

**SAGA...***Cont'd. from previous pg.*

kets began exploring new ways for Americans to buy homes. Thus, the "secondary mortgage market" system was born. Bankers could take all the mortgages that they issued and sell those mortgages to other investors in an "after-market." Two things happen when they take that asset and sell it to someone else: 1) They can hopefully make a profit; 2) They can replace the funds that they loaned to you and loan more money to someone else. This process of loaning money and selling those mortgages to other investors is what we call mortgage banking.

The new system has three steps.

**Step 1** - Consumers get loans from mortgage banks or brokers

**Step 2** - The mortgage banks or brokers sell that mortgage to secondary market investors like Fannie Mae, Freddie Mac and other financial institutions

**Step 3** - Secondary market investors package these mortgages as "securities" or bonds. This process is called "securitizing" the mortgages into a financial product that can be sold to Wall Street investors like mutual fund companies, individual investors and others. On the Sidelines - Warehouse lenders provide the interim financing for the

mortgage banks. In other words, if a mortgage bank isn't taking in deposits from banking customers, where do they get the money to loan out in the first place? Well, another group of lenders fill in the gap and loan money to mortgage banks during this interim period. These lenders "warehouse" these loans for short periods from 1 - 60 days while the mortgage banks sell them to Secondary market investors.

The money for your mortgage is coming directly from Wall Street sources. This means that you have hundreds of millions of investors across the planet who are itching to lend you mortgage money by investing in the mortgage bonds that trade in the US financial markets. The result?

The more products they create and sell, the more money they make and the more choices you have. As the saying goes, "when banks compete - you win." That is why we have literally thousands of mortgage choices.

Does this system have flaws? Yes, absolutely. You see, Wall Street investors were all looking for very high returns in the financial markets. So, they basically told the mortgage bankers, "Create new products and we will buy them." The mortgage bankers joyously replied, "Sounds great to

me!" And so was born all these "no credit, no income, no problem!" loans. Consumers got greedy for loans they couldn't afford, mortgage banks got reckless in their guidelines and Wall Street investors in search of high returns financed the whole shebang.

When loans began going sour, Wall Street investors decided to stop buying the risky mortgages. In fact, they even started requiring the banks to buy back all the loans! Instead of providing new money, Wall Street started sucking money back from the banks. To compound the problem, the "Warehouse Lenders" who were providing interim financing from the sidelines created a "run on the mortgage banks" by closing down their lines of credit and calling all their loans due.

So there you have it! Instead of a consumer-driven run on the banks, we have a Wall Street and Warehouse Lender driven run on the banks! This liquidity crunch is currently affecting the entire mortgage industry. Mortgage banks aren't going out of business because they are no longer profitable. They are going out of business because of the "liquidity crunch" caused by this "run on the banks".

The Certified Mortgage Planning Specialist (CMPS ®) certification is currently being embraced as a plausible solution in the face of the mortgage industry's current problems.

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**REAL ESTATE CHATTER**

By Mary Ann Vance



Hello again! Well, summer has sure been here! Our children, I believe are ready to go back to school. We are going to discuss the fall activities that are upon us now.

Our children are once again back in school after their summer vacation. We have experienced very warm temperatures and have watched the farm crops go from outstanding to "hurting." We know fall is quickly approaching as we watch the pumpkin trucks heading to Morton. Hopefully, we can all enjoy cooler temperatures and some much needed moisture.

The school age students are probably getting back into the swing of a new school year and new teachers. If your children are starting at a new school after a move, this requires more adjustments for them. Not only do they face a new school environment but new friends to make as well. Let's not forget the college students as we send them off in the world to make some decisions on their own.

It's not too late to make a move if you need to due to job changes etc. At this point children are readily accepted into a new school. My grandchildren are always excited and tell me if a new student has started in school.

Football, Softball, Baseball, Volleyball and Cheerleading practices have all started. If you still need a game "fix" there are plenty out there. Football practice is under way and boy do I feel sorry for those young men donning full uniforms in the heat.

There are still Festivities to enjoy such as the Morton Pumpkin Festival and Pekin Marigold Festival. Labor Day weekend also has many fun activities too! We need to be thankful for the great summer we have had. Before we know it we will have cold weather and snow.

Be careful out there and watch out for school children and farm equipment during the harvest of our plentiful crop.

Until next month, do not hesitate to call if you are looking for a home or wanting to sell your current property. My office has two assistants to help you if I'm not available.

Sincerely,

Mary Ann Vance

Phone: (309)925-3545

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