengthening the community at large.

- At Housing Action Illinois our supporters, participants and members agree that a stronger Illinois begins at home.

- HAI is a HUD Housing Counseling Intermediary with Affiliates in Illinois, Indiana and Missouri.

AGENDA

- Explain the purpose of the secondary mortgage market
- Explain the history of the market
- Show how secondary market rules impacted housing policy and neighborhoods
- Show how investor needs impact mortgages and underwriting
- Explain the role of the secondary market in the housing crash

The Secondary Mortgage Market

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The Secondary Mortgage Market

The Secondary Mortgage Market is where banks sell mortgage loans to investors, which creates liquidity for the origination of new mortgages

HISTORY OF THE MORTGAGE MARKET

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Early Mortgages

- Mortgages offered by private companies, including insurers
- Required up to 50% down payment
- Often interest only or short-term loans with a balloon payment
- Limited the number of people who could buy homes
- Eventually, Building (Savings) and Loan Associations began offering mortgages

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Alchetron

The Great Depression

Federal Home Loan Bank

THE NEW DEAL

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Homeowners Loan Corporation

Homeowners Loan Corporation

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- Congress created the Home Owners Loan Corporation to refinance existing home loans.
- Helped to prevent thousands of families from losing their homes to foreclosure.

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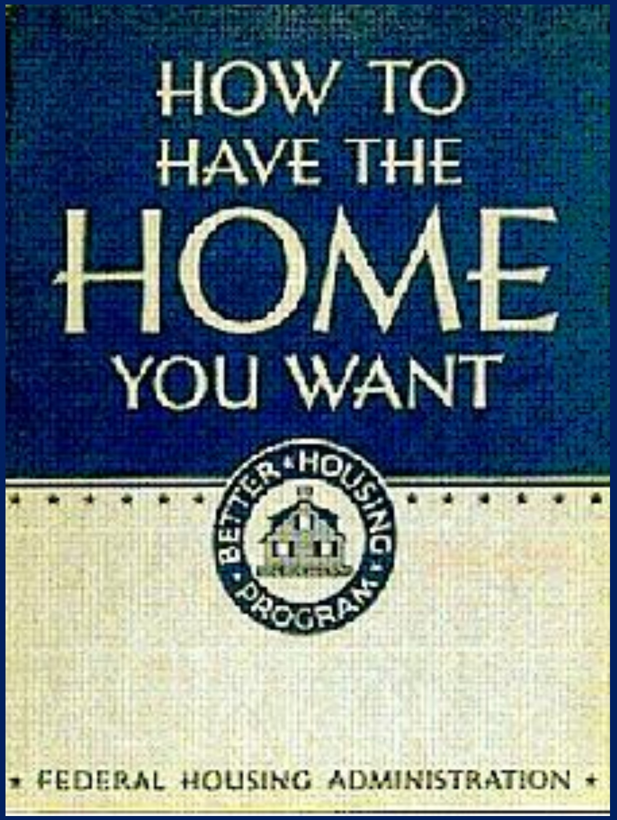
Federal Housing Administration

FHA



Fannie Mae

Residential Security Maps

Home Ownership Loan Corporation hired appraisers to create maps to determine the quality of neighborhoods in 239 cities

Neighborhood quality identified by color

Residential Security Maps

- Green = Best
- Blue = Still Desirable
- Yellow = Definitely Declining
- Red = Hazardous

Chicago

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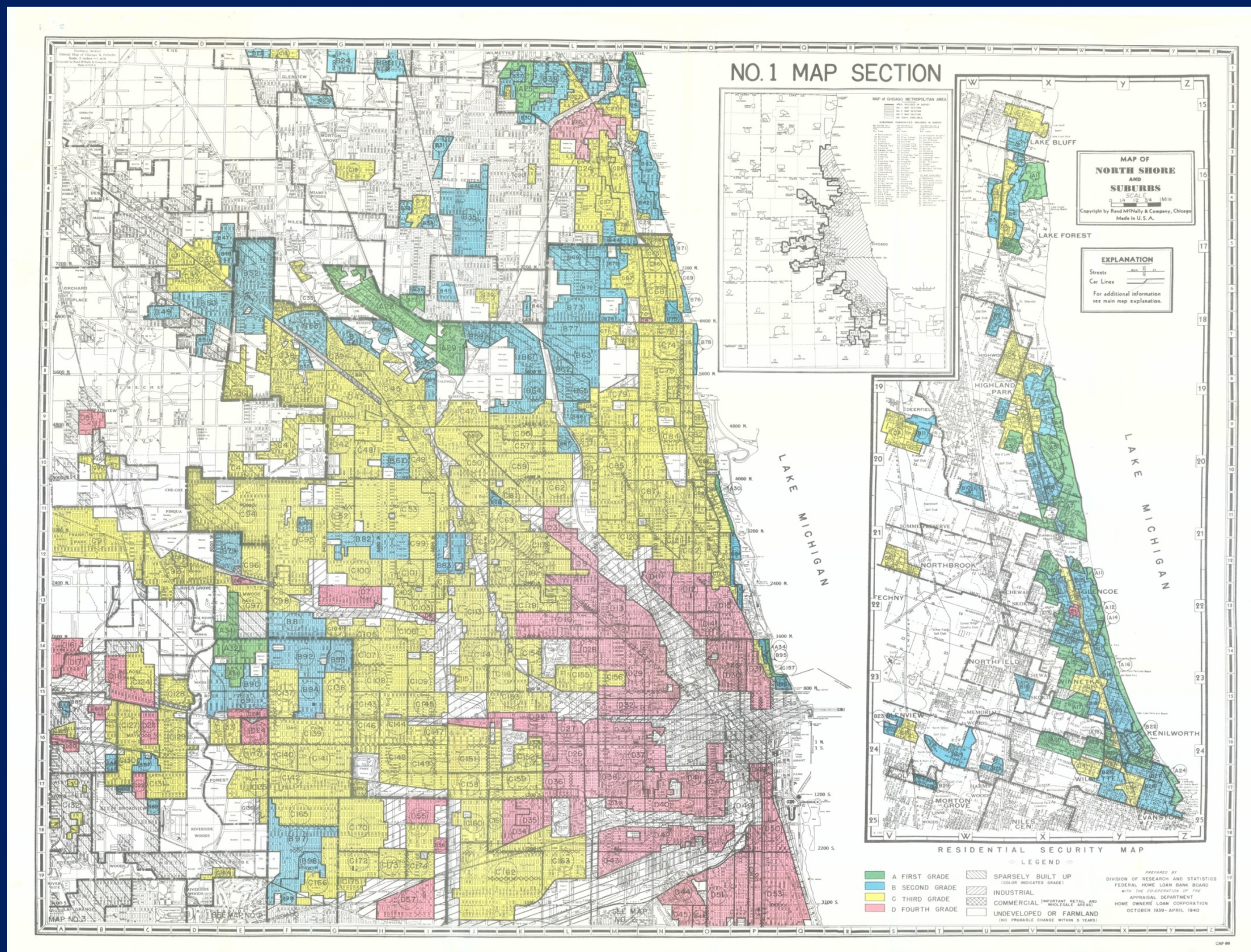

