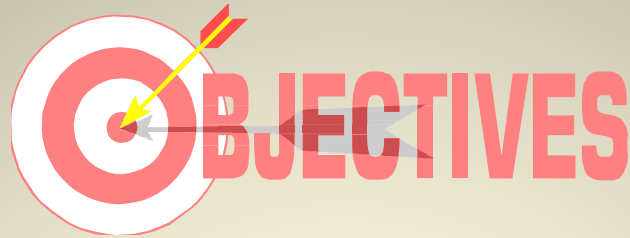




LESSON TWO

THE PRIMARY MARKET: INSTITUTIONAL LENDERS

STUDENT LEARNING OUTCOMES (SLOs):



1. List five characteristics of institutional lenders.
2. Cite some trends anticipated for institutional lenders.
3. Explain the activities of the Financial Institutions Reform, Recovery, and Enforcement Act.
4. Differentiate between the Federal Housing Financing Board (FHFB) and the Savings Association Insurance Fund (SAIF).
5. Define the Office of Thrift Supervision and its relationship to the Savings Association Insurance Fund.
6. Explain the activities of the Office of Thrift Supervision (OTS), successor to the Federal Home Loan Bank Board.

I. Institutional Lender

- Any depository that

A. **pools the money of depositors and clients**

B. **invests these funds into trust deeds and mortgages.**

C. These “institutional” include:

1. BANKS:

- savings and loan associations (or Savings **Banks** or Thrifts)
- **commercial banks**
- mutual savings **banks**

2. **life insurance companies**

3. **pension and retirement funds**

4. **credit unions.**



1. Savings & Loan Associations (Savings Banks) (Thrifts)

- a. Formerly the largest market of existing home loans (1975 over 50% - 1990 about 30%).
- b. Mutual or stock institution
- c. State-chartered or federally-chartered
- d. Loan limit LTV of appraised value
- e. Medium to long-term loans (30-40 years)
- f. Highest interest rates
- g. Take greater risk when qualifying borrowers
- h. Most loans made on conforming, conventional single-family residential (SFR), owner-occupied dwellings, condos and mobile homes.
- i. May combine construction and long-term “take-out” loans
- j. Make collateralized loans
- k. Prepayment penalty if not FNMA or Freddie Mac loan

2) Commercial Banks

- a. **Prefer short-term loans** to businesses
- b. Usually a licensed or chartered stock corp.
- c. Require strong collateral (existing clients)
- d. **Interest rates competitive**
- e. Prefer property near bank branches
- f. Seek home improvement loans
- g. **Pursue home equity loans**
- h. Currently the primary source for SFR (1-4 units)
- i. Primary source for short-term construction loans

3. Life Insurance Companies

- a. **Prefer large scale projects**
- b. Concerned with stability & safety of investments
 - 1. **Shopping malls**
 - 2. **Office buildings**
 - 3. **Factories**
 - 4. **Housing subdivisions**
 - 5. **Large scale multi-family housing** (new construction)
- c. LTV conservative (usually max 75%)
- d. **Long-term amortization**
- e. **Prepayment penalty the lowest among institutional lenders**
- f. No geographic limitations to company offices
- g. Construction loans rare-“take out” loan lender
- h. “loan correspondent” widely used: Mortgage company



V. Institutional Lenders

A. Commercial Banks

1. Federal or state chartered
2. Loans up to 95% of appraised value for 30 year term
3. Short term and construction loans

B. Thrift Institutions (former Savings & Loan)

1. Federal or state chartered
2. 30 year term
3. up to 95% of appraised value

C. Life Insurance Companies

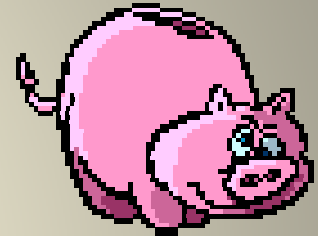
1. Prefer large commercial or industrial loans
2. 75% to 80% L-T-V with 30 year or longer term

Institutional Lenders (comparison)

