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SECONDARY MORTGAGE MARKET

And the Need for Protection from Title Problems

Source: **American Land Title Association** | www.alta.org/press/TitleInsuranceOverview.pdf

Beginning in the mid-1940s, the nationwide growth of a secondary mortgage market has proved to be an especially dramatic benefit for millions of American home buyers. The positive effects of this phenomenon have reached out to numerous other related sectors of the economy.

Essentially, the purpose of the secondary market is to broaden the base of investment for mortgage financing and attract funds from areas of the country with abundant capital to areas where mortgage money is needed.

Unlike the New York Stock Exchange and other organized trading markets where representatives of buyers and sellers meet in a single location, the secondary market consists of a complex network of organizations, intermediaries, and various channels of communication. Through this facility, lenders in one area of the country with funds to invest can readily make or purchase mortgage loans on real property located elsewhere.

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Lawyers Title

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Secondary market operations may be as simple as a lender in California selling mortgage loans to another lender in New York, or as complex as the development and sale of Government National Mortgage Association pass-through securities, which are guaranteed by GNMA and are backed by a pool of mortgages worth millions of dollars.

The need for protection from title problems is even more acute in dealing with mortgages in the secondary market than what is normally encountered by a local lender. Knowing the local customer and the attorney rendering an opinion may be sufficient for a local lender to lend and portfolio a mortgage. However, a title opinion from a local attorney will not provide the assurance for a national lender that is unfamiliar with local risks and/or unwilling to take a chance.

In view of these considerations, it is easy to see why virtually every mortgage traded in the secondary market is covered by a Loan Policy. With financially sound corporate insurers standing behind the validity and enforceability of mortgage liens, marketability of insured loans is greatly improved. National or out-of-town lenders know that, should a title problem develop on property located in a distant part of the country, they can deal with title company experts whose capabilities are well known who can quickly come to grips with the difficulty and initiate appropriate action.

Mortgage loans on all types of real property constitute the nation's largest single category of institutional investment. Loan policies have enhanced the remarkable growth in the availability of mortgage funds, which has brought an impressive stimulus to real estate investment from coast to coast.

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This expansive viability has been characterized by two major developments, both directly linked to title insurance:

- Mortgage investment has become more secure.
- Mortgage money has become widely available throughout the country through the post -World War II development of a nationwide secondary mortgage market.

Safety of investment ranks at least equally with return realized where institutional investors are concerned. This fiduciary emphasis on security by the lending community means that the protection brought to real estate transactions by title insurance is vital if mortgage money is to remain widely available. Without the title company's assurance that the lender has a valid and enforceable lien, and that the borrower has marketable title, real estate investment would be considered highly speculative and would not enjoy its current high acceptance among lending institutions.

Most lenders also know that the familiar ALTA Loan Policy, developed based on their input and voluntarily used by ALTA member title insurers, is a nationally prominent means of protection that adds even greater facility to trading within the secondary market.



MONTHLY INDUSTRY TERMS

Conditions, Covenants, & Restrictions (CC&R's)

A document that controls the use, requirements and restrictions of a property.

Federal Housing Administration Loan (FHA Loan)

A loan insured by the Federal Housing Administration, open to all qualified home purchasers.

Trustor

The borrower, owner and guarantor of the property conveyed in a deed of trust.

