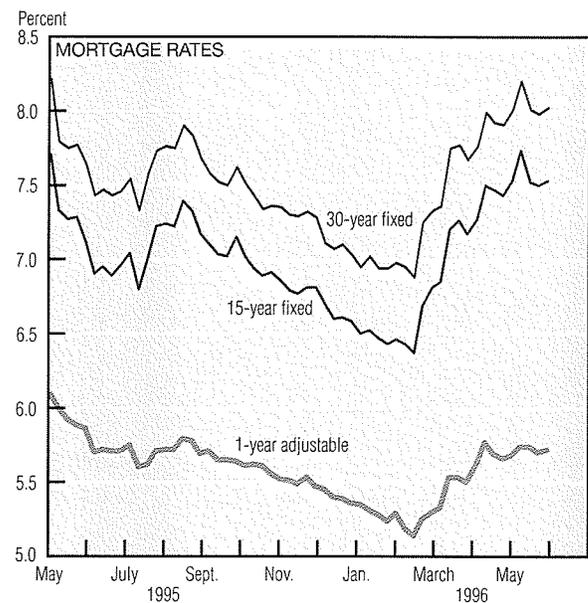
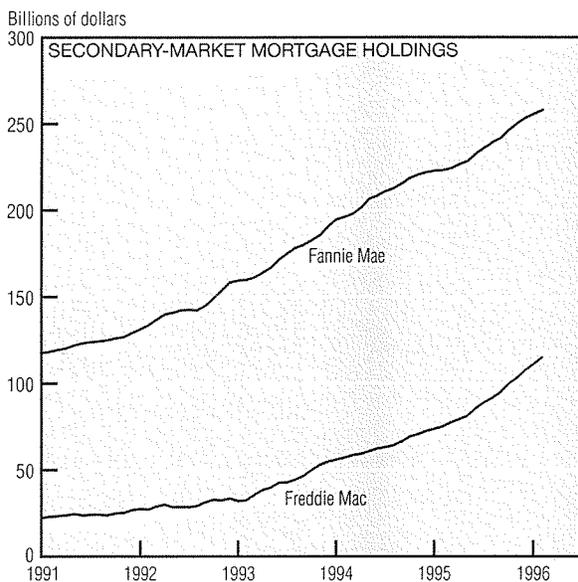
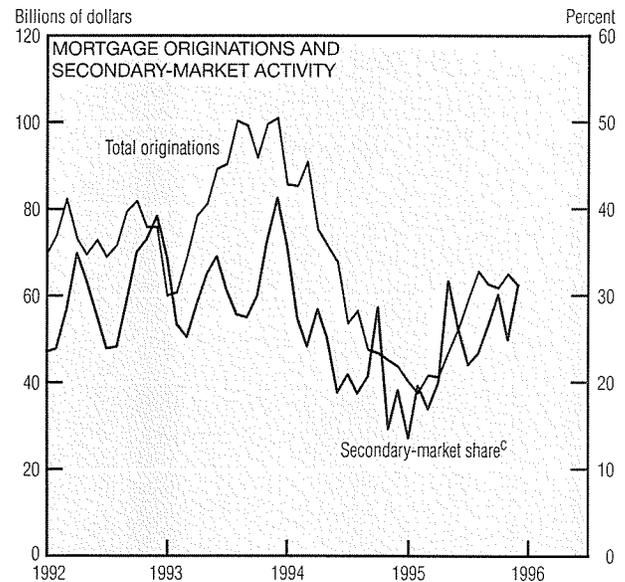
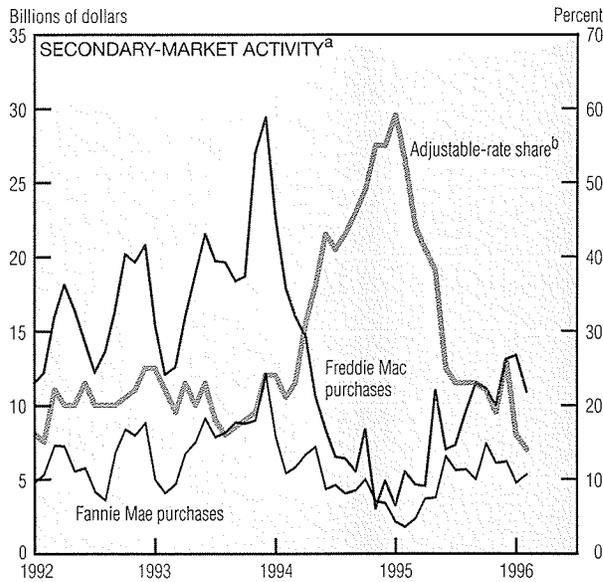


Secondary Mortgage Market Activity



a. Purchase data include both conventional and government-insured mortgages.
 b. Percent of new conventional mortgage originations with adjustable rates.
 c. Secondary-market purchases by Fannie Mae and Freddie Mac as a percent of total mortgage originations.
 SOURCES: Board of Governors of the Federal Reserve System; Office of Thrift Supervision; U.S. Department of Housing and Urban Development; and *Bank Rate Monitor*, various issues.

The rapid rise in interest rates during 1994 led to a marked drop in mortgage purchases by the two major players in the secondary market, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). These purchases reached a low of \$5.4 billion in January 1995. Since then, they have rebounded somewhat, without coming anywhere near their combined \$41.5

billion high of December 1993.

These changes can be attributed to two factors. First, rising interest rates in 1994 led to an overall decline in mortgage originations. At the same time, these rising rates shifted borrower preferences toward adjustable-rate mortgages. Since such mortgages tend to be held in portfolio by loan originators (particularly savings banks), the fraction of originations purchased by the sec-

ondary market necessarily fell substantially.

Both of these factors reversed themselves in 1995, leading to a rebound in secondary-market activity. Despite these fluctuations in purchases, the total mortgage holdings of Fannie Mae and Freddie Mac have continued their steady growth, increasing 25.0% (to \$372.8 billion) between February 1995 and February 1996.