

SLIDE 14 - Primary Sources of Home Financing (Cover Page)

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The Mortgage Market

Mortgage loans provide borrowers with funds to purchase real estate. Money for mortgages primarily comes from cash savings of individuals, government, and businesses. This money may become available through the process of intermediation, in which funds on deposit with financial institutions are loaned out to borrowers, or disintermediation, in which the owners of the savings invest their money directly by making loans or other investments.

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The Primary Mortgage Market

The primary mortgage market – Consists of lenders who originate mortgage loans directly to borrowers. Primary mortgage market lenders include:

Savings and loans	Commercial banks
Mutual savings banks	Life insurance companies
Mortgage bankers	Credit unions

Mortgage brokers are also part of the primary mortgage market, even though they do not lend to customers directly.

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The primary lender assumes the initial risk of the long-term investment in the mortgage loan. Primary lenders sometimes also service the loan until it is paid off.

Servicing loans entails collecting the borrower's periodic payments, maintaining and disbursing funds in escrow accounts for taxes and insurance, supervising the borrower's performance, and releasing the mortgage on repayment.

In many cases, primary lenders employ mortgage servicing companies, which service loans for a fee.

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Portfolio lenders – A primary mortgage market lender may or may not sell its loans into the secondary market. Many lenders originate loans for the purpose of retaining the investments in their own loan *portfolio*. These loans are referred to as *portfolio loans*, and lenders originating loans for their own portfolio are called *portfolio lenders*.

Portfolio lenders are less restricted by the standards and forms imposed on other lenders by secondary market organizations. In retaining their portfolio loans, portfolio lenders may vary underwriting criteria and hold independent standards for down payment requirements and the condition of the collateral.