Savings & Loan (Savings Banks, or Thrifts)	Commercial Banks	Life Insurance Companies
Federal & State	Federal & State	State chartered
Usual maximum 90% Loan-to-value (LTV) (Can go to 95%)	Usually 80% (Can go to 95%)	75-80% LTV
20, 30, or 40 years	25 years (short-term) (Can go to 30 years)	25 to 30 years (Large commercial property may go up to 50 years)
Interest rate usually at the higher end of the market	Usually middle of the market	Usually at the lower end of the market
Prefer conventional made on single family dwellings, apartments buildings, mobile homes, condominiums	Prefer construction loans with backup takeout loan assured from another lender; Equity home loans; Business loans FHA/VA backed	Prefer high quality, longer-term loans larger commercial and industrial properties with AAA tenants Hotels and office buildings -FHA/VA
Formerly the greatest share of market	Present or former business relationship desired; large share of market after financial market restructure <small>California Community College Copyright © 2011</small>	Use loan correspondents mortgage companies Like “Participation loan” where the lender gets a percentage of ownership in the project upon future sale

4) Mutual Savings Bank

- Operate like Thrifts
- **NONE exist in California**
 - a. Located in North East United States.
 - b. Purchase large blocks of VA and FHA loans
 - purchase California conventional loans through loan correspondents (mortgage companies)



5) Credit Unions

- A. Make consumer loans. Larger ones make residential home loans
- B. Personal loan.
- C. **Home equity loans** granted as 2nd trust deed
- D. Larger credit unions make home loans
- E. **Small share of residential loan market**
- F. Pass savings to their members with lower interest rates.

6) Pension & Retirement Funds

A source of real estate financing

Represent large sums of funds

Financial crisis has limiting availability of funds



II. REGULATORY AGENCIES

GOVERNING INSTITUTIONAL LENDERS

OTS - OFFICE OF THRIFT SUPERVISION

FHFA-FEDERAL HOUSING FINANCE AGENCY

Freddie Mac & Fannie Mae

FEDERAL HOME LOAN BANKS (FHLB)

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC)

FEDERAL RESERVE BANK BOARD

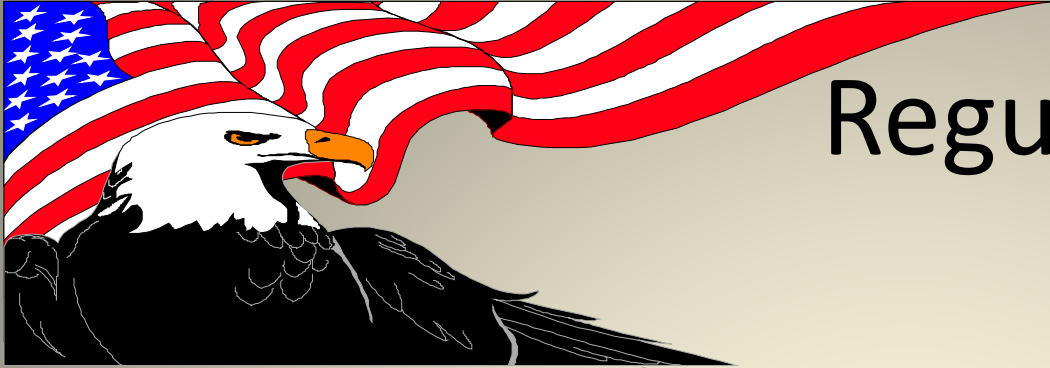
Federal Reserve System

OFFICE OF THE COMPTROLLER OF THE CURRENCY

DEPARTMENT OF FINANCIAL INSTITUTIONS (DFI)

OTHER REGULATORY AGENCIES

Office of R. E. Appraisal & Dept. of Real Estate



Regulatory legislation

- **FIRREA: Financial Institutions Reform, Recovery and Enforcement Act of 1989**
 - A response to the Savings & Loans that bankrupted the Federal Savings & Loan Insurance Corp (FSLIC)
 - Created the Resolution Trust Corp (RTC)
 - To resale S & L assets – mostly real estate
 - Caused Depository Institutions Deregulation & Monetary Control Act of 1980 (DIDMCA)
 - Caused Garn-St. Germain Depository Institutions Act of 1982, allowing S & L's to diversify their activities
- FIRREA required licensing for real estate appraisers
(Note: SAFE ACT added new mandatory requirements)

A. Office of Thrift Supervision (OTS)

1. An arm of the U. S. Treasury creating FIRREA.
2. OTS functions:
 - a. Primary regulator for all federal & state chartered institutions
 - b. Issues charters for S & Ls and Savings banks
 - c. Adopts & enforces regulations



B. Federal Housing Finance Agency (FHFA)

1. Replaced Federal Housing Finance Board & Office of Federal Housing Enterprise
2. Requires safe & sound operations of FNMA, Freddie Mac & Federal Home Loan Banks.
3. **Publishes all conforming loan limits annually**, including high-cost area loan limits

B. 3. a. Fannie Mae (FNMA)

Federal National Mortgage Association

1. Government sponsored agency; created in 1938. In 1968, FHA and DVA loans affiliated with GNMA, Ginnie Mae, Government National Mortgage Association.
2. Chartered by Congress
3. **Buys and sells real estate loans**
4. Works with primary lending partners for affordable rates for homebuyers
5. Investments funded by issuing debt securities in capital markets.

