The Secondary Market for Home Mortgages

*By Peggy Brockschmidt**

The secondary market for home mortgages has been an important part of the nation's financial markets for many years. By providing a mechanism for mortgage originators to sell their mortgages, the secondary market has facilitated the flow of mortgage funds from investors to home buyers. Moreover, by serving as a means by which long-term mortgage holders can adjust their mortgage portfolios, the secondary market has enhanced the liquidity and increased the attractiveness of home mortgages as investments. Through the provision of these adjustment and transfer mechanisms, the secondary market facilitates the flow of funds between ultimate mortgage lenders and home buyers and thereby contributes to the efficient allocation of credit in the housing market and in the economy.

In recent years, the secondary market has undergone a number of changes. One of the more important changes has been the development and growth of mortgage pools as a device for secondary trading. Another development has been the growth and increased importance of nonfederally insured mortgages in the secondary market.

This article discusses these and other important developments that have taken place in the past few years in the secondary market for home mortgages. The first section provides an overview of the market by describing the purposes, transactions, and participants of the market, and by presenting information on the market's size and growth. The second section provides a more detailed discussion of the activities of the various participants in the market.

THE SECONDARY MARKET: AN OVERVIEW

The secondary mortgage market is one in which previously originated mortgages are bought and sold. Originations of mortgages, which take place in the primary market, involve the creation of mortgage instruments and the provision of funds to mortgage borrowers for use in financing home purchases.

Originators and Holders

The great majority of home mortgages, **i.e.**, mortgages on housing structures designed for four or fewer families, are originated by financial institutions in the private sector. Federal credit agencies—such as the Farmers Home Administration—account for a small volume of originations. (See Table 1.) Savings and loan associations are by far the most important of the private originating institutions. Commercial banks and mortgage companies are also important originators, while

**J. A. Cacy, vice president and senior economlt, advised in the preparation of this article.*

Table 1
ORIGINATIONS AND HOLDINGS
1-4 FAMILY RESIDENTIAL MORTGAGES
1970-76

LENDER GROUP	Originations Yearly Average: 1970-76		Holdings Dec. 31, 1976	
	Billions of Dollars	Per Cent	Billions of Dollars	Per Cent
Federal Credit Agencies	2.2	3.1	36.6	7.5
Federally Sponsored Pools	0.0	0.0	41.9	8.6
Private Sector:	69.8	96.9	411.4	84.0
Commercial Banks	15.6	21.7	77.5	15.8
Mutual Savings Banks	4.5	6.2	52.4	10.7
Savings and Loan Associations	35.8	49.7	253.5	51.7
Life Insurance Companies	0.4	0.5	15.5	3.2
Mortgage Companies	'12.8	17.8	4.2	0.9
Others*	0.7	1.0	8.4	1.7
Total	72.0	100.0	489.9	100.0

SOURCE: Department of Housing and Urban Development.
'Private Pension Funds, Mortgage Investment Trusts, State and Local Retirement Funds, State and Local Credit Agencies. Other groups not included here due to lack of data also make or hold small amounts of mortgage loans.

mutual savings banks and other groups originate smaller amounts.

Commercial banks and mortgage companies sell many of their originations in the secondary market. Mortgage companies in particular specialize in originating and servicing mortgages, but do not hold them for extended periods. Thus, while these companies accounted for 18 per cent of all originations in the 1970-76 period, they held only 1 per cent of total home mortgages outstanding at the end of 1976. (See Table 1.) Other institutions, because they are net buyers as well as originators of mortgages, are more important as holders than as originators. Savings and loan associations, for example, held 52 per cent of outstandings at the end of 1976, but accounted for a smaller 50 per cent of total originations in the 1970-76 period.

Purposes of Secondary Market

The secondary market for home mortgages serves several purposes. One is to provide a mechanism for transferring mortgages from firms—such as mortgage companies—that specialize in originating mortgages to other groups that hold mortgages for extended periods--such as savings and loan associations, mutual savings banks, and Federal credit agencies. Another purpose of the secondary market is to provide a way for long-term mortgage holders to adjust their holdings so as to accommodate their liquidity and earnings preferences.