Chicago

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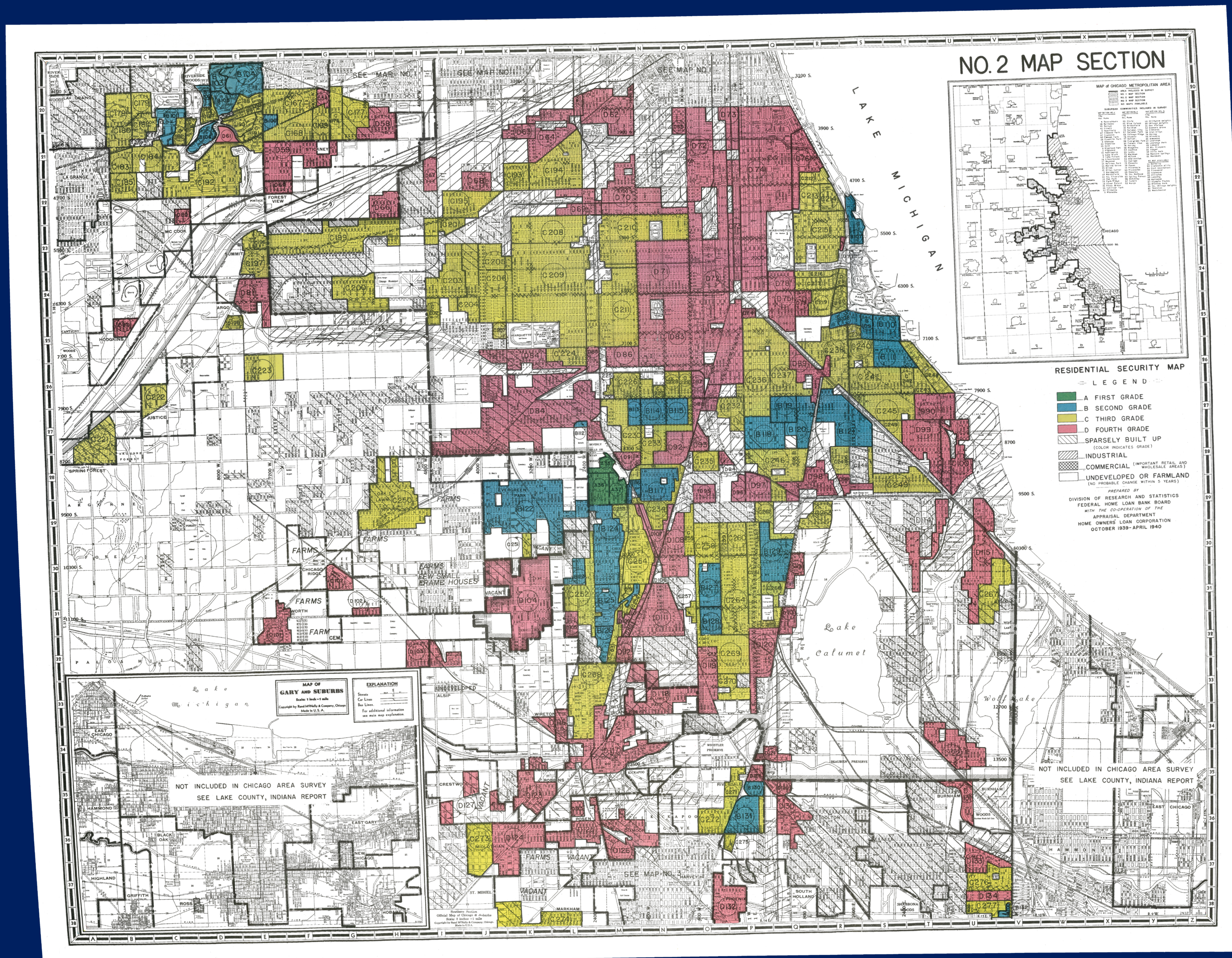

Chicago

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- Note the description for the Washington Park neighborhood. If you were a lender in that era, would you want to lend there?
- Eventually, the maps created by the Homeowners Loan Corporation and private firms were used by the entire mortgage industry to determine where to lend and how to price products.