B. 3. b. Freddie Mac Federal Home Loan Mortgage Corporation

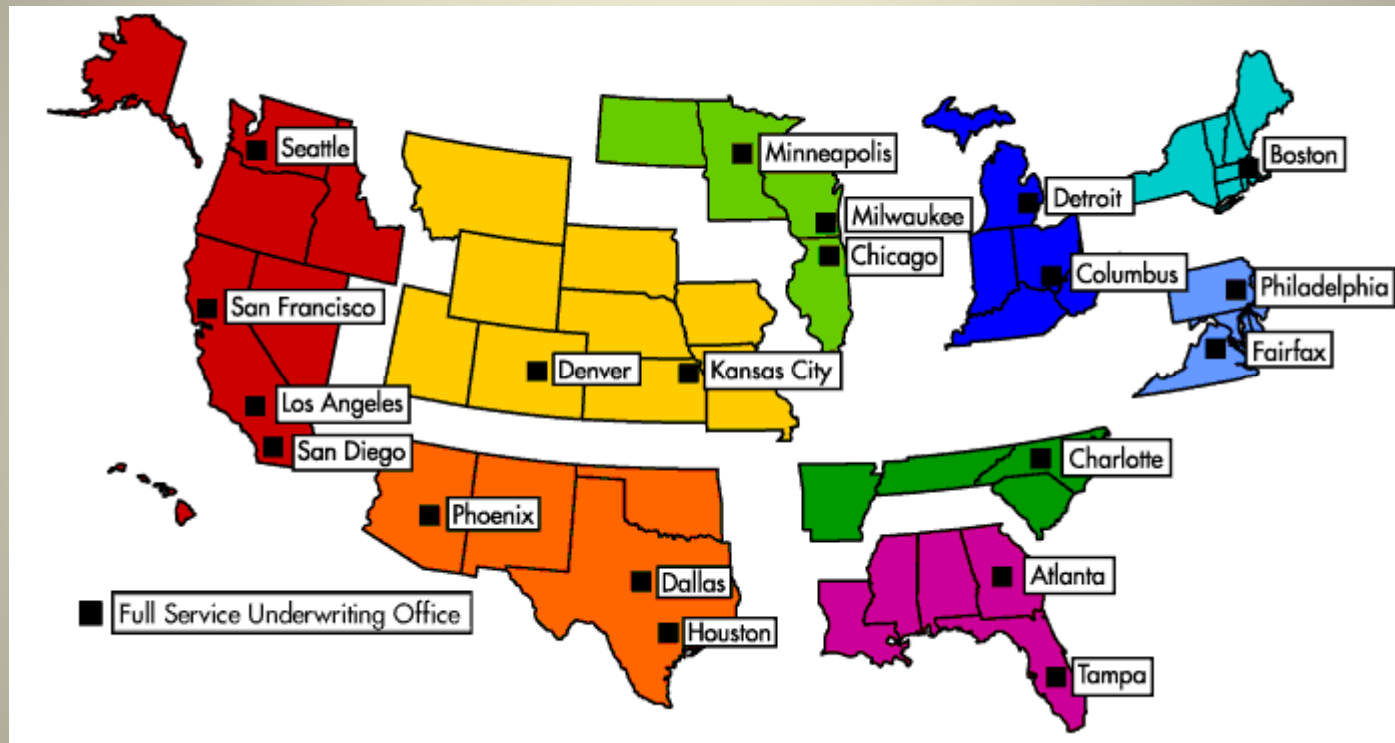
1. Government sponsored enterprise
2. Created in 1970 to expand the secondary money market
3. **Buys and sells real estate loans**
4. Operates similar to FNMA



B. 3. c. Federal Home Loan Banks (FHLB)

1. Provides stable, on-demand, low-cost funding to financial institutions for home loans, business loans, rural, agricultural and economic development lending
2. Largest source of home loan funds
3. The banks do NOT provide loans directly to individuals, only to other banks.
4. **12 FHLBs with over 8,100 regulated institutions in all 50 states, U. S. possessions and territories.**

FHLBs divided in U. S.



