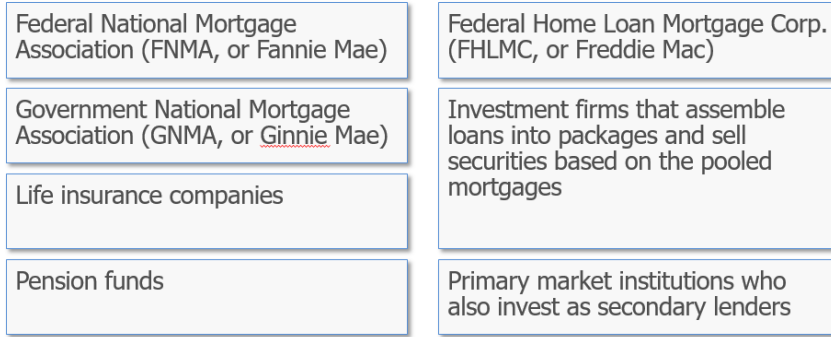


SLIDE 1 - **Secondary Mortgage Market (Cover Page)**

SLIDE 2

The Secondary Mortgage Market

The secondary mortgage market – Lenders, investors and government agencies that buy loans already originated by someone else, or originate loans indirectly through someone else, constitute the secondary mortgage market.



SLIDE 3



Primary lenders make a profit on the sale of loans to the secondary market. The secondary market acquires a profitable long-term investment without having to underwrite, originate, and service the loans. Secondary market organizations customarily hire primary lenders or loan servicing companies to service mortgage pools.

SLIDE 4

Secondary market loan requirements. The secondary market only buys loans that meet established requirements for quality of collateral, borrower and documentation. Since many primary lenders intend to sell their loans to the secondary market, the qualification standards of the secondary market limit and effectively regulate the kind of loans the primary lender will originate.

SLIDE 5

Role of FNMA, GNMA, and FHLMC

As major players in the secondary market, the Federal National Mortgage Association (FNMA, "Fannie Mae"), Government National Mortgage Association (GNMA, "Ginnie Mae), and Federal Home Loan Mortgage Corporation (FHLMC, "Freddie Mac") tend to set the standards for the primary market.

SLIDE 6

Federal National Mortgage Association, or Fannie Mae

Fannie Mae is a government-sponsored enterprise, originally organized as a privately-owned corporation.

Offers lenders firm loan purchase commitments, provided they conform to Fannie Mae's lending standards

Buys conventional, FHA-backed and VA-backed loans

Gives banks mortgage-backed securities in exchange for blocks of mortgages

Sells bonds and mortgage-backed securities

Guarantees payment of interest and principal on mortgage-backed securities

SLIDE 7

Government National Mortgage Assoc., or Ginnie Mae

Ginnie Mae is a division of the Department of Housing and Urban Development. Its purpose is to administer special assistance programs and to help Fannie Mae in its secondary market activities. Specifically, GNMA:

Guarantees payment on FNMA high-risk, low-yield mortgages and absorbs the difference in yield between the mortgages and market rates

Guarantees privately generated securities backed by pools of VA- and FHA-guaranteed loans

SLIDE 8

Federal Home Loan Mortgage Corporation, or Freddie Mac.

Freddie Mac is a government-sponsored enterprise, originally chartered as an corporation in 1970. As a secondary market player, FHLMC buys mortgages and pools them, selling bonds backed by the mortgages in the open market. Freddie Mac guarantees performance on FHLMC mortgages.

In September, 2008, a federal conservator, the Federal Housing Finance Authority (FHFA), took over the operation of Fannie Mae and Freddie Mac, and the U.S. Treasury took a majority ownership of both organizations.

SLIDE 9

Non-Conforming Loans

Products referred to variously as “non-traditional”, “alternative”, or “exotic” mortgage loans include:

- “Interest-Only mortgages
- “Payment Option” ARM

These products:

- Allow borrowers to exchange lower payments during an initial period for higher payments during a later amortization period
- Allow borrowers to defer payment of principal and sometimes interest
- Offered to a wider spectrum of borrowers who may not otherwise qualify for more traditional mortgages

SLIDE 10

Subprime lending may involve:

- Poor credit rating
- Lack of documentation
- High debt ratio
- Nonstandard property
- Large loan amount (Jumbo/Super Jumbo)
 - Loan is above normal mortgage limits
 - FNMA/FREDDIE MAC define loan amount limits for traditional and jumbo loans. Dollar loan amount limits subject to change each year.