Secondary Market Transactions

Two types of transactions take place in the secondary mortgage market. One involves the buying and selling of individual mortgage loans; the second involves mortgage pools. The mortgages involved in both types of transactions may be either federally insured or conventional. Federally insured mortgages are insured by the Federal Housing Administration (FHA) or Veterans Administration **(VA).** Conventional mortgages are not insured by FHA or VA, but may be insured by a private firm.[1]

Mortgage pools are created when mortgage originators or holders set aside mortgages in pools and sell securities that represent shares in the pooled mortgages. The pooled mortgages are removed from the balance sheets of the creators of the pools and the buyers of the securities become the joint owners of the pooled mortgages. Regular mortgage payments and any prepayments on mortgages held in pools are distributed to the holders of the securities. Typically, the creators of the pools assume responsibility for servicing the mortgages, that is, collecting payments from mortgagees and distributing them. In this article, the pools are treated as the purchasers of the mortgages, even though the owners of the mortgage-backed securities are technically the purchasers.

Secondary Market Participants

The participants in the secondary market, **i.e.,** the buyers and sellers, may be divided into three groups. The first group consists of the Federal agencies involved in mortgage credit, such as the Federal National Mortgage Association (FNMA), the Government National Mortgage Association **(GNMA),** and the Federal Home Loan Mortgage Corporation (FHLMC). A second group is the federally sponsored pools. Federal sponsorship involves the guarantee by an agency—usually **GNMA—of** the payment of the principal and interest on the securities representing snares in the pools. Most of the securities and therefore most of the mortgages in the pools are owned by private participants in the market.

A third group consists of private financial institutions who participate in the buying and selling of individual mortgages—that is, nonpooled mortgages. (The participation of the private sector in mortgage pools is included under the category of federally sponsored pools.) Private participants in secondary market transactions that involve individual mortgages are essentially the participants in the primary mortgage market. They include savings and loan associations, mutual savings banks, commercial banks, and mortgage companies. Other participants--such as life insurance companies, private pension funds, state and local retirement funds, state and local credit agencies, and mortgage investment trusts—are active in a small way in the secondary home mortgage market.

Viewing the three groups in the aggregate, Federal credit agencies and pools tend to be net buyers in the secondary market, while the nonpool private sector tends to be a net seller. Within each of the groups except the pools, though, some individual institutions are mainly buyers in the secondary market, while others are primarily sellers.

The nonpool private sector is typically the most important participant group on both sides of the market. On the purchase side, the private sector accounted for 44 per cent of purchases in the **1970-76** period, while Federal credit agencies accounted for 29 per cent and pools accounted for **27** per cent. On the selling side, the private sector accounted for 80 per cent of total sales, Federal agencies accounted for **18** per cent, and pools accounted for 2 per cent.

Growth of Secondary Market

Activity in the secondary home mortgage market has increased considerably in recent

[1] The Farmers Home Administration, a part of the Department of Agriculture, also insures home mortgages under several programs. These mortgages are classified as conventional mortgages.

Table 2
SECONDARY MARKET PURCHASES
1-4 FAMILY RESIDENTIAL MORTGAGES
1970-76

YEAR	Total Purchases	Federal Credit Agencies		Federally Sponsored Pools		Private Sector	
	Billions of Dollars	Billions of Dollars	Per Cent	Billions of Dollars	Per Cent	Billions of Dollars	Per Cent
1970	13.4	5.4	40.1	1.8	13.7	6.2	46.2
1971	18.3	3.7	20.4	3.9	21.6	10.6	58.0
1972	25.1	5.0	19.9	4.8	19.0	15.3	61.1
1973	22.6	7.4	32.8	4.2	18.5	11.0	48.7
1974	23.0	8.8	38.2	6.3	27.4	7.9	34.5
1975	31.9	10.7	33.6	11.2	34.9	10.0	31.4
1976	42.8	9.6	22.3	16.4	38.4	16.8	39.3
Yearly Average	25.3	7.2	28.6	6.9	27.5	11.1	44.0

SOURCE: Department of Housing and Urban Development.

years. Total purchases by all participants rose from **$13.4** billion in **1970** to **$42.8** billion in **1976. (See** Table **2.)** Much of the gain has been due to growth of the primary market, as originations rose considerably in the **1970-76** period. The secondary market, however, has grown more rapidly than the primary market. Purchases rose **220** per cent from **1970** through **1976,** compared to a **209** per cent rise for originations. The greater growth in the secondary market is especially evident in the past **4** years. From **1973** to **1976,** secondary market purchases rose 90 per cent, compared to **39** per cent for originations.