Chicago

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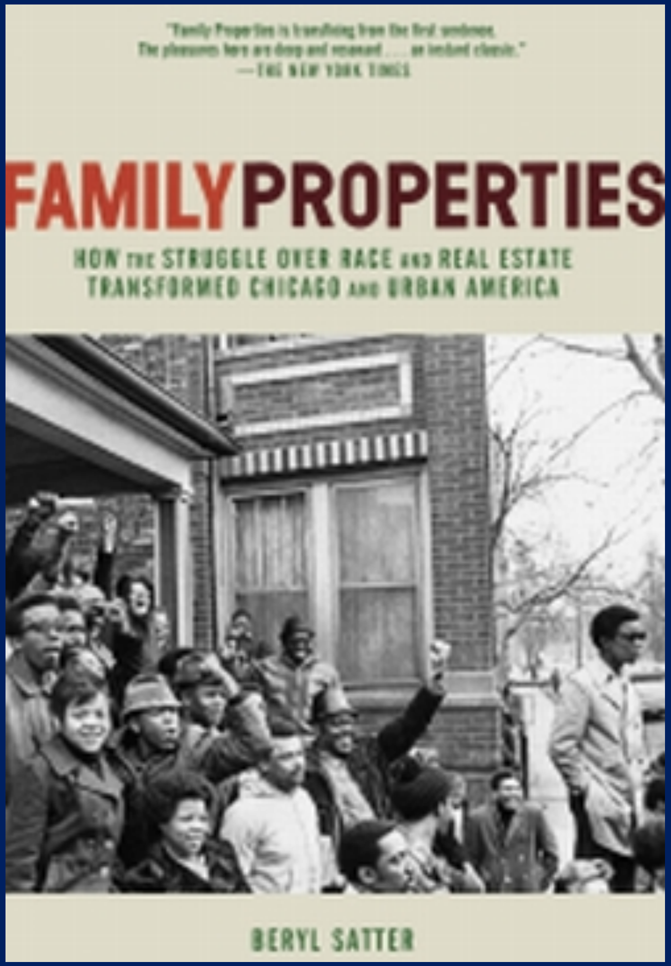
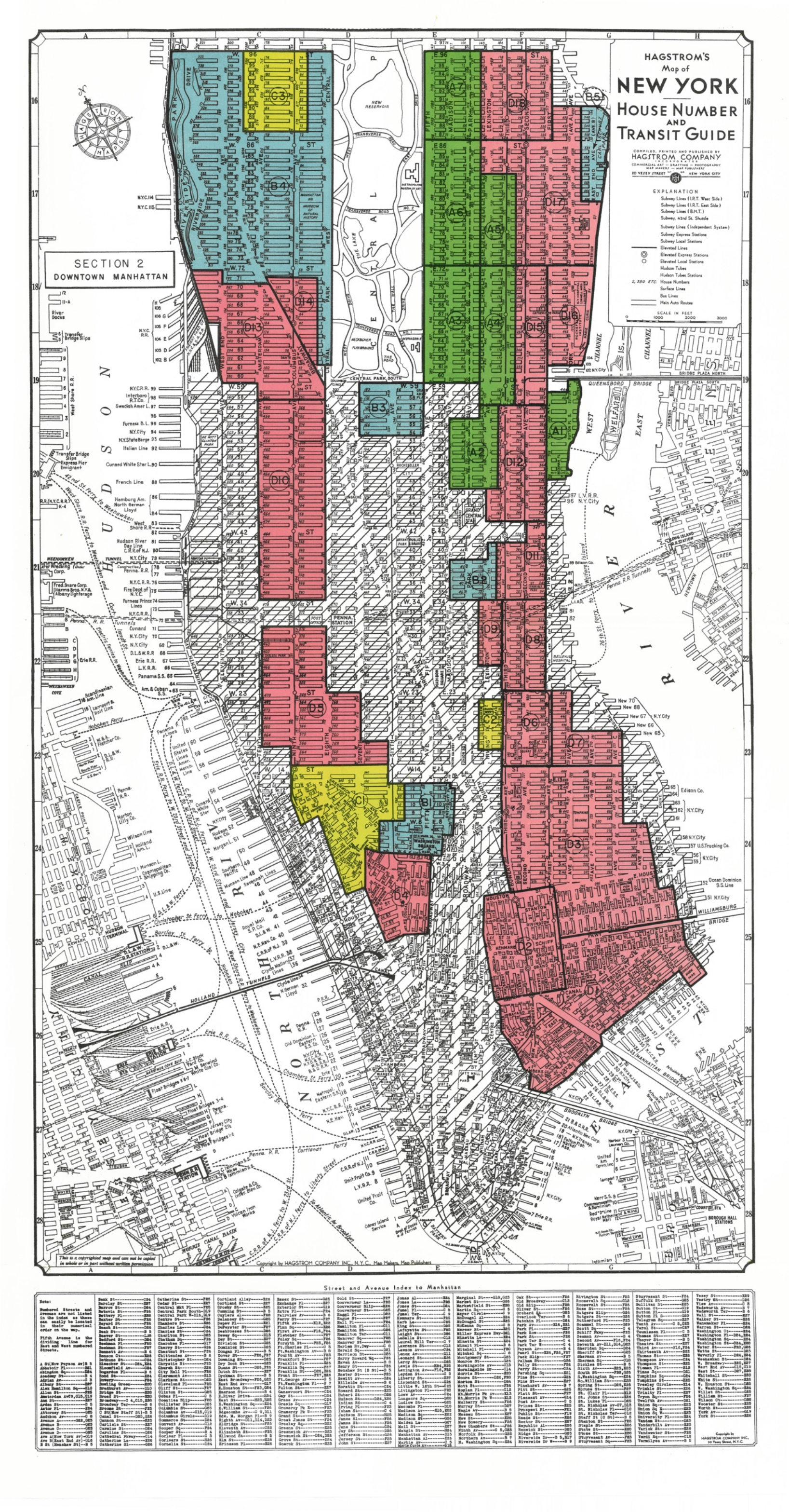
- In Chicago, this contributed to contract buying and other abuses that continue to impact many Chicago neighborhoods



MANHATTAN, NEW YORK



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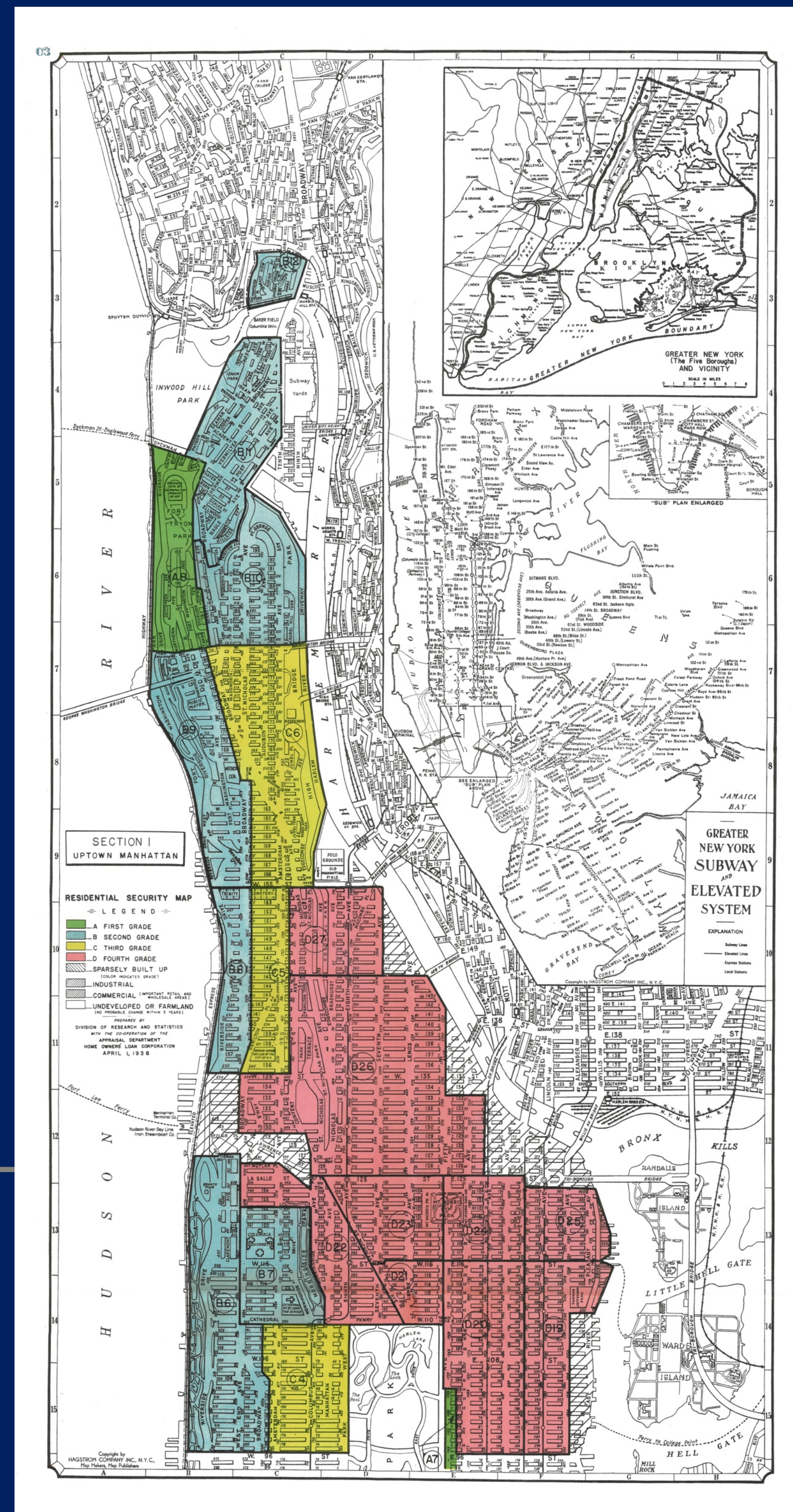
MANHATTAN, NEW YORK



