

Mortgage Markets

Key Terms:

Fannie Mae: Federal National Mortgage Association

Freddie Mac: Federal Home Loan Mortgage Corporation

Ginnie Mae: Government National Mortgage Association

Together these corporations facilitate the secondary mortgage market. Mortgages made by primary lenders are purchased by these organizations, then repackaged and sold as securities backed by the future payments expected to be made on those mortgages. As a result, they replenish the supply of funds available for lenders to loan to borrowers, allowing many more loans to be made.

Community Reinvestment Act (CRA) of 1977:

Requires federally regulated lenders to meet community credit needs. After 1992, CRA ratings of lenders have been made public, greatly increasing the amount being reinvested. Total of \$400 Billion reinvested, mostly after 1992. However, in 1977, 2/3 of American savings was in CRA regulated institutions; today only 30%, as more is saved in mutual funds and money market accounts, etc.

Subprime lending:

Lending at a higher interest rate and/or with increased fees, presumably to higher-risk borrowers – however, has been abused by corrupt lenders practicing “predatory lending.”

Readings:

Frank Nothaft and Brian Surrence, “The Industrial Structure of Affordable Mortgage Lending”

Studies factors in the financial industry contributing to affordable lending – prime rate mortgage lending to low- and moderate-income families and those in underserved communities. Findings: smaller lenders do more affordable lending as a percentage of business than larger institutions, but larger lenders have more overall capital resources to offer affordable lending; smaller lenders are more successful, in terms of profitability due to their working knowledge of the markets they operate in; a stronger economy leads to more affordable lending for low- and moderate-income persons but not underserved communities; where there is financial industry concentration, more affordable lending occurs; and minority owned lenders more likely to offer affordable lending.

Michael Stegman, *Affordable Housing Programs*, Chapter 7

While the Community Reinvestment Act stimulated lending to underserved, low-income persons and communities, there appears to be a need to expand the availability of funds for such lending. One possibility is that a secondary mortgage market will emerge for non-traditional affordable loans - loans with lower down payments, lower interest rates, flexible qualification standards, designed to meet CRA regulations. In the late 1990s, several organizations interested in stimulating lending to underserved communities initiated such secondary market programs, one of the most successful being the Community Advantage Home Loan Secondary Market Program by Self-Help in North Carolina.

Calvin Bradford, *Risk or Race? Racial Disparities in the Subprime Market*

Subprime lending can be a mechanism by which those with bad, little, or alternative credit histories can get loans. However, non-whites are far more likely to receive subprime loans than are whites, regardless of income, and the disparity is even greater at higher income levels. This is true in all regions of the country and nearly all metropolitan areas regardless of population size. This seems to indicate that they are more likely to be victims of predatory lending.

Discussion Questions

1. What measures might be taken to make affordable loans more available to low-income persons and underserved communities given the findings by Nothaft and Surette?
2. What implications does the consolidation of financial institutions have for overall lending to low- and moderate-income borrowers and underserved areas? What are the possible impacts of this trend?
3. Stegman describes programs designed to expand the secondary market for affordable mortgages, with the goal of stimulating affordable lending. What impact is the current economic downturn likely to have on such programs? What about long-term prospects?
4. Bradford seems to have uncovered evidence that racism not only continues in the home loan market, but is as pervasive as ever. Does racism alone explain his findings? Is there any other logical explanation for the findings, such as simple risk aversion by lenders? If it is racism, what are the implications for any proposals to address affordable lending and affordable housing?

Additional questions that came up in class:

- What are alternatives to mortgages and markets as vehicles for providing some aspects of home ownership?
- Do we have any up-to-the-minute information on how the economic downturn may be affecting mortgage markets.
- Elaboration of #2: How will CRA regulations be enforced into the future if consolidation has taken place in the finance industry?

Overhead Scribblings:

About who is served in finance industry/mortgage markets and how to weight evidence of racism vs. other causes of differential lending rates. One important thought is that the number of minority- and women-owned financial institutions is small, and these are the groups who most frequently lend to those groups.

WHO: EVIDENCE - MINORITY → TO SAME
· ♀
RACISM? - SMALL PART OF MKT
SO OTHER LEADERS.
· LANGUAGE?
· LOYALTY TO SERVE MINORITY
SELF SELECT
· SELF CENSOR?

Question about the benefits of homeownership for everyone.

HOME OWNERSHIP FOR ALL?

- RENT TO OWN?
- WHY OWN?
- SF HOME?
- SUSTAINABILITY?

BUNDLE OF RIGHTS
OF OWNERSHIP?

- ALTERNATIVES TO SF

COMMUNITY LENDER BANK VS IMPERSONAL BANK

How connect w/ lenders?

- REAL ESTATE AGENTS.
- CREDIT UNIONS
- FIRST TIME HOMEBUYER CLASS - Cert to qual.

MARKETS - SLOWLY EXPANDING
TO SELLING FOR

LOWER INC. BORROWING

- EVOLVING OVER TIME.
- COMPANIES DO DEFAULT
- WHY DEBT FINANCING?

PROFIT - untapped
MARKET

~~LOOSER~~ LOOSER STANDARDS
BROADENS PEOPLE
SERVED; DEBT TOO

MARKET METHODS TO
PROVIDE GOODS