An important factor in the recent growth in the secondary home mortgage market has been the development and growth of the federally sponsored mortgage pools. Purchases by pools rose from **$1.8** billion in **1970** to **$16.4** billion in **1976.** This growth has pushed the pools' share of total purchases to 38 per cent in **1976** from **14** per cent in **1970.**

Another factor in the recent growth of secondary market activity has been the rapid growth of transactions involving conventional mortgages. Purchases of conventional home mortgages increased from **$2.8** billion, or **21** per cent of total purchases in **1970,** to **$20.1** billion, or **47** per cent of the total in **1976.** This important secondary market role of conventional mortgages contrasts with historical practices. In the past, transactions in federally insured mortgages dominated the secondary market. These mortgages were considered more suitable for secondary trading because insurance reduces the risk of loss and the need for buyers to assess the quality of individual mortgages. Also, Federal mortgage insurance programs facilitated secondary market trading by encouraging the use of standardized documents, mortgage terms, and origination practices.

The growth and increased importance of secondary market trading in conventional

Table 3
FEDERAL AGENCY PARTICIPATION
1-4 FAMILY SECONDARY MORTGAGE MARKET
1970-76

AGENCY.*	Yearly Average: 1970-76					Dec. 31, 1976 Holdings
	Purchases		Sales		Net Purchases (Sales)	
	Billions of Dollars	Per Cent of Market	Billions of Dollars	Per Cent of Market	Billions of Dollars	Billions of Dollars
FNMA	3.7	14.7	0.0	0.2	3.7	26.9
GNMA	1.9	7.7	1.9	7.8	0.0	2.0
FHLMC	1.1	4.4	0.4	1.8	0.7	3.9
FmHA	0.4	1.5	1.8	7.4	(1.5)	0.5
Total*	7.2	28.6	4.5	18.3	2.7	36.6

SOURCE: Purchases, Sales, and Total Outstandings; Department of Housing and Urban Development.
Other outstandings, Federal Reserve Bulletin.
*Some agencies not shown separately.

mortgages is due in part to the growth of private mortgage insurance. In 1976, about 14 per cent of conventional home mortgages were covered by private insurance, compared with 4 per cent in 1970. Another factor in the greater importance of conventional mortgages is the growth in the volume of these mortgages purchased by Federal agencies. Agencies bought $7.0 billion of conventional mortgages in 1976, compared with only $0.1 billion in 1970.

PARTICIPANTS IN THE SECONDAWY MARKET

This section of the article examines in greater detail the activities of the three major groups of participants in the secondary home mortgage market — the Federal credit agencies, the federally sponsored pools, and the private sector.

Federal Credit Agencies

A number of Federal agencies have been established to strengthen and help stabilize various sectors of the housing and mortgage markets. Agencies include the Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and various farm credit agencies. Federal agencies, as mentioned above, are more active as buyers than as sellers, and they have ongoing programs for buying mortgages in the secondary market. Agencies place varying restrictions on the types of mortgages they buy, requiring that loan to value ratios, size, term, and age of the mortgages be within certain limits. Agencies also require that uniform mortgage documents be used.

During the 1970-76 period, Federal agencies purchased a yearly average of $7.2 billion of 1-4 family mortgages and sold $4.5 billion. (See Table 3.) In 1976, for the only time in the 7-year period, Federal agencies were net sellers. This is in line with cyclical patterns in that net mortgage purchases by Federal agencies typically decrease in periods when credit becomes more available from private sources, such as 1976, and increase when credit availability tightens.

Federal National Mortgage Association. FNMA, or Fannie Mae, was chartered by the Federal Government in 1938. In 1968, the agency was reorganized and became a privately owned, federally sponsored institution with public responsibilities. At present, five of FNMA's 15 directors are appointed by the President of the United States, and the Secretary of Housing and Urban Development has certain regulatory powers over the agency.

In the 1970-76 period, FNMA's purchases of home mortgages averaged $3.7 billion per year, considerably more than any other agency and 15 per cent of total purchases in the secondary home mortgage market. (See Table 3.) Although FNMA has authority to sell mortgages, it has done so infrequently, as sales were negligible in the 1970-76 period.

FNMA may become more active on the selling side of the market in the future. The agency plans new programs that will call for buying and then selling participations in packages of mortgages. The programs will involve conventional mortgages and will further increase FNMA's participation in the conventional sector. The agency's purchases of conventional mortgages have been growing in recent years and exceeded FHA and VA mortgage purchases in 1976. Even so, at the end of 1976, 85 per cent of the agency's holdings were federally insured mortgages.