Credit: Mapping Inequality

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New Orleans

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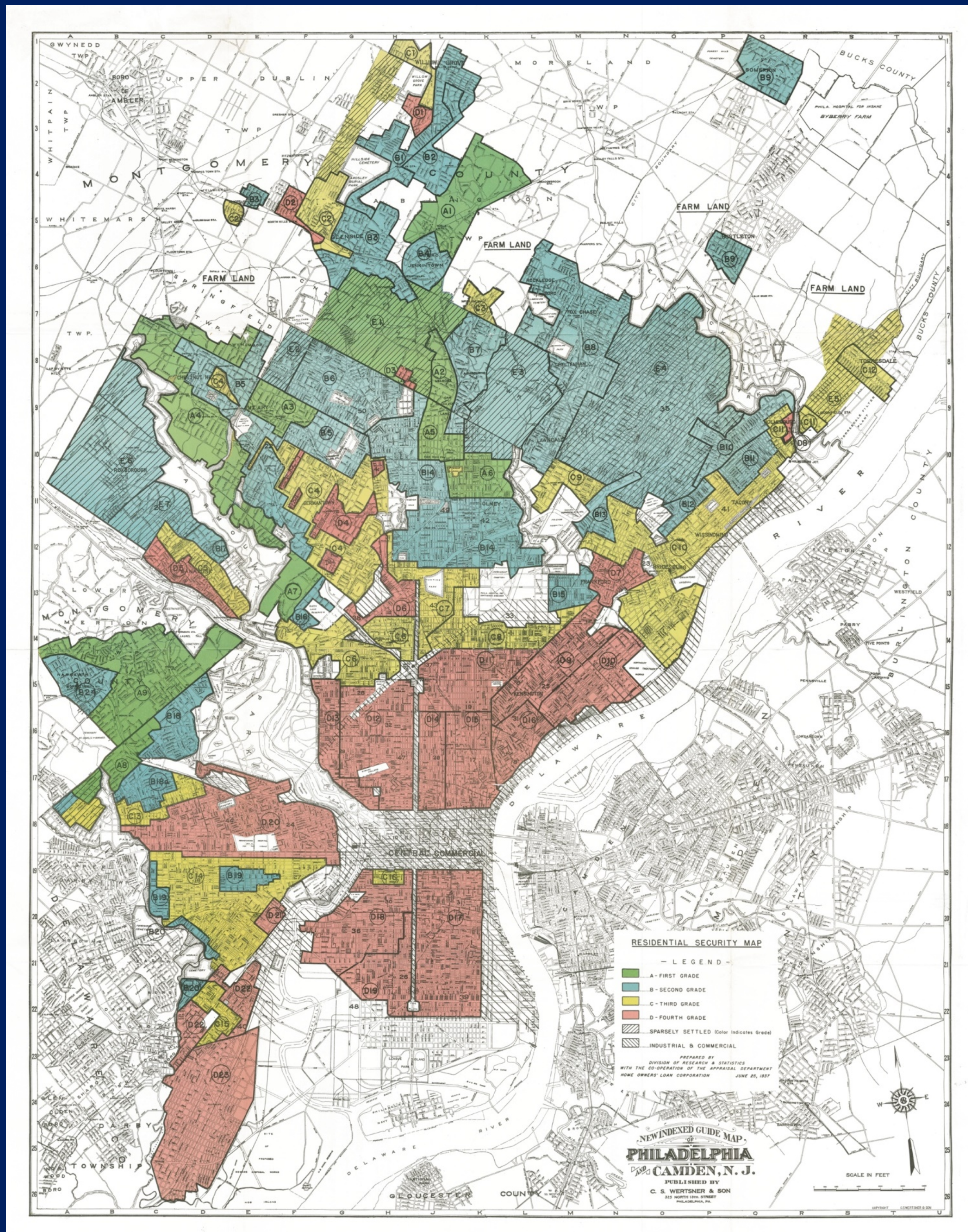