C. Federal Deposit Insurance Corporation (FDIC)

1. **Federal deposit insurance** up to **\$250,000 per** depositor in Savings Banks, Commercial Banks or any financial depository displaying FDIC sign.
2. FIRREA managed SAIF (Savings Association Insurance Fund) and BIF (Bank Insurance Fund), combined under DIF (Deposit Insurance Fund) as of Feb 2006.
3. Insured institutions required to play signs at their business stating “backed by United States”
4. Manages former **RTC (Resolution Trust Corporation)**

D. Federal Reserve Bank Board

1. **Overseas the Federal Reserve System.**
2. Regulates activities of commercial banks and non-member banks that operate subsidiaries through a bank holding company.
3. **Regulates the flow of money and credit.**
4. The Department's programs are supported by licensee assessment, license and application fees, and charges for various other services.

E. Office of Comptroller of the Currency

1. Bureau of the Treasury Department engaged in the supervision of the national banking system.
2. Principal function is the supervision of the national banking system.
3. Supervises 130 attorneys in Washington D.C. and four district offices.
4. Develops banking regulations and legislation to modernize banking law and streamlining regulatory processes.

F. Department of Financial Institutions (DFI)

1. Oversees the secure operation of California's state-chartered financial institutions, which includes state banks and state credit unions.
2. Other entities subject to regulation include industrial banks, trust companies, offices of foreign banks, premium finance companies, and others.
3. Ensures that public deposits in California financial institutions that exceed the federal limit are secured by pledged assets.

G. Other Regulatory Agencies

1. The Appraisal Foundation / Office of Real Estate Appraisers (OREA)
 - a. Establishes the generally accepted standards of the valuation profession which is known as the **Uniform Standards of Professional Appraisal Practice (USPAP)**.
 - b. The **Appraiser Qualifications Board (AOB)** establishes the minimum education, experience and examination criteria for appraisers which are known as **Appraiser Qualification Criteria (AQC)**.
 - c. In addition, the Foundation is responsible for administering and distributing information on USPAP and AQC to the appraisal profession, state and federal government agencies, users of appraisal services (such as banks and S&Ls) as well as the general public.
 - d. As mandated by Federal Law, FIRREA established the Appraisal Subcommittee (ASC) which is charged with the responsibility of overseeing the Foundation, which “is a private, not-for-profit corporation charged with the responsibility of establishing, improving and promoting minimum uniform appraisal standards and appraiser qualifications criteria.”

G. Other Regulatory Agencies

2. California **DRE** Mortgage Loan Originator License Endorsement

a. Passed in 2008 – **Secure and Fair Endorsement for Mortgage Licensing Act of 2008.**

b. Requirements:

1. Licensure of MLOs on national & state standards for NMLS&R

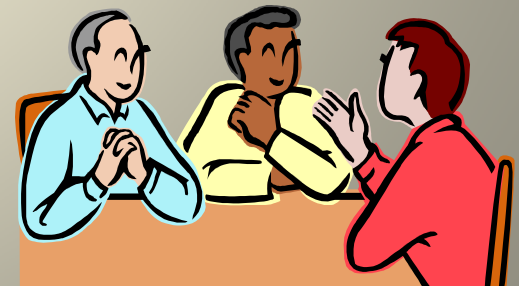
2. Enhances consumer protection; reduce fraud; sets minimum standards

3. All licensees must meet conditions of licensure

4. Must pass exam; take pre-licensure education and annual continuing education

III. Trade Associations

- A. Enhance member professional skills & knowledge
- B. Keep members current on restrictions
- C. Voluntary membership with broad appeal
- D. Examples:
 1. Mortgage Bankers Association of America
 2. American Bankers Association
 3. National Association of Mortgage Brokers



VI. Professional Organizations

- CAMB - **California Association of Mortgage Brokers**
 - www.cambweb.org
- NAMB - **National Association of Mortgage Brokers**
 - www.Namb.org
- MBAA - **Mortgage Bankers Association of America**
 - www.mbaa.org
- NAPMW- **National Association of Professional Mortgage Women**
 - www.napmw.org