Government National Mortgage Association. GNMA, or Ginnie Mae, a part of the Department of Housing and Urban Development, was established in 1968 to take over certain functions formerly performed by FNMA, particularly the Special Assistance Function.[2] Under this function, GNMA buys home mortgages, partly to support the housing market during periods of credit stringency, but mainly to help finance housing for low-income families. GNMA may buy mortgages from originators at above-market prices and then sell the mortgages to FNMA or other investors at market prices, absorbing the difference as a housing subsidy. Alternatively, GNMA may transfer the mortgages back to the originator, who then issues securities backed by these mortgages with the proceeds of the securities going to GNMA. Thus, GNMA sells most of the mortgages it buys. In the 1970-76 period, the agency purchased a yearly average of $1.9 billion of mortgages, or 8 per cent of total market purchases, and sold essentially the same amount.

In addition to buying and selling mortgages, GNMA has been authorized since 1970 to guarantee the payment of principal and interest on mortgage-backed bonds issued by FNMA and FHLMC. Besides being guaranteed by GNMA, these bonds are collateralized by FNMA- and FHLMC-held FHA and VA mortgages equal to the face amount of the bond issue. Also, the bonds bear the full faith and credit of the U.S. Government. These bonds, while not a part of the secondary home mortgage market, can provide FNMA and FHLMC with funds to acquire mortgages in the secondary market, although they are not an important source of funds.

GNMA also guarantees the payment of principal and interest on securities representing shares in mortgage pools. This aspect of GNMA's operations, i.e., the GNMA pass-through program, is discussed later in more detail.

Federal Home Loan Mortgage Corporation. FHLMC, or Freddie Mac, was established in 1970 as an agency of the Federal Government to provide support for the conventional portion of the secondary mortgage market. FHLMC buys conventional mortgages, mainly from savings and loan associations; the agency then

[2] Under another function—Management and Liquidation Function—GNMA manages and liquidates a portfolio composed of mortgages formerly held by FNMA, and of new mortgages acquired in connection with special FHA programs. GNMA also has fiduciary responsibility for administration of participations of its own mortgages and mortgages of other Federal agencies.

sells some of the mortgages by creating pools and selling shares or participations in the pools. During the 1970-76 period, FHLMC secondary market purchases averaged $1.1 billion per year, while sales averaged $0.4 billion. Sales exceeded purchases for the first time in 1976. Most of these transactions were in conventional mortgages, although FHLMC has bought small amounts of FHA and VA loans. For example, the FHA and VA mortgages that FHLMC uses as collateral for its mortgage-backed bonds, discussed earlier, were bought in the secondary market.

Farm Credit **Agencies.** Two Federal farm credit agencies—the Farmers Home Administration (FmHA) and the Federal Land Bank System—are involved in 1-4 family housing and mortgage markets in rural areas. At one time, FmHA insured and sold packages of mortgages that it had originated. Now, however, the agency uses the pool method to sell mortgages, that is, it issues shares—alled certificates of beneficial ownership—in pools of mortgages it originates. Since 1975, these certificates have been sold exclusively to the Federal Financing Bank.

Federally Sponsored Pools

Mortgage pools are created by setting aside a package of mortgages and issuing securities that represent shares in the pooled mortgages. Federally sponsored pools are pools for which a Government agency guarantees payment of the principal and interest on the securities of the pool.

There are a number of Federal programs to sponsor pools. The most important one is the GNMA pass-through program, which began in 1970. Under this program, pools are formed and securities issued by GNMA-approved private originators. GNMA requires that the pools contain a minimum of $1 million of FHA and/or VA mortgages with an age of less than 1 year. Upon formation of the pools, GNMA guarantees the payment of interest and principal on the securities of the pool. The private creators assume responsibility for servicing the mortgages, but the holders of the securities are the owners of the mortgages. All payments on the mortgages, including prepayments, are passed through monthly (less servicing and guarantee fees) from the mortgages to the holders of the securities—hence, the term "pass-through securities."

