

Primary Mortgage Market

That portion of the credit market that originates mortgage loans, including institutional lenders, such as savings and loan associations and banks, and mortgage bankers and brokers. Contrast with secondary mortgage market.

Example: The *primary mortgage market* originates and services mortgage loans. Many of these loans are packaged and sold in the secondary mortgage market.

It is the market where borrowers and mortgage originators come together to negotiate terms and effectuate mortgage transaction. Mortgage brokers, mortgage bankers, credit unions and banks are all part of the primary mortgage market.

Secondary Mortgage Market

National market where residential mortgages are assembled into pools and sold to investors. The secondary market, which originated with the Federal National Mortgage Association (Fannie Mae) the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae) supplies additional liquidity to mortgage lenders. Mortgages are sold through established Conduits that assemble pools of loans for resale or through private placement of loans directly with an investor. The secondary mortgage market, although dominated by the federal agencies, also includes private mortgage companies that buy conventional mortgages from mortgage originators, for resale as part of a Collateralized Mortgage Obligation or through a Real Estate Mortgage Investment Conduit.

The single most important contribution of the secondary mortgage market is the creation of a national market for resale of residential mortgages. This assures that mortgage originators, regardless of where they are located, have access to pools of capital managed by pension funds, insurance companies, and other institutional buyers of mortgage-backed bonds. Home buyers are assured an adequate supply of mortgage financing, as the secondary market sales lessen the possibility that a lending institution will become loaned up and cease making new loans. The maturing of the secondary market, beginning in the late 1960s with the organization of the Government National Mortgage Association has fostered other developments: standardized mortgage loan documentation; greater diversification in mortgages available from lenders, because most secondary market agencies have purchase programs for fixed rate, adjustable rate, and biweekly mortgages; and the beginnings of a national mortgage market, in which loan originators, some operating multistate or even nationwide networks of mortgage origination offices, are able to make new loans at competitive rates, and quickly sell loans under forward delivery commitments for sale to investors. Nongovernment conduits, or organizations that buy loans from correspondents,

became active in the 1980s, for example, Maggie Mae, created by Mortgage Guaranty Insurance Corp., a mortgage insurance company, or HOMAC (Home Mortgage Access Corp.), organized by the National Home Building Association.

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