From Wall Street to Your Street

Where mortgage money comes from by Howard Blum

Once upon a time in America it was virtually impossible for the average working person to own a home of their own. Why? Partly because the thing we now take for granted, a 30-year mortgage was almost non-existent years ago. Most home loans before World War II were cut and dry. In the twenties and thirties you made a down payment of 50% and had a term of five years to pay off the balance. The rules were simple, pay off the balance within the prescribed time or you lose the property and all your equity.

Every now and then (usually then and not now) our federal government does something right. After World War II the government of these United States created what is called a "secondary market" for home mortgages. It was a mechanism to encourage private investors to invest in America's housing stock by buying 'bundles' of home mortgages packaged as securities sold on the open market. The full faith and credit of the United States of America effectively guarantee the repayment of these 'securitized' home loans. Have you heard of Ginnie Maes?

According to the latest statistics from the government, roughly 65% of American's own their own home. That is a dramatic change from not that long ago when only the 'well healed' or affluent people were able to own property. The creation of several quasi-governmental agencies changed the landscape forever. The first of these 'privatized' agencies was the Federal National Mortgage Association, often referred to as Fannie Mae. The Federal Home Loan Bank Board and The Farm Bureau came along later.

How these agencies function is a tribute to the cooperation that once existed between our government and the private business sector in this country. The overwhelming majority of home loans and almost all fixed rate loans are sold in the secondary mortgage market. The days of the local savings and loan association, the local thrift institution or the credit union keeping a fixed rate loan in their portfolio is all but gone in today's marketplace.

The old myth of getting a good deal from you local banker simply does not exist any longer. In fact, if you get a fixed rate home loan from your local bank or savings and loan chances are you got an interest rate higher than you could have gotten elsewhere.

The profession of the "Mortgage Broker" in the state of California is a relatively new phenomenon. It came into existence out of necessity when banks and savings & loans were not funding home loans during the wildly high interest rate days of the early 1980's. That is when the Federal Reserve forced the Prime Rate over 20% to bring inflation under control. The construction and housing industries ground to a virtual halt in those days. Loan Officers at banks and savings & loan institutions were, in some cases, given permission to 'shop' the loan package around to other institutions in the hopes of finding someone that might be able to fund the loan to close the sale for the house. That is essentially how it all began.

In the years that followed mortgage brokerage firms sprang up all over the country. They took a large part of the home loan industry away from the traditional lending institutions. In CA, mortgage brokers have captured 70% of the home loan industry. They were able to do that by offering more competitive interest rates to the consumer and still turn a reasonable profit. This happened because brokers were able to control their overhead, operate a leaner business and out-hustle the institutional lenders. That is why almost every institutional source like banks and savings and loans also wholesale money through a mortgage brokerage network today.

When shopping for a home loan, it is always wise to be cautions. Would you buy something for $200,000 without doing a price comparison? Why take your banker's or broker's word for it that they are giving you a 'special deal' without verifying it.