GNMA pass-throughs are typically marketed through a securities dealer, although sometimes the originator of the mortgages in the pool—a mortgage bank, savings and loan, commercial bank, or mutual savings bank—will sell the securities directly. The minimum denomination available is $25,000, but the normal denomination is much larger. While GNMA pass-throughs have a stated maturity equal to the life of the underlying mortgages (generally 30 years), actual maturities are shorter because of prepayments. For this reason, yields are usually quoted on the basis of an estimated life of 12 years. GNMA's are considered a qualifying asset for tax and regulatory requirements for savings and loan associations—that is, they are considered a mortgage investment rather than a debt security. Security dealers maintain a secondary market for GNMA pass-throughs. Thus far, margin requirements have not been applied to pass-through purchases in this secondary market. Trading in GNMA pass-through securities futures contracts began in October 1975. Savings and loan associations, mortgage companies, and other mortgage originators can use the futures market to hedge future mortgage loan transactions.

On December 31, 1976, there was $29.6 billion of outstanding GNMA pass-throughs backed by 1-4 family federally insured mortgages. Pension funds held at least 10 per cent of all pass-throughs at yearend 1976 (an additional, unknown proportion was held through nominees). Savings and loans held 20 per cent, commercial banks 5 per cent, mutual savings banks 13 per cent, and mortgage and investment banks held an additional 20 per cent. The remaining 32 per cent was held by individuals, credit unions, and all other groups including nominees.

The FHLMC also sponsors mortgage pools through two programs. One program, introduced in 1971, involves Mortgage Participation Certificates (PC's). PC's represent shares in pools formed by FHLMC with conventional mortgages originally purchased by the agency in the secondary market. When initially formed, the pools have a principal value of at least $100 million. FHLMC issues PC's and guarantees payment of principal and interest on them. As in the case of GNMA pass-throughs, PC holders receive all payments on mortgages in the pools. The mortgages are serviced by the private institution that sold them to FHLMC, with the servicer remitting payments to FHLMC, and the agency distributing the payments to holders of PC's.

The FHLMC has recently made arrangements with a group of security dealers to market PC's; previously, the agency had dealt directly with PC buyers. The dealers maintain a secondary market in the PC's, which have a minimum denomination of $100,000. Most PC's are held by savings and loan associations, although amounts held by other groups have been rising. They are qualifying assets for tax and regulatory purposes for savings and loan associations.

The other FHLMC program for sponsoring pools involves Guaranteed Mortgage Certificates (GMC's). These certificates, issued by FHLMC since 1975, are similar to PC's in that they represent shares in pools of mortgages, and interest and mortgage prepayments are distributed to GMC holders. However, GMC's are similar to bonds in some ways. Holders of GMC's receive their interest payments semiannually rather than monthly and FHLMC guarantees that a minimum amount of principal will be repaid each year. Also, FHLMC agrees to redeem GMC's at par on specific dates, 15 to 20 years after issue. As a result, they do not qualify as a mortgage investment for tax and regulatory purposes. Savings and loan associations hold over half the GMC's that have been issued, although they were originally designed to appeal to investors not traditionally attracted to mortgages. At yearend 1976, a total of $2.3 billion in FHLMC-sponsored mortgage-backed securities were outstanding through both programs.

As indicated earlier, federally sponsored mortgage pools are commonly treated as a participant group in the secondary mortgage market. Thus, while the mortgages in pools are actually owned by a wide variety of participants, the pools are viewed as buying, selling, and owning mortgages.

In the 1970-76 period, federally. sponsored pools bought an annual average of $6.9 billion of mortgages in the secondary market, which amounts to 27 per cent of total market purchases. (See Table 4.) GNMA-sponsored pools purchased an average of $4.7 billion during the period, while FHLMC pools purchased $0.4 billion. The remaining $1.8 billion was purchased by FmHA pools. Nearly all the $10 billion outstanding in securities backed by FmHA mortgage pools is held by the Federal Financing Bank.

Private Sector

Most of the nation's major private financial institutions participate to some extent in the secondary mortgage market. Savings and loan associations and mutual savings banks are especially important on the buying side, while mortgage companies dominate the selling side (Table 5). Mortgage company activity in the market is highly structured. Established relationships exist between these companies and their customers, and transactions between them are regular and standardized.

Activity outside the channels established by mortgage companies is less structured. Some

Table 4
FEDERALLY SPONSORED POOL PARTICIPATION
1-4 FAMILY SECONDARY MORTGAGE MARKET
Yearly Average: 1970-76

POOL	Purchases		Sales		Net Purchases (Sales)
	Billions of Dollars	Per Cent of Market	Billions of Dollars	Per Cent of Market	Billions of Dollars
GNMA	4.7	18.6	0.0	0.0	4.7
FHLMC	0.4	1.6	0.0	0.0	0.4
FmHA	1.8	7.2	0.4	1.5	1.5
Total	6.9	27.5	0.4	1.5	6.6

SOURCE: Department of Housing and Urban Development.