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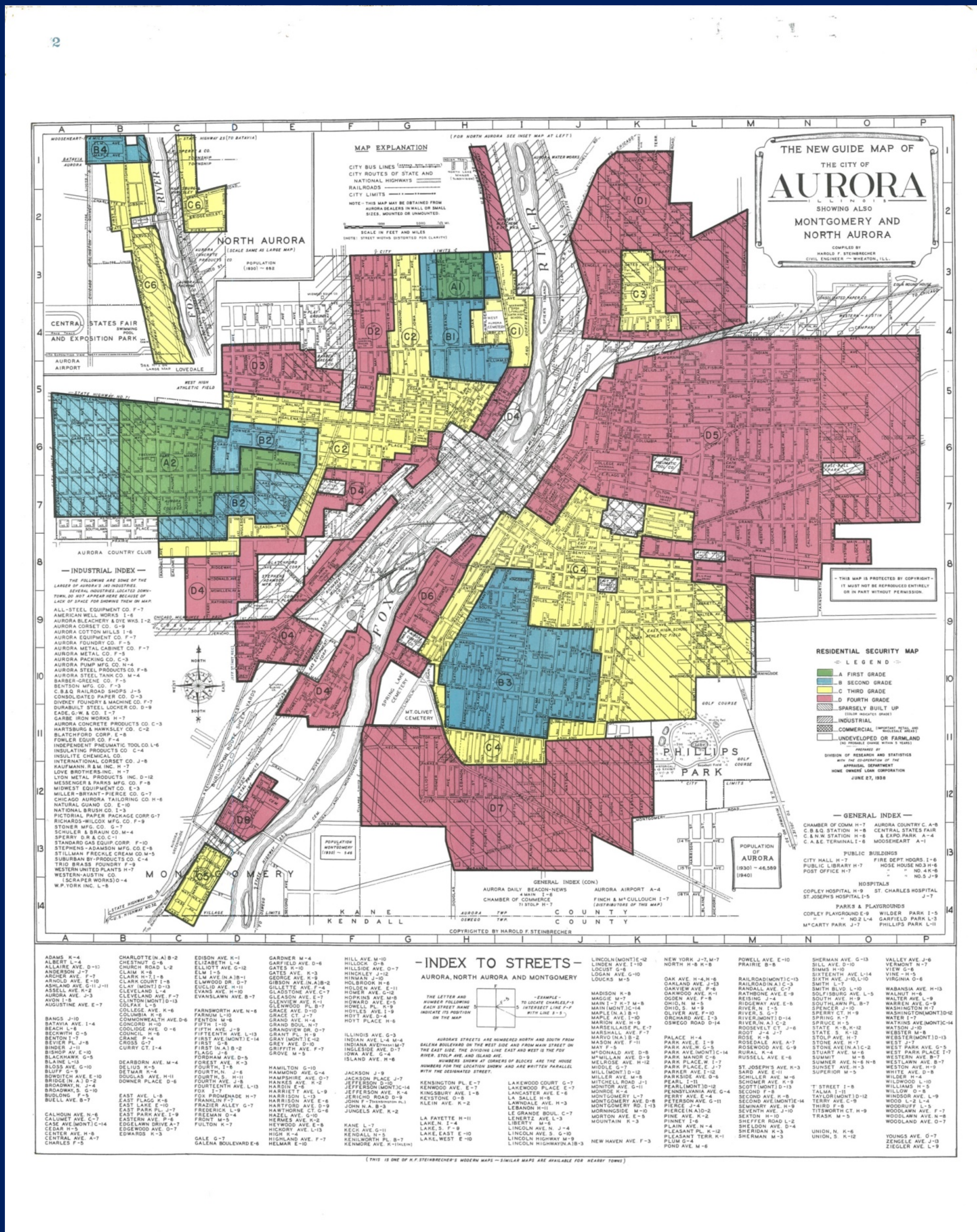
Philadelphia



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Aurora, Illinois

Home Mortgage Disclosure Act Notice

The HMDA data about our residential mortgage lending are available for review. The data show geographic distribution of loans and applications; ethnicity, race, gender, and income of applicants and borrowers; and information about loan approvals and denials.

Inquire at this office regarding the locations where HMDA data may be inspected.


R
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The Rise of the Secondary Market

