The US mortgage market: a statistical overview

OVER the past few years analysis of the American mortgage market has concentrated predominantly on the precarious position of the thrift institutions. However, notwithstanding the thrift problem the market has continued to evolve with activity at a very high level, although with a downturn in 1988.

This article briefly presents a number of statistical tables which show the size of the American mortgage market, the principal participants in that market, and the evolution of the market. The tables are all drawn from *A Statistical Summary of Housing and Mortgage Finance Activities, 1970-1988,* published by Fannie Mae, one of the quasi-government secondary market institutions. The primary sources for the tables are a number of government agencies, in particular the Department of Housing and Urban Development and the Federal Reserve Board.

Lenders and holders of mortgage loans

Table 1 shows the breakdown of loan originations in 1970 and 1988.

Perhaps the remarkable feature of this table is the relative stability in shares of mortgage originations. There are three principal institutional groups:

(a) Savings associations or savings and loans. These are specialist housing finance institutions, which traditionally funded themselves on the retail deposit market, but which increasingly in recent years have been using other sources of finance, in particular the secondary mortgage market.

(b) The commercial banks.

(c) Mortgage companies. These originate loans which they immediately sell to an institutional investor rather than hold on their own balance sheet.

While shares of mortgage lending may have remained relatively unchanged there have been very significant changes in holdings of residential mortgage debt. Table 2 shows the position.

It will be seen that the share of mortgage loans held by savings associations has fallen sharply and that there has been an even more significant fall in the share held by mutual savings banks. These "portfolio lenders" have been replaced by holders of mortgage back securities issued by three government agencies:

(a) FNMA or Fannie Mae, a private company, albeit created by Congress and with Government backing. Fannie Mae's traditional role

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Table 1. Origination of Residential Mortgage Loans

Institution	*1970*		*1988*	
	$bn	*%*	*$bn*	*%*
Savings associations	17	39	178	43
Mutual savings banks	3	7	28	7
Commercial banks	8	18	103	25
Federal credit agencies	2	5	4	1
Mortgage companies	10	23	90	22
Other	3	7	9	2
Total	44	100	412	100

Table 2. Residential Mortgage Debt Outstanding by Investor/Guarantor

Institution	*1970*		*1988*	
	$bn	*%*	*$bn*	*%*
Savings associations	139	40	650	29
Mutual savings banks	50	14	112	5
Commercial banks	50	14	348	16
Life insurance companies	47	14	47	2
State and local credit agencies	4	1	92	4
Fannie Mae	16	5	103	5
Other federal credit agencies	18	5	59	3
Mortgage backed securities:				
Fannie Mae	—	—	178	8
Ginnie Mae	—	—	341	15
Freddie Mac	—	—	225	10
Other	21	6	96	4
Total	345	100	2,249	100

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is as a purchaser of mortgage loans, which it held on its balance sheet, but more recently it has been purchasing loans and issuing corresponding mortgage back securities.

(b) GNMA, or Ginnie Mae, which is a Government entity operated within the Department of Housing and Urban Development. This buys mortgage loans, especially those insured by government agencies, and sells securities backed by the loans.

(c) FLHMC, or Freddie Mac, which buys mortgage loans not insured by government agencies and sells securities backed by them.

The table shows that holders of mortgage-backed securities (typically institutional investors, such as insurance companies and pension funds, but also savings associations and banks) held 33% of residential mortgage debt at the end of 1988, whereas this instrument did not exist in 1970.

Secondary mortgage market

The secondary market is a key part of the mortgage market in America. The market operates either by lenders originating loans which they then sell to institutional investors, or more commonly by lenders originating loans which they sell to a government agency (and to a lesser extent private agencies) which then issues securities backed by those loans. In the case of Freddie Mac, Fannie Mae and Ginnie Mae, the securities have an implicit government guarantee, which makes them particularly marketable. Table 3 shows secondary market purchases in 1988.

Table 3. Secondary Market Purchases, 1-4 Family Mortgage Loans, 1988

Institution	*$bn*	*%*
Institutional direct purchasers:		
Savings associations	49.7	16
Commercial banks	21.9	7
Mutual savings banks	3.2	1
Mortgage companies	35.8	11
Other	2.9	1
Agency portfolio purchasers:		
Federal agencies	25.1	9
State and local agencies	6.1	2
Purchasers for mortgage pools:		
Agency	192.8	45
Other	23.4	7
Total	313.9	100

Table 4. Secondary Market Activity in 1-4 Family Mortgage Loans

Institution	*1978*		*1986*		*1988*	
	$bn	*%*	*$bn*	*%*	*$bn*	*%*
Institutional direct purchasers	6.1	46	132.2	30	112.5	36
Agency portfolio purchasers	5.4	41	41.1	9	35.2	11
Purchasers for mortgage pools	1.8	14	269.7	61	166.2	53
Total	13.3	100	443.0	100	313.9	100
Federal agency activities:						
Portfolio purchases	3.4	55	22.3	8	16.9	11
Mortgage backed securities issues:						
Fannie Mae	—	—	59.0	22	50.4	31
Freddie Mac	0.1	2	94.8	35	39.6	25
Ginnie Mae	2.7	44	95.8	36	53.6	33
Total	6.2	100	271.9	100	160.5	100

It will be seen that savings associations were significant purchasers of loans as were other mortgage lending institutions. However, the volume of direct purchases was swamped by agency purchases for mortgage pools.

The changing nature of the secondary market is shown in Table 4.

The main trend between 1978 and 1988 was the sharp decline in purchases by the federal agencies of loans for their own portfolios. Correspondingly, there has been a sharp increase in purchases for mortgage pools. This largely reflects a changing role for Fannie Mae from being a holder of mortgage loans to an issuer of mortgage-backed securities.

The bottom half of the table reflects this. Ginnie Mae was the only issuer of mortgage-backed securities in 1978. More recently it has been joined by the other two agencies.

Summary

In the United States the principal originators of mortgage loans are savings associations, commercial banks and mortgage companies. The distinguishing feature of the American mortgage market is the huge size of the secondary market with some two-thirds of new loans now being securitised. The secondary market now largely takes the form of purchases of mortgage loans by quasi-governmental agencies and the issuing of mortgage-backed securities backed by those loans. The ultimate beneficial owners of many mortgage loans are now a variety of institutional investors who can take advantage of the secondary market by being able to hold an asset which has all of the desirable attributes of mortgage loans, that is a good yield and security, but without the work involved in originating and processing loans. ■