Table 5
PRIVATE PARTICIPATION
1-4 FAMILY SECONDARY MORTGAGE MARKET
Yearly Average: 1970-76

LENDER GROUP	Purchases		Sales		Net Purchases (Sales)
	Billions of Dollars	Per Cent of Market	Billions of Dollars	Per Cent of Market	Billions of Dollars
Commercial Banks	0.7	2.8	2.3	9.3	(1.6)
Mutual Savings Banks	1.7	6.9	0.2	1.0	1.5
Savings and Loans	6.9	27.4	3.4	13.6	3.6
Life Insurance Companies	0.2	0.7	0.0	0.0	0.2
Mortgage Companies	1.0	4.0	13.7	55.5	(12.7)
Others*	0.5	2.1	0.2	0.7	0.4
Total	11.1	44.0	19.8	80.2	(8.7)

SOURCE: Department of Housing and Urban Development.
'Private Pension Funds, Mortgage Investment Trusts, State and Local Retirement Funds, State and Local Credit Agencies. Other groups not included here due to lack of data also buy or sell small amounts of mortgage loans.

generalizations, however, may be made about this activity. The minimum size of transactions is around $500,000 but may be much larger. Generally, new loans will be sold, because marketability declines with age. Trades take one of two forms: the sale of individual mortgages or the sale of a participation in a single mortgage or a group of mortgages. In the first case, the mortgage actually changes hands, although servicing may be retained by the loan seller. In the second case, the seller usually retains a portion of the participation and passes on to the other participants in the group their share of interest and principal payments.

To assist these transactions, private mortgage insurance companies' secondary market departments, mortgage brokers, or other agencies are used to match buyers and sellers. The Automated Mortgage Market Information Network (AMMINET)—a non-profit organization established in 1973 by FHLMC and several trade associations-offers a computerized information system to facilitate trades by listing offers to buy and sell loans.

The first public offering of private pass-through certificates was recently announced by Bank of America. The certificates are not obligations of the bank, but represent partial ownership of mortgages in a pool. The pool backing the $150 million of certificates will be composed of conventional mortgages. Five per cent of the principal amount of the mortgages is to be privately insured, with losses above that amount to be absorbed by the security holders. All payments to holders of the securities are made out of mortgage payments from the underlying pool, just as are GNMA-guaranteed pass-throughs.

A related development is the nonfederally guaranteed mortgage-backed bond issued by a private lender. From May 1975, when it was first permitted by FHLBB, to June 1977, four California savings and loan associations have publicly offered mortgage-backed bonds with a total face value of $650 million. The first bonds offered were collateralized by a pool of FHA and VA mortgages to ensure marketability of the bonds, but the later issues were able to be marketed when collateralized by conventional mortgages.

The bonds are a debt obligation of the savings and loan associations, but their marketability is greater than that of other thrift institution debt. That is because the bonds are overcollateralized, i.e., the market value of the mortgages in the pool is over 100 per cent of the face value of the outstanding securities. Thus, if interest rates rise and market values decline, the market value of the pool may still exceed the value of the outstanding bonds. Payments on the bonds are fixed and do not depend on mortgage payments made from the underlying pool. While these mortgage-backed bonds are not strictly a part of the secondary market, since ownership of the underlying mortgages does not change hands, they use existing mortgages as a means of raising funds in order to make available funds for new mortgages.

SUMMARY

From 1970 through 1976, activity in the secondary market for home mortgages nearly tripled. Moreover, the growth of the secondary market since 1973 has been double that of the primary market. One reason for the growth in the secondary mortgage market in the 1970's has been the introduction of the GNMA pass-through security. By enabling mortgage investors to purchase shares in a pool of mortgages, and thereby to circumvent many of the administrative difficulties associated with mortgage transactions, these securities have opened up a new source of funds for FHA and VA mortgages. The FHLMC mortgage participation programs have done the same thing to a lesser extent for conventional mortgages. In addition, the success of these Government-sponsored programs has encouraged the development of private mortgage-backed securities programs. The purchase of conventional mortgages outside the pools has also increased, aided by a growing private mortgage insurance industry and new Federal programs. These innovative programs should further stimulate the secondary mortgage market in coming years.