Fannie Mae Goes Private

Ginnie Mae

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Ginnie Mae

SM

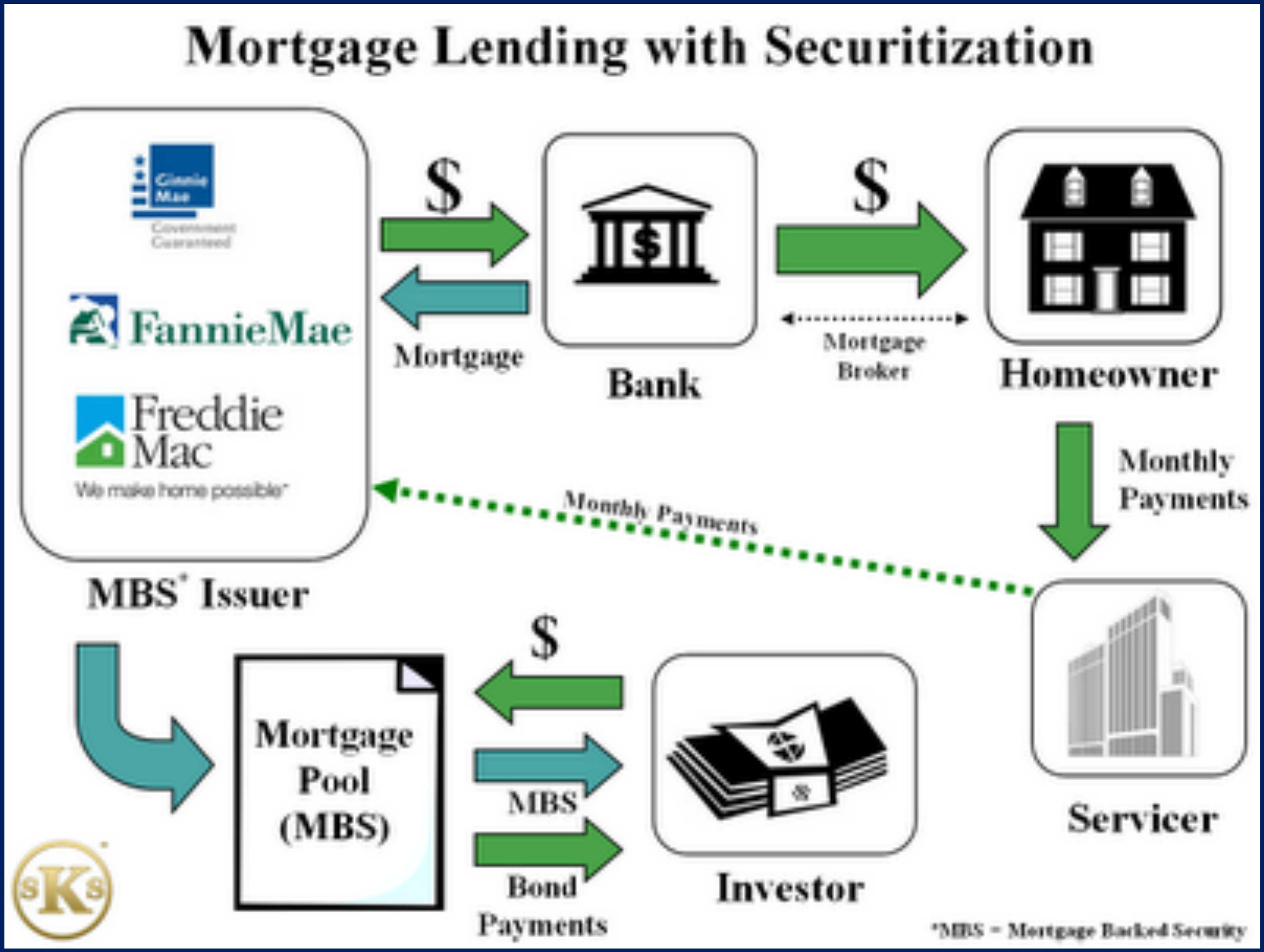
Freddie Mac

Conforming Mortgages

Alt-A Mortgages

Sub Prime Mortgages

Mortgage Backed Securities



Credit: Massachusetts Real Estate Law Blog

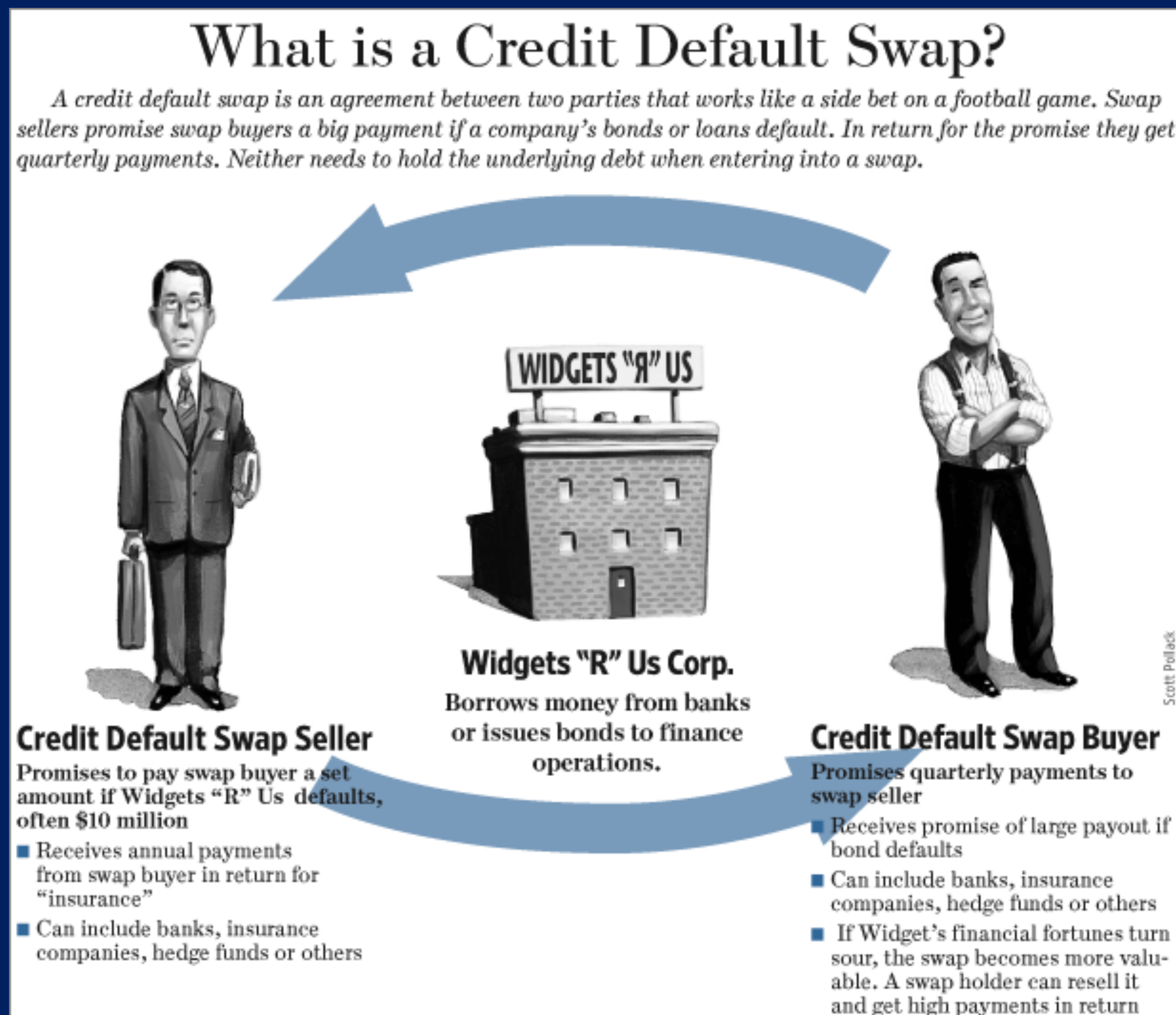
Collateralized Debt Obligations

Type of security often composed of the riskier portions of mortgage-backed securities.

Credit Default Swaps

A type of credit derivative allowing a purchaser of the swap to transfer loan default risk to a seller of the swap. The seller agrees to pay the purchaser if a default event occurs.
The purchaser does not need to own the loan covered by the swap.

Credit Default Swaps



Credit: Goldonomic

Credit Default Swaps

Credit: The Cagle Post

Synthetic Credit Default Obligation

A CDO that holds credit default swaps that reference assets (rather than holding cash assets), allowing investors to make bets for or against those referenced assets.

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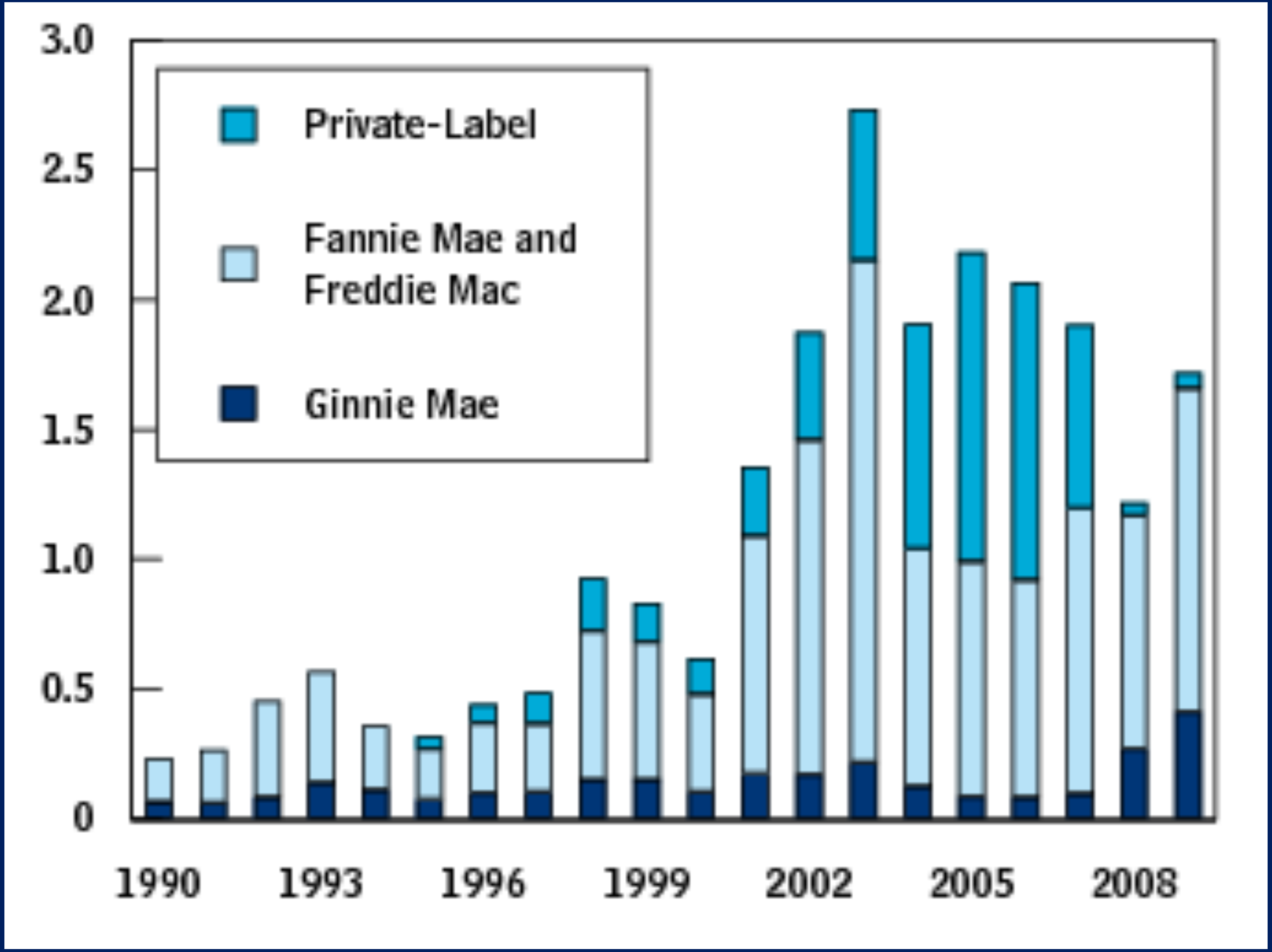
Private Label Securitization

Private Label Securitization



All this financial creativity was a lot “like cheap sangria,” said Michael Mayo, a managing director and financial services analyst at Calyon Securities (USA) Inc. “A lot of cheap ingredients repackaged to sell at a premium,” he told the Commission. “It might taste good for a while, but then you get headaches later and you have no idea what’s really inside.” Financial Crisis Inquiry Commission Report

Foreclosure Crisis

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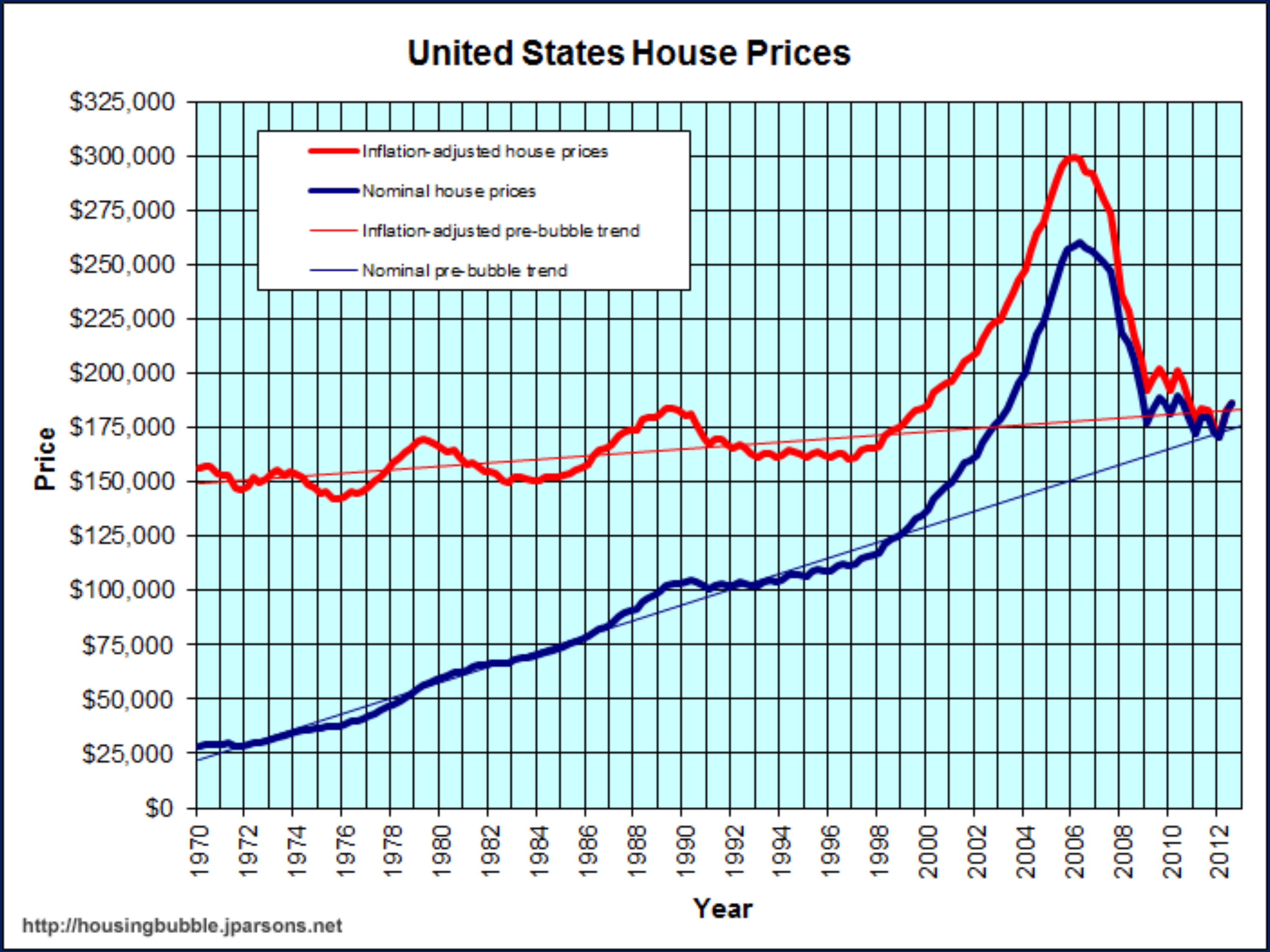

Credit: Decoded Science

Foreclosure Crisis

Starting in mid 2007, global financial markets began to experience serious liquidity challenges related mainly to rising concerns about U.S. mortgage credit quality. As home prices fell, recently originated subprime and non-traditional mortgage loans began to default at record rates. These developments led to growing concerns about the value of financial positions in mortgage-backed securities and related derivative instruments held by major financial institutions in the U.S. and around the world. The difficulty in determining the value of mortgage-related assets and, therefore, the balance-sheet strength of large banks and non-bank financial institutions ultimately led these institutions to become wary of lending to one another, even on a short-term basis. Prepared testimony of FDIC Chair Sheila Bair to FCIC, 9/2/2010

Foreclosure Crisis

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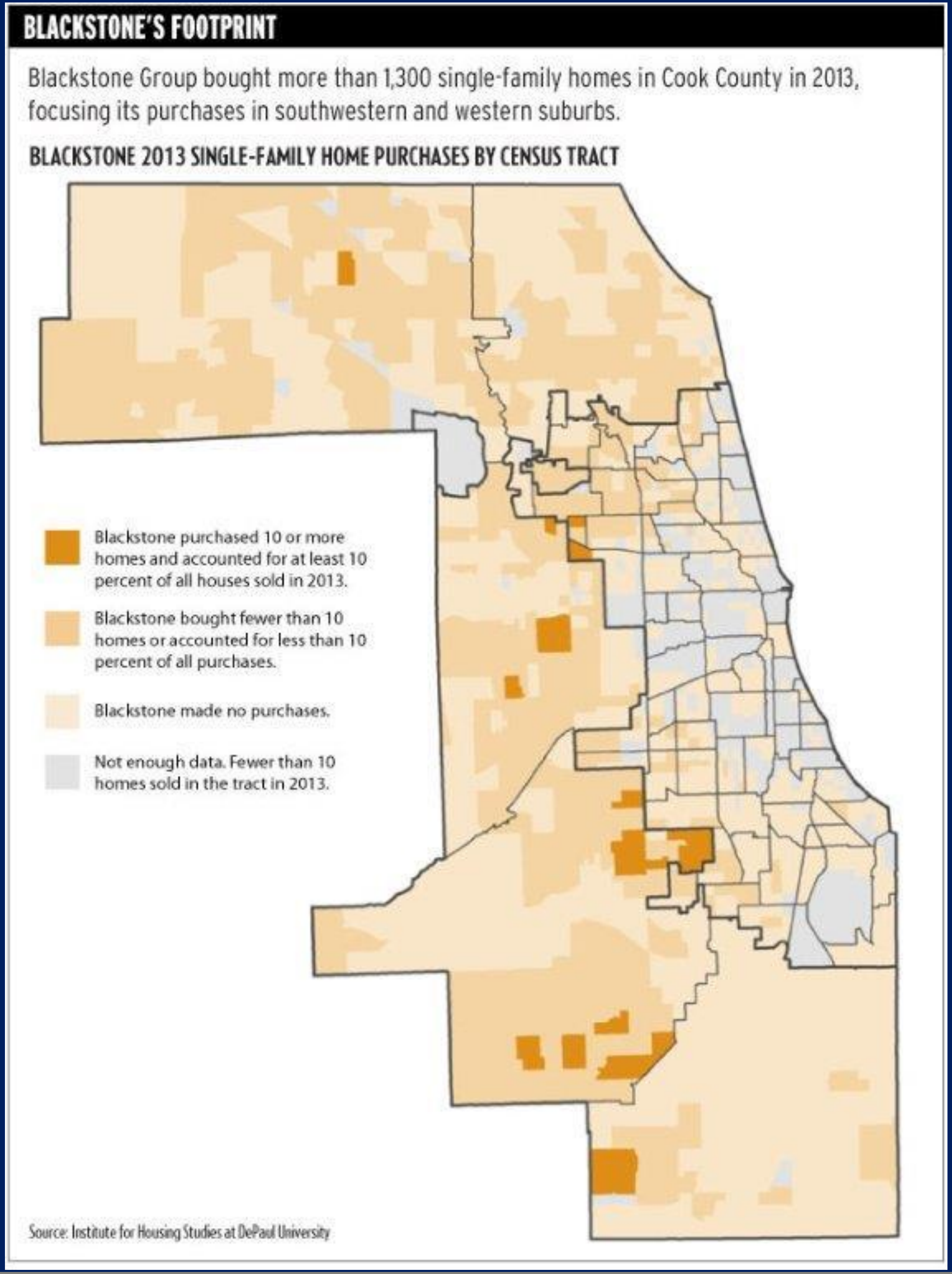
The Present

The Present

FHA
Fannie and Freddie
Fintech = Financial Technology
Private Label Security
Credit Box Remains Tight in Conforming Market
Lenders using Portfolio Products to Serve Non-Conforming Buyers

The Present


BLACKSTONE'S FOOTPRINT
Blackstone Group bought more than 1,300 single-family homes in Cook County in 2013, focusing its purchases in southwestern and western suburbs.
BLACKSTONE 2013 SINGLE-FAMILY HOME PURCHASES BY CENSUS TRACT
Blackstone purchased 10 or more homes and accounted for at least 10 percent of all houses sold in 2013.
Blackstone bought fewer than 10 homes or accounted for less than 10 percent of all purchases.
Blackstone made no purchases.
Not enough data. Fewer than 10 homes sold in the tract in 2013.
Source: Institute for Housing Studies at DePaul University

The Present

Chicago Reader – Zakkiyyah Najeebah

QUESTIONS??

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